



Llywodraeth Cymru  
Welsh Government

Welsh Government

# **Draft Budget 2018-19**

## **Outline proposals**

### **A new Budget for Wales**

### **October 2017**

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## Minister's Foreword

I am pleased to present the second Budget of this Welsh Government.

This is a new Budget for Wales. Today marks another milestone in our devolution journey as the Welsh Government sets out more than its revenue and capital spending plans in this draft Budget. For the first time ever, this draft Budget will outline our taxation and our borrowing proposals, as we exercise the new fiscal responsibilities which have come to Wales.

From 1 April 2018, Wales will collect its first national taxes for almost 800 years as stamp duty land tax and landfill tax are devolved, to be replaced by land transaction tax and landfill disposals tax, respectively.

Today, I will set out the new rates and bands for these taxes, as part of this draft Budget. The revenue collected from these two taxes will help to fund the public services we all rely on – our NHS, our social services, our schools and our leisure centres.

I will also set out how we will use our new borrowing powers; the new Mutual Investment Model and the new Welsh reserve – three key fiscal levers, which will help us manage our budget and invest in Wales at a time of unprecedented financial uncertainty.

As a result of the changes to the way the Budget is constructed, the National Assembly has introduced a new two-stage process for the publication and scrutiny of the Budget. Today, I am publishing the outline draft Budget – where the money comes from and how it will be allocated between the different government portfolios. The detailed portfolio budgets will be published for scrutiny in three weeks' time, in line with the new process.

I am setting this draft Budget against one of the longest periods of sustained austerity in living memory. The UK Government has consistently and persistently cut funding for public services as it has sought to reduce the deficit. This has had a very real impact on our budget, which by the end of this decade will have fallen by 7% in real terms, compared to 2010-11. This means that we will have £1.2bn less to spend on vital public services.

If spending on public services had at least kept pace with growth in GDP since 2010-11, the Welsh Government would have had an extra £4.5bn to spend in 2019-20. Instead we are still facing the very real prospect of further spending cuts to come from the UK Government – £3.5bn of cuts to public spending are planned for 2019-20, which if they all fall in devolved areas, could mean up to £175m of further cuts to the Welsh budget.

The UK Government must end austerity when it brings forward its Autumn Budget in November.

The financial uncertainty caused by ongoing austerity and the decision to leave the European Union means that it has not been possible to lay a three-year revenue budget. However, I am able to lay a two-year revenue budget, which will provide some certainty and stability for local government and the health service as they make their own financial plans.

The Welsh Government has worked hard to protect Welsh public services from the worst effects of austerity, and this year is no exception. We are continuing to invest in the Welsh NHS to meet the Nuffield gap; we are continuing to invest in social care; we have acted to

mitigate cuts to education and, once again, we have been able to prioritise funding for local government recognising the importance of local services.

This draft Budget has been aligned to the Welsh Government's priorities, as set out in *Prosperity for All* and *Taking Wales Forward*. It also reflects the two-year Budget agreement reached with Plaid Cymru.

We have worked with the Future Generations Commissioner over the course of the budget round to make sure that the Well-being of Future Generations Act is embedded in the budget-making process and we will carry out our first participatory budgeting pilots following the publication of the draft Budget.

## Chapter 1: Strategic context

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- 1.1 The Welsh Government today publishes its spending plans for 2018-19, together with indicative revenue budgets for 2019-20 and indicative capital plans until 2020-21. This is the first budget in which the Welsh Government is using its new fiscal powers, including new tax powers. It marks an historic moment in the evolution of our budget process and a further milestone in devolution for the Welsh Government and the National Assembly for Wales.
- 1.2 This is the second budget of this term of government and the third year of the UK Government's current Spending Review settlement, which set the Welsh Government's revenue budget for the period 2016-17 to 2019-20 and the capital budget until 2020-21. Austerity continues to be a defining feature of public expenditure. The fiscal uncertainty and challenges this brings, together with the further uncertainty associated with the decision to leave the European Union, have had an impact on our ability to provide longer-term financial certainty for our public services.
- 1.3 It is, however, always our ambition to publish plans for longer than 12 months but this needs to be balanced with our ability to provide realistic and sensible planning assumptions. The UK Government is still to announce how it will allocate the £3.5bn of cuts planned for 2019-20 or indeed whether these will go ahead. Despite this level of uncertainty, we are publishing revenue plans for two years to help support the planning of public services.

### New Fiscal Responsibilities

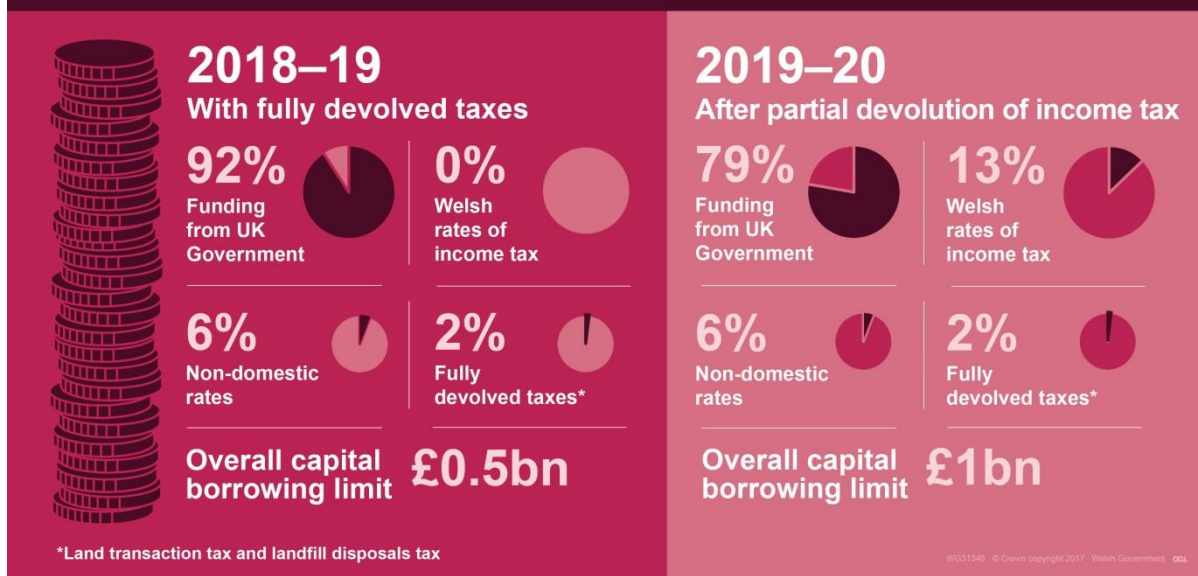
- 1.4 With the devolution of tax powers, the funding arrangements for the Welsh Government have changed. From April 2018, tax revenues from the two new devolved taxes will directly fund public services. This means the draft Budget 2018-19 will, for the first time, operate under the Welsh Government's fiscal framework agreed with the UK Government in December 2016. This agreement represented a significant milestone for Wales.
- 1.5 Following the recommendations of the Commission on Devolution in Wales (Silk Commission), the Wales Act 2014 provided the legislative framework to devolve tax and borrowing powers to the National Assembly for Wales and the Welsh Government. These powers provide the Welsh Government with further tools to grow the Welsh economy and to vary the level of tax and spending in Wales, increasing its accountability to the people of Wales. It means that more of the resources we spend in Wales will be funded from revenues collected in Wales.

# Welsh Government Funding

£16bn per year



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- 1.6** The draft Budget sets out the Welsh Government’s spending and borrowing proposals and tax policy for land transaction tax (LTT) and landfill disposals tax (LDT) from April 2018. Welsh rates of income tax (WRIT) will be introduced for the first time from April 2019. Although we are providing indicative allocations for 2019-20 in the draft Budget, we have assumed at this stage there is no net budgetary impact from its introduction.
- 1.7** As well as new tax powers, there are a number of other important new elements associated with this year’s Budget. For the first time, a needs-based factor has been applied to the Barnett formula. It ensures fair funding for Wales for the long term – something the Welsh Government has consistently made the case for. The fiscal framework also provides for a number of additional flexibilities to manage the Welsh Government’s resources, such as a new Welsh reserve and increased borrowing powers. Further details about these new components are set out in section three.

## Revised Budget Process

- 1.8** The newly-devolved fiscal powers place an even greater emphasis on the Budget process, in particular making sure it continues to provide opportunity for robust scrutiny of the Welsh Government’s spending plans and its financing proposals. A new Budget process has been agreed between the National Assembly’s Finance Committee, the Assembly Commission and Welsh Government and approved by all Assembly Members to reflect the additional fiscal responsibilities.
- 1.9** In accordance with the new arrangements, the Welsh Government is today setting out the strategic spending plans for revenue and capital; taxation and borrowing proposals. Details of the high-level MEG allocations are provided in section five. This will be followed on 24 October by the detailed portfolio budget proposals, which

will inform scrutiny of portfolio plans by the respective policy committees.

## **Austerity and the Welsh Budget**

- 1.10** The Welsh Government is publishing its spending plans against the backdrop of continuing austerity. The Welsh Budget is substantially lower in real terms than it was in 2010 as a result of the UK Government's austerity measures. Between 2010-11 and 2019-20, the Welsh Budget will fall by more than 7% in real terms – the equivalent to almost £1.2bn less to spend on public services every year. A recent report from two Cardiff University think tanks reported that the threatened £3.5bn cuts in 2019-20 would mean substantially greater reductions to funding for devolved Welsh public services and, inevitably, further cuts, at a time when our public services in Wales are under increasing pressure<sup>1</sup>.
- 1.11** In these uncertain times, the Welsh Government has been clear about the need for the UK Government to end austerity and provide the financial stimulus needed to support vital public services and boost economic confidence. The UK Government will publish its Autumn Budget on 22 November. It is not clear whether the UK Government will take this opportunity to revisit the fiscal policy that was set out in the Autumn Statement last year.
- 1.12** It is against this backdrop that the Welsh Government has developed its draft Budget 2018-19. The spending plans reflect the government's commitment to provide stability for public services at a time of uncertainty and invest in Wales to support our priorities.

## **Budget agreement**

- 1.13** We have reached agreement with Plaid Cymru on a number of specific measures over two years – 2018-19 and 2019-20 – which are reflected in our Budget proposals. This agreement continues to demonstrate our commitment to shared priorities and builds on the agreement reached in last year's budget. Further details of the specific measures are outlined in section four.

## **Prosperity for All: The National Strategy**

- 1.14** Following the National Assembly election, the Welsh Government published its programme for government *Taking Wales Forward 2016-21*. It sets out four areas where the government believes it can have the biggest impact – prosperous and secure; healthy and active; ambitious and learning and united and connected.
- 1.15** *Taking Wales Forward* provided immediate clarity about the government's priorities for this Assembly term. Over the past 12 months the government has developed a single, cross-government strategy to understand how commitments link together; how we can combine them with core services; how we can focus our efforts on the things that matter and how we can work differently with our partners to have a greater impact responding to the opportunities of the Well-being of Future Generations Act.

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<sup>1</sup> <http://sites.cardiff.ac.uk/wgc/files/2017/09/Welsh-Government-Budgetary-Trade-offs-report.pdf>

- 1.16** *Prosperity for All*, which was published last month, sets out how the Welsh Government and Welsh public services will lay the foundations for achieving a prosperous Wales. It also sets out the Welsh Government's 12 revised wellbeing objectives and the steps we propose to take to meet them. As the policies, programmes and projects develop to support the objectives, we are working hard to ensure that we make best use of every pound that we have by working across government.
- 1.17** We recognise the need to work differently by working more collaboratively and in a more integrated way, taking a long-term view to prevent problems arising in the first place. We recognise the interdependence of the things that we do and the fact that achieving one objective can have a positive impact on other objectives – for example, secure employment makes it more likely that people will enjoy good health and education will shape people's employment opportunities. Our approach to this Budget recognises the need to begin that process of integrated working, supporting our priorities by pooling resources, recognising the need for public services to work together towards common objectives to focus on the needs of people and investing in long-term solutions to the challenges we face for achieving prosperity for all.

### **Well-being of Future Generations Act (Wales) 2015**

- 1.18** *Prosperity for All* places the Well-being of Future Generations Act (Wales) 2015 and the national goals at the heart of our decision making. The 12 wellbeing objectives represent the areas where the Welsh Government can make the greatest contribution to the national goals, working in partnerships with others<sup>2</sup>. The Future Generations Commissioner has said it is important for every organisation to be able to show the ways in which they are taking a different approach.
- 1.19** Within the Welsh Government, we are looking at how we can do more to embed the Act into our budget process. We acknowledged as part of last year's budget scrutiny that embedding the principles of the Act would be an evolutionary process over a number of years. We are establishing a systematic, incremental approach to embedding the five ways of working in a meaningful way. Our Budget preparations this year have looked to strengthen the steps we are taking to ensure the Act has a growing impact.
- 1.20** Embedding the Act has been a core consideration during the Cabinet's discussions about budget planning and the individual budget meetings between the Cabinet Secretary for Finance and Local Government and Cabinet Secretaries. The Act has been used to inform spending plans and maximise opportunities to join up activities across portfolios and to align resources.
- 1.21** In early discussions between the Cabinet Secretary for Finance and Local Government and the Future Generations Commissioner, we agreed to focus on three specific areas in our budget preparations – participatory budgeting, decarbonisation and procurement. These three areas offer opportunities to think differently about how we use our resources to support our priorities.
- 1.22** We are continuing to work with the Future Generations Commissioner to develop our approach to these three areas, for this, and future Budgets.

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<sup>2</sup> <http://gov.wales/about/cabinet/cabinetstatements/2017/prosperitforallwellbeingstatement/?lang=en>



## Participatory budgeting

- 1.23 As part of the 2017-18 Budget agreement with Plaid Cymru, the Welsh Government committed to explore a digital participatory budgeting pilot as part of this year's budget preparations. To inform our understanding of participatory budgeting and our approach to the pilot, the Welsh Government asked Public Policy Institute Wales (PPIW) to undertake a review of UK and international approaches to participatory budgeting. *Participatory Budgeting: A Rapid Evidence Review*<sup>3</sup> was published on 23 August.
- 1.24 Numerous types of participatory budgeting are used in different countries. A core principle of participatory budgeting, common to all the approaches featured in the report, is that it is a way to involve citizens in making decisions, for example through the distribution of public funds or involvement in the affairs and decisions of policy-setting bodies.
- 1.25 The evidence in the PPIW report, and learning from the approach adopted in Scotland – through What Works Scotland and the Community Choices programmes – has helped to inform our approach to a participatory budgeting pilot for Wales. In our view, participatory budgeting is more than just setting aside an amount of money and asking people to choose the project it is spent on. We are developing our approach in two ways. First, by engaging in an approach to participatory budgeting to maximise its benefits and secondly, by developing digital tools to support our participatory budgeting approach.
- 1.26 We have worked with the Wales Council for Voluntary Action and Citizens Wales to plan a number of engagement sessions across Wales during October and early November. These will gather people's understanding about participatory budgeting and their views about how we engage about the Budget, especially around priorities. This will help us develop an approach for longer-term engagement and involvement in line with the five ways of working. We will reflect on the feedback and evidence we receive from these sessions to help inform our approach to developing our participatory budgeting approach in future budgets.
- 1.27 The second focus has been on digital tools we could use to support wider budget engagement. A budget calculator is a practical way of communicating the choices that government has to make when setting a budget, especially in the current financial climate when resources are reducing. We intend to make the calculator available alongside the detailed portfolio budget proposals.

## Decarbonisation

- 1.28 To deliver the requirements of the Environment (Wales) Act 2016, the Welsh Government has a decarbonisation programme. The programme will:
- Define what emissions are counted in our Welsh carbon budget account;

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<sup>3</sup> <http://ppiwi.org.uk/ppiw-report-publication-participatory-budgeting/>

- Set the decarbonisation pathway in Wales, including setting the interim targets (for 2020, 2030 and 2040) and the first two carbon budgets (for 2016-2020 and 2021-25)
- Set out how we will achieve our emission reduction targets, through our carbon plan covering the first carbon budget (2016-20).

- 1.29 The Welsh Government has set up a Decarbonisation Ministerial Task and Finish Group, which is driving the cross-government approach to develop a carbon plan to achieve our carbon budgets. It has agreed the carbon budgeting cycle will be aligned to the budget cycle – this will underpin and support Welsh Ministers’ consideration of the budget implications of the policies and interventions included in the Welsh Government’s carbon plan, which is due to be published in March 2019. The carbon plan will cover the period 2016-20 and will set out cross-government policies and proposals to meet our carbon reduction targets.
- 1.30 This way of working will ensure greater awareness and understanding of the outcomes to be delivered through the cross-government carbon plan and a greater understanding of the financial consequences of the policies being considered. Clarity about the financial impact of the plan will help Ministers to prioritise the action, which can be delivered within available resources.
- 1.31 Work to align the carbon budget and financial budget planning cycles will be undertaken as part of our 2019-20 budget preparations.
- 1.32 As part of this year’s budgets preparations, we have taken steps to build in consideration of carbon impacts in helping to inform our priorities for capital investment, aligned with the Well-being of Future Generations Act. We have prioritised proposals that offer the most sustainable positive long-term impact, whether in financial terms – by helping to generate recurrent revenue expenditure savings – or in terms of supporting the decarbonisation agenda.
- 1.33 Our continued investment to increase the convenience and attractiveness of public transport contributes to the development of an innovative, productive and low-carbon society, which uses resources efficiently and proportionately to support viable, safe and well-connected communities.
- 1.34 Reducing carbon was an important consideration to the decision to allocate additional funding of £50m to develop a new rail station in Llanwern, along with extensive park and ride facilities and line improvements. The scheme will have a positive impact on carbon reduction, helping to reduce greenhouse gases as passengers move from private car to rail.
- 1.35 Alongside our additional investment in schools through our 21<sup>st</sup> Century Schools and Education programme, we are making sure new-build schools and colleges are being designed and built to maximise energy efficiency. Funding is conditional on projects designed to achieve an A rating on energy performance certificates, as well as BREEAM-excellent accreditation to demonstrate sustainability. In addition, contracts must specify that 15% recyclates are used during construction.
- 1.36 This programme is also helping to manage surplus capacity by ensuring schools and colleges are in the best condition; are in the right location and accommodate

the right number of students. This contributes to a more efficient education estate, which in turn reduces energy consumption by avoiding operating buildings that are too big for pupil demand.

## Procurement

- 1.37 The Welsh public sector spends around £6bn every year on procuring goods and services. Using our procurement processes, we can make a significant contribution to doing things differently to improve people's lives and making sure we spend money wisely. For example, to achieve our decarbonisation targets, we will need to work across the Welsh Government and with our public sector partners to make sure we invest in effective action, which supports our ambitions. The way we procure and what we procure can make a significant contribution towards achieving our carbon budget targets.
- 1.38 Public procurement can have a profound impact in creating and sustaining employment. Our approach to procurement can be used to support small and medium businesses to win more contracts, retaining the value in Wales. This can act as a springboard to develop high-performing businesses and contribute to our priority of tackling inequality.
- 1.39 The procurement principles for the Welsh public sector are set out in the Wales Procurement Policy Statement (WPPS). This outlines how the community benefits approach and procurement policies can tackle poverty and promote ethical employment practices in business.
- 1.40 While there is already an established process and guidance available to support procurement decisions through Value Wales and the National Procurement Service, both are working closely with the Future Generations Commissioner to consider how the five ways of working can be embedded into procurement processes and guidance. Talks are also underway with Business Wales to ensure the supply base in Wales is informed and educated about the Well-being of Future Generations Act and to prepare them for tenders, which reflect the Act's goals.
- 1.41 Through a series of pilots, the Welsh Government and the National Procurement Service are applying the collaboration and involvement ways of working to co-develop pilot projects and best practice approaches with local authorities and other partners. Caerphilly, Torfaen, Monmouthshire and Ceredigion councils are developing an effective and consistent approach for applying the Act to procurement activity, which can be replicated across Wales. Natural Resources Wales is identifying links between the Well-being of Future Generations Act and the Environment Act and how they can help lever change across the public sector in Wales.

### *Code of Practice for Ethical Employment in Supply Chains*

- 1.42 In March 2017, the Welsh Government launched a new Code of Practice for Ethical Employment in Supply Chains in the Welsh public sector. This focuses on guaranteeing good employment practices for the people involved in public sector supply chains.

