

Agenda – Finance Committee

Meeting Venue:	For further information contact:
Video Conference via Zoom	Bethan Davies
Meeting date: 15 January 2021	Committee Clerk
Meeting time: 09.30	0300 200 6372
	SeneddFinance@senedd.wales

In accordance with Standing Order 34.19, the Chair has determined that the public are excluded from the Committee's meeting in order to protect public health.

- 1 Introductions, apologies, substitutions and declarations of interest

- 2 Paper(s) to note
(09.30)
 - 2.1 PTN 1 – Letter from the Minister for Education: Response to the Committee's report on the Curriculum and Assessment (Wales) Bill – 11 January 2021
(Pages 1 – 7)
 - 2.2 PTN2 – Letter from the Minister for Finance and Trefnydd – Non-Domestic Rating (Multiplier) (Wales) Order 2021 – 7 January 2021
(Pages 8 – 20)

- 3 Scrutiny of the Welsh Government's Draft budget 2021–22:
Evidence session 5
(09.30–10.30) (Pages 21 – 71)
Steffan Evans, Policy and Research Officer, Bevan Foundation
Gemma Schwendel, Senior Analyst, Joseph Rowntree Foundation

Supporting papers:

FIN(5)–03–21 P1 – Written evidence: Bevan Foundation

FIN(5)-03-21 P2 – Briefing paper: 'Poverty in Wales 2020'

Research brief

BREAK (10.30–10.40)

4 Scrutiny of the Welsh Government's Draft budget 2021–22:

Evidence session 6

(10.40–11.40)

(Pages 72 – 97)

Andrew Campbell, Chairman, Wales Tourism Alliance

Ian Price, Director, Confederation of British Industry in Wales (CBI Wales)

Dr. Llyr ap Gareth, Senior Policy Advisor, Federation of Small Businesses in Wales (FSB Wales)

Supporting papers:

FIN(5)-03-21 P3 – Written evidence: FSB Wales

Research brief

5 Motion under Standing Order 17.42 (ix) to resolve to exclude the public from the remainder of this meeting

(11.40)

6 Scrutiny of the Welsh Government's Draft budget 2021–22:

Consideration of evidence

(11.40–11.50)

7 Supplementary Budget 2020–21 requests from Directly Funded Bodies

(11.50–12.05)

(Pages 98 – 127)

Supporting papers:

FIN(5)-03-21 P4 – Cover paper

FIN(5)-03-21 P5 – Senedd Commission's Budget 2020–21

FIN(5)-03-21 P6 – Public Services Ombudsman for Wales' Supplementary Estimate 2020–21

FIN(5)-03-21 P7 – Audit Wales’ Supplementary Estimate 2020-21

**8 The Land Transaction Tax (Tax Bands and Tax Rates) (Wales)
(Amendment) Regulations 2020**

(12.05-12.15)

(Pages 128 – 134)

Supporting papers:

FIN(5)-03-21 P8 – The Land Transaction Tax (Tax Bands and Tax Rates)
(Wales) (Amendment) Regulations 2020: Draft report

[SUB-LD13969 – The Land Transaction Tax \(Tax Bands and Tax Rates\) \(Wales\)
\(Amendment\) Regulations 2020](#)

[SUB-LD13969-EM – The Land Transaction Tax \(Tax Bands and Tax Rates\)
\(Wales\) \(Amendment\) Regulations 2020 – Explanatory Memorandum](#)

Kirsty Williams AS/MS
Y Gweinidog Addysg
Minister for Education

Llyr Gruffydd, MS
Chair
Finance Committee
Welsh Parliament
Ty Hywel
Cardiff Bay
CF99 1SN

11 January 2021

Dear Llyr,

Curriculum and Assessment (Wales) Bill

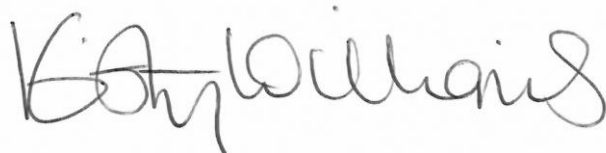
I would like to thank the Finance Committee for their scrutiny of the Curriculum and Assessment (Wales) Bill during Stage 1 and for the report which was published on 4 December 2020.

I have set out responses to the Committee's recommendations at Annex A. In summary I have accepted (or accepted in part) nine of the recommendations.

I hope this letter is helpful in setting out responses to the Committee's Report. I will also be writing to the Chairs of the Children, Young People and Education Committee and the Legislation, Justice and Constitution Committee with respect to their Stage 1 Reports, and will copy the letters to all three Committee Chairs.

I look forward to continuing to work with Members as the Bill progresses through the Senedd process.

Yours sincerely,



Kirsty Williams AS/MS
Y Gweinidog Addysg
Minister for Education

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Gohebiaeth.Kirsty.Williams@llyw.cymru
Correspondence.Kirsty.Williams@gov.wales

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Annex A: Response to Finance Committee Stage 1 Report Conclusions and Recommendations

Recommendation 1. The Committee recommends that the Welsh Government identifies how it will define and evaluate the success of the new Curriculum and outlines this in a revised Regulatory Impact Assessment.

I accept this recommendation. Our Research and Evaluation programme is being developed alongside the Curriculum Reform Implementation plan, with the close involvement of stakeholders and practitioners. Since the Regulatory Impact Assessment (RIA) was published, we have been preparing a specification for the first exercise in the programme - a scoping study - which will include:

- Establishing agreed definitions of readiness, progress and success, what they entail, and how they will be assessed.
- A readiness assessment, to understand the distance that each tier of the system needs to travel, the support that settings will need to be fully ready, and how we and the middle tier can provide that support.
- A robust research design for ongoing monitoring of readiness, progress and success, over short, medium and long term timeframes.
- A data audit to understand what information we have, and will need, to evaluate success against a range of indicators (some of which are set out in the implementation plan)
- A set of baselines and counterfactuals to enable us to evidence the impact the reforms have had.

We will approach the definition and evaluation of progress and success in a collaborative way, including the perspectives and contribution of our middle tier and academic stakeholders, whose role in inspection, challenge, research and support for settings makes a key contribution to understanding implementation progress and support needs.

We will publish the outcome of the scoping study, including the readiness assessment and detailed plans for ongoing research and evaluation before the end of 2021. These outcomes will inform the commissioning of a research contractor to deliver the first 5 years of the Monitoring and Evaluation programme committed in the Regulatory Impact Assessment, beginning in 2022.

Recommendation 2. The Committee recommends that the Welsh Government undertakes further work to assess the costs to schools and engages with schools other than Innovation Schools regarding the costs included in the RIA. Information gathered should be represented in a revised Regulatory Impact Assessment.

I accept this recommendation. Our work with Innovation Schools to assess costs revealed clearly that estimating the costs to schools will need to continue. It requires a depth of understanding of the reforms and their implications, consideration of the professional learning needs of practitioners, and estimation of a wide range of changes that will need to be made.

The Research and Evaluation programme, set out in Chapter 11, and explained in more detail in response to recommendations 1 and 9, will continue to assess emerging costs and other support needs amongst a wider representation of schools. The accuracy of these estimates will improve as the sector grows more confident about the requirements and their professional learning and other resource implications.

The process of co-construction of the detailed guidance, which has begun and continues, will provide a lot of detail as to how the reforms might be taken forward and the costs. We will provide an update to the Senedd on costs in 2021.

Recommendation 3. The Committee recommends that the Welsh Government provide further information on the basis of its +/-50 per cent range to schools costs.

I recognise the intention behind the Committee's recommendation, however, I do not accept this recommendation. The RIA summarises the research with schools and the decision to use +/- 50%. Pages 66 and 67 (paras. 8.48 to 8.50) set out the analysis methods in more detail and provide a rationale for the decision, explaining first the position in relation to absorbed costs, and then the position in relation to days for which supply cover would be required (direct costs).

The figures are provided for:

- overall days in Table 10 on page 107, with a table description in para. 8.232 on the previous page
- supply days required (direct costs) in table 11 on page 109, with a table description in para 8.234 on the previous page
- opportunity (absorbed) costs on table 13 on page 111, with explanation on page 111-112.

Recommendation 4. The Committee recommends that the Welsh Government undertakes further work to define and estimate the costs for 'Education Other Than At School' and assessment arrangements costs in consultation with stakeholders. This information should be provided in a revised Regulatory Impact Assessment.

I recognise the intention behind the Committee's recommendation, and accept this recommendation in part. The new curriculum enables a tailored approach for learners which is outlined in our statutory guidance to practitioners. The curriculum in EOTAS settings will be planned, designed and implemented in collaboration with the learner, provider, school and parents/carers and will focus specifically on the needs of that learner. As part of our ongoing co-construction work with practitioners and other stakeholders, we will develop a clearer understanding of the likely costs of implementation.

The Curriculum Implementation Plan and research and evaluation programme will identify the need for additional resources and any cost implications. The research and evaluation programme will include EOTAS provision. It will continue to explore the support the sector needs and the impacts of the reforms to this sector as they emerge.

In doing this, the programme will define and estimate costs as the sector becomes more familiar with the implications of the new requirements and the distance it needs to travel to meet them.

Given that the approach is being worked on with our stakeholders on an ongoing basis, we will provide an update to the Senedd in 2021.

Recommendation 5. The Committee recommends that the Welsh Government publishes details of the teacher based formula used to fund schools as well as providing the Committee with information on the other ways schools receive funding to aid transparency.

I recognise the intention behind the Committee's recommendation, however, I do not accept this recommendation. The annual publication, commonly known as the “Green Book”, provides background information used in the calculation of the revenue and capital settlements for unitary authority and police forces in Wales. This includes information in the Standard Spending Assessment for education. The Green Book sets out how the settlement amount is built up and calculated and the formulas used for the notional allocations within the un-hypothecated local government settlement for education. The relevant service areas for schools are Nursery and Primary school teaching and other services, Secondary school teaching and other services and Special Education. These formulas are based on a combination of pupil numbers, rurality and deprivation factors.

A link to the Green book is provided for reference -

https://gov.wales/sites/default/files/publications/2020-08/green-book_0.pdf.

In addition, all grants to local authorities are published alongside the Local Government settlement each year in table seven of the settlement tables –

<https://gov.wales/local-government-revenue-and-capital-settlement-final-2020-2021>.

Local authorities then have their own allocation formulas to individual schools. Local authorities overall funding is a combination of unhypothecated settlement from Welsh Government, specific grants, council tax and fees and charges. They may draw on all these sources to fund schools.

The recent [Review of School Spending in Wales](#) was published in October and includes a detailed and informative overview of what the current offer for children in Wales, including where the money comes from, who spends the money, how it's changed over time and what pupils get in terms of actual resources for their education.

The school funding review assesses the different levels of funding required, in different circumstances, needed to inform policy on school funding both now and in the future to support our education reforms.

Recommendation 6. The Committee recommends that the Welsh Government details all sunk costs relating to the Bill in the same part of a revised Regulatory Impact Assessment.

I accept this recommendation. All sunk costs relating to the Bill will be in the same part of the revised Regulatory Impact Assessment.

Recommendation 7. The Committee recommends that the Welsh Government should provide the detail on its discussions with stakeholders around the potential costs to the post-16 education system and publish any details of the financial implications.

I accept this recommendation. The Welsh Government provided the detail in the letter to the Finance Committee on 20 November. Officials met with representatives from the further

education (FE) sector in August 2020 who shared thoughts on the potential impact on the post-16 education system. These can be grouped as follows:

- financial implications for professional learning and development in the post-16 sector;
- the potential need for additional teaching hours in some subjects should certain areas of knowledge not be gained from the new compulsory curriculum; and
- the need to invest in Welsh language skills development in FE. For example, there may be further need for transition activities to be completed in order to ensure effective preparation onto post-16 courses for specific subjects.

Colegau Cymru recognises these issues do not necessarily form part of the financial scope of the Bill which focuses on the compulsory curriculum but consider these are costs that will need to be factored to make the new curriculum succeed in its aims.

The Welsh Government will continue to liaise with Colegau Cymru to ensure they are sufficiently prepared for the first tranche of learners in 2027, feeding into the Post-16 Professional Learning action plan and the Professional Learning Framework for staff within the post-16 sector as appropriate. Financial implications will be met from budgets committed to the realisation of the new curriculum, building on the £124,000 allocated between 2018-19 and 2020-21 to FE to support the new curriculum. This expenditure is included in the 'Curriculum Reform Project' lines of tables 2 and 3 (pages 78 and 79) of the RIA.

The RIA will be updated to reflect discussions ahead of Stage 3.

Recommendation 8. The Committee recommends that the Welsh Government provides details of how it will review the costs provided by stakeholders (and advise the Senedd of those costs) and the timescales of implementation.

I accept this recommendation. In July a number of key stakeholders were invited to submit additional evidence to the Welsh Government to inform the costs identified in the RIA. These included WLGA, ADEW, Regional Consortia, ITE providers, Estyn, Catholic Education Service, WASACRE, Church in Wales, and Colegau Cymru.

WASACRE advised there will be no additional costs relating to their organisation. Estyn have advised they will meet any costs relating to the new curriculum from their core funding allocation.

As advised in my letter of 5 November, work is ongoing to identify potential costs to awarding bodies, resulting from the change in qualifications and how these may impact on exam centres. The current situation with exams caused by the pandemic continues to make this exercise extremely challenging. Qualifications Wales are due to carry out a further consultation on qualifications for the new curriculum in the New Year 2021. As their work on qualifications progresses proposals will be subject to a separate RIA and any costs of the new qualifications to awarding bodies, schools and other parts of the sector will be looked at in detail and published at the appropriate time.

We have agreed funding for the Church in Wales and the Catholic Education Service to develop guidance to support the delivery of the new curriculum, from within existing budgets. This guidance is also intended to support schools to develop a curriculum that meets the wider framework requirements while also meeting their requirements as schools

with a religious character. The Church in Wales and the Catholic Education Service maintain that the requirements for them to deliver both agreed syllabus RVE and denominational RVE would mean additional costs and resources for their schools. Work on this continues to ensure the requirements on schools of a religious character to apply each of the two required syllabi are appropriate. Financial implications will be met from budgets committed to the realisation of the new curriculum.

The RIA will be updated ahead of Stage 3 on the above matters.

The Research and Evaluation programme (which will include the post-implementation review), will include evidence on the part played by each stakeholder in contributing and responding to the reforms. In doing this, the programme will collect and set out information on emerging costs to stakeholders, increasing the accuracy of the cost estimates over time. This will be based in part on the shared learning through the co-construction of guidance, providing the detail of what needs to happen and how. We will provide an update in 2021.

We have worked closely with stakeholders to understand the impact and implications of COVID-19. The Journey to 2022 was revised in light of this, and is clear in respect of the ways of working we expect to see across the education system in taking curriculum reform forward. It also made clear our recognition that the impact of the pandemic means schools will be at different points on their curriculum journeys, and that the pace and focus of activity will naturally vary across schools.

The Curriculum Implementation Plan will account for the difficult context for the profession brought about by COVID-19's impact. It will do this by detailing clearly what support schools can expect from the Welsh Government and its partners through the implementation phase, and when they can expect it.

Similarly, we will ensure that the design of the National Network – which will address barriers to implementation through co-construction – accounts for the impact of the pandemic. We will ensure that schools are not required to engage right away, but that they are fully supported to do so when they are better able to engage and that we are taking a prioritised and clear approach to ensure that schools can engage as effectively as possible when they are able.

Recommendation 9. The Committee recommends that the Welsh Government updates the Explanatory Memorandum on its proposals for evaluating the legislation, including how and when it intends to do this.

I recognise the intention behind the Committee's recommendation, and accept this recommendation in principle. As mentioned in response to recommendation 1, the Research and Evaluation programme is being developed collaboratively, and it would not be in-line with HMT Magenta Book guidance to confirm research and evaluation plans prior to the completion of a scoping study. An indicative timetable for the Research and Evaluation programme is available in section 11.7 of the Explanatory Memorandum and will be included in the Curriculum Implementation Plan, with full details of research activities and outputs to be set out in 2021/22.

The EM will be updated ahead of Stage 3 with progress to date in developing the Research and Evaluation plan.



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: MA-RE-4424-20

Elin Jones, MS
Llywydd
Senedd Cymru
Cardiff Bay
CF99 1SN

07 January 2021

Dear Llywydd,

THE NON-DOMESTIC RATING (MULTIPLIER) (WALES) ORDER 2021

I have today made the Non-Domestic Rating (Multiplier) (Wales) Order 2021, under paragraph 5(3) of Schedule 7 to the Local Government Finance Act 1988. It will come into force on the day after the day on which it is approved by a resolution of Senedd Cymru and will take effect from 1 April 2021. I attach a copy of the statutory instrument and the accompanying Explanatory Memorandum, which I intend to lay once the statutory instrument has been registered.

In accordance with the procedure set out in paragraph 5(15) of Schedule 7 to the Local Government Finance Act 1988, this instrument must be approved by the Senedd Cymru before the Senedd approves the *Local Government Finance Reports* for the financial year beginning 1 April 2021, or before 1 March in the preceding financial year, whichever is earlier, in order for it to be effective. In these circumstances, I understand Standing Order 21.4A is relevant and the Business Committee may establish and publish a timetable for the responsible committee or committees to report. It may be helpful to know that I intend to hold the Plenary debate for this item of subordinate legislation on 9 February.

I am copying this letter to Mick Antoniw MS, Chair of the Legislation, Justice and Constitution Committee, Llyr Gruffydd MS, Chair of the Finance Committee, Siwan Davies, Director of Senedd Business, Sian Wilkins, Head of Chamber and Committee Services and Julian Luke, Head of Policy and Legislation Committee Service.

