

Welsh Government

# **Budget Improvement Plan**

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### Introduction

As part of the 2020-21 Budget, we published a Budget Improvement Plan for the first time. The Plan outlined our vision, including short-term and medium-term ambitions over the next five years, to improve the budget process using the Well-being of Future Generations Act (WFG Act) and the five ways of working to drive continuous improvement.

We have committed to publishing the Plan annually, to recognise the ongoing nature of driving and sustaining longer term change. Our overall aim is that these planned improvements to the budget process will result in greater transparency in the annual Budget documentation to demonstrate how the Act has influenced budget decisions.

The first <u>Plan</u> outlines the steps we have already taken in our journey to embed the Act in our approach to the Budget. This updated Plan shows how we have built, or plan to build, on this work in future years, including the measures we have undertaken during the current budget cycle.

In publishing the Plan, it is of course against the backdrop of the pandemic. Responding to, and mitigating the impacts, of the crisis has been at the forefront of the Government's agenda this year. We have seen unprecedented levels of Government investment to support public services and the economy through this crisis. Inevitably, with the focus on the crisis, we have not been able to progress all of the measures we signalled in last year's Plan, including the establishment of the Budget Improvement Oversight Group. We have started a conversation with our stakeholders about the future shape and role of the Group and will continue those discussions into the New Year.

Despite the challenging circumstances, we have made progress on a number of the areas identified in the Plan. Pages 4 and 5 of this Plan includes a more detailed summary of our progress made.

Given the cross cutting nature of the annual Budget process, the Plan continues to reflect our ambitions for different aspects of the Budget.

These are summarised below:

- Spending Decisions To improve existing processes across Welsh Government that identify and develop spending proposals, improve capabilities to prioritise decisions that more clearly align with the well-being goals and ways of working and to explore opportunities to improve longer-term planning.
  - **Embedding the Act in budget decisions** To explore how we can more clearly demonstrate the ways in which the Act is shaping high-level spending priorities, and our medium-term plans to align the annual Budget process and ongoing budgeting activities across the wider organisation to take forward these improvements. This will align with the other work areas which capture the more detailed actions we will take towards embedding the Act.
  - **Longer-term financial planning** To identify how we can further embed longer-term financial planning into annual budget preparations drawing on sources such as the Future Trends Report and approaches such as scenario modelling.
  - Prevention agenda To demonstrate how we are taking forward the prevention agenda, building on the working definition agreed in 2018 with a focus on how we deploy our resources to support a shift in preventative activities.
  - Responding to climate change and biodiversity To review how we need to change our budgetary approaches to respond to the challenges of climate change; including minimising carbon impacts and increasing biodiversity, based on current and emerging evidence.
  - **Transparency of Budgetary data** To demonstrate our plans to publish financial data in more open and accessible formats to support its use.

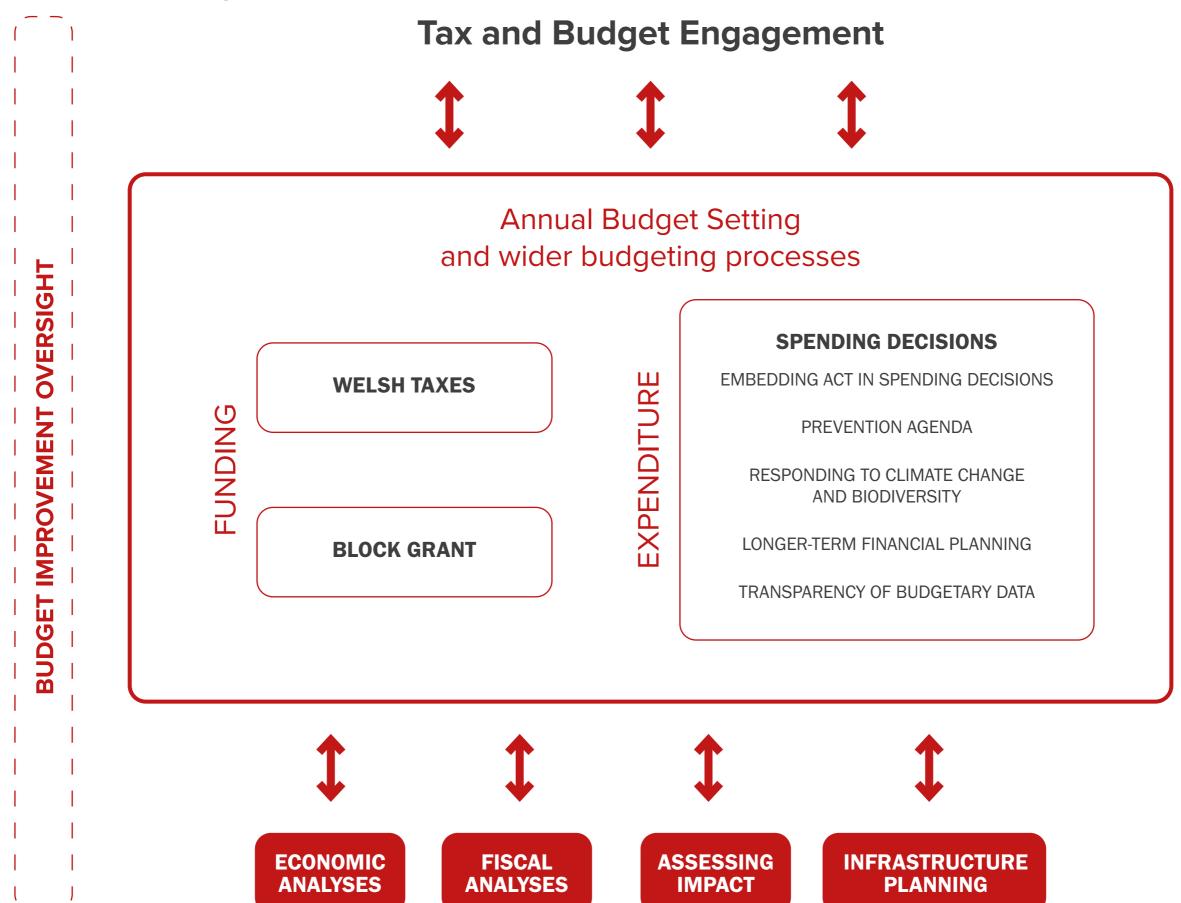
### 2. Fiscal & Economic Analyses and Assessing Impact:

