



Llywodraeth Cymru
Welsh Government

Welsh Government

Draft Budget 2019-20 **Outline proposals**

A Budget to build a better Wales

October 2018

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Finance Secretary's Foreword

When the Budget for 2020-21 comes to be debated before the National Assembly for Wales, the United Kingdom will have left the European Union. Even now, by the time this outline draft Budget is published on 2 October 2018, there will be less than six months to exit day, when Brexit becomes a reality.

At the time of writing, the outcome of the negotiations between the UK and the EU remains far from certain and the threat of a disruptive and disastrous no deal Brexit edges ever closer.

The financial implications of leaving the EU are stark for Wales – greater than any other part of the UK, because Wales is a net beneficiary of EU membership.

This is also the last Budget of the current UK Government 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.

The Chancellor of the Exchequer has said the UK Government will carry out a new Spending Review in 2019. We do not know what impact this will have on the Welsh Government's budget in the future.

These two factors – combined with the impact of a UK Autumn Budget occurring in the middle of our own budget process – means I am only able to set a one-year revenue budget again this year. I have previously set capital spending plans to 2020-21 and this outline draft Budget confirms additional allocations to those budgets.

The 2019-20 draft Budget has been set in the long shadow cast by the UK Government's policy of austerity. We are now on the brink of the ninth year of austerity and counting the cost of the damage this failed policy has caused to public services and to public confidence throughout the UK.

The Office for Budget Responsibility continues to report a disappointing outlook for the UK economy. Following an up-turn in the world economy at the start of 2018, the UK is lagging behind all G7 nations.

The Welsh Government has – and will continue – to do everything it can to protect frontline services from the worst impacts of austerity. And this draft Budget is no exception. But our ability to do this has been eroded by cuts to our own funding by the UK Government.

Even allowing for the announcement by the UK Government of additional resources for the NHS, in 2019-20, the Welsh budget will be 5% lower in real terms, on a like for like basis, than at the start of the decade in 2010-11 – this is equivalent to £800m to spend on public services. If spending on public services had kept pace with the growth in GDP since 2010-11, we would have had an extra £4bn to spend in 2019-20, more than 20% up on our actual budget.

During the first half of this Assembly term, I have taken a rigorous approach towards budget planning, using the new Wales Reserve to carry forward as much revenue as possible, in a bid to offset further austerity cuts.

As well as using some of this Wales Reserve funding this year, we will once again invest in our priority areas – in the Welsh NHS; in local government; in education and in social services.

We will invest an extra £287m in the health and social care system which together with the planned increase of £220m, brings our total additional investment in 2019-20 to more than £500m – an important foundation to deliver quality health and care services fit for the future. We are providing a £50m funding boost specifically for social care and more than £25m for schools, plus funding the teachers' pay award in full. Through our collective investments, this is a better settlement than expected for local government reflecting our priority to protect frontline services against the worst impacts of austerity.

This is the first year revenue raised from Welsh rates of income tax will be included in the Welsh budget, following their introduction in April 2019. Whilst the tax will continue to be collected as one payment by HMRC, decisions about 10p in each tax band will be made in Wales for the first time further strengthening the accountability of the Welsh Government to the people of Wales.

[Paragraph deleted]

This is a further step in our fiscal devolution journey building on the introduction of land transaction tax and landfill disposals tax in April 2018. [Sentence deleted]

This means [deleted] will be collected in Wales, including from non-domestic rates and council tax. The revenues raised will deliver vital public services in Wales and boost investment in the economy supporting well-being and prosperity.

Our budget preparations this year have looked to strengthen further the steps we are taking to embed the Well-being of Future Generations Act into the process itself. We have once again worked with the Future Generations Commissioner – I thank her for her ongoing support and challenge – who is focusing on three priority areas: procurement, decarbonisation and participatory budgeting. We have also agreed to explore how resources can be allocated to prevent problems arising and easing future demand on services by intervening early – prevention is one of the underpinning principles of the Act.

As our approach continues to evolve and mature, the outline draft Budget features a series of case studies to demonstrate how we are embedding the Well-being of Future Generations Act into the budget process and prioritising *Prosperity for All*. This is, of course, an iterative process which we aim to build upon year-on-year.

Chapter 1: Strategic context

Overview

- 1.1 The Welsh Government today publishes its spending plans for 2019-20, together with indicative capital plans until 2020-21.
- 1.2 This is the third budget of the Fifth Assembly and final 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. It is also the last budget before the UK leaves the EU on 29 March 2019.
- 1.3 We recognise – and are sympathetic to – the calls from our public sector partners for budgeting over a longer period whenever possible in order to support forward financial planning. Despite the very real uncertainties we have faced in recent years, we published two-year revenue plans last year and capital plans for the three years for which we have a settlement.
- 1.4 Our ambition to publish plans for longer than 12 months must however be balanced with our ability to provide realistic and sensible planning assumptions. The continuing fiscal uncertainty; ongoing pursuit of austerity by the UK Government and the considerable uncertainty surrounding the shape and nature of the negotiations for the future deal with the EU, mean we have taken the decision to publish revenue plans for 2019-20 only, with capital plans for the next two years – 2019-20 and 2020-21.
- 1.5 To support financial planning beyond these years, the Chief Economist's report, which is published alongside the draft Budget, provides an analysis of the medium-term fiscal projections, which will help to inform scenarios for future resource spending in Wales. Further details are also available in chapter two.

New fiscal responsibilities

- 1.6 Tax devolution represents a significant milestone for Wales in its ongoing devolution journey. Following the introduction of land transaction tax and landfill disposals tax, in April 2018 – the two taxes replaced stamp duty land tax and landfill tax, respectively – the 2019-20 Budget will, for the first time, include tax revenues from the Welsh rates of income tax which are introduced in April 2019. This means a larger proportion of resources spent on public services in Wales are funded from revenue raised in Wales.
- 1.7 From April 2019, [deleted] of the Welsh Government's spending will come from revenues raised from Welsh taxes. While the Welsh tax base faces certain risks, it also presents new opportunities for the Welsh Government to design policies to develop the tax base and increase tax revenues. Further details about tax policy and revenues are provided in chapter three and outlined further in our Wales Tax Policy Report 2018 published alongside the draft Budget¹.

¹ <https://gov.wales/funding/fiscal-reform/tax-policy-framework/?lang=en>

- 1.8 Together with the introduction of Welsh rates of income tax – and as part of the fiscal framework agreed between the Welsh and UK governments in December 2016 – the Welsh Government’s overall capital borrowing limit has been increased to £1bn in aggregate, with the annual limit increasing to £150m from 2019-20. Plans to use £250m of capital borrowing over the two-year period 2019-20 and 2020-21 are reflected in the draft Budget.
- 1.9 Even with tax devolution, the Welsh Government continues to be primarily funded by a block grant from the UK Government. This is illustrated below:

[deleted]

Budget process

- 1.10 In line with the two-stage budget process, which was introduced last year, the Welsh Government is today setting out the draft strategic spending plans for revenue and capital; taxation and borrowing proposals. Details of the high-level allocations to deliver the priorities in the Welsh Government’s national strategy *Prosperity for All* are set out in chapter four. This will be followed on 23 October by the detailed portfolio budget proposals, which will inform the scrutiny of portfolio plans by the National Assembly’s policy committees.

The current financial landscape

- 1.11 The Welsh Government’s budget is substantially lower than it was in 2010 as a result of the UK Government’s ongoing policy of austerity, which has resulted in an unprecedented tightening of public finances and cuts to vital public services on which we all depend. Even allowing for the announcement by the UK Government of additional resources for the NHS, in 2019-20 the Welsh budget will be 5% lower in real terms than in 2010-11, on a like-for-like basis. This is the equivalent of £800m less to spend on public services in Wales.
- 1.12 If spending on public services had kept pace with the growth in GDP since 2010-11, in 2019-20 the Welsh Government would have an extra £4bn to spend on public services. This is equivalent to an increase in our budget of more than 20%.
- 1.13 We do not know yet how the UK Government intends to fund the increase in funding for the NHS. Until we know how this will be funded – for example, there may be cuts to other areas of devolved spending - we do not know how much extra money Wales will actually receive via the block grant. If the additional funding for the NHS is partly funded by cuts to spending in other devolved areas, then we may have less money than announced by the UK Government in June. We will not know how much extra funding Wales will receive across the years covered by the NHS announcement until next year’s Spending Review. For 2019-20, we expect to receive the extra resources for the NHS announced in June without offsetting reductions elsewhere.
- 1.14 The Welsh Government’s budget is dependent on the broader outlook for UK public finances. The Office for Budget Responsibility continues to report a disappointing outlook for the UK economy. Following an up-turn in the world economy at the start of 2018, the UK is lagging behind all G7 nations.

- 1.15 With the prospect of a UK Government Spending Review in 2019 and many unanswered questions surrounding the future of the UK outside the EU, including what the final Brexit deal will look like, our ability to plan beyond the short-term is restricted. This has been compounded by the uncertainty which surrounded the timing of the UK Government's Autumn Budget in such an important year. It was announced last week that it is now scheduled for 29 October.
- 1.16 It is against this backdrop that the Welsh Government has developed its outline draft Budget 2019-20. Although we are only able to set revenue plans for one year and capital plans for two years, they reflect this government's continued commitment to protect public services; provide the stability needed and to invest in Wales to nurture economic growth and support our priorities.

Budget agreement

- 1.17 Last year, we reached a two-year agreement with Plaid Cymru on a number of specific measures where we have shared policy priorities. The outline draft Budget 2019-20 reflects the second year of this agreement. We have also agreed an additional capital allocation of £2.75m to upgrade the Urdd camps at Glan-Ilyn, near Bala and Llangrannog.
- 1.18 As part of the two-year agreement, £5m capital has been earmarked in 2019-20 to take forward the results of some of the feasibility studies commissioned. We will continue to discuss with Plaid Cymru the funding options and further details will be provided at the final Budget, subject to the outcome of the UK Government's Autumn Budget.

Taking Wales Forward and Prosperity for All

- 1.19 The Welsh Government's programme for government, *Taking Wales Forward 2016-21*² and the national strategy *Prosperity for All*³, set out the government's priorities to deliver its long-term aim to create a Wales which is prosperous and secure; healthy and active; ambitious and learning and united and connected.
- 1.20 They set out how we will respond to the Well-being of Future Generations Act and our well-being objectives to deliver the greatest impact with reducing resources. We recognise the need to work differently by involving others and working more collaboratively in an integrated way; taking a long-term view to prevent problems arising. This is more important than ever against the backdrop of ongoing financial uncertainty and during the longest period of austerity in living memory. We also recognise the inter-dependence of what we deliver and that achieving one objective can have a positive impact on other objectives – for example, securing employment can make it more likely people will enjoy better health and education enhances people's employment opportunities for the future. This recognises and contributes towards the delivery of multiple benefits across the Act's well-being goals.

² <https://gov.wales/docs/strategies/160920-taking-wales-forward-en.pdf>

³ <https://gov.wales/docs/strategies/170919-prosperity-for-all-en.pdf>

- 1.21 The *Prosperity for All* annual report sets out the progress made towards delivering our well-being objectives – the annex in the annual report sets out the progress against each of the 150 actions in *Taking Wales Forward* and *Prosperity for All*. As part of this process we will learn from the evaluation of these activities to inform future spending decisions.
- 1.22 Chapter four sets out how we have taken further steps as part of this year’s budget process to tackle some of the most fundamental challenges facing Wales and take further steps to align our spending plans to *Prosperity for All* and maximise the impact of new investments across government.

Well-being of Future Generations Act

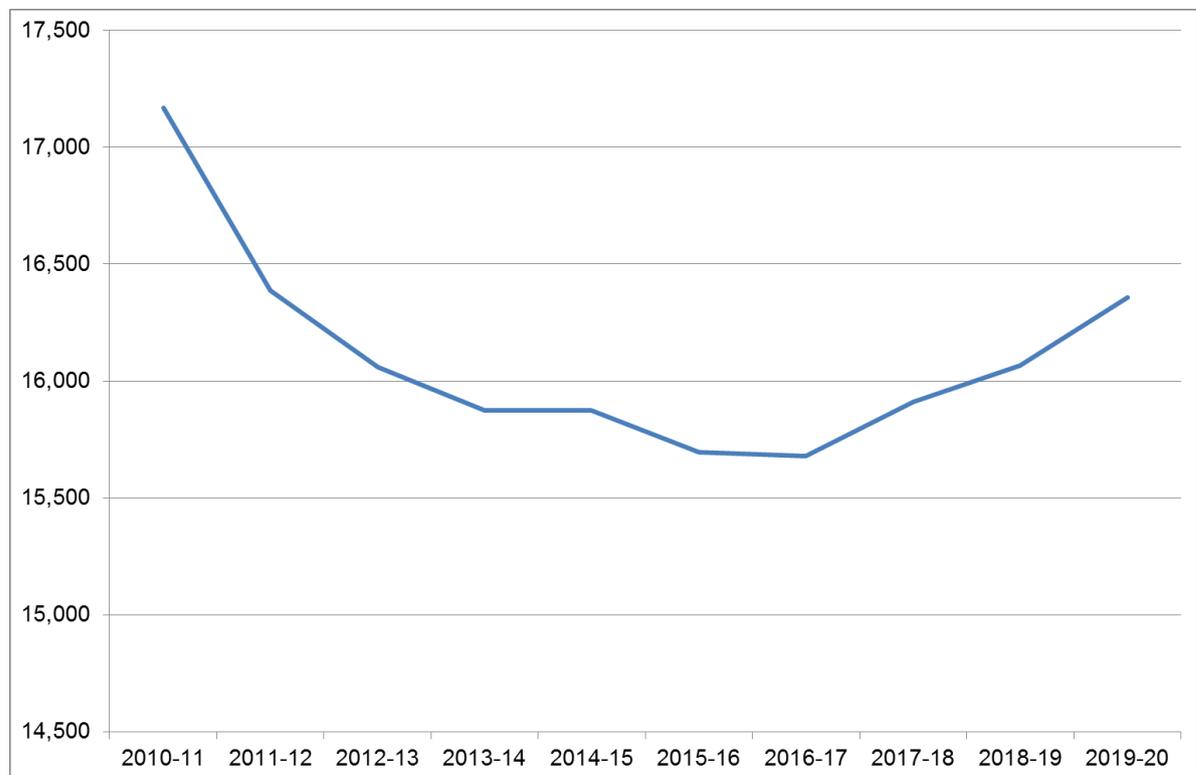
- 1.23 Our budget preparations have also sought to strengthen the steps we are taking to embed the Well-being of Future Generations Act into the budget process. This is an evolutionary process and has been a core consideration during the Cabinet’s discussions about budget planning and has featured in each of the budget meetings between the Cabinet Secretary for Finance and Cabinet Secretaries and Ministers. We continue to develop a systematic and incremental approach to ensure the Act has a growing impact to inform spending plans and maximise opportunities to join-up activities across portfolios and align resources.
- 1.24 Last year, the Cabinet Secretary for Finance and Future Generations Commissioner agreed to focus on three specific areas in the budget process – participatory budgeting, decarbonisation and procurement. These three areas offer opportunities to think differently about how we use our resources to support priorities.
- 1.25 In the Welsh Government’s response to the National Assembly’s Finance Committee’s report on the draft Budget 2018-19, we signalled our intention to seek an early meeting with the Future Generations Commissioner to discuss next steps and ways we can build on the measures we took last year to strengthen the budget process in relation to the Act. This meeting took place at the start of our budget preparations for this year and we have continued this engagement throughout the budget process.
- 1.26 Case studies which show how the Act is helping to shape our financial decisions are provided at chapter four.

Chapter 2: Financial and economic context

Impact of austerity on the Welsh budget

- 2.1** There have been some small signs from the UK Government – most significantly in relation to the lifting of the 1% pay cap for public sector workers – of a slight easing of austerity policies. But as we are about to enter the ninth year of austerity, there are no indications the Chancellor of the Exchequer is about to change course and end austerity economics.
- 2.2** As a result of the longest period of austerity in living memory, the Welsh budget has suffered deep, real-terms cuts, falling well below the level which would have been available at the beginning of the current decade. By 2019-20, it will be 5% lower in real terms than at the start of the decade, as illustrated in figure one.

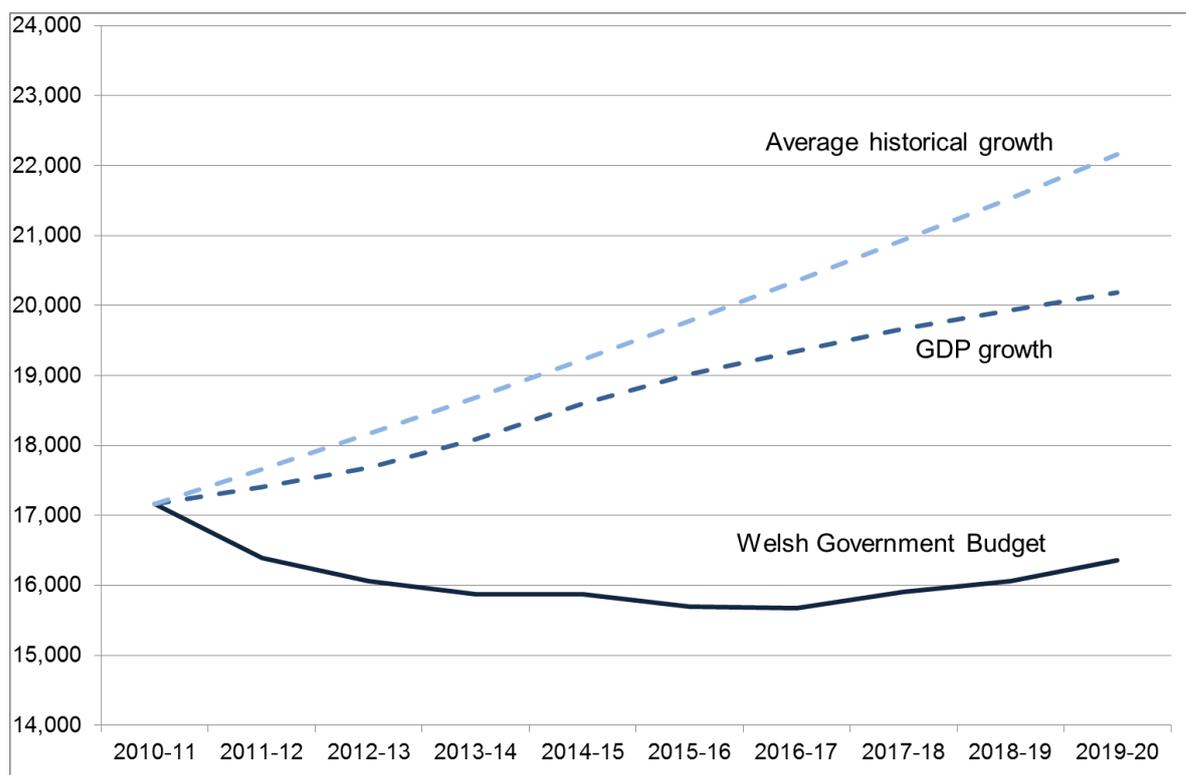
Figure one: Welsh budget* in real terms, 2017-18 prices (£m)



* excluding repayable financial transactions

- 2.3** Figure two shows that if spending on public services had kept pace with growth in GDP since 2010-11, the Welsh Government would have an extra £4bn to spend on public services in 2019-20. Figure two also shows that if the budget had grown in line with the long term trend in public spending the Welsh Government would have around £6bn extra to spend on public services next year.

