---------------------- Public Document Pack ----------------------

Agenda - Finance Committee

Meeting Venue: **Hybrid - Committee room 3, Senedd and video conference via Zoom**

Meeting date: 12 January 2023

Meeting time: 09.30

For further information contact:

Owain Roberts

Committee Clerk

0300 200 6388

SeneddFinance@senedd.wales

Registration (09.00-09.15)

Private pre-meeting - Informal (09.15-09.30)

1 Introductions, apologies, substitutions and declarations of interest

(09.30)

2 Paper(s) to note

(09.30) (Pages 1 - 5)

Minutes of the meeting held on 14 December 2022

2.1 PTN 1 - Social Partnership and Public Procurement (Wales) Bill: Welsh Government response

(Pages 6 - 8)

3 Scrutiny of the Welsh Government Draft Budget 2023-24: Evidence session 2

(09.30-10.30) (Pages 9 - 74)

David Phillips, Associate Director, Institute for Fiscal Studies

Dr Ed Poole, Senior Lecturer, Wales Governance Centre (Wales Fiscal Analysis)

Guto Ifan, Lecturer, Wales Governance Centre (Wales Fiscal Analysis)

Supporting documents:

FIN(6)-01-23 P1 - Summary of consultation responses

Wales Fiscal Analysis - Wales Budget Outlook 2022 (PDF, 4.2MB)

Senedd Cymru
Welsh Parliament

Institute for Fiscal Studies – 'Implications of the Autumn Statement 2022 and EFO for Wales and the Welsh Government' (Presentation slides)

Research Service Brief

Break (10.30-10.40)

4 Scrutiny of the Welsh Government Draft Budget 2023-24: Evidence session 3

(10.40-11.25) (Pages 75 - 96)

Sophie Howe, Future Generations Commissioner for Wales

Rhiannon Hardiman, Change Maker (Nature, Climate Change and Decarbonisation), Future Generations Commissioner for Wales

Alex Chapman, Senior Researcher, New Economics Foundation

Supporting documents:

FIN(6)-01-23 P2 – Future Generations Commissioner for Wales

Research Service Brief

Break (11.25-11.35)

5 Scrutiny of the Welsh Government Draft Budget 2023-24: Evidence session 4

(11.35-12.35) (Pages 97 - 133)

Victoria Winckler, Director, Bevan Foundation

Luke Young, Assistant Director, Citizens Advice Cymru

Natasha Davies, Policy and Research Lead, Chwarae Teg

Supporting documents:

FIN(6)-01-23 P3 – Bevan Foundation

FIN(6)-01-23 P4 – Chwarae Teg

Research Service Brief

6 Motion under Standing Order 17.42 (ix) to resolve to exclude the public from items 7,9,10,11 and 12

(12.35)

7 Scrutiny of the Welsh Government Draft Budget 2023-24: Consideration of evidence

(12.35-12.50)

Lunch (12.50-13.15)

8 Scrutiny of the Welsh Government Draft Budget 2023-24: Evidence session 5

(13.15-14.00) (Pages 134 - 209)

Richard Hughes, Chairman, Office for Budget Responsibility

Andy King, Budget Responsibility Committee member, Office for Budget Responsibility

Professor David Miles, Budget Responsibility Committee member, Office for Budget Responsibility

Supporting documents:

FIN(6)-01-23 P5 - Welsh taxes outlook (December 2022)

Research Service Brief

9 Scrutiny of the Welsh Government Draft Budget 2023-24: Consideration of evidence

(14.00-14.15)

10 Audit Wales Fee Scheme 2023-24

(14.15-14.20) (Pages 210 - 233)

Supporting documents:

FIN(6)-01-23 P6 - Fee Scheme 2023-24

11 Supplementary Legislative Consent Memorandum (No. 3) (SLCM) – UK Infrastructure Bank Bill

(14.20-14.30) (Pages 234 - 246)

Supporting documents:

FIN(6)-01-23 P7 - SLCM (No.3): UK Infrastructure Bank Bill

FIN(6)-01-23 P8 – SLCM timetable: UK Infrastructure Bank Bill

Legal Services advice note

12 Financial implications of the Food (Wales) Bill

(14.30-14.40)

Supporting documents:

Food (Wales) Bill, as introduced (PDF, 182KB)

Explanatory Memorandum (PDF, 1.4MB)

Research Service Brief

Concise Minutes - Finance Committee

Meeting Venue:**Hybrid - Committee room 4 Ty Hywel and video conference via Zoom**

Meeting date: Wednesday, 14 December 2022

Meeting time: 09.30 - 11.20

This meeting can be viewed on Senedd TV at: http://senedd.tv/en/13065

Hybrid

Attendance

Category	Names
Members of the Senedd:	Peredur Owen Griffiths MS (Chair) Peter Fox MS Mike Hedges MS Joyce Watson MS (In place of Rhianon Passmore MS)
Witnesses:	Rebecca Evans MS, Minister for Finance and Local Government Andrew Jeffreys, Welsh Government Emma Watkins, Welsh Government
Committee Staff:	Owain Roberts (Clerk) Mike Lewis (Deputy Clerk) Martin Jennings (Researcher)

Private pre-meeting - Informal (09.15-09.30)

1 Introductions, apologies, substitutions and declarations of interest

2 Paper(s) to note

2.1 The papers were noted.

2.2 The Committee agreed to write to the Public Accounts and Public Administration Committee in relation to public appointments.

2.3 The Committee agreed to write to the First Minister on the financial implications of Bills.

2.1 PTN 1 – Scrutiny of the Senedd Commission Draft Budget 2023-2024: Senedd Commission response – 8 November 2022

2.2 PTN 2 – Letter from the Senedd Commission: Update to the Committee following the UK Autumn Statement – 21 November 2022

2.3 PTN 3 – Letter from the First Minister to the Chair of the Legislation, Justice and Constitution Committee: Inter-Institutional Relations Agreement – The Prime Minister & Heads of Devolved Governments Council – 10 November 2022

2.4 PTN 4 – Legislative Consent Memorandum (LCM) on the UK Infrastructure Bank Bill: Welsh Government response – 17 November 2022

2.5 PTN 5 – Post-EU funding arrangements: Welsh Government response – 21 November 2022

2.6 PTN 6 – Post-EU funding arrangements: UK Government responses – 21 November 2022

2.7 PTN 7 – Letter from the Chair of the Children, Young People and Education Committee: Welsh Government Draft Budget 2023-24 – 23 November 2022

2.8 PTN 8 – Letter from the Minister for Finance and Local Government: Finance: Interministerial Standing Committee (F:ISC) – 24 November 2022

2.9 PTN 9 – Letter from the Minister for Education and Welsh Language: Tertiary Education and Research (Wales) Act 2022 – Revised Explanatory Memorandum – 5 December 2022

2.10 PTN 10 – Letter from the First Minister: Scrutiny of the financial implications of Bills – 7 December 2022

2.11 PTN 11 – Letter from the Chair of the Public Accounts and Public Administration Committee: Inquiry into Public Appointments – 7 December 2022

2.12 PTN 12 – Letter from the Minister for Rural Affairs and North Wales, and Trefnydd: Further information following the session on the Agriculture (Wales) Bill on 9 November 2022 - 8 December 2022

3 Scrutiny of the Welsh Government Draft Budget 2023-24: Evidence session 1

3.1 The Committee took evidence from Rebecca Evans MS, Minister for Finance and Local Government; Andrew Jeffreys, Director, Treasury; and Emma Watkins, Deputy Director, Budget & Government Business on Scrutiny of the Welsh Government Draft Budget 2023-24.

3.2 The Minister agreed the following:

- To ask the Minister for Climate Change to provide a note on the active role of Local Authorities and Registered Social Landlords in funding social housing.
- A note on non-domestic rates support, particularly in relation to the eligibility of larger national organisations who have a presence on the high street to receive rates support.
- A note on the progress made to secure the required powers to implement a vacant land tax and details of any discussions with the UK Government on this matter.
- A note on the number of PFI schemes in Wales that are due for expiry in the next 5 years.
- To ask the Minister for Health and Social Services to provide a note on any expectation of improved funding for Primary Care.

4 Motion under Standing Order 17.42 (ix) to resolve to exclude the public from the remainder of this meeting

4.1 The motion was agreed.

5 Scrutiny of the Welsh Government Draft Budget 2023-24: Consideration of evidence

5.1 The Committee considered the evidence received.

Agenda Item 2.1

Hannah Blythyn AS/MS
Y Dirprwy Weinidog Partneriaeth Gymdeithasol
Deputy Minister for Social Partnership

Llywodraeth Cymru
Welsh Government

Peredur Owen Griffiths MS
Chair of the Finance Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

15 December 2022

Dear Peredur,

Social Partnership and Public Procurement (Wales) Bill

During the General Principles debate on the Social Partnership and Public Procurement (Wales) Bill on 29 November 2022 I stated that I would write to you to confirm in more detail the Welsh Government's responses to your Committee's recommendations.

Recommendation 1 asks that we update the Regulatory Impact Assessment to model costs based on current/forecast inflation data. I confirm that we accept this recommendation and will update the analysis to reflect inflation and relevant pay agreements since the RIA was originally prepared.

Recommendation 2 is accepted - but accepted only in principle - as it relates to matters wider than this Bill for which I am responsible as lead Minister. Given the broad scope of the recommendation, it has been shared with Cabinet colleagues, and the Welsh Treasury has been asked to consider how supplementary financial information which incorporates general price inflation might best be presented in future Explanatory Memoranda. The Committee will receive a full response on this matter in due course.

Recommendation 3 is rejected. As I mentioned during the debate, there is a limit to what is achievable in terms of estimating the potential costs and benefits of legislative changes of this kind. We are not able to identify the extent to which contracting authorities are already carrying out socially responsible procurement, and so the costings in the RIA are based on our assessment of the work that would be needed to review existing documents and processes and make the necessary changes. Having said that, I also committed during the debate to undertaking as thorough an update of the RIA as time allows between now and the re-laying deadline before stage 3, and as part of that work we will explore whether there is any way of providing a greater level of detail in relation to Part 3 of the Bill.

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400
Gohebiaeth.Hannah.Blythyn@llyw.cymru
Correspondence.Hannah.Blythyn@gov.wales

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Recommendation 4 requests that the Welsh Government "work with the Scottish Government to see if there are any lessons learnt around cost impact and report back to the Committee with those findings". I accepted this recommendation on the basis that we have already engaged with Scottish Government to discuss the costs and timescales associated with their procurement legislation, and I can assure the Committee that this information was used to develop the costings presented in the RIA.

Recommendation 5, which is accepted, asks that we undertake "further work analysing and estimating the cost benefits of the whole Bill once the relevant data is available and this information should form part of the post-implementation review". I can confirm that costs and benefits will be considered, as far as is possible, as part of our post-implementation review work.

In relation to recommendation 6, which we also accept, it is important that I be clear with the Committee that whilst we agree that any additional requirements placed on businesses must be proportionate (the procurement duties have been intentionally designed in a way that provides for them to be applied proportionately), the due diligence requirements in relation to socially responsible outcomes will have to be paid for, and will therefore need to be factored in to bid costs. This will inevitably mean that some cost increases will have to be passed on to customers.

Recommendation 7 is accepted in principle. This legislation will not be the sole causative influence on take-up of the real living wage over time, and as such it will be impossible to disaggregate its effect from the many other factors at play. Welsh Government will however undertake a separate exercise to assess take-up of the real living wage alongside our post-implementation review work.

Recommendation 8 asks that we provide support specifically for small and medium-sized businesses to enable them to participate in contracts. I accept this recommendation and can assure the Committee that this is something that Welsh Government is already committed to.

In the debate I said that the Welsh Government would not be able to accept recommendation 9 because an analysis of the impact of the construction contract management duty on small and medium-sized businesses is simply not possible in the time available. We have not yet developed the detail of what will be required by the construction contract management duties, and so we are unable to analyse the potential impact any more than we have already done - the details of which are included in the RIA.

In relation to recommendation 10, we will be publishing a summary of the consultation on extending the well-being duty to new devolved public bodies shortly. An RIA will also be produced in relation to any regulations which may be required as a result. In relation to the Future Generations Commissioner's funding, I understand that the Minister for Social Justice is currently considering the statutory estimate from the Commissioner's office as part of ongoing budget discussions. If it is decided that the Commissioner requires additional funding to support the proposed additional bodies subject to the well-being duty, we will ensure that this information is conveyed to the Committee.

Finally, I confirm that the Welsh Government accepts recommendation 11 and will include a mid-term assessment outlining financial costs as part of our post-implementation evaluation work.

I trust that the information provided in this letter is useful to the Committee.

I have attached for information copies of the letters I have sent to the chairs of the Equality and Social Justice Committee and the Legislation, Justice and Constitution Committee, and I am sending a copy of this letter to the chairs of both of those Committees also.

Yours sincerely,

Hannah Blythyn AS/MS
Y Dirprwy Weinidog Partneriaeth Gymdeithasol
Deputy Minister for Social Partnership

Document is Restricted

Document is Restricted

Comisiynydd Cenedlaethau'r Dyfodol Cymru
Future Generations Commissioner for Wales

By email

04/01/2023

Dear Peredur,

Thank you for the opportunity to provide input to the Finance Committee's scrutiny of Welsh Government's 2023/24 draft budget, ahead of my evidence session next week.

I recognise that, given the Wales settlement this year, it is a tight budget with little room to manoeuvre. We find ourselves in tough times, with a challenging budget from UK Government that has left a shortfall in the funding available to Welsh Government. This means that Welsh Government has to make some difficult decisions. The effects of significant inflationary rises are compounding the impacts already felt by existing pressures such as energy costs, the war in Ukraine, covid recovery and Brexit. For example, no increase in capital budgets means they are less in real terms by 8% and Welsh Government says it cannot meet its spending plan ambitions.

Therefore, I strongly encourage Welsh Government and Members of the Senedd to use the Well-being of Future Generations Act as its framework for scrutiny and for agreeing the final budget.

Part 1: My Overall Reflections

While there is a growth in the budget (1.8% increase on expected expenditure in 2023-24, and 3.7% in 2024-25), these rates of change will not keep pace with inflation, meaning effective budget cuts across the board. How these effective cuts are distributed varies with, for example, local government revenue funding being increased by 13%, while resource efficiency and circular economy are being cut by 4.3%.

Overall, with the exception of some minor budget re-allocations and re-classifications, there have been minimal changes in this budget compared with what was expected under the three-year spending review published last year. Most of the commitments seem to remain the same, although some of them are weakened due to not keeping pace with rapid inflation.

Encouragingly, there has been a slight increase of 4.4% in the area of decarbonisation, with a prioritisation of funding for rail through Transport for Wales. However, some of this seems to be simply re-allocation from other budget lines, most notably from funding for nature and natural resources.

While this prioritisation for the climate emergency is welcome, our future generations are also facing a biodiversity crisis, therefore addressing one should not come at the expense of the other.

Welsh Government does have the option available to it to increase the top rates of income tax in Wales to help mitigate some of the impact of the funding settlement and I would like to understand why this solution was not pursued.

Comisiynydd Cenedlaethau'r Dyfodol Cymru
Siambrau'r Farchnad, 5-7 Heol Eglwys Fair
Caerdydd, CF10 1AT
cystylltwchani@cenedlaethaurdyfodol.cymru
cenedlaethaurdyfodol.cymru

Future Generations Commissioner for Wales
Market Chambers, 5-7 St Mary Street
Cardiff, CF10 1AT
contactus@futuregenerations.wales
futuregenerations.wales

There is an increase in the allocations for Transport for Wales, regeneration, education, and the NHS capital budget, but there is no analysis on how these increases can help deliver against the national well-being goals and help meet Welsh Government's well-being objectives and steps. I would like to see a clear analysis to better understand the expected impact on well-being this budget could have.

Part 2: My Budget Priority

My priority for this year's budget has been firmly on tackling the cost-of-living crisis without losing sight of the climate and nature emergencies. It is a stark reminder of why we have a Well-being of Future Generations Act in Wales and of why significant decision-making by Welsh Government must be in accordance with the sustainable development principle. We must meet the needs of people today while also enabling future generations to meet their own needs.

I recently published a paper highlighting funding areas to address the cost-of-living crisis which included a focus on three policy ideas; transport, home retrofit and renewable energy. I provided the Welsh Government treasury with the estimated costs of introducing these to inform the draft 2023/24 budget:

1. Providing public transport for free to under 25's in Wales,
2. Kick-starting a home retrofit programme for private housing that puts the country on track to meeting its energy efficiency and net zero targets,
3. A loan programme to support the uptake of home renewables and low carbon technologies by Welsh households.

My full paper can be found here.

As the country faces a steep cost-of-living crisis, intervention is critical in supporting families to meet their basic consumption needs without necessarily costing the earth. Several European countries have responded to the cost-of-living crisis by reducing the cost of public transport or making it free like Germany and Spain respectively. The energy crunch has also forced the European Union to set bold targets to cut overall energy demand by 15% across the continent.

It is also worth noting that the UK's cost-of-living crisis is coming on the heels of a decade of austerity and stagnating wages. Real wages are not set to rise beyond 2008 levels until 2026 at the earliest – while cost of housing, transport and food continues to rise at considerable pace.

Some of our biggest household expenses include our energy bills and transport, where costs can escalate. I support the established campaigns to **provide free public transport for young people**, which would ensure support to those who have already been severely impacted by the pandemic, to get their lives back on track. It can also support social mobility by enabling young people to pursue further education, apprenticeships and find decent work which will set them on a positive life path. It will support healthy life habits by getting young people into the routine of using and enjoying public transport for life.

Comisiynydd Cenedlaethau'r Dyfodol Cymru
Siambrau'r Farchnad, 5-7 Heol Eglwys Fair
Caerdydd, CF10 1AT
cystylltwchani@cenedlaethaurdyfodol.cymru
cenedlaethaurdyfodol.cymru

Future Generations Commissioner for Wales
Market Chambers, 5-7 St Mary Street
Cardiff, CF10 1AT
contactus@futuregenerations.wales
futuregenerations.wales

My proposals for a comprehensive **home retrofit programme for private and rented housing** and for **domestic renewable energy loans** would enable a significant number of households to shift away from their dependency on oil and gas and a volatile global market. Not only would this support a significant step change in decarbonising our housing stock, over 80% of which is privately owned in Wales, but it would alleviate pressure on household bills for a generation. This means it would be a genuine investment with substantial returns. My analysis of the draft budget to date does not show any evidence of support for these policy ideas. My team are undertaking top-level analysis to consider how far these proposals could be funded by an increase in the top two rates of income tax.

The estimated costs are shown in the table below along with the potential savings for householders:

Policy	Description	Year 1 cost	Savings
Free public transport for under 25s in Wales	Free travel, limited to buses and rails within Wales.	£109mn - £137mn*	~£85 per passenger per year
Kick-starting large scale home retrofit programme	Costs across all housing tenures with particular targeting of fuel poor homes	£90.5mn*	£360-£613
Loan for renewables	A £15,000 zero interest loan programme for households to fund technologies like solar PV, thermal, heat pumps, batteries etc.	£30mn*	£1,030

*These costs have not been reflected in the Draft Budget.

Addressing multiple crises

Overall, I welcome the focus given to maintaining public services and supporting the well-being of those most in need amid the cost-of-living crisis, both individuals and businesses. The protection of public services does in itself go some way towards meeting the Well-being Goals. This includes the additional £227m in 2023-24 and £268m in 2024-25 to the local government settlement to ensure public services are available to those who are relying on them and ensuring that Local Authorities can continue to deliver on steps towards achieving their well-being objectives.

However, Welsh Government should consider how its budget could take into account my proposals highlighted above, and more clearly set out how its spending decisions meet multiple crises.

The capital investment budget remains unchanged from the three-year spending review last year along with the zero-based review. The biggest difference is the effect of a real terms decrease given the rise in inflation. It is imperative that budgets being stretched does not impact on plans to future proof our infrastructure pipeline for climate change mitigation and adaptation in line with the narrative of the Wales Infrastructure Investment Strategy (WIIS). My further reflections relating to the climate and nature emergencies are captured below.

Comisiynydd Cenedlaethau'r Dyfodol Cymru
Siambrau'r Farchnad, 5-7 Heol Eglwys Fair
Caerdydd, CF10 1AT
cystylltwchani@cenedlaethaurdyfodol.cymru
cenedlaethaurdyfodol.cymru

Future Generations Commissioner for Wales
Market Chambers, 5-7 St Mary Street
Cardiff, CF10 1AT
contactus@futuregenerations.wales
futuregenerations.wales

Part 3: My Wider Priorities

In recent years, my focus within the budget has been on the following areas, which I believe could have the biggest impact on current and future generations in Wales:

- investment in skills and training for the future,
- decarbonisation of homes,
- responding to the nature and climate emergencies, and
- scrutinizing the government's carbon impact assessment of its budget.

I am yet to see a big shift across any of these areas, therefore my priorities this year remain largely unchanged.

a) Investment in Skills and Training

I was pleased to see commitment to some of the things I have previously called for including the Pupil Development Grant, a continuing commitment to Real Living Wage for social care workers and increased access to continuous professional learning for teaching and support teaching practitioners. This includes access to properly developed content and best practice approaches across and outside Wales, to maximise the potential of the new curriculum.

I welcome an extra £10m for schools via the Education budget in 2023-24 including an additional £5.5m to support the continuation of the Recruit, Recover and Raise Standards (RRRS) programme and allocating an additional £9m to support post-16 provision, and an additional £18m for apprenticeships. It is positive to see reference to contributing to skills in foundational economy, net zero sectors, health and social care.

I am frustrated at the slow progress of the net zero skills action plan, which is absolutely essential to address a shortfall in skilled workforce, for decarbonisation for example, but note that this now has a new publication date of February 2023.

b) Decarbonisation of homes

Capital funding for Welsh Government's fuel poverty programme (Warm Homes) remains unchanged on previous projections with £35 million allocated in 2023/24 and again in 2024/25. This is still far short of my recommendations last year which called for at least a doubling of this figure to meet energy efficiency standards across all fuel poor homes.

Other existing programmes which aim to encourage the decarbonisation of our social housing stock, including the Optimised Retrofit Programme, appear to be unaffected.

Where I would like to see new support provided is for the decarbonisation of existing owner-occupied and privately rented housing as I mentioned previously. My proposal is for a recyclable loan administered via the Development bank of Wales along the lines of existing developer schemes in the Wales infrastructure project pipeline.

Comisiynydd Cenedlaethau'r Dyfodol Cymru
Siambrau'r Farchnad, 5-7 Heol Eglwys Fair
Caerdydd, CF10 1AT
cystylltwchani@cenedlaethaurdyfodol.cymru
cenedlaethaurdyfodol.cymru

Future Generations Commissioner for Wales
Market Chambers, 5-7 St Mary Street
Cardiff, CF10 1AT
contactus@futuregenerations.wales
futuregenerations.wales

c) Responding to the Nature Emergency

We still need to see a robust and transparent approach to tackling the nature and climate crises. Taking into consideration changes made to the budget between the draft and final 2022/23 budget, I'm picking up a trend of reducing funding for biodiversity which seems to be reflected by an uplift in sustainable transport funding - rail, in particular.

We need clarity over how these decisions are made and what impact this might have, particularly in light of the recent COP15 agreement on the biodiversity framework and the need to protect 30% of our land and seas by 2030.

As this is part of a three year spending review, I didn't expect significant changes but I am disappointed to see less funding allocated to biodiversity than was expected.

As I said last year, spending on nature recovery has been somewhat stagnant in recent Welsh Government budgets, with focus on the migration of EU agricultural spending into domestic budgets and progress in other areas stalling.

What I'd like to see is a Welsh Government budget that clearly demonstrates how it is responding to the nature crisis in light of both the COP15 agreement and its own biodiversity deep dive published two months ago.

One particular area that I would like to see progressed is the proposal for a National Nature Service (NNS) in Wales. I called for this in my 'Fit for the Future Programme for Government' report last year. The NNS is a Wales-wide system intended to mobilise people in support of nature recovery, accelerating action at the pace and scale needed. I am pleased that Welsh Government has funded the development of a business plan and will expect to see allocations made to fund the implementation of this plan.

d) Scrutinizing the Government's carbon impact assessment of its budget

I have been calling on Welsh Government to provide a carbon impact assessment of the budget each year. I note from your first evidence session with the Minister on 14th December that the Minister said:

"It is difficult to make a carbon impact assessment of the whole budget, partly because around half of it is exposed to pay. In that sense, what people spend their pay on has an impact on carbon, so that's difficult"

We have been undertaking our own analysis of the climate impact of the budget over the past few years based on the information available to us. Our approach is to organise budget lines by three tiers, as follows:

- Tier 1: This is primary decarbonisation spend where it is clear that it is focused on addressing the climate emergency and emissions reduction.
- Tier 2: An unknown but likely small proportion of these budget lines should, or could, go on primary decarbonisation. It is not always clear how this funding is being directed towards the climate emergency.

- Tier 3: With the right legislation in place a proportion of this spend should, or could, go on enabling decarbonisation
- Tier 1+2+3: Sum of spending lines relevant to decarbonisation
- Non decarb spend: Spending lines not clearly relevant to decarbonisation (primarily salaries and benefits)

Our early analysis shows that against an overall 1.8% increase on expected expenditure in 2023-24, there has been an increase of around 4% in the level of spending in the budget lines we have been monitoring as 'tier 1' primary decarbonisation spend. However, I would caveat this as some of this appears to be re-allocation from other budget lines.

Overall, it seems that in a very tight budget context, Welsh Government has resisted the temptation to cut back significantly across the board on previous commitments on decarbonisation.

Part 4: The Well-being Goals and objectives

The Well-being of Future Generations Act and Welsh Government's Statutory Guidance require public bodies to publish, alongside their well-being objectives, the steps they propose to take to meet those objectives in accordance with the sustainable development principle. This needs to include information, among other things, on how the public body proposes to ensure that **resources are allocated annually** for the purpose of taking such steps.

As financial considerations and annual allocation of resources were not included alongside the publication of Welsh Government's objectives and steps (in their Programme for Government), I would expect to see clarity about this in the annual budget. The well-being statement published alongside the Programme for Government states that:

"*We will use our budget process to ensure that resources are allocated to deliver the well-being objectives and the corresponding steps in each year of this term, and we will continue to publish the Budget Improvement Plan to show how we are refining and optimising this process. Our well-being objectives and broader obligations under the Act will be considered in the 2022-23 draft budget, which will be published alongside an updated Budget Improvement Plan.*"

However, this is not clear in the budget documents. While there are links between funding streams, the well-being goals and Welsh Government's well-being objectives, these links are not made clear or explicit anywhere in the budget documents. Neither the narrative, nor the Budget Improvement Plan include an analysis of how the budget may impact the seven well-being goals, Welsh Government's well-being objectives, or the objective of other public bodies.

The Strategic Integrated Impact Assessment is yet to get to grips with assessing the impact of budget decisions on climate and nature. I can see positive changes have been made to it, compared to previous years, but I cannot see an actual assessment or analysis of the negative or net balance of impact. The documents specify that the Strategic Integrated Impact Assessment process is separate from the department-led Integrated Impact Assessments, which assess the impacts at an individual project or policy level.

However, it is not clear to me where the cumulative impacts of multiple projects on the well-being goals and Welsh Government's objectives can be found. The budget and its Strategic Integrated Impact Assessment provide a good opportunity to assess and set this out and I would like to see a clearer assessment of the overall impacts on the Act's elements in the future.

The Budget Improvement Plan provides another opportunity to map out how budget improvement aligns with the well-being objectives and steps of both Welsh Government and other public bodies. However, no analysis of this is currently included as part of the Budget Improvement Plan.

Encouragingly, the Budget Improvement Plan recognises the need to focus more on the prevention and long-term ways of working. The Plan acknowledges the need to appraise financial decisions to prevent infrastructure that increases emissions without mitigation. It also highlights the need to align financial and carbon budgets – something I have called for in the past. I welcome the team's ambition to work with stakeholders on shared longer-term plans for the budget, which would include indicative forecasts. I hope to see this work being progressed in the next year.

However, much of the prevention work is yet to be done in upcoming years and, at present, there is little evidence that the preventative way of working is well embedded in the budget process. The information that is in the Budget Improvement Plan focuses on limited areas and I would like to see a full analysis of how spend in the budget is preventative, as I and this committee have already highlighted in previous years. While I understand that the focus this year has been on the Strategic Integrated Impact Assessment and the focus on prevention is planned to deepen in the next year, this work has been in train for several years now with little progress, even when it comes to the budget process utilising the definition of prevention, which Welsh Government and I worked together on.

It seems like a missed opportunity to not use a resource that already exists. This reflects the findings of my Section 20 review into Welsh Government's implementation of the Well-being of Future Generations Act. The review highlighted that civil servants find it difficult to balance long-term considerations when operating in a state of crisis. The review also found that while awareness of the Act is high among Welsh Government officials, there are gaps when it comes to understanding and application of the Act and the ways of working in practice. Prevention and long-term, in particular, seem to be more challenging for civil servants to grasp and apply.

Given there is little change in budget allocations, my comments remain largely unchanged from last year. However, overall I'm disappointed with the lack of progress on the process of budget setting. I believe we are still not seeing a Budget which is framed around the well-being goals or fully embedding the five ways of working, although I note some improvements through reference to the four dimensions of well-being.

There is certainly more that could be done to use the language of the Act to avoid distracting attention away from our Team Wales approach to embedding the Act. The repeated use of 'Fairer, Greener, Stronger' detracts from the language of the well-being goals. For example, while the Act is mentioned several times in the budget narrative (with one mention of 'well-being objectives' as well), there is not a single mention of specific well-being objectives, the well-being goals or the ways of working.

In contrast, 'stronger, fairer, and greener' is repeated several times as the ambition Welsh Government is aiming towards. Moving forward, this needs to be improved to ensure a consistent, clear, embedded approach to applying the Act in this significant Welsh Government decision-making processes.

