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Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: RE-676-22

Peredur Owen Griffiths MS
Chair, Finance Committee
Senedd Cymru
Cardiff Bay
CF99 1SN

04 March 2022

Dear Peredur,

Thank you for your Committee's scrutiny of the Draft Budget 2022-23 and the report that followed.

I attach a written response to the recommendations made which I hope you find useful.

Yours sincerely,

A handwritten signature in black ink that reads "Rebecca Evans." The signature is written in a cursive style.

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Minister for Finance and Local Government

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Response to the Finance Committee's Report on the Draft Budget

Recommendation 1. The Committee recommends that the timetable for scrutinising the Welsh Government's budget returns to the 'normal' timetable, which allows 8 sitting weeks, set out in the protocol between the Committee and the Welsh Government for the 2023-24 budget and future years.

Accept

The Welsh Government has made clear in previous years that our preference would always be to publish our Draft Budget under the established timetable set out in the Budget Business Protocol. Our ability to adhere to this timetable in recent years, has been severely impacted by the UK Government's decisions as to the timing of its own fiscal events.

In agreeing the Protocol, the Welsh Parliament and the Welsh Government recognised there may be some years, due to circumstances beyond the Welsh Government's control, where a budget or financial year cannot be regarded as 'normal'. This has unfortunately been the case since 2019, where UK fiscal events, including proposed and actual comprehensive spending reviews, have resulted in our Draft Budgets being delayed.

In these years, we have done all we can to preserve the maximum 8 weeks for scrutiny, while noting that the Protocol never sought to draw a distinction between sitting weeks and recess weeks.

We would therefore welcome the Committee's support in pressing the UK Government to respect our devolved budget and scrutiny process in setting the timing of its own fiscal events.

Recommendation 2. The Committee recommends that the Welsh Government continues to explore how longer-term certainty can be given to organisations relying on grant funding where outcomes and objectives have been demonstrably met.

Accept

We have always stated it has been our aspiration to provide longer-term budgets when possible, noting a significant factor remains the timeframe of our own budget settlement which is at the discretion of the UK Government. In this context we welcome the ability to deliver a multi-year settlement for the next three years, providing certainty to the organisations that we fund.

In terms of outcomes and objectives, we will continue to explore this. Regular assessments can be made on the delivery of outcomes at the outset of the funding agreement, alongside the appropriate options for review on whether the delivery is still appropriate depending on the objectives provided through the central government.

We are keen to continue exploring how to provide more security and certainty of grant funding for a longer duration, particularly for grant recipients in the third sector, and also lessen rigidity in certain grant processes. Collaborative work is already underway to enable this and ultimately bring about lasting and longer term benefits to Wales. We welcome this recommendation and continued partnership working with our grant funded bodies and grant managers to develop user-friendly, effective grant funding.

Engagement and Budget Communication

Recommendation 3. The Committee recommends that consideration is given to how budgetary information is presented so that it is linked to outputs and impacts in order to help the Welsh Government's own evaluation as well as to increase the public and Senedd's ability to hold the Welsh Government's budget plans to account.

Accept

We recognise the importance of having clear inputs, outputs, and outcomes, and we report these through Shaping Wales's Future (the national milestones for Wales) for longer term achievements, and the Programme for Government annual report for interim progress. We do, however, recognise the importance of continual improvement; through our Budget Improvement Plan we remain committed to build on both the use of evaluation and improving transparency on our Spending Decisions.

Recommendation 4. The Committee welcomes the information contained in the Chief Economist's and the Office for Budget Responsibility reports and the extended Distributional Analysis of Devolved Public Spending in Wales, but recommends that the distributional analysis is further developed in future years so that it is linked with policy evaluation on the effectiveness of spend.

Accept

As part of our Budget Improvement Plan (BIP) we have looked to refine and extend our distributional impact model for analysing public spending in Wales aligned to wider work to reform the approach to assessing the impact of budget decisions. So far the analysis has focussed on the largest areas of devolved spending, providing a high level understanding of how progressive spending on these areas is. This year we have looked to make improvements to our methodology and see whether additional areas of spend can be included. We have published this update as part of the 2022-23 Draft Budget package

Over the next three years the BIP has set out its objectives to maintain the current distributional analysis model and take account of new and/or improved data sources. Ongoing consideration will be given to the usefulness of the model and determine the frequency of publication. There are also plans to use tax distributional analysis tools to inform budgetary decisions and to see how to develop the capability to understand the distributional impact of both public spending and taxation decisions.

Recommendation 5. The Committee calls on the Welsh Government to publish details of the remit and membership of the Budget Improvement and Impact Advisory Group and recommends that the Welsh Government considers how the Committee could be involved in its work.

