

Joint Scrutiny Session

Equality, Local Government and Communities Committee

Children, Young People and Education Committee

Finance Committee

Date: 15 November 2018

Title: Welsh Government Draft Budget 2019-20

Introduction

1. This paper provides information to the concurrent meeting of the Equality, Local Government and Communities Committee, the Children, Young People and Education Committee and the Finance Committee about impact assessments in relation to the draft Budget 2019-20.
2. As you note in your letter of 23 August, matters relating to impact assessment reach beyond the remit of your three committees and we understand individual policy committees will be scrutinising portfolio Cabinet Secretaries and Ministers about impact assessments in their areas of responsibility.

Approach taken to the Strategic Integrated Impact Assessment this year

3. The outline draft Budget 2019-20, published on October 2, sets out the proposed strategic spending plans for revenue (2019-20 only) and capital funding (2019-20 and 2020-21), taxation and borrowing proposals. We set out our approach to the budget preparations in chapter four of the outline draft Budget narrative. We have developed and presented the budget narrative in a different way this year, so it is easier to see how our spending plans are aligned to our priorities.
4. The detailed spending proposals for each government portfolio were published in the second stage of the budget on October 23 in line with the new budget process, which was agreed by the National Assembly and introduced last year.
5. In the outline draft Budget 2019-20, we set out our spending priorities, focusing on performance, prevention and pay in the following areas:
 - Health and social care
 - Local government
 - Capital investment, to support the delivery of local services
 - Supporting our business and communities through the uncertainty of Brexit

6. Secondly, we set out decisions to support the six priority areas in *Prosperity for All*. These are the six areas where it has been shown that early intervention and co-ordination across services can have a significant impact on outcomes. The six priority areas are – early years; housing; social care; better mental health; skills and employability; and decarbonisation.
7. As part of the budget process, we have a responsibility to consider our decisions through a number of lenses to understand their impact. An integrated assessment enables us to better understand the impact of decisions on different groups of people. We have once again taken this approach.
8. Some of our responsibilities are statutory and all are essential to deliver positive outcomes. These are equalities and human rights, children's rights, the Welsh language, climate change, rural proofing, health, biodiversity and economic development. Socio-economic disadvantage is an underpinning consideration when assessing the impact of decisions.
9. The Strategic Integrated Impact Assessment is set out in the same way as the budget narrative so it is clear about the consideration of evidence and impacts supporting our spending priorities. Following feedback from the Children, Young People and Education Committee last year, we have taken steps to highlight the impact of the United Nations Rights of the Child in relation to our budget-setting process.
10. We have also changed the format of the detailed draft Budget– stage two of the budget – this year following feedback from Assembly committees and the Future Generations Commissioner. We have developed the narrative under the 12 well-being objectives and the six *Prosperity for All* priority areas so we are clearer about how decisions about funding are supporting our objectives. The well-being objectives are set to maximise the Welsh Government's contribution to the national well-being goals.
11. For the first time, we are also providing a Strategic Integrated Impact Assessment as part of the detailed draft Budget, which is included as an annex to the budget document published on October 23.

Specific improvements made to the SIIA since the 2016 review of Welsh Government impact assessments

12. Successful policies, programmes, investments and legislation are those which have been properly assessed for their impact in the round before they are implemented.
13. We have been working to develop our approach to impact assessments, which are an integral part of developing comprehensive and balanced policy making. Appraising the impact – both positive and negative – helps us to target our increasingly-scarce resources on those actions which will have maximum impact on people's and Wales' well-being. An integrated assessment approach provides a more realistic assessment of the overall impact of spending decisions – impacts are interrelated and cannot be considered in isolation.

14. In response to the report *Reducing Complexity and Adding Value: A Strategic Approach to Impact Assessment in the Welsh Government*¹ by the Public Policy Institute for Wales (now the Wales Centre for Public Policy) we have developed a new integrated assessment tool. This will help us to undertake a rounded assessment of the impact of a proposed action, bringing together the range of impact assessment duties in a coherent framework, reducing complexity and duplication and integrating the impact assessment process with the substantive direction of the Well-being of Future Generation Act. It was launched in July 2018 and will be reviewed after six months.
15. The new tool will help us to undertake a rounded assessment of the impact of a proposed action, including the social, economic, cultural and environmental effects.
16. The substantial elements of the former children's rights, equalities, Welsh language and other impact assessments have been incorporated into the integrated impact assessment.
17. In November 2018, officials will attend a meeting of the Future Generations Commissioner's advisory panel to consider the Welsh Government's approach to integrated impact assessment. Panel members include the Children's Commissioner, the Equality and Human Rights Commissioner, the Older People's Commissioner, the Welsh Language Commissioner, the Chair of Natural Resources Wales and others.