Part 5: Supporting Scrutiny of the Draft Budget 2023/24

My early analysis of the Draft Budget 2023/24 has therefore raised the following questions in my mind which my team are following up in more detail with Welsh Government officials:

1. Will this budget help to tackle the cost-of-living crisis in the short and longer term?

Welsh Government has made clear in its draft budget that assistance will be given to those most in need during this current cost of living crisis, which is of course to be welcomed. In accordance with the sustainable development principle, we need solutions that deal with the immediate crisis but also prevent any future crises of the same nature from occurring. The cost of heating our homes, generating power for our homes, the cost of getting to education, training and decent work to give young people the best chance in life, these are all big expenses that households cannot afford yet are having to deal with and will continue to need to find the money for. What measures does this budget put in place to help prevent this burden from continuing to be felt by Welsh households outside of the social housing sector? For example, whilst Welsh Government has no control over the global energy market, it is within its gift to help households reduce their dependency on that market.

2. What are the implications of cutting budgets for spending on nature and waste on Welsh Government's ability to meet its well-being objectives?

There has not been much variation in budgets compared with what was anticipated in the final budget of the three-year spending review as at March 2022. However, at that time, significant cuts were made to the resource budgets of Natural Resources Wales (-£9m) and the Resource Efficiency and Circular Economy (-£15m) revenue budget. Further effective cuts are now made to these budgets lines because there is no adjustment made for inflation – an effective cut of up to 15% over two years. While it appears no cuts were made to the biodiversity capital budget, funds were split out into a new line called 'Local Places for Nature'. In this budget, small cuts were made to the Enabling Natural Resources and Forestry revenue budgets. These are worth around £2.5m in total, but in effective terms the decline is even larger due to the effect of inflation.

3. Without evidence of this in the budget planning process, is the Welsh Government on track to meet its well-being objectives?

There is some evidence of spend to address Welsh Government's well-being objectives as outlined in the Programme for Government. However, there is no analysis to map out how all funding streams contribute to the national well-being goals and help to meet Welsh Government's well-being objectives. Until the budget process is cross-referencing those objectives and steps it will be difficult to grasp the full picture.

4. Without evidence of this in the budget planning process, is what we would call 'Tier 2 spend' working smarter to ensure that wherever possible it is addressing the climate and nature emergencies and emissions reduction?

Where spending is allocated which could be used towards achieving decarbonisation goals, it is not always clear whether this is the case, and this needs further clarification. For example, I would be interested to understand what expectations Welsh Government is placing on such funds as part of its budget planning process. We need a step-change in what we consider to be 'business as usual' where funding for the public sector is wherever possible channelled into up-skilling the Welsh workforce in green skills needed now and in the future, ethical procurement, organisational energy efficiency, sustainable construction methods which encourage increased biodiversity, more sustainable vehicle fleet upgrades, etc.

I accept that these are difficult times, but I would reiterate the need to look through the lens of the Act. This is no time to continue with the old 'business as usual' and with limited funds in the pot Welsh Government must work smarter. Applying a long-term view to the budget will ensure we mitigate challenges today and for future generations.

I look forward to building on these points with you in committee on the 12th January.

Best wishes,

Sophie Howe
Future Generations Commissioner for Wales

Document is Restricted

Senedd Cymru Finance Committee

Welsh Government Draft Budget 2023/24

Response by the Bevan Foundation

The Bevan Foundation is Wales' most influential think tank and is independent of government or any interest group. We are grateful for the opportunity to submit evidence to the Finance Committee's inquiry. The first part of our evidence answers the questions posed by the Committee, while the second half comments on the draft budget published on 13th December 2022. All our responses focus on low-income households.

Key points

We recognise that the Welsh Government's budget has been produced at a time of significant social, economic and environmental challenges, and that its block grant has required some tough choices.

The need to invest in recovery from the pandemic strengthens the case for increasing the Welsh Rate of Income Tax and for radical reforms of other taxes. There is a case of expanding powers over income tax to include bands as well as rates in future.

We welcome the steps taken to ease cost of living pressures on low-income households in 2022-23. We have recommended a set of actions focused on the essentials of shelter, food and warmth and welcome the inclusion of some them in the 2023-24 draft budget.

We understand that there are fewer resources in 2023-24, but are disappointed at the lack of provision for 16–18-year-old low-income learners and constraints on investment in social housing and energy efficiency / fuel poverty.

We are particularly concerned about the impact of inflation on people in rural communities.

Short-term measures to ease cost of living pressures are not a substitute for action to reduce poverty. Such action needs to focus on the three essentials of providing goods and services to meet needs; supporting progression into and through work; and enabling people in all communities to access services such as health, education and transport.

What, in your opinion, has been the impact of the Welsh Government's 2022-23 Budget, including funding related to the recovery of the pandemic?

The Welsh Government's 2022-23 budget included some actions that helped to offset some of the challenges of recovery from the pandemic and the cost of living crisis. These included provision of free school meals in the school holidays, extension of Pupil Development Grant-Access, continued flexibility in the Discretionary Assistance Fund, the Welsh Fuel Support Scheme and the first steps towards roll-out of Free School Meals for primary school pupils. The budget provision for these actions provided targeted, timely and much-needed help. We do however have some concerns about the reach and take-up of some schemes.

In other services, the 2022-23 budget allocations in respect of health and social care, social housing, education and public transport, struggled to match demand in general and in particular struggled to meet the needs of people on low incomes. Inequalities in health, housing and education have all worsened during the 'recovery' from the pandemic rather than improving. These public services are as fundamental to supporting people on low incomes as specific 'anti-poverty' measures.

How financially prepared is your organisation for the 2023-24 financial year, how will inflation impact on your ability to deliver planned objectives, and how robust is your ability to plan for future years?

The Bevan Foundation is funded by charitable trusts and foundations, donations and by trading as a social enterprise – it does not receive core funding from the Welsh Government. Financial years 2022-23 and 2023-24 are challenging and it anticipates drawing on its reserves over these periods as well as changing some of its operations.

With inflation and costs of living issues continuing to escalate, what action should the Welsh Government take to help households cope with this latest crisis?

The Bevan Foundation's latest report[1] called for a mix of short- and medium-term action, based on addressing people's basic needs for shelter, food and warmth and focusing on proven interventions which we called 'best buys'. In the short term we urged the Welsh Government to:

- Extend eligibility for free school meals to children in years 7 to 11 who live in households that receive Universal Credit, without a cap on earnings – cost £1.3 million per term.
- Uplift EMA by £5 a week (or two £50 payments for autumn and spring terms) to enable 16–18-year-old learners to afford to buy a decent lunch – cost £1.8 million.
- Top up the Discretionary Housing Payment budget by £1 million for the rest of financial year 2022/23 and allocate £4 million top up in 2023/24.
- Extend the Wales Fuel Support Scheme with a further £200 payment to eligible households in January 2023 at a cost of approx. £40 million.

In the medium- to longer-term we urged the Welsh Government to:

- Accelerate the provision of social housing, if necessary through acquisition of existing vacant properties as well as new build.
- Bring forward plans for a new Warm Homes programme, with a substantial increase in investment, a focus on insulation measures, broader eligibility criteria and stronger programme management.
- Improve data used to set Local Housing Allowance[2] rates and seek devolution of powers to determine LHA rates in future.
- Phase in free school meals for secondary school pupils beginning with years 7 and 8.
- Apply inflation-linked uplifts to all devolved, means-tested grants and allowances on an annual basis, with effect from April 2023.

[1] Bevan Foundation (2022) Easing the cost of living crisis this winter, https://www.bevanfoundation.org/resources/easing-the-cost-of-living-crisis-this-winter/
[2] The maximum help with private sector rent that can be received by a low income household, determined by the UK Government

- Accelerate implementation of a Welsh Benefits System to be fully operational by April 2025 at the latest.

We are particularly concerned about the impact of the cost of living crisis on rural communities. People here have been hard hit because of below-average earnings and high levels of self-employment; above-average costs for heating, food and transport (coupled with energy inefficient housing and reliance on oil or solid fuels which are not covered by the energy price guarantee); plus rural households are often remote from support services such as advice centres or food banks.

Are Welsh Government plans to build a greener economy clear and sufficiently ambitious? Do you think there is enough investment being targeted at tackling the climate change and nature emergency? Are there any potential skill gaps that need to be addressed to achieve these plans?

We are disappointed that successive budgets have not taken steps at sufficient scale to make the transition to a greener economy. We are particularly concerned at the slow progress in refreshing the Welsh Government's Warm Homes programme at a time when energy efficiency measures are urgently needed. It is a year since the publication of a consultation paper (in December 2021), during which time energy costs have soared. The ARBED scheme closed in November 2021 and has not been replaced while the NEST scheme is due to end in March 2023.

There is good evidence that investment in new social housing, retrofitting energy efficiency measures and nature restoration would cut carbon and stimulate the economy – it is estimated that expenditure of £2.33 bn on these measures alone would create more than 35,000 jobs.[3] Investment in energy efficiency in new and existing housing would also ease financial pressure on households.

Is the Welsh Government using the financial mechanisms available to it around borrowing and taxation?

There is a mounting case for the Welsh Government to make greater use of its taxation powers in future years if it wishes to follow a different path to that set by the UK Government's spending plans. Put simply, the Welsh Government cannot have the level and quality of public services it would like while 80% of its budget comes from the UK Government which is committed constraints on public spending.

In respect of specific devolved taxes, we would comment as follows:

- Income Tax: The Welsh Government's powers are limited to varying rates. This is an incomplete instrument and it should seek the ability to vary thresholds (as in Scotland), not least to ensure a better fit with the income distribution in Wales.
- Council Tax: As argued in our oral evidence to the Local Government and Housing Committee on 1st December 2022 on council tax reform,[4] there is scope to make more radical changes to Council Tax so that it taxes property wealth in a more progressive way.

[3] Transition Economics (2020) Job creation in Wales from a Covid recovery infrastructure stimulus https://www.tuc.org.uk/green
[4] https://record.assembly.wales/Committee/13069

- New devolved taxes: The Bevan Foundation has long advocated use of new, devolved taxes both to raise revenue and change behaviours.[5] We welcome progress with the proposed visitor levy and discussions about possible environmental taxes as set out in the Welsh Government's Tax Policy document but are disappointed that discussions about the proposed vacant land tax have stalled.[6]

Specific comments on Welsh Government policies to reduce poverty and gender inequality. Is enough support being given to those people living in relative income poverty?

The current cost of living crisis has exacerbated already-high levels of poverty, deepening the poverty experienced by some and drawing more people into its grip. The focus on short-term measures – though vitally important – are not a substitute for addressing the bigger, long-term challenge of reducing poverty.

There is robust evidence[7] about what the Welsh Government can do to reduce poverty. These can be summarised under the headings of 'pockets, prospects and places'.[8]

- **Pockets -** reducing costs and increasing income by providing cash and services to meet people's basic needs in a reliable and consistent way.
- **Prospects -** supporting people to move out of poverty by accessing decent work, progression, and provision of flexible and affordable childcare.
- **Places** – Creating an enabling environment by improving the provision of good quality, local services (including health, education and transport).
- Support good mental health – by reducing stigma and treating people in poverty with respect.

Comments on 2023-24 draft budget

We welcome the opportunity comment on a draft government budget ahead of it being finalised. Nevertheless, we have concerns about the process, in particular the lack of detail in respect of allocations to specific activities, lack of clarity about benchmarks and difficulties comparing expenditure over financial years.

Overview: we recognise that 2023-24 is extremely challenging when real terms resources are compared with need. However, the Welsh Government's own estimate of 0.5% real terms increase per person is not as bad as the decrease in real-terms day to day expenditure per person experienced in every year bar one from 2010-11 to 2021-22.[9]

---

[5] Bevan Foundation (2017) Tax for Good https://www.bevanfoundation.org/resources/tax-good-new-taxes-better-wales/
[6] Welsh Government (2022) Tax Policy Report December 2022, https://www.gov.wales/tax-policy-report-december-2022
[7] Wales Centre for Public Policy (2022) Policy and Social Exclusion Review https://www.wcpp.org.uk/project/poverty-and-social-exclusion-review/
[8] This term was originally used by Joseph Rowntree Foundation in relation to Scotland in the early 2010s but neatly sums up recent evidence.
[9] Wales Fiscal Analysis (2020) Welsh Budget Outlook 2020. Cardiff University. Figure 1.

We note that the Welsh Government has opted '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'. A counter argument is that the legacy of Covid-19 is such that it demands an increase in taxation in order to reinvest and reequip public services.

On specific allocations mentioned in the budget narrative, we welcome the commitment to ease cost of living pressures on low-income families through 'the Discretionary Assistance Fund, Free School Meals, Pupil Development Grant and homelessness provision'. It is however difficult to assess the scale of the increases. The narrative refers to an additional £18.8 million to the Discretionary Assistance Fund but it is unclear if this figure refers to pre-pandemic expenditure (£13.2 million in 2019/20)[10] or 2022/23 expenditure of £20 million for the year to date.

Similarly, we welcome the additional £9 million allocated to Pupil Development Grant although again the baseline is unclear. Indeed the Senedd Research Service's analysis suggests that there has been a real-terms cut to PDG in 2023-24 compared with 2022-23.

There are other measures that could further support low-income households, particularly households without primary school pupils and those not in severe financial hardship, that have regrettably not been included in the 2023-24 draft budget. The key ones are:

- Education Maintenance Allowance and its eligibility thresholds have been frozen for another year, leaving 16–18-year-old learners in unprecedented need.
- Social Housing Grant has received real-terms cut, despite the urgent need to increase provision.
- The increase in expenditure on fuel poverty measures (11% real terms uplift) is welcome but we are concerned at the slow progress towards the next Warm Homes programme, especially given the huge economic, social and environmental benefits of investment in energy efficiency / fuel poverty measures.

Victoria Winckler
Director

December 2022

Website: bevanfoundation.org
Registered charity no. 1104191

[10] Welsh Government (2020) Freedom of Information release 14288 – Individual Assistance Payments Annex A https://www.gov.wales/atisn14288

Chwarae Teg submission to the Finance Committee

Welsh Government Draft Budget proposals for 2023-24

November 2022

Introduction

Chwarae Teg is Wales' leading gender equality charity. We work to secure a fairer Wales where all women achieve and prosper, ensuring that women enjoy economic equality, are fairly represented in all walks of life and are no longer at risk of poverty, violence and exclusion.

The current cost of living crisis and continued impact of inflation present a particular challenge to developing a budget which meets the needs of everyone in Wales. We already know that the the cost of living crisis is not falling on all equally. Women in Wales are uniquely exposed to its impacts due to continued gender inequality and their position in the labour market. In this context it is increasingly important to ensure that Welsh Government uses all tools at its disposal to support individuals most exposed to the cost of living crisis.

The budget is one of the most important tools at the Welsh Government's disposal to tackle longstanding structural inequalities: it is only through adequate resource allocation that ambitious policy commitments can be met. We welcome the opportunity to take part in the scrutiny process for the 2023-24 budget. We also welcome the Welsh Government's continued commitment to creating a more equal Wales and to embed gender equality into all of its policy and budgetary decisions.

As highlighted in previous responses to the Committee, although these commitments are welcome, the pace of change remains slow. Implementing the recommendations of the Gender Equality Review as set out in *Deeds not Words* will support the Welsh Government in achieving its goals on equalities, recovering from the pandemic, and tackling the cost of living crisis. The recommendations represent not just a 'to do list' of policies, but a radical new way of truly embedding equality into the work of government.

Key messages

1. While we welcome the work that has been done by Welsh Government in respect of gender budgeting and equalities mainstreaming, we remain concerned about the extent to which equality analysis is informing budgetary decisions across Welsh Government. Evaluation reports and lessons from these pilots are still to be published and implemented, and we await the publication of the draft budget to determine how successful changes to ways of working have been.
2. We welcome the work which has been undertaken by the Budget Improvement and Impact Advisory Group regarding the Strategic Integrated Impact Assessment. The SIIA accompanying the 2022/23 draft budget was an improvement on the 2021/21 draft budget but there is still

room to further strengthen the SIIA, for example better demonstrating how equalities data and analysis are shaping budgetary decisions.

3. Implementing the Gender Equality Review recommendations as set out in *Deeds not Words* will provide Welsh Ministers with the tools to achieve their goals of creating a more equal Wales, as this will mainstream an intersectional equalities lens into policy-making and spending decisions.
4. The cost of living crisis presents a major challenge to tackling gender inequality in Wales, since women are uniquely exposed to the full impacts of the crisis. An equalities lens must be utilised in designing the Welsh Government's response in order to ensure that support is reaching the most vulnerable in society.
5. We remain of the view that there is a clear need for a comprehensive strategy to tackle poverty so that resources can be directed in a strategic and managed way with subsequent evaluation of what works and what does not.
6. Childcare remains a barrier to women entering and progressing in the workforce. While we welcome the additional investment to extend the 30 hours offer to parents in education and training, and steps to expand provision to 2 year olds, we are concerned that expansion through Flying Start will offer only part-time childcare and as a place-based programme could further limit eligibility.

Detailed Response

1. What, in your opinion, has been the impact of the Welsh Government's 2022-23 Budget, including funding related to the recovery of the pandemic? Have Welsh Government business support policies been effective as the economic outlook for 2023-24 continues to worsen?

1.1. Women's unequal position in the workforce continues to be one of the most significant contributing factors to gender inequality in Wales. Women are more likely to be working in sectors and jobs associated with low pay, insecure contracts, and poor working conditions. Additionally, women are more likely to be in receipt of benefits, working part-time or fewer hours, and less likely to hold managerial and senior position within the workforce. These issues are even more acute for ethnic minority women and disabled women.

1.2. As has been well-documented, the initial phase of the pandemic exacerbated the long-standing economic inequalities experienced by women. It also revealed society's dependence on unpaid care, mainly done by women, for both children and vulnerable adults.

1.3. The full longer term impacts of the pandemic on women and tackling gender inequality more broadly are still not clear. Many of the inequalities highlighted by the pandemic require systematic change across spending and policy decisions.

1.4. In this context, we welcome the Welsh Government's work on mainstreaming equality and utilising gender budgeting tools to inform decisions. Additionally, we are pleased to see the work being undertaken by officials and stakeholders as part of the Budget Improvement and Impact Advisory Group (BIIAG) regarding the Strategic Integrated Impact Assessment (SIIA) and how it informs the Welsh budgetary process. We hope to see some of the changes recommended by the group in the forthcoming Budget Improvement Plan.

1.5. The cost of living crisis now presents an additional challenge to tackling inequality. We know that women are more vulnerable to the impacts of the crisis due, in part, to their continued unequal position in the labour market[1].

1.6. With the cost of living crisis and persistent high inflation impacting both the government's spending power and household budgets, it is important that budgetary decisions are influenced by multiple factors. Equality mainstreaming and gender budgeting provide government with the tools to ensure that decisions are delivering for all of society, especially at this challenging time.

1.7. We were pleased to see funding for Violence against Women, Domestic Abuse and Sexual Violence receive an uplift in the 2022/23 budget compared to 2021/22. We would welcome an additional uplift in the 2023/24 budget, especially considering how inflationary pressures are impacting budgets.

2. How should/could the Welsh Government support the economy and business following the pandemic, Brexit and inflationary and other economic pressures?

2.1. In previous responses to the Committee as part of the budgetary scrutiny process, we have highlighted multiple areas which Welsh Government should focus on in order to tackle deep rooted inequalities. Tackling gender inequality could add £13.6 billion to the Welsh economy[2]. These areas remain vital to supporting an equitable recovery from the pandemic, supporting the economy and business through the cost of living crisis, as well as creating a more equal Wales.

2.2. Since last highlighting these areas, there has been improvement in some, however further work could be undertaken.

2.2.1. **Prioritise the hardest-hit sectors:** Pandemic recovery plans should continue to focus on the sectors which have been impacted most. We must see targeted support for sectors such as hospitality and retail, and much greater investment in care. These sectors are also uniquely exposed to inflationary pressures.

2.2.2. **Take a feminist approach to recovery:** In order to meet the aims of the Wellbeing of Future Generations (Wales) Act, and commitments to delivering economic and social justice outlined in the Welsh Government's Economic Reconstruction Mission, we remain of the view that adopting a feminist approach to the economic recovery is essential. The Gender Equality Review (GER)[3] sets out the means by which the Welsh Government can mainstream equalities into all of its policy making and spending decisions, while also achieving its goals for creating a more equal Wales.

---

[1] Chwarae Teg, 2022 *The gendered impacts of the cost of living crisis*
[2] Cebr, 2018 *The Economic Value of Gender Equality, Chwarae Teg*
[3] Chwarae Teg, 2019 *Deeds not Words: Review of Gender Equality in Wales (Phase Two)*

2.2.2.1. As highlighted previously, Welsh Government have taken steps to implement some of the recommendations of the GER through mainstreaming and gender budgeting pilots.

2.2.2.2. Although we welcome the multiple pilots of gender budgeting, we are concerned that progress in implementing lessons from the pilots remains slow. Specifically, we are still awaiting the external evaluation of the Personal Learning Accounts pilot and it is not clear how this pilot has influenced the Young Person's Guarantee and Active Travel pilots.

2.2.2.3. These pilots must shape and facilitate a different way of making spending decisions across government to ensure that every opportunity within the annual budget to tackle inequality is seized.

2.2.3. **Focus on employability, training and skills:** Welsh Government budgets must prioritise the employability of women, supporting them to enter, and progress in, decent, fair work. We would like to see a greater focus on skills and lifelong learning, especially with the need to transition to net zero. With the cost of living crisis and threat of a prolonged recession, it is also important that interventions are targeted to support people affected by unemployment and redundancy.

2.2.3.1. The Welsh Government's recent employability and skills plan notes the need to focus on under-represented groups such as women and the need to tackle persistent pay gaps, but it would be helpful to have more information on what specific interventions are planned to achieve these goals. Additionally, it is essential that these are adequately funded to ensure that can deliver on their goals.

2.2.4. **Invest in childcare:** Although we welcome the additional investment in childcare provision in Wales over the past five years through the Childcare Offer, there is more which can be done. We are clear that the ambition should be free universal childcare and thus initiatives to improve access and affordability should have this ambition underpinning them. Additional investment through the expansion to parents in training and employment and expansion of support for two year olds is welcome.

2.2.4.1. However, expanding provision to two year olds through Flying Start has clear limitation; it only provides part-time provision and has traditionally been a place-based programme, which further restricts eligibility.

2.2.4.2. It's vital that parents accessing expanded Flying Start provision can seamlessly access this support alongside any paid childcare they need to use.

2.2.4.3. In the medium term this expansion through Flying Start must evolve to ensure parents of two year olds have access to the same 30 hours of support that parents of three year olds can access through the Childcare Offer.

2.2.4.4. In the longer-term, these measures must lay the foundations for universal provision.

2.2.5. **Create high-quality, flexible jobs:** The pandemic accelerated changes in the way we work. Considering the Welsh Government's goal of 30% of the workforce permanently working remotely, it is vital that adequate resource is provided to make sure that home-working plans are fully considered. Decisions about community co-working hubs must also be informed by clear equalities analysis to ensure that they are accessible and safe for women.

2.2.6. **Recognise that care is central to our wellbeing:** As we have raised previously, care must become a key sector in our national economic strategy and we need investment in social infrastructure, including childcare, social care, health care and education, to enable people to engage with the economy, while delivering fair work within these sectors.

2.2.6.1. These sectors are increasingly important in the context of the cost of living crisis and inflationary pressures. We know that women use public services more than men and thus any cuts to public services will disproportionately impact women.

2.2.7. **Conduct robust evaluation with a focus on equality:** As highlighted previously, although the Welsh Government is piloting gender budgeting and has maintained its commitment to mainstreaming equalities into the decision-making process, we need to see more action. We need to see more robust, consistent evaluation of plans, using equalities disaggregated data to show the impact of funding on women in order to avoid unintended consequences that exacerbate inequality.

2.2.8. Additionally, as we have previously called for, there is a **need for a comprehensive strategy to tackle poverty in Wales**. The lack of clear commitments in the Programme for Government alongside a wide-ranging plan for tackling poverty makes allocating resources to deal with Wales' poverty problem extremely difficult for government. It also means it is much harder to measure the effectiveness of specific interventions to tackle poverty

How financially prepared is your organisation for the 2023-24 financial year, how will inflation impact on your ability to deliver planned objectives, and how robust is your ability to plan for future years?

2.3. As we noted in last year's budget consultation, Chwarae Teg receives funding from a variety of sources, and in recent years has delivered projects at scale across Wales as a result of European Social Fund funding. With the withdrawal from the EU, it is difficult for many third sector organisations, including Chwarae Teg, to plan for the long term.

2.4. It is still unclear how well the UK's Shared Prosperity Fund will operate in relation to supporting the third sector to deliver interventions to support individuals from under-represented and harder to reach groups.

2.5. In addition, we receive a proportion of our budget from Welsh Government. Budgets are set annually, and contracts often confirmed late in the financial year, making it difficult to plan strategically. We continue to make the case that multi-year funding agreements would ensure organisations are able to deliver more effectively for Welsh Government.

3. **With inflation and costs of living issues continuing to escalate, what action should the Welsh Government take to help households cope with this latest crisis?**

3.1. As has been noted previously, the burden of the cost of living crisis is not falling equally on women and men. This is especially the case for ethnic minority women and disabled women. The persistent inequality that women experience and unequal position in the labour market leaves them more exposed to the impacts of the cost of living crisis[4].

3.1.1. The Living Wage Foundation has reported that 42% of low paid women in Wales had already fallen behind on households bills, compared to 35% of low paid men.

3.1.2. 54% of young women reported it being a 'real struggle' to make cash last until the end of the month, rising to 75% of single mums. 23% reported that they have sometimes had to choose between food and heating, rising to 55% of single mums and 33% of mums with joint childcare responsibility[5].

3.1.3. Rising costs are also having a marked impact on women's health with 50% of low paid women said that their level of pay affected their levels of anxiety, compared with 38% of low paid men[6].

3.2. With this challenging context, it is vital that Welsh Government uses all tools at its disposal to ensure that support is available and getting to those most in need.

3.3. Action to tackle the cost of living crisis should be developed using equalities mainstreaming tools to ensure that interventions are responsive to the needs of women. Not all levers to ameliorate the impacts of the cost of living crisis sit with the Welsh Government, however, there are numerous actions which could be taken to support individuals.

3.3.1. We support a number of recommendation mad made by the Senedd Economy, Trade and Rural Affairs Committee's *Cost of Living Pressures* report[7]:

3.3.1.1. Welsh Government should ensure that disaggregated cost of living data for Wales is regularly available to understand the impact on different groups

3.3.1.2. Welsh Government should accelerate work to bring together means-tested support schemes through a Welsh benefits system and work towards a one-stop-shop portal through which to access support

3.3.1.3. Welsh Government should drive the accreditation of all Welsh public sector organisations as real Living Wage employers, in particular delivering this for workers in Welsh local authorities and health boards

3.3.1.4. Welsh Government should explore using its levers around public sector pay and conditions to increase fair work in Wales including: by improving sick pay where this is needed for workers delivering public services, starting with longer-term arrangements for social care workers; and supporting those with the lowest earnings via pay settlements

---

[4] Chwarae Teg, 2022 *The gendered impacts of the cost of living crisis*

[5] Young Women's Trust 2022 *Just Getting by: Young Women's Trust Annual Survey 2022*

[6] Living Wage Foundation 2022 *"Low paid work and cost of living crisis disproportionately affecting women"* Available from: https://www.livingwage.org.uk/news/cost-living-crisis-affecting-women [Accessed: 07/11/2022]

[7] Senedd Economy, Trade and Rural Affairs Committee, 2022 *Cost of Living Pressures*

3.3.1.5. Welsh Government should consider establishing an emergency support funding programme, using similar mechanisms to the COVID support programmes, to help the businesses most acutely affected through the peak of the cost of living pressures. This could be either in the form of grants, low cost loans or a combination of the two

3.3.1.6. Welsh Government should consider using business rate relief to support the most affected businesses until inflation returns to a level close to the Bank of England's target

3.3.2. Additionally, the Welsh Government should also:

3.3.2.1. Accelerate changes to the Childcare Offer's eligibility

3.3.2.2. Implement the Renting Homes (Wales) Act 2016 and accelerate the publication of a White Paper to include proposals for rent controls

3.3.2.3. Create a helpline to provide a one-stop-shop for advice on available cost of living support available

3.3.2.3.1. Although we welcome the Welsh Government's *Claim What's Yours* campaign, it is unclear whether this information is reaching all vulnerable groups. It is particularly important that information is accessible to those whose first language is neither Welsh nor English.

3.4. We have attached our recent briefing on the cost of living crisis and gender to this response to the Committee at Annex 1.

4. Are Welsh Government plans to build a greener economy clear and sufficiently ambitious? Do you think there is enough investment being targeted at tackling the climate change and nature emergency? Are there any potential skill gaps that need to be addressed to achieve these plans?

4.1. We welcome the Welsh Government's commitments around net zero and building a greener economy. These commitment must, however, be shaped by a clear vision of what the economy should look like in order to secure an equitable transition for all. As noted in last year's response, we would welcome increased investment in a the following areas:

4.1.1. **Care** is a green sector which is vital to our wellbeing. We know that investment is needed in this sector and any additional resources would support an equitable recovery.

4.1.2. Although the recent investment in **childcare** is welcome, we believe that the Welsh Government should have the long-term aim to provide free, universal childcare provision. Childcare is the most important tool in creating a more gender equal Wales.

4.1.3. **Training and employment** interventions should be focussed on green sectors to ensure that jobs of the future are open to all.

4.2. Our recent report *Towards a Gender Equal Wales: Responding to a Transforming Economy* notes some of the challenges and opportunities in transitioning to a green economy as they relate to gender an tackling gender inequality.

7. **The Committee would like to focus on a number of other specific areas in the scrutiny of the Budget. Do you have any specific comments on any of the areas identified below?**

Government policies to reduce poverty and gender inequality. Is enough support being given to those people living in relative income poverty?

7.1. As we noted in last year's response to the Committee as part of the budgetary scrutiny process, the lack of clear commitments in the Programme for Government and comprehensive strategy to tackle poverty makes it challenging to see how resources should be targeted. The current cost of living crisis highlights further the need for a clear pan to tackle poverty to ensure that support during the current crisis is getting to those living in, and at most risk of falling into poverty.