- **Fiscal Analyses** To develop capability to understand the distributional impact of both public spending and taxation decisions.
- **Economic Analyses** To continue to develop the Chief Economist's report to reflect more fully the well-being goals, and developing Value for Money guidance, including an assessment of the recently revised Green Book to determine whether a Welsh Annex is needed to ensure the implications of the Act are fully reflected in the application of the guidance.
- Assessing Impact of budget decisions to improve outcomes To improve our processes around decision-making on spending proposals to better link spending to outcomes. This includes work to revisit and clarify purpose of the Strategic Integrated Impact Assessment (SIIA) of the budget and the evidence-base underpinning it and exploring and developing a gender budgeting approach.
- 3. **Infrastructure Planning** To improve how we consider and align strategic priorities and decisions on capital investment, noting the long-term nature of capital expenditure and the need for greater integration. We will use the opportunity presented by the successor to the current Wales Infrastructure Investment Plan (WIIP) to set out these priorities.

- 4. Supplementary Budgets To continue to develop a more comprehensive account on significant allocations from reserves, learning from the approach to the supplementary budgets of 2020-21. We will consider developments occurring in other areas of the budget planning process and assess if, and how, these are appropriate for the supplementary budget process.
- 5. **Welsh Taxes** To demonstrate how we are taking forward delivery under our tax policy framework aligned with our five tax policy principles. This area will explore how we can raise revenue to fund public services as fairly as possible. Tax should help deliver wider fiscal and policy objectives. We will ensure tax policy is simple, clear, progressive and stable, with legislative and administrative clarity and efficiency.
- 6. Tax and Budget engagement To develop a strategic approach to engagement on the Budget, from raising awareness of public spending and taxation; engaging meaningfully with key stakeholders and individuals impacted by budget decisions to discuss and consider their views; and working collaboratively with stakeholders to shape improvements to spending and taxation proposals.

The conceptual diagram on the next page sets out the relationship between the different aspects of the annual Budget included in this Plan, and summarised above.

# How does it all work together?



# Update on progress against planned improvements during 2020

A summary of progress against planned improvements during this period is provided below. Despite the challenging context during the year, we have been able to make good progress in a number of areas. Where we have not been able to make progress at the pace we had envisaged because of the crisis, these ambitions continue to be reflected in our future Plan, albeit with adjusted timescales.

### **Spending Decisions**

- We **strengthened the internal decision-making process** to review the high-volume of requests for funding from central reserves to ensure integration of decisions to maximise the benefits across government and the well-being goals, and seeking to mitigate against negative longer-term impacts. A significant focus of these actions have been to prevent harm to the most disadvantaged and prevent wider negative impacts on the people of Wales and the wider economy. These decisions were guided by the five ways of working of the Act, working collaboratively with partners to respond to the impacts.
- Preparations for the 2021-22 Draft budget have been framed by Welsh Government's
  priorities to protect health and jobs, build a greener future and create change for a
  more equal Wales. These priorities have also been influenced by Welsh Government's <u>published</u>
  <u>approach</u> to Reconstruction in the wake of the pandemic. This approach has been shaped by
  a wider call for public views through a dedicated mailbox and through engagement with key
  stakeholders, resulting in over 2,000 submissions.
- We have progressed initial work to identify local authorities interested in taking forward a pilot
  of a Social Impact Bond model an outcomes based investment model to address social issues
   and procurement options are being explored.

### **Supplementary Budgets**

- In publishing the First Supplementary Budget, we **provided a comprehensive narrative of the significant allocations and reprioritisations of existing budgets and their impacts**, to enhance transparency given the unprecedented scale of changes to the Welsh budget.
- We also took the unusual step of publishing an **'extra' Second Supplementary Budget** on 20 October, several months earlier that the normal timetable of early 2021, in recognition of the importance of providing transparency around the financial implications of the crisis. Both these developments exceeded the ambitions originally envisaged in this Plan.