- 1.43 Developed with the support of the Workforce Partnership Council and social partners, including trade unions, the new code covers areas ranging from unlawful and unethical practices to good and best practice. All public sector organisations in Wales, businesses and third sector organisations in receipt of Welsh public sector funding, either directly or via grants and contracts, are expected to sign the code. Other organisations and businesses based in Wales are encouraged to sign the code.
- 1.44 The new code will play an important role in helping to tackle unfair employment practices and contribute to improved conditions for workers in Wales and internationally.

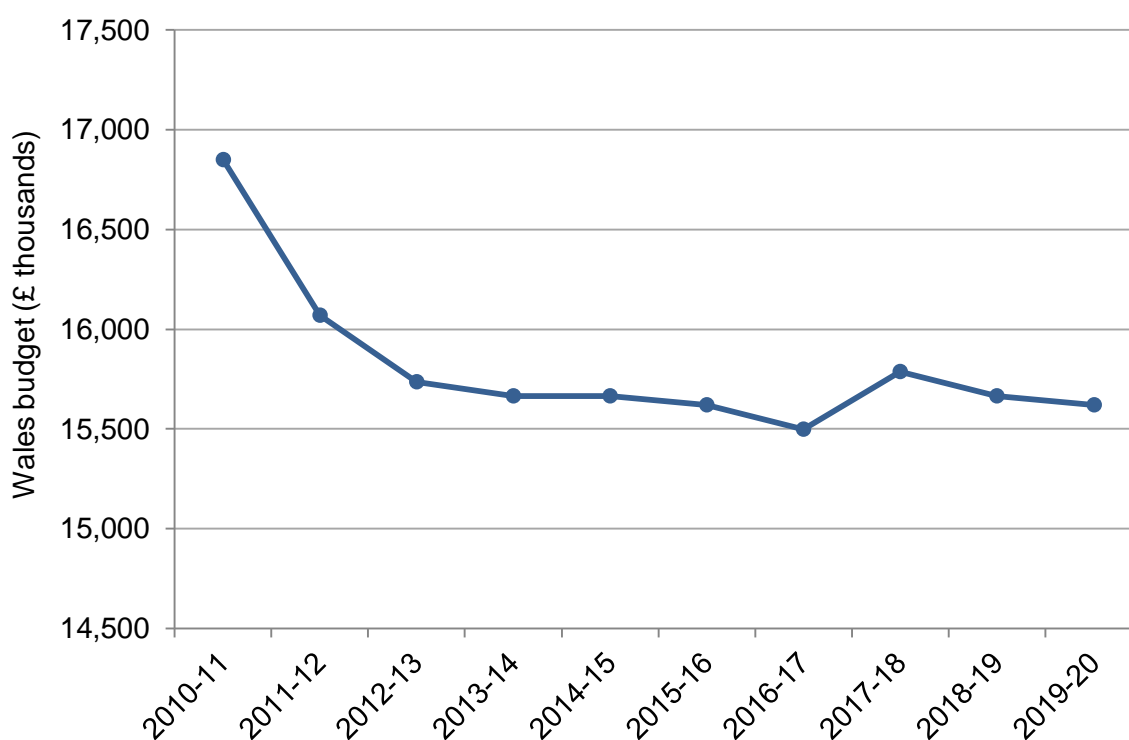
*Procurement – case study examples*

- 1.45 The Welsh Public Sector Collaborative Estate Initiative – the Cwm Taf pilot – is an example of how the Well-being of Future Generations Act is improving the joint working and collaboration across public sector procurement.
- 1.46 The Cwm Taf partners spend more than £9.2m a year on external estate management services. A report into the pilot, published last month, found there are significant opportunities if public services work together and take a more strategic approach to property and property management across geographical and organisational boundaries. It highlights opportunities to integrate services; improve customer experience; create wider efficiencies; rationalise estate and improve the quality of public service assets by investing more in fewer, shared physical assets.
- 1.47 This collaboration and involvement of the wider public sector provides opportunities for efficiency savings by aligning and sharing procurement activities and services.
- 1.48 The approach to the procurement of the South Wales Metro has embedded the principles and goals of the Well-being of Future Generations Act. Transport for Wales has a sustainable and ethical procurement panel, which includes representatives from the Welsh Government, Network Rail, Construction Industry Training Board, Constructing Excellence in Wales and Wales Council for Voluntary Action. The panel addresses the wider opportunities and risks surrounding the procurement of the Metro, including supply chain requirements, skills requirements, environmental considerations and cultural issues in line with the Well-being of Future Generations Act.

## Chapter 2: Financial challenges

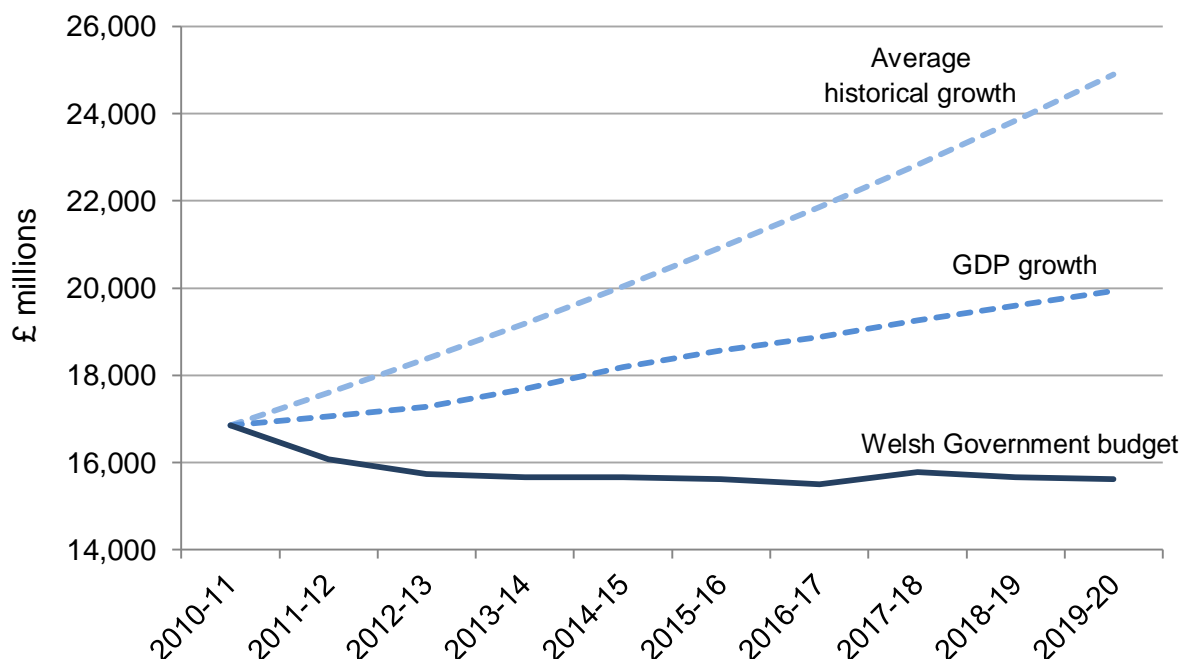
- 2.1** Since 2010, there have been successive reductions to the Welsh budget as a result of the UK Government's ongoing policy of austerity. The unprecedented squeeze the UK Government has placed on public services now means that by the end of the decade the overall Welsh budget will have been reduced by 7% in real terms – equivalent to £1.2bn less for vital public services, as shown in figure one.

**Figure one: Wales budget in real terms, 2016-17 prices (£m)**



- 2.2** Prior to this period, the Welsh budget had been growing in real terms by an average of 4.4% a year since devolution. As figure two shows, if the budget had continued to grow at this rate, we would have around 60% more resources available to spend on public services in 2019-20 than currently planned. Figure two also shows that if spending on public services had at least kept pace with growth in GDP since 2010-11, the Welsh Government would have an extra £4.5bn to spend in 2019-20.

**Figure two: Welsh Government budget scenarios, 2016-17 prices (£m)**

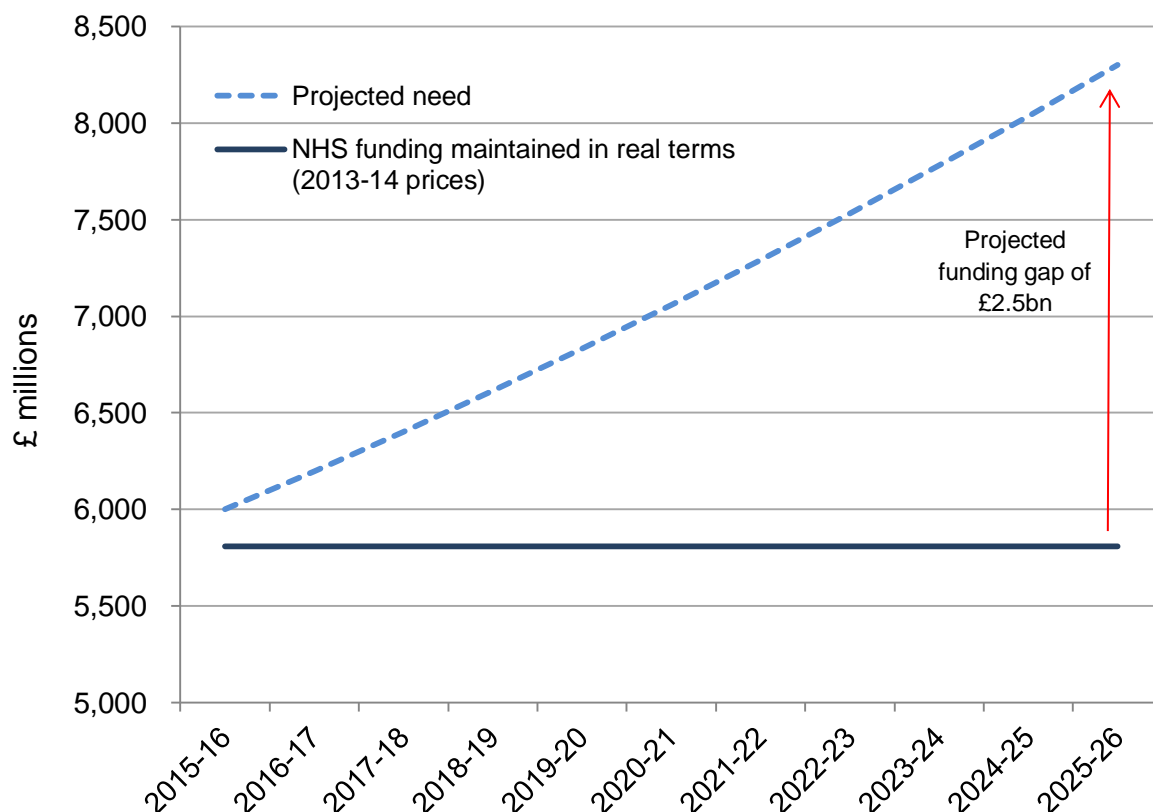


**2.3** This long period of sustained austerity and reductions in real terms funding has had an impact on all services, even those where we have been able to provide some protection. We are facing the continuing challenge of delivering our priorities within the context of growing pressures and an ever-decreasing budget. Health and social care, in particular, will continue to experience significant increases in demand, with a range of expert analysis highlighting the financial challenges this could bring. Analysis by the Nuffield Trust in 2014<sup>4</sup>, for example, suggests that even if funding was maintained in real terms, the Welsh NHS could face a funding gap of £2.5bn by 2025-26<sup>5</sup>. This is illustrated in figure three.

<sup>4</sup> <https://www.nuffieldtrust.org.uk/files/2017-01/decade-austerity-wales-web-final.pdf>

<sup>5</sup> In 2013-14 prices

**Figure three. Projected NHS funding gap (adapted from analysis by the Nuffield Trust, 2014)**



**2.4** The increased need for health spending is driven not just by an ageing population, but by an increase in chronic health conditions and other pressures, such as staff pay. Meeting this funding gap would require either significant increases in funding above inflation or further real terms efficiency savings of 3.7% a year, according to the Nuffield Trust.

**2.5** Similar challenges are expected in social care, with research by the Health Foundation suggesting that pressures on publicly-funded social care are projected to rise at a faster rate than for the NHS, as the service is concentrated on the most elderly (a group which is experiencing one of the fastest rates of growth)<sup>6</sup>. The Wales Future Trends report, which analysed Wales' projected population, showed that 13% of people in Wales will be 75 or over by 2030, compared with just 9% in 2016<sup>7</sup>. While there is a growing trend of individuals continuing to contribute economically later in life, an aging population will continue to shape pressures on health and social care in Wales.

**2.6** In the current spending period, protecting NHS funding and providing additional resources to local government for social services means difficult decisions need to be made elsewhere in Welsh public services. There is a crucial role for local government in the delivery of a joined-up health and social care system and also in supporting work on the prevention of health problems. However, the challenges could be even greater in future if we are to meet the projected funding demands for both the NHS and social care. The consequences of the UK Government's policy of austerity have been identified by many commentators, some of whom have

<sup>6</sup> <http://www.health.org.uk/publication/path-sustainability>

<sup>7</sup> <http://gov.wales/docs/statistics/2017/170505-future-trends-report-2017-en.pdf>



suggested innovative funding solutions to address some of these challenges, these include proposals from Professor Gerry Holtham about funding social care<sup>8</sup>.

- 2.7 The Office for Budget Responsibility (OBR), in its *Fiscal Sustainability Report*<sup>9</sup>, highlights that these pressures are being felt across the UK. It suggests an ageing population; an increase in chronic conditions together with technological advancements will contribute to significant pressures on UK public finances over the longer term. This would require either tax rises or spending cuts in other areas to balance the books. In the latter case, spending cuts could be passed to the Welsh budget, placing further pressure on the delivery of vital Welsh public services.
- 2.8 Despite growing public support to increase public spending, the UK Government shows no sign of ending its flawed and failing policy of austerity. Earlier this year, the Chancellor of the Exchequer acknowledged: “Britain is weary after seven years of hard slog repairing the damage of the great recession”, but the Institute for Fiscal Studies concluded that further fiscal tightening beyond 2021-22 is likely to be needed to meet the UK Government’s objective to restore the public finances to balance as early as possible in the next Parliament.
- 2.9 Any further fiscal tightening would have severe consequences for Welsh public services. As a recent report from two Cardiff University think tanks concluded, “without increases in the overall envelope for the Welsh budget, and with efficiencies on their own unlikely to be sufficient to bridge the funding gap, difficult decisions about what services are affordable are likely to come increasingly to the fore.”<sup>10</sup>
- 2.10 As a first step to easing the uncertainty we face in future years, we urge the UK Government to reconsider its plans to make an additional £3.5bn of departmental reductions in 2019-20. While we will not know the outcome of the UK Government’s “efficiency review” until the 22 November, the expected impact of this reduction in Wales has been taken into account in this draft Budget.
- 2.11 We are also calling for the UK Government to lift the public sector pay cap across all public services by providing additional funding and not by simply creating pressures elsewhere in the system. Governments across the UK have a responsibility to treat public servants with fairness and equity. Given our funding arrangements, this must be supported by additional resources from the UK Government. Lifting the cap in England would increase spending on public services that are devolved in Wales so this would have to attract Barnett consequentials in the usual way. The impact of lifting the cap unilaterally in Wales would mean that for every 1% above the existing cap, £100m is taken from frontline services.
- 2.12 These fiscal challenges for Wales are set in the context of the UK Government’s decision to allocate an additional £1bn to Northern Ireland as part of the confidence and supply agreement reached with the Democratic Unionist Party (DUP). The UK Government has provided additional funding to Northern Ireland for core, devolved services without any additional funding being allocated to Wales, Scotland or England in accordance with agreed funding mechanisms. The UK Government’s

<sup>8</sup> <http://www.walesonline.co.uk/business/business-news/how-wales-can-solves-social-12999191>

<sup>9</sup> <http://budgetresponsibility.org.uk/fsr/fiscal-sustainability-report-january-2017/>

<sup>10</sup> <http://sites.cardiff.ac.uk/wgc/files/2017/09/Welsh-Government-Budgetary-Trade-offs-report.pdf>



Statement of Funding Policy is clear on the funding arrangements in the UK and the operation of the Barnett formula. The UK Government has bypassed Barnett, abandoning its own established rules. If the Barnett formula had been applied, Wales would have received an additional £1.67bn as a consequence of the additional funding for Northern Ireland.

- 2.13** Together with the Scottish Government, the Welsh Government has invoked the dispute resolution process over the DUP funding deal and the UK Government's decision to bypass the Barnett formula. At a time when public services in Wales are under pressure, it is only right that Wales gets its fair share of funding through the established funding rules. It cannot be the case that the UK Government can end austerity in Northern Ireland yet continue with its damaging and ongoing policy of austerity in Wales, Scotland and England.

### **Implications of Brexit**

- 2.14** Adding to the fiscal challenges are the further uncertainties associated with the economic impact of Brexit and the future of EU funds for Wales. The UK economy has slowed markedly since the referendum in June 2016 and weak economic growth appears likely to continue, with the risk of a more severe downturn if Brexit-related uncertainty increases. Wales is potentially more vulnerable to economic shocks than other parts of the UK due to a number of factors, including relatively low household incomes and a greater reliance on manufacturing.
- 2.15** While the economic losses from Brexit are potentially very large, they are closely related to the level of access to the single market that is retained. The Welsh and UK economies benefit substantially from participation in the single market. The latest HMRC figures show exports to the EU account for around two-thirds of all goods exported directly from Wales to destinations outside the UK. In addition, Welsh international exports are dominated by a small number of large exporters, which means that the potential loss of key industries could have a significant local impact. We are of the firm belief that continued full and unfettered access to the single market is fundamental to Wales' future.
- 2.16** During the referendum campaign, voters in Wales were assured that Wales outside the EU would not be worse off. It is vital this promise is honoured. Wales is a net beneficiary of EU membership, currently receiving around £680m in EU funding each year. The baseline of the UK block grant payment for Wales must be readjusted at the point of exit from the EU to reflect the real loss of funds in Wales arising from leaving the EU and taking into account funding which Wales would have otherwise reasonably expected from EU sources.

### **Impact on the Welsh economy**

- 2.17** In these uncertain times, it is more important than ever that we create the conditions for a strong and secure economy. The UK Government's policy of austerity means that fiscal policy is unable to compensate for weakness in other areas of the economy. By ending austerity, the UK Government could boost public spending in a way that would have a positive impact on economic growth. This would in turn increase tax revenues, reduce unemployment levels and strengthen the public finances in Wales and in the rest of the UK. The UK Government could, for example, choose to take advantage of low interest rates in order to fund increased

investment in infrastructure, as advocated by key international bodies including the OECD and the IMF.

- 2.18** However, the future health of the public finances is also dependent on a revival of productivity growth across the economy. Without economic growth, wages will remain stagnant and we will not generate the revenues we need to provide the public services that people of Wales deserve.
- 2.19** Despite the pressures on our budget, the Welsh Government continues to invest in the economy. In this Budget, we continue to prioritise investment in infrastructure that will support sustainable economic growth to help Welsh businesses to grow and prosper. Our business-friendly policies have helped create the right conditions to support the economy and attract new investment to Wales. Over the last year we supported 85 new inward investment projects in Wales with the potential to create or safeguard more than 11,000 jobs. Wales secured 11% of the total jobs associated with inward investment projects across the UK.
- 2.20** Our investment has helped to support jobs and growth across all parts of the economy and the Welsh economy has remained resilient. The number of people in employment in Wales is close to record levels and builds on the positive improvement we have seen in the economy since devolution<sup>11</sup>. As a consequence of improving employment prospects, unemployment in Wales has fallen to 4.3% - in line with the UK average.
- 2.21** Alongside this draft Budget, we have published an economic report by the Welsh Government's chief economist, which summarises the economic and fiscal prospects for Wales, highlighting some of the economic challenges over the short and longer term.

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<sup>11</sup> Prior to devolution the gap in the employment rate between Wales and the UK as a whole was around five percentage points, this has now halved to around 2.5 percentage points

## Chapter 3: New funding arrangements

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- 3.1** This draft Budget outlines the Welsh Government's fiscal strategy, setting our tax policy, spending and borrowing plans in a coordinated way to support our priorities.
- 3.2** These new funding arrangements bring additional responsibility but also new risks and uncertainty. The main task for the Welsh Government is to embed the new arrangements and build the evidence base so we can understand how to best use our new powers in the future.
- 3.3** To manage these new fiscal powers, a fiscal framework for the Welsh Government was agreed between the Welsh and UK governments, which protects our budget from undue risks that could arise following the devolution of tax powers. The fiscal framework sets out how the Welsh Government's block grant will be calculated; provides important new flexibilities to manage our budget across years and enables us to bring forward investment through the use of enhanced capital borrowing powers.
- 3.4** Our funding arrangements are also underpinned by independent scrutiny and assurance. The Welsh Government's tax revenue forecasts have been independently assessed by Bangor University, providing assurance that the tax revenue forecasts feeding into this draft Budget are based on a robust methodology.