7.2. We welcome ongoing commitments from Welsh Ministers on tackling gender inequality and some progress in this area. However, work should be accelerated and these pledges must now filter through into clear deliverable policies and resource allocations.

7.3. We are pleased with the work that government has been undertaking with regards to gender budgeting and equality mainstreaming pilots but the evaluation and implementation of the lessons learned from these pilots remains slow.

7.4. As we have noted previously, the full implementation of the Gender Equality Review as set out in *Deeds not Words* is central to ensuring Ministers have the tools and framework to achieve a more equal Wales. This should be seen as part of an integrated approach to tackling inequality, for example in line with implementing the Race Equality Action Plan and the Disability Task force.

7.5. Additionally, we know that the lack of affordable, accessible and flexible childcare continues to prevent women entering and progressing in the workplace. Although Wales' current Childcare Offer is the most generous in the United Kingdom, we feel that the Welsh Government can and should go further with a clear long-term aim to provide free, good quality full-time childcare for all children aged 0-4.

7.6. As outlined above, while we welcome the additional investment in childcare, we do have some concerns about the decision to expand provision to two year olds via Flying Start. Ensuring that the part-time provision this offers can be accessed seamlessly alongside paid, formal childcare and that this is a step towards more comprehensive support for parents with younger children is essential.

7.7. As has been highlighted previously in this response, the impacts from the pandemic and the current cost of living crisis do not fall equally on all in society. Women, especially lower income women, single parent women, ethnic minority women and disabled women are more exposed to the full impacts of the current crisis.

7.8. Due to women's increased risk of being impacted by the cost of living crisis, it is vital that in developing interventions to support individuals Welsh Government use equality mainstreaming tools to ensure that interventions are responsive to the needs of women.

Whether it is clear how evidence and data is driving Welsh Government priority setting and budget allocations.

7.9. We want to acknowledge improvements in the Welsh Government's SIIA for the 2022/23 budget. Although there is further work which can and is being done to ensure the SIIA is meeting its purpose, the 2022/23 SIIA marked an improvement on the 2021/22 SIIA.

7.10. Additionally, we welcome the work that the Welsh Government has been doing on mainstreaming equality and utilising gender budgeting tools to inform decisions. We are particularly pleased to see work being undertaken by government officials and other stakeholders through the Budget Improvement and Impact Advisory Group (BIIAG) regarding the Strategic Integrated Impact Assessment (SIIA) and how it informs the Welsh budgetary process.

7.11. To avoid entrenching inequalities, spending decisions taken by Welsh Government must be based on robust equalities and impact analysis, providing a clear rationale and evidence base explaining why they have been taken. We hope to see a clear plan for meaningful change and strengthening of impact assessment included in this years' Budget Improvement Plan.

7.12. Challenges still persist however in the collection and reporting of data. We welcome the establishment of the Equality, Race and Disability Evidence Units and look forward to disaggregated data be available and utilised by the Welsh Ministers in determining their spending plans. It is important that this data is then used effectively to influence spending decisions.

For more information please contact:

Natasha Davies
Policy and Research Lead
[redacted]
[redacted]

Tomos Evans
Policy and Public Affairs Partner
[redacted]
[redacted]

Briefing Paper:

The gendered impacts of the cost of living crisis

September 2022

Women are more vulnerable to the impacts of the cost of living crisis. This is the direct result of persistent gender inequality, and for women with other protected characteristics the negative impacts are likely to be even more acute.

Women, particularly ethnic minority and racialised women, disabled women and lone parents are more likely to be working in precarious, low paid jobs, are often juggling paid work with unpaid caring responsibilities and have lower levels of wealth and savings. These factors all leave them more vulnerable to the cost of living crisis.

All measures to deal with the cost of living crisis must be considered from an equalities perspective to ensure that support is designed to meet women's needs. Urgent action is needed to address issues with the social security system, which currently does not work for women and measures need to be put in place to address the spiralling cost of essentials such as electricity and food.

1. What impact is the cost of living crisis already having on women?

1.1. In Wales, people are already cutting back. The Bevan Foundation found that 57% are cutting back on heating, electricity and/or water, 51% are cutting back on clothing for adults, 45% are cutting back on transport costs and 39% are cutting back on food for adults.[1]

1.2. This crisis is not falling on all people and households equally. Low income households are likely to have to reduce their spending by three times as much as high income households in order to afford energy bills.[2] The poorest 10% of households spend 54% of their total weekly expenditure on housing, food and transport, compared with 42% of the richest 10%.[3] The richest 10% of households spend nearly five times as much on discretionary spending than the poorest 10%, so are better placed to tighten their belts.

1.3. The cost of living crisis is also already impacting women more heavily than men, with women falling behind on bills, skipping meals to make ends meet and turning to borrowing and credit leaving them at risk of falling into debt.

1.4. Research from the Living Wage Foundation found that 42% of low paid women had already fallen behind on households bills, compared to 35% of low paid men. 35% of low paid

---

[1] Bevan Foundation (2022) *A Snapshot of poverty in Summer 2022*

[2] Resolution Foundation "Cutting Back to keep warm" 15th August 2022 https://www.resolutionfoundation.org/publications/cutting-back-to-keep-warm/ [Accessed Aug. 22]

[3] UK Women's Budget Group (2022) *The gendered impact of the cost of living crisis*

women had skipped meals regularly for financial reasons compared to 29% of low paid men.[4]

1.5. The Young Women's Trust's annual survey found that almost a quarter of young women have had to choose between food and heating, while a third of young mums have gone without food so that their children don't go hungry.[5]

1.5.1. They also found that 54% reported it being a 'real struggle' to make cash last until the end of the month, rising to 75% of single mums and 65% of mums with joint childcare responsibility, and 23% reported that they sometimes have to choose between food and heating, rising to 55% of single mums and 33% of mums with joint childcare responsibility.[6]

1.6. The Smallwood Trust has reported an increase in the number of applications to their Grants to Individuals programme to help with a range of costs including rising energy and fuel prices, rent and essential items.[7]

1.7. The challenge of trying to make ends meet is having a marked impact on women's health.

1.7.1. 52% of young women report being 'filled with dread' when they think about their households finances compared with 44% of young men.[8]

1.7.2. 50% of low paid women said that their level of pay affected their levels of anxiety, compared with 38% of low paid men[9], and 8 out of 10 women say that financial anxiety is keeping them awake at night.[10]

1.7.3. 55% of women are putting off dental treatment, 17% are putting off going for medical treatment and 51% have cut back gym subs.[11]

1.8. The crisis is also leaving some women trapped in abusive relationships. Research by Women's Aid found that in England 96% of survivors have seen a negative impact on the amount of money available to them and 66% say that their abusers are using the cost of living crisis as a tool of coercive control.[12]

1.8.1. They also found that 73% of women living with and having financial links with the abuser said that the cost of living crisis has either prevented them from leaving or made it harder to do so.[13]

---

[4] Living Wage Foundation "Low paid work and cost of living crisis disproportionately affecting women" 8th March 2022 https://www.livingwage.org.uk/news/cost-living-crisis-affecting-women [Accessed Aug. 2022]

[5] Young Women's Trust (2022) *Just Getting by: Young Women's trust Annual Survey 2022*

[6] ibid.

[7] Smallwood Trust https://www.smallwoodtrust.org.uk/news/cost-living-crisis-and-its-impact-women [Accessed Aug. 2022]

[8] Young Women's Trust (2022) *Just Getting by: Young Women's trust Annual Survey 2022*

[9] Living Wage Foundation "Low paid work and cost of living crisis disproportionately affecting women" 8th March 2022 https://www.livingwage.org.uk/news/cost-living-crisis-affecting-women [Accessed Aug. 2022]

[10] "Financial anxiety: survey reveals impact on women's health" https://www.livehealthily.com/cost-of-living/cost-of-living-survey [Accessed Aug. 2022]

[11] "Financial anxiety: survey reveals impact on women's health" " https://www.livehealthily.com/cost-of-living/cost-of-living-survey [Accessed Aug. 2022]

[12] "The cost of living crisis is preventing women from feeling domestic abuse" Sarah Davidge, Women's Aid 1st August 2022 https://www.womensaid.org.uk/the-cost-of-living/
[Accessed Aug. 2022]

[13] ibid.

1.8.2. Rising prices are also impacting on refuges, with some having to look to cover increases in energy costs from reserves and encountering challenges in recruitment as a result of contract values not increasing in line with rising staffing costs.[14]

2. Why are women more vulnerable to the impacts of the cost of living crisis?

2.1. The disproportionate impact of the cost of living crisis is sadly not surprising. It is rooted in the persistent inequality that women still encounter, which leaves them more vulnerable. Across a range of metrics we can see how gender inequality has created and/or exacerbated the situation.

2.2. Poverty

2.2.1. Women are more likely to be living in poverty and experience fuel and food poverty. Poverty levels are likely to increase as a result of the cost of living crisis, which will be felt acutely by women.

2.2.2. **Relative income poverty**[15]

- 23% of all people in Wales are living in relative income poverty.
- 46% of lone parents are living in relative income poverty. The majority of lone parents are women.
- 30% of single female households with no children are living in relative income poverty (27% single male household no children).
- There is a 29% likelihood of a household headed by a non-white ethnic group living in relative income poverty compared to a 24% likelihood for household headed by white person.

2.2.3. **Material Deprivation**

- 13% of adults 16+ are living in households in material deprivation; 15% female; 11% male.[16]

2.2.4. **Fuel Poverty**

- 68.7% of households in Wales are forecast to fall into fuel poverty by January 2023.[17]
- Just 47% of dwellings in Wales have adequate energy performance.[18]

---

[14] ibid.
[15] Welsh Government https://gov.wales/relative-income-poverty-april-2019-march-2020 [Accessed Aug. 2022]
[16]Stats Wales https://statswales.gov.wales/Catalogue/National-Survey-for-Wales/Well-being-and-Finances/percentageofpeoplelivinginhouseholdsinmaterialdeprivation-by-localauthority-year [Accessed Aug. 2022]
[17]"Two thirds of UK families could be in fuel poverty by January" https://www.theguardian.com/society/2022/aug/17/two-thirds-of-uk-families-could-be-in-fuel-poverty-by-january-research-finds [Accessed 26.08.22]
[18] Welsh Government (2019) *Welsh Housing Conditions Survey 2017-18: Energy Efficiency of Dwellings* https://gov.wales/sites/default/files/statistics-and-research/2019-10/welsh-housing-conditions-survey-energy-efficiency-dwellings-april-2017-march-2018-795.pdf [Accessed Aug. 2022]

2.2.5. **Food Poverty**

- Before Covid even, women were twice as likely to experience low food security as men (13% compared with 5%) and nearly twice as likely to say they could not afford balanced meals (15% compared to 8%).[19]
- You Gov polling for Trussel Trust shows that one in three people on Universal Credit had been unable to afford adequate food – i.e. they had more than one day in the last month where they didn't eat at all or only had one meal (March 2022)[20]
- Trussel Trust have identified evidence gaps around race and gender in terms of hunger and food insecurity[21], so the full extent of the issue is not known.

2.2.6. **Minimum Income Standard**

- In 2022, the Minimum Income Standard for a single person was calculated to be £25,000.[22] In Wales average female annual earnings are £22,041.[23]

2.2.7. **Homelessness**[24]

- In 2020-21, 7290 households in Wales were assessed as being threatened with homelessness within 56 days; 4338 (60%) of these were women.
- In 2021-22, 9228 households in Wales were assessed as being threatened with homelessness within 56 days; 5457 (59%) of these were women. An increase of 21% since 2021-22.

2.3. Pay

2.3.1. Women are still paid less than men on average, and are more likely to be in low paid jobs, leaving them more vulnerable to living in poverty and falling into poverty in the face of spiralling costs.

2.3.2. **Paid under real Living Wage**

- In 2021, 17.9% of all jobs in Wales were paid less than the Living Wage.[25]

---

[19] Chwarae Teg (2019) *Trapped: Poverty Amongst Women in Wales Today*
[20] Trussel Trust (2022) *The True Cost of Living* https://www.trusselltrust.org/wp-content/uploads/sites/2/2022/03/The-true-cost-of-living.pdf
[21] Trussel Trust (2021) *State of Hunger 2021* https://www.trusselltrust.org/wp-content/uploads/sites/2/2021/05/State-of-Hunger-2021-Report-Final.pdf
[22] Joseph Rowntree Foundation (2022) M*inimum Income Standard 2022*
[23] ONS Annual Survey of Hours and Earnings 2022 Provisional results Table 7.7a
[24] Stats Wales https://statswales.gov.wales/Catalogue/Housing/Homelessness/Statutory-Homelessness-Prevention-and-Relief/householdsforwhichassistancehasbeenprovided-by-outcome-age-gender [Accessed 26.08.22]
[25] Senedd Research "The real living wage and fair work: what are the latest developments" https://research.senedd.wales/research-articles/the-real-living-wage-and-fair-work-what-are-the-latest-developments/ [Accessed Aug. 2022]

- 20.8% of female employee jobs are paid below the real Living Wage, compared to 14.8% of male employee jobs[26]; 33.1% of part-time jobs are paid below the real Living Wage compared to 11.5% of full-time jobs.[27]
- There are twice as many women as men in the bottom 10% of earners and women make up 60% of those earning below the Real Living Wage.[28]

2.3.3. **Change in weekly earnings**

- Women's weekly pay in Wales increased by 3.1% between 2020 and 2021, while men's weekly pay increased by 3.6%.[29] Between 2021 and 2022, men's weekly pay increased by 6.2% and women's by 8.7%.[30] While there has been a larger increase in pay between 2021 and 2022, with inflation at 10%, this still constitutes a real term pay cut.

	2022	**2021**	**2020**	**2019**
Men	£550	£517.80	£500	£492.20
Women	£424.10	£390.20	£374.80	£360.70

2.4. Childcare

2.4.1. Childcare continues to exert significant influence over women's paid work, often shaping whether women are in work, the hours they work and the opportunities they have for progression.

2.4.2. **Changing childcare costs**

- Based on figures from the Coram annual childcare survey, in Wales parents were paying £114 on average for 25 hours a week childcare for under-threes in 2021, this has increased to £125 in 2022 (up by 9.6%). For 50 hours a week for under threes, in 2021 the average cost was £227, which has now increased to £246 (up 8.3%).[31]

2.5. **Savings and Debt**

2.5.1. Women are less likely to have savings, so have less to fall back on as costs outstrip wages. They are also more likely to have debt and to use high cost credit for essentials.

---

[26] Senedd Research "The real living wage and fair work: what are the latest developments" https://research.senedd.wales/research-articles/the-real-living-wage-and-fair-work-what-are-the-latest-developments/ [Accessed Aug. 2022]

[27] Senedd Research "The real living wage and fair work: what are the latest developments" https://research.senedd.wales/research-articles/the-real-living-wage-and-fair-work-what-are-the-latest-developments/ [Accessed Aug. 2022]

[28] UK Women's Budget Group (2022) *The gendered impact of the cost of living crisis*

[29] Calculated using Annual Survey of Hours and Earnings 2021 data accessed via Nomis

[30] ONS Annual Survey of Hours and Earnings 2022 Provisional results Table 7.2a

[31] Coram *Annual Childcare Survey 2022 / Annual Childcare Survey 2021*

NB: the methodology used by Coram for year on year increase uses only data from local authorities where there is data available for both years. As such, the 2022 report notes an increase 3% of 25 hours for children aged 2, and 3.7% for 50 hours. Above we have noted the percentage difference in the reported average costs for each year.

2.5.2. **Savings**

- The National Survey for Wales 2020-21 states that 21% of women said they would like to have savings of £10 a month but can't afford it compared to 15% of men.[32]
- 78% of adults from households headed by someone from a Black, African, Caribbean or Black British background, 72% from a Pakistani background and 73% from a Bangladeshi background reported having less than £1,500 in savings and investments, compared to a national average of 48%.[33]

2.5.3. **Debt**

- According to Step Change, in 2019 60% of their clients seeking support with debt were women - 38% of women were in council tax arrears compared to 33% of men.[34]
- Pre-pandemic, 61% of those getting into debt to purchase everyday necessities were women.[35]

2.5.4. **Use of credit[36]**

- According to the FCA Survey in 2020 more women (13%) used high-cost credit than men (8%). Women (especially aged 25-54) were three times as likely to hold a catalogue credit or shopping account (18%) as men (7%). Women (9%) are also over twice as likely to revolve balances then men (4%).
- According to research by StepChange, high-cost credit to pay for essentials was more likely to be used by women (27%) than men (10%), and more likely to be used by parents (25%) than those without children (17%).
- Those using credit for essentials are more likely to be those with physical or mental health problems; single parents; people from ethnic minority communities; young renters (of any tenure); younger families with dependent children; 25–54-year-olds; and women.
- Credit for essentials is most commonly spent on groceries, but also on rising living costs (e.g. energy/water bills, food, housing, transport) and to cover income/financial shocks.

2.6. **Gender roles**

2.6.1. The persistence of gendered roles in many households mean that women are often the 'shock absorbers' of poverty, as they tend to take on responsibility for the management of households budgets and the purchase of essentials, such as food.[37]

---

[32] National Survey for Wales https://gov.wales/national-survey-wales
[33] UK Women's Budget Group (2022) *The gendered impact of the cost of living crisis*
[34] Step Change (2019) *Wales in the Red* https://www.stepchange.org/Portals/0/assets/pdf/Wales-in-the-Red-2019-English.pdf
[35] UK Women's Budget Group (2022) *The gendered impact of the cost of living crisis*
[36] Helping those who use credit to make ends meet - FinCap [Accessed 26.08.22]
[37] UK Women's Budget Group (2022) *The gendered impact of the cost of living crisis*

3. What action is needed to support women with the cost of living crisis?

3.1. All action taken by the UK Government, Welsh Government and Local Government should be developed using equalities mainstreaming tools to ensure that support is responsive to women's needs.

3.2. To support women in the short-term, we echo the recommendations made by the UK Women's Budget Group to strengthen support available through the social security system[38]:

3.2.1. An increase in benefits in line with inflation
3.2.2. Abolition of the benefits cap and two-child limit
3.2.3. Conversion of Universal Credit advances into non-repayable grants
3.2.4. Increases in ESA, JSA and Statutory Sick Pay
3.2.5. Increase in child benefit to £50
3.2.6. An end to no recourse to public funds condition

3.3. We also echo a number of recommendations made by the Senedd Economy, Trade and Rural Affairs Committee report *Cost of Living Pressures*[39]:

3.3.1. Welsh Government should ensure that disaggregated cost of living data for Wales is regularly available to understand the impact on different groups
3.3.2. Welsh Government should accelerate work to bring together means-tested support schemes through a Welsh benefits system and work towards a one-stop-shop portal through which to access support
3.3.3. Welsh Government should drive the accreditation of all Welsh public sector organisations as real Living Wage employers, in particular delivering this for workers in Welsh local authorities and health boards
3.3.4. Welsh Government should explore using its levers around public sector pay and conditions to increase fair work in Wales including: by improving sick pay where this is needed for workers delivering public services, starting with longer-term arrangements for social care workers; and supporting those with the lowest earnings via pay settlements
3.3.5. Welsh Government should consider establishing an emergency support funding programme, using similar mechanisms to the COVID support programmes, to help the businesses most acutely affected through the peak of the cost of living pressures. This could be either in the form of grants, low cost loans or a combination of the two
3.3.6. Welsh Government should consider using business rate relief to support the most affected businesses until inflation returns to a level close to the Bank of England's target

3.4. Further measures that should be taken include:

3.4.1. The acceleration of changes to the Childcare Offer to widen eligibility

[38] UK Women's Budget Group (2022) *The gendered impact of the cost of living crisis*
[39] Senedd Economy, Trade and Rural Affairs Committee (2022) *Cost of Living Pressures*

3.4.2. Implementation of the Renting Homes Act and acceleration of the commitment to publish a White Paper to include proposals on a system of fair rents (rent control)
3.4.3. Creation of a Cost of Living helpline to provide a one-stop-shop for advice on all available cost of living support, that is easily found and well publicised

Conclusion

Women, particularly ethnic minority and racialised women, disabled women and lone parents, are being hit harder by the cost of living crisis. Rooted in the persistent inequality that still shapes our economy and day-to-day lives, women are likely to feel the impacts of the crisis more sharply, and are more vulnerable to falling into financial difficulty and poverty.

Our response to the crisis at all levels must take account of women's lived experience and the challenges they are facing to ensure that support packages are fit for purpose.

In the short-term, urgent action is needed to reduce the pressure on women's income and ensure that the social security system delivers the support that is needed. Action to reduce the cost burden of energy, food, childcare and rent would all go some way to helping to reduce the pressure.

Longer-term, we need to accelerate our progress towards a more equal Wales to ensure that we're not leaving the same groups more vulnerable to crisis after crisis.

For more information please contact:

Natasha Davies
Policy and Research Lead

[redacted]

[redacted]

Tomos Evans
Policy and Public Affairs Partner

[redacted]

[redacted]

Document is Restricted

Agenda Item 8

Office for **Budget Responsibility**

Welsh taxes outlook

December 2022

Contents

Charts and tables data are available on our website.

1 Introduction

Background

1.1 The Office for Budget Responsibility (OBR) was established in 2010 to provide independent and authoritative analysis of the UK's public finances. Alongside the UK Government's Budgets and other fiscal statements, we produce forecasts for the economy and the public finances. We publish these in our *Economic and fiscal outlook* (*EFO*).

1.2 In December 2016 the Welsh and UK Governments agreed the Welsh Government's fiscal framework. This established a mechanism for adjusting the block grant funding that the Welsh Government receives from the UK Government to reflect the devolution of tax powers.[1] The fiscal framework also established a requirement for independent forecasting. The Welsh Government chose to use our forecasts to meet this requirement.[2]

1.3 Our work with the Welsh Government is guided by a Memorandum of Understanding, Terms of Reference, and a Financial Framework. In the second half of 2020, we jointly reviewed these arrangements to ensure they reflected any lessons learnt in the first year of forecasting.[3] Our first *Welsh taxes outlook* (*WTO*) was published alongside the Welsh Government's 2020-21 Draft Budget in December 2019.

1.4 In this *WTO*, published alongside the Welsh Government's 2023-24 Draft Budget, we describe our latest forecasts for three sources of revenue:

- the **Welsh rates of income tax**;
- **land transaction tax** (LTT); and
- **landfill disposals tax** (LDT).

We also explain how each has changed since the previous forecast.

1.5 As set out in Chapter 1 of our 2019 *WTO*, we focus exclusively on these devolved taxes given their role in the fiscal framework. Some areas that are therefore beyond the scope of our role include: a full macroeconomic forecast for Wales; a forecast for Welsh Government spending; and an assessment of any policy proposals (rather than stated policies).

[1] More detailed information on the relevant legislation and governance is available on our website.
[2] Written statement by the Cabinet Secretary for Finance, *Provision of Welsh tax forecasts by the Office for Budget Responsibility*.
[3] The joint review is available on our website alongside the 2020 *WTO*.

1.6 These forecasts are consistent with the central forecast for the UK economy and public finances presented in our November 2022 *EFO*. European energy prices and global interest rates have risen sharply since our previous *EFO* in March. The consequences of these global shocks for inflation and real incomes across all parts of the UK means we now expect the UK economy to fall into a recession that lasts just over a year. As energy prices and interest rates fall back through the second half of the forecast, the economy recovers. But even so, the energy price shock leaves the economy materially smaller in the medium term than we expected in March, with consequences for all the major tax bases. Our UK fiscal forecast reflects significant short-term fiscal loosening to support households and businesses with high energy prices, followed by material fiscal tightening in the medium term from the tax rises and spending cuts announced in the UK Government's Autumn Statement.

1.7 The methodology and the forecasts in this *WTO* represent the collective view of the three independent members of the OBR's Budget Responsibility Committee (BRC). We take full responsibility for the judgements that underpin them.

1.8 All the charts and tables presented in this document, plus supplementary forecast material, are available in spreadsheet format on our website.

Forecast timetable

1.9 In order to produce the forecasts presented in this document:

- Analysts from the Welsh Government and HMRC produced draft Welsh tax forecasts, using determinants published in our November 2022 *EFO*.
- These were scrutinised by the BRC in a process that was, unusually, completed entirely by correspondence, due to uncertainties around the timing of the Autumn Statement.
- Updated LTT and LDT forecasts were then prepared by Welsh Government analysts reflecting the latest receipts and house price data. These were scrutinised by the BRC in a meeting on 23 November.
- On 29 November, we finalised our Welsh taxes forecast, incorporating the impacts of UK and Welsh Government policy announcements up to and including the Autumn Statement, as well as updated receipts outturn data published since then.

Structure of the document

1.10 The rest of this document is structured as follows:

- **Chapter 2:** income tax on non-savings, non-dividend income from the Welsh rates.
- **Chapter 3:** land transaction tax.
- **Chapter 4:** landfill disposals tax.
- **Annex A:** summary of the forecasts required for the block grant adjustments.

2 Welsh rates of income tax

Introduction

2.1 This chapter:

- describes the **Welsh rates of income tax** and how they are levied on non-savings, non-dividend income by tax band;
- sets out our **methodology** for forecasting UK income tax liabilities and the Welsh share of this total, before splitting this share by tax band;
- presents our **latest forecasts** for the Welsh rates and for UK income tax liabilities; and
- outlines some of the **risks and uncertainties** around our Welsh rates forecast.

What are the 'Welsh rates of income tax'?

2.2 The Welsh rates of income tax came into effect in April 2019. They are administered and collected by HMRC. There are four important aspects of the design and operation of these rates in Wales that distinguish them from our UK-wide income tax forecasts:

- First, they apply only to Welsh taxpayers, who are defined as **individuals whose main place of residence is in Wales** for the majority of the tax year. Individuals who are classified as Welsh resident are given a 'C' flag on their HMRC tax identifier.
- Second, the Welsh rates represent only the first **10p in the pound for each tax band**. Each year, the Welsh Government is required to set the tax rates for each of the basic, higher and additional tax rates, which replace a 10p reduction in the reserved UK Government element of each tax band. Since 2019-20 these rates have all been set at 10p, such that overall income tax rates paid by Welsh taxpayers remain aligned with those in England and Northern Ireland. The remaining income tax raised from Welsh taxpayers – i.e. 10p in the pound from basic rate payers, 30p from higher rate payers and 35p from additional rate payers – is reserved to the UK Government.
- Third, the Welsh rates are levied on **non-savings, non-dividend (NSND) income**. NSND income accounts for just over 90 per cent of UK-wide income tax liabilities, and around 95 per cent of liabilities in Wales.
- Finally, the Welsh rates are assessed on a **liabilities basis** rather than a National Accounts basis. This means that our forecast of self-assessment (SA) income tax used for the Welsh rates will differ from the cash basis used in the National Accounts and

our UK-wide SA income tax forecast, due to the lag between liabilities being incurred and the associated tax being paid.

2.3 Chart 2.1 illustrates how the 2023-24 income tax liability of three specimen Welsh taxpayers would be split between the UK and Welsh Governments:[1]

- **For a basic rate taxpayer earning £30,000** from one source of employment income, their £3,486 liability would be split equally between the two administrations. This results in an effective income tax rate paid by this individual of 11.6 per cent (lower than the 20 per cent basic rate thanks to the £12,570 tax-free personal allowance).

- **For a higher rate taxpayer earning £60,000**, with £55,000 coming from employment and £5,000 of dividends from company shareholdings, 39 per cent of their £10,782 liability would relate to the Welsh rates and 61 per cent would be reserved to the UK Government, including all the £1,350 due on their dividend income. The effective income tax rate paid by this individual is 18.0 per cent. These calculations include the impact of the UK Government's Autumn Statement 2022 decision to reduce the dividend allowance to £1,000 from April 2023 (followed by a further drop to £500 from April 2024 that would affect tax paid in 2024-25). This has no impact on the amount of tax due to the Welsh Government – since the tax rate on employment income is unchanged – but by increasing the effective tax rate on dividend income it reduces the Welsh share of the overall liability, from 41 to 39 per cent.

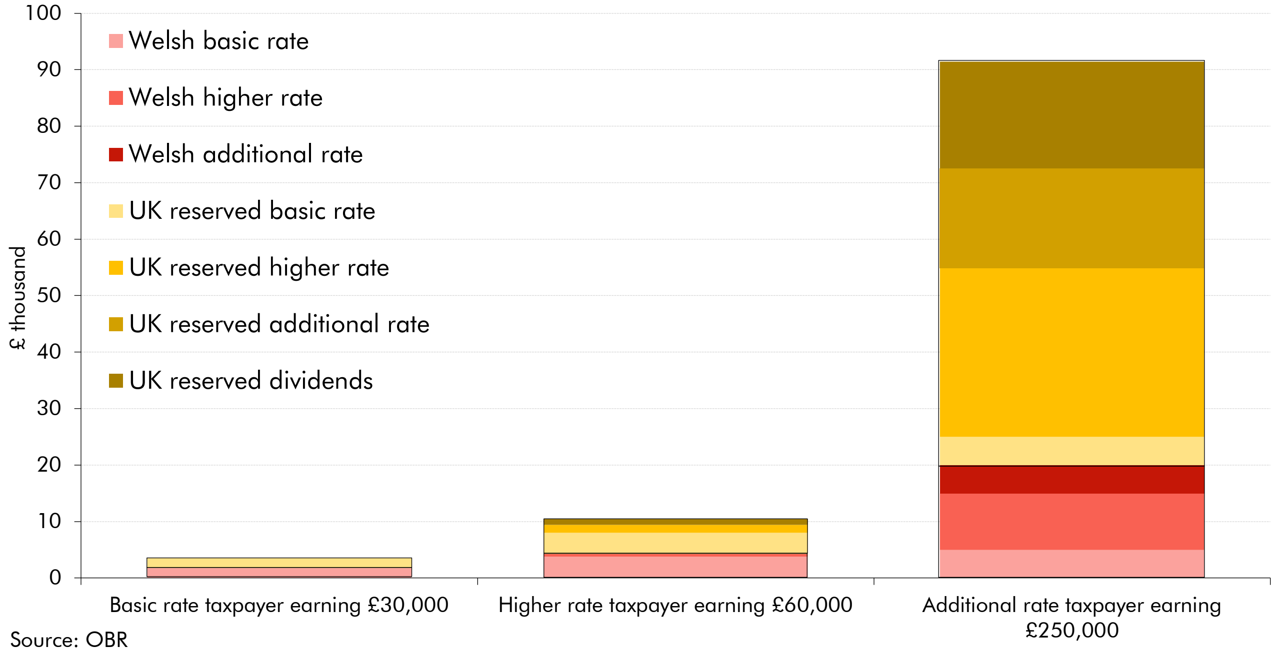
- **An additional rate taxpayer earning £250,000**, with £200,000 from employment income and £50,000 in dividends, would have a total tax liability of £93,038. Of this, only 21 per cent would relate to the Welsh rates, while 79 per cent would go to the UK Government. At this income level a taxpayer would not receive any personal allowance. The higher share for the UK Government reflects two factors: first, all earnings above £37,700 would be taxed at the higher or additional rates where the UK Government share is much larger; and second, the taxpayer has a liability of £19,282 from their dividend income, all of which is retained by the UK Government. The effective income tax rate paid by this individual is 37.2 per cent. These calculations reflect two UK Government policy decisions in Autumn Statement 2022 – reducing the dividend allowance (explained above) and lowering the additional rate threshold from £150,000 to £125,140. These changes increase the effective tax rate for additional rate payers and while this has no impact on the amount of tax due to the Welsh Government it does increase the amount due to the UK Government, thereby lowering the Welsh share of overall liability, from 22 to 21 per cent.

