



Llywodraeth Cymru  
Welsh Government

# Welsh Government Draft Budget 2023-24

A Budget in Hard Times

**December 2022**

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## Foreword by the Minister for Finance and Local Government

This is a Draft Budget unlike any other since devolution. It has been one of the toughest we have ever made and reflects the perfect storm of economic and budgetary pressures Wales is facing – none of which are of our making.

Together, we have endured more than a decade of austerity, imposed by successive UK Governments. This was a political choice by UK Chancellors, which has left our nation poorer; widened the gaps in inequality and resulted in a decline in productivity.

During this lost decade we were able to shelter our public services and economy from the worst effects of austerity but there was little funding to support their growth.

Austerity on its own would have been enough to reduce the resilience of our public services and economy to further shocks.

But it has been followed in quick succession by Brexit; the coronavirus pandemic; by the economic and humanitarian consequences of the war in Ukraine and now, an unprecedented cost of living crisis, which affects every aspect of daily life and business and is threatening our recovery from the pandemic. And beyond all that, a disastrous mini budget in September.

The UK is in recession; inflation is at a 40-year high and energy prices are soaring as living standards fall.

Our funding settlement, which comes mainly from the UK Government, is not sufficient to meet all the extraordinary pressures, which Wales is facing, let alone all our priorities in 2023-24.

We have faced some very difficult choices during this budget process. Guided by the principles embedded in the Well-being of Future Generations Act, we have tried to balance supporting the needs of people affected by the current cost of living crisis with the longer-term sustainability of public services. This Draft Budget also seeks to protect our ambitious Programme for Government while also protecting the economy from recession.

As part of the budget process, we have reprioritised funding from within our existing plans to refocus it into areas where it can have the greatest impact.

I am grateful to my Cabinet colleagues for their commitment and hard work during this process and I also want to thank Siân Gwenllian, the Designated Member for the Co-operation Agreement, for the ongoing engagement and close working relationship.

This is a Draft Budget made in hard times for hard times. It reflects the constraints of our funding settlement but not the lack of our ambition.

It maintains our commitment to prioritise the most vulnerable – and public services – while continuing to create a stronger, fairer and greener Wales for all.

## Chapter 1: Strategic context

### Overview

- 1.01 The Welsh Government's Draft Budget sets out our updated revenue and general capital spending plans for 2023-24, updating the indicative plans we outlined as part of the 2022-23 Budget, alongside revised planned allocations for 2024-25.
- 1.02 The 2023-24 Draft Budget has been developed against an extremely challenging financial backdrop. The UK economy is in recession; inflation is at a 40-year high and households and businesses are facing record energy prices and falling incomes. The UK Chancellor has signalled significant public spending cuts to come in an attempt to fix the damage caused on public finances, in part, by the UK mini budget in September.
- 1.03 Wales is facing a perfect storm of fiscal and budgetary pressures. To support public services and the Welsh economy during these challenging times, we have undertaken a comprehensive review and reprioritisation of previously agreed spending envelopes, outlined as part of our 2022-23 Budget process. We have taken difficult decisions to release funding from within existing plans and re-focused our limited resources towards the areas of greatest need.
- 1.04 This will ensure every pound invested makes the greatest positive impact. Our approach is designed to maximise the impact of our available resources – to balance the short-term needs associated with the ongoing cost of living crisis while seeking to continue to drive forward longer-term change and delivering on our Programme for Government ambitions.
- 1.05 This Draft Budget is focused on three key investment pillars: protecting frontline public services and our ambitions for the future; continuing to provide help to those most impacted by the crises we face and supporting our economy through recessionary times.
- 1.06 We conducted a zero-based review of general capital budgets at last year's multi-year Spending Review. We are therefore maintaining portfolio capital budgets at their current level; however, this will require some tough decisions as the impact of inflation will mean, in real terms, our capital budgets will be 8% lower in 2023-24 because of a lack of investment in capital by the UK Government.

### Implications of the UK Government's Autumn Statement

- 1.07 The Welsh Government was provided with expenditure limits for 2022-23 to 2024-25 following the UK Government's Spending Review in Autumn 2021. These limits were reflected in the Welsh Government's Final Budget for 2022-23 alongside indicative spending plans for 2023-24 and 2024-25, which were published in March 2022.
- 1.08 The UK Government's recent Autumn Statement provided additional revenue of £666m in 2023-24 and £509m in 2024-25. The limits for the Welsh Government Resource Departmental Expenditure Limit (DEL) are now £18,916m and £19,152m for 2023-24 and 2024-25 respectively, before block grant adjustments.

- 1.09 The Capital DEL did not change as a result of the Autumn Statement, remaining at £2,610m and £2,594m in 2023-24 and 2024-25 respectively. This also contains ring-fenced amounts of £96m and £90m for Financial Transactions. This provides a constrained outlook for capital, with the budget in 2024-25 8% lower in real terms than in 2022-23.
- 1.10 Even with the additional resource funding outlined above, the high levels of inflation currently being experienced mean the Welsh Government's settlement is now worth less in real terms than when the spending envelopes were set. Depending on the inflation measure used, the settlement could be worth up to £3bn less in real terms over the three years covered by the Spending Review and £1bn less in 2023-24 alone.
- 1.11 To support financial planning beyond the budgetary period, the Chief Economist's report, which is published alongside the Draft Budget, provides an analysis of the medium to long-term fiscal projections. This will help to inform scenarios for future resource spending in Wales, maintaining our position of evidence-based planning assumptions. Further details about the financial and economic context for the budget is available in chapter two.

### Multi-year context

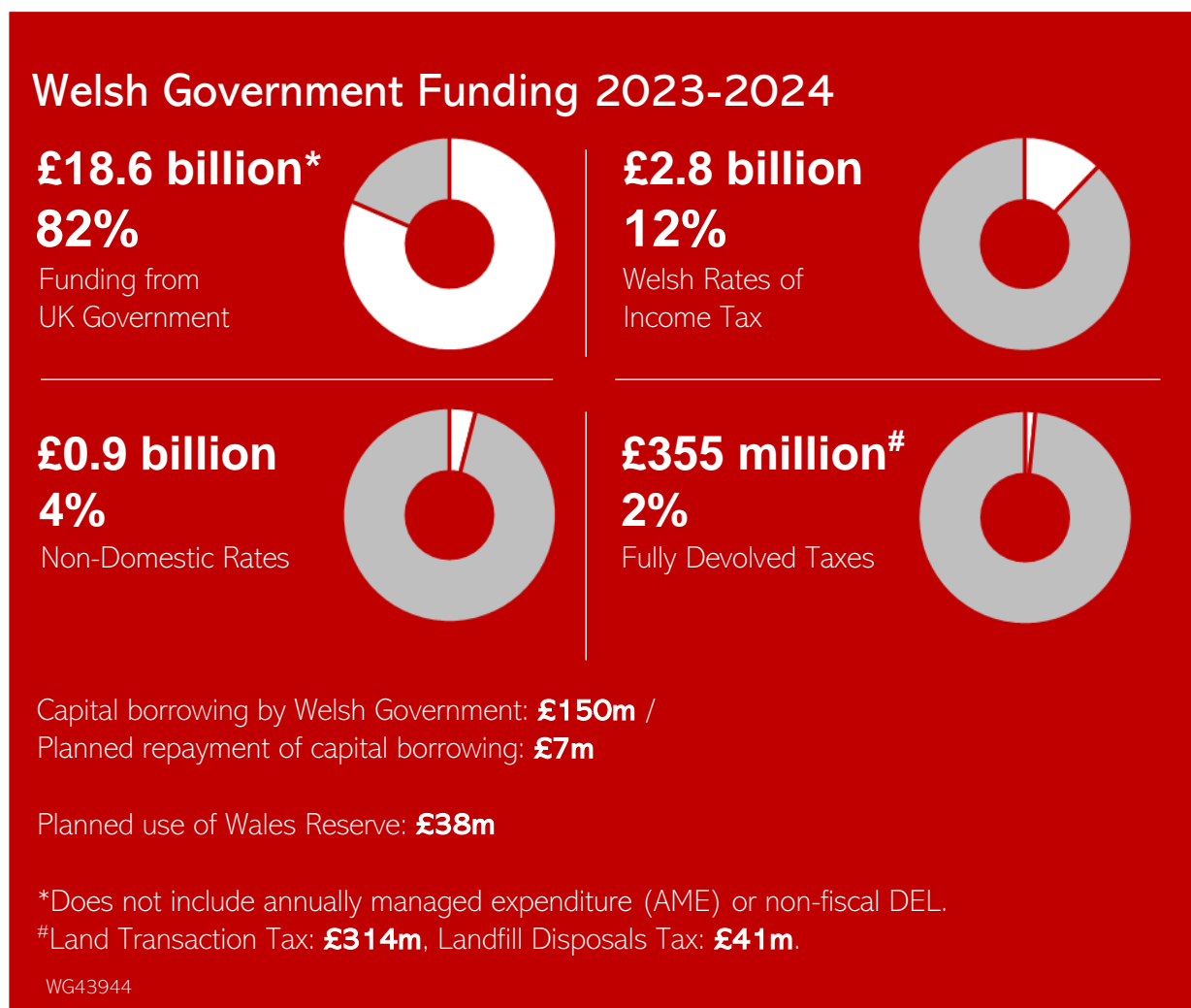
- 1.12 This Draft Budget has been set in addition to the multi-year Budget allocated as part of the Spending Review in 2022 and should not be viewed as a replacement. The reprioritisation exercise and allocation of additional funding arising from the Autumn Statement should be read in conjunction with the allocations exercise undertaken as part of the 2022-23 to 2024-25 Budget.
- 1.13 A zero-based review of capital funding was undertaken through the Spending Review. There are no changes to the multi-year allocations provided in the 2022-23 to 2024-25 Budget, however further details can be found in general capital allocations in the [Wales Infrastructure Investment Strategy](#) and the associated [Infrastructure Finance Plan](#).

### Fiscal responsibilities and funding

- 1.14 The Welsh Government is primarily funded via a block grant from the UK Government. The devolution of tax powers – Welsh Rates of Income Tax, Land Transaction Tax, Landfill Disposals Tax, and Non-domestic Rates – mean that in 2023-24 around 18% of Welsh Government spending will be funded from tax revenue.
- 1.15 The following illustration highlights the Welsh Government's sources of funding. Further information about tax policy and revenues is provided in chapter three.
- 1.16 The Welsh Government's fiscal framework agreement sets out the arrangements supporting tax devolution, capital borrowing powers, budgetary management tools, and a needs-based adjustment to the Barnett formula.

## Sources of Funding

1.17 The infographic below provides details of funding received by the Welsh Government for 2023-24.



1.18 A Sources of Finance table providing data for 2024-25 can be found in the [Tables Supporting Spending Plans](#) ODS workbook on the Welsh Government's Draft Budget web page.

## Priorities for the Draft Budget

1.19 This Draft Budget builds on the work undertaken last year as part of the 2022 Welsh Spending Review, which outlined indicative spending plans up to 2024-25. These were aligned to the delivery of the Programme for Government and our overarching aim to tackle climate change, while realising our ambitions to create a stronger, fairer and greener Wales.

- 1.20 We have worked hard to maintain the delivery of our priorities as a Government in these challenging times, some of which may take longer to deliver, while protecting frontline public services and targeting support towards those most affected by the cost of living crisis. To ensure this, the Draft Budget has been focused on three key investment pillars to ensure we maximise the impacts of our available funding within our constrained settlement.
- 1.21 Chapter four outlines the allocations contained within this Draft Budget in more detail, against each of the three pillars.
- 1.22 We recognise and value our public services – they play an important role in our local communities as a source of support, help and employment. In Wales, we have always sought to invest in our public services, to protect them from the worst of the cuts imposed by successive UK Governments. But after a decade of austerity, Brexit and the experience of the pandemic, our public services are fragile; they do not have the resilience to withstand further economic shocks caused by high inflation, soaring energy prices and record demand.
- 1.23 We will continue to invest in our public services to support them through these hard times and in this Draft Budget we will make additional funding available to the NHS, to local government and to education to help protect frontline services.
- 1.24 We will also do all we can to provide help to those people and businesses most affected by the cost of living crisis – through schemes which help people in an emergency or put money back in people’s pockets.
- 1.25 In the absence of additional funding from the UK Government to support the second year of its Homes for Ukraine scheme, we will continue to fund our humanitarian response to people fleeing the conflict in Ukraine and seeking safety in Wales. We are proud of our reputation as a Nation of Sanctuary.
- 1.26 Finally, we are doing all we can to support our economy during recessionary times while laying foundations for future prosperity. Our comprehensive non-domestic rates relief package to help support businesses will continue and we will provide transitional relief during the revaluation. We will support employability measures to help people find work.
- 1.27 We will also maintain our public investments by delivering on our commitments to improve public transport links, enable better connectivity in Wales and ensure we continue our journey towards Net Zero.