### **Infrastructure Planning**

• We have continued **development of the successor to the Wales Infrastructure Investment Plan (WIIP)** which has focussed on building the strategy around the four sustainable development principles of the WFG Act - to improve the economic, environmental, societal and cultural well-being of Wales. A Written statement on the approach to developing the WIIP successor has been published alongside the 2021-22 Draft Budget.

### Welsh Taxes

- We have continued to progress our commitments and take opportunities to use our existing tax levers to benefit Welsh taxpayers and deliver wider Welsh Government policy objectives. We introduced a temporary reduction to the residential Land Transaction Tax rates on 27 July, raising the starting threshold from £180,000 to £250,000 resulting in an estimated 80 percent of Welsh homebuyers paying no tax on the purchase of their homes, to support the housing market's recovery.
- We published the annual <u>Tax Policy Work Plan</u> on 29 September covering the period up to the Senedd Cymru elections in May 2021. A report on progress will be published closer to that time.
- We have also **prioritised proposals for a vacant land tax in Wales** with the UK Government to test the agreed mechanism for the devolution of tax competence. This has highlighted the urgent need to establish a fit for purpose process for the devolution of further tax competence.

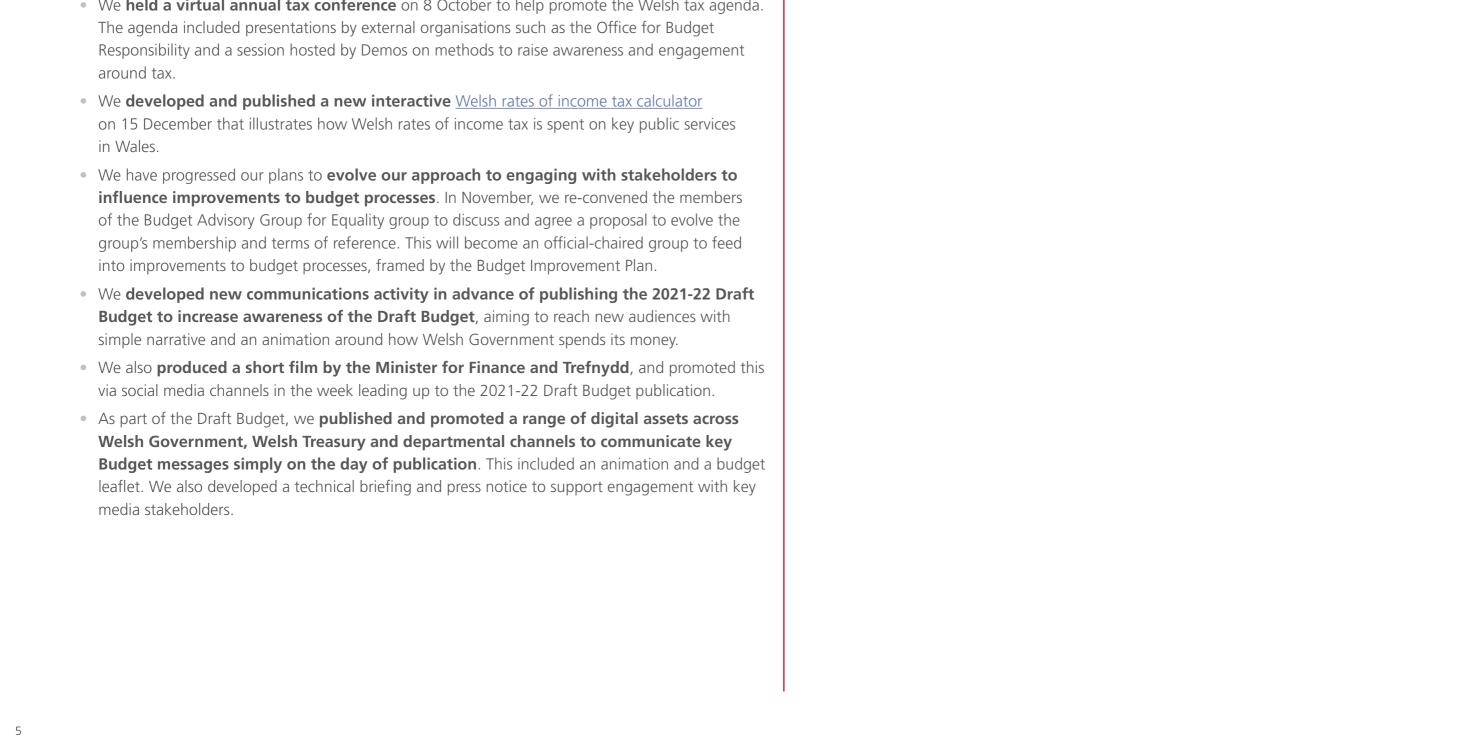
### **Fiscal & Economic Analyses and Assessing Impact:**

- By drawing on the available data and evidence, Welsh Government economists have played a
  central role in producing economic analysis and briefing on the evolving economic crisis
  related to both the pandemic and the transition to new trading relations with the European
  Union. This has included presentations to Cabinet and senior officials, the preparation of bespoke
  analysis and assessments set out in an internal Monthly Economic Report.
- We remain committed to reviewing our approach to assessing impacts. For the 2020-21 First Supplementary Budget, we presented an Annex summarising the disproportionate impacts of the pandemic. For the 2021-22 Draft Budget, we have presented information about the impacts of spending proposals as part of the main narrative. This is complemented by a summary evidence of the overarching impacts of the pandemic on society, alongside more-detailed case studies on the impacts of specific spending decisions, presented in the Strategic Integrated Impact Assessment (SIIA). We have also tested new approaches to how we can better assess budget impacts, described below:
- We have developed a distributional impact model for analysing public spending in Wales.
   This analysis focusses on the largest areas of devolved spending and provides a high level understanding of how progressive spending on these areas is. We have published our initial analysis as part of the 2021-22 Draft Budget package.