Yours sincerely,

Rebecca Evans AS/MS
Y Gweinidog Cyllid a'r Trefnydd
Minister for Finance and Trefnydd

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Correspondence.Rebecca.Evans@gov.wales
Gohebiaeth.Rebecca.Evans@llyw.cymru

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

Pack Page 8

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Order made by the Welsh Ministers, laid before Senedd Cymru under paragraph 5(15) of Schedule 7 to the Local Government Finance Act 1988, for approval by resolution of Senedd Cymru before the approval by Senedd Cymru of the local government finance report for the financial year beginning on 1 April 2021, or before 1 March 2021 (whichever is earlier).

W E L S H S T A T U T O R Y
I N S T R U M E N T S

2021 No. (W.)

**RATING AND VALUATION,
WALES**

**The Non-Domestic Rating
(Multiplier) (Wales) Order 2021**

EXPLANATORY NOTE

(This note is not part of the Order)

In relation to Wales, the non-domestic rating multiplier is calculated in accordance with paragraph 3B of Schedule 7 to the Local Government Finance Act 1988 (“the Act”) for each financial year when new rating lists are not being compiled. New rating lists are not being compiled for the financial year beginning on 1 April 2021.

The formula in paragraph 3B of Schedule 7 to the Act includes an item B which is the retail prices index for September of the financial year preceding the year concerned, unless the Welsh Ministers exercise their power under paragraph 5(3) of Schedule 7 to the Act to specify, by Order, a different amount for item B. If the Welsh Ministers exercise that power in relation to a financial year, the different amount so specified must be less than the retail prices index for September of the preceding financial year. The retail prices index for September of the preceding financial year is 294.3.

Article 2 of this Order specifies that for the financial year beginning on 1 April 2021, the amount for item B is 291.0.

Article 3 revokes the Non-Domestic Rating (Multiplier) (Wales) Order 2020 which had specified the amount for item B for the financial year beginning on 1 April 2021 as 292.6.

In accordance with paragraph 5(15) of Schedule 7 to the Act, this Order will only come into force if it is approved by a resolution of Senedd Cymru before Senedd Cymru approves the local government finance report for the financial year beginning on 1 April 2021, or before 1 March 2021 (whichever is earlier).

The Welsh Ministers' Code of Practice on the carrying out of Regulatory Impact Assessments was considered in relation to this Order. As a result, a regulatory impact assessment has been prepared as to the likely costs and benefits of complying with this Order. A copy can be obtained from the Local Government Strategic Finance Division, Welsh Government, Cathays Park, Cardiff, CF10 3NQ.

Order made by the Welsh Ministers, laid before Senedd Cymru under paragraph 5(15) of Schedule 7 to the Local Government Finance Act 1988, for approval by resolution of Senedd Cymru before the approval by Senedd Cymru of the local government finance report for the financial year beginning on 1 April 2021, or before 1 March 2021 (whichever is earlier).

W E L S H S T A T U T O R Y
I N S T R U M E N T S

2021 No. (W.)

**RATING AND VALUATION,
WALES**

**The Non-Domestic Rating
(Multiplier) (Wales) Order 2021**

Made ***

Laid before Senedd Cymru ***

*Coming into force in accordance with article
1(2)*

The Welsh Ministers make the following Order in exercise of the powers conferred on the Treasury by paragraph 5(3) of Schedule 7 to the Local Government Finance Act 1988(1), and now vested in them(2).

Title, commencement and application

1.—(1) The title of this Order is the Non-Domestic Rating (Multiplier) (Wales) Order 2021.

(2) This Order comes into force on the day after the day on which it is approved by a resolution of Senedd Cymru, provided that the approval of the Order is

(1) 1988 c. 41.

(2) The power under paragraph 5(3) of Schedule 7 to the Local Government Finance Act 1988, so far as exercisable in relation to Wales, was transferred to the National Assembly for Wales by virtue of article 2 of, and Schedule 1 to, the National Assembly for Wales (Transfer of Functions) Order 1999 (S.I. 1999/672). By virtue of section 162 of, and paragraphs 30 and 32 of Schedule 11 to, the Government of Wales Act 2006 (c. 32), the power is now vested in the Welsh Ministers.

given before the approval by Senedd Cymru of the local government finance report for the financial year beginning on 1 April 2021, or before 1 March 2021 (whichever is earlier)(1).

(3) This Order applies in relation to Wales.

Non-domestic rating multiplier

2. For the purpose of paragraph 3B of Schedule 7 to the Local Government Finance Act 1988, for the financial year beginning on 1 April 2021, B is specified as 291.0.

Revocation

3. The Non-Domestic Rating (Multiplier) (Wales) Order 2020(2) is revoked.



Name Rebecca Evans AS/MS

Minister for Finance and Trefnydd, one of the Welsh Ministers

Date 07-01-21

-
- (1) By virtue of section 150A(2) of the Government of Wales Act 2006, references in the Local Government Finance Act 1988 to the National Assembly for Wales now have effect as references to Senedd Cymru.
- (2) S.I. 2020/1254 (W. 285).

Explanatory Memorandum to the Non-Domestic Rating (Multiplier) (Wales) Order 2021

This Explanatory Memorandum has been prepared by Local Government Strategic Finance Division and is laid before the Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Minister's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Non-Domestic Rating (Multiplier) (Wales) Order 2021. I am satisfied that the benefits justify the likely costs.

Rebecca Evans MS
Minister for Finance and Trefnydd
January 2021

Contents

PART 1: EXPLANATORY MEMORANDUM	3
1. Description	3
2. Matters of Special Interest to the Legislation, Justice and Constitution Committee	4
3. Legislative background	4
4. Purpose and Intended Effect of the Legislation	5
PART 2: REGULATORY IMPACT ASSESSMENT	6
ANALYSIS OF OTHER EFFECTS AND IMPACTS.....	7

PART 1: EXPLANATORY MEMORANDUM

1. Description

The Non-Domestic Rating (Multiplier) (Wales) Order 2021 Order (the 2021 Order)

The 2021 Order sets the non-domestic rating (NDR) multiplier for Wales for the financial year 2021-22. It reflects the decision announced on 15 December 2020 to freeze the multiplier rather than using the Retail Prices Index (RPI) to calculate an increase in the multiplier.

Between 2018-19 and 2020-21, the multiplier was increased in line with the Consumer Prices Index (CPI). This position was initially proposed for 2021-22, resulting in the making and laying of The Non-Domestic Rating (Wales) Order 2020 (the 2020 Order). The debate on the 2020 Order was scheduled for 8 December but was postponed, with the motion subsequently withdrawn on 15 December following the change in policy position to freeze the multiplier.

Calculation of the Multiplier

Under the Local Government Finance Act 1988 (the 1988 Act), the annual increase in the multiplier should be calculated using the RPI figure for the September preceding the financial year to which the multiplier applies. For 2021-22, the RPI figure would have been 294.3.

The multiplier is applied to the rateable value (RV) of each non-domestic property to calculate its non-domestic rates bill. The 2021 Order applies the figure required to ensure there is no increase in the multiplier in place of the RPI figure. This results in no increase in the 2021-22 rates bills to be paid by businesses and other non-domestic property owners, as opposed to a rise in rates bills which would be the case if the RPI figure were used.

The formula used for calculating the NDR multiplier in a non-revaluation year is:

$$(A \times B) / C.$$

A is the multiplier for the preceding financial year

B is the RPI for September of the preceding financial year

C is the RPI for September of the financial year two years before.

Welsh Ministers may substitute a figure for B which is less than the RPI figure. As no increase in the multiplier is used as the measure for setting the multiplier, B is calculated on this basis.

To calculate the appropriate figure for freezing the multiplier, the value for B divided by the value for C is required to be equal to 1. As C is set in primary legislation as RPI for September of the financial year two years before, the figure for B must also be this figure. For 2021-22, B has been calculated as 291.

This results in the multiplier for 2021-22 remaining at 0.535 instead of increasing to 0.541.

2. Matters of Special Interest to the Legislation, Justice and Constitution Committee

Given the change in the policy position after the laying and making of the 2020 Order, the 2021 Order revokes that Order, in addition to setting the value for B at 291.

3. Legislative background

Under the 1988 Act, for financial years in which new rating lists do not apply (ie. all years which are not revaluation years), the default position for determining the non-domestic rating multiplier for Wales is to apply the formula set out in paragraph 3B to Schedule 7 to the 1988 Act. An element in that formula is the RPI for September of the financial year preceding the year concerned. The financial year beginning 1 April 2021 is not a revaluation year and therefore there will not be a new rating list.

Under paragraph 5(3) of Schedule 7 to the 1988 Act, the Welsh Ministers have the power to increase a multiplier at below the level of inflation as measured by RPI. It is this power which the Welsh Ministers propose to exercise in making the 2021 Order.

The Welsh Ministers have adopted the approach of increasing the multiplier using CPI rather than RPI for each financial year since 2018-19. However, it has been decided that for 2021-22, the multiplier will be frozen.

As the Welsh Government is diverging from the prescribed practice of increasing the multiplier by RPI, Ministers are required, under paragraph 5(15) of Schedule 7 to the 1988 Act, after making the 2021 Order to limit the increase at below RPI, to lay it before the Senedd for approval.

The 2021 Order is subject to a made affirmative procedure and must be approved by the Senedd for it to be effective. It is also a requirement of the 1988 Act that any such Order is approved before the *Local Government Finance Reports* (for unitary authorities and police and crime commissioners) are approved by the Senedd, or before 1 March in the preceding financial year, whichever is earlier. This requirement for prior agreement of the multiplier arises because it plays a vital part in calculating the total funding available in the annual settlements.

The debate on the Local Government Finance Report for unitary authorities for 2021-22 is expected to be scheduled for debate in early March 2021. The debate to approve the 2021 Order is scheduled to take place on 9 February 2021.

4. Purpose and Intended Effect of the Legislation

The 2021 Order will have the effect of freezing the NDR multiplier rather than increasing by RPI for the financial year 2021-22. By freezing the NDR multiplier, the multiplier will be set at 0.535.

This will mean that non-domestic property owners and occupiers in Wales will receive lower rates bills for 2021-22 than they would have if RPI were used.

Primary legislation does not currently provide the Welsh Ministers with powers to permanently change the figure used to calculate the multiplier from RPI to a lower measure. Therefore, the 2021 Order will apply to 2021-22 only.

Similar orders were made to effect a change to increase by CPI rather than RPI for 2018-19 to 2020-21.

All owners or occupiers of non-domestic properties who pay rates will benefit from the change. Even properties which receive significant amounts of rates relief will benefit as the residual amounts will be calculated using a lower multiplier.

All the non-domestic rates collected in Wales are pooled centrally and distributed to unitary authorities and to police and crime commissioners as part of the annual local government settlements. The total amount to be distributed in this way is known as the Distributable Amount. It is calculated by applying the multiplier to the estimated national total of rateable value, taking account of any surplus or deficit carried forward from previous years.

The Distributable Amount is a key component of the annual local government revenue settlements and the 1988 Act requires that it is approved by the Senedd as part of the annual *Local Government Finance Reports*. The multiplier therefore needs to be determined before the annual settlements can be finalised.

There is a clear purpose to the policy behind the legislation. It is aimed at supporting economic growth and reducing the local tax liability for businesses and other non-domestic ratepayers in Wales, ensuring they are not at a disadvantage compared to other parts of the United Kingdom.

Freezing the multiplier rather than increasing the multiplier by RPI in Wales will reduce the income into the non-domestic rates pool in 2021-22. The reduction will be fully funded by the Welsh Government and will be reflected in the calculations for the local government settlements so that there is no financial impact on local authorities or police budgets.

5. Consultation

No consultation has been undertaken on the policy behind the 2021 Order. The proposals benefit all ratepayers in Wales and there is no impact on the resources available to local authorities. The policy position replicates changes made in England and ensures ratepayers in Wales are not placed at a disadvantage compared to those in England.

PART 2: REGULATORY IMPACT ASSESSMENT

Options

Option 1 – Use RPI to increase the multiplier

This option would increase the multiplier for 2021-22 by RPI at September 2020 (1.1%), resulting in a multiplier of 0.541.

Option 2 – Increase the multiplier by the equivalent of CPI

This option would increase the multiplier for 2021-22 by CPI at September 2020 (0.5%), resulting in a multiplier of 0.538.

Option 3 – Freeze the multiplier

This option would result in no increase in the multiplier, resulting in a multiplier of 0.535.

Costs and benefits

Option 1 – Use RPI to increase the multiplier

The following illustrates the effect of using RPI to increase the multiplier on the non-domestic rates bill of a property.

For example, if a property has a rateable value (RV) as assessed by the Valuation Office Agency of £15,000, the rates bill for 2020-21 (before any reliefs) would have been:

$$\text{RV } £15,000 \times 0.535 = £8,025$$

Applying RPI would result in an annual rates bill for 2021-22 of:

$$\text{RV } £15,000 \times 0.541 = £8,115$$

The increase in the annual charge would therefore be £90.

Option 2 – Increase the multiplier by the equivalent of CPI

This option would result in a lower increase in rates bills for all non-domestic properties than under RPI. Using the example from Option 1.

The rates bill for 2020-21 was:

$$\text{RV } £15,000 \times 0.535 = £8,025$$

An increase using CPI for 2021-22 would give a bill of:

$$RV \quad £15,000 \times 0.538 = £8,070$$

The increase in rates for the property would therefore be £45, £45 less than if RPI were used.

The total saving to non-domestic ratepayers across Wales is estimated at around £6m in 2021-22. This would be a recurrent saving as the multiplier cannot be increased at a level above RPI in future years. This saving is additional to the savings made from applying the same approach in each year since 2018-19.

Option 3 – Freeze the multiplier

This option would result in no increase in rates bills for all non-domestic properties. Using the example from Options 1 and 2.

The rates bill for 2020-21 was:

$$RV \quad £15,000 \times 0.535 = £8,025$$

A freeze in the multiplier for 2021-22 would give a bill of:

$$RV \quad £15,000 \times 0.535 = £8,025$$

There would therefore be no increase in rates for the property, rates would therefore be £90 less than if RPI were used and £45 less than if CPI were used.

The total saving to non-domestic ratepayers across Wales is estimated at around £12m in 2021-22. This would be a recurrent saving as the multiplier cannot be increased at a level above RPI in future years. This saving is additional to the savings made from increasing by CPI in each year since 2018-19.

Option selection

The cost of freezing the multiplier (Option 3) would be borne by the Welsh Government. There would be no financial impact on local authorities. The approach also means that ratepayers in Wales would not be at a disadvantage compared to other parts of the UK.

Option 3 is therefore the preferred option.

Analysis of other effects and impacts

Promoting Economic Opportunity for All (Tackling Poverty)

Freezing the multiplier provides support for all ratepayers which could help to prevent hardship. It also ensures ratepayers in Wales are not at a disadvantage to ratepayers in England benefitting from a freeze in the multiplier.

UNCRC

No particular impact on the rights of children has been identified.

Welsh language

No effect on the opportunities to use the Welsh language or the equal treatment of the language has been identified.

Equalities

No specific impacts, positive or negative, on persons who share a protected characteristic (as determined by the Equality Act 2010) have been identified.

Well-being of Future Generations (Wales) Act 2015

Freezing the multiplier will assist all ratepayers and, as such, will help to contribute to the achievement of the wellbeing goals of a prosperous and a more equal Wales.

Impact on voluntary sector

Freezing the multiplier will benefit all ratepayers including those operating in the voluntary, charitable and not-for-profit sectors.

Competition Assessment

A competition filter test has been applied to the Order. As the change benefits all ratepayers, no effect on competition within Wales is indicated. Freezing the multiplier means that ratepayers in Wales are not placed at a disadvantage compared to other parts of the UK.

Post implementation review

The Welsh Government will monitor the impact of the change on the non-domestic rates pool.

Finance Committee Consultation Response

The Bevan Foundation is Wales' most influential think-tank. We aim to end poverty and inequality by working with people to find effective solutions and by inspiring governments, organisations and communities to take action. We are grateful for the opportunity to respond to the Finance Committee's inquiry into the Welsh Government Draft Budget 2021-22. Our extensive work on poverty and inequality provides us with some insights into the impact that the Welsh Government's budget allocation can have on poverty. Our response draws on this experience and focuses on the first, second and sixth question raised by the Committee.

Covid 19 and the causes of poverty

Poverty was a significant problem in Wales long before the arrival of Covid 19. The latest official poverty data released back in March showed that 700,000 people were living in poverty in Wales on the eve of the pandemic.¹ The situation is likely to have deteriorated significantly over recent months. While the root causes of poverty have remained largely unchanged, each has been exacerbated by the crisis.

Being in work significantly reduces the risk of living in poverty.² Despite this, prior to the pandemic, over half the people who were living in poverty in Wales lived in households where at least one person was in work.³ Low pay and insecure work are just some of the factors that are pushing working families into poverty. The pandemic has significantly worsened this situation.

Thousands of Welsh workers have already lost their jobs with the number of people claiming out of work benefits doubling since March 2020.⁴ Even those who have not lost their jobs have seen their incomes hit either as a result of working fewer hours or as a result of being put on furlough.⁵ Concerningly, low paid workers have been amongst the least likely to see their pay topped up when placed on furlough.⁶

Another cause of poverty is the failings with the social security system. The weaknesses within the UK's social security system were well known long prior to the recent crisis, in particular the

¹ Stats Wales, *Percentage of all individuals, children, working-age adults and pensioners living in relative income poverty for the UK, UK countries and regions of England between 1994-95 to 1996-97 and 2016-17 to 2018-19 (3 year averages of financial years)* available at - <https://statswales.gov.wales/Catalogue/Community-Safety-and-Social-Inclusion/Poverty/householdbelowaverageincome-by-year>

² In 2016/17 to 2018/19 12 per cent of working age adults and 15 per cent of children in households where all adults were in work lived in poverty. In households where no one was in work however, this leapt to 61 per cent of adults and 77 per cent of children.