### Co-operation Agreement

- 1.28 The Co-operation Agreement Finance Committee provides the principal means of engaging with the Designated Member on allocations associated with the Co-operation Agreement.
- 1.29 We agreed a three-year budget as part of the Spending Review 2022 – this Draft Budget represents the second year of that agreement. The allocations for the Co-operation Agreement have been protected as part of this Draft Budget and we look forward to continuing to work with the Plaid Cymru Designated Members to achieve the commitments in the Co-operation Agreement.



## Financial Transactions Capital

- 1.30 We continue to maximise our existing portfolio of Financial Transactions capital investment, investing more than £1.8bn in a wide variety of projects supporting businesses and housing sector. A large proportion of this capital remains invested in medium to long-term loans and equity investments or schemes where shorter-term loans are provided, repaid, and then re-provided to support other businesses, many times over before the scheme ends.
- 1.31 We remain committed to ensuring our original investment plans for that funding are maintained, as it continues to be invested and re-invested to maximum effect in the years ahead.
- 1.32 In addition to updating the position of this existing funding, we are planning to make further allocations in the 2023-24 Final Budget.

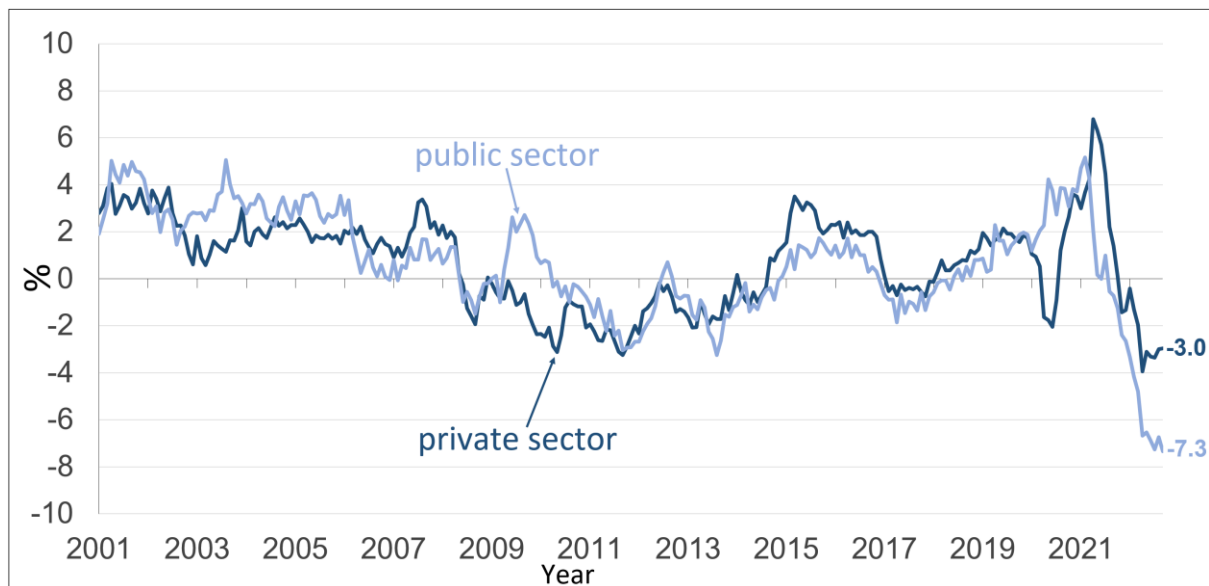
## Budget process

- 1.33 The Welsh Government has, with the agreement of the Senedd's Business Committee and Finance Committee, triggered exceptional arrangements in relation to this year's budget process. This includes publishing the Draft Budget documentation, including the strategic spending plans for revenue and capital, taxation and borrowing proposals, as well as detailed portfolio spending plans together on 13 December 2022.
- 1.34 Following scrutiny of these plans by Senedd Cymru, we will publish the final Budget 2023-24 on 7 March 2023.

## Chapter 2: Financial and economic context

- 2.01** The economic and fiscal prospects are considered in greater depth in the Chief Economist's report, which is published alongside this Draft Budget.
- 2.02** It highlights the economy in Wales and the UK is now in the early phase of recession, with official data highlighting that UK output decreased by 0.2% in the third quarter 2022, compared with the previous quarter. New forecasts from the Bank of England and the Office for Budget Responsibility (OBR) show output contracting again in the current (fourth) quarter. Two consecutive quarters of decreasing output or GDP is the conventional definition of a recession. On the Bank of England's forecast, the recession will continue until mid-2024 with GDP dropping by a cumulative 2.9%. By then, GDP would be 3.1% below the pre-pandemic level. The OBR's forecast is for a shallower and shorter recession with GDP declining by a still significant 2%.
- 2.03** Even though the OBR forecast is for a shorter and less damaging recession than the Bank of England anticipates, the outlook for household incomes is alarmingly bleak. The OBR says real household disposable income (RHDI) per person (a key measure of living standards) will decrease by 4.3% in 2022-23, which would be the largest single year decline since official records began in 1956-57. The following year, RHDI is expected to decrease by 2.8% – the second largest fall on record. The decrease is equivalent to £1,700 per UK household and £1,300 per household in Wales. A cumulative two-year decrease of more than 7% would be unprecedented.
- 2.04** The OBR expects UK unemployment to increase from the current rate of 3.6% to 4.9% by mid-2024. An equivalent increase in Wales would translate into 20,000 to 25,000 more people unemployed. The Bank of England's forecast is higher – it expects unemployment in the UK to increase to 6.4%, which would be equivalent to around 40,000 more people out of work in Wales.
- 2.05** A severe squeeze on household income caused by higher inflation is the key driver of the bleak outlook for the economy. It is also the case that the economy's capacity to produce goods and services has hit capacity constraints earlier than policymakers had expected, prompting the Bank of England to raise interest rates. Capacity constraints are seen clearly in extraordinarily high vacancy numbers co-existing alongside a shrinking workforce, as increasing numbers of working age people enter economic inactivity. A reduced workforce represents a major challenge to prospects for prosperity.
- 2.06** Worker scarcity and higher consumer prices are putting pressure on pay in the private sector, but accelerating nominal pay is not keeping pace with inflation. As highlighted in Chart 2.1, in the public sector, the real terms pay squeeze is much more intense than in the private sector. Public sector average weekly earnings, after taking inflation into account, have decreased by more than 7%. Real terms pay in the private sector has decreased by 3.0%.

Chart 2.1 Annual % change in weekly pay adjusted for inflation.

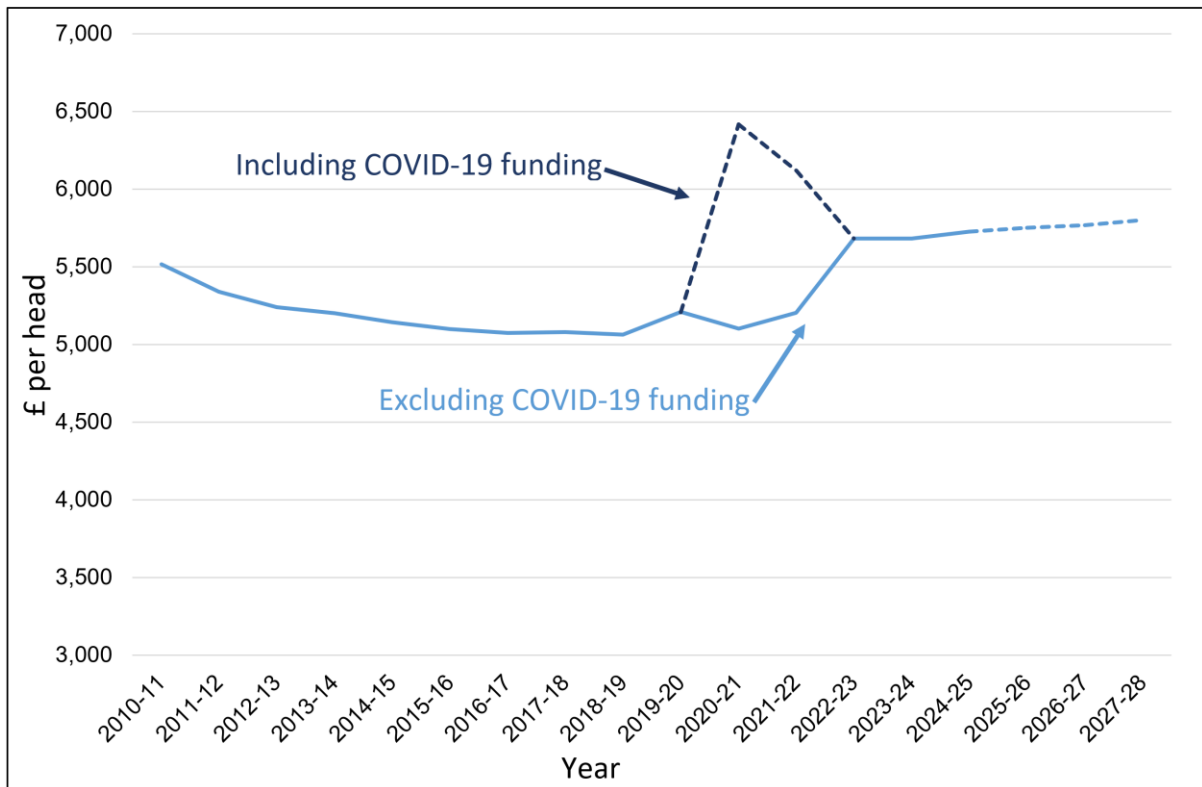


Source: calculated from Office for National Statistics data

- 2.07** The Bank of England has raised the base rate from 0.1% in December 2021 to 3% in November 2022 to prevent high levels of inflation (annual consumer price inflation was 11.1% in October) becoming embedded in household and business expectations.
- 2.08** Over the longer term, the prospects for living standards and for the strength of the tax base depend on a revival in the rate of productivity growth, which has been historically weak across the UK since the financial crisis in 2008. According to the OBR's new forecast, productivity decreases next year before picking up to a pace that would still be lower than the long-term average growth rate of approximately 2%.
- 2.09** According to the OBR, public sector borrowing is expected to total £177bn (7.1% of GDP) in the 2022-23 financial year, up from £133bn (5.7% of GDP) last year. By 2027-28, borrowing is expected to be down to £69bn (2.4% of GDP). The deficit in the last year of the forecast is close to the average long-term average deficit recorded before the financial crisis.
- 2.10** Public sector net debt is expected to be equivalent to 89.9% of national income or GDP in 2022-23, up from 84.3% of GDP last year. Debt is expected to increase further in the following three years, peaking at 97.6% of GDP in 2025-26. It is then expected to stabilise for a year before decreasing to 97.3% of GDP in 2027-28.
- 2.11** On these projections for the budget deficit and UK Government net debt, the public finances meet the UK Chancellor's new fiscal targets. One target is to have debt falling as a share of GDP by 2027-28 and the second is to have the deficit not exceed 3% of GDP in the same year. The OBR has noted that the margin for error or fiscal headroom the Chancellor has to meet the new targets is very small.

**2.12** As shown in Chart 2.2, the Welsh Government’s core budget for day-to-day spending fell by 8% per person in real terms during the 2010s. In the current financial year it has recovered to a higher level than in 2010-11 for the first time. As a result of decisions announced in the Chancellor’s Autumn Statement, the UK Government provided £1.2bn of additional funding to the Welsh Government over the next two years. Despite that, the Welsh Government’s budget for day-to-day spending will only increase by 0.4% a year per person in real terms over the two years, on a like-for-like basis. That very low rate of growth is set to continue for the following three years, based on the assumptions for UK departmental spending limits built into the OBR’s medium-term fiscal outlook.

**Chart 2.2 Welsh Government Resource Budget in real terms per person (£, 2021-22 prices)**



Source: Welsh Government

## Chapter 3: Funding arrangements

### Overview

- 3.01 The Welsh Government and public services in Wales are funded through a combination of a block grant from the UK Government and revenue generated from taxes in Wales.
- 3.02 In April 2015, financial responsibility for non-domestic rates (NDR) was devolved to Wales. Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT) were introduced in Wales on 1 April 2018 – replacing stamp duty land tax and landfill tax, respectively – and are collected by the Welsh Revenue Authority (WRA). Welsh Rates of Income Tax (WRIT) were introduced on 6 April 2019 and are collected by HMRC.
- 3.03 Taken together, WRIT, LTT, LDT and NDR will contribute around £4bn to the Welsh Government's budget in 2023-24, rising to £4.7bn in 2024- 25.