Figure two: Welsh Government budget scenarios, 2017-18 prices (£m)



UK fiscal context

- 2.4** Analysis by the Office for Budget Responsibility (OBR) indicates that, following an unprecedented decade of real reductions in spending on public services, UK Government policies imply a further five years of constrained spending. The extent of this constraint will depend on how far the additional spending for the NHS in England is offset by reductions elsewhere.
- 2.5** The OBR’s longer-term fiscal projections indicate the UK public finances are fiscally unsustainable in the sense that, meeting their central projections for the demand for public services without tax increases, would result in ever-increasing public debt.

UK economic context

- 2.6** Brexit continues to weigh on growth prospects for both Wales and the UK as whole; the severity of the impact will depend on the form that Brexit takes and the dislocation associated with the process of leaving. It is likely that Wales will be hit disproportionately by a “hard” Brexit.
- 2.7** Slow productivity growth over the last decade has resulted in very little growth in people’s real incomes and contributed to the challenges faced in funding public services. The reasons for this trend, which is unprecedented in modern economic history – and which has affected the UK particularly badly – are not completely understood. If the trend continues, it may result in profound social and political challenges.

Welsh economic performance

- 2.8 Over the short to medium term, the performance of the economy in Wales is mainly driven by developments across the UK as a whole.
- 2.9 Welsh economic performance since devolution has been mixed – a significant relative improvement in employment rates (driven by reduced inactivity and concentrated in West Wales and the South Wales Valleys) has been offset by a relative deterioration in productivity and in pay, which are closely related.
- 2.10 Overall, the limited change in relative Gross Value Added (GVA) per head in Wales has reflected these largely offsetting effects of the improvement in the employment rate and the deterioration in relative productivity. However, over the most recent two years, GVA per head has grown faster in Wales than across the UK as a whole.
- 2.11 Future improvements in Wales' relative economic performance will depend crucially, but not exclusively, on the success of policies to improve education and skill levels and on better transport and communication links.

Brexit

Implications

- 2.12 The decision to leave the EU was momentous and the full implications of the vote in 2016 remain unclear. The impact of Brexit on our own budgets and programmes will be considerable.
- 2.13 Brexit will dominate all areas of the Welsh Government's work over the coming years as we disentangle from existing ties and establish a new path for Wales. There is a huge amount of work already under way to mitigate the potential impacts of Brexit; to maximise the opportunities and to set firm foundations for delivery over the remainder of this government term and beyond. This draft budget places a significant emphasis on these important considerations as we look to the future.
- 2.14 The Welsh Government has been working to secure a Brexit which promotes the interests of Wales. We have published evidence, analysis and detailed proposals for a Brexit that works for Wales and the UK through a series of policy papers including on finance, trade, migration, regional investment and devolution⁴.
- 2.15 The financial implications of the UK leaving the EU are starker for Wales than other parts of the UK as we are a net beneficiary of EU membership – over the last five years Wales' share of the UK contribution to the EU is estimated to be smaller than the level of EU programme spending in Wales. In total, Wales receives around £680m in EU funding annually. Wales must not lose out. Funding that Wales would have otherwise reasonably expected from EU sources must be replaced by the UK Government without any top-slicing or conditions attached.
- 2.16 It is essential that withdrawal from the EU does not take money away from our communities. It should not limit our ability to continue to invest in our economy and

⁴ <https://beta.gov.wales/brexit>

the people of Wales. The baseline of the Welsh Government's block grant from the UK Government must be readjusted from the point of EU exit to reflect the real loss of European funding. A "Barnett-ised" share of UK funding will not be acceptable; nor would a UK Prosperity Fund, where Wales would need to bid into a system at the behest of UK Ministers. Wales must receive at least the funding we would have received if the UK had remained part of the EU.

UK funding and fiscal arrangements

- 2.17** We have given consideration to how the UK's funding and fiscal arrangements will need to evolve to meet the new circumstances and challenges outside the framework of the EU, to provide clarity for businesses and communities and, above all, to build confidence for the future.
- 2.18** In July, we published *Reforming UK funding and fiscal arrangements after Brexit*⁵. Wales makes an important contribution, as part of the UK, and we will continue to do so after the UK's withdrawal from the EU. However, we fundamentally and urgently need to review, clarify and, in some cases reform, our existing funding and fiscal machinery to ensure the UK approach is sustainable and benefits all parts of the UK outside the EU. This can only be achieved by working collaboratively and with a shared set of objectives and ways of working over the longer term.
- 2.19** As a first step, we propose reforms to the inter-governmental machinery overseeing funding and fiscal arrangements to ensure they are based on the principles of partnership, agreement and consent. This includes evolving the existing finance ministers' quadrilateral into a four-way decision-making body and an explicit role for bodies independent of government to oversee the operation of the new arrangements, including dispute resolution.
- 2.20** We also recognise Brexit provides an opportunity to design a new, principles-based funding mechanism, which will guarantee fair and continuing investment where it is needed, encouraging balanced economic growth across all parts of the UK and upholding and enhancing devolution.
- 2.21** This should also help clarify important aspects of the UK's future relationship with EU partnership and networks such as Horizon 2020 and ERASMUS+ and including continued access to the finance and expertise available from the European Investment Bank.
- 2.22** From April, around 80% of the Welsh Government's spending will be decided by the Barnett formula. The funding floor placed in the Barnett formula (as a result of the fiscal framework agreed in December 2016) has provided an additional £70m so far for Welsh public services and will provide a further £271m over the five years covered by the NHS announcement. However, it does not fully address our concerns about the way the Barnett formula operates. The inherent unfairness and irrationality of the Barnett formula is widely recognised. Alongside the development of other post-EU UK frameworks, the Barnett formula should be replaced with a new, rules-based funding system embedded within a new fiscal agreement, which ensures the allocation of resources within the UK is based on relative need.

⁵ <https://beta.gov.wales/sites/default/files/2018-07/reforming-uk-funding-and-fiscal-arrangements-after-brexit.pdf>

Preparedness

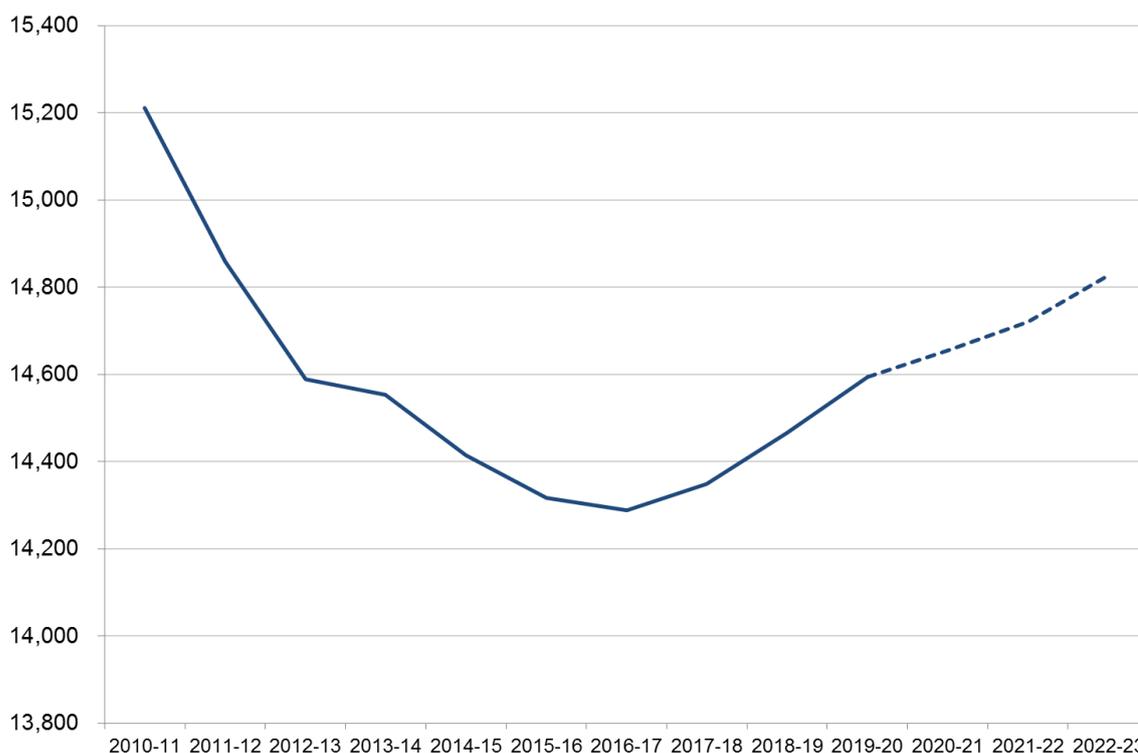
- 2.23 The Welsh Government has put in place arrangements to prepare for the practical implications of Brexit and to ensure Wales is in the best possible position to deal with the challenges and opportunities ahead.
- 2.24 We continue to engage with stakeholders across the private, public and third sectors through a range of forums to understand their concerns and priorities and to be active in setting out coherent policy positions to influence the UK Government's approach to exit negotiations and prepare for multiple possible outcomes.
- 2.25 We have established a £50m EU Transition Fund to help businesses and public services plan and prepare for Brexit. This builds on £5m allocated for Brexit preparedness over 2018-19 and 2019-20 as part of the two-year Budget agreement with Plaid Cymru. The EU Transition Fund has been designed in collaboration with the organisations and businesses it is intended to help. It will provide tailored financial support and advice for businesses to help them thrive outside the EU. Through the fund, we have already announced a number of measures, including more than £2m to support the development of the red meat sector in Wales; £3m to support the agricultural industry and £3.5m of support for Welsh universities to drive international partnerships and promote Wales as a study destination post-EU exit.
- 2.26 We are reviewing a range of proposals to support other sectors across Wales.

Wales' medium-term fiscal prospects

- 2.27 As highlighted in the Chief Economist's report, which is published alongside the draft budget, Wales' fiscal prospects depend, to a certain extent, on the UK Government's fiscal position, as this determines the size of the block grant and to a lesser but still significant extent, on the revenues raised from devolved taxes. The UK Government has announced its intention to carry out a Spending Review next year. We do not know yet what impact this will have on the Welsh budget or the period for which we will have a firm settlement.
- 2.28 Wales' fiscal prospects over the medium term, to 2022-23, will depend to a certain extent on the approach taken by the UK Government to funding the recently-announced increase in spending on the NHS in England. In the absence of a firm revenue settlement beyond 2019-20, the analysis by the OBR in its March *Economic and Fiscal Outlook* and in July in its *Fiscal Sustainability Report* form the starting point to assess fiscal prospects in the medium-term.
- 2.29 Following the same approach as we have taken to setting plans for 2019-20, the medium-term projection assumes the announced NHS increase in 2019-20 feeds through to increase the overall Wales Resource DEL. Beyond that, it is assumed the NHS announcement is increasingly funded by spending cuts in "non-protected" departments – up to 50% by 2022-23.

2.30 In this scenario, the overall Wales resource budget would grow by under 2% in real terms between 2019-20 and 2022-23 (see figure three). The annual growth rate of 0.5% a year from 2020-21 onwards is similar to that in recent years. Within the overall budget, if growth in the Welsh NHS budget is maintained at the same rate as that announced by the UK Government for England, the rest of the budget would decline in real terms by 2% a year after 2019-20.

Figure three: Medium-term projection for Welsh Government resource budget in real terms (£m, 2017-18 prices)



2.31 Over the longer term (2023-24 to 2029-30), future UK Government fiscal position and policies are, of course, uncertain and several scenarios are therefore presented in the Chief Economist's report published alongside the outline draft Budget. However, the analysis undertaken by the OBR implies that until the policies adopted by the present UK Government are known, it would be prudent to assume a prolonged period of fiscal restraint. This would be necessary unless the UK Government were to increase the overall tax take as a share of GDP well above its historic levels.

Chapter 3: Funding Arrangements

Overview

- 3.1** There have been a number of important fiscal developments, which have had implications for Wales and our budget over the past decade. The fiscal framework, which was agreed with the UK Government in December 2016, has resulted in a permanent change to the Barnett formula through the introduction of a funding floor. The funding floor has so far delivered an additional £70m for Wales and will deliver a further £271m over the next five years, as a result of the Barnett consequential for the UK Government's NHS spending announcement.
- 3.2** The devolution of non-domestic rates and the introduction of land transaction tax and landfill disposals tax – the first Welsh taxes in almost 800 years – means [deleted] of the 2019-20 Budget will have been directly raised in Wales. This autumn, we are setting the first Welsh rates of income tax, which will be introduced in April 2019 and are expected to raise [deleted] in the first year, further strengthening the link between revenue raised in Wales and funding spent on public services and the accountability of the Welsh Government to the people of Wales.
- 3.3** The new tax-raising and tax-varying powers provide the government with additional ways to deliver its priorities for Wales. As developments in fiscal devolution evolve, we will strive to deliver an approach to Welsh taxation which is fair, clear and which meets the needs of the people, businesses and communities of Wales.

Tax policy

- 3.4** We continue to work closely with stakeholders to deliver the principles and priorities set out in the 2017 Tax Policy Framework, which highlighted our intention to create an orderly and credible approach to tax policy across the five Welsh taxes – Welsh rates of income tax, land transaction tax, landfill disposals tax, council tax and non-domestic rates. These will collectively raise [deleted] to spend on Welsh public services annually, and our ambition is they will:
- Raise revenue to support public services;
 - Deliver policy objectives, particularly to support jobs and growth;
 - Be simple, clear and stable;
 - Be developed through collaboration and involvement; and
 - Create a more equal Wales.
- 3.5** Our annual tax policy report is published alongside the 2019-20 outline draft Budget, and sets out what we have done to deliver the priorities set out in our Tax Policy Work Plan (published in February 2018). This provides a full update about the Welsh Government's tax policy, including the implementation of Welsh rates of income tax from April 2019. It also sets out work being undertaken on data analysis and modelling; the ongoing work on new tax ideas including a vacant land tax, social care levy, disposable plastics tax and tourism tax; the progress of the work plan on local taxation and the establishment of the Welsh Revenue Authority (WRA) and improving tax administration across all taxes in Wales. Many of the items in the work plan will help to deliver our longer-term ambitions on tax in Wales, as outlined above.

- 3.6** In 2018, we have been grateful for the continued engagement and constructive challenge of members of the Cabinet Secretary for Finance’s Tax Advisory Group⁶.
- 3.7** We will publish a new work plan in early 2019 to continue our transparent and collaborative approach to tax policy-making. Key challenges within the new work plan will be to:
- Build a more strategic approach to tax revenue-raising across Welsh Government policy;
 - Work with HMRC to effectively implement the new Welsh rates of income tax in April 2019;
 - Progress work on the new tax ideas, including a social care levy and vacant land tax; and
 - Develop and embed a more taxpayer-focused and modernised approach to tax administration in Wales.

Welsh rates of income tax

- 3.8** From 6 April 2019, if you live in Wales, up to half of your income tax will directly fund services in Wales.
- 3.9** This is a change from the current system, where all income tax is paid to the UK Government to fund spending across the UK. Some 1.3 million taxpayers living in Wales will pay Welsh rates of income tax from 6 April 2019; the money raised will fund public services, such as the NHS and schools. Income tax will continue to be collected as one payment by HMRC and Welsh taxpayers will soon receive a letter from HMRC setting out their status as a Welsh taxpayer.

3.10 [Paragraph deleted]

Figure four: [deleted]

Other Welsh taxes

- 3.11** Land transaction tax and landfill disposals tax were introduced in April 2018 and are collected and managed by the WRA.
- 3.12** As the new tax authority for Wales, the WRA has developed Our Approach – a new way of doing tax to help deliver a fair tax system for Wales. The WRA will continue to work collaboratively with representatives, partner organisations, taxpayers and the public to ensure taxes are administered efficiently and effectively. The WRA will also publish a three-year corporate plan in spring 2019, outlining more about its approach to tax administration. The WRA corporate plan for its first year is available at <https://beta.gov.wales/welsh-revenue-authority-corporate-plan-2018-2019>

Land transaction tax

3.13 [Paragraph deleted]

⁶ <https://gov.wales/funding/fiscal-reform/tax-policy-framework/tax-advisory-group/?lang=en>

3.14 [Paragraph deleted]

3.15 [Paragraph deleted]

3.16 [Paragraph deleted]

Landfill disposals tax

3.17 Landfill disposals tax is a tax paid 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 fees. It replaced landfill tax in Wales in April 2018, enabling public services in Wales to continue to receive the benefit of the revenues raised by the tax. In common with landfill tax, it aims to ensure the landfill disposal method is properly priced to reflect its environmental cost and to promote a more sustainable approach to waste management. Its devolution offers a further lever with which to support Welsh Government priorities and policies, including the ambitious goal of zero waste by 2050 and our efforts to reduce carbon emissions and tackle climate change.

3.18 [Paragraph deleted]

3.19 The approach to setting tax rates has been guided by the principles in the Tax Policy Framework and the overall aim of reducing landfill disposals in Wales. 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.

3.20 [Paragraph deleted]

Landfill Disposals Tax Communities Scheme

3.21 The Landfill Disposals Tax Communities scheme was set up to support environmental and community projects in areas affected by the disposal of waste to landfill. The scheme started on 1 April 2018 and the first bids were received by the Welsh Council for Voluntary Action, which is the distributive body for the scheme, in July 2018. The scheme will fund projects which support biodiversity, waste minimisation and the diversion of waste from landfill, and environmental enhancements. An independent panel, with representatives from bodies such as Keep Wales Tidy, Natural Resources Wales and the Waste and Resources Action Programme, will assess the bids. The projects will need to show how they will help communities contribute towards the well-being goals and five ways of working of the Well-being of Future Generations Act.

