

Agenda – Finance Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: 15 November 2018

Meeting time: 09.00

For further information contact:

Bethan Davies

Committee Clerk

0300 200 6372

SeneddFinance@assembly.wales

1 Introductions, apologies, substitutions and declarations of interest

(09.00)

2 Paper(s) to note

(09.00)

(Pages 1 – 3)

2.1 PTN1 – Letter from the Chair of the Petitions Committee – P-05-840 Fair Funding for Neath Port Talbot County Borough Council and all other Local Authorities – 6 November 2018

(09.00)

(Pages 4 – 5)

3 Welsh Government Draft Budget 2019–20: Evidence session 8 (Economic growth panel)

(09.00–10.00)

(Pages 6 – 43)

Joshua Miles, Policy Manager, FSB Wales

Rhianne Jones, Policy Adviser, Country Land and Business Association

Sara Jones, Head of the Welsh Retail Consortium

Paper 1 – Written evidence: FSB Wales

Paper 2 – Written evidence: Country Land and Business Association

Paper 3 – Written evidence: Welsh Retail Consortium

4 Welsh Government Draft Budget 2019–20: Evidence session 9 (Future Generations Commissioner for Wales)

(10.00–11.00)

(Pages 44 – 61)

Sophie Howe, Future Generations Commissioner for Wales



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cathy Madge, Lead Change Maker, Office of the Future Generations
Commissioner for Wales

Paper 4 – Written evidence: Future Generations Commissioner for Wales

5 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting

(11.00)

6 Welsh Government Draft Budget 2019–20: Consideration of evidence

(11.00–11.10)

7 Wales Audit Office and the Auditor General for Wales's Estimate 2019–20: Consideration of draft report

(11.10–11.40)

Paper 5 – Draft report

8 Public Services Ombudsman for Wales Estimates 2019–20: Consideration of draft report

(11.40–12.10)

(Pages 62 – 84)

Paper 6 – Draft report

Paper 7 – Briefing note

Concise Minutes – Finance Committee

Meeting Venue:

Committee Room 4 – Tŷ Hywel

Meeting date: Wednesday, 7 November

2018

Meeting time: 09.00 – 12.11

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/5132>

Attendance

Category	Names
Assembly Members:	Llyr Gruffydd AM (Chair) Rhun ap Iorwerth AM Neil Hamilton AM Mike Hedges AM Jane Hutt AM Nick Ramsay AM David Rees AM
Witnesses:	Adrian Crompton, Auditor General for Wales, Wales Audit Office Isobel Garner, Wales Audit Office Kevin Thomas, Wales Audit Office Steve O'Donoghue, Wales Audit Office Robert Chote, Office for Budget Responsibility Vaughan Gething AM, Cabinet Secretary for Health and Social Services Matthew Jenkins, Welsh Government



	Gareth Haven, Welsh Government
Committee Staff:	Ed Poole (Expert Adviser) Bethan Davies (Clerk) Meriel Singleton (Second Clerk) Georgina Owen (Deputy Clerk) Owen Holzinger (Researcher) Christian Tipples (Researcher)

1 Introductions, apologies, substitutions and declarations of interest

1.1 The Chair welcomed Members to the meeting.

2 Paper(s) to note

2.1 The papers were noted.

**2.1 PTN1 – Letter from the Cabinet Secretary for Finance – Capital Investment Bonds –
24 October 2018**

3 Wales Audit Office and the Auditor General for Wales's Estimate 2019–20

3.1 The Committee took evidence from Adrian Crompton, Auditor General for Wales; Isobel Garner, Chair, Wales Audit Office Board; Kevin Thomas, Director of Corporate Services; and Steve O'Donoghue, Director of Finance and Human Resources.

4 Motion under Standing Order 17.42 to resolve to exclude the public from items 5 and 8–10

4.1 The motion was agreed.

5 Wales Audit Office and the Auditor General for Wales's Estimate 2019–20: Consideration of evidence

5.1 The Committee considered the evidence received.

6 Welsh Government Draft Budget 2019–20: Evidence session 7 (Office for Budget Responsibility)

6.1 The Committee took evidence from Robert Chote, Chairman, Office for Budget Responsibility on the Welsh Government Draft Budget 2019–20.

7 Autism (Wales) Bill: Evidence session – Cabinet Secretary for Health and Social Services

7.1 The Committee took evidence from Vaughan Gething AM, Cabinet Secretary for Health and Social Services; Matthew Jenkins, Deputy Director, Partnerships and Cooperation; and Gareth Haven, Finance Division on the Autism (Wales) Bill.

7.2 The Cabinet Secretary agreed to provide the Committee with a note setting out:

- his views on the challenges around the way the Regulatory Impact Assessment is written and what he feels is missing; and
- the development and implementation costs of delivering the Code of Practice.

8 Autism (Wales) Bill: Consideration of evidence

8.1 The Committee considered the evidence received.

9 Welsh Government Draft Budget 2019–20: Consideration of evidence

9.1 The Committee considered the evidence received.

10 Public Services Ombudsman (Wales) Bill

10.1 The Committee authorised Llyr Gruffydd AM as the new Member in Charge of the Public Services Ombudsman (Wales) Bill and agreed to write to the Business Committee with a revised timetable.

Agenda Item 2.1

Llyr Gruffydd
Chair, Finance Committee
National Assembly for Wales
Tŷ Hywel
Cardiff Bay
CF99 1NA

6 November 2018

Dear Llyr

Petition P-05-840 Fair Funding for Neath Port Talbot County Borough Council and all other Local Authorities

The Petitions Committee considered the above petition for the first time on 23 October. Further information on the petition, including the full petition text and correspondence received to date, is available on the Assembly's website at:
<http://www.senedd.assembly.wales/ielIssueDetails.aspx?IId=23018&Opt=3>

At our meeting, Members agreed that I should draw the petition to your attention given Finance Committee's responsibility for scrutinising the Welsh Government's budget.

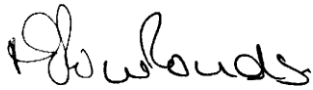
You may wish to be aware that Members also agreed to write to:

- other Assembly Committees with responsibility for scrutinising aspects of funding for local authorities from the Welsh Government's budget for 2019/20.
- all local authorities and the WLGA to seek their views on the Welsh Government's budget process and the current challenges for local authorities; and
- the Cabinet Secretary to:
 - ask him to provide further details of the draft local government budget allocations once the spending plans have been published on 23 October; and
 - seek clarification on how the £30m of additional funding for Social Care identified in the draft budget will be allocated and provided.



If you would like any further information about the petition please contact the clerking team at SeneddPetitions@assembly.wales.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D Rowlands'.