### Tax Policy

- 3.04 Tax devolution is important. Taxes provide a vital lever through which the Welsh Government can deliver important strategic priorities for Welsh businesses and citizens. The Welsh Government's approach to tax policy development is underpinned by the *Tax Policy Framework Update*<sup>1</sup>, which sets out the fiscal devolution settlement as established by the Wales Act 2014 and 2017. It reflects the longer history of our local taxes, clearly outlining the Welsh Government's strategic priorities for tax together with the challenges and opportunities.
- 3.05 This update reflects on the learning and experience of tax policy formulation since tax devolution. It takes the opportunity to identify and articulate the distinct Welsh approach to developing and delivering tax policy collaboratively, involving stakeholders and partners. It sets out how we will ensure we continue to embed sustainability, fairness and equality considerations in the way in which we address our priorities.
- 3.06 The Welsh Government published the Tax Policy Work Plan 2021-2026<sup>2</sup> alongside the update to the Tax Policy Framework. The Tax Policy Work Plan builds on our Programme for Government<sup>3</sup> commitments in relation to devolved and local taxes and furthers the aim of delivering strong and stable tax devolution. It provides clear direction and certainty in respect of Welsh tax policy priorities for the next five years.

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<sup>1</sup> <https://gov.wales/tax-policy-framework-update>

<sup>2</sup> <https://gov.wales/sites/default/files/publications/2021-11/tax-policy-work-plan-2021-to-2026.pdf>

<sup>3</sup> <https://gov.wales/programme-government>

**3.07** The Welsh Government's tax policy priorities broadly fall into the following three areas:

- Delivery of strategic government objectives including Programme for Government commitments.
- Ongoing policy review and implementation of our existing taxes and other related policy areas.
- Continued focus on working with partners and citizens to embed our distinct Welsh tax approach and raise awareness of Welsh taxes.

**3.08** It is anticipated that further activity will emerge from scoping and other exploratory work, including discussion with stakeholders and partners, undertaken as part of the process of developing some of the tax policy work streams. The publication of the five year work plan enables all those with an interest to engage with the tax agenda in Wales, ensuring tax policy is informed and evidence based. Alongside this Draft Budget we have published our second annual report against the five year work plan.

**3.09** The Welsh Government hosts an annual tax conference, which provides a further opportunity to engage, educate and invite input into our tax policy work. This was held as a virtual event on 23 November 2022.

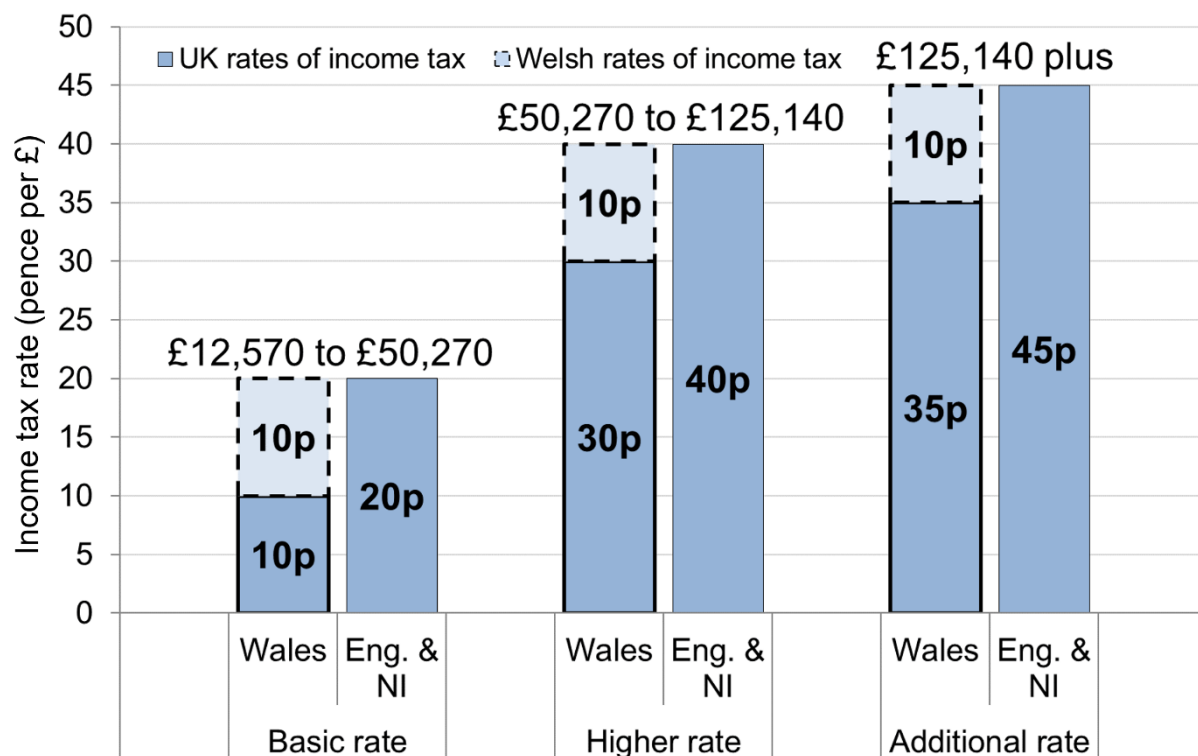
### Welsh Rates of Income Tax (WRIT)

**3.10** WRIT was introduced on 6 April 2019. Income tax is partially devolved to Wales, which means that while the Welsh Government is able to vary the three income tax rates – basic, higher and additional – for Welsh taxpayers. All other aspects of income tax remain the responsibility of the UK Government and HMRC continues to administer income tax in Wales<sup>4</sup>.

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<sup>4</sup> In most cases, Welsh taxpayers are defined as people who live in Wales, however a full definition is provided under s.8 of the Wales Act 2014: <http://www.legislation.gov.uk/ukpga/2014/29/section/8/enacted>

Chart 3.1: Income tax rates in Wales, 2023-24



**3.11** WRIT works by the UK Government reducing each of the three income tax rates for Welsh taxpayers by 10p. The Welsh Government then decides whether to set the Welsh rates at 10p – thereby retaining parity between Welsh and English taxpayers – or at different rates. In line with its commitment not to take more in Welsh Rates of Income Tax from people for at least as long as the economic impact of Covid-19 lasts, the Welsh Government proposes to set Welsh Rates of Income Tax for 2023-24 at 10p. This is illustrated in Chart 3.1, which shows that the combined UK and Welsh rate of income tax in each band in Wales is the same as the UK tax rate in England and Northern Ireland.

### Other Welsh Taxes

**3.12** Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT) are fully devolved to Wales. These two taxes were introduced on 1 April 2018 – replacing Stamp Duty Land Tax and Landfill Tax, respectively – and are collected and managed by the Welsh Revenue Authority (WRA). LTT and LDT provide important levers through which the Welsh Government can, if appropriate, further strategic government objectives, such as tackling the impact of the prevalence of second homes in some Welsh communities or supporting the delivery of wider environmental objectives. In return for the tax revenue, the Welsh block grant has been reduced by an amount equivalent to what the previous UK taxes (stamp duty land tax and landfill tax) raised in Wales for the UK Government. This means it is vital the two taxes are operated efficiently and effectively, to generate the revenue needed to fund Wales' vital public services.

## Land Transaction Tax (LTT)

- 3.13** Changes to LTT rates were being developed as part of the Draft Budget. However, in light of the UK Government changes to Stamp Duty Land Tax (SDLT) rates, which were announced as part of the UK Government's mini budget on 27 September 2022 and to prevent uncertainty about LTT rates, these changes were brought forward to take effect from 10 October 2022.
- 3.14** The changes which came into effect from 10 October affect the residential main rates. For the residential main rates, the starting threshold has been raised from £180,000 to £225,000. The first tax rate is now set at 6% and applies to the portion of the price between £225,000 and £400,000. No changes have been made to other rates, including the higher residential rates.

**Table 3.1: LTT Residential main rates (from 10 October 2022)**

Price threshold	LTT rate
£0 to £225,000	0%
More than £225,000 to £250,000	6%
More than £400,000 to £750,000	7.5%
More than £750,000 to £1.5m	10%
More than £1.5m	12%

**Table 3.2: LTT higher residential rates (from 22 December 2020)**

Price threshold	LTT rate
£0 to £180,000	4%
More than £180,000 to £250,000	7.5%
More than £250,000 to £400,000	9
More than £400,000 to £750,000	11.5%
More than £750,000 to £1.5m	14%
More than £1.5m	16%

**Table 3.3: LTT non-residential main rates (from 22 December 2020)**

Price threshold	LTT rate
£0 to £225,000	0%
More than £225,000 to £250,000	1%
More than £250,000 to £1m	5%
More than £1m	6%

**Table 3.4: LTT non-residential lease rent (from 22 December 2020)**

Price threshold	LTT rate
£0 to £225,000	0%
More than £225,000 to £2m	1%
More than £2m	2%



## Landfill Disposals Tax (LDT)

- 3.15** The Welsh Government proposes to increase the LDT rates in line with RPI inflation as forecast by the Office for Budget Responsibility (OBR) in autumn 2021, with effect from 1 April 2023. This continues the policy of maintaining consistency with the UK Government's approach to landfill tax rates and increasing in line with forecast inflation at the start of each financial year. The Welsh Government's approach to setting LDT rates is reviewed each year as part of the annual rate-setting process where consideration is given to the benefits and dis-benefits of changing the rates in the future to advance wider environmental objectives.
- 3.16** By setting rates for 2023-24 that are consistent with UK Landfill Tax, public services in Wales will continue to benefit from tax revenue, while ensuring the risk of the movement of waste across borders is reduced. This will ensure a degree of consistency and stability across the waste sector while the future direction of LDT is considered in more detail.
- 3.17** Wales is at the forefront of waste policy and LDT is a useful additional lever to support Welsh Government waste policies and achieve the ambitious goal of a zero waste Wales. An independent review of LDT is underway and will consider the impact LDT rates have had on behaviours in the waste sector and the extent to which the LDT legislation has influenced behaviours. The final report is expected to be published in Spring 2023. It is hoped it will build on our stakeholder engagement to provide a solid evidence base for future changes to the tax rates, which could be implemented from 2024.
- 3.18** The LDT Communities Scheme was introduced in April 2018 and was supported by the allocation of £1.5m per year for four years, to support environmental and community projects in areas affected by the disposal of waste to landfill. A review of the scheme was published in May 2022 and findings were positive in terms of delivery, impact and value for money.
- 3.19** Evidence gathered during the review demonstrated a wide range of communities have benefitted from the scheme and it has contributed to a number of Programme for Government priorities, as well as other priorities directly affecting communities across Wales. The scheme will continue in its current form while the outcomes of the LDT review and evidence from wider sources are considered.
- 3.20** The proposed rates for LDT, subject to approval by the Senedd, are set out in the table below.

Table 3.5: LDT rates, £ per tonne.

Price threshold	2021-22	2022-23	2023-24
Standard rate	£96.70	£98.60	£102.10
Lower rate	£3.10	£3.15	£3.25
Unauthorised disposals rate	£145.05	£147.90	£153.15

## Non-domestic Rates (NDR)

- 3.21** We will continue to provide support for those sectors most directly affected by the pandemic through a 2023-24 retail, leisure and hospitality rates relief scheme. This will provide more than £140m of non-domestic rates relief for eligible businesses.
- 3.22** Retail, leisure and hospitality ratepayers in Wales will receive 75% non-domestic rates relief throughout 2023-24. Like the similar scheme announced by the UK Government, the Welsh Government's scheme will be capped at £110,000 per business across Wales. Our approach ensures that businesses in Wales will receive comparable support to that provided in other parts of the UK.
- 3.23** In addition to the retail, leisure and hospitality rates relief scheme, the non-domestic rates multiplier in Wales will be frozen in 2023-24. The estimated cost of this measure is more than £100m.
- 3.24** The next non-domestic rating list will come into force on 1 April 2023, following revaluation. The Welsh Government will provide all ratepayers whose liability is increasing by more than £300, as a consequence of revaluation, with transitional relief. Any increase in non-domestic rates liability as a result of revaluation will be phased in over two years.
- 3.25** A ratepayer will pay 33% of their additional liability in the first year (2023-24) and 66% in the second year (2024-25), before reaching their full liability in the third year (2025-26). The Welsh Government is providing £113m over two years to fund this transitional relief, supporting all areas of the tax base through a consistent and straightforward transitional scheme.
- 3.26** This £319m package of support is in addition to our fully funded permanent relief schemes that provide over £240m of relief to businesses and other ratepayers every year. We are committed to supporting businesses to recover from the impacts of the pandemic and to support them through the current cost of living crisis, to ensure Wales continues to have a thriving economy. This will result in a combined package of £490m over the next two financial years.

## Independent tax revenue forecasts

- 3.27** This Draft Budget is accompanied by independent forecasts of devolved tax revenue from the OBR. A separate Welsh Taxes Outlook report providing background and detail on the forecasts has been published on the OBR's website. The forecasts for the years covered by the Draft Budget are shown in Table 3.6. The WRIT revenues here do not include reconciliation amounts for earlier years.