Accept

We welcome the interest of the Committee in the work of the reformed Budget Improvement Impact Advisory Group (BIIAG) and would be happy to consider how the Committee could be involved in this work. We are content to discuss this further in advance of the Group meeting formally for the first time later in March. The new group is being established to engage with key stakeholders to input and influence the work outlined within the Budget Improvement Plan to improve budget and tax processes so as to improve outcomes. As the group ratifies its remit and membership we will provide further details to the Committee.

Recommendation 6. The Committee recommends that the Welsh Government's gender sensitive approach to budgeting is widened beyond small discrete pilot projects and is incorporated into general policy and spending decision-making across portfolios, with the aim that gender equality considerations are taken systematically into account in tax and spending decisions which should be evidenced transparently in future budgets.

Accept

Through our Budget Improvement Plan and reformed Budget Improvement and Impact Advisory Group (BIIAG) we will continue to embed a gender focused approach in our wider budget processes.

Working with BIIAG and wider stakeholders we will explore what further action we can take beyond our three pilot areas. Alongside this we intend to continue to learn lessons from other Governments including Scotland, New Zealand, Iceland and Canada via our links through the Wellbeing Governments network (WeGo).

This approach recognises the need for long term and systemic change, working across Welsh Government to reform wider policy and spending decisions across portfolios both as part of and outside the annual Budget process.

Recommendation 7. The Committee recommends that the Welsh Government continues to work with the Office for Budget Responsibility to develop and utilise relevant Welsh data to support forecast modelling and develop a better understanding of the Welsh income tax base to further inform tax policy and its impact on Welsh taxpayers.

Accept

The Welsh Government works closely with the Office for Budget Responsibility (OBR), in relation to the devolved revenue forecasts it produces to accompany budgets and also regarding the ongoing development of data sources to inform those forecasts.

The OBR has been working on an in depth analysis of past trends in the income tax base in Wales and how it differs from elsewhere in the UK. This has been delayed because of the pandemic, but a working paper is planned for later this year setting out a detailed investigation of these trends. This will help to inform future forecast judgements in respect of trends in the Welsh share of income tax over time.

In addition to the above, both the OBR and Welsh Government are members of an income tax analytical working group, together with HMRC, the Scottish Government and the Scottish Fiscal Commission. This group provides direction to developments, particularly at HMRC, to improve the analytical resources available to support research and underpin tax forecasting. For some time the group has been investigating the possibility of a longitudinal income tax dataset, which would provide insight into how taxpayer behaviour in the different parts of the UK changes over time. HMRC will be carrying out development work on this project over the coming year. It is also looking to ensure that the public version of the Survey of Personal Incomes for 2019-20, and the published statistics based on this data set, fully reflect the Welsh rates of income tax from the first year in which they operated.

The Welsh Government has also produced analyses of the income tax base which have been shared with the OBR and published in the Welsh Government's Tax Policy Report.

These developments, together with the growing catalogue of real time information data and outturn for the Welsh rates of income tax, will provide an increasingly robust and comprehensive Welsh evidence base to support future forecasts and inform tax policy.

In-year funding / Wales Reserve

Recommendation 8. The Committee recommends that the Welsh Government continues to press the UK Government to provide greater flexibility for the Welsh Government to manage in-year funding, including the ability to carry over funding from one financial year to the next.

Recommendation 9. The Committee recommends that the Welsh Government calls on the UK Government to increase limits on carrying forward funding in the Wales reserve, to maximise any in-year funding available and to prevent any Welsh funding being lost.

Accept

We continue to press UK Government for additional budgetary flexibilities alongside the other devolved Governments, and we are seeking to ensure this is a key priority for discussion as part of the new Finance Interministerial Standing Committee.

As outlined in the letter to the Committee on the 11 February, Devolved Government Finance Ministers have written again to the Chief Secretary to request:

- That funding confirmed at Supplementary Estimates can be managed across financial years in addition to any carry forward permitted under reserve arrangements to ensure its effective deployment given the late timing in the financial year.
- A commitment from the Chief Secretary to a joint review of in-year and end-year budget processes. The overall process requires more predictability and certainty for Devolved Governments to allow us to utilise the funding in the most effective manner, to deliver the best value for money and maximise outcomes for people.

We are grateful for the cross party-support from the Finance Committee and continued representations on this issue would be welcomed.

Intergovernmental Mechanisms

Recommendation 10. The Committee recommends that the Welsh Government provides regular updates to the Committee on the intergovernmental mechanisms established to ensure that they are an effective means to escalate disagreements and resolve funding disputes.

Accept

We will continue to update the Finance Committee and Legislation, Justice and Constitution Committee, consistent with the inter-institutional relations agreement between Senedd Cymru and the Welsh Government.

