

Response to Finance Committee's Recommendations on the draft Budget 2019-20

Recommendation 1. The Committee recommends that the Welsh Government continues with its current practice of publishing its draft Budget regardless of the timing of the UK Budget.

Response: Accept

As confirmed by the then Cabinet Secretary for Finance in the debate on the draft Budget 2019-20 on 4 December, we accept the Committee's recommendation in relation to the new budget process. However, in agreeing the Budget protocol last year, the National Assembly and the Welsh Government recognised there may be some years, due to circumstances beyond the Welsh Government's control, where a 'budget/financial year' will not be normal. For example, where there is a UK fiscal event, such as a Comprehensive Spending Review or Emergency Budget.

In his letter to the Finance Committee in June 2018, the former Cabinet Secretary for Finance highlighted the impact the UK Government's 2019 Spending Review is likely to have on the timing of the 2020-21 Budget. We will need to reflect on this further when we have clarity on the timing of the 2019 Spending Review.

We also note the chair of the Finance Committee's intention to discuss the Budget scrutiny and how the process is working with the chairs of the other Committees that scrutinise the draft Budget.

Recommendation 2. Whilst welcoming the progress made in the information provided with the outline and the detailed budget, the Committee recommends that the Welsh Government responds to the concerns of stakeholders regarding the ability to track specific changes within portfolios.

Response: Accept

We welcome the Committee's acknowledgement of the steps we have taken to provide a greater level of detail and supporting information at both stages of the draft Budget.

We have worked closely with the Finance Committee over a number of years to refine the presentation and quality of budget information, and to support the Assembly's scrutiny of our proposals. This collective work has acknowledged the complexity of the information we are presenting at various points of the budget cycle and the variety of purposes for which stakeholders use the information. This includes the provision of details regarding the government's new fiscal responsibilities for tax and borrowing powers, and takes into account the Budget protocol agreed last year.

As part of the protocol, we agreed to go beyond the level of detail provided in previous budgets by publishing budget information at Budget Expenditure Level (BEL). In order to support transparency, we also provided details in the BEL tables

published as part of the draft Budget of changes compared to previously published plans for 2019-20. Cabinet Secretaries and Ministers also provided further supporting information to enable stakeholders to see changes to published plans in their evidence papers to Committees.

We are committed to working co-operatively with the Finance Committee and other Committees to develop and improve the presentation of information in future budgets.

Recommendation 3. The Committee recommends that the Welsh Government engages with both the OBR and HMRC to ensure work undertaken specifically for Wales is given the same priority as their work in a UK context.

Response: Accept

A good working relationship has already been established with the OBR and HMRC with regard to analysis and forecasting. Welsh Government officials have attended forecast meetings with both organisations over recent years and worked closely with them on the forecasts for the devolved taxes. Officials are also working with HMRC to ensure there is a robust and detailed evidence base to underpin the analysis of devolved taxation.

OBR will produce two forecasts of Welsh devolved tax revenues each year to be published alongside the Welsh Government's draft and final Budgets. These will be in addition to the forecasts it produces for its Economic and Fiscal Outlook publications. Each forecast will take account of Welsh Government tax policy decisions and recent outturn information, as well as the OBR's most recent macro-economic outlook. The forecasts will be accompanied by a full report explaining the composition and trends in the tax revenue estimates and how those estimates have changed.

The OBR is planning to hold engagement events in Wales in the summer each year to ensure it is fully aware of economic and analytical developments. These arrangements will also help to build fiscal analytical capacity in Wales.

Recommendation 4. The Committee recommends that attention is given to finalising the Memorandum of Understanding with the OBR and would welcome the opportunity to scrutinise the agreement.

Response: Accept in principle

The existing Memorandum of Understanding with the OBR will be revised to reflect the new arrangements for next year and beyond, when OBR will be providing independent revenue forecasts for the Welsh Government's budgetary process.

In addition to the Memorandum of Understanding, there will also be a Terms of Reference document, which will set out in more detail the roles of the Welsh Government and the OBR in the new arrangements. As the Cabinet Secretary for Finance confirmed in the debate on the draft Budget on 4 December, we will be pleased to provide the Committee with a renewed Memorandum of Understanding.

The Welsh Government and OBR have agreed to review the arrangements after the first year.

Recommendation 5. The Committee is keen to ensure that the flagging process for WRIT is fit-for-purpose and recommends that the Welsh Government closely monitors the process through 2019-20.