3.22 Over the next four years £1.5m a year has been allocated to the scheme to support communities affected by the disposal of waste to landfill. This provides a stable funding stream for the scheme.

Non-domestic rates

- 3.23** Local taxation is an integral part of the system for funding local government in Wales. The gross rates payable from non-domestic rates (NDR) is almost £1.3bn in Wales. Once reliefs are applied, NDR contributes over £1bn towards the annual funding of local services.
- 3.24** The Welsh Government has implemented a permanent and better-targeted Small Business Rates Relief scheme, which supports around 70% of business premises in Wales, with around half paying no rates at all. The Welsh Government will evaluate the improvements made to the scheme in 2018-19, while considering areas for further development.
- 3.25** State schools and hospitals are obliged to pay non-domestic rates, as are a wide range of other public sector properties. They make an important contribution to the cost of vital local services delivered in our communities. However, many independent schools and hospitals are able to enjoy charitable relief from rates. Independent schools and private hospitals, in our view, should be placed on an equal footing with their public sector equivalents in respect of the payment of non-domestic rates. Whilst we do not deny them financial benefits they receive from having charitable status, or the ability to act commercially to raise revenue through fees, we do believe it is fair to expect them to make a contribution to the cost of local services by paying rates on the properties they occupy. It is our intention to consult in the coming year on the eligibility of independent schools and hospitals for charitable rates relief.
- 3.26** Over the summer we consulted with businesses, industry representatives and local authorities on proposals to reduce the amount of non-domestic rates revenue that is lost each year through avoidance behaviour. We have been clear that, in this Assembly term, we will make local taxes fairer and work to ensure that everyone contributes their fair share. It cannot be right that the efforts of the considerable majority, who abide by the rules and pay their dues, are undercut by a minority intent on exploiting or abusing the system. We will shortly announce the outcome of the consultation and our way forward for reducing rates avoidance in Wales.

Independent assurance of tax revenue forecasts

- 3.27** Updated forecasts for devolved tax revenue have been published and assured by Bangor Business School⁷. The forecasts for 2019-20 are shown in table 3.5.
- 3.28** Following consideration of a number of options for longer-term forecasting arrangements, the Welsh Government has entered into an arrangement with the Office for Budget Responsibility (OBR) for the provision of Welsh tax revenue forecasts for the 2020-21 Welsh Government budget and beyond. This arrangement will start from 1 April 2019. Further details are available in the tax policy report⁸, which is published alongside the draft Budget.
- 3.29** **Table 3.5:** [Deleted]

⁷ <https://beta.gov.wales/draft-budget-2019-2020>

⁸ <https://gov.wales/funding/fiscal-reform/tax-policy-framework/?lang=en>

Block grant adjustment

- 3.30** Following the devolution of tax powers to Wales, the Welsh Government's block grant is reduced to reflect the fact that revenues from devolved and partially-devolved taxes now go directly to the Welsh Government rather than the UK Exchequer.
- 3.31** As agreed in the fiscal framework, the adjustment for the fully-devolved taxes involves:
- a. A baseline for the adjustment – reflecting tax collected under the predecessor UK tax in Wales in the year prior to devolution (2017-18).
 - b. Annual block grant adjustments – from the initial baseline the adjustment is increased or decreased reflecting growth in the equivalent UK Government tax in England and Northern Ireland.
- 3.32** [Paragraph deleted]
- 3.33** The Welsh Government's tax revenue forecasts use a number of the OBR's economic determinants. Those forecasts will also be revised following the publication of the OBR's autumn forecasts.
- 3.34** [Paragraph deleted]
- 3.35** The level of revenues from the Welsh rates of income tax in 2019-20 shown in this draft Budget is aligned with the OBR's March forecast. This is also likely to change in the OBR's autumn forecast but, as noted, there will be no net impact on the Welsh Government budget in this first year.
- 3.36** [Paragraph deleted]

Wales Reserve

- 3.37** The Wales Reserve was introduced in April 2018 as part of the fiscal framework arrangements to enable us to deal effectively with volatility arising from tax revenues by retaining unspent resources for use in future years. It replaces the previous budget exchange process.
- 3.38** The Wales Reserve can hold up to £350m. Annual drawdowns are limited to £125m for revenue spending and £50m for capital spending. There are no annual limits for payments into the reserve.
- 3.39** At the start of 2018-19, £325m was held in the reserve – £274m revenue and £51m capital. Plans to use funding held in the reserve in-year will be included in the forthcoming 2018-19 second supplementary budget.
- 3.40** In setting our spending plans for 2019-20 we have planned to draw down £125m revenue from the Wales Reserve.

Financial transactions capital

- 3.41 In recent years, the nature of our capital budget has changed as greater restrictions have been placed on the use of capital by the UK Government. In 2019-20, 14.2% of our capital budget was in the form of financial transactions capital, which can only be used for loan and equity investments and must be repaid to HM Treasury.
- 3.42 As our experience of financial transaction capital grows, we are using the funding in more innovative ways, alongside the core programmes of business and housing support. As part of the *Wales Infrastructure Investment Plan mid-point review*⁹, which was published in May, we announced £19m of financial transaction capital over three years for the Development Bank of Wales to support a rescue and recovery fund and to increase investment in the micro-business loan fund as part of our commitment in *Prosperity for All* to improve access to finance for businesses.
- 3.43 We are developing a range of proposals over the autumn and will announce further financial transaction investments in the final Budget.
- 3.44 Further information about the budget treatment of financial transaction funding and profile of repayments can be found in annex D.

Borrowing

- 3.45 As part of the fiscal framework agreed with the UK Government in December 2016, the Welsh Government's overall capital borrowing limit has been increased to £1bn in aggregate, with the annual limit increasing to £150m from April 2019.
- 3.46 Borrowing enables the Welsh Government to increase its overall capital spending power – over and above the limit set by HM Treasury through the block grant – to support our infrastructure investment priorities set out in the Wales Infrastructure Investment Plan. Using our new borrowing powers we can deliver large-scale strategic investments, which would otherwise be unaffordable using our core capital budgets alone.
- 3.47 Table 3.6 includes commitments to borrow £250m over the two-year period 2019-20 and 2020-21. As part of our detailed discussions with HM Treasury in preparation for the 2019 Spending Review, we will be seeking an increase in our annual and aggregate borrowing limits to support our capital investment ambitions.
- 3.48 It is important we are able to manage our capital budget flexibly. We will maintain our approach to funding investment by maximising the drawdown of the least expensive forms of capital first before proceeding to more complex and expensive forms of investment.
- 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.

⁹ <https://beta.gov.wales/infrastructure-investment>

3.50 The Welsh Government will draw its borrowing capital from the National Loans Fund. Repayment forecasts for the period we have set capital plans are set out in Table 3.6. The repayment forecast is based on an assumption of a repayment period of 30 years and an average interest rate of 2.22%.

Innovative finance

3.51 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. An update on these schemes is provided in annex D.

Sources of Finance for Welsh Government

3.52 With the introduction of tax devolution the sources of finance for Welsh Government are widening. Table 3.6 sets out sources for resource and capital.

Table 3.6 : Sources of finance

2019-20 DRAFT BUDGET			
COMPONENTS OF WELSH FINANCING	2019-20 Plans as per 2018-19 Final Budget £'000	2019-20 Changes £'000	2019-20 New Plans Draft Budget £'000
RESOURCE FINANCING			
Departmental Expenditure Limit (DEL):			
Fiscal	13,310,209	-1,719,834	11,590,375
Non-Fiscal	689,981	0	689,981
Drawdown from the Welsh Reserve	75,000	50,000	125,000
Annually Managed Expenditure (AME):			
Fiscal	28,505	-511	27,994
Non-Fiscal	156,965	-34,597	122,368
Wales Devolved Financing:			
Non Domestic Rates	1,063,000	-2,000	1,061,000
Welsh Rate of Income Tax	Deleted	Deleted	Deleted
Land Transaction Tax	Deleted	Deleted	Deleted
Landfill Disposals Tax	Deleted	Deleted	Deleted
Principal repayment of borrowing	-3,744	597	-3,147
TOTAL RESOURCE FINANCING	Deleted	Deleted	Deleted
CAPITAL FINANCING			
Departmental Expenditure Limit (DEL):			
General	1,814,525	2,701	1,817,226
Financial Transactions	300,219	0	300,219
Annually Managed Expenditure (AME):			
Capital	816,483	-15,015	801,468
Wales Devolved Financing:			
Borrowing	125,000	0	125,000
TOTAL CAPITAL FINANCING	3,056,227	-12,314	3,043,913
TOTAL WELSH FINANCING	18,669,143	385,341	19,054,484

2019-20 DRAFT BUDGET			
COMPONENTS OF WELSH FINANCING	2020-21 Plans as per 2018-19 Final Budget £'000	2020-21 Changes £'000	2020-21 New Plans Draft Budget £'000
CAPITAL FINANCING			
Departmental Expenditure Limit (DEL):			
General	1,948,697	2,057	1,950,754
Financial Transactions	291,758	0	291,758
Annually Managed Expenditure (AME):			
Capital	0	0	0
Wales Devolved Financing:			
Borrowing	125,000	0	125,000
TOTAL CAPITAL FINANCING	2,365,455	2,057	2,367,512
TOTAL WELSH FINANCING	Deleted	Deleted	Deleted

Chapter 4: Investing in government priorities

Overview

Approach to the budget preparations

- 4.1 In last year's Budget, we published indicative revenue allocations for 2019-20 and indicative capital allocations to 2020-21. The outline draft Budget being published today builds on the plans we published last year.
- 4.2 From the outset, we have focused on how we can take further steps to embed the principles and the five ways of working in the Well-being of Future Generations Act into the budget process. The Act plays a fundamental role in guiding the budget process to ensure, as a government, we think about the long-term; work with people and communities; take a preventative approach to try and stop problems from happening in the first place and a more joined-up, cross government and public sector approach to addressing issues.
- 4.3 Our drive to embed a preventative approach in our financial decisions is gaining momentum in this draft Budget. We have placed a focus on prevention in the delivery of public services – in terms of meeting current demand for services and to support interventions, which can help prevent problems occurring in the future. As part of the budget process, we have continued to work with the third sector and other partners to develop, and agree, a common definition of prevention. Further detail about how this definition has supported the detailed spending plans will be published alongside the detailed draft Budget on 23 October.
- 4.4 Through bilateral meetings with Cabinet Secretaries and Ministers and in Cabinet discussions, we have collectively explored the cross-cutting impacts of our spending decisions. The Cabinet Secretary for Finance has been driving a more collaborative approach to delivering the Well-being of Future Generations Act through a prioritisation process. The bilateral meetings with Cabinet Secretaries and Ministers have emphasised the cross-government nature of our decisions and is helping to strengthen collaboration, engagement and involvement across all portfolio areas.
- 4.5 When we set indicative plans for 2019-20, it was against the backdrop of continued financial constraint and at a time when there was no sign the UK Government would ease pay restraint as part of its ongoing policy of austerity. Our priority has – and continues to be – to protect devolved public services from the worst impacts of austerity in Wales, while planning for a sustainable future. This has, inevitably, had impacts on some areas of spending. Since setting our plans, we have seen a slight easing of the UK Government's austerity policies, in terms of a lifting of the 1% public sector pay cap. However, it would appear the UK Government is set to continue its overall pursuit of austerity and deficit reduction.
- 4.6 As a result of the additional allocations stemming from the uplift to NHS funding in England, we have an opportunity to provide additional funding in this draft Budget to support our priority areas – as set out in *Prosperity for All* – whilst progressing a preventative agenda and restoring funding in some areas.

Spending priorities

4.7 Our investment in this year's Budget focuses on:

- **Performance** – we are investing in the performance and delivery of frontline services, which people and communities rely on – in health, in social care and in education;
- **Prevention** – we are continuing our investment in the preventative agenda by supporting interventions, which help to stop problems occurring in the future, particularly in early years, better mental health and supporting social care; and
- **Pay** – we are investing in the public sector workforce, our greatest public services asset, for example, with fully-funded pay deals for teachers and NHS Wales staff.

Health and social care

4.8 Since the start of this period of austerity – the longest in living memory – we have taken steps to protect health and social care together, recognising the importance social care plays in improving health and well-being in Wales for individuals, families and communities and the contribution it makes to a modern health system.

4.9 In last year's Budget we allocated an additional £220m in 2019-20 for the NHS to meet the Nuffield gap – the Nuffield Trust's calculation of the extra funding required, on top of NHS efficiencies, to maintain the delivery of NHS Wales services at a time of increased demand and pressures. We also cushioned the impact of reductions to social care to maintain assumed funding at 2017-18 levels.

4.10 In 2019-20, we will do more than just close the Nuffield gap. We will invest a total of more than £500m in health and social care to improve performance; to drive transformation and integration and to help people live healthier, independent lives for longer.

4.11 We recognise the public sector workforce is our greatest public services asset, on which we can build and progress our vision of a workforce built around values of trust, dedication and excellence. We therefore announced a pay offer to NHS Wales staff which goes further than the offer made in England. We are allocating an extra £94.6m in 2019-20 to fund the *Agenda for Change* pay deal.

4.12 We will allocate a further £192m to take forward the implementation of *A Healthier Wales*¹⁰, our plan to create a seamless integrated health and social care system. Of this, £60m will be used to support the development of stronger NHS integrated medium-term plans and a further £30m acknowledges the increasing role regional partnership boards – where health boards and local authorities work together to improve local services – will play in driving the transformation of services at a regional level.

¹⁰ <https://gov.wales/topics/health/publications/healthier-wales/?lang=en>

- 4.13 We will allocate an extra £30m to address pressures in social care, including support for domiciliary care services. The investment will be distributed to local authorities, via a special grant and, together with our continued investment in primary care, will help people to stay active and independent in their own homes for as long as possible.
- 4.14 In allocating the remaining £72m funding, we have not been constrained by traditional Ministerial boundaries. We have explored how we can target new investment to support wider Welsh Government priorities. We will therefore invest £10m in preventative schemes, including support for early years and £15m for mental health and learning disabilities, including our “whole school” approach to emotional and mental health support for children and young people. The remaining investment will be used to take forward national programmes to support the implementation of *A Healthier Wales*, including increasing investment in digital technology and improving clinical services and quality.
- 4.15 We will also continue with our plans, as previously announced in May, to invest an extra £61m capital in the NHS (£41m in 2019-20 and £20m in 2020-21). This will support NHS improvement and the modernisation of the ambulance fleet. Financial transaction funding of £4m in 2019-20 and £4m in 2020-21 will help support the development of health innovation centres to help the NHS improve the prevention, treatment and management of long-term chronic conditions. These centres will act as a catalyst for bringing together NHS Wales, academia and industry to develop cutting-edge technologies and services to improve patient outcomes and support economic development.
- 4.16 We are allocating additional capital funding of £4.5m in 2020-21 to continue the planned investment in primary care estate – an integral part of an effective well-being service. We will explore what scope there is to bring forward further proposals for new investment.
- 4.17 The extra funding now available also means that we are allocating £1.98m in 2019-20 to restore funding for the All-Wales Schools Liaison Programme. This programme typifies our preventative agenda, providing vital support in primary and secondary schools across Wales, educating children on substance misuse and personal safety issues at all key stages of the curriculum. This investment will ensure that existing match-funding from all four police forces will continue at existing levels.

Local government

- 4.18 Local government is at the forefront of delivering public services, responding to local needs and helping to provide a fully-coordinated response alongside health and wider public services. Local authorities shape and provide local services, with focus on the needs of people at all stages of their lives. Investing in the services people rely on and investing in activities that prevent problems arising in the first place, or escalating further, is a fundamental part of our aim for sustainable local government.

Revenue Support Grant to local authorities

4.19 When we published indicative plans for 2019-20, we recognised that, despite the measures we had taken to protect local government from the full impact of austerity, the indicative settlement represented a cash cut in core funding at a time when authorities are facing real pressures, as a result of an ageing population, pay and other inflationary pressures. Despite the further steps we took in the final Budget 2018-19 to provide additional funding to local government of £60m over two years, local government was still facing a 1% cash reduction in 2019-20 compared to 2018-19 (£43m).

4.20 In this draft budget, we are making a number of additional allocations through the Revenue Support Grant (RSG), some of which relate to additional costs local authorities are facing this year – such as teachers’ pay and free school meals – which mean the indicative cash reduction is reduced. Additional allocations through the RSG, include:

- An extra £23.5m over two years (£8.1m in 2018-19 and £13.7m in 2019-20) to support the school teachers’ pay award for years nursery to year 11. This is essential funding for our education system and will ensure we can attract and retain teachers in Wales which, in turn, will support our young people to reach their potential. From 30 September, the Welsh Government gained responsibility for future teachers’ pay and conditions, for academic years 2019-20 onwards. The funding for 2018-19 will be directed through a specific grant to local authorities while the funding for 2019-20 will be allocated through the RSG.
- The introduction of Universal Credit has impacted on the eligibility criteria for free school meals. The Welsh Government’s consultation on the new revised eligibility criteria closed on 14 September. No additional funding has been made available by the UK Government to manage the impact of its welfare reform agenda on free school meals. In line with the proposals in our consultation, we are making an additional £7m available to local authorities for free school meals in 2019-20, based on the latest forecasts. We will also be providing additional funding of £4m to local authorities in 2018-19 for free school meals via a grant scheme. This will support local authorities in meeting the costs associated with our proposed threshold and transitional protection measures. This approach is in stark contrast to that in England, where the Department for Education has had to find the additional finances from within its own budget.
- In recognition of the important role local authorities play in delivering core social services and the preventative approach at the heart of delivery, to help ease the pressures we are investing an extra £20m through the RSG in 2019-20. Together, with the £30m targeted funding for social care in line with *A Healthier Wales*, this brings the total additional investment in social care in 2019-20 to £50m, compared to previously-published plans for the year.

Other funding to local authorities

4.21 While the unhypothecated RSG is the largest single source of funding available to local government by the Welsh Government, it is not the only one. Local

government benefits from other funding sources, including specific grants and funding streams from Welsh Government departments to local authorities.

