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Agenda - Finance Committee

Meeting Venue: **Hybrid - Committee room 4 Ty Hywel and video conference via Zoom**

Meeting date: 10 January 2024

Meeting time: 09.30

For further information contact:
Owain Roberts
Committee Clerk
0300 200 6388
SeneddFinance@senedd.wales

Registration (09.00-09.15)

Private pre-meeting - Informal (09.15-09.30)

1 Introductions, apologies, substitutions and declarations of interest

(09.30)

2 Paper(s) to note

(09.30)

2.1 PTN 1 - Letter from the Minister for Finance and Local Government: Report on Outturn 2022-23 - 22 December 2023

(Pages 1 - 33)

3 Scrutiny of the Welsh Government Draft Budget 2024-25: Evidence session 2

(09.30-10.15) (Pages 34 - 103)

Richard Hughes, Chair, Office for Budget Responsibility

Professor David Miles, Budget Responsibility Committee member, Office for Budget Responsibility

Tom Josephs, Budget Responsibility Committee member, Office for Budget Responsibility

Supporting documents:

FIN(6)-01-24 P1 - Welsh taxes outlook (December 2023)

Senedd Cymru
Welsh Parliament

Research Service Brief

Break (10.15-10.25)

4 Scrutiny of the Welsh Government Draft Budget 2024-25: Evidence session 3

(10.25-11.25) (Pages 104 - 119)

David Phillips, Associate Director, Institute for Fiscal Studies

Dr Ed Poole, Senior Lecturer, Wales Governance Centre (Wales Fiscal Analysis)

Guto Ifan, Lecturer, Wales Governance Centre (Wales Fiscal Analysis)

Supporting documents:

Research Service Brief

Break (11.25-11.35)

5 Scrutiny of the Welsh Government Draft Budget 2024-25: Evidence session 4

(11.35-12.35) (Pages 120 - 156)

Jessica Laimann, Wales Women's Budget Group / Women's Equality Network (WEN) Wales, Policy and Public Affairs Manager at WEN

Victoria Winckler, Director, Bevan Foundation

Simon Hatch, Director of Citizens Advice Cymru

Supporting documents:

FIN(6)-01-24 P2 - Wales Women's Budget Group (WWBG) and Women's Equality Network (WEN)

FIN(6)-01-24 P3 - Bevan Foundation

Research Service Brief

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

(12.35)

7 Scrutiny of the Welsh Government Draft Budget 2024-25: Consideration of evidence

(12.35-12.45)

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government

Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: RE/447/2023

Peredur Owen Griffiths MS
Chair
Finance Committee
Senedd Cymru
Cardiff Bay
Cardiff
CF99 1NA

22 December 2023

Dear Peredur,

The Welsh Government's audited Consolidated Annual Accounts for 2022-23 were published on 30 November.

In line with this government's commitment to good practice and transparency, I am now able to provide the Finance Committee with a written report on the 2022-23 final outturn for the Welsh Government, set against spending plans approved in the Second Supplementary Budget 2022-23.

The report and supporting annexes provide a summary of expenditure by portfolio within Treasury control totals, variations compared to the budget, an explanation of significant variances and details of amounts to be carried forward in the Wales Reserve.

I am happy to respond to questions or make the Finance Director and his team available to the committee to discuss this issue and the detail of the report, if that would be helpful.

Yours sincerely,

Rebecca Evans.

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government

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Llywodraeth Cymru
Welsh Government

Welsh Government

Report on Outturn 2022-23

A report from the Minister for Finance and Local Government to the Senedd Finance Committee on the outturn of the Welsh Government 2022-23 set against the planned expenditure contained in the Second Supplementary Budget 2022-23. Published in December 2023.

Contents

1. Introduction

1.1 This report has been produced in accordance with the protocol endorsed by the National Assembly for Wales on 21 March 2012 regarding changes to the budget motion and their impact on the in-year budget cycle.

1.2 As part of the protocol the Welsh Government agreed:

In line with the Welsh Government's commitment to working openly and transparently, the Welsh Government will provide a written report to the [Finance] Committee on final outturn. The report would include a comparison with the spending plans set out in the last Supplementary Budget of the year and an explanation of significant variations.

1.3 This commitment was reaffirmed in the revised protocol approved by the National Assembly for Wales on 21st June 2017.

1.4 This report addresses that commitment for the financial year 2022-23.

1.5 The Second Supplementary Budget for 2022-23 was approved by the Senedd on 14th March 2023. The final outturn follows publication of the Welsh Government's Consolidated Annual Accounts on 30th November 2023. The accounts are available from the internet link below.

Welsh Government consolidated annual accounts 2022 to 2023 | GOV.WALES

1.6 There were no additional budget allocations from reserves between the publication of the budget and the end of the financial year.

1.7 The outturn is reported on the basis of the Welsh Government budget structure in force at the year end and reported in the audited annual accounts.

2. Main Expenditure Group[1] Outturn 2022-23

2.1 The Consolidated Accounts of the Welsh Government contain a Summary of Resource Outturn against the control totals approved in the Second Supplementary Budget motion of 2022-23.

2.2 This report provides details of final outturn against the lower-level controls operated and enforced by HM Treasury. These administrative budgets are reported in the documentation and tables which supported the Second Supplementary Budget 2022-23.

2.3 In line with previous years, the report also provides explanations for all overspends plus any underspends of greater than 1% of MEG level budgets in each of the control totals (subject to a de-minimis level of £0.5m).

2.4 The outturn has been analysed further to the level published in the Second Supplementary Budget 2022-23. The tables published with the budget show a break-down into Budget Expenditure Lines or 'BELs'. The outturn against the budget is provided on this basis in the Annexes to this report.

[1] Main Expenditure Group or MEG is a high-level budget representing a ministerial portfolio or central administration budget.

Resource (Revenue) DEL Outturn

Fiscal Resource DEL[2]

2.5 The Fiscal Resource outturn for the year resulted in an underspend of £176m representing a 1% variance to budget.

2.6 Table 2.1 sets out the year end position. Explanations for variances as determined in paragraph 2.3 follow.

Table 2.1: Fiscal Resource Outturn by MEG	**Budget £000**	**Outturn £000**	**Under/ Over(-) Spend £000**	**%**
Health & Social Services	9,871,737	9,845,288	26,449	0.3
Finance & Local Government	4,595,878	4,545,601	50,277	1.1
Education & Welsh Language	1,793,957	1,757,986	35,971	2.0
Climate Change	865,481	837,984	27,497	3.2
Economy	389,285	384,491	4,794	1.2
Rural Affairs	356,610	347,862	8,748	2.5
Central Services & Administration	329,120	316,502	12,618	3.8
Social Justice	222,746	213,131	9,615	4.3
TOTAL	**18,424,814**	**18,248,845**	**175,969**	**1.0**

2.7 The largest element of the Finance and Local Government underspend of £50.3m was against the high street non-domestic rates relief budget (£53.7m) which is demand led. Estimates during the year were based on the individual authorities' tax base information. However, the final outturn of the scheme was not known until April when claims were received. Other underspends included a saving of £1.5m on Invest to Save schemes, £3.7m in building local democracy and improvement and £3.3m in transformation and legislation. These underspends were offset by a £13.7m overspend against the emergency financial assistance budget relating to support for Ukrainian refugees. This was due to a change in the assumptions related to the integration tariff for individuals arriving through the super sponsor route.

[2] Fiscal Resource DEL is a control total set by HM Treasury, is a subset of Resource DEL and is also referred to as 'revenue'.

2.8 The Education and Welsh Language MEG underspend of £36m includes two significant variances. The largest of the two was an underspend of £38.2m reported against the student support grants budget which is demand led. The second was an underspend of £12m in respect of the phased rollout of food and nutrition in schools (free school meals) which was reprofiled across the 2023-24 and 2024-25 financial years due to slippage in the roll out. These were partially offset by a £11.4m overspend against post-16 learner provision to support pay awards and the mental health and well-being of learners and staff in the further education sector.

2.9 The underspend of £27.5m reported against the Climate Change MEG was due to savings in resource efficiency and circular economy initiatives, climate change policy, energy efficiency, green growth and environmental protection. The reductions were due to a mix of reprofiling of grants to local authorities to future years and delays establishing new annualschemes as well as an increase in income from Natural Resources Wales relating to wind farm receipts. These were partially offset by overspends on other budgets including Transport for Wales of £14.9m, homelessness prevention of £8.8m and motorways and trunk road operations of £5.7m.

2.10 The Economy MEG underspend of £4.8m was derived from variances on several budget lines. The underspends included £19.1m in additional profits generated following the disposal of development assets from across the property portfolio. There were also underspends reported on the employability and young person’s guarantee of £8m, apprenticeships of £5.6m and communities for work of £1.4m due to the demand led nature of the programmes and the lower than anticipated uptake throughout the financial year. Other underspends included an £8.1m saving on business development projects and £3.2m on an ICT infrastructure project where draw down of EU funds was reprofiled. The underspends were offset by a £27.5m overspend reported by the

Development Bank of Wales as a result of year end outturn adjustments and a loss scored on the Wales Life Science Investment Fund. Further overspends were reported against the National Museum of Wales budget of £4.4m in respect of their final outturn adjustment, public sector broadband aggregation budget of £3.1m due to rectification of software issue in schools, creative sector budget of £3.1m mainly due to funding of Festival UK, tourism budget of £1.4m due to football world cup marketing as well as smaller underspends on other budget lines.

2.11 The underspend of £8.7m on the Rural Affairs MEG includes several offsetting variances. Underspends were reported on rural investment schemes of £6.2m due to lower take up than expected, single payment administration of £2.3m, food promotion budgets of £3.2m, fisheries of £3.2m, environment, wildlife management and green spaces of £1.7m, strategy and government relations of £1.5m and livestock identification system of £1.4m. These were offset by a £12.6m overspend against the rural development plan budget.

2.12 The main element of the Central Services and Administration underspend of £12.6m was an underspend of £13m against the EU transition costs budget which was due to the transfer of staff to the running costs budget. There was also an underspend against the Covid Inquiry budget of £1.9m due to project slippage. These underspends were offset by an overspend on staff costs of £2.7m.

2.13 The Social Justice underspend of £9.6m was principally attributable to a £8.6m saving against the equality, inclusion & human rights budget. Delivery was impacted by staff resourcing issues. The basic income pilot also underspent by £1m due to slippage in the scheme start date. The outturn also included small offsetting variances in other budgets.

Non-Fiscal Resource DEL[3]

2.14 The Non-Fiscal Resource DEL budget was underspent by £357.4m, a variance of 40.3% of budget. It is important to note that the Non-Fiscal Resource budget is ring-fenced and cannot be re-directed to Welsh Government spending programmes. These budgets cover accounting adjustments that do not require cash such as depreciation and provision for write-off of student loans.

2.15 Table 2.2 sets out the year end position. Explanations for variances as determined in paragraph 2.3 follow.

Table 2.2: Non-Fiscal Resource Outturn by MEG	**Budget £000**	**Outturn £000**	**Under/ Over(-) Spend £000**	**%**
Climate Change	341,462	337,738	3,724	1.1
Health & Social Services	284,786	292,585	-7,799	-2.7
Education & Welsh Language	210,968	-162,364	373,332	>100
Central Services & Administration	20,197	17,827	2,370	11.7
Economy	17,813	33,029	-15,216	-85.4
Rural Affairs	10,817	9,972	845	7.8
Finance & Local Government	454	357	97	21.4
Social Justice	240	238	2	0.8
TOTAL	**886,737**	**529,382**	**357,355**	**40.3**

2.16 The Climate Change MEG underspend of £3.7m includes depreciation charges calculated by statistical models. The main elements included in the modelling are depreciation of the trunk roads network and Core Valleys Line rail assets. The outturn calculation from the model produced the variance.

2.17 The overspend of £7.7m reported against the Health and Social Services MEG reflected a requirement to fund a £12.9m inventory write down of personal protective equipment held by NHS Wales Shared Services Partnership. The overspend was offset by reduced depreciation charges

[3] Non-Fiscal Resource DEL is a control total set by HM Treasury that covers annual accounting adjustments for student loan write offs, other write offs and depreciation charges.

on assets owned by the NHS bodies due to slippage in capital purchases and leases.

2.18 The Education and Welsh Language underspend of £373.3m is due to the valuation of student loans. The value of new and historic loans is determined by a statistical model which provides the amount of annual 'write-off'. This is significantly impacted by social and economic factors. In 2022-23 there were three factors influencing the valuation. The HM Treasury discount rate used changed from -1.1% to -1.3%. Also, two legislative changes were introduced. The salary repayment threshold was frozen, and the interest rate cap was extended to March 2023.

2.19 The Central Services and Administration MEG underspend of £2.4m included provision for the depreciation of the Welsh Government estate. The underspend arose due to application of property market indices for the period.

2.20 The Economy overspend of £15.2m includes year-end adjustments related to the Development Bank of Wales totalling £12.4m and excess impairment and depreciation charges on assets within the property portfolio totalling £3m.

2.21 The underspend of £0.8m reported on the Rural Affairs MEG related to a provision for the depreciation of the agriculture IT system. The variance arose due to reduced requirement for depreciation funding.

Capital DEL Outturn

2.22 An underspend of £154.5m was reported against Capital DEL budgets representing a 5.24% variance against budget. Capital DEL is split between General Capital and Capital Financial Transactions.

General Capital[4]

2.23 The General Capital DEL outturn for 2022-23 resulted in an underspend of £87.3m, a variance of 3% against budget.

2.24 Table 2.3 sets out the year end position. Explanations for variances as determined in paragraph 2.3 follow.

Table 2.3: General Capital Outturn by MEG	**Budget £000**	**Outturn £000**	**Under/ Over(-) Spend £000**	**%**
Climate Change	1,690,275	1,651,109	39,166	2.3
Health & Social Services	424,747	407,983	16,764	3.9
Education & Welsh Language	353,848	351,450	2,398	0.7
Finance & Local Government	224,466	224,261	205	0.1
Economy	119,246	106,413	12,833	10.8
Rural Affairs	53,645	43,805	9,840	18.3
Social Justice	17,155	11,726	5,429	31.6
Central Services & Administration	10,000	9,331	669	6.7
TOTAL	**2,893,382**	**2,806,078**	**87,304**	**3.0**

2.25 There are several elements contributing to the overall £39.2m underspend reported against the Climate Change MEG. The most significant underspends were against building safety of £33m, roads network operations of £30.1m, resource efficiency and circular economy of £29.1m, coal tip safety schemes of £15.6m, sustainable travel of £14.1m, energy efficiency schemes of £8.7m, bus support of £8m, improving road safety of £6.7m and fuel poverty of £5.5m. The underspends were largely due to slippage in local authority projects due to procurement delays and economic factors. These underspends were offset by overspends including new roads construction of £39.4m, homes and places (including housing and regeneration) of £43.6m, Transport for Wales support of £11.9m and strategic infrastructure development projects of £10.6m.

[4] General Capital DEL is a control total set by HM Treasury that covers capital grants and asset additions.

2.26 The main element of the Health and Social Services MEG underspend of £16.8m was an underspend of £45.9m in the sustainable social services capital budget arising from a lack of opportunities to mobilise and spend on major projects in 2022-23. There was also an underspend of £5.4m on central budgets which includes £1.5m related to the mental health sanctuary model. These were offset by a £35.3m overspend on NHS capital allocations.

2.27 The Economy MEG underspend of £12.8m was derived from variances on several budget lines. There were underspends reported against the Development Bank of Wales of £19.2m which reflects the final outturn of the body, business development of £3.6m and support for local culture and sport of £2.8m. These were offset by overspends against the property budget of £7.9m due to property disposals, business innovation of £3.7m due to slippage of EU funding and science of £1.4m due to unexpected co-funding costs.

2.28 The underspend of £9.8m on the Rural Affairs MEG includes variances on several budget lines. The main underspends were on rural investment schemes due to a lower than expected take up (£14.3m) as well as a saving of £1.1m on agriculture IT system development due to recruitment delays. Offsetting overspends were reported against the rural development plan of £1.1m, strategy and government relations of £1.4m and livestock identification system budget of £1.5m.

2.29 The largest element of the £5.4m underspend reported in the Social Justice MEG related to a £3.7m saving in the gypsy and traveller refurbishment grant which was due to lack of demand. There was also a £1.5m underspend in the Community Bank budget due to project slippage.

2.30 There was an underspend of £0.7m reported against the Central Services and Administration MEG which related to slippage with the Welsh Government HR systems development.

Capital Financial Transactions[5]

2.31 There was an underspend of £67.2m on the Capital Financial Transactions (FT) budget equating to a 126.4% variance against the budget.

2.32 Table 2.4 sets out the year end position. Explanations for variances as determined in paragraph 2.3 follow.

Table 2.4: Capital FT Outturn by MEG	**Budget £000**	**Outturn £000**	**Under/ Over(-) Spend £000**	**%**
Climate Change	69,062	-9,357	78,419	113.5
Education & Welsh Language	3,327	2,522	805	24.2
Social Justice	1,496	972	524	35.0
Finance & Local Government	-20	-20	-	-
Economy	-20,709	-8,164	-12,545	-60.6
TOTAL	**53,156**	**-14,047**	**67,203**	**126.4**

2.33 The Climate Change MEG underspend of £78.4m includes savings on three schemes. Firstly, the Help to Buy Wales scheme budget included early repayments resulting in an underspend of £49m. There was also slower take up of residential decarbonisation (£35m) and electric vehicle schemes (£9.9m). These were offset by an overspend of £20m on building safety.

2.34 The Education and Welsh Language MEG underspend of £0.8m relates to year end accounting adjustments reflecting the outturn of the Education Mutual Investment Model programme which is administered by the Development Bank of Wales.

[5] Capital Financial Transactions DEL is a control total set by HM Treasury that covers repayable capital (loans and equity).

2.35 The small Social Justice MEG underspend of £0.5m related to lower than anticipated demand for credit union funding.

2.36 The Economy MEG overspend of £12.5m includes an overspend of £19.9m related to adjustments for the final outturn of the Development Bank of Wales. This was offset by an underspend of £5.3m on decarbonisation schemes due to lack of uptake and a £2.2m saving on the SME business fund.

Annually Managed Expenditure (AME) Outturn

2.37 A large proportion of the variance reported in the annual accounts was related to underspends against AME budgets.

2.38 HM Treasury recognise the volatility and demand led basis of certain programmes and the resultant difficulty in estimating costs over a period of time. As a result, these programme budgets are managed on an annual basis and funding cover is generally provided by HM Treasury. Most of the Welsh Government AME budgets cover accounting adjustments and examples include asset impairments, increases in provisions and pension valuations of sponsored bodies. Student loans issued and repaid are also within this classification. The Welsh Government is unable to recycle underspends against AME programmes.

2.39 Table 2.5 sets out the year end position. Explanations for variances as determined in paragraph 2.3 follow.

Table 2.5: AME Outturn by MEG	Budget £000	Outturn £000	Under/ Over(-) Spend £000	%
Finance & Local Government	1,030,453	1,057,712	-27,259	-2.6
Education & Welsh Language	408,569	391,072	17,497	4.3
Health & Social Services	212,116	52,591	159,525	75.2
Economy	58,525	-3,250	61,775	>100
Social Justice	25,871	25,804	67	0.3
Central Services & Administration	3,200	-3,400	6,600	>100
Climate Change	-20,178	47,387	-67,565	>100
TOTAL	**1,718,556**	**1,567,916**	**150,640**	**8.8**

2.40 The overspend of £27.3m against the Finance and Local Government MEG was due to the local authority non-domestic rates budget. The support available from the AME budget is impacted by take up of the rates relief scheme funded through resource DEL. Which meant that the lower than expected take up in the rates relief scheme reported above (paragraph 2.7) resulted in an additional pressure of £27m in the AME budget.

2.41 The Education and Welsh Language MEG AME underspend of £17.5m was related to the student loans budget which covers issues and repayments administered by the Student Loans Company. The £17.5m underspend reflected the final return from the company which reported lower than anticipated demand for tuition fees and maintenance loans.

2.42 There are two main elements to the Health and Social Services MEG underspend of £159.5m. Asset impairments to the NHS estate were £70m lower than budgeted due to movements in the valuation of the estate and slippage on projects. In addition, NHS provisions were £86.2m lower than expected which was mainly due to fewer liabilities crystallising which affect the Welsh Risk Pool as well as changes in discount rates impacting provisions.

2.43 The Economy MEG underspend of £61.8m included £53.2m in savings related to the pension liabilities of Careers Wales, National Museum of Wales, National Library of Wales and Sport Wales. There was also a reduction in property asset impairments of £8.6m.

2.44 The Central Services and Administration MEG reported an AME underspend of £6.6m. As in previous years, this variance was attributable to provisions for early retirements and other pension charges of Welsh Government staff. The pension charge represents the difference between benefits accrued during the year and financial contributions made into the fund, the latter being very difficult to forecast.

2.45 The Climate Change MEG overspend of £67.6m includes an overspend of £91.5m related to an increase in the pension valuation of the Natural Resources Wales scheme. This was offset by an underspend of £17.2m related to the portfolio valuation of Help to Buy Wales, which is subject to market fluctuations. There was also an underspend of £6.8m relating to Transport for Wales liabilities.

3. Carry Forward within the Wales Reserve

3.1 A separate Wales Reserve exists to help manage fluctuations in tax revenue and provides limited ability to carry underspends between years. The Wales Reserve is restricted to a total value of £350m. The amount that can be drawn down each year from the Wales Reserve is usually limited to £125m Fiscal Resource DEL and £50m Capital DEL.

3.2 Table 3 shows the movements on the Wales Reserve in the 2022-23 financial year which are described in the following paragraphs.

3.3 Following agreement of the final Wales Reserve balances for 2021-22 with HM Treasury the opening balance for the Fiscal Resource DEL control subsequently increased by £0.9m.

3.4 Drawdown of £34m Fiscal Resource was included in the Final Budget 2022-23. A further £91m of Fiscal Resource DEL funding was drawn in the Second Supplementary Budget 2022-23 representing the maximum available. The maximum available general capital funding of £50m was also drawn in the Second Supplementary Budget.

3.5 In the Second Supplementary Budget 2022-23 the Welsh Government reported unallocated DEL reserves of £1.5m for Fiscal Resource and £141.6m for Capital Financial Transactions (FT). The General Capital DEL balance set in that budget was a negative £60.1m which represented planned over-programming. This assumed a switch from revenue to capital of £57.4m

3.6 The Welsh Government outturns for Fiscal Resource, General Capital and Capital FT DEL documented in this report above are reflected as movements in the Wales Reserve.

3.7 The outturns of the other bodies funded from the Wales DEL are also taken account of. These relate to the Senedd Commission, the Public Services Ombudsman for Wales, the Wales Audit Office and the Electoral Commission.

3.8 Devolved taxes of £2,915.9m were planned for in the Second Supplementary Budget. The actual taxes collected amounted to £2,891.8m. The deficit of £24.1m is reflected in the Wales Reserve.

3.9 A further £7.6m revenue to capital switch was agreed with HM Treasury before the year end.

3.10 Finally, repayable Capital FT DEL is returned to HM Treasury by a reduction of the Wales Reserve balance in accordance with the repayment profile agreed with them. For 2022-23 the effective repayment was £171.3m and reflects the decision to use the remaining balance to repay existing loans to HM Treasury early.

3.11 Unallocated and unspent Non-Fiscal Resource DEL lapses and cannot be carried forward within the Wales Reserve.

Table 3 Wales Reserve balance including carry forward resulting from Wales DEL outturn 2022-23

Wales Reserve	Fiscal Resource £m	Capital £m	Capital FTs £m	Total £m
Balance at 1 April 2022	242.4	61.6	0	304.0
Adjustment to opening balance	0.9	0	0	0.9
Drawdown from the reserve	-125.0	-50.0	0	-175.0
Unallocated DEL in Second Supplementary Budget 2022-23	1.5	-60.1	141.6	83.0
Welsh Government outturn	176.0	87.3	67.2	330.5
Other bodies outturn	0.9	1.1	0	2.0
Devolved taxes outturn	-24.1	0	0	-24.1
Revenue to capital switch	-7.6	7.6	0	0
Repayment of repayable capital to HM Treasury	0	0	-171.3	-171.3
Balance at 1 April 2023	**265.0**	**47.5**	**37.5**	**350.0**

3.12 The total balance within the Wales Reserve at 1 April 2023 was £350m which equates to the limit available for carry forward.

3.13 In the current financial year, the Welsh Government plans to draw upon the Wales Reserve to support spending plans. In 2023-24 the Welsh Government has been granted permission to use the full value of the Wales Reserve if required. The final amounts drawn down will be reflected in the Second Supplementary Budget 2023-24.

ANNEX 1: Resource DEL[6] Outturn by BEL

HEALTH & SOCIAL SERVICES RESOURCE BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Core NHS Allocations	8,676,371	8,735,907	-59,536	-0.69
Core NHS Allocations - Non cash	270,926	278,471	-7,545	-2.78
Other Direct NHS Allocations	259,530	247,421	12,109	4.67
Other NHS Budgets - Non Cash	-	-36	36	-
Digital Health and Care Wales	45,709	43,723	1,986	4.34
Digital Health and Care Wales - Non cash	12,526	10,456	2,070	16.53
Health Education Improvement Wales	303,617	281,217	22,400	7.38
Health Education Improvement Wales - Non cash	851	876	-25	-2.94
Public Health Wales	129,227	127,132	2,095	1.62
Workforce (NHS)	34,415	33,663	752	2.19
A Healthier Wales	76,046	61,520	14,526	19.10
Other NHS Budgets	-110,079	-79,348	-30,731	27.92
Education and Training	25,511	22,810	2,701	10.59
Workforce Development Central Budgets	1,505	1,624	-119	-7.91
Mental Health	71,364	54,670	16,694	23.39
Substance Misuse Action Plan Fund	45,368	39,682	5,686	12.53
Food Standards Agency	5,110	5,047	63	1.23
Health Promotion	15,905	14,746	1,159	7.29
Targeted Health Protection & Immunisation	16,995	16,939	56	0.33
Health Improvement & Healthy Working	11,647	9,042	2,605	22.37
Health Emergency Planning	6,047	6,215	-168	-2.78
Health Emergency Planning - Non Cash	-	1,585	-1,585	-
Research and Development	1,000	-	1,000	100.00
Safeguarding & Advocacy	3,365	2,978	387	11.50
Older People Carers & People with Disabilities	3,745	4,573	-828	-22.11
Partnership & Integration	227	236	-9	-3.96
Care Sector	299	42	257	85.95
Sustainable Social Services	99,715	87,486	12,229	12.26
Social Care Wales	25,210	24,061	1,149	4.56
Social Care Wales - Non cash	483	322	161	33.33
Support for Childcare and Play	96,851	78,900	17,951	18.53
Support for Children's Rights	1,020	790	230	22.55
Supporting Children	4,865	5,446	-581	-11.94
Support for Childcare & Play - Non Cash	-	911	-911	-
Support for Families and Children	6,427	5,226	1,201	18.69
CAFCASS Cymru	14,725	13,542	1,183	8.03
Total Resource	**10,156,523**	**10,137,875**	**-13,384**	**-0.13**

[6] The published budget tables report the Resource DEL total i.e. Fiscal and Non Fiscal.