Response: Accept

We will continue to work closely with HMRC to assure the taxpayer identification work being undertaken in preparation for WRIT implementation. This is not a one-off exercise, as HMRC will continue to update customer records regularly to ensure taxpayers liable to pay WRIT are correctly identified. HMRC draws on a range of information to do this, including employer payroll updates for PAYE customers and contact with individual taxpayers and tax agents.

The Welsh Government will continue to work with HMRC following implementation of WRIT, in April 2019, to inform analysis and forecasting, monitor changes to the tax base and to help ensure HMRC customer records are as accurate and up-to-date as possible. This work is managed under the auspices of a joint project board that meets on a monthly basis.

Recommendation 6. The Committee recommends that the Welsh Government considers how any future additional funding for health services can be targeted toward prevention and should also consider establishing partnership arrangements around any such funding.

Response: Accept

A central pillar of the health service will always be the curative function it performs. We acknowledge there is a balance needed between investing in preventative activities and maintaining investment in treatment and frontline services.

Additional funding in health services in future years must be prioritised to where it is needed most. Some of this will inevitably be in areas of acute services. However, a key consideration in determining our priorities will be how additional investment targeted towards prevention can be achieved. Co-operative approaches for determining spending allocations will continue to play an important role in ensuring holistic outcomes from preventative spending.

In the Budget for 2019-20 £192m is being allocated specifically to take forward the implementation of *A Healthier Wales*, our plan to create a seamless integrated health and social care system. Of this, £60m will be used to support the development of stronger NHS integrated medium-term plans. This investment, though mainly issued as discretionary funding, should be used by the NHS to support delivery of *A Healthier Wales* actions, such as an increased focus on prevention through local health facilities.

Regional Partnership Boards are provided for by the Social Services and Well-being Act and bring together health boards, local authorities, the third sector and other

partners on the health board footprint. *A Healthier Wales* make clear these boards should lead the delivery of effective integrated and collaborative care services. Regional boards should make best use of resources and are required to promote pooled funds and consider establishing them when they do things jointly in response to the population assessment. The aim of pooled funds is to support integrated commissioning of services and get better value for money.

Regional boards have oversight of and ensure the effective use and delivery of the Integrated Care Fund (ICF) to develop and test new integrated models of service delivery, with a focus on prevention. £50m in ICF revenue funding has been made available to regional boards this year. The 2019-20 draft budget again provides £50m in revenue funding as well as an additional £30m revenue for regional partnership boards that the Welsh Ministers have agreed should be delivered via the ICF.

In addition, £30m is being spent to address pressures in social care, to prevent people from losing their independence for as long as possible, through supporting domiciliary care services, for example. We are also investing £10m of this funding in preventative schemes, including support for early years and £15m for mental health and learning disabilities, including our “whole school” approach to emotional and mental health support for children and young people.

Recommendation 7. The Committee recommends that the Welsh Government uses the upcoming spending review as an opportunity to fully evaluate its budget processes and documentation, ensuring that future budgets provide a long-term view of funding.

Response: Accept

As a matter of course, we will reflect on this year’s budget process and documentation to explore ways improvements can be made in future years. As the then Cabinet Secretary for Finance acknowledged in his evidence to the Committee, subject to knowing the outcome of the UK Government’s Spending Review this year, the 2020-21 Budget will be the first budget of a new cycle and will provide the opportunity to approach the integrated assessment in a different way.

Recommendation 8. The Committee is keen to understand how the “journey tracker” will be used by the Welsh Government to accelerate its implementation and integration of the objectives of the Well-being of Future Generations Act and recommends that its use is reflected in the draft Budget 2020-21.

Response: Accept in Principle

The Future Generations Commissioner's office is developing the journey tracker and we intend to work closely with the Commissioner's office to consider how the journey tracker can support the budget process next year.

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 and hope this tool will help us monitor our progress on this journey.

Recommendation 9. The Committee recommends that the Welsh Government continues to demonstrate how it embeds the Well-being of Future Generations Act in decision making throughout its organisation, engaging as fully as possible with the Future Generations Commissioner to deliver the cultural change necessary within the Welsh Government.

Response: Accept

In acknowledging that embedding the Act is an evolutionary process, it follows that the cultural change required will not happen overnight.

Welsh Government officials have worked closely with the Future Generations Commissioner's office in a number of policy areas. This cooperation has proven to be extremely valuable and will continue as we look to make further progress across Welsh Government.

We have taken positive strides forward as part of this year's budget process. We have been clear in how decisions have been taken within the context of our national strategy, *Prosperity for All*, and through the framework of the Act. We have also developed our narrative around budgetary decisions in this year's process to better highlight how our activities are contributing towards our 12 well-being objectives.

