

Agenda – Finance Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: 19 September 2019

Meeting time: 09.30

For further information contact:

Bethan Davies

Committee Clerk

0300 200 6372

SeneddFinance@assembly.wales

1 Introductions, apologies, substitutions and declarations of interest

(09:30)

2 Paper(s) to note

(09:30–09:40)

(Pages 1 – 9)

Minutes of the meeting held on 3 July 2019

Minutes of the meeting held on 11 July 2019

Minutes of the meeting held on 17 July 2019

2.1 Letter from Llywydd to Chair of Equality, Local Government and Communities Committee – Voting rights for prisoners 23 July 2019

(Pages 10 – 12)

2.2 Letter from Minister for Finance and Trefnydd – Statement of Principles for Directly Funded Bodies – 19 July 2019

(Pages 13 – 14)

2.3 Letter from Minister for Finance and Trefnydd to Mike Hedges – Financial transactions capital – 16 August 2019

(Pages 15 – 16)

2.4 Letter from the Welsh Government to the Rt Hon Nicky Morgan MP – Written evidence to Treasury Committee inquiry into regional imbalances in UK economy – 9 August 2019

(Pages 17 – 37)

2.5 Letter from Future Generations Commissioner – Involvement in first Future Generations Report – 9 August 2019

(Pages 38 – 39)



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

- 2.6 Response from Minister for Finance and Trefnydd to Committee's report on Scrutiny of Welsh Government First Supplementary Budget 2019–20 – 19 August 2019**
(Pages 40 – 52)
- 3 Motion under Standing Order 17.42 to resolve to exclude the public from part of the meeting (Items 4–9 and 11–12)**
(09.40)
- 4 Consideration of scoping paper on retention payments in the construction sector**
(09:40–09:50) (Pages 53 – 59)
Paper 1 – Scoping paper on retention payments in the construction sector
- 5 Senedd and Elections (Wales) Bill: Consideration of correspondence**
(09:50–10:10) (Pages 60 – 70)
Paper 2 – Response from the Llywydd to the Finance Committee's report and recommendations on the financial implications of the Senedd and Elections (Wales) Bill

Paper 3 – Letter from the Counsel General on the Senedd and Elections (Wales) Bill – 3 September 2019
- 6 Wales Audit Office – Value for money study: Travel allowances**
(10:10–10:30) (Pages 71 – 73)
Paper 4 – Wales Audit Office value for money study into travel allowances
- 7 Welsh Government Draft Budget 2020–21: Appointment of expert adviser**
(10:30–10:40) (Pages 74 – 79)
Paper 5 – Application for the role of expert adviser
- 8 Consideration of forward work programme**
(10:40–10:50) (Pages 80 – 85)

Paper 6 – Forward work programme for the Finance Committee

**9 Consideration of letter from the Llywydd – Public Services
Ombudsman (Wales) Act 2019 and amending Standing Orders**

(10:50–11:00)

(Pages 86 – 87)

Paper 7 – Letter from the Llywydd on the Public Services Ombudsman (Wales)
Act 2019 and amending Standing Orders

10 Inquiry into a legislative budget process: Evidence session 4

(11:00–12:00)

(Pages 88 – 107)

Dr Joachim Wehner, Associate Professor in Public Policy, London School of
Economics and Political Science

Research brief

**11 Inquiry into a legislative budget process: Consideration of
evidence**

(12:00–12:15)

**12 Letter from Minister for Finance and Trefnydd – timetable for
Welsh Government Draft Budget 2020–21 – 13 September 2019**

(12:15–12:30)

(Pages 108 – 109)

Paper 8 – Letter from the Minister for Finance and Trefnydd – timetable for
Welsh Government Draft Budget 2020–21 – 13 September 2019

Concise Minutes – Finance Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date: Wednesday, 3 July 2019

Meeting time: 09.01 – 10.55

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/5500>

Attendance

| Category | Names |
|-------------------|---|
| Assembly Members: | Rhun ap Iorwerth AM Alun Davies AM Mick Antoniw AM (In place of Mike Hedges AM) Rhianon Passmore AM Nick Ramsay AM Mark Reckless AM |
| Witnesses: | Vaughan Gething AM, Minister for Health and Social Services Sioned Rees, Welsh Government Rhian Williams, Welsh Government |
| Committee Staff: | Bethan Davies (Clerk) Leanne Hatcher (Second Clerk) Samantha Williams (Deputy Clerk) Joanne McCarthy (Researcher) Owen Holzinger (Researcher) |



1 Welsh Government Draft Budget 2020–21: Approach to scrutiny

1.1 The Committee considered the approach to scrutiny for the Welsh Government Draft Budget 2020–21.

2 Welsh Government First Supplementary Budget 2019–20: Consideration of draft report

2.1 The Committee considered the draft report.

3 Introductions, apologies, substitutions and declarations of interest

3.1 Apologies were received from Llyr Gruffydd and Mike Hedges. Mick Antoniw attended on behalf of Mike Hedges. Rhun ap Iorwerth joined the meeting via Skype.

4 Papers to Note

4.1 The papers were noted.

4.1 PTN1 – Letter from the Minister for Finance and Trefnydd – Amending the Government of Wales Act 2006 (Budget Motions and Designated Bodies) Order 2018 – 27 June 2019

4.2 PTN2 – Letter from the Minister for Finance and Trefnydd to Suzy Davies AM – Amending the Government of Wales Act 2006 (Budget Motions and Designated Bodies) Order 2018 – 27 June 2019

5 Health and Social Care (Quality and Engagement) (Wales) Bill: Evidence session

5.1 The Committee took evidence from the Minister for Health and Social Services on the Health and Social Care (Quality and Engagement) (Wales) Bill.

6 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting

6.1 The motion was approved.

**7 Health and Social Care (Quality and Engagement) (Wales) Bill:
Consideration of evidence**

7.1 The Committee considered the evidence received.

**8 Scrutiny of the Assembly Commission Draft Budget 2019–20:
Voluntary Redundancy Scheme**

8.1 The Committee considered the letter received on the Voluntary Redundancy Scheme.

**9 Children (Abolition of Defence of Reasonable Punishment) (Wales) Bill:
Consideration of draft report**

9.1 The Committee approved the changes to the draft report on the Children (Abolition of Defence of Reasonable Punishment) (Wales) Bill.

**10 Code of Practice governing the relationship between the Auditor
General for Wales and the Wales Audit Office**

10.1 The Committee agreed to postpone this item until 11 July 2019.

Concise Minutes – Finance Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: Thursday, 11 July 2019

Meeting time: 09.12 – 11.56

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/5544>

Attendance

| Category | Names |
|-------------------|--|
| Assembly Members: | Llyr Gruffydd AM (Chair) Rhun ap Iorwerth AM Alun Davies AM Mike Hedges AM Rhianon Passmore AM Nick Ramsay AM Mark Reckless AM |
| Witnesses: | Jon Rae, Welsh Local Government Association Huw Thomas, Hywel Dda University Health Board Lynne Hamilton, Swansea Bay University Health Board Alan Bermingham, The Chartered Institute of Public Finance and Accountancy (CIPFA) Gawain Evans, Welsh Government Rebecca Evans AM, Minister for Finance and Trefnydd |
| Committee Staff: | Leanne Hatcher (Second Clerk) Georgina Owen (Second Clerk) |



| | |
|--|----------------------------------|
| | Samantha Williams (Deputy Clerk) |
| | Martin Jennings (Researcher) |
| | Katie Wyatt (Legal Adviser) |
| | Owen Holzinger (Researcher) |
| | Ben Harris (Legal Adviser) |

1 Introductions, apologies, substitutions and declarations of interest

2 Paper(s) to note

2.1 The papers were noted.

2.1 PTN1 – Letter from the Minister for Finance and Trefnydd – Welsh Government
First Supplementary Budget 2019–20 – 5 July 2019

3 Consideration of proposals to amend the Public Audit (Wales) Act 2013: Evidence session 2

3.1 The Committee took evidence from Alan Bermingham, Policy Manager, Governments, Chartered Institute for Public Finance and Accountancy.

4 Consideration of proposals to amend the Public Audit (Wales) Act 2013: Evidence session 3

4.1 The Committee took evidence from Huw Thomas, Director of Finance, Hywel Dda University Health Board; Lynne Hamilton, Director of Finance, Swansea Bay University Health Board; and John Rae, Director of Resources, Welsh Local Government Association.

5 Motion under Standing Order 17.42 to resolve to exclude the public from part of the meeting (Items 6, 7, 8, 9, 11 and 12)

5.1 The motion was approved.

6 Wild Animals and Circuses (Wales) Bill: Consideration of financial scrutiny

6.1 The Committee considered the financial scrutiny process for the Wild Animals and Circuses (Wales) Bill.

7 The Landfill Disposals Tax (Wales) Act 2017 (Reliefs) (Miscellaneous Amendments) Regulations 2019

7.1 The Committee noted the regulations.

8 Code of Relationship Practice between the Auditor General for Wales and the Wales Audit Office

8.1 The Committee approved the Code of Relationship Practice between the Auditor General for Wales and the Wales Audit Office.

9 Consideration of the Welsh Government's response to the joint committee report: 'Assessing the impact of budget decisions'

9.1 The Chair of the Committee will open a debate on the joint committee report 'Assessing the impact of budget decisions' in Plenary on Wednesday 17 July 2019.

10 Consideration of proposals to amend the Public Audit (Wales) Act 2013: Evidence session 5

10.1 The Committee took evidence from the Minister for Finance and Trefnydd on the proposals to amend the Public Audit (Wales) Act 2013.

11 Consideration of proposals to amend the Public Audit (Wales) Act 2013: Consideration of evidence

11.1 The Committee considered the evidence received.

12 Welsh Government Budget 2020–21: Budget timetable

12.1 The Committee considered the timetable for the Welsh Government budget 2020–21.

Concise Minutes – Finance Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date: Wednesday, 17 July 2019

Meeting time: 09.03 – 12.19

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/5501>

Attendance

| Category | Names |
|-------------------|--|
| Assembly Members: | Llyr Gruffydd AM (Chair) Alun Davies AM Mike Hedges AM Rhianon Passmore AM Nick Ramsay AM Mark Reckless AM |
| Witnesses: | Adrian Crompton, Auditor General for Wales, Wales Audit Office, Auditor General for Wales, Wales Audit Office Rebecca Evans AM, Minister for Finance and Trefnydd Steve Davies, Welsh Government Andrew Jeffreys, Welsh Government Steve O'Donoghue, Wales Audit Office Martin Peters, Wales Audit Office Isobel Everett, Wales Audit Office |
| Committee Staff: | Georgina Owen (Clerk) Leanne Hatcher (Second Clerk) |



| | |
|--|----------------------------------|
| | Samantha Williams (Deputy Clerk) |
| | Owen Holzinger (Researcher) |
| | Christian Tipples (Researcher) |
| | Ben Harris (Legal Adviser) |

1 Introductions, apologies, substitutions and declarations of interest

1.1 Apologies were received from Rhun ap Iwerth AM.

2 Paper(s) to note

2.1 The papers were noted.

2.1 **Letter from the Minister for Health and Social Services: Health and Social Care (Quality and Engagement) (Wales) Bill – 8 July 2019**

3 Inquiry into the Welsh Government's capital funding sources: Evidence session 7

3.1 The Committee received evidence from the Minister for Finance and Trefnydd on the Welsh Government's capital funding sources.