### Devolution of tax powers

- 3.5** Setting the first Welsh taxes in almost 800 years marks an important step in devolution. Our tax powers enable us to develop an approach to taxation, which reflects the needs and circumstances of Wales.
- 3.6** By April 2019, the new income tax powers, our Welsh taxes – land transaction tax (LTT) and landfill disposals tax (LDT) (replacing stamp duty land tax and landfill tax) – together with council tax and non-domestic rates, will mean that Welsh central or local government are making tax decisions in relation to around £5bn of spending on Welsh public services
- 3.7** Our five principles for Welsh taxes are:
- Taxation should raise revenue to support public services as fairly as possible;
  - Taxation should help deliver wider fiscal and policy objectives, including jobs and economic growth;
  - Taxation should be simple, clear and stable;
  - Taxation should be developed through engagement with taxpayers and wider stakeholders;
  - Taxation should contribute directly to the Wellbeing of Future Generations (Wales) Act 2015 goal of creating a more equal Wales.
- 3.8** The Welsh Government will introduce LTT and LDT in April 2018, followed by Welsh rates of income tax (WRIT) in April 2019. A new non-ministerial government

department body – the Welsh Revenue Authority (WRA) – is being set up to manage and collect the fully-devolved taxes. As a partially-devolved tax, Welsh rates of income tax will continue to be collected by HMRC, with the appropriate revenues being directed to the Welsh Government.

- 3.9** Implementing the new tax powers requires the development of a Welsh tax policy and strategic framework for taxation in Wales<sup>12</sup>. Developing a Welsh tax policy will require input from a wide range of interested parties – from individuals, businesses and third sector organisations to the National Assembly's Finance Committee.
- 3.10** Given the core role of taxation in funding public services, we are committed to engaging with taxpayers about the general and specific elements of Welsh taxes. The views of tax specialists and other professionals will be important to this work, but it will also be important to hear directly from people about what they think about the level and extent of revenue raising and taxation in Wales. To stimulate that engagement and debate, a work plan<sup>13</sup>, which sets out the priority areas for the year ahead and some longer-term research issues to inform tax policy in the years to come, has been published alongside the tax policy framework.
- 3.11** To reflect the direct link between tax decisions and the resources available to fund Welsh public services, we have published the Welsh tax policy report alongside the 2018-19 draft Budget. This report provides the evidence base supporting our policy on existing Welsh taxes and also brings together some new thinking on the scope to introduce new Welsh taxes to support the priority areas in *Prosperity for All*.

## **Land transaction tax**

- 3.12** Land transaction tax (LTT) will replace stamp duty land tax in Wales from 1 April 2018. LTT is a tax on land and property transactions which is payable when a person or company:
- Buys a freehold property;
  - Buys a new or existing non-residential leasehold;
  - Transfers land or property in exchange for payment (for example, buying a share in a house).
- 3.13** The LTT rates have been set with consideration to the current stamp duty land tax rates. The LTT rates are more suitable for the current property and housing markets in Wales, while also being more progressive than current stamp duty land tax rates. In general, those purchasing property for relatively lower prices will pay less or no tax and those purchasing properties at the top end of the property market will pay more. These changes have also been guided by the principal that there should be no reduction to the overall funding available for public services.
- 3.14** Residential and non-residential transactions are subject to different LTT rates. For residential transactions, there is a main rate and a higher rate where the buyer already owns one or more residential properties. This additional rate is set at 3% above the main residential rate for each band including the £0-£150k band. For

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<sup>12</sup> <http://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

<sup>13</sup> <http://gov.wales/docs/caecd/publications/170612-workplan-en.pdf>

non-residential transactions, there is a main rate for freehold transactions and lease premiums, and a separate rate for lease rents.

Table 3.1 LTT residential rates

Price threshold	Rates
£0-£150k	0%
£150k-£250k	2.5%
£250k-£400k	5.0%
£400k-£750k	7.5%
£750k-£1.5m	10.0%
£1.5m-plus	12.0%

Table 3.2 LTT non-residential rates

Price threshold	Rates
£0-£150k	0%
£150k-£250k	1%
£250k-£1m	5%
£1m-plus	6%

Table 3.3 LTT non-residential lease rates

NPV threshold	Rates
£0-£150k	0%
£150k-£2m	1%
£2m-plus	2%

**3.15** The Welsh tax policy report provides more detail about the decision to set these tax rates.

**3.16** Table 3.5 at the end of this section shows the forecast tax revenues from LTT in 2018-19 and 2019-20.

### Landfill disposals tax

**3.17** Landfill disposals tax (LDT) will replace landfill tax in Wales from 1 April 2018. LDT is a tax on the disposal of waste to landfill, charged by weight. It is payable by landfill site operators, who pass on these costs to waste operators through their gate fee.

**3.18** Waste disposed at authorised landfill sites is subject to two tax rates. The lower rate will apply to qualifying materials as defined in the Landfill Disposals Tax (Wales) Act 2017 and the standard rate will apply to all other materials. In addition, the Landfill Disposals Tax (Wales) Act 2017 introduced a third rate of tax for waste disposed of at places other than authorised landfill sites – the unauthorised disposals tax rate.

**3.19** For the first two years of LDT, the tax rates will mirror those for the UK Government's landfill tax. Table 3.4 shows the proposed rates for 2018-19. The UK Government is yet to announce its rates for landfill tax in 2019-20, therefore an assumed rate is given in table 3.4, which increases the 2018-19 tax rates by the OBR's forecast for RPI. This is in line with the UK Government's stated policy on setting landfill tax rates.

Table 3.4. Landfill disposals tax rates, £ per tonne

	2018-19	2019-20 <i>Assumed</i>
Standard rate	£88.95	£91.70
Lower rate	£2.80	£2.90
Unauthorised disposals rate	£133.45	£137.55

- 3.20** During the development of landfill disposals tax, there was a clear message from stakeholders about the need to implement a tax, which provides consistency, certainty and stability for businesses. This has been the driving factor behind the decision to set rates that are consistent with the rest of the UK.
- 3.21** The Welsh tax policy report provides detailed information and analysis about the decision to set the tax rates at this level.
- 3.22** Table 3.5 shows the forecast tax revenues from LDT in 2018-19 and 2019-20. Revenue from LDT is forecast to be £28m in 2018-19, falling to £26m in 2019-20 as an increasing amount of waste is diverted away from landfill.

### Non-Domestic Rates

- 3.23** In 2017-18, enabled by more than £200m of Welsh Government funding, around three-quarters of ratepayers in Wales are receiving help with their rates bills. More than half pay no rates at all. The Welsh Government is currently consulting on changes to the small business rates relief scheme. The new permanent scheme is due to be introduced in April 2018 and the aim is to lay the relevant legislation in December.
- 3.24** The aim is to deliver a small business rates relief scheme which better targets small businesses and provide increased support in line with wider Welsh Government objectives, while protecting the tax-base and the revenue raised to fund local services. A more detailed discussion paper *An Update on the Reform of Local Government Finance*, will be published alongside the annual provisional local government settlement on 10 October 2017.
- 3.25** The revenue forecast underpinning the level of expenditure to be financed by non-domestic rates in 2018-19 assumes any changes in non-domestic rates policy will be cost neutral. In line with legislation, it is assumed that the rates multiplier will increase in line with RPI inflation for 2018-19. Table 3.5 shows the forecasts from non-domestic rates in 2018-19 and 2019-20.

Table 3.5 Tax revenue forecasts

	2018-19 (£m)	2019-20 (£m)
Land transaction tax	266	291
Landfill disposals tax	28	26
Non-domestic rates	1,052	1,078



## Independent assurance of tax revenue forecasts

- 3.26 As part of the fiscal framework agreement, the Welsh Government committed to putting in place arrangements for the independent production of tax revenue forecasts for devolved taxes. In advance of this, Bangor University has provided independent scrutiny of the Welsh Government's tax revenue forecasts for LTT, LDT and non-domestic rates featuring in our spending plans for the draft Budget. The independent report has been published alongside the draft Budget.
- 3.27 The report concludes: "The forecasts are based on robust and appropriate methodologies and assumptions. Expected variation in the revenue forecast for different economic scenarios and modelling assumptions support the suitability of the forecasts inclusion in the budget setting process."
- 3.28 In addition to our forecasts of tax revenue, the OBR will continue to produce and publish forecasts for the devolved taxes to inform its wider UK forecasts. We have agreed a memorandum of understanding with the OBR, which sets out how we will work together to produce good-quality forecasts, which are transparent and well-explained<sup>14</sup>.
- 3.29 There are a number of options for an independent body to produce tax revenue forecasts for devolved and partially-devolved taxes in Wales in the future. In assessing the options the following criteria was set:
- It is essential that the function is exercised in a way which is sufficiently independent from government;
  - Discharge of the function should represent value for money;
  - The body appointed to fulfil the function should have demonstrable expertise to fulfil its mandate.
- 3.30 There are two feasible options. The first involves setting up an independent commission in Wales to produce forecasts for devolved tax revenues; the second would use an existing body to carry out this function – the OBR is the lead option. It is important the resources dedicated to this new function are proportionate to the task and reflect the range of taxes currently under the control of Welsh Ministers.
- 3.31 Given the current stage of tax devolution, the preference is for the OBR to undertake the independent forecasting responsibilities for Wales. As this would require a change to the OBR's existing operations, we will continue discussions with the UK Government about the practical implications.

## Welsh rates of income tax

- 3.32 The Wales Act 2014 provided for the partial devolution of income tax. Most elements of income tax will remain the responsibility of the UK Government – for example setting the personal allowance, setting the income thresholds at which the tax rates will apply and the taxation of income from savings and dividends – and income tax will continue to be administered and collected by HMRC.

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<sup>14</sup> [http://budgetresponsibility.org.uk/docs/dlm\\_uploads/Welsh-Government-OBR-MoU.pdf](http://budgetresponsibility.org.uk/docs/dlm_uploads/Welsh-Government-OBR-MoU.pdf)

**3.33** The fiscal framework agreed by the Welsh and UK governments in December 2016 paved the way for the introduction of Welsh rates of income tax in April 2019. Welsh rates of income tax will work by the UK Government reducing each of the three income tax rates for UK taxpayers who are resident in Wales by 10p. Welsh Ministers will then propose the Welsh rates of income tax to be applied in addition to the reduced UK rates. The National Assembly will vote on the Welsh rates.

**3.34** The Welsh Government and UK Government are working to prepare for the introduction of Welsh rates of income tax. The Cabinet Secretary for Finance and Local Government has set out his priorities, which have been agreed by the Financial Secretary to the Treasury. These are:

- To reach early agreement on the cost to the Welsh Government of the work being undertaken by HMRC to prepare for the introduction of WRIT and for the annual costs thereafter.
- To ensure the National Assembly, in particular the Finance Committee, is kept fully informed and engaged in the implementation process. This will include appearances before the committee by HMRC's Director General for Customer Strategy and Tax Design and annual reports by the National Audit Office to the Assembly on the performance of HMRC.
- To ensure the provision by HMRC to the Welsh Government of full, accurate and timely data to inform the decisions of the Welsh Ministers in setting income tax rates for Welsh taxpayers.
- For the Welsh Government and HMRC to work jointly on communications, focusing on matters which are essential to Wales, in particular the Welsh language.
- To ensure the Welsh Government understands the compliance issues arising from the introduction of WRIT, and has a full understanding of HMRC's plans for compliance activity in relation to WRIT.

**3.35** The Welsh Government has committed not to increase income tax in Wales during this Assembly term. We have assumed there is no net budgetary impact from its introduction – the revenues from WRIT will be offset by the reduction in the block grant.

### **Barnett funding reform**

**3.36** As part of the fiscal framework the Welsh Government secured reform to the Barnett formula as applied to Wales. A new needs-based factor has been applied to the Barnett formula. This factor will be set at 115%, reflecting the findings from the Holtham Commission, which concluded that the cost of funding devolved public services in Wales was 15% higher per head than providing the equivalent level of services in England. The vagaries of the Barnett formula have temporarily raised relative funding in Wales above 115%. Until relative funding falls back to 115%, the needs-based factor will be set at 105%.

**3.37** The diagram below illustrates how the reformed Barnett formula is applied in Wales.



Barnett Formula to be applied in Wales							
Change in UK department expenditure limit	x	Comparability factor	x	Population share	x	<b>New needs-based factor</b>	= Change in Welsh Government block grant

**3.38** The Welsh Government continues to press for a new funding system based on an independent assessment of relative need to replace the Barnett formula. However, based on current UK Government spending plans, the inclusion of the needs based factor will result in an additional £47m over the period of this draft Budget.

### Block grant adjustment

**3.39** Following the devolution of tax powers to Wales, the Welsh Government's block grant will be reduced to reflect the fact that revenues from devolved and partially-devolved taxes will now go directly to the Welsh Government rather than the UK Exchequer. As agreed in the fiscal framework, the adjustment involves:

- a. An initial baseline adjustment – this reflects tax foregone by the UK Government at the point of devolution for each tax.
- b. Subsequent block grant changes – these are based on changes in equivalent UK Government tax in the rest of the UK.

**3.40** The initial baseline adjustment is based on the tax revenue for the existing UK tax for the year prior to devolution. This adjustment will be applied using the OBR's autumn 2017 forecast of receipts in Wales in 2017-18 for stamp duty land tax and landfill tax. As the OBR's autumn forecast will be published alongside the UK Government's Autumn Budget on 22 November, for the purposes of this draft Budget we have used the OBR's spring 2017 forecast.

**3.41** The Welsh Government's tax revenue forecasts use a number of the OBR's economic determinants. As a result, the Welsh Government's tax revenue forecasts will be revised following the publication of the OBR's autumn forecasts. As those same determinants will feed into the block grant adjustment, it is expected that revisions following the publication of the OBR's autumn forecast will not have a material impact on the resources available as outlined in this draft Budget. Following the publication of the OBR's autumn forecast, Bangor University will publish an independent assessment of the adjustments made to the Welsh Government's tax revenue forecasts.

**3.42** Subsequent changes to the block grant will be based on the comparable model as outlined in the fiscal framework. The comparable model will use the forecast of the equivalent UK Government tax.

**3.43** The forecasts for both the revenues from Welsh taxes and the block grant adjustment are based on the latest information available. As outturn information becomes available, reconciliation will be carried out in accordance with the timetable set out in the fiscal framework.

## Welsh reserve

- 3.44** To give us greater flexibility to manage our resources in a more efficient and transparent way, a new, single, Welsh reserve will be introduced from April 2018. This will operate as a type of "savings account" – allowing us to deal effectively with any volatility from tax revenues by retaining unspent resources for use in the future years.
- 3.45** The Welsh reserve offers considerable additional flexibility compared to the previous budget exchange process, in which carry-forward was capped at 0.6% for revenue (approximately £75m) and 1.5% for capital (approximately £20m). In contrast, the Welsh reserve will hold up to £350m. As agreed as part of the arrangements for the financial devolution of non-domestic rates, £98.5m will be added to the reserve at the outset. Annual drawdowns are limited to £125m for revenue spending and £50m for capital spending. There are no annual limits for payments into the reserve.
- 3.46** We have taken a prudent approach to reserves during this Assembly term to ensure we maximise the flexibility afforded through the new Welsh reserve agreed through the fiscal framework. Given the uncertainty we face and the pending efficiency cuts by the UK Government, the Welsh reserve will provide us with the capacity to protect public services from the worst of the cuts in future years. In setting this draft Budget we have planned to draw down £75m in 2019-20 from the Welsh reserve.

## Borrowing

- 3.47** In addition to the Welsh reserve the Welsh Government can borrow up to £200m of revenue each year if tax revenues are lower than forecast within an overall £500m cap to help manage any volatility in revenue funding from Welsh taxes. As we will not know whether revenues are below forecast until we have outturn data on Welsh tax receipts, this draft Budget does not make any assumptions on the draw down of any resource borrowing.
- 3.48** Under the Wales Act 2014, the Welsh Government was able to borrow up to £125m per year from 2018-19 within an overall cap of £500m for capital expenditure. Early access arrangements were agreed to take forward improvements to the M4. As part of the fiscal framework, the overall capital borrowing limit has been increased to £1bn with the annual limit increasing to £150m from 2019-20.
- 3.49** Capital borrowing helps us manage our resources in a more efficient way and deliver our infrastructure goals – working alongside our existing capital budget and our innovative funding schemes. However, capital borrowing is not additional money and must be repaid. We have carefully considered how we use these powers, taking a strategic view of Welsh priorities.
- 3.50** Our three-year capital proposals make use of £375m of borrowing using our new fiscal powers. This borrowing helps us to deliver large-scale strategic investments that will generate benefits for many years for both current and future generations. These investments would be unaffordable using core capital budgets alone.

- 3.51** Strategic infrastructure schemes to benefit from the borrowed funds include the planned M4 relief road around Newport, subject to the outcome of the independent public inquiry and a decision about whether to proceed with construction.
- 3.52** We plan to borrow £125m annually for capital investment but the take-up of planned borrowing will be carefully considered during each budget period and will only be used when all available conventional, cheaper sources of capital financing have been exhausted.
- 3.53** Repayments of capital borrowing are forecast to be £0.6m in 2018-19, £3.7m in 2019-20 and £6.9m in 2020-21. This is modelled on funds being drawn from the National Loans Fund with an assumption of repayment period of 30 years and interest rate of 1.96%.

### **Innovative finance schemes**

- 3.54** In addition to our core capital budgets and new borrowing powers, we continue to make full use of innovative financing solutions to help deliver timely additional investment in vital economic and social infrastructure.
- 3.55** In 2018-19, we enter the second year of the Housing Finance Grant 2 programme; which, further to providing funding to registered social landlords, will provide support to local authorities to deliver their housing proposals. The scheme is designed to boost investment in the housing sector by £250m, helping deliver the government's commitment to build 20,000 new affordable homes by the end of this Assembly term. This innovative scheme builds on the success of the first Housing Finance Grant programme, which saw an additional £125m investment in the sector above the traditional capital funding. Funding for two local government borrowing initiatives – for highways and schools – as well as the first phase of the Housing Finance Grant continues to be provided to finance the capital raised.
- 3.56** In 2019-20, the new flood and coastal risk management programme will begin; raising £150m over a three-year period for schemes to manage current and future risks from climate change and sea level rise to coastal communities across Wales. Local authorities have identified 41 potential projects. The business cases are being reviewed and a third has so far been identified for progression to detailed design this year for example, a scheme in East Rhyl which has a history of recent flooding. Welsh Government is working with the local authority providing just over £1m to support detailed design work and to further-develop the business case for the scheme to protect residents against present and future flood risk.
- 3.57** These schemes provide a much-needed boost to capital budgets, enabling around £870m of infrastructure investment to be delivered sooner than would have otherwise been achievable. Details of the funding implications for the period covered by this draft Budget are set out in the table below.

Table 3.6: Innovative finance Schemes

Operational schemes	Estimated capital Value (£m)	Start date	2018-19 Revenue implications (£m)	2019-20 Revenue implications (£m)
Local government borrowing initiative – highway improvements	170	2012	12	12
Local government borrowing initiative –21 <sup>st</sup> Century Schools	170	2013	10	10
Housing Finance Grant	130	2012	4	4
Housing Finance Grant 2	250	2016	7.3	9
Flood and Coastal Risk Management Programme	150	2018	0	2.4
<b>Total</b>	<b>870</b>		<b>33.3</b>	<b>37.4</b>

**3.58** In February 2017, the Mutual Investment Model (MIM) was launched. Three schemes are being developed using this model – the dualling of the A465; the development of the new specialist Velindre Cancer Centre and supporting the next phase (Band B) of the 21st Century Schools and Education programme. These schemes will see additional investment of more than £1bn in Wales, ensuring vital facilities for the public are accessible sooner than would otherwise have been available through capital budgets.

**3.59** Development of all schemes continues at pace; they will begin procurement during this Budget period. Payment for services does not commence until the assets are available for public use. It is anticipated both the A465 and Velindre Cancer Centre schemes will open in 2022, as well as the first set of schools in the Band B programme.

**3.60** The Welsh Government believes that a successful future depends on creating the infrastructure we need beyond the position the UK Government is prepared to support. We are using a diverse range of methods to meet the needs of tomorrow's Wales. The main building blocks on how we deploy our capital resources are:

- a. Conventional capital grant and financial transaction capital funding provided through our block grant;
- b. Capital investment through European funds;
- c. Borrowing using the Welsh Government's capital borrowing powers;
- d. Facilitating borrowing by other public bodies with revenue costs met by the Welsh Government;
- e. Investment through the Mutual Investment Model schemes.

