



Llywodraeth Cymru
Welsh Government

Welsh Government

Final Budget 2023-24

A Budget in Hard Times

February 2023

gov.wales

Contents

Chapter 1: Introduction	1
Chapter 2: Changes between Draft and Final Budget	3
Chapter 3: Welsh Government Final Budget allocations for 2023-24	8
Annex A: Update on Inflation	10
Annex B: Glossary of financial terms	11

Chapter 1: Introduction

Overview

1.01 The Welsh Government has tabled the Final Budget for 2023-24 in accordance with Standing Order 20. The Final Budget sets out the Welsh Government's revenue spending plans for 2023-24 and proposals for Financial Transactions (FT) capital allocations, together with indicative plans for 2024-25. The Final Budget reflects changes to the Draft Budget published on 13th December 2022.

Draft Budget scrutiny

1.02 The timing of the UK Government's Autumn fiscal event once again impacted the publication of this year's Budget. The Welsh Government, with the agreement of the Senedd Business Committee and Finance Committee, triggered exceptional arrangements in relation to this year's Budget process. This resulted in the publication of the strategic revenue spending plans; taxation and borrowing proposals; and the detailed portfolio budget proposals, all of which were published on 13th December.

1.03 The scrutiny of the 2023-24 Draft Budget covered elements such as the sources of our funding, including borrowing and taxation powers, as well as detailed consideration of departmental spending plans by the Senedd policy committees. The Finance Committee and other Senedd Committees published their reports on the Draft Budget on 6th February, shortly before the Draft Budget debate in the Senedd, which took place on 7th February.

1.04 The Welsh Government welcomes the important contribution provided by the Finance Committee and the policy committees in the constructive scrutiny of Budget proposals. We have reflected on the recommendations made by the Senedd committees and will respond formally to these ahead of the Final Budget debate on 7th March.

Changes to the Welsh Government's Budget for 2023-24

1.05 As the changes between Draft and Final Budgets build on existing measures and an assessment of these impacts has already been provided, no further detail is provided as part of this Final Budget. Given the nature of the evolving impacts of inflation however, the Chief Economist has published an update on the latest inflationary forecasts and their effects. This update can be found at Annex A.

1.06 When publishing the Draft Budget, Welsh Government committed to making allocations of Financial Transactions (FT) capital in the Final Budget. To further maximise our capital levers, this Final Budget includes over £160m of additional FT capital investment over 2023-24 and 2024-25 with further details in Chapter 2.

1.07 This Final Budget also contains several administrative and accounting changes. In addition, it reflects the Office for Budget Responsibility's latest revenue forecasts for Land Transaction Tax and Landfill Disposals Tax, as set out in the update to the Welsh Taxes Outlook. There is also a revision to the block grant adjustment associated with the Welsh Rates of Income Tax, affecting the Fiscal Resource DEL in both 2023-24 and 2024-25.

1.08 Schedule 7 of the Annual Budget Motion for this Final Budget details 'Payments from Other Government Departments' which includes the NI contributions Welsh Government receives. The contributions for 2023-24 have yet to be confirmed therefore the figure in the Annual Budget Motion represents the amount in the 2022-23 2nd Supplementary Budget. This figure will be updated in the 2023-24 1st Supplementary Budget.

Chapter 2: Changes between Draft and Final Budget

2.01 The changes made between the publication of the Draft and Final Budgets are outlined in this chapter.

Financial Transactions (FT) Capital

2.02 Financial Transactions (FT) capital is a specific form of capital provided by the UK Government with conditions on its use. A proportion of this funding needs to be repaid to the UK Government.

2.03 The constraints on use of FT capital, the timescales within which to develop proposals and the late announcement of the UK Autumn Statement constrained our ability to make new FT allocations as part of the Draft Budget. We are now in a position to do so at Final Budget.

2.04 Alongside updating the repayment profiles of our existing FT portfolio, the £164m of FT allocations we are making in this Final Budget over 2023-24 and 2024-25 will further support delivery of our priorities contained within the 10-year Wales Infrastructure Investment Strategy published alongside the Draft Budget in December 2021. This £164m will build on our wider £1.8bn existing FT portfolio of investment. In addition, when considering allocations, we have prioritised proposals that complement the priorities set out in Draft Budget 2023-24.

