

Agenda – Finance Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date: 25 October 2017

Meeting time: 09.30

For further information contact:

Bethan Davies

Committee Clerk

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SeneddFinance@assembly.wales

1 Introductions, apologies, substitutions and declarations of interest

2 Paper(s) to note

(Pages 1 – 2)

2.1 PTN1 – Letter from Dr Ed Poole, Wales Governance Centre to the Chair – Welsh Government draft budget 2018–19 – 16 October 2017

(09.30)

(Pages 3 – 4)

3 Welsh Government draft budget 2018–19: Evidence session 5

(09.30–10.30)

(Pages 5 – 20)

Auriol Miller, Director, Institute of Welsh Affairs

Dr Victoria Winckler, Director, Bevan Foundation

Paper 1 – Written evidence: Institute of Welsh Affairs

Paper 2 – Written evidence: Bevan Foundation

4 Motion under Standing Order 17.42 to resolve to exclude the public for the remainder of the meeting

(10.30)

5 Welsh Government draft budget 2018–19: consideration of evidence

(10.30–10.45)



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

6 Financial implications of the Regulation of Registered Social Landlords (Wales) Bill

(10.45–11.00)

(Pages 21 – 26)

Paper 3 – Financial scrutiny of the Regulation of Registered Social Landlords (Wales) Bill

7 Public Services Ombudsman (Wales) Bill: Issues raised by the Auditor General for Wales

(11.00–11.15)

(Pages 27 – 33)

Paper 4 – Public Services Ombudsman (Wales) Bill: Issues raised by the Auditor General for Wales

8 Public Services Ombudsman for Wales Estimates 2018–19: Consideration of draft report

(11.15–11.45)

Paper 5 – draft report

Concise Minutes – Finance Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date: Thursday, 19 October
2017

Meeting time: 09.31 – 11.27

This meeting can be viewed
on [Senedd TV](#) at:

<http://senedd.tv/en/4424>

Attendance

Category	Names
Assembly Members:	Simon Thomas AM (Chair) Neil Hamilton AM Mike Hedges AM Eluned Morgan AM David Rees AM Nick Ramsay AM
Witnesses:	David Phillips, Institute for Fiscal Studies Dr Ed Poole, Wales Governance Centre Michael Trickey, Wales Public Services 2025 Dr Daria Luchinskaya, Wales Public Services 2025
Committee Staff:	Bethan Davies (Clerk) Georgina Owen (Deputy Clerk) Martin Jennings (Researcher) Ben Harris (Legal Adviser)



1 Introductions, apologies, substitutions and declarations of interest

1.1 The Chair welcomed Members to the meeting.

1.2 Apologies were received from Steffan Lewis AM.

2 Paper(s) to note

2.1 The papers were noted.

**2.1 PTN1 – Letter from the Cabinet Secretary for Finance and Local Government –
Vacant Sites Levy in the Republic of Ireland – 9 October 2017**

3 Welsh Government draft budget 2018–19: Evidence session 4

3.1 The Committee took evidence from Michael Trickey, Wales Public Services 2025; Dr Daria Luchinskaya, Wales Public Services 2025; Dr Ed Poole, Wales Governance Centre; and David Phillips, Institute of Fiscal Studies on the Welsh Government draft budget 2018–19.

4 Motion under Standing Order 17.42 to resolve to exclude the public for the remainder of the meeting

4.1 The motion was agreed.

5 Welsh Government draft budget 2018–19: Consideration of evidence

5.1 The Committee considered the evidence received.

6 National Assembly for Wales Commission draft budget 2018–19: Consideration of draft report

6.1 The Committee agreed the report with minor changes.

7 Consideration of forward work programme

7.1 The Committee considered its forward work programme.



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(anfonwyd drwy e-bost)

19 Hydref 2017

Annwyl Gadeirydd,

Thank you for the invitation to give evidence to the Finance Committee's fourth evidence session on the Welsh Government draft budget 2018-19.