**Table 3.6: Tax revenue forecasts £m**

	2023-24	2024-25
Land Transaction Tax	314	301
Landfill Disposals Tax	41	39
Welsh Rates of Income Tax	2,795	2,927

## Block grant adjustment

- 3.28** Following the devolution of tax powers to Wales, the Welsh Government's block grant was reduced to reflect revenues from devolved and partially devolved taxes now go directly to the Welsh Government rather than the UK Exchequer.
- 3.29** For the purposes of this Draft Budget, the block grant adjustments for the fully devolved taxes are consistent with OBR forecasts of the equivalent UK taxes based on the November 2022 Economic and Fiscal Outlook. In total, the block grant adjustments for the fully devolved taxes are £259m and £255m in 2023-24 and 2024-25 respectively.
- 3.30** The block grant adjustments for the Welsh Rates of Income Tax are driven by the forecast growth in equivalent revenues in England and Northern Ireland in each income tax band, also using the OBR's November Economic and Fiscal Outlook. The block grant adjustments for income tax are £2,748m and £2,838m over the two years.
- 3.31** There are also reconciliation amounts in both 2023-24 and 2024-25. In 2023-24 this takes account of outturn information for the block grant adjustments for LTT and LDT in 2021-22, together with amounts for the 2020-21 outturn for WRIT and associated block grant adjustments. In 2024-25 a forecast reconciliation amount in relation to 2021-22 for the Welsh rates and block grant adjustments is included. In net terms, these reconciliation amounts increase the budget by £34m in 2023-24 and £50m in 2024-25.

## Wales Reserve

- 3.32** The Wales Reserve was introduced in April 2018 as part of the fiscal framework arrangements to enable us to deal effectively with volatility arising from tax revenues, by retaining unspent resources for use in future years. It replaced the previous budget exchange process.
- 3.33** The Wales Reserve can hold up to £350m. Annual drawdowns are limited to £125m for revenue spending and £50m for capital spending. There are no annual limits for payments into the reserve.
- 3.34** The budgetary policy, adopted in 2022-23 as part of the last Welsh Spending Review and which will be in place for the remainder of the multi-year settlement period up to and including 2024-25, introduced a new fiscal strategy to maximise available funding.
- 3.35** This will be the first year (2023-24) the Wales Reserve will be used to manage the in-year financial position in place of holding an unallocated reserve, with any drawdowns included within the appropriate supplementary budget. On the basis of this approach, these spending plans do not assume full drawdown from the Welsh Reserve with funding drawn only as needed via the supplementary budget process.

## IFRS16 New Accounting Standards

- 3.36** The Welsh Government's Draft Budget proposals exclude technical adjustments arising as a result of the implementation of the new accounting standard IFRS16 in respect of treatment of leases.

## Borrowing

- 3.37 This Draft Budget maintains our plans to maximise our capital borrowing, drawing the maximum annual drawdown of £150m a year, borrowing an additional £300m up to 2024-25 – the maximum that we can currently access within the fiscal framework.
- 3.38 The limited capital settlement that Wales received from the Spending Review in 2021, and the absence of any further capital funding in the Autumn Statement in November 2022, means we must maximise the levers at our disposal to deliver our ambitious capital investment programme. The impacts of inflation have eroded what we can afford within our existing settlement.
- 3.39 Capital borrowing is not a free source of additional money – it must be repaid with interest. The costs of borrowing have increased in line with wider inflationary pressures.
- 3.40 It is important that we manage our capital budget within the flexibilities we currently have but we must also continue to ensure those flexibilities appropriately reflect the challenges we face in long term infrastructure investments.
- 3.41 Within our existing framework we are maintaining our plans predicated on our approach to funding investment by maximising the drawdown of the least expensive forms of capital first – typically our block grant settlement. We will only use more expensive forms of capital financing, such as borrowing, once we have exhausted these traditional sources. Innovative models, including private investment in projects, will only be considered for projects that are low risk and of the appropriate scale.
- 3.42 In our engagement with HM Treasury, we will continue to make the case for the broader flexibilities we need to manage our budget in the most effective way for the people of Wales. This includes continuing to press for increases to both the annual and aggregate limits on our access to capital borrowing, as well as for greater year-end carry forward and drawdown flexibilities within the Wales Reserve.
- 3.43 The Welsh Government will draw its borrowing capital from the National Loans Fund. Repayment forecasts for the period in which we have set capital plans can be found using this link to the ‘Tables Supporting Spending Plans’ ODS workbook: [Tables Supporting Spending Plans](#)
- 3.44 The repayment forecast is based on an assumption of a repayment period of 25 years and an interest rate of 3% on borrowing in 2022-23 and 3.7% in 2023-24 and 2024-25.

## Innovative finance

- 3.45 In addition to our core capital budgets and borrowing powers, we continue to make full use of innovative financing solutions to help deliver timely additional investment in vital economic and social infrastructure. An update on these schemes is provided in Annex B.

## Sources of Finance for Welsh Government

- 3.46 The sources of finance for Welsh Government comprise block grant funding from the UK Government, in conjunction with fully devolved taxation, Welsh Rates of Income Tax and non-domestic rates. A table setting out sources for resource and capital funding can be found at tab 1 in the following document:

[Tables Supporting Spending Plans.](#)

## Chapter 4: Investing in Welsh Government's priorities

### Overview

- 4.01 The development of the Welsh Government's Draft Budget 2023-24 has been one of the most difficult since devolution. Inflation is at a 40-year high and the UK is entering recession in the worst position of all the major G7 economies. This wider UK economic context has resulted in significant financial pressures, particularly for public services.
- 4.02 The continued impact of the UK's decision to leave the European Union, the legacy of the Covid-19 pandemic, along with a lengthy period of austerity imposed by successive UK Governments, has eroded the resilience of public services.
- 4.03 This year has brought the two further challenges of a war in mainland Europe, as Russia invaded Ukraine, and the continued cost of living crisis, both of which have driven up prices for individuals, businesses, and services.
- 4.04 The UK Government's mini budget in September made a difficult situation worse – pushing up the cost of borrowing for people and for the Government; causing turmoil in the financial markets and creating a black hole in public finances.
- 4.05 The actions currently being taken by the UK Government risk further exacerbating the cost of living crisis, slowing the UK's long-term recovery from the pandemic and jeopardising the UK's ability to tackle climate change, just a year after the Glasgow COP26 meeting.
- 4.06 When we published our 2022 multiyear Welsh Spending Review, we set out our ambitious plans which laid the foundations for a stronger, fairer and greener Wales. Inflation has eroded the cash value of our plans but not the scope of our ambition.
- 4.07 Just as we did during the pandemic, we have taken difficult decisions to re-align our funding to meet our priorities and to maximise its impact. As part of the preparation of this Draft Budget 2023-24, we have undertaken a reprioritisation exercise to identify where funding can be released from within existing plans to be refocused on areas of most need. This will ensure every pound invested makes the greatest positive impact for people across Wales.
- 4.08 In undertaking this important work there may be negative impacts where funding has been reprioritised. Further details about the choices which have been made will be outlined as part of individual Ministers' responses to their respective Senedd scrutiny committees.
- 4.09 The reprioritisation work has been based on three priorities:
- Protecting frontline public services and our ambitions for the future
  - Continuing to provide help to those most affected by the crises we face
  - Supporting our economy through recessionary times.

- 4.10 The capital funding outlook has deteriorated since the Welsh Spending Review was carried out, impacting our Wales Infrastructure Investment Strategy (WIIS). There were no additional capital allocations for Wales in the Autumn Statement, which means portfolio budgets are maintained at the level agreed last year. However, with higher than expected inflation, the Welsh Government's overall capital budget in 2024-25 is now 8% lower in real terms than in 2022-23.
- 4.11 We provided a strong foundation for our capital programme in 2022-23 to ensure we strengthened the link between infrastructure and tackling the climate and nature emergencies by undertaking a zero-based review.
- 4.12 Despite the challenges, we remain committed to the ambitions set out in the WIIS. We have produced an updated investment project pipeline, published alongside this Draft Budget, identifies the steps we need to take to deliver those ambitions.
- 4.13 This chapter provides further details about our commitments for 2023-24 and updated indicative allocations for 2024-25. The allocations for 2024-25 will be further updated as part of the 2024-25 budget process.
- 4.14 As outlined in chapter one, this budget documentation should be read in conjunction with last year's significant investment proposals and the multi-year funding approach ([2022-23 Draft and Final Budgets](#)), and the established Wales Infrastructure Investment Strategy and associated Infrastructure Finance Plan for capital investments.
- 4.15 These investment priorities should be read alongside the Strategic Integrated Impact Assessment Summary (SIIA) (Annex A) and Chief Economist's report, both of which provide more detail on the wider context and impacts which inform our budgetary decision-making process.

### **Protecting front line public services and our ambitions for the future**

- 4.16 During a cost of living crisis, the most vulnerable rely on our public services the most – on our health service, schools, and social services. Protecting these key public services is more important now than ever.

#### **NHS Wales**

- 4.17 Building on the allocations we outlined for 2023-24 and 2024-25, as part of our 2022 Welsh Spending Review, we have committed to invest a further £165m in health and social care in 2023-24, which will be baselined into 2024-25.
- 4.18 Together with more than £9.4bn of existing funding, this will support our health service as it continues to respond to urgent and emergency care pressures and to reduce long waiting times, which built up during the pandemic. It will be doing this, while continuing to transform the way care is provided, with more services available closer to people's homes in local communities. Even with this uplift in funding however, there will be difficult choices for the NHS as it seeks to protect frontline services amidst the twin pressures of high inflation and rising energy costs.

- 4.19 We are committed to doing all we can, through continued investment, to support the NHS as it continues to provide a wide range of services in local communities and hospitals to support our physical and mental health and wellbeing.

### Local Government

- 4.20 Local government is at the frontline of delivering a wide range of vital public services, upon which we all rely, as well as supporting the delivery of many of our ambitions set out in the Programme for Government. Local authorities have been affected by the soaring cost of energy and inflation across all services, including in two of their biggest service areas: schools and social care. This is alongside overall increases in demand in many service areas.
- 4.21 Schools in Wales are directly funded by local authorities; funding for schools is provided mainly through the local government settlement. The Welsh Government's education budget also supports spending in and on schools, teachers and wider education programmes, including free school meals, the rollout of the new curriculum, teacher training and support to help learners recover post pandemic.
- 4.22 As a result of spending decisions made in relation to education in England, Wales received additional funding in the Autumn Statement. This is being provided in full to local government through increases to the unhypothecated settlement and through the education budget.
- 4.23 We will continue to do all we can to support local authorities through these testing times and to ensure they continue to be sustainable into the future. As a result of the decisions we are taking, we are providing an additional £227m in 2023-24 and £268m in 2024-25 to the local government settlement; this builds on the funding we outlined as part of our 2022 Spending Review, now providing £1bn up to 2024-25.

### Real Living Wage for Social Care

- 4.24 Social care plays a vital role in Wales, supporting people to live independent lives in the community while also supporting the wider health service. Without effective social care, the NHS' ability to function effectively will be swiftly diminished.
- 4.25 The demand for social care has increased rapidly but, the sector is under intense pressure, as it struggles to recruit and retain staff. This is a long-running issue, exacerbated by the UK's decision to leave the European Union, which has limited access to the larger employment pool, provided through free movement.
- 4.26 In April 2022, we were pleased to be able to pay the Real Living Wage for social care workers. To maintain this, and in line with our commitment to fair work, we have made a recurrent provision of £70m to meet the Real Living Wage for social care workers, within the allocations to the health and social care budget and the local government settlement.
- 4.27 Together with our ongoing work on terms and conditions in the sector, we hope that this will support recruitment and retention in social care.



## Welsh Government and Wider Public Bodies.

- 4.28 Within this Budget we are providing £3m to ensure Wales continues to contribute fully to the UK Covid-19 Inquiry. We are also providing £0.8m to meet the costs of Senedd Reform to ensure our institutions can better represent the people of Wales in the future.
- 4.29 The organisations which play a role in supporting our nation, including protecting our heritage and culture, are facing a range of financial pressures linked to inflation. The limited funding available means while we are unable to meet these pressures. We have allocated over £2.5m to our sponsored bodies alongside action taken to protect budgets and help ensure they remain sustainable.

## Continuing to provide help to those most impacted by the crises we face

- 4.30 We continue to support those most vulnerable to and affected by the cost of living crisis in Wales. We have identified a suite of programmes which will help provide targeted and short-term help to maintain or support income and avoid more people being driven into poverty during this crisis. We continue to be mindful however, that the main levers of support – tax and welfare – remain with the UK Government.
- 4.31 We also continue to provide support to people seeking safety and sanctuary in Wales in this Budget, continuing our longstanding tradition of helping others when they are in need.

## Cost of Living Support

- 4.32 Building on the cost of living package provided in the Final Budget 2022-23, we are maintaining our commitment to supporting those who are most vulnerable to the cost of living crisis and to the recession.
- 4.33 Poverty affects not only those experiencing it but all public services. People who are struggling to afford accommodation or food will often turn to local services for help. Poverty has a detrimental impact on mental wellbeing and physical health, leading to a greater need for NHS care both now and in the longer term. We are therefore targeting support to prevent more people from falling into poverty by ensuring they have enough money to meet their basic needs.
- 4.34 Maintaining support for the Discretionary Assistance Fund (DAF), which provides emergency support payments and support in kind for people in need, is a fundamental part of our response. The additional allocation of £18.8m will ensure people severely impacted by the cost of living crisis can continue to access this emergency support.
- 4.35 The basic income pilot is a radical intervention, supporting a group of young care leavers with an income of £1,600 each month. We continue to support the pilot, which will run for two years and are allocating an additional £2.2m in 2023-24.

