

Inquiry into a legislative budget process

Introduction

The Welsh Government has worked closely with the Finance Committee over many years to improve the budget process, increase transparency and to support robust scrutiny.

Since devolution, the budget has been approved through a budget motion. With the devolution of tax powers, this represented a significant milestone in the fiscal journey for Wales and placed an even greater emphasis on the budget process.

In recognition of the additional fiscal responsibilities, we welcomed the Finance Committee's previous inquiry into Best Practice Budget Process. As a result of this work a new process was agreed between the Senedd Cymru ("the Senedd") and the Welsh Government in 2017.

We also welcome the Committee's current inquiry which provides an opportunity to reflect on the changes to the budget process over the course of this administration and the suitability of the current arrangements.

Current budget process

The new budget process was agreed between the Welsh Government and the Senedd in 2017. Key features of the new process include:

- a 2-stage process to aid scrutiny and improve transparency, with stage 1 setting out the main fiscal building blocks and strategic spending plans and stage 2 providing more detailed portfolio budget information;
- an increase in the period for scrutiny from 5 weeks up to 8 weeks; and
- a protocol setting out the principles underpinning the budget process, including a mechanism for agreeing revisions to the process in recognition that external factors can impact on the timeline for the production of the Welsh Government's budget.

The above changes were first introduced in the 2017 Budget. Since then, we have faced a number of uncertainties, such as the UK's exit from the EU and more frequent UK elections, which have impacted on UK fiscal events and hence the timing of the Welsh Government's annual budget. However, the budget protocol has provided sufficient flexibility in the process to accommodate these exceptional circumstances without unduly compromising the scrutiny arrangements.

Improving transparency of our budget proposals has also been at the heart of developments in recent years to include a greater level of detail and supporting information at both stages of the draft budget. Working with the Committee, this work has acknowledged the complexity of the information we are presenting at various points of the cycle and the variety of purposes for which stakeholders use the information.

To support robust scrutiny, the Welsh Government now publishes a suite of additional documents as part of the budget package, including:

- the Chief Economist's Report - providing an analysis of recent economic performance in the UK and Wales and economic and fiscal prospects in the short and long-term.
- a Welsh Tax Policy Report and annual tax policy work plan - providing an update on the delivery of the Welsh Government's strategic tax objectives and analysis to inform the development of tax policy.
- 'Welsh Tax Outlook' – the Office for Budget Responsibility's independent assessment of our tax proposals
- MEG Budget Expenditure Level tables - a lower level of budget information than previously published.

Comparison with Scotland

We note the Committee's consideration of the Scottish legislative budget process. While there are clear distinctions between approaches in Scotland and Wales, there are some important similarities that exist between both processes.

- *Opportunity for amendments to be tabled* - The current Welsh Budget process provides for the Senedd to propose amendments following the laying of the draft budget and before the Welsh Government publishes its firm spending plans. This effectively provides a similar mechanism to the Scottish process which allows the laying of amendments to the budget bill at stage 1.
- *Period for scrutiny* - The introduction of the 2 stage budget process in Wales now 'normally' allows for a period of up to 8 weeks for scrutiny. Within Scotland their standing orders set out that normally the Budget (noting that they no longer produce a draft budget) will be published no more than 3 weeks after publication of the UK budget and the budget bill will be introduced one week later. Although the timings are not fixed, in a normal year the Scottish budget is published shortly before Christmas, with the scrutiny being conducted in January and the budget bill passed in February. This means in a normal year, there is a longer period for scrutiny in Wales than in Scotland.

An important consideration is the timing of the budget publication. As described above, in a normal year the Scottish Budget is published shortly before Christmas. In Wales, we have always sought to publish our budget proposals in the early autumn in order to complete the process before the Christmas recess and to provide early funding certainty for delivery partners. In this context, we welcomed the Finance Committee's recommendation as part of scrutiny of the draft budget 2019-2020 that the Welsh Government continues with its current practice of publishing its draft budget in the autumn regardless of the timing of the UK Budget.

Taking these considerations together, the process in Wales allows for the same level of scrutiny and scope to make amendments as the Scottish Government process without the need for a full legislative process.

Pre-Budget engagement

In line with our commitment to improve transparency and understanding of the Welsh Government's spending priorities, we have looked to maximise the opportunities in recent years to increase engagement and scrutiny prior to publication of our draft

budget. This has included engagement with a range of stakeholders, including the Budget Advisory Group for Equality, the Welsh Local Government Association and directly-funded bodies.

In addition, and following discussions with the Finance Committee, we have agreed to build on the steps we took last year and to hold a debate in Plenary before the summer recess, focusing on strategic issues.

Multi-year budgets

It is always our ambition to provide multi-year settlements whenever possible. However, our ability to provide longer-term funding certainty is dependent on the UK Government's budget cycle and not related to our own budget process.

Combined tax and spending legislation

We note that the Committee is considering the case for a single legislative vehicle covering both taxation and spending plans. It is generally understood that budget legislation is a method specifically for approving overall spending limits and tends to be a simplified legislative procedure that limits non-government amendments. Budget legislation tends to use an accelerated timescale to ensure approval before the start of the financial year.

An important consideration is whether introducing other elements such as taxation as part of the same legislative vehicle as is used to approve spending limits would require normal scrutiny and amendment procedures. This could compromise the approval of spending plans before the start of the financial year and could impact on the ability to provide funding certainty to partners and stakeholders. Any proposal to move to a single legislative vehicle would therefore need careful consideration and with clear evidence as to additional benefits this would bring.

It also remains the case that Welsh Government currently has limited powers over taxation. On the basis of our current tax powers the need for, and benefits of, annual tax legislation is not clear. However, we acknowledge the importance of being able to make swift changes to tax legislation in certain circumstances. In this context, we are exploring the case for a Bill for Year 1 of the next Senedd that will provide Welsh Ministers with powers to make changes to the Welsh Tax Acts at very short notice. We look forward to working collaboratively with the Finance Committee to bring this legislation forward and are currently planning to go out to consultation in July.

Conclusion

Taking forward further developments to the budget process would require a significant amount of engagement and collaboration over the coming months, at a time when we are facing unprecedented challenges as a result of the coronavirus pandemic. We would also need to be satisfied of the benefits of moving to a different approach relatively soon after we moved to the current process.