2.05 Details of the allocations are outlined below:

- Help to Buy Wales has supported thousands of people to realise their dream of home ownership since it was launched in January 2014, with more than 13,400 homes delivered through the scheme alongside driving changes in the housing industry. We are allocating £63m to extend the scheme until March 2025, adapting the scheme to take account of changes in the housing market, the impact of the current economic climate on potential homeowners and the housing industry.
- Close to £100m will be allocated towards measures to help people stay in their homes and also to support social housing which aim to help people avoid homelessness, prevent repossession and create more social housing.
- To continue to support improvements to our educational estate, we are providing a further £2.4m in our Sustainable Communities for Learning Mutual Investment Model (MIM) programme. This is an equity investment with the primary objective to facilitate additional new facilities over and above those capable of being supported by the WG Education Capital Budget.

2.06 In addition to the above allocations, there are a number of proposals – in the Climate Change and Economy MEGs – with strong potential which require further development. This work is underway at pace. Provisional allocations have been made enable these proposals to be taken forward.

Administrative Changes

2.07 We are making a number of administrative changes between Main Expenditure Groups (MEGs) responding to a range of matters arising since publication of the Draft Budget.

Transfer of responsibilities from the Climate Change MEG to the Economy MEG

2.08 Budget changes are required in relation to the transfer of Ministerial responsibility determined by the First Minister on 13th September. These transfers total £20.130m resource and £20m capital, and comprise:

- A transfer of £4.794m (resource) from BEL 3759 for the Centre for Digital Public Services
- A transfer of £11.5m (resource) from BEL 3822 for Public Sector Broadband Aggregation
- A transfer of £1.527m (resource) and £20m (capital) from BEL 3860 for ICT Infrastructure Operations. The allocations include an expected clawback of grant funding of £46.5m on our broadband programmes which will be utilised via reserves over future years to ensure future provision of ICT services.
- A transfer of £2.309m (non-fiscal resource) from BEL 3860 for ICT Infrastructure Operations

Transfer of responsibilities from the Climate Change MEG to the Rural Affairs MEG

2.09 Budget changes are required in relation to the transfer of Ministerial responsibility determined by the First Minister on 13th September. These transfers total £7.908m resource and £18.7m capital, and comprise:

- A transfer of £3.4m (resource) and £16.7m (capital) from BEL 2820 Local Places for Nature into the Rural Affairs MEG (this includes the transfer of £900,000 and £4.2m (capital) from the Biodiversity BEL and Forestry BELS (respectively).
- A transfer of £1.5m (resource) from BEL 2195 Landfill Disposal Tax Community Scheme
- A transfer of £3.008m (resource) and £2m (capital) from BEL 2832 for Enabling Natural Resources and Wellbeing.

2.10 The 2023-24 Draft Budget tables have been restated and will be used as the opening balances for the Final Budget tables, in line with the closing balances for the restructured 2nd Supplementary Budget 2022-23 tables.

MEG to MEG transfers

2.11 There have been several transfers of fiscal resource between Ministerial portfolios in this Final Budget. The details are as follows:

- A transfer of £621,000 (fiscal resource) from various MEGs to provide funding to the Staff Costs BEL in the Central Services and Administration MEG towards the ongoing costs to support the operation of the Legislative Codes Office, which delivers the Government's programme to improve the accessibility of Welsh Law.
- A transfer of £350,000 (fiscal resource) from the Transformation and Legislation BEL in the Finance and Local Government MEG to the Civil Contingencies & National Security BEL in the Central Services and Administration MEG to support the policy and operational responses to civil contingencies and emergency planning.
- A transfer of £100,000 (fiscal resource) from the General Administrative BEL in the Central Services and Administration MEG to the Social Partnerships BEL in the Social Justice MEG to align the Social Partnership budget following the organisational restructure.
- A transfer of £1.75m (resource) from the Employability including Young Persons Guarantee BEL in the Economy MEG to the Post 16 Provision BEL in the Education and Welsh Language MEG to support the funding of Personal Learning Accounts.
- A transfer of £2m (resource) from the Whole School Approach to Wellbeing BEL in the Education and Welsh Language MEG to the Mental Health BEL in the Health and Social Services MEG to support the Co-operation Agreement commitment for children and young people's mental health (Sanctuary model).
- A transfer of £3m (capital) from the Education Infrastructure BEL in the Education and Welsh Language MEG to the Mental Health BEL in the Health and Social Services MEG to support the Co-operation Agreement commitment for children and young people's mental health (Sanctuary model).
- A transfer of £4.5m (resource) from the School Standards Support BEL in the Education and Welsh Language MEG to the Estyn BEL in the Finance and Local Government MEG to support Estyn. This includes £1.04m to create capacity to enable the completion of all school and Pupil Referral Unit (PRU) inspections in the current cycle.
- A transfer of £470,000 (fiscal resource) from the Core NHS Allocations BEL in the Health and Social Services MEG to the Healthcare Inspectorate Wales BEL in the Finance and Local Government MEG to enable Healthcare Inspectorate Wales to strengthen its inspection and assurance activities.