- 4.36 As part of the cost of living package agreed as part of the Final Budget 2022-23, we provided additional funding for the Pupil Development Grant (PDG) and PDG Access. This is designed to help children and young people from lower income households and looked-after children overcome the additional barriers that prevent them from achieving their full potential. Building on the extra £20m invested in last year's Spending Review, we are continuing our investment in the PDG in 2023-24 with an additional allocation of £9m.
- 4.37 The Welsh Government remains committed to people in Wales having access to a decent place to live. Funding for housing and homelessness continues to be an area of priority investment, which protects the most vulnerable in society. We have allocated £10m to the homelessness prevention budget to boost investment in homelessness prevention and relief interventions across Wales providing support for local authorities to continue our 'no-one left out' approach.

### The Ukraine Humanitarian Response

- 4.38 We made a clear commitment to welcome people fleeing the conflict in Ukraine and are proud of the response from the thousands of people who have opened their homes to host people from Ukraine. We originally set up our super-sponsor scheme to directly sponsor 1,000 people from Ukraine. To date, we have been able to support almost 3,000 people who have arrived in Wales via the super-sponsor route. This clearly demonstrates Wales is a Nation of Sanctuary.
- 4.39 The UK Government has provided no funding commitment for the Homes for Ukraine scheme in 2023-24. In 2022-23, we funded our super sponsor scheme, including accommodation and wrap-around support, by using funding from our reserves. We will continue to support people arriving from Ukraine in 2023-24 and have committed a further £40m to ensure people fleeing the war continue to have a place of safety and sanctuary in Wales. In 2024-25, we have committed to £20m to supporting our Ukraine humanitarian response. This additional funding will ensure local authorities are able to continue delivering services.

### Education

- 4.40 Education is one of the most powerful tools to tackle inequality and is a key investment in our future and our children's future.
- 4.41 In addition to the funding we are providing for schools via the local government settlement, we are allocating an extra £10m for schools via the Education budget in 2023-24. This is made up of an additional £5.5m to support the continuation of the Recruit, Recover and Raise Standards (RRRS) programme in line with our Programme for Government commitment; and a further £4.5m to support implementation of the Additional Learning Needs (Wales) Act as part of our long-term programme of education reform.
- 4.42 There will also be an additional £9m to support post-16 provision, including a review of Renew and Reform funding and other distinct pressures for school sixth form and FE sector.

## Helping businesses navigate the recession

- 4.43 We are doing all we can to support our economy during recessionary times while laying foundations for future prosperity. We are using all the levers which can make the greatest difference – business rates relief, employability measures to help people find work and maintaining our public investments to improve public transport links all enable better connectivity in Wales and ensure we continue our journey towards Net Zero.

### Non-Domestic Rates Relief Package

- 4.44 All businesses in Wales will benefit from the £319m package of non-domestic rates support we will be providing in 2023-24. The package will operate in addition to our permanent relief schemes, which provide around £240m of relief to ratepayers across Wales.
- 4.45 We will continue to provide support for those sectors most directly affected by the pandemic through a 2023-24 retail, leisure, and hospitality rates relief scheme. This will provide more than £140m of non-domestic rates relief for eligible businesses.
- 4.46 Retail, leisure, and hospitality ratepayers in Wales will receive 75% non-domestic rates relief throughout 2023-24. Like the similar scheme announced by the UK Government, the Welsh Government's scheme will be capped at £110,000 per business across Wales. Our approach ensures that businesses in Wales will receive comparable support to that provided in other parts of the UK.
- 4.47 In addition to the retail, leisure and hospitality rates relief scheme, the non-domestic rates multiplier in Wales will be frozen in 2023-24. This will support all ratepayers in Wales at an estimated cost of more than £100m.
- 4.48 The next non-domestic rating list will come into force on 1 April 2023, following revaluation. The Welsh Government will provide all ratepayers whose liability is increasing by more than £300, as a result of revaluation, with transitional relief. Any increase in non-domestic rates liability as a result of revaluation will be phased in over two years.
- 4.49 A ratepayer will pay 33% of their additional liability in the first year (2023-24) and 66% in the second year (2024-25), before reaching their full liability in the third year (2025-26). The Welsh Government is providing £113m over two years to fund this transitional relief, supporting all areas of the tax-base through a consistent and straightforward transitional scheme. This will result in a combined package of £490m over the next two financial years.
- 4.50 We are committed to supporting businesses to recover from the impacts of the pandemic and to bolster them through the current cost of living crisis, to ensure Wales continues to have a thriving economy.

### Employability and Skills Measures.

- 4.51 Skills and employment remain powerful tools to tackle poverty. Enabling people to navigate the employment market and ensure they have the skills and opportunities to either return to work or start a new career is key to helping the economy navigate the current recession.

- 4.52 We are continuing to provide investment for our flagship apprenticeship programme. The Welsh Government is working against a backdrop of significant economic challenge and uncertainty, exacerbated by the upcoming loss of EU funding. To help combat this, an additional £18m will be invested in apprenticeships, highlighting our commitment to deliver a programme focussed on successful and high-quality upskilling opportunities.
- 4.53 We will use this funding to maintain our focus on technical skill priorities, the needs of the foundational economy and high demand sectors such as health, social care and childcare and to contribute towards our net zero ambitions.

#### Public Transport

- 4.54 As set out in [Llwybr Newydd](#), our transport strategy, transport plays an important role in the lives of people in Wales. Transport has a significant impact on the viability of local, regional and national places.
- 4.55 It plays a vital role in growing the economy by helping people trapped in poverty, supporting people's ability to access employment, education, healthcare and other local services such as libraries, with bus travel more likely to be used by those impacted by the cost of living crisis.
- 4.56 Delivering the option of low carbon transport and improved connectivity is necessary not only for commuting, but also if we are to meet our climate change mitigation targets by 2050. Alongside doing all we can to maintain these commitments, we recognise the inflationary pressures for the public transport sector adds to the already impacted position as a result of the pandemic; we have allocated £40m to support these services.

## Chapter 5: Welsh Government spending plans

### Wales' Expenditure Budget

- 5.01** Devolved expenditure in Wales for 2023-24 comprises allocations to Welsh Government Main Expenditure Groups (MEGs) of £21bn and indicative plans of £21bn in 2024-25 (fiscal resource plus capital allocations).
- 5.02** The indicative plans for 2024-25 include minimal changes to the plans outlined as part of our 2022-23 Budget process. They will be substantively reviewed as part of our 2024-25 Budget process.
- 5.03** All tables included in chapter five of the narrative document published in December 2021, together with the tables shown in annexes A to C of that document, can now be found in the open data source (ODS) workbook Tables supporting spending plans, on the Welsh Government's Draft Budget web page: [Tables Supporting Spending Plans](#)
- 5.04** 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.
- 5.05** The tables included in the ODS workbook comprise:
- Sources of Finance for Welsh Government
  - Allocation of the Wales Budget
  - Summary of the Welsh Government MEG Total Allocations
  - Changes to the Welsh Government MEG Resource Allocations
  - Changes to the Welsh Government MEG Capital Allocations
  - Changes to the Welsh Government MEG AME Allocations
  - Direct Borrowing for Capital Purposes
  - Reconciliation Between Administrative Budget and Resource Allocations in the Annual Budget Motion
  - Year on Year Changes
- 5.06** The table setting out the allocation of the Wales Budget shows the components of the Wales expenditure budget, broken down by MEG and indicative budgets for the Senedd Commission, the Auditor General for Wales and the Public Services Ombudsman for Wales. It also shows unallocated reserves funding. From 2023-24 we have moved to a new fiscal strategy where, in place of holding an unallocated DEL reserve, we will use funding held in the Wales Reserve to manage the in-year financial position. The MEG allocations reflect the high-level priorities set out in chapter four and form our control totals for managing the Budget throughout the year.

## Categories of expenditure

**5.07** Within the MEG allocations there are different types of expenditure which are used for different purposes:

- Fiscal resource
- Non-fiscal resource
- General capital
- Financial Transaction capital
- Annually Managed Expenditure

**5.08** The tables showing summaries of the Welsh Government MEG Total Allocations 2023-24 and Indicative Total Allocations 2024-25 set out the MEG allocations by these categories. They can be found using link to the ODS workbook shown in paragraph 5.03.

## Annex A: Strategic Integrated Impact Assessment

### Introduction

1. The Welsh Government carries out a Strategic Integrated Impact Assessment (SIIA) of the Welsh Government Budget as part of the annual Budget cycle. The purpose of the SIIA is to identify key trends, strategic and cumulative impacts at portfolio level, across a range of areas, including giving due consideration across the statutory requirements. This ensures strategic Budget decisions reduce the disproportionate effect on any one specific group or area; helps identify opportunities to maximise positive impacts and reduce inequalities across our society. A robust SIIA ensures every pound invested makes the greatest positive impact.
2. The SIIA process gives due consideration to the following statutory requirements:
  - Equality Act 2010
  - Public Sector Equality Duty
  - Socio Economic Duty
  - UN Convention on the Rights of the Child
  - Well-being of Future Generations (Wales) Act 2015
3. The SIIA process also gives due consideration to the following non-statutory requirements:
  - Equality
  - Health
  - Justice
  - Environmental Assessment
  - Biodiversity
  - Rural Proofing
  - Welsh Language
4. The purpose of this document is to provide a summary of the findings from the SIIA process as outlined above and provide a link to how the Budget will address these areas. Undertaking the SIIA is an iterative process which draws on a range of information and expertise. Diagram 1 below provides a simplified overview of the process that leads to the production of this document.

### Strategic Integrated Impact Assessment: simplified overview

Step 1: Integrated Impact Assessments should be undertaken as part of the policy cycle with these assessments informing budget decisions.

Step 2: Individual Ministerial consideration of impact across portfolios

Step 2.1: Alongside the publication of the main SIIA Ministers are also required to Publish their written evidence to scrutiny committees.

Step 3: The Budget commissions are issued to Main Expenditure Groups (MEGs) which will draw from IIAs and wider evidence linked to individual Minister's decisions

#### Step 4: Assessing Impacts to inform SIIA

- Iterative analysis of a range of macro evidence sources to identify key trends, associated impacts and consider how to best align funding to outcomes to deliver value for money.
- Iterative review impacts identified from across MEGs and identify any cumulative or intersecting as well as unintended impacts and possible opportunities for maximisation of positive impacts and mitigation of negative.
- Step 4 may lead back to Steps 2 and 3 or on to Step 5.

#### Step 5: Cabinet consideration on budget allocations

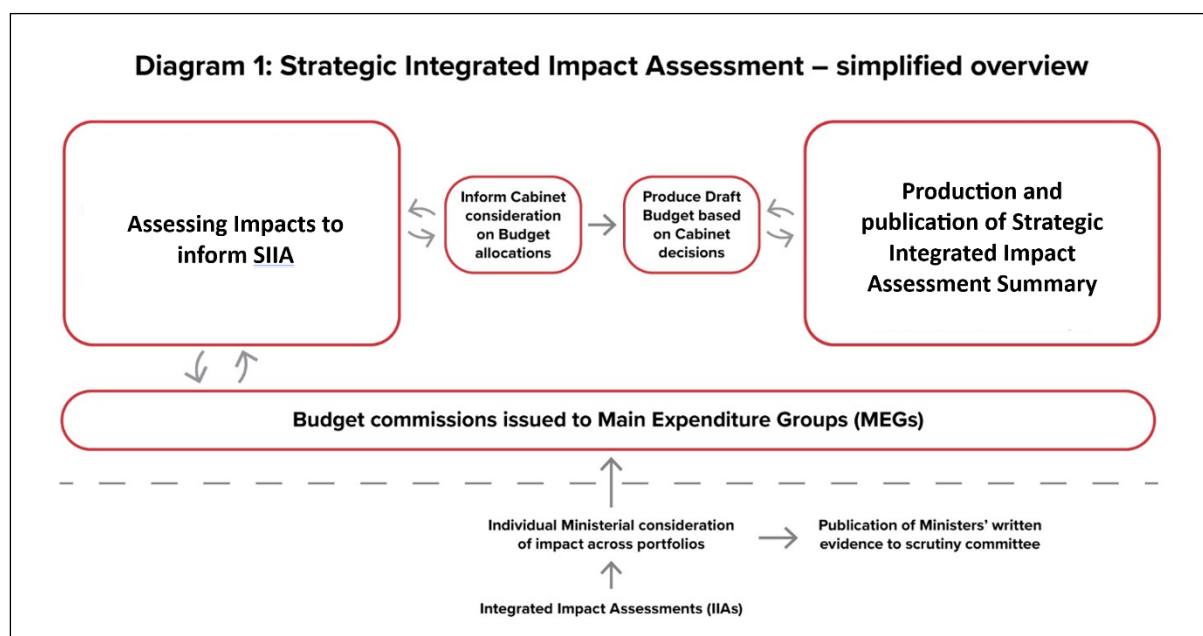
- Step 5 may lead back to Step 4 or on to Step 6.