**3.61** Our broad approach is to ensure we maximise the draw down from the least expensive capital spending avenue, before proceeding to more complex and expensive forms of investment.

**Table 3.7 SOURCES OF FINANCE**

<b>2018-19 DRAFT BUDGET</b>		
<b>COMPONENTS OF WELSH GOVERNMENT FINANCING</b>	<b>2018-19 £000</b>	<b>2019-20 £000</b>
<b>RESOURCE FINANCING</b>		
<b>Departmental Expenditure Limit (DEL):</b>		
Fiscal	13,126,919	13,181,382
Non-Fiscal	664,279	689,981
Cash Reserve Drawn down	-	75,000
<b>Annually Managed Expenditure (AME):</b>		
Fiscal	27,273	28,505
Non-Fiscal	38,619	156,965
<b>Wales Devolved Financing:</b>		
Non Domestic Rates	1,052,000	1,078,000
Land Transaction Tax	266,000	291,000
Landfill Disposal Tax	28,000	26,000
Principal repayment of borrowing	-616	-3,744
<b>TOTAL RESOURCE FINANCING</b>	<b>15,202,474</b>	<b>15,523,089</b>
<b>CAPITAL FINANCING</b>		
<b>Departmental Expenditure Limit (DEL):</b>		
General	1,571,468	1,705,908
Financial Transactions	124,041	106,960
<b>Annually Managed Expenditure (AME):</b>		
Capital	658,439	816,483
<b>Wales Devolved Financing:</b>		
Borrowing	125,000	125,000
<b>TOTAL CAPITAL FINANCING</b>	<b>2,478,948</b>	<b>2,754,351</b>
<b>TOTAL WELSH GOVERNMENT FINANCING</b>	<b>17,681,422</b>	<b>18,277,440</b>

## Chapter 4: Investing in government priorities

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- 4.1 Last year's budget underpinned the delivery of the programme for government, *Taking Wales Forward*. It provided an immediate kick-start to the delivery of the government's key commitments and acted as the bedrock for the spending proposals set out in this 2018-19 draft Budget.
- 4.2 This Budget continues to have those key commitments at its heart – in these tough financial times, we are investing in frontline services, which so many of us use and rely on every day. We have prioritised spending on healthcare; on social care and on education. We are continuing to invest in skills, through our commitment to create 100,000 all-age apprenticeships; in good-quality housing to meet our target of building 20,000 affordable homes; in public transport and in protecting Wales from the impact of climate change. We are investing in our future by prioritising infrastructure investment to build a better Wales.
- 4.3 Last month, the government published its cross-government national strategy *Prosperity for All*, which acknowledges that how we deliver is just as important as what we deliver. Against a backdrop of reducing resources we need to maximise the impact of the whole government. The strategy will help us to allocate resources to the right place, delivering the greatest benefit to the people of Wales.
- 4.4 If we are to realise the full potential of the Well-being of Future Generations Act, then integration and collaboration between services; a focus on early intervention and a people-centred approach will be essential to delivering long-term outcomes. This whole-government focus has been central to our budget planning this year.
- 4.5 In publishing a one-year revenue budget last year, which provided stability and assurance for our public services in the immediate future, the Cabinet Secretary for Finance and Local Government said all public services had to plan purposefully and actively for the tough decisions and choices ahead. It is in line with this that we started our budget planning early, before the final Budget 2017-18 was approved.
- 4.6 Early planning has enabled us to develop proposals for managing within the resources available; support our priorities; identify how spending reductions can be delivered, including assessing which programmes may need to be stopped and what the impact of those decisions would be. In preparing for this Budget, we have focused on the ways it can continue to contribute to *Taking Wales Forward* and align to *Prosperity for All's* chapters and priority areas.
- 4.7 Given the financial pressures we face, this draft Budget provides protections for some of the vital public services that people rely on. We continue to invest in the Welsh NHS to meet the Nuffield gap and to drive forward reform in the way we deliver health services in Wales. We are also delivering on our commitment to allocate new funding to bring new treatments to patients as quickly as possible and providing additional investment for mental health services.
- 4.8 The draft Budget also demonstrates our commitment to the services people receive locally. We are investing additional funding in frontline school budgets and social care provided through the local government revenue support grant to enable



funding to be maintained at 2017-18 levels in 2018-19 and 2019-20. Overall, we are protecting local government from the worst of the cuts being imposed on Wales by the UK Government. The funding for schools is supplemented by new investment to raise school standards and additional capital investment to accelerate the all Wales 21<sup>st</sup> Century Schools and Education programme.

**4.9** This draft Budget maintains our commitment to provide 30 hours of free childcare a week for working parents of three and four-year-olds by the end of this term. We are also releasing significant resources from capital reserves to support our plans for 20,000 affordable homes in addition to further support to help those areas where homelessness is most prevalent.

**4.10** We are investing in skills and our economic infrastructure with our continued commitment to create 100,000 apprenticeships over the life of this Assembly term. We maintain our commitment to develop a proposal for a north Wales metro which will support our wider transport priorities for the region which include the improvements to the A548 and A55 forming part of the £650m wider infrastructure improvements for the region. We have also provided additional capital funding to support the ongoing delivery of our infrastructure priorities, including the South Wales Metro.

## **Budget agreement**

**4.11** The budget agreement reached with Plaid Cymru includes a number of specific measures. Building on last year's agreement the overall package of measures is worth £210m over the next two years.

**4.12** The agreement includes the following revenue allocations:

- £2m for secretariat and investment support for Arfor over two years;
- £1m for improved bilingual education resources over two years;
- £4m to support the design and development of the third Menai crossing over two years;
- £0.5m to test the feasibility of a can and glass deposit scheme in 2018-19;
- £5m for Brexit preparedness, including business support, over two years;
- £2m for Mudiad Meithrin over two years;
- £2m for electric charging points over two years;
- £1.5m for a foundational economy programme in 2018-19;
- £4m over two years to introduce elements of the Buurtzorg approach in Wales; focused on the training of 80 new district nurses;
- £2m for music, including music initiatives in schools;
- £2m to remove tolling on the Cleddau bridge in 2019-20;
- £6m over two years to establish a young farmers' grant scheme;
- £0.4m to upgrade the Traws Cymru network from bus to coach over two years;
- £0.2m for a start-up grant for journalists seeking to set up their own business in hyper-local news over two years;
- £14m for a development fund for undergraduate medical training in North Wales over two years.

**4.13** There are a number of recurrent commitments from the 2016 Budget agreement:

- £5m in 2018-19 and in 2019-20 for the Welsh language;
- £2.2m in 2018-19 and in 2019-20 for arts funding;
- £1m in 2018-19 and in 2019-20 for eating disorders and gender dysphoria services;
- £20m in 2018-19 and in 2019-20 extra for mental health services;
- £20m in 2018-19 and in 2019-20 extra for higher and further education;
- £3m in 2018-19 and £1m in 2019-20 for Visit Wales.
- £1m in 2018-19 and £1m in 2019-20 to bolster end-of-life care

**4.14** The agreement includes the following capital allocations:

- £22m to build the new Cardigan integrated healthcare centre over two years;
- £15m for improvements to the A487 and A470 in 2019-20;
- £5m to take forward the results of the feasibility studies into the national art gallery and national football museum agreed as part of the 2016 Budget agreement.

### **Prioritising investment and streamlining delivery**

**4.15** In developing our plans for the 2018-19 Budget, we have taken a whole-government perspective to review plans and align them to *Taking Wales Forward* and *Prosperity for All*. This has identified a number of opportunities for greater efficiencies, including releasing resources for reinvestment and reducing complexity and duplication, enabling us to focus on the services that matter to people. Some of these have been implemented in this budget round; others will be taken forward in future budget rounds.

**4.16** *Prosperity for All* highlights the importance of focusing on how our resources are provided to focus energy in areas we can have the greatest impact; improve outcomes and ensure services are delivered effectively and seamlessly. As part of our planning process, we have examined the range of special grants provided across Welsh Government to local government and how these can be combined to increase their impact, thereby reducing bureaucracy and providing greater value for money and improving outcomes for citizens.

**4.17** This builds on work undertaken in previous budget rounds to streamline funding – for example, the education improvement grant brought together a range of funding streams related to improving educational outcomes and the single revenue grant consolidated a number of environmental funding streams, including the sustainable waste management grant. Some of the single revenue grants will now be provided through the revenue support grant to local government.

**4.18** By consolidating more grants into the local government revenue support grant and amalgamating some smaller grants, supported by outcome frameworks, we are increasing the flexibility for local authorities and helping to reduce the administrative burden associated with grant funding.

**4.19** Reducing the overall number of grants across Welsh Government will help to streamline delivery and drive greater efficiencies. This means we are able to



reprioritise funding to protect core schools funding and social services provision through the local government revenue support grant.

- 4.20 Taken together with our agenda to reform local government, including a new approach to systematic and mandatory regional working, this draft Budget supports work to ensure local authorities are resilient, both financially and in terms of the services they provide.

### Prosperous and secure

- 4.21 Our aim is to create a Welsh economy which delivers individual and national prosperity while tackling inequality and ensuring opportunity is available to all. We want to help people fulfil their ambitions and enhance their wellbeing in secure and sustainable employment.
- 4.22 A crucial role of government is to break down the barriers many people face in getting and maintaining a job. We know secure employment has a positive impact on a person's health and their economic wellbeing. One of the main barriers to employment is skills. We are committed to developing a new employability action plan to help address the skill needs of individuals and businesses across Wales. This will look at how we maximise the funding currently available for skills and employability programmes and identify the scope to consolidate and improve effectiveness.
- 4.23 The provision of 30 hours of free childcare a week for working parents of three and four-year-olds to make it easier for people to take up and retain jobs is a key commitment for this Welsh Government. As well as supporting working parents, evidence shows that giving a child the best start in life is the most positive impact that we can have on their whole life. Building on the £10m we are investing this year in the childcare pilots, we are increasing investment to £25m in 2018-19 rising to £45m in 2019-20 to support the extension of the childcare offer in Wales.
- 4.24 Our pro-business approach means we will support businesses with the potential to grow. We will create the right environment for businesses to thrive. We have established the new Development Bank for Wales, improving access to finance for businesses and providing access to high-quality support services and management advice.
- 4.25 We recognise the importance of infrastructure investment to act as a catalyst for economic growth. Our ambitious capital proposals provide continued investment in the key drivers of economic growth and job creation, supporting high-quality public services. By bringing together our capital planning on major projects like the south and north Wales Metros our capital programme is fully-aligned to the *Prosperity for All* commitments and contributes to the infrastructure priorities set out in the Wales Infrastructure Investment Plan.
- 4.26 While we maintain our focus on decarbonisation and the longer-term impact this will have on communities across Wales, we recognise the need to help mitigate the impact of climate change – we have therefore allocated an additional £7.5m capital in 2018-19 for targeted flood prevention. This will reduce tidal flood risk in Newport and support wider connectivity objectives, including the proposed M4 relief road.

The investment supports a resilient Wales, responding to the challenge of rising sea levels and climate change.

- 4.27 To help create a modern agricultural sector able to drive sustainable growth, an extra £5.4m capital over three years – £1.7m in 2018-19; £2.1m in 2019-20 and £1.6m in 2020-21 – is being provided to support the rural development programme to maximise the match funding opportunities. This programme supports a wide range of interventions to increase the sustainability and resilience of our natural environment.
- 4.28 Building on this, we are also investing an additional £5m capital over two years – £3m in 2018-19 and £2m in 2019-20 – to the rural payment IT scheme. This will help secure continuity for rural communities in Wales. Effective IT systems are integral to ensuring the delivery of rural payments continues to be fit for purpose while the UK remains in the EU and to ensure a smooth transition to any successor CAP scheme following Brexit.

## Healthy and Active

- 4.29 Our aim is to improve health and wellbeing in Wales – for individuals, families and communities – helping us to achieve our ambition of prosperity for all. We want to shift our approach from treatment to prevention – placing as much emphasis on people staying well as on treating them when they are ill, as this will help secure sustainable health and care services for future generations; improve patient experience and the wellbeing of the wider population.
- 4.30 The Welsh NHS continues to be the single largest area of expenditure for the Welsh Government, reflecting its value to the Welsh public. The NHS continues to face significant challenges – the number of people aged 65 and over is projected to increase by 292,000 (44%) between 2014 and 2039<sup>15</sup> which, together with the need for the NHS to adapt to changing health needs, places growing demand and pressure on services. In recognition of this, we are continuing to respond to analysis by the Nuffield Trust and the Health Foundation, which set out the steps needed to secure a financially-sustainable NHS. In this draft Budget, we are investing an additional £230m in 2018-19 and a further £220m in 2019-20 in the Welsh NHS. We also reached agreement with Plaid Cymru to provide £14m over two years for a development fund for undergraduate medical training in North Wales.
- 4.31 This additional funding for the NHS, together with recurrent investment, provides an opportunity to develop a medium-term approach to support service reform. Additional allocations will drive improvements across the health service, including ongoing improvements to performance and changes to the way services are delivered to improve outcomes for patients. We will incentivise good performance and support new models of integrated care to deliver services closer to people's homes.
- 4.32 *Prosperity for All* sets out a new, collaborative approach across all sectors and services to ensure we put in place the right support to help all people in Wales live healthier lives and reduce their dependence on the NHS. Social care plays a critical

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<sup>15</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/bulletins/nationalpopulationprojections/2015-10-29>

role in supporting people and families in their communities, helping people to live independently for longer in their own homes and helping to manage demand on frontline and emergency NHS services. Through the funding we provide to local government, we have protected social services from the worst of the cuts imposed on the Welsh budget by the UK Government – this is in stark contrast to the situation in England, where social services has suffered huge cuts over the last six years, falling by 5% in real terms compared to 1% growth in Wales. In this Budget, we will continue to invest in social care, providing an extra £42m in 2018-19 increasing to £73m 2019-20. This is equivalent to maintaining the Welsh Government share of core spending on social care at 2017-18 levels in 2018-19 and 2019-20.

- 4.33 We will provide additional capital funding for NHS Wales – £90m extra will be invested in the all-Wales health capital programme over three years to boost investment in the health estate and assets, including medical equipment, ICT and vehicles. This will continue the drive to improve the standard and quality of treatment across the NHS.
- 4.34 However, by coordinating housing, health and social care capital programmes we can respond to the need for innovative and affordable accommodation that provides easily-accessible care.
- 4.35 Regional partnership boards will establish pooled budgets for care home accommodation for adults from April 2018. These pooled budgets will support integrated commissioning, allowing local authorities and health boards to focus on improved quality and securing better value for money. Pooled budgets are a tool to help deliver integrated and collaborative services, ensuring partners develop a shared approach to how they commission services. For example, this includes putting in place a joint commissioning strategy and common approaches to setting specifications, agreeing fees and quality assurance.
- 4.36 We already invest £60m a year in the integrated care fund (ICF), which supports new and innovative models of care and support. Building on this, we are investing an extra £15m over two years – £5m in 2019-20 and £10m in 2020-21 – in housing, health and social care capital programmes. The programme complements the ICF by developing independent living integrated with care and developing local housing and social care partnership working.
- 4.37 Additional extra care will contribute towards the commitment to create 20,000 affordable homes over the lifetime of this Assembly and meets the *Taking Wales Forward* commitment to work with communities to support an ageing population to stay well into later life. An extra care approach can lead to significant cost savings, avoiding the need for out-of-county placements; delivering social care more efficiently and providing an alternative to residential care.
- 4.38 The health and care system is continually innovating as new treatments and services become available. Recognising the need to ensure these treatments are available to patients as soon as they are approved for use in the NHS, we will continue to make funding available to deliver the £80m new treatment fund, which was set up last year – £16m will be invested in the fund in 2018-19 and 2019-20 respectively.

- 4.39 A safe, warm, affordable home provides a basis from which people of all ages can live a fulfilled life. It offers a wide range of benefits to an individual's health, learning and prosperity. In this Budget, we are allocating £340m from capital reserves to support our plans to deliver an extra 20,000 affordable homes, working in partnership with key stakeholders. The impact of good housing on health and wellbeing cannot be underestimated. This funding will support a variety of delivery mechanisms; contribute to national and local economies and support jobs and training opportunities.
- 4.40 In *Prosperity for All*, we identify mental health as an area where a whole-government approach could deliver the greatest contribution to people's prosperity and wellbeing. Mental illness has a significant impact on life expectancy and is a key cause of health inequalities. We know our most deprived communities have the poorest mental health and wellbeing. Mental health problems can often be passed on through generations and may perpetuate cycles of inequality. Emotional, social and mental health is inextricably linked. We are making recurrent the additional £20m we ring-fenced in last year's budget for mental health and allocating a further £40m, from the additional £450m for the NHS over the next two years, for mental health services.
- 4.41 We also recognise the pressure the UK Government's ongoing policy of austerity is putting on the health and wellbeing of individuals and families across Wales. To help support households and tackle inequality, we have provided an additional £1m a year for the Discretionary Assistance Fund, which provides cash payments, white goods and other essential items, providing urgent assistance to people where there is an identified need to safeguard health and wellbeing.
- 4.42 In line with our objective of supporting and promoting good health, wellbeing and independence, we recognise that future sustainability requires everyone to play an active part in shaping their own health. We are maintaining our support for active travel as a key element of building exercise into everyday life.

### **Ambitious and Learning**

- 4.43 Our aim is to instil in everyone a passion to learn throughout their lives, inspiring them with the ambition to be the best they possibly can be. A prosperous Wales needs creative, highly-skilled and adaptable people – our education system will be the foundation for a lifetime of learning and achievement. To support our strategic ambitions for education in Wales, in September, we launched Education in Wales: Our National Mission, our plan of action for education to 2021. Setting the implementation of the new curriculum at its heart, our plan of action provides a key focus on leadership, professional learning, excellence and equity within a self-improving system all within the context of raising standards for all and reducing the attainment gap, providing an education system that is a source of national pride and public confidence.
- 4.44 To support people and businesses to drive prosperity we will enable people to develop the skills they need to get the jobs they want. We will continue to support our commitment of creating 100,000 all-age apprenticeships over the life of this Assembly term and are investing £110m for apprenticeships in each of the next two years. Capital funding of £10m is being made available for further education

institutions to invest in industry-standard training equipment to ensure training uses the latest technology and satisfies local employer needs.

- 4.45 Events and experiences in the early years are a critical part of life and can set the foundations for lifelong wellbeing, determining children's education achievement. We know that early years is an investment as it establishes the skills and behaviours to ensure readiness for school. Our investment in 30 hours of high-quality, free childcare for working parents of three and four-year-olds supports our aim for children from all backgrounds to have the best start in life.
- 4.46 A child's educational journey should be one of the most enriching and rewarding times of their life. They should leave school equipped with the academic, personal and social skills needed to make a success of their lives. However many young people face barriers to achieving their full potential. While the gap in performance between children from the most deprived areas and their peers is closing, we must do more. In *Taking Wales Forward*, the Welsh Government pledged to provide £100m of additional funding over this Assembly term to raise school standards, to deliver the right support for all children. We will invest £25m in 2018-19 and £25.5m in 2019-20 in support of this commitment and we will maintain funding for the pupil deprivation grant.
- 4.47 Our focus is to improve every pupil's attainment; transform the standards teachers achieve and reduce variations between schools.
- 4.48 We know that good mental health can have a positive impact on educational attainment. Developing a positive school environment is one of the best ways to respond to children experiencing difficulties and preventing mental health conditions from occurring.
- 4.49 We have taken steps to protect education from the worst impacts of austerity. We have provided an extra £43.6m in 2018-19 and £101m in 2019-20 to the education MEG to mitigate the cuts which would have been required as a result of reductions to our overall funding from the UK Government.
- 4.50 The majority of funding in schools comes from local authorities through the revenue support grant. This provides the core funding for teachers in classrooms; administration for the smooth running of schools and the running costs for school buildings. By reprioritising over the course of the budget planning, we have been able to move funding to support core schools' services with an extra £62m in 2018-19 rising to £108m in 2019-20. This is equivalent to maintaining the Welsh Government share of core spending on schools at 2017-18 levels in 2018-19 and 2019-20. This investment is particularly important for early years provision, as poor cognitive performance has been linked to an increased chance of unemployment, low qualifications and low income in adulthood. High-quality early education makes a positive difference to a child's life chances.
- 4.51 We are providing £40m additional capital funding to accelerate the progress of the successful all-Wales 21st Century Schools and Education programme. This will help complete Band A projects and enable Band B to be accelerated. All projects within the 21<sup>st</sup> Century Schools and Education programme must demonstrate alignment with national strategic priorities, including the Wellbeing of Future Generations Act.