- A transfer of £161,000 (fiscal resource) from the Core NHS Allocations BEL in the Health and Social Services MEG to the Healthcare Inspectorate Wales BEL in the Finance and Local Government MEG to support Healthcare Inspectorate Wales.
- A transfer of £825,000 (fiscal resource) from the Core NHS Allocations BEL in the Health and Social Services MEG to the Care Inspectorate Wales BEL in the Finance and Local Government MEG to support Care Inspectorate Wales
- A transfer of £5.872m (fiscal resource) from the Fire and Rescue Service BEL in the Social Justice MEG to the Local Government General Revenue Funding BEL in the Finance and Local Government MEG in respect of firefighter pension employer contributions.
- A transfer of £694,000 (resource) from the Environmental Protection BEL in the Climate Change MEG into the Rural Affairs MEG for Noise and Chemical policy budgets following a transfer of Ministerial responsibilities.
- A transfer of £886,000 (resource) from the Biodiversity BEL in the Climate Change MEG into the Rural Affairs MEG for Plant Health following a transfer of Ministerial responsibilities.
- A transfer of £1.347m (resource) and £5.825m (capital) from Landscapes and Outdoor Recreation BEL in the Climate Change MEG into the Rural Affairs MEG for Access and Community Spaces following a transfer of responsibilities
- A transfer of £45,000 (resource) from the Environmental Governance BEL in the Rural Affairs MEG into the Climate Change MEG for Environmental Governance

2.12 In addition to the transfers between Ministerial portfolios set out, there are a number of transfers between BELs within the same portfolios, which are included within the published BEL tables. These are generally administrative in nature and have no net effect on the individual MEG totals.

Transfers to and from reserves

2.13 There has been a minor allocation of resource funding from reserves related to the pay parity announcement made in July 2022 for the Economy, Social Justice, Education and Welsh Language, and Health and Social Services MEGs to ensure workers in these Arms Length Bodies (ALBs) will be paid at least the same as the minimum salary for their equivalent Welsh Government grade.

- A transfer of £575,000 (resource) from reserves for the Economy MEG.
- A transfer of £40,000 (resource) from reserves for the Health and Social Services MEG.
- A transfer of £32,000 (resource) from reserves for the Social Justice MEG.
- A transfer of £3,000 (resource) from reserves for the Education and Welsh Language MEG.

2.14 There is also an allocation from reserves of £636,000 (resource) to the Central Services and Administration MEG. This reflects a transfer made as a Machinery of Government (MoG) change in 2022-23, from the Ministry of Defence, for Cyber Resilience. This means the funding will be baselined in Welsh Government for financial years 23/24 and 24/25.

Chapter 3: Welsh Government Final Budget allocations for 2023-24

- 3.01** The changes described in Chapter 2 are reflected in the revised spending plans set out in the Tables Supporting Spending Plans published on the Welsh Government's Final Budget 2023-24 [web page](#).
- 3.02** The detailed changes to our Budget proposals between publication of the Draft and Final Budgets in 2023-24 are set out in the Final Budget 2023-24 [BEL tables](#), which are published together with this Explanatory Note.
- 3.03** In respect of the Financial Transactions (FT) capital, alongside additional allocations of funding, this Final Budget includes updated details of the repayment of existing FT loans shown as negative values within the tables. Repayments were substantively set as part of the 2022-23 Budget. An element of FT capital funding must be returned and repaid to the UK Government; repayments are returned payments on previous investments and have no impact on current allocations.
- 3.04** All tables formerly included in Chapters 3 and 4 of the Final Budget Explanatory Note 2022-23, published in March 2022, together with the tables shown in annexes A and B of that document, can now be found in the Open Document Spreadsheet (ODS) workbook, Tables Supporting Spending Plans, on the Welsh Government's Final Budget [web page](#).
- 3.05** Publishing the tables in a single document in ODS format reflects the Welsh Government's commitment to improve the presentation and openness of Budget data, and continues the practice adopted for the Draft Budget 2023-24.
- 3.06** The tables included in the [ODS workbook](#) comprise:
- Sources of Finance for the Welsh Government (Table 3.1)
 - Allocation of the Wales Budget (Table 3.2)
 - Summary of the Welsh Government MEG Total Allocations 2023-24 (Table 3.3)
 - Summary of the Welsh Government MEG Total Allocations 2024-25 (Table 3.4)
 - Changes to the Welsh Government MEG Resource Allocations (Table 3.5)
 - Changes to the Welsh Government MEG Capital Allocations (Table 3.6)
 - Changes to the Welsh Government MEG AME Allocations (Table 3.7)
 - Direct Borrowing for Capital Purposes
 - Direct borrowing for Capital Purposes, repayment schedule 2023-24
 - Direct borrowing for Capital Purposes, repayment schedule 2024-25
 - Mapping of Capital Budget Allocations to Investment Areas and Sectors
 - Reconciliation Between Administrative Budget and Resource Allocations in the Annual Budget Motion
 - Restatement annexes