The updates will provide information on the implementation of the new Finance Inter-ministerial Standing Committee including dispute resolution, and a summary of the issues discussed at meetings, including an outline of the positions advanced by the Welsh Government and any joint communique released after the meeting.

Capital / Financial Transactions

Recommendation 11. The Committee recommends that the Welsh Government reports back to the Committee on the in-year funding position associated with over-programmed capital plans and that regular updates are provided on the funding contained in the Wales Reserve.

Accept

We will update on the in-year position, including that associated with the over-programmed capital plans, in the first Supplementary Budget for 2022-23. An update on the Wales Reserve will be provided in our report to the Committee on outturn for 2020-21 following publication of the consolidated accounts. Our second supplementary budget for 2021-22 sets out that we will draw the maximum £175m (£125m revenue and £50m FT capital) from the Wales Reserve. The Draft Budget identifies our plan to draw £153m revenue from the Wales Reserve over the 3 year period 2022-23 to 2024-25.

Recommendation 12. The Committee recommends that the Welsh Government provides an update on Financial Transactions Capital allocations before the Final Budget is laid before the Senedd, explains why it was appropriate to leave out these allocations from the Draft Budget; and calls on the Welsh Government to provide regular updates to the Committee on such allocations in the future.

Accept

The constraints and complexities on how ring-fenced financial transactions (FT) capital can be used, and the timescales within which to develop proposals following the late announcement of the UK Spending Review prevented us from setting FT spending plans as part of our draft budget. All proposed allocations have now been provided to the Committee with further details set out in the Final Budget. It is not intended that this creates a precedent for future years, with the intention that future FT capital allocations will be considered as part of the usual Draft Budget processes in future.

Recommendation 13. The Committee recommends that the Welsh Government raises awareness of the funds available through Financial Transactions Capital and ensures businesses are engaged in the allocation of these funds so that its benefits can be maximised.

Accept

Through our work with Business Wales and the Development Bank of Wales (with the bank managing the majority of our FT) we have significant engagement with the private sector; both organisations provide bespoke advice on the availability of funding for businesses across Wales.

Since its establishment in 2017 through to the end of 2021, the Development Bank of Wales has invested over £500m into businesses, including significant amounts of Welsh Government FT capital. In this period, the Bank has supported over 2,000 businesses, thereby creating and safeguarding over 15,000 jobs.

Tax

Recommendation 14. The Committee recommends that the Welsh Government provides clarity on what is meant by retaining tax rates for the Welsh rates of income tax for “as long as the economic impact of the pandemic lasts”.

Accept

The Programme for Government commitment makes clear the Welsh Government is not proposing to raise WRIT rates currently. In considering future tax rates, as well as understanding the effects on the economy of the unwinding of the pandemic measures, it is also important to consider the impact of other domestic and global factors such as inflationary pressures from energy and other supply constraints and the pressure on wages.

It is also important to recognise the Welsh short term fiscal prospects are largely determined by UK Government fiscal policy decisions as are the tax rates faced by Welsh residents. The OBR reported in October, the planned National Insurance rise announced in September along with the corporate and personal tax increases in the UK Government's March budget mean the UK Government has raised the tax burden from 33% of GDP before the pandemic to 36% of GDP by 2026-27, its highest since the early 1950s.

Recommendation 15. The Committee welcomes the Welsh Government's consultation on Land Transaction Tax rates, but recommends the Welsh Government considers using other fiscal levers to address issues in the second homes market, such as a recurrent tax for second home owners, rather than using Land Transaction Tax only.

Accept

The Welsh Government recognises that the issues associated with second homes and short-term holiday lets in some communities are complex and there is no single solution. The current consultation on Land Transaction Tax is part of wider considerations around how national and local tax measures can help to ensure second home owners make a fair and effective contribution to the communities in which they buy. This includes consideration of the maximum level at which council tax premiums can be set on second homes and long-term empty dwellings, and the criteria for a property to be defined as self-catering accommodation and classified as non-domestic for local taxation purposes.

Agreement with Plaid Cymru

Recommendation 16. The Committee accepts it has not been possible to reflect costs relating to the Co-operation Agreements in the Draft Budget for 2022-23 but recommends that the Welsh Government provides clarity on how the funding of associated policy commitments is reflected in budget allocations.

Accept

We welcome the Committee's recognition that reflecting costs in the Draft Budget was not possible for the Draft Budget for 2022-23. To maintain transparency and enable scrutiny by the Finance Committee, information provided to the Co-operation Agreement Finance Committee on the funding of the thirteen areas within the Co-operation Agreement set out in the Draft Budget and three-year spending review 2022-25 will be routinely shared with the Senedd Finance Committee.

Recommendation 17. The Committee recommends that the Welsh Government provides information regarding the remit and membership of the Welsh Government's Finance Committee, established as a result of the Co-Operation Agreement, and further details about its role, including its terms of reference, in the formulation and monitoring of the Welsh Government's budget.