2.4 These examples illustrate the relative importance of higher earners for tax receipts, but that this is much less the case for the Welsh rates. The higher rate taxpayer earns twice as much as the basic rate taxpayer and has an overall tax liability that is three times greater, but their

[1] In addition to the income tax parameters reported in Table 2.2, this also reflects the personal allowance taper that withdraws £1 of personal allowance for every £2 of earnings above £100,000; the dividend allowance of £1,000 in 2023-24; and tax rates on dividend earnings of 8.75 per cent for basic rate taxpayers, 33.75 per cent for higher rate taxpayers and 39.35 per cent for additional rate taxpayers. These specimen examples are illustrative and do not include all aspects of the income tax regime, for example any use of reliefs to lower an individual's tax liability.

Welsh rates liability is only around 2½ times as large. The additional rate taxpayer earns four times as much as the higher rate taxpayer and has a tax liability that is more than eight times greater, but their Welsh rates liability is somewhat less than five times greater. The UK Government's tax revenues are therefore more sensitive to changes in high-earners' incomes than the Welsh Government's revenues are.

Chart 2.1: Illustrative splits between Welsh and UK Government income tax liabilities



Source: OBR

2.5 The December 2016 fiscal framework agreement between the Welsh and UK Governments detailed how the Welsh rates would operate.[2] In doing so it placed a requirement on us to forecast income tax liabilities in Wales, and in England and Northern Ireland combined, split by tax band. This was not something that had previously been necessary (or possible).[3]

Methodology

2.6 Our Welsh income tax forecasts are produced on a 'top-down' basis.[4] The main steps are:

- First, we establish the whole of the UK NSND income tax liabilities forecast.
- Next, we calculate the **share of NSND income tax liabilities subject to the Welsh rates**, taking into account the relevant tax base in Wales and how this maps onto the announced tax regime. Much of our analysis first looks at the total share of income tax from Wales – including amounts paid by Welsh taxpayers but reserved to the UK Government – before estimating the proportion that is subject to the Welsh rates. We have also calibrated this to the outturn share for the Welsh rates in 2020-21, based on

[2] HM Government and Welsh Government, *The agreement between the Welsh Government and the United Kingdom on the Welsh Government's fiscal framework*, December 2016.
[3] For more on our approach, see Mathews, P. *Working paper No.14: Devolved income tax: forecasting by tax bands*, September 2018.
[4] For more detail on our forecast methodology see Chapter 2 of our December 2019 *Welsh taxes outlook* and the 'Welsh tax forecasts' page of our website.

the second year of outturn data for Welsh income tax liabilities, which HMRC published in July. In Box 2.1 we evaluate our forecasts for that second year.

- Finally, we add our estimates of the effect of **new policies** announced since our previous forecast on Welsh rates liabilities.

Pre-measures UK-wide forecast

2.7 We use HMRC's latest published UK-wide NSND income tax liabilities outturn for the most recent tax year (currently 2020-21) as the starting point for our pre-measures forecast. To project liabilities between that outturn year and the year in progress, we produce an in-year estimate based on HMRC's most recent monthly tax receipts data – in this case covering all 12 months of 2021-22 and the first five months of 2022-23.

2.8 We forecast growth in the UK income tax base in line with our wider economy forecast. The key determinants are employment and average earnings growth, which determine the amount of labour income that can be taxed, and CPI inflation, which is used to uprate tax thresholds in the absence of other stated policies. But in our latest forecast, CPI inflation has very little effect because thresholds are frozen at the UK level until 2027-28.[5]

2.9 We forecast income tax at the UK level according to the different methods by which HMRC collects the tax. PAYE income tax accounts for over 80 per cent of revenue, with nearly all the remainder collected via the SA system. PAYE income mainly represents the earnings of employees plus some pensions income, while SA income includes profits from self-employment and income from dividends, land and property, and savings.

The share of UK-wide income tax liabilities subject to the Welsh rates

The overall Welsh share of UK-wide income tax liabilities

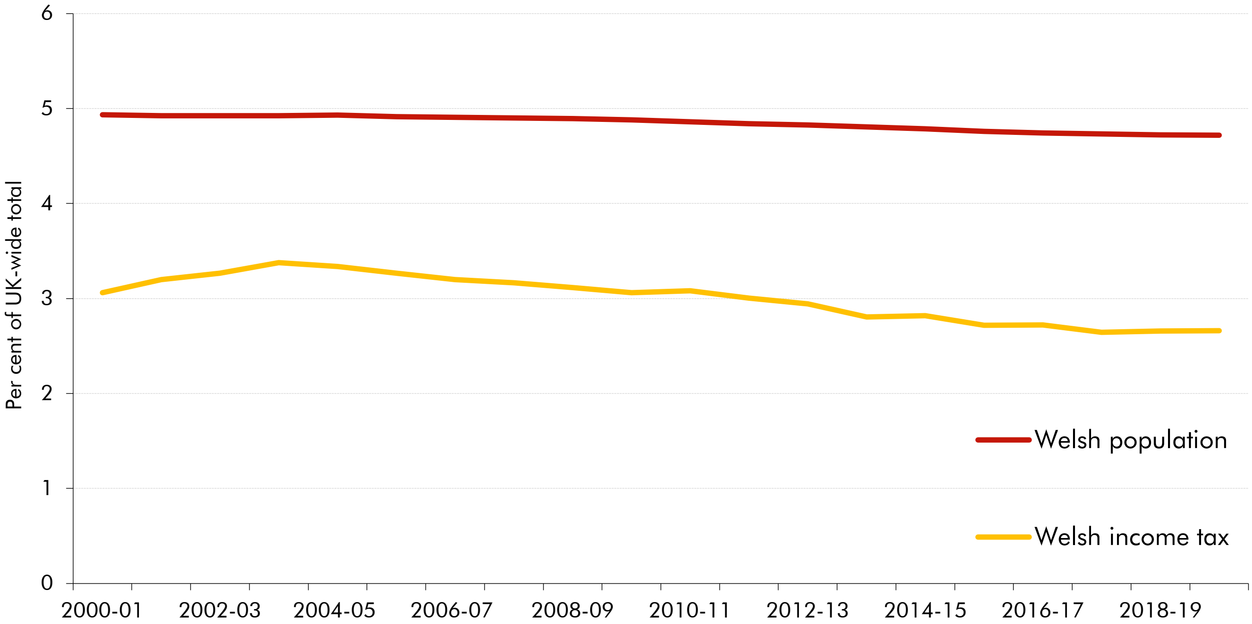
2.10 Armed with our forecast for UK NSND income tax liabilities, we then need to calculate the share that will be subject to the Welsh rates and apply this to the UK forecast. This is done in two steps. First, we calculate the overall Welsh share of income tax as captured by HMRC's survey of personal incomes (SPI). This is an annual survey based on a sample of around 822,000 individuals in contact with HMRC. It is published with a long lag, with the 2019-20 SPI being the latest year currently available.

2.11 Chart 2.2 compares the Welsh share of UK income tax liabilities with the Welsh share of the UK population. Both have been declining – the Welsh share of income tax more rapidly. Perhaps the two most striking features of the chart are how much lower the Welsh share of income tax is compared with the Welsh share of the population (2.7 versus 4.7 per cent in 2019-20) and the difference in the relative rate of decline in the Welsh share of income tax compared with the share of population (declining by 13.1 versus 4.4 per cent since 2000-

[5] In the absence of these frozen thresholds, high rates of CPI inflation would have caused thresholds to rise faster than earnings so that some people stopped paying income tax and others had greater shares of their income tax at lower rates. This 'negative fiscal drag' would have reduced the average tax rate on all incomes and reduced revenues relative to what has happened with frozen thresholds.

01). On this basis, income tax liabilities per person in Wales in 2019-20 were 44 per cent lower than in the UK as a whole (at £1,596 versus £2,831).

Chart 2.2: Welsh share of UK income tax liabilities and population

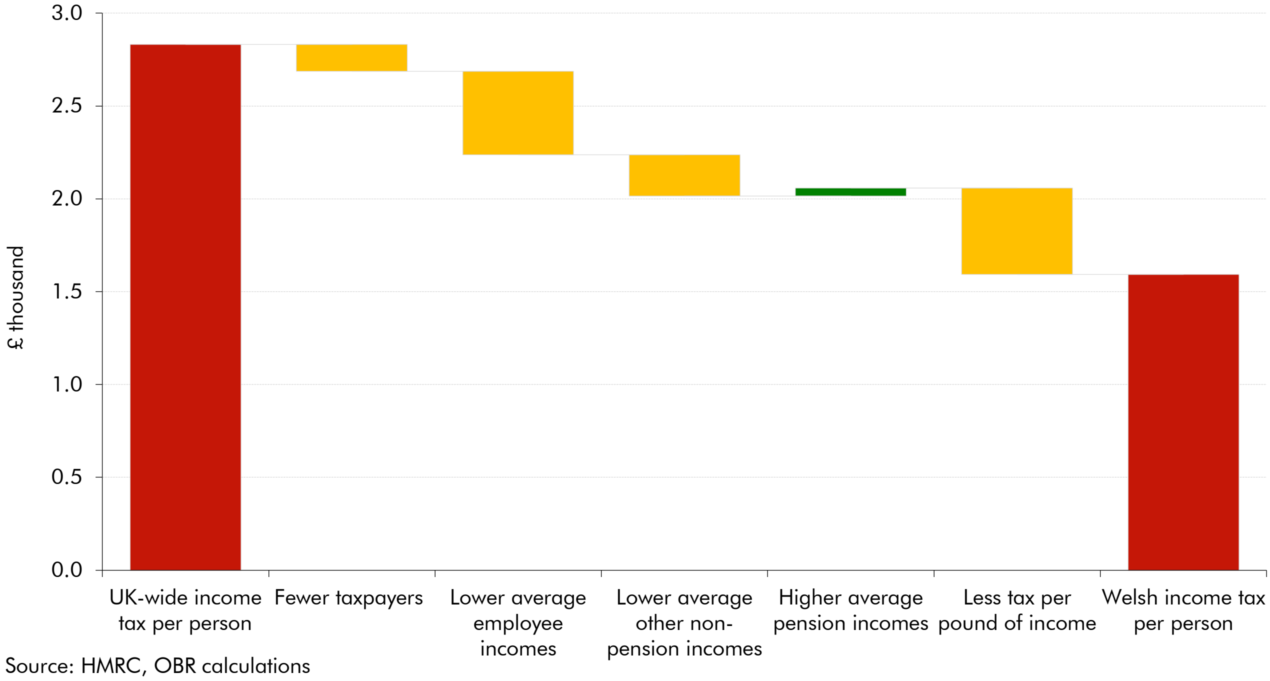


Note: Tax data unavailable for 2008-09 so the proportional shares are based on interpolation from the adjacent years.
Source: HMRC, ONS

2.12 We can readily incorporate differences in expected population growth in our forecasts using published ONS projections, but understanding why tax per person in Wales is lower than in the UK, and declining in relative terms, is more complex. We use in-year real time PAYE information (RTI) to adjust the initial SPI-based shares, thereby partially capturing some of the observed recent dynamics. A more thorough investigation, including how this trend has evolved over time and how it might affect the Welsh share of income tax in the future, will be presented in a forthcoming working paper.

2.13 In Chart 2.3 we use the latest SPI data to show how the difference in tax liabilities per person can be attributed to three underlying factors: the proportion of the population that are taxpayers; the average incomes of those taxpayers (split into three different sources); and the amount of tax paid per pound of income (i.e. the effective tax rate or ETR). Analysing the difference in this way facilitates any forecast judgements we may wish to make about how the Welsh share of income tax will evolve.

Chart 2.3: Welsh and UK income tax liabilities per person in 2019-20



Source: HMRC, OBR calculations

The proportion of the population that pay income tax

2.14 The likelihood of an individual paying income tax is lower in Wales than it is in the UK as a whole. According to the 2019-20 SPI, 43 per cent of the Welsh population paid income tax, compared to 47 per cent of the UK's population, accounting for around 12 per cent of the gap between Welsh and UK income tax liabilities per person.

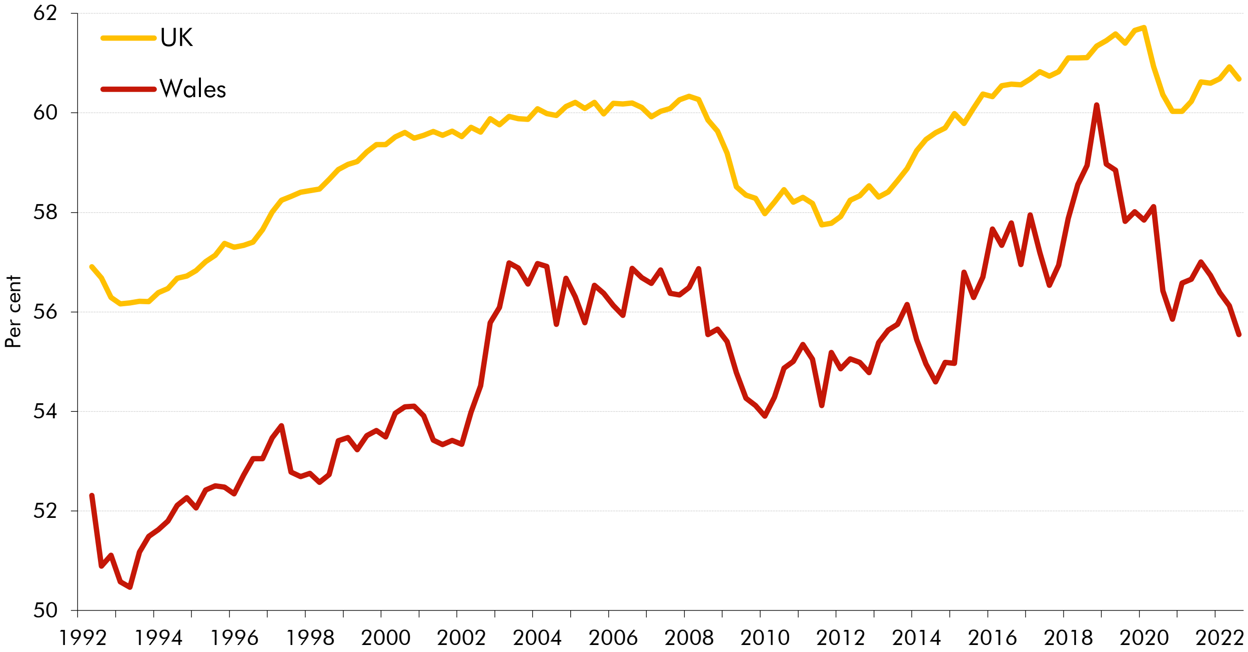
2.15 There are two main factors that are likely to explain the lower proportion of taxpayers in the population in Wales. First, the employment rate in Wales is lower than in the UK as a whole. Chart 2.4 shows that the employment rate in Wales has been consistently below that in the UK in recent years.[6] On average since 1992, the rate in Wales has been 4.1 percentage points lower than that in the UK as a whole. In 2019-20 it was 3.5 percentage points lower. On this Labour Force Survey measure, the employment rate in Wales has also been around twice as volatile as in the UK as a whole

2.16 In 2020 the pandemic contributed to a 2.2 percentage point fall in the employment rate in Wales, greater than the 1.6 percentage point drop in the UK as a whole. Initially, employment rebounded more quickly in Wales but it has now begun to fall back again, with the rate dropping 1.5 percentage points in the year to September 2022, whereas the overall UK employment rate rose by 0.1 percentage points. This is partly driven by the recent rise in inactivity (and long-term sickness), which has disproportionately affected Wales. The inactivity rate in Wales has risen by 1.6 percentage points in the year to September 2022, over four times the 0.4 percentage point rise seen in the UK as a whole. Overall this has taken the shortfall in the employment rate in Wales relative to the UK as a whole to a 20-year high of 5.1 percentage points in the three months to September 2022. The outlook for

[6] The employment rate here is the proportion of people aged 16 and over who are in paid work.

labour market inactivity is particularly uncertain at present – indeed, health-related trends were identified as a key source of risk to our UK-wide forecasts in our latest *Economic and fiscal outlook* (*EFO*). If trends in Wales were to continue to be less favourable than those in the UK as a whole, this would pose a downside risk to our assumptions about the Welsh share of UK-wide income tax liabilities.

Chart 2.4: Employment rate for the UK and Wales

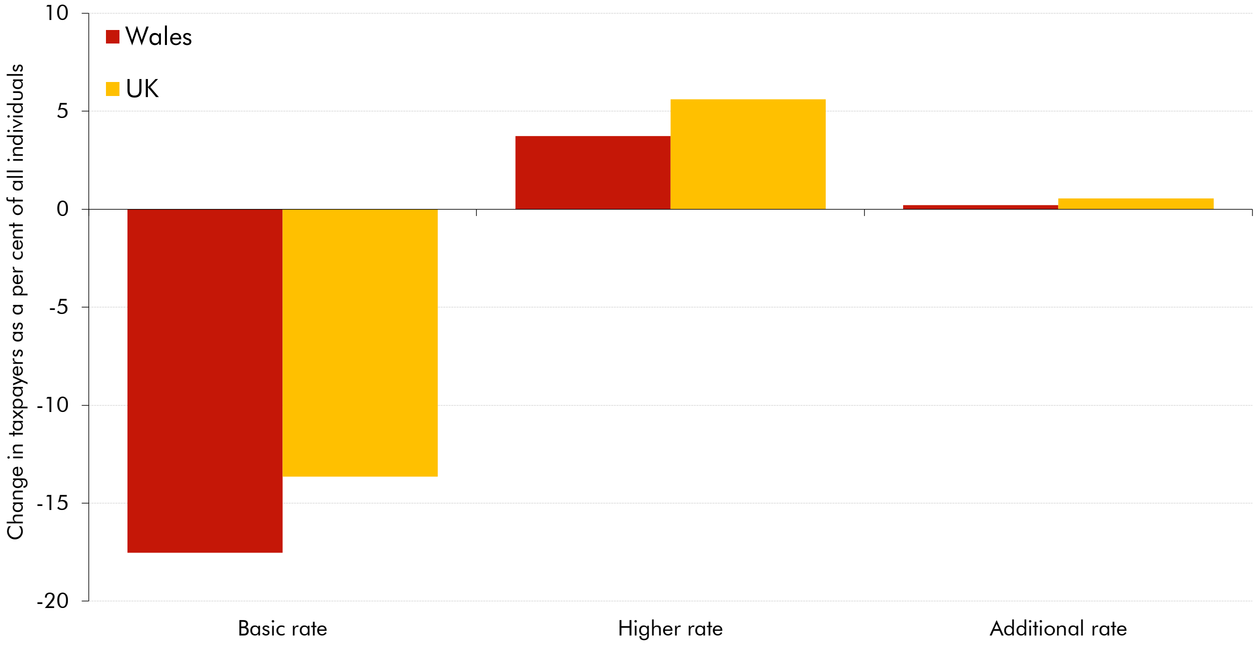


Source: ONS

2.17 Second, successive rises in the tax-free personal allowance – from £6,475 in 2010-11 to £12,500 in 2019-20 (and further to £12,570 in 2021-22) – are likely to have taken proportionately more Welsh residents out of income tax altogether due to differences in the earnings distribution between Wales and the UK as a whole. Chart 2.5 shows the relative change in the number of taxpayers in each tax band between 2010-11 and 2019-20. The significantly larger decline in the number of basic rate taxpayers in Wales (falling by nearly 30 per cent more than in the UK), reflects the greater concentration of the tax base in this band and the resulting disproportionate effect of raising the personal allowance.[7] Conversely, the Welsh increase in the two higher tax bands is around half as large that of the UK as a whole. This points to the greater decline in basic rate taxpayers in Wales being due to taxpayers dropping out of the basic rate rather than moving up into the two higher bands. This helps explain why the number of taxpayers grew by ½ per cent in the UK between 2010-11 and 2019-20, but dropped by 5.6 per cent in Wales, despite increases in the population and employment rates in both.

[7] This source of divergence between the number of taxpayers in Wales and the UK as a whole should be less of a factor during the forecast period, with the personal allowance set to remain fixed at £12,570 until the end of 2027-28.

Chart 2.5: Change in taxpayers by tax band between 2010-11 and 2019-20



Source: HMRC, OBR

Average income per taxpayer

2.18 The most important reason for the gap between UK and Welsh tax per person (as recorded in the SPI) is that Welsh taxpayers had lower average incomes. This explains around 36 per cent of the shortfall in tax per person in 2019-20.

2.19 Table 2.1 displays different sources of income averaged across all income taxpayers. It shows that:

- **The vast majority of taxpayer income comes from employee jobs**. This is true in both Wales and the UK as a whole, so it is not surprising that this represents the largest source of difference in tax liabilities per taxpayer (as shown in Chart 2.3 above). In 2019-20, lower average employee incomes in Wales accounted for over two-thirds of the overall shortfall in income per taxpayer in Wales relative to the UK as a whole.

- **The SPI implied average income in Wales is lower than in the UK as a whole** – by 18 per cent in 2019-20. The difference is particularly marked in self-employment and other non-pension income (which includes income from savings and dividends) where Welsh income is 40 per cent lower.

- **The average income from pensions is higher in Wales than in the UK as a whole** – by 10 per cent in 2019-20. This is due to a higher proportion of the Welsh population being of pension age (21 per cent in 2020 versus 19 per cent in the UK as a whole) and Wales having a relatively higher proportion of public sector workers (20.7 per cent in 2019-20 compared to 16.5 per cent for the UK overall).

Table 2.1: Average incomes in 2019-20 by type

	UK	Wales	Difference	
	£ per taxpayer		£	Per cent
Employee income	25,841	21,103	-4,738	-18
Self-employment and other non-pension income	5,844	3,515	-2,330	-40
Pension income	4,984	5,463	479	10
Total income	**36,825**	**30,074**	**-6,752**	**-18**

2.20 Table 2.2, which focuses just on employee income, shows that this large gap in average earnings is also reflected in other sources of labour income data. The coverage of each differs so they are not fully comparable, which explains why the level of average earnings reported by each is different. But even so, they tell a consistent story of average employee incomes in Wales being considerably lower than those for the UK as a whole.[8]

Table 2.2: Different measures of average employee earnings in 2019-20

	UK	Wales	Difference	
	£ per employee		£	Per cent
HMRC Survey of personal incomes	33,776	28,137	-5,639	-17
HMRC Real-time information	29,995	24,955	-5,040	-17
ONS Annual survey of hours and earnings	29,782	25,882	-3,900	-13
ONS Labour force survey	33,535	28,746	-4,790	-14

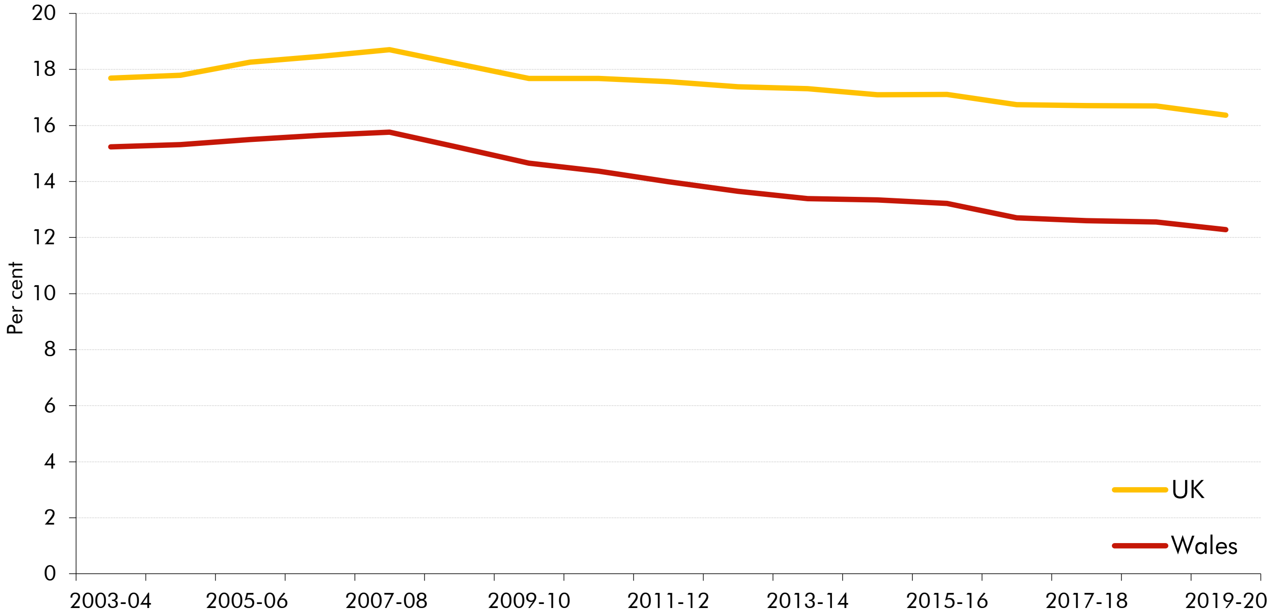
Average amounts of tax paid per pound of income

2.21 Even once we have accounted for differences in the number of taxpayers per person and the average income per taxpayer, income tax per person in Wales falls well short of that in the UK because less tax is paid per pound of income. This lower effective tax rate explained over a third of the difference in 2019-20.

2.22 Chart 2.6 shows that the effective income tax rate in Wales has been considerably lower than that in the UK across the past decade. It has also declined somewhat faster, by 3.5 percentage points between the peak in 2007-08 and 2019-20 compared with 2.3 percentage points in the UK as a whole. The effective tax rate declined by 0.3 percentage points in both Wales and the UK in 2019-20 alone, so the gap between them remained stable rather than continuing its decade-long widening.

[8] The difference in the SPI average between Tables 2.1 and 2.2 is because the latter is only averaging across those individuals with employment income, while the former is doing so across all individuals. This explains why the average is lower in Table 2.1, since it includes some individuals, for example pensioners, with no employment income.

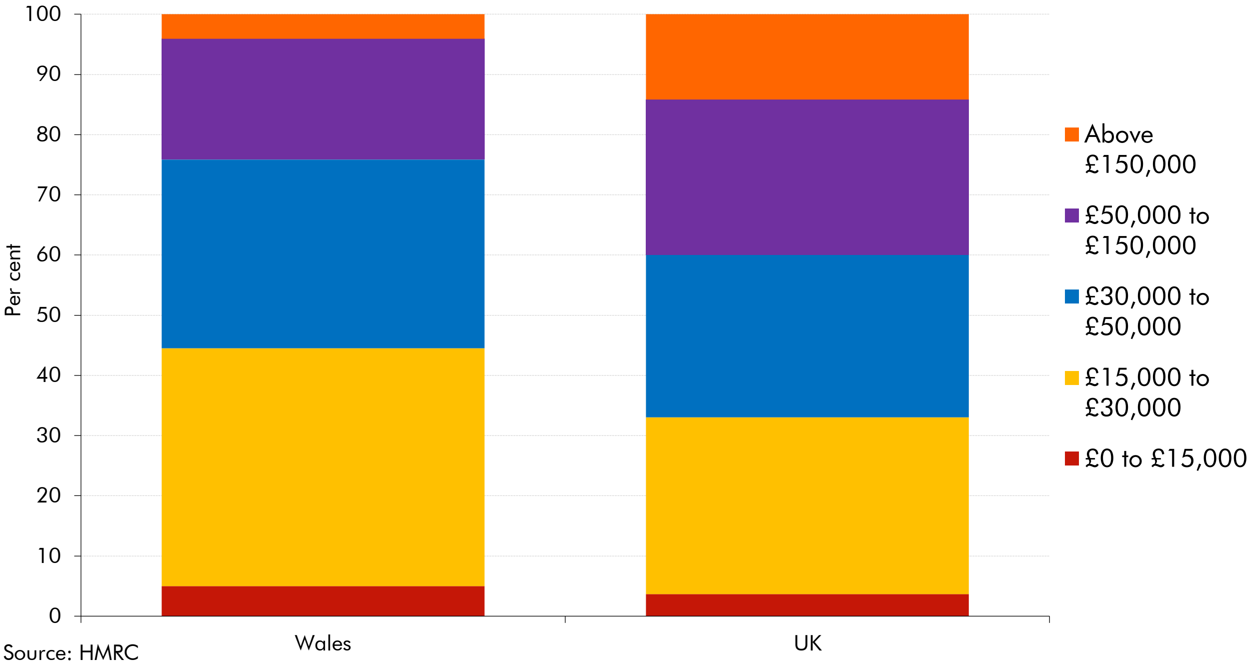
Chart 2.6: Effective income tax rates in Wales and the UK



Note: Data unavailable for 2008-09 so the proportional shares are based on interpolation from the adjacent years.
Source: HMRC

2.23 In part this reflects the progressive income tax structure interacting with lower average incomes – for example, all else equal there will be a higher share of tax paid at the basic rate in Wales than there is in the UK as a whole. But it also reflects the shape of the income distribution. Chart 2.7 compares total taxpayer income grouped by income bands between Wales and the UK, as recorded in the 2019-20 SPI. It shows that taxpayers earning over £50,000 account for around 40 per cent of total taxpayer income in the UK, around two-thirds higher than the equivalent share for Wales. This is reflected in the share of total tax paid at each income band, with 66 per cent of total tax paid in the UK coming from those earning over £50,000, compared with 44 per cent in Wales. Fiscal drag has also increased the proportion of taxpayer income from earnings above £50,000, with the share increasing by almost 2 percentage points from 2018-19 to 2019-20 in both Wales and the UK as a whole, with a corresponding fall in the share attributed to lower earnings.