#### Step 6: Produce draft Budget based on Cabinet decisions.

- Step 6 may lead back to Step 5 or on to Step 7.

#### Step 7: Production and publication of Strategic Integrated Impact Assessment Summary

- Provides summary of strategic impacts across a range of areas of impact and statutory requirements.
- Links the identified areas to strategic budget decisions.
- Document is presented as annex within the published Draft Budget.
- Step 7 may lead back to Step 6.



5. The SIIA process is separate from the Welsh Government Integrated Impact Assessment (IIA) which assesses the impacts at an individual project or policy level. The Welsh Government maintains an integrated approach to impact assessments enables us to better understand the impact of spending decisions,



seeking to better understand the intersectional and unintended impacts of spending to maximise the impact of available funding.

6. A range of macro evidence sources are considered as part of the SIIA process, including the Wellbeing of Wales Report, the five-yearly future trends report and the annual report on the Socio-Economic Duty (this is not an exhaustive list). We also work with the Welsh Government's Equality, Race and Disability evidence units and ensure we are utilising the latest research and evidence. Both formal and non-formal evidence is considered appropriately as part of this process, which includes the engagement undertaken by the Minister for Finance and Local Government with stakeholders from across the public and third sectors and Statutory Commissioners.
7. This document will not:
  - Provide individual integrated impact assessments (IIAs) for specific projects, policies and decisions.
  - Detail every single decision process and (or) piece of evidence reviewed as part of this process.
  - Provide a list of each individual characteristic or area of impact considered.
8. This document should not be read in isolation. It should be read in conjunction with the wider Draft Budget narrative and supporting documents such as the Chief Economist's report. Following the publication of the Draft Budget documentation we publish the summary of all Ministerial evidence to Senedd scrutiny committees. This document provides detail from each Ministerial portfolio on the specific allocations made, including information around the impact of decisions. This document is not available at the time of this publication but will be found on the Draft Budget 2023-2024 section of the Welsh Government website from mid-January 2023.

### Evolving our approach to assessing impact

9. In 2022 we established the [Budget Improvement and Impact Advisory Group](#). The aim of this group is to engage and influence improvements to our Budget and tax processes, supporting the delivery of the Budget Improvement Plan, which can be found on the [Welsh Government, Draft Budget webpage](#). The group has supported the improvement of this document and continues to work with us to evolve the process of the SIIA and the communication of its results through the annual Budget process. A more detailed roadmap of improvements can be found in the Budget Improvement Plan.
10. We continue to engage with other governments who are seen to be leaders in impact assessment through the Well Being Governments Network (WeGo). The learning from this network is essential to supporting us in evolving and improving our approach to impact assessment.
11. We acknowledge that both the process of undertaking a SIIA and the communication of that process to a wider audience will be one of continued improvement and will evolve over the coming years. The structural changes to this document based on feedback from our stakeholders is another step in that journey.

12. We would like to extend our thanks to our stakeholders from the Budget Improvement and Impact Advisory Group and the Finance Committee for supporting us on this journey so far.

### Summary of impacts identified

13. Chapter four sets out the context in which this Draft Budget has been made and the overall decisions made. The following is a summary of some of the key trends and areas of impact identified across the priorities of Welsh Government which have informed some of the strategic Budget decisions which have been made. As indicative plans up to 2024-25 have already been published as part of our 2022-23 Budget process, this assessment builds on the previous assessment.
14. This year's Draft Budget is published against a very difficult financial and economic backdrop, including a recession, high inflation, the cost of living crisis, the war in Ukraine and the ongoing recovery from the pandemic. The Budget process has highlighted the key choices in this Draft Budget, seeking to balance short and long-term outcomes. Short term acute pressures linked to the cost of living, Ukraine and wider inflationary pressures need to be balanced against the longer term sustainability of public services. While the context we are facing is challenging, we continue to make progress delivering our Programme for Government and, wherever possible, mitigating the negative impacts that have resulted from difficult Budget decisions.
15. While the context we are facing is challenging, we are determined to maintain our ambition and wherever possible to mitigate negative impacts that have resulted as a consequence of a settlement which does not meet the inflationary pressures Wales faces and the difficult budgetary decisions arising from that. The extremely challenging financial position we find ourselves in constrains what we can do.
16. To enable us to protect key areas, we have reprioritised funding of £87.4m from within our existing plans to re-focus our limited resources towards the areas of greatest need, to ensure every pound invested makes the greatest positive impact. We recognise that by doing so, there will be negative impacts for those areas where funding has been reprioritised. Further details of these choices will be outlined as part of individual Ministers' responses to their respective Senedd scrutiny committees.
17. Funding has been prioritised to address the following priorities:
  - Protecting frontline public services and our ambitions for the future
  - Continuing to provide help to those most impacted by the cost of living crisis we face
  - Supporting our economy through recessionary times
18. This section has been framed to reflect the four domains of sustainable development contained within the Well-being of Future Generations (Wales) Act 2015 setting out the areas of wellbeing that are considered as part of our approach: Social, Economic, Environmental and Culture. Sitting above this is an assessment that looks across all of these areas to ensure we take an integrated approach.

## Overall summary of impact of Draft Budget 2023-24

19. Based on the assessment that underpinned this Draft Budget, the key choices involve balancing short and longer-term outcomes. In the short-term, acute pressures linked to cost of living, our humanitarian response to the war in Ukraine and wider inflationary pressures needed to be balanced against the longer-term sustainability of public services, including education, and maintaining a clear focus on the well-being objectives contained within the Programme for Government.
20. In doing this, we had to face the reality our funding settlement – the majority of our funding comes via a block grant from the UK Government – was not enough to meet these collective pressures. We have therefore needed to reprioritise funding from within our existing plans to where it can have the greatest impact, carefully balancing the impacts of doing so. In this context it has not been possible to mitigate all the impacts that are facing the people in Wales, public services, our economy, or our environment.
21. Some of the key impacts that underpinned our considerations included doing all we can to protect frontline services in health, schools and in local authorities. This was on the basis that negative impacts to these services would have a disproportionate effect on some of the most vulnerable in our communities, including children and young people, older people, people with impairments and long-term health conditions. Negative impacts in these services would most likely increase pre-existing health and education inequalities and these would have a disproportionately negative impact on people with intersecting characteristics.
22. The deepening cost of living crisis is having a greater effect on those from the lowest incomes who are at greater risk of reducing spending on essentials such as food and heating. Pressures and disproportionate effects are felt by disabled people, single parents and larger families with children, pensioners and those in private rental accommodation. Specific pressures can apply to others dependent on personal or geographic circumstances, like living in a rural area or living in a home with poor energy efficiency. We have therefore prioritised support to address this through schemes such as the Discretionary Assistance Fund, Free School Meals, Pupil Development Grant and homelessness provision.
23. While it is too soon to assess the longer-term effects of the pandemic on young people, early evidence indicates they have been disproportionately affected by the socio-economic consequences. There is evidence that the disruptive effects on education have particularly affected young people from disadvantaged backgrounds.
24. By undertaking this approach, we have sought to maximise the available funding to prioritise the most vulnerable – and the public services on which they rely – to create a stronger, fairer and greener Wales.

## Social

25. The pandemic, rising inflation and cost of living crisis have all had an adverse impact on inequality within Wales. Our health and social care system and public services face extreme pressures at a level not previously experienced. This points to a need to focus on supporting communities to address the immediate pressures being faced while also ensuring public services are sustainable and accessible to all.
26. Health inequality in Wales is the result of many and varied factors. The [Wellbeing of Wales 2022](#) report highlights that inequalities in life expectancy and mortality remain wide. Healthy life expectancy continues to be worse for those living in more deprived areas. These areas tend to be comprised of more Ethnic Minority people, women, younger people and disabled people.
27. Pressures resulting from an increasing aging population with complex health problems as well as legacy pressures from the Covid-19 pandemic are all expected to be exacerbated by the cost of living crisis and the higher number of people living in poverty.
28. In July 2022, the [Bevan Foundation's Snapshot of Poverty](#) highlighted [43% of people in Wales](#) saw their mental health deteriorate because of their financial position and 30% saw a deterioration in their physical health. Women were more likely than men to report a negative impact on mental health - 48% compared to 39%. The [Wellbeing of Wales report](#) also identified a statistically significant decline in the mental wellbeing of children aged 11 to 16.
29. Frontline health and social care services continue to be under pressure. A larger proportion of women than men are employed in this sector, therefore, an increased pressure on these services will place a disproportionate pressure on women.
30. Negative impacts on health and social care services will impact negatively on all service users. These negative impacts are likely to hit the most vulnerable harder, particularly those with complex health problems, the elderly and children.
31. The [Wellbeing of Wales 2022](#) report states that some inequalities have shown little sign of improvement in the last five years and some people who were already disadvantaged are likely to have been more impacted by the Covid-19 pandemic and, more recently, by the rise in inflation. Prior to the pandemic, overall poverty rates had remained relatively stable in Wales for more than 15 years and children remained the age group most likely to be in relative income poverty. The recent rise in inflation will have particularly affected people on low incomes.
32. While few are unaffected by the cost of living crisis, it is not falling equally on all people and households. Disabled people, those living in the most deprived areas, those with lower incomes and those in rented housing are more likely to have reduced their spending on food and essentials because of their increased cost of living. Children remain the age group most likely to be in relative income poverty. The [Bevan Foundation's Snapshot of Poverty 2022](#) found that one in 10 families with one child and one in five families with two children are cutting back on food for children; meanwhile Children in Wales say the latest [figures](#) show that 34% of children in Wales are living in poverty.

33. In 2021-22, just under one in five (19%) people with a limiting long-standing illness or disability lived in a household in material deprivation. This is nearly three times as high as for people who are not disabled (7%). The Runnymede Trust published [Falling Faster](#) which highlighted that despite only comprising around 15% of the population in the UK, more than a quarter (26%) of those in deep poverty are from a Black and Minority Ethnic background. As a result, Black and Minority Ethnic people are currently 2.2 times more likely to be in deep poverty than White people, with Bangladeshi people more than three times more likely.
34. A report issued by [Chwarae Teg](#) in September 2022 identified women are more vulnerable to the impacts of the cost of living crisis. This was further supported by a briefing from the Women's Budget Group's warning of a ['triple whammy for women'](#). It said "Women are more likely to work in public services, rely on public services, and become the providers of last resort when public services are withdrawn."
35. During 2021-22, 9,228 households in Wales were assessed as being threatened with homelessness, an increase of 27% compared to 2020-21 but 8% below the level in 2019-20. A report published by [Cymorth Cymru](#) in September 2022 highlights the impact of the cost of living crisis on frontline homelessness and housing support workers in Wales. It shows 44% of people are struggling to pay bills, 11% are struggling to pay rent and 7% have started using food banks. Anecdotal information from other frontline services supporting community cohesion reflect a similar picture in other areas.
36. These key strategic impacts, alongside wider consideration of impacts, have underpinned a range of the allocations contained in chapter four of the Draft Budget:
- Funding of £10m to meet housing pressures, including homelessness
  - Providing an uplift of £227m within the local government settlement and £165m for health and social care, which includes recurrent provision of around £70m for the Real Living Wage for social care workers
  - Providing more than £2.5m for bodies which provide public services to people in Wales to go some way in supporting their pressures
  - Providing further funding of £2.2m to support our Basic Income Pilot
  - An additional £18.8m for the Discretionary Assistance Fund to sustain emergency support for people when they most need it.

## Economic

37. More detailed information about the economic outlook is set out in the Chief Economist's report on the [Welsh Government, Draft Budget webpage](#). The full economic impact of rising inflation, the conflict in Ukraine and the growing cost of living crisis continue to emerge and are not yet fully known or understood. This is an evolving picture, which will play out over coming years. While many factors lie outside of the Welsh Government's control, they are expected to have a negative impact on Wales' economy and people's living standards.