David J Rowlands AC/AM
Cadeirydd/Chair



Agenda Item 3



Arbenigwyr mewn Busnes
Experts in Business

FSB Wales response to the Finance Committee

Welsh Government's Budget 2019/20

August 2018



Arbenigwyr mewn Busnes
Experts in Business

About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales, with around 10,000 members. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

Introduction

The Welsh Government's budget for 2019/20 marks a turning point in the nation's history. Building on the devolution and creation of the Land Transaction Tax and the Landfill Disposal Tax, Welsh Government will for the first time set its own rate of income tax. This decision, worth around £2.1bn to Welsh Government's budget, reflects a move towards greater financial flexibility and accountability for the Welsh Government and National Assembly for Wales.

For the first time, decisions made in the budget will have a direct impact on the fortunes of the Welsh economy and Wales' public finances. It is therefore more important than ever before that the decisions Welsh Government takes are able to ensure a sustainable, growing economy to support its tax and spending ambitions.

FSB Wales believes this can only be achieved if Wales' 250,000 micro, small and medium-sized businesses are able to prosper. We therefore set out a number of priorities for Welsh Government in developing its budget for 2019/20.

Summary

Taxation:

- Within the budget, Welsh Government should set an explicit ambition around closing the employment gap and maintaining wage growth at 0.5 per cent above UK levels.
- Funding for the Economic Action Plan and associated programmes should be maintained or increased to help deliver improvements to the tax base.
- Welsh Government should set its income tax rate at 10p across all bands, maintaining the current arrangement on rates.
- Welsh Government should maintain its 1 per cent lower band for the Land Transaction Tax between £150,000 and £250,000.
- Welsh Government should consider aligning more closely the process of revaluation of rates with economic conditions. There are a number of ways this could be achieved, including three a three-yearly cycle as is happening in Scotland and England.

- The 2019/20 budget should provide a timeline for consideration of longer-term reforms to business rates, including the scope of issues under examination and any opportunities for consultation with the business sector
- Further detail on the proposed Vacant Land Tax should be delivered through the budget, including the process and timescales involved in policy development.
- FSB Wales does not believe now is the time to introduce a tourism tax in Wales. We would suggest the Welsh Government consults with the sector to better understand the impact of VAT on tourism businesses, learning from the review in Northern Ireland.
- FSB Wales reiterates its call for the devolution of APD to Wales.

Expenditure

- The 2019/20 budget should refocus its headings to align with the Economic Action Plan.
- The Economic Action Plan should include targets for the economy. This would allow us to measure performance of the policy.
- The new headings should be clear and unambiguous and align with the priorities identified within the plan.
- Funding for the foundational sectors should be clearly articulated and a timeline produced for the development of action plans in these areas.
- The Welsh Government should implement the findings of the Reid Review, in particular around the creation of the St David's Investment Fund.
- Welsh Government should introduce a Rural Challenge Fund, to help rural economies to innovate.
- Welsh Government should review finance issues such as patient capital and succession finance through the Development Bank's new research unit.
- Welsh Government should ensure funding for apprenticeships with SMEs is secured and not diverted towards demand amongst large firms and the public sector.
- There should be clear support for Business Wales and the Development Bank for Wales in the budget with commitments going beyond 2020.

Taxation

Growing the Welsh Tax Base

Welsh Government is now accountable for the performance of the Welsh tax base through its receipts from income tax. Recent research by the Wales Centre for Public Policy (WCPP) has identified the pressures Welsh Government will face in this regard.¹ In short, the Welsh Government will gain or lose revenue depending on its performance relative to the UK in terms of employment levels, wages (in particular in the private sector) and the nature of the Welsh population.

In summary, the WCPP report suggested the following opportunities:

- **Employment** - If employment rates converge in 2029-30, the Welsh Government budget would be more than £100 million better off each year compared with a scenario of no income tax devolution.
- **Wages** – Maintaining 0.5 per cent faster wage growth than the UK as a whole would increase Welsh Government's budget by around £175m annually by 2029/30.

By contrast, the same report estimates that raising the basic rate by 1p would net Welsh Government around £180m accounting for behavioural responses. It is therefore clear that delivering positive economic outcomes on employment and wages can lead to more prosperous public finances.

We know that there are a number of reasons for the employment and wages gap in Wales. For instance, most recent labour market statistics suggest employment rates among women lag men by around 8 per cent, whilst the employment rate for those with a disability is reported to be 43 per cent UK-wide. Furthermore, economic inactivity remains high in Wales at 22.5 per cent.² Our own research on self-employment has suggested women are less likely to start a business, something which the Welsh Government can address.

As such we would recommend the Welsh Government sets an ambition of closing the employment gap and maintaining the 0.5 per cent faster wage growth within the budget narrative. This would form the medium or longer-term ambition of Welsh Government's fiscal policy.

Welsh Government should commit resources within the budget process to enable both of these factors to be achieved. For instance, priorities aligned to the Economic Action Plan should be properly resourced with an increase in overall funding in order to deliver the

¹ Poole, E and Ifan, G. 2018. *The Welsh Tax Base: Risks and Opportunities after Fiscal Devolution* [Online]. Available at: <https://www.wcpp.org.uk/wp-content/uploads/2018/07/The-Welsh-Tax-Base-WCPP-Final-180627.pdf> (accessed 11th September 2018).

² Welsh Government. 2018. *Key Economics Statistics: July 2018* [Online]. Available at: <https://gov.wales/docs/statistics/2018/180719-key-economic-statistics-july-2018-en.pdf> (accessed 11th September 2018).

employment and wage growth needed. Likewise, schemes such as Working Wales must be allowed to bed in and should be properly targeted to ensure Wales is reducing its proportion of economic inactivity.

Within the budget, Welsh Government should set an explicit ambition around closing the employment gap and maintaining wage growth at 0.5 per cent above UK levels.

Funding for the Economic Action Plan and associated programmes should be maintained or increased to help deliver improvements to the tax base.

Income Tax

The 2019/20 budget marks the first opportunity for Welsh Government to vary the rate of income tax across the three bands in Wales. The extent of the direct impact on SMEs will depend on the nature and structure of the business concerned, in particular whether they are incorporated or not. Evidence from our sister organisation FSB Scotland suggests that FSB members are more likely to be paying the basic rate, than the additional or higher rates.³

FSB Wales notes that the Welsh Labour manifesto for the 2016 elections to the National Assembly provided a guarantee not to increase income tax during this Assembly term. We believe this is the correct policy at present for a number of reasons:

- It provides consistency in the short-term between trading conditions in Wales and the rest of the UK.
- It allows Welsh Government to further ascertain the impact of Welsh tax policy on SMEs across all devolved taxes.
- Welsh Government has already committed to significant reforms to Council Tax and in the medium-term Non-Domestic Rates.
- It provides stability during a time of unprecedented change through the UK's exit from the European Union.

Welsh Government should set its income tax rate at 10p across all bands, maintaining the current arrangement on rates.