- We commissioned work to develop a pilot model to estimate greenhouse gas emissions connected to 2020-21 spending proposals. We published a summary in the Chief Economist's Report, as part of the 2021-22 Draft Budget package. This will present the model's outputs for Health budgets, the assumptions used and limitations of the approach. We intend to publish additional outputs as part of the Final Budget.
- We have **continued work to take a 'gender focussed' approach** for Welsh Government's Personal Learnings Account (PLA) programme, to help identify and understand potential impacts on different groups, to improve how we prioritise and allocate resources. Monitoring of the pilot's delivery highlighted that the flexibility of the PLA offer appealed to a wider range of people to develop skills in sectors with known gender biases. A formal evaluation of the programme will commence in 2021.

### Tax and Budget engagement

• We **held a virtual annual tax conference** on 8 October to help promote the Welsh tax agenda. The agenda included presentations by external organisations such as the Office for Budget Responsibility and a session hosted by Demos on methods to raise awareness and engagement



progressing procurement options to formally take the work forward.

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planning. However, evidence of the

economic impacts of the pandemic and the uncertainty of new trading relations with the European Union are presented

in the Chief Economist's Report. This

has informed immediate priorities for the

2021-22 Draft Budget and highlighted

the uncertainty surrounding longer-term

budget needs, pressures and risks.

Work on the Future Trends Report for Wales was delayed due to the coronavirus. Work is due to re-commence on the first phases of the Future Trends Report and the next report will be published after the Senedd elections.

**UK Government** Senedd Elections Spending Review 2020 2021 2022 2023 2024+ 2025-26 Budget planning 2021-22 Budget planning 2022-23 Budget planning 2023-24 Budget planning 2024-25 Budget planning and production and production and production and production and production As well as working with a range of experts Ongoing implementation of planned actions set out in Low Carbon Delivery Plan 2021-26, including Welsh Government's use of its other and governments, we have engaged non-financial levers to influence reduction in carbon emissions. with the HM Treasury led work on a Net Zero review. Continue to develop and publish second Low Carbon Delivery Plan 2021- 2025 based on analysis of the UK Committee on Climate Change's (UKCCC) Publication of second Low Carbon Delivery Publication of a new Wales Infrastructure Investment Plan to be developed by advice received in May 2019 and further Plan 2021-26 which will contain defined drawing on a robust evidence base to integrate consideration of other essential advice in 2020. This collaboration will be actions and outline the actions we are taking Set the level of the third carbon budget (2026-2030) benefits - including decarbonisation, and biodiversity - so that these major essential to influence and understand as part of the allocation of the next financial investments have the maximum positive impact on Wales' wellbeing. how the UK Government plans to use its budget. levers, as well as influencing development of our own policies relating to financial and non-financial levers. Publish further outputs of the model Continue to develop strength of current evidence base to provide assurance around value for money to support prioritisation of investment, Commissioned work to develop a pilot to estimate greenhouse gas emissions building on the model developed. Review budgetary approaches against emerging evidence on decarbonisation and biodiversity, reviewing model to estimate greenhouse gas connected to spending proposals as part of current spending plans to minimise carbon impacts and accelerating forward planning for those areas with which government interacts. emissions connected to 2020-21 spending the Final Budget 2021-22 package. proposals. Published a summary of this emerging work as part of the Chief Enhance approach or promote existing approach to appraising financial decisions to avoid the risk that Welsh Government would support infrastructure that increases emissions without a Economist's Report, alongside the clear understanding of how the impact would be mitigated, and how the mitigation would be funded. Continue to explore the principle of aligning financial and carbon budgets, alongside the 2021-22 Draft Budget package. developing evidence base. The impact of the crisis on the economy and public finances has constrained our ability to do meaningful longer term

> Consider approach in light of new administration and clarity on path of the pandemic and exit from the EU. Subject to the UK Government providing a multi-year settlement we will also explore longer term financial planning and taking forward actions in response to the climate change emergency.

Align financial and tax plans to push longer-term financial plans. Potentially work with stakeholders in producing shared longer term plans and how indicative forecasts could usefully be used. Look to see what lessons can be learnt from international stakeholders about how they undertake a longer horizon, particularly on revenue. These will need to be multi-year programmes and be built on lessons from previous year.