FINANCE AND LOCAL GOVERNMENT RESOURCE BELs				
Budget Expenditure Line	**Budget**	**Outturn**	**Under/ Over(-) Spend**	
	£000s	**£000s**	**£000s**	**%**
Children and Communities Grant	168,392	168,513	-121	-0.07
National Loans Fund	2,360	2,460	-100	-4.24
Economic Research	496	288	208	41.94
Welsh Revenue Authority	6,716	6,845	-129	-1.92
Tax Devolution	649	424	225	34.67
Care Exp Children Change Fund Repayment	2,590	-	2,590	100.00
Care Exp Children Change Fund	-250	835	-1,085	434.00
Commercial Procurement Programme Funding	1,461	1,792	-331	-22.66
Fiscal Reponsibilities - Non Cash	150	101	49	32.67
e-Procurement	4,000	4,005	-5	-0.13
Estyn-Programme Expenditure	13,164	13,332	-168	-1.28
Estyn - Non Cash	200	112	88	44.00
Healthcare Inspectorate Wales	4,589	4,332	257	5.60
Healthcare Inspectorate Wales - Non Cash	83	83	-	-
Care & Social Services Inspectorate	14,233	14,880	-647	-4.55
Care & Social Services Inspectorate - Non Cash	21	21	-	-
Academi Wales	1,134	855	279	24.60
Local Democracy and Boundary Commission	598	569	29	4.85
Building Local Democracy	-	41	-41	-
Local Government Democracy	126	73	53	42.06
Election Policy	2,000	181	1,819	90.95
Community and Town Councils	144	228	-84	-58.33
Public Services Boards	530	517	13	2.45
Improvement & Support	1,550	-	1,550	100.00
Local Govt Gen Rev Funding	3,979,235	3,979,263	-28	-0.00
Police General Revenue Funding	112,335	112,335	-	-
Non Domestic Rates - Rates Relief	131,467	77,774	53,693	40.84
Local Govt PFI Revenue Consequences	2,860	2,859	1	0.03
Transformation & Legislation	6,795	3,532	3,263	48.02
Non Domestic Rates Collection Costs	5,172	5,172	-	-
Emergency Financial Assistance	115,263	128,937	-13,674	-11.86
Valuation Office Agency Services	12,296	12,296	-	-
Valuation Tribunal for Wales	1,040	1,027	13	1.25
Local Taxation Research & Analysis	2,900	597	2,303	79.41
Cost of Living Support Scheme	1,233	1,233	-	-
Ystadau Cymru	800	450	350	43.75
Total Resource	**4,596,332**	**4,545,962**	**50,370**	**1.10**

EDUCATION AND WELSH LANGUAGE RESOURCE BELs				
Budget Expenditure Line	**Budget**	**Outturn**	**Under/ Over(-) Spend**	
	£000s	**£000s**	**£000s**	**%**
Curriculum & Assessment	36,497	35,352	1,145	3.14
Teacher Development and Support	86,470	87,642	-1,172	-1.36
Qualifications Wales	9,525	9,177	348	3.65
Qualifications Wales - Non cash	364	298	66	18.13
Post-16 Provision	567,684	579,045	-11,361	-2.00
International Learning Exchange Programme	8,100	6,847	1,253	15.47
Post-compulsory Education and Training Reform	1,500	1,603	-103	-6.87
HEFCW Programme Expenditure	209,970	209,094	876	0.42
HEFCW Programme Expenditure - Non cash	100	41	59	59.00
School Improvement Grant	172,529	171,733	796	0.46
Raising School Standards	-	-1,171	1,171	-
School Standards Support	2,967	3,336	-369	-12.44
Pupil Development Grant	147,580	149,505	-1,925	-1.30
Supporting Digital Learning in Education	4,429	3,743	686	15.49
Supporting Digital Learning in Education - Non cash	2,488	2,487	1	0.04
Additional Learning Needs	20,175	18,999	1,176	5.83
Food & Nutrition in Schools	70,315	58,277	12,038	17.12
Post 16 Specialist Placements	13,881	14,019	-138	-0.99
Whole School Approach to Wellbeing	4,200	4,253	-53	-1.26
Vulnerable Groups	1,150	672	478	41.57
Student Support Grants	348,667	310,426	38,241	10.97
Student Loans Company / HMRC Administration Costs	14,643	21,468	-6,825	-46.61
Student Loans Resource Budget Provision - Non Cash	207,800	-165,355	373,155	179.57
Targeted Student Support Awards	-	-316	316	-
Tackling Disaffection	5,362	5,963	-601	-11.21
Comminuty Schools	3,070	1,129	1,941	63.22
Offender Learning	7,328	7,303	25	0.34
Youth Engagement & Employment	13,156	12,182	974	7.40
Education Communications	393	378	15	3.82
Research Evidence and International	574	591	-17	-2.96
Welsh in Education	17,708	17,713	-5	-0.03
Welsh Language	22,471	23,716	-1,245	-5.54
Welsh Language Commissioner	3,113	3,101	12	0.39
Welsh Language Commissioner - Non cash	216	165	51	23.61
Education Infrastructure	500	2,206	-1,706	-341.20
Total Resource	**2,004,925**	**1,595,622**	**409,303**	**20.41**

CLIMATE CHANGE RESOURCE BELs				
Budget Expenditure Line	**Budget**	**Outturn**	**Under/ Over(-) Spend**	
	£000s	**£000s**	**£000s**	**%**
Environment Legislation, Governance and Communications	706	253	453	64.16
Fuel Poverty Programme	8,322	7,329	993	11.93
Welsh Government Energy Service	3,970	5,573	-1,603	-40.38
Environment Protection	4,706	1,602	3,104	65.96
Clean Energy	8,137	5,008	3,129	38.45
Marine Energy	-	623	-623	-
Climate Change Action	3,616	2,403	1,213	33.55
Flood Risk Management & Water Policy Delivery	38,130	37,040	1,090	2.86
Coal Tip Safety Delivery	3,000	954	2,046	68.20
Biodiversity, Evidence and Plant Health	3,839	2,787	1,052	27.40
Forestry	4,783	3,660	1,123	23.48
Forestry - Non cash	83	83	-	-
Environment Act Implementation	581	984	-403	-69.36
Natural Resources Wales	59,725	54,503	5,222	8.74
Natural Resources Wales - Non cash	10,000	13,881	-3,881	-38.81
Environment Management (Pwllperian) - Non cash	38	53	-15	-39.47
Resource Efficiency and Circular Economy	36,806	27,885	8,921	24.24
Landscape & Outdoor Recreation	11,187	10,845	342	3.06
Marine Policy, Evidence and Funding	2,032	1,119	913	44.93
Environment Management (Pwllperian)	-	-31	31	-
Homelessness	24,715	33,573	-8,858	-35.84
Housing Policy	6,471	6,211	260	4.02
Housing Support Grant	169,202	167,298	1,904	1.13
Private Rented Sector	-	623	-623	-
Residential Decarbonisation & Quality	773	761	12	1.55
Building Safety	8,545	4,087	4,458	52.17
Housing Finance Grant	13,100	13,072	28	0.21
Land for Housing	-	-286	286	-
Housing Programme Revenue Funding	1,073	990	83	7.74
Land Release Fund	2,120	883	1,237	58.35
Land Release fund - Non Cash	-	1,245	-1,245	-
Increase the Supply & Choice of Mkt Hsg	-	-13,602	13,602	-
Regeneration	1,966	1,327	639	32.50
Cardiff Harbour Authority	5,400	5,385	15	0.28
Planning and Environment Decisions Wales	2,997	2,389	608	20.29
Planning & Regulation Expenditure	2,569	1,760	809	31.49
Strategic Infrastructure Development	950	1,295	-345	-36.32
Network Asset Management	4,481	1,951	2,530	56.46
Network Operations	66,023	74,216	-8,193	-12.41
Network Operations - Non Cash	214,000	195,209	18,791	8.78
Aviation	5,732	2,064	3,668	63.99
New Road Construction and Improvement	-	2	-2	-
Rail Ancillary	850	841	9	1.06
Transport for Wales	228,557	243,486	-14,929	-6.53
Transport for Wales - Non cash	117,341	127,226	-9,885	-8.42
Strategic Infrastructure Development - Non Cash	-	8	-8	-
Bus Support	61,005	66,485	-5,480	-8.98
Bus Support - Non Cash	-	20	-20	-
Smartcards - Non Cash	-	14	-14	-
Local Transport Priorities	-	115	-115	-
Concessionary Fares	60,482	51,291	9,191	15.20
Youth Discounted Travel Scheme	2,000	1,600	400	20.00
Sustainable & Active Travel	1,930	3,034	-1,104	-57.20
Road Safety	5,000	4,596	404	8.08
Total Resource	**1,206,943**	**1,175,723**	**31,220**	**2.59**

ECONOMY RESOURCE BELs				
Budget Expenditure Line	**Budget**	**Outturn**	**Under/ Over(-) Spend**	
	£000s	**£000s**	**£000s**	**%**
Business and Regional Economic Development	7,092	-1,008	8,100	114.21
Business and Regional Economic Development - Non cash	269	876	-607	-225.65
Business Wales	18,479	19,463	-984	-5.32
Tech Valleys	2,250	3,471	-1,221	-54.27
Valleys Task Force	100	118	-18	-18.00
Export, Trade and Inward Investment	4,692	3,723	969	20.65
Property Infrastructure	4,402	-14,694	19,096	433.80
Property Infrastructure - Non cash	2,845	5,672	-2,827	-99.37
Public Sector Broadband Aggregation	11,500	14,641	-3,141	-27.31
ICT Infrastructure Operations	1,527	-1,622	3,149	206.22
ICT Infrastructure Operations - Non Cash	2,309	2,024	285	12.34
Centre for Digital Public Services	4,900	4,115	785	16.02
Centre for Digital Public Services - Non Cash	-	12	-12	-
Strategic Policy Development	-	-28	28	-
Healthy Working Wales	762	603	159	20.87
Corporate Programmes & Services	861	612	249	28.92
Strategic Business Events and Communications	200	12	188	94.00
Business Finance (FW) Funds	-	27,461	-27,461	-
Business Finance (FW) Funds - Non Cash	-	12,347	-12,347	-
Apprenticeships	112,747	107,157	5,590	4.96
Employability Including Young Persons Guarantee	66,876	58,855	8,021	11.99
Employability Including Young Persons Guarantee - Non cash	1,950	1,676	274	14.05
Progress for Success	-	14	-14	-
Parents Childcare & Employment	-	-3	3	-
Communities for Work	11,972	10,558	1,414	11.81
Communities for Work - Non cash	36	55	-19	-52.78
Business Innovation	604	1,756	-1,152	-190.73
Science	1,350	190	1,160	85.93
Tourism	13,167	14,538	-1,371	-10.41
Tourism - Non Cash	-	36	-36	-
Events Wales	5,213	5,080	133	2.55
Arts Council of Wales	32,928	33,314	-386	-1.17
Arts Council of Wales - Non cash	260	31	229	88.08
Amgueddfa Cymru - National Museums of Wales	27,632	32,070	-4,438	-16.06
Amgueddfa Cymru - National Museums of Wales - Non cash	2,400	2,546	-146	-6.08
National Library of Wales	12,165	13,300	-1,135	-9.33
National Library of Wales - Non cash	1,250	1,816	-566	-45.28
Support for Local Culture and Sport	4,717	4,638	79	1.67
Creative Wales	6,888	9,971	-3,083	-44.76
Creative Wales - Non Cash	-	47	-47	-
Cadw	8,470	8,517	-47	-0.55
Cadw - Non cash	5,482	5,113	369	6.73
National Botanic Garden of Wales	594	594	-	-
Royal Commission on the Ancient and Historical Monuments of Wales	1,589	1,635	-46	-2.89
Royal Commission on the Ancient and Historical Monuments of Wales - Non cash	229	145	84	36.68
Sport Wales	22,330	22,942	-612	-2.74
Sport Wales - Non cash	783	634	149	19.03
Sport and Facilities Capital Loans	-	-784	784	-
European Regional Development Fund	-	-9	9	-
European Social Fund	-	4	-4	-
Programme Support	1,707	1,709	-2	-0.12
Match Funding	-	-12	12	-
Border Controls	1,571	1,591	-20	-1.27
Total Resource	**407,098**	**417,522**	**-10,424**	**-2.56**

RURAL AFFAIRS RESOURCE BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Strategy and Government Relations	3,389	1,910	1,479	43.64
Agriculture Strategy	650	272	378	58.15
Local Authority Framework Funding	200	86	114	57.00
Agriculture Customer Engagement	400	425	-25	-6.25
County Parish Holdings Project	500	500	-	-
County Parish Holdings Project - Non cash	594	594	-	-
EID Cymru	2,639	1,226	1,413	53.54
Livestock Identification	1,647	1,551	96	5.83
Technical Advice Services	358	184	174	48.60
Commons Act	433	400	33	7.62
Agriculture EU Pillar 1 Direct Payments	238,000	237,460	540	0.23
Single Payment Scheme Administration	9,194	7,412	1,782	19.38
Single Payment Scheme Administration - Non cash	9,649	8,860	789	8.18
Old RDP Programme	-	15	-15	-
Rural Investment Schemes	6,830	666	6,164	90.25
Rural Development Plan 2014-20	26,502	39,057	-12,555	-47.37
Research & Evaluation	520	572	-52	-10.00
Fisheries Schemes	565	-653	1,218	215.58
Fisheries	3,935	1,959	1,976	50.22
Fisheries - Non cash	574	512	62	10.80
Promoting Welsh Food and Industry Development	7,050	3,896	3,154	44.74
Animal Health & Welfare Framework	1,108	532	576	51.99
Animal and Plant Health Agency	18,281	19,417	-1,136	-6.21
TB Slaughter Payments Costs & Receipts	13,810	14,261	-451	-3.27
TB Eradication	8,278	6,099	2,179	26.32
Landfill Disposals Tax Communities Scheme	1,500	1,354	146	9.73
Chemical and Noise Policy	694	470	224	32.28
Plant and Wildlife Protection and Regulation	871	487	384	44.09
Access and Community Green Spaces	1,347	543	804	59.69
Local Places for Nature	3,488	3,009	479	13.73
TB Eradication - Non Cash	-	4	-4	-
Strategy and Government Relation - Non Cash	-	2	-2	-
Enabling Natural Resources	4,421	4,752	-331	-7.49
Total Resource	**367,427**	**357,834**	**9,593**	**2.61**

SOCIAL JUSTICE RESOURCE BELs				
Budget Expenditure Line	**Budget**	**Outturn**	**Under/ Over(-) Spend**	
	£000s	**£000s**	**£000s**	**%**
Basic Income	5,000	4,058	942	18.84
Financial Inclusion	117,970	117,612	358	0.30
Financial Inclusion - Non Cash	-	28	-28	-
Digital Inclusion	2,250	2,168	82	3.64
Digital Inclusion - Non cash	149	148	1	0.67
Supporting Communities	7,270	6,969	301	4.14
International Development	1,275	1,387	-112	-8.78
Social Partnerships	886	477	409	46.16
Fire & Rescue Services	8,405	8,464	-59	-0.70
Fire & Rescue Services - Communication Systems	3,915	2,626	1,289	32.92
Community Fire Safety	848	1,336	-488	-57.55
Older People's Commissioner	1,554	1,631	-77	-4.95
Older People's Commissioner - Non cash	63	10	53	84.13
Children's Commissioner	1,644	1,662	-18	-1.09
Children's Commissioner - Non cash	28	46	-18	-64.29
Public Appointments	375	-	375	100.00
Future Generations Commissioner Wales	1,541	1,854	-313	-20.31
Future Generations Commissioner Wales - Non Cash	-	3	-3	-
Violence against Women, Domestic Abuse and Sexual Violence	8,006	7,860	146	1.82
Equality, Inclusion and Human Rights	17,456	8,874	8,582	49.16
Equality, Inclusion and Human Rights - Non Cash	-	3	-3	-
Chwarae Teg	326	317	9	2.76
Advice Services	12,831	13,152	-321	-2.50
Support for the Voluntary Sector and Volunteering	7,494	9,469	-1,975	-26.35
Community Support and Safety	22,625	22,455	170	0.75
Female Offending and Youth Justice Blueprints	1,075	762	313	29.12
Total Resource	**222,986**	**213,371**	**9,615**	**4.31**

CENTRAL SERVICES AND ADMINISTRATION RESOURCE BELs				
Budget Expenditure Line	**Budget**	**Outturn**	**Under/ Over(-) Spend**	
	£000s	**£000s**	**£000s**	**%**
Staff Costs	239,863	242,576	-2,713	-1.13
General Administration Expenditure	23,258	22,338	920	3.96
General Administration Expenditure (Capital Charges) - Non cash	20,197	17,810	2,387	11.82
International Relations - Non cash	-	17	-17	-
Election Costs	-	37	-37	-
IT Costs	15,351	15,922	-571	-3.72
Enabling Government	1,986	2,547	-561	-28.25
Improve Economic & Labour Market Statistics	1,992	1,643	349	17.52
Geographical Information	719	1,087	-368	-51.18
Data Science	500	505	-5	-1.00
Central Research	1,925	1,731	194	10.08
Constitutional Commission	1,100	924	176	16.00
Tribunals	4,233	4,407	-174	-4.11
Justice Transformation	490	358	132	26.94
Public Policy Institute	450	173	277	61.56
Events & Corporate Communications	356	381	-25	-7.02
Investigations	4,100	2,212	1,888	46.05
Central EU Transition Costs	22,737	9,766	12,971	57.05
Senedd Reform	400	917	-517	-129.25
Cyber Resilience	886	912	-26	-2.93
Civil Contingencies & National Security	350	379	-29	-8.29
International Relations	8,424	7,689	735	8.73
Total Resource	**349,317**	**334,331**	**14,986**	**4.29**

ANNEX 2: Capital DEL[7] Outturn by BEL

HEALTH & SOCIAL SERVICES CAPITAL BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Core NHS Allocations	321,110	356,451	-35,341	-11.01
Other NHS Budgets	-	29	-29	-
Support for Childcare & Play	-	-371	371	-
Research and Development	46,545	46,617	-72	-0.15
Health Emergency Planning	-	-589	589	-
Mental Health	2,000	463	1,537	76.85
Substance Misuse Action Plan Fund	5,072	1,227	3,845	75.81
Social Care Wales	20	53	-33	-165.00
Sustainable Social Services	50,000	4,102	45,898	91.80
Total Capital	**424,747**	**407,982**	**16,765**	**3.95**

FINANCE AND LOCAL GOVERNMENT CAPITAL BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Emergency Financial Assistance	9,958	9,719	239	2.40
Local Govt General Capital Funding	150,000	150,000	-	-
City and Growth Deals	65,531	65,531	-	-
Estyn - Programme Expenditure	250	202	48	19.20
Ystadau Cymru	1,000	995	5	0.50
Welsh Revenue Authority	75	111	-36	-48.00
Local Democracy and Boundary Commission	-	52	-52	-
Care Inspectorate Wales	50	14	36	72.00
Healthcare Inspectorate Wales	25	19	6	24.00
Invest to Save	-53	714	-767	1,447.17
Invest to Save Fund Repayment	-2,390	-3,115	725	-30.33
Total Capital	**224,446**	**224,242**	**204**	**0.09**

EDUCATION AND WELSH LANGUAGE CAPITAL BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Education Infrastructure	354,384	349,703	4,681	1.32
Education Infrastructure - Repayment	-657	-	-657	100.00
Student Loans Company / HMRC Administration Costs	2,500	3,748	-1,248	-49.92
HEFCW Programme Expenditure	100	6	94	94.00
Qualifications Wales	798	275	523	65.54
Welsh Language Commissioner	50	242	-192	-384.00
Total Capital	**357,175**	**353,974**	**3,201**	**0.90**

[7] The published budget tables report the Capital DEL total i.e. General Capital and Capital Financial Transactions.

CLIMATE CHANGE CAPITAL BELs				
Budget Expenditure Line	**Budget**	**Outturn**	**Under/ Over(-) Spend**	
	£000s	**£000s**	**£000s**	**%**
Fuel Poverty Programme	30,000	24,538	5,462	18.21
Marine Energy	4,000	929	3,071	76.78
Green Infrastructure	-	350	-350	-
Welsh Government Energy Service	13,973	8,526	5,447	38.98
Environment Protection	5,000	4,494	506	10.12
Flood Risk Management & Water Policy Delivery	44,000	41,950	2,050	4.66
Coal Tip Safety Delivery	23,100	7,497	15,603	67.55
Biodiversity, Evidence and Plant Health	6,034	6,084	-50	-0.83
Forestry	3,490	1,563	1,927	55.21
Natural Resources Wales	2,358	7,134	-4,776	-202.54
Resource Efficiency and Circular Economy	40,000	10,870	29,130	72.83
Landscape & Outdoor Recreation	3,165	3,111	54	1.71
Rapid Response Adaption Programme	19,500	19,690	-190	-0.97
Homelessness	-	-20	20	-
Private Rented Sector	500	633	-133	-26.60
Homelessness Prevention	10,000	10,000	-	-
Integrated Care Fund	36,860	30,544	6,316	17.14
Major Repairs Allowance and Dowry Gap Funding	104,199	104,199	-	-
Residential Decarbonisation & Quality	85,000	55,115	29,885	35.16
Social Housing Grants (SHG)	368,534	376,054	-7,520	-2.04
Land for Housing	8,000	6,025	1,975	24.69
Building Safety	75,000	61,962	13,038	17.38
Market Housing and Other Schemes	267	20,433	-20,166	-7,552.81
Market Housing and Other Schemes - Repayment	-2,090	-51,047	48,957	-2,342.44
Homebuy	2,000	1,996	4	0.20
Cardiff Harbour Authority	-	349	-349	-
Land Release Fund	20,000	22,140	-2,140	-10.70
Regeneration	25,000	47,022	-22,022	-88.09
Strategic Infrastructure Development	7,500	16,395	-8,895	-118.60
Network Operations	125,000	91,729	33,271	26.62
Network Asset Management & Support	-	3,178	-3,178	-
Aviation	7,212	4,231	2,981	41.33
New Road Construction and Improvement	-	39,369	-39,369	-
Rail Ancillary	-	253	-253	-
Transport for Wales	554,295	566,205	-11,910	-2.15
Bus Support	25,000	17,025	7,975	31.90
Local Transport Priorities	17,500	17,898	-398	-2.27
Sustainable and Active Travel	78,788	53,732	25,056	31.80
Sustainable and Active Travel - Repayment	-348	-243	-105	30.17
Road Safety	16,500	9,839	6,661	40.37
Total Capital	**1,759,337**	**1,641,752**	**117,585**	**6.68**

ECONOMY CAPITAL BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Business and Regional Economic Development	24,920	21,281	3,639	14.60
Business Development	208	-2,032	2,240	1,076.92
Tech Valleys	5,000	5,540	-540	-10.80
Valleys Task Force	-	-455	455	-
Business Finance Funds	5,000		5,000	100.00
Business Finance Funds - Repayment	-24,400	-4,812	-19,588	80.28
Property Infrastructure	10,150	18,025	-7,875	-77.59
Property Infrastructure - Repayment	-290	-365	75	-25.86
ICT Infrastructure Operations	15,000	15,001	-1	-0.01
Employability Including Young Persons Guarantee	2,204	1,719	485	22.01
Business Innovation	5,000	8,724	-3,724	-74.48
Science	5,000	6,414	-1,414	-28.28
Tourism	5,000	5,317	-317	-6.34
Arts Council of Wales	1,000	821	179	17.90
Amgueddfa Cymru - National Museums of Wales	4,750	4,270	480	10.11
National Library of Wales	3,500	3,923	-423	-12.09
Support for Local Culture and Sport	9,850	7,032	2,818	28.61
Creative Wales	5,000	4,558	442	8.84
Cadw	10,300	10,958	-658	-6.39
National Botanic Garden of Wales	1,200	1,200	-	-
Royal Commission on the Ancient and Historical Monuments of Wales	50	50	-	-
Sport Wales	9,541	9,552	-11	-0.12
Sports Capital Loans Scheme	-1,227	-955	-272	22.17
Border Controls	1,781	1,612	169	9.49
Development Bank of Wales	-	-19,167	19,167	-
Centre for Digital Public Services	-	40	-40	-
Total Capital	**98,537**	**98,251**	**-18,841**	**-19.12**

RURAL AFFAIRS CAPITAL BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Livestock Identification	1,000	-	1,000	100.00
Customer Engagement	-	66	-66	-
EID Cymru	-	2,539	-2,539	-
Commons Act	-	15	-15	-
Common Agriculture Policy IT	6,000	7,102	-1,102	-18.37
Old RDP Programme	-	-1	1	-
Rural Development Plan 2014-20	9,500	10,608	-1,108	-11.66
Rural Investment Schemes	20,500	6,217	14,283	69.67
Fisheries Schemes	200	196	4	2.00
Fisheries	-	585	-585	-
Plant and Wildlife Protection & Regulati	-	143	-143	-
Access and Community Green Spaces	5,135	5,110	25	0.49
Local Places for Nature	9,310	8,045	1,265	13.59
Enabling Natural Resources	2,000	1,752	248	12.40
Strategy and Government Relation	-	1,430	-1,430	-
Total Capital	**53,645**	**43,807**	**9,838**	**18.34**

SOCIAL JUSTICE CAPITAL BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Financial Inclusion	1,496	1,093	403	26.94
Financial Inclusion - Repayments			-	-
Community Bank	1,500		1,500	100.00
Supporting Communities	1,000	1,134	-134	-13.40
Fire & Rescue Services	1,000	1,355	-355	-35.50
Fire & Rescue Services - Communication Systems	210	-	210	100.00
Community Fire Safety	900	900	-	-
Older People Commissioner	155	114	41	26.45
Children's Commissioner	-	8	-8	-
Future Generations Commissioner Wales	-	4	-4	-
Violence against Women, Domestic Abuse and Sexual Violence	2,200	1,893	307	13.95
Gypsy Traveller Sites	3,690	-5	3,695	100.14
Community Facilities Programme	6,500	6,203	297	4.57
Total Capital	**18,651**	**12,699**	**5,952**	**31.91**

CENTRAL SERVICES AND ADMINISTRATION CAPITAL BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
General Administration Expenditure	4,145	4,014	131	3.16
IT Costs	4,355	4,363	-8	-0.18
Enabling Government	1,500	954	546	36.40
Central Research	-	-	-	-
Total Capital	**10,000**	**9,331**	**669**	**6.69**

ANNEX 3: Annually Managed Expenditure (AME) Outturn by BEL

HEALTH & SOCIAL SERVICES AME BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
NHS Impairments and Provisions - AME - Revenue	211,676	52,591	159,085	75.15
NHS Impairments and Provisions - AME - Capital	440	-	440	100.00
Total AME	**212,116**	**52,591**	**159,525**	**75.21**

FINANCE AND LOCAL GOVERNMENT AME BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Non-Domestic Rates Distributable Amount - AME (Less NDR Rates Relief for COVID-19 response)	1,030,000	1,057,259	-27,259	-2.65
Bad Debt Provision - AME	453	453	-	-
Total AME	**1,030,453**	**1,057,712**	**-27,259**	**-2.65**

EDUCATION AND WELSH LANGUAGE AME BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Student Loans - AME - Revenue	-608,833	-709,882	101,049	-16.60
Student Loans - AME - Capital	1,017,402	1,100,954	-83,552	-8.21
Total AME	**408,569**	**391,072**	**17,497**	**4.28**

CLIMATE CHANGE AME BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Market Housing - AME	67,822	50,639	17,183	25.34
Roads Impairment - AME	-		-	-
Transport for Wales - AME	2,000	-4,786	6,786	339.30
NRW - Provisions for Pensions - AME	-90,000	1,534	-91,534	101.70
Total AME	**-20,178**	**47,387**	**-67,565**	**334.84**

ECONOMY AME BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Property Related Infrastructure Impairment - AME	17,525	8,961	8,564	48.87
Employability Including Young Persons Guarantee - AME	12,000	-18,796	30,796	256.63
Amgueddfa Cymru - National Museums of Wales Pension Provision - AME	15,000	4,450	10,550	70.33
National Library of Wales Pension Provision - AME	9,000	1,930	7,070	78.56
Sport Wales Pension Provision - AME	5,000	205	4,795	95.90
Total AME	**58,525**	**-3,250**	**61,775**	**105.55**

SOCIAL JUSTICE AME BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
Fire Service Pensions - AME	25,871	25,804	67	0.26
Total AME	**25,871**	**25,804**	**67**	**0.26**

CENTRAL SERVICES AND ADMINISTRATION AME BELs				
Budget Expenditure Line	Budget	Outturn	Under/ Over(-) Spend	
	£000s	£000s	£000s	%
CSA Pensions Provisions - AME	3,000	-3,400	6,400	213.33
General Provisions - AME	200	-	200	100.00
Total AME	**3,200**	**-3,400**	**6,600**	**206.25**

Y Pwyllgor Cyllid / Finance Committee
FIN(6)-01-24 P1

Office for **Budget Responsibility**

Welsh taxes outlook

December 2023

Contents

Charts and tables data are available on our website.

1 Introduction

Background

1.1 The Office for Budget Responsibility (OBR) was established in 2010 to provide independent and authoritative analysis of the UK's public finances. Alongside the UK Government's Budgets and other fiscal statements, we produce forecasts for the economy and the public finances. We publish these in our *Economic and fiscal outlook* (*EFO*).

1.2 In December 2016, the Welsh and UK Governments agreed the Welsh Government's fiscal framework. This established a mechanism for adjusting the block grant funding that the Welsh Government receives from the UK Government to reflect the devolution of tax powers.[1] The fiscal framework also established a requirement for independent forecasting. The Welsh Government chose to use the OBR's forecasts to meet this requirement.[2]

1.3 Our work with the Welsh Government is guided by a Memorandum of Understanding, Terms of Reference and a Financial Framework. In the second half of 2020, we jointly reviewed these arrangements to ensure they reflected any lessons learnt in the first year of forecasting.[3] Our first *Welsh taxes outlook (WTO)* was published alongside the Welsh Government's 2020-21 Draft Budget in December 2019.

1.4 In this *WTO*, published alongside the Welsh Government's 2024-25 Draft Budget, we describe our latest forecasts for three sources of revenue:

- the **Welsh rates of income tax**;
- **land transaction tax** (LTT); and
- **landfill disposals tax** (LDT).

We also explain how each has changed since the previous forecast.

1.5 As set out in Chapter 1 of our 2019 *WTO*, we focus exclusively on these devolved taxes given their role in the Welsh Government's fiscal framework. Some areas that are therefore beyond the scope of our role include: a full macroeconomic forecast for Wales; a forecast for Welsh Government spending; and assessing the impacts of proposed, as opposed to confirmed, policy decisions.

[1] More detailed information on the relevant legislation and governance is available on our website.
[2] Written statement by the Cabinet Secretary for Finance, *Provision of Welsh tax forecasts by the Office for Budget Responsibility*.
[3] The joint review is available on our website alongside the December 2020 *WTO*.