38. Businesses across Wales are facing increasing financial pressures from rising energy, fuel costs and costs linked to the rises in inflation. A [survey of chartered accountants](#) has shown that alongside financial challenges, businesses are also facing challenges linked to regulatory requirements and staff turnover. The survey also revealed concerns about expanding into new areas is cited more often from businesses in Wales than the rest of the UK.
39. The [Welsh Economy in Numbers](#) dashboard provides an overview of how the Welsh economy is performing in relation to English regions and UK countries against eight key indicators. The latest figures show ([November 2022](#)) the employment rate has dropped by 1.4% points over the last year and is currently 72.3%. The Gross Disposable Household Income (GDHI) per head has increased by 0.9% over the last year, but Wales ranks 10 out of 12 UK countries and English regions. We have also seen a rise in [the economic inactivity rate](#) which is now 24.9% (up 1.6% points on the year); rates of economic inactivity are higher in women. In the year ending June 2022 there was a decrease of 15.4% in youth unemployment compared to the previous year – this is the largest decrease since the year ending December 2020.
40. There are persistent pay gaps within our workforce, including a gender pay gap of 6.1% (April 2022), ethnicity pay gap of 1.4% (April 2019) and a disability pay gap of 11.6% (2021). Working age disabled people and men are more likely to have no qualifications; and people from Black, Asian, and Minority Ethnic backgrounds are 47% more likely to be on a zero-hours contract, compared to their White peers.
41. Education and skills remain one of the most powerful tools to tackle poverty. While it is too soon to assess the longer-term effects of the pandemic on young people, early evidence indicates they have been disproportionately affected by the socio-economic consequences. There is evidence that the disruptive effects on education have particularly affected young people from disadvantaged backgrounds. Depending on the effectiveness of mitigations in place, the adverse effects could play out in the labour market over coming years or even decades.
42. Transport plays an important role in the lives of people in Wales. Transport patterns during the Covid-19 pandemic changed dramatically. Before the pandemic private car use was growing; active travel (walking and cycling) was increasing in only a small number of places, remaining stable at a national level. Private car use rebounded rapidly and by July it was back to 80% of pre-pandemic use, whilst public transport use remained at 30%. Reduced traffic flows reduced pollution, helping to improve air quality.
43. Transport has a significant impact on the viability of local, regional and national places. Transport – or lack of it – has a huge impact on physical and mental health, with geographic challenges linked to provision in rural areas. Transport has a vital role to play in growing the economy by helping people trapped in poverty, supporting people's ability to access employment, education, health care and other local services such as libraries, with bus travel more likely to be used by those impacted by the cost of living crisis.

44. Wales continues to play its part in responding to the humanitarian crisis which followed Russia's invasion of Ukraine. As of 15 November, more than 6,100 people had come to Wales via the Homes for Ukraine scheme and almost 3,000 via the Welsh Government's super-sponsor scheme – three times our original commitment. Almost a third of people from Ukraine arriving in Wales are under 18.
45. These key strategic impacts, alongside wider consideration of impacts have underpinned a range of the allocations contained in chapter four of the Draft Budget:
- An additional package of non-domestic rates support worth £319m in 2023-24 and more than £460m over the next two financial years, including £140m of non-domestic rates relief for retail, leisure and hospitality businesses in Wales.
  - A further £9m for our Pupil Development Grant, £9m for FE and sixth form, £5.5m for the Recruit, Recover and Raise Standards (RRRS) programme and £4.5m for Additional Learning Needs (ALN).
  - A further £40m in 2023-24 and £20m in 2024-25 to support our ongoing response to the crisis in Ukraine.
  - £18m for apprenticeships to ensure we do all we can to embed the skills for the future while providing support for those who need it most today.
  - We are investing £40m in public transport services to maintain support for the sector.

## Environmental

46. We provided the foundations to ensure we strengthened the link between infrastructure and tackling the climate and nature crisis by undertaking a zero-based review last year. However rapidly rising inflation has affected these plans.
47. While we will look at all options – including looking creatively at how we fund major capital priorities going forward – and all the levers at our disposal, in some cases we will have to scale back some of our capital plans because of the impact of inflation and the lack of additional capital funding from the UK Government to recognise these pressures. However, we have not scaled back our ambition and we will remain committed to Greener Wales, which is embedded within our capital budgets.
48. Climate change is not something for the distant future – this summer we experienced heatwave temperatures and a widespread drought. A report by [Public Health Wales](#) shows that annual temperatures in Wales are projected to rise by 1.2°C by 2050; summer rainfall is expected to decrease by around 15%; winter rainfall is projected to rise by 6%; and sea levels are projected to rise by 22cm. The impacts of these changes will affect some of the most vulnerable in our communities with the impacts of flooding falling disproportionately on Ethnic Minority communities for example.
49. Benefits to our mental, social and physical wellbeing resulting from time spent in nature are well documented. While there have been improvements to some species, our 2020 [State of Natural Resources Report for Wales](#) shows that overall biodiversity is declining.

50. Biodiversity has intrinsic value and provides benefits to humans, through ecosystem services, such as flood prevention and food production. Biodiversity loss is thought to cause risks to human safety and wellbeing with the most vulnerable feeling the greatest negative impacts. A recent [briefing](#) from Wales Environment Link stated: “Mounting evidence shows that both nature and the wider environment are being negatively impacted across Wales by a range of pressures, from climate change and urbanisation to unsustainable farming and fishing practices. None of our ecosystems have been found to be resilient and one in six of our species are at risk of extinction.”
51. As part of our 2022-23 Budget, we outlined a significant package of revenue investments worth more than £160m and a £1.8bn package of targeted capital investments in response to the climate and nature emergency up to 2024-25.
- Despite difficult choices we will need to make because of our settlements, we are protecting these plans as far as possible. This includes the action we outlined on our National Forest, with the further investment planned over the next two years leading to rates of woodland creation accelerating to the highest levels in decades. Alongside this we will see the largest ever investment in protection against flood and coastal erosion: more than £214m between 2022-23 and 2024-25. More details will be outlined in Ministers responses to their respective scrutiny committees.
  - Alongside this Draft Budget we are also publishing the latest edition of our Infrastructure Investment Pipeline, this can be found on Welsh Governments, [Draft Budget](#) webpage. The pipeline identifies the projects and programmes needed to deliver the ambitions of the Wales Infrastructure Investment Strategy (WIS) which we published last year. The Strategy established a new strategic framework for investing in infrastructure over the next ten years with an overarching commitment to tackling the climate and nature emergency.

## Culture

52. Wales is a country founded on a rich and diverse heritage, stretching from the roots and heartlands of Welsh language and culture. Areas such as culture, arts and museums, the tourism and sport sectors have been proven to have a positive impact on our mental health. The ability to exercise our mind and body can create more resilience, tackle social isolation and is an opportunity to confront inequalities, improving access and participation.
53. A Sports Wales [report](#) issued in August 2022 found that two in five respondents said the cost of living crisis has had a negative impact on their ability to be active, with almost three in 10 saying they have been doing less sport and physical activity due to changes in the cost of living.
54. The most recent Census [data](#) has shown that 55.2% of Welsh residents identify as ‘Welsh-only’, this is down from 57.5% in 2011. The most recent [Census data](#) reports that 17.8% of the population can speak Welsh, which is 1.2 percentage points lower than Census 2011. The Census states “the decrease in both the number and percentage of people aged three years or older able to speak Welsh is mainly driven by a fall among children and young people who reported as being able to speak Welsh’.



55. The Welsh Language Use Survey showed that children are most likely to use Welsh daily, probably due to regular use in schools. Children aged three to 15 are much more likely to have started learning to speak Welsh at school than those aged 65 or older (69% compared to 15%). This is probably due to the significant change in the Welsh-medium education sector over the last 50 years, with a general increase in the number of pupils learning through the medium of Welsh and in the number of Welsh-medium schools that have been opened across Wales.
56. These key strategic impacts, alongside wider consideration of impacts have underpinned a range of the allocations contained in chapter four of the Draft Budget:
- This year's provisional local government settlement shows an additional increase of £227m which will provide support to schools and other services supported by local authorities.
  - Over an additional £3m will be provided to all five culture and sport arm's length bodies (National Library of Wales, Amgueddfa Cymru-National Museum Wales, Arts Council of Wales, Sport Wales and Royal Commission on the Ancient and Historical Monuments of Wales), Careers Wales and Cadw to help ensure they remain sustainable, recognising we cannot meet their collective pressures in full.
  - We believe that Cymraeg belongs to us all, so we'll continue to work to strengthen our language and culture, protecting it where needed, promoting it and helping make Welsh an everyday reality for all. We'll do this by, among many other actions, providing free Welsh language learning for 16 to 25-year-olds and education professionals and developing a new culture strategy reflecting Wales' diversity, a thriving Welsh language, our arts, culture and heritage.

## Case Study - Real Living Wage

57. Introducing the Real Living Wage for social care workers is a key commitment in our Programme for Government and part of our wider work to build an economy based on the principles of fair work, sustainability and the industries and services of the future. Delivering improved pay by uplifting social care workers' pay to the Real Living Wage will help to address low pay associated with the sector, provide support during the cost of living crisis and aid recruitment and retention in social care.
58. The Real Living Wage makes a difference to lives and livelihoods – it is the difference that ensures work pays and living costs can be met.
59. The Real Living Wage applies to registered workers in care homes and domiciliary care (adults and children's services) and registered domiciliary care workers in supported living settings. The [social care workforce report](#) in 2021 estimated 91,000 people work across social care and social work in Wales; 81% are female.
60. Rising living costs and pay disparity in the social care sector means pay and conditions are significant factors in recruitment and retention within domiciliary care and care homes. The Covid-19 pandemic has placed even more pressure on this already struggling sector and has reinforced the importance of having a workforce strategy that crosses both health and social care.
61. The urgency of the recruitment and retention crisis in the social care sector is also having an impact on other key priorities across health and social care. Social care workers play a key role in supporting the vision set out in our long-term plan A Healthier Wales so everyone in Wales has longer healthier and happier lives, are able to remain active and independent, in their own homes, for as long as possible.
62. Protection of the Real Living Wage in this Draft Budget through a recurrent allocation of around £70m will support the wider agenda of work to improve the flow of people through the health and care system and ensure people can be discharged from hospital when they are medically fit.
63. Delivering improved pay through the Real Living Wage will also help to address low pay in the social care sector and help encourage recruitment and retention in the sector. It is a workforce dominated by women and we will see an increased positive impact on this group. It will contribute to the sustainability and longer-term ambition to raise the profile of the sector as a professional place to work, enhance opportunities for individuals to progress their careers.
64. This delivers not only improvements for the social care workforce, but also improved workforce retention and outcomes for people receiving care and support who are often the most vulnerable in our communities.
65. We recognise the very real financial and economic pressures and rising costs facing public services and businesses pose challenges to the further adoption of the Real Living Wage. We continue to work with employers, trade unions and all our partners to promote its benefits.

## Case Study - Discretionary Assistance Fund

66. The Discretionary Assistance Fund (DAF) has been a vital lifeline for people in Wales for nearly 10 years, helping them with emergency cash payments and in-kind support, at times of greatest need.
67. This was brought into sharp focus during the Covid-19 pandemic, as larger numbers of people sought help from the DAF than ever before. In 2019-20 more than 77,000 people received support from the fund; in the last financial year, 2021-22, that number had risen to almost 231,000.
68. There are two elements to the DAF – the Individual Assistance Payment (IAP), which provides white goods and furniture to enable people to live independently within their community and the Emergency Assistance Payment (EAP), which provides emergency cash support for people who are in financial crisis, to cover the immediate costs of food and fuel. Throughout the pandemic and the cost of living crisis, this element of the fund has proved critical.
69. To date, in 2022-23, 173,650 people have been supported by the fund, with almost £20m in awards made to people in financial distress. More than £12m has been made in emergency cash payments supporting 167,813 people with basic living costs. About 50% of the awards are made to households with children.
70. Parents who have no food at home or energy on their meter contact the DAF in times of distress, knowing support is available. The DAF is also able to help in cases where people fleeing domestic abuse with their children are housed in unfurnished accommodation with no financial support by providing white goods and furniture, household items, baby items and emergency cash support.
71. With the increases in energy, particularly domestic oil and LPG for heating homes, which are off grid, the DAF has provided additional support for households with these costs since December 2020.
72. As the cost of living crisis continues to deepen and living standards fall, we expect the DAF to continue to provide a lifeline of support. A state of Wales briefing by the Bevan Foundation, in November 2022, forecast that the lowest income families will have an increase of £2,200 a year in additional outgoings in their household spending in 2023 compared to 2021. This could be as much as £7,600 per year a couple with two children.
73. The additional £18.8m allocated to the DAF in 2023-24 will ensure this vital lifeline continues to provide support during this cost of living crisis. While there have been calls to increase funding and provision for DAF, our funding settlement does not meet all the budgetary and inflationary pressures we face. We have prioritised maintaining the current level of provision, recognising the importance of the DAF as a lifeline of emergency support to people during this cost of living crisis, while also protecting frontline public services.