How the Gender Rapid Review informed how the SIIA was conducted this year

18. Phase 1 of the Rapid Review of Gender Equality is the first of a two-part review. The report by Chwarae Teg² examines the Welsh Government's gender equality policies and considers them alongside the Wales Centre for Public Policy's report on global best practice *Putting Equality at the Heart of Decision-making*³.
19. The review found that, while much has been achieved in Wales, gender inequality remains a stubborn feature of Welsh life.
20. Phase 2 of the review includes an assessment of the extent to which Wales has an effective and integrated legislative and regulatory framework that embeds meaningful consideration of gender into policy and spending decisions.
21. Phase 2 of the review is due to report by July 2019. This timing will also allow the feedback from the review of the SIIA to be taken into account.

¹ https://www.wcpp.org.uk/wp-content/uploads/2018/04/Impact-Assessments_FINAL-30-Apr.pdf

² <https://www.cteg.org.uk/wp-content/uploads/2018/07/final-Rapid-Review-of-Gender-Equality-Phase-One.pdf>

³ <https://www.wcpp.org.uk/publication/putting-equality-at-the-heart-of-decision-making/>

How children's rights have been considered and assessed for this draft budget, in line with the Welsh Government's duty of due regard to the UNCRC

22. As part of the continuous improvements to the budget process, we take an integrated approach to impact assessments of the budget. This year we have included a strategic integrated impact assessment as part of both the outline and the detailed draft Budget. In taking an integrated approach we continue to reflect the impacts on children's rights as well as socio-economic disadvantage, the Welsh language, equality and sustainable development through the economic, social, environmental and cultural well-being of Wales. We set out our approach to Child Rights Impact Assessment in correspondence to the Chair of Children, Young People and Education Committee in June (copy at Annex 1)

How the impact of both Welsh Government borrowing and new income tax powers informed the SIIA

Welsh rates of income tax

23. Providing stability and certainty is a key aim in implementing the new Welsh taxes, including the introduction of Welsh rates of income tax from April 2019.
24. The Equality and Human Rights Committee report on the cumulative impact of tax and welfare reforms⁴ reported on income tax, national insurance contributions and indirect taxes, which until now have all been the responsibility of the UK Government. It showed gains from changes to income tax and national insurance contributions (largely due to the real-term increase in the tax-free personal allowance since 2010) but losses from changes to indirect taxes (largely due to the increase in VAT to 20% in 2011).
25. The Welsh Government has set out its approach to tax and its principles for Welsh taxes in its Tax Policy Framework⁵. These include the key principles that Welsh taxes should raise revenue to support public services as fairly as possible; they should be developed through collaboration and involvement and contribute directly to the Well-Being of Future Generations Act goals. Those who benefit the most from public services tend to be those on below-average incomes. Some protected groups are proportionally more likely to fall into this category. There is also a disproportionate spend on young people and older people in terms of education and health services.
26. In 2018-19, the Welsh Government used its new tax powers to increase progressivity: land transaction tax, which in Wales has replaced the UK Government's stamp duty land tax, has the highest starting threshold for

⁴ <https://www.equalityhumanrights.com/sites/default/files/cumulative-impact-assessment-report.pdf>

⁵ Welsh Government Tax Policy Framework, June 2017: <https://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

residential rates in the UK and the lowest starting rate of tax for the purchase of business premises in the UK.

27. We will continue to use the tax system to promote fairness and economic growth and to help tackle poverty. Any future tax policy decisions will be developed within the *Tax Policy Framework*⁶ with specific assessments of the impact on households and individuals in Wales undertaken as necessary.
28. The Welsh Labour manifesto included a commitment not to increase Welsh rates of income tax and the outline draft Budget reflects this commitment. Our priority is to promote an orderly transition to the new Welsh rates of income tax, which will continue to be administered by HMRC from their introduction in April 2019.