1.6 These forecasts are consistent with the central forecast for the UK economy and public finances presented in our November 2023 *EFO*. The key features of this forecast are:

- **The economy proved to be more resilient to the shocks of the pandemic and energy crisis than anticipated,** with revisions to past growth and unexpected recent strength meaning the level of real GDP in mid-2023 was nearly 2 per cent above its pre-pandemic level, and around 3 per cent above our previous March forecast.

- **However, we expect the economy to grow more slowly over the forecast period than we previously expected,** leaving the level of real GDP only half a percentage point higher in the medium term than in our March forecast.

- **Inflation is expected to be more persistent and domestically fuelled than we previously thought,** falling below 5 per cent by the end of this year but not returning to its 2 per cent target until the first half of 2025, with interest rates now expected to remain higher for longer as a consequence.

- **Inflation boosts nominal tax revenues with the tax burden forecast to rise to a post-war high in the medium-term.** Inflation also raised welfare spending and, through higher interest rates, the cost of servicing the Government's debts. But because the Government chose to leave departmental spending broadly unchanged, on a pre-measures basis borrowing was forecast to be significantly below our March forecast.

- **Alongside this forecast the UK government announced a package of policies, most significantly cuts to National Insurance Contributions and permanent tax relief for business investment,** that amounted to a significant fiscal loosening and so left overall borrowing broadly unchanged from our March forecast. Public sector net borrowing is forecast to fall from 4.5 per cent of GDP this year to 1.1 per cent GDP in 2028-29, while public sector net debt is forecast to rise to 98.6 per cent of GDP in 2024-25, then fall to 94.1 per cent of GDP in 2028-29.

1.7 The methodology and the forecasts in this *WTO* represent the collective view of the three independent members of the OBR's Budget Responsibility Committee (BRC). We take full responsibility for the judgements that underpin them.

1.8 We produce a central forecast around which we judge the risks are evenly balanced, and we emphasise the significant uncertainty inherent in all aspects of the forecast. In our EFO we illustrate these risks using fan charts, sensitivity analysis and alternative scenarios. In the November 2023 EFO, we present alternative scenarios for inflation and productivity growth, and illustrate the significant implications these would have for the path of public sector debt.

1.9 All the charts and tables presented in this document, plus supplementary forecast material, are available in spreadsheet format on our website.

Forecast timetable

1.10 In order to produce the forecasts presented in this document:

- Analysts from the Welsh Government and HMRC produced draft Welsh tax forecasts, using determinants published in our November 2023 *EFO*.
- These were scrutinised by the BRC in two meetings on 17 and 18 October.
- Updated LTT and LDT forecasts were then prepared by Welsh Government analysts, reflecting the latest receipts and house price data, on 27 November. These were scrutinised by the BRC on 28 November.
- On 29 November, we finalised our Welsh taxes forecast, incorporating the impacts of UK and Welsh Government policy announcements up to and including the Autumn Statement, as well as updated receipts outturn data published since then.

Structure of the document

1.11 The rest of this document is structured as follows:

- **Chapter 2:** income tax on non-savings, non-dividend income from the Welsh rates.
- **Chapter 3:** land transaction tax.
- **Chapter 4:** landfill disposals tax.
- **Annex A:** summary of the forecasts required for the block grant adjustments.

2 Welsh rates of income tax

Introduction

2.1 This chapter:

- describes the **Welsh rates of income tax** and how they are levied on non-savings, non-dividend income by tax band;
- sets out our **methodology** for forecasting UK income tax liabilities and the Welsh share of this total, before splitting this share by tax band;
- presents our **latest forecasts** for the Welsh rates and for UK income tax liabilities; and
- outlines some of the **risks and uncertainties** around our Welsh rates forecast.

What are the 'Welsh rates of income tax'?

2.2 The Welsh rates of income tax came into effect in April 2019. They are administered and collected by HMRC. There are four important aspects of the design and operation of these rates in Wales that distinguish them from our UK-wide income tax forecasts:

- First, they apply only to Welsh taxpayers, who are defined as **individuals whose main place of residence is in Wales** for the majority of the tax year. Individuals who are classified as Welsh resident are given a 'C' flag on their HMRC tax identifier.
- Second, the Welsh rates represent only the first **10p in the pound for each tax band**. Each year, the Welsh Government is required to set the tax rates for each of the basic, higher and additional tax rates, which replace a 10p reduction in the reserved UK Government element of each tax band. Since 2019-20 these rates have all been set at 10p, such that overall income tax rates paid by Welsh taxpayers remain aligned with those in England and Northern Ireland. The remaining income tax raised from Welsh taxpayers – i.e. 10p in the pound from basic rate payers, 30p from higher rate payers and 35p from additional rate payers – is reserved to the UK Government.
- Third, the Welsh rates are levied on **non-savings, non-dividend (NSND) income**. NSND income accounts for just over 90 per cent of UK-wide income tax liabilities, and around 95 per cent of liabilities in Wales.
- Finally, the Welsh rates are assessed on a **liabilities basis** rather than a National Accounts basis. This means that our forecast of self-assessment (SA) income tax used for the Welsh rates will differ from the cash basis used in the National Accounts and

our UK-wide SA income tax forecast, due to the lag between liabilities being incurred and the associated tax being paid.

2.3 Chart 2.1 illustrates how the 2024-25 income tax liability of three specimen Welsh taxpayers would be split between the UK and Welsh Governments:[1]

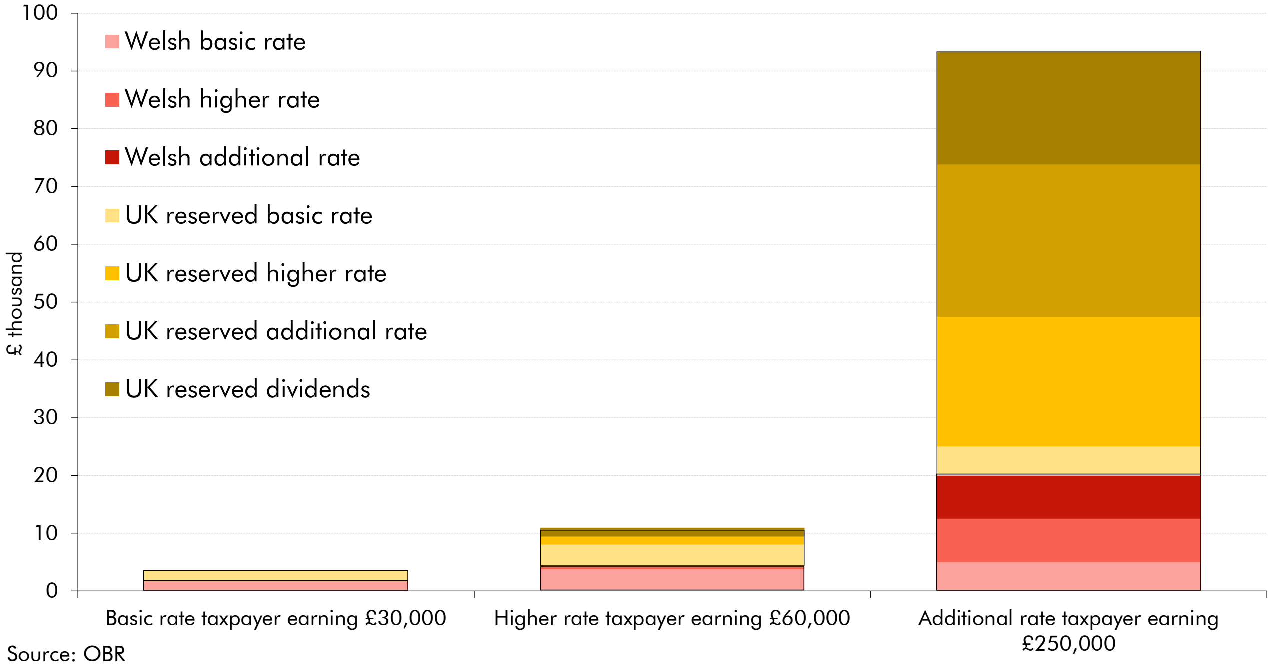
- **For a basic rate taxpayer earning £30,000** from one source of employment income, their £3,486 liability would be split equally between the two administrations. The effective income tax rate paid by this individual is 11.6 per cent (lower than the 20 per cent basic rate thanks to the £12,570 tax-free personal allowance).
- **For a higher rate taxpayer earning £60,000**, with £55,000 coming from employment and £5,000 of dividends from company shareholdings, 39 per cent of their £10,951 liability would relate to the Welsh rates and 61 per cent would be reserved to the UK Government, including all the £1,519 due on their dividend income. The effective income tax rate is 18.3 per cent.[2] But the amount of tax due to the Welsh Government is unchanged relative to last year, since there is no change to the tax rate on employment income. As the effective tax rate on dividend income has, however, increased compared to last year, it reduces the Welsh share from 39.4 to 38.7 per cent.
- **An additional rate taxpayer earning £250,000**, with £200,000 from employment income and £50,000 in dividends, would have a total tax liability of £93,235. Of this, only 21 per cent would relate to the Welsh rates, while 79 per cent would go to the UK Government. At this income level a taxpayer would not receive any personal allowance. The higher share for the UK Government reflects two factors: first, all earnings above £37,700 would be taxed at the higher or additional rates where the UK Government share is much larger; and second, the taxpayer has a liability of £19,478 from their dividend income, all of which is retained by the UK Government. The effective income tax rate is 37.3 per cent.

2.4 These examples illustrate the relative importance of higher earners for tax receipts, but that this is much less the case for the Welsh rates. The higher rate taxpayer earns twice as much as the basic rate taxpayer and has an overall tax liability that is three times greater, but their Welsh rates liability is around 2½ times as large. The additional rate taxpayer earns four times as much as the higher rate taxpayer and has a tax liability that is around 8½ times greater, but their Welsh rates liability is somewhat less than five times greater. The UK Government's tax revenues are therefore more sensitive to changes in high-earners' incomes than the Welsh Government's revenues are.

[1] In addition to the income tax parameters reported in Table 2.3, this also reflects the personal allowance taper that withdraws £1 of personal allowance for every £2 of earnings above £100,000; the dividend allowance of £500 in 2024-25; and tax rates on dividend earnings of 8.75 per cent for basic rate taxpayers, 33.75 per cent for higher rate taxpayers and 39.35 per cent for additional rate taxpayers. These specimen examples are illustrative and do not include all aspects of the income tax regime, for example any use of reliefs to lower an individual's tax liability. Similarly, these amounts do not include other aspects of the personal tax regime, primarily National Insurance Contributions (NICs, which is reserved to the UK Government), so do not represent overall tax liability.

[2] The calculations for both the higher rate and additional rate examples include the impact of the UK Government's Autumn Statement 2022 decision to reduce the dividend allowance to £500 from April 2024 (after an initial reduction to £1,000 in April 2023 from the previous allowance of £2,000). Lowering the dividend allowance increases the amount of dividend income that is taxed by the UK Government, and therefore slightly lowers the Welsh share.

Chart 2.1: Illustrative splits between Welsh and UK Government income tax liabilities



Source: OBR

Methodology

2.5 Our Welsh income tax forecasts are produced on a 'top-down' basis.[3] The main steps are:

- First, we **establish the whole of the UK NSND income tax liabilities forecast**.
- Next, we **calculate the share of NSND income tax liabilities subject to the Welsh rates**, taking into account the relevant tax base in Wales and how this maps onto the announced tax regime. Much of our analysis first looks at the total share of income tax from Wales – including amounts paid by Welsh taxpayers but reserved to the UK Government – before estimating the proportion that is subject to the Welsh rates.[4]
- We then **calibrate the outturn share for the Welsh rates in 2021-22 to outturn data** for Welsh income tax liabilities, which HMRC published in July. In Box 2.1 we evaluate our forecasts for 2021-22.
- Finally, we **add our estimates of the effect of new policies** announced since our previous forecast on Welsh rates liabilities.

2.6 The December 2016 fiscal framework agreement between the Welsh and UK Governments detailed how the Welsh rates would operate.[5] In doing so it placed a requirement on us to

[3] For more detail on our forecast methodology see Chapter 2 of our December 2019 *Welsh taxes outlook* and the 'Welsh tax forecasts' page of our website.
[4] For an in-depth analysis of the composition of these shares, and their evolution over time, see Murphy Corkhill, J., M. Hanson and S. Johal, *OBR Working Paper No.21: Developments in devolved income tax, October 2023.*
[5] HM Government and Welsh Government, *The agreement between the Welsh Government and the United Kingdom on the Welsh Government's fiscal framework*, December 2016.

forecast income tax liabilities in Wales, and in England and Northern Ireland combined, split by tax band.[6]

Pre-measures UK-wide forecast of NSND income tax

2.7 We use HMRC's latest published UK-wide NSND income tax liabilities outturn for the most recent tax year (currently 2021-22) as the starting point for our pre-measures forecast. To project liabilities between that outturn year and the year in progress, we produce an in-year estimate based on HMRC's most recent monthly tax receipts data – which covers all of 2022-23 and the first five months of 2023-24.

2.8 We forecast growth in the UK income tax base in line with our wider economy forecast. The key determinants are employment and average nominal earnings growth, which determine the amount of labour income that can be taxed. In our current forecast, strong expected nominal earnings growth, combined with personal tax thresholds that are frozen at the UK level until 2027-28, drives strong growth in income tax receipts through 'fiscal drag'.[7]

2.9 We forecast income tax at the UK level according to the different methods by which HMRC collects the tax. PAYE income tax accounts for over 80 per cent of revenue, with nearly all the remainder collected via the SA system. PAYE income mainly represents the earnings of employees plus some pensions income, while SA income includes profits from self-employment and income from dividends, land and property, and savings.

The share of UK-wide income tax liabilities subject to the Welsh rates

2.10 In this sub-section we explain how we calculate the share of NSND liabilities that are subject to the Welsh rates. It is split into six steps:

- we begin by using HMRC's survey of personal incomes (SPI) to **establish the overall Welsh share of UK-wide income tax liabilities**;
- we then **explain the differences in income tax per person in Wales compared to the UK,** looking across income streams, the number of taxpayers and the effective tax rate;
- the next step is to **assess the proportion of the population that pays income tax** by looking at employment rates in Wales and the UK; and
- the three final steps are to **determine the average income per taxpayer,** calculate the **average amounts of tax paid on that income** before finally **estimating the share of UK liabilities that will be subject to the Welsh rates.**

[6] For more on our approach, see Mathews, P. *Working paper No.14: Devolved income tax: forecasting by tax bands*, September 2018.
[7] Fiscal drag is where tax receipts increase as rising earnings push more workers into the tax system or into higher rate tax bands. As we show in our November 2023 *EFO*, the current threshold freezes mean that around 4 million individuals (at the UK level) will be brought into income tax, with over 3 million new higher-rate and additional-rate taxpayers.

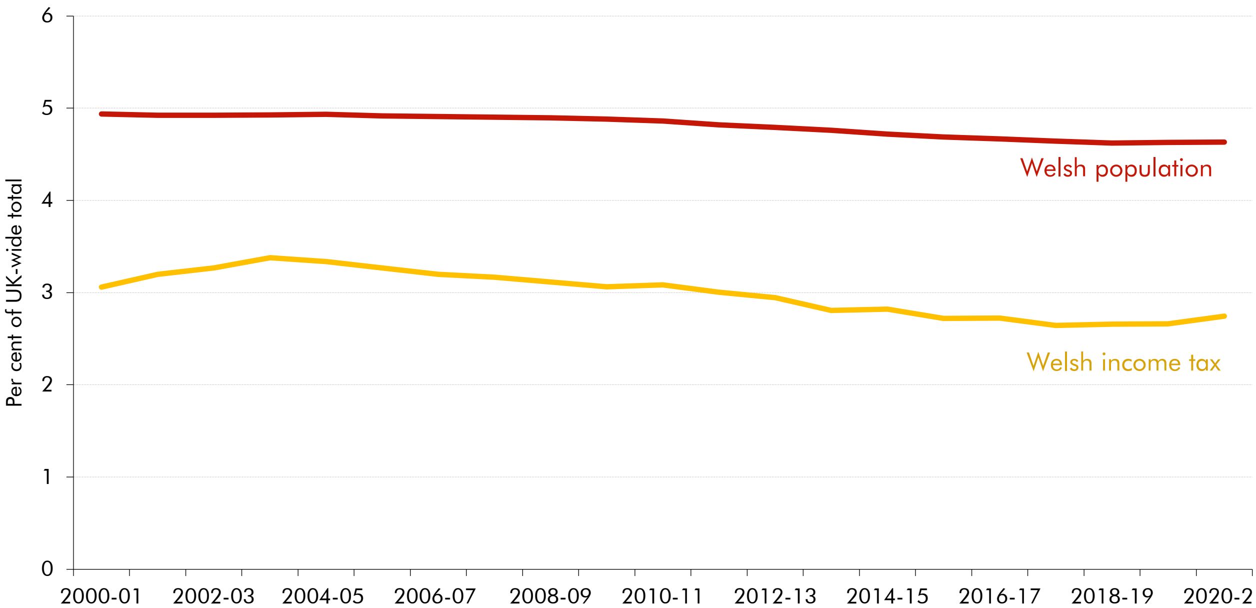
The overall Welsh share of UK-wide income tax liabilities

2.11 To calculate the share of our forecast for UK NSND income tax liabilities that will be subject to the Welsh rates, we start with the overall Welsh share of income tax as captured by the SPI. The SPI is an annual survey based on a sample of around 850,000 individuals in contact with HMRC. It is published with a long lag – with the 2020-21 SPI being the latest year currently available.

2.12 However, our modelling continues to use 2019-20 SPI data as the base year (the point from which we project future years) due to the difficulty in unpicking the impacts that Covid had on the 2020-21 data. These include the significant changes to employment and self-employment in this period, as well as the challenges associated with separating 'regular' income and income derived from the Government's Covid support measures, such as the furlough scheme. Our income tax forecasts are calibrated to our economy forecast and any structural changes within the labour market that this implies, meaning that any recent changes are already implicitly captured within our forecast. This effectively means that using 2019-20 rather than 2020-21 as the base year does not materially affect the forecast, since the underlying changes between the two years are being captured through the economic determinants of the income tax forecast.

2.13 Chart 2.2 compares the Welsh share of UK income tax liabilities with the Welsh share of the UK population. Both have been declining but the Welsh share of income tax is declining more rapidly. The Welsh share of income tax is low when compared to the Welsh population share (2.7 versus 4.6 per cent in 2020-21), and there has been a more rapid decline in the Welsh share of income tax (10.3 per cent) relative to the Welsh population share (6.1 per cent) since 2000-01.

Chart 2.2: Welsh share of UK income tax liabilities and population



Note: Tax data unavailable for 2008-09 so the proportional shares are based on interpolation from the adjacent years.
Source: HMRC, ONS

The differences in income tax per person in Wales compared to the UK

2.14 We can readily incorporate differences in expected population growth in our forecasts using published ONS projections, but understanding why tax per person in Wales is lower than in the UK, and has been declining in relative terms, is more complex.

2.15 Chart 2.3 presents two different ways of looking at the difference in income tax liabilities per person in Wales relative to the UK as a whole, based on analysis of the SPI data. Both panels show that per-person liabilities in Wales in 2020-21 were £1,221 (42 per cent) lower than in the UK as a whole (£1,693 versus £2,915). Both presentations are methodological constructs that are useful in aiding our understanding of the differences in per-person liabilities and help to facilitate any forecast judgements we may wish to make about how the Welsh share of income tax will evolve. Specifically:

- The left panel disaggregates the difference into three underlying factors: the proportion of the population that are taxpayers; the average incomes of those taxpayers (split into three different sources); and the amount of tax paid per pound of income i.e. the effective tax rate or ETR. It shows that the main factors are lower average incomes (accounting for 53 per cent of the overall £1,221 difference, though average pension incomes were slightly higher) and a lower ETR (40 per cent), with only a marginal impact from fewer taxpayers.

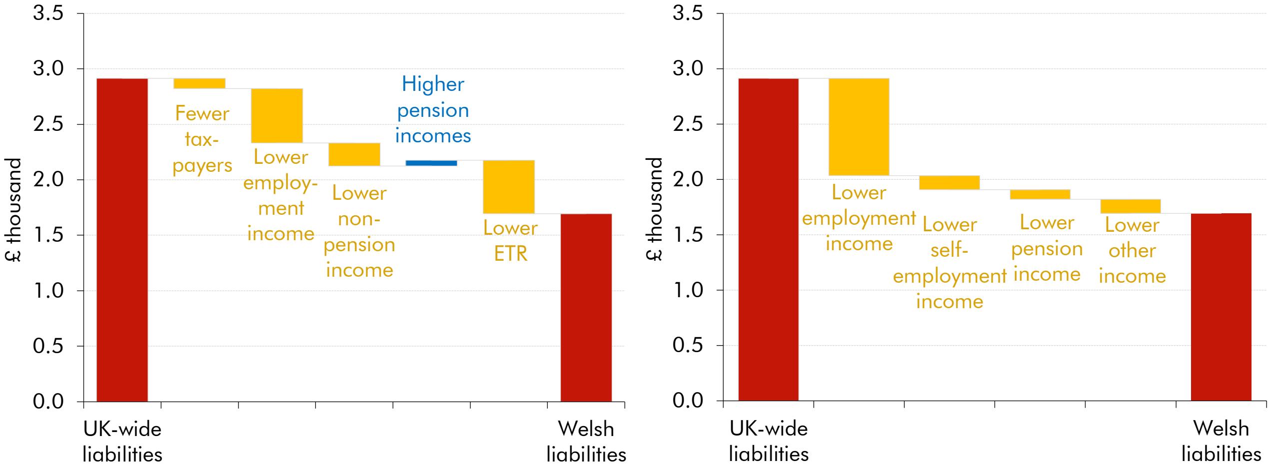
- The right panel instead decomposes into the four income streams in the SPI data: employment income, self-employment income, pension income and 'other' income (mainly property and dividends).[8] This approach implicitly subsumes the number of taxpayers and the ETR into the different income streams. It shows that lower tax from employment income accounts for 72 per cent of the overall difference, with lower contributions from each of the other three income streams (the effect of pension income is reversed).

2.16 The left panel is the way we have presented the differences in previous *WTOs*, while the right panel is consistent with our recent working paper that explored the factors behind the decline in the Welsh share since 2007-08 and its implications for our forecast.[9] The paper, which is broadly supportive of our methodology, showed that the widening gap is largely explained by the divergence in employment income, which is both the largest source of income tax, the most significant factor in both methodologies, and also the one with the richest source of available data, which we can utilise to refine our forecasting methodology. For example, we use in-year real time PAYE information (RTI) on employee earnings to bridge the gap from the initial SPI-based shares from the most recent year of outturn to the beginning of the forecast period. This enables us to partially capture some of the observed recent dynamics in earnings.

[8] We were unable to remove the savings and dividends elements of 'other income' but this does not materially affect our analysis.

[9] Murphy Corkhill, J., M. Hanson and S. Johal, *OBR Working Paper No.21: Developments in devolved income tax, October 2023*. We will use the findings from the paper to further refine our forecast and investigate some areas, such as employment income, more fully, given the disproportionate role it plays in generating and sustaining gaps in income tax per person.

Chart 2.3: Welsh and UK income tax liabilities per person in 2020-21



Source: HMRC, OBR calculations

The proportion of the population that pays income tax

2.17 The likelihood of an individual paying income tax is lower in Wales than it is in the UK as a whole. According to the 2020-21 SPI, 45 per cent of the Welsh population paid income tax, compared to 47 per cent of the UK's population, accounting for around 8 per cent of the gap between Welsh and UK income tax liabilities per person.

2.18 One of the main contributory factors is that the employment rate in Wales is lower than it is in the UK as a whole. Chart 2.4 uses two different data sources to show that the employment rate in Wales has been consistently below that in the UK in recent years. According to the Labour Force Survey (LFS), the average employment rate in Wales since 1992 has been 4.2 percentage points lower than that in the UK as a whole, and was 3.6 percentage points lower in 2020-21. The LFS also shows that the employment rate in Wales has been around twice as volatile as in the UK as a whole, likely due to the smaller sample size in the LFS for Wales than the UK as a whole.

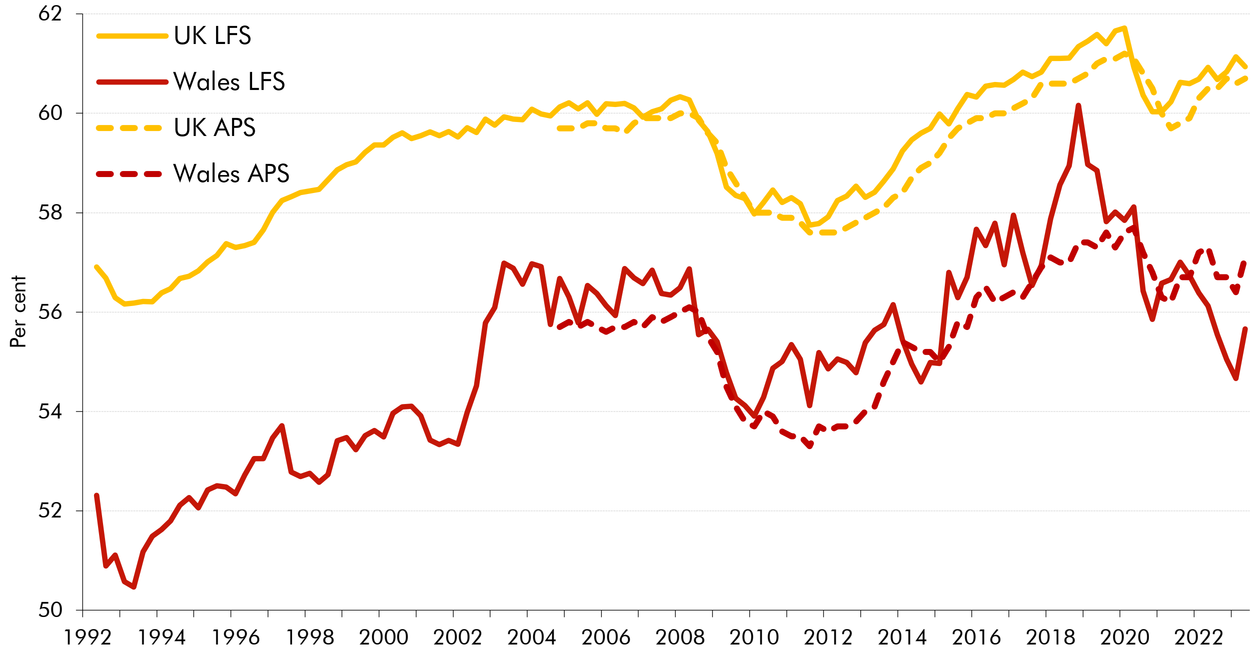
2.19 LFS response rates have been falling recently, an issue which became more pronounced over the summer, and updates have been paused while the ONS addresses the fall in sample sizes.[10] Updates at the sub-national level have also been paused, making it more challenging to assess recent Welsh labour market developments. Using the more aggregated Annual Population Survey (APS) measure, the overall pattern is similar (though less volatile), with Welsh employment rates an average 3.8 percentage points lower than the UK since 2004 and 3.6 percentage points lower in 2020-21.

2.20 In 2020, the LFS measure shows that the pandemic contributed to a 2.2 percentage point fall in the employment rate in Wales, greater than the 1.6 percentage point drop in the UK as a whole. Using the APS measure, the respective declines in the Welsh and UK rates were broadly similar, as were the declines in the HMRC RTI data. Both measures show a rebound

[10] ONS, Labour Force Survey *Planned improvements and its reintroduction and Labour Force Survey performance and quality monitoring report: July to September 2023*, 2023.

in 2021 but also that employment rates remain below pre-pandemic levels and, indeed, rates in Wales subsequently dropped again. This pattern is partly explained by the post-pandemic rise in inactivity (and sickness), with Wales being disproportionately impacted. The inactivity rate in Wales rose by 1.2 percentage points between 2020 and 2022, compared to 0.7 percentage points in the UK as a whole, though the most recent year of data shows the gap narrowing. For now, we note the divergence in inactivity rates as a downside risk to our estimate of the Welsh share. If it persists in future then we will consider incorporating its effect by making a downward adjustment to the forecast.