- 4.52 We are also allocating £5m in 2018-19 and in 2019-20 of capital funding to further education institutions for essential maintenance to ensure a safe learning environment for students. This will release revenue, which can be re-invested in services.
- 4.53 Education is the platform which launches everyone into adult life. Some will enter the world of work immediately; others will continue into further and higher education, tailored towards the path they want to pursue. The role of government is to support everyone's aspirations and work with businesses, education and skills providers to put in place the range of opportunities for all. This can include apprenticeships, work-based learning and further and higher education. Skills are key to securing a meaningful job and are also key to the economic performance of a region. Supporting young people to increase their employability skills and to move into employment opportunities is particularly important as being unemployed when young leads to a higher likelihood of being unemployed later in life.
- 4.54 A vibrant and innovative higher education system is crucial in building the Welsh economy, equipping people with the highest level of skills. As part of our response to Professor Ian Diamond's review of higher education and student finance arrangements, we have significantly increased the maintenance grants available to Welsh higher education students, breaking down barriers to university and ensuring all students receive the equivalent of the national living wage while they study. We are allocating an additional £5m in 2018-19 and a further £5m in 2019-20 in recognition of the pressures on student support while we move to the new Diamond system.
- 4.55 To support higher education estate rationalisation, we are allocating an additional £30m (£10m in each of the next three years). This will expand the 21st Century Schools and Education programme to include a ring-fenced fund for higher education estate; reducing surplus capacity and creating a more efficient, streamlined and energy-efficient estate. In the majority of cases, revenue cost savings can be achieved through more efficient estate management.

## **United and Connected**

- 4.56 Our aim is to create a Wales where people take pride in their communities; in the Welsh identity and language and our place in the world. We are building the vital links that make it easier for people to come together; for the economy to grow and for us to become a more confident and outward-looking nation.
- 4.57 Communities prosper where people participate fully and play an active role in shaping their environment and influencing the decision which affect them. This is crucial right from a child's early years and throughout their life. Using our community resources and assets differently can strengthen our local communities.
- 4.58 Allocating an additional £14.9m capital over three years – £6m in 2018-19; £4.5m in 2019-20 and £4.4m in 2020-21 – supports the regeneration of community facilities and will help to build resilient communities across Wales. We will invest in community-led projects that develop or improve community facilities, such as community hubs, helping to tackle poverty and improve opportunities for local

citizens. Our pubs, libraries, museums, green spaces, arts centres and leisure centres can provide focal points for the community to come together, promoting community cohesion and protecting against social isolation and loneliness. The support networks that strong communities can provide are essential to people living with long term health problems, especially those with mental health issues.

- 4.59 Our investment in 21st Century Schools and Education programme will deliver similar community facilities, supporting community learning centre pilots in the South Wales Valleys. This will transform schools into community hubs – centres for local communities and local services; potentially generating efficiencies and better outcomes for the local community. If successful, this model will be rolled out to the rest of the schools programme across Wales.
- 4.60 We want a Wales of connected communities – this means making sure all the links are in place to bring them together with an integrated approach to transport planning. Transport plays a key role in our daily lives. It has a critical role in improving our economic competitiveness and delivering our social ambitions. It is also essential for encouraging companies to locate in Wales and our small businesses to grow.
- 4.61 We continue to prioritise investment in public transport with an additional £50m capital allocated over three years to develop a new rail station in Llanwern, along with extensive park and ride facilities and line improvements. As well as improving connectivity for communities to the east of Newport, this project will boost economic development opportunities and align with other transport improvements such as the South Wales Metro and improvements to the M4.
- 4.62 We have provided additional capital funding to the Economy and Infrastructure MEG from resource previously held in reserves. This funding will support the delivery of the South Wales Metro and the Wales and Borders rail services. The full spend profile of this will be clarified once the preferred bidder has been selected and the infrastructure delivery programme is known. As the options for delivering the metro could include improvements in the rolling stock we have held further funds in reserve should that option be taken forward as part of the wider procurement process. Through capital investment now it is anticipated that real revenue savings can be delivered in the future.
- 4.63 Good quality homes are the foundation of communities so people feel safe and have a strong connection to that community. Through our commitment to invest £1.4bn this term to deliver 20,000 new affordable homes by 2021 and to make buying a home more affordable, we will support the delivery of the right housing solutions for our diverse communities across Wales. Of equal importance is the need to provide secure, affordable housing, which is the strongest basis for supporting vulnerable individuals to overcome mental health issues. Suitable housing also enables people to stay in their homes for longer and continue to play a part in their communities.
- 4.64 Ensuring we have investment in new affordable housing is an important component to tackling the root causes of homelessness. But when a crisis strikes, we must ensure there is a strong safety net to get people back on their feet as soon as possible. This draft Budget provides additional funding to tackle homelessness. We are providing an additional £10m in each of the next two years – targeted through

additional funding in the revenue support grant and via direct funding to national projects and the third sector in Wales – to support those areas with the highest need. Through this draft Budget as agreed with Plaid Cymru we are also maintaining the level of Supporting People grant at 2017-18 levels to continue to help vulnerable people to live as independently as possible.

- 4.65 The Welsh language is an integral part of our everyday lives. The economy of Welsh-speaking communities and the availability of job opportunities is a major factor in the movement of Welsh speakers from their home communities. The education system has a vitally important role in securing the future of the language and is key to achieving our ambition of a million Welsh speakers by 2050.
- 4.66 Wales' connections with the wider world are equally important, particularly as the UK prepares to leave the EU. The strength of our overseas relationships and connectivity will determine our ability to forge new markets and maintain our position as an attractive and competitive place to invest and do business. As part of the agreement reached with Plaid Cymru we are providing an additional £5m over two years for Brexit preparedness.

### **Aligning budgets to Prosperity for All**

- 4.67 We have evaluated our spending plans and allocated spend against the chapter where the highest impact lies. *Prosperity for All* reflects the complexity of government and the interconnected nature of our programmes. Many of our programmes and expenditure areas will contribute to multiple areas.
- 4.68 Further work will be taken forward over the next year to link the budget to the outcomes in *Taking Wales Forward* and *Prosperity for All*.

### **Future budget planning**

- 4.69 This draft Budget marks an important first step in the process of aligning our resources to *Prosperity for All*, while continuing to fund our commitments, as set out in the programme for government *Taking Wales Forward*. Work will continue across government to explore how we can further integrate programmes and funding streams to ensure we focus our resources on tackling the most fundamental challenges the nation faces.
- 4.70 We will continue to work towards a reduction in the number of hypothecated grants delivered through the local government revenue support grant. This will increase flexibility for local authorities, reduce the administrative burden both within the Welsh Government and in local authorities and will increase resources available for reinvestment across the Welsh Government.
- 4.71 With the continued investment in the NHS, we must ensure it improves the standard, quality and timeliness of treatment across Wales. We will also use the investment to focus on prevention and tackle cross-cutting issues, such as mental health provision.



- 4.72** We will continue to look at the opportunities for income generation across the public sector in Wales and explore how we can use our new fiscal responsibilities to meet the growing demands on public services. If the UK Government continues to press ahead with austerity, including the planned £3.5bn of cuts in 2019-20, we will need to look at whether the devolved tax system could help to provide a longer-term solution to issues such as funding social care.

## **Legislation**

- 4.73** Legislation is key to enabling the Welsh Government to implement policy for the benefit of the people of Wales. Each year the First Minister makes a statement about the Welsh Government's legislative priorities. As part of preparing for any piece of legislation a regulatory impact assessment must be carried out, which includes the best estimates of the administrative, compliance and other costs of the legislation; the timescales over which the costs will be expected and on whom the costs will fall.
- 4.74** During scrutiny of the draft Budget 2016-17, we agreed to provide details of the costs and savings resulting from all new legislation to show how the actual costs varied from the costs anticipated during the development of a Bill. This will be published as part of the detailed draft Budget on 24 October.

## **Prevention**

- 4.75** Our actions on prevention align with the Wellbeing of Future Generations Act's five ways of working and focus on preventing problems and easing future demand on services by intervening early.
- 4.76** Our investment of around £140m in flood and coastal erosion risk management over the term of this draft Budget is vital to alleviate risks and reduce the likelihood of major economic losses following flooding. Recent research shows that an investment of £100m reduces risk for 7,000 homes and business; protects more than 14,000 jobs and creates more than 1,000 jobs. Additionally, spending money on maintenance reduces the risk of asset failure and therefore the need for larger spend on repair or replacement.
- 4.77** Ensuring funding for the earliest stages of education, such as the Foundation Phase and the Pupil Development Grant, will support a child early in their learning and give them solid foundations for their ongoing education; developing confidence to learn and resilience, which in turn will increase their chances in the labour market.
- 4.78** Our additional £340m investment in housing is helping to prevent the problem of homelessness. It has a direct impact on the wellbeing of people at risk of homelessness. It helps to prevent a wide range of personal and social problems for vulnerable people.
- 4.79** The third sector's 2017 action plan with the Cabinet Secretary for Finance and Local Government sets out joint work by Welsh Government and the third sector to scope work to define preventative spend, using the early action task force methodology as a framework. While defining expenditure is challenging, it is considered that understanding different typologies of spend can be helpful.

## Chapter 5: Welsh Government spending plans

### Wales' expenditure budget

- 5.1** Devolved expenditure in Wales for 2018-19 comprises allocations to Welsh Government main expenditure groups (MEGs) of £17.1bn.
- 5.2** Table 5.1 shows the components of the Wales expenditure budget, broken down by MEG and indicative budgets for the Assembly Commission, the Auditor General for Wales and the Public Services Ombudsman for Wales. The table also shows unallocated reserves funding. The MEG allocations reflect the high-level priorities set out in chapter four.

**Table 5.1 – Allocation of the Wales Budget**

<b>MAIN EXPENDITURE GROUPS (MEGs)</b>		<b>2018-19 Draft Budget £'000</b>	<b>2019-20 Indicative Draft Budget £'000</b>
Health, Wellbeing and Sport		7,646,982	7,884,928
Local Government		4,536,839	4,477,707
Communities and Children		901,446	805,391
Economy and Infrastructure		1,250,550	1,420,557
Education		2,163,995	2,290,518
Environment and Rural Affairs		346,068	324,656
Central Services and Administration		299,554	288,740
<b>Total Allocations to Welsh Government MEGs</b>		<b>17,145,434</b>	<b>17,492,497</b>
Unallocated Resource DEL	Fiscal Resource	116,369	219,520
	Non-Fiscal Resource	138,397	164,199
Unallocated Capital DEL	General Capital	211,083	330,769
	Financial Transactions	1,193	1,193
Assembly Commission		56,788	57,114
Public Services Ombudsman for Wales		4,550	4,540
Wales Audit Office		6,906	6,906
Direct Charges to the Welsh Consolidated Fund		702	702
<b>TOTAL WELSH BUDGET</b>		<b>17,681,422</b>	<b>18,277,440</b>

## Main spending areas for each MEG

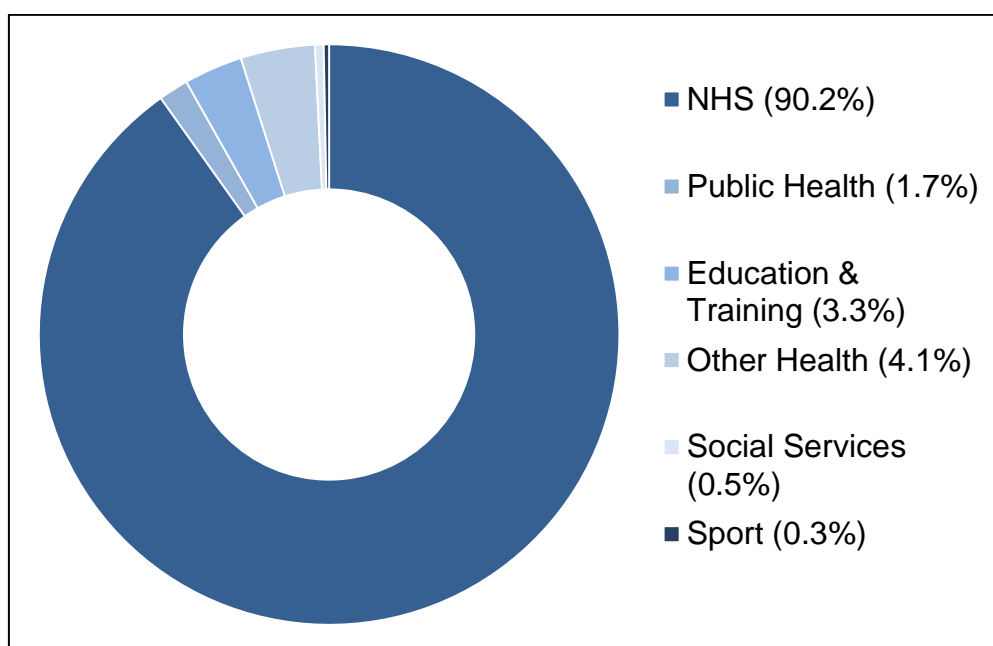
### Health, Wellbeing and Sport

**5.3** The Health, Wellbeing and Sport MEG supports the Welsh Government's ambitions for a healthy and active population. It contains the core revenue and capital funding for NHS Wales and funding for:

- Health boards and NHS trusts
- Public Health Wales and other public health programmes
- Education and training of the NHS workforce
- Other NHS and health programme budgets, including substance misuse and research and development
- Supporting social services, including funding for Social Care Wales, the main element of social care is delivered through the Local Government MEG
- Supporting community and elite sport, including funding for Sport Wales.

**5.4** The proportion of funding allocated to each area in 2018-19 is shown in chart 5.1 below.

**Chart 5.1 – Proportionate allocations of the Health, Wellbeing and Sport Resource**



### Local Government

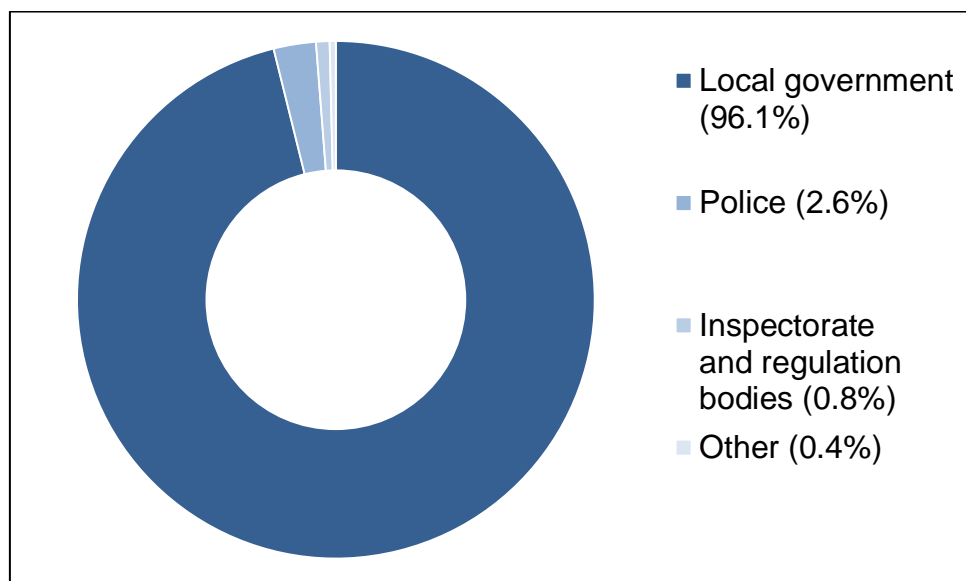
**5.5** The Local Government MEG provides the core un-hypothecated funding for local authorities to provide services such as schools, social services and waste management. The Welsh Government provides funding for around 80% of the net revenue spending by local authorities in Wales. This funding is provided in the form of the revenue support grant and the redistribution of the revenue raised from non-

domestic rates. The funding is allocated using a needs-based formula which is reviewed and updated annually in consultation with local government.

**5.6** The MEG also provides funding for a range of other local government functions, including for the police forces in Wales and for certain, inspection and regulations bodies which provide effective oversight of public services in Wales.

**5.7** The proportion of funding allocated to each area in 2018-19 is shown in chart 5.2 below.

**Chart 5.2 – Proportionate allocations of the Local Government Resource**

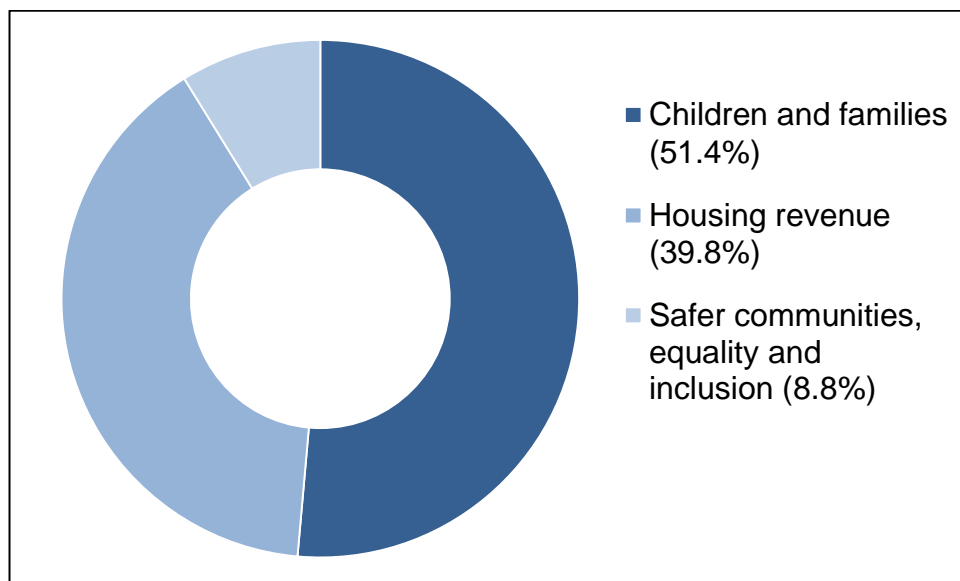


### Communities and Children

**5.8** The funding from the Communities and Children MEG is intended to create safe, cohesive and resilient communities where people can live, work and bring up their children with confidence in their future. The MEG supports a focus on the root cause of poverty, intervening at an early stage in a child's life. Funding also helps to increase prosperity by tackling obstacles to employability and sustained employment, including childcare, while improving access to secure, efficient and affordable homes.

**5.9** The proportion of funding allocated to each area in 2018-19 is shown in chart 5.3 below.

**Chart 5.3 – Proportionate allocations of the Communities and Children Resource**

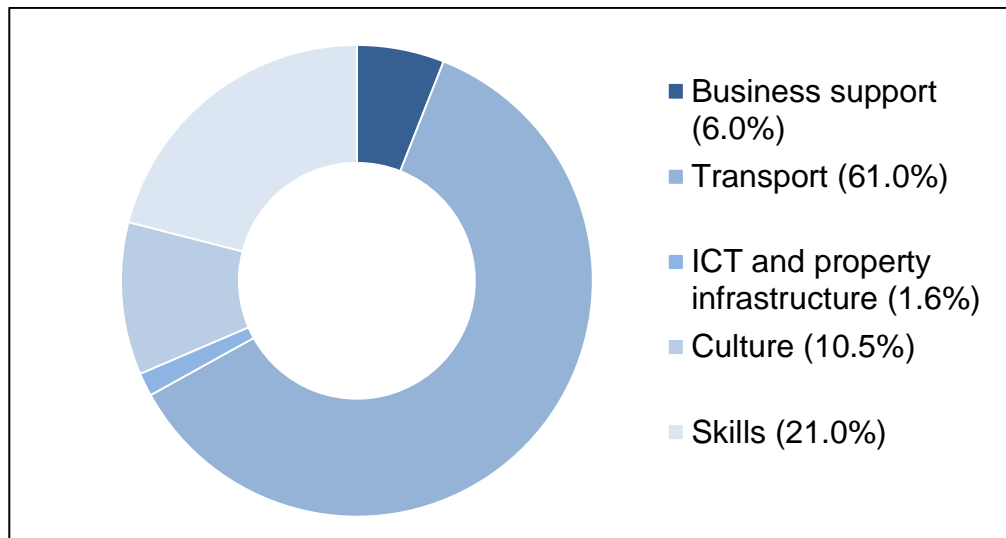


### **Economy and Infrastructure**

**5.10** The funding from the Economy and Infrastructure MEG supports a strong economy to improve wealth and wellbeing and support prosperity for all. This includes supporting people and businesses to drive prosperity; delivering modern and connected infrastructure; promoting and protecting Wales' place in the world; equipping everyone for the right skills for a changing world; tackling regional inequality and promoting fair work; and driving sustainable growth and combating climate change. It also supports our nation's culture, heritage and tourism industry by funding Cadw, Visit Wales and our national institutions such as our National Museums, National Library and the Arts Council.