Land Transaction Tax

The Welsh Government budget for 2018/19 set out the first rates and bands for the Land Transaction Tax. In relation to non-residential transactions the Welsh Government reduced the rate between £150,000 and £250,000 from 2 per cent (as currently applies

³ FSB Scotland. 2017. *Income Tax and Small Businesses in Scotland* [Online]. Available at: https://www.fsb.org.uk/docs/default-source/fsb-org-uk/incometaxreport_dec17_formatted.pdf?sfvrsn=0 (accessed 11th September 2018).

in England) to 1 per cent.⁴ This essentially halves the cost of tax on transactions between these values.

Furthermore, the knock-on impact of the cut in this band leads to a reduction in tax liable for property purchases up to a value of £1.1m. This has led to the tax becoming more progressive when compared to its UK counterpart, Stamp Duty Land Tax. FSB Wales believes a significant proportion of our members would have benefited from this change. We therefore believe it should be maintained in the short-term and the impact reviewed at a later date to ascertain the impact on the number of transactions.

Welsh Government should maintain its 1 per cent lower band for the Land Transaction Tax between £150,000 and £250,000.

Non-Domestic Rates

In the run up to the National Assembly elections in 2016, we called for a number of reforms to the Non-Domestic Rates (Business Rates) system to improve its fairness. We are pleased that Welsh Government has implemented a number of these proposals, including; making the small business relief scheme permanent, uprating the multiplier by CPI instead of RPI and introducing reliefs for the childcare sector.

The Cabinet Secretary for Finance recently announced the next revaluation of business rates will be in 2021, in line with England. We welcome this announcement as it ensures the tax base reflects more closely current economic conditions. The Cabinet Secretary further committed to review longer-term changes including a potential three year cycle amongst other things. Ultimately, the aim in this area is to ensure the tax base adequately reflects property prices.

Welsh Government should consider aligning more closely the process of revaluation of rates with economic conditions. There are a number of ways this could be achieved, including three a three-yearly cycle as is happening in Scotland and England.

In his most recent statement, the Cabinet Secretary also confirmed that work is being undertaken to look at broader reforms to the system including whether there are different approaches to valuation that would be fairer and better improve economic outcomes. The statement also refers to Land Value Tax as a potential alternative tax for Wales. Additionally, the Barclay review in Scotland has proposed a number of other potential reforms such as providing a 12 month delay on rates accruing to investment in new plant, buildings and machinery.

⁴ Welsh Government. 2018. *Welsh Tax Policy Report* [Online]. Available at: <https://beta.gov.wales/sites/default/files/publications/2018-06/welsh-tax-policy-report.pdf> (accessed 11th September 2018). P.51



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Experts in Business

FSB Wales welcomes the Welsh Government's ambition to undertake longer-term reform of business rates. We also agree that fairness and economic outcomes are the correct guiding principles for reform.

The 2019/20 budget should provide a timeline for consideration of longer-term reforms, including the scope of issues under examination and any opportunities for consultation with the business sector.

Tax Administration

FSB Wales has welcomed the introduction of the Welsh Revenue Authority. Since the two devolved taxes went live in April we have had a good degree of interaction with the WRA and there appears to be a willingness to focus on helping small firms to comply with tax legislation introduced in Wales. As tax devolution and reform gathers pace, we can envisage the WRA being given a larger role in administering taxes and would suggest this play a role in any longer-term review of non-domestic rates.

In order to inform our understanding of tax administration amongst SMEs in Wales, we have partnered with Bangor University to carry out research into tax policy in Wales. We hope this research will be able to inform both the WRA and the Welsh Government in due course.

New Taxes

In October 2017 the Welsh Government announced four new tax ideas to take forward as part of the new power to introduce taxes in devolved areas.

Vacant Land Tax

Of the four taxes proposed, the Vacant Land Tax has since been chosen as the first of these to be implemented. We recognise the six stage process between identification and implementation of any new tax will inevitably lead to a long period of policy development.⁵ Despite this, we believe more detail is needed on the Vacant Land Tax proposals to allow us to make an assessment of its impact on SMEs in Wales.

Further detail on the proposed Vacant Land Tax should be delivered through the budget, including the process and timescales involved in policy development.

Tourism Tax

Along with the Vacant Land Tax, Welsh Government has also suggested it will implement a Tourism Tax in Wales. In the past FSB has campaigned for a reduction of VAT on tourism to 5 per cent to bring the UK into line with many other European countries. Many of these countries combine locally administered tourism taxes with low rates on

⁵Welsh Government. 2018. *The process of developing a new tax for Wales* [Online]. Available at: <https://gov.wales/docs/caecd/publications/180213-developing-infographic-en.pdf> (accessed 11th September 2018).



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Experts in Business

VAT on tourism, providing a greater degree of flexibility to accommodate local conditions.

For instance, VAT in one of Wales' major competitors for tourists - the Republic of Ireland - is currently 9 per cent across a broad section of the tourism sector. We are also aware of UK Government's recent consultation on the impact of VAT on tourism in Northern Ireland. Our sister organisation FSB NI submitted evidence to the review suggesting a cut on tourism VAT to 10 per cent or less.

Furthermore, a significant proportion of those who visit Wales for overnight stays come from our largest neighbour, England. Many of these tourists will have other options for holidays within a similar distance to Wales and we currently do not understand their sensitivity to price.

FSB Wales has recently begun consulting with members on this issue. Initial results from members in Gwynedd suggest a high degree of opposition to the proposal, particularly if the funding is not hypothecated to the sector.

FSB Wales does not believe now is the time to introduce a tourism tax in Wales. We would suggest the Welsh Government consults with the sector to better understand the impact of VAT on tourism business, learning from the review in Northern Ireland.

Air Passenger Duty

FSB Wales has long supported Welsh Government's calls for air passenger duty to be devolved to the National Assembly for Wales. The recent creation of the Cardiff – Doha link by Qatar airways shows there is an appetite for long-haul flights to Wales and we believe APD, if properly used, could lead to increase connectivity with the rest of the world. Furthermore, we note that the UK Government has recently consulted on this issue in relation to Northern Ireland.

FSB Wales reiterates its call for the devolution of APD to Wales.

Spending Priorities

Economic Action Plan

FSB Wales has welcomed the introduction of the Economic Action Plan. The EAP reflects a broad shift in policy away from the sectors approach towards four main themes; the Economic Contract, a regional approach to economic development, foundational sectors and new national 'thematic' sectors.

Previous Welsh Government budgets have been difficult to analyse in relation to activity undertaken under the sectors banner with titles such as 'Business Development' and 'Business Solutions'. In order to reflect the Economic Action Plan, FSB Wales believes these headings should be refocused to align directly with the four priorities mentioned

above. These should be clear and unambiguous to allow for proper analysis and debate around the levels of resource needed under each priority.