- 4.22 The importance of education to this government is reflected with an additional £15m, allocated through the Education MEG, for schools. We are committed to investing in raising school standards and removing barriers to learning to support young people to reach their potential.
- 4.23 We are allocating funding towards supporting Minority Ethnic and Gypsy, Roma and Traveller learners in 2019-20. After listening to the views of those impacted by our decision last year to reduce the Education Improvement Grant to prioritise funding to local government, the Welsh Government announced in February additional funding of £8.7m would be available in 2018-19. In this draft Budget, we are allocating an extra £8.7m in 2019-20 to maintain funding at 2018-19 levels with a view to supporting local government move to a more sustainable future funding model.
- 4.24 We are allocating £13.4m in total to restore previously-planned cuts to the programmes supporting early intervention, prevention and support by using £5m previously earmarked for the childcare offer, and allocating an extra £8.4m. We have agreed to move to a housing and non-housing grant arrangement to provide stability to the housing sector, whilst maintaining the commitment towards alignment and integration.
- 4.25 We are allocating an extra £3.554m in this draft Budget to maintain and further expand the new Pupil Development Grant (PDG) – Access fund, which provides vital support for parents and families across Wales to help cover some of the everyday costs associated with school – such as the cost of school uniforms, sports kit and costs of kit or equipment for activities outside of school. The fund is a key aspect of our efforts to tackle child poverty and disadvantage and ensure all children and young people have access to the same opportunities to reach their full potential in education and beyond.
- 4.26 To restore funding for school sixth forms to 2018-19 levels we are allocating an additional £9.827m from a combination of central funding and drawing on funding from *Prosperity for All* allocated to the Education MEG in final Budget 2018-19.

Table 4.1 : Local government funding changes excluding RSG

Activity	MEG	£'000
Social care	Health and Social Services	30,000
Schools	Education	15,000
Early intervention prevention and support grant	Local Government and Public Services	13,400
Minority Ethnic and Gypsy, Roma and Traveller learners	Education	8,700
PDG – Access fund	Education	3,554
Waste	Energy, Planning and Rural Affairs	2,800
School sixth forms	Education	9,827
Teachers' pay years 12 and 13	Education	1,074

4.27 As a result of these investment decisions, local authorities will benefit directly from more than £84m of additional revenue funding in 2019-20 across a range of government portfolios. A full breakdown is provided in table 4.1.

Capital investment supporting the delivery of local services

- 4.28 Building on the £30m investment to local authorities in 2017-18 to maintain and prevent the deterioration of the local roads network, we are providing a further £60m capital over three years (£20m in each of 2018-19, 2019-20 and 2020-21) to support a local government road refurbishment programme. We will also invest an extra £78m capital over three years (£26m in each of 2018-19, 2019-20 and 2020-21) to support the Local Transport Fund. This will support improved transport connections, joining up people, communities, businesses and services to drive prosperity.
- 4.29 The draft Budget provides an additional £50m capital over two years (£20m in 2019-20 and £30m in 2020-21), as announced in May, to support the Active Travel Fund. We know that building physical exercise into everyday lives has far reaching benefits. It contributes to our preventative approach with the benefits in health and well-being, reducing pressure on the health and social care system, along with environmental benefits in reducing air pollution. The active travel schemes will connect residential areas with key employment and education sites and services, enabling many more everyday journeys to be made by walking and cycling.
- 4.30 We have a strong track record in driving up recycling rates across Wales and we are investing £4.5m in 2019-20 and £4.5m in 2020-21 to help Wales meet the challenge of a zero waste strategy. We are also allocating £8m in 2019-20 and £8m in 2020-21 to fund the collaborative change programme. This brings our total additional capital investment to £25m for waste recycling and collaborative change to support our decarbonisation programme and support our *Prosperity for All* commitment to move towards a more resource efficient economy
- 4.31 Taken together, the allocations we are making in this draft Budget through the RSG and via other funding streams will result in a better settlement for local government in 2019-20 overall than previously published plans. Further details about the provisional local government settlement for 2019-20 will be published on 9 October.
- 4.32 We will provide an additional £2m in 2019-20 to meet the increasing demand on the discretionary assistance fund. The fund offers payments, or in kind support, to provide urgent assistance to people where there is an identified need to safeguard health and well-being.
- 4.33 Taken together with the additional funding we are allocating for free school meals and to continue and extend the PDG – Access fund, we are allocating more than £12.5m in 2019-20 for a package of measures which are specifically targeted to help some of the poorest people in our communities, including children and families living in poverty.

Supporting our business and communities through the uncertainty of Brexit

- 4.34** The *Economic Action Plan*¹¹ provides the strategic framework for our work with business. This includes the introduction of the economic contract, calls to action and the economy futures fund – all are designed to drive inclusive growth, future-proof business and the economy, and deliver public investment with a social purpose. Through our £50m EU Transition Fund, we are taking specific action to help Welsh businesses and organisations prepare for Brexit. Where EU Transition project proposals have been agreed as part of the first wave of investment, we have allocated funding from reserves in 2019-20 to the relevant MEGs. This includes £3.5m of support to Welsh universities to drive international partnerships and promote Wales as a study destination post EU exit and more than £6m for support for businesses to prepare for Brexit.
- 4.36** Funding for the next wave of projects will be retained in reserves until the cost profiles have been agreed, with the expectation that allocations will be made in the final Budget. In addition to support for the organisations and businesses to help prepare for Brexit, £11m is being earmarked in reserves for Welsh Government staffing requirements pending confirmation of the anticipated consequential for 2019-20 in relation to the UK Government's announcement of £3bn for Brexit over two years.
- 4.37** We are investing £3m in 2019-20, as part of a £5m package agreed with Plaid Cymru in last year's Budget agreement, to support Brexit preparedness, including funding for the Brexit Business Portal, a tool kit to provide advice and guidance to small and medium-sized enterprises about how they can prepare for Brexit.
- 4.38** As part of our preparations for leaving the EU, we are also consulting on two new large and flexible schemes to replace the Basic Payment Scheme and Glastir and other parts of the Rural Development Programme:
- The Economic Resilience Scheme will provide targeted investment to land managers and their supply chains. It will provide investment to increase competitiveness and make improvements in resilience and productivity for high-quality food production.
 - The Public Goods Scheme will provide a new income stream to land managers delivering public goods from the land. It will enable them to help address challenges such as climate change mitigation, habitat loss, poor air and water quality.
- 4.39** We continue to focus on committing 100% of the current EU funding available to Wales. At end of August 2018, we had invested £1.673bn (81%) of the £2bn EU Structural Funds allocation, driving a total investment of over £3bn (figures based on planning rate of €1.17: £1). We are making good progress with other EU funding programmes – the latest data shows Welsh organisations have benefited from €96m of Horizon 2020 funds.

¹¹ <https://gov.wales/topics/businessandconomy/economic-action-plan/?lang=en>

Other spending priorities

- 4.40 In the face of austerity and on-going public spending constraints, our continued focus on prioritising funding for vital public services, inevitably means there are some areas that face greater reductions than others. We have taken the limited opportunity we have this year to restore funding in some areas in recognition of the pressures and impact of reductions.
- 4.41 We are allocating a total of £473k to the National Park Authorities and £700k to Natural Resources Wales, reflecting the importance of the protection and promotion of our natural environment to the nation's health and well-being. We are also allocating a total of £1.522m to Healthcare Inspectorate Wales, Care Inspectorate Wales and Estyn, ensuring we maintain robust services to protect our most vulnerable citizens and support educational standards.

Prosperity for All – priority areas

- 4.42 These are areas where it has shown that early intervention and co-ordination across services can have a significant impact. The six areas are: early years; housing; social care; better mental health; employability and skills; and decarbonisation.

Early years

- 4.43 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 maximise their chances of leading a healthy, prosperous and fulfilling adulthood, enabling them to participate fully in communities, the workplace, and contribute to the future economic success of Wales.
- 4.44 We are making good progress with the delivery of our childcare offer. Since we set our indicative plans last year, we have expanded the offer. Working parents of three and four-year-olds in 14 local authority areas are now able to access 30 hours of government-funded early education and childcare. Plans for full roll out by 2020 are advanced. The first year evaluation report of the initial pilots will be published this autumn but early feedback suggests it is having a positive impact helping parents to balance the demands of work and family life.
- 4.45 As this is a demand-led programme our latest projection of take-up, which we will continue to monitor, has enabled us to reprioritise funding to support wider early years interventions. Funding to support the childcare offer in this draft budget is £40m in 2019-20, a reduction of £5m on previously-published plans. By using the £5m previously earmarked for the childcare offer and allocating an additional £8.4m, we will invest £13.4m to offset previously-planned cuts to programmes supporting early intervention, prevention and support. Building resilience in vulnerable individuals and communities, by intervening as early as possible to prevent problems from escalating, is at the heart of these programmes' aims. For the remainder of the Assembly term we have agreed to move to a housing and non-housing grant arrangement to provide stability to the housing sector, whilst maintaining the commitment towards alignment and integration.
- 4.46 We will also invest an extra £10m in 2019-20 through the funding for *A Healthier Wales* in preventative schemes which will include support for early years.

4.47 Our additional investment of £8.7m for Minority Ethnic and Gypsy, Roma and Traveller learners, together with funding of £7m to support extended eligibility for free school meals and £3.554m for PDG – Access fund, supports our ambitions to ensure children from all backgrounds have the best possible start in life.

Housing

4.48 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 form the basis for individuals and families to flourish in all aspects of their lives.

4.49 This is why the Welsh Government has committed to, and is on track to meet, an ambitious target of providing 20,000 affordable homes during this Assembly term. To continue this momentum, we are providing an additional £35m capital in 2019-20 to support the Social Housing Grant.

4.50 We are also continuing our previously-published plans to provide an additional £20m to tackle homelessness in 2019-20, including £10m specifically to tackle youth homelessness. A key part of this will be promotion of improved practices at a local level to intervene early and prevent homelessness. The funding is being targeted through additional funding in the RSG and via direct funding to national projects and the third sector in Wales – to support those areas with the highest need.

4.51 In line with our two-year agreement with Plaid Cymru we are maintaining the funding levels for Supporting People. This commitment was made in recognition of the contribution Supporting People makes across a range of policy objectives. Supporting People helps 57,500 people maintain their independence and a roof over their head with a range of interventions, from alarm services for the frail to intensive one-to-one support for vulnerable people with mental health problems. Spending has been maintained because it makes sense to continue to fund preventative services which reduce the burden on other areas of public spend, such as health and social care. Maintaining a stable home is not only fundamental to the quality of life of individuals, it also provides the foundation from which other public interventions can be allowed to succeed. For example, substance misuse treatment, access to learning and work, social care or community safety.

4.52 An important consideration in our approach to encouraging new housing developments is our decision to seek the transfer of powers from Westminster to enable Wales to introduce a vacant land tax. A vacant land tax could help to end the practice of holding onto land which has been identified as being suitable for development and could add to the incentives to encourage development.

Social care

4.53 Compassionate, dignified care plays a critical part in strong communities, helping people to stay healthy and independent for longer and is a significant economic sector in its own right.

- 4.54 We are providing an additional £50m in the draft Budget to support social care – £30m targeted investment through the Health and Social Services MEG and £20m through the RSG for local government.
- 4.55 As well as the funding specifically identified for social care, our budget proposals provide for increased funding to deliver *A Healthier Wales*, our long-term plan for health and social care. Building on previously-published plans to allocate £100m over two years (£50m in each of 2018-19 and 2019-20) for our transformation fund, we will now invest almost £250m in 2019-20 to support *A Healthier Wales*.
- 4.56 We are allocating an extra £4.5m capital in support of our plans to deliver 19 new integrated health and care centres. This is in addition to the funding previously confirmed for Cardigan Integrated Care Centre, which was part of the two-year Budget agreement with Plaid Cymru. We will continue to explore opportunities to bring forward further investments, which will bring community and social care services together under one roof.
- 4.57 An ageing population brings an increase in the demand for, and the cost of, social care. Paying for care remains an unresolved challenge throughout the UK, and taxation is one possible response. We will continue to work throughout the course of this Assembly term to explore whether a dedicated social care levy could be used to fund social care in the longer-term in Wales.

Better mental health

- 4.58 One in four people in Wales will experience mental ill health at some point in their lives. Getting the right treatment at an early stage, together with greater awareness of mental health can, in many cases, prevent longer-term adverse effects.
- 4.59 We are maintaining our commitment as part of the two-year Budget agreement with Plaid Cymru, to provide £20m extra in 2019-20 for mental health services.
- 4.60 We are also making an additional £2.5m available in 2019-20 through the Education MEG targeted specifically at improving mental health services for young people. This provision will be informed by the youth work pedagogical approach, which aims to support young people's personal, social, and emotional development, and is well placed to help address emerging mental health and well-being issues. It will form part of our new strategic approach to youth work in Wales, which will be both evidence based and co-developed with young people and the sector through our Interim Youth Work Board.
- 4.61 Of the additional funding for *A Healthier Wales*, £15m will be aimed at support for mental health services and learning disabilities, including funding for programmes in schools, wraparound mental health support for the homeless and perinatal mental health services.
- 4.62 Taken together, this means an extra £37.5m in this draft Budget to support better mental health.

4.63 The creation of a Valleys Regional Park as part of the Ministerial Taskforce for the South Wales Valleys' plan – *Our Valleys, Our Future*¹² – will improve access to the natural environment. Building healthier communities and better environments while promoting good health and well-being for everyone is at the heart of our vision for the Valleys. Capital funding of £7m has been allocated (£3.5m in 2019-20 and £3.5m in 2020-21) to establish the Valleys Regional Park.

Skills and Employability

4.64 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.

4.65 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 well-being. One of the main barriers to employment is skills. The new employability action plan, published this autumn, sets out the actions we will take to address the skills needs of individuals and businesses across Wales.

4.66 We are committed to creating a minimum 100,000 all-age apprenticeships over the course of this Assembly term. We will invest £115m in 2019-20 to continue delivery of this commitment.

4.67 In line with our two-year Budget agreement with Plaid Cymru made last year, we continue to provide £20m in 2019-20 for higher and further education. We recognise the importance of further education in helping to reduce the number of young people not in employment, education or training and in creating a vibrant and innovative higher education system, which in turn will help to build the Welsh economy and equip people with the highest level of skills.

4.68 Good skills unlock growth and innovation for businesses, which means they need to be able to recruit workers with the right skills. Our previously-published plans included capital funding of £10m over two years for further education institutions to invest in industry-standard training equipment to ensure training uses the latest technology and satisfies local employer needs.

4.69 We announced in May an allocation of £31.5m capital over three years for phase two next generation access broadband. Access to fast, reliable broadband enables more people to work from home and more business to be completed by technology rather than face-to-face, reducing travel and carbon emissions.

4.70 The Ministerial Taskforce for the South Wales Valleys' plan, *Our Valleys, Our Future*, is an example of cross-government working to direct funding to support a strategic approach to revitalising Valleys communities. A significant component within the plan is to strengthen seven strategic hubs to drive prosperity and create employment opportunities. Capital funding of £25m (£9m in 2019-20 and £16m in 2020-21) is being allocated in specific areas across the Valleys.

¹² <https://gov.wales/docs/dsjlg/publications/comm/170720-our-valleys-our-future-env2.pdf>

Decarbonisation

- 4.71 Decarbonisation protects our natural resources for future generations and will deliver economic opportunities, better-quality jobs, more comfortable and efficient homes and improvements to our health and well-being.
- 4.72 We are providing additional funding for waste recycling and collaborative change to support our decarbonisation programme and support our *Prosperity for All* commitment to move towards a more resource efficient economy. We are allocating £4.3m revenue in 2019-20 for the waste programme and the Waste and Resource Action Programme (WRAP) Cymru to maintain resource efficiency and the development of the circular economy. Taken together with the £25m capital over the next two years (£12.5m in 2019-20 and £12.5m in 2020-21) to fund the collaborative change programme and waste procurement programme it provides an investment of more than £29m in this draft Budget to support decarbonisation.
- 4.73 Waste crime poses a serious threat to the environment, contaminating land and rivers with oil and toxic chemicals. Illegal waste sites can also pose a risk to human health and blight communities, threatening air quality with toxic fumes from illegally burned materials and by causing noise and odour problems from operations near homes and schools. We will allocate £296k in 2019-20 to tackle waste crime. The funding will enable Natural Resources Wales to employ dedicated officers with specific skills to make early and robust intervention at illegal sites. It will allow a new range of enforcement tools to be used, including new provision for preventing access to sites at risk.
- 4.74 We recognise the importance of the wider environment for good health and well-being. We are providing additional allocations to support air quality. Capital funding of £6.475m in 2019-20 and £2.815m in 2020-21 will support our ambitions to improve air quality in Wales.
- 4.75 We will invest £2m in charging points for electric cars over two years (£1m in 2018-19 and £1m in 2019-20), as set out in the two-year Budget agreement with Plaid Cymru. This funding will establish a national charging network of mainly rapid chargers throughout Wales which will support the take-up of electric cars and will enable long-distance e-mobility.
- 4.76 The carbon impact of investment proposals was a key consideration when we considered how to allocate capital funding at the time of the publication of the *Wales Infrastructure Investment Plan* mid-point review, in May. Investments confirmed included:
- £60m over three years to accelerate the creation of active travel routes to connect residential areas with key employment and educational sites and services supporting our efforts to reduce carbon emissions and improve air quality;
 - £60m over three years for the NHS all-Wales capital programme, including supporting the replacement of the ambulance fleet with more modern, lower carbon models; and

- £25m over three years for the Tech Valleys programme in the South Wales Valleys which has growth, fair work and decarbonisation at the heart of economic development.

Well-being of Future Generations Act

- 4.77** A series of workshops were co-developed and jointly-delivered by the Welsh Government and WWF Cymru, which is part of the world's leading independent conservation organisation. The workshops brought together senior Welsh Government officials with senior representatives from third sector and non-governmental organisations. They identified key areas for progress, including procurement, capacity building and development and a range of other factors, which are key to how systemic whole-government change might be achieved in response to the Act. A report is being produced covering the outcomes from these workshops to form the basis for future action.
- 4.78** Last year, the Cabinet Secretary for Finance and Future Generations Commissioner agreed to focus on three specific areas in the budget process – participatory budgeting, decarbonisation and procurement. These offer opportunities to think differently about how we use our resources to support priorities. Case studies below highlight how this has been achieved through specific activities.

Participatory budgeting

- 4.79** We realise the budget can be complex and we need to do more to increase people's general understanding about both the budget and the process which underpins it. We engage with different groups, when the opportunity arises, to raise awareness of the budget process. We have expanded our digital communications, including the development of a budget calculator which was initially developed as part of the 2016 Budget agreement with Plaid Cymru.
- 4.80** Across the Welsh Government, we have a number of programmes where we involve communities and groups to discuss and decide how government funding should be prioritised and allocated. This participatory budgeting approach empowers communities to directly influence how money is spent in their local area, leading to better decisions and targeting resources more effectively to maximise impact.
- 4.81** Such an approach is at the heart of the Ministerial Taskforce for the South Wales Valleys and offers multiple opportunities to involve communities in investment decisions.
- 4.82** Other initiatives with strong engagement include the Communities Facilities capital grant programme. A fundamental requirement is for involvement by the local community in developing the funding proposal and continued involvement thereafter in the ongoing operation of the community facility.
- 4.83** We have also extended support for Business Improvement Districts (BIDs) in Wales with an investment of £210k in 2018-19 and 2019-20. A key consideration for BIDs is for businesses to determine the future direction for their locality and decide where priorities should lie. As a result, businesses, local traders, shoppers and residents

among others have been involved in determining town and city centre improvements.