Accept

We acknowledge the Finance Committee's interest in the role, membership, and remit of the Co-operation Agreement Finance Committee. A note will be provided to the Finance Committee setting out the information requested.

Health, Social Care and Local Government

Recommendation 18. The Committee recommends that the Welsh Government provides further detail on future years' indicative funding allocations for local government bodies once the data has been released and it has more certainty over the distribution to individual organisations.

Accept

Data sources are updated throughout the year with the majority timetabled to be ready for the autumn of each year. Any changes will be included annually at each draft settlement stage to give the local government sector in Wales the provisional distribution by local authority. The Distribution Sub Group (DSG) meets throughout the year to discuss any changes to data sources, updated data and the impact on the settlement formula. The DSG progress report, which is presented to Finance Sub Group prior to summer recess provides elected members some indications of distributional changes in funding as a result of data changes.

Recommendation 19. The Committee recommends that future budgets should include indicative allocations for individual organisations over the three-year budget period to enable them to plan more efficiently.

Accept in Principle

Welsh Government recognises the importance of providing longer term budgets for our partners, particularly those in the voluntary sector, as it enables them to plan effectively.

We have been working closely with the Third Sector Partnership Council Funding and Compliance Committee to explore how we can provide longer-term certainty whilst ensuring objectives and outcomes are met.

It is important however to recognise that long-term grant offers will be neither appropriate nor applicable in all cases which is why we encourage our grant managers to engage early with partners when developing programmes.

We have always stated that it has been our aspiration to provide longer-term budgets when possible, noting a significant factor remains the timeframe of our own budget settlement which is at the discretion of the UK Government. In this context we welcome the ability to deliver a multiyear settlement for the next three years, providing certainty to the organisations that we fund.

In terms of the level of information available, we already publish significant amounts as part of our Draft Budget. This includes an extensive summary of all Ministers' written evidence to Senedd scrutiny committees on allocations within each MEG, as well as the main draft budget narrative. For the first time this year it also included a detailed infrastructure finance plan under our new Wales Infrastructure Investment Strategy.

We recognise there is always more we can do to improve transparency on our plans which is an area contained within our Budget Improvement Plan. We will carefully consider what further information could be provided regarding individual organisations to enable more effective planning.

Recommendation 20. The Committee recommends that the Welsh Government provides details of the funding for local health boards for 2022-23, together with any indicative allocations for 2023-24 and 2024-25.

Accept

Welsh Government has published details of funding for local health boards for 2022-23 and they can be found on our website here:

Health board allocations: 2022 to 2023 | www.gov.wales

Indicative budgets for the NHS for the next two years were included in our Draft Budget proposals. Work to agree plans and then indicative budgets for those years continues as part of the Integrated Medium Term planning process.

Recommendation 21. The Committee recommends that the Welsh Government considers switching revenue to capital as part of future Budgets, and allows the health sector to do the same, thereby providing flexibility given the limited capital funding available.

Accept

We will continue to look at all options to ensure we can maximise the impact of our available funding, recognising that once a decision to convert revenue to capital has been taken, Welsh Government does not hold the equivalent ability to switch capital back to revenue without the approval of the UK Government. In the health sector we would consider any requests of this nature on a case by case basis but would expect a strong case for such realignment. The opportunity cost of decreasing revenue budgets to instead fund capital priorities would also need to be carefully considered.

Through the establishment of the new Wales Infrastructure Investment Strategy we have already deployed a number of levers to manage the limited capital settlement that Wales received from the 2021 UK Spending Review. This includes our plans to fully deploy our capital borrowing available under the current fiscal framework through borrowing an additional £450m up to 2024-25.

For the first time this year we are also using an over-allocation of general capital which will enable us to further stretch every available pound of capital funding. Innovative models, including private investment in projects, will also be considered on projects that are low risk and of the appropriate scale. The new Velindre Cancer Centre is one of the pilot projects being developed through the Mutual Investment Model pipeline. This scheme is expected to enable over £200m of additional capital investment before the end of 2025.

In our engagement with HM Treasury we will continue to push the case for additional capital funding and for the broader flexibilities that we need to manage our budget in the most effective way to meet the needs of Wales.

Recommendation 22. The Committee recommends that the Welsh Government undertakes a review of the reserves held by local government bodies to gain a better understanding of them, and that the outcomes of the review should consider whether there are any implications for the formula for distributing core funding to individual government bodies.