The 2019/20 budget should refocus its headings to align with the Economic Action Plan. The new headings should be clear and unambiguous and align with the priorities identified within the plan.

At present, the Economic Action Plan doesn't include targets to measure performance. FSB Wales would like to see targets introduced to set out a clear ambition for the longer term and a means of measuring that ambition.

The Economic Action Plan should include targets for the economy. This would allow us to measure performance of the policy.

Foundational Sectors

The EAP provided the first formal recognition of the foundational economy in an economic strategy document, which FSB Wales has welcomed. Taking the foundational sectors forward, the Welsh Government has previously signalled its intent to deliver action plans in each of the areas concerned. Furthermore, in its previous budget process £1.5m was committed to projects in the foundational economy.

We would like to see funding for the foundational sectors clearly articulated within the budget to support the action plans. As part of this, a timeline for the creation of the action plans should be published, as well as an update on the use of the £1.5m to date.

Funding for the foundational sectors should be clearly articulated and a timeline produced for the development of action plans in these areas.

Reid Review

The Welsh Government recently published the Reid Review of research and innovation in Wales. The review makes the case for the creation of a St David's Investment Fund in order to better resource and project the innovation agenda in Wales. In particular, we feel that further funding should be targeted at the point where businesses and universities interact, through funds similar to Higher Education Innovation Funding (HEIF).

The Reid review identifies this funding as ceasing to exist in Wales from around 2014 onwards with European funding largely filling the gaps.⁶ Given the uncertainty around European funding going forward, Welsh Government should act in this area as a priority and seek to develop the St David's Investment Fund as per the Reid recommendations.

⁶ Reid Review. 2018. Available at: <https://gov.wales/docs/det/publications/reid-review-en.pdf> (accessed September 11th 2018). P.43

The Welsh Government should implement the findings of the Reid Review, in particular around the creation of the St David's Investment Fund.

Rural Economies

In our report, *A Taskforce for Rural Economies* we highlighted the pressures currently facing small firms in rural areas from the developing 'city region' agenda and uncertainties around Brexit. In particular, policies such as LEADER and the broader RDP have built up momentum over time that risks being lost through the transition period.⁷ Our proposal was to convene as taskforce to examine the role of rural economies in the Welsh Government's broader economic strategy and to institute a 'rural challenge fund' that would continue and enhance programmes such as LEADER post-brexit.

This would be an open fund designed to attract new ideas and new thinking for economic development in rural areas. The emphasis would be on allowing rural areas to design their own projects and interventions in a number of areas in order to further economic development

Welsh Government should introduce a Rural Challenge Fund, to help rural economies to innovate.

Wales' Missing Middle

Recent research by FSB Wales has shown a significant gap in the number of medium-sized firms in Wales. Our report, *Wales' Missing Middle* examined the factors behind this and called for an economic development policy that focused on developing Wales' small firms to become local anchored but globally competitive medium-sized companies.⁸ One of the core issues around this has been access to finance, and in particular finance that is 'patient' – i.e. it is over a longer term. With the Development Bank now in place, the Welsh Government should review this issue, as well as the issue of finance for succession planning, to ensure Wales' small firms are able to grow sustainably.

Welsh Government should review finance issues such as patient capital and succession finance through the Development Bank's new research unit.

Apprenticeships

FSB Wales recently responded to the Welsh Government's proposals for a tertiary education commission for Wales. Within the consultation, a number of issues were raised around apprenticeship reform – including around the impact of the apprenticeship levy. Apprenticeships are a vital route in to many industries. Despite this, in areas such as construction there continues to be a lack of diversity in the nature of apprentices, with few women entering the sector.

⁷ FSB Wales. 2017. *A Taskforce for Rural Economies* [Online]. Available at: https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb_taskforce_for_rural_economy.pdf?sfvrsn=0

⁸ FSB Wales. 2017. *Wales' Missing Middle* [Online]. Available at: https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb_missing_middle_eng.pdf?sfvrsn=0

We know from previous data that 56 per cent of Wales' apprentices were placed with an SME during 2016/17, showing how SMEs are committed to the apprenticeship pathway to employment. Unfortunately, this figure has declined by 2 per cent per year over the last three years. The introduction of the levy has significantly increased demand amongst both large employers and the public sector, where previously there was less interest in apprenticeships.

While funding has increased slightly following the introduction of the levy, there is a real danger that to accommodate this new demand small firms, who have always been engaged in apprenticeships, will lose out as funding is squeezed.

Welsh Government should ensure funding for apprenticeships with SMEs is secured and not diverted towards demand amongst large firms and the public sector.

EU Funding

There is a significant degree of uncertainty surrounding the future of EU funding, and specifically whether Wales will receive the same amount of funding under any new UK regime. In our most recent report *Support Success: Business Support Beyond 2020* we analyse the cost of various business support interventions.⁹ The report concludes that both Business Wales and the Development Bank for Wales provide good value for money, in particular when compared to direct investment to large companies through the Business Finance Scheme.

With this in mind, we've called on the Welsh Government to ensure funding for business support services continues post-2020. This should be clearly reflected in the budget, particularly in relation to projections for indicative budgets post-2020.

There should be clear support for Business Wales and the Development Bank for Wales in the budget with commitments going beyond 2020.

⁹ FSB Wales. 2018. *Supporting Success Business Support Beyond 2020* [Online]. Available at: [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/final-business-support-beyond-2020-\(english\).pdf?sfvrsn=0](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/final-business-support-beyond-2020-(english).pdf?sfvrsn=0) (accessed 2nd August 2018).



Inquiry Response

Welsh Assembly Finance Committee

September 2018

Inquiry into Welsh Government Draft Budget Proposals 2019-20

CLA Cymru: The voice of the Rural Economy

1. CLA Cymru represents the broadest possible range of economic players in Wales. These include rural businesses and service-providers, manufacturers and the supply chain for primary producers and those who can manage land as amenity. In Wales, rural business totals nearly 105,000¹ enterprises.
2. While we participate as experts in agricultural issues, we offer expertise on the requirements of the whole rural community including issues affecting businesses such as planning, investment and economic management, housing, connectivity and physical infrastructure.
3. In Wales, CLA Cymru's membership reaches over 3,000 businesses. Here, we play a full and dynamic part in government and stakeholder engagement. Part of a well-established UK-wide organisation, the CLA includes some 33,000 members.

General Comments

1. There has never been a more crucial time for the Welsh Government to make every penny of their budget allocation count. Allocating the budget to optimise return on that investment is key. Ministers will need to be bold in their decision making and progressive in their thinking to meet the challenges ahead – the uncertainty of Brexit will no doubt continue to build over the next few months and creating the most favourable possible conditions to promote economic stability must be at the heart of the next budget round. The foundation of the Welsh economy is the myriad of businesses that operate here and the wealth they create for their communities. Encouraging, supporting and providing confidence for these businesses to grow and invest in Wales is fundamental for success and this starts with the Welsh Government budget process.