Case Study: Engagement by the Ministerial Taskforce for the South Wales Valleys

Empowering people who live and work in the South Wales Valleys is essential for the long-term success of the *Our Valleys, Our Future* plan to deliver real and lasting change across the region. The taskforce was clear that people who live and work in the Valleys must have a voice that is heard, understood and responded to.

The action and delivery plans were developed following extensive engagement with and feedback from people living and working across the Valleys. And the engagement has continued as the plan has evolved. This has varied from an online survey to town-hall style public meetings; focus groups and workshops with the public, private and third sectors.

The development of the plan was the start of an ongoing dialogue with Valleys communities to shape the work and to focus efforts on the areas and priorities which matter most to people living in the Valleys.

This engagement has been used to identify challenges and opportunities including how to better integrate public services; prioritise spending and invest in new, ambitious initiatives, including the development of the strategic hubs and the Valleys Regional Park.

A Valleys taskforce communications and engagement network, with more than 250 members from organisations across the Valleys has subsequently been set up. Taskforce developments are regularly discussed with the group for scrutiny and support. A stakeholder delivery group has been established, which scrutinised the proposals for the Valleys Regional Park and has been heavily involved in the development of the concept.

The Cabinet Secretary for Local Government and Public Services recently gave a Facebook live interview, taking questions from the public. It was viewed more than 17,000 times in July.

4.84 We will continue to work with the Future Generations Commissioner's Office and third sector partners to explore further opportunities for longer-term engagement and to take forward participatory budgeting across more government programmes.

Decarbonisation

4.85 Decarbonisation is an integral part of *Prosperity for All* and has been identified as a priority area for the Welsh Government. It is at the heart of the *Economic Action Plan*, which sets a new contract for business support. This will help to send the right signals to ensure Wales positions itself to receive the maximum economic, environmental, social and cultural benefits that decarbonisation can offer.

4.86 We have established a Decarbonisation Ministerial Task and Finish Group and a robust cross-government governance structure to support this work. The group is driving the enhancement and development of cross-government decarbonisation action to achieve our carbon budgets. As part of this work, it has agreed the carbon budgeting cycle will be aligned to the budget cycle. This will underpin and support

Cabinet Secretaries' and Ministers' consideration of the budget implications of decarbonisation policies and interventions.

Case Study: Involving young people in our decarbonisation action

Climate change is recognised as the biggest threat facing future generations. Globally, children will bear the brunt of the impacts of climate change because of the increased risk of health problems, malnutrition and migration. To achieve a globally-responsible Wales, it is important we involve children and young people as we take forward decarbonisation action in Wales.

Along with our responsibilities to future generations, as set out in the Well-being of Future Generations Act 2015, the Welsh Government is committed to the United Nations Convention on the Rights of the Child (UNCRC). We want children to have an education which promotes an understanding of the issues of climate change and sustainability. This will equip them to apply the knowledge in their daily lives and invest in skills for a low carbon future.

Through raising awareness of climate change issues and involving young people in policy development, we are identifying and resolving issues and problems to prevent them from getting worse.

Our first step has been to launch a video competition for eight to 11-year-olds, using the Eco schools network, asking them what they expect Wales to look like in 2050. The competition was jointly run with Keep Wales Tidy.

The video competition was designed to raise awareness of decarbonisation in a way young people could relate to, involve young people in looking at solutions for decarbonisation, and invest in low carbon initiatives in schools through the prize fund, which promoted further energy-efficiency saving measures

In their videos, pupils were encouraged to talk about ideas about how Wales can achieve cleaner energy, air and water, healthier food and less pollution. The competition responses included ideas ranging from electricity fuelled by paper and plants and trees inside sustainable buildings to capture carbon. The competition was successful in building new skills and raising awareness around decarbonisation.

The winning school, Gaer Primary School, in Newport, received a prize of £1,000 and two runners up Fochriw Primary School in Bargoed and Sandfields Primary School in Port Talbot received up to £500. The award money will be used to fund decarbonisation projects at the schools and the children's work will be promoted on the Welsh Government's and Keep Wales Tidy's websites, publications and social media channels.

To continue to collaborate with and involve young people at the very start of developing our action for decarbonisation, we have created a specific children and young people consultation document, with tailored questions. The consultation looks at our ideas for action to 2030. By considering the impact and engaging with young people on our 2030 and 2050 long-term targets now, we are ensuring they have a say in the Wales they grow up in.

4.87 This way of working will ensure greater awareness and understanding of the outcomes to be delivered through the cross-government decarbonisation action and a greater understanding of the financial consequences of the policies being considered. Clarity about the financial impact of decarbonisation will help prioritise the action, which can be delivered within available resources.

- 4.88 To deliver the legislative target of at least 80% emissions reduction by 2050, as set in the Environment (Wales) Act 2016, the Welsh Government has developed a decarbonisation programme. To meet our decarbonisation targets, we must transition to a low-carbon economy. This will create opportunities for green growth; new, quality jobs and deliver wider benefits, including better places to live and work; clean air and water and improved health outcomes. We will be seeking to invest in low-carbon programmes and take steps to ensure the decisions we make now about our long-term infrastructure support our emission reduction framework.
- 4.89 Collaboration and involvement has been integral throughout with stakeholders involved in developing our evidence base and understanding the Welsh context, which has framed our decisions around our legislative framework. Our stakeholders include representatives from industry, business, third sector, the public sector, academia and civil society.
- 4.90 We continue to work with the Future Generations Commissioner's Office to ensure we embed the ways of working and our wider well-being commitments in our decarbonisation programme and maximise the opportunities. The Commissioner has identified climate change as one of her key priorities and we will work together to drive forward this important agenda including aligning the financial and carbon budget cycles and on how we procure goods and services.
- 4.91 We want to ensure everyone in Wales has an opportunity to tell us how our proposed future action to tackle climate change will affect them and why. Some of these ideas have been generated with the involvement of stakeholders.

Procurement

- 4.92 The changing landscape, brought sharply into focus by Brexit, calls for a different approach to procurement.
- 4.93 In preparation for this change, we have worked with stakeholders from across the public sector and business to undertake a review of procurement and clarify priorities for driving further value from the Welsh public sector's annual £6bn procurement expenditure.
- 4.94 The outcome of the review was announced in September and we will work with stakeholders to develop an implementation plan to transition to a new approach to collaborative procurement, which places greater emphasis on regional and local well-being priorities, as well as strengthening our procurement policy development and capability building programmes. The procurement transformation programme will be taken forward in collaboration with key stakeholders as part of a strategic approach to explore how we can use public funds to further build economic and community wealth across all parts of Wales.
- 4.95 Public procurement can have a profound impact on creating and sustaining employment in the long-term. Our approach to procurement can be used to support small and medium businesses to win more contracts, retaining the value in Wales. The *Economic Action Plan* sets out commitments to break large contracts into smaller lots. This will open up opportunities for smaller and local Welsh businesses. It will provide the springboard for creating strong markets in Wales and develop

capacity, which will help avoid the risks of contracts being won by a small handful of large businesses. To further support small firms and sub-contractors, we have put in place policy and guidance in January 2018 to support fair and prompt payment throughout the public sector supply chains via a new project bank accounts policy.

- 4.96 We continue to work with projects to implement our community benefits policy and apply further innovative thinking to broaden the scope of the social value delivered to Wales. This includes publishing an e-learning resource to raise support, awareness and understanding of community benefits.
- 4.97 In July, we also established a Fair Work Commission. The Commission will make recommendations to promote and encourage fair work in Wales. Procurement is one of the main levers which can help support ethical and fair employment, improving conditions for workers in Wales and internationally. We want Wales to be a fair work nation with an economy in which people have access to better jobs, closer to home, with a secure income and are able to develop skills and careers without exploitation or poverty. The opportunities to encourage and promote fair work will be taken forward later this year as part of the procurement transformation programme.
- 4.98 The commission will consider whether measures to promote fair work currently available to the Welsh Government could be taken further and identify what new or additional steps might be taken, including new legislation, and make recommendations. The commission is due to report by March 2019.
- 4.99 Following its launch in March 2017, we have continued to work with public sector partners to increase the number of organisations signed up to the *Code of Practice on Ethical Employment in Supply Chains*. More than 100 organisations have now committed to the code and we are progressing plans to increase this further.
- 4.100 One of the largest ever contracts awarded in Wales delivers the rail services commitment identified in the Welsh Government's programme for government *Taking Wales Forward*. It has commitments which deliver the four cross-cutting strategies in *Prosperity for All*, the objectives in the *Economic Action Plan*, the priorities in *Our Valleys: Our Future*, and embeds the principles and goals in the Well-being of Future Generations Act.

Case Study: Wales and Borders rail services and South Wales Metro

In May 2018, the Welsh Government awarded the Wales and Borders rail services and South Wales Metro contract. Our approach to procurement of the contract recognised this was an opportunity to build a modern, forward-looking transport system and support the future development of Wales.

We developed a rigorous, competitive-dialogue procurement approach, under the Utilities Contracts Regulations 2016 to shape a bespoke, innovative, high-quality, smarter and integrated rail contract and South Wales Metro. Our objective was to create a replacement rail services contract, which could also help tackle congestion and pollution, support wider Welsh Government actions to drive economic growth and employment and improve access to services.

Our progressive approach to procurement responded to the lessons learned from rail franchising and infrastructure delivery across the UK in recent years. Rather than concentrate on ownership models for rail, which has historically been the case, we focused more closely on the possibilities for the rail network to support future generations.

Passengers' priorities were placed at the centre of the procurement process and the bidders were challenged to address the concerns passengers had about capacity, journey times and service frequency. Passengers also said they wanted affordable fares and newer, cleaner trains. There were extensive public consultations and engagement events across Wales in 2016 and 2017, including focus groups and in-depth passenger interviews to develop the quality standards the public wanted. We received a significant number of contributions to these, including more than 1,300 written responses which were used to inform the competitive dialogue process.

We also engaged extensively with industry on the outcomes we were seeking to achieve. This included discussions with train operating companies, infrastructure delivery companies and manufacturing companies with feedback almost universally supporting a process which would incentivise innovation. The Transport for Wales procurement team was supported by a secondee from the Cardiff Capital Region City Deal Joint Board.

We created a sustainable and ethical procurement advisory panel to advise the procurement process, including addressing supply chain, skills, environmental and cultural issues. This placed sustainability and ethics as central to the procurement strategy and opportunity to deliver real value for money taking broader issues into account.

This approach allowed dialogue with bidders to develop a feasible, fit-for-purpose solution to achieve our objectives rather than specifying this up front. As a result, our plans for the South Wales Metro created the opportunity to extend the railway from Coryton to the proposed cancer treatment centre at Velindre. It also identified opportunities to use the service improvements from the South Wales Metro to develop the strategic hubs across the South Wales Valleys. We are also working with a registered social housing landlord to develop an affordable housing scheme at a Metro park and ride site in the Vale of Glamorgan.

The contract represents an investment of £5bn to transform how communities across Wales and the Borders are connected and to drive prosperity. It provides medium-term certainty with a contract period of 15 years, which is designed to incentivise continual investment in the service during that time, building resilience and feeding into planning the longer term.

It will increase social mobility and widen access, connecting people with jobs, education, health and leisure on low carbon state of the art trains which use next generation digital connectivity. The new service will prevent train over-crowding and address the deteriorating quality of rolling stock. It will be designed to integrate with other modes of transport, such as bus services, and will provide flexible ticketing options enabling people to move easily throughout South Wales.

Passengers and industry stakeholders will continue to be involved in managing the new service; this includes building on the existing cross-border forum to ensure the views of passengers in England are taken on board. We will extend our partnership working, enabling Transport for Wales to work collaboratively with local authorities and others in the management of the new service and to capitalise on opportunities opened up by the contract. This includes supporting and growing local supply chains by working with small and medium-sized enterprises and the third sector.

Prevention

- 4.101 *Prosperity for All* recognises that with limited resources and increasing demand for public services we have to work differently and maximise the impact of our resources to deliver the government's priorities. A key consideration is how we can act now to help prevent issues arising, getting worse or occurring in the future; improving the economic, social, environmental and cultural well-being of Wales in line with the sustainable development principle.
- 4.102 We recognise the importance of preventative spend and have been working collaboratively with the third sector and the Future Generations Commissioner's office. We have agreed to explore how resources can be allocated to prevent problems arising and easing future demand on services by intervening early.
- 4.103 We established a joint working group with the third sector to develop a definition of prevention. We have also worked closely with the office of the Future Generations Commissioner to test the definition and look at how we can move the work from concept to practice to support preventative spending decisions.
- 4.104 The definition is intended to aid policy decisions to improve outcomes for those living in Wales, supporting well-being and releasing budget savings in the future. Using a broad definition recognises that everything we do cannot be aimed at pure prevention, but by understanding the underlying causes of issues we can take restorative action through identifying innovative solutions and making early interventions so that over time we can make a move towards primary prevention.

Prevention is working in partnership to co-produce the best outcomes possible, utilising the strengths and assets people and places have to contribute. Breaking down into four levels, each level can reduce demand for the next:

- **Primary prevention** – Building resilience – creating the conditions in which problems don't arise in the future. A universal approach.
- **Secondary prevention** – Targeting action towards areas where there is a high risk of a problem occurring. A targeted approach, which cements the principles of progressive universalism.
- **Tertiary prevention** – Intervening once there is a problem, to stop it getting worse and prevent it reoccurring in the future. An intervention approach.
- **Acute spending** – Spending, which acts to manage the impact of a strongly negative situation but does little or nothing to prevent problems occurring in the future. A remedial approach.

* **progressive universalism** is a determination to provide support for all, giving everyone and everything a voice and vested interest, but recognises more support will be required by those people or areas with greater needs.

Case Study: A Healthier Wales

A Healthier Wales sets out the Welsh Government's long-term plan for health and social care, placing a new emphasis on well-being, prevention and early intervention. We are allocating a further £192m in this draft Budget to take forward the implementation of *A Healthier Wales*, to create a seamless integrated health and social care system.

It was developed following wide involvement and collaboration with partners and the public. The Welsh NHS Confederation, Welsh Local Government Association, Association of Directors of Social Services and the Welsh Council for Voluntary Action worked together with the Welsh Government to inform the content of the plan. The views of patients, service users and the public were gathered through engagement with representative groups, statutory commissioners, and citizen panels.

The plan sets out our vision for the future of health and social care, based on the guiding philosophy of prudent healthcare:

- Everyone in Wales should have longer, healthier and happier lives, able to remain active and independent for as long as possible. Mental and physical well-being throughout life helps individuals realise their full potential – coping with the challenges that life throws at them, working productively and contributing to their family life and communities;
- There will be a whole-system approach to health and social care, in which services are only one element of supporting people to have better health and well-being throughout their lives. More emphasis will be placed on prevention, supporting individuals to manage their own health and well-being, building resilience and remaining independent for longer;
- Services and support will deliver the same high-quality of care, and achieve more equal health outcomes, for everyone in Wales;
- Services will be designed around the individual and groups of people, targeting action to their unique needs and what matters to them, as well as quality and safety outcomes;
- People will only go to a general hospital when that is essential. The shift in resources to the community will mean that when hospital-based care is needed, it can be accessed more quickly;
- Because of its emphasis on driving change and improvement, on well-being, prevention and early intervention, and on using technology to support high-quality services, this whole-system approach will be more effective, efficient and equitable so it is sustainable in the long-term for future generations in Wales.

The plan includes 10 principles, including prevention and early intervention – to enable and encourage good health and well-being and anticipating and predicting poor health – which will guide the transformation of health and social care services in the longer-term. New models of seamless health and social care will be presented as an integrated single package of support, care or treatment tailored to the needs and preferences of the individual, even if it is made up of services delivered by several different providers.

The Welsh Government is investing a further £50m in the health and social care transformation fund in 2019-20 to accelerate and scale up the implementation of new models of care, endorsed by regional partnership boards.

4.105 A key area in which to explore prevention is healthcare. The Office for National Statistics highlighted in April 2017 that 5.4% of total government funding for health in the UK is spent on preventative healthcare¹³. To influence increased investment in preventative action in Wales, we have held workshops with NHS Wales in collaboration with Public Health Wales, focusing on collective preventative action. We also intend to take the opportunity to develop and embed prevention within NHS Wales through the annual refresh of the NHS Planning Framework. We have been working with Public Health Wales to consider how we move from acute services to primary prevention to draw out learning which can be applied across public services. Further detail about how preventative spending decisions have been taken across portfolio areas will be provided as part of the detailed draft Budget, which is published on 23 October.

Legislation

4.106 The Welsh Government's legislative programme is set out in an annual statement by the First Minister and consists of Bills being developed by the Welsh Government to help deliver the programme for government. The proposals are shaped by the Well-being of Future Generations Act and seek to improve Wales now and in the future. They are developed through substantial stakeholder involvement and are further improved through the scrutiny of the National Assembly.

4.107 As part of developing proposals the Welsh Government is required to complete a Regulatory Impact Assessment. This considers the likely administrative, compliance and other costs that might arise from the legislation along with any savings; the timescale in which these are likely to rise and on whom the costs and savings will fall. The assessment also recognises where there may be unknown, unquantified costs and where the assessment relies on assumptions or where there are uncertainties.

4.108 In response to a recommendation from the National Assembly's Finance Committee, we have agreed to provide information to enable a comparison of the extent to which the estimated costs and savings identified in the Regulatory Impact Assessment reflect the actual costs and savings during implementation of the legislation; this information will be published as part of the detailed draft Budget on 23 October. Details of implementation costs will be included for the following acts:

- o Regulation and Inspection of Social Care (Wales) Act 2016
- o Public Health (Wales) Act 2017
- o Violence against Women, Domestic Abuse and Sexual Violence (Wales) Act 2015
- o Renting Homes (Wales) Act 2016
- o Historic Environment (Wales) Act 2016

¹³ The Office for National Statistics produces annual estimates of healthcare expenditure as set out under the System of Health Accounts (SHA). The SHA classifications build on common concepts, boundaries, definitions and accounting rules for measuring consumption of healthcare goods and services across European and OECD Countries. The most recent statistics show that in 2016, the UK spent 5.4% of healthcare expenditure on preventive care. Apart from Canada (6.2%), this is the highest percentage of a number of European and OECD countries – with the average around 3%. Data from Wales is included within the UK figures, but separate statistics are not currently available due to the methodology used.