Borrowing

29. Borrowing enables the Welsh Government to increase its overall capital spending power – over and above the limit set by HM Treasury through the block grant – to support our infrastructure investment priorities set out in the *Wales Infrastructure Investment Plan*⁷. Using our new borrowing powers, we can deliver large-scale strategic investments, which would otherwise be unaffordable using our core general capital budgets alone.
30. The reduction in our capital budget means we need to continue to develop new and innovative ways to fill the capital gap. The principle underpinning the use of capital in Wales is that we will always exhaust the use of the least expensive forms of capital before using other sources of capital. We will always use general capital, including financial transactions capital, ensuring we use every penny available to Wales, to fund our infrastructure commitments.
31. The outline and detailed draft Budget documents set out how our capital budgets, including borrowing will be spent, and the strategic integrated impact assessments set out the impacts of these investments.
32. However, capital borrowing is not additional money and must be repaid. There is a revenue consequence to financing capital expenditure through borrowing. So, we think carefully about the cost of borrowing every time we plan to use the facility, as there is a considerable opportunity cost.

How the SIIA evidences the financial impact of Welsh Government decisions

33. The strategic integrated impact assessment sets out the impact on policy and the delivery of budget and spending decisions, which have been made. This is

⁶ Welsh Government Tax Policy Framework, June 2017: <https://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

⁷ <https://beta.gov.wales/sites/default/files/publications/2018-07/wales-infrastructure-investment-plan-mid-point-review-2018-a.pdf#>

complemented by the financial tables in chapter five of the outline draft Budget narrative and the more detailed Budget Expenditure Line (BEL) tables, which are published alongside the detailed draft Budget.

34. In appraising the impact of budget decisions, we have taken a proportionate approach, taking an initial appraisal of whether a full impact assessment is required, for example, where an allocation of funding is very small compared to the overall budget, the change is part of a planned programme closure where outcomes are being delivered in a different way or efficiencies have been made.
35. Decisions have been made in the context of a very challenging outlook for public finances as we enter the ninth year of austerity and as we approach the date for leaving the European Union, we are still unclear about what the final deal will look like. The UK Government will conduct a Spending Review in 2019, although further details about this have not yet been announced.
36. All of this constrains our ability to plan beyond the short term. We recognise – and are sympathetic to – the calls from our public sector partners to budget over a longer period whenever possible to support forward financial planning. Our ambition to publish plans for more than 12 months must be balanced by our ability to provide realistic and sensible planning assumptions. We have had to take the decision to publish revenue plans for 2019-20 only and capital plans for the next two years – 2019-20 and 2020-21.
37. To support financial planning beyond the immediate term, the Chief Economist's report⁸, published alongside the outline draft Budget, provides an analysis of the medium-term fiscal projections, which will help to inform scenarios for future resource spending in Wales.

How the Cymraeg 2050 Strategy along with the Rapid Review of Welsh in Education Strategic Plans 2017-20, which made specific recommendations around capital investment, impacted on the SIIA this year.

38. The *Rapid Review of Welsh in Education Strategic Plans 2017-20*⁹ made specific recommendations about capital investment. In January, the Welsh Government allocated an additional £30m of capital to support the growth of Welsh language education. In combining this investment with projects aimed at increasing Welsh medium childcare provision, we have been able to announce support for projects with a capital value of more than £51m. This will have a positive impact on younger people and will support the growth of the use of the Welsh language in education, supporting our ambitions set out in *Cymraeg 2050*¹⁰.