4 Motion under Standing Order 17.42 to resolve to exclude the public from part of the meeting (Items 5, 7, 8 and 9)

4.1 The motion was approved.

5 Consideration of proposals to amend the Public Audit (Wales) Act 2013: Briefing

5.1 The Committee considered the evidence received on proposals to amend the Public Audit (Wales) Act 2013.

6 Consideration of proposals to amend the Public Audit (Wales) Act 2013: Evidence session 4

6.1 The Committee received evidence on proposals to amend the Public Audit (Wales) Act 2013 from Adrian Crompton, Auditor General for Wales, Isobel Everett, Chair of

Wales Audit Office, Martin Peters, Head of Law and Ethics, Wales Audit Office and Steve O'Donoghue, Director of Finance, Wales Audit Office.

7 Consideration of proposals to amend the Public Audit (Wales) Act 2013: Key issues

7.1 The Committee considered the key issues from all the evidence received on proposals to amend the Public Audit (Wales) Act 2013.

8 Welsh Government Draft Budget 2020–21: Consideration of an expert adviser

8.1 The Committee considered a draft job description for an expert adviser.

9 Inquiry into the Welsh Government's capital funding sources: Key issues

9.1 The Committee considered the key issues from all the evidence received on the Welsh Government's capital funding sources.

Agenda Item 2.1

John Griffiths AM
Chair
Equality, Local Government and Communities Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

23 July 2019

Dear John,

Voting rights for prisoners

I would like to thank the Committee for your detailed consideration of issues relating to the voting rights of prisoners. I write to respond on behalf of the Assembly Commission to your report, specifically to the recommendations aimed at the Commission.

As you are aware, the Commission consulted the public on this issue in 2018 as part of its *Creating a Parliament for Wales* consultation on potential reforms to the Assembly's electoral and operational arrangements. The consultation responses highlighted legal, ethical and democratic complexities as well as practicalities that required detailed consideration to inform further discussion and debate on this issue. I am grateful to the Committee for responding positively to my invitation to deliberate this issue.

At the heart of any consideration of this matter is the importance of ensuring that our electoral franchise is compatible with the European Convention on Human Rights. During your inquiry you heard detailed evidence from a range of well-informed stakeholders. While not all of your recommendations were supported by all Committee members, your report nevertheless provides a firm basis for further consideration of this issue in relation to both Assembly and local government elections in Wales.

The Commission considered your report on 15 July, in particular your first recommendation:

"We recommend that the Welsh Government and National Assembly for Wales Commission introduce legislation to give all those Welsh prisoners who are

serving custodial sentences of less than four years the right to vote in devolved Welsh elections. Mohammad Asghar and Mark Isherwood do not agree with this recommendation" (**Recommendation 1**).

The Commission considered whether it would be appropriate for it to address the issue of prisoner voting, whether by amendment to the Senedd and Elections (Wales) Bill or in a future piece of Assembly Commission legislation. The Commission concluded that as the Welsh Government retains responsibility for the conduct of elections in Wales, the decision on whether and when legislation should be introduced in respect of prisoner voting rights sits with the Welsh Ministers. This is particularly because of the complexities regarding implementation that were identified by your Committee. The Commission's view, therefore, is that it is a matter for the Welsh Ministers to respond to **recommendations 1, 2, 7 and 8**.

Although not specifically recommended by the Committee, the Commission considered whether in its view the Senedd and Elections (Wales) Bill, currently in Stage 2 of its legislative scrutiny, could provide a suitable vehicle for progressing any legislative proposals in this regard.

The Commission noted the comments of the Constitutional and Legislative Affairs Committee in its **report** on the general principles of the Senedd and Elections (Wales):

"the publication of the [Equality and Local Government and Communities Committee's] report does not... equate to Stage 1 scrutiny of a Bill containing specific provisions on prisoner voting that give effect to policy intentions. Extending voting rights to ... prisoners represents a significant change to the electoral franchise. The legislative provisions that would be required to deliver such a change should, in line with good practice on law-making, be included in a Bill on introduction."


As such, without taking a view on the merits or otherwise of the recommendations made by the Equality, Local Government and Communities Committee, the Commission does not consider that amendments should be introduced to the Senedd and Elections (Wales) Bill to address this issue. To do so would mean that a fundamental change to Assembly voting rights would take place without Stage 1 scrutiny of the detailed proposals.

The Commission agrees with **recommendation 3** in respect of the need for any legislation to be in place at least six months before it is to take effect. This important principle is reflected in the representations I have made to Business Committee in relation to the timetable for the scrutiny of the Senedd and Elections (Wales) Bill. The proposed timetable would allow for the Bill to receive Royal Assent six months prior to the July 2020 canvass for the purposes of the 2021 Assembly election.



Thank you again for your consideration of these complex and important constitutional matters.

Yours sincerely



Elin Jones

Chair, Assembly Commission

Croesewir gohebiaeth yn Gymraeg neu Saesneg.

We welcome correspondence in Welsh or English.



Rebecca Evans AC/AM
Y Gweinidog Cyllid a'r Trefnydd
Minister for Finance and Trefnydd



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: MA-P-RE-2280-19

Llŷr Gruffydd AM
Chair of Finance Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA
SeneddFinance@assembly.wales

19 July 2019

Dear Llŷr,

In respect of the new Statement of Principles agreed between the Finance Committee and the directly funded bodies, I agreed to write you before the summer recess with various factors to aid forward financial planning.

In conjunction, and in order to provide as much transparency to our stakeholders about the economic and fiscal prospects for Wales, we had the opportunity in the chamber this week to consider the 'Future Public Spending Outlook for Wales'. In my statement, I provided our best possible assessment of the overall level of funding available in future years, together with other factors such as the likely impact on the pay bill and forecasts of devolved taxes. I attach a copy of the statement should you wish to forward a copy to the directly funded bodies.

In providing this information I would highlight two aspects of the statement which are of particular relevance in shaping future budgets plans - the prospects for our resource budget in 2020-21, and the public sector pay bill.

On the former, the OBR published figures for UK Resource DEL (excluding depreciation) alongside the Spring Statement in March this year. This shows for 2020-21 the figure is 3.1% higher than the total for 2019-20 included with the UK Government Main Estimates published in May. However, after taking account of the increase in the England NHS budget announced last year, the rest of the UK DEL will only grow by around 1.8%.

It is important to note that this lower growth figure would still have to accommodate any increases to devolved NHS budgets. If the Wales resource budget also increases by 3.1% in 2020-21 and NHS growth in England is matched in Wales, then the rest of the Wales budget would fall by around 1% in real terms between 2019-20 and 2020-21.

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

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1NA

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

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

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

Looking further ahead, the Chief Economist's report published last October highlights that analysis undertaken by the OBR implies that the assumption of a prolonged period of fiscal restraint should remain at the core of the central scenario. Under the lower scenario included in the Chief Economist's report the Welsh Government budget would only recover to its 2010-11 level by the end of the next decade.

Turning to public sector pay, with public sector pay comprising around 50% of Welsh Government spending, developments which impact on the public sector pay bill are key when developing spending plans. While pay deals for 2020-21 are still to be determined for a significant proportion of public sector workers, and without wanting to prejudge any future negotiations, most recent pay awards would suggest it would be prudent for all public bodies to be planning on the basis of a pay uplift circa 2% when considering their future plans.

I hope this information is helpful.

Yours sincerely,

A handwritten signature in black ink that reads "Rebecca Evans". The script is cursive and fluid, with the first name and last name clearly distinguishable.

Rebecca Evans AC/AM

Y Gweinidog Cyllid a'r Trefnydd
Minister for Finance and Trefnydd

Rebecca Evans AC/AM
Y Gweinidog Cyllid a'r Trefnydd
Minister for Finance and Trefnydd

Agenda Item 2.3

Llywodraeth Cymru
Welsh Government

Mike Hedges AM, Swansea East,
National Assembly for Wales,
Cardiff Bay,
Cardiff.
CF99 1NA

16 August 2019

Dear Mike,

During the Business Statement on 16 July, you raised the important issue of financial transactions capital and I agreed to write to you with an update. The UK Government restrictions placed on use of financial transactions continues to constrain our ability to maximise the full monetary face value and effectiveness of this funding as a part of our Capital DEL. As I stated in Plenary, we have nevertheless worked to use this funding in innovative ways to support the delivery of important Welsh Government priorities. I attach a list of all of the programmes supported to date.

Over the years we have taken steps to make available more detailed information about Financial Transactions funding as part of the published budget documentation. Annex D of the [outline draft budget 2019-20](#) includes a summary table of repayment profiles for financial transactions investments, including amounts and when they are due to be repaid.

I am copying this letter to the Chair of the Finance Committee and will place a copy in the National Assembly's library.

Yours sincerely,



Rebecca Evans AC/AM
Y Gweinidog Cyllid a'r Trefnydd
Minister for Finance and Trefnydd

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

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1NA

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

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

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

Allocation of Financial Transactions Capital from 2013-14 to 2020-21¹

| Project/Programme | £m |
|---|-----|
| Help to Buy Cymru – To help qualifying home buyers purchase a new build home with a low loan-to-value mortgage and provide a boost to the construction industry. | 463 |
| Development Bank for Wales – Investment funds to provide access to finance for SMEs, support business growth, boost exports and create/safeguard jobs. Includes funds for tourism, rescue and restructure, micro businesses, angel co-investment, commercial property, flexible investment, life sciences etc. | 340 |
| Development Bank for Wales - Housing funds for property development, stalled sites and self-build | 94 |
| Land for Housing scheme – Providing loans to Registered Social Landlords to acquire sites in order to accelerate the development of affordable housing schemes. | 62 |
| Economic Development Initiatives – Funding that supports economic growth in Wales | 65 |
| Property Development Funds and Property sector - Helps build new homes, commercial and industrial space. | 20 |
| Cardiff airport and Aviation – To increase commercial potential of aviation industry in Wales and enhance route development. | 38 |
| Houses into Homes/Home Improvement Loans – To bring empty homes in Wales back into use and increase the supply of housing. | 30 |
| Housing – To support delivery of 20,000 homes commitment | 15 |
| Green Growth Wales and Green Infrastructure – To support Wales' renewable energy sector and to increase and accelerate projects to deliver green investment in Wales. | 18 |
| Town Centre Loans and Regeneration Funds – To assist in providing a sustainable future for vacant and under-utilised sites and properties and in doing so supporting vibrant and viable town centres. | 32 |
| Coleg y Cymoed - To support a new FE campus in Aberdare. | 5 |
| Barry Island Strategic Regeneration Area - link road. To accelerate delivery of a key transport route as part of our regeneration programme. | 2 |
| Capital Loan Scheme for Sport and Leisure Facilities – To improve facilities through and invest-to-save approach, increase participation in sport and physical activity and contribute to better health outcomes. | 2 |
| Credit Unions – Support loans | 1 |

¹ Plans for 2020-21 are indicative. Figures are rounded to the nearest million, as reported by departments at July 2019 and 2018-19 subject to audit

Rebecca Evans AC/AM
Y Gweinidog Cyllid a'r Trefnydd
Minister for Finance and Trefnydd



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: RE/2605/19

Rt Hon Nicky Morgan MP
Chair, Treasury Committee
House of Commons
London
SW1A 0AA

9 August 2019

Dear Nicky,

We welcome the opportunity to give written evidence to your committee's inquiry into regional imbalances in the UK economy.