Accept in principle

Local authority reserves are reported at one point in time in the financial year, on 31 March. The Welsh Government will continue to publish comparative information on local authority reserves to provide context for local scrutiny. Levels have been significantly affected over the period of the pandemic by a number of factors, including additional grants from Welsh Government, and delays in programmes and projects due to the restrictions during the last two years. This has led to an increase in the level of reserves but we expect as local authorities are now be able to finish programmes and projects, as restrictions lift and staff return to their substantive roles, these reserves levels will fall again over the next few years.. Authorities continue to face uncertainty of the ongoing impact of the pandemic on costs and income generation and will need a level of reserves to manage any service delivery changes needed as a result.

Authorities hold reserves for varied reasons including risk appetite, planned service change or restructuring, planned large capital projects. It is not appropriate to base a distribution formula for the settlement based on the level of reserves as these will all be underpinned by different local decisions. The settlement formula is based on relative need to spend and designed not to be influenced by local decisions. Including the level of reserves could lead to a perverse incentive to set reserve levels inappropriately. We will however continue to work with Data Cymru and Audit Wales, who are compiling different data sets to analyse authorities' financial health, alongside the Society of Welsh Treasurers.

Recommendation 23. The Committee recommends that, following the receipt in March of the integrated medium term plans from local health boards, the Welsh Government provides information about the specific outcomes expected to be delivered by the additional funding for addressing the backlog of treatments.

Accept

As previously announced a national recovery plan for delayed waits will be issued in April. The plan will contain a set of national milestones which health boards - through local, regional and national work - will be expected to deliver. Each organisation will be accountable for developing their local plans to deliver their recovery trajectory against the national milestones.

Recommendation 24. The Committee recommends that the Welsh Government provides information to demonstrate how the allocations for 2022-23 alleviate the immediate pressures on staffing across the health, local government and social care sectors.

Accept

Workforce capacity and planning remains a key focus for NHS Wales bodies at a local and regional level. We are increasing our core investment in the NHS by almost an additional £1.3bn to help ensure there is sufficient workforce capacity across services.

The budget provides for significantly increased funding for local government through the local government settlement and, crucially, also gives greater certainty for future years allowing authorities to plan to meet and manage their workforce needs. By providing funding for our commitment to the Real Living Wage for Care we are also supporting local authorities and social care providers to meet the very real challenges of recruitment and retention of these essential workers.

Recommendation 25. The Committee recommends the Welsh Government provides clarity on what it is considering as a replacement indicator to calculate the local government settlement for each council when it is no longer able to use the free school meals entitlement as proxy for disadvantage for children of primary school age.

Accept

The work to implement our commitment to free school meals for primary school pupils recognises this issue. Welsh Government and local government will work together to consider appropriate alternatives for the calculation of the local government Settlement for 2024-2025. The minutes and papers of Distribution Sub Group are published to ensure transparency.

Supporting Business

Recommendation 26. The Committee recommends that the Welsh Government considers how to respond to feedback from stakeholders that they find it difficult to understand what the budget and allocations contained within the Draft Budget mean for their industries or sectors.

Accept

The Minister for Economy has established a range of engagement fora with business stakeholders including an upcoming appointment of a Ministerial Advisory Board alongside an already established Economic Roundtable and Covid review meetings.

We will use these fora to engage further with stakeholders on budgetary matters.

Recommendation 27. The Committee recommends that, as part of the consideration into further allocations being made in the Final Budget, the Welsh Government considers increasing the support for Business Rates relief.

Accept

The Welsh Government will be providing over £350m of reliefs to ratepayers in Wales in 2022-23. As well as providing for our permanent relief schemes, this includes £116m of targeted non-domestic rates support to businesses in the retail, leisure and hospitality sectors through our Retail, Leisure and Hospitality Rates Relief scheme. To provide this level of support we have invested an additional £20 million on top of the consequential funding received from the UK Government. This additional funding reflects the nature of the tax base in Wales and ensures businesses in Wales are not placed at a disadvantage compared to those in England. Combined with our permanent relief schemes, approximately 70% of properties will be supported in paying their rates bills in 2022-23. All these reliefs are fully funded by the Welsh Government.

We remain committed to supporting businesses to recover from the impacts of the pandemic and to thrive moving forward. Recognising the impact of the Omicron variant, we have provided further targeted grant support, to ensure that those most affected are in receipt of support.

Recommendation 28. The Committee recommends that the Welsh Government provides information to the Committee on the beneficial impact of rate relief for businesses to ensure that it is an effective means of support and reaches those that need it.

Accept in principle

As non-domestic rates are administered by local government, local authorities hold the granular level data detailing which ratepayers have benefited from a reduction in their non-domestic rates liability and summary information is published on the Welsh Government's web-site. The Retail, Leisure and Hospitality Rates Relief scheme for 2022-23 will be an application-based scheme and the Welsh Government will closely monitor the take-up of this support throughout the course of the financial year.