**5.11** The proportion of funding allocated to each area in 2018-19 is shown in chart 5.4 below.

**Chart 5.4 – Proportionate allocations of the Economy and Infrastructure Resource**

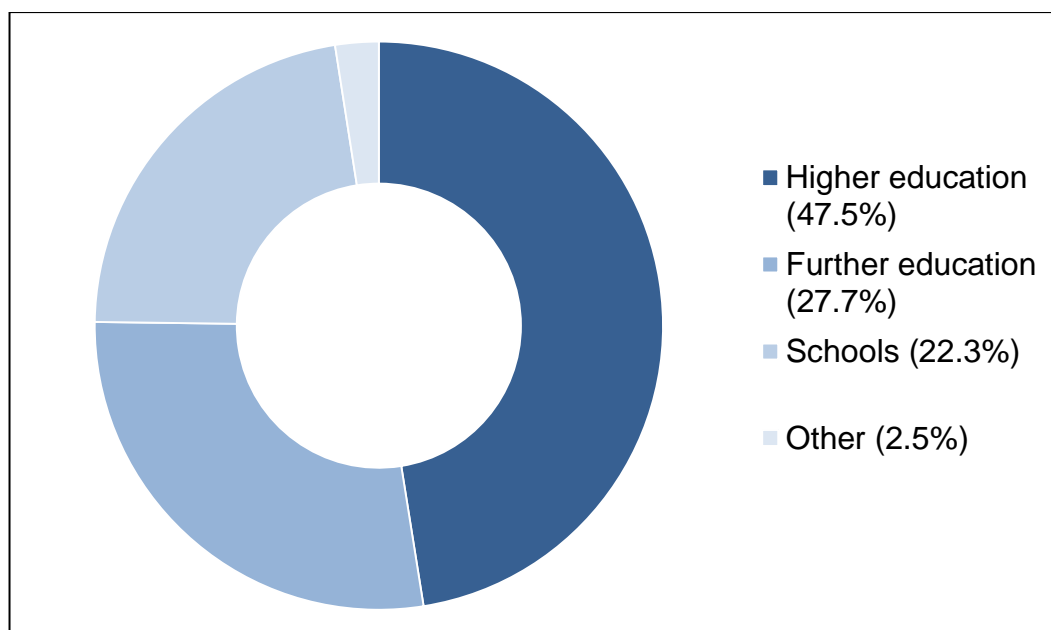


## Education

**5.12** The purpose of the funding from the Education MEG is to equip children, young people and adults with the academic, personal and social skills needed to make a success of their lives. The MEG supports three main areas – schools through the delivery of *Education in Wales: Our National Mission*; further education and higher education, supporting students through grants and loans and providing specialist funding to universities through the Higher Education Funding Council for Wales.

**5.13** The proportion of funding allocated to each area in 2018-19 is shown in chart 5.5 below.

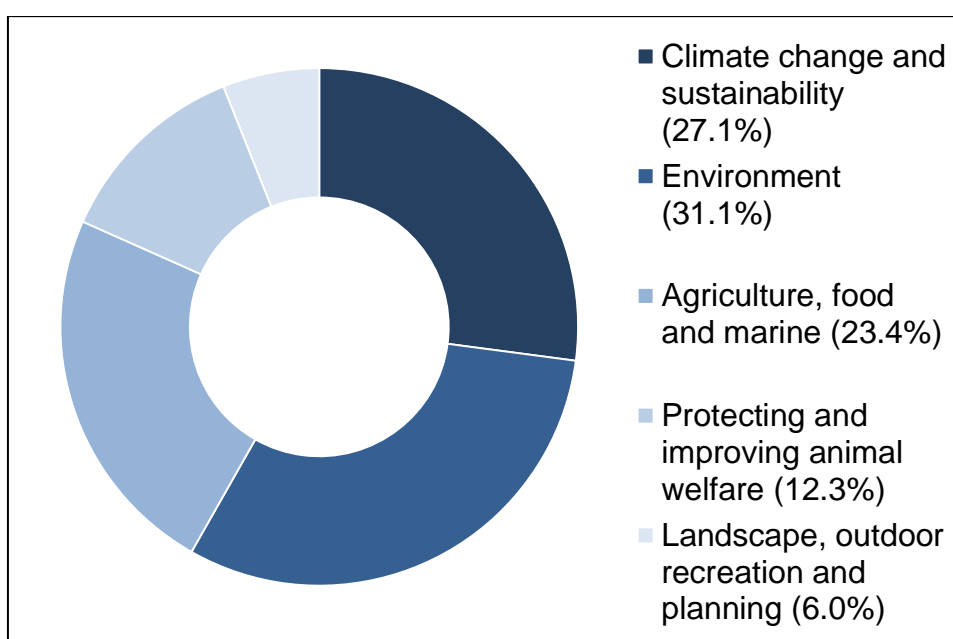
**Chart 5.5 – Proportionate allocations in the Education Resource**



## Environment and Rural affairs

- 5.14** The purpose of the Environment and Rural affairs MEG is to help Wales become an energy efficient, low carbon and low waste society and to protect and enhance our natural and historic environment by using land sustainably. Support is provided to farmers and the wider farming industry for the development and growth of food and drink and to safeguard and encourage the development of commercial and recreational fishing.
- 5.15** The proportion of funding allocated to each area in 2018-19 is shown in chart 5.6 below.

**Chart 5.6 – Proportionate allocations of the Environment and Rural Affairs Resource**

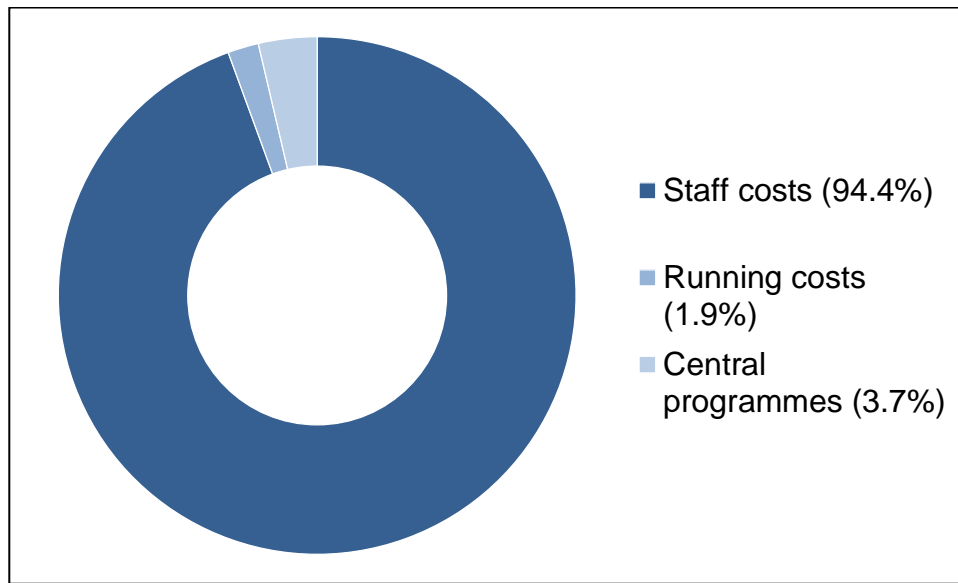


## Central Services and Administration

- 5.16** The focus of the Central Services and Administration MEG is to deliver an effective, accountable, devolved government. The budget includes a broad range of functions including meeting the running costs of the Welsh Government (staff, office and ICT); central service costs and pan-government information services. It also includes support for the delivery of outcomes that are the responsibility of either the First Minister or the Cabinet Secretary for Finance and Local Government, such as international relations, international development and the Invest to Save programme.
- 5.17** The proportion of funding allocated to each area in 2018-19 is shown in chart 5.7 below.



**Chart 5.7 – Proportionate allocations of the Central Services and Administration Resource**



### **Categories of expenditure**

**5.18** Within the MEG allocations there are different types of expenditure which are used for different purposes

- Fiscal resource
- Non-fiscal resource
- Traditional capital
- Financial transactions
- Annually Managed Expenditure (AME)

**5.19** Tables 5.2a to 5.2c set out the MEG allocations by these categories and also by year.

**Table 5.2a – Summary of the Welsh Government MEG total allocations – 2018-19**

2018-19 DRAFT BUDGET TOTAL MEG ALLOCATIONS										
	Resource			Capital			AME			TOTAL MEG
MEG*	Fiscal	Non Fiscal	Resource Total	Traditional Capital	Financial transactions	Capital Total	Resource	Capital	AME Total	
HWS	7,040,429	190,779	<b>7,231,208</b>	294,774	-	<b>294,774</b>	121,000	-	<b>121,000</b>	<b>7,646,982</b>
LG	3,341,321	400	<b>3,341,721</b>	143,118	-	<b>143,118</b>	1,052,000	-	<b>1,052,000</b>	<b>4,536,839</b>
C&C	397,155	-	<b>397,155</b>	378,270	98,748	<b>477,018</b>	27,273	-	<b>27,273</b>	<b>901,446</b>
E&I	604,599	195,898	<b>800,497</b>	393,501	17,920	<b>411,421</b>	38,632	-	<b>38,632</b>	<b>1,250,550</b>
Educ	1,358,838	107,039	<b>1,465,877</b>	168,061	-	<b>168,061</b>	<b>-128,382</b>	658,439	<b>530,057</b>	<b>2,163,995</b>
ERA	229,948	13,086	<b>243,034</b>	94,454	6,180	<b>100,634</b>	2,400	-	<b>2,400</b>	<b>346,068</b>
CSA	268,313	16,000	<b>284,313</b>	12,302	-	<b>12,302</b>	2,939	-	<b>2,939</b>	<b>299,554</b>
<b>Total</b>	<b>13,240,603</b>	<b>523,202</b>	<b>13,763,805</b>	<b>1,484,480</b>	<b>122,848</b>	<b>1,607,328</b>	<b>1,115,862</b>	<b>658,439</b>	<b>1,774,301</b>	<b>17,145,434</b>

\*Health, Wellbeing and Sport (HWS); Local Government (LG); Communities and Children (C&C); Economy and Infrastructure (E&I); Education (Educ); Environment and Rural Affairs (ERA); Central Services and Administration (CSA)

**Table 5.2b – Summary of the Welsh Government MEG total allocations – 2019-20**

2019-20 INDICATIVE TOTAL MEG ALLOCATIONS										
	Resource			Capital			AME			TOTAL MEG
MEG*	Fiscal	Non Fiscal	Resource Total	Traditional Capital	Financial transactions	Capital Total	Resource	Capital	AME Total	
HWS	7,244,582	190,779	<b>7,435,361</b>	328,467	-	<b>328,467</b>	121,100	-	<b>121,100</b>	<b>7,884,928</b>
LG	3,256,189	400	<b>3,256,589</b>	143,118	-	<b>143,118</b>	1,078,000	-	<b>1,078,000</b>	<b>4,477,707</b>
C&C	406,366	-	<b>406,366</b>	297,453	73,067	<b>370,520</b>	28,505	-	<b>28,505</b>	<b>805,391</b>
E&I	570,757	195,898	<b>766,655</b>	454,335	32,700	<b>487,035</b>	166,867	-	<b>166,867</b>	<b>1,420,557</b>
Educ	1,329,250	107,039	<b>1,436,289</b>	176,145	-	<b>176,145</b>	<b>-138,399</b>	816,483	<b>678,084</b>	<b>2,290,518</b>
ERA	221,389	13,086	<b>234,475</b>	87,781	-	<b>87,781</b>	2,400	-	<b>2,400</b>	<b>324,656</b>
CSA	257,828	16,000	<b>273,828</b>	11,935	-	<b>11,935</b>	2,977	-	<b>2,977</b>	<b>288,740</b>
<b>Total</b>	<b>13,286,361</b>	<b>523,202</b>	<b>13,809,563</b>	<b>1,499,234</b>	<b>105,767</b>	<b>1,605,001</b>	<b>1,261,450</b>	<b>816,483</b>	<b>2,077,933</b>	<b>17,492,497</b>

\*Health, Wellbeing and Sport (HWS); Local Government (LG); Communities and Children (C&C); Economy and Infrastructure (E&I); Education (Educ); Environment and Rural Affairs (ERA); Central Services and Administration (CSA)

**Table 5.2c – Summary of the Welsh Government MEG total allocations – 2020-21**

	2020-21 INDICATIVE TOTAL MEG ALLOCATIONS		
	Capital		
MEG*	Traditional Capital	Financial transactions	Capital Total
HWS	310,333	0	310,333
LG	143,118	0	143,118
C&C	294,162	44,700	338,862
E&I	496,624	8,000	504,624
Educ	153,890	0	153,890
ERA	77,521	2,000	79,521
CSA	11,679	0	11,679
<b>Total</b>	<b>1,487,327</b>	<b>54,700</b>	<b>1,542,027</b>

\*Health, Wellbeing and Sport (HWS); Local Government (LG); Communities and Children (C&C); Economy and Infrastructure (E&I); Education (Educ); Environment and Rural Affairs (ERA); Central Services and Administration (CSA)

**Table 5.3 – Changes to the Welsh Government MEG fiscal resource allocations**

FISCAL ALLOCATIONS					
MAIN EXPENDITURE GROUP	£000s				
	Revised Baseline	2018-19 Changes	2018-19 New Plans Draft Budget	2019-20 Changes	2019-20 New Plans Draft Budget
Health, Wellbeing and Sport	6,836,840	203,589	7,040,429	204,153	7,244,582
Local Government	3,303,856	37,465	3,341,321	-85,132	3,256,189
Communities and Children	370,568	26,587	397,155	9,211	406,366
Economy and Infrastructure	614,869	-10,270	604,599	-33,842	570,757
Education	1,330,560	28,278	1,358,838	-29,588	1,329,250
Environment and Rural Affairs	271,839	-41,891	229,948	-8,559	221,389
Central Services and Administration	268,526	-213	268,313	-10,485	257,828
<b>Total Fiscal Allocations to Welsh Government MEGs</b>	<b>12,971,058</b>	<b>269,545</b>	<b>13,240,603</b>	<b>45,758</b>	<b>13,286,361</b>

**Table 5.4 – Changes to the Welsh Government MEG non-fiscal resource allocations**

NON FISCAL ALLOCATIONS					
MAIN EXPENDITURE GROUP	£000s				
	Revised Baseline	2018-19 Changes	2018-19 New Plans Draft Budget	2019-20 Changes	2019-20 New Plans Draft Budget
Health, Wellbeing and Sport	190,779	0	190,779	0	190,779
Local Government	400	0	400	0	400
Communities and Children	500	-500	0	0	0
Economy and Infrastructure	195,898	0	195,898	0	195,898
Education	107,039	0	107,039	0	107,039
Environment and Rural Affairs	13,086	0	13,086	0	13,086
Central Services and Administration	16,000	0	16,000	0	16,000
<b>Total Fiscal Allocations to Welsh Government MEGs</b>	<b>523,702</b>	<b>-500</b>	<b>523,202</b>	<b>0</b>	<b>523,202</b>

**Table 5.5 – Changes to the Welsh Government MEG traditional capital allocations**

TRADITIONAL CAPITAL ALLOCATIONS									
MAIN EXPENDITURE GROUP	£000s								
	2018-19 Allocations as per 2017-18 Final Budget	2018-19 Changes	2018-19 New Plans Draft Budget	2019-20 Allocations as per 2017-18 Final Budget	2019-20 Changes	2019-20 New Plans Draft Budget	2020-21 Allocations as per 2017-18 Final Budget	2020-21 Changes	2020-21 New Plans Draft Budget
Health, Wellbeing and Sport	260,289	34,485	294,774	275,283	53,184	328,467	280,333	30,000	310,333
Local Government	143,118	0	143,118	143,118	0	143,118	143,118	0	143,118
Communities and Children	234,462	143,808	378,270	180,511	116,942	297,453	185,179	108,983	294,162
Economy and Infrastructure	304,347	89,154	393,501	342,293	112,042	454,335	451,283	45,341	496,624
Education	128,061	40,000	168,061	135,745	40,400	176,145	143,890	10,000	153,890
Environment and Rural Affairs	80,061	14,393	94,454	81,754	6,027	87,781	75,878	1,643	77,521
Central Services and Administration	11,520	782	12,302	11,520	415	11,935	11,520	159	11,679
<b>Total</b>	<b>1,161,858</b>	<b>322,622</b>	<b>1,484,480</b>	<b>1,170,224</b>	<b>329,010</b>	<b>1,499,234</b>	<b>1,291,201</b>	<b>196,126</b>	<b>1,487,327</b>

Includes Invest to Save transfers between portfolio MEGs and the Central Services and Administration MEG and a transfer for the National Loans fund from the E&I MEG to the CSA MEG

**Table 5.6 – Changes to the Welsh Government MEG financial transactions capital allocations**

FINANCIAL TRANSACTIONS CAPITAL ALLOCATIONS									
MAIN EXPENDITURE GROUP	£000s								
	2018-19 Allocations as per 2017-18 Final Budget	2018-19 Changes	2018-19 New Plans Draft Budget	2019-20 Allocations as per 2017-18 Final Budget	2019-20 Changes	2019-20 New Plans Draft Budget	2020-21 Allocations as per 2017-18 Final Budget	2020-21 Changes	2020-21 New Plans Draft Budget
Health, Wellbeing and Sport	0	0	0	0	0	0	0	0	0
Local Government	0	0	0	0	0	0	0	0	0
Communities and Children	98,748	0	98,748	73,067	0	73,067	44,700	0	44,700
Economy and Infrastructure	17,920	0	17,920	32,700	0	32,700	8,000	0	8,000
Education	0	0	0	0	0	0	0	0	0
Environment and Rural Affairs	6,180	0	6,180	0	0	0	2,000	0	2,000
Central Services and Administration	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>122,848</b>	<b>0</b>	<b>122,848</b>	<b>105,767</b>	<b>0</b>	<b>105,767</b>	<b>54,700</b>	<b>0</b>	<b>54,700</b>



**Table 5.7 – Direct borrowing for capital purposes**

<b>WELSH GOVERNMENT DIRECT BORROWING FOR CAPITAL PURPOSES<sup>(1)</sup></b>			
	<b>£000s</b>		
	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
Total borrowing outstanding at start of year (principal)	31,210	155,594	276,850
Proposed capital borrowing to be drawn	125,000	125,000	125,000
Repayments of principal	616	3,744	6,936
Aggregate capital borrowing outstanding at end of year (principal)	155,594	276,850	394,913
Interest	2,017	4,440	6,798

(1) Funds borrowed under s122A of Government of Wales Act 2006 (as amended) and previous loans from the National Loan Fund by the former Development Board of Rural Wales and the Mid Wales Development Corporation

Note on length of loan terms

Loans taken out by the former Development Board of Rural Wales and Mid Wales Development Corporation are due to be repaid by 2042.

Capital borrowing under the s122A of Government of Wales Act 2006 (as amended) is assumed to be on a 30 year term, so borrowing in 2018-19 will be repaid in 2048-49, borrowing in 2019-20 will be repaid in 2049-50 and so on.