Our response is set out in the annex to this letter.

In addressing the questions raised by the committee, we are responding on behalf of the Welsh Government and do not presume to speak for the National Assembly as a legislature. We would anticipate that it would wish to respond separately

We look forward to reading the report of your inquiry in due course.

We are copying this letter to the Secretary of State for Wales and the Chairs of the Finance Committee and the Economy, Infrastructure and Skills Committee of the National Assembly for Wales.

Yours sincerely,

Rebecca Evans AC/AM
Y Gweinidog Cyllid a'r
Trefnydd
Minister for Finance
and Trefnydd

Ken Skates AC/AM
Gweinidog yr Economi a
Thrafnidiaeth
Minister for Economy
and Transport

Jeremy Miles AM
Y Cwnsler Cyffredinol a
Gweinidog Brexit
Counsel General and
Brexit Minister

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

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1NA

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

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

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

The Welsh Government's Written Evidence to the Treasury Committee's Regional Imbalances in the UK Economy Inquiry

Structure

The Welsh Government's submission is divided into three sections:

- i. Section one examines the nature of regional imbalances in economic growth that exist in the UK from a Welsh perspective;
- ii. Section two summarises the current institutional arrangements relating to economic policy between Wales and the UK and proposes a number of ways these arrangements could be improved to address regional imbalances across the UK whilst fully respecting the devolution settlement; and
- iii. Section three sets out how the Welsh Government uses regional economic data and our priorities for improvements in economic statistics.

Section One: The nature of regional imbalances in economic growth that currently exist in the UK.

1. This section reflects on the nature of regional imbalances in economic growth that currently exist in the UK from a Welsh perspective. In this section, we argue that differences in regional economic performance should be considered using a range of indicators rather than by focusing on a single measure.
2. Much of the discussion on regional imbalances in the UK economy focuses on the differences in gross value added (GVA) per head between the countries and regions of the UK. Most analysis using this measure concludes that the UK is a lot more geographically unequal than most other OECD countries. However, comparisons made solely this basis, whilst informative, only tell a part of the story. Recent analysis by Beatty and Fothergill emphasises the importance of adopting a more holistic approach to examining the variations in economic performance across the UK¹.
3. Differences in population structures, commuting patterns, imputed rents and regional prices distort comparisons of economic performance based on GVA per head. These factors mean that GVA per head tends to understate the performance of the economy in Wales compared to the UK.

4. The current standard geographies for economic statistics provide a structure for collecting, processing, storing and aggregating data. However, their boundaries do not always align well with patterns of economic activity or economic development initiatives such as enterprise zones and city and growth deals.
5. Relatedly, there isn't a single, autarkic, Welsh economy. A range of information on where people live and how they move around for work, leisure and study, the movement of freight, and the flows of digital communications demonstrates that the patterns of economic activity within the UK transcend administrative and statistical boundaries. In the Welsh case, there are significant east-west linkages from South Wales into southern England, from North Wales into the North West of England and between Mid Wales and the Midlands. Similarly, there are important variations in the patterns of economic activity below the all-Wales level.

An Overview of Economic Indicators for Wales

6. Table 1 summarises Wales' economic performance on a range of economic indicators. The table shows that GVA per head in Wales is just over £7,000 lower than the UK figure. This is partly due to the reasons noted in paragraph three. Examining the rates of growth in real GVA per head provides a more balanced perspective of recent Welsh economic performance. Since the National Assembly for Wales was established in 1999, Wales has had the fifth largest proportionate increase in GVA per head of the countries and regions of the UK. Moreover, since the low-point of the last recession, i.e. from 2009 to 2017, Wales has had the third largest proportionate increase in GVA per head of the countries and regions of the UK.
7. One of the underlying drivers of the improvements in GVA per head has been the improvement in productivity (output per hour worked), which, since the last recession, has increased more quickly in Wales than in most of the other countries and regions of the UK. More generally, work by the Office for National Statistics has shown that, outside of London and the South East, most sub-regions of the UK have very similar productivity levels to each otherⁱⁱ.
8. Wales is closer to the UK value on measures of Gross Disposable Household Income (GDHI) per head, partly as the result of transfers under the UK tax and benefits system and also the contribution of net outflow of commuters who contribute to Welsh incomes but not GVA.

Table 1: Welsh Economic Performance on Selected Indicators¹

| Indicator | Wales value | Most recent reference period | Difference between Wales and the UK value | Difference between Wales and the best performing UK region/country |
|---|-------------|------------------------------|---|--|
| Gross Disposable Household Income (GDHI) per headⁱⁱⁱ | £15,754 | 2017 | -£3,760 | -£12,071 |
| Primary income per head^{iv} | £16,748 | 2017 | -£5,888 | -£18,754 |
| Gross Value Added (GVA) per head^{a,v} | £19,899 | 2017 | -£7,399 | -£28,958 |
| GVA per hour worked^{vi} | £28.1 | 2017 | -£5.5 | -£16.7 |
| Employment rate (aged 16 to 64 years)^{vii} | 75.0% | April to June 2019 | -1.1p.p. | -5.5p.p. |
| Median full-time weekly earnings including overtime (residence based)^{viii} | £518.6 | 2018 | -£50.4 | -£152.2 |
| Poverty rate^{b,ix} | 24% | 2015-16 to 2017-18 | +2p.p. | +6p.p. |
| Median total household wealth^x | £226,300 | July 2014 to June 2016 | -£36,100 | -£161,100 |
| Median equivalised household disposable income before housing costs^{xi} | £440 | 14/15-16/17 | -£46 | -£104 |
| Median equivalised household disposable income after housing costs | £384 | 14/15-16/17 | -£33 | -£82 |
| Average weekly household expenditure (£)^{xii} | £470 | 2018 | -£81.50 | -£187.90 |

9. In addition, measures of median full-time weekly earnings, median income and average weekly household expenditure in Wales are much closer to the UK average than measures of GVA per head.

¹ Notes to table 1

a) Nominal (smoothed) GVA (B) per hour worked (£)

b) Percentage of all individuals living in households with an income below 60 per cent of the median household income for the UK, after housing costs.

c) Excludes Northern Ireland

Household Wealth

10. In comparison to measures of output and income, Wales ranks higher on measures of household wealth compared to the other countries and regions of the UK. In part, this reflects the relatively high levels of home ownership in Wales - itself a reflection of a higher share of Wales' population being aged over 65 years and a smaller share aged less than 16 years than the UK as a whole.
11. Headline labour market conditions in Wales have improved notably since the late 1990s. As a consequence, the long-standing differences between the headline labour market indicators for Wales and the UK have closed markedly. The employment rate in Wales has increased from around 65 per cent in the early 1990s to over 75 per cent from mid-2018 onwards. Over the last twelve months, employment in Wales has been at or near its highest rate since comparable records began. Correspondingly, over the same period unemployment and inactivity rates have been at or close the lowest rates on record. The economic inactivity rate in Wales has fallen from just below 30 per cent in the early 1990s to just above 20 per cent from late 2018 onwards.
12. These improvements have been driven by a marked improvement in the skills profile of the population in Wales since devolution. The proportion of working-age people with no qualifications has more than halved since 1999, whilst over the same period, the proportion educated to NVQ4 and above has increased from around one-in-five people to more than one-in-three.
13. The private sector has also been central to improving Welsh labour market outcomes. The additional 153,000 private sector jobs created in Wales since 2008 mean the private-public split in employment is now the same in Wales as in Scotland and Northern Ireland.
14. The majority of additional employment in Wales since the last recession has been full-time in nature and concentrated heavily in the three upper occupational groups.

Future Prospects

15. The close integration of the economy in Wales with the wider UK means that the evolution of the UK economy will strongly influence outcomes in Wales. The economic

environment is characterised by a higher than usual degree of uncertainty. Brexit, geopolitical events, such as those in the Middle East, and US-China trade tensions are all likely to provide economic headwinds in the short to medium term.

16. Differences in the sectoral composition of the Welsh economy compared to that of the UK mean that Brexit could have an asymmetric impact on the Welsh economy, further widening regional inequalities. However, the larger risk to the Welsh economy is likely to be a significant slowing or contraction of the UK economy. The form and likelihood of these risks crystallising depends, crucially, on the form of any final Brexit deal, including transition arrangements.
17. In the longer term, prospects for Welsh relative economic performance will be crucially shaped by the extent to which:
 - a. Productivity and pay increases;
 - b. Labour market performance can be further improved, eliminating the gap in employment rates between Wales and the UK as a whole.
18. Given the tools currently available to the Welsh Government, the success of policies to improve levels of education and skills, and to help to increase effective economic mass by improving transport and communication links, will be crucial to improving Wales' relative economic performance. The Welsh Government's approach to these challenges is diverging from that of the UK Government in England. A feature of Welsh policy is applying international best practice, such as separate programmes of work with the OECD informing education reform and plans for regional economic development.

Section Two: Institutions and activities to promote regional economic growth

19. The National Assembly for Wales is the principal law-making body for Wales on a range of policy areas, including economic development. Welsh Government Ministers exercise a wide range of executive powers in broadly the same fields as those in which the Assembly can legislate. Welsh Ministers make decisions, make secondary legislation and take other action necessary to promote the economic, social and environmental well-being of Wales. In carrying out these functions, Welsh Ministers are accountable to the National Assembly.
20. However, there are a number of areas of economic policy not devolved to Wales and, in relation to which, the National Assembly has no power to legislate. These include monetary and fiscal policy (except devolved taxes), insolvency, anti-competitive practices and consumer protection.
21. Under the UK constitution, the UK Parliament retains the power to legislate on any matter for Wales as for the rest of the UK. However, in accordance with the 'Sewel Convention', Parliament will not normally legislate for Wales on matters that lie within the National Assembly's legislative competence, or affect that competence, unless the Assembly has given its formal consent through a Legislative Consent Motion.
22. In contrast, Welsh Ministers' executive powers have been transferred away from the UK Government and are generally exercisable free of any possibility of interference by UK Ministers. Welsh Ministers owe no accountability to the UK Parliament. The model of devolution practised in the UK has some examples of co-ordinated agreements in relation to the exercise of competence, but most decisions are taken either by Welsh Ministers or by UK Ministers as appropriate.
23. In reality, the close integration between the Welsh economy and that of the rest of the UK, means actions to support economic development by one government may well have implications for the economy and citizens of the other.
24. Paragraphs 25 to 44 present a range of examples where the actions of the UK Government continue to contribute to regional imbalances in the UK.