The administration of non-domestic rates is subject to the strict financial and audit controls which govern the use of public money. Local authorities are subject to their own audit arrangements and Audit Wales has reviewed our relief schemes, providing a further level of assurance. It is recognised that not all businesses are part of the non-domestic rates system, with the Economic Resilience Fund being used to provide support to the wider economy. We have also provided targeted means-based grant support, through the non-domestic rates system, to ensure those who need it most are supported.

Recommendation 29. The Committee recommends that the Welsh Government looks at:

- prioritising investment in digital infrastructure to deliver a more agile workforce; and
- pays particular focus to supporting investment in digital infrastructure and helping small retailers and other businesses to develop digital skills and online presence;

so that small businesses are able to respond robustly to the pandemic, particularly with the disappearance of EU funding from this area.

Accept

Digital infrastructure investment provided for in the Draft Budget supports the delivery of improved digital infrastructure throughout Wales.

The investment into this infrastructure supports the delivery of the Welsh Government's Digital Strategy which allows businesses to benefit from fast and reliable digital connectivity supporting them to gain new customers, sell their products, drive efficiency and innovate.

Business Wales provides businesses and entrepreneurs with a single point of contact for business information, advice and support from the public, private and voluntary sectors, and can be accessed digitally via <http://businesswales.gov.wales> and social media channels; the 03000 6 03000 helpline; and a network of offices located across Wales.

The Development Bank of Wales (DBW) helps Welsh businesses get the finance they need to start up, strengthen and grow and provides loans from £1,000 up to £10m as well as mezzanine, and equity funding; and helps businesses find the right finance partner to leverage in private finance with its own gap finance when necessary. DBW has the objective of providing greater levels of funding to SMEs and improving the integration of the provision of advice and support to businesses, by working closely with Business Wales.

Recommendation 30. The Committee recommends the Welsh Government provides clarity on the tourism levy consultation, including remit and timescales. The Welsh Government should also respond to the Welsh Tourism Alliance's concerns and ensure that all businesses, irrespective of their size, are aware of and able to engage with the future consultation.

Accept

A written statement issued on 10 February clarifying next steps on the development of tourism levy proposals.

Ahead of the autumn 2022 consultation, officials have begun engagement activity with key stakeholders, including local authorities and sector representatives. This engagement aims to both raise awareness, and seek feedback to inform the design of the consultation, including policy options.

We are aware of the Welsh Tourism Alliance's concerns and officials are meeting them to understand these in more detail, and explore any ideas they have to raise awareness with business prior to the formal consultation.

Climate change and carbon reduction

Recommendation 31. The Committee recommends that the Welsh Government provides a breakdown of where the zero-base review has led to new capital investment within the Final Budget, highlighting pre-existing spend separately alongside that new funding.

Reject

We provided extensive information relating to the outcome of the zero-based review within the main budget document, the Infrastructure Finance Plan, the Committee evidence papers, and within the BEL tables to enable comparisons between current and future years spend.

Recommendation 32. The Committee recommends that the Welsh Government provides clarity on which specific Net Zero Wales commitments have been funded in the Final budget and also confirms which commitments are not being funded and those being partially funded.

Accept in Principle

It is the role of the Net Zero Plan 2021-25 to set out how we will deliver the ambitions contained within the plan through policy and other interventions, utilising all levers at our disposal including legislation. The individual investments will be reported through appropriate departmental channels and will be represented in the specific portfolio evidence papers.

Recommendation 33. Given the limitations of public resources, the Committee urges the Welsh Government to explore ways in which it can leverage private sector finance to address climate change funding challenges.

Accept

Our emission reduction targets are set at a Wales level therefore, *Net Zero Wales* is an all Wales plan, recognising that actions will need to be taken by everyone, including UK Government and the private sector.

Each emissions sector has different opportunities and challenges in meeting the level of investment required in the net zero transition, and we recognise that the private sector has a very important role to play. Whilst many of the key policy levers influencing private sector investment are reserved to the UK Government, the Welsh Government are utilising the powers/opportunities available to us to leverage additional private sector investment, and are pushing the UK Government in policy areas that are reserved.

Whilst a fully comprehensive plan cannot yet be developed given the inherent uncertainty both in the UK Government's approach and the evolution of technology, we will provide an update in our first Progress Report, which is due later this year.

Recommendation 34. The Committee welcomes the change in the Welsh Government's capital prioritisation process and its focus on climate change, but calls on the Minister to provide clarity on how outcomes across priority areas will be monitored and evaluated.

Accept

The Wales Infrastructure Investment Strategy (WIIS) sets out the strategic outcomes that our investments must enable, with a clear focus on addressing the Climate and Nature emergencies. The accompanying Infrastructure Finance Plan provides the detail of investments needed to deliver these outcomes, with the necessary funding allocated through the Draft Budget.