Chart 2.7: Proportion of total taxpayer income in the UK and Wales by income band

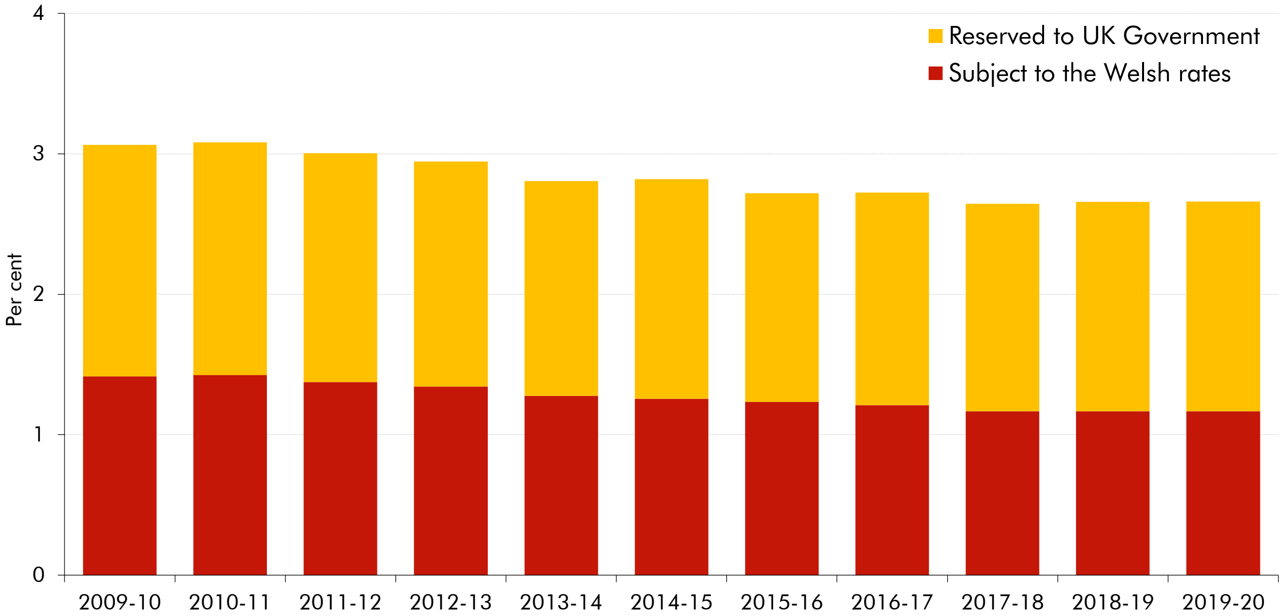


Source: HMRC

The share of Welsh income tax liabilities subject to the Welsh rates

2.24 The final step in estimating the share of UK income tax liabilities that will be subject to the Welsh rates is a mechanical one. We estimate the share of Welsh NSND income that will be taxed in each tax band and then calculate the relevant fraction of it that would be covered by the first 10p – i.e. 50 per cent for income taxed at the basic rate, and so on. Chart 2.8 shows all the income tax collected from Welsh taxpayers as a proportion of total UK income tax (2.7 per cent in 2019-20) and compares it to the amount actually devolved – i.e. the share that would be subject to the Welsh rates (1.2 per cent in 2019-20).

Chart 2.8: Welsh shares of total UK income tax liabilities: all tax from Welsh taxpayers versus the Welsh rates of income tax



Source: HMRC

Forecasting the share of income tax liabilities subject to the Welsh rates

2.25 From these starting points, we adjust our forecast for the overall Welsh share in three ways:

- **RTI earnings**: we fill in the period between 2019-20 and 2022-23 using HMRC's estimate of outturn Welsh income tax liabilities in 2020-21 and timelier RTI data on the Welsh share of total pre-tax employee earnings (i.e. the product of employee numbers and average earnings) since then. In the absence of timely information on other forms of NSND income, we assume that the RTI earnings data are representative of the total. Applying this approach in our Scottish income tax forecasts has suggested that it provides a reasonable guide to movements in NSND income shares.

- **Population**: beyond 2022-23, we factor in relative population growth rates based on the most recent ONS population projections, which were released in January 2022. These show the Welsh share of the UK population continuing to decline, and we would expect this to reduce the Welsh share of income taxpayers.[9] We adjust for this using an index of the Welsh share of the UK's adult population, which we have recently refined. We now calculate separate indices for the working-age population (those aged 16 to 65) and the pension-age population (those aged 65 and over), weighting both by the proportion of NSND income tax paid by each group. This captures different trends in population ageing as well as in overall population size.

[9] See Box A.2 in Annex A of our 2018 *Fiscal sustainability report* for a discussion of the fiscal risks that might be associated with demographic trends in the constituent nations of the UK.

- We include adjustments for **gift aid and those previously announced policies** that have been or will be implemented between the SPI base year (2019-20) and the end of our forecasts and that are expected to affect the Welsh share.

2.26 Finally, we calculate the share of all Welsh income tax subject to the Welsh rates. For the forecast years this is done via HMRC's 'personal tax model', which is based on outturn SPI data, and follows the same methodology as has been used to estimate the share subject to Welsh rates in outturn.

New policy costings

2.27 Our post-measures forecast is produced by adding the effects of new policies announced since our previous forecast. The introduction of the Welsh rates and the associated terms of the fiscal framework mean that we need to assess the effect of new policies on each individual band of income tax, rather than simply their overall cost or yield.

2.28 Many of the general sources of uncertainty around policy costings that we routinely highlight are likely to be amplified as we disaggregate costings by geography and tax band. For that reason, we believe a relatively simple approach is appropriate, making sufficient allowance for asymmetric effects across countries and bands, while not seeking spurious precision.

Latest forecast

UK income tax forecast

2.29 As set out in Chapter 1, our latest forecast for UK NSND income tax is based on the economic forecast published in our November 2022 *EFO*. Table 2.3 reports the UK and Welsh rates and thresholds that we have used in this forecast. In last month's Autumn Statement, the UK Government decided to extend the freeze in the personal allowance and the higher rate threshold by a further two years to the end of 2027-28, meaning that almost all the rates and threshold are fixed across the entire forecast period. The one exception is the additional rate threshold, which, also due to an Autumn Statement policy decision, will drop from £150,000 to £125,140 from April 2023 and remain fixed thereafter.

Table 2.3: UK Government and Welsh Government income tax parameters

	Per cent					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
UK Government tax rates for Welsh taxpayers						
Basic rate	10	10	10	10	10	10
Higher rate	30	30	30	30	30	30
Additional rate	35	35	35	35	35	35
Welsh rates of income tax						
Basic rate	10	10	10	10	10	10
Higher rate	10	10	10	10	10	10
Additional rate	10	10	10	10	10	10
Total income tax rates						
Basic rate	20	20	20	20	20	20
Higher rate	40	40	40	40	40	40
Additional rate	45	45	45	45	45	45
	£					
Tax thresholds (reserved to the UK Government)						
Personal allowance	12,570	12,570	12,570	12,570	12,570	12,700
Higher rate	50,270	50,270	50,270	50,270	50,270	50,800
Additional rate	150,000	125,140	125,140	125,140	125,140	125,140

Note: Shaded cells represent policy baselines assumed for forecasting purposes. We assume that Welsh rates will remain unchanged until the Welsh Government states otherwise.

2.30 Table 2.4 sets out the forecast for UK NSND income tax liabilities that underpins our Welsh rates forecast. UK-wide NSND income tax liabilities recovered strongly in 2021-22, increasing by £27 billion (15 per cent) relative to 2020-21, though this is £1.1 billion (0.5 per cent) lower than we forecast in our March 2022 *EFO*. The change since March is more than explained by a downward revision to the previous year's outturn (which reduces the forecast in future years by an average of £5.0 billion a year). This outweighs an upward revision to the growth in 2021-22 liabilities (of £3.1 billion, mainly driven by very strong bonus pay growth raising PAYE receipts in the final months of 2021-22).

2.31 The upward revisions to our pre-measures income tax forecast persist through 2022-23 (reflecting higher outturn receipts) and 2023-24 (thanks to modestly higher nominal wage growth). But thereafter the impact of the energy price shock on whole-economy productivity and thus wage growth dominates, such that revenues in our pre-measures forecast have been revised down by progressively larger amounts from 2024-25 onwards.

2.32 UK Government policies announced since March mitigate the downward revision in the pre-measures forecast, raising £11.0 billion by 2027-28 and around £6.5 billion a year on average. The biggest revenue-raisers include:

- The decision **not to cut the basic rate from 20 to 19 per cent**, which was due to take effect from April 2024 (as announced in the Spring Statement) has the single largest impact, raising £5.9 billion a year on average from 2024-25 onwards.
- The decision to **scrap the health and social care levy** that was due to come into effect in April 2023. This raises income tax liabilities by amounts rising to £2.5 billion a year

in 2027-28 (while costing much more than that in lost revenue from the levy itself). The income tax yield from this measure comes via its indirect behavioural consequences. These include wages being higher than would have been the case if the levy had gone ahead (which is not separated out in Table 2.4) and the reduced incentive to incorporate, which boosts income tax and NICs at the expense of corporation tax.

- **Other measures** raise receipts by amounts rising to £2.4 billion by 2027-28, the most significant being the extension to the freezes in the personal allowance and higher rate thresholds, and the lowering of the additional rate threshold.

Table 2.4: Whole UK forecast of tax liabilities on non-savings, non-dividend income

	£ billion							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	186.7	208.4	226.7	238.2	245.2	259.4	272.8	
December forecast	180.3	207.3	224.7	237.9	245.8	254.8	267.0	282.5
Difference	**-6.4**	**-1.1**	**-2.0**	**-0.2**	**0.5**	**-4.6**	**-5.8**	
of which:								
UK NSND outturn alignment		-4.2	-4.6	-4.8	-5.1	-5.4	-5.6	
Pre-measures forecast		3.1	2.1	2.8	-2.6	-7.9	-9.3	
Basic rate cut reversal		0.0	0.0	0.0	5.8	5.8	5.9	6.0
Health and social care levy reversal		0.0	0.5	1.3	1.6	2.0	2.3	2.5
Other UK policies		0.0	0.0	0.5	0.7	0.9	1.0	2.4

Share subject to the Welsh rates

2.33 Table 2.5 shows our latest forecast for the Welsh share and the change since March. It is presented on a pre-measures basis because the impact of new policy measures is captured in cash terms rather than via the share. It therefore does not include the effect on the share of not going ahead with the cut to the basic rate of income tax in 2024-25. On this basis, the Welsh share is little changed from our March forecast, up by 0.01 percentage points on average. That reflects a small downward revision in 2022-23 followed by upward revisions from 2024-25 onwards. Initially this reflects the latest in-year RTI data, which serve to lower the share in 2022-23. But ultimately that is outweighed by revisions to ONS-derived population shares, which raise the share relative to March.

Table 2.5: Share of pre-measures liabilities subject to the Welsh rates

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	1.17	1.16	1.17	1.18	1.21	1.21	1.21	
December forecast (pre-measures)	1.19	1.16	1.16	1.18	1.23	1.22	1.22	1.22
Difference	**0.02**	**0.00**	**-0.01**	**0.00**	**0.02**	**0.02**	**0.01**	
Memo: Population index		*100.0*	*100.0*	*99.9*	*99.9*	*99.8*	*99.7*	*99.6*
Memo: RTI index (2020-21 = 100)		*97.5*	*97.4*	*97.4*	*97.4*	*97.4*	*97.4*	*97.4*
Memo: Combined index		*97.5*	*97.4*	*97.3*	*97.2*	*97.1*	*97.1*	*97.0*

Latest forecast for the Welsh rates of income tax

2.34 Table 2.6 sets out our latest forecast for the Welsh rates of income tax and a breakdown of the changes since March, while Table 2.7 shows the forecast by tax band. We have revised this forecast down in all years, by an average of £55 million (1.9 per cent). This largely reflects downward revisions to our UK-wide forecast, with only modest revisions due to changes in the Welsh share described above.

2.35 In terms of UK Government policies, not going ahead with the health and social care levy increases the forecast by an average of £13 million a year, rising to £24 million in 2027-28. Freezing income tax thresholds for a further two years raises a further £27 million in 2027-28. The cancelling of the basic rate cut has no direct impact on NSND revenues for the Welsh Government since it only affects the reserved portion of the basic rate, leaving the 10p Welsh rate for basic rate payers unaffected (though it does have small indirect effects).

Table 2.6: Welsh rates of income tax forecast

	£ million							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	2,181	2,412	2,645	2,805	2,961	3,134	3,291	
December forecast	2,140	2,401	2,604	2,795	2,927	3,027	3,162	3,348
Difference	**-41**	**-12**	**-40**	**-9**	**-34**	**-107**	**-129**	
of which:								
Welsh share modelling		1	-12	8	46	39	35	
UK NSND outturn alignment		-49	-53	-57	-62	-66	-69	
UK NSND forecast and other changes		36	25	33	-30	-94	-111	
Effects of UK Government policies		0	0	6	13	15	16	44

Table 2.7: WRIT forecast of tax liabilities on NSND income by tax band

	£ million							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
December forecast	**2,140**	**2,401**	**2,604**	**2,795**	**2,927**	**3,027**	**3,162**	**3,348**
of which:								
Basic rate	1,843	2,040	2,211	2,375	2,490	2,573	2,677	2,824
Higher rate	251	299	327	350	363	377	404	436
Additional rate	46	61	66	71	74	77	82	88
	Per cent							
Basic rate	86.1	85.0	84.9	85.0	85.1	85.0	84.6	84.3
Higher rate	11.7	12.5	12.6	12.5	12.4	12.5	12.8	13.0
Additional rate	2.2	2.5	2.5	2.5	2.5	2.6	2.6	2.6

Key uncertainties

2.36 There are several sources of uncertainty around our forecast for income tax liabilities subject to the Welsh rates. We summarise some of the most important ones here.

Employment and inactivity

2.37 Having entered the coming recession 0.4 per cent (142,000 people) below its pre-pandemic level, UK-wide employment is expected to fall by a further 0.4 per cent (124,000 people) by the first quarter of 2024 as output falls during the recession. The weak outlook for employment also reflects a smaller labour force than we had expected pre-pandemic (a phenomenon that Chart 2.4 above suggests has been more pronounced in Wales than in the UK as a whole). The number of people UK-wide that report inactivity due to long-term sickness has risen by 378,000 since before the pandemic, with a particularly large increase among older age groups. More broadly, several adverse developments in our UK forecasts since March can be traced back to health-related issues. As well as labour market inactivity having risen, health-and disability-related benefit caseloads have too. With the UK having suffered a fourth wave of infections and hospitalisations in 2022, self-reported prevalence of long Covid remaining high, and the NHS waiting list for elective treatments continuing to rise, economic and fiscal risks from health developments appear to have risen since March.

Growth of productivity and average earnings

2.38 Our UK-wide and Welsh income tax forecasts are sensitive to the assumptions we make about growth in labour productivity, which is the key determinant of real earnings growth. With the recession set to weigh on business investment and 'total factor productivity' (as measured) being held back by higher energy prices, the outlook for labour productivity growth and real earnings is weak. There are risks to both sides of these forecasts. On the upside, a rapid end to Russia's war in Ukraine that stabilised European energy markets and lowered prices could relatively quickly feed through to reduced inflationary pressure and smaller rises in interest rates, allowing the economy and earnings to recover more quickly. And since higher energy prices are the key factor explaining why growth in total factor productivity over the next five years is only slightly higher than the very weak post-financial crisis average and much weaker than the pre-financial crisis average, lower energy prices would also boost the medium-term outlook. Against that, the war could intensify and energy prices could remain high and volatile, weighing further on the outlook. And these risks come in the context of continuing uncertainty around prospects for growth in productivity and earnings growth that has been a feature of the post-financial crisis decade.

The Survey of personal incomes base data

2.39 The representativeness of the geographical and income distributions reported in the SPI base data is important for the development of our forecasts. The SPI is designed to be representative at the UK level, but the sample is not stratified by geography (i.e. smaller sample sizes in each geographical area mean it is likely to be less representative at those levels than it is at the UK level). In the latest version, the confidence interval around the SPI estimate of tax liabilities at the UK level was less than 0.6 per cent, but for Wales it was a more material 3.6 per cent. Sampling variation – in particular due to the small number of observations of high-income taxpayers in Wales – is another potential source of error, although the SPI does have a relatively large sample size overall and is designed to over-sample taxpayers with higher incomes. While we now have the two years of outturn data for Welsh income tax liabilities and so can now calibrate our forecasts to the outturn share, uncertainties around the input data of our Welsh rates forecast remain a forecast risk.

Relative performance of the Welsh and UK income tax bases

2.40 As described in this chapter we use our UK-level macroeconomic forecasts with only a few adjustments to forecast Welsh income tax liabilities. This reflects our assumption that future disparities between growth in any of the variables that determine the tax base in Wales and the UK as a whole are as likely to go in one direction as the other, so a central assumption is that they move in parallel. As our analysis of tax liabilities per person shows, there are large differences between Wales and the UK as a whole at present that have been getting steadily, if only modestly, larger over time. Further divergence or a period of convergence would represent downside or upside risks to our forecast. We will present a detailed investigation of these trends and the effects they have on our forecasts in a forthcoming working paper on devolved income tax. This will help to inform future forecast judgements in respect of trends in the Welsh share of income tax over time.

2.41 The key adjustment we make at present relates to different rates of population growth, with a simple split between working-age and pension-age adults that allows us to make further allowance for differences in the rate at which the population is ageing in Wales and the UK as a whole. We therefore capture the effect of changing numbers of taxpayers and, at a high level, age-related changes in the distribution of taxpayers and average incomes across the different age groups. We will consider the case for further refining this in the future.

Box 2.1: Evaluating our forecasts for the Welsh rates of income tax for 2020-21

HMRC published outturn data for the Welsh rates in 2020-21 in July 2022. Assessing the performance of our forecasts after the event is important for transparency and accountability, while also helping us to understand and identify ways to improve them. We will produce a more detailed assessment in the *Welsh taxes outlook* update alongside the final Budget early next year, so present a preliminary discussion here. This was the second year of operation of the Welsh rates and therefore the second year for which we can assess our forecast performance. Table A presents the outturn data and our five forecasts that preceded that data being published – for both the Welsh rates and the pre-measures Welsh share of UK NSND income tax.

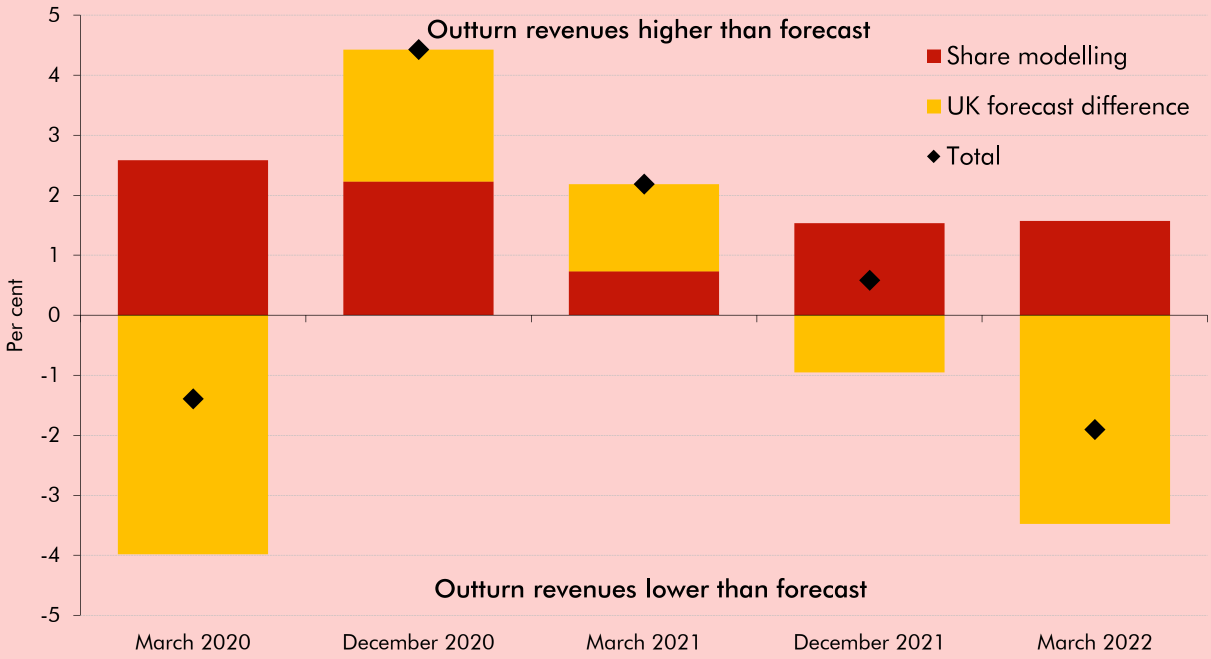
Table A: Successive forecasts for Welsh rates of income tax and the share of pre-measures liabilities subject to the Welsh rates (2020-21)

		Forecast				
	Outturn	Mar 2020	Dec 2020	Mar 2021	Dec 2021	Mar 2022
WRIT (£ million)	2,140	2,170	2,045	2,093	2,127	2,181
Difference from outturn (£ million)		30	-95	-47	-12	41
Welsh share (per cent)	1.19	1.16	1.13	1.18	1.17	1.17
Difference from outturn (per cent)		-0.03	-0.06	-0.01	-0.02	-0.02

Chart A breaks down the overall differences between the same five forecasts and the outturn for 2020-21 into those relating to the UK NSND forecast and those resulting from our estimate of the share of the total subject to the Welsh rates. At a high level, it shows that we underestimated the Welsh share in every forecast, whereas the errors in respect of our UK NSND forecast comprised both over- and underestimates. In four of the five forecasts, the error due to the UK NSND forecast was quantitatively more important than the error due to the Welsh share. On a forecast-by-forecast basis:

- In **March 2020** we overestimated receipts by 1.4 per cent, which was more than explained by an overestimate of the UK NSND forecast. We overestimated UK-wide liabilities by 4.1 per cent, reflecting the pandemic-driven fall in receipts relative to this final pre-pandemic forecast. This outweighed our underestimate of the Welsh share.
- In each of **the next three forecasts** we underestimated receipts, though by diminishing amounts. In the first two, this was driven by underestimates of both the Welsh share and UK-wide liabilities. One of the factors behind this was the unexpected resilience of UK-wide receipts during the pandemic, thanks in part to large-scale fiscal support via the furlough scheme, self-employment income support, as well as higher departmental spending. In December 2021, this was more than explained by an underestimate of the Welsh share, with UK-wide liabilities being overestimated.
- In our **March 2022** forecast we overestimated 2020-21 receipts by 1.9 per cent as a result of a larger overestimate of UK-wide liabilities than in the preceding forecast

Chart A: Successive forecast differences for Welsh rates of income tax (2020-21)



Source: HMRC, OBR

We continue to refine our forecasts for the Welsh share by utilising both the in-year RTI data, which informs both our UK-wide forecast and our estimates of the Welsh share. We have also refined our 'population' index by splitting the working-age and pension-age populations, weighting each by their proportion of NSND income tax. This allows us to account for different trends in population ageing, in addition to the overall size of the population.

3 Land transaction tax

Introduction

3.1 This chapter:

- describes the introduction of **land transaction tax (LTT)** in Wales and compares it to the stamp duty land tax (SDLT) regime in operation in England and Northern Ireland;
- outlines our **methodology for forecasting LTT** and explores trends in **property prices and transactions** in Wales that drive growth in the LTT tax base;
- presents our **latest forecasts** and explains how they have changed since the forecasts published in our March 2022 *Economic and fiscal outlook*; and
- discusses some of the key **risks and uncertainties** around these forecasts.

What is 'land transaction tax'?

3.2 Land transaction tax (LTT) replaced stamp duty land tax (SDLT) in Wales from April 2018.[1] It is an *ad valorem* transaction tax levied on the transfer of a property. It is paid by the purchaser, but its incidence is on the house price so the burden actually falls on the seller.[2]

3.3 LTT has many of the same features as SDLT including different treatment for residential and commercial properties, a tax-free threshold and a surcharge on the purchase of additional residential properties. But there are some notable differences: LTT has different rates and thresholds; it does not include a relief for first-time buyers; and it is collected by the Welsh Revenue Authority (WRA) rather than by HMRC.

Forecast methodology

3.4 The methodology for generating our LTT forecasts involves three steps.[3] These are:

- First, we produce an **in-year estimate** that uses monthly receipts outturn data from the WRA as its starting point. Typically, we gross up the year-to-date receipts by assuming

[1] Both taxes are broadly based on the historical tax 'stamp duty', one of the oldest forms of taxation having been originally introduced on a range of products in 1694. The original duty required legal documents associated with a transaction to be authenticated by means of a physical 'stamp'. Stamp duty was replaced with SDLT in December 2003.
[2] Best, M. and Kleven, H., *Housing market responses to transaction taxes: Evidence from notches and stimulus in the U.K.*, June 2017.
[3] For more detail on our forecast methodology see Chapter 3 of our December 2019 *Welsh taxes outlook* and the 'Welsh taxes outlook' page of our website.

the remainder of the year follows a similar path to previous years, augmented as necessary by information about the performance of the property market and economy.

- Next, we generate our **pre-measures forecast**, using four separate 'price bins' models – one each for residential main rates, the additional properties surcharge, commercial sales and commercial leases.[4] The models aggregate transactions within relatively small 'bins', calculating the tax due on the average price in each bin, and then projecting that forward in line with our forecasts for prices and transactions.[5]

- Finally, we add estimates of the effects of any **new policy measures** to produce our post-measures forecasts.

Property market determinants of the forecast

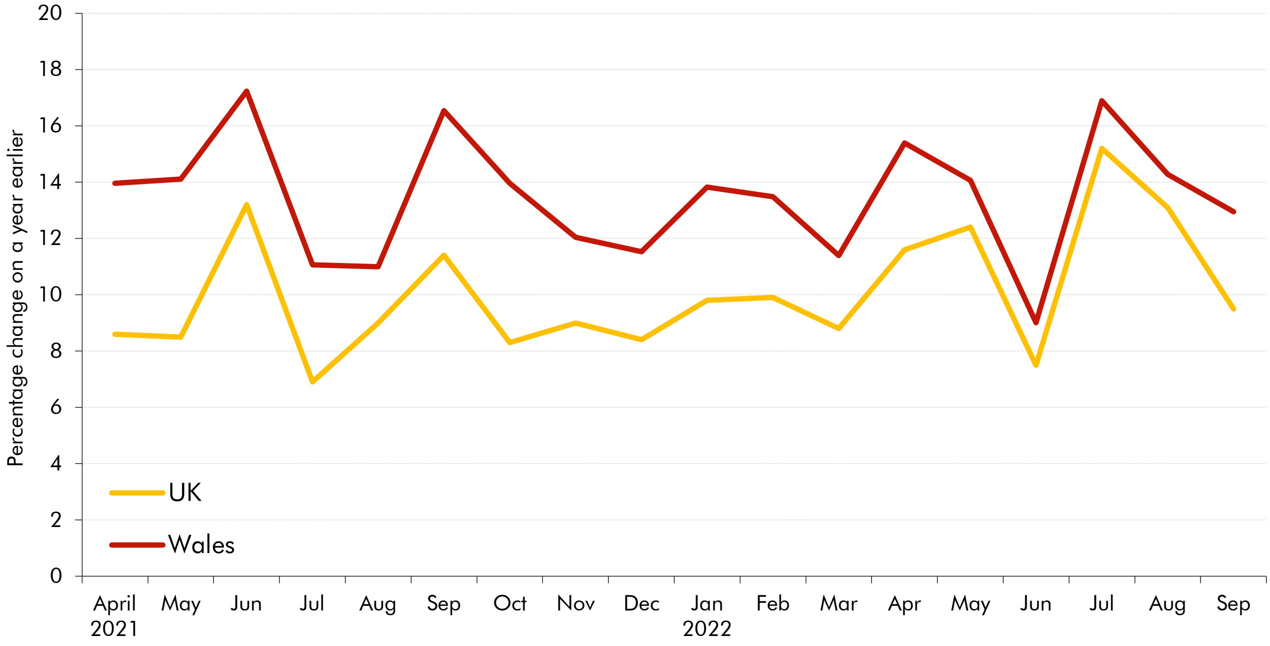
3.5 By far the most important driver of our forecast for LTT receipts over the medium term is our forecast for growth in the value of property transactions, which in turn reflects assumptions about prospects for property prices and the volume of transactions. Activity in both the Welsh and UK-wide property markets has been volatile once again this year. This reflects the lingering impacts of the pandemic, including the 'forced savings' that were built up during that time continuing to flow into house prices, and the behavioural responses to the Welsh and UK Governments' time-limited transaction tax holidays. The volatility is also a reflection of more recent economic developments, such as the sharp rise in CPI inflation and the accompanying increase in bank and mortgage rates.