Failure to Support Infrastructure Investment

25. The UK Government has failed to support a number of key infrastructure projects that would have benefited the economies of Wales and the UK, including the ground-breaking Swansea Tidal Lagoon project and the electrification of the mainline between Cardiff and Swansea.
26. More broadly, Network Rail has failed to address the poor line speeds, limited network and station capacity, which is hampering rail services in Wales. Between 2011-12 and 2017-18 the Network Rail Wales Route has received about three per cent of enhancement spending despite having more than nine per cent of the route kilometres.
27. The Welsh Government does not have control over rail infrastructure planning and investment, and so receives no block grant allocation for infrastructure. This requires us to divert our budget to a non-devolved policy area to the detriment of devolved policy areas to achieve our policy priorities.

Research and Development (R&D) Funding

28. As the UK Government attempts to meet its target of 2.4 per cent of GDP invested in UK R&D by 2027, it must ensure R&D funding is spread more evenly across the UK than at present.
29. The Reid Review of Government Funded Research and Innovation in Wales highlighted that for at least two decades, the proportion of competitively awarded research funds from the UK Research Councils has been around 3.0 per cent to 3.4 per cent of the UK total, despite the population of Wales being approximately 4.9 per cent of the UK's population. By comparison, Scotland has some 8.3 per cent of the UK population but attracts over 14 per cent of Research Council funding.^{xiii}

Support for Key Sectors e.g. Steel

30. The steel sector is of vital importance to the Welsh and UK economies and steel companies are strategic UK assets that sit at the foundation of wider UK manufacturing. As such, we believe that, when necessary, the UK Government needs to

be prepared to support these companies directly. It is also important that any broader UK Government programmes are developed and delivered in a way that enables steel companies in Wales and across the UK to access and benefit from them. This includes the Industrial Energy Transformation Fund. The Welsh Government continues to press the UK Government to progress a steel sector deal to help ensure the sustainability of the industry across the UK, including in Wales.

Application of Green Book Guidance

31. Research by the Bennett Institute suggests the current application of HM Treasury's Green Book the guidance for major funding allocation decisions risks reinforcing the regional imbalances of the UK economy.^{xiv}

The UK Funding Framework

32. While the Welsh Government has a high degree of autonomy within the UK funding framework, the UK Government operates the framework in a centralised model with little genuine co-production. In addition, the UK model can be open to wider political influence as demonstrated by the UK Government's financial package for Northern Ireland following the confidence and supply agreement the Conservative party reached with the Democratic Unionist Party following the General Election in 2017. The current arrangements in the Statement of Funding Policy are imposed by the UK Government with little meaningful consultation with the devolved governments and are not jointly agreed. The Welsh Government has escalated this issue via the formal dispute mechanism but the UK Government has failed to rectify the issue or show due regard for the agreed principles that govern funding allocations across the UK.
33. More recently, changes to public sector pensions announced by the UK have led to greater costs for devolved administrations which have not been matched by UK Treasury. The UK Government has confirmed the final allocation for the Welsh Government in respect of these costs for 2019-20 is £219m. The total cost of these changes for devolved and non-devolved public service pension schemes in Wales is £255m, a funding gap of £36m.
34. Despite pressing the UK Government for early certainty about what these changes mean for public sector organisations to enable them to set their budgets for 2019-20 with

confidence, we were only notified of the additional funding for Wales a matter of weeks before the beginning of this financial year. Even then, the final funding arrangements were not confirmed until recently.

35. The Welsh Government has since written jointly with the other devolved administrations to the Chief Secretary to the Treasury expressing deep concerns that the proposed funding does not meet the full costs associated with the self-imposed changes by the UK Government. This is unacceptable and further undermines the Statement of Funding Policy and the principles for allocating funding within the UK.
36. The Welsh Government has also reiterated the importance of transparency in relation to UK Government funding decisions that have implications for devolved administrations' responsibilities. The lack of transparency and engagement in relation to changes with significant public spending implications undermines and discredits the established UK public spending framework.
37. The Statement of Funding Policy is very clear on how decisions of this nature should be implemented:

“where decisions taken by any of the devolved administrations or bodies under their jurisdiction have financial implications for departments or agencies of the UK government or, alternatively, decisions of UK government departments or agencies lead to additional costs for any of the devolved administrations, where other arrangements do not exist automatically to adjust for such extra costs, the body whose decision leads to the additional cost will meet that cost”.

38. It is on this basis that Welsh Ministers make decisions on how best to allocate additional funding to public sector organisations in Wales. Where these principles are not upheld by the UK government, it damages the ability of Welsh Ministers and public bodies to plan with confidence.

Replacing EU Funding

39. Addressing regional disparities is one of the aims of European Structural and Investment funds, from which Wales benefits to a much greater degree compared to other UK regions. This reflects the additional need in Wales and the long-term structural

challenges it faces. Currently Wales benefits from some £680m a year of EU investment, including around £370 million a year from the European Structural and Investment Funds for regional economic development. These funds have helped to improve significantly Wales' economy and labour market, increase research capacity and improve infrastructure, amongst a range of other outcomes. This investment has helped Wales mitigate the worst effects of the recession and provide a stable source of investment during an extended period of austerity.

40. Despite this important progress, parts of Wales continue to face structural challenges that will not disappear as the UK leaves the EU. These inequalities may even be exacerbated in the event of an economic shock resulting from a no deal Brexit. Wales will continue to need high levels of investment based on economic need and must take the opportunity now to develop a strong regional policy to prepare for the transition away from the EU. The Welsh Government is working with partners across Wales to develop successor arrangements for these EU funds, building on the policy document, *Regional Investment in Wales after Brexit*^{xv}. A project with the OECD is also running concurrently to inform this work and build capacity for multi-level governance in Wales. We continue to call on the UK Government to honour commitments given during the referendum that Wales will not be a penny worse off as a result of leaving the EU and to respect the autonomy of the Welsh Government to design and deliver successor arrangements in Wales, in line with the devolution settlement.
41. The Welsh Government rejects any notion of a UK centralisation of regional economic development policy, or attempts that seek to bypass the National Assembly for Wales and the Welsh Government. To do so would be a betrayal of devolution and the legitimate expectations of people and communities across Wales.
42. The Welsh Government has had 20 years' experience of managing EU funding programmes as part of our devolved responsibilities for economic development, and we expect to have full control, working with our Welsh partners, over the administration and strategic direction for successor funds. The Welsh Government has a wealth of evaluation evidence on effective investments and positive reports on its use of this funding from the Wales Audit Office; contrasting sharply with reports on the use of Local Growth Funding in England from the National Audit Office and Public Accounts Committee.

43. The importance of the Welsh Government retaining control over this funding, and for the scale of this needs-based funding to be maintained, is a view shared by our partners across Wales and featured prominently in responses to our engagement on the Regional Investment in Wales After Brexit paper. The National Assembly for Wales, through both a debate motion and Committee inquiries, has also emphasised the importance of funding returning to Wales and the strategic direction being set by the Welsh Government. Given the consensus in Wales and beyond on these points, the lack of clarity from the UK Government is hampering planning for successor arrangements. This position is also shared by the UK Parliament's All Party Parliamentary Group on Post-Brexit Funding for Nations, Regions and Local Areas.
44. The lack of clarity has been compounded by the numerous delays to the launch of UK Government consultation on its proposed Shared Prosperity Fund. The UK Government has indicated that the consultation will now coincide with the Comprehensive Spending Review which itself has been subject to delay and is widely expected to not take place at all this year.

Opportunities for Improvement

45. The Welsh Government's paper Brexit and Devolution calls for deeper and more sustained co-operation between devolved administrations and the UK Government after EU exit based on agreement between the four governments and building on the traditions of co-operation built up during the years of EU membership^{xvi}. This means the UK's inter-governmental machinery must be reformed with a new UK Council of Ministers, served by an independent secretariat, to strengthen decision-making and collaboration. The existing arrangements operate under the aegis of the Joint Ministerial Committee (JMC), which brings together Ministers from the four administrations to discuss matters of common concern. The JMC is a consultative body and takes no decisions - EU withdrawal raises fundamental questions about its role and working arrangements.
46. The UK's departure from the European Union potentiates the need to improve discussions about economic priorities across the UK. Some of this has previously taken place at EU level (through the EU single market) and there will need to be alternative approaches to dealing with these issues. However, there is also an opportunity to:

- a. improve coordination of cross-border policy and regional infrastructure;
- b. ensure high quality regulatory approaches within Wales are recognised and supported (e.g. environmental standards) across the UK, and vice versa;
- c. consider consistent approaches where they can support free movement, deliver economies of scale or pool specialist expertise at UK level; and
- d. enable substantive and considered discussions on policy areas which are not formally devolved but have an impact on devolved competence (e.g. labour market policy).

47. We need to secure effective joint political oversight across the four nations to enable this, ensure that current regulatory and coordination mechanisms (e.g. the Common Frameworks, regulatory impact assessments, etc.) are working effectively, and consider future challenges and opportunities.

48. We need to look at ways the Common Frameworks programme could be used to develop forward thinking on the internal market – this would ensure a shared four-way approach. Alongside this, we should work on developing a modern regulatory framework through smarter regulation which could lead to a shared approach in this space. This specifically includes enhancing regulatory impact assessments across the UK. Third, we should embed the approach of good inter-governmental relations with the UK Government and other devolved administrations, ensuring parity of participation. This will also need to include greater clarity of when the UK Government is acting for England, and when it is operating for the UK as a whole.

49. We also advocate progression to a new, rules-based funding system which is embedded in a Fiscal Agreement, developed in parallel with the other post-EU UK frameworks.

50. The addition of a specific needs based factor means for the first time relative funding in Wales is aligned to Wales' relative need to fund devolved public services implemented the funding floor proposed by the Holtham Commission. However, the Holtham Commission's funding floor was always proposed as an interim measure while more fundamental reform to funding arrangements was undertaken. Furthermore, the framework was not designed to operate in a post-EU UK.

51. As a matter of principle, the Welsh Government believes the allocation of resources across the UK should be based on relative need set within a new funding framework agreed between all four UK nations. The fiscal arrangements of the UK should enable all parts of the union to provide an equivalent level of services taking account of relative needs of the population and assuming equivalent tax effort.

Section Three: Regional Economic Data

Uses of Regional Economic Data

52. Most of the indicators in table 1 are included in a broad suite of indicators used by the Welsh Government to measure progress towards the achievement of the well-being goals set out in the Well-being of Future Generations (Wales) Act 2015^{xvii}.
53. Our National Strategy, *Prosperity for All* sets out how we will deliver for Wales during this assembly term and set long-term foundations for the future^{xviii}. One of the twelve well-being objectives set out in the strategy is to tackle regional inequality and promote fair work. Our Economic Action Plan sets out in more detail the actions we are taking to delivers a fairer distribution of the benefits of economic growth both at an individual level and between different parts of Wales.^{xix}
54. Our Employability Action Plan contains targets for reducing working-age unemployment and economic inactivity relative to the UK rates within the next decade.^{xx}
55. We are developing Regional Economic Development Plans with stakeholders with the intention is to consolidate key themes and priorities from existing plans to help bring clarity and coherence. The Welsh Government does not wish to see the UK Government to impose Local Industrial Strategies upon Wales as part of its UK Industrial Strategy.
56. We are also working with the OECD to examine the range of evidence around regional policy, including how the impact of policies can best be measured. Part of this work will identify the most appropriate indicators, including those that provide the opportunity for international benchmarking with comparator regions.