Stats Wales, 'Working age adults in relative income poverty by economic status of household' available at - <https://statswales.gov.wales/Catalogue/Community-Safety-and-Social-Inclusion/Poverty/workingageadultsinrelativeincomepoverty-by-economicstatusofhousehold> and Stats Wales, 'Children in relative income poverty by economic status of household' <https://statswales.gov.wales/Catalogue/Community-Safety-and-Social-Inclusion/Poverty/childreninrelativeincomepoverty-by-economicstatusofhousehold>

³ ibid

⁴ ONS, *HI10 Regional labour market: Headline indicators for Wales* (Release date 10 November 2010) available at <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/headlinelabourforcesurveyindicatorsforwaleshi10>

⁵ Bevan Foundation, *Reducing the impact of Coronavirus on poverty in Wales* (September 2020) available at - <https://www.bevanfoundation.org/publications/coronavirus-poverty-wales/>

⁶ Annual Survey of Hours and Earnings (Accessed via Nomis, Bevan Foundation analysis)

shortcomings of Universal Credit. Issues such as the five week wait for the first payment, assessment periods and monthly payments, the benefit cap and sanctions have caused significant public concern. In the first few weeks of the crisis, the UK Government took some steps to temporarily address some of these weaknesses. Other issues, however, were not addressed and with the number of people claiming Universal Credit increasing sharply, will affect more people.

At a time that many families have seen their incomes decrease many living costs have increased. Families have had to find money to cover their rent or their mortgage, to pay utilities bills and to purchase food. This has put real pressures on families. Research undertaken by the Joseph Rowntree Foundation and Save the Children found that seven out of ten families with children who were claiming Universal Credit or Child Tax Credits have had to cut back on essentials such as food, utilities, nappies and activities for children (including books) as a result of the pandemic.⁷

Two recently published reports provide a more detailed exploration of the impact of Covid 19 on poverty in Wales and a breakdown of who is at greatest risk of poverty. These are the Joseph Rowntree Foundation's *Poverty in Wales 2020*⁸ and the Bevan Foundation's *Reducing the impact of coronavirus in Wales*.⁹

The links between Covid 19 and poverty

Covid 19 has not only pushed more people into poverty and made life harder for those who were already held in its grip, but, it has also cast a spotlight on the inequalities associated with poverty.

People living in Wales' most deprived communities have been significantly more likely to die from Covid-19 than people living in more affluent communities.¹⁰ This is both a result of people on low incomes being more likely to have underlying health conditions that made them vulnerable to the virus and as a result of people on low incomes being less able to work from home, putting them at greater risk of catching Covid-19.¹¹

Children trapped in poverty have been more greatly affected by the disruption to their education, with schools in Wales' most deprived communities being amongst the least likely to offer online learning opportunities.¹² Even where the opportunity for remote learning has been available, many children living in poverty have not been able to take advantage. A survey undertaken by the Child Poverty Action Group found that 40 per cent of low-income families were missing at least one essential resource to support their child's learning from home.¹³ It seems inevitable that such

⁷ Joseph Rowntree Foundation and Save the Children, *A lifeline for our children: Strengthening the social security system for families with children during this pandemic* (June 2020) available at -

<https://www.irf.org.uk/report/call-stronger-social-security-lifeline-children>

⁸ Joseph Rowntree Foundation, *Briefing, Poverty in Wales 2020* (November 2020) available at -

<https://www.irf.org.uk/report/poverty-wales-2020>

⁹ Bevan Foundation n(5)

¹⁰ ONS, *Deaths involving Covid 19 by local area and socioeconomic deprivation* (12 June 2020)

<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deaths-involvingcovid19bylocalareasanddeprivation/deathsoccurringbetween1marchand31may2020#welsh-index-of-multiple-deprivation>

¹¹ Bevan Foundation n(5)

¹² Sutton Trust, *Covid 19 impacts: Schools Shutdown* (20 April 2020) available at -

<https://www.suttontrust.com/our-research/covid-19-and-social-mobility-impact-brief/>

¹³ Child Poverty Action Group, *The Cost of Learning in Lockdown* (18 June 2020) available at -

<https://cpag.org.uk/news-blogs/news-listings/cost-learning-lockdown>

differing experiences will widen the already significant attainment gap between children trapped in poverty and children who are not.

Housing is another area where the pandemic has cast a light on existing inequalities. Long before the pandemic there was a body of evidence that showed that people trapped in poverty were more likely to live in poor quality, overcrowded housing. The implications for people's health and wellbeing have been brought into focus in recent months. For people with symptoms of the virus the advice is to stay at home and to stay in a room away from the rest of the household and use a separate bedroom if possible. This advice is impossible for people who live in overcrowded housing to follow. Many people have also fallen behind on their rent and mortgage payment, putting their housing position in a precarious position.¹⁴

These inequalities matter not just because they are wrong, but they also have a budgetary impact. In 2016 the JRF estimated that poverty is linked to additional devolved expenditure of around £3.6bn such as extra health spending. The pandemic is likely to have significantly increased this budgetary impact.

In the short-term poverty is likely to have increased the cost of the pandemic for the Welsh Government. The prevalence of health conditions associated with poverty for example, has made more people vulnerable to the virus, placing them at greater risk of being hospitalised, stretching resources to the limit. The prevalence of poverty in Wales also means that thousands of people in Wales have little if any money to fall back on. This has placed extra demands on a range of public services including support for homeless people and on Welsh Government financial support schemes such as the Discretionary Assistance Fund.

In addition to poverty increasing the cost of the pandemic, the impact of the pandemic is likely to increase the prevalence of poverty in the longer term, which will put additional demands on the Welsh Government's budget. Any increase in poverty is likely to lead to more people developing long term health conditions, meaning that the demands on the health service are likely to increase even after the threat of Covid-19 itself has receded. Any fall in young people's educational attainment on the other hand is likely to reduce their opportunity to get a well paid job in future. This would not only increase their risk of living in poverty but could also have an impact on the Welsh Government's budget if the money it raises through income tax recovers less slowly than the other parts of the UK.

The Welsh Government's spending can have an impact on poverty

The Welsh Government's budget, in particular the allocation of extra funds in response to Covid 19 has provided vital support to the 700,000 people who were already living in poverty prior to the pandemic and to the thousands of people who have been swept into poverty by its economic impact. Without this expenditure the past few months would have been even harder for families than it has been. Amongst the most welcome additional spending announcements have been:

- The allocation of more than £52m to continue to provide Free School Meals to families during the first lockdown, whilst children have to self-isolate and over the school holidays.
- The allocation of £16m to the Discretionary Assistance Fund.
- The introduction of a £500 payment for low income workers who must self-isolate.
- Allocation of extra sums to fund increased demand for the Council Tax Reduction Scheme.

¹⁴ Bevan Foundation n(5)

The support provided through this additional spending has had a significant impact on those trapped in poverty in Wales. As we outlined in our recent report, *Reducing the impact of Coronavirus in Wales* these schemes have afforded an additional safety net to families at a time they most needed the support.¹⁵

This additional spending by the Welsh Government has served to highlight the significant powers it has to assist those trapped in poverty. Prior to the pandemic the Bevan Foundation had embarked on a project to explore the way that the Welsh Government and Welsh local authorities provided means tested support to people on low income. Amongst the schemes we explored were the Council Tax Reduction Scheme, Free School Meals and the Education Maintenance Allowance.¹⁶ Through this work we uncovered that the Welsh Government spends in excess of £400m on these various schemes annually.¹⁷ To put this figure in context, this is about the same as the Department for Work and Pensions expenditure on Job Seekers' Allowance and Universal Credit in Wales in 2018/19.¹⁸

The provision of extra funds through its budget as a result of the pandemic has allowed the Welsh Government to expand some of these schemes in ways that were previously thought to not be possible such as the extension of Free School Meals across the schools holidays. This serves to highlight that the Welsh Government does have the power to significantly improve the support available for low income families if sufficient funds are made available.

New research also highlights that policy decisions taken by the Welsh Government where inadequate funding is made available can lead to a growth in the number of people who live in poverty.

In 2016 the Welsh Government set a target of constructing 20,000 affordable homes by the end of the current Welsh Parliamentary term in 2021. To meet this target the Welsh Government has been working with social landlords to increase the availability of social rented housing. Whilst the Welsh Government has invested significant funds into the construction of new social housing these have not been sufficient to construct the required number of homes on their own. Social landlords have therefore turned to private borrowing to finance the construction of new social housing and have also been permitted to put up their rents above inflation for a number of years.

Research undertaken by the Joseph Rowntree Foundation has uncovered that over the past five years, social rents in Wales have increased by 8% in real terms.¹⁹ They estimate that this real terms increase in social rent has led to an additional 40,000 social housing tenants being pulled into poverty.²⁰

The Joseph Rowntree Foundation's work also highlights a key lesson that we believe should underpin the Welsh Government's work on its budget and the work of this committee when scrutinising it, namely the need to explore who benefits and who is faced with additional costs as a result of budgetary decisions. Constructing more social housing is vital if we are to solve poverty in Wales, however, financing this construction by increasing the rents of social housing tenants undermines the policy. This lesson does not apply exclusively to housing. Prior research undertaken

¹⁵ Bevan Foundation n(5)

¹⁶ Bevan Foundation, *A Welsh Benefits System, how it can help solve poverty* (September 2020) available at - <https://www.bevanfoundation.org/publications/a-welsh-benefits-system/>

¹⁷ ibid

¹⁸ UK Government, *Benefit expenditure and caseload tables 2019*, (24 April 2019) Bevan Foundation analysis, available at - <https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2019>

¹⁹ JRF n(8)

²⁰ ibid

by the Bevan Foundation on public transport for example, has highlighted how the Welsh Government's Concessionary Fare Scheme means that services are skewed towards the concessionary market meaning that there are a lack of buses for low income commuters.²¹

We believe that it is vital that the Welsh Government draws on these lessons and ensures that solving poverty is the absolute priority for its budget in 2021/22.

Priorities for the budget

With the impact of Covid 19 likely to continue with us well into 2021 it is vital that the Welsh Government's budget allocates sufficient funds for taking both short term and long term measures to reduce the number of people living in poverty.

As outlined above the Welsh Government have already taken some welcomed steps to increase the support that is available to people trapped in poverty as we enter what is set to be the most difficult winter in decades. Given that the Welsh Government still has some significant funds that are unallocated, we believe that there are further actions it should take.

In our *Reducing the Impact of Coronavirus on Poverty in Wales* report the Bevan Foundation outlined a number of steps that the Welsh Government could take to protect those in poverty this winter. Amongst the recommendations that have not yet been taken forward that we would like to see reflected in the Welsh Government's budget are:

- The allocation of extra funds to local authorities to ensure that every local authority top up all discretionary forms of local support including Discretionary Housing Payments to the maximum permitted.
- The allocation of extra funds to local authorities to carry out spot checks on premises to ensure that they are complying with Covid 19 regulations a right to engage with workers in at risk premises.
- Invest in a benefit take up campaign.
- Provide funds so that any requirement for a tenant who receives support through the Tenant Saver Loan Scheme to repay their loan is removed, to avoid trapping families in poverty into the medium term.²²

In taking these measures we believe that it is vital that the Welsh Government invests in solutions at scale and with urgency. For example, there is much to welcome in the Welsh Government's recently published *Child poverty: income maximisation action plan 2020 to 2021*.²³ We believe, however, that the urgency of the current crisis and the fact that significant funds are currently at the Welsh Government's disposal means that there is more that could be done. One example includes the proposal to pilot projects to raise awareness of benefits. Whilst the pilot projects are to be welcomed the very fact that they are pilot projects means that there are likely to be thousands of people across Wales who don't benefit from the service this winter.²⁴ We believe that the scale of

²¹ Bevan Foundation, *Maintaining free bus travel for older people, disabled people and veterans*, (29 January 2018) available at - <https://www.bevanfoundation.org/publications/consultation-maintaining-free-bus-travel/>

²² Bevan Foundation n(5)

²³ Welsh Government, *Child poverty: income maximisation action plan 2020 to 2021* (2 November 2020) available at - <https://gov.wales/child-poverty-income-maximisation-action-plan-2020-2021.html#section-54005>

²⁴ *ibid* point 1.2

the crisis we face means that such a service should be immediately rolled out across the nation to assist families this winter.

In the longer term, the need to take action to solve poverty has never been greater. The Welsh Government spends approximately £2bn on schemes it views as at least in part, designed to solve poverty.²⁵ This significant investment is to be welcomed but we think more could be done to ensure that these funds are invested effectively, in particular, the Welsh Government should prioritise its spending on tackling the root causes of poverty rather than on sticking plaster solutions. There is also a case to increase funding for a number of policies that can help reduce the number of people trapped in poverty in Wales.

Our proposals for policies and programmes that would achieve a step-change reduction in poverty were set out in our recent report *Transforming Wales: how Welsh public services and benefits can reduce poverty and inequality*.²⁶ Some of our proposals could be taken forward within existing spend by better targeting resources, others would involve the investment of additional sums.

The report is focused around two key ideas.

The first is universal essential services. This centres on the idea that investing in meeting people's basic needs by providing essential services could transform people's lives and prospects. They would ensure that nobody in Wales is left without the basics of life and that everyone can flourish. The services include:

- A decent home
- Care and development of children
- Good health and social care
- Good education
- Money
- Connection with others.

We believe investing in these services could not only improve the lives of people in poverty but could also stimulate the economy and create decent jobs in Wales.

The second idea is the establishment of a Welsh Benefits System. As noted, the Welsh Government spends £400m annually on various schemes that provide cash or in-kind support to complement the assistance provided to people on low income through the UK social security system. Despite the valued support these schemes provide the current disjointed nature of these schemes means that it is difficult for people to access all the support they are entitled to, people are locked out of support due to arbitrary eligibility and the support on offer is not always sufficient. We believe that by pulling all of these schemes together into a co-ordinated Welsh Benefits System and reforming them, the support available to Welsh households could be dramatically improved.

²⁵ Welsh Government, *Child Poverty Progress Report 2019, Welsh Government Programmes that are making a difference* (December 2019) available at - <https://gov.wales/sites/default/files/publications/2020-01/child-poverty-strategy-2019-progress-report-annex.pdf>

²⁶ Bevan Foundation, *Transforming Wales: how Welsh public services and benefits can reduce poverty and inequality* (October 2020) available at - <https://www.bevanfoundation.org/wp-content/uploads/2020/10/Transforming-Wales-through-public-services-and-benefits-FINAL.pdf>

This new system would offer cash or in-kind services that reach the people who need them, are easy to access, are efficiently and consistently administered and, crucially, improve people's lives by lifting them out of poverty. The key features of our proposed Welsh Benefits System are:

- It focuses on households on low incomes, defined as being eligible for Universal Credit, and uses the same criterion across all schemes.
- It provides cash or in-kind help that is sufficient to make a real difference to households' incomes or costs.
- It has a single point of access for several benefits, using online, phone or postal methods.
- It is based on eligibility for and an entitlement to assistance, not discretion.
- Applicants are treated with dignity and respect

Below these two overarching ideas the report contains some specific policy recommendations that we believe that the Welsh Government should support in its next budget. These include:

- A significant increase in Social Housing Grant so that the social housing sector can construct 20,000 social homes by the end of the next Welsh Parliamentary term in 2026.
- The allocation of extra funding to establish a new "school start scheme". The scheme would incorporate two existing schemes, Free School Meals and Pupil Development Grant – Access but extra funds should be made available to ensure that all children in receipt of Universal Credit access the support, ending the current position where children living in poverty are missing out on support.
- The reprioritising of existing funding for the Welsh Government's 30 hour free child care programme so to that child care is provided universally to all children over 9 months regardless of whether parents are in work or not on a part time basis.
- Increase investment in primary and social care to secure better access.
- Reallocate fund currently provided to the Discretionary Assistance Fund to a new Welsh Emergency Fund, a rights based scheme to support families in need as opposed to the current discretionary approach.²⁷

Whilst investing in these additional services would come at a cost for the Welsh Government, we believe that the pandemic has highlighted that the cost of inaction is even greater.

²⁷ ibid

Briefing: Poverty in Wales 2020

This report looks at what has happened to poverty in Wales before and during the coronavirus outbreak. Our analysis underlines the importance of work, social security and housing costs in solving poverty in Wales, as well as how much the coronavirus storm has unleashed strong currents sweeping many people into poverty and others deeper into poverty.

Joseph Rowntree Foundation

What you need to know:

- Even before coronavirus, almost a quarter of people in Wales were in poverty (700,000) living precarious and insecure lives. The risk for children alone was higher with 3 in 10 children living in poverty.
- Wales has lower pay for people in every sector than in the rest of the UK. At the start of the coronavirus outbreak, more than a third of jobs were furloughed and some local areas face a much higher risk of losing their furloughed jobs altogether, due to the types of work in the area. There is a need for a targeted job stimulus in local authority areas which are at highest risk of seeing high job losses, which are often areas that are already struggling economically.
- For low-income families, one factor in being unable to escape in-work poverty is the need to balance paid work with caring for children. Two in five local authorities in Wales report that there is not enough childcare for those working atypical hours. The supply and affordability of childcare, for children of all ages (not just nursery) is important if women are to be able to fully enter the labour force and move out of poverty.
- The importance of Wales-specific social security measures should not be under-estimated. Although the UK social security system plays an important role in solving poverty, Welsh support schemes also play a vital role. With the number of Universal Credit claimants doubling from the start of the year it is likely that more people will be looking to rely on additional Welsh support. It is therefore even more important that the Welsh Government establishes a clear, effective and fair benefits system, which complements the social security system that already exists in the UK.
- Retaining the temporary uplift of Universal Credit and Working Tax Credit allowances, as well as extending this to legacy benefits is key. For instance, of the 180,000 children in poverty, 140,000 live in families that receive income-related benefits.
- Rent increases in the social rented sector have led to a concerning dramatic increase in poverty in that sector, particularly in working households, undermining its role in protecting people in poverty. As things stand, this issue will continue to be a problem in Wales as the Welsh Government has permitted rents to increase above inflation for a further five years. Increasing the supply of social housing is also necessary.
- The private rented sector remains smaller than in other UK nations, however, increasing reliance on expensive private rents puts many poorer households at additional risk of poverty. Poverty rates among private renters are higher in Wales than elsewhere in the UK.
- As the furlough scheme ends and unemployment rises, the strain on households is likely to increase. The gaps in the benefit system will become increasingly apparent for those struggling financially and arrears in housing payments and other necessary bills may begin to build. Work needs to be done to mitigate the potential long-term consequences.