Property prices

3.6 Chart 3.1 shows that **house price inflation** during the 2021-22 fiscal year peaked in June 2021 at 13.2 per cent in the UK and 17.2 per cent in Wales. In both cases that coincided with the end of the respective Government's tax holidays (both ending on 30 June 2021). House price inflation then dipped in July 2021, before stabilising during the remainder of 2021-22. House price inflation has continued to fluctuate this year, with the rate of increase slowing in the past two months, though by relatively less in Wales than in the UK as a whole. Sharp rises in the year to July 2022 (of 15.2 and 16.9 per cent in the UK and Wales respectively) are influenced by the post-holiday dip in prices in July 2021. With mortgage rates having risen very sharply in September and October, we expect house prices to have peaked and so year-on-year house price inflation to continue dropping.

[4] These models are operated on our behalf by analysts in the Welsh Government, but the underlying forecast assumptions and judgements are those of the OBR's Budget Responsibility Committee.
[5] The methodology for forecasting these is set out in the 'In-depth' pages of our website.

Chart 3.1: House price inflation: Wales versus the UK as a whole



Source: ONS

3.7 **Commercial property prices** (as measured by the average price of transactions recorded by the respective tax authorities) fell in Wales in the first half of 2022-23, by 5.3 per cent, whereas in the UK they rose by 4.5 per cent on a year earlier.

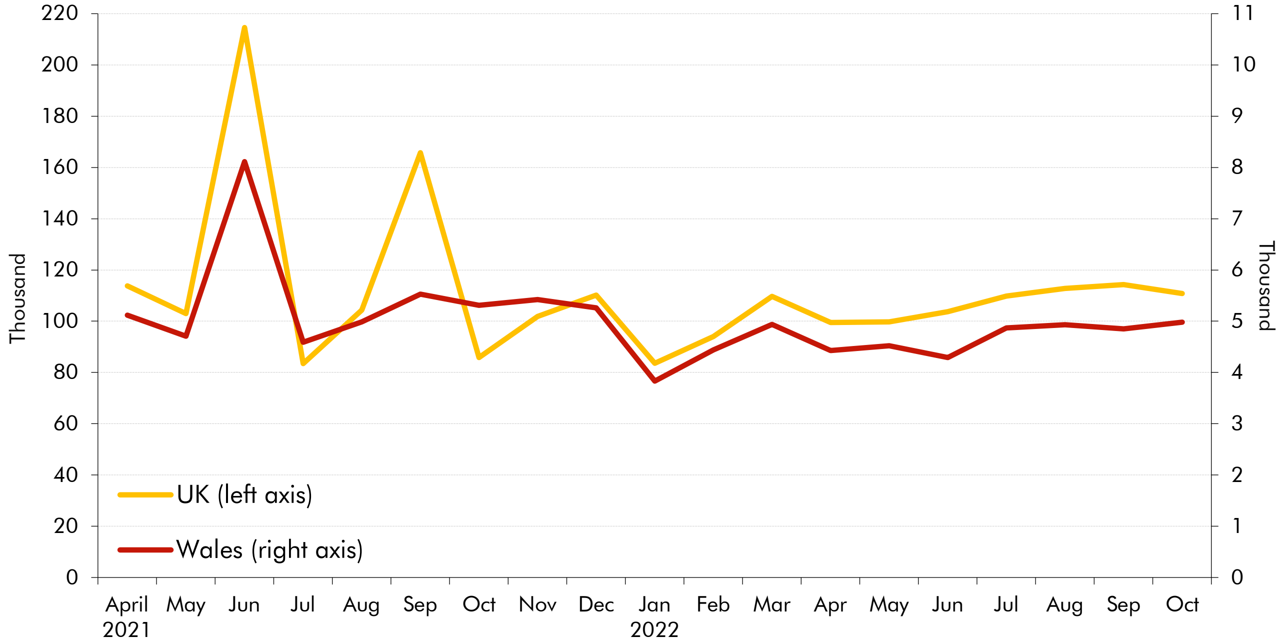
Property transactions

3.8 Monthly **residential property transactions** in 2021-22 were dominated by a spike in June 2021 (for both Wales and the UK) with a second UK-wide spike in September. These reflect the forestalling (bringing forward) of transactions ahead of the ending of the two Governments' temporary tax holidays on 30 June, and the UK Government's subsequent, but less generous, 3-month extension (which ended on 30 September).[6] In both cases the transactions that were brought forward were partially offset by fewer transactions in subsequent months. Overall, transactions in 2021-22 were 15.7 per cent and 29.0 per cent up on 2020-21 in the UK and Wales, respectively, largely due to a rebound from the depressed pandemic-impacted market of 2020-21 and the release of pent-up demand.

3.9 Transactions in the year to date in 2022-23 are down by 13.8 per cent in the UK and 14.4 per cent in Wales, reflecting both the weaker economic outlook and rising mortgage rates, and the unusually high number of transactions in 2021-22 that are the base for comparison.

[6] The SDLT nil rate threshold was raised to £500,000 until 30 June 2021, whereas for the extension to 30 September 2021 it was lowered to £250,000, though that was still higher than the usual threshold of £125,000.

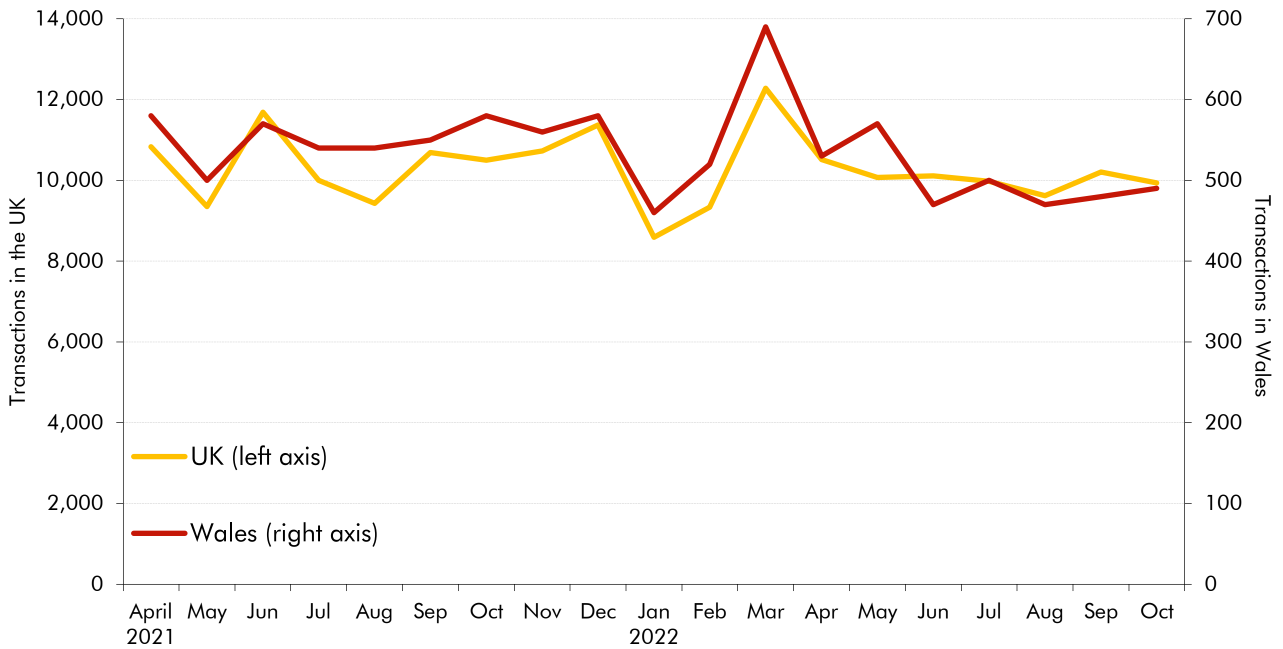
Chart 3.2: Residential property transactions



Source: HMRC, WRA

3.10 **Commercial property transactions** in Wales have largely mirrored those in the UK as a whole during 2021-22 and 2022-23 (Chart 3.3). Transactions in the year to date in 2022-23 are down 2.8 per cent in the UK as a whole and 9.6 per cent lower in Wales, following significant rises in 2021-22 after the pandemic-related weakness in 2020-21.

Chart 3.3: Commercial property transactions



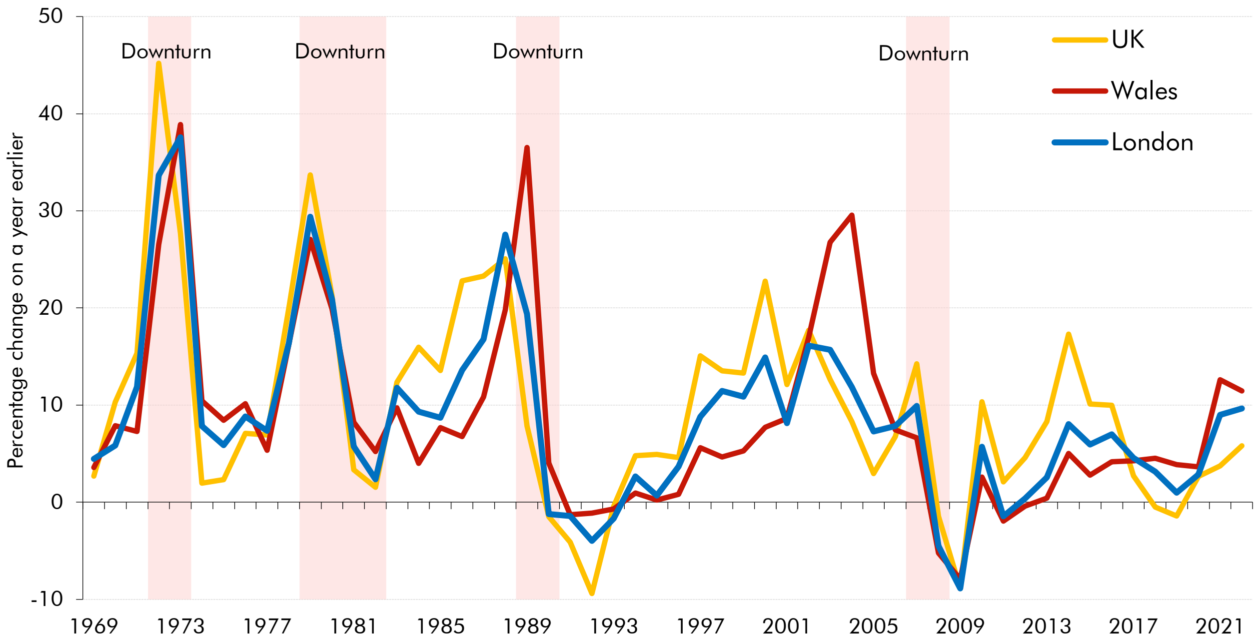
Source: HMRC, WRA

Forecasts for property market determinants

3.11 Our forecasts for property transaction taxes are underpinned by our UK-wide property market forecasts. We typically assume Welsh prices and transactions move in line with those for the UK as a whole, unless there are clear reasons to depart from that. In practice, this often involves us using somewhat different house price assumptions in the near term before assuming house price inflation converges from the second or third year of the forecast. In outturn, house price inflation in Wales during the first half of 2022-23 has been 2.2 percentage points above that in the UK (shown in Chart 3.1 above).

3.12 For the second half of 2022-23 and beyond, we therefore need to decide whether that stronger momentum will continue or not. For this forecast, we have assumed that house prices will move together in Wales and the UK as a whole from this point onwards, reflecting the sharp rise in mortgage rates hitting both markets simultaneously. To allow for this we have added a 1.1 percentage point wedge to the house price determinant for 2022-23 and nothing thereafter. There are risks around this assumption. Chart 3.4 shows that, historically, house prices in Wales have tended to rise faster than the UK as a whole just ahead of a downturn (as they are now), and then decline with a modest lag relative to the UK during a downturn – with London house prices often leading the wider market. If that lag in Welsh price falls were to be repeated in the downturn we assume to be underway now, it would represent an upside risk to our near-term LTT receipts forecast.

Chart 3.4: Historical trends in house prices



Source: Land Registry

3.13 We have revised up house price inflation in 2022-23 since our March forecast, reflecting stronger-than-expected outturn data. But prices are now expected to fall in 2023-24 and 2024-25, and to rise only modestly in 2025-26, thanks to significantly higher mortgage rates and the gloomier economic outlook. Cumulative house price growth between 2021-

22 and 2026-27 has been revised down by 7.9 percentage points. Residential transactions have also been revised down between 2022-23 and 2024-25, reflecting the effects of the forthcoming recession and higher interest rates, with the latter already feeding through to lower transactions in outturn. Transactions recover from 2025-26 onwards, but cumulative growth between 2021-22 and 2026-27 is 9.2 percentage points lower than in March.

3.14 We also assume that commercial prices and transactions fall in the near term, again due to the recession and higher interest rates. Relative to March, commercial prices are much lower in 2023-24, with more modest revisions in later years, reflecting an earlier trough than for residential prices, but a more gradual recovery thereafter. The near-term downward revisions to our commercial transactions forecast are smaller than those to our residential forecast, a difference informed by their relative changes during the financial crisis.

Table 3.1: Forecasts for Welsh property prices and transactions

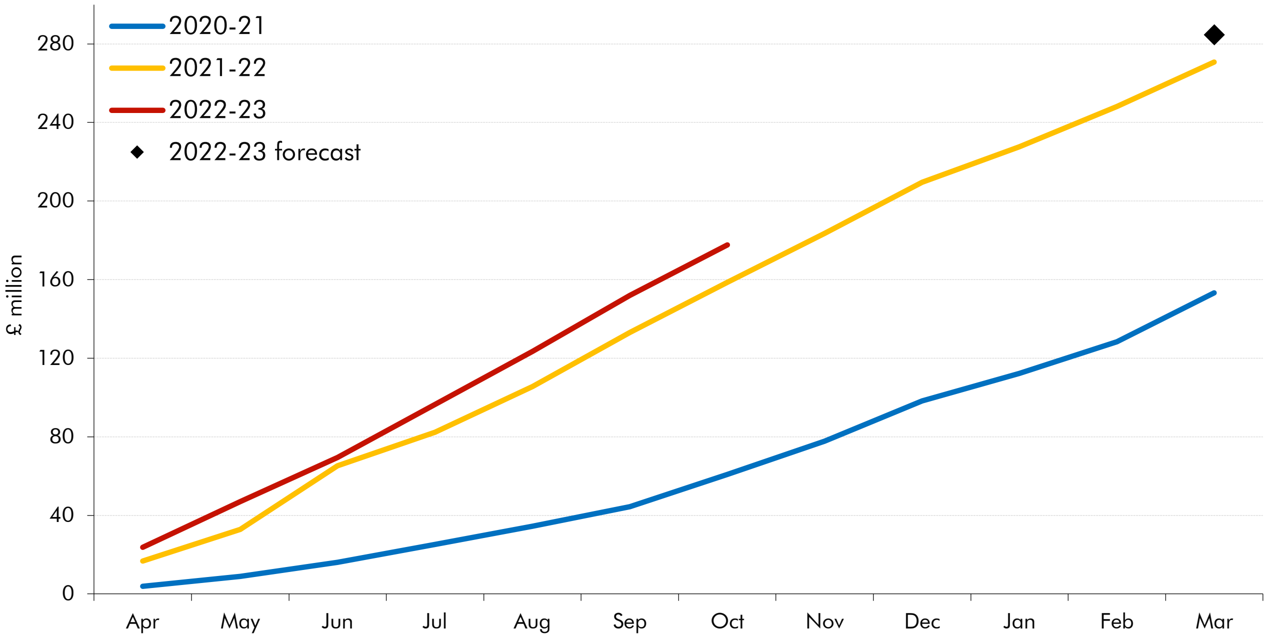
	Percentage change on previous year						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Residental property prices	9.6	9.2	-4.2	-4.0	2.1	3.2	3.6
Residental property transactions	15.7	-14.0	-15.4	0.6	11.0	15.2	8.6
Commercial property prices	12.4	-0.6	-3.2	2.2	0.9	1.5	1.9
Commercial property transactions	22.8	-3.0	-5.1	0.9	6.2	6.4	2.0
	Change since March forecast						
Residental property prices		3.6	-5.1	-5.7	-0.6	0.0	
Residental property transactions		-9.9	-18.3	-1.4	9.7	14.0	
Commercial property prices		0.1	-5.6	0.3	-1.0	-0.5	
Commercial property transactions		-1.9	-7.1	-0.8	4.6	4.7	

Trends in LTT receipts

Residential property receipts

3.15 Chart 3.5 shows that residential LTT receipts (net of refunds) in the first half of the year are up £19 million (11.9 per cent) on 2021-22 and up £117 million (192 per cent) on 2020-21, which was heavily affected by lockdown restrictions. We expect a modestly weaker path for receipts during the second half of the year, with total receipts in 2022-23 forecast to be £14 million (5.1) per cent) above 2021-22 outturns.

Chart 3.5: Cumulative residential LTT receipts

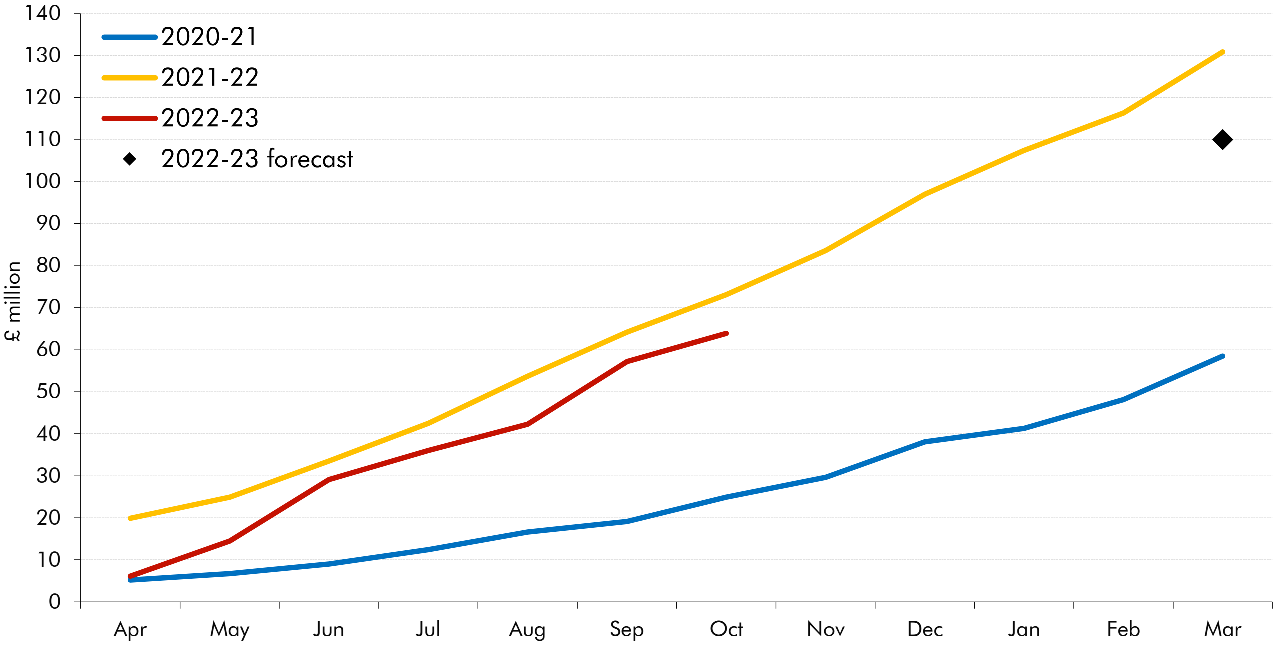


Source: WRA, OBR

Commercial property receipts

3.16 Chart 3.6 shows year-to-date commercial receipts are down £9.2 million (12.6 per cent on 2021-22, but up £39 million (157 per cent) on the lockdown affected 2020-21. We assume further weakness in receipts during the second half of the year, such that full-year receipts are expected to be £20.9 million (16.0 per cent) lower than in 2021-22.

Chart 3.6: Cumulative commercial LTT receipts



Source: WRA, OBR

Latest LTT forecasts

3.17 Table 3.2 sets out our latest forecast for LTT and its components. Relative to March, receipts have been revised down in every year of the forecast, by an average of £107 million (23 per cent), reflecting the downward revisions to both prices and transactions described above. The weaker outlook for the property market means that LTT receipts fall each year between 2021-22 and 2024-25, with a peak-to-trough decline of 25 per cent.

Table 3.2: LTT forecast

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Total LTT							
March forecast	390	412	431	453	482	514	
December forecast	402	395	314	301	341	404	455
Difference		-17	-117	-152	-140	-110	
Residential (excluding additional properties)							
March forecast	179	214	226	239	259	282	
December forecast	181	203	149	134	156	194	228
Difference		-11	-76	-105	-103	-88	
Additional properties							
March forecast	89	89	91	94	98	102	
December forecast	91	82	64	63	73	89	100
Difference		-7	-27	-31	-25	-13	
Commercial							
March forecast	123	109	115	119	124	130	
December forecast	130	110	100	104	112	121	126
Difference		1	-14	-15	-13	-9	

Residential LTT forecast

3.18 Table 3.3 sets out the revisions to our residential LTT forecasts since March. Residential main rates receipts have been revised down in every year of the forecast, by an average of £77 million a year (31 per cent). This is largely thanks to downward revisions to both transactions and house prices, with the former dominating the near term with the impact of the latter increasing year by year. This results in a peak-to-trough decline of 34 per cent from 2022-23 to 2024-25 with receipts not returning to 2022-23 levels until 2027-28. The Welsh Government's decision to increase the LTT threshold from £180,000 to £225,000 from 10 October 2022 lowers receipts by an average of £10 million a year.

3.19 Table 3.4 presents the changes to our additional rates forecast, which is also down significantly relative to March, by an average of £21 million (22 per cent). The peak-to-trough decline of 31 per cent is of a similar magnitude to the main rates forecast.

Table 3.3: Residential main rates LTT forecast

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	179	214	226	239	259	282	
December forecast	181	203	149	134	156	194	228
Difference		**-11**	**-76**	**-105**	**-103**	**-88**	
of which:							
Price changes		19	-6	-29	-35	-43	
Transaction changes		-22	-59	-64	-51	-25	
Outturn data and modelling		-2	-2	-2	-5	-6	
Policy changes		-6	-10	-10	-12	-13	

Table 3.4: Residential additional rates LTT forecast

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	89	89	91	94	98	102	
December forecast	91	82	64	63	73	89	100
Difference		**-7**	**-27**	**-31**	**-25**	**-13**	
of which:							
Price changes		4	-1	-5	-6	-7	
Transaction changes		-11	-27	-27	-19	-7	
Outturn data and modelling		-1	0	-1	-1	-1	
Policy changes		1	1	1	1	2	

Commercial LTT forecast

3.20 Table 3.5 shows revisions to our commercial LTT forecast relative to March. While receipts have been revised up slightly in 2022-23 (albeit still assuming a large year-on-year fall) they are an average of £13 million a year (10 per cent) lower thereafter. Fewer transactions lead to lower receipts in the middle years of the forecast, while the effect of lower prices builds more gradually across the forecast. The outlook for the commercial property market is always uncertain, and even more so in the current climate.

Table 3.5: Commercial LTT forecast

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	123	109	115	119	124	130	
December forecast	130	110	100	104	112	121	126
Difference		**1**	**-14**	**-15**	**-13**	**-9**	
of which:							
Price changes		0	-7	-7	-9	-10	
Transaction changes		-2	-10	-12	-7	-1	
Outturn data and modelling		3	3	3	3	3	

Risks and uncertainties

3.21 In this section we summarise some key uncertainties around our central LTT forecast, which are dominated by the risks to property prices and transactions as a result of the energy-price-driven economic downturn and the associated rise in interest rates on residential and commercial borrowing. Over the longer term, the commercial property market could also be sensitive to any persistent changes in the composition of economic activity, such as greater prevalence of working from home or the accelerated shift of retail sales online.

3.22 In this forecast we have added a **house price inflation** uplift for Wales in 2022-23 in light of recent outturn. We then assume that prices rise in line with the UK as a whole, so one clear risk is that price inflation in Wales will continue to diverge in future years. That could come in the form of continued higher price rises, if momentum through the first half of 2022-23 were to persist. But equally, the recent outperformance could be followed by a period of underperformance, as has sometimes been the case in the past.

3.23 Other risks relating to our LTT forecasts include:

- **Mapping property market determinants to the true tax base.** It is challenging to map from the whole property market to only those transactions that will be subject to LTT. Only a very small minority of all potential taxpayers will pay LTT in any given year, which differs from most other taxable activities, where taxpayers incur a liability year after year. There are around 1.4 million dwellings in Wales, but there were only around 62,000 residential transactions in 2021-22.

- **Tax base concentration.** LTT has a progressive tax schedule: a £200,000 residential transaction will pay £1,500 in tax, whereas a transaction for four times this price (£1,000,000) pays over forty times more tax (£61,750). In 2021-22 around half of residential revenue came from the top 10 per cent of transactions. Our LTT forecast will also be sensitive to high-value commercial property transactions in Cardiff. In 2021-22, three per cent of the total commercial transactions with capital values in excess of £2 million accounted for 72 per cent of commercial LTT receipts.

- **Frequent policy changes.** The property transaction tax regime has been subject to repeated policy changes. These changes, especially when they are pre-announced, add uncertainty to our forecasts in respect of how taxpayers will respond to the new tax incentives they face. This applied to the temporary raising of both the LTT and SDLT thresholds at the height of the pandemic as well as further changes to both in recent months.

- **Forestalling.** Where rises in property taxes are pre-announced it allows for purchases to be brought forward in order to be taxed at the existing lower rate. It can be difficult to gauge the strength of this response and therefore the quantity of transactions that will be brought forward from future periods.[7] Our SDLT forecast factors in forestalling

[7] For more information on this see Mathews, P., *OBR Working Paper no. 10: Forestalling ahead of property tax changes*, October 2016.

ahead of a rise in thresholds being withdrawn at the end of March 2025. To the extent that this forestalling affects chains of transactions that include properties in Wales, it could also bring forward LTT receipts from 2025-26 to 2024-25.

- **Future LTT policy changes.** Our forecasts only include the effects of current stated policies, and not policy intentions or ambitions that are under consideration (reflecting the requirements placed on us by the UK Parliament when establishing the OBR). The Welsh Government has stated its intention to extend the refund period for the additional rates in cases such as unsafe cladding and other exceptional circumstances.[8] It has not set a start date for this, but if implemented we would expect it to result in a small increase in refunds and therefore to reduce additional rates receipts. In July 2022, the Welsh Government published a ministerial statement and consultation response document exploring options for local variation in LTT rates on second homes and are continuing consultation preparations for the introduction of this policy at a yet unannounced date.[9] The scale and direction of the risk these pose to our LTT forecast will depend on a number of factors, most notably the extent to which any new powers for differential rate setting are used and the rates chosen. We will include costings for these measures in our forecast if and when the Welsh Government states them as firm policy.

[8] Written Statement by the Minister for Finance and Local Government, *Land Transaction Tax higher residential rates refund period extension where exceptional circumstances apply*, 16 November 2021.
[9] Written Statement by the Minister for Finance and Local Government, *A summary of the responses to the consultation on second homes and land transaction tax,* 15 July 2022.

4 Landfill disposals tax

Introduction

4.1 This chapter:

- describes the **landfill disposals tax** levied in Wales;
- sets out our **methodology** for forecasting receipts; and
- presents our **latest forecast** and some **key uncertainties** around it.

What is the 'landfill disposals tax'?

4.2 Landfill tax was introduced in the UK in 1996. It applies to all waste disposed of by way of landfill at a licensed site unless the waste is specifically exempt. In Wales it was replaced with landfill disposals tax (LDT) from April 2018. The Welsh Government has said that LDT is designed to "*promote positive environmental behaviours through greater prevention of waste to landfill sites and to encourage the reuse, recycling and recovery of waste*".[1]

4.3 LDT is charged per tonne of waste disposed of at a landfill site. It is payable by landfill site operators, who are expected to pass the costs onto those making the disposals. A small number of disposals are exempt from LDT while some reliefs and discounts are also available. The tax is collected by the Welsh Revenue Authority (WRA). The Welsh Government has thus far set rates equivalent to those in the rest of the UK.

4.4 Our forecast is driven by the amount of waste sent to landfill and the effective tax rate that will be paid. The latter largely depends on policy decisions on rates, but also on the composition of waste sent to landfill as there are three different rates – a 'standard rate', a 'lower rate' and an 'unauthorised disposals rate'. In 2021-22 revenue from standard rate waste accounted for 96 per cent of total revenue from LDT.

Forecast methodology

4.5 The LDT forecast uses a bottom-up model operated on our behalf by analysts in the Welsh Government. The assumptions and judgements that are fed into it are those of the Budget Responsibility Committee. The forecast methodology is straightforward – the main steps are:

- establishing an **in-year estimate** drawing on the latest administrative data (and other relevant sources) to estimate the level of receipts in the current year;

[1] Welsh Government, *Landfill Disposals Tax (Wales) Bill 2016: Impact Assessments*.

- producing a **pre-measures forecast** by using the LDT forecast model to multiply the amount of liable waste sent to landfill (the tax base) by the relevant duty rate; and
- generating a **post-measures forecast** by adding the effects of any new policy measures.