Process

2. This is not an easy task, but as a stakeholder with a real interest in understanding how the budget is spent, it is often difficult to interpret how money is allocated and where it is used and, equally, how this expenditure is then monitored. The process and proposals are opaque. The language and the acronyms associated with the budget are complex and often bear little resemblance to how the money is defined 'on the ground.'
3. This is a time of change for Wales and there will be significant knock-on effects to the Welsh Government budget. This does not seem to be reflected in any thinking associated with the budget. Wales has been a notable beneficiary of monies from the European Union – in particular the European Structural Funding Programme, including Objective 1 it's legacy funding. Whilst there has been political noise on the need to replace every penny that

¹ CLA research, *Standing Up for Rural Business*, p 4-5

Wales historically received from EU, it is as yet unclear if this will be respected or in what manner such monies would be delivered to Wales.

4. The Welsh Government budgetary process contains little analysis of where monies come from and what they are spent on. It is difficult to see how, or even if, we should be continuing to spend money in the same way we have historically. There is no idea of what holes might need to be plugged in the future, or what we might want to scrap.
5. The performance monitoring of the budget in Wales concentrates on the legality and operation of monetary control— we audit whether or not there was any wrong doing in how money has been spent but there is little comprehensive analysis of the value of the product delivered with public money and the return on investment. There is some “scheme” level analysis but this is mostly linked to the requirements of EU funding and isn’t strategic or always helpful. A more transparent and robust focus on evaluating the impact of funding is essential, especially as budgets constrict in the future.

Investment

6. Exclusive CLA research show that our members, operating in the land based economy and rural communities, invest more than £1 billion into their business annually whilst modelling demonstrates strong growth potential if “good conditions” can be achieved.²
7. Good conditions include supportive enabling policy and confidence in government strategy and spending. This draws out another failing in the financial planning system in that it is not always clear how policy and budget are aligned. It feels that the high level budget allocation drives policy but one could argue that policy should drive the budget.
8. There can be seen in Welsh Governments approach to business investment. Whilst Wellbeing of Future Generations Act and sustainability principles in the Environment Act would promote the path of connecting and growing our indigenous business, this approach is overshadowed in favour of attracting big business to specific areas in Wales. This actually creates a more volatile working environment for the people and communities in Wales where losing one business can have a catastrophic effect on the local economy. For example, the plethora of small tech and gaming companies currently operating across North Wales has the potential to become a world leading tech hub and is a more stable investment and opportunity for the people and economy of Wales than attracting a large tech company to the area.
9. This approach of utilising and investing in the natural resources of Wales would also allow us to be more ambitious in terms of growth, investment and prosperity. At present, Welsh Government ambition is too disjointed to realise its full potential and delivery of targets usually not given enough time to reach fruition before priorities change. Budgets are short term where outcomes need to be longer.
10. Until we can overcome the problems of cohesion between the public and private sector and better collective working within government itself, our shared ambition to see a prosperous and secure Wales will not be delivered.

² CLA Research Unlocking Potential, Unlocking Investment in Rural Wales (2015)

Consultation questions

Q1: What, in your opinion, has been the impact of the Welsh Government's 2018 – 2019 budget?

11. We have no comment to make on this question at this time.

Q2: What expectations do you have of the 2019-20 draft budget proposals? How financially prepared is your organisation for the 2019-20 financial year, and how robust is your ability to plan for future years?

12. Expectations for next year's budget focus on Welsh Government's preparedness to deal with, and respond to Brexit. While there continues to be significant uncertainty on detail, we must anticipate change. Business on the ground will face potential challenges ranging from adapting to new rules right through to catastrophic change in markets and supply chains. This is particularly true of the agri-food sector³. This range of impacts needs to be acknowledged and adequate and appropriate support put in place in terms of preparedness and change. While this is often seen as requiring cash injections, it should not be limited to a financial measures alone. If the outcome does lead to more significant change, then a comprehensive programme of analysis of what interventions might be needed to enable people and businesses to meet the new world requirements.
13. This does not necessarily equate to funding through a replacement CAP structure alone. There is as much to be gained from investment in people through skills and knowledge, help supply the services that are needed for business such as connectivity as well as provide direction and steer through enabling policies to make achieving positive outcomes easier.
14. Farming and land use is a long term business. Decisions taken today will not come to fruition for many years. For our beef and sheep farmers, it can take many years between the decision to breed to the point of a return on that investment. For forestry businesses the natural cycle is decades. With this in mind, an annual budgeting process is wholly inappropriate and offers little certainty for the long term. While this is not a point unique to this financial year, with Brexit on the horizon, the lack of long term strategy and funding, coupled with the removal of the CAP framework, mean it is more acutely felt.
15. Brexit scenario planning undertaken by Welsh Government⁴ project an increase of 5 and 30% in trade and export costs. This figure is considered conservative by some when also factoring in time delays and access to ports. Welsh exports are increasing⁵ and the UK in general is an export / import nation. Whilst much remains unknown about our future trading arrangements, what government should be doing now is preparing businesses for the potential impacts of a worst case scenario as the ripple effect of a failing business can be ruinous across some supply chains. This is particularly true within agriculture and food.

³ <https://gov.wales/docs/dra/publications/180219-summary-of-eu-exit-scenario-planning-workshops-en.pdf>

⁴ *ibid*

⁵ <https://gov.wales/newsroom/businessandconomy/2018/180308-welsh-exports-up-by-1.8billion/?lang=en>

Q3. The Committee would like to focus on a number of specific areas in the scrutiny of the budget, do you have any specific comments on any of the areas identified below?

- Approach to preventative spending and how is this represented in resource allocation

16. Preventative spending is an interesting concept and is as much about mind-set as process. Such an approach could be transformational in terms of outcomes but will require time to adapt – to ensure that people / projects / communities do not ‘fall through the gaps’ as funding allocation is shifted. A preventative spending approach in resource allocation also requires much greater fluidity and co-operation than the current budgeting process allows.
17. The classic example of preventative funding is the impact that increased access to the outdoors can have on maintaining a healthy lifestyle. It sounds simple but actually takes a lot of planning and joined up working across departments and budget lines to achieve. For the majority, walking paths need to be circular with parking and a toilet nearby so that they are accessible, they need to be near to population centres. There is less benefit in making investment and creating paths where people can’t get to / must drive to. All this requires planning permission, working with landowners to get permission, securing long term maintenance support and should logically be considered in new housing developments. So what is the process to ‘take’ the money from the health budget and allocate it to land use and local authorities? The area statement trials under the Environment Act looked at this concept in the Rhondda but achieved limited success as policy barriers are difficult to overcome when looking at new working models.
18. Preventative spending is currently at the forefront of the thinking in the *Brexit and our Land* consultation. Proposals centre on the premise that there are certain “public goods” that can be delivered through specific land management and that these outcomes can and should be supported in the future from the public purse. The consultation specifically references ideas such as land management to prevent flooding downstream or specific actions that could help reduce emissions and tackle climate change through land use. Whilst there is growing evidence to support this approach, it is strongly predicated on the idea that prevention is better than cure and proving the avoidance of a negative outcome has never been the most successful route to a long term budget. CLA Cymru are supportive of this approach but recognize the shift in culture is required to make it work.
19. How this policy will be taken forward will be a defining moment for Welsh Government in setting out their commitment to preventative spending – land based activities can take a long time to produce results and it will be interesting to see how for Government commit to this course of intangible action in the long term.
20. Preventative spending only truly works if people understand the story behind it and why it is in their interests. It is not just about Government adopting this approach and expecting people to follow – preventative spending requires commitment and action from both sides of the coin – public and private, long term outcomes require confidence and understanding between all concerned.