As your committee continues to scrutinise the draft budget, I wanted to add one piece of supplementary evidence that I did unfortunately not have chance to discuss during the oral evidence session, which relates to the **presentation of devolved taxes and adjustments to the block grant** in the draft budget.

Table 3.7 on page 27 presents the sources of financing underlining the 2018-19 outline draft budget. The Welsh devolved taxes are listed, but the fiscal Departmental Expenditure Limit (DEL) is presented only **after** the block grant adjustment for tax devolution has been made. This means that the budgetary impact of tax devolution is not obvious for 2018-19 and 2019-20. A clear statement of this impact is essential in facilitating any analysis as to whether fiscal devolution represents a net gain or net loss to the Welsh budget.

Under the Fiscal Framework agreement, the 2018-19 adjustment for the Land Transaction Tax and Landfill Tax equals the OBR's forecast for receipts in Wales in 2017-18, uprated for growth in equivalent UK government taxes in the rest of the UK (using the agreed Comparable Model). As discussed during the evidence session, the likely budgetary impact is likely to be very small in terms of the overall budget (though £ millions). However, for the purposes of financial accountability, from this budget year forward all budget documents should clearly outline not only Wales' devolved tax yields but also the forecast block grant adjustments that have a major role in influencing the overall budget envelope.

The equivalent table in last year's Scottish Draft Budget (*Table 1.01: Scottish Government Departmental Expenditure Limits 2015-16 to 2019-20*) contains a row in which the assumed block grant adjustments are prominently stated.¹

Please do not hesitate to contact me for further clarification or information.

Kind regards,



Dr. Ed Gareth Poole
Canolfan Llywodraethiant Cymru
Prifysgol Caerdydd

¹ Scottish Government (2016). Scotland's Budget: Draft Budget 2017-18, Chapter 1: Strategic Context for the Draft Budget 2017-18 <http://www.gov.scot/Publications/2016/12/6610/2>

IWA evidence to Finance Committee Welsh Government Draft Budget 2018-19

October 2017

1. About the IWA

1.1 The Institute of Welsh Affairs is an independent think-tank. Our only interest is in seeing Wales flourish as a country in which to work and live. We are an independent charity with a broad membership base across the country. We aim to bring people together from across the spectrum in a safe space where ideas can collide and solutions can be forged in our five priority areas: the economy, education, governance, health & social care, and the media in Wales.

2. Our response

2.1 The IWA convenes 5 policy groups in our priority areas, to guide and inform our policy development. Members of the groups include practitioners, academics and policy professionals with diverse expertise. This response has been developed with input from our Economy and Health & Social Care Policy Groups. Our response seeks to do three things: make general observations on the draft budget; present specific policy implications for consideration by the Committee, and identify areas where solutions can be sought.

3. General observations

3.1 This budget generally represents continuity: broadly the same level of gradual decline of spend as the last 5 years, while the NHS is protected. There is some evidence this is consistent with public opinion on the areas the Welsh government should prioritise¹. We note that this study also found that economic issues are the primary concern of Welsh people, however many of the critical spending decisions impacting the Welsh economy will be determined at a UK level.

3.2 Spending is increasingly dominated by health- and age-related spending. This trend is likely to continue, as pointed out in the Office for Budget Responsibility's recent report on fiscal sustainability². This challenge needs explicit, active consideration at both UK and Wales levels. We need a four nation reappraisal of the total resources devoted to health and social care, which embraces the large body of ideas generated in the last decade (Dilnot, Barker et al) to enable us to build a pan-UK consensus on the different ways of channeling resources into the care of the ageing population, and that could lead to a sustainable, evidence-based settlement. In Wales, we

¹ Elections in Wales – Etholiadau yng Nghymru blog, Professor Roger Scully. Accessed 12th October 2017 at: <http://blogs.cardiff.ac.uk/electionsinwales/2016/08/08/the-most-important-issue-part-iii/>

² Office for Budget Responsibility, Fiscal Sustainability Report, January 2017. Available at: http://cdn.budgetresponsibility.org.uk/FSR_Jan17.pdf

need to explore the potential of our new levers for innovation, such as Gerry Holtham and Tegid Robert's recent proposal for a social care insurance scheme³.