This funding has been allocated at investment area level, for example decarbonising Welsh homes, and the National Forest. Specific quantifiable assessments are difficult to undertake at this level, and will depend largely on the specific projects that are delivered from within the respective investment area.

The strategy makes clear that the decisions taken by Ministers to fund specific projects must embed the core principles of the strategy, and in particular, the need to position our infrastructure investments to support the delivery of a zero-carbon economy. Proportionate monitoring and evaluation is a vital part of this; and will be required to inform decision-making in respect of future funding rounds by providing evidence of the climate effectiveness of the capital allocations in the draft budget.

Recommendation 35. The Committee recommends that the Welsh Government outlines the practical ways in which the strategies and objectives outlined in the Draft Budget (and accompanying documentation) are being implemented in recognition of the climate and nature emergencies.

Accept

Funding initiatives over the next three years such as the Nature Networks programme, Local Places for Nature, the National Peatlands Action programme, Natur am Byth and the National Forest will not only ensure that our most precious habitats and species are able to thrive, but also help to deliver nature to wherever people live, helping to tackle both the nature and climate emergencies.

The National Sites Network will benefit from funding through the delivery of our Nature Networks Programme (NNP) over the next three years, improving the condition and connectivity of our terrestrial and marine protected sites, creating resilient ecological networks which will allow our most endangered habitats and species to thrive.

The National Forest Programme will provide many opportunities by planting, growing and protecting trees: contributing to decarbonisation goals and the climate change emergency.

The National Peatland Action Programme (NPAP) is a five year programme (2020-2025) funded by Welsh Government and delivered by NRW. The NPAP aims to increase the ecosystem resilience of Welsh peatlands.

Local Places for Nature (LPfN) will continue to help communities create nature on their doorsteps.

To meet our 'Llwybr Newydd' well-being ambition to maintain biodiversity and enhanced ecosystem resilience on the soft estate and in road improvements, we are currently developing a new biodiversity plan for the strategic road network. The plan is due to be finalised in the summer of 2022.

Our Vision is for Wales to generate renewable energy to at least fully meet our energy needs and utilise surplus generation to tackle the nature and climate emergencies. We have ambitious targets to scale up renewable energy generation in Wales to help meet our net zero targets, The additional funding allocated in the draft budget will support our policies to generate more community and local ownership of energy generation to maximise benefit for the people of Wales.

Recommendation 36. The Committee recommends that the Welsh Government reviews its public procurement policy and frameworks and monitors contracts to ensure they align with well-being objectives and support net zero ambitions.

Accept

The revised Wales Procurement Policy Statement (WPPS) was developed by applying the five ways of working from the Well-being of Future Generations (Wales) Act 2015 and published in March 2021. It sets the strategic direction for public sector procurement in Wales includes principle 6 that specifically links to decarbonisation:

- We will act to prevent climate change by prioritising carbon reduction and zero emissions through more responsible and sustainable procurement to deliver our ambition for a net zero public sector Wales by 2030”

Welsh Government procurement will observe principle 6 of the Wales Procurement Policy Statement (WPPS) when working towards Welsh Government policy commitments, as set out below:

- We use a strategic tool to reduce carbon impact in tenders – through contract design, evaluation and contract management.
- We support net zero carbon through continuity of supply of electricity from renewable sources and transition to ULEV vehicles.
- We will make Carbon Reduction Plans a mandatory part of procurement tenders for WG contract over £5m from April 2022.
- We will develop contract management clauses to support the Social Partnership and Public Procurement Bill that will embed sustainable outcomes in construction supply chains for all large public sector construction procurements.

Recommendation 37. The Committee recommends that the Welsh Government prioritises evidencing how its carbon and finance budgets align in future budgets. The Draft Budget next year must go further in demonstrating the carbon impact of the budget.

Accept

Our investments continue to be guided by what the evidence tells us are the areas in which Welsh Government investment can have the greatest impact. This approach recognises the role of Net Zero Wales (Carbon Budget 2 2021-25) which describes our climate ambition for, and relative contribution of, each sector and how we will achieve it, utilising all levers at our disposal including legislation. It is then the role of the budget to consider funding of those Government actions where evidence supports the need to invest.

Following a zero-based review of capital budgets, we ensured that the investment areas set out in the Infrastructure Finance Plan and financed through the draft Budget have a clear alignment with both the priorities and the urgency set out in Net Zero Wales. Net Zero Wales, with the Infrastructure Finance Plan sets out how carbon impacts have been considered in each investment area over the three year period of the Draft Budget.

Through our Budget Improvement Plan we will continue to build on this progress and evolve our approach as the evidence base of where we can best invest to tackle climate change further develops and we continue to build on the models underpinning the carbon assessment of our spending decisions.