Overview of poverty in Wales

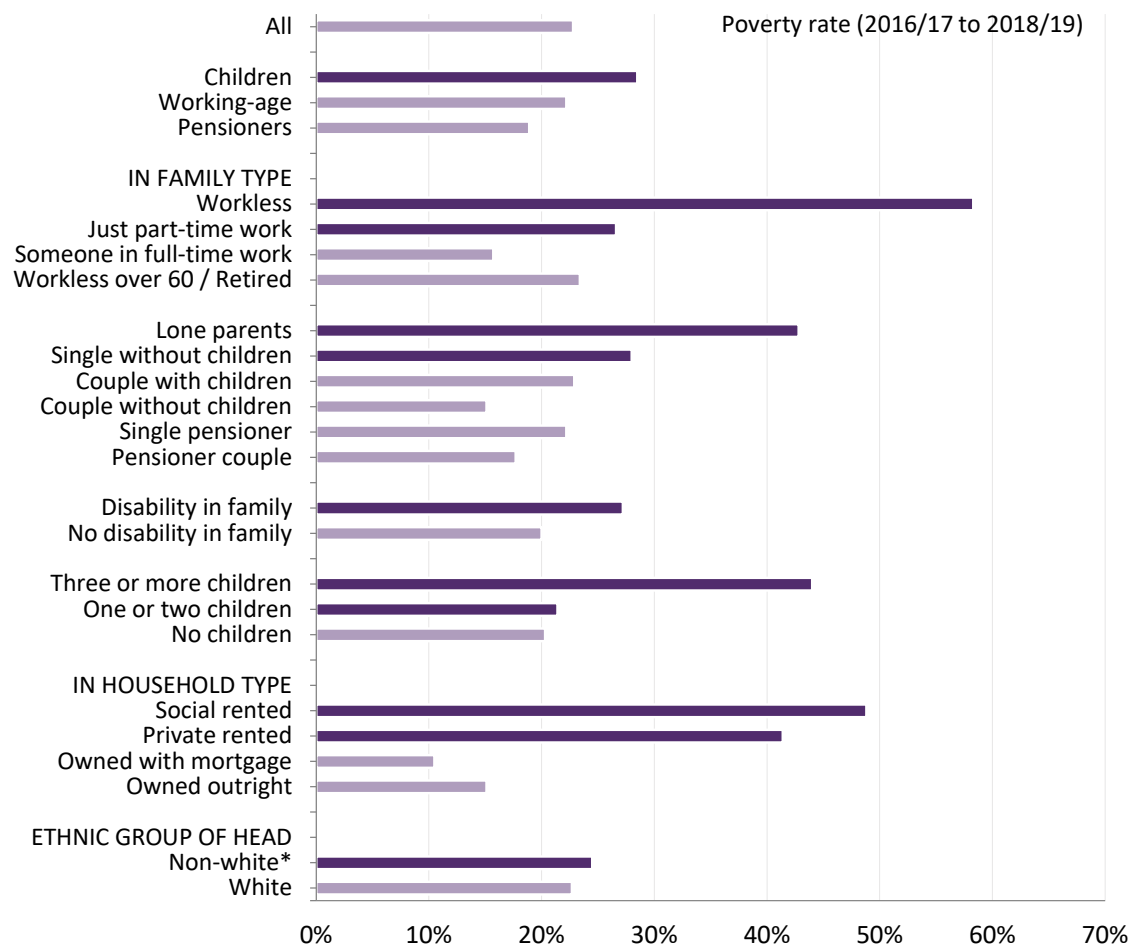
Over the last decade, the overall proportion of people in poverty in Wales has hardly changed from an unacceptable one in four. This flatlining is partly a result of two trends cancelling each other out: child poverty has been on a downward trend falling from 33% in 2009-12, to 28% in 2015-18, while pensioner poverty has risen from 14% in 2009-12, to 19% in 2015-18.

The precise impact of coronavirus is uncertain, although it is clear that it will have had a dramatic effect on poverty levels, with bigger effects on some of us whose daily lives were already a struggle. We can already see differences in economic effects linked with existing disadvantages, leading to higher poverty rates in poorer areas, with people working in certain low-paying sectors likely to be hit worse by job losses.

The chart below shows how poverty levels vary by groups. It is important also to think about the composition of who is in poverty. Groups indicated by darker blue bars have a higher poverty rate but sometimes do not make up the biggest group in poverty. As an example, we can see that people in lone-parent families have a high poverty rate of over 40%, but they only make around an eighth of everyone in poverty due to the small size of the group in the population. See Annex A for a table showing poverty risk and composition in Wales.

Across work statuses, people living in a household with a full-time worker have the lowest rate of poverty at around 16%, but because 6 in 10 households in Wales contain a full-time worker, it is still the case that 4 in 10 households in poverty contain a full-time worker and over half have someone in work, showing that while work reduces the risk of poverty, it often isn't enough to allow someone to escape from poverty.

Poverty levels vary greatly by characteristics



* Based on small sample size

Source: JRF analysis of Households Below Average Income

We can compare the groups with highest rates of poverty to those who we know have felt either the health or economic impact of coronavirus hardest. We know the number of cases and health outcomes are worse for many BAME groups, those living in deprived areas, and for people in some low-paid employment sectors, as are poverty rates. But sometimes the relationship is less direct: we see above that pensioners tend to have a lower poverty rate (although it is increasing) but are much more likely to suffer a more profound health impact from the coronavirus. Similarly, furloughed individuals were protected from catching the virus at work, but are vulnerable to the economic after-effects.

Fundamentally, there is a clear relationship between health inequalities and income inequalities, with people in poorer households tending to have poorer health, and those with poorer health tending to be more likely to have lower incomes. This, combined with what we know about the groups worse affected, suggests that the health and economic impacts of the coronavirus will be felt most by poorer households, and while we are all in the same storm, poorer households will face far greater headwinds.

The remaining sections look at work, social security and housing in Wales, starting with the situation before the coronavirus outbreak, but then looking at the latest available data to look at the emerging current picture.

Work and poverty in Wales

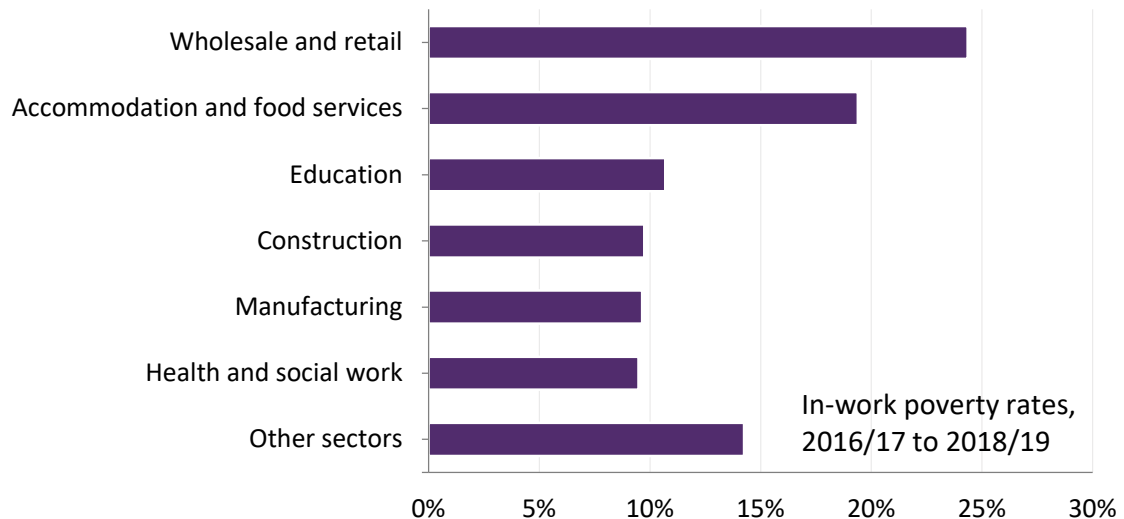
The pandemic has had a profound impact on jobs and financial security, with workers on a low wage or in poverty most affected. While the full labour market shifts are still unknown, it is important to understand and assess what these initial changes have meant for workers in poverty, as well as the labour market they face during recovery.

Setting out the pre-coronavirus picture on poverty and work in Wales is essential, as certain factors that impact a person's ability to escape in-work poverty were exacerbated during the pandemic. It is important to properly explore these factors, such as underemployment, so we can discuss the policy actions needed to help those currently in poverty and to prevent a rising tide of in-work poverty.

In-work poverty before coronavirus

In-work poverty in Wales (defined here as the proportion of workers who are in poverty) stands at 14% for 2016/17 to 2018/19. However, compared to other nations and regions in the UK, it is one of the highest in-work poverty rates, other than London (17%). Workers in food, wholesale, and retail faced amongst the highest in-work poverty rates by industry.

There is a great variation in in-work poverty rates by sector



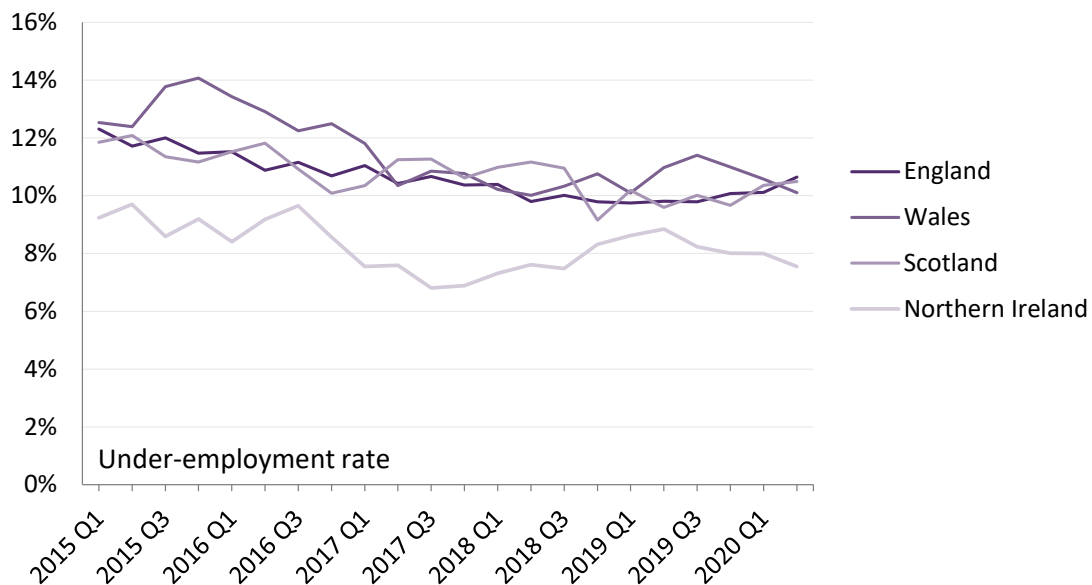
Source: JRF analysis of Households Below Average Income and Family Resources Survey.

Another factor of in-work poverty is pay. In the first quarter of 2020, Wales had the lowest median hourly pay, compared to all other nations and regions, at £10.73. Across the UK, workers in hospitality and retail experience lower pay than other sectors and are more likely to be under-employed

1. Under-employment

Our previous work has highlighted that an important factor driving in-work poverty is workers not being able to work as many hours as they would like to, known as under-employment. Under-employment is a problem for workers in poverty, as being restricted in the number of hours a person can work restricts their choices and income. Pre-coronavirus, Wales (10%) had a similar under-employment rate to other nations in the United Kingdom, other than Northern Ireland (8%). Working fewer hours while also being on low pay can make it very difficult to escape in-work poverty.

Before the pandemic, Wales had a similar under-employment rate to England and Scotland. However, at points over the last five years, Wales has been higher than other areas



Source: JRF analysis of the Labour Force Survey.

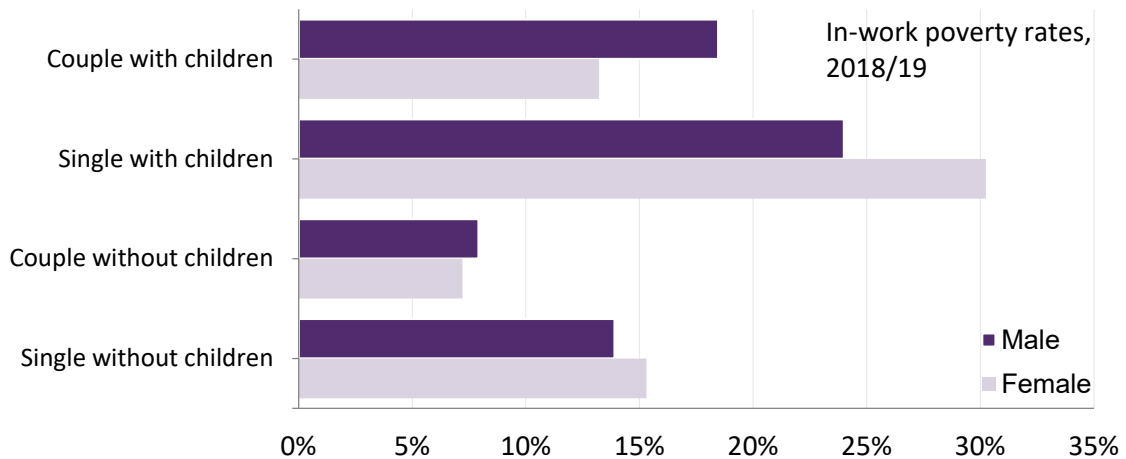
2. Gender, families and ethnicity

Some groups are much less likely to find a route out of poverty than others, particularly women, single parents and people from some BAME groups. Women are over-represented in sales and customer service occupations, as well as the health and social-work sector, where poverty rates are higher than in many sectors more dominated by men. Women are also more likely to work in hospitality and retail, which have higher poverty rates. Although the in-work poverty rate for single parents in Wales (27%) is lower than for the rest of the UK for the same time period (30%), like the UK, single parents have the highest in-work poverty rate than all household types. Also like the UK, single parents are more likely to be single mothers.

Overall, poverty is higher among black and minority ethnic people, particularly black and Asian groups. This is partly linked to lower employment levels among some of those groups. However, in-work poverty is also higher among black and ethnic minorities due to them being concentrated in low-paid sectors and lower-paid rolesⁱ.

Ethnicity is also strongly linked to employment and pay. Black (56%) and Asian (62%) populations have lower employment rates than the White population (74%)ⁱⁱ. The White Other group, which include those born in Europe, have the highest employment rates in Wales, at 80%ⁱⁱⁱ. The non-British White group are also more likely to be working in industrial sites, hospitality, social care, and food packaging plants^{iv}, which historically have lower wages. These labour market inequities are shown in higher overall poverty rates, but also higher in-work poverty rates for black and ethnic minority workers.

Single parents have highest in-work poverty rates



Source: JRF analysis of Households Below Average Income and Family Resources Survey.

For low-income families, one factor in being unable to escape in-work poverty and/or under-employment is the need to balance paid work with caring for children, and the ability to find childcare to match hours worked. Parents should be able to rely on affordable childcare options, that match their hours, but unfortunately this is not true for all families. According to the Family and Childcare Trust, in Wales, the average price for a part-time childcare place for a child aged under two at a nursery is £116.87, compared to a childminder which costs £111.85^v. Although this is lower than England (£134.65), with a small increase from 2019, this is still more than many families on a low income can afford.

After children enter school, the average cost of childcare decreases, but can still be a hefty bill for working families. The weekly price of an after-school club for 5 to 11-year-olds is £61.16, for childminders it is £70.02. For some families in poverty, they will need to make a choice about working hours and childcare due to affordability. According to the National Survey for Wales, while 58% of all families use childcare, most parents use free childcare options, either from family or friends. For children aged nought to four, only 38% of families use formal childcare. Not only is the cost of childcare a barrier for workers, but the availability of childcare for the hours/shifts needed is a challenge.

Welsh local authorities report whether they have enough childcare in their area for all types of families. Forty-three percent of the local authorities report that there is not enough childcare available for parents who work atypical hours. Furthermore, availability of childcare in Wales has reduced since 2019, especially for those eligible

for the Flying Start^{vi} programme. The Flying Start programme is extremely limited, and at most covers three hours a day. Sufficiency for children entitled to the Flying Start programme has continued to decline in all areas from 59% of local authorities in 2019, to 29% in 2020^{vii}. In the 2019 report, the Coram Family and Childcare Trust noted that available childcare in the Flying Start programme had declined that year from 65% in 2018^{viii}. However, this trend is not only seen in the Flying Start programme. Availability of childcare for parents of children of under two-, three- and four-years old with universal entitlement, and disable children, has declined in most areas in the last year. For working families, availability of childcare that matches working hours/shifts is a distinct barrier for escaping in-work poverty^{ix}.

The Welsh Government has a system that offers funding for 30 free hours of childcare for three- to four-year-olds. To qualify, a parent must work an average of 16 hours a week at minimum wage. Many families in poverty who are in work but for fewer hours than this find themselves locked out of receiving the free childcare, which can prevent them building up experience and skills to gain further work. Coverage of the 30 free hours entitlement across all local areas has declined over the last year, with only 23% of local authorities reporting enough childcare for children entitled to the 30 free hours compared to 33% in 2019. For low-income families, childcare availability is a distinct barrier to escaping in-work poverty.

Coronavirus impact

After a lockdown was announced all non-essential shops and other public places were closed. This restriction led to significant falls in economic activity, and many people were ordered to stay at home. The UK Government introduced policies, including the Job Retention Scheme (JRS) to support jobs. The JRS helped protect jobs at the start of the crisis, including those in Wales.