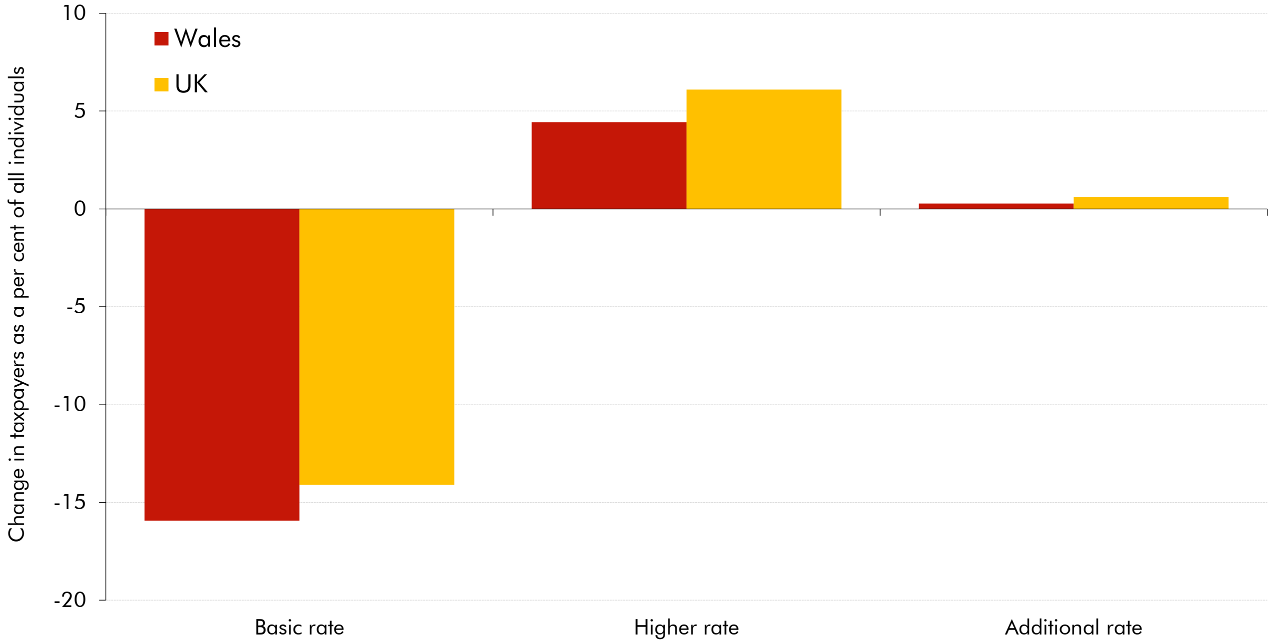
Chart 2.4: Employment rate for the UK and Wales



Source: ONS

2.21 Successive rises in the tax-free personal allowance (PA), from £6,475 in 2010-11 to £12,570 in 2021-22, may have taken disproportionately more Welsh residents out of paying income tax, due to differences in the earnings distribution between Wales and the UK as a whole. Chart 2.5 presents the relative change in the number of taxpayers in each tax band between 2010-11 and 2020-21. It shows that, relative to the UK, there has been a larger decline in the number of basic rate taxpayers in Wales and fewer new higher-rate and additional-rate taxpayers. We shall provide more analysis on the impact of these PA rises in our February *WTO* update.

Chart 2.5: Change in taxpayers by tax band between 2010-11 and 2020-21



Source: HMRC, OBR

Average income per taxpayer

2.22 The most important reason for the gap between UK and Welsh tax per person (as recorded in the SPI) is that Welsh taxpayers had lower average incomes. This explains around 40 per cent of the shortfall in tax per person in 2020-21.

2.23 Table 2.1 displays different sources of income averaged across all income taxpayers. It shows that:

- **The SPI implied average income in Wales is lower than in the UK as a whole,** by 19 per cent in 2020-21, with lower average employee incomes accounting for around three-quarters of the overall £6,912 shortfall. The Wales-UK difference is particularly marked in 'self-employment and other non-pension income' (which includes income from savings and dividends), though this accounts for a smaller proportion of the overall difference in absolute terms.

- **The vast majority of taxpayer income comes from employee jobs.** This is true in both Wales and the UK as a whole, so it is not surprising that this represents the largest source of difference in tax liabilities per taxpayer (as shown in both panels of Chart 2.3 above).

- **The average income from pensions is higher in Wales than in the UK as a whole** – by 10 per cent in 2020-21. This is largely due to a higher proportion of the Welsh population being of pension age (21 per cent in 2021 versus 19 per cent in the UK as a whole) and Wales having a relatively higher proportion of public sector workers, who tend to have higher average pension incomes, than the UK overall (22.1 per cent in 2020-21 compared to 17.6).

Table 2.1: Average incomes in 2020-21 by type

	UK	Wales	Difference	
	£ per taxpayer		£	Per cent
Employee income	26,134	20,919	-5,215	-20
Self-employment and other non-pension income	5,967	3,770	-2,197	-37
Pension income	5,154	5,692	537	10
Total income	**37,265**	**30,352**	**-6,912**	**-19**

2.24 Table 2.2, which focuses just on employee income, shows that this large gap in average earnings is also reflected in other sources of labour income data. The coverage of each differs so they are not fully comparable, which explains why the level of average earnings reported by each is different. But even so, they tell a consistent story of average employee incomes in Wales being considerably lower than those for the UK as a whole.[11]

Table 2.2: Different measures of average employee earnings in 2020-21

	UK	Wales	Difference	
	£ per employee		£	Per cent
HMRC Survey of personal incomes	34,640	28,535	-6,105	-18
HMRC Real-time information	30,947	25,948	-4,999	-16
ONS Annual survey of hours and earnings	30,209	26,182	-4,027	-13
ONS Labour force survey	34,533	30,181	-4,352	-13

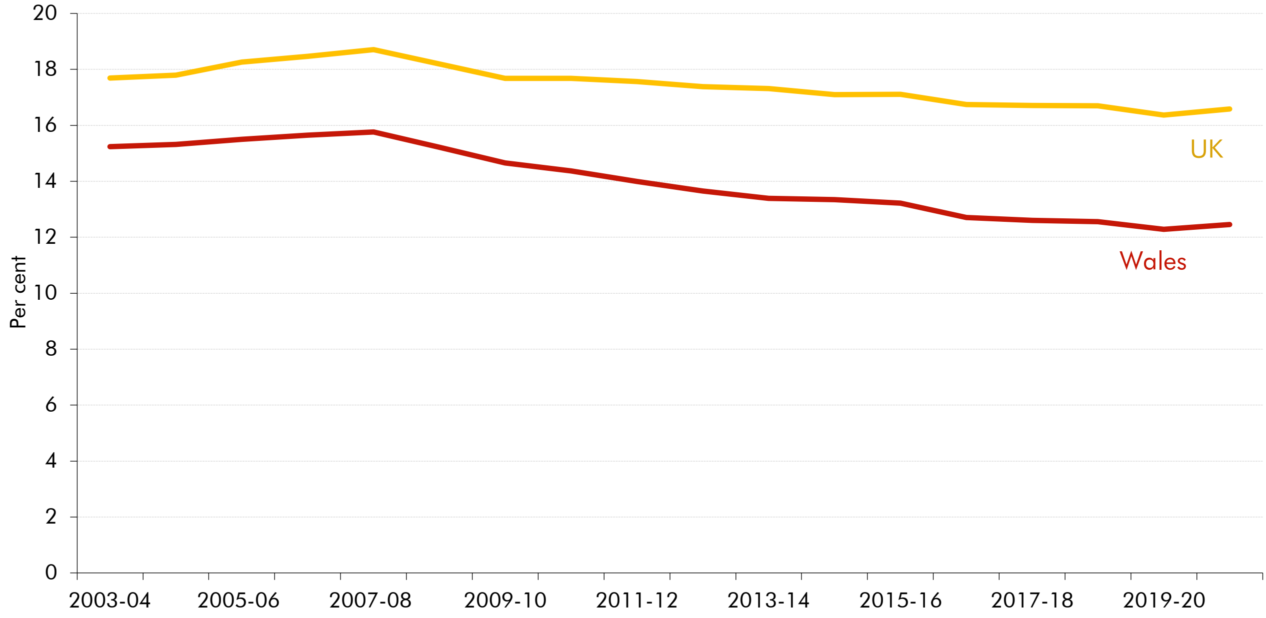
Average amounts of tax paid per pound of income

2.25 Even once we have accounted for differences in the number of taxpayers per person and the average income per taxpayer, income tax per person in Wales falls short of that in the UK because less tax is paid per pound of income. This lower effective tax rate explains over a third of the £6,912 difference in 2020-21.

2.26 Chart 2.6 shows that the effective income tax rate in Wales has been considerably lower than that in the UK across the past decade and that the gap has been widening. Since 2007-08 the ETR has fallen by 3.3 percentage points in Wales, compared to 2.1 percentage points in the UK as a whole, though it is stable in the most recent year.

[11] The difference in the SPI average between Tables 2.1 and 2.2 is because the latter is only averaging across those individuals with employment income, while the former is doing so across all individuals. This explains why the average is lower in Table 2.1, since it includes some individuals, for example pensioners, with no employment income.

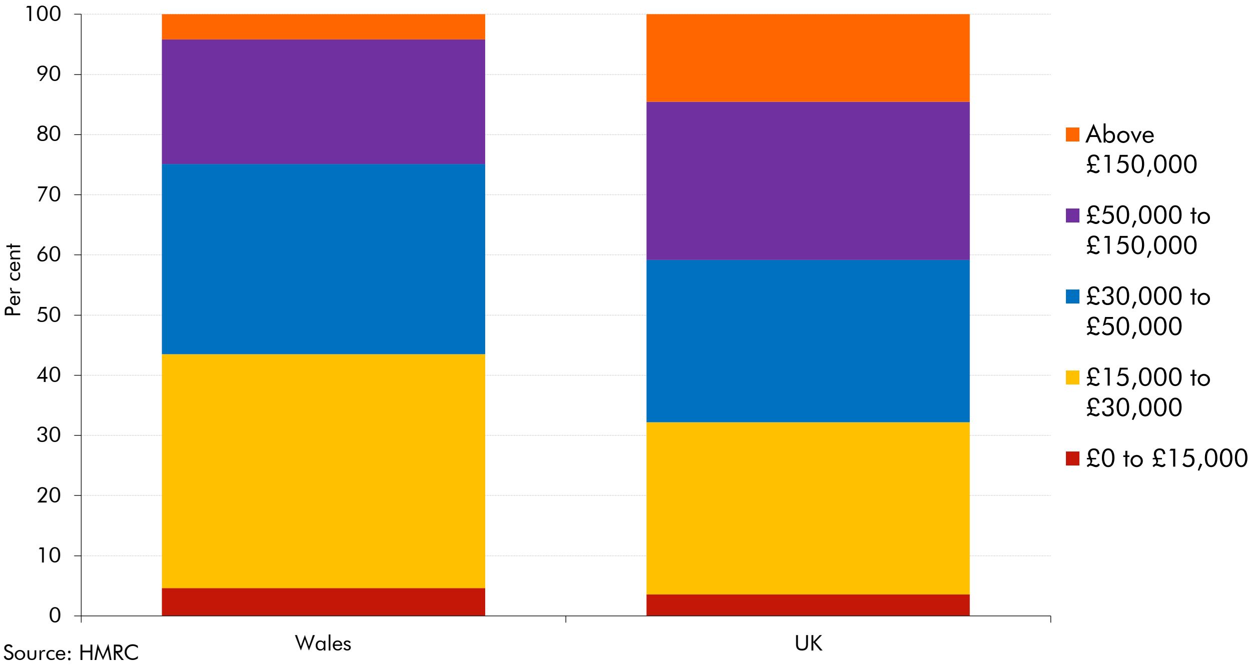
Chart 2.6: Effective income tax rates in Wales and the UK



Note: Data unavailable for 2008-09 so the proportional shares are based on interpolation from the adjacent years.
Source: HMRC

2.27 In part this reflects the progressive income tax structure interacting with lower average incomes – for example, all else equal there will be a higher share of tax paid at the basic rate in Wales than there is in the UK as a whole. But it also reflects the shape of the income distribution. Chart 2.7 compares total taxpayer income grouped by income bands between Wales and the UK, as recorded in the 2020-21 SPI. It shows that taxpayers earning over £50,000 account for around 40 per cent of total taxpayer income in the UK, around two-thirds higher than the equivalent share for Wales. This is reflected in the share of total tax paid at each income band, with 67 per cent of total tax paid in the UK coming from those earning over £50,000, compared with 45 per cent in Wales. Fiscal drag has also increased the proportion of taxpayer income from earnings above £50,000, with the share increasing by over 2 percentage points from 2018-19 to 2020-21 in both Wales and the UK as a whole, with a corresponding fall in the share attributed to lower earnings.

Chart 2.7: Proportion of total taxpayer income in the UK and Wales by income band



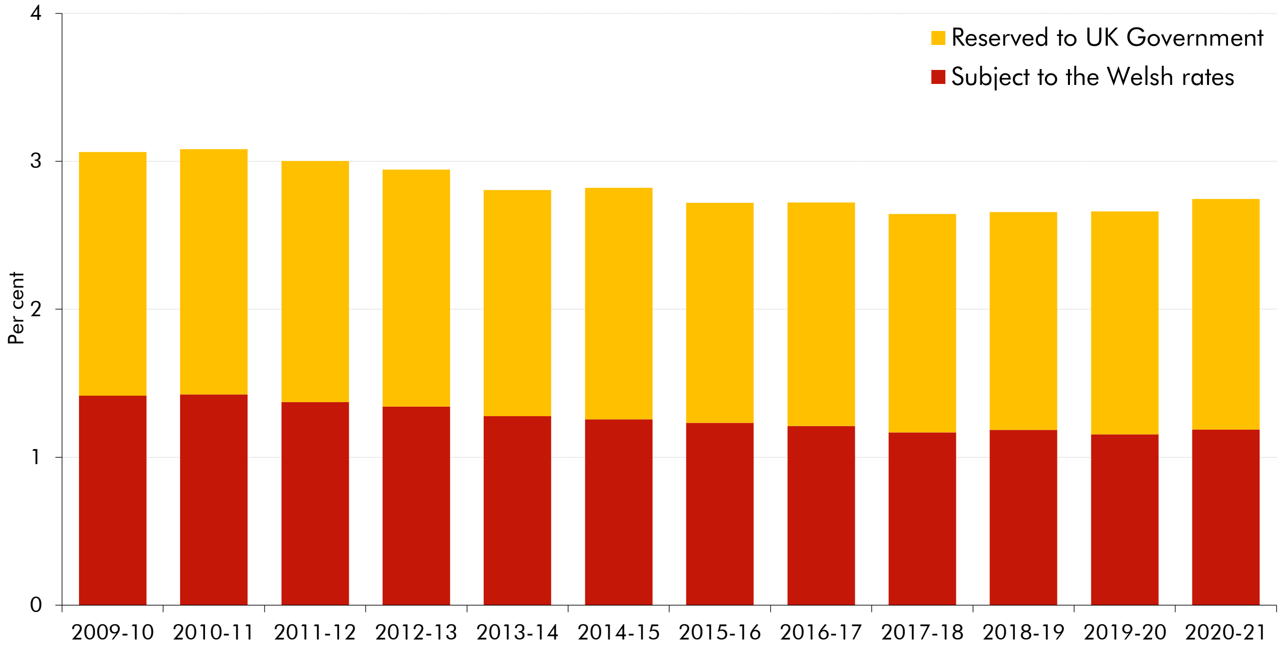
Source: HMRC

The share of Welsh income tax liabilities subject to the Welsh rates

2.28 The final step in estimating the share of UK income tax liabilities that will be subject to the Welsh rates is a mechanical one. We estimate the share of Welsh NSND income that will be taxed in each tax band and then calculate the relevant fraction of it that would be covered by the first 10p – i.e. 50 per cent for income taxed at the basic rate, and so on. Chart 2.8 shows all the income tax collected from Welsh taxpayers as a proportion of total UK income tax (2.7 per cent in 2020-21) and compares it to the amount actually devolved – i.e. the share that would be subject to the Welsh rates (1.2 per cent in 2020-21). [12]

[12] Rates were not devolved until 2019-20, so years prior to this are presented for illustrative purposes only.

Chart 2.8: Welsh shares of total UK income tax liabilities: all tax from Welsh taxpayers versus the Welsh rates of income tax



Source: HMRC

Forecasting the share of income tax liabilities subject to the Welsh rates

2.29 From these starting points, we adjust our forecast for the overall Welsh share in three ways:

- **RTI earnings**: we fill in the period between 2019-20 and 2023-24 using HMRC's estimate of outturn Welsh income tax liabilities in 2021-22, and RTI data thereafter. The latter source provides the Welsh share of total pre-tax employee earnings (i.e. the product of employee numbers and average earnings). In the absence of timely information on other forms of NSND income, we assume that the RTI earnings data are representative of the total. Applying this approach in our Scottish income tax forecasts has suggested that it provides a reasonable guide to movements in NSND income shares.

- **Population**: beyond 2023-24, we factor in relative population growth rates to reflect the different projected growth rates based on the most recent ONS population projections, which were released in January 2022. These show the Welsh share of the UK population continuing to decline, and we would expect this to reduce the Welsh share of income taxpayers.[13] We adjust for this using an index of the Welsh share of the UK's adult population, with separate indices for the working-age population (those aged 16 to 65) and the pension-age population (those aged 65 and over), weighting both by the proportion of NSND income tax paid by each group. This approach captures trends in both the ageing as well as the size of the population.

[13] See Box A.2 in Annex A of our 2018 *Fiscal sustainability report* for a discussion of the fiscal risks that might be associated with demographic trends in the constituent nations of the UK.

- We include adjustments for **gift aid and previously announced policies** that have been or will be implemented between the SPI base year (2019-20) and the end of our forecasts, and that are expected to affect the Welsh share.

2.30 Finally, we calculate the share of all Welsh income tax subject to the Welsh rates. For the forecast years this is done via HMRC's 'personal tax model', which is based on outturn SPI data, and follows the same methodology that is used to estimate the share subject to the Welsh rates in outturn.

New policy costings

2.31 Our post-measures forecast is produced by adding the effects of new policies announced since our previous forecast. The introduction of the Welsh rates and the associated terms of the fiscal framework mean that we now need to assess the effect of new policies on each individual band of income tax, rather than simply their overall cost or yield.

2.32 Many of the general sources of uncertainty around policy costings that we routinely highlight are likely to be amplified as we disaggregate costings by geography and tax band. For that reason, we believe a relatively simple approach is appropriate, making sufficient allowance for asymmetric effects across countries and bands, while not seeking spurious precision.

Latest forecast

UK income tax forecast

2.33 As set out in Chapter 1, our latest forecast for UK NSND income tax is based on the economy forecast published in our November 2023 *EFO,* while Table 2.3 reports the rates and thresholds that we use. The UK Government has a pre-existing policy of freezing the personal allowance (PA) and higher rate threshold (HRT) to 2027-28, meaning that all of the parameters in Table 2.3 are fixed until then. But last month's Autumn Statement did not extend the freezes to 2028-29, meaning that the PA and HRT rise by CPI inflation in the final year of the forecast.

Table 2.3: UK Government and Welsh Government income tax parameters

	Per cent					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
UK Government tax rates for Welsh taxpayers						
Basic rate	10	10	10	10	10	10
Higher rate	30	30	30	30	30	30
Additional rate	35	35	35	35	35	35
Welsh rates of income tax						
Basic rate	10	10	10	10	10	10
Higher rate	10	10	10	10	10	10
Additional rate	10	10	10	10	10	10
Total income tax rates						
Basic rate	20	20	20	20	20	20
Higher rate	40	40	40	40	40	40
Additional rate	45	45	45	45	45	45
	£					
Tax thresholds (reserved to the UK Government)						
Personal allowance	12,570	12,570	12,570	12,570	12,570	12,790
Higher rate	50,270	50,270	50,270	50,270	50,270	51,190
Additional rate	125,140	125,140	125,140	125,140	125,140	125,140

Note: Shaded cells represent policy baselines assumed for forecasting purposes. We assume that Welsh rates will remain unchanged until the Welsh Government states otherwise.

2.34 Table 2.4 sets out the forecast for UK NSND income tax liabilities that underpins our Welsh rates forecast. UK wide NSND income tax liabilities rose from £208.1 billion in 2021-22 to £226.4 billion in 2022-23 (8.8 per cent higher), largely due to the upwards revision in the pre-measures forecast. This is £1.7 billion higher than our December 2022 *WTO* forecast though £1.3 billion lower than we forecast in our March 2023 *EFO*.

2.35 There is strong year-on-year growth in the forecast from 2023-24 onwards, an average annual growth rate of 6.3 per cent, which is significantly higher than the assumed growth rates in either our December *WTO* 2022 and March 2023 *EFO* forecasts. This is driven by strong near-term growth in PAYE outturn receipts, largely due to recent high inflation and nominal earnings growth, and our forecast of continued stronger nominal earnings growth over the forecast period combining with frozen personal tax thresholds.

2.36 The forecast includes several UK Government policies announced in the Autumn Statement, which raises amounts rising to £3.7 billion by 2028-29:

- A 2 **percentage point cut in the** main **rate of Class 1 NICs**, from 12 per cent to 10 percent, effective from 6 January 2024.
- A **1 percentage point cut in the main rate of Class 4 NICs**, from 9 per cent to 8 per cent, effective from 6 April 2024.
- **Removing the requirement to pay Class 2 NICs**, for self-employed individuals with profits of at least £12,750.

- Providing HMRC with the funds to hire an **additional 700 full-time equivalent staff, to boost the collection of tax debts**.

- **A package of measures, described in the *EFO* and including the NICs cut, boosts labour supply** through reducing inactivity and incentivising those already in employment to increase their hours of work. We capture the knock-on impacts of these measures to income tax as an indirect effect of UK Government policy decisions.

- Changes since our December 2022 forecast also includes **the effects of the policies announced in the March 2023 Budget, including a package of measures designed to increase labour supply and changes to pensions tax allowances.** The indirect effects of labour supply measures raise income tax receipts by increasing the level of wages and salaries, marginally outweighing the costs from the direct effects of the package, most prominently the abolition of the pensions' lifetime allowance.

2.37 One of the ways the NICs cuts generate extra income tax revenue is through the behavioural responses. Some individuals will now be incentivised to move into work; some of those already in work will respond by working more hours; and by reducing the tax motivation, some will now choose not to incorporate. Each of these will result in higher revenue from income tax. The debt collection measure is not limited to income tax, but the income tax component generates just under half of the overall annual yield by 2028-29.

Table 2.4: Whole UK forecast of tax liabilities on non-savings, non-dividend income

	£ billion							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
December 2022 forecast	207.3	224.7	237.9	245.8	254.8	267.0	282.5	
March 2023 forecast	207.7	227.7	243.4	251.3	259.7	270.6	283.2	
December 2023 forecast	208.1	226.4	254.8	270.0	281.9	296.0	311.6	325.7
Difference from December to December	**0.8**	**1.7**	**16.9**	**24.2**	**27.1**	**29.0**	**29.1**	
Difference from March to December	**0.4**	**-1.3**	**11.4**	**18.6**	**22.2**	**25.4**	**28.4**	
of which:								
UK NSND outturn alignment		-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	
Pre-measures forecast		-1.0	11.6	17.1	19.8	22.6	25.4	
Effects of UK policies		0.0	0.1	1.9	2.7	3.2	3.5	3.7

Share subject to the Welsh rates

2.38 Table 2.5 shows our latest forecast for the Welsh share and the change since December and March. It is presented on a pre-measures basis because the impact of new policy measures is captured in cash terms rather than via the share. On this basis, the Welsh share is little changed from our December and March forecasts, down by 0.01 percentage points on average. This largely reflects weaker-than-expected 2021-22 Welsh rates outturn data, which serves to lower the 2022-23 share. This is then compounded by lower in-year RTI outturn in later years, though this is partly offset by revisions to the ONS-derived population shares.

Table 2.5: Share of pre-measures liabilities subject to the Welsh rates

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
December 2022 forecast	1.16	1.16	1.17	1.19	1.19	1.18	1.18	
March 2023 forecast	1.16	1.16	1.17	1.19	1.19	1.18	1.18	
December 2023 forecast (pre-measures)	1.15	1.16	1.17	1.18	1.18	1.18	1.18	1.18
Difference from December to December	**-0.01**	**0.00**	**-0.01**	**-0.02**	**-0.01**	**-0.01**	**-0.01**	
Difference from March to December	**-0.01**	**0.00**	**-0.01**	**-0.01**	**-0.01**	**0.00**	**0.00**	
Memo: population index		*100.0*	*99.9*	*99.9*	*99.8*	*99.7*	*99.7*	*99.6*
Change in index of relative population since March		*0.00*	*0.01*	*0.01*	*0.01*	*0.01*	*0.02*	*0.00*
Change in RTI index since March		*-0.44*	*-0.44*	*-0.44*	*-0.44*	*-0.44*	*-0.44*	*-0.44*
Memo: RTI index (2020-21 = 100)		*99.4*	*99.9*	*99.9*	*99.9*	*99.9*	*99.9*	*99.9*
Memo: combined index		*99.4*	*99.8*	*99.7*	*99.6*	*99.6*	*99.5*	*99.4*

Latest forecast for the Welsh rates of income tax

2.39 Table 2.6 sets out our latest forecast for the Welsh rates of income tax and a breakdown of the changes since December and March, while Table 2.7 shows the forecast by tax band. We have revised up the forecast in all years, by an average of £272 million (7.7 per cent) relative to last December, with the difference peaking at £325 million in 2026-27 and reaching £320 million in 2027-28.

2.40 Relative to March, the forecast is up by an average of £231 million (7.5 per cent). These changes largely reflect upward revisions to our UK-wide forecast, though the UK Government's Autumn Statement 2023 policies (described above) are also a contributory factor. These effects are very slightly offset by changes in the Welsh share and aligning to the latest year of outturn data. Differences between our December 2022 and March 2023 forecasts explain the remainder of the difference between our current and December 2022 *WTO* forecasts. As we explained in our March 2023 *EFO*, we revised receipts up at the time on the back of strong growth in nominal earnings, the improved economic outlook and the effect of measures (described above).

Table 2.6: Welsh rates of income tax forecast

	£ million							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
December 2022 forecast	2,401	2,604	2,795	2,927	3,027	3,162	3,348	
March 2023 forecast	2,403	2,642	2,857	2,982	3,081	3,202	3,344	
December 2023 forecast	2,384	2,616	2,972	3,171	3,322	3,487	3,668	3,827
Difference from December to December	**-16**	**12**	**177**	**244**	**295**	**325**	**320**	
Difference from March to December	**-18**	**-26**	**115**	**189**	**241**	**285**	**324**	
of which:								
Welsh share modelling		-11	-18	-30	-20	-13	-9	
UK NSND outturn alignment		-3	-4	-4	-4	-4	-4	
UK NSND forecast changes		-11	137	216	250	285	316	
UK Government policies		0	0	7	15	18	21	44
of which:								
NICs rate cut		0	1	3	8	11	15	17
HMRC: debt management		0	0	3	6	6	6	7
Other		0	0	1	1	0	0	0

Table 2.7: Welsh rates forecast of tax liabilities on NSND income by tax band

	£ million							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
December forecast	**2,384**	**2,616**	**2,972**	**3,171**	**3,322**	**3,487**	**3,668**	**3,827**
of which:								
Basic rate	2,030	2,214	2,493	2,645	2,757	2,877	3,005	3,126
Higher rate	293	339	386	425	456	492	535	561
Additional rate	62	63	93	101	109	118	129	141
	Per cent							
Basic rate	85.1	84.7	83.9	83.4	83.0	82.5	81.9	81.7
Higher rate	12.3	12.9	13.0	13.4	13.7	14.1	14.6	14.7
Additional rate	2.6	2.4	3.1	3.2	3.3	3.4	3.5	3.7

Key uncertainties

2.41 There are several sources of uncertainty around our forecast for income tax liabilities subject to the Welsh rates. We summarise some of the most important ones here.

Employment and inactivity

2.42 Following the pandemic, the number of working-age people classed as inactive in the UK jumped by almost 650,000 at its peak, and it remains 400,000 above pre-pandemic levels.[14] This was primarily driven by individuals citing long-term sickness as their principal reason for remaining out of the labour market. Other contributing factors include the effects of an ageing population and a temporary rise in student inactivity during the pandemic,

[14] See Chapter 2 of our 2023 *Fiscal risks and sustainability report*.

though that has now largely unwound. Inactivity in Wales has historically been relatively high and, as with the UK as a whole, rose sharply in the post-pandemic period. Our UK forecast assumes overall participation rises marginally in the medium-term. If this does not take place, or is not mirrored in Wales, then it poses a downside risk to our forecast.

Growth of productivity and average earnings

2.43 Our UK-wide and Welsh income tax forecasts are sensitive to the assumptions we make about growth in labour productivity, which is the key determinant of real earnings growth. In our November 2023 *EFO* we forecast an annual average productivity growth rate of around 1 per cent over the next five years. While this is higher than the ½ a per cent growth rate in the decade following the financial crisis, it is well below the 2 per cent rate seen before the crisis. It remains highly uncertain, though we believe our forecast is central, with risks to both sides. Factors that will affect productivity growth include developments in international trade, domestic supply-side reform, and global technological progress.

The Survey of personal incomes base data

2.44 The representativeness of the geographical and income distributions reported in the SPI base data is important for our forecasts. The SPI is designed to be representative at the UK level, but the sample is not stratified by geography (i.e. smaller sample sizes in each geographical area mean it is likely to be less representative at those levels than it is at the UK level). In the latest version, the confidence interval around the SPI estimate of tax liabilities at the UK level was just 1.0 per cent, but for Wales it was a more material 3.5 per cent. Sampling variation – in particular due to the small number of observations of high-income taxpayers in Wales – is therefore a source of risk to the forecast. We have the outturn data for Welsh income tax liabilities and so can calibrate forecasts to the outturn share. However, uncertainties around the input data for our Welsh rates forecast remain a risk.