3.3 The detailed budget portfolios are still to come, and so the detailed implications of spending choices are yet to be seen. We welcome the fact that this budget covers a two year period (three in the case of capital spending) which is a valued effort to provide some certainty for public services in Wales.

3.4 However, the UK budget on 22 November 2017 may well result in some further material changes as UK spending choices become clear. The question remains as to where the planned £3.5bn cuts to the UK budget will fall, and what the impact will be on the Welsh budget.

4. Policy Implications

4.1 Health

4.1.1 The decision to protect health spending is not unexpected, and indicates the Welsh Government's acceptance that health and social care expenditure needs to increase at above general inflation if the rising needs of the ageing population and the new capacity of advancing technology are to be met. Estimates of the optimal margin vary, but most accept that about +2% pa, in addition to efficiency savings of another +2%, would allow expenditure to stabilise in real terms. Given the fiscal climate and difficult choices to be made, 1% represents a realistic settlement however it also keeps services in the current iron vice.

4.1.2 The decision to protect health spending, which represents nearly 50% of the Welsh budget, is increasingly challenging to justify, particularly in the context of the Welsh Government's commitment to early intervention and long-term planning, as expressed through the the Social Services and Well-being (Wales) Act and Well-being of Future Generations (Wales) Act. In the absence of the detailed budgets it is not yet possible to assess the balance of spend. However, it is important to note that many services outside the formal health spend contribute to the population's health and wellbeing, such as housing, support services and social care. Cuts in these areas arguably pose as much of a threat to our nation's health as cuts to the NHS.

4.1.3 Health services in recent years have been characterised by pay restraint; running services at close to maximum capacity; and allowing Health Boards to overspend (4/7 now have recurring deficits which they have no active plans to resolve). The opportunity cost of this is that disproportionate amounts of time is devoted to 'keeping things going' rather than carrying out the system redesign Wales needs.

4.1.4 There is emerging consensus on the direction in which health and social care services need to change, and the Parliamentary Commission reporting later this year is well placed to cement this consensus. The problem hitherto has not been *what* we should do, rather achieving

³ Institute of Welsh Affairs, Click on Wales. Accessed 12th October 2017 at:
<http://www.iwa.wales/click/2017/05/solving-social-care-besides/>

sufficient scale and pace of change. This is of course not solely a problem with money: between 2000 and 2010 expenditure on health in Wales increased by 50% in real terms but there was little evidence of fundamental transformation. Nevertheless it is difficult to see how +1% pa will do anything other than force health and social care to continue with a series of sticking plasters rather than the radical surgery they need to transform. The key questions are less about spend, but rather who and how will we drive transformation into a 21st Century Health Service.

4.2 Environment and decarbonisation

4.2.1 We note that the Environment and Rural affairs budget heading has taken the greatest reduction in this year's budget. The draft budget narrative states that "Funding for environment and rural affairs has been reduced but this does not mean that sustainable growth and climate change is not important". It points to funding interventions which have the greatest impact, and using investment in other areas to achieve decarbonisation objectives, such as housing. The IWA supports the intention within the Welsh Government tax policy work plan 2017 to explore whether the devolved tax system could help to incentivise more energy efficient homes.

4.2.2 We endorse Welsh Government's approach that other budget areas can contribute towards decarbonisation, however delivery of this relies on deploying effective policy incentives in diverse areas. For example, the South Wales Metro could be powered through renewable energy sources; new build housing could be built to higher energy standards via changes through Part L of the building regulations. Welsh Government could significantly ramp up the scale of energy efficiency investment in Wales' existing housing stock to help drive decarbonisation as well as wider benefits such as health improvements, which in turn reduces the stress on the NHS and potentially reduces the need to increase spending on health significantly year on year. The decarbonisation agenda needs maximum engagement across all Welsh Government departments to ensure that we meet the targets set out within the Environment (Wales) Act 2016. What is unclear at this time, with limited budget detail and policy in these areas still being developed, is how proposals in this budget will help Welsh Government reach its own stated goal of a green and prosperous Wales. Without this detail, it is difficult to be confident that the budget settlement will not have an adverse effect on this area of Welsh life.