As of August 2020, 31% of eligible jobs in Wales were furloughed, with 35% of jobs furloughed in Conwy and 36% in Gwynedd. This is closely related to the industries that were most likely to be fully shut down due to the nature of the lockdown, with 77% of Arts, Entertainment, Recreation, and Other services being furloughed, and 78% of Accommodation and Food services being furloughed. This contrasts with Finance and Insurance and Education which both had 7% of jobs furloughed in Wales.

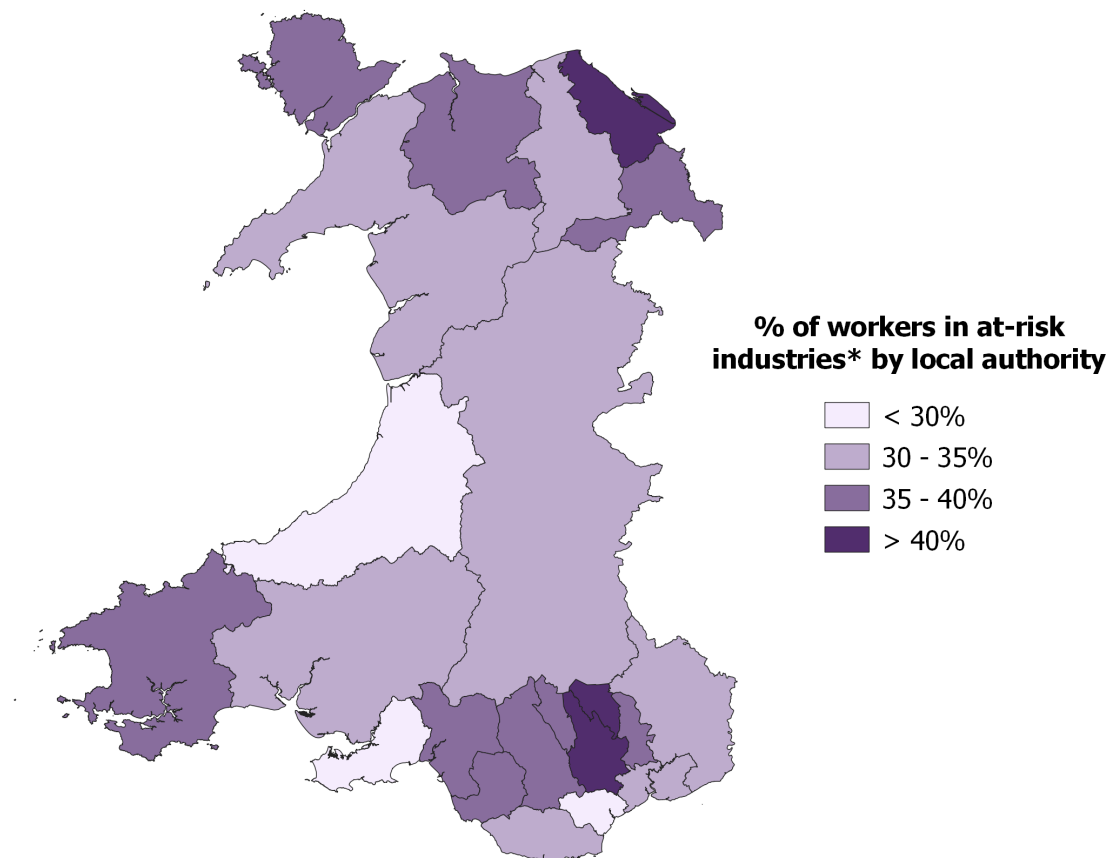
It is important that new jobs are created so that those who are made redundant have the chance to move back into work quickly. The best measure of whether there are enough jobs for those made redundant to move into is the number of unemployed people claiming benefits compared to the number of vacant jobs available. Analysis shows that some areas of Wales have very high numbers of unemployed claimants per vacancy: Rhondda Cynon Taf (37 claimants per vacancy) and Merthyr Tydfil (35 claimants per vacancy) are the areas with greater than 30 unemployed claimants per vacancy.

Some local areas face a much higher risk of many people losing their jobs than others, due to the types of work that in that area. JRF has constructed a Pre-Vaccine Job Risk Index to estimate the impact the pandemic may have on jobs. From this, research has calculated that sectors where it is easy to work in a socially distant manner are least

impacted, such as Construction and Manufacturing. Other sectors, such as Accommodation, Food, and Beverage and Retail Trade sectors have a high risk of job losses. Some local authorities in Wales have a much higher proportion of workers in these at-risk industries than others.

Again, Merthyr Tydfil and Rhondda Cynon Taf are higher risk, but so are Caerphilly, Blaenau Gwent, and Flintshire with over 40% of jobs in the at-risk industries. Furthermore, the less someone earns, the more likely they are to be working in a job that is at high risk. Accommodation, Food and Beverage and Retail Trade have higher in-work poverty rates than other sectors and are highly impacted by social distancing; it is low-income workers who are most likely to face the negative consequences of this.

The percentages of workers in at-risk industries varies greatly by local authority



At risk industries have been defined as those with the highest proportion of jobs at risk before a vaccine is found^x. These are Accommodation and food, Retail trade, and Personal services sector (such as hairdressers). Source: Business Register and Employment Survey 2018, OS data © Crown copyright 2020.

Social Security and poverty in Wales

In Wales, some 700,000 people were locked in poverty pre-coronavirus, a level that has persisted over recent years. Alongside this, poverty amongst children in particular has remained problematic. Whilst it has fallen in recent years, the level remains unacceptably high, with three in ten living in poverty – around 180,000 children.

One of the roles of the social security system is to provide a lifeline to support those who are struggling financially. In Wales, over two in ten of working-age adults are in receipt of income-related benefits. Despite this lifeline, poverty rates amongst those in receipt of income-related benefits within Wales stands at 45%, thirty percentage points above those not in receipt of income-related benefits. Amongst children who live within a family in receipt of income-related benefits, just under half live in poverty - around 140,000 children. In other words, of the children living in poverty, over seven in ten live in a family in receipt of income-related benefits. Clearly, for many, social security is not providing the financial support needed to prevent them being locked in poverty.

Within Wales, administration of social security is currently reserved to the UK Government. However, some devolved powers are available through a small number of grants and allowances for low-income families, totalling an annual spend of over £400 million, a level on par with the total spend in Wales for Job Seekers Allowance and Universal Credit combined. The largest of these schemes is the Council Tax Reduction Scheme (CTRS), which replaced the Council Tax Benefit scheme on 1 April 2013. Since then, there has been a consistent fall in the number of households in receipt of a reduction to their Council Tax Bill, so that by 2019/20, some 275,000 households received a discount, down from 317,000 households in 2013/14. Whilst the reasons for the fall in claimants are varied, there is anecdotal evidence to suggest that the migration of income-related benefit claimants onto Universal Credit, with its lack of automatic assessment for CTRS eligibility, has resulted in many households dropping out of the CTRS through lack of understanding of how the system works.

The provision of Free School Meals (FSM) also represents a significant policy lever for the Welsh Government, with just under one in five pupils (over 85,000) eligible in 2019/20. A continuing issue is that take-up amongst those who are eligible has historically been relatively low, with just under eight in ten of those eligible (around 65,000) taking a FSM in 2019/20.

The Discretionary Assistance Fund (DAF) provides non-repayable grants in times of crisis to those on low incomes. Originally designed to provide support as a last resort, the DAF is increasingly relied on to provide support on a longer-term basis and has grown notably since its introduction.

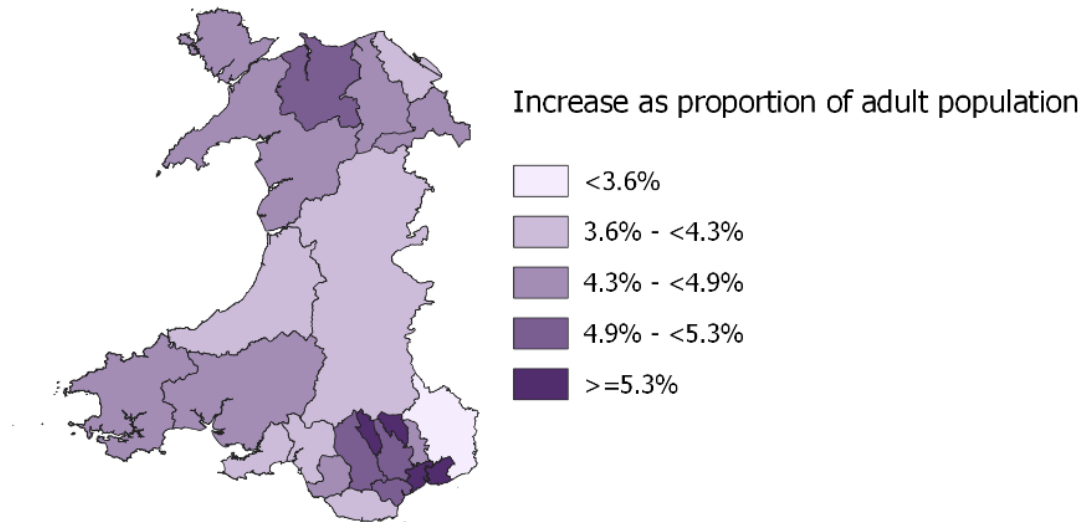
Post coronavirus landscape

The changes made to benefits by the UK Government in response to the coronavirus outbreak (particularly the £20 uplift to core Universal Credit payments and Working Tax Credits), alongside emergency financial measures such as the Coronavirus Job Retention scheme and the Self-Employment Income Support Scheme, were available in Wales, with many taking advantage of the support available as the financial impact of coronavirus started to pull them under.

As a result, the scale and nature of the social security landscape changed within Wales. By May 2020, there was a 63% increase in the number of households in Wales in receipt of Universal Credit from the start of the year. This overall figure hides some significant variations by area, with larger increases often seen in places that already

had relatively high proportions in receipt of Universal Credit before the outbreak. As a proportion of the adult population, the largest increases were seen in Newport and Merthyr Tydfil, local authorities that pre-coronavirus had a relatively high proportion of the adult population in receipt of Universal Credit and, as highlighted in the Work section, saw large proportions of jobs at risk during the outbreak.

Increase in Universal Credit claims as proportion of population varies by area



Source: Department of Work and Pensions, OS data © Crown copyright 2020.

There have also been some notable changes to family type and the demography of individuals who are claiming. Historically, families with children make up around 43% of all households in receipt of Universal Credit. However, as coronavirus hit, claims amongst those without children increased at a higher rate than amongst those with children. By August 2020, the number of Universal Credit claimants in Wales had almost doubled from the start of the year to an estimated 270,000, around one in ten of the adult population. By the same point, those who were either employed or searching for work made up just under eight in ten claimants, an eight-percentage point increase from the start of the year, as those who had either had their hours reduced or had been furloughed sought to make-up the financial shortfall.

Later this month, the UK Government will decide whether to keep or cut the lifeline of an extra £20 a week in Universal Credit and Working Tax Credit from April 2021 onwards. This temporary uplift has kept many families from going under as they have struggled to get through the coronavirus storm. Those on legacy benefits – Employment and Support Allowance, Income Support and Jobseeker’s Allowance – have already been left behind in this pandemic without this crucial financial support, and they should also be given this lifeline.

In response to the coronavirus outbreak, the Welsh Government made available additional funds to provide a range of support to those who needed it. On 30 August 2020, a further £2.8 million funding was made available to support the increased demand on the CTRS since the start of the coronavirus outbreak, roughly 10% of the

total 2019/20 budget for the scheme. Whilst this was welcome, it is not yet clear what the take-up rate was amongst those who were eligible, particularly with the disconnect between Universal Credit and the CTRS.

Since the start of the outbreak, there has been a significant increase in the number of DAF awards made, with the majority being a result of the impact of coronavirus. Between 18 March and 3 September, over 60,000 COVID-19-related payments were made, with a total value of £4.1 million^{xi}. This represents nearly a third of the entire outlay for DAF in 2019/20 and demonstrates the urgent need for support as people found themselves in crisis.

There has been a significant increase in the number of Discretionary Assistance Fund awards made since the start of the outbreak



Source: Statistics Wales.

Welsh local authorities have been supporting an increasing number of pupils who found themselves eligible for FSM as a result of coronavirus, whilst also adapting arrangements for provision during the pandemic. By the end of May, an additional 5,000 pupils had become eligible since the start of lockdown^{ix}, and on the 22 April, Wales became the first UK country to guarantee funding for FSM throughout the summer holidays, with an additional £33 million being made available, more than the estimate cost of £29 million for FSM in 2019/20. In October, a further £11 million was made available to provide FSM in all school holidays up to and including Easter 2021. This additional spending both during the pandemic and beyond represents a tangible commitment from the Welsh Government to try and mitigate some of the effects of the financial impact of COVID-19 felt by children.

Further to the additional funding outlined above, food parcels were made available until 16 August to help those who were highly vulnerable to infection and therefore 'shielding'. By the time the scheme ended, over 200,000 weekly deliveries had been attempted, providing much-needed support.

What became apparent during the outbreak was the Welsh Government's willingness to use their devolved powers to mitigate the financial hardship that many were experiencing. What is not yet apparent is whether the scale of the funding made

available matches the demand for these schemes, both in the immediate aftermath of the outbreak and beyond into recovery. The outbreak has also brought the current shortcomings of these devolved powers into sharp focus. The system is currently disjointed, with potential claimants having to make multiple applications. The support that is available is often insufficient to lift people out of poverty, and complex eligibility criteria can put people off from claiming what they are entitled to. Yet it doesn't have to be this way. There have been calls for the establishment of a Welsh benefits system that is coherent, effective and fair, and which complements the social security system that already exists in the UK. The period as we emerge from the coronavirus pandemic represents a real opportunity to drive this call for change forward, leading to a scheme that more effectively helps people to break free from poverty.

Housing and poverty in Wales

The housing situation in Wales has historically been characterised by high levels of homeownership, which has helped to keep average housing costs lower in Wales than some other parts of the UK. However, like the rest of the UK, the last two decades have seen the Welsh housing situation begin to shift as more households turn to the private rental sector (PRS) amid growing house prices and lack of available social housing.

The PRS has grown steadily in Wales over the past two decades from 7% of all households in 2001 to 14% in 2019, although the rate of growth of the sector has slowed significantly over the past five years. Meanwhile, homeownership fell from 76% to 70% over the same period as fewer and fewer households were able to enter the housing market. The Welsh PRS remains smaller than in other UK nations and homeownership rates have remained high, but increasing reliance on expensive private rents puts many poorer households at additional risk of poverty, due in part to average earnings falling well below the UK average.

Slow rent growth over the past decade has helped many private renters in Wales avoid being pulled into poverty, as rent increases consistently fell below inflation and households saw a real-terms reduction in housing costs of 2% between 2009-12 and 2016-19. This helped to lower the rate of poverty, from 44% in 2012-15 to 41% in 2016-19, but affordability in the PRS in Wales remains an issue for many households and poverty rates amongst private renters remain higher in Wales than elsewhere in the UK. As of 2016-19, only the North East of England (45%) had a higher proportion of private renters in poverty.

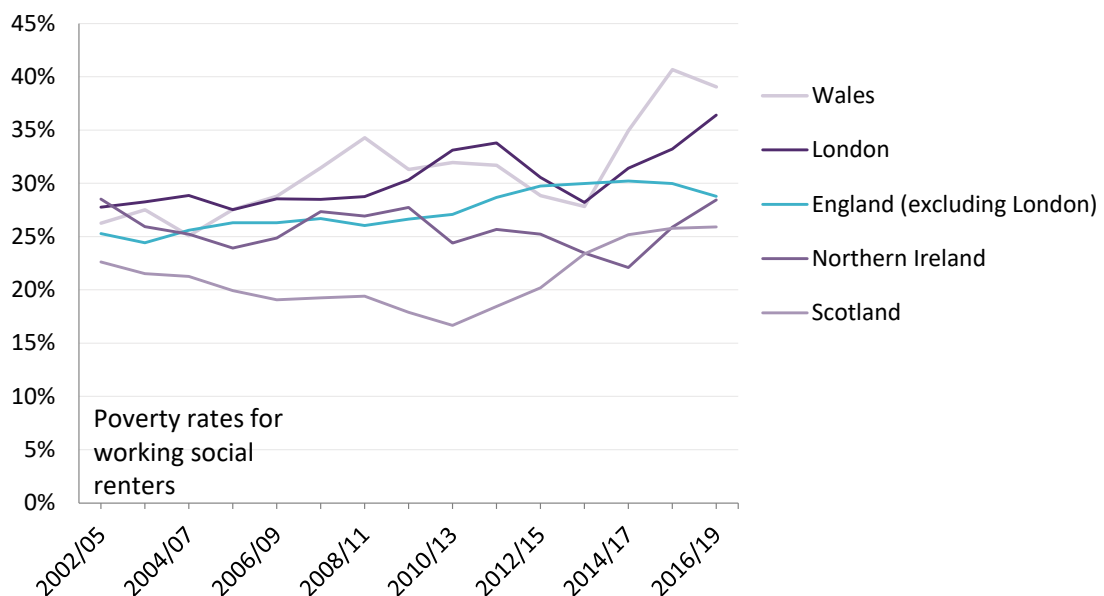
Affordability issues disproportionately impact renters in Cardiff, where private rents are both most expensive and most common. For a worker in the bottom quarter of earnings in Cardiff, the rent on a two-bedroom property in the bottom quarter of market rents in Cardiff cost around 35% of earnings. In Blaenau Gwent, an equivalent property cost around 21% of earnings. While there is no agreed definition of affordability, JRF believe that where lower-income households are spending in excess of 30% of their incomes on rent, they are in danger of having to cut back on essentials, and this puts people at additional risk in the event of an income shock.

The poverty rate in the social rented sector (SRS) in Wales is also much higher than the rest of the UK. In 2016-19, 49% of social renting households were in poverty – only London had a higher proportion of social renters in poverty – and this has risen in recent years. Much of this is down to sluggish income growth over the past five years, with the average social renter’s Before Housing Costs income rising by just 2.6% over the five years (compared to 3.6% in London, 4.9% in Scotland, 4.7% in England excluding London, and 8.5% in Northern Ireland).