and decreases in biodiversity

**Spending Decisions** 

# Assessing Impact of Budget decisions

**UK Government** Senedd Elections Spending Review 2020 2021 2022 2023 2024+ 2025-26 Budget planning 2021-22 Budget planning 2022-23 Budget planning 2023-24 Budget planning 2024-25 Budget planning and production and production and production and production and production Engage with Statutory Commissioner's offices, members of the reformed Budget Advisory Group for Equality and scrutiny During the course of 2020, there has Committees, to explore views on the purpose been a wide range of evidence produced and aims of the SIIA and the extent to which by external organisations about the the current approach can be developed to impacts of the pandemic. Welsh meet this clarified purpose. This will include Government also made a wider call for discussion about how information about evidence from the public to inform its budget decisions in the context of specific published approach to Reconstruction. impacts (such as Children's Rights or Equalities) can be more transparent, in the context of consideration of impacts through (If agreed to pursue) In parallel, commission further work to reconsider the a number of lenses. role of impact assessment of Budget decisions, to determine how the following

Presented a summary of impacts of budget allocations as part of the main narrative of the 2021-22 Draft Budget, to increase transparency and reduce duplication. This is supplemented by publishing a Strategic Integrated Impact Assessment of the Budget that presents contextual narrative on the impacts of the pandemic on Wales, and case studies of impacts of specific spending decisions.

(See 'Tax and Budget engagement' section for more detail)
Re-convened existing members of Budget Advisory Group for Equality and other stakeholders in November to discuss our proposal to evolve the group's membership and terms of reference to become an official-chaired group to feed into improvements to budget processes. Ongoing improvements to the SIIA will be a key focus of this group's work programme from 2021.

Consider the implications of the review of Welsh Government's Integrated Impact Assessment Tool (deferred until 2021), feedback gathered from Commissioners, and plans to enact the socio-economic duty as part of the Public Sector Equality Duty in Wales by end March 2021, to explore whether new approach to the SIIA of the

Budget is needed.

Based on stakeholder feedback and related developments to impact assessment, decide on scale of improvements required, and determine whether to commission external input to help shape a new approach to Impact Assessment of Budget decisions.

(If agreed to pursue) In parallel, commission further work to reconsider the role of impact assessment of Budget decisions, to determine how the following considerations can be reflected to develop a robust and transparent approach to impact assessment of spending decisions:

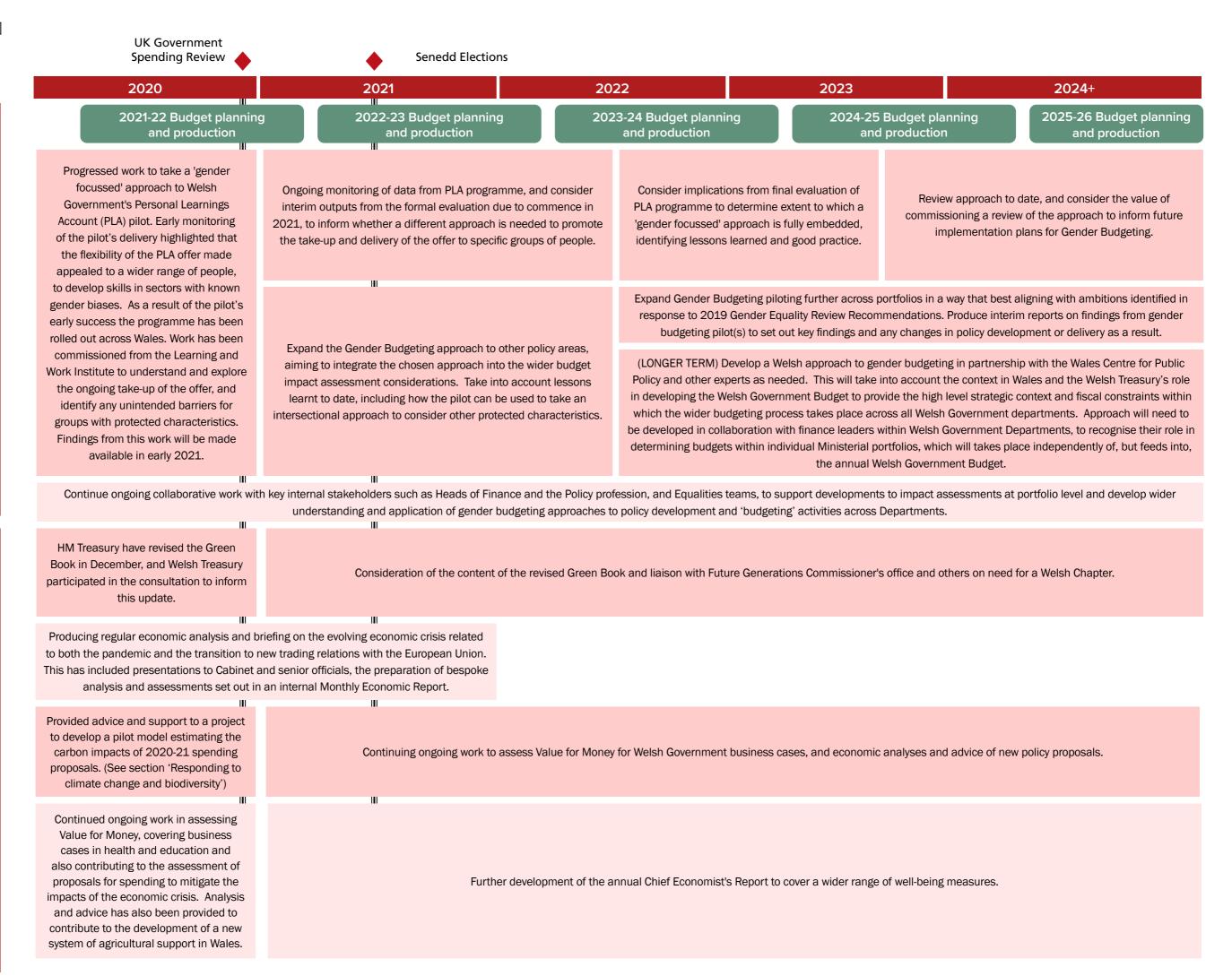
- Building on stakeholder's views on its purpose;
- How to more effectively and visibly demonstrate the WFG Act as the underpinning framework for all other duties;
- Developments to the IIA tool;
- Developments to the distributional impact assessment of public spending in Wales;
- Ambitions for gender budgeting including using a gender lens to take an intersectional approach;
- Considering the balance of long-term versus short-term goals and impacts of spending decisions.