Taking an integrated approach to impact assessment will assist in embedding the Act in policy-making and the decisions we take. The progress made this year through using the Integrated Impact Assessment tool is an important foundation on which we will look to build.

Recommendation 10. The Committee recommends that future draft budgets provide greater detail on the allocations aimed at tackling poverty and inequality. Whilst recognising that some of these initiatives might include relatively small sums of money it is of benefit to flag that these allocations are to addressing poverty and inequality.

Response: Accept

The Welsh Government's programme for government, *Taking Wales Forward*, and the national strategy, *Prosperity for All*, set out the government's priorities to deliver our long-term aim to create a Wales that is prosperous and secure; healthy and active; ambitious and learning and united and connected.

Throughout our budget process, we are striving to ensure our investments are focused on tackling inequalities and poverty to deliver a thriving economy and support diverse communities, where equality of opportunity is promoted and protection is provided for those who are most disadvantaged. We have also aimed to be clear in our budget narrative and impact assessments in how our investments are targeted at our strategic objectives. In our 2019-20 Budget, for example, we

have allocated a £14.5m package of support to tackle child poverty, which includes additional investment to expand the Discretionary Assistance Fund in 2019-20, a fund that is aimed to support our citizens most in need.

We acknowledge, given the cross-cutting nature of our investments and the multi-layered nature of our objectives across various programmes, it may be more difficult to identify single themes but we will strive to provide further clarity in our future budgets and impacts assessments.

Recommendation 11. The Committee recommends that the Strategic Integrated Impact Assessment accompanying future draft budgets should clearly demonstrate how the Welsh Government has applied the principles of the Well-being of Future Generations Act and consider the Cumulative Impact Assessment approach recommended by the Equality and Human Rights Commission.

Response: Accept in principle

We have focused on how we can take further steps to embed the Act's principles and the five ways of working throughout the Budget process. The Act plays a fundamental role in guiding the budget process to ensure, as a government, we think about the long-term; work with people and communities; take a preventative approach to try and stop problems from happening in the first place and a more joined-up, cross government and public sector approach to addressing issues.

We launched a pilot of the new integrated impact assessment tool in July 2018, which takes account of the full range of impact assessments and the framework provided by the Act. The Future Generations Commissioner said in her evidence to the Finance Committee that she sees the Act providing an overarching framework for strategic impact assessments.

We recognise that an integrated approach to assessing impact is vital in fulfilling the requirements of the Act and working towards our well-being goals in Wales. This tool will be reviewed and refined and support our efforts to demonstrate how the Act has been considered throughout the process.

Furthermore, using an integrated approach also helps in providing a cumulative view and enables us to understand better the overall impact of decisions on different groups of people.

Recommendation 12. The Committee recommends that future impact assessments should clearly identify any negative impacts of decisions and different options that might have been considered in reaching spending decisions, rather than focusing on the positive aspects.

Response: Accept

It is important that impact assessments include both negative and positive impacts from the decisions taken by government. This should also help identify actions to mitigate negative impacts and explore opportunities to promote a more positive

approach, which explains the positive nature of the narrative. This is an area on which we will look to build in future years and demonstrate further the considerations that have been explored and changes that have been taken following a full assessment of the impact of spending decisions.

Recommendation 13. The Committee recommends that the Welsh Government provides an update on the outcome of its review of the new framework for integrated impact assessments.

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 in the New Year. We are currently in the process of defining the parameters for that review and we expect to consider the progress achieved and the improvements that can be made in future. We will look to engage with stakeholders involved in the initial development of the tool and then report on progress.

Recommendation 14. The Committee recommends that the Welsh Government keeps the definition of preventative spend under close and constant review, including active engagement with both stakeholders and this Committee.

Response: Accept

We recognise that the definition of preventative spend is the beginning of the journey and a foundation for us to collectively build upon in future. We are grateful for the involvement of stakeholders in agreeing the definition, which has helped in this budget round. We look forward to further refinements of it in discussion with Committees and others in order to inform future budget considerations.

Recommendation 15. The Committee recommends that the Welsh Government prioritises an integrated approach across Government with respect to preventative spending, both cross-department, and multi-year.

Response: Accept

The Well-being of Future Generations Act 2015 and its five ways of working is the foundation that guides all our activities, including the budget process. We have said that the implementation of the Act is an iterative process and we have taken further steps forward in this year's budget with respect to preventative spending and developing a more integrated approach to spending decisions across Government. Our budget process this year has been driven by *Prosperity for All*, our national strategy, and our six cross-cutting priority areas.