- o Additional Learning Needs and Education Tribunal (Wales) Act 2018
- o Agricultural Sector (Wales) Act 2014
- o Planning (Wales) Act 2015
- o Environment (Wales) Act 2016

Chapter 5: Welsh Government spending plans

Wales' expenditure budget

- 5.1 Devolved expenditure in Wales for 2019-20 comprises allocations to Welsh Government main expenditure groups (MEGs) of £18.3bn.
- 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. Our draft Budget is presented in MEGs as these form our control totals for managing the budget throughout the year.

Table 5.1- Allocation of the Wales Budget

MAIN EXPENDITURE GROUPS (MEGs)		2019-20 Indicative plans as per 2018-19 Final Budget	2019-20 Changes	2019-20 New Plans Draft Budget
		£000s		
Health and Social Services		7,977,718	369,684	8,347,402
Local Government and Public Services		5,267,269	122,730	5,389,999
Economy and Transport		1,279,460	30,674	1,310,134
Education		2,490,667	77,303	2,567,970
Energy, Planning and Rural Affairs		332,756	33,910	366,666
Central Services and Administration		314,227	3,638	317,865
Total Allocations to Welsh Government MEGs		17,662,097	637,939	18,300,036
Unallocated Resource	Fiscal Resource	140,392	6,739	147,131
	Non-Fiscal Resource	164,209	-8,421	155,788
Unallocated Capital	General	438,636	-246,754	191,882
	Financial Transactions	194,452	-3,709	190,743
Assembly Commission		56,914	-500	56,414
Public Services Ombudsman for Wales		4,480	0	4,480
Wales Audit Office		7,261	0	7,261
Direct Charges to the Welsh Consolidated Fund		702	47	749
TOTAL WELSH BUDGET		18,669,143	385,341	19,054,484

Categories of expenditure

5.3 Within the MEG allocations there are different types of expenditure which are used for different purposes:

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

5.4 Tables 5.2a and 5.2b set out the MEG allocations by these categories and also by year.

Table 5.2a - Summary of the Welsh Government MEG Total Allocations – 2019-20

2019-20 DRAFT BUDGET TOTAL MEG ALLOCATIONS										
£000s										
	Resource			Capital			AME			TOTAL MEG
MEG*	Fiscal	Non Fiscal	Resource Total	General Capital	Financial transactions	Capital Total	Resource	Capital	AME Total	
HSS	7,623,206	190,000	7,813,206	369,096	4,000	373,096	161,100	0	161,100	8,347,402
LGPS	3,729,895	200	3,730,095	498,273	72,637	570,910	1,088,994	0	1,088,994	5,389,999
E&T	476,535	196,677	673,212	547,536	33,030	580,566	56,356	0	56,356	1,310,134
Educ	1,554,850	107,154	1,662,004	206,674	-191	206,483	-101,985	801,468	699,483	2,567,970
EPRA	235,918	21,592	257,510	106,756	0	106,756	2,400	0	2,400	366,666
CSA	277,684	16,000	293,684	21,204	0	21,204	2,977	0	2,977	317,865
Total	13,898,088	531,623	14,429,711	1,749,539	109,476	1,859,015	1,209,842	801,468	2,011,310	18,300,036

*Health and Social Services (HSS); Local Government and Public Services (LGPS); Economy and Transport (E&T); Education (Educ); Energy, Planning and Rural Affairs (EPRA); Central Services and Administration (CSA)

Table 5.2b - Summary of the Welsh Government MEG Total Allocations – 2020-21

MAIN EXPENDITURE GROUPS (MEGs)	2020-21 INDICATIVE TOTAL MEG CAPITAL ALLOCATIONS			
	£000s			
	Capital			TOTAL MEG CAPITAL ALLOCATION
	General	Financial Transactions	Capital Total	
Health and Social Services	334,488	4,000	338,488	338,488
Local Government and Public Services	469,951	43,505	513,456	513,456
Economy and Transport	602,612	10,580	613,192	613,192
Education	179,750	-195	179,555	179,555
Energy, Planning and Rural Affairs	92,836	2,000	94,836	94,836
Central Services and Administration	17,648	0	17,648	17,648
TOTAL ALLOCATIONS TO WELSH GOVERNMENT MEGs	1,697,285	59,890	1,757,175	1,757,175

Table 5.3 Changes to the Welsh Government MEG Resource Allocations

FISCAL ALLOCATIONS			
MAIN EXPENDITURE GROUPS (MEGs)	£000s		
	2019-20 Allocations as per 2018-19 Final Budget	2019-20 Changes	2019-20 New Plans Draft Budget
Health and Social Services	7,337,701	285,505	7,623,206
Local Government and Public Services	3,671,524	58,371	3,729,895
Economy and Transport	440,481	36,054	476,535
Education	1,516,870	37,980	1,554,850
Energy, Planning and Rural Affairs	229,489	6,429	235,918
Central Services and Administration	274,046	3,638	277,684
Total Fiscal Allocations to Welsh Government MEGs	13,470,111	427,977	13,898,088

NON-FISCAL ALLOCATIONS			
MAIN EXPENDITURE GROUPS (MEGs)	£000s		
	2019-20 Allocations as per 2018-19 Final Budget	2019-20 Changes	2019-20 New Plans Draft Budget
Health and Social Services	190,779	-779	190,000
Local Government and Public Services	400	-200	200
Economy and Transport	195,898	779	196,677
Education	107,039	115	107,154
Energy, Planning and Rural Affairs	13,086	8,506	21,592
Central Services and Administration	16,000	0	16,000
Total Non Fiscal Allocations to Welsh Government MEGs	523,202	8,421	531,623

Total Resource Allocations to Welsh Government MEGs	13,993,313	436,398	14,429,711
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Table 5.4 Changes to the Welsh Government MEG Capital Allocations

GENERAL CAPITAL ALLOCATIONS						
MAIN EXPENDITURE GROUPS (MEGs)	£000s					
	2019-20 Allocations as per 2018-19 Final Budget	2019-20 Changes	2019-20 New Plans Draft Budget	2020-21 Allocations as per 2018-19 Final Budget	2020-21 Changes	2020-21 New Plans Draft Budget
Health and Social Services	328,138	40,958	369,096	309,988	24,500	334,488
Local Government and Public Services	430,773	67,500	498,273	430,451	39,500	469,951
Economy and Transport	455,514	92,022	547,536	496,969	105,643	602,612
Education	176,674	30,000	206,674	154,750	25,000	179,750
Energy, Planning and Rural Affairs	87,781	18,975	106,756	77,521	15,315	92,836
Central Services and Administration	21,204	0	21,204	17,648	0	17,648
Total General Capital Allocations to Welsh Government MEGs	1,500,084	249,455	1,749,539	1,487,327	209,958	1,697,285

FINANCIAL TRANSACTION CAPITAL ALLOCATIONS						
MAIN EXPENDITURE GROUPS (MEGs)	£000s					
	2019-20 Allocations as per 2018-19 Final Budget	2019-20 Changes	2019-20 New Plans Draft Budget	2020-21 Allocations as per 2018-19 Final Budget	2020-21 Changes	2020-21 New Plans Draft Budget
Health and Social Services	0	4,000	4,000	0	4,000	4,000
Local Government and Public Services	73,067	-430	72,637	44,700	-1,195	43,505
Economy and Transport	32,700	330	33,030	8,000	2,580	10,580
Education	0	-191	-191	0	-195	-195
Energy, Planning and Rural Affairs	0	0	0	2,000	0	2,000
Central Services and Administration	0	0	0	0	0	0
Total Financial Transaction Capital Allocations to Welsh Government MEGs	105,767	3,709	109,476	54,700	5,190	59,890
Total Capital Allocations to Welsh Government MEGs	1,605,851	253,164	1,859,015	1,542,027	215,148	1,757,175

Table 5.5 – Changes to the Welsh Government MEG AME Allocations

AME RESOURCE ALLOCATIONS			
MAIN EXPENDITURE GROUPS (MEGs)	£000s		
	2019-20 Allocations as per 2018-19 Final Budget	2019-20 Changes	2019-20 New Plans Draft Budget
Health and Social Services	121,100	40,000	161,100
Local Government and Public Services	1,091,505	-2,511	1,088,994
Economy and Transport	154,867	-98,511	56,356
Education	-126,399	24,414	-101,985
Energy, Planning and Rural Affairs	2,400	0	2,400
Central Services and Administration	2,977	0	2,977
Total Resource AME Allocations to Welsh Government MEGs	1,246,450	-36,608	1,209,842

AME CAPITAL ALLOCATIONS			
MAIN EXPENDITURE GROUPS (MEGs)	£000s		
	2019-20 Allocations as per 2018-19 Final Budget	2019-20 Changes	2019-20 New Plans Draft Budget
Health and Social Services	0	0	0
Local Government and Public Services	0	0	0
Economy and Transport	0	0	0
Education	816,483	-15,015	801,468
Energy, Planning and Rural Affairs	0	0	0
Central Services and Administration	0	0	0
Total Capital AME Allocations to Welsh Government MEGs	816,483	-15,015	801,468

Total AME Allocations to Welsh Government MEGs	2,062,933	-51,623	2,011,310
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Table 5.6 – Direct borrowing for capital purposes

WELSH GOVERNMENT DIRECT BORROWING FOR CAPITAL PURPOSES(1)		
	£000s	
	2019-20	2020-21
Total borrowing outstanding at start of year (principal)	136,090	257,943
Proposed capital borrowing to be drawn	125,000	125,000
Repayments of principal	-3,147	-6,210
Aggregate capital borrowing outstanding at end of year (principal)	257,943	376,733
Interest	4,295	6,984

(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 5.7 – Direct borrowing for capital purposes, repayment schedule

WELSH GOVERNMENT DIRECT BORROWING FOR CAPITAL PURPOSES - REPAYMENTS			
	£000s		
	Amounts falling due within 1 year	Amounts falling due within 1 - 5 years	2020-Amounts falling due after 5 years
Principal	3,147	34,848	348,094
Interest	4,295	35,322	124,402

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

	2019-20 DRAFT BUDGET						
	£000s						
	HSS	LGPS	E&I	Educ	EPRA	CSA	TOTAL
Resource	7,813,206	3,730,095	673,212	1,662,004	257,510	293,684	14,429,711
Capital	373,096	570,910	580,566	206,483	106,756	21,204	1,859,015
Resource AME	161,100	1,088,994	56,356	-101,985	2,400	2,977	1,209,842
Capital AME	0	0	0	801,468	0	0	801,468
TOTAL MANAGED EXPENDITURE	8,347,402	5,389,999	1,310,134	2,567,970	366,666	317,865	18,300,036
Reconciliation to Resources							
Resource Consumption - Welsh Government Sponsored Bodies	-250	-200	-6,281	-305	-12,400		-19,436
Supported Borrowing		-88,800					-88,800
National Insurance Fund Receipts Collection Costs	-906						-906
National Non-Domestic Rates Payable (and Collection Costs)		-1,066,172					-1,066,172
Interest Repayments on Borrowing						-4,295	-4,295
PFI			-8,982				-8,982
RESOURCES REQUESTED	8,346,246	4,234,827	1,294,871	2,567,665	354,266	313,570	17,111,445

*Health and Social Services (HSS); Local Government and Public Services (LGPS); Economy and Transport (E&T); Education (Educ); Energy, Planning and Rural Affairs (EPRA); Central Services and Administration (CSA)

Annex B: Year on Year Changes

RESOURCE - Year on Year Percentage Change	£000s		
	2018-19	2019-20	
MAIN EXPENDITURE GROUPS (MEGs)	Supplementary Budget June 2018	New Plans	% Change
Health and Social Services	7,795,872	8,347,402	7.07%
Local Government and Public Services	5,405,117	5,389,999	(0.28)%
Economy and Transport	1,150,136	1,310,134	13.91%
Education	2,416,879	2,567,970	6.25%
Energy, Planning and Rural Affairs	353,854	366,666	3.62%
Central Services and Administration	324,048	317,865	(1.91)%
Total Resource Allocations to Welsh Government MEGs	17,445,906	18,300,036	

RESOURCE - Year on Year Percentage Change - Real Terms	£000s		
	2018-19	2019-20	
MAIN EXPENDITURE GROUPS (MEGs)	Supplementary Budget June 2018	New Plans	% Change
Health and Social Services	7,795,872	8,347,402	5.4%
Local Government and Public Services	5,405,117	5,389,999	(1.8)%
Economy and Transport	1,150,136	1,310,134	12.2%
Education	2,416,879	2,567,970	4.6%
Energy, Planning and Rural Affairs	353,854	366,666	2.0%
Central Services and Administration	324,048	317,865	(3.4)%
Total Resource Allocations to Welsh Government MEGs	17,445,906	18,300,036	

CAPITAL - Year on Year Percentage Change	£000s				
	2018-19	2019-20		2020-21	
MAIN EXPENDITURE GROUPS (MEGs)	Supplementary Budget June 2018	New Plans	% Change	New Plans	% Change
HSS	364,663	373,096	2.31%	338,488	(9.28)%
LGPS	609,285	570,910	(6.30)%	513,456	(10.06)%
E&T	467,879	580,566	24.08%	613,192	5.62%
Educ	203,627	206,483	1.40%	179,555	(13.04)%
EPRA	105,634	106,756	1.06%	94,836	(11.17)%
CSA	23,087	21,204	(8.16)%	17,648	(16.77)%
Total Capital Allocations to Welsh Government MEGs	1,774,175	1,859,015		1,757,175	

*Health and Social Services (HSS); Local Government and Public Services (LGPS); Economy and Transport (E&T); Education (Educ); Energy, Planning and Rural Affairs (EPRA); Central Services and Administration (CSA)

CAPITAL - Year on Year Percentage Change - Real Terms	£000s				
	2018-19	2019-20		2020-21	
MAIN EXPENDITURE GROUPS (MEGs)	Supplementary Budget June 2018	New Plans	% Change	New Plans	% Change
HSS	364,663	373,096	0.7%	338,488	(10.8)%
LGPS	609,285	570,910	(7.7)%	513,456	(11.5)%
E&T	467,879	580,566	22.2%	613,192	3.9%
Educ	203,627	206,483	(0.2)%	179,555	(14.5)%
EPRA	105,634	106,756	(0.5)%	94,836	(12.6)%
CSA	23,087	21,204	(9.6)%	17,648	(18.1)%
Total Capital Allocations to Welsh Government MEGs	1,774,175	1,859,015		1,757,175	

*Health and Social Services (HSS); Local Government and Public Services (LGPS); Economy and Transport (E&T); Education (Educ); Energy, Planning and Rural Affairs (EPRA); Central Services and Administration (CSA)

AME RESOURCE - Year on Year Percentage Change	£000s		
MAIN EXPENDITURE GROUPS (MEGs)	2018-19	2019-20	
	Supplementary Budget June 2018	New Plans	% Change
Health and Social Services	117,000	161,100	37.69%
Local Government and Public Services	1,076,422	1,088,994	1.17%
Economy and Transport	26,632	56,356	111.61%
Education	(97,234)	(101,985)	4.89%
Energy, Planning and Rural Affairs	2,400	2,400	0.00%
Central Services and Administration	2,939	2,977	1.29%
Total Resource AME Allocations to Welsh Government MEGs	1,128,159	1,209,842	

AME RESOURCE - Year on Year Percentage Change - Real Terms	£000s		
MAIN EXPENDITURE GROUPS (MEGs)	2018-19	2019-20	
	Supplementary Budget June 2018	New Plans	% Change
Health and Social Services	117,000	161,100	35.6%
Local Government and Public Services	1,076,422	1,088,994	(0.4)%
Economy and Transport	26,632	56,356	108.3%
Education	(97,234)	(101,985)	3.3%
Energy, Planning and Rural Affairs	2,400	2,400	(1.5)%
Central Services and Administration	2,939	2,977	(0.3)%
Total Resource AME Allocations to Welsh Government MEGs	1,128,159	1,209,842	

AME CAPITAL - Year on Year Percentage Change	£000s		
MAIN EXPENDITURE GROUPS (MEGs)	2018-19	2019-20	
	Supplementary Budget June 2018	New Plans	% Change
Health and Social Services	0	0	0.00%
Local Government and Public Services	0	0	0.00%
Economy and Transport	0	0	0.00%
Education	661,816	801,468	21.10%
Energy, Planning and Rural Affairs	0	0	0.00%
Central Services and Administration	0	0	0.00%
Total Capital AME Allocations to Welsh Government MEGs	661,816	801,468	

AME CAPITAL - Year on Year Percentage Change - Real Terms	£000s		
MAIN EXPENDITURE GROUPS (MEGs)	2018-19	2019-20	
	Supplementary Budget June 2018	New Plans	% Change
Health and Social Services	0	0	0.00%
Local Government and Public Services	0	0	0.00%
Economy and Transport	0	0	0.00%
Education	661,816	801,468	19.2%
Energy, Planning and Rural Affairs	0	0	0.00%
Central Services and Administration	0	0	0.00%
Total Capital AME Allocations to Welsh Government MEGs	661,816	801,468	

Annex C: Strategic Integrated Impact Assessment

Introduction

1. In developing the outline draft Budget we have taken account of the Well-being of Future Generations Act by considering the sustainable development principle and applying the five ways of working throughout the budget-making process. These considerations are set out in chapter four of the budget narrative.
2. The areas of responsibility of the Welsh Government as a devolved administration are set out in law. Within these devolved areas we have a number of statutory duties to provide public services. We also have six principal commitments in key areas of public service delivery, in health and social care, education, housing and childcare. These duties and commitments underpin the spending decisions that we make.
3. As part of the budget setting process, we have a responsibility to consider our decisions through a number of lenses to understand the impact. An integrated approach enables us to better understand the impact of decisions overall on different groups of people. Some of our responsibilities are statutory and all are essential to deliver positive outcomes. These are equalities and human rights, children's rights, the Welsh language, climate change, rural proofing, health, biodiversity and economic development. Socio-economic disadvantage is an underpinning consideration when assessing the impact of decisions. This annex sets out how these considerations have informed our strategic budget allocations to improve the economic, social, environmental and cultural well-being of Wales.
4. In line with the two-stage budget process, which was introduced in 2017, this strategic integrated impact assessment will focus on the decisions identified in the outline stage of the draft Budget. This stage identifies the sources of funding for the Welsh Government, including new Welsh taxes and borrowing powers, together with the high-level portfolio allocations and spending decisions.
5. This is followed by the publication of the detailed portfolio spending proposals on 23 October. In response to feedback from the National Assembly's Finance Committee and the Future Generations Commissioner, this will include a separate integrated impact assessment of the spending proposals.
6. Evidence and statistics are taken from the *Well-being of Wales 2017-18 Report*¹⁴ unless stated otherwise.