Relative performance of the Welsh and UK income tax bases

2.45 As described in this chapter we use our UK-level macroeconomic forecasts with only a few adjustments to forecast Welsh income tax liabilities. This reflects our central assumption that the variables that determine tax bases in Wales and the UK move broadly in parallel, with the downside and upside risks around this assumption evenly balanced. Our recent working paper showed that the factors that lead to differences in tax liabilities in the UK and Wales have been getting steadily, if only modestly, larger over time. Further divergence, or a period of convergence, therefore represent downside and upside risks to our forecast, respectively. The working paper suggests that our current approach, which focuses on employment income, helps to mitigate much of this risk, since it allows us to calibrate (using timely RTI data) the most significant factor driving both receipts from the Welsh rates and the Wales-UK divergence.[15]

[15] The paper does, however, set out several areas for future forecast development work. See Murphy Corkhill, J., M. Hanson and S. Johal, *OBR Working Paper No.21: Developments in devolved income tax, October 2023*.

2.46 The other key adjustment we make at present relates to different rates of population growth, with a simple split between working-age and pension-age adults that allows us to make further allowance for differences in the rate at which the population is ageing in Wales and the UK as a whole. We therefore capture the effect of changing numbers of taxpayers, and, at a high level, age-related changes in the distribution of taxpayers and average incomes across the different age groups. We will consider the case for further refining in the future.

Box 2.1: Evaluating our forecasts for the Welsh rates of income tax for 2021-22

HMRC published 2021-22 outturn data for the Welsh rates in July 2023. Assessing the performance of our forecasts after the event is important for transparency and accountability, while also helping us to understand and identify ways to improve them. We will publish a detailed assessment in our 2024 *WTO* update, accompanying the final Budget next year. Ahead of this we present a preliminary discussion in this Box. Table A presents the outturn data alongside our six forecasts of 2021-22, for both the Welsh rates and the pre-measures Welsh share of UK NSND income tax.

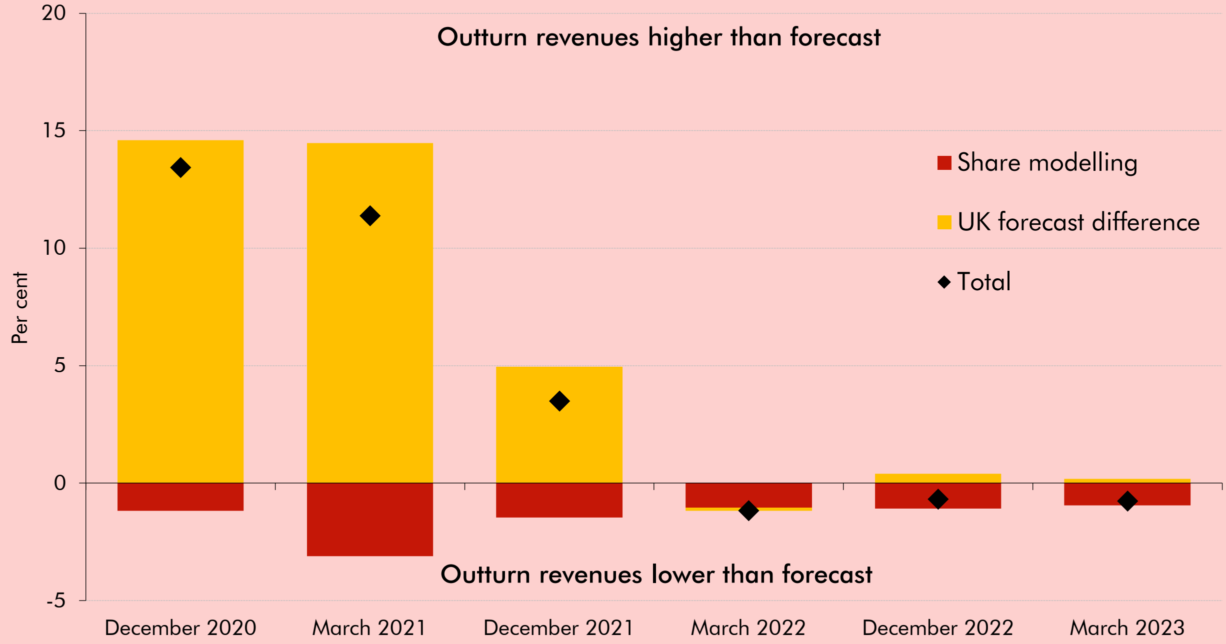
Table A: Successive forecasts for Welsh rates of income tax and the share of pre-measures liabilities subject to the Welsh rates (2021-22)

		Forecast					
	Outturn	Dec 2020	Mar 2021	Dec 2021	Mar 2022	Dec 2022	Mar 2023
Welsh rates (£ million)	2,384	2,064	2,113	2,301	2,412	2,401	2,403
Difference from outturn (£ million)		-320	-271	-83	28	16	18
Welsh share (per cent)	1.15	1.16	1.17	1.16	1.16	1.16	1.16
Difference from outturn (per cent)		0.01	0.03	0.02	0.01	0.01	0.01

Chart A breaks down the overall differences between the same six forecasts and the outturn for 2021-22 into those relating to the UK NSND forecast and those resulting from our estimate of the share of the total subject to the Welsh rates. At a high level, it shows that we overestimated the Welsh share on every occasion, whereas we underestimated the UK NSND forecast four out of six times. On a forecast-by-forecast basis:

- **In December 2020 and March 2021, we underestimated receipts by 13.4 per cent and 11.4 per cent respectively.** These relatively large differences are driven by the unprecedented uncertainty caused by Covid. They are more than explained by our underestimate of the UK NSND forecast, with UK wide receipts unexpectedly resilient during the pandemic, thanks in part to large-scale fiscal support via the furlough scheme, the self-employment income support scheme, as well as higher departmental spending. This is slightly offset by our overestimation of the Welsh share.
- **In December 2021 we underestimated receipts by 3.5 per cent,** due to underestimating UK NSND income tax once again, this time explained by a stronger-than-expected recovery from the pandemic, and only marginally offset by the lower-than-expected Welsh share.
- **In the three most recent forecast we slightly overestimated receipts by an average of 0.9 per cent,** largely due to overestimating the Welsh share.

Chart A: Successive forecast differences for Welsh rates of income tax (2021-22)



Source: HMRC, OBR

We have already refined our 'population' index since our earlier forecasts, for example by splitting into working-age and pension-age populations. Our recent working paper sets out several areas for future analysis, including seeking additional gains from the use of RTI data, particularly at a more disaggregated level, further decomposing our analysis of employment income by sector, age and qualification, and considering whether the UK Government's successive above-inflation increases in the personal allowance during the 2010s disproportionately impacted Wales.

3 Land transaction tax

Introduction

3.1 This chapter:

- describes the **introduction of land transaction tax (LTT)** in Wales and compares it to the stamp duty land tax (SDLT) regime in operation in England and Northern Ireland;
- outlines our **methodology for forecasting LTT** and explores trends in **property prices and transactions** in Wales that drive growth in the LTT tax base;
- presents our **latest forecasts** and explains how they have changed over the last year; and
- discusses some of the key **risks and uncertainties** around these forecasts.

What is 'land transaction tax'?

3.2 Land transaction tax (LTT) replaced stamp duty land tax (SDLT) in Wales from April 2018.[1] It is an *ad valorem* transaction tax levied on the transfer of a property. It is paid by the purchaser, but its incidence is on the house price so the burden actually falls on the seller.[2]

3.3 LTT has many of the same features as SDLT including different treatment for residential and commercial properties, a tax-free threshold, and a surcharge on the purchase of additional residential property properties. But there are some notable differences: LTT has different rates and thresholds; it does not include a relief for first-time buyers; and it is collected by the Welsh Revenue Authority (WRA) rather than by HMRC.

Forecast methodology

3.4 The methodology for generating our LTT forecasts involves three steps.[3] These are:

- First, we produce an **in-year estimate** that uses monthly receipts outturn data from the WRA as its starting point. Typically, we gross up the year-to-date receipts by assuming the remainder of the year follows a similar path to previous years, augmented as necessary by information about the performance of the property market and economy.

[1] Both taxes are broadly based on the historical 'stamp duty', one of the oldest forms of taxation having been originally introduced on a range of products in 1694. The original duty required legal documents associated with a transaction to be authenticated by means of a physical 'stamp'. Stamp duty was replaced with SDLT in December 2003.
[2] Best, M. and H. Kleven, *Housing market responses to transaction taxes: Evidence from notches and stimulus in the U.K.*, June 2017.
[3] For more detail on our forecast methodology see Chapter 3 of our December 2019 *Welsh taxes outlook* and the 'Welsh taxes outlook' page of our website.

- Next, we generate our **pre-measures forecast**, using four separate 'price bins' models – one each for residential main rates, the additional properties surcharge, commercial sales and commercial leases.[4] The models aggregate transactions within relatively small 'bins', calculating the tax due on the average price in each bin, and then projecting that forward in line with our forecasts for prices and transactions.[5]
- Finally, we add estimates of the effects of any **new policy measures** to produce our post-measures forecasts.

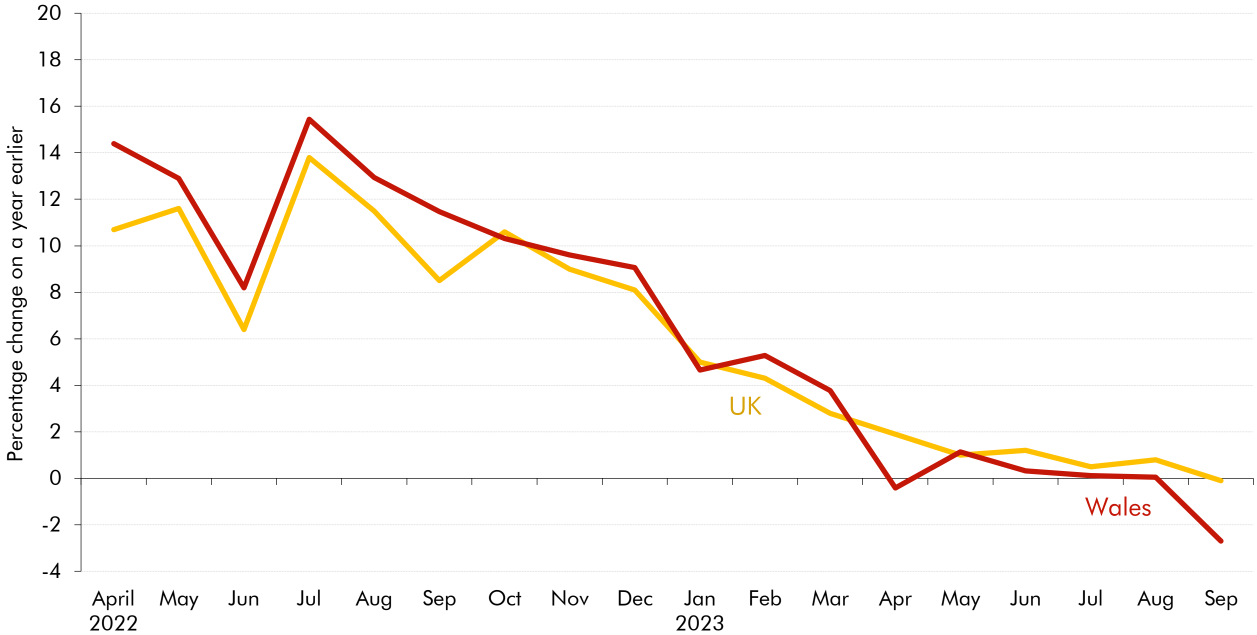
Property market determinants of the forecast

3.5 By far the most important driver of our forecast for LTT receipts over the medium term is our forecast for growth in the value of property transactions, which in turn reflects assumptions about prospects for property prices and the volume of transactions. Activity in both the Welsh and UK-wide property markets has fallen steeply in the last year, due to the impact of sustained high interest rates on mortgage rates and the prolonged squeeze on real incomes which have impacted purchasing power.

Property prices

3.6 Chart 3.1 shows that **house prices** during the 2022-23 fiscal year peaked in July 2022 at 15.4 per cent in Wales and 13.8 per cent in the UK, following strong post-pandemic growth[6]. But it has trended downwards since as demand has been impacted by higher interest rates. Both UK and Welsh house price changes during recent months has been hovering around zero.

Chart 3.1: House prices: Wales versus the UK as a whole



Source: ONS

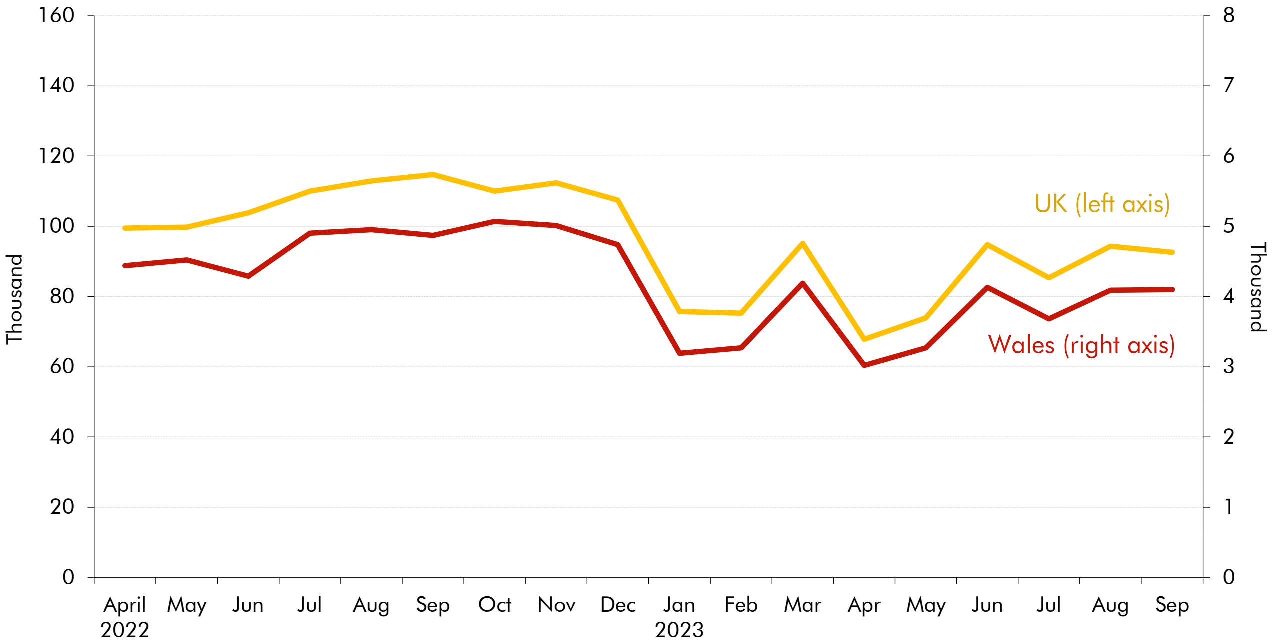
[4] These models are operated on our behalf by analysts in the Welsh Government, but the underlying forecast assumptions and judgements are those of the OBR's Budget Responsibility Committee.
[5] The methodology for forecasting these is set out in the 'In-depth' pages of our website.
[6] ONS, *UK House Price Index: September 2023,* November 2023

3.7 **Commercial property prices** (as measured by the average price of transactions recorded by the respective tax authorities) in Wales fell during the first half of 2023-24, by 27.9 per cent, relative to 2022-23, whereas prices fell by 0.5 per cent in the UK over the equivalent period.

Property transactions

3.8 Monthly **residential property transactions** in Wales and the UK as a whole have followed a broadly similar path over the past 18 months (Chart 3.2). In both cases transactions have been lower during 2023-24 than they were in 2022-23, again weighed down by the deterioration in lending conditions. Transactions in Wales in the 2023-24 year-to-date are 20.3 per cent lower than they were in 2022-23, while the equivalent fall at the UK level is 20.6 per cent. This follows falls of 14.2 per cent and 11.2 per cent in 2022-23 compared to 2021-22, in Wales and the UK, respectively.

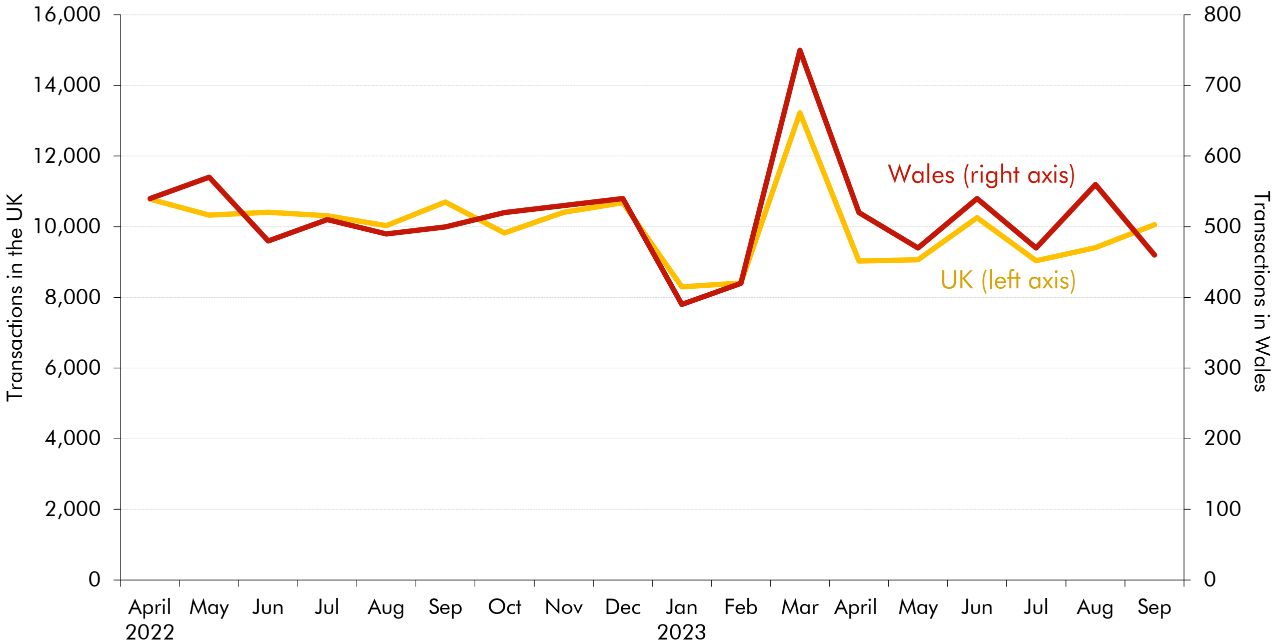
Chart 3.2: Residential property transactions



Source: HMRC, WRA

3.9 **Commercial property transactions** in Wales have largely mirrored those in the UK as a whole during 2022-23 and 2023-24 (Chart 3.3). Year-to-date transactions are down 2.3 per cent in Wales and 9.1 per cent in the UK as a whole, compared to 2022-23.

Chart 3.3: Commercial property transactions



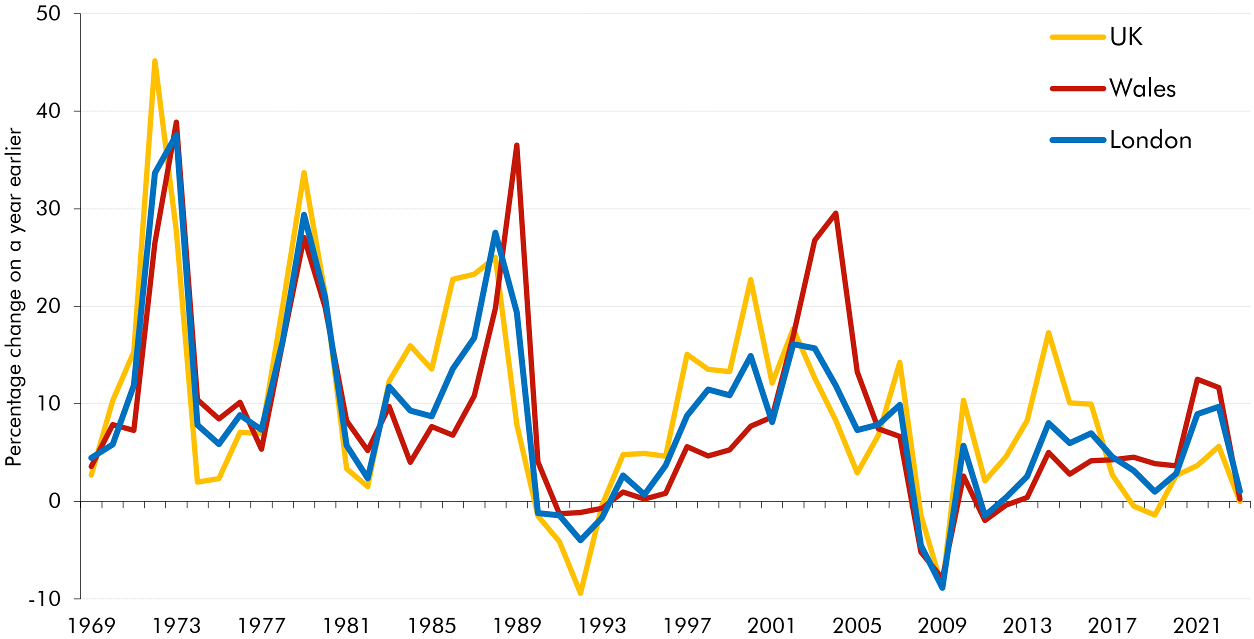
Source: HMRC, WRA

Forecasts for property market determinants

3.10 Our forecasts for property transaction taxes are underpinned by our UK-wide property market forecasts. We assume Welsh prices and transactions move in line with those for the UK as a whole, unless there are clearly reasons to depart from that. In practice, any assumed divergence involves us using different Welsh house price assumptions in the near term before assuming convergence from the second or third year of the forecast. Chart 3.4 shows that, historically, house prices in Wales have followed a similar path to those in the UK as a whole, with relatively few periods of short-term divergence.

3.11 In this forecast we assume house prices in UK and Wales move together across the forecast period. This is consistent with the recent outturn data showing that house price changes in Wales during the first half of 2023-24 have been close to those in the UK (Chart 3.1).

Chart 3.4: Historical trends in house prices



Source: Land Registry

3.12 We have revised up our UK and Welsh house price forecasts in 2023-24 since our February forecast, reflecting slightly stronger-than-expected outturn data. But prices are still expected to fall slightly this year and more significantly in 2024-25, thanks to a weaker economic outlook than we previously anticipated, following the period of higher and sustained interest rates. Prices then rise only modestly thereafter. Residential transactions have also been revised down between 2023-24 and 2026-27, reflecting that same weakness, with it already feeding through to lower transactions in outturn. While transactions have been revised down in most years and are down by 2.5 per cent from 2023-24 and 2027-28 since February, we still expect them to begin recovering from 2025-26 onwards with annual growth averaging 10.0 per cent thereafter.

3.13 We also assume that commercial prices and transactions fall in the near term, again due to the weaker economic outlook and high interest rates. Relative to February, commercial prices are much lower in 2024-25, with more modest revisions in later years, reflecting an earlier trough than we expect for residential prices, but with a more gradual recovery thereafter. While we previously expected the trough in commercial prices to be shallower than that in the residential market, we are now forecasting a larger cumulative fall in the former.

Table 3.1: Forecasts for Welsh property prices and transactions

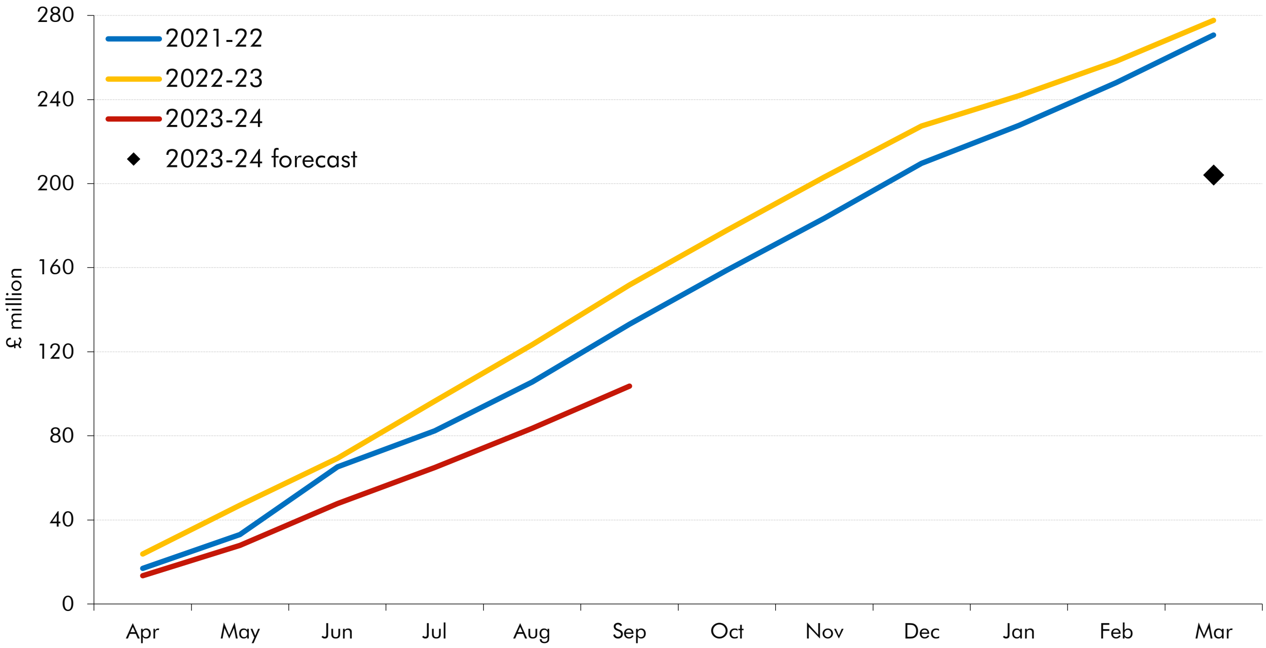
	Percentage change on previous year						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Residental property prices	8.6	-0.9	-4.9	1.2	3.6	3.7	3.7
Residental property transactions	-12.3	-20.0	-3.4	8.4	11.2	11.2	9.3
Commercial property prices	-4.0	-1.2	-1.2	1.6	1.6	1.8	1.9
Commercial property transactions	-1.7	-8.1	-1.3	6.1	5.4	1.9	1.7
	Change since February forecast						
Residental property prices		3.3	-0.9	-0.9	0.4	0.2	
Residental property transactions		-4.6	-4.0	-2.5	-4.0	2.7	
Commercial property prices		2.0	-3.4	0.8	0.1	-0.1	
Commercial property transactions		-3.1	-2.2	-0.1	-1.1	0.0	

Trends in LTT receipts

Residential property receipts

3.14 Chart 3.5 shows that residential LTT receipts (net of refunds) in the first six months are down £48 million (31.7 per cent) on 2022-23 and £29 million (22 per cent) on 2021-22. We expect this weakness to continue in the second half of the year, with total receipts in 2022-23 forecast to be £74 million (26 per cent) below 2022-23 outturns.

Chart 3.5: Cumulative residential LTT receipts

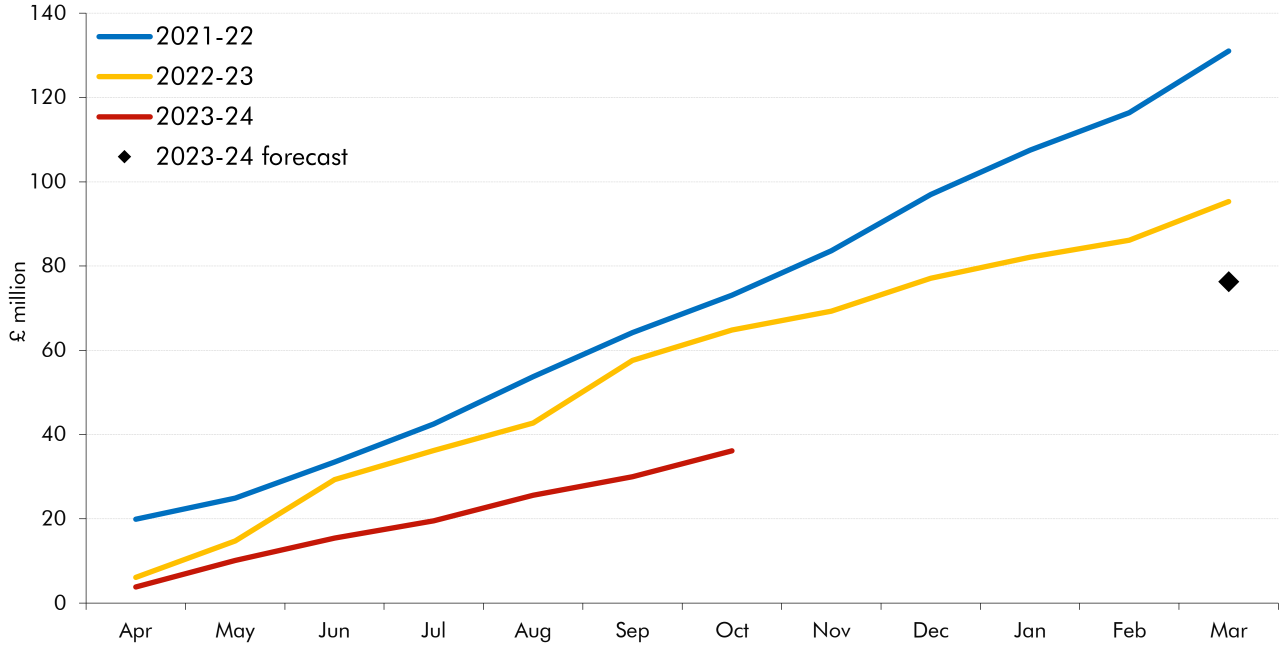


Source: WRA, OBR

Commercial property receipts

3.15 Chart 3.6 shows year-to-date commercial receipts are down £29 million (44 per cent on 2022-23, and down £37 million (51 per cent) on 2021-22. We expect revenues to partially pick up in the remaining months of the year, due to volatility in the Welsh commercial market, with receipts ending £18 million (19 per cent) lower than in 2022-23.