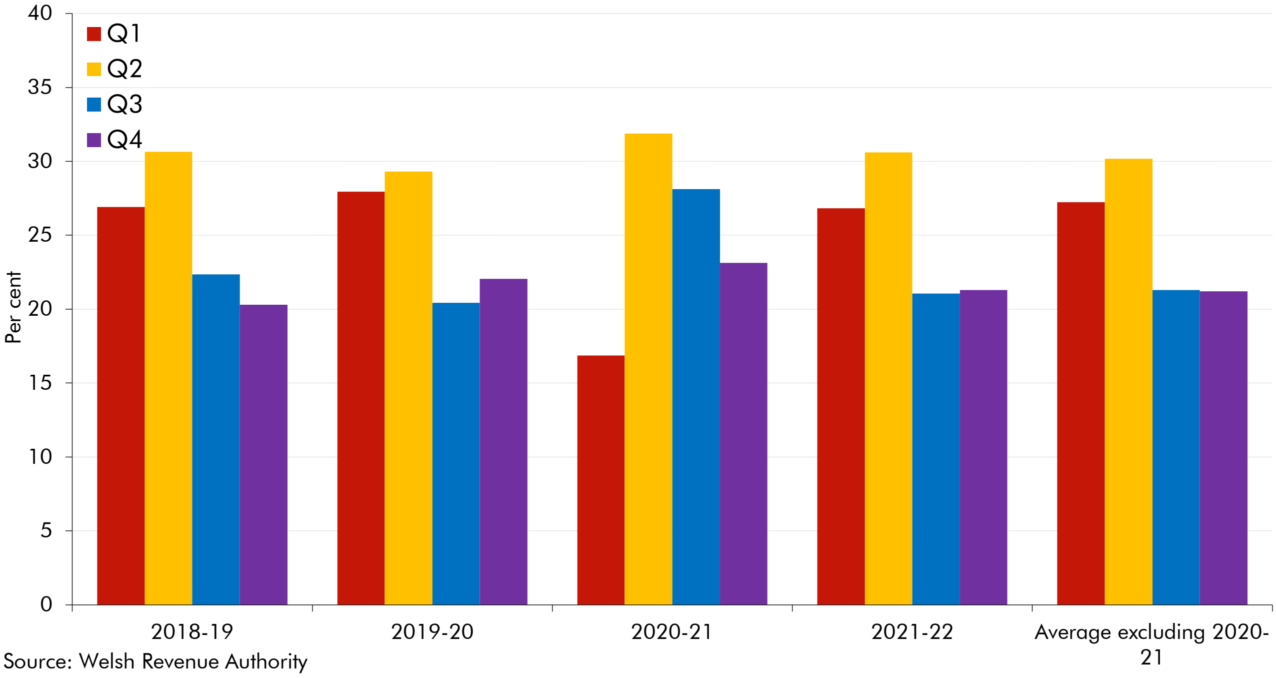
We discuss each step in turn.

Establishing an in-year estimate

4.6 Most landfill site operators have a calendar year annual accounting period. Most quarterly LDT returns are received by the WRA at the end of April, July, October and January (returns must be sent by the last working day of the month following the end of the accounting period). The WRA publishes LDT receipts outturn data on a quarterly basis.[2]

4.7 Our in-year forecast is based on outturn data from the first half of 2022-23. Chart 4.1 shows the quarterly split of annual LDT receipts from 2018-19 onwards, and indicates a degree of seasonality in the amount of waste that is disposed of at landfill sites. Each quarter, aside from the lockdown-affected first quarter in 2020-21, contributes at least a fifth of full-year receipts, but the highest share of receipts in each year comes in the second quarter. The profile of receipts in 2020-21 was unusual due to pandemic-related restrictions and their impacts on economic activity, which were most acute in the first quarter. As a result, the share of receipts in the first quarter of 2020-21 was unusually low and the shares (if not the absolute amounts) in the remaining quarters of the year were unusually high. Since 2018-19, the average share of full-year revenues received in the first half of the fiscal year (excluding the pandemic-distorted 2020-21 fiscal year) has been 57 per cent.

Chart 4.1: Percentage of annual landfill taxes receipts from each quarter



Source: Welsh Revenue Authority

[2] A smaller number of site operators use different accounting periods, which means that monthly data releases could be disclosive. We do not draw on the WRA's unpublished monthly administrative data when preparing our in-year estimates.

The pre-measures forecast

Tax base: the volume of waste sent to landfill

4.8 The volume of waste sent to landfill is estimated by calibrating data from Natural Resources Wales (NRW) with outturn data from the WRA. Our model sorts these data by 'European waste catalogue' code into tonnages liable to the standard and lower rates of LDT. This allows us to remove waste that is exempt from LDT. The LDT-liable tonnages are then projected forward using information on local authority waste management plans, waste infrastructure developments, and an assumption about the future path of other waste.

4.9 There are several alternatives to sending waste to landfill sites, including:

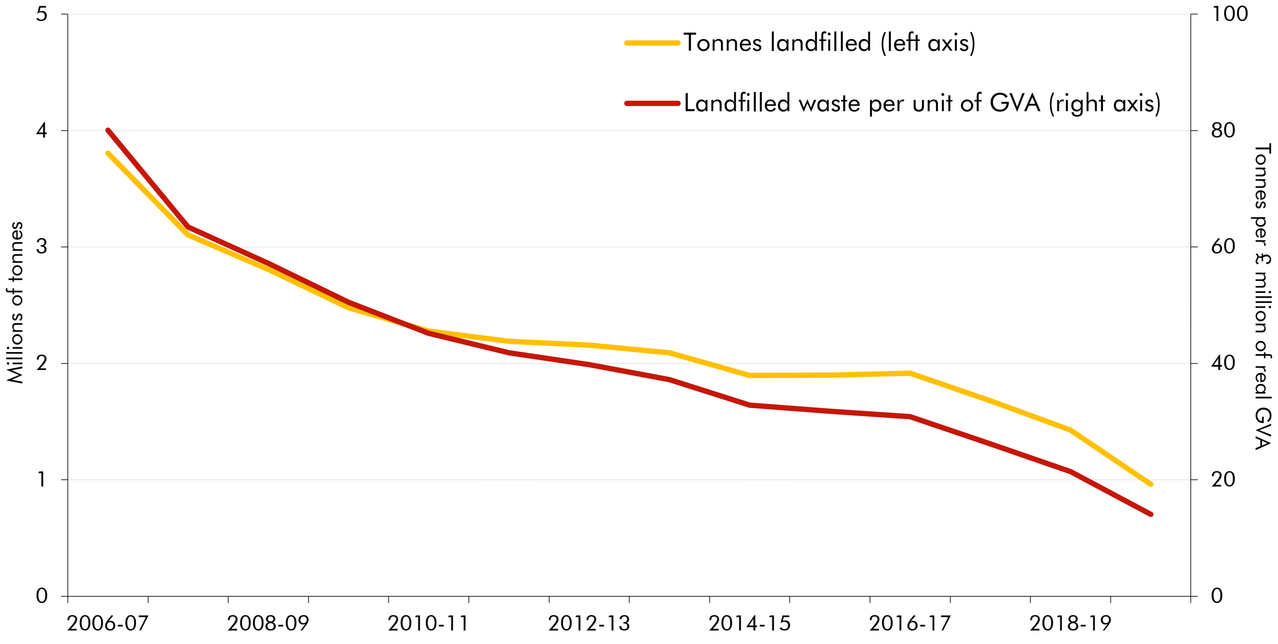
- **Recycling and incineration**, the levels of which depend on the capacity of available Welsh infrastructure. Given the much smaller tax base in Wales, changes in alternative waste treatment infrastructure can lead to proportionally larger effects on LDT receipts than an equivalent change in England would have on UK landfill tax receipts.

- **Exporting waste**, which can be cheaper than sending it to landfill. There are currently two external factors that may limit the volume of exports over the medium term – the UK's new trading relationship with the EU and the Chinese Government's ban on the imports of solid waste. Each could increase the amount of waste sent to landfill (including waste generated in England) and represent an upside risk to LDT receipts. To the extent that these or other factors have already affected LDT receipts, which have surprised to the upside in recent forecasts, then this would be captured implicitly in our in-year estimate rather than via an explicit forecast adjustment.

4.10 We do not explicitly model the use of these alternatives. Instead, we assume they provide sufficient headroom to accommodate future growth in waste arising without affecting the volume of landfilled waste. The granular level of information available to us on Welsh infrastructure means that we can factor in expected changes when we need to.

4.11 The volume of waste sent to landfill in the UK as a whole has been trending down and Chart 4.2 shows a similar pattern in Wales. The volume sent to landfill has fallen by nearly three-quarters between 2006-07 (3.8 million tonnes) and 2019-20 (1.0 million tonnes). Chart 4.2 also shows that over the same period progressively less waste has been sent to landfill per unit of gross value added (GVA – a measure of economic activity).

Chart 4.2: Landfill waste tonnage in Wales relative to Welsh economic activity



Source: Natural Resources Wales, ONS

The effective rate of landfill disposals tax paid

4.12 There are two main rates for LDT – a 'standard' rate and a 'lower' rate. The lower rate applies to waste that is 'inert' – i.e. less hazardous or less polluting materials such as bricks, concrete and sand. The standard rate applies to everything else that is neither exempt (see below) or unauthorised.[3] In this Budget the Welsh Government maintains alignment with the 2023-24 rates set by the UK Government, with a **standard rate of £102.10 per tonne** of waste and a **lower rate of £3.25 per tonne**.[4] Our forecast assumes that both rates rise in line with RPI inflation in future years (in line with the UK Government's default indexation assumption). The Welsh Government has not set out its policy for future years and would be free to set other rates if it so wished.

4.13 As with UK landfill tax, LDT legislation allows for both exemptions and reliefs. Where a disposal is exempt, for example within a pet cemetery, there is no tax liability and the site operator does not need to record it on a tax return. Where a disposal is eligible for a relief, such as when it contains material removed from water by dredging, it does need to be accounted for by the site operator, but the relief can be claimed via the tax return. The effective rate paid depends not just on statutory rates and exemptions, but also the composition of waste disposals. In 2021-22 the effective rate paid was £38.75 per tonne of waste sent to landfill. In the first two quarters of 2022-23 the effective tax rate paid fell to £35.86 per tonne of waste as the share of standard rate waste declined modestly.

[3] The Welsh Government has also introduced a third 'unauthorised disposals' rate that applies to all disposals that are made outside of authorised landfill sites, regardless of whether they would have qualified for the standard or lower rates. The 2023-24 rate for such disposals has been set at £153.15 per tonne of waste.
[4] All rates are subject to approval by the Senedd.

Post-measures forecast

4.14 The final stage in our forecast process is to add the effect of new policy measures that have been announced since our previous forecast was published. For landfill tax and LDT these are typically small, although they can still be subject to some uncertainty. For example, the UK Government's 2018 decision to extend landfill tax to illegal sites started six months later than planned due to delays in implementing the health and safety procedures required to safeguard the new compliance staff that were taken on to police it.

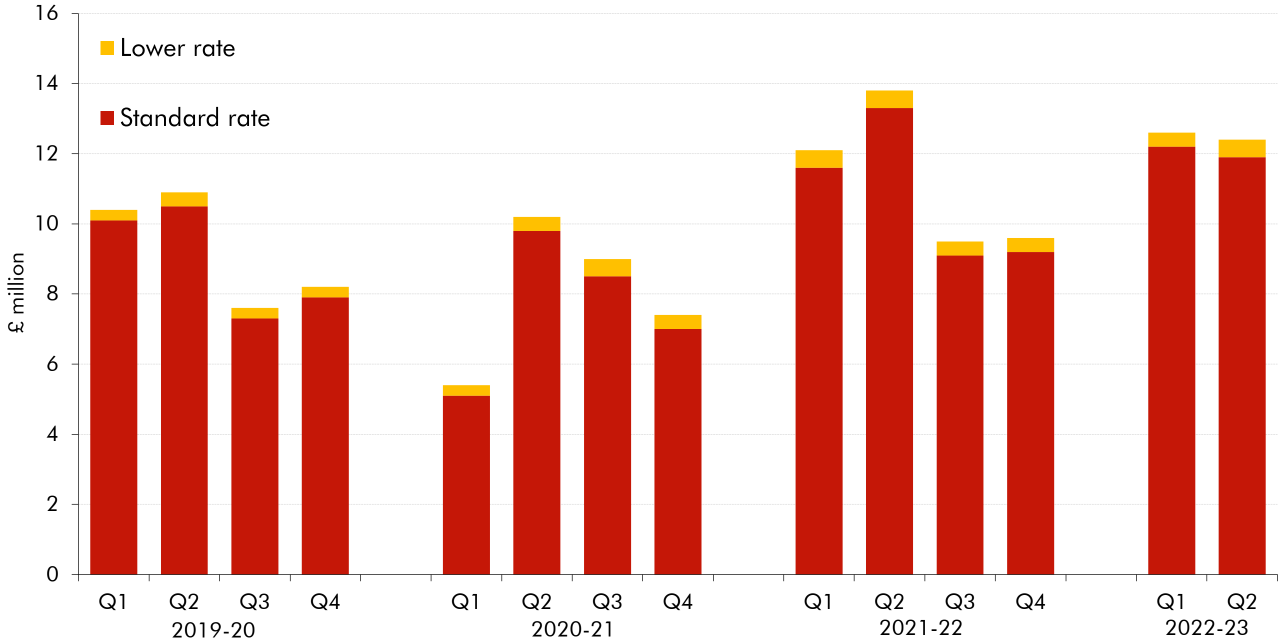
Landfill disposals tax forecast

4.15 Using the methodology described above and based on LDT outturn data for the first two quarters of 2022-23, this section describes our latest forecast and changes since March.

Receipts outturn

4.16 Chart 4.3 shows that receipts in the first half of 2022-23 are down by £0.8 million on the same period last year, which was boosted somewhat by catch-up activity after the pandemic-related lockdowns of 2020-21 that hit economic activity and the volumes of waste sent to landfill. Receipts are £3.8 million higher than in the same period in 2019-20 and £9.5 million higher relative to 2020-21. We expect lower receipts in the remainder of 2022-23 – in line with the quarterly pattern of receipts shown in Chart 4.1 – but for them to total £43.4 million in the full year, £1.9 million lower than in 2021-22 but £6.3 million and £11.4 million higher than in 2019-20 and 2020-21 respectively.

Chart 4.3: Quarterly LDT receipts



Source: Welsh Revenue Authority

Latest forecast

4.17 Table 4.1 presents our LDT forecast and the sources of changes since March. We have revised receipts in 2022-23 up by £8 million, reflecting stronger-than-expected outturn data in the first half of the year. Of this, we have assumed that £6 million a year will persist across the forecast, which is reflected as a modelling change to assume higher volumes of waste being sent to landfill, since post-pandemic waste volumes have recovered more strongly than we previously expected. From 2025-26 onwards this is partly offset by our lower forecast for RPI inflation and thus assumed future LDT rates.

4.18 The Welsh Government recently published its proposals for new business recycling regulations to increase recycling and reduce the amount of waste entering landfill.[5] These regulations are due to come into effect from 1 October 2023 and will require businesses to separate waste into different streams and ban certain materials from incineration or landfill. The proposals are subject to consultation, but the key parameters and the proposed start date have been deemed sufficiently firm to factor in the effects of the regulations on LDT receipts in this forecast. Any subsequent changes to the policy design or start date in response to the consultation will be reflected in future forecasts. We have drawn on the Welsh Government's analysis of its likely impact to estimate that it will reduce receipts by £1 million in 2023-24 rising to £3 million by 2027-28, as awareness and effective compliance with the regulations improve.

Table 4.1: LDT forecast

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	47	35	35	35	35	34	
December forecast	45	43	41	39	37	35	35
Difference		**8**	**6**	**4**	**2**	**1**	
of which:							
Outturn data		2	0	0	0	0	
Determinants		0	0	0	-2	-2	
Business recycling regulations		0	-1	-2	-3	-3	
Modelling and other		6	6	6	6	6	

Risks and uncertainties

4.19 This section summarises some of the main uncertainties around our central LDT forecast. We would not expect the risk posed by any of these to be particularly large. They include:

- The **net volume of waste arising** is assumed to remain constant over the forecast period. Changes in Welsh infrastructure, such as increases in incineration, mean that the forecast for tonnes of waste sent to landfill trends down. As Chart 4.2 showed, waste sent to landfill has tended to fall over time, but it did increase slightly between

[5] Welsh Government, *Proposals for enforcing business, public and third sector recycling regulations in Wales*, 23 November.

2014-15 and 2016-17 and has surprised on the upside again in this forecast. This illustrates the scope of the tax base to surprise us on either side of our central forecast.

- All taxes are subject to a degree of **non-compliance**, ranging from simple errors to deliberate criminal activity. At the UK level, HMRC uses statistical techniques to measure the difference between the theoretical tax liability and what is actually paid – the 'tax gap'. Its latest estimate of the tax gap for the UK landfill tax is 17.1 per cent or £125 million.[6] There is no estimate yet for the LDT tax gap, but if the gap were the same in percentage terms, then this would imply that around £9 million of potential receipts in 2021-22 were not collected. We do not yet have sufficient information on the WRA's LDT compliance activities to take a firm view so, for now, our forecast implicitly assumes no change in the (currently unknown) rate of non-compliance in future years. Any changes in that rate would pose a risk to receipts.

- LDT on **unauthorised disposals** is not a self-assessed tax, with the tax liability instead arising from the WRA identifying suitable cases and issuing charging notices. The WRA began issuing notices to potential taxpayers in 2021-22 and plans to increase its operational activities over the coming years, which could lead to additional revenue.[7] The amount collected would depend on resources, planning and the risks of litigation.

- Our forecast implicitly assumes that there is sufficient **incineration and recycling capacity** in Wales to absorb any increase in waste arising. These assumptions would need to be revisited if there were problems with infrastructure capacity, for example if a large incinerator were to be offline for a significant period or new capacity were delayed. Such events would imply a higher share of total waste being sent to landfill than implicitly assumed in our forecast and therefore higher LDT receipts.

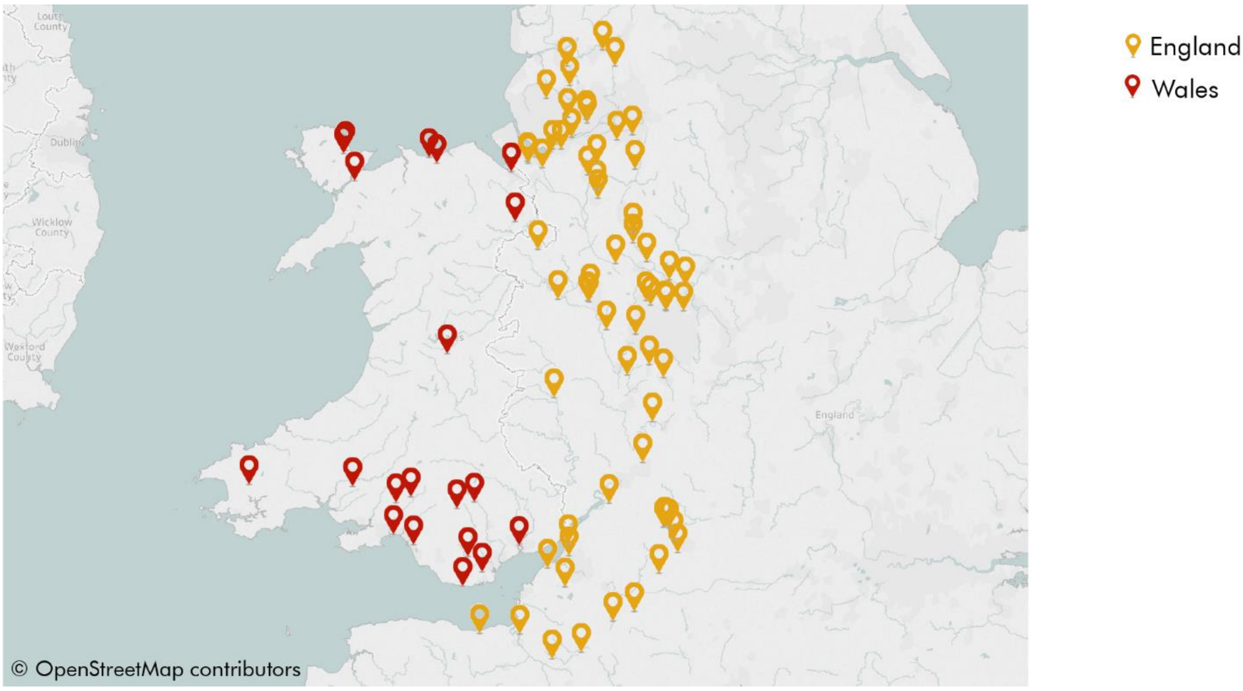
- It is possible that non-Welsh Government policies could affect LDT receipts. The **UK's exit from the EU** could make exporting waste to Europe less attractive, at least in the short to medium term. For now, we have not assumed any waste-specific impediments to the UK's future exports to the EU. Were any to materialise, more waste could be sent to landfill representing an upside risk to LDT receipts. Similarly, the **Chinese Government's ban on the import of solid waste** that came into force on 1 January 2021 could divert waste that would otherwise have been exported (either from Wales or England) to landfill in Wales, also raising LDT receipts.[8]

- **Behavioural responses to policy changes**. The Welsh Government has so far aligned LDT rates with those for UK landfill tax. If those rates were to diverge then we would expect some waste to be diverted across the border to the sites that were subject to the lower rates. A significant share of waste being sent to landfill in Wales originates in England.[9] Moreover, as Figure 4.1 shows, there are numerous landfill sites relatively

[6] This relates to 2020-21. For more detail see HMRC's *Measuring tax gaps 2022 edition.*
[7] Welsh Revenue Authority, *Annual Report and Accounts 2021 to 2022*, July 2022.
[8] Trade data suggest that some of this impact might have materialised prior to the full ban taking effect, with the amount of solid waste imported by China falling sharply since 2017.
[9] Data from Natural Resources Wales show that since the devolution of LDT ,waste from England accounted for 18 per cent of waste sent to landfill in Wales.

close to either side of the Welsh-English border, so there would clearly be scope for such behavioural responses to take place.[10] The degree to which they did would depend on how the potential tax saving compared to the transport and other costs associated with sending waste to a landfill site subject to the lower tax rates. For example, the biodegradable municipal waste (BMW) ban in Scotland, effective from 31 December 2025, will prevent biodegradable household (or other similar) waste entering landfill. We expect a significant behavioural response with much of the Scottish BMW instead being landfilled in England. And this forecast incorporates a more modest assumed behavioural response to new business recycling regulations, which is also subject to uncertainty until the response of businesses can be observed.

Figure 4.1: Landfill sites in Wales and within 60 miles of the border with England



[10] The 60-mile corridor from the border has been chosen purely for illustration.

A Forecasts required for the block grant adjustments

A.1 The block grant is a mechanism for transferring funds from the UK Government to the devolved governments, as allocated from within the departmental spending limits set by the Treasury. The block grants for the Welsh and Scottish Governments are adjusted in accordance with their respective fiscal frameworks.[1] The OBR has no direct involvement in these spending decisions or block grant negotiations, but the spending settlements do draw on our tax forecasts.

A.2 This annex presents those forecasts, which largely relate to the UK Government's revenue from the taxes equivalent to those that have been devolved. For the three taxes covered in this report, the corresponding UK Government tax is (non-savings, non-dividends) income tax, stamp duty land tax, and landfill tax, all from England and Northern Ireland.

A.3 The forecast methodologies for the Scottish and UK Government taxes are largely the same as those described for Wales in Chapters 2 to 4 and on the relevant pages of our website. We first establish an in-year estimate using the latest administrative data to estimate the level of receipts in 2022-23. We then project over the five-year horizon using the respective forecast models and our own judgements. The economic determinants used are from our November 2022 *Economic and fiscal outlook*.

A.4 Tables A.1 to A.4 compare our current forecasts for the devolved Welsh (and Scottish) taxes to their UK Government equivalents (which relate to England and Northern Ireland). In the near term, our income tax forecasts reflect the package of policy measures announced by the UK Government in Autumn Statement 2022 and the four other fiscal statements since March.[2] In the longer term, differences in our income tax forecasts will mainly reflect assumptions about relative population growth. Differences in our forecasts for property transaction taxes derive from the more progressive structure of the Welsh and Scottish tax schedules, which delivers greater revenue gains from fiscal drag as house prices rise. This is overlaid by the material effects of the temporary changes to stamp duty thresholds that apply in England and Northern Ireland (which lower receipts from mid-way through 2022-23 until the measure ends at the end of 2024-25), plus the more modest effects of a permanent change to land transaction tax thresholds in Wales that took effect in October.

[1] *The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework*, December 2016, and *The agreement between the Scottish Government and the United Kingdom Government on the Scottish Government's fiscal framework*, February 2016.
[2] The full list of measures and their associated costing breakdowns is provided in supplementary Table 3.11, available on our website.

Table A.1: Income tax on non-savings, non-dividend income

	£ billion							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Whole UK NSND income tax	**180.3**	**207.3**	**224.7**	**237.9**	**245.8**	**254.8**	**267.0**	**282.5**
of which:								
Welsh Government income tax (WRIT basis)	2.1	2.4	2.6	2.8	2.9	3.0	3.2	3.3
UK Government NSND income tax from Wales	2.8	3.2	3.4	3.7	3.8	4.0	4.2	4.4
Scottish income tax	11.9	13.5	14.6	15.2	15.7	16.2	16.9	17.8
England and Northern Ireland NSND income tax	163.5	188.2	204.1	216.2	223.3	231.6	242.8	256.9
UK Government NSND income tax[1]	166.2	191.4	207.6	219.9	227.2	235.6	246.9	261.3
	Percentage change on a year earlier							
Whole UK NSND income tax		**15.0**	**8.4**	**5.9**	**3.3**	**3.7**	**4.8**	**5.8**
of which:								
Welsh Government income tax (WRIT basis)		12.2	8.5	7.3	4.7	3.4	4.5	5.9
UK Government NSND income tax from Wales		14.4	8.7	7.2	4.5	3.6	5.0	6.4
Scottish income tax		13.0	8.0	4.5	2.7	3.4	4.4	5.4
England and Northern Ireland NSND income tax		15.2	8.4	5.9	3.3	3.7	4.8	5.8
UK Government NSND income tax[1]		15.2	8.4	5.9	3.3	3.7	4.8	5.8

[1] Whole UK NSND income tax excluding Scottish income tax and Welsh Government income tax (WRIT basis).

Table A.2: Welsh rates and England and Northern Ireland equivalent income tax by band forecasts

	£ billion							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
England and Northern Ireland NSND income tax (WRIT basis)	**60.7**	**69.8**	**75.7**	**80.0**	**82.5**	**85.4**	**89.3**	**93.6**
of which:								
Basic rate	41.5	47.8	52.0	55.3	57.2	59.2	61.6	64.2
Higher rate	11.4	12.6	13.6	14.2	14.5	15.0	15.9	16.9
Additional rate	7.7	9.3	10.0	10.4	10.7	11.2	11.8	12.5
Welsh rates	**2.1**	**2.4**	**2.6**	**2.8**	**2.9**	**3.0**	**3.2**	**3.3**
of which:								
Basic rate	1.8	2.0	2.2	2.4	2.5	2.6	2.7	2.8
Higher rate	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Additional rate	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	Percentage change on a year earlier							
England and Northern Ireland NSND income tax (WRIT basis)		**15.1**	**8.4**	**5.7**	**3.2**	**3.5**	**4.5**	**4.9**
of which:								
Basic rate		15.2	8.7	6.3	3.5	3.4	4.1	4.2
Higher rate		10.6	8.0	4.2	2.1	3.4	5.7	6.2
Additional rate		21.1	7.2	4.1	3.0	4.2	5.3	6.5
Welsh rates		**12.2**	**8.5**	**7.3**	**4.7**	**3.4**	**4.5**	**5.9**
of which:								
Basic rate		10.7	8.4	7.4	4.8	3.3	4.0	5.5
Higher rate		19.3	9.3	6.8	3.9	3.9	7.1	7.9
Additional rate		32.5	8.8	6.8	4.3	4.7	5.8	8.1

Table A.3: Property transaction taxes

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Whole UK property transaction taxes	**15,299**	**17,034**	**12,449**	**12,283**	**14,586**	**17,770**	**20,122**
of which:							
LTT (Wales)	402	395	314	301	341	404	455
LBTT (Scotland)	799	852	697	676	765	901	1,014
SDLT (England and Northern Ireland)	14,098	15,788	11,438	11,306	13,480	16,465	18,654
	Percentage change on a year earlier						
Whole UK property transaction taxes		**11.3**	**-26.9**	**-1.3**	**18.8**	**21.8**	**13.2**
of which:							
LTT (Wales)		-1.9	-20.5	-4.2	13.5	18.4	12.5
LBTT (Scotland)		6.6	-18.2	-3.0	13.2	17.9	12.5
SDLT (England and Northern Ireland)		12.0	-27.6	-1.2	19.2	22.1	13.3

Table A.4: Landfill taxes

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Whole UK landfill taxes	**854**	**835**	**774**	**739**	**679**	**667**	**679**
of which:							
Landfill disposals tax (Wales)	45	43	41	39	37	35	35
Scottish landfill tax	125	114	83	81	65	16	16
Landfill tax (England and Northern Ireland)	683	677	651	619	578	616	628
	Percentage change on a year earlier						
Whole UK landfill taxes		**-2.2**	**-7.3**	**-4.6**	**-8.0**	**-1.9**	**1.8**
of which:							
Landfill disposals tax (Wales)		-4.2	-6.1	-4.2	-6.2	-4.7	-0.3
Scottish landfill tax		-9.2	-27.3	-2.2	-20.1	-75.8	2.4
Landfill tax (England and Northern Ireland)		-0.8	-4.0	-4.9	-6.5	6.5	2.0

Index of charts and tables

By virtue of paragraph(s) ix of Standing Order 17.42

Document is Restricted

Archwilio Cymru
Audit Wales

Fee Scheme 2023-24

January 2023

This is a fee scheme prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013.

This fee scheme is laid before the Senedd under section 24(4)(c) of the Public Audit (Wales) Act 2013.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

This document is also available in Welsh.

Adrian Crompton
Auditor General for Wales

Lindsay Foyster
Chair, Wales Audit Office

Contents

Introduction

1 This Fee Scheme has been prepared under section 24 of the Public Audit (Wales) Act 2013 (the Act) (**Appendix 1**). The Fee Scheme, following approval by the Senedd, provides the basis on which we charge fees.

2 This Fee Scheme sets out:

- the enactments under which we charge audit fees (**Appendix 2**).
- the arrangements for setting those fees, which comprise either:
  - fee scales that set out fee ranges for particular areas of audit work in local government; or
  - fee rates for work not covered by fee scales.

3 Broadly, 66% of our expenditure is funded through fees charged to audited bodies. The remaining 34% is provided from the Welsh Consolidated Fund (WCF) through the budget motion passed by the Senedd.