While social renters in Wales tend to pay less in rent than social renters in England, they have seen significant rent increases in recent years. Social rents in England have fallen since 2015/16, but the Welsh Government permitted rents to increase by CPI inflation + 1.5% plus an additional £2 per week, and this has resulted in a real-terms increase of 8% in social rents over the past five years. As social rents outstripped incomes, a further 40,000 social renters were pulled into poverty.

For some social renters, the financial impacts of rent increases are balanced out by increases in housing benefit, but for working social renters this is not always the case, and households often need to find the money to meet the additional cost through earnings. This has led to a dramatic increase in in-work poverty for social renters, increasing from 29% in 2012-15 to 39% in 2016-19. This surge in in-work poverty accounts for around 25,000 social renters being pulled into poverty over the past five years. As things stand, this issue will continue to pose a problem in Wales as the Welsh Government has permitted rents to increase above inflation for a further five years.

Poverty amongst working social renters has risen faster in Wales than elsewhere in the UK as Welsh social rents have increased.



Source: JRF analysis of Households Below Average Income.

Social rented homes are intended to be a lifeline for those most in need of housing support, so higher poverty rates in that sector would be expected compared to homeowners, in particular. However, the recent sharp rises in poverty in the social rented sector are concerning, as is the rising number of low-income families pushed

into the private rented sector where rents tend to be higher and conditions often worse. A decent supply of affordable housing and social rents is an important way in which we can reduce the pressure on those struggling most with their housing costs.

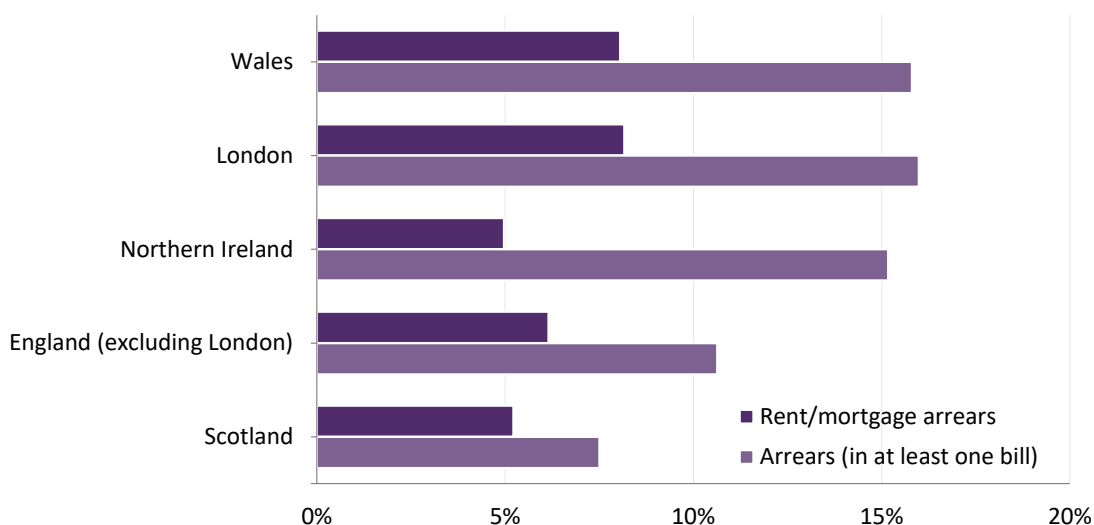
This has largely been acknowledged by the Welsh Government, who had previously committed to an additional 20,000 affordable homes being built over their term in government between 2016 and 2021^{xi}. To date, they have been able to keep up with this commitment, and the Government is broadly on track to deliver the amount of affordable homes promised by 2021. However, it is important to note that this target includes Help to Buy homes which will be unattainable for many low-income households who cannot afford homeownership. Going into the crisis, an adequate supply of social housing will have helped many low-income families weather the storm, as they would have been able to access affordable and secure housing, as opposed to expensive and insecure private rents. Going forward, it is important that the Welsh Government maintain this level of affordable home building, while also setting more stretching targets for homes that are built specifically for social rent, to provide secure and affordable tenure for low-income families across Wales.

The impact of coronavirus

While high rates of homeownership and low housing costs likely acted as a protective factor for many households in Wales, the precarious situation many private and social renters found themselves in pre-crisis meant that many struggled to meet their living costs once their income dropped. With almost a third of Welsh workers on furlough during the first wave of the coronavirus - and many more facing a loss of hours or redundancy – many families found themselves struggling to keep afloat.

By June 2020, approximately 400,000 adults (16%) in Wales had fallen behind on at least one bill, with 200,000 (8%) falling behind on their rent or mortgage payments. The proportion of adults in arrears was higher in Wales than much of the UK, with only London facing similar levels of arrears. However, families in arrears represent the most severe cases of financial difficulties. Beyond this, many families (particularly renters) were managing to keep up with their bills but found that they were struggling financially.

The proportion of adults in arrears in Wales is higher than elsewhere in the UK (with the exception of London)



Source: JRF analysis of Understanding Society COVID waves (Wave 2).

By July, only 58% of social renters said that they were keeping up with rent payments without any difficulties. Private renters also faced difficulties, though the early impacts seemed to be less pronounced. Among private renters, 72% said they were able to keep up with rent payments without difficulties. In contrast, 87% of all mortgage holders were able to keep up with their mortgage payments without difficulty, and only 2% of mortgage holders had fallen behind on payments.

To help keep renters afloat during the crisis, the UK Government increased the local housing allowance (the rate of Housing Benefit paid to people in the private rented sector) to the 30th percentile of rents in an area. This change will have provided a much-needed boost for housing benefit claimants in Wales. The latest data on Universal Credit shows that in May 2020, 270,000 households in Wales claimed some form of housing benefit, representing one in five (20%) households in the country. Between February and May, there were an additional 20,000 households claiming housing benefit in Wales – an increase of 9%.

However, this uplift still leaves gaps between rent and income for any family renting a property above the 30th percentile of rents and facing financial hardship. For those living in a median-rent privately rented two-bed property in Gwynedd (within the South Gwynedd Broad Rental Market Area), this difference could equate to a shortfall of £25 per week. In four Local Authorities around Wales, the shortfall is over £15 per week, which could result in families needing to find an additional £390 over a six-month period to meet their housing costs.

The impact of these increases in housing benefit is also often undone by policies such as the benefit cap, which limit these uplifts for those of us most in need. The proportion of housing benefit claimants falling under the benefit cap as of May 2020 is still lower in Wales (2%) than in England (3%), but remains higher than in Scotland (1.2%) and has increased since the start of the crisis with an additional 2,000 households falling under the cap between February and May 2020.

The biggest proportion of these capped households are in Cardiff where rental prices are highest. As of May 2020, 3.4% of all households claiming housing benefit in Cardiff were capped and faced an average of £58 per week deduction in benefit income. The cap also disproportionately hits single-parent households. As of May 2020, 6.4% of all single-parent households in Cardiff had their benefit income capped by the policy.

To help support families struggling with their housing costs, local authorities in Wales can use Discretionary Housing Payments (DHP) to make up any shortfalls. However, these payments must be applied for separately to the Universal Credit application, and take-up of the payments for those who need it is often low. Research by Park (2019) showed that DHP had a number of availability issues, including lack of awareness of the payment amongst those who may be eligible and significant variability in the application process amongst councils.

Wales also has significantly less in DHP funding than Scotland, where the payment is devolved. In 2019-20, the amount paid out in DHP in Wales (£8.5 million) was only an eighth of the amount paid out in Scotland (£66 million), while the population in Wales is more than half that of Scotland, meaning that per head of funding it is less than a quarter of the amount in Scotland. As a result, Welsh local authorities are in a significantly worse position to plug the gaps in Universal Credit than those in Scotland. The Welsh Government have the option of topping up the amount available for local authorities, but only up to a cap, whereas the Scottish Government have full control of DHP spend. This has allowed the Scottish Government to fully mitigate the impact of some UK policies (for example the bedroom tax) while the Welsh Government are still left unable to fill the gaps. In addition, while many Welsh local authorities make full use of adding extra money to the DHP pot, research by Shelter Cymru has shown that some councils have failed to add additional money, while others have underspent^{xii}, leading to money that could have been used to alleviate financial difficulties for struggling households being returned to the UK Government.

The Welsh Government have also made available the Tenancy Saver Loan scheme to work alongside DHP, where renters who fall into arrears are able to borrow from the Welsh Government to pay off arrears and pay the loan back over time. However, while this may save many renters from imminent eviction, it does not relieve the burden of increasing debt for those in arrears. The use of the loan scheme also does not guarantee a tenant will not be evicted, as landlords are still able to begin the eviction process through a section 21 after the loan is received. As a result, poverty, severe debt and eviction may be merely postponed through the scheme.

As the furlough scheme ends and unemployment rises, the strain on households is likely to increase. The gaps in the benefit system will become increasingly apparent for those struggling financially and arrears in housing payments may begin to build. To protect renters from immediate eviction, notice periods have been extended to six months, and the Welsh Government have agreed this will remain in place until 31 March 2021. This is an important step in providing some security to renters, but given the current levels of rent arrears in Wales, evictions may begin to mount in the near future.

So far, the Welsh Government have made important strides in homelessness prevention and their action on housing rough sleepers has been especially positive. In August, it was confirmed that an additional £40 million has been made available for local authorities to work on long-term solutions for homelessness with the aim of ensuring that everybody who was provided with emergency accommodation during the pandemic has a route to permanent housing^{xiii}. The ambition of the Government here is highly commendable, but it is also extremely important that the situation of those struggling with their housing costs over the coming months is monitored closely, so that they can take action where needed to keep renters in their homes and avoid a wave of new homelessness before it occurs.

In addition to the struggles of social and private renters, mortgage holders who lose work may see the financial pressures building in the coming months. As of July 2020, 11% of mortgage holders in Wales were on a mortgage holiday with their lender. When the deadline for applying to these holidays ends on 31 October, some households may struggle to find the money to pay these costs, and risk falling into arrears and facing repossession in the near future.

Conclusion

This report has shown that even before coronavirus almost a quarter of people in Wales were in poverty, living precarious and insecure lives. In many instances, coronavirus will have swept them deeper into poverty, as well as dragging others under, many of whom will not have experienced this situation before.

Both the Welsh and UK Governments have responded with some bold and compassionate actions, but too many of these are temporary. What is clear is that much depends on decisions at Westminster: in a world where both the furlough schemes and temporary benefit increases are withdrawn, poverty will be higher. But there is much the Welsh Government can do in supporting areas and people hardest hit by poverty or coronavirus, as well as galvanising actions from employers, housing providers and local public services. By doing so, we can build on how we have responded as a society to meet the challenges of coronavirus. It is now right and necessary to do the same to make sure poverty starts to fall, and that those of us on low incomes, who are worst affected by the economic storm of coronavirus, see their lives improve by being given a lifeline.

In terms of UK Government action, at a time when we need certainty and stability, in the face of a wave of unemployment, restrictions and hardship, keeping the £20 uplift to Universal Credit and Working Tax Credits and extending it to families on legacy benefits is critical. Keeping the lifeline will keep many families afloat; cutting it will cut many families adrift. The UK Government should carry on showing compassion and taking bold action to strengthen social security and support our society.

Specific actions that we advise the Welsh Government to take to help address issues around work, social security and housing are:

-
- Develop a new childcare offer based on seamless provision for children of all ages. We propose this new childcare offer should comprise of: a core of free, part time childcare and early years education for pre-school children, irrespective of the work status of parents (with additional hours available on a sliding scale of fees); look at options to increase provision of affordable before-school, after-school and holiday childcare for children from school age to 14, such as those proposed by the Bevan Foundation^{xiv}.
 - Focus its economic strategies on job creation and retention in the areas of Wales with the weakest local economies and those which are being hardest hit by the pandemic, including the south Wales valleys and rural Wales.
 - Actively consider the merits of the Bevan Foundation's proposals^{xv} to improve and bring together the existing devolved grants and allowances into a coherent and effective 'Welsh Benefits System'. This could mostly be established within the powers already devolved to the Welsh Parliament and would complement the UK social security system. It would offer cash or in-kind services that reach the people who need them, are easy to access, are efficiently and consistently administered and, crucially, improve people's lives by helping them escape the grip of poverty.
 - Build 20,000 homes available for social rent over the course over its five-year term.
 - Ensure that social rents are affordable by ensuring that rents do not outpace wages or benefits.

Annex A: Rates of poverty and composition of those in poverty and in Wales overall, 2016/17 to 2018/19

Group	Poverty rate (Percent of group in poverty)	Poverty composition (Percent of people in poverty in group)	Population composition (Percent of all people in group)
Children	28.5	25.5	20.4
Working age	22.2	57.4	58.9
Pensioners	18.9	17.1	20.7
IN FAMILY TYPE			
Workless	58.3	26.7	10.5
Just part-time work	26.6	11.0	9.4
Someone in full-time work	15.7	41.4	59.9
Workless over 60 / Retired	23.4	20.8	20.3
Lone parents	42.8	13.1	7.0
Single without children	28.0	20.9	17.1
Couple with children	22.9	34.1	33.9
Couple without children	15.1	13.0	19.6
Single pensioner	22.2	7.6	7.8
Pensioner couple	17.7	11.3	14.5
Disability in family	27.2	46.6	39.0
No disability in family	20.0	53.4	61.0
Three or more children	44.0	17.7	8.9
One or two children	21.4	30.1	32.8
No children	20.3	52.3	58.3
IN HOUSEHOLD TYPE			
Social rented	48.8	34.6	16.0
Private rented	41.4	27.2	15.0
Owned with mortgage	10.5	16.5	36.0
Owned outright	15.1	21.7	33.0
ETHNIC GROUP OF HEAD			
Non-white*	24.5	2.3	2.1
White	22.7	97.7	97.9
TOTAL FOR WALES	22.8	100.0	100.0

Notes

- ⁱ UK Government (2020) Ethnicity facts and figures. [Online] Available at: <https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/employment/employment/latest#by-ethnicity-and-area><https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/employment/employment/latest#by-ethnicity-and-area> [Accessed: 9 October 2020].
- Bevan Foundation (2020) Coronavirus and fair work. [Online] Available at: <https://www.bevanfoundation.org/wp-content/uploads/2020/07/Coronavirus-Fair-Work-Final.pdf> [Accessed: 21 October 2020].
- ⁱⁱ UK Government (2020) Ethnicity facts and figures. [Online] Available at: <https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/employment/employment/latest#by-ethnicity-and-area><https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/employment/employment/latest#by-ethnicity-and-area> [Accessed: 9 October 2020].
- ⁱⁱⁱ UK Government (2020) Ethnicity facts and figures. [Online] Available at: <https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/employment/employment/latest#by-ethnicity-and-area><https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/employment/employment/latest#by-ethnicity-and-area> [Accessed: 9 October 2020].
- ^{iv} Bevan Foundation (2020) Shared Ground: integrating migrants in Wales. [Online] Available at: <https://www.bevanfoundation.org/wp-content/uploads/2020/04/Shared-Ground-report.pdf> [Accessed: 21 October 2020].
- ^v Coleman, L, Dali-Chaouch, M, Harding, C (2020) Childcare survey (2020). Coram Family and Childcare [Online] Available at: https://www.familyandchildcaretrust.org/sites/default/files/Resource%20Library/Coram%20Childcare%20Survey%202020_240220.pdf [Accessed: 9 October 2020].
- ^{vi} Flying Start is a Welsh Government funded programme available in targeted disadvantaged areas to support families of nought to three-year-olds. It provides free part-time childcare for two to three-year-olds. It equates to 2.5 free hours a day for five days a week, during term-time.
- ^{vii} Wales has only 22 local authorities, so changes in a small number of authorities can have a large effect.
- ^{viii} Coleman, L and Cottell, J (2019) Childcare survey 2019. Coram Family and Childcare [Online] Available at: <https://www.familyandchildcaretrust.org/childcare-survey-2019> [Accessed: 9 October 2020].
- ^{ix} Joseph Rowntree Foundation (2020) UK Poverty 2019/20. York [Online] Available at: <https://www.jrf.org.uk/report/uk-poverty-2019-20> [Accessed: 26 October 2020].
- ^x Sandher, J and Innes, D (2020) Storm ready – how to keep us afloat as unemployment hits. Joseph Rowntree Foundation. York [Online] Available at: <https://www.jrf.org.uk/report/storm-ready-how-keep-us-afloat-unemployment-hits> [Accessed: 9 October 2020].
- ^{ix} Welsh Government (2020) Free School Meals (FSM) in Wales on 20 May 2020. Data Cymru [Online] Available at: <https://www.data.cymru/covid19/free-school-meals.pdf> [Accessed: 9 October 2020]. [Accessed: 26 October 2020].
- ^x The Bevan Foundation (2020) A Welsh Benefits System, how it can help solve poverty. Bevan Foundation [Online] Available at: <https://www.bevanfoundation.org/wp-content/uploads/2020/09/Welsh-Benefits-System-Final-Report-1.pdf> [Accessed: 9 October 2020].
- ^{xi} Welsh Government (2016) Taking Wales Forward 2016-2021 [Online] Available at: <https://gov.wales/sites/default/files/publications/2017-08/taking-wales-forward.pdf> [Accessed: 26 October 2020].
- ^{xii} Shelter Cymru (2020) Waste not, Want Not... making the most of discretionary housing payments. Shelter Cymru (2020) [Online] Available at: <https://sheltercymru.org.uk/waste-not-want-not-making-the-most-of-discretionary-housing-payments/> [Accessed: 9 October 2020].
- ^{xiii} Welsh Government (2020) Press release: Welsh Government unveils package of support to keep people in their homes and end homelessness [Online] Available at: <https://gov.wales/welsh-government-unveils-package-support-keep-people-their-homes-and-end-homelessness> [Accessed: 26 October 2020].
- ^{xiv} Bevan Foundation (2020) Transforming Wales: how Welsh public services and benefits can reduce poverty and inequality [online] Available at: <https://www.bevanfoundation.org/wp-content/uploads/2020/10/Transforming-Wales-through-public-services-and-benefits-FINAL.pdf> [Accessed: 26 October 2020].
- ^{xv} Bevan Foundation (2020) A Welsh Benefits System, how it can help solve poverty [Online] Available at: <https://www.bevanfoundation.org/wp-content/uploads/2020/09/Welsh-Benefits-System-Final-Report-1.pdf> [Accessed: 26 October 2020].