Chart 3.6: Cumulative commercial LTT receipts



Source: WRA, OBR

Latest LTT forecasts

3.16 Table 3.2 sets out our latest forecast for LTT and its components. Relative to February, receipts have been revised down in every year of the forecast and by an average of £59 million (16 per cent). This reflects the recent weakness in outturn data, particularly driven by a fall in transactions relative to our February forecast. We now forecast a peak-to-trough decline in receipts of around a third between 2022-23 and 2024-25, though with a similar annual rate of receipts growth thereafter.

Table 3.2: LTT forecast

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total LTT							
February forecast	372	312	299	340	403	453	
December forecast	372	280	251	279	325	375	437
Difference		-32	-48	-61	-78	-78	
Residential (excluding additional properties)							
February forecast	196	150	134	157	194	229	
December forecast	196	146	122	136	165	200	238
Difference		-4	-12	-20	-30	-29	
Additional properties							
February forecast	82	65	64	75	91	101	
December forecast	82	58	54	62	73	85	106
Difference		-7	-9	-12	-17	-17	
Commercial							
February forecast	94	97	101	108	117	123	
December forecast	94	76	74	80	86	90	94
Difference		-21	-27	-28	-31	-33	

Residential LTT forecast

3.17 Table 3.3 sets out the revisions to our residential LTT forecasts since February. Residential main rates have been revised down in every year of the forecast, by an average of £19 million a year (11 per cent). There is a peak-to-trough drop of 38 per cent between 2022-23 and 2024-25, with receipts not returning to their 2022-23 levels until 2027-28. Weakness from the shortfall in the effective tax rate, as a result of lower-priced transactions, which generate less revenue per pound, making up a higher share of revenues (contained within the 'outturn data and modelling' line) explains most of the decrease. Otherwise, revisions to our transaction determinants (down by an average of £13 million a year) are largely offset by revisions to price determinants (up £12 million a year).

3.18 Table 3.4 presents the changes to our additional rates forecast, which is also down relative to February, by an average of £12 million a year (16 per cent). In this case the fall is due to a combination of lower outturn data and weaker transactions, only very marginally offset by slightly stronger prices. This creates a steeper peak-to-trough drop between 2022-23 and 2024-25 though with a similar rate of annual growth during the remaining years of the forecast.

Table 3.3: Residential main rates LTT forecast

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
February forecast	196	150	134	157	194	229	
December forecast	196	146	122	136	165	200	238
Difference		**-4**	**-12**	**-20**	**-30**	**-29**	
of which:							
Price changes		15	10	8	12	14	
Transaction changes		-3	-8	-12	-21	-20	
Outturn data and modelling		-16	-15	-17	-20	-24	

Table 3.4: Residential additional rates LTT forecast

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
February forecast	82	65	64	75	91	101	
December forecast	82	58	54	62	73	85	106
Difference		**-7**	**-9**	**-12**	**-17**	**-17**	
of which:							
Price changes		2	1	0	1	1	
Transaction changes		-2	-4	-6	-10	-8	
Outturn data and modelling		-7	-6	-7	-8	-9	

Commercial LTT forecast

3.19 Table 3.5 shows changes to our commercial LTT forecast relative to February. Receipts have been revised down by progressively increasing amounts, reaching £33 million by 2027-28. The £20 million drop in receipts over the two-year period between 2022-23 and 2024-25 compares to the £7 million *increase* that we were forecasting in February. The reduction since February is largely due to the weakness in the outturn data, with receipts 29 per cent lower than we previously forecast. We assume around half of this weakness will persist through to the end of the forecast period. Lower transactions are also a contributory factor, though around a half of that is offset by higher prices.

Table 3.5: Commercial LTT forecast

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
February forecast	94	97	101	108	117	123	
December forecast	94	76	74	80	86	90	94
Difference		**-21**	**-27**	**-28**	**-31**	**-33**	
of which:							
Price changes		7	4	5	5	5	
Transaction changes		-5	-7	-8	-9	-10	
Outturn data and modelling		-23	-23	-25	-27	-28	

Risks and uncertainties

3.20 In this section we summarise some key uncertainties around our central LTT forecast. This is again dominated by the risks to property prices and transactions given the rise in interest rates and the uncertain path for CPI inflation. The risks are evenly balanced. On the downside, inflation has been more persistent than we expected, and if that continues then it would likely require interest rates to remain higher for longer. But it is also possible that inflation and interest rates will fall more quickly than we expect. And furthermore prices have held up more than we anticipated, despite the rise in interest rates.

3.21 The commercial property market is generally sensitive to the overall economic outlook, but there are also uncertainties from persistent changes in the composition of economic activity, such as greater prevalence of working from home or further growth in online retailing.

3.22 In this forecast we have not assumed any divergence in house prices or transactions between Wales and the UK as a whole, and so this remains a source of uncertainty. Residential property prices have been slightly weaker in Wales in recent months compared to the UK, following a period of relative strength.

3.23 Other risks relating to our LTT forecasts include:

- **Mapping property market determinants to the true tax base.** It is challenging to map from the whole property market to only those transactions that will be subject to LTT. Only a very small minority of all potential taxpayers will pay LTT in any given year, which differs from most other taxable activities, where taxpayers incur a liability year after year. There are around 1.4 million dwellings in Wales, but there were only around 53,000 residential transactions in 2022-23.

- **Tax base concentration.** LTT has a progressive tax schedule: a £250,000 residential transaction will pay £1,500 in tax, whereas a transaction for four times this price (£1,000,000) pays over forty times more tax (£61,750). In 2022-23 around half of residential revenue came from the top 10 per cent of transactions. Our LTT forecast is also sensitive to a small number of high-value commercial property transactions. This is true historically and helps to explain past errors, both in the in-year position and the medium term forecast.

- **Frequent policy changes**. The property transaction tax regime has been subject to repeated policy changes. These changes, especially when they are pre-announced, add uncertainty to our forecasts in respect of how taxpayers will respond to the new tax incentives they face. This applied to the temporary raising of both the LTT and SDLT thresholds at the height of the pandemic.

- **Forestalling.** Where rises in property taxes are pre-announced it allows for purchases to be brought forward in order to be taxed at the existing lower rate – this is known as 'forestalling'. The reverse if also true if tax cuts are pre-announced, with buyers incentivised to defer transactions to benefit from the lower rate. While it is a regularly observed phenomenon, it is difficult to gauge the precise size of the behavioural response and the number of affected transactions, though we do use evidence from past episodes to guide us.[7]

- **Future LTT policy changes.** Our forecasts only include the effects of current stated policies, and not policy intentions or ambitions that are under consideration (reflecting the requirements placed on us by the UK Parliament when establishing the OBR). The Welsh Government has announced a public consultation on extending the refund period for the additional rates in exceptional circumstances, such as when there is unsafe cladding[8]. This will reduce receipts.[9] We will include its effect, and of any other policy ambitions, when the policy is sufficiently firm and costed.[10]

[7] For more detailed information see Mathews, P., *OBR Working Paper no. 10: Forestalling ahead of property tax changes*, October 2016.
[8] Written Statement by the Minister for Finance and Local Government, *Land Transaction Tax higher residential rates refund period extension where exceptional circumstances apply*, 16 November 2021.
[9] In July 2022, the Welsh Government published a ministerial statement and consultation response document exploring options for local variation in LTT rates on second homes and are continuing consultation preparations for the introduction of this policy (Written Statement by the Minister for Finance and Local Government, *A summary of the responses to the consultation on second homes and land transaction tax,* 15 July2022).
[10] Another policy ambition is the December 2022 announcement on the intention to extend the Help to Buy Wales scheme until March 2025 (Written Statement by the Minister for Climate Change, *The future of Help to Buy Wales from April 2023*, 14 December 2022).

4 Landfill disposals tax

Introduction

4.1 This chapter:

- describes the **landfill disposals tax** levied in Wales;
- sets out our **methodology** for forecasting receipts; and
- presents our **latest forecast** and some **key uncertainties** around it.

What is the 'landfill disposals tax'?

4.2 Landfill tax was introduced in the UK in 1996. It applies to all waste disposed of by way of landfill at a licensed site unless the waste is specifically exempt. In Wales it was replaced with landfill disposals tax (LDT) from April 2018. The Welsh Government has said that LDT is designed to "*promote positive environmental behaviours through greater prevention of waste to landfill sites and to encourage the reuse, recycling and recovery of waste*".[1]

4.3 LDT is charged per tonne of waste disposed of at a landfill site. It is payable by landfill site operators, who are expected to pass the costs onto those making the disposals. A small number of disposals are exempt from LDT, while some reliefs and discounts are also available. The tax is collected by the Welsh Revenue Authority (WRA). The Welsh Government has kept the rates consistent with those in the rest of the UK since LDT was introduced.

4.4 Our forecast is driven by the amount of waste sent to landfill and the effective tax rate that will be paid. The latter largely depends on policy decisions on rates, but also on the composition of waste sent to landfill as there are three different rates – a 'standard rate', a 'lower rate' and an 'unauthorised disposals rate'. In 2022-23 revenue from standard rate waste accounted for 97 per cent of total revenue from LDT.

Forecast methodology

4.5 The LDT forecast uses a bottom-up model operated on our behalf by analysts in the Welsh Government. The assumptions and judgements that are fed into it are those of the Budget Responsibility Committee. The forecast methodology is straightforward – the main steps are:

[1] Welsh Government, *Landfill Disposals Tax (Wales) Bill 2016: Impact Assessments*.

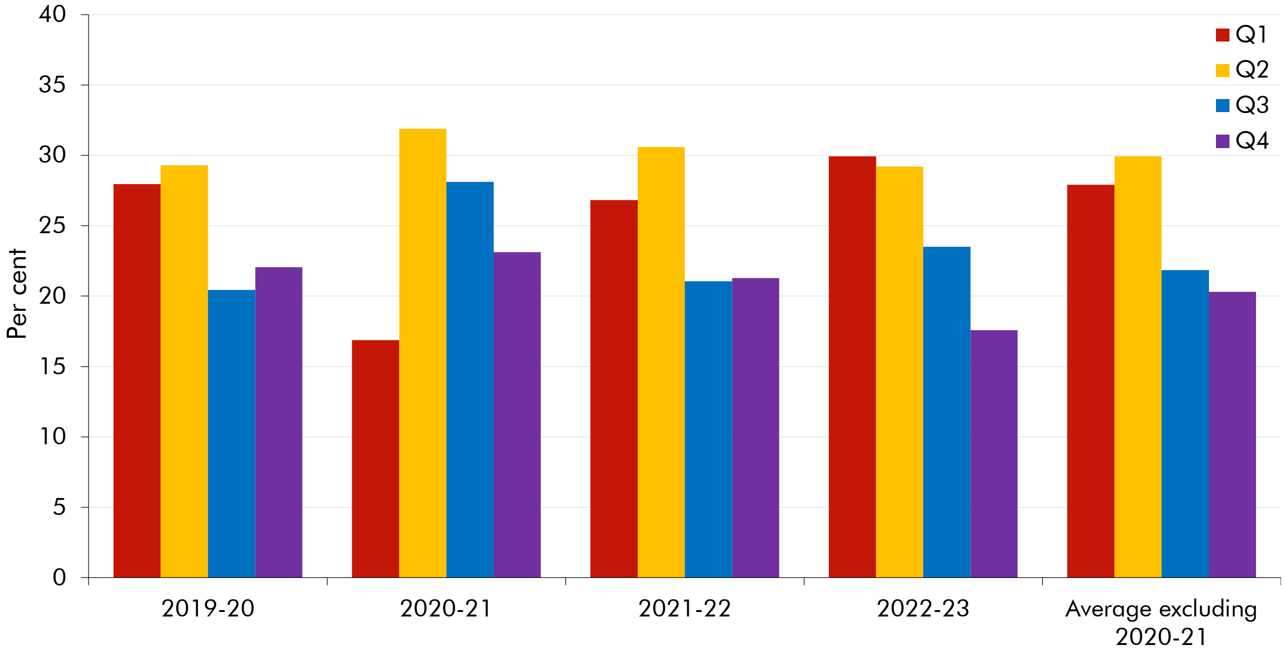
- establishing an **in-year estimate** drawing on the latest administrative data (and other relevant sources) to estimate the level of receipts in the current year;
- producing a **pre-measures forecast** by using the LDT forecast model to multiply the amount of liable waste sent to landfill (the tax base) by the relevant duty rate; and
- generating a **post-measures forecast** by adding the effects of any new policy measures.

Establishing an in-year estimate

4.6 Most landfill site operators have a calendar year annual accounting period. Most LDT returns are received by the WRA at the end of April, July, October and January (returns must be sent by the last working day of the month following the end of the accounting period). The WRA publishes LDT receipts outturn data on a quarterly basis.[2]

4.7 Our in-year forecast is based on outturn data from the first half of 2023-24. Chart 4.1 shows the quarterly split of annual LDT receipts from 2019-20 onwards, and indicates a degree of seasonality in the amount of waste that is disposed of at landfill sites. Typically, the highest share of receipts come in the first and second quarters of the year. The exception to this in recent years was the lockdown-affected first quarter in 2020-21. Since 2019-20, the average share of full revenues received in the first half of the fiscal year, excluding the pandemic-distorted 2020-21 fiscal year, has been 58 per cent.

Chart 4.1: Percentage of annual landfill taxes receipts from each quarter



Source: Welsh Revenue Authority

[2] A smaller number of site operators use different accounting periods, which means that monthly data releases could be disclosive. We do not draw on the WRA's unpublished monthly administrative data when preparing our in-year estimates.

The pre-measures forecast

Tax base: the volume of waste sent to landfill

4.8 The volume of waste sent to landfill in future years is forecast by calibrating data from Natural Resources Wales (NRW) with the outturn data from the WRA. Our model sorts these data by 'European waste catalogue' code into tonnages liable to the standard and lower rates of LDT. This allows us to remove waste that is exempt from LDT. The LDT-liable tonnages are then projected forward using information on local authority waste management plans, waste infrastructure developments, and an assumption about the future path of other waste.

4.9 There are several alternatives to sending waste to landfill sites, including:

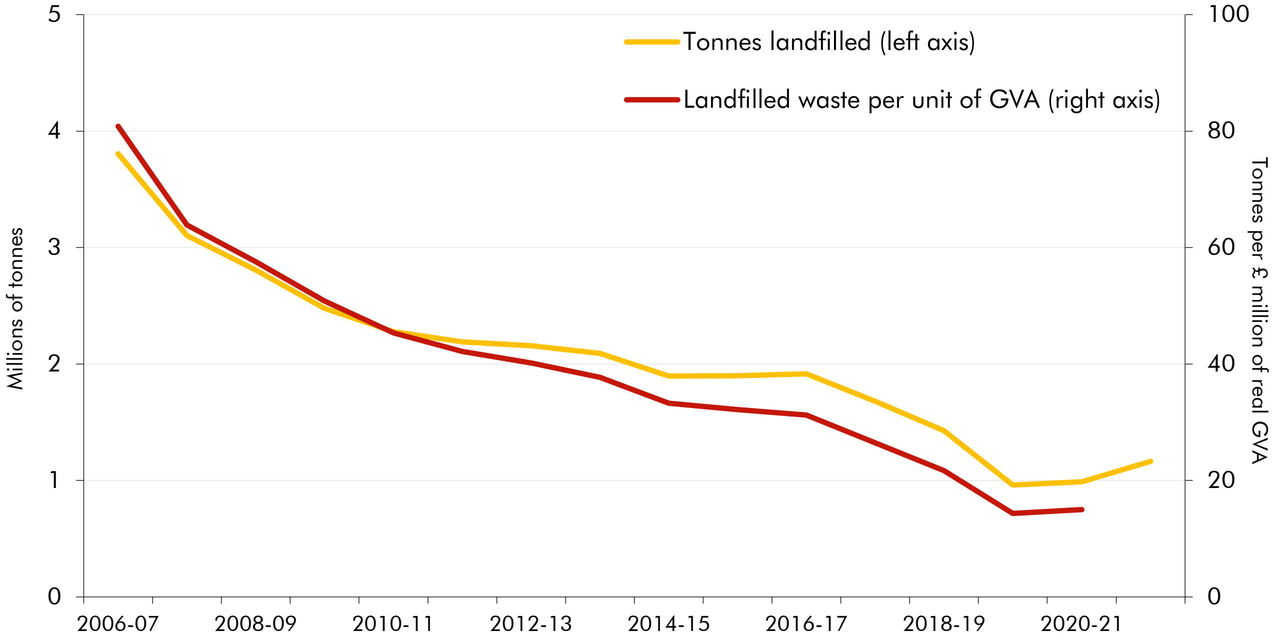
- **Recycling and incineration**, the levels of which depend on the capacity of available Welsh infrastructure. Given the much smaller tax base in Wales, changes in alternative waste treatment infrastructure can lead to proportionally larger effects on LDT receipts than an equivalent change in England would have on UK landfill tax receipts.

- **Exporting waste**, which can be cheaper than sending it to landfill. There are currently two external factors that may limit the volume of exports over the medium term – the UK's developing trading relationship with the EU and the Chinese Government's ban on the imports of solid waste. Each could increase the amount of waste sent to UK and Welsh landfill (including waste generated in England) and represent an upside risk to LDT receipts. The extent to which these or other factors have already affected LDT receipts would be implicitly captured in our in-year estimate, rather than via an explicit forecast adjustment.

4.10 We do not explicitly model the use of these alternatives. Instead, we assume they provide sufficient headroom to accommodate future growth in waste arising without affecting the volume of landfilled waste. The granular level of information available to us on Welsh infrastructure means that we can factor in expected changes when we need to.

4.11 The volume of waste sent to landfill in the UK as a whole has been trending down and Chart 4.2 shows a similar pattern in Wales. The volume sent to landfill has fallen by nearly seven-tenths between 2006-07 (3.8 million tonnes) and 2021-22 (1.2 million tonnes), although there has been a small uptick from 2020-21 onwards, in contrast to this longer-term downward trend. Chart 4.2 also shows that over the same period progressively less waste has been sent to landfill per unit of gross value added (GVA – a measure of economic activity). We assume that the level of waste arising from landfill remains constant over the forecast period, in part due to this recent upside surprise, but there is some uncertainty around this judgement.

Chart 4.2: Landfill waste tonnage in Wales relative to Welsh economic activity



Source: Natural Resources Wales, ONS

The effective rate of landfill disposals tax paid

4.12 There are two main rates for LDT – a 'standard' rate and a 'lower' rate. The lower rate applies to waste that is 'inert' – i.e. less hazardous or less polluting materials such as bricks, concrete and sand. The standard rate applies to everything else that is neither exempt (see below) or unauthorised.[3]

4.13 In this Budget, the Welsh Government has maintained alignment with the 2024-25 rates set by the UK Government, with a **standard rate of £103.70 per tonne** of waste and a **lower rate of £3.30 per tonne**.[4] Our forecast assumes that both rates rise in line with RPI inflation in future years (in line with the UK Government's default indexation assumption). The Welsh Government has not set out its policy for future years and would be free to set other rates if it so wished.

4.14 As with UK landfill tax, LDT legislation allows for both exemptions and reliefs. Where a disposal is exempt, for example within a pet cemetery, there is no tax liability, and the site operator does not need to record it on a tax return. Where a disposal is eligible for a relief, such as when it contains material removed from water by dredging, it needs to be accounted for by the site operator, but the relief can be claimed via the tax return. The effective rate paid depends not just on statutory rates and exemptions, but also the composition of waste disposals. In 2022-23, the effective rate paid was £34.26 per tonne of waste sent to landfill. In the first two quarters of 2023-24 the effective tax rate paid fell to £28.20 per tonne of waste, as a result of the decline in the share of standard rate waste.

[3] The Welsh Government has also introduced a third 'unauthorised disposals' rate that applies to all disposals that are made outside of authorised landfill sites, regardless of whether they would have qualified for the standard or lower rates. The 2023-24 rate for such disposals has been set at £153.15 per tonne of waste. The 2024-25 rate is set to be announced in April 2024.
[4] All rates are subject to approval by the Senedd.

Post-measures forecast

4.15 The final stage in our forecast process is to add the effect of new policy measures that have been announced since our previous forecast was published. For landfill tax and LDT, these effects are typically small, although they can still be subject to some uncertainty. For example, the UK Government's Autumn Statement 2023 policies introducing a new 'deposit return scheme', for those consuming drinks in a container and an 'extended producer responsibility' scheme that requires packaging producers to incur the cost of managing the packaging once it becomes waste. Both schemes are expected to lower landfill tax receipts by reducing the amount of waste sent to landfill.

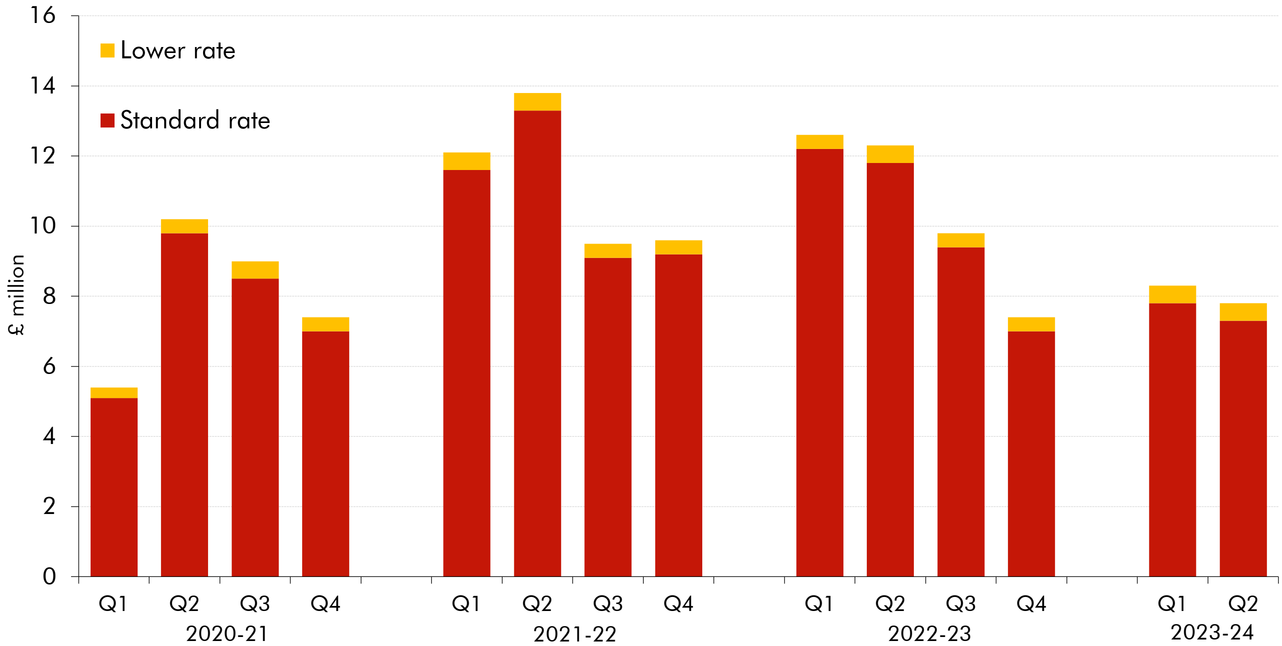
Landfill disposals tax forecast

4.16 Using the methodology described above and based on LDT outturn data for the first two quarters of 2023-24, this section describes our latest forecast and changes since March.

Receipts outturn

4.17 Chart 4.3 shows that receipts in the first half of 2023-24 are down by £8.8 million (35.3 per cent) on the same period last year, driven by a reduction in the amount of standard-rate waste sent to landfill. Receipts are £9.8 million (37.8 per cent) lower compared to the first half of 2021-22. The decline in receipts possibly reflects a more general slowing down in waste-generating economic activity. We expect receipts for the remainder of 2023-24 to follow the quarterly pattern shown in Chart 4.1, reaching £31.4 million by the end of the year. This is £0.6 million (1.9 per cent) lower than in 2020-21, £13.6 million (30.3 per cent) lower than 2021-22 and £10.8 million (25.6 per cent) lower than 2022-23.

Chart 4.3: Quarterly LDT receipts



Source: Welsh Revenue Authority

Latest forecast

4.18 Table 4.1 presents our LDT forecast and the sources of changes since February. We have revised 2023-24 receipts down by £9 million. This reflects the weaker-than-expected outturn data in the first half of the year, the effect of which we expect to persist across the forecast. This is compounded by a change in the assumed amount of standard rate waste that is *not* from Welsh local authorities. We previously assumed that the level of standard rate waste that is not from Welsh local authorities was falling at a rate of 3.3 per cent, which we have now revised up to 5 per cent, reflecting recent outturn. In the latter years of the forecast this is slightly offset by the higher forecast for RPI inflation (and thus higher assumed future LDT rates) and delays to the Welsh Government's previously announced business recycling regulations, which were designed to increase recycling and reduce the amount of waste entering landfill.[4] These are now due to come into effect on 1 April 2024 instead of 1 October 2023, as previously expected.

Table 4.1: LDT forecast

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
February forecast	44	41	39	37	35	35	
December forecast	42	31	29	28	27	26	26
Difference		**-9**	**-10**	**-9**	**-8**	**-9**	
of which:							
Outturn data		-9	-8	-8	-7	-7	
Determinants		0	0	1	2	2	
Modelling and other		-1	-2	-2	-3	-4	

Risks and uncertainties

4.19 This section summarises some of the main uncertainties around our central LDT forecast. We would not expect the risk posed by any of these to be particularly large. They include:

- The **net volume of waste arising** is assumed to remain constant over the forecast period. Changes in Welsh infrastructure, such as increases in incineration, mean that the forecast for tonnes of waste sent to landfill trends down. As Chart 4.2 showed, waste sent to landfill has tended to fall over time, but it did increase slightly between 2014-15 and 2016-17 and again more recently. This illustrates the scope of the tax base to surprise us on either side of our central forecast.

- All taxes are subject to a degree of **non-compliance**, ranging from simple errors to deliberate criminal activity. At the UK level, HMRC uses statistical techniques to measure the difference between the theoretical tax liability and what is actually paid, the 'tax gap'. Its latest estimate of the tax gap for the UK landfill tax is 18.4 per cent or £150 million.[5] There is no estimate yet for the LDT tax gap, but if the gap were the

[4] Welsh Government, *Proposals for enforcing business, public and third sector recycling regulations in Wales*, 23 November 2023.
[5] This relates to 2021-22. For more detail see HMRC's *Measuring tax gaps 2023 edition*.

same in percentage terms, then this would imply that around £9.5 million of potential receipts in 2022-23 were not collected. We do not yet have sufficient information on the WRA's LDT compliance activities to take a firm view so, for now, our forecast implicitly assumes no change in the (currently unknown) rate of non-compliance in future years. Any changes in that rate would pose a risk to receipts.