Recommendation 16. The Committee recommends that the Welsh Government considers the transparency issues in relation to identifying investment linked to the Economic Action Plan in the budget tables, with a view to ensuring clarity is provided in the 2020-21 budget.

Response: Accept

We have been open that this is a process of transition. Whilst the new Economic Action Plan (EAP) is shaping our future activities, we inevitably have to continue to manage legacy commitments. This is important in maintaining business continuity and in managing a smooth transition between the former approach and the new approach.

The 2019-20 Budget contains a significant amount of legacy expenditure profiled over a number of years, which have been agreed prior to the EAP coming into being. The Budget presentation reflects the transition period, but as our legacy commitments decline and new commitments under the EAP ramp up, we can expect further changes in budget presentation in the years ahead.

Recommendation 17. The Committee recommends that targets are published in relation to the Economic Action Plan and subsequent progress is reported against these targets to enable a better measurement of policy performance.

Response: Accept

We are clear that the EAP is a long-term agenda for change, not just in terms of policy, but also in terms of cultures that include a shift to more responsible business behaviours. In line with *Prosperity for All*, we will use the national well-being indicators to track high-level progress of the EAP. We are also engaging with the OECD to inform further our approach to measure performance. This will include considering international best practice and benchmarks for measuring inclusive growth, aligned to our well-being indicators. Further updates will be provided as this work develops.

Recommendation 18. The Committee recommends that the Welsh Government gives further consideration to how tackling regional inequality across Wales is prioritised in decision making in relation to infrastructure investment.

Response: Accept

The Wales Infrastructure Investment Plan (WIIP), launched in 2012, continues to shape our capital investment decisions and the Mid-point Review published in May, reaffirmed our recognition of the need to tackle inequality as we aligned the WIIP to *Prosperity for All*. One of our key objectives is to tackle regional inequality by targeting interventions to the economic needs of each region of Wales, ensuring all parts of the country benefit from growth.

Within this context, the National Infrastructure Commission for Wales (NICW) has been set up to assess the economic and environmental infrastructure needs of all parts of Wales over a 5 to 30 year period and it will implement appropriate processes to represent Wales' regions and communities.

The NICW, together with the National Development Framework and Economic Action Plan, will provide a strategic picture of our national and regional infrastructure needs and opportunities to help us take decisions through the WIIP to ensure our

investments are aligned and that they are targeted to where they can achieve value for money and generate maximum impact.

Recommendation 19. The Committee notes the need for the budget to be flexible in relation to preparing for Brexit, but recommends that the first supplementary budget 2019-20 provides, as far as is practicable, a detailed summary of how the final Brexit Agreement has informed the Welsh Government's in-year spending plans.

Response: Accept

While we, and the wider Assembly, believe the proposed Withdrawal Agreement and Political Declaration are insufficient and unsuitable for Wales, we continue to press the UK Government to secure a deal with the EU which includes a transition period. A transition period would mean that there would be little substantive change until 2021, giving us stability and time for planning.

However, given the ongoing uncertainty around the Withdrawal Agreement and the shape of our future relationship with the EU, the Welsh Government is seeking to maintain flexibility in its response to the various challenges Brexit poses. Our EU Transition Fund provides this flexibility through responding to and supporting stakeholder identified Brexit preparedness projects. Proposals for the funding of such projects can be submitted to us at any point in the year. As such, it would be difficult to highlight where the remaining funds will be spent in advance. However, we would be happy to provide a high level summary of the approved projects and their allocations from the EU Transition Fund for 2019-20 in the first supplementary budget 2019-20.

There is a general consensus on the major negative long run impacts of a 'no deal' Brexit, with UK Government analysis of the long-run, 15 year, impact of a no deal Brexit suggesting a 9% reduction in Welsh GDP. The immediate impact of a 'no deal' would be highly turbulent and create urgent financial pressures that are extremely difficult to predict. It is important to note that while in the event of 'no deal' the Welsh Government will be expected and ready to act, we are clear that we cannot, and should not, seek to mitigate the consequences of 'no deal' on our own. We do not accept that in the event of 'no deal', when Welsh businesses get into financial difficulty (e.g. because they cannot get their products to market), the Welsh Government is 'on the hook' for the financial impact.

The HMT has not shared with us its plans for a fiscal response in the event of 'no deal' and the various very significant challenges that will arise. However, our working assumption, is that existing public finance arrangements will no longer apply and we will move into a completely new scenario with 'emergency' funding measures. This assumption is based, in part, on the Chancellor's comments in an interview with Sky News in the run up to the Autumn Budget in October 2018 that a no-deal scenario would necessitate a 'new budget' and 'a different strategy for the future'.