4 Legislation requires that the fees we charge a body **may not exceed** the full cost of exercising at that body the function to which the fee relates. We set our audit fees based on our estimated cost base, the estimated skills mix for audit work and the estimated number of days required to complete the work. We do not and cannot make profits on our work. Our fee rates are set at a level to recover the estimated full cost but no more.

5 We went beyond the statutory fee consultation requirements and, in August 2022, consulted all audited bodies and other stakeholders on our proposed fee rates and fee scales for 2023-24.

6 This consultation discussed:

- a proposed average increase in our fee rates of 5.5%;
- potential increases of 12 to 18% in our audit of accounts fee scales associated with the implementation of a revised auditing standard, ISA315; and
- a proposed switch of some funding for local Performance Audit work from fees to the WCF to facilitate more cross sectoral thematic reviews.

7 We received 17 responses which told us that:

- the 5.5% increase in our fee rates and, in particular, the 12-18% increase in our audit of accounts fee scales would be challenging for those bodies whose own budgets were not increasing at the same level and who were facing the same cost of living pressures as Audit Wales;
- audited bodies do value the work that we do and recognise that implementation of ISA315 is unavoidable;
- the timescale for the consultation, driven by the requirement to include a draft Fee Scheme within our Estimate, was difficult for some bodies;
- there were no particular concerns with the proposal to switch funding for local Performance Audit work from fees to the WCF from audited bodies; and
- we would need to work closely with the Welsh Government to confirm both the quantum and impact of the proposed switch.

8 The Board has reflected on these responses and has responded by re-considering the proposed increase in fee rates, reducing the proposed increase from 5.5% to 4.8%.

9 We will work closely with audited bodies to mitigate the impact of the implementation of ISA315 on their audit fee and our Engagement Directors will discuss audit-specific fees with each body as we approach the next audit year.

10 The Welsh Government was unable to confirm, prior to submission of our Estimate, its support for making the adjustments in local authority and health body funding necessary to hold the WCF harmless and therefore we will not be making this change for 2023-24.

11 We also plan to continue to provide access to the National Fraud Initiative and our GPX events at no cost to participating bodies.

Fee rates and fee scales

Fee rates 2023-24

12 As set out in our consultation on proposed fees in August 2022, we need to recognise cost of living pressures on our staff and have made provision for pay increases in line with the rest of the public sector. Where possible we have mitigated inflationary pressures by identifying savings on non-pay budgets such as accommodation and travel, with savings of over £2 million over the next five years being identified.

13 We continue to make significant investment in audit quality to respond to recent UK-wide reviews[1] of audit and new professional standards. These various reviews reflect increasing expectations of audit and of the quality of that audit.

14 Taking these factors together means that we need to increase our fee rates by an average of 4.8% in 2023-24 – a reduction as compared to the proposed 5.5% increase set out in our consultation paper.

15 Our proposed fee rates for 2023-24 are set out in **Exhibit 1**.

1 Competition and Markets Authority Review; Kingman Review; and Brydon Review

Exhibit 1: proposed fee rates 2023-24

Grade	Rate (£ per hour) 2023-24	Rate (£ per hour) 2022-23
Audit Director	168	163
Audit Manager	129	122
Audit Lead	106	100
Senior Auditor	85	84
Auditor	61	60
Graduate trainee	55	51
Apprentice	40	39

16 The fee rates apply to all audit work except to the extent that the fee scales, where applicable, regulate the amount to be charged (or in the case of work done under agreements made prior to 1 April 2014, rates are in terms as agreed). If it subsequently appears that the work involved in a particular audit differs substantially from that originally envisaged, we may charge a fee which differs from that originally notified.

Local Government Fee scales 2023-24

17 Fee scales are a means of regulating the cost of public audit, through setting limits and by reviewing fees against those limits. Fee scales also provide a framework for auditors to assess the amount of annual audit work necessary and the fee to be charged for that work at a particular audited body.

18 We are required to prescribe fee scales for:

- work relating to the audit of local government bodies;
- work under the Local Government (Wales) Measure 2009[2] (fire and rescue authorities only);
- work under the Local Government and Elections (Wales) Act 2021; and
- data-matching work (NFI).

19 Fee scales for the audit of the 2022-23 financial accounts, together with fee-funded performance audit work to be undertaken in 2023-24, are provided in **Appendix 3** in relation to unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners, chief constables, town and community councils, and local government pension funds.

20 A separate fee scale is provided in relation to the NFI.

21 Performance audit includes sustainable development examinations, improvement information audits, improvement assessments and special inspections. Not all these functions apply to all types of audited body.

22 There is a tension between providing audited bodies with an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances. We set our audit fees based on our estimated expenditure, the estimated skills mix and the estimated number of days required to complete the work. Where the required work is significantly greater than that originally estimated, because of complexities experienced during the audit, we may charge a higher fee, as permitted by legislation.

2 The Local Government (Wales) Measure 2009 is in a process of phased repeal as various provisions of the Local Government and Elections (Wales) Act 2021 commence.

ISA315 implementation

23 As set out in the August consultation, our audits for accounts ended 31 March 2023 will be carried out under a revised auditing standard (ISA 315 Identifying and Assessing the Risks of Material Misstatement). The revised standard will have significant and far-reaching impacts on how auditors undertake audit risk assessments and therefore on the overall audit. It is expected that audits – particularly in the first year of implementation (2022-23 audits) – will require us to use more qualified staff to deal with the higher level of judgement necessitated by the standard.

24 Our initial assessment of the impact of this richer skills mix is an average increase in the fee scales for our financial audit work of between 12% and 18%. This is an estimate at this point and will be reviewed following the implementation of our revised approach in the first half of 2023. We are aware that private sector audit firms have written to clients informing them that fees are likely to increase by up to 20%, as a result of this new requirement.

Local performance audit work

25 Our consultation exercise discussed the potential to switch an element of funding for local performance work at 22 principal councils and seven health boards to facilitate the delivery of more thematic and cross sectoral reviews.

26 The Welsh Government was unable to confirm, prior to submission of our Estimate, its support for making the adjustments in local authority and health body funding necessary to hold the WCF harmless. The fee scales set out in **Appendix 3** therefore do not reflect this change.

Charging of fees

27 Each body's Engagement Director will explain the skills mix needed for the audit and the factors influencing the overall fee. Charging arrangements are agreed with audited bodies and may encompass one-off, periodic, regular or annual charging, as appropriate in the circumstances.

28 Audited bodies are expected to pay our invoices within their performance target for creditor payments, which is usually ten days. We may charge for the administrative costs incurred in pursuing late payments.

29 If required by audited bodies, a purchase order for the agreed audit fee should be raised in advance of invoices being sent.

30 On completion of audit assignments, we will assess the actual costs incurred in undertaking the assignment in comparison with the fee charged. We will refund any excess of fee over cost and, conversely, we may charge additional costs where the fee falls short. We will process refunds and additional charges in a manner which seeks to minimise administrative costs, such as through offsetting against future fees or fees for other aspects of audit activity.

Appendices

1 Public Audit (Wales) Act 2013 – full text of section 24

2 List of enactments under which the Wales Audit Office may and must charge fees

3 Fee scales from 1 April 2023

1 Public Audit (Wales) Act 2013 – full text of section 24

(1) The Wales Audit Office must prepare a scheme relating to the charging of fees by the Wales Audit Office.

(2) The scheme must include the following:

- (a) a list of the enactments under which the Wales Audit Office may charge a fee;
- (b) where those enactments make provision for the Wales Audit Office to prescribe a scale or scales of fees, that scale or those scales;
- (c) where those enactments make provision for the Wales Audit Office to prescribe an amount to be charged, that amount;
- (d) where no provision is made for a scale or scales of fees or for an amount to be prescribed, the means by which the Wales Audit Office is to calculate the fee.

(3) The scheme may, amongst other things:

- (a) include different provision for different cases or classes of case; and
- (b) provide for times at which, and the manner in which, payments are to be made.

(4) The Wales Audit Office:

- (a) must review the scheme at least once in every calendar year;
- (b) may revise or remake the scheme at any time; and
- (c) must lay the scheme (and any revision to it) before the National Assembly[3].

3 The extant legislation refers to the 'National Assembly' despite the change in name to 'Y Senedd/The Welsh Parliament'.

(5) Where the Welsh Ministers prescribe a scale or scales of fees under:

(a) section 64F of the Public Audit (Wales) Act 2004 (fees for data matching); or

(b) section 27A of the Local Government (Wales) Measure 2009 (Welsh Ministers' power to prescribe a scale of fees) to have effect instead of a scale or scales prescribed by the Wales Audit Office, the Wales Audit Office must revise the scheme to include the scale or scales prescribed by the Welsh Ministers instead of those prescribed by the Wales Audit Office.

(6) If a revision made in accordance with subsection (5) is the only revision to a scheme, it does not require the approval of the National Assembly.

(7) The scheme takes effect when approved by the National Assembly or, in the case of a revision made in accordance with subsection (5), once it has been laid before the Assembly.

(8) The Wales Audit Office must publish the scheme (and any revision to it) as soon as reasonably practicable after it takes effect.

2 List of enactments under which the Wales Audit Office may and must charge fees

Nature of work	Enactments
The Wales Audit Office may charge fees for the following activities	
Audit of accounts by the Auditor General (other than local government accounts).	Section 23(2) Public Audit (Wales) Act 2013
Value for money studies undertaken by agreement (except educational institutions and local government bodies–see below).	Section 23(3)(a), (b) and (c) Public Audit (Wales) Act 2013
An examination, certification or report under section 31 of the Tax Collection and Management (Wales) Act 2016 in respect of the Welsh Revenue Authority's Tax Statement.	Section 23 (3)(ba) Public Audit Wales Act 2013
An examination under section 15 of the Well-being of Future Generations (Wales) Act 2015 (anaw 2) (examinations of public bodies for the purposes of assessing the extent to which a body has acted in accordance with the sustainable development principle).	Section 23(3)(ca) Public Audit (Wales) Act 2013
Any functions of a relevant authority exercised by the Wales Audit Office or the Auditor General and undertaken by agreement, and any administrative, professional or technical services to be provided by the Wales Audit Office or the Auditor General by arrangement under section 19 of the Public Audit (Wales) Act 2013.	Section 23(3)(d) Public Audit (Wales) Act 2013
An extraordinary audit of the accounts of a local government body.	Section 37(8) of the Public Audit (Wales) Act 2004

Nature of work	Enactments
Advice and assistance provided by the Auditor General for registered social landlords.	Section 145D(2) of the Government of Wales Act 1998 Terms of payment may only be made in accordance with a scheme for charging fees under s24 of the Public Audit Wales Act 2013
The Wales Audit Office must prescribe fee scales for the following activities	
Audit of accounts of local government bodies	Section 20(A1)(a) of the Public Audit (Wales) Act 2004
Assistance to HM Chief Inspector of Education and Training Wales	Section 41A(6) of the Education Act 1997
Studies relating to Registered Social Landlords (housing associations)	Section 145C(3) of the Government of Wales Act 1998
Studies at request of local government bodies	Section 20(A1)(b) of the Public Audit (Wales) Act 2004
Benefit administration studies for the Secretary of State	Section 45(7) of the Public Audit (Wales) Act 2004
Grant certification services	Section 23(4)(a) Public Audit (Wales) Act 2013
Studies at the request of educational bodies	Section 23(4)(b) Public Audit (Wales) Act 2013
Improvement information audits, improvement assessments and special inspections of Welsh Improvement Authorities	Section 27 of the Local Government (Wales) Measure 2009
Special inspections of principal councils	Section 101 of the Local Government and Elections (Wales) Act 2021

3 Fee scales from 1 April 2023

Fee scales for work undertaken under the National Fraud Initiative (NFI)

31 We are required to consult on and prescribe scales of fees for data matching for mandatory participants in the NFI. The Auditor General conducts the NFI using his statutory data-matching powers under Part 3A of the Public Audit (Wales) Act 2004.

32 The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The NFI has been a highly effective tool in detecting and preventing fraud and overpayments. Our last biennial report identified potential savings and over-payments of £8 million across Wales's public services, increasing cumulative savings to £42.9 million since 1996.

33 Since April 2015, the Senedd has met the costs of running the NFI through payment from the Welsh Consolidated Fund. This is intended to encourage participation of organisations on a voluntary basis and simplifies arrangements for mandated participants.

34 As required by legislation, the fees for mandatory participants are shown in **Exhibit 2**.

Exhibit 2: NFI fees

	Fee 2023-24
Unitary authority; police and crime commissioners and chief constables; fire and rescue authorities; NHS trusts; local health boards.	Nil
Voluntary participants	Nil
All participants may also be provided with access to the NFI Application Checker (App Check).	Nil

Fee scales for unitary authorities

35 Our audit of accounts fee scale takes account of the expected additional resources required for the implementation of ISA315 on the audit of 2022-23 accounts. We will be working with audited bodies to mitigate additional costs where possible.

Exhibit 3: fee scale for the audit of 2022-23 accounts

		Fee range		Previous Year
Gross Expenditure £ million	**Minimum £'000**	**Median £'000**	**Maximum £'000**	**Median £'000**
100	135	159	183	139
200	163	191	220	167
300	181	213	245	186
400	196	230	265	200
500	208	244	281	213
600	218	257	295	223
700	227	267	307	233
800	235	277	319	241
900	243	286	329	249
1,000	250	294	338	256
1,100	256	302	347	262
1,200	262	309	355	268

Exhibit 4: fee scale for 2023-24 performance audit work

	Fee range			Previous Year
All unitary authorities	Minimum £'000	Median £'000	Maximum £'000	Median £'000
	137	146	164	105

Fee scales for local government pension funds

Exhibit 5: fee scale for audit of 2022-23 accounts

	Fee range			Previous Year
All pension funds	Minimum £'000	Median £'000	Maximum £'000	Median £'000
	36	48	57	41

Fee scales for fire and rescue authorities

Exhibit 6: fee scale for audit of 2022-23 accounts

	Fee range			Previous Year
Gross Expenditure £ million	Minimum £'000	Median £'000	Maximum £'000	Median £'000
20	40	47	54	41
40	48	56	65	49
60	53	63	72	54
80	57	68	78	59
100	61	72	82	62

Exhibit 7: fee scale for 2023-24 performance audit work

All fire and rescue authorities	Fee range Minimum £'000	Median £'000	Maximum £'000	Previous Year Median £'000
	17	17	17	17

Fee scales for national park authorities

Exhibit 8: fee scale for audit of 2022-23 accounts

Gross Expenditure £ million	Fee range Minimum £'000	Median £'000	Maximum £'000	Previous Year Median £'000
2	25	29	33	25
4	30	35	40	30
6	33	39	45	34
8	36	42	48	36
10	38	44	51	39

Exhibit 9: fee scale for 2023-24 performance audit work

All national park authorities	Fee range Minimum £'000	Median £'000	Maximum £'000	Previous Year Median £'000
	22	22	26	21

Fee scales for police and crime commissioners

36 Auditors undertake audits of two statutory bodies in a police area – the Police and Crime Commissioners (PCCs) and the Chief Constables (CCs). The split of the total fee between the two bodies in a particular police area will be a matter for auditors to determine, based on accounting requirements and the operational arrangements put in place by each of the bodies.

Exhibit 10: fee scale for audit of 2022-23 accounts

	Combined fee range for PCCs and CCs			Previous Year
Combined Gross Expenditure of PCC and CC £ million	**Minimum £'000**	**Median £'000**	**Maximum £'000**	**Median £'000**
50	68	78	89	69
100	80	93	106	81
150	88	102	117	90
200	95	110	125	96
250	100	116	133	102
300	105	122	139	106
350	109	126	144	111

Fee scales for town and community councils with annual income or expenditure under £2.5 million

37 Town and community councils in Wales are subject to a limited assurance audit regime.

38 In October 2020, the Auditor General published a paper setting out how these audits will be carried out on a three-year cycle as set out in **Exhibit 11**.

Exhibit 11: three-year audit cycle for town and community councils

	Group A	Group B	Group C
Year 1	Transaction testing	Limited procedures	Limited procedures
Year 2	Limited procedures	Transaction testing	Limited procedures
Year 3	Limited procedures	Limited procedures	Transaction testing

39 Charges for this work are based on time taken to the complete the audit at fee rate charges as set out in **Exhibit 1** on page 7.

40 In circumstances where the auditor requires further evidence to properly discharge their responsibilities, including following publication of a related public interest report, additional testing will be undertaken to address the auditor's concerns.

41 It is emphasised that the actual charge made to any particular body will be dependent on the time actually worked on that particular audit. The range of fees provided in **Exhibit 12** is for indicative purposes only.

Exhibit 12: estimated time charges for the audit of 2022-23 accounts of town and community councils

	Band 1 (<£10k)	Band 2 (<£25k)	Band 3 (<£50k)	Band 4 (<£100k)	Band 5 (<£500k)	Band 6 (>£500k)
Transaction audit	£150 – £183	£170 – £200	£230 – £282	£356 – £435	£635 – £760	£845 – £1,090
Limited procedures	£110 – £130	£136 – £162	£136 – £162	£210 – £250	£210 – £250	£210 – £250

Fee scales for other work in local government

42 Other than those types of bodies for which fee scales have been prescribed as shown above, there are a few other types of local government body where our prescription of the fee scale is a matter of converting the resource requirements into fees directly based on the costs of delivering the work or by applying the fee rates as set out in **Exhibit 1**. This will include audits of Corporate Joint Committees. It remains the case that for audits of these bodies we apply a zero-based approach to audit planning.

43 Audited bodies not covered by the statutory requirement for a fee scale have their estimated audit fees calculated in the same way as for those which are covered – that is, through applying the fee rates published in this Fee Scheme to the estimated team mix and hours of input required for the audit.

44 In the case of the provision of other administrative, professional or technical services provided, fees will be charged in accordance with the relevant agreement, subject to such amounts being capped at the full cost of providing the service.

45 Where specialist support or legal or other professional advice is required, this will be charged to audited bodies in addition to the cost of our audit staff.

46 For all types of local government body, to meet his statutory responsibilities, it is sometimes necessary for the Auditor General to carry out work which goes beyond general duties (those set out in section 17 of the Public Audit (Wales) Act 2004 and in section 15 of the Well-being of Future Generations (Wales) Act 2015). Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to elector challenge and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.

47 Auditors may also undertake grant certification work at local government bodies on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are made on a per-hour basis and reflect the size, complexity or any issues in respect of the grant in question as set out in **Exhibit 13**.

Exhibit 13: estimates of the relative proportions of audit staff grades to be used for different types of grants work

Grade of staff	Complex grants staff mix %	All other grants staff mix %
Engagement director	1 to 2	0 to 1
Audit Manager	4 to 6	1 to 2
Audit Lead	18 to 21	12 to 16
Auditor/graduate trainee/apprentice	71 to 77	81 to 87

Complex grants include:

- BEN01 Housing and council tax benefits scheme
- LA01 National non-domestic rates return
- PEN05 Teachers’ pensions return

Audit Wales

24 Cathedral Road

Cardiff

CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

We welcome telephone calls in Welsh and English.

E-mail: info@audit.wales

Website: www.audit.wales

Agenda Item 11

SUPPLEMENTARY LEGISLATIVE CONSENT MEMORANDUM

(MEMORANDUM NO.3)

UK INFRASTRUCTURE BANK BILL

1. This legislative consent memorandum is laid under Standing Order ("SO") 29.2. SO29 prescribes that a legislative consent memorandum (LCM) must be laid, and a legislative consent motion may be tabled, before Senedd Cymru if a UK Parliamentary Bill makes provision in relation to Wales for any purpose within, or which modifies the legislative competence of the Senedd.

2. The UK Infrastructure Bank Bill ("the Bill") was introduced in the House of Lords on 11 May 2022. The creation of a UK infrastructure bank ("the Bank") was first announced by the Chancellor at the Spending Review 2020. The Bank was launched on a non-statutory basis on 17 June 2021, and has already begun making investments.

3. I laid an LCM on 25 May 2022 and addressed provisions in the Bill as introduced.

4. I laid a Supplementary LCM before the Senedd on 8 July which addressed amendments passed during its passage through the House of Lords.

5. Amendments to the provisions of the Bill were tabled for consideration at Committee Stage in the House of Commons on 22 November 2022, during which UK Government amendments were agreed. These amendments make provision falling within the legislative competence of the Senedd, which this supplementary legislative consent memorandum addresses.

6. Committee Stage in the House of Commons concluded on 22 November 2022.

7. The current version of the Bill alongside details of all amendments can be found on the UK Parliament website: UK Infrastructure Bank Bill [HL] - Parliamentary Bills - UK Parliament

8. Welsh Government has through discussions with UK Government sought amendments relating to the remit of the bank in areas of devolved competence to ensure devolution is respected. The majority of the amendments agreed at Committee Stage in the House of Commons relate to these discussions.

Policy Objectives

9. The UK Government's stated policy objectives of the Bill are to set up the Bank to help tackle climate change and to support regional and local economic growth by providing access to financial instruments, including loans to local authorities to enable investment in infrastructure. It will operate on a UK-wide basis.

Summary of the Bill

10. The Bill is sponsored by HM Treasury.

11. The UK Government's stated purpose of this Bill is to place the UK Infrastructure Bank ('the Bank') on a statutory footing. The Bank is an operationally independent institution wholly owned by government.

12. By placing the Bank on a statutory footing, the Bill seeks to:

a) confirm and give statutory force to the Bank's objectives and activities;
b) ensure the Bank is a long-lasting institution;
c) create statutory forms of transparency, accountability and governance for the Bank;
d) remove legal barriers to the Bank undertaking direct lending to local authorities; and
e) grant specific powers to the Treasury to provide financial assistance to the Bank.

Territorial extent and application

13. The Bill extends and applies to the whole of the United Kingdom.

14. Infrastructure investment is a mixture of reserved and devolved competence. Matters relating to energy, cross-border rail and digital communications are cases where investment in infrastructure is likely to fall within reserved competence. Other matters such as rail, ports or bridges within a single devolved country or area are likely to fall within the legislative competence of the Senedd.

Amendments agreed at the House of Commons Committee Stage for which consent is required

15. As stated in the initial LCM, consent of the Senedd is required for the entirety of the Bill as the Senedd has competence to legislate in the same or similar terms in relation to Wales.

16. Details of all amendments considered at Committee Stage including their references, specific drafting and whether they were agreed can be found on the UK Government website below.

https://publications.parliament.uk/pa/bills/cbill/58-03/0140/amend/ukinfra_pro_pbc_1122.pdf

17. Note, this SLCM does not consider those that were not agreed.

18. The agreed amendments are set out below.

<u>Clause 2</u>

Original clause:

19. *Clause 2 – Objectives and activities*

20. *This specifies what the Bank's objectives and activities are to be. The objectives of the Bank are to help tackle climate change and to support economic growth. The activities of the Bank are to provide financial assistance to projects relating to infrastructure (to include water, electricity, gas, telecommunications, sewerage, railways (including rolling stock), roads or other forms of transport and climate*

change), provide loans to public authorities for such projects and to provide advisory and other support services for such projects. The above activities, and the definition of what encompasses 'infrastructure' for the purposes of such activities, may be changed by the Treasury through regulations made by statutory instrument.

21. Consent is required – the Senedd can legislate to confer these functions (which, as above, themselves relate to devolved areas of law) on a body it creates.

Agreed amendments to clause 2:

Amendment Gov 8

22. This amendment, and Amendment 9, would clarify that the Bank can provide loans to public authorities other than local authorities and Northern Ireland departments (as well as to persons other than public authorities).

Amendment Gov 1

23. This amendment would remove the reference to "structures underpinning the circular economy, and nature-based solutions," from the definition of "infrastructure".

Amendment Gov 2

24. This amendment would remove subsection (6), which was inserted by the House of Lords.

Amendment Gov 3

25. This amendment would require the Treasury to consult the relevant devolved authority before making regulations under clause 2(7) that would contain provision within the legislative competence of the authority in question.

Consent required for agreed amendments to clause 2

26. Consent required - the proposed amendments do not impact the competence advice set out above for the original clause and, as the original clause is 'relevant provision' and within the scope of SO 29, consent is required for these amendments.

<u>Clause 3</u>

Original clause:

27. *Clause 3 – Strategic priorities and plans*

28. *Clause 3 states that the Treasury must prepare a statement of strategic priorities for the Bank and allows that the Treasury may revise or replace such statement. Further, it states that the Bank must secure that its articles of association provide for the Bank to publish and act in accordance with strategic plans which reflect the Treasury's statement, and to update those plans whenever the Treasury revises or replaces its statement.*

29. Consent is required - This clause deals with the corporate governance of an existing body corporate. We have reviewed the above provision against the reserved matters in Schedule 7A of GOWA and the restrictions in Schedule 7B of GOWA and have concluded that (as the objectives and activities of said body corporate are within competence – see analysis of clause 2 above) there is nothing contained therein which would render such a provision outside the legislative competence of the Senedd should it be included in an Act of the Senedd.

Agreed amendments to clause 3:

Amendment Gov 4

30. This amendment would require the Treasury to consult the relevant devolved authority before including in a statement of strategic priorities for the Bank any provision which the Treasury proposes to include in the statement and which concerns a subject matter within the legislative competence of the authority in question.

31. Consent required - the proposed amendment does not impact the competence advice set out above for the original clause and, as the original clause is 'relevant provision' and within the scope of SO 29, consent is required for these amendments.

<u>Clauses 6 and 7</u>

Original clause:

32. *Clauses 6 (Annual accounts and reports) and 7 (Directors: appointment and tenure)*

33. *Clause 6 states that the Bank's directors must, as soon as reasonably practicable after complying with section 441 of the Companies Act 2006 in relation to a financial year, deliver to the Treasury a copy of the accounts and reports which they are required to deliver. Further, the clause obliges the Treasury to lay a copy of those accounts and reports before Parliament.*

34. *Clause 7 deals with corporate governance issues relating to the appointment and tenure of directors for the Bank.*

35. Consent required - These clauses deal with the corporate governance of an existing body corporate and as such, we have concluded that (as the objectives and activities of said body corporate are within competence – see analysis of clause 2 above) they would be within the legislative competence of the Senedd should they be included in an Act of the Senedd relating to a company set up by the Welsh Ministers.

Agreed amendments to clauses 6 and 7:

Amendment Gov 5

36. This amendment would require the Bank's Board to include one or more directors with responsibility for ensuring that the Board considers the interests of the appropriate national authorities when making decisions.

37. Consent required - the proposed amendment does not impact the competence advice set out above for the original clause and, as the original clause is ‘relevant provision’ and within the scope of SO 29, consent is required for these amendments.

Clauses 10 and 11

Original clause:

38. *Clause 10 (Interpretation) and 11 (Extent and short title)*

39. *Clauses 10 and 11 define the defined terms used in Bill, and specify the extent of the ‘Act’, the date on which it is to come into force and its short title.*

40. Consent is required - as they are incidental to the remainder of the Bill, it is concluded that consent is required.

Agreed amendments to clauses 10 and 11:

Amendment Gov 6

41. This amendment would define “appropriate national authority”.

Amendment Gov 9

42. This amendment is consequential on the change made to clause 2 as described in paragraph 22 above (it provides the definition of the term ‘public authorities’ as is used in that amendment).

Amendment Gov 7

43. This amendment would remove the privilege amendment inserted by the House of Lords.

Consent required for agreed amendments to clauses 10 and 11

44. Consent required - the proposed amendments do not impact the competence advice set out above for the original clause and, as the original clause is ‘relevant provision’ and within the scope of SO 29, consent is required for these amendments.

UK Government view on the need for consent

45. The UK Government’s view on the need for consent remains the same as outlined in the first LCM tabled on 25 May 2022.

Welsh Government’s Current Policy Position

46. The Bill as initially introduced provided no role for the Senedd or the Welsh Government in the governance of the Bank, while reserving certain activities for Parliament, the Chancellor and HM Treasury.

47. Clause 2 allows the Treasury to amend the Bank's activities and the definition of infrastructure. Through amendment Gov 3 there is a statutory obligation on the Treasury to consult Welsh Ministers when exercising these powers.

48. Similarly, Clause 3 allows the Treasury to revise or replace the statement of strategic priorities for the Bank. Through amendment Gov 4 there is a statutory obligation on the Treasury to consult Welsh Ministers when exercising these powers.

49. Amendment Gov 5 states that the Board must appoint one or more Directors to consider the interests of the national authorities. This will provide a statutory duty to liaise between at least one Director of the Board and the Welsh Ministers, helping ensure that the interests of Wales are considered on the Board.

50. The three amendments outlined above provide a statutory role for the Welsh Ministers or consideration of the interests of Wales in the three main areas where the UK Government has specific powers. While the outcome does not achieve all of my objectives, I believe that the UK Government amendments represent a reasonable compromise which will enable the interests of Wales and the Welsh Government to be reflected through the workings of the Bank.

Financial Implications

51. There are no direct financial implications arising from this memorandum.

Conclusion

52. As set out above, the legislative consent of the Senedd Cymru is required for all amendments to the Bill.

53. The Bill has been amended to better reflect the interests of Wales and the Welsh Government and to better respect the devolution settlement. I therefore now recommend consent is given to the Bill. In due course, I intend therefore to recommend that the Senedd consents to the passing of this Bill.

Rebecca Evans MS
Minister for Finance and Local Government
30 November 2022

Welsh Parliament
Business Committee

Timetable for consideration: Supplementary Legislative Consent Memorandum (no. 3) on the UK Infrastructure Bank Bill

December 2022

On 6 December 2022, the Business Committee agreed, in accordance with Standing Order 29.4(i), to invite the Climate Change, Environment and Infrastructure Committee, the Economy, Trade and Rural Affairs Committee, the Finance Committee and the Legislation, Justice and Constitution Committee to consider and report on the Supplementary Legislative Consent Memorandum (no. 3) on the UK Infrastructure Bank Bill.

In accordance with Standing Order 29.4(ii), the Business Committee agreed that the Committees should report to the Senedd by 16 January 2023.

By virtue of paragraph(s) ix of Standing Order 17.42

Document is Restricted