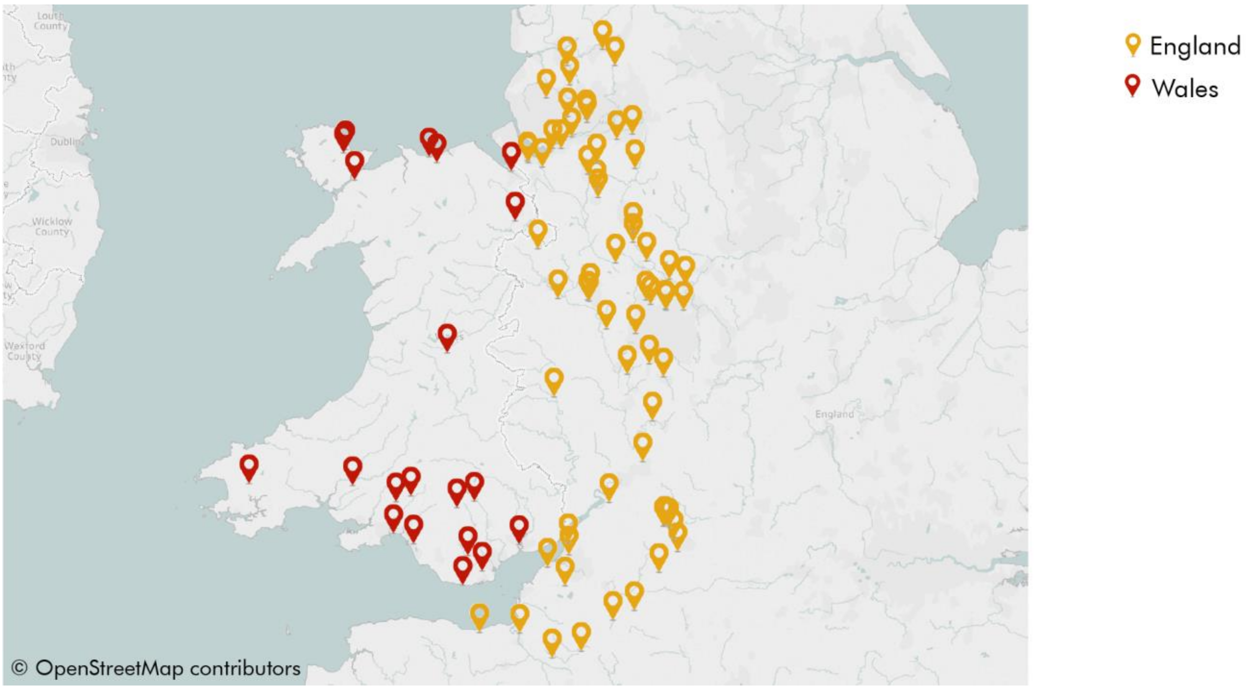
- LDT on **unauthorised disposals** is not a self-assessed tax, with the tax liability instead arising from the WRA identifying suitable cases and issuing charging notices. The WRA began issuing notices to potential taxpayers in 2021-22, and in 2022-23 they successfully charged their first two cases to the LDT unauthorised disposals rate of tax.[6] The WRA plans to increase its operational activities over the coming years, which could lead to additional revenue. The amount collected would depend on resources, planning and the risks of litigation.

- Our forecast implicitly assumes that there is sufficient **incineration and recycling capacity** in Wales to absorb any increase in waste arising. These assumptions would need to be revisited if there were problems with infrastructure capacity, for example if a large incinerator were to be offline for a significant period or new capacity were delayed. Such events would imply a higher share of total waste being sent to landfill than implicitly assumed in our forecast and therefore higher LDT receipts.

- **Behavioural responses to policy changes**. The Welsh Government has so far aligned LDT rates with those for UK landfill tax. If those rates were to diverge then we would expect some waste to be diverted across the border to the sites that were subject to the lower rates. A significant share of waste being sent to landfill in Wales originates in England.[7] Moreover, as Figure 4.1 shows, there are numerous landfill sites relatively close to either side of the Welsh-English border, so there would clearly be scope for such behavioural responses to take place.[8] The degree to which they did would depend on how the potential tax saving compared to the transport and other costs associated with sending waste to a landfill site subject to the lower tax rates. Similarly, the behavioural response to the new business recycling regulations remains uncertain.

[6] Welsh Revenue Authority, *Annual Report and Accounts 2022 to 2023*, September 2023.
[7] Data from Natural Resources Wales show that in each year from 2015-16 to 2021-22, waste from England accounted for over 20 per cent of standard-rated waste sent to landfill in Wales.
[8] The 60-mile corridor from the border is purely illustrative.

Figure 4.1: Landfill sites in Wales and within 60 miles of the border with England



A Forecasts required for the block grant adjustments

A.1 The block grant is a mechanism for transferring funds from the UK Government to the devolved governments, as allocated from within the departmental spending limits set by the Treasury. The block grants for the Welsh and Scottish Governments are adjusted in accordance with their respective fiscal frameworks.[1] The OBR has no direct involvement in these spending decisions or block grant negotiations, but the spending settlements do draw on our tax forecasts.

A.2 This annex presents the forecasts that are required for the block grant adjustment mechanism. These largely relate to the UK Government's revenue from the taxes that are equivalent to those that have been devolved. For the three taxes covered in this report, the corresponding UK Government tax (relating to England and Northern Ireland in each case) is 'non-savings, non-dividends' income tax, stamp duty land tax and landfill tax.

A.3 The forecast methodologies for the Scottish and UK Government taxes are largely the same as those described for Wales in Chapters 2 to 4 and on the relevant pages of our website. We first establish an in-year estimate using the latest administrative data to estimate the level of receipts in 2023-24. We then project that over the five-year horizon using the respective forecast models and our own judgements. The economic determinants used are from our November 2023 *Economic and fiscal outlook*.

A.4 Tables A.1 to A.4 compare our current forecasts for the devolved Welsh (and Scottish) taxes to their UK Government equivalents (which relate to England and Northern Ireland). Our income tax forecasts reflect the package of policy measures announced by the UK Government in Autumn Statement 2023.[2] In the longer term, differences in our income tax forecasts will mainly reflect assumptions about relative population growth. Differences in our forecasts for property transaction taxes derive from the more progressive structure of the Welsh and Scottish tax schedules, which delivers greater revenue gains from fiscal drag as house prices rise.

[1] *The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework*, December 2016, and *The agreement between the Scottish Government and the United Kingdom Government on the Scottish Government's fiscal framework*, August 2023.
[2] The full list of measures and their associated costing breakdowns are provided in supplementary Table 3.11, available on our website.

Table A.1 Income tax on non-savings, non-dividend income

	£ billion							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Whole UK NSND income tax	**208.1**	**226.4**	**254.8**	**270.0**	**281.9**	**296.0**	**311.6**	**325.7**
of which:								
Welsh Government income tax (WRIT basis)	2.4	2.6	3.0	3.2	3.3	3.5	3.7	3.8
UK Government NSND income tax from Wales	3.1	3.5	4.0	4.3	4.5	4.8	5.1	5.3
Scottish income tax	13.7	15.0	17.1	18.2	19.0	19.9	20.8	21.8
England and Northern Ireland NSND income tax	188.9	205.3	230.8	244.4	255.1	267.9	282.0	294.8
UK Government NSND income tax[1]	192.0	208.8	234.8	248.6	259.6	272.7	287.1	300.1
	Percentage change on a year earlier							
Whole UK NSND income tax		**8.8**	**12.5**	**6.0**	**4.4**	**5.0**	**5.3**	**4.5**
of which:								
Welsh Government income tax (WRIT basis)		9.7	13.6	6.7	4.8	5.0	5.2	4.3
UK Government NSND income tax from Wales		10.5	15.3	7.4	5.4	5.8	6.1	4.8
Scottish income tax		9.3	13.8	6.5	4.4	4.7	5.0	4.5
England and Northern Ireland NSND income tax		8.7	12.4	5.9	4.4	5.0	5.3	4.5
UK Government NSND income tax[1]		8.7	12.4	5.9	4.4	5.0	5.3	4.5

[1] Whole UK NSND income tax excluding Scottish income tax and Welsh Government income tax (WRIT basis).

Table A.2 Welsh rates and England and Northern Ireland equivalent income tax by band forecasts

	£ billion							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
England and Northern Ireland NSND income tax (WRIT basis)	**68.9**	**75.9**	**84.7**	**89.5**	**93.2**	**97.4**	**102.0**	**106.3**
of which:								
Basic rate	45.7	51.5	57.0	59.9	62.1	64.4	66.8	69.2
Higher rate	13.5	15.1	15.8	17.0	17.9	19.0	20.2	21.1
Additional rate	9.7	9.3	11.9	12.5	13.2	14.0	15.0	16.0
Welsh rates	**2.4**	**2.6**	**3.0**	**3.2**	**3.3**	**3.5**	**3.7**	**3.8**
of which:								
Basic rate	2.0	2.2	2.5	2.6	2.8	2.9	3.0	3.1
Higher rate	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.6
Additional rate	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	Percentage change on a year earlier							
England and Northern Ireland NSND income tax (WRIT basis)		**10.3**	**11.6**	**5.6**	**4.1**	**4.6**	**4.7**	**4.2**
of which:								
Basic rate		12.8	10.6	5.2	3.5	3.8	3.8	3.6
Higher rate		11.8	5.2	7.5	5.3	6.1	6.4	4.0
Additional rate		-3.7	27.0	5.5	5.2	6.4	6.9	7.0
Welsh rates		**9.7**	**13.6**	**6.7**	**4.8**	**5.0**	**5.2**	**4.3**
of which:								
Basic rate		9.1	12.6	6.1	4.3	4.3	4.4	4.0
Higher rate		15.6	14.0	10.2	7.2	7.9	8.6	4.9
Additional rate		1.4	48.5	8.0	7.8	8.5	9.1	9.3

Table A.3 Property transaction taxes

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Whole UK property transaction taxes	**17,117**	**12,900**	**12,560**	**14,300**	**16,850**	**19,409**	**22,059**
of which:							
LTT (Wales)	372	280	251	279	325	375	437
LBTT (Scotland)	848	823	733	808	922	1,056	1,197
SDLT (England and Northern Ireland)	15,897	11,796	11,576	13,213	15,603	17,978	20,424
	Percentage change on a year earlier						
Whole UK property transaction taxes		**-24.6**	**-2.6**	**13.9**	**17.8**	**15.2**	**13.6**
of which:							
LTT (Wales)		-24.6	-10.6	11.2	16.3	15.5	16.7
LBTT (Scotland)		-2.9	-11.0	10.4	14.1	14.5	13.3
SDLT (England and Northern Ireland)		-25.8	-1.9	14.1	18.1	15.2	13.6

Table A.4 Landfill taxes

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Whole UK landfill taxes	**747**	**652**	**649**	**588**	**557**	**560**	**553**
of which:							
Landfill disposals tax (Wales)	42	31	29	28	27	26	26
Scottish landfill tax	110	82	66	54	15	16	16
Landfill tax (England and Northern Ireland)	595	539	553	507	515	518	512
	Percentage change on a year earlier						
Whole UK landfill taxes		**-12.6**	**-0.6**	**-9.3**	**-5.3**	**0.5**	**-1.2**
of which:							
Landfill disposals tax (Wales)		-25.3	-6.4	-5.4	-4.2	-1.9	-1.8
Scottish landfill tax		-25.3	-19.2	-18.7	-71.5	2.7	2.8
Landfill tax (England and Northern Ireland)		-9.4	2.6	-8.4	1.7	0.6	-1.3

Index of charts and tables

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

Document is Restricted

Agenda Item 4

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

Document is Restricted

Agenda Item 5

Cyflwynwyd yr ymateb i ymgynghoriad y Pwyllgor Cyllid ar Cyllideb Ddrafft Llywodraeth Cymru 2024-25.

This response was submitted to the Finance Committee consultation on the Welsh Government Draft Budget 2024-25.

WGDB_24-25 20: Ymateb gan: Grŵp Cyllideb Menywod Cymru (GCMC) a Rhwydwaith cydraddoldeb merched (RCM) (Saesneg yn unig) | Response from: Wales Women's Budget Group (WWBG) and Women's Equality Network (WEN) (English only)

Wales Women's Budget Group (WWBG) and Women's Equality Network (WEN) Wales joint submission to the Finance Committee:

Welsh Government Draft Budget proposals for 2024-25

November 2023

About the Wales Women's Budget Group (WWBG): WWBG is a registered charity, currently housed by the Women's Equality Network (WEN) Wales, which works with government and civil society in pursuit of a more prosperous and gender equal Wales. Bringing together leading economic thinkers, academics, policymakers and women's networks, the WWBG works to influence and inform public policy in order to promote a gender equal economy in Wales through the use of gender budgeting.

About the Women's Equality Network (WEN) Wales: Our vision is of a Wales free from gender discrimination where all women and men have equal authority and opportunity to shape society and their own lives. We work with our vibrant coalition of organisational and individual members to transform society. Our work sits under three pillars. We will Connect, Campaign and Champion women so our vision is realised.

Key Messages

1. Due to persistent gender inequality, women in Wales – particularly single mothers, disabled women, ethnic minority and racialised women – are being hit harder by the impacts of the cost of living crisis. While support measures such as hardship payments are welcome, the Welsh Government must do more to protect women and other vulnerable groups from falling further into debt and poverty. This is even more pressing in the context of discontinued energy and fuel support schemes in Wales.
2. Women are more likely to work in public services, to rely on public services and to become providers of last resort when services are cut. While we welcome the Welsh Government's continued support, we are concerned that current funding levels will not keep pace with rising cost pressures. The Welsh Government should therefore use all levers at its disposal to allocate more support to Wales' struggling public services, including childcare, social care, housing, and the local authorities that provide them.
3. We are pleased to see the ongoing work undertaken by the Budget Improvement and Impact Advisory Group (BIIAG) to improve the Strategic Integrated Impact Assessment (SIIA), which resulted in marked improvements to last year's SIIA. We hope to see further improvements and strengthening of the SIIA across a wider range of government policy decisions in this year's Budget Improvement Plan.
4. While we welcome the Welsh Government's continued piloting of gender budgeting and the publication of the Personal Learning Accounts (PLA) pilot evaluation, attention must now be given to developing plans to mainstream gender budgeting across the Welsh Government to support better policy making and resource allocation.
5. Support measures to address the cost of living crisis are helpful, but the Welsh Government must tackle gender inequality at its root to reduce the vulnerability of women in Wales to future crises. To do so, the full implementation of the Gender Equality Review, *Deeds Not Words*[1], should be expediated as a matter of urgency.

[1] Chwarae Teg (2019), *Deeds Not Words, Review of Gender Equality in Wales*

1. **What, in your opinion, has been the impact of the Welsh Government's 2023-2024 Budget, including funding related to the recovery of the pandemic?**

1.1 The Covid-19 pandemic and the current cost of living crisis have not impacted all households equally. Due to deep-rooted gender inequality, women in Wales bear a disproportionate share of caring responsibilities and dominate traditionally lower-paid employment sectors, such as health and social care. These patterns mean that women occupy an unequal position in Wales' economy and are more likely than men to be economically inactive or to be working in part-time, insecure and low-paid jobs.

1.1.1 In Wales, 37.4% of women work part-time, compared to 13.6% of men.[2]

1.1.2 27.4% of women in Wales are economically inactive compared to 21.5% of men. Of those women, 25.5% reported being out of work due to looking after the family/home compared to 8.6% of men.[3]

1.1.3 In Wales, 13% of jobs held by women are paid below the Real Living Wage, compared to 9.9% of men's.[4]

1.2 The situation is even starker for women who experience intersecting disadvantage and discrimination, for example, ethnic minority, racialised or disabled women, as well as single mothers.

1.2.1 In the UK, women of colour are twice as likely to be on zero-hour contracts than white men.[5]

1.2.2 30.2% of disabled women were being trapped in insecure work in 2022.[6]

1.2.3 In Wales, 38% of single parents – 86% of whom are women[7] – are living in relative income poverty.[8]

1.3 These structural inequalities mean that women have less wealth overall and are thus more vulnerable to the economic impacts of successive crises. In the context of the Covid-19 pandemic and cost of living crisis, women in Wales – particularly those facing specific intersectional disadvantages - are being pushed into debt and poverty as costs rise.

1.3.1 In 2022, 42% of low paid women in Wales have reported falling behind on household bills, compared to 35% of low paid men.[9]

1.3.2 In 2023, 58% of female workers reported being financially worse off than a year ago, compared to 43% of men.[10]

1.3.3 As 'shock absorbers of poverty,'[11] women feel the effects of rising food, energy, housing and other costs more acutely. This is particularly the case for single mothers, who rely on a single income and lack a co-parent to share childcare

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[2] Oxfam Cymru (2023), *Little steps, big struggles: Childcare in Wales* https://oxfamapps.org/cymru/wp-content/uploads/2023/11/Litle-Steps-Big-Struggles.pdf [Accessed 22.11.23]

[3] Ibid.

[4] Living Wage Foundation (2022), *Employee Jobs Paid Below the Real Living Wage* https://www.livingwage.org.uk/sites/default/files/2022-11/Employee%20jobs%20below%20the%20real%20Living%20Wage%202022_1.pdf [Accessed 26.11.23].

[5] Chwarae Teg (2023), *The gendered impacts of the cost-of-living crisis*

[6] Ibid.

[7] Oxfam Cymru (2023), *Little steps, big struggles: Childcare in Wales*

[8] Welsh Government (2023), *Relative income poverty: April 2021 to March 2022* https://www.gov.wales/sites/default/files/pdf-versions/2023/3/4/1679567757/relative-income-povertyapril-2021-march-2022.pdf [accessed 26.11.23].

[9] Ibid.

[10] Living Wage Foundation (2023), *Life on Low Pay as Inflation Begins to Ease* https://www.livingwage.org.uk/sites/default/files/2023-09/Life%20on%20Low%20Pay%20as%20Inflation%20Begins%20to%20Ease.pdf [Accessed 19.11.23]

[11] UK Women's Budget Group (2022), *The gendered impact of the cost-of-living crisis* https://wbg.org.uk/wp-content/uploads/2022/03/The-gendered-impact-of-the-cost-of-living-crisis.pdf [Accessed 28.11.23]

responsibilities with. In 2022, 23% of young women reported that they sometimes had to choose between food and heating, rising to 55% of single mothers and 33% of mothers with joint childcare responsibility.[12]

1.4 **Cost of living support:** The combination of continuing high costs alongside reduced governmental support and in-year spending changes is disproportionately impacting the most vulnerable households in Wales. In this context, we are concerned that government support measures such as hardship payments do not go far enough to protect women from falling deeper into debt and poverty.

1.4.1 The Welsh Government's continued funding of the *Discretionary Assistance Fund* (DAF) provides a vital lifeline to those on low incomes. The financial and in-kind support provided by the scheme can help to reduce pressure on women's incomes as the cost of essentials remains high. However, hardship payments are short-term measures and do little to address the underlying causes of the crisis and help households cope in the longer term. The fact that such payments are made at a household level risks undermining women's access to an independent income and particularly increases their vulnerability to financial abuse and financial dependency on an abuser. [13]

1.4.2 We welcome the Welsh Government's new *Help to Stay* scheme, which will support homeowners to meet their mortgage repayments as interest rates remain high. It is, however, another short-term fix and as an equity loan, could result in homeowners paying back more than they initially borrowed due to house price increases. We are also concerned at the lack of available support for private renters as rental costs continue to soar. Without governmental support, these costs will disproportionately impact low-income tenants, the majority of whom are women, pushing them further into debt and poverty.

1.4.3 Finally, in the context of winter weather and energy price rises in January 2024, the current lack of a government fuel support scheme is particularly problematic. The Welsh Government must expediate the roll out of its new *Warm Homes Programme* as a matter of urgency.

1.5 **Public services:** Rising inflation and energy costs have also put pressure on Wales' public services, endangering quality of provision and ability to meet demand. This is particularly problematic for women, who are more likely to work in public services, to rely on public services and to become providers of last resort when services are cut.[14] Reductions or cuts to public service provision therefore represent a 'triple whammy,'[15] for women in the UK. We welcome the Welsh Government's continued commitment to protect Wales' frontline services but remain concerned that current levels of support will fail to keep pace with the cost pressures faced by providers.

1.5.1 **Local Government:** Local authorities provide many vital public services that women use and need, including childcare, social care and housing support. We welcome the Welsh Government's continued funding of the Revenue Support Grant (RSG) for local authorities and its protection from in-year spending cuts. However, current levels of funding are unlikely to help Welsh local authorities meet cost pressures and demand for services. As noted by Wales Fiscal Analysis, Wales' local authorities are facing a £354million shortfall in 2024-

[12] Young Women's Trust (2022), *Just Getting By: Young Women's Trust Annual Survey 2022*

[13] Chwarae Teg (2019), *Trapped: Poverty amongst Women in Wales today*

[14] UK Women's Budget Group (2022), *The gendered impact of the cost-of-living crisis on public services* https://wbg.org.uk/wp-content/uploads/2022/11/Gendered-impact-of-cost-of-living-crisis-on-public-services-1.pdf [Accessed 26.11.23]

[15] Ibid.

2025, which will result in a significant reduction in public services.[16] Due to a lack of consequential funding from Westminster, local authorities are likely to resort to rising regressive council tax rates to make up this shortfall. See further details on the regressive nature of council tax and its impact on women in our response to question 4 below.

1.5.1.1 In this context, we welcome the Welsh Government's continued funding of the Council Tax Reduction Scheme for lower income households and its ongoing work to reform the council tax system in Wales. However, the challenges outlined above make this work and additional investment in local authorities even more urgent.

1.5.2 **Health and social care:** Women in Wales make up 78.4% of all health and social care workers.[17] We are therefore pleased to see the continuation of funding to ensure the payment of a Real Living Wage for all social care workers, the majority of whom are women. Serious issues remain, however, with the sector's employment conditions, and related problems around recruitment and retention. To solve these issues, the Welsh Government must tackle the prevalence of precarious zero-hour contracts, lack of job security and shortage of training and progression opportunities.

1.5.3 **Childcare:** A lack of affordable and accessible childcare remains a crucial barrier to women's workforce participation and a driving factor of gender inequality in Wales. In the current cost of living crisis, high childcare costs are compounding the financial pressures facing lower income households and pushing parents, particularly single mothers, further into debt and poverty.

1.5.3.1 While we welcome the continued rollout of funded provision to parents/carers of two-year-olds through *Flying Start*, the part-time and placed-based nature of the program limits eligibility significantly. For those ineligible, childcare costs remain high and prohibitive. For example, a recent study by Oxfam Cymru revealed that 70% of parents and guardians in Wales had no surplus income or savings left after allocating funds for childcare.[18]

1.5.3.2 The lack of funded provision for children under two years is also problematic, and inequitably impacts the most vulnerable households in Wales. As highlighted in a recent report by the Wales Women's Budget Group, lead carers of one and two-year-olds on Universal Credit in Wales – the vast majority of whom are women – will now be subject to sanction-backed conditionality requirements. [19] However, claimants in Wales will not be entitled to the same level of government-funded childcare support as their counterparts in England will be under the roll-out announced for September 2025, to assist with meeting these requirements. This discrepancy will disproportionately impact single mothers in Wales, who will struggle to meet increased conditionality requirements without

[16] Wales Fiscal Analysis (2023), *The medium-term fiscal outlook for local government in Wales* https://www.cardiff.ac.uk/__data/assets/pdf_file/0007/2779342/The-medium-term-fiscal-outlook-for-local.pdf [Accessed 22.11.23]

[17] Chwarae Teg (2023), *State of the Nation 2023*

[18] Oxfam Cymru (2023), *Little steps, big struggles: Childcare in Wales* https://oxfamapps.org/cymru/wp-content/uploads/2023/11/Litle-Steps-Big-Struggles.pdf [Accessed 28.11.23]

[19] Wales Women's Budget Group (2023*), Far From a Vital Safety Net: Benefit Conditionality, Sanctions and Women in Wales* https://wwbg.org.uk/wp-content/uploads/2023/08/Far-From-a-Vital-Safety-Net-Benefit-Conditionality-Sanctions-and-Women-in-Wales.pdf

adequate support, resulting in punitive financial sanctions and depleted incomes.[20]

1.6 **Equalities mainstreaming and gender budgeting:** To ensure a gender equal recovery from the pandemic and support women in the current, and future, crises, the Welsh Government must embed a robust intersectional gender analysis into its policy making and recovery planning.

1.6.1 In this context, we are pleased to see the ongoing work undertaken by government officials and other stakeholders through the Budget Improvement and Impact Advisory Group (BIIAG) to improve the Strategic Integrated Impact Assessment (SIIA). While there is still work to be done to clearly link budgetary decisions to equalities data and analysis, last year's SIIIA was a marked improvement on previous iterations. We hope to see further improvements to the SIIA as a result of this work in this year's Budget Improvement Plan.

1.6.2 We also welcome the Welsh Government's continued piloting of gender budgeting and were glad to see the publication of the Personal Learning Accounts (PLA) pilot evaluation earlier this year. However, while gender budgeting pilots provide valuable learnings, attention must now be given to developing plans to mainstream gender budgeting tools across the Welsh Government to support better policy making and resource allocation.

1.7 **Welsh Government in-year spending changes:** While their full impact is currently unknown, we are concerned that some of the Welsh Government's in-year spending changes announced in October may disproportionately impact women and other vulnerable groups in Wales.

1.7.1 As noted above, we welcome the Welsh Government's continued support for vital public services like the Welsh NHS and local authorities. We are, however, quite alarmed at announced cuts to its Social Justice Budget, which has been revised down by £7 million. Despite making up just 13% of the total Social Justice Budget, 60% (£4.2 million) of these savings will emanate from the Government's Equality, Inclusion and Human Rights budget.

1.7.2 While it remains unclear what particular programmes will be postponed or downgraded as part of this savings exercise, disproportionate cuts to an area of the budget which funds vital social justice initiatives and programmes is deeply concerning. The Welsh Government should therefore clarify the expected impacts of its in-year re-prioritisations without delay.

1.7.3 We are equally concerned about the adjusting down of the Welsh Government's childcare budget, due to lower-than-expected demand levels. As emphasised in Oxfam Cymru's most recent report, the need for affordable and accessible childcare remains a pressing issue in Wales. [21] If demand is low, this suggests that the current childcare provisions are not accessible for parents and carers in Wales. Rather than cutting childcare funding, the Welsh Government should instead take steps to ensure funded childcare meets the needs of parents in Wales.

2. How should/could the Welsh Government support the economy and business following the pandemic, Brexit and inflationary and other economic pressures?

2.1 **Business support:** Continuing high costs are impacting non-domestic properties in Wales, particularly smaller businesses that face a combination of rising stock, staff and

[20] Ibid.

[21] Oxfam Cymru (2023), *Little steps, big struggles: Childcare in Wales*

energy costs. We are concerned that these pressures may result in higher costs being passed onto Welsh consumers. Due to their lower wealth and savings overall, women – particularly single mothers, disabled women, ethnic minority and racialised women – would be disproportionately impacted by these increasing costs.

2.1.1 In this context, the Welsh Government should maintain its support for businesses in Wales through the continuation of its non-domestic rates relief scheme and maintaining the current freeze in the non-domestic rates multiplier. The continuation of extra support for retail, leisure and hospitality sectors – which have a female-dominated workforce[22] – is particularly important, as these sectors were hit hardest during the pandemic and are particularly exposed to inflationary pressures.

2.2 **Public transport:** As noted above, due to their unequal position in Wales' economy, women – particularly those who face additional intersectional disadvantage and discrimination – are more reliant on public services, including public transport. Women are more likely than men to use public transport to access employment, education and healthcare. We therefore welcome the Welsh Government's increased investment in Welsh public transport, and the recent uplift of £125 million to Transport for Wales.

2.2.1 However, as a cheaper form of transport, women and other low-income individuals are more likely to use bus, rather than rail, travel.[23] Since the pandemic, inflationary pressures and a lack of funding has resulted in cuts to Wales' bus services and networks,[24] a development that will disproportionately impact women and other vulnerable groups. To avoid further entrenching gender inequality and help grow the economy, the Welsh Government should invest long-term funding in Wales' bus services.

2.3 **Women's employability:** Tackling gender inequality can also help to boost Wales' productivity and economic performance. As noted by Chwarae Teg, £13.6 billion could be injected into the Welsh economy as a result of achieving gender equality within it.[25]

2.3.1 A key issue impacting this inequality in Wales is the underrepresentation of women in its highest paid sectors – mining and quarrying, energy production and supply, and water supply, sewage and waste[26] - which are male dominated.[27] Conversely, women in Wales tend to be employed in lower-paid fields, such as the public sector where women account for 70% of employees.[28] To address these labour market disadvantages, the Welsh Government must prioritise the employability of women and implement targeted programmes of support to increase the representation of women in these sectors.

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[22] Chwarae Teg (2023), *State of the Nation 2023*

[23] IPPR (2022), *To support low-income households, it's time to reduce the cost of daily bus travel* https://www.ippr.org/blog/time-to-reduce-the-cost-of-daily-bus-travel [Accessed 28.11.23]

[24] BBC News, 'Bus: Wales could lose quarter of services, say operators,' 21.08.23 https://www.bbc.co.uk/news/uk-wales-66543302

[25] Chwarae Teg (2018), *The Economic Value of Gender Equality in Wales*

[26] Wales Fiscal Analysis (2023), Labour Market Update for Wales https://www.cardiff.ac.uk/__data/assets/pdf_file/0007/2779882/20230920_Labour-Market_27oct.pdf [Accessed 26.11.23]

[27] Chwarae Teg (2023), *State of the Nation 2023*

[28] Ibid.

2.3.2 In this context, the removal of £17.5 million from Wales' apprenticeships programme and £5 million from React+,[29] is concerning. To redress this, the Welsh Government could use the consequential funding it will receive as a result of the UK Government's recent investment in English apprenticeships[30] to invest in employability programmes and interventions designed to meet the needs of women and girls in Wales. Establishing a targeted approach is particularly important in the absence of other programmes such as Chwarae Teg's *Agile Nation 2*, which had previously supported women into employment.

2.4 **Investing in a care-led economy:** The Welsh Government can reduce barriers to women's employment by investing in a care-led economy. As noted above, women are more likely to work in, rely on and become last resort providers of public services.[31] In the context of a lack of consequential funding for public services in 2024-2025, it is even more important that the Welsh Government retains its support for these services and sectors.

2.5 Investing in the care sector can also help to grow the Welsh economy. By making care a key sector in our national economic strategy and investing in vital social infrastructure such as childcare, social care and health care, the Welsh Government will help more women to enter, remain and progress within the workplace. This, in turn, will expand Wales' productive capacity and boost its economic performance.