Priorities for Improvements in Regional Economic Data

57. Our priorities for improvements to regional economic data are driven by the nature of the policy levers we hold. These mainly operate over the long-run and impact mainly on the structure, or “supply side”, of the economy.
58. We acknowledge the improvements to UK regional statistics since the Allsopp and Bean Reviews, for example in the production of regional GDHI, GVA for city regions, and the

forthcoming production of regional quarterly GDP. However, a number of shortcomings remain.

59. Our view is that, with some exceptions, the main weaknesses relate to:

- a. the reliability of the statistics currently produced; and
- b. their availability at geographies that reflect economic activity (where the policy need is increasing in Wales).

60. In both cases, issues arise from concerns over sample sizes and, in some areas, an undue reliance on modelling rather than data collection.

61. We welcome initiatives by the ONS such as publishing GVA for 'new areas of economic interest' such as the four capital city regions and the Welsh Government's three economic regions. These initiatives could be strengthened by an online dissemination tool that gives users the flexibility to create statistics based on their aggregation of pre-defined areas would support the Welsh Government in planning, monitoring and evaluating the impact of its activities over time, whilst protecting against any risk of accidental disclosure of confidential information.

62. In general, we would strongly favour the use of good quality survey-based data and better utilisation of administrative data rather than modelling to meet user needs. The use of modelling carries the risk of the misinterpretation of statistics – for example, policy-makers may misinterpret a statistical change as reflecting the effect of a policy intervention on a target outcome when in fact it reflects a change in the variable used to apportion the target outcome statistic. Where the use of modelling is unavoidable, we would stress the need for transparency about the relative contributions of data and modelling, including apportionment, to the resulting statistics. Currently, this is not clearly explained to users in an accessible way.

63. We would prioritise the following areas for improvements in data quality and coverage:

- a. Labour market – integration of the Annual Population Survey (APS) and Labour Force Survey (LFS) would give a unified picture of labour market developments. The recent disparities between the APS and LFS in Wales in respect of the employment and economic inactivity have been particularly problematic.

- b. Fair work – recognition of the fair work data requirements of the devolved administrations and implementing solutions that can produce good quality data at a sub-regional level (e.g. including new questions on fair work in the APS, rather than the smaller sample LFS).
- c. Household Income – larger and more reliable survey-based data (perhaps from an expanded Family Resources Survey) would help in assessing material well-being and in undertaking distributional analysis and in monitoring low income and poverty (including at a sub-regional level)
- d. Wealth – similar considerations apply to wealth, where data should be collected on consistent basis with income, permitting a more complete analysis of household circumstances.
- e. Assets more generally – policy development and business decision making would be greatly assisted by providing statistics at the regional level for:
 - business capital stock and investment;
 - inward investment; and
 - natural capital.

64. Our priorities for development in areas where there is currently little or no statistical coverage are:

- a. Data on inter-regional trade within the UK is crucial for improving our understanding of the patterns of economic activity within the UK and the implications of new trade deals, particularly in the context of Brexit. Such data are also a vital building block for robust regional input-output tables, which would play a key role in improving regional accounts, understanding micro-economic shocks and policy analysis including by identifying the scope for supply chain development. (It may be possible to develop such data in part through an extension to ONS's current business surveys, such as the purchases survey.)
- b. The development of measures of regional cost of living / deflators would also help in assessing well-being and in analysing economic performance (e.g. in respect of productivity variation).

65. We welcome the work of the Economic Statistics Centre of Excellence on a number of the topics listed above.
66. Our Development Bank, in partnership with Cardiff Business School and the ONS, has established Economic Intelligence Wales with the aim of collating and analysing data to create independent, robust and reliable insight to help better understand and improve the Welsh economy.^{xxi}
67. Alongside data improvements, statistical producers including the ONS and HMRC should significantly improve their commentary and understanding of sub-national trends when publishing statistics. This will ensure greater public value from the statistics through promoting better understanding amongst the national and local media of regional disparities. For example, moving away from crude league table type statistics to explaining the different socio-demographic and economic context of countries and regions, the linkages between different parts of the UK and how these influence short and medium term economic trends. Providing more insight on the medium term trends, rather than focussing on short-term changes. Highlighting more clearly the statistical noise in data at a sub-national level that is important to recognise when considering short-term trends.
68. On access to data, the ONS' website is still difficult to use and access to the microdata, which is useful for policy development, is problematic.
69. However, more fundamentally, we fully support the ONS in their efforts to access administrative data (such as HMRC data) that will add significantly greater insight into the economy as a whole - but is particularly crucial in considering regional analysis given the structural weaknesses highlighted above. Progress to date has been frustratingly slow, hampering ONS' plans to transform its operations and produce world-leading analysis and insight. Our view is that administrative data held by government should be available, securely, to ONS and devolved administration statisticians to produce the best official statistics that support decision-making, and to researchers (through initiatives such as ADR-UK) to add further insight.

70. While there have been expressions of interest in economic forecasts for Wales from stakeholders, the Welsh Government has concerns about the feasibility of producing such forecasts on a reliable basis, especially over the short to medium term. Even at the level of the UK as a whole, and with the deployment of high levels of resources and a relatively rich data set, the track record of economic forecasts in identifying “turning points” or changes in trend has been weak.
71. The Welsh Government’s policy levers operate mainly over the long term and hence short term forecasts would be of limited value. Longer term forecasting and/or policy simulation would require a different modelling strategy, and while the Welsh Government wishes to support the development of appropriate modelling we believe this is better pursued as part of a longer term research programme.
72. At present, along with the Office for Budget Responsibility (OBR), the Welsh Government’s main operational interest in economic forecasts is to inform forecasts of the public finances. The OBR does not produce separate economic forecasts for Wales to forecast the devolved Welsh taxes and instead uses UK forecast determinants supplemented by other information which might drive a divergence between Wales and the UK. The OBR will use this methodology to produce forecasts of devolved Welsh taxes to accompany Welsh Government budgets. Both because of the quality and scope of the underlying data and the interconnectedness of the Welsh economy with the rest of the UK, the Welsh Government does not consider that separate forecasts of the Welsh economy would contain enough additional insight to make them worth producing at present.

References

- ⁱ Beatty, Christina and Fothergill, Stephen (2019). *Local productivity: The real differences across UK cities and regions*. Project Report. Sheffield Hallam University.
<http://shura.shu.ac.uk/24893/>
- ⁱⁱ Office for National Statistics (2019), Regional and sub-regional productivity in the UK: February
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/regionalandsubregionalproductivityintheuk/february2019>
- ⁱⁱⁱ Office for National Statistics (2019), Regional gross disposable household income, UK: 1997 to 2017
<https://www.ons.gov.uk/economy/regionalaccounts/grossdisposablehouseholdincome/bulletins/regionalgrossdisposablehouseholdincomegdhi/1997to2017>
- ^{iv} Office for National Statistics (2019), Regional gross disposable household income, UK: 1997 to 2017
<https://www.ons.gov.uk/economy/regionalaccounts/grossdisposablehouseholdincome/bulletins/regionalgrossdisposablehouseholdincomegdhi/1997to2017>
- ^v Office for National Statistics (2018), Regional economic activity by gross value added (balanced), UK: 1998 to 2017
<https://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedbalanceduk/1998to2017>
- ^{vi} Office for National Statistics (2019), Subregional productivity: labour productivity indices by UK NUTS2 and NUTS3 subregions
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/datasets/subregionalproductivitylabourproductivitygvaaperhourworkedandgvaaperfilledjobindicesbyuknuts2andnuts3subregions>
- ^{vii} Office for National Statistics (2019), Regional labour market statistics in the UK: July 2019
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionalalllabourmarket/july2019>
- ^{viii} Earnings by residence - Area Comparison via Nomisweb
https://www.nomisweb.co.uk/reports/lmp/qor/2013265930/subreports/qor_asher_compared/report.aspx?allInGB=&pivot=1&&sort=1&ascending=
- ^{ix} Percentage of all individuals, children, working-age adults and pensioners living in relative income poverty for the UK, UK countries and regions of England via StatsWales
<https://statswales.gov.wales/Catalogue/Community-Safety-and-Social-Inclusion/Poverty/householdbelowaverageincome-by-year>
- ^x Office for National Statistics (2018), Wealth in Great Britain Wave 5: 2014 to 2016
<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/wealthingreatbritainwave5/2014to2016>

-
- ^{xi} Office for National Statistics (2019), The effects of taxes and benefits on household income, disposable income estimate: 2018
<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/householddisposableincomeandinequality>
- ^{xii} Office for National Statistics (2019), Detailed household expenditure by countries and regions
<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/detailedhouseholdexpenditurebycountriesandregionsuktablea35>
- ^{xiii} Professor Graeme Reid (2018) Review of Government Funded Research and Innovation in Wales
<https://gweddi.gov.wales/docs/det/publications/reid-review-en.pdf>
- ^{xiv} Coyle, Diane and Sensier, Marianne (2018) The Imperial Treasury: appraisal methodology and regional economic performance in the UK
<https://www.bennettinstitute.cam.ac.uk/publications/imperial-treasury-appraisal-methodology-and-region/>
- ^{xv} Welsh Government (2017), Regional Investment in Wales After Brexit
<https://gov.wales/sites/default/files/publications/2018-10/regional-investment-in-wales-after-brexid.pdf>
- ^{xvi} Welsh Government (2017), Brexit and Devolution: Securing Wales' Future
<https://beta.gov.wales/sites/default/files/2017-06/170615-brexid%20and%20devolution%20%28en%29.pdf>
- ^{xvii} Well-being of Future Generations (Wales) Act 2015
<https://gweddi.gov.wales/topics/people-and-communities/people/future-generations-act/?lang=en>
- ^{xviii} Welsh Government (2017), Prosperity for All
<https://gov.wales/sites/default/files/publications/2017-10/prosperity-for-all-the-national-strategy.pdf>
- ^{xix} Welsh Government (2017), Economic Action Plan
<https://gov.wales/sites/default/files/publications/2019-02/prosperity-for-all-economic-action-plan.pdf>
- ^{xx} Welsh Government (2018), Employability Plan
<https://gov.wales/employability-plan>
- ^{xxi} Economic Intelligence Wales
<https://developmentbank.wales/other-services/economic-intelligence-wales>

Agenda Item 2.5



Comisiynydd
Cenedlaethau'r
Dyfodol
Cymru

Future
Generations
Commissioner
for Wales

By email

09/08/2019

Re: Involvement in the first Future Generations Report

Dear Llyr,

Producing a Future Generations Report is one of my duties in the Well-being of Future Generations Act. It must provide advice on improvements public bodies should make in order to set and meet well-being objectives which are the commitments they chose to make to improve the economy, society, environment and culture of their area. My report will also include information on the progress to date and on what should happen in the future. The Report will be published in May 2020.