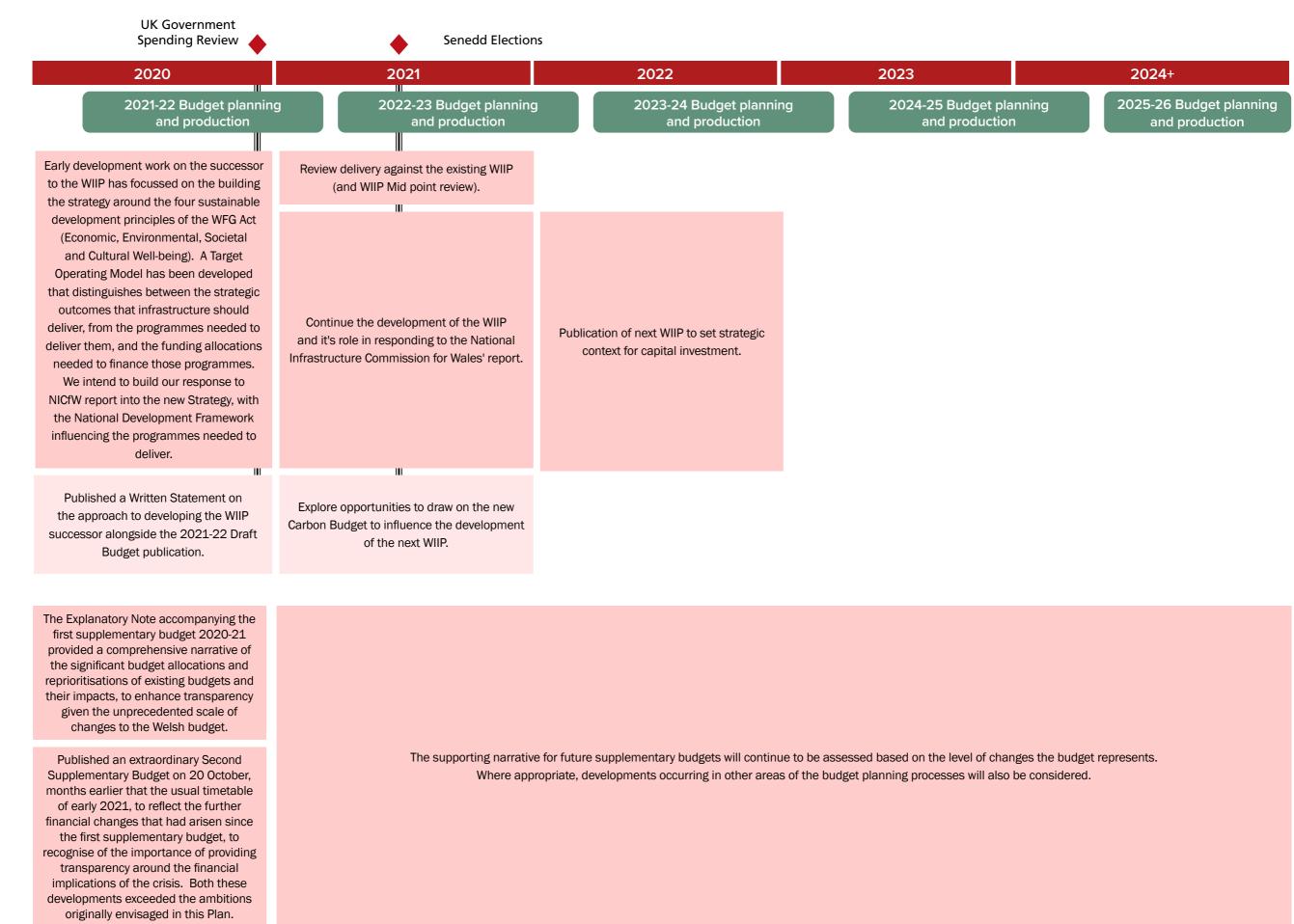
Implement an improved impact analysis of the budget that effectively considers all the developments in previous years, in a way that more clearly demonstrates how the WFG Act underpins all these considerations. This will include addressing recommendations from a commissioned review (if applicable).