## Annex B: Technical information on Innovative Finance schemes

### Innovative Finance schemes

1. In previous Budgets, we have set out the range of innovative finance schemes that have been developed
2. Unhypothecated funding continues to be distributed through the Revenue Support Grant, for two local government borrowing initiatives – for highways and schools. Funding also continues to be allocated for two rounds of investment using the Housing Finance Grant.
3. The Coastal Risk Management Programme (CRMP) will continue to see investment in local authority coastal defence assets to manage current and future risks from climate change and sea level rise to coastal communities across Wales. Construction of the first scheme commenced in 2019-20 and the budget continues to roll over funding for the programme up to 2024-25. There are currently 17 local authority schemes in the programme and, in allocating a multiyear settlement, we will monitor the delivery profile of these schemes.
4. Three schemes are currently being delivered using the Mutual Investment Model (MIM). Construction of the A465 dualling project is underway and expected to complete in 2025. The Welsh Government continues to work with the Welsh Education Partnership Company on the construction of a pipeline of schools and colleges. The first Education MIM project is now underway: an All-Through School being delivered in Mynydd Isa alongside Flintshire County Council. Procurement of the private sector partner to deliver the Velindre Cancer Centre is currently live.
5. Service payments for MIM schemes will not begin until the assets are available for public use.
6. Financial Transactions capital will continue to be used to finance the public sector shareholding in MIM schemes, with further consideration being given to these costs as part of our 2023-24 Final Budget preparations. This shareholding will be evaluated and managed by the Development Bank of Wales (DBW) on behalf of Welsh Ministers.
7. In support of our commitment to transparency, we published the first annual MIM report in July 2022, which describes our activities over the period from June 2021 to June 2022. Alongside this report, we published the Education strategic partnership agreement and A465 project agreement (with commercially sensitive information redacted). These can be found on the Welsh Government website using this link: <https://gov.wales/mutual-investment-model-infrastructure-investment>.
8. Innovative finance and MIM schemes provide a much-needed boost to capital budgets, enabling more than £2bn of infrastructure investment and ensuring vital facilities for the public are delivered sooner than would have otherwise been achievable. The role that our innovative finance schemes will play in supporting the outcomes established in the new Wales Infrastructure Investment Strategy are set out in the first Infrastructure Finance Plan, which can be found on the Welsh Government website using this link: <https://gov.wales/infrastructure-finance-plan-2021>.

## **Annex C: Budget Improvement Plan**

Alongside this Draft Budget, we have published an update to our Budget Improvement Plan. We first published this Plan alongside the 2020-21 Draft Budget, this outlines our vision, including short and medium term ambitions over the next five years, to improve the budget process aligned to the Well-being of Future Generations Act including the five ways of working to drive continuous improvement as well as improving these processes to tackle inequality and address socio-economic disadvantage. This update presents our rolling five-year ambitions, as well as a summary of our progress against planned commitments from last year's Plan during 2022.

The Budget Improvement Plan has been published as a separate document and can be found at:

<https://gov.wales/draft-budget-2023-2024>

## Annex D: Implementation costs of legislation

### Costs of Implementing Enacted Legislation in 2023-24 and 2024-25

[Click on the title of each Act for background information]

Title of Act	Which BEL funds the costs?	Implementation phase	Year	RIA estimate of costs (£)	Amount set aside in Budget (£)
<b>Health and Social Services</b>					
<a href="#">Children (Abolition of Defence of Reasonable Punishment) (Wales) Act 2020</a>	Support for Families & Children (1085)	March 2022 to March 2027	2023-24	693,000	1,260,000
			2024-25	643,000	1,080,000
<a href="#">Public Health (Wales) Act 2017<sup>1</sup></a>	Health Improvement & Healthy Working (0231)	July 2017 to On-going	2023-24	20,000	352,500
			2024-25	26,700	44,700
<a href="#">Regulation and Inspection of Social Care (Wales) Act 2016<sup>2</sup></a>	Sustainable Social Services (0920)	2016 to On-going	2023-24	599,000	0
			2024-25	599,000	0
<a href="#">Public Health (Minimum Price for Alcohol) (Wales) Act 2018</a>	Substance Misuse (1682)	2019-20 to 2023-24	2023-24	72,340	72,340
			2024-25	N/A	N/A
<a href="#">Health and Social Care (Quality and Engagement) (Wales) Act 2020</a>	Healthcare Quality Improvement	2020 to 2023-24	2023-24	713,000	1,339,000
			2024-25	N/A	N/A

<sup>1</sup>Opportunity costs identified in the RIA have been removed from estimated figures, which now show only costs where a flow of funds was expected. Actual costs and the amount set aside for years covered by this budget have been updated following re-profiling during the implementation phase.

<sup>2</sup>Due to the phased approach adopted for implementation, costs to the service regulator have been staggered rather than concentrated in the first year as indicated in the RIA.

Title of Act	Which BEL funds the costs?	Implementation phase	Year	RIA estimate of costs (£)	Amount set aside in Budget (£)
	(0233)				
<b>Education and Welsh Language</b>					
<a href="#">Additional Learning Needs and Education Tribunal (Wales) Act 2018<sup>3</sup></a>	Additional Learning Needs (5115)	September 2021 to August 2024	2023-24	0	14,165,000
			2024-25	0	13,165,000
<a href="#">Curriculum and Assessment (Wales) Act 2021<sup>4</sup></a>	Curriculum Reform (5167) Curriculum and Assessment (5162) Qualifications Wales (5166) Teacher Development & Support (4880)	April 2021 to September 2026	2023-24	20,080,000 to 23,340,000	36,596,000
			2024-25	19,120,000 to 20,700,000	33,136,000
<a href="#">The Tertiary Education and Research (Wales) Act 2022<sup>5</sup></a>	PCET Reform (4775)	September 2022 to August 2026	2023-24 Revenue	8,968,000	6,000,000
			2024-25 Capital	7,162,000	3,900,000

<sup>3</sup>Implementation period will continue for longer than anticipated in RIA

<sup>4</sup>Amounts set aside in Budget for financial year 2023-24 2-23 onwards continues to include estimates for additional Qualifications Wales costs for new qualifications, plus £15m provision for Professional Learning, alongside Curriculum Reform budget baselines – as well as additional provision to support learner wellbeing and progression being allocated in draft Budget 2022-23 (£5.33m (2022-23), £5m (2023-24 - £5m and 2024-25 - £1.66m. (2024-25)

<sup>5</sup> The Commission for Tertiary Education and Research (CTER) will be established no later than April 24, this is the point at which the statutory functions of the Commission will come into force, and the existing functions of HEFCW and the Welsh Ministers will be repealed. A core aspect of implementing TERA is the establishment of the new registration and regulation arrangements, as such the transitional period will run until these new arrangements are fully implemented.

## Health and Social Services

### Children (Abolition of Defence of Reasonable Punishment) (Wales) Act 2020

1. The Act came into force on 21 March 2022. The Act helps to protect children and their rights by prohibiting the use of physical punishment in Wales. It does this by abolishing the defence of reasonable punishment, which was previously available to parents or those acting in loco parentis as a defence to assault or battery against a child. The intended effect of the Act, together with an awareness raising campaign and support for parents, is to bring about a further reduction in the use and tolerance of the physical punishment of children in Wales.

### Public Health (Wales) Act 2017

2. Across its broad range of provisions, the Public Health (Wales) Act will make an important contribution to public health in Wales. This puts in place important protections for the public, including extending the smoke-free requirements to certain open spaces, a mandatory licensing scheme for special procedures, as well as prohibiting the intimate piercing of anybody under the age of 18. The Act addresses other important public health issues including obesity and the planning of toilets for use by the public.

### Regulation and Inspection of Social Care (Wales) Act 2016

3. The Regulation and Inspection of Social Care (Wales) Act is a set of provisions that provides a revised and streamlined legislative framework for the regulation and inspection of care and support in Wales. The Act proposes to introduce changes that will:
  - reform the regulatory regime for care and support services;
  - provide a regulatory framework that requires an approach to the regulation of care and support services focused on outcomes for service users;
  - reform the inspection regime for local authority social services functions;
  - reconstitute and re-name the Care Council for Wales as Social Care Wales and broaden its remit; and
  - reform regulation of the social care workforce.

### Public Health (Minimum Price for Alcohol) (Wales) Act 2018

4. The Act provides for a minimum price for the sale and supply of alcohol in Wales by certain persons and makes it an offence for alcohol to be sold or supplied below that price.



5. The Act includes provision for:
  - the formula for calculating the applicable minimum price for alcohol by multiplying the percentage strength of the alcohol, its volume and the minimum unit price (MUP);
  - powers for Welsh Ministers to make subordinate legislation to specify the MUP;
  - the establishment of a local authority-led enforcement regime with powers to bring prosecutions; and
  - powers of entry for authorised officers of a local authority, an offence of obstructing an authorised officer and the power to issue fixed penalty notices (FPNs).
  
6. The Act proposes the MUP would be specified in regulations. However, for the purpose of assessing impacts and the associated costs and benefits, the Explanatory Memorandum uses a 50p MUP as an example.

### Health and Social Care (Quality and Engagement) (Wales) Act 2020

7. The act is a mechanism for improving and protecting the health, care and well-being of the current and future population of Wales, building on the assets we have in Wales to strengthen and future proof our health and social care services for the future. This will also facilitate a stronger citizen voice, improving the accountability of services to deliver improved experience and quality of care for people in Wales and contributing to a healthy and prosperous country. Taken together the provisions are intended to have a cumulative positive benefit for the population of Wales and to put in place conditions which are conducive to improving health and well-being. The Act proposes to introduce changes that will:
  - place quality considerations at the heart of all that NHS bodies in Wales and the Welsh Ministers (in relation to their health functions) do;
  - place a duty of candour on all NHS bodies at an organisational level, requiring them to be open and honest when things go wrong. In relation to the duty of candour, NHS bodies are defined as local health boards, Trusts, Special Health Authorities (including NHS Blood and Transplant in relation to its Welsh functions) and primary care providers in Wales in respect of the NHS services they provide;
  - strengthen the voice of citizens across health and social services, further connecting people with the organisations that provide them with services; and
  - strengthen the governance arrangements for NHS Trusts.

### Education

#### Additional Learning Needs and Education Tribunal (Wales) Act 2018

8. The Additional Learning Needs and Education Tribunal (Wales) Act 2018 replaces the current Special Educational Needs (SEN) framework with a reformed system based on Additional Learning Needs (ALN).

9. The Act makes provision for universal, statutory Individual Development Plans for all children and young people with ALN. This will bring an end to the current distinction between school-led interventions and local authority issued statements and will integrate the separate legislative arrangements that exist for pupils in schools and post-16 students in colleges. The Act also seeks to improve collaboration between local authorities and health boards, as well as establishing a fairer and more transparent system with greater emphasis on disagreement avoidance and dispute resolution.

#### Curriculum and Assessment (Wales) Act 2021

10. The Curriculum and Assessment (Wales) Act 2021 provides for the establishment of a new and reformed legislative framework to support the implementation of the new curriculum and assessment arrangements as part of a wider programme of education reform in Wales.

#### Tertiary Education and Research (Wales) Act 2022.

11. The Act includes provision for the establishment of the commission for tertiary education and research, as the independent regulatory body responsible for the funding, oversight and regulation of tertiary education and research in Wales, tertiary education will encompass post-16 education including further and higher education, apprenticeships and sixth forms.

## **Annex E: Glossary of financial terms**

### **Action**

Within each Spending Programme Area (SPA), budgets are allocated to a number of sub-programmes known as Actions.

### **Ambits**

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.

### **Annually Managed Expenditure (AME)**

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.

### **Budget Expenditure Line (BEL)**

Within each Action, budgets are allocated to a number of sub-expenditure groups known as BELs. Tables showing budgets at BEL level are available in [Welsh Government budgets](#).

### **Barnett formula**

The formula used by the UK government to calculate changes to the block grant allocated to the Welsh Government (and other devolved administrations). 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.

### **Budget Motion**

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.

### **Capital**

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.

### **Departmental Expenditure Limit (DEL)**

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.

### **Depreciation**

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.

### **Direct Charges on the Welsh Consolidated Fund**

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.

### **Financial Transactions Capital**

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.

### **Fiscal Resource DEL (previously known as near-cash)**

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.

### **Main Expenditure Group (MEG)**

The Welsh Government DEL is divided into a number of Main Expenditure Groups. 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.

### **Non-Fiscal Resource DEL (previously known as non-cash)**

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.

### **Receipts**

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.

### **Resource budgeting**

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. So, for example, resource budgeting includes a charge for depreciation, a measure of the consumption or wearing out of capital assets.

Resource (previously known as revenue)

Current expenditure, for example funding for the pay of public sector workers and to purchase consumable goods and services.

### **Spending Review**

Every two or three years, HM Treasury reviews expenditure for each UK government Department and sets budgets for the forthcoming years. Budgets for the Devolved Governments are derived from these budgets via the Barnett formula, which is the mechanism used by HM Treasury to calculate public expenditure allocated to Wales to reflect changes in spending levels allocated to public services in England.

### **Spending Round**

The Spending Round is a UK Treasury-led process to allocate resources across all government departments, according to the Government's priorities. It does not include a revision to tax forecasts.

### **Total Managed Expenditure (TME)**

This is an HM Treasury control total which is made up of the total Departmental Expenditure Limit plus Annually Managed Expenditure.

### **Wales Reserve**

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.

### **Welsh Consolidated Fund**

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.

### **WGSB**

Welsh Government Sponsored Body. Examples include the Higher Education Funding Council for Wales and the Arts Council of Wales.