**Table 5.8 – Direct borrowing for capital purposes, repayment schedule**

<b>WELSH GOVERNMENT DIRECT BORROWING FOR CAPITAL PURPOSES - REPAYMENTS</b>			
	<b>£000s</b>		
	<b>Amounts falling due within 1 year</b>	<b>Amounts falling due within 1 -5 years</b>	<b>2020- Amounts falling due after 5 years</b>
Principal	616	31,291	374,303
Interest	2,017	29,197	123,219

## Annex A: Reconciliation of administrative budget and resource allocations in the annual Budget motion

2018-19 Draft Budget								
	£000s							
	HWS	LG	C&C	E&I	Educ	ERA	CSA	TOTAL
Resource	7,231,208	3,341,721	397,155	800,497	1,465,877	243,034	284,313	<b>13,763,805</b>
Capital	294,774	143,118	477,018	411,421	168,061	100,634	12,302	<b>1,607,328</b>
Resource AME	121,000	1,052,000	27,273	38,632	-128,382	2,400	2,939	<b>1,115,862</b>
Capital AME	0	0	0	0	658,439	0	0	<b>658,439</b>
<b>TOTAL MANAGED EXPENDITURE</b>	<b>7,646,982</b>	<b>4,536,839</b>	<b>901,446</b>	<b>1,250,550</b>	<b>2,163,995</b>	<b>346,068</b>	<b>299,554</b>	<b>17,145,434</b>
<b>Reconciliation to Resources</b>								
Resource Consumption - WGSBs	-1,004	-400	0	-5,502	-190	-12,400	0	-19,496
Supported borrowing	0	-88,800	0	0	0	0	0	-88,800
National Insurance fund receipts collection costs	-906	0	0	0	0	0	0	-906
National non-domestic rates payable (and collection costs)	0	-1,057,172	0	0	0	0	0	-1,057,172
Direct charges on the Welsh Consolidated Fund	0	0	0	0	0	0	-2,017	-2,017
PFI	0	0	0	-8,729	0	0	0	-8,729
<b>RESOURCES REQUIRED</b>	<b>7,645,072</b>	<b>3,390,467</b>	<b>901,446</b>	<b>1,236,319</b>	<b>2,163,805</b>	<b>333,668</b>	<b>297,537</b>	<b>15,968,314</b>

\*Health, Wellbeing and Sport (HWS); Local Government (LG); Communities and Children (C&C); Economy and Infrastructure (E&I); Education (Educ); Environment and Rural Affairs (ERA); Central Services and Administration (CSA)

2019-20 Indicative								
	£000s							
	HWS	LG	C&C	E&I	Educ	ERA	CSA	TOTAL
Resource	7,435,361	3,256,589	406,366	766,655	1,436,289	234,475	273,828	13,809,563
Capital	328,467	143,118	370,520	487,035	176,145	87,781	11,935	1,605,001
Resource AME	121,100	1,078,000	28,505	166,867	-138,399	2,400	2,977	1,261,450
Capital AME	0	0	0	0	816,483	0	0	816,483
<b>TOTAL MANAGED EXPENDITURE</b>	<b>7,884,928</b>	<b>4,477,707</b>	<b>805,391</b>	<b>1,420,557</b>	<b>2,290,518</b>	<b>324,656</b>	<b>288,740</b>	<b>17,492,497</b>
<b>Reconciliation to Resources</b>								
Resource Consumption - WGSBs	-1,004	-400	0	-5,502	-190	-12,400	0	-19,496
Supported borrowing	0	-88,800	0	0	0	0	0	-88,800
National Insurance fund receipts collection costs	-906	0	0	0	0	0	0	-906
National non-domestic rates payable (and collection costs)	0	-1,083,172	0	0	0	0	0	-1,083,172
Direct charges on the Welsh Consolidated Fund	0	0	0	0	0	0	-4,440	-4,440
PFI	0	0	0	-8,982	0	0	0	-8,982
<b>RESOURCES REQUIRED</b>	<b>7,883,018</b>	<b>3,305,335</b>	<b>805,391</b>	<b>1,406,073</b>	<b>2,290,328</b>	<b>312,256</b>	<b>284,300</b>	<b>16,286,701</b>

\*Health, Wellbeing and Sport (HWS); Local Government (LG); Communities and Children (C&C); Economy and Infrastructure (E&I); Education (Educ); Environment and Rural Affairs (ERA); Central Services and Administration (CSA)

## Annex B: Year-on-year changes

RESOURCE	£000s						
	2017-18	2018-19			2019-20		
MAIN EXPENDITURE GROUPS	Supplementary Budget June 2017	New Plans Draft Budget	Year on Year % Change	Year on Year % Change (Real Terms)	New Plans Draft Budget	Year on Year % Change	Year on Year % Change (Real Terms)
Health, Wellbeing and Sport	7,065,650	7,231,208	2.34%	0.77%	7,435,361	2.82%	1.14%
Local Government	3,298,256	3,341,721	1.32%	-0.24%	3,256,589	-2.55%	-4.14%
Communities and Children	371,068	397,155	7.03%	5.38%	406,366	2.32%	0.65%
Economy and Infrastructure	821,982	800,497	-2.61%	-4.11%	766,655	-4.23%	-5.79%
Education	1,478,335	1,465,877	-0.84%	-2.37%	1,436,289	-2.02%	-3.62%
Environment and Rural Affairs	282,424	243,034	-13.95%	-15.27%	234,475	-3.52%	-5.10%
Central Services and Administration	293,775	284,313	-3.22%	-4.71%	273,828	-3.69%	-5.26%
<b>Total Welsh Government MEG Resource Allocations</b>	<b>13,611,490</b>	<b>13,763,805</b>			<b>13,809,563</b>		

\* In this budget, we are taking further steps to reduce the number of specific grants to local authorities. This impacts, in some cases, on the year on year comparisons. The single biggest adjustment in this budget relating to specific grants is in the Environment and Rural Affairs MEG, where a significant proportion of the funding for the Single Revenue Grant is being transferred to the Revenue Support Grant in the Local Government MEG.

<b>CAPITAL – year-on-year % change</b>		<b>£000s</b>					
	<b>2017-18</b>	<b>2018-19</b>		<b>2019-20</b>		<b>2020-21</b>	
<b>MAIN EXPENDITURE GROUPS</b>	<b>Supplementary Budget June 2017</b>	<b>New Plans Draft Budget</b>	<b>Year on Year % Change</b>	<b>New Plans Draft Budget</b>	<b>Year on Year % Change</b>	<b>New Plans Draft Budget</b>	<b>Year on Year % Change</b>
Health, Wellbeing and Sport	251,971	294,774	16.99%	328,467	11.43%	310,333	-5.52%
Local Government	143,118	143,118	0.00%	143,118	0.00%	143,118	0.00%
Communities and Children	357,705	477,018	33.36%	370,520	-22.33%	338,862	-8.54%
Economy and Infrastructure	522,438	411,421	-21.25%	487,035	18.38%	504,624	3.61%
Education	100,813	168,061	66.71%	176,145	4.81%	153,890	-12.63%
Environment and Rural Affairs	101,731	100,634	-1.08%	87,781	-12.77%	79,521	-9.41%
Central Services and Administration	11,457	12,302	7.38%	11,935	-2.98%	11,679	-2.14%
<b>Total Welsh Government MEG Resource Allocations</b>	<b>1,489,233</b>	<b>1,607,328</b>		<b>1,605,001</b>		<b>1,542,027</b>	

<b>CAPITAL – year-on-year % change real terms</b>		<b>£000s</b>					
	<b>2017-18</b>	<b>2018-19</b>		<b>2019-20</b>		<b>2020-21</b>	
<b>MAIN EXPENDITURE GROUPS</b>	<b>Supplementary Budget June 2017</b>	<b>New Plans Draft Budget</b>	<b>Year on Year % Change</b>	<b>New Plans Draft Budget</b>	<b>Year on Year % Change</b>	<b>New Plans Draft Budget</b>	<b>Year on Year % Change</b>
Health, Wellbeing and Sport	251,971	294,774	15.19%	328,467	9.61%	310,333	-7.27%
Local Government	143,118	143,118	-1.54%	143,118	-1.63%	143,118	-1.85%
Communities and Children	357,705	477,018	31.30%	370,520	-23.59%	338,862	-10.23%
Economy and Infrastructure	522,438	411,421	-22.46%	487,035	16.45%	504,624	1.70%
Education	100,813	168,061	64.14%	176,145	3.10%	153,890	-14.25%
Environment and Rural Affairs	101,731	100,634	-2.60%	87,781	-14.20%	79,521	-11.08%
Central Services and Administration	11,457	12,302	5.72%	11,935	-4.57%	11,679	-3.95%
<b>Total Welsh Government MEG Resource Allocations</b>	<b>1,489,233</b>	<b>1,607,328</b>		<b>1,605,001</b>		<b>1,542,027</b>	



<b>ANNUALLY MANAGED EXPENDITURE – year-on-year % changes resource</b>	<b>£000s</b>						
<b>MAIN EXPENDITURE GROUPS</b>	<b>2017-18</b>	<b>2018-19</b>			<b>2019-20</b>		
	<b>Supplementary Budget June 2017</b>	<b>New Plans Draft Budget</b>	<b>Year on Year % Change</b>	<b>Year on Year % Change (Real Terms)</b>	<b>New Plans Draft Budget</b>	<b>Year on Year % Change</b>	<b>Year on Year % Change (Real Terms)</b>
Health, Wellbeing and Sport	171,500	121,000	-29.45%	-30.53%	121,100	0.08%	-1.55%
Local Government	1,059,000	1,052,000	-0.66%	-2.19%	1,078,000	2.47%	0.80%
Communities and Children	35,864	27,273	-23.95%	-25.13%	28,505	4.52%	2.81%
Economy and Infrastructure	132,239	38,632	-70.79%	-71.24%	166,867	331.94%	324.89%
Education	-104,958	-128,382	22.32%	20.43%	-138,399	7.80%	6.04%
Environment and Rural Affairs	2,400	2,400	0.00%	-1.54%	2,400	0.00%	-1.63%
Central Services and Administration	2,828	2,939	3.93%	2.32%	2,977	1.29%	-0.36%
<b>Total Welsh Government MEG Resource Allocations</b>	<b>1,298,873</b>	<b>1,115,862</b>			<b>1,261,450</b>		

<b>ANNUALLY MANAGED EXPENDITURE – year-on-year % changes capital</b>	<b>£000s</b>						
<b>MAIN EXPENDITURE GROUPS</b>	<b>2017-18</b>	<b>2018-19</b>			<b>2019-20</b>		
	<b>Supplementary Budget June 2017</b>	<b>New Plans Draft Budget</b>	<b>Year on Year % Change</b>	<b>Year on Year % Change (Real Terms)</b>	<b>New Plans Draft Budget</b>	<b>Year on Year % Change</b>	<b>Year on Year % Change (Real Terms)</b>
Education	513,397	658,439	28.25%	26.28%	816,483	24.00%	21.98%
<b>Total Welsh Government MEG Resource Allocations</b>	<b>513,397</b>	<b>658,439</b>			<b>816,483</b>		

## Annex C: Reconciliation between First Supplementary Budget 2017-18 allocations and 2017-18 baselines

Health, Wellbeing and Sport	£000s
	Fiscal Resource
<b>Baseline as per 2017-18 First Supplementary Budget</b>	<b>6,874,871</b>
<i>Adjustments to reflect non-recurrent allocations from reserves</i>	
Deduct: One off allocation in Final Budget 2017-18 to provide financial support for people affected by NHS-supplied contaminated blood	-1,700
Deduct: 2016 Budget Agreement funding	-9,000
<i>Adjustments to reflect recurrent transfers</i>	
Deduct: Planned transfer to Local Government in respect of Social Care funding and National Living Wage	-30,000
<i>Adjustments to reflect non-recurrent transfers</i>	
Add: Non-recurrent transfer to Education MEG in respect of NHS bursary scheme	800
Deduct: Non-recurrent transfer in from Home Office in respect of Immigration Health Surcharge	-7,180
Adjustment in respect of Invest to Save Fund	9049
<b>Revised Baseline</b>	<b>6,836,840</b>

Local Government	£000s
	Fiscal Resource
<b>Baseline as per 2017-18 First Supplementary Budget</b>	<b>3,297,856</b>
<i>Adjustments to reflect non-recurrent allocations from reserves</i>	
Deduct: One off allocation in Final Budget 2017-18 in respect of Small Business Rates Relief Scheme	-10,000
Deduct: 2016 Budget Agreement funding	-4,000
<i>Adjustments to reflect recurrent transfers</i>	
Add: Planned transfer from Health, Wellbeing and Sport in respect of Social Care funding and National Living Wage	30,000
<i>Adjustments to reflect non-recurrent transfers</i>	
Deduct: Removal of 2016-17 funding for Cardiff City Deals	-10,000
<b>Revised Baseline</b>	<b>3,303,856</b>

Communities and Children	£000s
	Fiscal Resource
Baseline as per 2017-18 First Supplementary Budget	370,568
Revised Baseline	370,568

Economy and Infrastructure	£000s
	Fiscal Resource
Baseline as per 2017-18 First Supplementary Budget	626,084
<i>Adjustments to reflect non-recurrent allocations from reserves</i>	
Deduct: One off allocation in Final Budget 2017-18 in respect of police and crime commissioners (apprenticeship levy)	-500
Deduct: One off allocation in 1st Supplementary Budget 2017-18 in respect of provision of wifi in trains and stations	-750
Deduct: 2016 Budget Agreement funding	-9,900
Adjustment in respect of Invest to Save Fund	-65
Revised Baseline	614,869

Education	£000s
	Fiscal Resource
Baseline as per 2017-18 First Supplementary Budget	1,371,296
<i>Adjustments to reflect non-recurrent allocations from reserves</i>	
Deduct: One off allocation in Final Budget 2017-18 in respect of School Challenge Cymru transition	-1,700
Deduct: One off allocation in Final Budget 2017-18 in respect of teacher training incentives	-1,000
Deduct: 2016 Budget Agreement funding	-35,000
<i>Adjustments to reflect non-recurrent transfers</i>	
Deduct: Non-recurrent transfer from Health, Wellbeing and Sport MEG in respect of NHS bursary scheme	-800
Adjustment in respect of Invest to Save Fund	-2,236
Revised Baseline	1,330,560

Environment and Rural Affairs	£000s
	Fiscal Resource
<b>Baseline as per 2017-18 First Supplementary Budget</b>	<b>269,338</b>
Adjustment in respect of Invest to Save Fund	2,501
<b>Revised Baseline</b>	<b>271,839</b>

Central Services and Administration	£000s
	Fiscal Resource
<b>Baseline as per 2017-18 First Supplementary Budget</b>	<b>277,775</b>
Adjustment in respect of Invest to Save Fund (Health)	-9,049
Adjustment in respect of Invest to Save Fund (E&I)	65
Adjustment in respect of Invest to Save Fund (Education)	2,236
Adjustment in respect of Invest to Save Fund (ERA)	-2,501
<b>Revised Baseline</b>	<b>268,526</b>

## Annex D: Strategic Integrated Impact Assessment

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### Introduction

1. The outlook for public finances, as a result of the UK Government's ongoing policy of austerity, continues to be challenging. Wales has faced year-on-year real-terms reductions to its budget and, on top of ongoing austerity, faces the financial uncertainty associated with the UK's decision to leave the European Union.
2. Following the introduction of the new two-stage budget process, we have taken an integrated approach to the draft Budget. This first, outline stage of the Budget concentrates on the sources of funding for the Welsh Government, including new devolved taxes and borrowing powers, together with the high-level allocations to portfolio areas.
3. This assessment considers the impact of those high-level decisions. The impact of the full spending proposals from portfolio Ministers will be assessed in the second stage of the process – the detailed draft Budget.
4. The Welsh Government's programme for government *Taking Wales Forward* sets out the key priorities to deliver more high-quality jobs through a stronger, fairer economy; improve and reform our public services and build a united, connected and sustainable Wales.
5. *Taking Wales Forward* recognises that Wales in the 21st century is diverse and complex. We need to support people when they need it most, and equip services to respond to challenges, such as an ageing population; a changing climate; new technologies and globalisation.
6. The national strategy – *Prosperity for All* – takes the commitments set out in *Taking Wales Forward* and places them in a longer-term context, setting out how they will fit in with the work of the wider Welsh public service to lay the foundations for achieving prosperity for all. It recognises that how we deliver is just as important as what we deliver and that to make a real difference in people's lives, we need to do things differently and involve people in shaping the services they use every day. This is especially important when considering the impact our decisions could have.
7. Our high-level spending plans continue to reflect the emphasis we place on socio-economic disadvantage; children's rights; Welsh language; equality and sustainable development through improving the economic, social, environmental and cultural wellbeing of Wales.

### Evidence

8. The *Future Trends* report<sup>16</sup> was published in May. It identifies the key social, economic, environmental and cultural trends that could affect Wales in the future and those factors, which could influence the direction of those trends.

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<sup>16</sup> <http://gov.wales/statistics-and-research/future-trends/?lang=en>

9. The data in the report is a key piece of evidence for informing effective decisions. The key trends underpinning our decision making are set out below.

### Population

10. Wales' population is projected to increase over the next 20 years, possibly by around 5%. Over this period the percentage of over-65s in Wales is set to increase from around 20% to 25% of the population, this includes a 4% increase in the over-75s, with life expectancy expected to continue to increase. The number of people under-16 is projected to remain at around 18%.
11. The number of households in Wales is projected to grow faster than the overall population. This leads to smaller household sizes and the need for a greater number of homes.

### Health

12. There are significant differences between the most and least deprived areas in terms of life expectancy – a difference of 18 years for healthy life expectancy.
13. Mental ill health has demonstrated a noticeable increase, rising from 9% of adults being treated in 2009 to 13% in 2015. With an ageing population there could be a marked increase in the number of people experiencing dementia.

### Economy and infrastructure

14. Since the recession in 2008, productivity slowdown has sharply reduced the growth rate of income per head; a measure of a countries' economy which is seen as being important for wellbeing. Wales has broadly kept pace with the rest of the UK and, over the past few years, the labour market has performed well compared to other parts of the UK and in comparison with past trends.
15. Wales' GVA performance is less positive, reflecting both demographic factors, including a higher dependent population relative to other parts of the UK, and the lack of economic mass.

### Climate change

16. The latest UK Climate Risk Assessment identified the following areas for priority action – flooding and coastal change risks to communities businesses and infrastructure; risks to health, wellbeing and productivity from higher temperatures; risks of shortages in the water supply and risks to the natural environment.

### Land use and natural resources

17. Housing need in Wales is growing due to the number of households increasing faster than the number of available properties. In contrast, there is likely to be less



suitable land available for development as lower-lying land becomes increasingly prone to flooding.

18. The decline in heavy industry has resulted in a reduction in the emissions of some pollutants. However, other sources of air pollution, such as transport, agriculture and domestic heating have become more of a concern.

### Society and culture

19. In terms of overall wealth, levels of poverty are higher in Wales than in most areas outside the south of England. These levels remain stubborn, particularly for people of working age. Poverty among older people has reduced slightly in recent years but there has been an increase in the number of under-18s experiencing persistent poverty.

### Approach

20. The trends set out above support our key priority investment areas of schools, health and social services as they will experience the greatest degree of increased demand and will play a key role in improving the wellbeing of people in Wales. These areas are also of particular importance to people with protected characteristics.
21. The need to target funding effectively is more important than ever; we have therefore used evidence of impacts on protected groups balanced against pressures, to make decisions at a strategic level in the outline budget. This process of prioritising funding on areas with identified positive impacts continues to underpin the decisions made at a portfolio level will be presented in the detailed draft budget. Concentrating our efforts around priorities has implications for other areas – we have therefore sought to identify the full range of consequences and mitigate negative impacts wherever possible.

### Impact of new taxes

22. Providing stability and certainty is a key aim in transitioning to the new taxes. This has meant the predecessor tax rates have been a relevant factor in setting the devolved tax rates. To provide stability, the approach taken has been that any changes to the rates of the predecessor taxes should not be more than is necessary to reflect Welsh circumstances and priorities.
23. A key principle is that Welsh taxes should raise revenue to support public services as fairly as possible. Those who benefit the most from public services tend to be those on below average income. Some protected groups are proportionally more likely to fall into this category.
24. The tax rates for land transaction tax (LTT) have been guided by the tax principles in the tax policy framework<sup>17</sup> and set taking into account the features of the Welsh property market and Welsh economy. At the heart of the decision about the new rates and bands is the principle that LTT should be levied more progressively.

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<sup>17</sup> Available at <http://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

25. The approach to setting landfill disposals tax (LDT) rates has been guided by the tax principles in the tax policy framework<sup>18</sup> and the objective to reduce landfill disposals in Wales, as required by section 91 of the LDT (Wales) Act 2017. Delivering stability and certainty for taxpayers and the wider waste industry, noting the desire of business to be able to plan ahead and make investments has also been a key factor in setting the rates. The principle that there should be no less revenue available to fund public services has also been applied.

## Prosperous and secure

26. *Prosperity for All* sets out our aim to create a Welsh economy which delivers individual and national prosperity while tackling inequality and ensuring opportunities are available to all. Helping people to secure and maintain employment, which uses their skills, is one way out of poverty. Achieving this aim will have a positive impact on a range of people with protected characteristics as, for example, economic inactivity is higher for those over 50; people reporting a disability are less likely to be in employment and are likely to have lower earnings on average than the non-disabled; and unemployment rates are also higher among some minority ethnic groups.