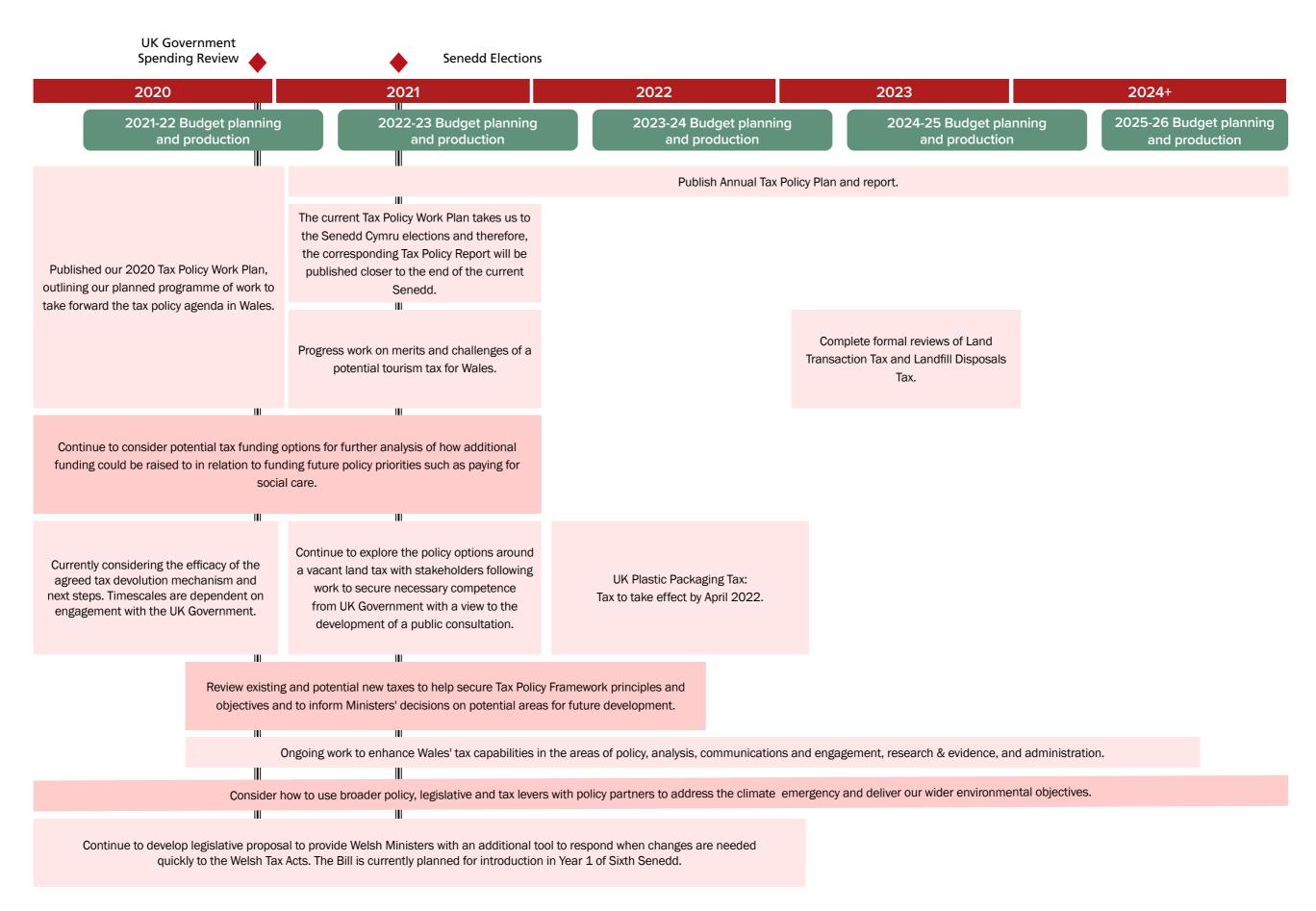
Revisit and continuously develop the existing evidence base that helps inform high-level spending priorities, including sources that demonstrate longer-term trends in Wales.