- Sustainability of public services, innovation and service transformation

21. Being able to access public services is often one of the most basic requirements for all families and communities. Rural Local Authorities are often hardest hit by budget cuts⁶ and we are increasingly reaching a point where communities in these areas are facing viability questions due to lack of service provisions.
22. Basic geography means rural communities are challenges by distance to health care, receive the lowest percentage of mobile and broadband connectivity in Wales, find lack of viability for house building or access to social spaces. This is leading to depopulation and a vicious circle of declining sustainability in many of the heart lands of Wales.
23. This can and should be overcome through collaboration and visionary leaders who can embrace and deliver change. Rural communities should be at the forefront of this work as the challenges that need to be overcome will necessitate innovation. This starts with connectivity. A sustainable village no longer means a Post Office – it means access to email and grocery delivery services.

- Welsh Government policies to promote economic growth, reduce poverty, gender inequality and mitigate welfare reform

24. As already stated, CLA Cymru would support an approach of investment in indigenous business. This would open up new opportunities as well as providing a more stable and secure economic base to the benefit of communities across Wales.
25. The path to economic prosperity is also changing globally. There is increased focus on emerging markets such as Natural Capital – rich as we are in natural resources, these are untapped markets that could provide significant opportunity for people and business in Wales.
26. With 80% of land in Wales in private ownership, opportunities around using our natural resources will require new ways of working between government and the private sector. It is the private sector that creates wealth and prosperity and working hand in hand with Government to ensure that business can prosper gives Wales the best chance for success.
27. Moving away from bureaucratic constraints and silo-thinking is important for long-term success. This is especially important for our rural communities and economy. Geographical location should no longer be the barrier it was historically. The decision to operate a business in a rural area is now more often based on lifestyle choices than constraints. This can and should be supported by Welsh Government through policy and funding that acknowledges that a business operating in a rural community is fundamentally no different from a business operating in an urban community and needs the same type of support albeit at a different scale.
28. This is obviously wider than a budgetary issue and requires Government to break down the false barriers that plague policy across planning, tax, economic development, housing and wider. Change does, however, start with the budget. Allocation should reflect growth

⁶ <https://www.bbc.co.uk/news/uk-wales-politics-41557214>

potential and opportunity across Wales especially as we look to replace or recreate current systems such as CAP and Structural Funds.

- The Welsh Government's planning and preparedness for Brexit

29. As already outlined, CLA have some concerns with Welsh Government's planning and preparedness for Brexit. It is too often difficult to distinguish between practical action and political pandering which can be confusing and misleading to business trying to prepare for the challenge ahead. More clarity around what Welsh Government hope to achieve and how they are working with UK Government to ensure the best outcome for the people and business of Wales is essential.
30. How the UK as a whole will function once we leave the EU is a primary concern. Supply chains and customers rarely respect political boundaries and working together to ensure we don't create artificial barriers in pursuit of political capital is in the interests of everyone.
31. There are also unanswered questions around how and for what purpose funds such as the First Minister Brexit Preparedness Fund will be allocated. There are warm words about helping business prepare but little clarity around where the money is coming from or even what type or scale of aid will be available. With Brexit fast approaching, business are keen to prepare but are unsure of what to do with little or no help being provided by Government.

- How the Welsh Government should use taxation and borrowing powers, particularly in relation to the Welsh Rate of Income Tax

32. Tax raising power is a powerful tool and Ministers should exercise such powers sensibly. We recognise that this gives Welsh Ministers the opportunity to be distinctive and create differences, but greater focus must be placed on undertaking a rational analysis of unintended consequences and practicalities for businesses of creating new regimes. Change for changes sake is never the answer.
33. Change takes resource not just for government but also for businesses. This is the "jagged edge" of devolution – as issues such as tax become more divergent, we increasingly do not have the capacity or quality of professionals to service growing demand of Welsh businesses. This is especially true in rural areas where choice is limited so quality becomes the necessary compromise.

- How evidence is driving Welsh Government priority setting and budget allocations

34. As already outlined, CLA Cymru would question the veracity of the priority setting and budget allocation process across Welsh Government to the extent that we would question what type and quality of evidence is used for this purpose. Substantial and strategic monitoring of budget spend based on a triple line accounting methodologies to ensure transparency and value for money as well as meet our sustainability targets should be the approach going forward.

- The Welsh Government policies to strengthen the economy and promote innovation

35. The CLA Cymru path to strengthen the economy is set out above.
36. In addition, we would suggest Welsh Government undertake a review of potentially using new tax powers to promote innovation. Although not within Welsh Government control, an underappreciated but useful driver for innovation in business is the various preferential VAT rates available. In looking at new tax powers. It is not always the case that direct funding is the solution to drive innovation. This too often leads to “project” mentality where the pursuit of grant funding overwhelms the purity of innovation and dissemination of new ideas. Indirect methods of support can be more beneficial in the long-term.

- How the Future Generations Act is influencing policy making

37. To date, despite being a looming force over all policy development for the last couple of years, in reality it has been difficult to identify any real tangible impact that it is making a difference to business on the ground. The concept underpinning the legislation is transformational, but as is often the case, it is easy to create shiny institutions and positions, much more challenging to change the culture to embed those ideas in practice, procedure and ways of working. At a time when the policy and regulatory framework for our future generations is actually up for debate, it is not clear what role the Commissioner or the ideas set out in the legislation are being considered.

