

By email

04/01/2023

Dear Peredur,

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

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

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

Part 1: My Overall Reflections

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

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

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

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

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

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

Part 2: My Budget Priority

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

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

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

My full paper can be found [here](#).

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

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

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

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

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

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

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

Addressing multiple crises

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

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

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



Part 3: My Wider Priorities

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

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

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

a) Investment in Skills and Training

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

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

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

b) Decarbonisation of homes

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

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

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

c) Responding to the Nature Emergency

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

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

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

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

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

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

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

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

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

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

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



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

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

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

Part 4: The Well-being Goals and objectives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

Best wishes,

Sophie Howe
Future Generations Commissioner for Wales