¹⁴ <https://gov.wales/statistics-and-research/well-being-wales/?lang=en>

The Current Position

Financial outlook

7. As a result of the UK Government's continuing pursuit of austerity, despite some evidence of easing in recent months, the outlook for public finances remains challenging. The overall financial forecast is set out in chapters two and three of the budget narrative. In light of the upcoming 2019 UK Government Spending Review and, at the time of writing, continued uncertainty about the Brexit deal and its impact on public spending, our ability to plan beyond the short term is constrained.
8. One of the main impacts of the UK Government's long policy of austerity has been in the changes to the welfare system. The Equality and Human Rights Commission published a report¹⁵ earlier this year, which sets out the cumulative impact of tax and welfare reforms across the UK. Overall, the analysis shows changes to taxes, benefits, tax credits and Universal Credit since 2010 to be regressive, with the largest impacts felt by those with lower incomes. Households with children experience much larger income losses than households without children. This is especially the case for lone parents and large families in Wales who, on average, lose around £3,720 and £4,110 a year respectively. There is a disproportionately negative impact on the incomes of several protected groups, including disabled people, certain ethnic groups and women. The impact is particularly negative on intersectional groups who experience multiple disadvantages.

Prosperity for All and Taking Wales Forward

9. *Prosperity for All*, the national strategy, takes the commitments in the programme for government, *Taking Wales Forward*, and places them in a longer-term context. It sets out how they will be delivered in a more joined-up way that cuts across traditional boundaries, both inside and outside government. The strategy sets out our central mission to deliver a prosperous country that benefits everyone in Wales to enjoy good quality of life and live in a strong, safe community.
10. *Prosperity for All* highlights how we deliver is as important as what we deliver. We have set ourselves the objective of working in a joined-up way across government in five priority areas, where, by working in a different way, we can deliver more effectively. Over the last year, it has become increasingly apparent that Wales will only achieve our ambitious decarbonisation targets if it becomes a shared objective of government – decarbonisation has therefore been added as a sixth *Prosperity for All* priority.
11. Taken together, the six priority areas are areas where it has been shown that early intervention and co-ordination across services can have a significant impact and make an important contribution to a number of our well-being

¹⁵ <https://www.equalityhumanrights.com/en/publication-download/cumulative-impact-tax-and-welfare-reforms>

objectives. The six areas are – early years; housing; social care; better mental health; skills and employability and decarbonisation.

12. For every year the UK Government's policy of austerity continues and the constraints on public spending continue, our ability to invest in public services and the economy comes under mounting pressure. *Prosperity for All* supports Cabinet Secretaries and Ministers to consider how to use the limited resources and prioritise between competing demands to ensure we deliver value for money and the most positive impacts for the well-being and prosperity of Wales. Chapter four of the budget narrative sets out how we have taken further steps, through the budget process to allocate additional resources to tackle some of the most fundamental challenges facing Wales.
13. Our spending plans also reflect a number of shared priorities and projects, which were mutually considered to have a positive impact on the people of Wales and were agreed as part of the two-year Budget agreement (2018-19 and 2019-20) with Plaid Cymru. As part of the agreement we have announced further funding to support the Welsh language, through an additional capital allocation of £2.75m to upgrade the Urdd camps at Glan-Ilyn, near Bala and Llangrannog.

Future Considerations

14. The predicted demographic, social, environmental and economic trends identified in the *Future Trends* report¹⁶, published in 2017, identify a number of pressures to key public service areas most notably social care and health services.
15. The six priority areas in *Prosperity for All* are those where cross government action can make the greatest contribution to long-term prosperity and well-being. For example, it is clearly understood that the first years of life are the most important to establish a sound base for lifelong well-being; the number of single person households and non-traditional family units is growing and with them a shifting need and demand for housing; social care needs are developing with the changing nature of illnesses, such as dementia; as mental health is more recognised and understood across a person's life course there needs to be a greater focus on prevention and access to a wider range of services; the development of artificial intelligence and increased automation could have a significant impact on employability and skills; and the impact of climate change is becoming more and more visible and there is increasing pressure to slow the pace of change.
16. We have considered a range of evidence across the six priority areas to reflect on the impact of our decisions. One of the key challenges is a persistent and stubborn gap between the richest and poorest communities in Wales, which can be seen in key statistics such in health outcomes, life expectancy and education outcomes.

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

17. Education is one of the most important investments we can make to improve the life chances of children, particularly those from deprived communities and those with protected characteristics and we have recognised this as one of our priorities in this budget.
18. The economy in Wales faces a number of long-standing challenges, particularly in raising levels of productivity and pay and ensuring decent employment for all who want it. A successful economy is important not just in its own right but also to generate the tax revenues needed to provide high-quality public services. Over the long run, increasing productivity and creating and attracting high productivity jobs are critical. The Chief Economist's report, published alongside the outline draft Budget, notes that, among other factors "...the success of policies to improve levels of education and skills and to help to increase effective economic mass by improving transport and communication links, will be crucial to improving Wales' relative productivity performance".
19. Previous reports by the Nuffield Trust and the Health Foundation have assessed the long-term funding challenge for the NHS in Wales, setting out a framework for efficiency and sustainability. We have consistently provided the additional funding identified in these reports to maintain health services, while also ensuring social care is supported, in line with our long-term support for the health and social care system.
20. The *Well-being of Wales 2017-18* report, reports on progress against the well-being goals. This is a position for Wales as a whole – it is not a report about the performance of any organisation, but the collective changes we are seeing in Wales. The report gives a rich source of data which underpins our decision-making process.

Spending Plans

Revenue

21. As part of our preparations for this year's Budget, we have reviewed the evidence and considered feedback from discussions with stakeholders. We believe the indicative figures set last year for 2019-20 are focused in the right areas. We have the opportunity to provide some additional revenue funding in 2019-20 to support *Prosperity for All* priorities and our well-being objectives. This funding is predominantly drawn from the Barnett consequential from the UK Government's decision to increase health spending in England and by drawing on additional funding from the new Wales Reserve. We are focusing our additional investment this year on three broad areas – performance, prevention and pay.

Capital

22. The 2018-19 Budget set out indicative capital plans for 2019-20 and 2020-21. Following the 2017 UK Autumn Budget, Wales received a capital

consequential and some early allocation decisions were announced alongside the final Budget 2018-19 in January 2018. A further £266m of capital investments was announced alongside the publication of the *Wales Infrastructure Investment Plan* mid-point review in May 2018 to support the delivery of our priorities, including to alleviate future pressures on public services; to support our decarbonisation priority and support the delivery of *Prosperity for All*. The implications for 2019-20 and 2020-21 of these announcements are reflected in this budget, together with a number of additional allocations.

Our priorities for investment

Health and social care

23. Our aim is to improve health and well-being in Wales – for individuals, families and communities – taking significant steps to move our approach from treatment to prevention. These challenges require a range of responses from birth through to old age, maximising health and well-being throughout life. In general over the medium-term there have been improvements in the number of expected years of healthy life, avoidable mortality and some healthy lifestyle characteristics (e.g. reduced smoking and drinking) in recent years. However factors influencing health continue to change, for example obesity in children remains a challenge, and increased in the last year.
24. Evidence shows that good health is very important, not only for helping people to get a job but for the progress they make once in employment. Good physical and mental health matter in the labour market and therefore affect well-being as a result of the impact on an individual's socioeconomic position.
25. The Parliamentary Review of Health and Social Care in Wales identified the focus for health and social care should be on developing one system of seamless health and care for Wales. Such an integrated approach to health and care has a positive impact on older people and disabled people, who are more likely to require social care, in addition to young people living in care.
26. *A Healthier Wales: Our Plan for Health and Social Care*¹⁷ is our response to the Parliamentary Review. It sets out how we will support the NHS and social care services to work together. It identifies the need for health and social care services to work with other services, such as education and housing, to help people stay healthy and independent for as long as possible. This includes moving more care out of hospital and into local communities, relocating services closer to where people live and providing more services to help prevent people becoming ill.
27. However, the *Future Trends* report and the *Well-being of Wales* report show both the NHS and social care services face increasing demands from a growing and ageing population, requiring increased funding. There is a strong link between poor health and deprivation. Social care and healthcare impacts

¹⁷ <https://gov.wales/docs/dhss/publications/180608healthier-wales-mainen.pdf>

on the most disadvantaged, whether through old age, disability or the need to safeguard children. The fundamental purpose of *A Healthier Wales* is to support the physical and mental well-being of every citizen of Wales by ensuring high-quality, effective and accessible healthcare and services, including preventative healthcare, continue to be available, free at the point of use, to all.

28. It is for these reasons we will allocate additional funding of £287m to the health and social care portfolio, of which £94.6m in 2019-20 will fund the Agenda for Change pay deal. The proposal targets recruitment, retention and ensures the NHS can continue to recruit the skilled compassionate workforce it needs. This will give our hardworking NHS staff a three-year pay deal, which goes beyond our commitment to the Living Wage Foundation recommendations, supporting people on lower incomes and giving them a fair day's pay. A new rate of £17,460 is introduced from 1 April 2018 as the minimum basic pay rate in the NHS and the lowest starting NHS salary increases to £18,005 in 2020-21.
29. The remaining £192m will take forward *A Healthier Wales: Our Plan for Health and Social Care* which places a new emphasis on well-being, prevention and early intervention. The case study in chapter four of the budget narrative sets out the vision behind the plan. There are a range of proposals, which will have a positive impact on the most vulnerable, particularly the very young and the elderly who are proportionately the greatest users of health and social care services. The £60m allocated to develop NHS integrated medium-term plans and the £30m to increase the role of regional partnership boards – where health boards and local authorities work together – will support improvements and transform services. The NHS and local authorities will need to consider impacts as they develop their plans.
30. We are directing £30m specifically to social care, from the Health and Social Services MEG, which will have a disproportionate positive impact on the young, elderly and disabled. Funding of £15m will support mental health provision, especially for young people through the whole-school approach, meeting their rights for good quality healthcare under Article 24 of the United Nations Convention on the Rights of the Child (UNCRC). Welsh Government analysis of data from the School Health Research Network shows that mental well-being is broadly the same for boys and girls at year 7 but by year 10 girls' mental well-being has fallen more so than for boys.
31. The focus of £10m will be on primary and secondary prevention enabling people to have a healthy life for longer. The suite of investment will support performance improvements in our health service at a time of increasing demand and expanding complexity of treatments available.
32. In relation to the nine protected characteristics there are four which are of particular relevance to *A Healthier Wales* – age, disability, gender reassignment and pregnancy and maternity. Over recent years, a large number of voluntary sector organisations have emerged and represent the

interests of people affected by particular health conditions. Over time a number of statutory bodies have also been created to champion the rights of service users. Input from stakeholders has directly influenced many areas of the plan which in turn informs budget decisions for delivery of the plan.

33. We are restoring funding for the All-Wales Schools Liaison Programme at the 2018-19 level. This will allow the programme to continue to educate children about substance misuse and personal safety issues at all key stages of the curriculum, in primary and secondary schools throughout Wales. This is a preventative programme focused on early intervention with children and young people, directing a specific element of funding to target those children and young people who are disengaged. This supports Article 33 of the UNCRC to protect children from dangerous drugs.
34. To support revenue funding we are also allocating capital funding. We are providing an additional £40m capital over two years for the All Wales Health programme. This includes funding for a replacement programme for the ambulance fleet to provide more modern vehicles, supporting the best possible emergency care. The new vehicles will also be fuel efficient, meeting the latest Euro 6 emissions standards which will have a positive impact on decarbonisation and environmental sustainability. Public services, although accounting for just 1% of Wales' carbon emissions have an important part to play in reducing emissions and improving air quality.
35. An additional £21m capital funding in 2019-20 will support a range of clinical priorities, including the new Velindre Cancer Centre in Cardiff, which will provide high-quality treatment for a disease which impacts on so many people's lives. Survival rates for cancer have historically been lower in Wales than most other European countries, with five-year survival around four percentage points less than the European average. We are investing in neonatal services across a number of key sites across Wales to reduce the number of transfers of mothers and babies through the provision of specialist, space-compliant environments to ensure that care for babies is safe and effective. This will have a positive impact on both mothers and babies enabling them to be treated closer to home and their families.
36. Funding of £4.5m in 2020-21 will be allocated to continue our planned investment in the primary care estate – an integral part of an effective health and well-being service. This will positively impact those people who find it more difficult to travel to secondary care centres, including the elderly, those with young children and the disabled.
37. Over the next two years £8m of financial transaction funding will be available to help support the development of health innovation centres to focus on the prevention, treatment and management of long-term chronic conditions. The aim is to support the development of more effective treatments, enable faster recovery times where relapses occur and support better quality of life for those living with a chronic condition. The gap in the employment rate for those aged 16 and over between those with a long-term health condition and those who do not have one persists at 15.9 percentage points.

Local Government

38. Local authorities deliver a wider range of services which impact on people's everyday lives.
39. In recognition of the demands that a growing and ageing population is having on our social care provision, we are providing an additional £20m funding to support social care through the revenue support grant (RSG) to local government. This is in addition to the £30m for social care being funded via the Health and Social Services MEG. This additional funding will predominantly benefit older people but will also help those who need additional care for a short period of time and those who need support throughout their lives to live independently because of physical or mental health needs, or learning difficulties. For young people this supports Article 23 of the UNCRC, which requires that children who have any disability should have special care and support so that they can lead full and independent lives. It also supports Article 20 which states that children who cannot be looked after by their own family must be looked after properly, by people who respect their religion, culture and language.
40. Education has a fundamental role to play in personal fulfilment, community development and wealth creation. Skills and qualification levels are the biggest single influence on an individual's chances of being in employment and on their income. International research indicates that addressing low and very low skills is even more important than increasing high-level skills and this starts in the classroom. Key stage, GCSE and A-level results have improved over the last decade and we want this trend to continue. To support this, we have allocated an additional £15m for schools through the Education MEG. Our commitment to raising school standards and supporting young people to make the most of their potential is set out in *Our National Mission 2017-21*.
41. Additional funding for teachers pay of £14.8m in 2019-20 (£13.726m through the RSG and £1.075m for sixth forms through the Education MEG) means local authorities will not have to make efficiencies or reduce the number of teachers to meet the cost of the pay rise.
42. We are also restoring funding to previous levels for schools' sixth forms. This has a positive impact on young people and supports Article 28 of the UNCRC which states that children have a right to education. Raising educational attainment and skills at all levels is central to breaking the cycle of disadvantage. While achievement is consistently improving across all groups of pupils, those who are eligible for free school meals have poorer outcomes at every key stage.
43. Good transport connections are necessary to join up people, communities, businesses and services. To maintain and prevent the deterioration of the local roads network, we are providing additional £60m capital over three years (£20m in each of 2018-19, 2019-20 and 2020-21) to support a local government road refurbishment programme. We will also be investing an

extra £78m capital over three years (2018-19 to 2020-21) to support the local transport fund. This fund enables targeted investment to improve traffic flows at pinch points and routes for public transport, supporting environmental sustainability by optimising engine usage and encouraging people to use public transport.

Supporting vulnerable people

44. Children in Wales published the results of their Child and Family Survey 2018 about child and family poverty in Wales earlier this year. This highlighted the negative impact of low wages and the rising cost of living which forces families to make difficult choices on how they spend their money. Two areas that people commented on specifically were the additional costs of education and food poverty. These issues were also highlighted in the young people's survey responses.
45. In line with the proposals in our consultation on new eligibility criteria for free school meals following the introduction of Universal Credit, we will make an additional £7m available to local authorities for free school meals in 2019-20 via the RSG, based on the latest forecasts. The provision of a free healthy meal supports Articles 6 and 24 of the UNCRC for children to develop and access nutritious food. It also supports Article 26, that governments should provide extra money for the families of children in need. We expect children and parents with certain protected characteristics (disabilities, those in non-white ethnic groups, and Muslims, Sikhs and those with no religion) would be more likely to benefit from our proposed eligibility criteria than other groups.
46. We will also provide an additional £2m in 2019-20 to meet the increasing demand on the Discretionary Assistance Fund. This fund supports two non-repayable grants for people on low incomes to help with essential costs after an emergency or a disaster, such as a flood or fire or to help someone live independently.
47. Following a review of the impact of the school uniform grant, we have provided £3.554m funding to continue and extend the Pupil Development Grant (PDG) Access fund. This will target disadvantaged learners and help families meet the everyday costs associated with school. As well as being used for school uniform, this fund can be used for equipment, sports kit and kit for activities outside school.
48. The recent Adverse Childhood Experiences study¹⁸ showed there are strong relationships between sports participation in childhood and lower lifetime mental illness. Looked-after children and learners eligible for free school meals are eligible for this grant. It supports Articles 26, 27 and 30 of the UNCRC, providing funding for families so children are not defined by what they wear or the equipment they have and are not prevented from having access to a wide range of activities because of the financial barriers to participating.

¹⁸ <http://www.wales.nhs.uk/sitesplus/888/page/88505>

Other spending priorities

49. We are able to reverse reductions made in the 2018-19 Budget to Healthcare Inspectorate Wales, Care Inspectorate Wales and Estyn. This will have a positive impact for people who use the services which are inspected by these three bodies, particularly the elderly, vulnerable in society and young people.
50. We are also restoring funding to national park authorities and Natural Resources Wales. Both these organisations fulfil an important role in maintaining and developing our environmental sustainability.
51. Promoting active travel is good for an individual's health and the environment. The active travel schemes will contribute to connecting communities and improving active travel access to employment, education and key services. Public transport improvements must be developed alongside road schemes, enabling the widest range of people – especially those on lower incomes who may not own a private vehicle – are able to benefit. An additional £60m of capital will be invested over three years (2018-19 to 2020-21) to support our dedicated Active Travel Fund to boost delivery of schemes across Wales. This supports environment sustainability through decarbonisation as well as social and cultural sustainability through connectivity.

Early Years

52. Our aim is to support young people to make the most of their potential, build ambition, encourage learning for life and equip everyone with the right skills for a changing world. An individual's experiences during their early years will play a significant part in shaping their future and are critical to their chances of going on to lead a healthy, prosperous and fulfilling life. Children are susceptible to early influences on their educational achievements. Early deprivation is implicated in the difference in attainment levels between pupils who are or are not eligible to receive free school meals. The latest data from 2017¹⁹ shows a 14.2 percentage point difference in the foundation phase indicator between those eligible for free school meals and those who are not. Key stage 4 data shows that the gap in the core subject indicator has widened to a 15.1 percentage point difference, this difference is wider for boys than girls. We want to close that gap from the beginning.
53. Education is one of the most important investments we can make to improve the life chances of children, particularly those from deprived communities and those with protected characteristics. It is also important in fulfilling our obligation under Article 28 of the UNCRC that children have a right to an education.

¹⁹ <https://statswales.gov.wales/Catalogue/Education-and-Skills/Schools-and-Teachers/Examinations-and-Assessments/Foundation-Phase/results-by-freeschoolmealentitlement-gender>
<https://statswales.gov.wales/Catalogue/Education-and-Skills/Schools-and-Teachers/Examinations-and-Assessments/Key-Stage-2/results-by-freeschoolmealentitlement-gender>

54. Latest data continues to show some differences in educational attainment between ethnic groups, with a higher proportion of children from Asian, Chinese or mixed ethnicities reaching expected levels than those from a White background. Attainment remains low for Gypsy, Roma and Traveller children and lower levels are also recorded for Black or Black British groups, White and Black Caribbean and African backgrounds. We are allocating £8.7m funding for the support of Minority Ethnic and Gypsy, Roma and Traveller learners to maintain funding at 2018-19 levels. This grant is targeted at pupils from specific ethnic groups over the course of their education, providing additional support so they may reach their potential and reflects article 29 of the UNCRC, developing their talents to the full.
55. Evidence suggests that delivering the right support for all children, particularly those from deprived backgrounds, is the best means of breaking the poverty cycle and raising the aspiration and attainment for everyone. The Adverse Childhood Experience studies²⁰ show people who have suffered four or more harmful experiences in childhood are more likely to have high-risk drinking in adulthood, smoke, be involved in violence and treated for a mental illness. We are reinstating the funding for the Early Intervention, Prevention and Support grant to 2018-19 levels – this grant funds programmes like Families First and Flying Start. This supports Article 31 of the UNCRC providing families with the opportunities to play, relax and join a range of activities. These programmes have a positive impact on families in lower income areas and specifically support younger children.

Housing

56. Housing makes a significant contribution to the quality of life and economic well-being of individuals and families, contributing to tackling poverty. A safe, affordable and secure home is an important determinant of health, while poor or insecure housing can cause physical illness, for example, as a result of damp or exposure to cold and be a source of stress and anxiety.
57. The Social Housing Grant provides funding to support the construction or refurbishment of affordable homes for rent, for equity share (Homebuy), schemes for older people, including Extracare and for people who need support with independent living. We are investing an additional £35m capital to maintain the momentum of creating 20,000 affordable homes during this term of government.
58. In October 2017, it was estimated 345 people were sleeping rough across Wales. More men are likely to be homeless than women but those approaching local authorities for help with housing and who are successfully prevented from becoming homeless are more likely to be women. Nearly half of households threatened with homelessness had dependent children. In setting plans last year, we provided an additional £20m in 2019-20 to tackle homelessness. This will have a positive impact for those with mental health

²⁰ <http://www.wales.nhs.uk/sitesplus/888/page/88504>

conditions that make up a significant proportion of people who find themselves homeless. Of this, £10m will be specifically targeted at youth homelessness, supporting Article 19 of the UNCRC which sets out that children should be properly cared for and protected from violence, abuse and neglect.

Social Care

59. The impact of additional funding for social care through local government and the delivery of health and social care are set out in paragraphs 25 to 39 .

Mental Health

60. Mental ill-health has a significant impact on life expectancy and is a key cause of health inequalities. Women and girls are more likely to suffer from mental health conditions, however suicide rates for men are consistently higher than for women across all age groups. Wales' most deprived communities have the poorest mental health and well-being. Any additional funding will therefore have a disproportionately positive impact on these groups.
61. We are making additional funding of £2.5m available aimed specifically at working with young people to improve their mental health and well-being through the youth work approaches. The UNCRC is embedded in the principles and purposes of youth work and this investment supports a number of Articles of the UNCRC, including Article 24 which sets out that children should be provided with good-quality healthcare.
62. Additionally, an allocation of £15m will be made from the funding for *A Healthier Wales* to support programmes for the most vulnerable groups of people such as learning difficulties or mental health services.
63. Where you live is important to your health and well-being – access to green space and community cohesion can have an impact on an individual's well-being, . The £7m investment over two years in the Valleys Regional Park – as set out in the *Our Valleys, Our Future* plan – will continue the remarkable environmental transformation of the South Wales Valleys, which has been ongoing over the last 30 years. Evidence shows that physical activity is important for good mental health and the investment will include the promotion of healthy lifestyles and how the natural landscapes of the South Wales Valleys can help boost health and mental well-being. The Valleys Regional Park and the Ministerial Taskforce for the South Wales Valleys will work with health boards to deliver green social prescribing pilots, which will help to improve people's mental health.

Skills and Employability

64. Employment is important for many aspects of well-being, not just as a source of income but it also promotes social interaction and both physical and mental health. Employment rates in Wales are lower for women than men and economic inactivity rates are also higher for women. However, the gender pay

gap is narrowing more quickly in Wales than the UK as a whole. For children, the likelihood of being in relative income poverty is strongly linked to the employment status of the adults in the household.

65. One area of Wales which, following deindustrialisation, has ongoing challenges in terms of employment levels is the South Wales Valleys. The Ministerial Taskforce for the South Wales Valleys' plan, *Our Valleys, Our Future*²¹, builds on previous initiatives to address the underlying causes of low and under-employment and the knock-on effect on people's and communities' aspirations. Funding of £25m capital has been allocated to develop seven strategic hubs across the South Wales Valleys to create employment and investment opportunities. These underpin the benefits that employment brings, from positive mental and physical health impacts to economic and social sustainability for an area.
66. Providing people with the skills they need to secure and remain in employment is key to reducing poverty levels. Some young people, including those from deprived communities and BME groups, are more likely to experience poverty if they are not in employment, education or training (NEET). We are committed to creating a minimum of 100,000 high-quality, all-age apprenticeships over this Assembly term and are continuing our plans to invest with £115m in 2019-20.

Decarbonisation

67. Our overarching waste strategy for Wales, *Towards Zero Waste*²², establishes our vision for achieving more sustainable waste management within, and across, the country. We want to increase resource efficiency; have zero avoidable waste; maximise the value we extract from our resources and minimise the negative environmental impacts associated with its production, use and disposal. In line with the strategy we are allocating additional revenue funding of £1.5m to the Waste Resources Action Programme (WRAP) and £2.8m to the waste programme to restore funding to 2018-19 levels. We are also providing our collaborative change programme and waste procurement programme with a further £25m capital over the next two years. Waste crime has serious impacts on the natural environment and we are providing additional funding of £296k to tackle this.
68. The report from four UK Parliament select committees about improving air quality highlighted the impact on health. The evidence indicated that, while poor air quality is harmful to everyone, children and older people are particularly vulnerable, as are those with pre-existing health conditions. Public Health Wales estimates the equivalent of around 1,600 deaths annually are attributed to fine particle matter and 1,100 to nitrogen dioxide. Air quality in Wales has greatly improved over the past 40 years; however pollution from other sources such as transport is more of a concern. The highest

²¹ <https://gov.wales/topics/people-and-communities/communities/taskforce-for-the-valleys/our-valleys-our-future/?lang=en>

²² <https://gov.wales/docs/desh/publications/100621wastetowardszeroen.pdf>

concentrations of nitrogen dioxide emissions are found in large urban areas and next to busy roads – there are around 40 specific areas in Wales which exceed air quality objectives. We are providing additional funding of £9.29m capital over the next two years to support local authorities to make improvements to air quality.

69. The *Future Trends* report identifies the growth of digital technologies, such as social media, and the potential for new models of service delivery and interaction with and within communities. We are investing in the next phase of high speed broadband with £22.5m over two years. This will have multiple positive impacts in supporting the reduction of emissions through the ability to communicate remotely, supporting business growth and enabling people to access information and services. It supports economic growth especially for businesses in rural areas. We are mindful, however, that in the interim there are groups of people who do not have access to IT, or the knowledge to use it to its full benefit, that could be excluded. This is most likely with older people, those on low incomes or those where English or Welsh are not their first language.
70. Greenhouse gas emissions have reduced since the 1990s but we have a long way to go to meet our 2050 targets. Around two-thirds of greenhouse gas emissions continue to be as a result of energy supply, business and industry. We are investing £25m capital over three years (2018-19 to 2020-21) to the Tech Valleys programme in the South Wales Valleys with a focus on new low-carbon technologies.

Impact of taxes

71. Providing stability and certainty is a key aim in implementing the new Welsh taxes, including the introduction of Welsh rates of income tax from April 2019. The Welsh Government is not required to set rates for the fully-devolved Welsh taxes annually, and our intention is to retain stability in these rates as far as possible.
72. The Equality and Human Rights Committee report on the cumulative impact of tax and welfare reforms reported on income tax, national insurance contributions and indirect taxes which up until now have all been UK Government responsibilities. It showed gains from changes to income tax and national insurance contributions (largely due to the real-term increase in the tax-free personal allowance since 2010) but losses from changes to indirect taxes (largely due to the increase in VAT to 20% in 2011).
73. 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 incomes. Some protected groups are proportionally more likely to fall into this category. There is also a disproportionate spend on young people and older people in terms of education and health services.

74. We will continue to use the tax system to promote fairness and economic growth and to help tackle poverty. Any future tax policy decisions will be developed within the 2017 Tax Policy Framework and in considering the Well-being of Future Generations Act, with specific assessments of the impact on households and individuals in Wales being undertaken as necessary.
75. The Labour manifesto made a commitment not to increase Welsh rates of income tax and the outline draft Budget reflects this commitment. Our priority is to promote an orderly transition to the new Welsh rates of income tax, which will continue to be administered by HMRC.
76. The tax rates for land transaction tax have been guided by the principles in the Tax Policy Framework²³ and were 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 the tax should be levied more progressively. We have not proposed any change to land transaction tax rates in this budget and the impact assessments completed for this tax did not identify any adverse impacts.
77. The approach to setting landfill disposals tax rates has been guided by the principles in the tax policy framework and the objective to reduce landfill disposals in Wales, as required by section 91 of the Landfill Disposals Tax (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.
78. The landfill disposal tax rates will rise by the rate of inflation to ensure similarity with the UK landfill tax rates, to protect against waste tourism and promote responsible disposal of waste to landfill. The regulations relating to the new rates will be laid in autumn 2018.
79. We will use landfill disposals tax to alter the balance of incentives to encourage the diversion of waste from landfill and greater prevention, recycling, reuse and recovery of waste. The introduction of landfill disposals tax will support the Welsh Government's waste policies including the ambitious target of zero waste to landfill by 2050. This will assist in safeguarding the environment for future generations.

Ongoing Developments

80. The Budget Advisory Group on Equality (BAGE) has been reviewed in light of the new two-stage budget process. This year two meetings were held – the first in the early budget planning stages and the second in the midst of the series of budget bilateral meetings held by the Cabinet Secretary for Finance with portfolio Cabinet Secretaries. BAGE will continue to provide an external perspective to ensure equality issues are considered and supported by

²³ Available at <http://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

evidence to inform decisions. During the year it has provided challenge on the employability and skills plan and provided constructive feedback on our approach to integrated impact assessment, the rapid gender review and our approach to budget engagement which has informed the development of these pieces of work

81. A rapid review of gender equality in the Welsh Government was launched in April to consider how we move gender to the forefront of our decision-making. Following the publication of the phase one report, phase two is in progress to look at practical actions to establish a roadmap for advancing gender equality in Wales in the medium and long-term, with clear objectives and measurable targets across all parts of Welsh Government. Chwarae Teg will present their report on Phase Two after completion in July 2019.
82. A new framework for integrated impact assessments in the Welsh Government was launched in July 2018; it was developed following the recommendations in the Public Policy Institute for Wales report *Reducing Complexity and Adding Value: A Strategic Approach to Impact Assessment in the Welsh Government*.
83. The framework gives clearer and explicit purposes for impact assessments, and puts proportionate impact assessments at the centre of policy making while avoiding excessive procedure and also supports our efforts to work collaboratively across portfolios.
84. The approach reduces complexity and duplication and integrates with the substantive direction of the Well-being of Future Generations Act. It prompts consideration of how the five ways of working are applied; how the policy fits with *Prosperity for All* and the well-being objectives; and the effects on social, cultural, economic and environmental well-being.
85. A substantive assessment of the new process will be carried out in the new year to inform future development.

Annex D: Technical information

Financial Transactions Capital

The UK Government has recently revised its consolidated budgeting guidance to require financial transactions to be treated on a net basis for UK departments. Under this change, UK departments must forecast the level of income expected from loans and equity investments and their departmental budget is reduced accordingly. The exception to this rule is housing, where it is difficult to forecast the income profile as it is dependent on house purchases rather than a contracted loan repayment.

In departments where there is a comparable devolved competency area then this would lead to a Barnett share of the reduction.

However, the application of the policy to devolved administrations has not yet been determined and we continue to plan on the current basis of re-paying the investment to HM Treasury. The current arrangement is that the re-payment will be 80% of the total financial transaction funding allocated to reflect the need for some flexibility at a devolved administration level.

As many of the schemes funded by financial transaction capital in Wales are different to those developed by UK Government departments we continue to work with HM Treasury to ensure that changes to the budgetary treatment does not penalise Wales. The table below shows the level of financial transaction funding currently allocated to each MEG, along with the profile of repayments.

Financial Transactions allocations and projected 80% repayments reported to HM Treasury August 2018

Total allocations to MEGs	100%	Repayments 80%			
	£m	£m			
	Total allocations	Up to and including 2018-19	Falling due within 1 year	Falling due within 2 to 5 years	Falling due after 5 years
Health and Social Services	1.0	0	0	0.1	0.7
Local Government and Public Services	547.0	0.1	0.7	8.8	428.0
Economy and Transport	331.7	1.3	2.1	70.8	191.2
Education	4.5	0.4	0.2	0.6	2.4

Total allocations to MEGs	100%	Repayments 80%			
	£m	£m			
	Total allocations	Up to and including 2018-19	Falling due within 1 year	Falling due within 2 to 5 years	Falling due after 5 years
Energy, Planning and Rural Affairs	16.2	0	0	0	12.9

Innovative finance schemes

In previous budgets we have set out the range of innovative finance schemes that have been developed. In 2019-20, we enter the third year of the Housing Finance Grant 2 programme which, in addition 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 Welsh 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.

Unhypothesized funding continues to be distributed through the RSG, for two local government borrowing initiatives – for highways and schools – as well as the first phase of the Housing Finance Grant.

In 2019-20, the new Coastal Risk Management Programme (CRMP) will see investment begin in local authority flood and coastal defence assets. CRMP will see £150m of additional investment over a three-year period to manage current and future risks from climate change and sea level rise to coastal communities across Wales. There are currently 26 local authority schemes in the programme. The business cases are being reviewed, with 10 of the schemes already having been allocated grant funding for work on detailed design.

Innovative finance 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.

Innovative Finance Schemes

Operational Schemes	Estimated Capital Value (£m)	2019-20 Revenue implications (£m)	Peak Revenue implications (£m)
Local Government Borrowing Initiative: Highways improvements	170	12	12
Local Government Borrowing Initiative: 21 st Century Schools and Education programme – Band A acceleration	170	10	10
Housing Finance Grant	130	4	4
Housing Finance Grant 2	250	9	9
Flood and Coastal Risk Management programme	150	2.4	7.3
Total	870	37.4	42.3

Three schemes are being developed using the Mutual Investment Model (MIM), which was launched in 2017 – completing 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.

The development work for all the schemes continues to progress. In July, the A465 dualling project became the first MIM scheme to be tendered to the market. Payment for MIM schemes will not commence until the assets are available for public use. It is anticipated that the A465 will be open from 2022-23. The Velindre Cancer Centre, as well as the first set of schools in the Band B programme, are scheduled to open subsequently.

Annex E: Glossary of financial terms

Action	<i>Within each Spending Programme Area (SPA), budgets are allocated to a number of sub-programmes known as Actions.</i>
Ambits	<i>Descriptions of the specific purposes for which the 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>
Annually Managed Expenditure (AME)	<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>
Budget Expenditure Line (BEL)	<i>Within each Action budgets are allocated to a number of sub-expenditure groups known as BELs. Tables showing budgets at BEL level are available at: http://gov.wales/funding/budget/?lang=en</i>
Budget Motion	<i>The means by which the National Assembly for Wales authorises the 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>
Capital	<i>Expenditure that in the main results in a physical asset, for example a new building. A proportion of the Capital DEL includes financial transactions capital.</i>
Departmental Expenditure Limit (DEL)	<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. The Welsh Government DEL and AME budgets have separate capital and resource limits.</i>
Depreciation	<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>
Direct Charges on the Welsh Consolidated Fund	<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>
Financial Transactions Capital	<i>Financial transactions capital is part of the capital DEL settlement that can only be used for loans and equity investments to third parties. In the main, the funding must be repaid to HM Treasury.</i>

Fiscal Resource DEL <i>(previously known as near-cash)</i>	<i>The Fiscal Resource DEL budget scores most of the department's current expenditure. Expenditure is recorded on an accruals basis. It includes expenditure on pay, current procurement, resource grants and subsidies.</i>
Main Expenditure Group (MEG)	<i>The Welsh Government DEL is divided into a number of Main Expenditure Groups. There are currently six MEGs: Health and Social Services; Local Government and Public Services; Economy and Transport; Education; Energy, Planning and Rural Affairs and Central Services and Administration.</i>
Non-Fiscal Resource DEL <i>(previously known as non-cash)</i>	<i>The Non-Fiscal Resource DEL budget scores the department's current expenditure in respect of impairment of student loans and depreciation. Non-Fiscal Resource DEL is ring-fenced and cannot be used to fund fiscal resource DEL spending.</i>
Receipts	<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>
Resource budgeting	<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>
Resource <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>
Spending Review	<i>Every two or three years HM Treasury reviews expenditure for each UK Government Department and sets budgets for the forthcoming 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>
Total Managed Expenditure (TME)	<i>This is an HM Treasury control total which is made up of the total Departmental Expenditure Limit plus Annually Managed Expenditure.</i>

Wales Reserve	<i>The Wales 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 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>
Welsh Consolidated Fund	<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>
WGSB	<i>Welsh Government Sponsored Body. Examples include the Higher Education Funding Council for Wales and the Arts Council of Wales.</i>