For further information please contact:

Rhianne Jones
Policy Advisor – CLA Cymru
Orbit Business Centre
Rhydycar Business Park
Merthyr Tydfil CF48 1DL

Tel: 01547 317085
Email: rhianne.jones@cla.org.uk
www.cla.org.uk

REINVENTING RETAIL

RETAIL INDUSTRY RECOMMENDATIONS
FOR THE WELSH GOVERNMENT'S 2019-20
BUDGET

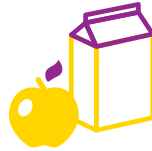




11,865
Welsh Shops



131,500
Welsh
Retail Workers



Grocery Retailers
buy around
£2 BILLION
PER YEAR
from Welsh Suppliers



£365 BILLION
in UK Retail Sales



Last year retailers
raised
£6 MILLION for
Welsh Good Causes



18 PER CENT
of new Welsh
Businesses are
Retailers



Welsh Retail
wages rose by
7 PER CENT
last year



Retail invests
£1,100 in training
each employee
every year

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FOREWORD

AUTUMN 2018

Dear Finance Secretary,

The WRC welcomes the opportunity to engage in discussion on the forthcoming Welsh budget given the privileged position that retail occupies at the heart of our local communities. As the nation's largest private sector employer and a driving force in the Welsh economy we understand how budgetary decisions can have wide ranging implications on both retailers and our consumers.

Wales's retail industry is dynamic and innovative. That stands the industry in good stead as it continues to encounter a period of profound transformation driven by changes in shopping habits, squeezed family finances, fierce competition, and rising costs. The rapid pace of this change is upending many retail business models, has led to fewer shops and retail jobs, and can be painful for the firms and staff involved.

However, we are all aware that the industry is in the midst of a hugely challenging period and retailers are trying to adapt and reinvent themselves for the future. What is clear is that the retail industry will look very different in the future. That transition can be helped by public policy. A number of positive moves are already on the cards, particularly given the status afforded to the industry as part of your Government's Economic Action Plan.

That is why we look towards your forthcoming Budget to reduce the cost of doing business, incentivise innovation and support the industry in creating quality jobs, providing quality products at competitive prices, and future-proofing retail to ensure the best is made of the opportunities and challenges thrown up by transformation.

For retailers the budget provides a great opportunity to assist the industry to be more productive, stimulate investment and bolster consumer sentiment. We welcome the opportunity to maintain engagement across all Government departments to ensure we take a partnership approach to building a sustainable industry which continues to support communities across Wales.

Your sincerely,

SARA JONES

Head of Welsh Retail Consortium

RECOMMENDATIONS AT A GLANCE

Our chief recommendations:

- Bring forward an enabling plan for the retail industry which builds upon the commitment in the Economic Action Plan.
- Freeze the business rates multiplier for two years to the 2021 revaluation.
- Maintain the commitment to not increase the rate of income tax during the course of this assembly (post 2019).
- Review the implementation of the Apprenticeship Levy in Wales and consider taking forward a large employer guarantee scheme which encompasses a Flexible Skills Fund as has been introduced in Scotland.
- Engage business when examining the newly devolved post-Brexit powers, so that they are implemented or flexed in a sensible and cost-effective manner.

ENABLING THE INDUSTRY

Retail's inclusion in the Welsh Economic Action Plan, launched by the Economy Secretary in December 2017, demonstrated much needed recognition for an industry which has typically been overlooked in public policy right across the UK. The approach taken commits to the development of an enabling plan for the retail industry and we ask that this is taken forward to ensure that we can work collaboratively to address and build on the issues and opportunities currently facing the retail industry.

An enabling plan would address many of the recommendations made in this paper. It could identify ways in which the sector could support innovation, help build on skills gaps and strengthen the routes to management through better use of skills funding and address the barriers to future investment by the industry in locations right across the nation.

KEEPING DOWN BUSINESS TAXATION

Retailers can contribute more to our economy and society if business taxation is competitive and yet the burden of business rates remain onerous. Retail's share of overall rateable value in Wales has increased despite a smaller overall number of rateable properties.

Switching the indexation of rates from RPI to CPI, and the introduction of the Small Business Rate Relief scheme, has been a welcome acknowledgement that change is needed. We know that the business taxation system has not kept pace with the economy and is no longer fit for the 21st Century. With the multiplier currently above the 50% threshold, standing at 0.514, Wales has a higher rate than anywhere else in mainland UK. If the multiplier were to rise again in the 19/20 budget this would have a detrimental impact on communities and retailers' ability to respond to the rapid pace of transformation.

Whilst we would ultimately like to see a medium-term plan to substantially lower the rates burden, in the short term we look for concrete action to freeze the headline multiplier rate for two years. This would provide welcome relief for the industry at a time when it is under significant cost pressures and going through a period of profound transformation driven by changing shopping habits and technology.

We welcomed the news that the Welsh Government would be bringing the next rates revaluation forward by a year from 2022, this will mean the rateable values on which non-domestic rates bills are based will reflect up-to-date market conditions and enable ratepayers in Wales to plan ahead. This decision provides certainty for ratepayers and we ask that a commitment is made to adopting a three-yearly revaluation cycle after 2021 dependent on the outcome of a review into fundamental rate reform.

SUPPORTING CONSUMERS

This is an unsettling time for consumers. Household finances continue to be under strain and are set to be tested further in the months ahead with a further rise in statutory minimum employee pension contributions, and with other cost of living increases in the pipeline.

Over 130,000 people in Wales rely on retail for their employment and with retail sales less than stellar and consumer spending squeezed, policy makers ought to be wary about heaping further pressure onto family finances over and above those already planned.

With the Welsh Rate of Income Tax due to be set for the first time in the 18/19 budget we would urge the Welsh Government to maintain its previous pledge that it will not increase the rate of income tax during the course of this assembly. Any moves which would lead to those working in Wales having to pay higher taxes than elsewhere in the UK could affect the ability of retailers to retain or attract talent - either on a permanent or temporary basis - especially when compared to other parts of the UK.

The retail industry has a good story to tell in supporting its employees with wages growing faster than anywhere else in the UK last year, up 7%. Supporting workers on low and modest earnings must also be at the forefront of decision makers' minds when setting a budget which would impact on consumer confidence.

ENHANCING SKILLS

Retail is Wales' largest private sector employer and retailers have a good record on training and career progression. However the number of retail apprenticeships has been falling at the very same time as training budgets have been increasingly skewed towards implementing public policy, for example alcohol minimum unit pricing, and as firms have had to start paying the apprenticeship levy.

Our members in Wales are estimated to contribute circa £5million a year towards the Levy, for which it remains somewhat unclear what they get in return, with many viewing it as simply another cumulative cost burden.

The WRC welcomed the decision by the Welsh Government to increase its investment during the current financial year in Level 2 apprenticeships, following initial proposals to reduce the number of places available. We ask that this funding is maintained and that the Welsh Government reviews the potential for a large employer guarantee scheme which will provide a flexible fund to draw down the funding that levy payers contribute. We also request better engagement from the Regional Skills Partnerships, both in terms of supporting the direction of future policy decisions and also to support retailers to access the funds that are devolved back to Wales.

CONSIDERING NEW TAX POWERS

We understand that the Government of Wales Act 2014 provides Welsh decision makers with the opportunity to develop a more strategic, transparent and inclusive approach to tax policy, built on evidence and expertise, which supports Welsh Government objectives. It is welcome to see the way in which the engagement and consultation over this process is being undertaken and we ask that this engagement continues at an early stage in the development of new taxes.