- A series of tables showing year on year changes:
 - Total – Year-on-Year Percentage Change
 - Total – Year-on-Year Percentage Change – Real Terms
 - Fiscal Resource – Year-on-Year Percentage Change
 - Fiscal Resource – Year-on-Year Percentage Change – Real Terms
 - Non-fiscal Resource – Year-on-Year Percentage Change
 - Non-fiscal Resource – Year-on-Year Percentage Change – Real Terms
 - General Capital – Year-on-Year Percentage Change
 - General Capital – Year-on-Year Percentage Change – Real Terms
 - FT Capital – Year-on-Year Percentage Change
 - FT Capital – Year-on-Year Percentage Change – Real Terms
 - AME Resource – Year-on-Year Percentage Change
 - AME Resource – Year-on-Year Percentage Change – Real Terms
 - AME Capital – Year-on-Year Percentage Change
 - AME Capital – Year-on-Year Percentage Change – Real Terms

Annex A: Update on Inflation

1. In its latest forecast in February 2023, the Bank of England assesses that inflation peaked in Autumn 2022 and expects inflation to fall over the course of 2023-24. On its central forecast, Consumer Prices Index (CPI) inflation is projected to fall to just under four per cent by the end of 2023, reflecting the rapid decline in global price pressures and the fall in the contribution of energy prices to inflation.
2. These latest inflation forecasts do not change the overall picture set out in the Draft Budget that the Welsh Government's budget over the three years of the current settlement is worth considerably less in real terms than when first set in October 2021.
3. There is a wide range of uncertainty associated with the Bank of England's forecasts and, according to the Bank, the rate of inflation at the year-end could lie anywhere in a range from close to zero to over six per cent.
4. The impact of inflation on the Welsh Government's funding position depends not just on the overall level of inflation but also on its composition, with wage costs and the costs of various inputs, including particularly energy, rising at rates that often differ from the headline CPI. For example, over the last few years, construction price inflation has been higher than CPI inflation. The increase in wage costs - a key factor - will depend in part on settlements that remain under discussion.
5. There are no timely official forecasts of how inflation will affect the costs faced by the Welsh Government and there is no reason to think the level of uncertainty will be any lower than that applying to CPI inflation overall.
6. In so far as inflation turns out to be higher than expected at the time the budget was set, this will have implications for the level of outputs than can be delivered; but the nature and scale of any such effects will depend on the currently unknown level and distribution of cost increases across the various categories of expenditure. Effects will also depend on any mitigations that can be put in place.
7. The Welsh Government will assess the impact of inflation on its funding position and programme allocations on a continuing basis over the course of 2023-24.