This will be the first Future Generations report and will include the following main chapters: 'considering where we are and should go culturally (5 Ways of working and 7 core areas); where we are and should go in achieving the well-being goals (including objectives and steps); a particular consideration of our areas of focus (transport, planning, housing, ACEs, skills, alternative models for the health system, decarbonisation, budgeting and procurement); recommendations and ideas.

Using the five ways of working we intend to follow the involvement principle and in addition to our national conversation ['Our Future Wales'](#) and our online stories forum, ['The People's Platform'](#), I would like to give you an opportunity to help shape the content of my report and my recommendations. I also want to flag in the report, the resources which would be most useful to public bodies and would welcome suggestions as to reports, documentations and recommendations your committee would like to point out.

I would be grateful if you could send us any information or comments you would like me to consider by the 1st of November 2019. I am interested in particular in concerns, observations, opportunities or recommendations you think are most important, as well as a list of issues you think are of greatest importance to current generations and then to future generations to see if they differ.

I look forward to hearing the views of your committee.

If you wanted to talk in person, we could seek to organise a meeting with my colleagues who will also be visiting Ty Hywel's cafeteria in the autumn with Positif Politics and further information will be sent to you about this opportunity. We would welcome the opportunity to meet with you and your colleagues.

My office will also contact every Assembly Member separately to ask for their personal opinions and we are also preparing tailored 'Assembly Members briefing packs' that provide further information on my work to date and the priorities for the year ahead. You will receive this separately and individually. It will also include some examples of how the Act is being delivered in your area.

If you have any further questions, please don't hesitate to get in touch.

Regards,



Sophie Howe
Future Generations Commissioner for Wales

Agenda Item 2.6

Rebecca Evans AC/AM

Y Gweinidog Cyllid a'r Trefnydd

Minister for Finance and Trefnydd



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref MA-P/RE/2783/19

Llyr Gruffydd AM,
Chair Finance Committee,
The National Assembly for Wales,
Cardiff Bay,
Cardiff
CF99 1NA

19 August 2019

Dear Llyr,

Thank you for your Committee's scrutiny of the First Supplementary Budget 2019-20 and the report that followed.

I attach a written response to the recommendations made which I hope you find useful.

Yours sincerely,

Rebecca Evans AC/AM

Y Gweinidog Cyllid a'r Trefnydd

Minister for Finance and Trefnydd

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

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1NA

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

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

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

WELSH GOVERNMENT RESPONSE TO CONCLUSIONS FROM THE FINANCE COMMITTEE REPORT:

SCRUTINY OF WELSH GOVERNMENT FIRST SUPPLEMENTARY BUDGET 2019-20

AUGUST 2019

Recommendation 1

The Committee recommends that the Welsh Government provides information on the review it intends to conduct of its impact assessment tool. Those details should be provided before the draft budget 2020-21 is laid

Response: Accept

The integrated impact assessment tool was launched, as a pilot, in July 2018, and there was a commitment at that time to hold a review. We are currently in the process of defining the parameters for that review and we will be testing the tool's effectiveness and areas for improvement. Officials met with the Future Generation Commissioner's Advisory Panel in May and have committed to continue engagement with that group during the review process. As part of the review we will engage with stakeholders involved in the initial development of the tool, as well as undertake structured user research. We have committed to completing the review work by December 2019.

Recommendation 2

The Committee repeats its previous recommendation, and again recommends that the Welsh Government reviews the content of its future supplementary budget information with a view to aligning its narrative more closely with draft and final budgets.

Response: Accept

We have accepted the Committee's recommendation previously on the information that we provide as part of the supplementary budget process and we continue to keep our budget documentation under review.

Documentation supporting the draft and final budget planning process has a different focus as those proposals lay out the Welsh Government's priorities and allocations for each portfolio for at least the next financial year. Supplementary budgets are inherently different and we are pleased the Committee acknowledged that fact and the need for supporting documentation to be proportionate.

In reviewing the information to be provided to support Supplementary Budgets in future we will seek to balance proportionality with further explanation of significant allocations proposed within them.

Recommendation 3

The Committee recommends that the Welsh Government provides further information on the Well-being of Future Generations journey tracker/checker that was referred to during scrutiny of the draft budget, including what milestones will be included

Response: Accept

We have previously acknowledged that embedding the principles and objectives of the Well-being of Future Generations Act in our budget planning is an evolutionary process. Reflecting on previous feedback and evidence during the budget scrutiny, we took a number of measures in last year's budget to highlight better how our activities are contributing towards our 12 well-being objectives, as well as featuring a series of case studies to demonstrate how we are embedding the Well-being of Future Generations Act into the budget process and prioritising Prosperity for All.

As the Minister for Finance and Trefnydd said in her evidence to the Committee, we are working closely with the Future Generation Commissioner and her office to develop the journey checker which we hope will be a useful tool to help us monitor progress on this journey. Future details on the journey checker will be published alongside future budgets.

Recommendation 4

The Committee recommends that the Welsh Government pursues all avenues available to it to resolve the issue of funding for public sector pensions and provides the Committee with further information as and when it becomes available.

Response: Accept

As set out in the Minister for Finance and Trefnydd's Written Statement in June, the Welsh Government wrote jointly with the other Devolved Administrations to the Chief Secretary to the Treasury expressing deep concerns that the proposed funding does not meet the full costs associated with the self-imposed changes by the UK government. This is unacceptable and undermines the Statement of Funding Policy and the principles for allocating funding within the UK. The former Chief Secretary to Treasury responded reiterating the UK Government's position that the SCAPE discount rate change was not a policy decision and that the Statement of Funding Policy supports the provision of funding through the Barnett Formula.

The Minister for Finance and Trefnydd has raised this important issue with the new Chief Secretary to the Treasury and, together with the other devolved administrations, is seeking an early meeting of the Finance Ministers' Quadrilateral in order to seek a resolution to the situation. We welcome the Committee's intention to write to the Chief Secretary to the Treasury regarding its approach to funding pension changes in Wales and the Statement of Funding Policy.

Recommendations 5 & 6

The Committee recommends that the Welsh Government provides additional details on how the £85 million capital funding will address the challenges posed by Brexit.

The Committee recommends that, should the Welsh Government allocate additional funding for a further stimulus package, details are included of the risks that the funding is designed to mitigate.

Response: Accept

The Cabinet Sub-Committee on European Transition provide strategic direction to the Welsh Government's work aimed at securing the best outcome for the people of Wales on issues arising from the EU referendum outcome. This includes an approach to making Brexit economic interventions to maximise the resilience of Wales' economy in the context of a no deal EU exit.

Evidence suggests that effective infrastructure investment can stimulate demand in the economy in the short to medium term, while also improving the supply side of the economy in the longer term and improving social and environmental outcomes.

The £85 million capital stimulus package comprises:

- £50 million for a social housing investment programme;
- £20 million for local authorities;
- £10 million towards the Economy Futures Fund; and
- £5 million for trunk road and motorway carriageway maintenance.

The experience of previous economic slowdowns is that the construction sector is often one of the first to be adversely impacted, and the scale of the impact on the

sector is often proportionately large. House building and renovation is a specific area of construction that is relatively labour intensive, so spending in this area should be effective in supporting employment levels.

It is anticipated that much of the allocation to local authorities will result in construction related activity. Positive effects would also be expected as supply chains are stimulated across Wales

Maintaining business confidence in these challenging times is essential. The aim of the £10 million to the Economy Futures Fund is to provide direct support to businesses against the threats of a no deal Brexit and to secure and maintain them in the UK following exit from the EU. The Minister for Economy and Transport is currently considering funding packages to support a range of projects across all regions in Wales.

The road network plays a critical economic role in connecting business with markets and helping people access jobs both by private vehicle and by bus.

We will take account of the Committee's recommendations in relation to any future Brexit related capital stimulus package. While we will continue to do everything we can to ensure that we are as prepared as possible for leaving the EU without a deal on 31 October, the scope for the Welsh Government to mitigate a no deal Brexit is very limited. The Office for Budget Responsibility and the Bank of England have considered worst case scenarios in which the UK economy enters a deep and protracted recession. In such a case the impact on Wales would probably be even greater than on the UK as a whole.

Recommendation 7

The Committee recommends that the Welsh Government continues to work

with the UK Government to understand funding that might be available in the case of a “no deal Brexit” and that the Committee is kept informed of those discussions.

Response: Accept

We remain deeply concerned that the UK Government has not ruled out leaving the EU without a deal on 31 October. While we will continue to call on the UK Government to make funding available for the necessary interventions in the event of a no deal, there should be no doubt about the catastrophic impact a no deal Brexit will have on Wales.

The Welsh Government has had a range of discussions – at Ministerial and official levels – with the UK Government about funding for interventions that may be needed in the event of a no deal. Examples include potential support for those businesses and farmers whose activities are likely to be most severely impacted by a no deal Brexit, and also for vulnerable households.

On 31 July the UK Government announced an additional £2.1 billion for no deal Brexit preparation. Of the £1.1 billion allocated immediately, Wales will receive a consequential of £24.1m in 2019-20. In addition to the £1.1 billion funding, the UK Government has committed a further £1 billion will be available for all UK Government Departments and the Devolved Administrations to enhance operational preparedness for the UK’s departure from the EU in a no deal scenario. Wales will receive Barnett consequentials of any additional funding provided to UK Government Departments in areas where we face similar circumstances. We can also submit funding bids where we face disproportionate pressures compared to England.

This funding will not come anywhere near to protecting households, business and farmers from the worst effects of a no deal Brexit.

Recommendation 8

The Committee recommends that the Government provides details as to how it intends to plan future budgets in the context of a climate emergency and what specific actions will be implemented to ensure the emergency declaration is reflected in budget planning.

Response: Accept

Our Prosperity for All: A Low Carbon Wales plan published in March contains detailed sector-by-sector emissions profiles and 100 policies and proposals to achieve a low-carbon Wales. We have already started preparing our next plan to meet the second carbon budget for 2021-25.

It is clear we are facing a climate emergency and we must continuously raise our level of ambition, including maximising the impact of our available limited funding on interventions to tackle the climate emergency. For example, the carbon impact of investment proposals is a key consideration in the allocation of capital funding in line with the Wales Infrastructure Investment Plan. It is also why we are focusing our budget preparations across Government on eight priority areas where we can have the greatest impact over the long-term, including decarbonisation.

While we recognise that the way we plan and allocate our resources can have an impact on tackling the climate emergency, we can draw on levers that we have as a Government more widely to help us achieve our ambitions and encourage all public bodies to consider how they can contribute to tackling climate change. We all have a role to play.

Our Environment Act puts in a place a robust governance system. Following advice from our Advisory Body, we have increased our long term pathway to respond to a climate emergency (from 80% to 95% by the end of 2050). The Welsh Government has committed to putting a higher emission reductions target of at least 95% into law,

this means our pathway will change and our delivery plans to achieve our carbon budgets will have to reflect our new legislative pathway. Decarbonisation is a cross cutting responsibility of all Ministers. Our Low Carbon Delivery Plans will continually need to show how all Ministers contribute actions to our carbon budgets. As a result, all Ministers will need to reflect on these actions in the funding decisions they take in setting detailed MEG spending plans.

For example within the Finance portfolio, procurement plays an important role in helping to reduce CO2 emissions through its supply chains. As well as ensuring its buildings and vehicle fleets are efficient, the Welsh Government (and wider public sector) must also take steps to reduce emissions more widely through its procurement of goods, works and services. Through the Decarbonisation Dashboard developed by Value Wales, the high CO2 emitting categories of spend for Welsh Government (and public sector bodies across Wales) have already been identified as priority areas for carbon reduction. By addressing these areas and adopting low carbon procurement approaches based on circular economy principles, plus ensuring monitoring through strong contract management, there is great scope to reduce emissions through the procurement process. This could be reflected in any training / eLearning available across Ministerial portfolios and would also be supported by any guidance/training/tools which Value Wales develop for the wider public sector.

Consideration is also being given to whether we could include a requirement within grant award letters for Welsh Government and public bodies to demonstrate the action they are taking to implement low carbon requirements. This would also support and complement the Economic Action Plan which requires businesses in Wales to demonstrate what they are doing to support decarbonisation. Such a two-pronged approach on the buy and supply side will ensure the greatest impact.

Recommendation 9

The Committee recommends that the Welsh Government provides it with details of the costs associated with moving from a statutory target of 80 per

cent reduction in emissions by 2050 to a 95 per cent target.

Response: Accept in Principle

The Welsh Government (along with the UK and Scottish Governments) asked the UK Committee on Climate Change (UKCCC) to reassess our long-term emissions targets. The UKCCC concluded that Wales should change its long term emissions target from 80% to 95%.

The exact costs associated with long-term emission targets cannot be given, as the science and evidence is constantly changing and evolving and costs will be dependent upon policy decisions of successive Governments. The precise costs will depend on how low-carbon technologies develop over several decades and the actions of government, business, other social groups and individuals. Broad cost estimates of the scale of action required across the UK can be made.

In reaching its conclusion, the UKCCC made a fresh appraisal of the costs and benefits of emission reduction with the support of a dedicated expert advisory group. In the published advice, the UKCCC estimated the costs of moving to a net zero target for the UK which would mean a 95% target for Wales, are between 1-2% of GDP. This compares to the new cost estimate of the 80% target, which the UKCCC believe will cost less than 1% of GDP. Therefore the UKCCC believes the costs of moving from the 80% target to the 95% target are approximately 1% of GDP.

Ultimately the costs to the Welsh Government and people of Wales will depend on the policies adopted by successive Governments to meet the 95% target. These will be subject to scrutiny to ensure value for money.

Recommendation 10

The Committee recommends that the Welsh Government provides further information as to how it intends to work with local authorities to deliver on its

objectives for funding announced as part of its £85 million capital funding package.

Response: Accept

The Welsh Government has worked with Local Government colleagues through the Capital Finance and Investment Group (CFIG) to determine the best way to deliver the aims of the capital funding package. Options for distribution were discussed by the CFIG in July. Members recommended that the general capital fund formula was the most appropriate distribution method to use in this instance to provide sufficient flexibility for local authorities to respond to the differing needs of local communities in response to Brexit.

Appropriate monitoring arrangements were discussed and it was agreed that local authorities will report to the Welsh Government on how the allocations have been deployed, how they are mitigating the Brexit risks and the intended impact of the spend on the local economy through existing partnership mechanisms such as the CFIG and the Finance Sub-Group. The formal grant letter asked Authorities to consider impacts on biodiversity and the environment in making use of this funding. The Welsh Government would be happy to write to the Committee with further details on the range of activities supported in due course.

Recommendation 11

The Committee recommends that the Welsh Government provide it with details of the funding it intends to provide to the M4 Commission and for the “next steps” identified by the First Minister.

Response: Accept

The budget for the Commission is £5.2m covering time-charge and expenses of Commission members, a technical advice team to support the Commission and the

Special Welsh Government Team. This budget allows for research and studies that may be required by the Commission. £4.2m has been allocated over the next two years to implement the fast-track measures identified by the First Minister.

Recommendation 12

The Committee recommends that the Welsh Government provide it with information on funding priorities within its 2019-20 capital programme in light of the decision to not proceed with the M4 project, particularly in regards of how this has impacted its borrowing strategy.

Response: Accept

The Welsh Government's principle has always been to exhaust the use of the least expensive forms of capital before using other more expensive sources. In line with this, the level of planned borrowing is reviewed each year as part of the annual budget setting process.

For 2019-20 our published plans include £125m of borrowing, the majority of the £150m the Welsh Government is able to borrow each year. As the Minister for Finance and Trefnydd said in Committee, Welsh Government borrowing is not used to fund specific projects but to increase overall spending capability.

We have made clear that we will continue to invest in infrastructure to boost the Welsh economy and support delivery of public services. Not proceeding with the M4 Project does not mean we will invest less – just that we will invest in other projects.

One immediate priority in the face of the continued Brexit uncertainty was providing the much needed fiscal stimulus to protect the Welsh economy and provide confidence to businesses and the construction sector, particularly in the event of a no-deal scenario. That is why we announced a capital stimulus package providing an immediate boost to the Welsh economy.

Document is Restricted

Agenda Item 5

Cynulliad Cenedlaethol Cymru
Comisiwn y Cynulliad

National Assembly for Wales
Assembly Commission

Llyr Gruffydd AM
Chair
Finance Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

13 August 2019

Dear Llyr

Senedd and Elections (Wales) Bill

I would like to thank the Committee for your detailed consideration of the financial implications of the Senedd and Elections (Wales) Bill and for your comprehensive report. I enclose the Assembly Commission's response to your report and recommendations. This response also addresses matters you raised in your letter to me dated 27 June and reflects the discussion at our meeting on 9 July.

In addition to the detailed response set out in the annex to this letter, I would like to address some of the key points raised in your report.

Responsibility for electoral administration

A number of your recommendations relate to electoral administration, in particular where responsibility lies in respect of different aspects of electoral administration and registration processes and modernisation of electoral administration. During the Stage 1 Plenary debate on 10 July, I explained that electoral administration policy is a matter for the Welsh Government, not the Commission. I have discussed the Committee's recommendations with the Counsel General, and anticipate he will respond formally to these recommendations in due course.

Revised cost estimates

Some of your recommendations highlight the need for any revised cost estimates for the Bill to be reflected in an updated Regulatory Impact Assessment to be published after Stage 2. I confirm that, subject to any resolution to the contrary under Standing Order



Cynulliad Cenedlaethol Cymru
Bae Caerdydd, Caerdydd, CF99 1NA
Cysylltu@cynulliad.cymru
www.cynulliad.cymru
0300 200 6565

National Assembly for Wales
Cardiff Bay, Cardiff, CF99 1NA
Contact@assembly.wales
www.assembly.wales
0300 200 6565

26.27, the Commission intends to lay a revised Regulatory Impact Assessment following Stage 2 proceedings.

Financing and accountability of the Electoral Commission

Your report notes concern that provisions on the funding and accountability arrangements of the Electoral Commission, and the costs of those provisions, were not fully developed prior to the Bill's introduction.

I explained during the Stage 1 debate that my preference would have been to include fully formed proposals in the Bill on introduction. However, it was not possible to conclude the complex policy development work required in respect of this issue before the Bill was introduced.

I appreciate the importance of the Finance Committee having an opportunity to consider the policy and financial implications of changing the funding arrangements of the Electoral Commission.

As you will be aware, discussions have been taking place between the Assembly Commission, Electoral Commission and Welsh Government. I welcome the commitment made by the Counsel General during the Stage 1 debate to provide further information on the proposed arrangements after the summer recess. I also welcome the indication from the Counsel General that the Welsh Government will not seek the Assembly's agreement to a financial resolution in respect of the Bill until he provides further information on the proposals in response to the concerns your Committee raised with me.

In association with this further information from the Counsel General, I will also provide a further update on the Assembly Commission's preferred approach to scrutiny arrangements for the Electoral Commission.

As you are aware, I previously stated during the Stage 1 debate, that I believed a new Committee (a Llywydd's Committee) should be established to oversee the Electoral Commission's work. This scrutiny arrangement would be most appropriate in the case of the Electoral Commission being funded directly from the Welsh Consolidated Fund.

As outlined in my correspondence of 13 June 2019 to the Constitutional and Legislative Affairs Committee, if funding is alternatively provided via the Assembly Commission's budget, then I would be concerned that the establishment of a Llywydd's Committee:

"could give rise to an overlap with the Finance Committee's role in scrutinising the Assembly Commission's budget, leading to complex budgeting, reporting and audit



arrangements and potential lack of clarity over the body which is primarily responsible for scrutinising the Electoral Commission.”^[1]

Whichever, scrutiny arrangement is put in place, I consider that the funding and accountability arrangements put in place for the Electoral Commission should conform with the Finance Committee’s Statement of Principles. While the Counsel General is considering funding proposals, I will continue to discuss this matter with him. I look forward to providing a further update on this issue in due course.

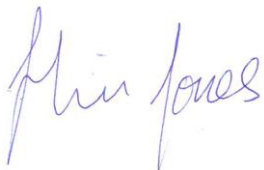
Finally, I concur with the Committee’s view- as expressed in your letter of 27 June- that any amendments to a Bill, which would result in direct charges to the Welsh Consolidated Fund, should be accompanied by a report from the Auditor General setting out his or her views on whether the charge is appropriate. Should the Senedd and Elections (Wales) Bill be amended in this way, I anticipate that such a report would be incorporated into a revised version of the Explanatory Memorandum, as required by Standing Order 26.28.

Thank you again for your scrutiny of this important constitutional legislation and for the invitation received on 17 July to attend a Committee meeting in late September to discuss this matter further. I will respond to that invitation as soon as possible.

Yours sincerely

Elin Jones

Llywydd, on behalf of the Assembly Commission



^[1] Letter to Constitutional and Legislative Affairs Committee, Financing and accountability of the Electoral Commission, 13 June 2019.



Annex: The Commission's response to the Finance Committee's stage 1 recommendations on the Senedd and Elections (Wales) Bill

This annex outlines the Assembly Commission's response to recommendations to the Commission or Llywydd included in the Finance Committee's report of 28 June 2019 on the Senedd and Elections (Wales) Bill.

Recommendation 1. *Whilst recognising the cost benefits of not replacing signage immediately, the Committee is concerned that this approach could lead to additional public confusion over the role of the Assembly and the Welsh Government. The Committee recommends the Llywydd and the Welsh Government work closely to ensure public awareness of the changes are clearly communicated.*

Agree

The Commission agrees it is important that there is clarity for the public about the name of their national legislature. It will continue to work closely with partners, including the Welsh Government, to ensure that the changes are communicated clearly and effectively, and that the name change fulfils its objective of improving understanding of the institution and its role.

Recommendation 2. *As the majority of costs for changes to the election franchise are estimated to fall on local authorities, the Committee recommends the Llywydd should undertake more research to validate or update these costs, or expand on how local authorities had endorsed the costs. This information should be included in the revised Regulatory Impact Assessment published following Stage 2 proceedings.*

Agree

The Llywydd will continue to have discussions with stakeholders, including local authorities, the Welsh Government and Electoral Commission, to provide assurances on costs. Subject to any resolution to the contrary under Standing Order 26.27, the Llywydd intends to lay a revised Explanatory Memorandum and Regulatory Impact Assessment after Stage 2 has been completed.

Recommendation 3. *The Committee recommends the Llywydd and the Welsh Government discuss the merits of introducing a single electoral register for Welsh local government and Assembly elections, since this might require less administrative workload for local authorities than maintaining 22 separate registers. The Llywydd and the Welsh Government should*



report back to the Finance Committee before the introduction of the proposed Local Government Bill.

This is a matter for the Welsh Government not the Llywydd.

The Senedd and Elections (Wales) Bill extends the Assembly's electoral franchise to 16- and 17-year-olds, but only makes minimal changes to the process by which electors are registered to enable the franchise to work effectively.

The Commission is not responsible for policy development in relation to the operation of electoral administration or registration. The Welsh Government has sought views on a single electoral register as part of its consultation on local government electoral reform. The Llywydd has discussed this recommendation with the Counsel General and agreed that he will respond to it.

Recommendation 4. *The Committee recommends that the potential cost savings for automatic registration are also explored by the Llywydd and the Welsh Government. The Llywydd and Welsh Government should report back to the Finance Committee before the introduction of the proposed Local Government Bill.*

This is a matter for the Welsh Government not the Llywydd

The Senedd and Elections (Wales) Bill extends the Assembly's electoral franchise to 16- and 17-year-olds but only makes minimal changes to the process by which electors are registered to enable the franchise to work effectively.

The Commission is not responsible for policy development in relation to the operation of electoral administration or registration. The Llywydd has discussed this recommendation with the Counsel General and agreed that he will respond to it.

Recommendation 7. *The Committee recommends this Bill should be amended to provide on the face of the Bill provisions to ensure that Assembly elections expenditure is published as soon as possible following Assembly elections and referendums.*

Assembly Commission to consider further

The Commission is not responsible for the operation of electoral administration. As such, this issue was not within the scope of the Commission's legislative strategy.

The Counsel General stated during the Stage 1 debate on 10 July that the Welsh Government do not consider it appropriate to address either the publication of Assembly



elections expenditure or returning officer fees in primary legislation, but that they do intend to address both those issues by other means.

The Llywydd is seeking further assurances from the Counsel General on behalf of the Assembly Commission. The Commission will then give further consideration to the Committee's recommendation and the Llywydd will write again to update the Committee.

Recommendation 9. *The Committee recommends that further work is undertaken to ensure the costs that will be incurred by local authorities in updating the Electoral Management System are robust. This information should be included in the revised Regulatory Impact Assessment published after Stage 2 proceedings and should detail the views of local authorities on the appropriateness of these costs.*

Agree

There may be limitations on the level of detailed information that can be disclosed about the costs of updating Electoral Management Systems, because of the commercial sensitivities associated with procurement processes. Within this limitation, the Commission will update the Regulatory Impact Assessment following Stage 2 proceedings in accordance with the Committee's recommendation.

Recommendation 10. *The Committee recommends that any future Assembly Commission proposed Bills include the most up-to date information available to ensure the Finance Committee is able to effectively scrutinise all costs associated with the proposals.*

Agree

Any future Assembly Commission-proposed Bills will continue to be accompanied by Regulatory Impact Assessments which set out best estimates as required by Standing Orders. This will ensure that both the Finance Committee, and the wider public, are able to accurately and transparently assess their potential cost implications.

Recommendation 11. *The Committee recommends the Llywydd includes the Welsh Government's costs in relation to raising awareness of the extension to the franchise to 16 year olds in the revised Regulatory Impact Assessment published following Stage 2 proceedings.*

Agree



The Bill's Regulatory Impact Assessment sets out the costs of awareness-raising to be provided by the Assembly Commission (£150,000), local authorities (£866,200) and the Electoral Commission (£75,900).

In addition, in a letter to the Llywydd dated 30 January 2019 from the Minister for Education and Minister for Housing and Local Government, the costs to the Welsh Government of communication and education campaigns related to extending the franchise were estimated to be between £895,000 and £945,000 over three years, commencing in 2019/20. In subsequent discussions the Welsh Government have indicated that this sum comprises:

- £600,000 towards the production of resources for schools;
- £215,000 to £265,000 towards a communications campaign on registration and encouraging people to vote; and
- £80,000 towards research to inform the communication campaign.

The Welsh Government's figures do not distinguish between costs related to raising awareness of franchise changes for local government elections and for Assembly elections. Some of these activities will focus on raising awareness of the voting age for both Assembly and local government elections, rather than focusing on one election or the other.

The Llywydd has discussed this matter with the Counsel General. He noted during the Stage 1 debate on 10 July 2019 that whilst it is not possible for him to split the Government's awareness-raising costs between both elections, he will endeavour to provide further information to the Assembly on this matter.

Recommendation 12. *The Committee recommends the Llywydd, the Welsh Government and the Electoral Commission ensure that civil society such as schools and youth organisations are included on the Wales Electoral Co-ordination Board, Welsh Government External Board of Advisors and any other collaborative boards that are working to promote voter awareness, to ensure they are able to input into the design of voter awareness material.*

Agree

The Commission agrees that we need to work in partnership with civil society, and in particular youth organisations and schools, to deliver a successful change in the franchise for the 2021 elections and beyond.



The Welsh Government has established a Democratic Renewal Group to support the work associated with the extension of the franchise. It met for the first time on 2 July 2019. Its work will be led by a Steering Group, which includes the Welsh Government, the Assembly Commission, the Electoral Commission and the Welsh Local Government Association. This Steering Group will steer the work of a number of themed working groups. It is envisaged that one of these working groups will consider issues around Votes at 16 and will include organisations involved in the development of the approach to raising awareness of the changes to the franchise, including local authorities, and organisations representing young people.

The Wales Electoral Coordination Board (WECB) is coordinated by the Electoral Commission. Assembly Commission officials attend Board meetings in an advisory capacity. While this is a matter for the WECB to consider, given its technical remit with a focus on the administration of elections, there may be more appropriate mechanisms for including partners in the development of this work on an ongoing basis.

Recommendation 13. *The Committee recommends that in relation to changes to the oversight and funding arrangements of the Electoral Commission that prior to Stage 2 proceeding, draft amendments and their cost implications should be provided, to allow the Finance Committee an opportunity to fully scrutinise them before a Committee of the Whole Assembly is required to dispose of amendments.*

Agree

The Commission agrees that it is appropriate for the Committee to have the opportunity to scrutinise the cost implications of the proposed amendments in relation to the Electoral Commission. The Llywydd had constructive discussions with the Chair of Finance Committee ahead of the Plenary debate and has also discussed this matter with the Counsel General who is leading on these proposals.

The Assembly must agree a financial resolution before Stage 2 proceedings can take place. Tabling the financial resolution is a matter for Welsh Government. During the Stage 1 debate on the general principles of the Bill, the Counsel General stated that he would not seek the Assembly's agreement to a financial resolution in respect of the Bill until he could provide further information on the proposals.

The Llywydd anticipate that this additional information will be broadly consistent with the figures previously supplied to the Committee during Stage 1. The Chief Executive and Clerk of the Assembly advised the Constitutional and Legislative Affairs Committee that:



- the Electoral Commission's annual costs are expected to be around £600,000, rising to £1.7 million depending on the electoral activity in a given year;¹ and
- the costs of the Assembly's scrutiny—over a 5 year term—will be comparable to those set out in the Bill's Regulatory Impact Assessment for the current section 27.

Recommendation 14. *Based on the Welsh Government's comments in regard to section 36 (implementation of recommendations made by the Law Commission), the Committee recommends the Llywydd considers amending the Bill to reflect the views of the Welsh Government*

Agree

Evidence raised during Stage 1 has been supportive of the principle of reforming electoral law based on proposals from the Law Commission. However, the Assembly Commission appreciates concerns raised by both the Committee and the Counsel General regarding the appropriateness of addressing this issue through use of subordinate legislation making powers.

As such, the Llywydd has tabled amendments to remove section 36 and paragraph 1(4)(b) (amendments 1 and 3 tabled on 19 July 2019). The Llywydd would expect to see, in due course, the Welsh Government pursue the Counsel General's preferred approach of addressing Law Commission recommendations through an expedited primary legislation procedure.

Recommendation 15. *The Committee recommends a provision for post-implementation review is included in the revised Regulatory Impact Assessment following Stage 2 proceedings, to ensure the Bill has met its policy objectives and that value for money has been achieved.*

Agree

Post-legislative scrutiny is an important part of the Assembly's law-making role. The Bill's Explanatory Memorandum and Regulatory Impact Assessment seek to provide sufficient

¹ Record of Proceedings, Constitutional and Legislative Affairs Committee, 29 April 2019.



information to inform any work of this nature that the Assembly or its committees wish to conduct. In particular, the EM and Regulatory Impact Assessment include:

- the Bill's policy objectives;
- outline implementation plans; and
- estimates of the financial and other impacts of the Bill.

Subject to any resolution to the contrary under Standing Order 26.27, the Llywydd intends to lay a revised Explanatory Memorandum and Regulatory Impact Assessment after Stage 2 has been completed. This will include an indication that the Commission would welcome post-legislative scrutiny of the legislation in respect of both its policy objectives and the value for money of its implementation. The Commission will also evaluate its own effectiveness in implementing those aspects of the legislation for which it is responsible.



Jeremy Miles AC/AM

**Y Cwnsler Cyffredinol a Gweinidog Brexit
Counsel General and Brexit Minister**



**Llywodraeth Cymru
Welsh Government**

Llyr Gruffydd AM
Chair, Finance Committee
National Assembly for Wales
Senedd.Finance@assembly.wales

3 September 2019

Dear Llyr,

Thank you for your letter of 17 July in relation to the Senedd and Elections (Wales) Bill. I would be happy to attend your Committee on Wednesday 25 September to give evidence in relation to the financing and accountability of the Electoral Commission. I can also confirm that I intend to table the relevant amendments and the accompanying financial information in advance of the session, to assist the Committee's deliberations, and that I will not be seeking the Assembly's approval of the Financial Resolution before the committee's meeting on 25 September.

I am copying this letter to the Llywydd.

Jeremy Miles AM

**Y Cwnsler Cyffredinol a Gweinidog Brexit
Counsel General and Brexit Minister**

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1NA

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400
PSCGBM@gov.wales / YPCCGB@llyw.cymru

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

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

Document is Restricted

Agenda Item 7

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

Document is Restricted

Agenda Item 8

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

Document is Restricted

Agenda Item 9

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

Document is Restricted

Agenda Item 10

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

Document is Restricted

Agenda Item 12

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

Document is Restricted