Tackling poverty and inequality

Recommendation 38. The Committee recommends that the Welsh Government takes steps to raise the profiles of grants and schemes designed to address the cost of living crisis, such as the Discretionary Assistance Fund and payments to help with winter bills so that people are aware of the range of financial support available and how to access them.

Accept

It is more critical than ever that people understand and are helped to access all the financial support that is available to them and we are doing all we can to put money into the pockets of people across Wales. We are delivering another 'Claim What's Yours' campaign using materials that we developed for the campaign we ran in March last year. In January, we appointed an Advertising Agency who are currently developing a suite of creative materials which, across the coming months, will be delivered on all platforms, including, TV, radio, social media/digital, local/national newspapers, targeted leaflet/mail outs to key population groups, etc. The call to action of the campaign will remain clear and direct in encouraging people to find out more around their entitlements, including financial help available from the Discretionary Assistance Fund, and to contact Advicelink Cymru for help to navigate the complex social security system.

With the cost of living crisis worsening people's financial vulnerabilities, it is critical that people who are in desperate financial need are made aware of the support that is available to them through the Discretionary Assistance Fund (DAF). Welsh Government works closely with key organisations to promote access to the fund and to raise awareness of it. There are now more than 650 partner agencies, from public and third sectors across Wales who are actively referring financially vulnerable people to the DAF and supporting them to make applications. This includes older people's organisations, equalities groups and registered social landlords. This community based awareness raising is crucial in ensuring that the funds are reaching those who need this support most. This is complemented by mainstream and social media to promote the fund, which will be continued into 2022/23.

Recommendation 39. The Committee recommends that the Welsh Government increases the funding allocation to support the Discretionary Assistance Fund to alleviate the worsening cost of living crisis and to ensure that it can meet ongoing demand.

Accept

The budget for the Discretionary Assistance Fund has risen year on year in response to increasing need and the pandemic. The increased flexibilities introduced in May 2020 were intended as a temporary measure to alleviate Covid-19 hardship. However, the further measures to support those Universal Credit clients most severely affected by the UK Government's decision to withdraw the £20 per week uplift from 1 October last year was a further indication of this Government's commitment towards the poorest in society, and our promise to divert resources to where they are most needed, when they are most needed. In response to the current cost of living crisis, it was announced on 14 February 2022 that the same levels of DAF support will remain in place for a further year until March 2023. This will support those who are in desperate financial need.

We will continue to assess the effects of the DAF and its delivery in light of the cost of living crisis as we move into next financial year. This will also be subject to the continual review of available funds.

Recommendation 40. The Committee recommends that the Welsh Government provides an update on the progress made in developing an integrated system of support in response to the acute financial pressures many families are experiencing. Furthermore, the Committee calls for the establishment of single entry points that links across the key services and schemes so people can easily access the support they are entitled to.

Accept

As part of our ongoing commitment to maximising household income we developed a [Best Practice Toolkit](#) in partnership with local authorities. In May last year, the Minister for Finance and Local Government I wrote to all local authorities to highlight how the toolkit will help streamline and simplify the application process for claiming Welsh benefits and other support. We continue to work with local authorities to monitor progress with regards to the impact of the toolkit and to explore further how to streamlining services.

Working collaboratively with our key external stakeholders we are also drafting a 'Benefit Charter' that will underpin the design and delivery of a coherent, integrated and compassionate Welsh benefits system. It is important however that the Charter is jointly owned and we will liaise with local authorities to ensure that the Charter meets expectations from both stakeholders and delivery partners.

EU funding replacement

Recommendation 41. The Committee recommends that the Welsh Government provides further information on replacement EU funding as a matter of urgency, so that the shortfall identified in the budget can be addressed.

Accept

Replacement funding for EU Structural Funds is to be solely provided through the UK Shared Prosperity Fund. There is still little detail on the delivery and management structures of the Shared Prosperity Fund in Wales two years after we left the EU.

The UK-wide spending profiles announced as part of the Spending Review in October 2021 confirm that the SPF, UK-wide, will be worth £400m in 2022-23, £700m in 2023-24 and £1.5bn in 2024-25. The UK Government has noted that £560m of the £2.6bn committed to the SPF between 2022-25 will be used to fund the UK Government's adult literacy programme, *Multiply*. It is not yet clear how much funding will be used to support *Multiply* in each of the three financial years respectively.

We have had no meaningful engagement from the UK Government on how the UK Shared Prosperity Fund can best be delivered in Wales and there is no confirmation of Wales' share of these amounts.

It is not feasible for the Welsh Government to fully replace the lost EU funding. Despite these circumstances, in the Draft Budget we set out plans to deliver on our ambitious Programme for Government and rise to the challenges we face in a way that is grounded in the Welsh values of environmental, social, and economic justice.

We will report back to the Committee once we have details on how the Shared Prosperity Fund will be implemented.