About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent social change organisation working to solve UK poverty. Through research, policy, collaboration and practical solutions, we aim to inspire action and change that will create a prosperous UK without poverty.

We are working with private, public and voluntary sectors, and people with lived experience of poverty, to build on the recommendations in our comprehensive strategy - [We can solve poverty in the UK](#) - and loosen poverty's grip on people who are struggling to get by. It contains analysis and recommendations aimed at the four UK governments.

All research published by JRF, including publications in the references, is available to download from www.jrf.org.uk

To meet one of our experts to discuss the points raised please contact:
Peter Matejic: Deputy Director of Evidence and Impact
0798 921 0233

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted

Agenda Item 4



Arbenigwyr mewn Busnes
Experts in Business

FSB Wales written evidence for Draft Budget Scrutiny by Senedd Finance Committee

January 2021



Arbenigwyr mewn Busnes
Experts in Business

About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales, with around 10,000 members. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

We welcome the opportunity to provide evidence to the committee on the draft budget and to contribute to the discussion. We hope this evidence will help provide for a final budget settlement that works for smaller businesses, and that fits within a strong economic development agenda for reconstruction and recovery.

Uncertainty caused by Covid-19

We note that there are significant gaps in this budget, with areas deliberately left open on many of these points due to ongoing uncertainty due to Covid-19 and Brexit.

Events in the months since the Draft Budget's publication have shown that the budgetary landscape could change substantially in the months before the final March budget. We agree that in the circumstances, this approach of keeping many budgetary interventions open is 'prudent'.

We would also raise a wider concern on business support having been dependent on EU funding, and that as this tapers off in the year 2022-23, businesses will need clarity on how this gap will be filled, and on the role of the Shared Prosperity Fund is crucial in this regard. This is particularly so as there will be a new Welsh Government in place with a new five-year programme for government after May 2021, and clarity is needed for any Welsh Government to fulfil its economic development vision and strategy.

The lack of clarity in budgetary allocations on some matters is concerning and points to a need for better intergovernmental processes and engagement. This links to the current debate on whether the new Covid-19 support for Wales is 'new money' or not. For businesses who do not deal in the political intricacies of the quantum of grants in England and how they are then allocated in Wales, such arguments are in danger of undermining trust and confidence in the whole process. As such it is important that governments engage with each other and with the public constructively and in a way that keeps the wider economic and social needs in mind.

We hope some of the longer-term aims we outline below form a basis for depoliticising these aspects and so promote trust, by linking to engagement with business for longer term planning, and the institutional support and Covid discussions that allow this to happen.

Priorities for SMEs

Our main aim is to secure the business support required now so that business can survive the last months of full lockdown, and have capacity and capability to take advantage of any economic bounce that may come.

Ff/T 029 2074 7406
E wales.policy@fsb.org.uk
W fsb.wales

C/A 1 Cleeve House,
Lambourne Crescent,
Caerdydd, **Paek Page 73**

Swyddfa Gofrestredig | Registered Office:
National Federation of Self Employed and Small Businesses Limited,
Sir Frank Whittle Way, Blackpool Business Park, Blackpool, FY4 2FE

Cofrestrwyd yn Lloegr Rhif | Registered in England: 1263540

This includes support in particular those in need who have slipped through the cracks so far, including company directors, and new businesses.

Following the lockdown over Christmas period – a key period for many traders – businesses start the New Year in an even more precarious position than may have been expected a few months ago.

Some key figures from our UK report ‘A Fighting Chance’, illustrate this in stark terms – and are based on surveys taken in November 2020 (ahead of the current lockdown):

- Small business confidence has been in negative territory for 9 straight quarters.
- Almost half (49%) of small firms believe their revenue will still be down on pre-COVID levels this time next year, while only 29% think it will be up.
- A record one in four (25%) small firms said they reduced headcounts between Q2 and Q3 of 2020. An even higher proportion (29%) expected to make redundancies in Q4 – one in ten (12%) expected to let at least a quarter of their staff go.
- 39% of small firms lack confidence in their longer-term survival (61% are confident their business will survive COVID).
- As a result of the COVID-19 crisis, the proportion of small businesses carrying some form of debt has increased from 56% (pre-COVID) to 69% (post-COVID).
- Of those small businesses carrying debt, the proportion that describe their level of borrowing as ‘unmanageable’ rose from 13% (pre-COVID) to 40% (post-COVID). For those that borrowed for the first time due to COVID-19, this figure rises to 49%.

These businesses need immediate business support for survival, but also the Welsh Government’s vision for economic recovery and reconstruction in terms of SMEs, and the tools for businesses to plan to take advantage of any renewal in 2021.

This can be viewed in the terms the committee suggests of a preventative approach to help maintain resilience to prime businesses for recovery. We must not lose Wales’ innovative businesses of tomorrow by not helping them today.

It is vital that there is a vision for reconstruction and recovery, that is easily understandable for our businesses and providing for greater trust and confident in planning for businesses.

This recovery plan should align with clarity on the wider Covid recovery and reopening plan following a reassessment in spring of the Covid Control Plan for the second quarter of 2021:

- Setting out:
 - different best case and worst case scenarios
 - The Alert Levels that align with the different levels of community risk (as in Winter plan),
 - the measures that trigger different public health policy responses and the linked effect on businesses, including the changing risks to the NHS in moving into spring from winter, and the effect on community risks of vaccination roll out;
- the business support aligning with the tiers of restrictions;



Arbenigwyr mewn Busnes
Experts in Business

- o providing for clarity on the roles and responsibilities of government, businesses, and individuals as we move from the harshest restrictions.

The publication of at least a draft framework for reopening scenarios in Quarter 2 of 2021 should be available early. This would learn the lessons of 2020 in allowing businesses to plan, allow time to understand and adhere to the guidance, and avoid last minute dash to communicate all the changes to all businesses.

In turn, early engagement will provide for better buy in and understanding when looking at promoting good practice and social norms for businesses. It will also allow for planning. Many businesses need weeks or months to plan in terms of stock, orders, repurposing spaces (including issues such as ventilation etc.). As such, a longer-term communication and business engagement strategy around a scenario-led plan will provide confidence to plan accordingly, which is helpful in terms of building toward reopening, and in terms of employment and readiness to grasp opportunities quickly.

We are aware that there remains considerable uncertainty and it is important for trust that unrealistic expectations are kept at a minimum. This needs to be balanced by the need to allow for a steer for business planning. Scenario setting provides space for businesses to plan for different scenarios for themselves within a common framework, and provides for judgement over an uncertain transition to normality during 2021.

Investment of time and business support in this way provides for capacity and capability building for businesses to prime them for recovery and reconstruction.

It is important that businesses have confidence that the institutional business support of Business Wales and the Development Bank for Wales, which are now a recognisable support infrastructure after being an instrumental part in delivering Covid support in 2020, will continue to be developed and seen as an important priority for government.

For the purposes of long-term certainty on the business support infrastructure we would welcome a public statement of commitment to the future role of Business Wales as a key part of economic development strategy in Wales, reflecting its importance to recovery and reconstruction after Covid-19.

Business Wales will be vital business support infrastructure over the whole of the next Senedd term. We are concerned that the business support budget – and Business Wales with its strong brand and recognisability among SMEs after the Covid-19 support response in particular - will come under increasing threat as EU funding tapers off. We are alarmed that the funding for the 2022-23 for Business Wales could face a cliff edge, at a time that will still be vital for Covid-19 reconstruction and when it is plausible many businesses will remain in a precarious state.

The lack of clarity around the quantum of Welsh Funding under a Shared Prosperity Fund remains, and we would wish to see a strong commitment from both UK and Welsh Government to retaining support for Business Wales over the entire 2021-26 Senedd term.

Recovery and Reconstruction

Ff/T 029 2074 7406
E wales.policy@fsb.org.uk
W fsb.wales

C/A 1 Cleeve House,
Lambourne Crescent,
Caerdydd, **Paek Page 75**

Swyddfa Gofrestredig | Registered Office:
National Federation of Self Employed and Small Businesses Limited,
Sir Frank Whittle Way, Blackpool Business Park, Blackpool, FY4 2FE

Cofrestrwyd yn Lloegr Rhif | Registered in England: 1263540



Arbenigwyr mewn Busnes
Experts in Business

The draft budget reference to a ‘recovery and reconstruction plan’. We need to see more details on this plan and its vision for business recovery in 2021.

Committing money to the regeneration of Wales’ town centres is a vital development, but we must be realistic about the question of whether more money will be needed, and ideas such as our call for a Local Transport Fund should be considered. The funding for foundational economy projects is also welcome, delivering on development of the strategy prior to Covid-19 over this Senedd period. There is clear ambition for decarbonisation in schools and public transport but would ask that Welsh Government extend this ambition beyond the public sector and develop a plan for how they will support businesses to play their part, given the scale and urgency of the need to decarbonise.

We also welcome the commitments to infrastructure, alongside the management of MIM funding by the Development Bank for Wales. The further £5m allocation in the Economy futures Fund is welcome, and we look to further details on how this is to ‘work in tandem with the Development Bank of Wales ‘offer’’. The ongoing additional support to infrastructure plans is welcome.

However, all of these interventions, while important, do not yet cohere to a vision taking into account the impact of the pandemic. We acknowledge that the election will provide for debates that shape the next government’s position. Nevertheless, businesses require this vision in looking at our economic prospects after the current lockdown more urgently. We hope that the mooted ‘COVID-19 reconstruction and recovery plan’ will outline the Welsh Government’s vision for how Wales can begin the economic recovery from Coronavirus, and look forward to more detail in this regard. This should also look at the further expansion of the Development Bank’s roles, and that of Business Wales, as well as – as mentioned in the draft budget – support to deliver on the new £1.6m Export Plan.

Sectors in particular need

It will come as no surprise that – while many businesses across the board will be in a precarious position after 2020 – a key sector requiring attention is Tourism, Hospitality and Leisure. Given its importance to (in particular) Wales’ rural economy and employment, this area should be treated as a key sector and an area that needs targeted support. We called for a Tourism Hibernation Scheme from near the start of the pandemic, and acknowledge that support has been set aside for this sector.

Our points above on business planning are particularly relevant to tourism and hospitality, with winter months providing valuable planning time for high seasons. Ideally, one would hope that Easter (the start of April) will be able to be relatively unrestricted, and so provide the first bounce, and would hope that we can plan for that scenario. However, with ‘staycations’ being the likely prevalent activity this year, and a likely glut of tourists looking to holiday when restrictions allow from the 2nd Quarter of 2021, we would suggest that providing information early and tools planning for that time – whenever it will occur – would still bear fruit. If it occurs outside school holidays there is still likely to be a substantial demand for UK tourism this year, and Wales’ businesses need to be in a position to plan accordingly.



Arbenigwyr mewn Busnes
Experts in Business

Other areas of particular concern are those built around creative industries and events, and those freelancers that support them.

There remain too many groups who need more support to weather this storm such as the newly self-employed, those in supply chains and company directors. For example, the support for the recently self-employed was a one-off payment of £2500 in June 2020. The messaging around long-term economic development and recovery, with continued support outside the Covid support through Business Wales is important too in encouraging new start-ups in 2021 during the recovery, with new potential businesses confident that they can thrive in the new environment.

At the time of writing, we are awaiting the next tranche of Economic Resilience Fund, and see this as a vital part of priming for business growth with a focus on businesses looking to expand in 2021.

It is useful to note the preparatory work will happen towards the end of 2021 on NDR revaluations on the tax base. We would note that the impact of Covid-19 may not yet be reflected in property values, and so there is a need to take this into account. For example, the impact on footfall caused by the pandemic, including on high streets, and the longer-term impact on footfall through long-term remote working aims, should also be taken into account. A business rate freeze for the duration of the next Senedd would provide for more certainty for business.

Welsh Budgetary Inflexibility

While there is general uncertainty that is making clarity in budgetary allocations difficult, we would also note that the lack of flexibility in the Welsh budget is also a problem.

It has long been FSB's position that Welsh Government's borrowing powers should be enhanced, and the Covid-19 situation illustrates why this is needed. We have long noted that Wales' debt levels are low and that borrowing powers should be relaxed to allow for infrastructure spending programme. We agree with the draft Budget's commitment to 'push HM Treasury' for 'broader flexibilities...to manage our budget in the most effective way' and increases on 'limits on our access to capital borrowing', as well as 'greater year-end carry forward and drawdown flexibilities within the Welsh reserve'. Covid-19 has illustrated the practical limits these budgetary constraints have on policy making in Wales, and we acknowledge that they place limits on Welsh Government's room for more effective planning.

We would note that the draft budget looks to borrow the maximum level, and to take out of reserves the uppermost limit.

While we would look for Welsh Government to use consequential in Covid business support to support business in need now, the lack of ability to carry over any unspent money is not conducive to a virus that takes no account of budgetary dates, and is not particularly useful in terms of fiscal responsibility in promoting a budgetary maximisation approach.

Conclusion

Ff/T 029 2074 7406
E wales.policy@fsb.org.uk
W fsb.wales

C/A 1 Cleeve House,
Lambourne Crescent,
Caerdydd, **Paek Page 77**

Swyddfa Gofrestredig | Registered Office:
National Federation of Self Employed and Small Businesses Limited,
Sir Frank Whittle Way, Blackpool Business Park, Blackpool, FY4 2FE
Cofrestrwyd yn Lloegr Rhif | Registered in England: 1263540



Arbenigwyr mewn Busnes
Experts in Business

The next few months ahead of the final Budget are a vital period in providing resource, space and frameworks to allow businesses to plan for the year ahead. It is vital that the final Budget provides for the reassurance that SMEs form a key part of the vision for recovery and reconstruction, and we expect to see the final budget provide for the institutional support and vision to ensure that the SME sector can 'build back better'.

It is also incumbent on all parties in the Senedd seeking to become or form part of the new Welsh Government in May to set out their vision for business recovery, and contribute to a constructive debate on the best road to prosperity as we look to a better year for business in 2021. This should also include a strong commitment to the business support infrastructure which will be particularly crucial over the next Senedd term.

We hope that this evidence will help form part of that ongoing discussion and is of use to the Committee's scrutiny.

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted

Agenda Item 7

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted

Llyr Gruffydd AS
Chair of Finance Committee
Welsh Parliament
Tŷ Hywel
Cardiff Bay
CF99 1SN

13 January 2021

Dear Llyr

I am writing to bring to the Committee's attention the Commission's proposed change to its approved 2020-21 budget through the Supplementary budget process. The Commission is proposing to increase its resource budget by £1.05 million. There is no proposed change to its 2020-21 net cash requirement.

The Commission is proposing to

- increase the Annually Managed Expenditure (AME) budget by £0.4 million
- increase its operational budget (provision for accrued annual leave) by £0.65 million.

The AME Budget

The Commission's AME budget is for the non-cash accounting adjustment in respect of the future financial liability of the Members of the Senedd Pension Scheme and is an accounting adjustment rather than a cash requirement.

The actual value of AME cannot be calculated until after 31 March 2021. The Commission therefore seeks a professional estimate of the year end value during the financial year. Actuarial advice received indicates that the liability could be £1.93 million which is above the budget figure of £1.6 million. Therefore, the Commission proposes to increase the AME Budget by £0.4 million. This will not impact on the cash requirement as this is a non-cash accounting adjustment.

Provision for accrued annual leave

As I noted in my letters to your Committee, dated 7 July 2020 and 4 November 2020, on the financial implications of the COVID-19 pandemic, International Accounting Standard (IAS) 19 - Employee Benefits requires the Commission to accrue for the cost of any unused leave entitlement accrued by Commission staff at 31 March in each financial year.

I highlighted in my letters and during our recent scrutiny session on the 2021-22 budget, that we were anticipating an increase in the provision for accrued annual leave. I noted that this increase would



probably necessitate a supplementary budget later in this financial year. I reassured your Committee that, although the increase would be significant, there would be no additional cash requirement.

The increase in the provision has been estimated to be £0.65 million. It is inherently difficult to calculate this provision, with each member of staff having a different annual leave year-end. The increase, as I highlighted in October, is as a result of staff working very hard during this period, with limited opportunities to take leave. The increase is also due to the assumption that these conditions will continue until at least the end of the financial year. You recognised that we are currently in unprecedented and uncertain times.

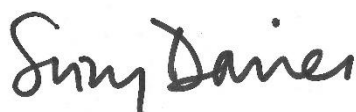
I would like to reassure the Committee that we have made it clear throughout this period that we do expect staff to take leave. This is not only a financial issue, but one impacting on staff well being, health and safety. We continue to look at different ways to ensure staff have the opportunity to take leave.

The Commission is therefore proposing a Supplementary budget for its operational Budget of £41.953 million, an increase from £41.303 million. There is no impact on the cash requirement. The effect on the overall Commission budget for 2020-21 is shown in the table below:

	Approved Budget	Proposed Supplementary Budget	Proposed revised Budget
Resource Budget	£41.303	£0.650	£41.953
Members' budget	£16.172	-	£16.172
Election Budget	£0.500	-	£0.500
AME Budget	£1.600	£0.400	£2.000
Total	£59.575	£1.050	£60.625

In accordance with Standing Order 20.32, following your Committee's consideration of this request, the Commission will be laying an explanatory memorandum noting this Supplementary Budget request. A copy of this explanatory memorandum is attached for your convenience. If you need further information, please let me know.