Whilst we are supportive of examining how the new levers can be used to change behaviours and deliver improvements for our communities, we would urge caution in adding undue burden and financial penalty on a sector that is undergoing such transformational change and which is likely to see a contraction of jobs and shops within the industry over the forthcoming period. We would also suggest that, if the driving force is changing behaviour, how we can use existing tools rather than taxation as a means to change.

It is welcome to see the Welsh Government working with the UK Government on its call for evidence about single use plastics. Whilst remaining mindful of the need for policy making within a devolved context we feel a UK wide approach to the challenge of plastic waste would be have the most potential success.

Specifically on the proposal for a Latte levy, which could potentially see a minimum 25p levy on disposable cups to be paid by the consumer on top of the price of their coffee for example, we would suggest greater consideration needs to be given to PRN reform and improvements to on the go recycling infrastructure.

While a latte levy in itself may change producer and consumer behaviour, it will not help with recycling collections and infrastructure unless money raised is ringfenced for that purpose. Recycling collections and infrastructure are best funded through the existing PRN regime which is currently being reviewed.

Wales is one of the global leaders in recycling and any additional taxes or charges on retailers will need to take into account other potential costs and their impact, such as reforms to the PRN regime for packaging, a deposit return scheme for drinks containers and investment in product development if certain plastic products or polymers are banned. The outcomes of some of these policies may overlap with those of any charge or tax on single use plastics. The combination of all these policies will impact on retail margins and the costs of goods.

INVOLVING BUSINESS POST-BREXIT

We are keen to see the Brexit negotiations between the UK and the EU lead to a lasting tariff-free and friction-free trade deal, one which includes agri-food. That would help retailers keep down shop prices and ensure consumers continue to have the widest possible choice on shop shelves.

However, we recognise Brexit will mean change. For example, it is set to herald a fresh chapter of devolution in the UK, with substantial additional responsibilities for devolved administrations. This will lead to a more diverse and complex public policy environment for retailers to operate in. We are keen to engage positively so that those newly devolved powers which affect the industry are implemented and subsequently flexed in a sensible and cost effective manner. Our favoured outcome is one which minimises administrative complexity, compliance and cost and which maintains the widest possible choice on shop shelves for consumers. Timely and effective engagement with business will be key.

ABOUT THE WRC

Retail is an exciting, diverse and dynamic industry undergoing transformational change. The WRC is at the forefront – enhancing, assisting, informing and shaping. Our mission is to make a positive difference to the retail industry and to the customers it serves, today and in the future. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture. The WRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference.

In addition to publishing leading indicators on footfall and shop vacancies in town centres, our policy positions are informed by our 200-strong membership and determined by the Welsh Retail Consortium Group.

CONTACT DETAILS

SARA JONES
Welsh Retail Consortium
Sara.Jones@brc.org.uk
07785 619333



WELSH RETAIL CONSORTIUM

Suite 103, 209 City Road, Cardiff, CF24 3JD
07785 619333 | info@brc.org.uk | brc.org.uk/wrc

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Agenda Item 4



Comisiynydd
**Cenedlaethau'r
Dyfodol**
Cymru

**Future
Generations
Commissioner**
for Wales

By email

Wednesday 12th September 2018

Dear Chair,

I am writing to respond to your call for information on the Welsh Government draft budget proposals for 2019-20.

My office has continued to provide advice, assistance and challenge to the Strategic Budgeting Division within Welsh Government, about how the budget process and publications could better reflect the aspirations and requirements of the Well-being of Future Generations Act ('WFG Act'). This has included running joint workshops with Strategic Budgeting officials for Welsh Government colleagues and also with National Assembly for Wales committee staff, providing feedback on last year's budget documentation and with a view to promoting a better understanding of the requirements of the Act and the change I expect to see.

A key element of my feedback to Welsh Government in relation to the 2018-19 budget concerned the structure of the budget documents: they were structured by Ministerial portfolio and there were clear examples of similar initiatives being funded by separate portfolios with little or no connection between them. I hope that this year a different approach will be taken, and that this is not merely 'cosmetic' rearrangement of decisions but is an opportunity to make more integrated decisions about spending. I understand that the annual report on 'Prosperity for All' is due to be published at the end of this month, and I will be interested to see the connections between this document and the budget documents.

My work with Welsh Government on budget strategy and process this year has had a particular focus on prevention and preventative spend. Prevention is one of the five ways of working included in the legislation and is broadly defined as "how deploying resources to prevent problems occurring or getting worse may contribute to meeting the body's well-being objectives, or another body's objectives".

Public services' response to the prevention agenda is one of the areas of the implementation of the WFG Act that is of greatest concern to me. There are some examples of 'policy' or 'theme' focused approaches to prevention, but fewer indications that the 'system' of our public services is demonstrating a significant shift. My aspiration for this way of working is a visible shift to partnership approaches to policy development, decision making and budget setting that are framed around preventing problems from arising.

A key barrier to assessing progress in this area has been the lack of a definition for preventative spend. Arguably almost any element of policy and/or spend could have an element of prevention within it and therefore it was important to agree a more detailed definition which could be used by Government officials and Ministers in determining spending plans. Following dialogue with the Cabinet Secretary for Finance I have been working with Strategic Budgeting officials to develop a definition.

In collaboration with Public Health Wales I brought together a range of experts on prevention and preventative spend with officials from across the Government in July. Officials from Strategic Budgeting outlined the draft definition of prevention, which included several categories, and there were a number of comments to refine it.

My expectation is that this definition will be applied to elements of the 2019-20 budget to provide a coherent illustration of where spend currently sits. I am particularly interested to understand how this may be presented as an integrated picture of spend. Much of the conversation about preventative spend tends to focus on health and the NHS because that is where the traditional concepts of 'prevention and cure' can be found. Whilst there is still a long way to go in terms of the NHS working in a preventative way the dialogue also needs to focus on the broader economic, social, environmental and cultural causes of the challenges we face, and the role of public services in preventing these challenges.

I am concerned about the capacity, skills and confidence of Welsh Government officials to use future trends to think and plan for the long term. Whilst I understand the constraints the Government faces with the short-term nature of the allocation they get from the UK Government, I would expect to see further progress in how specific decisions consider key long-term trends. I am interested in exploring the level of resource being dedicated to this in Government and how this compares to other places. I welcome the new team being established to drive implementation of the WFG Act and expect that they will be a significant part of developing capacity, skills and confidence to plan for the long term.

I will continue to work with Welsh Government teams to assess how the definition of prevention is being applied, as well as how the budget strategy and documentation is taking account of the requirements of the WFG Act.

Yours Sincerely,



Sophie Howe

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Agenda Item 8

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

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