Annex B: Glossary of financial terms

Action	<i>Within each Spending Programme Area (SPA), budgets are allocated to a number of sub-programmes known as Actions.</i>
Ambits	<i>Descriptions of the specific purposes for which the Welsh Ministers are authorised by the Senedd to spend resources. Ambit descriptions and resource limits are contained within the annual Budget motion. Ambits correspond to MEGs.</i>
Annually Managed Expenditure (AME)	<i>Expenditure which cannot reasonably be subject to firm, multi-year limits in the same way as DEL and is therefore reviewed twice a year as part of the HM Treasury's Budget and pre-Budget report processes. AME typically consists of programmes which are large, volatile, or demand-led; for example, the issue of student loans. Local Authority expenditure financed by non-domestic rates is also reflected in AME budgets.</i>
Budget Expenditure Line (BEL)	<i>Within each Action, budgets are allocated to a number of sub-expenditure groups known as BELs. Tables showing budgets at BEL level are available at: http://gov.wales/funding/budget/?lang=en</i>
Barnett formula	<i>The formula used by the UK Government to calculate changes to the block grant allocated to the Welsh Government (and other devolved governments). The Welsh Government receives the same changes in funding per head of the population as announced in England for services which are devolved to Wales. As part of the fiscal framework agreed between the Welsh Government and UK Government in 2016, there is also a needs-based factor applied to the Barnett formula allocations to Wales. This is currently set at an additional five per cent.</i>
Budget Motion	<i>The means by which the Senedd authorises the Welsh Ministers to spend resources up to a specific level for specified purposes and to draw cash up to a specific limit from the Welsh Consolidated Fund.</i>
Capital	<i>Expenditure that in the main results in a physical asset, for example a new building. A proportion of the Capital DEL includes Financial Transactions capital.</i>
Departmental Expenditure Limit (DEL)	<i>The multi-year budget limit for the Welsh Government set by HM Treasury. DEL is planned and controlled on a multi-year basis in Spending Reviews. The Welsh Government DEL and AME budgets have separate capital and resource limits.</i>
Depreciation	<i>The drop in value of an asset due to wear and tear, age and obsolescence. Under resource budgeting, depreciation is part of the Welsh Government's DEL but is a non-fiscal resource DEL item.</i>
Direct Charges on the Welsh Consolidated Fund	<i>Expenditure which is legally required to be charged directly to the Welsh Consolidated Fund and therefore does not score against the budgets of the Welsh Government or any other body. Direct charges include the remuneration of the Presiding Officer and Auditor General.</i>
Financial Transactions Capital	<i>Financial Transactions capital is part of the capital DEL settlement that can only be used for loans and equity investments to third parties. In the main, the funding must be repaid to HM Treasury.</i>

Fiscal Resource DEL <i>(previously known as near-cash)</i>	<i>The Fiscal Resource DEL budget scores most of the department's current expenditure. Expenditure is recorded on an accruals basis. It includes expenditure on pay, current procurement, resource grants and subsidies.</i>
Main Expenditure Group (MEG)	<i>The Welsh Government DEL is divided into a number of Main Expenditure Groups (MEGs). There are currently eight MEGs: Health and Social Services; Finance and Local Government; Education and the Welsh Language; Climate Change; Economy; Rural Affairs; Social Justice; and Central Services and Administration.</i>
Non-Fiscal Resource DEL <i>(previously known as non-cash)</i>	<i>The Non-Fiscal Resource DEL budget scores the department's current expenditure in respect of impairment of student loans and depreciation. Non-Fiscal Resource DEL is ring-fenced and cannot be used to fund fiscal resource DEL spending.</i>
Receipts	<i>Some areas of Welsh Government activity generate income, for example through the sale or rental of assets. These are represented in the Budget as negative figures.</i>
Resource budgeting	<i>The Welsh Government's Budget is set on a resource basis derived from accruals information. Accruals information measures resources as they are consumed rather than when the cash is paid. For example, resource budgeting includes a charge for depreciation, a measure of the consumption or wearing out of capital assets.</i>
Resource <i>(previously known as revenue)</i>	<i>Current expenditure, for example funding for the pay of public sector workers and to purchase consumable goods and services.</i>
Total Managed Expenditure (TME)	<i>This is an HM Treasury control total which comprises the total Departmental Expenditure Limit (DEL) plus Annually Managed Expenditure (AME).</i>
Wales Reserve	<i>The Wales Reserve has been in operation since April 2018 as a tool to enable the Welsh Government to manage its budget across years. The Welsh Government will be able to save surplus revenues from the devolved taxes and underspends on the Departmental Expenditure Limit in the Reserve for use in future years. The Reserve will be able to hold up to £350m, with an annual drawdown limit of £125m for resource and £50m for capital. There will be no annual limit for payments into the Reserve.</i>
Welsh Consolidated Fund	<i>The account into which the money voted by the UK Parliament for use by the Welsh Government, the Senedd Commission, the Auditor General and the Public Services Ombudsman for Wales is paid.</i>
WGSB	<i>Welsh Government Sponsored Body. Examples include the Higher Education Funding Council for Wales and the Arts Council of Wales.</i>