⁸ <https://beta.gov.wales/sites/default/files/publications/2018-10/chief-economists-report-2018.pdf>

⁹ <https://beta.gov.wales/sites/default/files/publications/2018-02/rapid-review-of-the-welsh-in-education-strategic-plans-2017-20.pdf>

¹⁰ <https://gov.wales/docs/dcells/publications/170711-welsh-language-strategy-eng.pdf>

39. *Cymraeg 2050* sets out that we need to reach a position where the Welsh language is an integral element of all aspects of everyday life. Education is central to our vision, but we must ensure our young people come out of the education system ready and proud to use the language in all contexts.
40. We set out in both the outline and the detailed draft Budget strategic integrated impact assessment where budget decisions are having an impact on the Welsh language, in support of *Cymraeg 2050*. The most recent annual population survey showed encouraging results with an increase in the number of Welsh speakers reported.
41. We are supporting Welsh in education with a budget of £29m in 2019-20. This includes planning of Welsh-medium education to include implementing recommendations made within Aled Roberts Rapid Review of the Welsh in Education Strategic Plans; the delivery of practitioner training through the Sabbatical Scheme; the delivery of Welsh-language training; and funding for the Coleg Cymraeg Cenedlaethol and the development of post-16 Welsh-medium provision.
42. One of the underpinning themes of *Cymraeg 2050* is the need to create favourable conditions regarding infrastructure and context, including, for example, community and economy, culture and media and digital technology. We are investing £5.9m through Welsh language directly, however there are be contributions from across all portfolio areas so that we can reach the position that Welsh is an integral element of all aspects of everyday life. As part of the Plaid Cymru budget agreement we have also provided an additional capital allocation of £2.75m to upgrade the Urdd camps at Glan-llyn, near Bala and Llangrannog.
43. The Economic Action Plan recognises that the economy is integral to creating the social conditions where Welsh speakers can stay in Welsh-speaking communities, or return to those communities. Investing in good quality jobs and regions, which are attractive places in which to live, work and invest, which will provide people with a reason to remain or return to work and live in communities where the Welsh language thrives.
44. The Welsh language is a significant component of the historical culture and identity of Wales. Celebrating Wales' unique culture, language and sense of place are at the heart of the Wales brand approach. We will increasingly bring the Welsh language to the fore as a key selling point for Wales – especially in tourism in key international markets. We are also investing in the expansion of our overseas offices to help access new markets and expand opportunities for Welsh businesses

Annex 1

Mark Drakeford AM/AC
Ysgrifennydd y Cabinet dros Gyllid
Cabinet Secretary for Finance



Llywodraeth Cymru
Welsh Government

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11 June 2018

Dear Lynne

Thank you for your letter, dated 15 May, in relation to scrutiny of the Welsh Government's draft budget. I am replying as Cabinet Secretary with responsibility for the budget process.

Budget Transparency

In line with this government's commitment to transparency and openness, we have worked with the National Assembly over a number of years to refine the presentation and quality of budget information to help support meaningful scrutiny of the government's proposals.

This work has acknowledged the complexity of the information being presented at various points in the budget cycle and the variety of purposes for which stakeholders use the information.

Last year, in recognition of the government's new fiscal responsibilities – including new tax and additional borrowing powers – a new budget process was agreed between the National Assembly and the Welsh Government. This included a budget protocol setting out a new two-stage budget process, which has led to the publication of a greater level of detail and supporting information at both stages of the budget process.

As part of the protocol, we agreed to publish budget information at a BEL level – a more detailed level than has previously been published.

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We continually keep the presentation and quality of budget information under review and will reflect on the evidence and feedback from committees, including the Children, Young People and Education Committee.

Child Rights Impact Assessment

As part of the continuous improvements to the budget process, we have taken an increasingly sophisticated approach to impact assessments through the publication of the Strategic Integrated Impact Assessment (SIIA) alongside the draft Budget.

In taking an integrated approach we continue to reflect the impacts on children's rights as well as socio-economic disadvantage, the Welsh language, equality and sustainable development through improving the economic, social, environmental and cultural wellbeing of Wales.

Impact assessments on detailed spending plans are part of the second stage of the budget process. As the 2018-19 Budget was the first year in which we published a two-stage budget, we acknowledge there is more we can do to improve the impact assessments of policy development through to the budget process.

The Finance Committee has recommended future draft budgets provide a clear explanation about how decisions are arrived at. This recommendation is consistent with a Welsh Government project to develop a new framework for impact assessment, which will be rolled out in July.

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 Wellbeing of Future Generations Act.

I am copying this letter to the Cabinet Secretary for Education and the Cabinet Secretary for Health and Social Services.

Best wishes,

A handwritten signature in black ink that reads "Mark".

Mark Drakeford AM/AC
Ysgrifennydd y Cabinet dros Gyllid.
Cabinet Secretary for Finance