### Key decisions

- Continue funding to support 100,000 all-age apprenticeships over this Assembly term;
  - Invest £70m over the next two years in 30-hours a week of childcare provision for working parents of children aged three and four;
  - £7.5m for a Newport flood scheme;
  - An extra £5.4m to support the rural development plan.
27. Apprenticeships help people to gain skills and employment and play a key role in the tackling poverty agenda. Providing people with the skills they need to secure and remain in employment is key to reducing poverty levels and increasing wellbeing. We are committed to providing an additional 100,000 all-age apprenticeships, however there is a disproportionately positive impact on the under 25s as they make up a larger proportion of learners. This is especially important for those who are not in employment, education or training (NEET).
28. We are continuing to invest to implement our flagship 30-hours of free childcare commitment to support working parents of three and four-year-old children, which will help to remove barriers for people to secure employment and retain jobs. Employment continues to offer protection against poverty. The childcare pilots, which began this year, will engage with families, childcare providers and communities to develop a childcare model which works. This childcare support will have a disproportionately positive impact on women where part-time working is much more prevalent and could contribute to reducing the gender pay gap.
29. The investment in capital programmes provides an additional boost to the construction industry, creating jobs and using many of the skills that our apprenticeship programmes are delivering. The investment in new and refurbished buildings supports decarbonisation, for example – one of the aims of the 21st

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<sup>18</sup> Available at <http://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

Century Schools and Education programme is to deliver sustainable buildings and all new-build and re-modelling projects are required to reach BREEAM-excellent standard and EPC A rating as standard.

30. The Code of Practice for Ethical Employment policy, published earlier this year, sets out actions that tackle illegal and unfair employment practices in public sector supply chains. Good employment practices, which empower and reward workers, help to improve the quality of life of people in Wales and further afield and, in turn, result in better quality goods and services. Poor – and unethical – practices, such as the unfair use of zero hours contracts, can lead to poor morale, high staff turnover and, in some cases, can be exploitative. This code supports our tackling poverty agenda as it applies to employees who are in low paid jobs, and it positively affects younger adults who are more likely to be in the jobs described as the ‘gig’ economy.
31. The decisions we have taken to prioritise and invest in particular areas mean that reductions have to be made elsewhere. Funding for environment and rural affairs has been reduced but this does not mean that sustainable growth and climate change is not important. Funding for the portfolio area will be prioritised towards those interventions that have the greatest impact, taking into account our carbon reduction targets. Many programmes that we run contribute to achieving multiple objectives. For example, our investment in new housing is providing new, energy-efficient homes and our health and education capital schemes all have carbon-reducing conditions.
32. We are concentrating capital funding on known flooding pressure points. We will invest £7.5m in a flood prevention scheme in Newport to reduce the tidal flood risk from climate change and support wider connectivity objectives. The risk of flooding in this area would affect 192 residential and 620 non-residential properties but this would rise to 1,117 residential and 1,016 non-residential properties in the future.
33. The additional funding for the rural development programme will help to maximise the level of EU funding available for a range of activities that are aimed at increasing the sustainability and resilience of our natural environment, while increasing skills knowledge and innovation; supporting strong sustainable and economic growth and resilient communities. The programme is a key part of combating future environmental issues from climate change.

## Healthy and active

34. With trends indicating rising demand for health and social care services in Wales, as in the UK more generally, our aim is to continue improving the performance of the NHS in Wales while at the same time improving the overall health and wellbeing of people in Wales by taking a preventative approach. We face some significant challenges in Wales – not least the persistent gap between the health of the richest and poorest communities and the needs of Wales’ ageing population.

## Key decisions

- Additional funding of £230m in 2018-19 and a further £220m in 19-20-20 for the Welsh NHS;
- Continued funding of £16m for the new treatment fund;

- Extra £90m funding for the all-Wales capital programme;
- £10m a year to maintain the Supporting People grant at its current level;
- An extra £42m for social care in 2018-19 increasing to £73m 2019-20;
- £15m for integrated health and social care services.

35. The increase in funding for the NHS positively impacts on very young people and older people who are the largest users of its services. This additional funding will be used to further drive improvements to NHS services but also to transform services and introduce new models of care, moving more hospital-based services into local communities, closer to people's homes. Easier access to healthcare will have a positive impact for those with a disability or long-term health issue.
36. As the NHS continues to innovate and integrate, moving away from hospital treatments or long stays in hospital leads to quicker recovery times, which supports the tackling poverty agenda, enabling individuals to get back to work or education more quickly.
37. The developing focus is on other sectors, such as schools, housing, local authorities, the voluntary sector and businesses all playing their role, in supporting and promoting good health and providing preventative programmes alongside the NHS, which will also positively support those in poverty.
38. The new treatment fund is providing people in Wales with faster access to new, life-saving and life-changing treatments. It has no disproportionate positive or negative impact on any particular group as it covers all health conditions and doesn't prioritise one patient group over another.
39. One of the aims of the all-Wales health capital programme is to provide local access to care, with as many services as possible being provided closer to home. There is a focus on reducing health inequalities caused by poverty and the programme positively impacts older people as the largest service user group.
40. Maintaining the 2017-18 levels of funding for the Supporting People grant continues the positive impact that the grant has on vulnerable people. One of the aims of the grant is promoting equality and reducing inequalities. It supports older people alongside households fleeing domestic violence and people threatened with or getting over a period of homelessness as well as people with mental health needs, substance misuse needs or a learning disability.
41. Our prioritisation of social care within the local government allocations will have a positive effect by reducing the impact of cuts to local services for everyone living in Wales. In addition it will have a specific positive impact on the older age group and disabled people, who are more likely to require social care, and young people living in care. This is further supported by the maintenance of the Integrated Care Fund (ICF), at 2017-18 levels, supporting the integration of health and social care agenda.
42. Complementing the ICF is our investment of £15m in integrated health and social care housing, which will have a positive impact on older people or those with complex needs, by delivering independent living combined with social care. This will

reduce out-of-county placements; reduce delayed discharges from hospital and allow vulnerable people to enjoy more independence.

## **Ambitious and Learning**

43. Raising educational attainment and skills at all levels is key to breaking the cycle of disadvantage. Education is the cornerstone of nurturing the creative, highly-skilled and adaptable people that Wales needs to prosper. Education is important to give young people the foundation of knowledge and skills they need, while shaping their outlook and expectations. Working in partnership with further education, higher education and businesses, schools can inspire our young people to achieve their full potential.

### **Key decisions**

- Continued funding to invest £100m in school standards over the course of this Assembly term;
  - £40m investment in the 21<sup>st</sup> Century School and Education programme to accelerate Band A projects;
  - Funding of £145m over two years in the Education MEG to mitigate cuts as a result of UK Government austerity;
  - £5m in 2018-19 and a further £5m in 2019-20 to enable students to benefit from higher education as part of the transition to the Diamond system;
  - £30m for higher education estate rationalisation.
44. School standards – from inspirational teaching to constructive assessment – are fundamental to raising education attainment and skill levels, which support Wales' prosperity, for individuals and communities. Along with core support provided to local authorities, and in support of delivery of Education in Wales: Our National Mission, the ongoing additional investment to raise school standards will have a disproportionately positive impact on young people.
45. Getting our young people's education right is important under Article 28 of the United Nations Convention on the Rights of the Child, that children not only have the right to an education, but that education is the best it can be.
46. Investment in schools, whether for core teaching staff in the classroom or for specific initiatives, will help raise standards for all pupils. However, our aim is that this will have a stronger positive effect on those young people who have traditionally struggled more in school, from deprived backgrounds and certain ethnic groups.
47. This investment will also have a positive impact on the Welsh language, as we teach more and more of our young people in Welsh speaking schools. It will also help us towards our ambitious target of a million Welsh speakers by 2050.
48. Our investment in the school estate through the 21<sup>st</sup> Century Schools and Education programme means young people will have safer, modern learning environments. Part of the programme is the aim to reduce the impact of social deprivation and a third of the schools in Band A are in the 20% most deprived areas of Wales and over half are above the all-Wales average for free school meals. The programme also has specific provision to support Welsh-language education.

49. The additional funding to minimise the level of cuts to the education sector means we are able to maintain funding for further education at 2017-18 levels. The allocation of £20m capital for backlog maintenance and industry-standard equipment also supports the sector. This has a positive impact for young people. The ability to earn quality qualifications helps people out of poverty into sustainable employment and the further education sector is a key player in breaking the generational cycle of low achievement in deprived areas.
50. We continue to be committed to fair access for all to higher education, ensuring that an individual's financial situation is not a factor in deciding whether to pursue a university education. We have increased funding to provide student support to the level of demand while we implement the Diamond student support recommendations. Evidence shows that higher-level qualifications are more likely to lead to a well-paid job – higher education is one route out of poverty.
51. We have allocated £30m to support higher education estate rationalisation. This will help to facilitate a reduction in surplus capacity and a move to a more effective, streamlined and energy efficient estate.

### **United and Connected**

52. The factors that lead to prospering communities – in which people are able to participate fully and play an active role in the decisions that affect them – are the same that lead to improved wellbeing. Our participatory budgeting work, which we started this year, along with the wider involvement of individuals and communities in our policy development, for example in the work of the Ministerial Taskforce for the South Wales Valleys, are steps in the right direction to support these communities.
53. Transport is critical to making sure that communities stay connected and we can link communities with business and services. It is also a catalyst for the regeneration of deprived communities.

#### **Key decisions**

- Investment £50m in a new station and park and ride facility at Llanwern in Newport;
  - Allocating £173m in the provision of the South Wales Metro as part of the overall spend of more than £400m between 2017 and 2021;
  - Allocation of £14.9m in community facilities
54. The provision of joined-up public transport positively supports the younger and older age groups, who are less likely to have access to a car to access education; community and leisure provision and health services. It is also a key factor in tackling poverty as individuals are able to access employment more easily.
55. Increased investment in public transport builds resilience in our built and natural environments, reducing congestion and contributing to the decarbonisation agenda. Investment in transport and infrastructure cannot exist in isolation from policy developments across Welsh Government. Easily accessible transport links are a key enabler to make sure the greatest impact for the widest range of people and communities are secured.



- 56. Investment in community facilities, prioritising applications from former Communities First clusters, will help tackle poverty and improve opportunities for the people in that community. Applications must demonstrate how the facility to be developed is increasing opportunity for the least well off and potentially marginalised within the community, for example those living in poverty, young people who are NEET, older and isolated people or disabled people. The investment will also cover work to improve the energy efficiency and overall sustainability of the facility being developed.
- 57. The investments and funding set out in the budget have an integral part to play in building a nation where people take pride in their communities, in the Welsh identity, including the language, and our place in the world.

## Early years

- 58. *Prosperity for All* sets out our vision for early years – we want children from all backgrounds to have the best start in life. Our aim is that everyone will have the opportunity to reach their full potential and lead a healthy, prosperous and fulfilling life, enabling them to participate fully in their communities and contribute to the future economic success of Wales.
- 59. This will have a positive impact on all children and benefit those with protected characteristics or in poverty to a greater extent.
- 60. Our prioritisation of funding to the health service and for mental health services, in particular, which includes neonatal and perinatal services and early years health provision, supports families to give children the best start in life. Our investment in housing means that families have a good quality safe home in which to bring up children. Our investment in childcare will also give those on lower incomes high-quality early education opportunities for their children.

## Housing

- 61. We want everyone to live in a home that meets their needs and supports a healthy, successful and prosperous life. Good-quality homes are the bedrock of good communities and the basis for individuals and families to flourish in all aspects of their lives.
- 62. Our housing investment, across a range of different schemes to support people's individual needs, has the greatest impact on those living in poverty and relying on social housing, including those that become homeless. Our investment in health and social care housing will support those with more complex needs within their communities. Investment in housing also reduces pressure on other public services, notably health and social care and also community services.

## Social care

- 63. We want Wales to have a high-quality and sustainable social care sector, with preventative and integrated services in the community, supporting people to lead independent lives. With an ageing population, the demand for and cost of care is projected to increase. In a sector which can struggle to recruit and retain workers,



our aim is to ensure these demands are met and care is affordable, while quality improves.

64. Our prioritisation of social care funding within the local government settlement supports this vision and positively impacts those with protected characteristics. Our continued investment in housing, including social housing and supported housing, contributes to a comprehensive care service. This is supported by our continued investment in mental health. This helps, especially with older people, to maintain a good level of physical and mental health, aiding independence, reducing social isolation and helps society to benefit more from the contribution older people can make.

### **Better mental health**

65. We want to ensure that mental health problems are not a barrier to achieving potential in all areas of life. One in four people will be affected by mental health issues at some point during their lives – for many the support of their family and friends will be enough to help them through this period but others will need other emotional support; the expertise of health professionals and help from specially-trained counsellors.
66. Our continued investment in mental health services and the health service more widely, together with the move towards providing more secondary care services in local communities, supports people with mental health conditions, from whatever background, to manage their conditions and lead and enjoy full lives.
67. Investment in education will support young people to gain the skills they need to live in the 21<sup>st</sup> century world with its stresses and strains as they prepare for adult life.

### **Skills and employment**

68. We want an economy founded on high-quality skills, giving businesses the resources to grow and innovate and people the ability to prosper. Every person should be equipped with the skills they need to get a job and the opportunity to develop new skills through their working life.
69. Our prioritisation of schools funding through local government and the mitigation funding from cuts to the education portfolio, supports this aim. Education is one of the greatest levers for improving the life chances for learners from low-income backgrounds and those facing additional barriers.
70. We have maintained funding for apprenticeships in this Budget. Supporting young people is especially important to increase their employability skills and to help them access employment opportunities. Being unemployed when young leads to a higher likelihood of lower pay, higher unemployment and reduced life chances.

### **Budget agreement**

71. The budget agreement with Plaid Cymru provides funding for a number of shared priorities and projects that will have a positive impact on the people of Wales.

- 72. Funding for Mudiad Meithrin and the continuation of £5m a year Welsh funding will have a positive impact on our target of one million Welsh speakers by 2050.
- 73. The glass and can deposit scheme and electric charging points will support our decarbonisation agenda and provide good sources of evidence for future development.
- 74. Support for medical education and the Welsh Buurtzorg pilot will have a positive impact on the users of our health service, the information collected from the pilot especially will impact on the users of community care, older people and those with mental health conditions.
- 75. Upgrading the Traws Cymru network, will have a positive impact on a range of people, providing toilet facilities on long distance journeys. Access will also be improved having a positive impact on those with disabilities or young children.
- 76. The continuation of funding from the 2017-18 budget agreement supports a range of people with a positive impact on gender from funding for gender dysphoria services. Continued funding of £40m over two years, as part of our overall additional funding of £450m for the NHS, for mental health supports our focus on this area and the contribution to individual and community wellbeing that it can have.
- 77. The continued funding for further and higher education of £40m over two years has a positive impact on younger people as the largest proportions of users of this public service.
- 78. Capital funding has been agreed to complete the development of Cardigan's new integrated health centre which will have a positive impact on people in the area with more efficient health care. Older people are a key group of users where benefits will fall.

### Next steps

- 79. The role of the Budget Advisory Group on Equality (BAGE) is being developed in light of the new two-stage budget process. BAGE is a neutral group – its purpose is not to say how money should be spent but to ensure that equality issues are considered and supported by evidence to inform decisions. The scope of the new approach and any forward work programme will be determined over the next few months.
- 80. A project is currently underway to deliver a new framework for impact assessments within the Welsh Government in 2018. The project is informed by the PPIW published *Reducing Complexity and Adding Value: A Strategic Approach to Impact Assessment in the Welsh Government* published last year. The framework's objectives include giving clearer and explicit purposes for impact assessments, across the range of government's interventions; reducing complexity and applying impact assessments to interventions in a proportionate way, while concentrating on the quality of understanding, evidence and judgment and integrating the impact assessment process with the substantive direction of the Well-being of Future Generations Act.

## Annex E: Glossary

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<b>Action</b>	<i>Within each Spending Programme Area (SPA), budgets are allocated to a number of sub-programmes known as Actions. Tables showing budgets at Action level are available at: <a href="http://gov.wales/funding/budget/?lang=en">http://gov.wales/funding/budget/?lang=en</a></i>
<b>Ambits</b>	<i>Descriptions of the specific purposes for which Welsh Ministers are authorised by the National Assembly for Wales to spend resources. Ambit descriptions and resource limits are contained within the annual Budget motion. Ambits correspond to MEGs.</i>
<b>Annually Managed Expenditure (AME)</b>	<i>Expenditure which cannot reasonably be subject to firm, multi-year limits in the same way as DEL and is therefore reviewed twice a year as part of the HM Treasury's Budget and pre-Budget report processes. AME typically consists of programmes which are large, volatile or demand-led; for example the issue of student loans.</i>
<b>Budget Motion</b>	<i>The means by which the National Assembly for Wales authorises Welsh Ministers to spend resources up to a specific level for specified purposes and to draw cash up to a specific limit from the Welsh Consolidated Fund.</i>
<b>Capital</b>	<i>Expenditure that in the main results in a physical asset, for example a new building. The Welsh Government DEL and AME budgets have separate capital and resource limits.</i>
<b>Departmental Expenditure Limit (DEL)</b>	<i>The multi-year budget limit for the Welsh Government set by the HM Treasury. DEL is planned and controlled on a multi-year basis in Spending Reviews.</i>
<b>Depreciation</b>	<i>The drop in value of an asset due to wear and tear, age and obsolescence. Under resource budgeting, depreciation is part of the Welsh Government's DEL but is a non-fiscal resource DEL item.</i>
<b>Direct Charges on the Welsh Consolidated Fund</b>	<i>Expenditure which is legally required to be charged directly to the Welsh Consolidated Fund and therefore does not score against the budgets of the Welsh Government or any other body. Direct charges include the remuneration of the Presiding Officer and Auditor General.</i>

<b>Financial Transactions Capital</b>	<i>Financial transactions are part of the capital DEL settlement that can only be used for loans and equity investments to third parties. A proportion of the funding must to repaid to the Exchequer.</i>
<b>Fiscal Resource DEL</b> <i>(previously known as near-cash)</i>	<i>Accruals measures of transactions that normally turn into cash flows soon, for example, pay current procurement, resource grants and subsidies.</i>
<b>Main Expenditure Group (MEG)</b>	<i>The Welsh Government DEL is divided into a number of Main Expenditure Groups. There are currently seven MEGs: Health, Wellbeing and Sport; Local Government; Communities and Children; Economy and Infrastructure; Education; Environmental and Rural Affairs; and Central Services and Administration.</i>
<b>Non-Fiscal Resource DEL</b> <i>(previously known as non-cash)</i>	<i>Accruals measures included in budgets to ensure they reflect the full economic cost of activities even though there is not a direct link to cash flows in the relevant period - for example, depreciation and provisions. Non-fiscal resource DEL cannot be used to fund fiscal resource DEL spending.</i>
<b>Receipts</b>	<i>Some areas of Welsh Government activity generate income, for example, through the sale or rental of assets. These are represented in the budget as negative figures.</i>
<b>Resource budgeting</b>	<i>The Welsh Government's budget is set on a resource basis derived from accruals information. Accruals information measures resources as they are consumed rather than when the cash is paid. So, for example, resource budgeting includes a charge for depreciation, a measure of the consumption or wearing out of capital assets.</i>
<b>Resource</b> <i>(previously known as revenue)</i>	<i>Current expenditure, for example funding for the pay of public sector workers and to purchase consumable goods and services.</i>
<b>Spending Programme Area (SPA)</b>	<i>Within each MEG, budgets are allocated to SPA according to the kind of services they will deliver.</i>

<b>Spending Review</b>	<i>Every two or three years HM Treasury reviews expenditure for each UK Government Department and sets budgets for the forthcoming three years. Budgets for the devolved administrations are derived from these budgets via the Barnett formula, which is the mechanism used by HM Treasury to calculate public expenditure allocated to Wales to reflect changes in spending levels allocated to public services in England.</i>
<b>Total Managed Expenditure (TME)</b>	<i>The total Departmental Expenditure Limit plus Annually Managed Expenditure.</i>
<b>Welsh Reserve</b>	<i>The Welsh Reserve will operate from April 2018 as a new tool to enable the Welsh Government to manage its budget across years. The Welsh Government will be able to save surplus revenues from the devolved taxes and underspends on the Departmental Expenditure Limit in the Reserve for use in future years. The Reserve will be able to hold up to £350m, with be an annual drawdown limit of £125m for resource and £50m for capital. There will be no annual limit for payments in to the Reserve.</i>
<b>Welsh Consolidated Fund</b>	<i>The account into which the money voted by the UK Parliament for use by the Welsh Government, the Assembly Commission, the Auditor General, and the Public Services Ombudsman for Wales is paid.</i>
<b>WGSB</b>	<i>Welsh Government Sponsored Body.</i>