**Economic Analyses and Assessing Impact** 

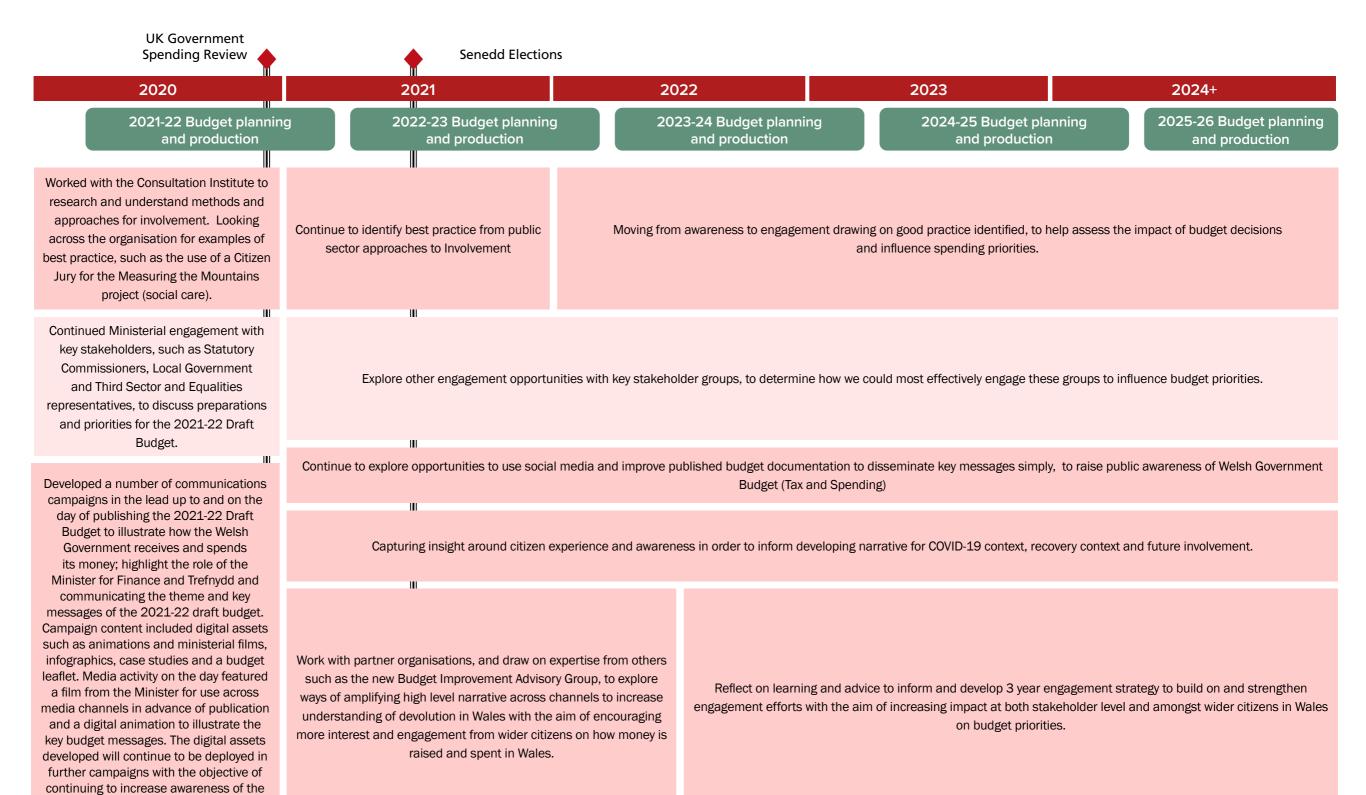
Fiscal &







annual budget process.





Re-convened existing members of Budget Advisory Group for Equality and other stakeholders in November to discuss our proposal to evolve the group's membership and terms of reference to become an official-chaired group to feed into improvements to budget processes. This will be complemented by us developing mechanisms to access focussed expertise and evidence to directly advise the Minister for Finance and Trefnydd on strategic budget priorities.

With the three Welsh taxes - Land
Transaction Tax, Landfill Disposals
Tax and Welsh Rates of Income Tax
- now introduced, the Tax Advisory
Group has fulfilled its purpose
and has been discontinued. As
devolved tax responsibilities mature,
a new Tax Engagement Group has
been established to support WG in
considering future opportunities and

Held a virtual Annual Tax conference event on 8 October which included presentations by the Office for Budget Responsibility and from the organisation 'Demos' which considered awareness and engagement around tax.

challenges.

The Communication and Engagement team facilitated workshops within the Welsh Treasury to map and analyse stakeholders across different tax areas. These dovetail into a strategic level of engagement which, in addition to this targeted engagement, identifies and provides opportunities for wider collaboration.

Ongoing review of the newly agreed purpose, role and membership of the new Budget Improvement Advisory Group and if needed, refine terms of reference and engagement mechanisms to maximise the value to all stakeholders. As part of this, monitor with the Group how it can continue to best advise and contribute to budget improvement considerations.

Explore and develop mechanisms to access expertise and evidence to directly advise the Minister for Finance and Trefnydd on strategic budget priorities. This is with the aim of providing direct advice to inform spending choices on budget allocations as part of the budget process, including balancing competing priorities.

As devolved tax responsibilities mature, continue to utilise the Tax Engagement Group as a vehicle to explore, support and inform policy making, identifying future opportunities and challenges. Annual review and evaluation process of input to inform subsequent years.

Welsh Treasury's annual tax conference (typically held before summer recess) - helping to deliver on our commitment to open, honest and transparent approach to tax policy.

The conference aims to bring together stakeholders from across Wales, the UK and from international partners to help promote the Welsh tax agenda, share good practice and latest developments on tax policy and invite input to help inform policy development.

Regular mapping and analysis of stakeholders for tax areas to ensure effective whole engagement effort for tax agenda. Review methods for measuring impact engagement efforts.

Continue to explore opportunities to engage across Welsh Government departments to develop narrative around spend and impact and increase reach.

Develop more targeted messaging and communications to illustrate the impact of spend across government departments and budget areas. Consider ways of working across government to target messaging in these areas, increasing awareness and encouraging wider engagement.

## Key

WFG Act – Well-being of Future Generations (Wales) Act

**SIIA** – Strategic Integrated Impact Assessment of the budget

**IIA** – Integrated Impact Assessment

**UKCCC** – UK Committee on Climate Change

**MEGs** – Main Expenditure Groups

**BELs** – Budget Expenditure Lines

WIIP - Wales Infrastructure Investment Plan

**NICW** – National Infrastructure Commission for Wales

**FGC** – Future Generations Commissioner

**BAGE** – Budget Advisory Group for Equality