2.5.1 For example, a recent study by the UK Women's Budget Group found that investing in care would produce 2.7 times as many jobs as investing in the male-dominated construction sector, producing 6.3 times as many jobs for women and 10% more for men.[32]

2.6 In Wales, investing in a care-led economy would address the high levels of unemployment and unfilled vacancies, the latter of which exceeds all other UK nations.[33] As highlighted by Wales Fiscal Analysis, most of these vacancies are within the health and social care sector, where 15% of jobs are vacant.[34] To address this, the Welsh Government should:

2.6.1 Use the consequential funding from the extended England Childcare Offer to expand the eligibility of Wales' Childcare Offer to parents of under two-year-olds. This would assist Welsh parents who are out of work as a result of unpaid caring responsibilities, of which women account for 90%.[35]

2.6.2 Address the recruitment and retention issues within the social care sector by tackling its zero-hour contracts, lack of job security and shortage of training and progression opportunities.

2.6.3 Utilize the levers at its disposal to allocate additional funding to Wales' local authorities, which provide vital public services and face a funding shortfall of £354 million in 2024-2025.[36]

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[29] Welsh Government (2023), *Update on 2023-2024 financial position: summary of main changes* https://www.gov.wales/sites/default/files/pdf-versions/2023/10/2/1697553179/update-on-2023-2024-financial-position-summary-of-main-changes.pdf [Accessed 26.11.23]

[30] HM Treasury (2023), *Autumn Statement 2023*

[31] UK Women's Budget Group (2022), *The gendered impact of the cost-of-living crisis on public services*

[32] UK Women's Budget Group (2020) *A Care-Led Recovery from Coronavirus* https://wbg.org.uk/wp-content/uploads/2020/06/Care-led-recovery-final.pdf [Accessed 26.11.23]

[33] Wales Fiscal Analysis (2023), *Labour Market Update for Wales* https://www.cardiff.ac.uk/__data/assets/pdf_file/0007/2779882/20230920_Labour-Market_27oct.pdf [Accessed 26.11.23]

[34] Ibid.

[35] Ibid.

[36] Wales Fiscal Analysis (2023), *The medium-term fiscal outlook for local government in Wales*

2.7 **Mainstreaming equality:** To fully address the barriers that women face to employment and tackle gender inequality at its root, the Welsh Government must mainstream an intersectional equalities analysis into all its spending and policy decisions. The Gender Equality Review, Deeds Not Words[37] provides a clear, well-evidenced framework through which to do this. The Welsh Government should therefore expediate the full implementation of the review recommendations as a matter of urgency.

3. What action should the Welsh Government take to help households cope with inflation and cost of living issues?

3.1 Inflation and cost of living pressures have disproportionally impacted women, particularly single mothers, disabled women, ethnic minority and racialised women, who are being pushed further into poverty as the cost of living crisis continues to bite. While we recognize the challenges of the Welsh Government's current financial position, it is vital that equality remains a core focus in policymaking and that the Government uses all of the tools at its disposal to support those most in need.

3.2 **Cost of living support:** While we welcome government cost of living support, as noted above, we are concerned that these measures do not go far enough to prevent low-income households falling deeper into debt and poverty as costs continue to rise. To truly support women during this challenging time, the Welsh Government should implement:

3.2.1 **A Welsh benefits system**: The Government should increase access to and uptake of Welsh hardship grants and allowances by subsuming them under a single framework or Welsh benefits system. By simplifying complex application processes and ensuring efficient administration, the Welsh Government can help ensure that low-income households are accessing the support they are entitled to.[38]

3.2.2 **Rent control**: While the Government's new *Help to Stay* programme - which assists homeowners with mortgage repayments - is welcome, the Welsh Government must do more to support tenants within the private renting sector, where costs have increased exponentially.[39] Over a quarter of private renters in Wales were forced cut down on food or skipped meals to afford rent in 2023.[40] The Welsh Government should implement measures to stabilize or limit rental costs, accelerating progress towards the publication of a White Paper that will include proposals on fair rents.

3.2.3 **Fuel and energy support**: While inflation has fallen, energy prices remain high. As noted by the Bevan Foundation, energy costs in Wales are currently 50% higher than in 2021-2022[41] and are set to rise even further in January 2024. However, previous energy bills and fuel support schemes in Wales have been discontinued. As winter approaches, the Welsh Government must expediate the implementation of its new *Warm Homes Programme* as a matter of urgency.

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[37] Chwarae Teg (2019), *Deeds Not Words, Review of Gender Equality in Wales*

[38] The Bevan Foundation (2023), *A common approach to Welsh benefits: Feasibility Study*

[39] The Bevan Foundation (2023), A snapshot of poverty in Winter 2023 https://www.bevanfoundation.org/wp-content/uploads/2023/02/Snapshot-of-poverty-in-winter-2023.pdf [Accessed 26.11.23]

[40] Ibid.

[41] The Bevan Foundation (2023), Winter warning for Welsh heating bills https://www.bevanfoundation.org/views/winter-warning-for-welsh-heating-bills/#:~:text=The%20months%20ahead%20are%20set,while%20electricity%20is%2027p%20kWh [Accessed 26.11.23]

3.3 **Public services:** As noted above, women are more likely to work in public services, to rely on public services and to become providers of last resort when services are cut.[42] The Welsh Government should therefore use all of its levers to allocate more support to Wales' struggling public services. This is even more pressing in the absence of additional investment at a UK Government level.[43]

3.3.1 **Local Government:** With a projected funding shortfall of £354 million in 2024-2025,[44] local authorities in Wales are likely to become more reliant on revenue from regressive council taxes to meet cost pressures. As council tax is not based on income, it can have inequitable effects on low-earning tenants and homeowners. Rises in regressive council taxes are therefore likely to disproportionately impact single parents in Wales – 86% of whom are women[45] – who rely on a single income.

3.3.1.1 In addition to allocating more funding to Welsh local authorities, the Welsh Government should accelerate work to establish a more fair and progressive council tax system in Wales. Serious consideration should also be given to the use of more progressive sources of tax revenue, such as devolved income tax increases, or income tax reform to include more bands and flexibility as in Scotland. The Welsh Government should therefore continue to lobby the UK Government for further devolution over these powers.

3.3.2 **Health and social care:** To adequately support an aging Welsh population and reduce the economic vulnerability of a largely female workforce, the Welsh Government must address the recruitment and retention issues within Wales' social care sector. One way to do this is to implement an ethical care charter to ensure fair work opportunities and tackle the prevalence of zero-hour contracts and lack of development opportunities within the sector.

3.3.3 **Childcare:** In the context of the current cost of living crisis, high childcare costs are forcing women – particularly single parents – out of the workplace and further into poverty. The Welsh Government should help to redress this by allocating its consequential funding from the extended childcare provisions in England to improve access to childcare in Wales, either by widening the eligibility of the Childcare Offer to parents on the lowest incomes or through accelerating the rollout of the *Flying Start* programme and increasing the number of hours available.

3.4 **Equalities mainstreaming and gender budgeting:** To reduce the inequalities that have left women in Wales more vulnerable to the impacts of successive crises, the Welsh Government must take further action to address gender inequality at its root. By implementing the recommendation of the Gender Equality Review *Deeds Not Words*[46] in full, the Welsh Government can embed an intersectional equalities lens into all future spending decisions, and therefore avoid unintended inequitable impacts. While we welcome the actions taken so far, progress on fully implementing the recommendations remains regrettably slow.

3.4.1 **Gender budgeting pilots:** While we welcome the continued piloting of gender budgeting and the publication of the Personal Learning Accounts (PLA) pilot evaluation earlier this year, it remains unclear how the learnings will inform

[42] UK Women's Budget Group (2022), *The gendered impact of the cost-of-living crisis on public services*
[43] HM Treasury (2023), *Autumn Statement 2023*
[44] Wales Fiscal Analysis (2023), *The medium-term fiscal outlook for local government in Wales*
[45] Oxfam Cymru (2023), *Little steps, big struggles: Childcare in Wales*
[46] Chwarae Teg (2019), *Deeds Not Words, Review of Gender Equality in Wales*

further pilots and wider policy making. We are also still awaiting the full evaluations from the Welsh Government's other ongoing gender budgeting pilots – Young Persons Guarantee (YPG) and E-Move – and are keen to learn more about the specific gender budgeting tools that have been used, the pilot aims and timescales as well as how success will be evaluated. To ensure these pilots are successful and constructive, this information must be clarified without delay. Furthermore, while pilots provide valuable learnings, attention now needs to be given to developing plans to mainstream gender budgeting tools across the Welsh Government, supporting better policy making and resource allocation across the board.

3.4.2 **Assessing impact:** The work of the Budget Improvement and Impact Advisory Group (BIIAG) resulted in the publication of a much-improved Strategic Integrated Impact Assessment (SIIA) alongside last year's Draft Budget. However, more work needs to be done to clearly demonstrate how equalities data and analysis are shaping budgetary decisions across a wider range of government policy decisions. We hope that this important work will continue with fervor in the 2024-2025 Welsh budgetary cycle and will result in further marked improvements in this year's SIIA and Budget Improvement Plan.

4. Is the Welsh Government using the financial mechanisms available to it around borrowing and taxation effectively?

4.1 We recognize the tight fiscal constraints placed on the Welsh Government as a result of its current fiscal framework, consisting of a block grant determined by England departmental spending changes, inflexible tax powers and limited borrowing powers.

4.2 This lack of flexibility was highlighted by this year's in-year spending changes, in which Cabinet ministers were asked to mitigate budgetary pressures through spending cuts and reprioritizations, emphasizing the limited tools at the Welsh Government's disposal to manage its budget from year to year. As noted in a recent report by the Institute of Welsh Affairs (IWA), this 'lack of fiscal firepower,'[47] constrains the Welsh Government's policymaking abilities in devolved areas such as health, economy, housing and transport. As outlined above, these policy areas are key to tackle the cost of living crisis and its impact on women.

4.3 **Taxation**: Notwithstanding a small number of devolved taxes – Council Tax, non-domestic rates, land transaction tax and landfill disposals tax – Wales' tax powers are limited.

4.3.1 **Council tax:** We welcome the recent work being undertaken by the Welsh Government to reform Welsh council tax and establish a more progressive system. The projected shortfall of £354 million for Welsh local authorities in 2024-25[48], and the expected increases in council tax, makes progress towards a fairer council tax system a matter of urgency.

4.3.2 **Income tax:** Unlike in Scotland, the Welsh Government cannot adjust income tax bands (which are formulated on a UK basis) or create new ones. Instead, under Welsh rates of income tax, the Welsh Government can amend the top 10p paid by Welsh taxpayers in every £1 of income in each tax band (Basic, Higher, Additional). As noted by Wales Fiscal Analysis, current income tax thresholds are not suitable to income levels in Wales, where 93% of taxpayers

[47] Institute of Welsh Affairs (2022), *Fiscal Firepower: Effective Policy-Making in Wales* https://www.iwa.wales/wp-content/media/IWA_-Fiscal-Firepower-and-Effective-Policy-Making.pdf [Accessed 28.11.23]

[48] Wales Fiscal Analysis (2023), *The medium-term fiscal outlook for local government in Wales*

pay the basic rate.[49] The Welsh Government must continue to make the case for further devolution of taxation powers to Wales, to allow more flexibility and to respond to the needs of Welsh taxpayers.

4.4 **Borrowing**: Under the current fiscal framework, the Welsh Government has a borrowing cap of £1billion from the National Loans Fund, the cheapest form of borrowing available to it.

4.4.1 As noted by the IWA, this arrangement 'embeds expensive borrowing and essentially bans cheaper forms of borrowing above a certain level,'[50] and locks Wales into lower levels of development than other parts of the UK.

4.4.2 To address this, we echo the recommendations of the IWA Fiscal Firepower report, which calls on the Welsh Government to continue to call and explore the case for the devolution of prudential borrowing powers.[51]

5. The Committee would like to focus on a number of other specific areas in the scrutiny of the Budget. Do you have any specific comments on any of the areas identified below?

Is enough being done to tackle the rising cost of living and support those living in relative income poverty?

5.1 As noted throughout this response, structural inequalities mean that women in Wales are more likely to be living in relative income poverty as the cost of living crisis continues to bite. While government support measures such as hardship payments are welcome, we are concerned that they do not go far enough to adequately support women and other vulnerable groups during this challenging time. To do so, the Welsh Government should implement the cost of living support and public services recommendations detailed in our response to Question 3 above. In the longer term, it is vital that action is taken to address the root causes of gender inequality in Wales by implementing the recommendations of the Gender Equality Review[52] in full. See section 5.7 below for more detail.

How could the budget further address gender inequality in areas such as healthcare, skills and employment?

5.2 **Healthcare**: As discussed above, women in Wales are more likely to rely on and work in public services. This is particularly the case in Wales' health and social care sector, within which women account for over 78% of workers.[53] The social care sector in particular is undervalued and understaffed with lower wages and widespread precarious work and conditions. Due to their dominance in the sector, this further entrenches the unequal economic position of women, pushing them further into debt and poverty as costs rise.

5.2.1 While we welcome the Welsh Government's continued investment in health and social care, more must be done to address the precariousness of work and the 15% of unfilled vacancies that persist within the sector.[54] A possible solution to this is the implementation of an ethical care charter to ensure fair work

[49] Ibid.
[50] Institute of Welsh Affairs (2023), *Fiscal Firepower: Effective Policy-Making in Wales*
[51] Ibid.
[52] Chwarae Teg (2019), *Deeds Not Words, Review of Gender Equality in Wales*
[53] Chwarae Teg (2023), *State of the Nation 2023*
[54] Wales Fiscal Analysis (2023), *Labour Market Update for Wales*

opportunities and reduce the prevalence of zero-hour contracts and lack of development opportunities within the sector.

5.3 **Health inequalities:** In addition to economic inequality, women also experience health inequality in Wales. As noted by Senedd Research, women in Wales experience poorer health outcomes in many healthcare areas including rates of diseases such as cancer and diabetes, and mental health diagnoses.[55] Thus, while women in Wales have a longer life expectancy than men, they are spending less of their life in good health, with the UK having the largest gender health gap out of all G20 countries.[56]

5.3.1 This situation is even starker for women who experience intersecting discrimination. For example, Black women in the UK are almost four times more likely to die in childbirth than white women, with significant disparities for women from Asian or mixed ethnic backgrounds.[57] Furthermore, during the pandemic, disabled women in the UK were up to 3.5 times more likely to die from a Covid-related cause than non-disabled women.[58]

5.3.2 To address this gender health gap, the Welsh Government must urgently progress work on its Women's Health Plan to address areas of unmet need and to ensure equal and timely access to healthcare services for women. The Welsh Government should also invest in high-quality research so that more is learnt about women-only conditions such as endometriosis and polycystic ovary syndrome, and to identify and study gender differences in diseases.

5.4 **Employment and skills:** Due to deep-rooted gender inequality, women in Wales are more likely to be working in part-time, insecure and low-paid jobs. To address these inequalities and allow women to achieve their economic potential, the Welsh Government must reduce the barriers that women face to entering, progressing and remaining in the workplace.

5.4.1 **Childcare**: The lack of affordable, accessible and flexible childcare provision continues to exert significant influence over women's paid work, often shaping whether they are in work, the hours they work and the opportunities they have for progression. The Welsh Government should help alleviate these barriers by allocating the consequential funding from the extended England Childcare Offer to expand funded childcare provisions to lowest income families.

5.4.2 **Underrepresentation:** Another key factor in women's economic inequality in Wales is their underrepresentation in highest paid sectors such as mining and quarrying, energy production and supply, and water supply, sewage and waste.[59] As noted by Chwarae Teg (2023), these sectors are male dominated.[60]

5.4.2.1 To address these labour market disadvantages, the Welsh Government should use consequential funding from apprenticeships funding to invest in employability programmes and interventions designed to meet the

[55] Senedd Research (2022*), Hormonal, emotional and irrational: Is it really the case that women's health is taken less seriously than men's?* https://research.senedd.wales/research-articles/hormonal-emotional-and-irrational-is-it-really-the-case-that-women-s-health-is-taken-less-seriously-than-men-s/ [Accessed 26.11.23]
[56] Ibid.
[57] UK Women and Equalities Committee (2023) *Black maternal health* https://committees.parliament.uk/publications/38989/documents/191706/default/ [Accessed 26.11.23]
[58] ONS (2021), *Updated estimates of coronavirus (COVID-19) related deaths by disability status, England: 24 January to 20 November 2020* https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/articles/coronaviruscovid19relateddeathsbydisabilitystatusenglandandwales/24januaryto20november2020 [Accessed 26.11.23]
[59] Wales Fiscal Analysis (2023), *Labour Market Update for Wales*
[60] Chwarae Teg (2023), *State of the Nation 2023*

needs of women and girls in Wales and increase their representation in high-earning sectors.

5.5 **Investing in a care-led economy:** The Welsh Government can also reduce gender inequality in employment by improving the pay and conditions in the sectors that women dominate. In addition to investing in the childcare sector, the Welsh Government should:

5.5.1 Address the recruitment and retention issues within the social care sector by tackling its zero-hour contracts, lack of job security and shortage of training and progression opportunities.

5.5.2 Utilize the levers at its disposal to allocate additional funding to Wales' local authorities, which provide vital public services and face a funding shortfall of £354 million in 2024-2025.[61]

5.6 **Equalities mainstreaming and gender budgeting:** As outlined in section 5.7 below, to tackle structural inequality the Welsh Government must embed a robust intersectional gender analysis into all policy making and spending decisions. To do so, the implementation of the Gender Equality Review, *Deeds Not Words*[62] recommendations must be expediated as a matter of urgency.

How should the Welsh Government explain its funding decisions, including how its spending contributes to addressing policy issues?

How can the documentation provided by the Welsh Government alongside its Draft Budget be improved?

How is evidence and data driving priority setting and budget allocations, and is this approach sufficiently clear?

5.7 For brevity, the above questions have been grouped together. Alleviating gender inequalities in Wales requires embedding a robust intersectional equalities analysis in all spending and policy decisions and clearly demonstrating how those decisions are informed by their impacts on gender and other groups. By doing so, the Welsh Government can avoid unintended consequences that exacerbate inequality and tackle gender inequality at its root. As noted throughout our response, the recommendations of the Gender Equality Review[63] provide a clear, well-evidenced framework through which to do this, but are not yet fully implemented by the Welsh Government.

5.7.1 **Gender budgeting**: While we welcome the Welsh Government's continued piloting of gender budgeting, attention now needs to be given to developing plans to mainstream gender budgeting tools across the Welsh Government, supporting better policy making and resource allocation.

5.7.2 **Mainstreaming equality and impact analysis:** We also welcome the ongoing work undertaken by government officials and other stakeholders through BIIAG to strengthen the SIIA and provide a clearer rationale and evidence base for Welsh Government budgetary decisions. As noted previously, this important work resulted in marked improvements to last year's SIIA, including for example, a clearer purpose, stronger linking between evidence, trends and budgetary decisions and the use of detailed case studies demonstrating how complex issues informed spending decisions. Issues remain, however, with regards to the detail and scope of these analyses. The 2024-2025 SIIA could therefore be improved by demonstrating how equalities data and analysis are shaping budgetary allocations across a wider range of government policy

[61] Wales Fiscal Analysis (2023), *The medium-term fiscal outlook for local government in Wales*

[62] Chwarae Teg (2019), *Deeds Not Words, Review of Gender Equality in Wales*

[63] Ibid.

decisions. We hope to see further changes and a detailed plan for further strengthening of the SIIA in this year's Budget Improvement Plan.

5.8 To conduct intersectional equalities and impact assessments, full use of equalities evidence and disaggregated data is critical. Challenges persist in Wales however, with regards to the collection and reporting of data. Specifically, the lack of available disaggregated data – for example by region, gender and other intersectional characteristics - makes it difficult to adequately understand the impact of policy and spending decisions on different groups.

5.8.1 Thus, while we welcome the establishment of the Equality, Race and Disability Evidence Units, these units must retain a key focus on gender and intersectional equalities, so that this data is available and disaggregated as a matter of routine. The Welsh Government must then ensure that this data is used effectively to demonstrate impact and inform policymaking.

Is the support provided by the Welsh Government for third sector organisations, which face increased demand for services as a consequence of the cost of living crisis and pandemic sufficient?

5.9 Post-EU funding challenges and prevailing financial pressures have had a profound impact on third sector organisations throughout the UK, particularly those within the women's sector. As noted in a recent report by Rosa[64] only 1.8% of the £4.1 billion grants awarded to UK charities in 2021 went to women and girls focused activity, with one third of these grants awarded to organisations with no specific focus on women and girls. These issues are amplified within the Welsh women's sector, where organisations face additional obstacles when seeking to address and diversify their funding due to a lack of understanding of devolution amongst grant-making bodies. These unique financial pressures are evidenced by the sad closure of Chwarae Teg, Wales' leading gender equality charity, in October of this year. For 30 years, Chwarae Teg played a pivotal role in research, policy development and campaigning on fiscal matters, including budgetary scrutiny, in Wales. The loss of the organisation and the expertise of its – predominantly female – workforce leaves a significant and concerning gap within the Welsh women's sector. Organizational closures such as Chwarae Teg's represent a worrying trend of capacity loss within Wales' third sector, which plays an indispensable role in scrutinizing policies and advocating for the most disadvantaged in our society. To prevent further loss of vital expertise and to support women and other vulnerable groups in Wales, the Welsh Government must take urgent action to protect the sustainability of a rapidly contracting Welsh women's sector, through adequate funding and increased support.

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[64] Rosa (2023), *Mapping the UK Women and Girls Sector and its Funding: Where Does the Money Go?* https://rosauk.org/wp-content/uploads/2023/04/Women-and-Girls-Sector-Research-Mapping-Report-Amended.pdf [Accessed 29.11.23]

Cyflwynwyd yr ymateb i ymgynghoriad y Pwyllgor Cyllid ar Cyllideb Ddrafft Llywodraeth Cymru 2024-25.

This response was submitted to the Finance Committee consultation on the Welsh Government Draft Budget 2024-25.

WGDB_24-25 49 : Ymateb gan: Sefydliad Bevan (Saesneg yn unig) | Response from: Bevan Foundation (English only)

SEFYDLIAD bevan FOUNDATION

Senedd Finance Committee

Inquiry into the Welsh Government's Draft Budget 2024-25

Response by the Bevan Foundation

The Bevan Foundation is Wales's most influential think tank. We create insights, ideas and impact that help to end poverty, inequality and injustice in Wales. We are a registered charity and company limited by guarantee, funded by charitable trusts and foundations, donations, and trading as a social enterprise.

We welcome the opportunity to contribute our views on the draft budget for 2024-25, in advance of its publication. Our responses relate only to poverty and inequality.

1. What, in your opinion, has been the impact of the Welsh Government's 2023-2024 Budget, including funding related to the recovery of the pandemic?

The cost of living crisis continues to put severe pressure on low-income households in all types of communities in 2023-2024. Although the rate of inflation has fallen, it remains at the highest rate since the early 1990s and prices of everyday items continue to be high. As an illustration, a basket of goods that cost £100 in 2021, cost £118.34 in October 2023. The rate of inflation for low income households is even higher because low income households spend an above average proportion on their incomes on high-inflation items.

Bevan Foundation research showed that in summer 2023, when many households were saving on energy costs, that around 14% of all households in Wales sometimes, often or always go without essentials such as food, heating and toiletries. The figure rises to 47% amongst people in receipt of Universal Credit. That the findings in summer 2023 were very similar to those six months earlier indicates that there has been little improvement for households.

We have therefore welcomed many of the Welsh Government's actions to support low income households during the year, including the increased budget for the Discretionary Assistance Fund (DAF), the uplift to Education Maintenance Allowance, the continued roll-out of Free School Meals to primary pupils and the increased budget for the Discretionary Homeless Prevention Fund (DHPF). These measures are undoubtedly helping people to manage acute financial pressures.

We are, however, concerned that some of the measures introduced 2022-2023, when pressures were arguably not as great as today, have been withdrawn in the current year. For example, both the UK Government and Welsh Government have withdrawn their support with energy costs, the provision of Free School Meals in the holidays has ended, and fewer emergency payments are allowed from DAF. Yet energy, food and housing costs are even higher than before.

3. What action should the Welsh Government take to help households cope with inflation and cost of living issues?

The Welsh Government must not assume that the cost of living crisis is over and should continue to support the hardest-hit households. The outlook during the period of the

Welsh Government's 2024/25 budget continues to be tough, with the Office for Budget Responsibility and Bank of England anticipating inflation remaining about the target rate of 2% to the end of 2025. If correct, the cost of that basket of goods could increase by a further £7.10 by March 2025.[1] While the UK Government has increased most social security benefits by the rate of inflation and unfrozen Local Housing Allowance, benefits nevertheless remain historically low and wages have not kept pace with inflation, resulting in real terms cuts.

We therefore strongly urge the Welsh Government to use its 2024/25 budget to ensure that households with the lowest incomes are able to afford the essentials of an adequate home, food, heating and hygiene products. Our recommendations for specific actions that the Welsh Government should take were included in the final report of the Wales Expert Group on the Cost of Living Crisis,[2] of which we were a member. These comprised a mix of:

- Payments or reliefs to put cash in pockets, including:
    - A winter cash payment for the most severely affected households, including those with children.
    - Changes to the council tax relief taper.
- Extending eligibility and improving the provision of public services that provide essentials including:
    - Provision of free school meals
    - Accelerating the provision of social housing
    - Stepping up home insulation schemes.
- Boosting take up of UK and Welsh benefits, grants and allowances through targeted campaigns.

The Bevan Foundation would make the following points in respect of the group's recommendations and the Welsh Government's response.

We understand that the Welsh Government is faced with managing a combination of inflation hitting the services it provides and rising demand for those services, at the same time as it has a fixed budget. While there are constraints in the current fiscal arrangements, the Welsh Government does have choices. It has the option of raising (or lowering) income tax or other devolved taxes, or it can develop new, revenue-raising taxes; it can impose or increase fees and charges; and it can reallocate resources from low-priority areas to those with a higher priority. In managing mid-year inflation pressures, the Welsh Government *chose* to increase expenditure on the NHS and train services, while choosing not to extend eligibility for Free School Meals or introduce a Winter energy payment. Similarly, it has chosen to award grants to multi-national businesses, while cutting back on the goods offered to people in financial crisis. In noting this, we are not expressing a view about the Welsh Government's decisions but are pointing out that it does have options.

In discussions about the Welsh budget, we also note that the Welsh Government has said that it wishes to focus on the areas which are devolved and not attempt to make up for deficiencies it perceives in the UK Government's responsibilities, such as aspects of the

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[1] Assuming a consistent 4% rate of inflation over the period.

[2] https://www.gov.wales/report-wales-expert-group-cost-living-crisis

Universal Credit system which cause hardship or cuts to UK Government services such as Legal Aid. However, the current devolution settlement is based on reserved powers, meaning that the Welsh Government can take responsibility for **all** aspects of life in Wales, including those which are the result of UK Government decisions. It can, if it wishes, complement, supplement or make up for perceived deficiencies in the UK Government's approach. In many instances, it is sound socio-economic sense to do so, for example the devolved DHPF helps to prevent homelessness even if this is caused by a shortfall in Local Housing Allowance, while the DAF can explicitly be used to offset the impact of the five-week wait for payment of Universal Credit.

With standards of living forecast to remain low for the next three years and destitution rising, we urge the Welsh Government to take a holistic view of its responsibilities and to exercise its choices to help to ease pressure on low income households.

7. The Committee would like to focus on a number of other specific areas in the scrutiny of the Budget. Do you have any specific comments on whether enough is being done to tackle the rising costs of living and support those people living in relative income poverty?

As said earlier, the Bevan Foundation would like to see the Welsh Government do more to solve poverty. We acknowledge that the Welsh Government has taken some important actions in respect of immediate cost of living pressures, and also acknowledge that some of those actions will also have longer term benefits for people on low incomes.

Nevertheless, the Bevan Foundation urges the Welsh Government to step up its actions to address the root causes of poverty, i.e. high costs (especially of essentials such as food, housing and transport), lack of decent work in the local labour market, and in particular in economically disadvantaged areas, and an inadequate social security system especially for working age adults and children. This should be done with fewer interventions delivered at scale over the longer term.

There are financial benefits from reducing poverty and income inequality. Poverty costs the public purse a great deal. It is associated with poor health, lower educational outcomes, higher housing needs and additional demand for social care and social services to name just a few. Health inequalities are estimated to cost NHS hospital services alone some £322 million per year (8.7%) of NHS hospital expenditure.[3] In 2016 the Bevan Foundation estimated that 20% of the Welsh budget was spent on ameliorating the impact of poverty, including additional costs to health, housing, education and social services and not including the costs of foregone tax receipts – some £4 billion a year.[4] If the Welsh Government successfully reduced poverty – even by a modest margin - it would ease the pressure on its budget over time.

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[3] https://phw.nhs.wales/news/tackling-inequality-could-save-hospitals-in-wales-322-million-every-year/
[4] https://www.bevanfoundation.org/resources/prosperity-without-poverty-framework-action-wales/