4.3 Taxation

4.3.1 The introduction of taxation powers, limited at the moment to Landfill Tax and Land Transaction Tax, marks the start of the Welsh budget evolving into a budget which balances income raised with money spent. This welcome change will develop further with the introduction of limited income tax powers next year. The cautious approach the Welsh Government is taking to the introduction of income tax is understandable, particularly in the context of unanswered questions about any payment Wales will need to make to HMRC to work on Welsh income tax and how payments will be deducted from the block grant i.e. will Wales be charged for gross or net tax revenues? We welcome the Welsh Government's work with Bangor

University and the OBR to underpin forecasts of tax revenues, and consider their involvement will ensure a useful source of independence.

4.3.2 We welcome the intention to use innovative funding to raise capital investment, such as to deliver the commitment to build 20,000 new homes by 2021. In the face of stretched core capital budgets, this offers the Welsh Government a means of delivering much needed improvements to infrastructure despite continued austerity budgets from HM Treasury.

Thank you for your consideration of our response. We look forward to further exploring these points in Committee.

For further information, please contact:

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National Assembly for Wales Finance Committee

Call for information: Welsh Government draft budget proposals for 2018-19

Submission by the Bevan Foundation

1. Thank you for the opportunity to contribute to the Committee's consultation on the Welsh Government's draft budget. The Bevan Foundation is an independent, charitable think tank whose purpose is to make Wales fair, prosperous and sustainable by generating practical proposals. It has an extremely modest budget (£127,000 in 2016/17) does not receive any Welsh Government funding.
2. Our response covers three areas in which we have significant expertise: poverty reduction and welfare reform; Brexit and new devolved taxes.

Poverty reduction and welfare reform

3. Poverty imposes very significant costs on the Welsh budget – some £3.6 billion a year¹ - as well as affecting economic performance, social cohesion and individual lives. It makes financial sense if nothing else for the Welsh Government to seek to reduce the burden of poverty.
4. Our work with the Joseph Rowntree Foundation² has identified five key areas of intervention which are proven to reduce poverty:
 - a. **Economy:** stimulating the creation of more and better jobs especially in deprived areas.
 - b. **Education and learning:** closing the gap in attainment between poor children and others, enhancing work-related adult learning and providing personalised careers advice to all ages.
 - c. **Helping families:** with 15 hours of quality childcare for 2-5 year olds and providing parenting and additional mental health services for families.
 - d. **Cutting costs:** especially housing, energy and 'enabling' services such as public transport and internet access.
 - e. **A fair social security system:** including devolved welfare support such as the Discretionary Assistance Fund, council tax support and mitigating negative impacts of welfare reform.
5. The quantum allocated to each of these areas is clearly important – we note that several of the public services that are proven to make a difference have been subject to substantial cuts in recent years, such as part-time adult education, Careers Wales, and support for public transport.

¹ Excluding social security, lost tax revenues and other non-devolved costs (except policing and criminal justice).

² Prosperity without Poverty: a framework for action,
<https://www.bevanfoundation.org/publications/prosperity-without-poverty-framework-action-wales/>

6. However the question **how** the budget allocation is used and **who benefits** from expenditure is at least as important. The evidence rejects a model of 'trickle down' and instead suggests a 'bottom up' approach to public spending is more effective at reducing poverty. For example:
 - a. increasing expenditure on wages at the bottom of the income distribution,
 - b. increasing the attainment of children who receive free school meals
 - c. boosting skills of adults without level 3 qualifications,
 - d. reducing the costs of essential and enabling services such as housing and energy.
7. The question is therefore not just one of budget allocation but of accompanying policies and priorities. In the absence of Communities First, how public services reach and deliver to the least well-off people and places is all the more critical.