Yours sincerely



Suzy Davies

cc Manon Antoniazzi, Nia Morgan

Croesewir gohebiaeth yn Gymraeg neu Saesneg / We welcome correspondence in Welsh or English



Second Supplementary Budget 2020-21: Explanatory Memorandum

January 2021



The Welsh Parliament is the democratically elected body that represents the interests of Wales and its people. Commonly known as the Senedd, it makes laws for Wales, agrees Welsh taxes and holds the Welsh Government to account.

An electronic copy of this document can be found on the Senedd website:
www.senedd.wales

Copies of this document can also be obtained in accessible formats including Braille, large print, audio or hard copy from:

Welsh Parliament
Cardiff Bay
CF99 1SN

Tel: **0300 200 6565**
Email: **Contact@senedd.wales**
Twitter: **[@SeneddWales](https://twitter.com/SeneddWales)**

© **Senedd Commission Copyright 2020**

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading or derogatory context. The material must be acknowledged as copyright of the Senedd Commission and the title of the document specified.

Second Supplementary Budget 2020-21: Explanatory Memorandum

January 2021



A photograph of a glass display case containing a sign. The sign is white with pink text. The background is a wooden slat wall with a blue structural beam and a white triangular panel. The sign reads: "Croeso i'r Senedd — Welcome to the Senedd".

Croeso
i'r Senedd
—
Welcome
to the
Senedd

Contents

1	Background	7
1.1.	Explanatory memorandum.....	7
1.2.	Annually Managed Expenditure (AME)	7
1.3.	Provision for accrued annual leave.	8
1.4.	Budget impact.....	9
2	Budget Ambit	10



1 Background

The Commission's **2020-21 Budget** was included in the Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 13 November 2019, following scrutiny by the Senedd's Finance Committee.

The budget motion provided the Commission with £61.411 million of Resource Budget in relation to:

- £43.139 million for Senedd services;
- £16.172million for the Remuneration Board's Determination for Members of the Senedd; and
- £0.500 million for election related costs.

A further £1.600million was provided for non-cash accounting adjustments in respect of the Members of the Senedd Pension Scheme, through the Annually Managed Expenditure budget.

In line with Standing Order 20.32 an **Explanatory Memorandum** was laid, supporting a variation to the Commission's 2020-21 budget within the Supplementary Budget Motion (standing Order 20.30). The Supplementary Budget Motion was approved in Plenary on 24 June 2020 following scrutiny by the Senedd's Finance Committee.

This second Explanatory Memorandum is laid in compliance with Standing Order 20.32, in support of changes to be proposed to the Commission's approved 2020-21 supplementary budget, via a second Supplementary Budget Motion.

1.1. Explanatory memorandum

The effect of the Commission's supplementary budget will be to increase Annually Managed Expenditure in line with projections and to increase the Commission's operational budget to reflect the increase in the provision for accrued annual leave for Commission Staff.

1.2. Annually Managed Expenditure (AME)

The Commission's AME budget is for the **non-cash** accounting adjustment in respect of the future financial liability of the Members of the Senedd Pension Scheme. The purpose of this adjustment is to ensure a true and fair view of the Scheme liability is recorded in the statement of financial position of the

Commission; it does not reflect the monetary sums paid by the Commission into the Scheme. There is no associated cash requirement and making changes to it has no impact on the Commission Resource budget or service delivery.

The final value cannot be calculated until after 31 March 2021, but estimates are requested from professional advisors during the year. Based on calculations reflecting known changes to the discount rate and other variables which impact on the estimated liabilities of the scheme, the latest estimate is £1.93 million.

The Commission is therefore proposing a supplementary AME budget of £2.0 million in order that there is sufficient contingency to manage any variation from the estimate in the final year-end figures.

1.3. Provision for accrued annual leave.

International Accounting Standard (IAS) 19 - Employee Benefits requires the Commission to measure the unused leave entitlement of staff at the end of the accounting period and adjust its financial statements accordingly.

During the first half of 2020-21, there has been a marked decrease (compared to prior years) in the number of days of annual leave requested by Commission staff. This is as a result of increased work pressures and a lack of opportunity to take leave.

It is anticipated that the provision required for accrued annual leave will continue to increase as staff accrue additional annual leave entitlement by 31 March 2021. The opportunities for taking leave until 31 March 2021 remain limited with the continued increase in Senedd business (Covid-19 and the UK's exit from the EU) and the transition to the Sixth Senedd placing additional demands on Commission staff.

This increase in the provision was not anticipated at the time of laying the 2020-21 budget. The provision is currently £0.8 million (31 March 2020), which represents an average of 6.88 days of annual leave accrued and 2 days of flexible leave. Scenario planning indicates that accrued leave balances could increase to an average of 13 days and 2 days of flexible leave. This would increase the required provision to £1.45 million, an increase of £0.65 million.

This increase in the provision of £0.65 million is an accounting adjustment and does not require an increase in the Commission's net cash requirement.

1.4. Budget impact

The Supplementary Budget Motion proposes the following:

- An increase in the AME budget of £0.4 million, to £2.0 million;
- An increase in the Commission's operational revenue budget of £0.65 million to £41.453 million.

2 Budget Ambit

This supplementary budget submission is laid in compliance with Senedd Standing Order 20 to assist in the compilation of the Budget Motion required by Section 126 of the Government of Wales Act 2006. This submission seeks to amend the resource and annually managed expenditure requirements of the Senedd Commission for the year ending 31 March 2021.

The Supplementary Budget Motion authorises the net resources to be used for the services and purposes of Members and Senedd Services. The motion includes the maximum income (or accruing resources) that may be retained for use on those services and purposes instead of being paid into the Welsh Consolidated Fund, and the cash amount that will need to be issued from the Welsh Consolidated Fund to meet the anticipated net amounts falling due for payment by the Commission.

The amended 2020-21 Budget for the Senedd Commission, addressing the revised requirements, is set out in Table 1 below.

Table 1	Revised £000
<p>Resources other than accruing resources for use by the Senedd Commission (“the Commission”) on resource and capital costs associated with the administration and operation of services to support the Senedd; promotion of the Senedd including payments to the Electoral Commission and others; payments in respect of the Commissioner for Standards and Remuneration Board; any other payments relating to functions of the Senedd or the Commission.</p> <p>Resources other than accruing resources for use by the Commission in respect of decisions of the Remuneration Board and expenditure in respect of Members of the Senedd Pension provision.</p>	60,625
<p>Accruing resources for retention pursuant to section 120(2) of the Government of Wales Act 2006 and use by the Commission:</p> <ul style="list-style-type: none"> ▪ from the disposal of fixed assets and other capital income for use on the purchase or acquisition of fixed assets; or ▪ rental income; gifts; grants; recharges and income from commercial sales and other services provided to the public or others for use on administrative costs of the Senedd. 	220
<p>Amount to be issued from the Welsh Consolidated Fund to meet the anticipated amounts falling due for payment in the year in respect of the above services and purposes less expected retainable receipts and recoverable VAT.</p>	56,075

Table 2 below reconciles the net resource requirement to the cash drawing requirement from the Welsh Consolidated Fund.

Table 2: Cash requirement	£'000 2020-21 Revised
Members' net revenue requirement	16,172
Election related expenditure	500
Commission net revenue requirement	41,453
Net capital requirement	500
Annually Managed Expenditure	2,000
Subtotal	60,625
Adjustments	
Depreciation	(2,250)
Movements in provisions	(2,000)
Movement in debtors and creditors	(300)
Subtotal	(4,550)
Net cash requirement from the Welsh Consolidated Fund	56,075

Public Services Ombudsman for Wales

3rd Supplementary Budget 2020-21

Explanatory Memorandum to the Chair of the Finance Committee

Repayment of Pension Surplus

The Estimate for 2020/21 was scrutinised by Finance Committee in October 2019, included in the Annual Budget Motion in December 2019 and revised by a Supplementary Budget in May 2020.

As explained to the Committee in the scrutiny session in October 2020, the last remaining employee of the Cardiff and Vale Pension Fund retired in 2020/21 meaning that PSOW, as the employer, exited the Fund. Since the Fund was in surplus this amount was repayable to PSOW.

The Scheme Actuary completed a revaluation of the Fund at the exit date, valuing the Fund at £974k, and this surplus has now been repaid in full to PSOW.

Following discussions with Audit Wales and Welsh Government colleagues it has been agreed that PSOW can treat this repayment of pension costs as income. This £974k additional income can then be used to cover operational expenditure and will in turn reduce the total cash requirement for 2020/21 compared to the original Budget Motion by £974k.

For PSOW to treat the £974k as additional income there will need to be an amendment to the wording of Part 2 of Schedule 4 of the Budget Motion (the income ambit) to include 'repayment of pension surplus' in the description. This will increase the level of income that can be retained by PSOW and allow the reduction in total cash requirement from the Welsh Consolidated Fund to be reallocated elsewhere in Wales.

Additional Resource Required to Account for Untaken Annual Leave

In May 2020, in the light of the Covid pandemic and its impact on holiday plans of our staff, we temporarily increased permitted carry over of annual leave, from one annual leave year to the next, to 14 days. Our annual leave years for staff are based on the date they started their employment. Many staff had planned holidays cancelled and it would not have been reasonable to deny staff the opportunity to have a holiday. At that time the expectation was that staff would take holidays later in the year, when it was again possible to travel. However, travel restrictions have largely continued and we are now in another period of lock-down with travel not permitted. Whilst staff have been encouraged to take time off, and have done so, many staff have not had the chance to take an extended break.

The severity and duration of the restrictions arising from the pandemic are both greater than we hoped in May, and as a result the value of annual leave earned by staff but not taken will, by 31 March 2021, be substantial. Since the permitted carry over has increased and opportunities to take holidays are much reduced, the value of this annual leave is estimated to be approximately £160,000 more than in a normal year. This value, which is effectively owed to staff, does not affect the cash position but must be reflected in our accounts as a resource commitment. The Supplementary budget submission shows this additional cost, together with an adjustment to reflect that it does not affect the cash position.

Appendix A

Estimate	2020/21	2020/21
PSOW Expenditure	Original Budget	Supplementary Budget
	£000s	£000s
Staff salaries and related costs	£3,889	£3,889
Additional resource for annual leave accrued but not taken	-	£160
Premises and facilities, including leases	£425	£425
Professional fees	£280	£280
ICT costs	£190	£190
Office costs	£118	£118
Travel, training and recruitment	£90	£90
Communications	£50	£50
Total Revenue Expenditure	£5,042	£5,202
Total Income, including pension surplus repayment	(£17)	(£991)
Net Revenue Expenditure	£5,025	£4,211
Capital Expenditure	£25	£25
Total Operational Resource	£5,050	£4,236
Depreciation and amortisation charges	£60	£60
Pension surplus adjustment (AME)	-	£974
Total Resource Expenditure	£5,110	£5,270
Depreciation and amortisation charges	(£60)	(£60)
Pension surplus adjustment	-	(£974)
Change in working capital - annual leave accrual	-	(£160)
Other non-cash movements	£20	£20
Cash Requirement from WCF	£5,070	£4,096

24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ

Mr Llyr Gruffydd MS
Chair of the Finance Committee
The Senedd

Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600

Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

Reference: LF21001/AC/239/caf
Date issued: 6 January 2021

Dear Llyr

Wales Audit Office Supplementary Estimate 2020-21

You will remember that we wrote to you back in July 2020 setting out our early thoughts on the potential financial implications of the Covid-19 pandemic.

We explained that it was very difficult at that time to predict the impact of the pandemic on our audit work and hence the fee income that we would be able to deliver in the year. We were anticipating a significant reduction in our performance audit fee income albeit this would be offset by savings on some budget areas – in particular our travel costs. We indicated that our maximum additional call on the WCF would be in the order of £500,000.

In the event, and due to the hard work of our staff working remotely through this very difficult year, we have managed to deliver the vast majority of both our accounts and performance audit fee earning work. In some instances, in fact, we have had to do significant additional audit work to address issues encountered at audited bodies in this extraordinary year.

We are therefore submitting a Supplementary Estimate not to request any additional call on the Welsh Consolidated Fund but to allow us to recognise the additional fee income we have generated. Being able to retain that additional income will allow us to meet the associated costs we have incurred, such as the impact of our own staff delaying planned annual leave and costs for work done by our contractor firms. There is no additional call on WCF arising from this request.

Yours sincerely



LINDSAY FOYSTER
Chair, Wales Audit Office



ADRIAN CROMPTON
Auditor General for Wales

Explanatory Memorandum to the Finance Committee Regarding the Variation of the Estimate of the Wales Audit Office for the Year Ending 31 March 2021

Issued: January 2021

Document reference: 2220A2020-21

Submitted to the Finance Committee of the Senedd for consideration under Standing Order 20.35.

Adrian Crompton
Auditor General for Wales

Lindsay Foyster
Chair, on behalf of the **Wales Audit Office**

Contents

Introduction	4
Reasons for change	4
Adjustments to resource budgets	5
Appendices	
Appendix 1 – Summary of the 2020-21 budget requirements for inclusion in the Welsh Ministers' Supplementary Budget Motion under section 126 of the Government of Wales Act 2006	6

Introduction

- 1 For each financial year, the Wales Audit Office must submit an annual estimate of its income and expenditure to the Finance Committee of the Senedd. The responsible committee must examine that Estimate and lay it before the Senedd after making any amendments that it considers appropriate.
- 2 The Estimate for the Wales Audit Office for 2020-21 was included in the Welsh Government's Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 3 March 2020 following scrutiny by the Finance Committee.
- 3 The budget motion authorised the Wales Audit Office to retain £14.004 million of accruing resources, generated through fees charged to audited bodies and a grant from the Welsh Government, and supplied a further £8.228 million of other resources in support of our expenditure plans for the year. Together, this £22.232 million is used to fund the costs of the Wales Audit Office in delivering its duties under the Public Audit (Wales) Act 2013.
- 4 The Wales Audit Office now seeks to amend the approved Estimate for the year ending 31 March 2021.

Reasons for change

Increased costs and income associated with our audit work

- 5 2020 has been an unprecedented year for all organisations due to the global COVID-19 pandemic and Audit Wales is no exception.
- 6 As set out in our [Interim Report for 2020-21](#), our staff have risen to the challenge of remote working and have been able to deliver much of our audit work as planned whilst working remotely due to the pandemic.
- 7 Most of our audited bodies have also been working remotely and, in some cases, this has led to delays in the production of their accounts and associated working papers, which has increased the time required to deliver our audit work – and hence the cost of our audit of accounts work. This has applied both to audit work undertaken by our own staff and that carried out by contractor firms who carry out this work on our behalf.
- 8 Where these additional costs are as a result of inefficiencies from remote working of Audit Wales staff, we will absorb the additional costs. Where they are the result of delays or poor-quality accounts supplied by audited bodies, we will need to increase the audit fee payable to cover additional costs incurred.
- 9 The impact of this additional audit work in 2020-21 means that we need to retain an additional £266,000 of accruing resources in the year. There is no additional call on the Welsh Consolidated Fund arising from this change.

- 10 This additional income, along with savings made across other budget areas including travel and subsistence, will be used to meet additional costs associated with work done by contractor firms and the costs associated with our own staff delaying annual leave. It will also allow us to utilise savings identified in-year to invest in a voluntary exit scheme in line with our workforce strategy. Savings achieved from investment in voluntary exits this year will make a significant contribution to the challenging savings targets we have set ourselves in 2021-22.

Chair's expenses

- 11 Since 2013, travel and expenses costs associated with the Chair have been met by the Wales Audit Office and funded from the Welsh Consolidated Fund (WCF) via a supply budget. During 2019-20, as a result of a change in the way that HMRC accounts for tax liability associated with such expenses, it was identified by the Senedd Commission that these costs should be treated as a direct charge on the WCF, rather than being paid from supply. As a result, since 2019-20 all such costs have been met by the Senedd Commission and reimbursed via a direct charge on the WCF.
- 12 This change had not been identified prior to the approval of our Estimate for 2020-21 and is now reflected in this Supplementary Estimate. As a result, we are reducing our call on the WCF by £5,000 in 2020-21.

Adjustments to resource budgets

- 13 As explained above, the Wales Audit Office is seeking to increase its accruing resources by £266,000 and reduce its revenue resources by £5,000 in 2020-21.
- 14 The budget changes required are set out in **Exhibit 1**.

Exhibit 1: Budget changes 2020-21

	Approved Estimate 2020-21 £'000	Supplementary Estimate 2020-21 £'000	Revised Estimate 2020-21 £'000
Revenue resource	7,998	(5)	7,993
Capital resource	230	–	230
Accruing resources	14,004	266	14,270
Total expenditure	22,232	261	22,493
Net cash requirement	8,448	(5)	8,443

Appendix 1

Summary of the 2020-21 budget requirements for inclusion in the Welsh Ministers' Supplementary Budget Motion under section 126 of the Government of Wales Act 2006

Under section 126 of the Government of Wales Act 2006 (the 2006 Act), Ministers may move a Supplementary Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the Consolidated Fund for certain relevant persons, including the Wales Audit Office.

In respect of the services and purposes of the Wales Audit Office in the year ending 31 March 2021, the Budget Motion will authorise:

- the amount of resources to be used by the Wales Audit Office;
- the amount of resources accruing to the Wales Audit Office which may be retained (rather than paid into the Consolidated Fund); and
- the amount which may be paid out of the Consolidated Fund to the Wales Audit Office.

These requirements, which due to the variability of income streams can only be estimates, are summarised in **Table 1** below.

Table 1: Summary of the estimated 2020-21 budget requirements

	£'000
Resources other than accruing resources for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office, the Auditor General and local government appointed auditors, and on the administration of the Wales Audit Office:	
• Revenue	7,993
• Capital	230
Accruing resources from fees and charges for audit and related services; other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences and provision of administrative and professional and technical services for use by the Wales Audit Office on related services and the administration of the Wales Audit Office.	14,270
Net cash requirement from the Consolidated Fund to meet the net amounts falling due for payment in the year by the Wales Audit Office.	8,443



Audit Wales

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

Agenda Item 8

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted