

## **Response to the Finance Committee's report on the Welsh Government's draft Budget 2018-19**

**Recommendation 1. The Committee would expect to see more progress in future years in terms of describing how commitments are prioritised and feed into budget allocations and through to outputs. [page 19]**

**Recommendation 7. The Committee re-iterates the recommendation it made in relation to the 2017-18 draft Budget that the Government should demonstrate greater alignment between its draft budgets, the well-being goals and the five ways of working. Future draft budgets should also demonstrate how the Government's allocation of funds will meet the priorities outlined its national strategy, currently Prosperity for All. [page 55]**

### **Response: Accept in principle**

In developing the 2018-19 draft Budget we worked across government to review the alignment of our spending plans to Prosperity for All and took full advantage of opportunities to join up activity across portfolios and programmes to meet our well-being objectives and embed the five ways of working in the budget process.

When the Cabinet Secretary for Finance gave evidence to the Finance Committee he outlined specific funding allocations in line with Prosperity for All and the five priority areas. Further details of how the Government's spending plans align to Prosperity for All and supports the services that matter most to the people of Wales are provided in chapter four of the outline draft Budget narrative published on 3 October and in the detailed departmental budget proposals published on 24 October.

We have previously acknowledged that embedding the principle of the Well-being of Future Generations Act in our budget planning would be an evolutionary process and would develop over a number of years. In his evidence to the Committee, the Cabinet Secretary for Finance set out the steps we have taken this year to strengthen our budget preparations and to ensure the Act has a growing impact. This included consideration of the three specific areas agreed with the Future Generation's Commissioner.

We are always looking to improve the information we provide as part of the Budget process. In developing this year's Budget documentation the main focus was on providing material to reflect our new fiscal responsibilities, including publishing for the first time a report by the Chief Economist for Wales about future public finances and our economic prospects, as well as an independent report by Bangor University on the Welsh Government's tax revenue forecasts.

We will continue to develop our approach to budgeting and will reflect further on the Committee's recommendations in developing future budgets.

**Recommendation 2. The Committee recommends that the Government continues with the practice of aiming to publish its Draft Budget prior to the publication of the UK Budget in Autumn 2018. [page 19]**

**Response: Accept**

As noted during the Finance Committee's inquiry into the Best Practice Budget Process Part 2, there are challenges with designing a budget process to allow for the timing of UK Government budget announcements, provide adequate time for scrutiny and the ability to provide early certainty to our delivery partners, challenges made harder by the UK Government's move to a single fiscal event in the autumn.

We have noted the Committee's intention to review how the budget process has worked this year. While acknowledging that on balance the Committee prefers the current arrangements, it is important that we should continue to keep in view the processes we have as our fiscal responsibilities develop.

**Recommendation 3 - The Committee recommends that when the Government provides a draft Budget for the next financial year that indicative figures should be provided for the two financial years following (where UK budgets allow). [page19]**

**Response: Accept**

As noted in our response to the Finance Committee's report on the draft Budget 2017-18 our aim is always to provide a longer run of budgets whenever possible.

We listened very carefully to the calls from our delivery partners about the importance of being able to plan over more than a 12 month horizon. Despite the very real uncertainties that we faced, and the backdrop of further cuts to come, we published revenue plans for the next two years and capital plans for the three years for which we have a settlement.

**Recommendation 4 - The Committee recommend that the Welsh Government should further consider the provision of Welsh specific data to inform forecasting, modelling and tax policy development. [page 32]**

**Response: Accept**

We continually seek to improve the evidence base for tax policy development. In support of this objective, officials are working currently with HMRC to ensure that we have access to the most detailed and timely information possible about the tax base in Wales and elsewhere in the UK. Once the Welsh Revenue Authority has started to collect the fully devolved taxes, it will also be able to provide detailed information about the relevant tax base in Wales.

We recognise that no single set of data, or single model, will be appropriate for all purposes, and we know it will be necessary for the evidence base used to assess

policy options and on which we base our decisions to be specific to the taxes and changes under consideration.

It is sometimes argued that decisions about taxation and fiscal policy should be based on the outputs of a detailed macroeconomic model of the Welsh economy. However the development of such a model would be, at best, a long term endeavour. We must also consider carefully the extent to which the level of integration between the economy in Wales and the rest of the UK makes it feasible to model the economy in Wales independently of modelling the wider UK.

**Recommendations 5. The Committee recommends that the Government continues to utilise the most economical sources of finance available to them. [page 35]**

**Recommendation 6. The Committee recommends that where reserves which are currently earmarked for infrastructure projects are not used on these projects the Government should aim to use the funding for other infrastructure projects in line with their published strategic priorities. [page 39]**

**Response: Accept**

In his evidence to the Finance Committee, the Cabinet Secretary for Finance explained the hierarchy for funding capital expenditure available to the Welsh Government. Further details are provided at chapter three of the outline draft Budget narrative with the over-arching principle being we will always exhaust the use of the least expensive forms of capital before moving on to other sources.

We will look to maximise all of the available capital spending power in support of our investment priorities.

**Recommendation 8 - The Committee recommends that the strategic integrated impact assessment provided alongside future draft budgets should provide a clear explanation as to how decisions were arrived upon. [Page 55]**

**Response: Accept in principle**

In line with the principles of the new two-stage budget process the Strategic Integrated Impact Assessment (SIIA) published on 3 October focused on the high-level spending decisions published in the outline draft Budget, with impacts of spending decisions taken at the departmental level published as part of the detailed draft Budget on 23 October.

The SIIA set out the next steps we are taking to improve the impact assessments of policy development and through the budget process. This includes a project, in 2018, to deliver a new framework for impact assessment within the Welsh Government. The objectives for the framework include giving clearer and more explicit purposes for impact assessments across the range of government interventions; reducing complexity and applying impact assessments to interventions in a proportionate way. Our approach will focus on the quality of understanding,

evidence and judgment; and integrating the impact assessment process with the substantive direction of the Wellbeing of Future Generations Act.

The project will include training and development for the workforce to assess impact more effectively.

Looking ahead to the next budget, we have reconvened the Budget Advisory Group for Equality (BAGE) and agreed a programme of work. Alongside discussions with the Future Generation Commissioner's office on the content and focus of the Strategic Impact Assessment, advice from the BAGE will help to inform our thinking and strengthen the articulation of impacts in the published budget documentation. This will continue to support the meaningful scrutiny of our plans and impact assessments.

**Recommendation 9. The Committee recommends that the Cabinet Secretary consider the suggestion that the Future Generations Commissioner has a role in assessing the impact of Government's budget in supporting the well-being goals, both in the short and longer term. [page 55]**

**Response: Accept**

We continue to develop our approach to budgeting, to seek to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. We will consider ways in which we can build on the measures we have taken this year to strengthen the budget process and the Cabinet Secretary will be seeking an early meeting with the Future Generation's Commissioner to discuss next steps.