Brexit

8. The Bevan Foundation is currently working with a range of partners to develop a policy agenda for Wales after Brexit. With Brexit potentially occurring just after the end of the next budget period it is vital that the Welsh Government has contingency plans for the run-up to and immediate aftermath of Brexit, whatever form that may take, as well as longer-term plans for the future.
9. The key areas of impact are likely to be:

The economy and trade:

10. Although it is impossible to forecast the immediate as well as longer-term impact of Brexit, it is very likely to bring a period of significant economic restructuring.
11. In terms of assessment, it is unclear if the Welsh Government has identified where the risks and opportunities lie, whether this is in respect of sectors facing greatest threats or with most potential opportunities, and the risks of disruption e.g. at ports and airports. Depending on the view reached, the Welsh Government may need to or wish to change its approach to the economy and transport, e.g. providing additional support for businesses, drawing up contingency plans etc. and reducing its emphasis on inward investment.
12. There are also risks in the supply chain, with the potential of some goods and services no longer being available or substantial price rises because of tariffs or changes in the value of sterling. For example, house-builders have already identified challenges procuring some building materials. The supply of other items, including essential medicines, components and even basic foodstuffs could also be affected. We are not aware if there are risk assessments and contingency planning being undertaken in the public sector.

Movement of labour

13. The impact of Brexit on labour supply is virtually impossible to forecast because it depends not only on the agreement reached between the UK and the EU and any post-Brexit immigration regime, but only on individuals' preferences. The questions are whether the Welsh Government has identified the key risks e.g. which occupations and sectors are particularly dependent on EU workers and whether the Welsh Government is doing enough

to mitigate the risks e.g. through investment in training, proposing support for EU citizens wishing to remain, modifications to recognised qualifications.

Changes in regulation and procurement

14. Huge areas of regulation will be repatriated to the UK Government and possibly the Welsh Government. The challenges will arise if and when those regulations are changed. For example is there sufficient capacity to propose practical reforms appropriate to Wales' needs and to scrutinise legislative changes – for example what kind of post-Brexit procurement policy would work best? Is there sufficient capacity to implement changes? What might be the costs of change?

Impact on public finances

15. Most attention in Wales has been on the potential loss of European Structural and Investment funds. As we have argued in our paper prepared in partnership with the Welsh Local Government Association,³ it is vital that the UK Government's commitment to provide funding for regional development is honoured, that Wales' allocation is based on need and not the Barnett formula, and that control over how the funding is used is devolved.
16. More widely, there is huge uncertainty about the impact of Brexit on public spending. Most mainstream economists predict that UK output will shrink as a result with implications for tax revenues. How that translates into public expenditure depends on political decisions as well as the state of the economy, however it is safe to say that there are no indications that pressure on public spending will ease and some prospects that constraints could increase.
17. As well as the possibility of incurring costs associated with change, whether this is training, recruitment or increased staffing, the Welsh Government could well face a further squeeze on expenditure.

How the Welsh Government should use new taxation and borrowing powers

18. The Bevan Foundation's 2016 report 'New Taxes for a Better Wales' argued that the Welsh Government should use the powers in the Wales Act (2014) to introduce at least one new, devolved tax. In theory anything can be taxed but our proposals focused on taxes which had the potential to change behaviour (rather than simply generate revenue), were practical and had a good prospect of passing the UK Government's 'tests' for new taxes.
19. Of the eight taxes we proposed, two were introduced by the UK government as our work drew to a close (a tax on sugary drinks and the levy on apprenticeships) and three have been shortlisted by the Cabinet Secretary for Finance.
20. In respect of Land Transaction Tax, the Bevan Foundation has urged a progressive approach. For residential property transactions, we suggested that bands should be set which reflect the structure of the housing market with the transactions in the lowest bands being set to

³ After Brexit: Regional Economic Policy in Wales <https://www.bevanfoundation.org/publications/brexit-regional-economic-policy-wales/> 33

nil. We did not comment on tax on commercial transactions.

21. New devolved taxes together with the introduction of partially-devolved income tax will account for approximately 20 per cent of the Welsh Government's expenditure. This shift brings an element of risk to the Welsh Government's finances as well as requiring a new approach.

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Agenda Item 8

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