

Agenda – Finance Committee

Meeting Venue:	For further information contact:
Video Conference via Zoom	Owain Roberts
Meeting date: 14 January 2022	Committee Clerk
Meeting time: 09.30	0300 200 6388
	SeneddFinance@senedd.wales

In accordance with Standing Order 34.19, the Chair has determined that the public are excluded from the Committee's meeting in order to protect public health. This meeting will be broadcast live on www.senedd.tv

Private pre-meeting – Informal (09.15–09.30)

- 1 Introductions, apologies, substitutions and declarations of interest

- 2 Paper(s) to note
(09.30) (Pages 1 – 3)
Minutes of the meeting held on 22 December 2021
 - 2.1 PTN 1 – Letter from the Minister for Education and Welsh Language: Tertiary Education and Research (Wales) Bill – 22 December 2021
(09.30) (Pages 4 – 8)
 - 2.2 PTN 2 – Letter from the Minister for Finance and Local Government: Second Supplementary Budget 2021–22 – 4 January 2022
(Page 9)

- 3 Scrutiny of the Welsh Government Draft Budget 2022–23:
Evidence session 2
(09.30–10.15) (Pages 10 – 78)

Richard Hughes, Chairman, Office for Budget Responsibility

Andy King, Budget Responsibility Committee member, Office for Budget Responsibility

Supporting papers:

FIN(6)-01-22 P1 – Welsh taxes outlook (December 2021)

Research Service Brief

Break (10.15–10.25)

4 Scrutiny of the Welsh Government Draft Budget 2022–23:

Evidence session 3

(10.25–11.25)

(Pages 79 – 95)

David Phillips, Associate Director, Institute for Fiscal Studies

Dr Ed Poole, Senior Lecturer, Wales Governance Centre (Wales Fiscal Analysis)

Cian Siôn, Research Assistant, Wales Governance Centre (Wales Fiscal Analysis)

Supporting papers:

Research Service Brief

Break (11.25–11.35)

5 Scrutiny of the Welsh Government Draft Budget 2022–23:

Evidence session 4

(11.35–12.35)

(Pages 96 – 178)

Huw Thomas, Director of Finance Hywel Dda University Health Board
(Representative for the Welsh NHS Confederation)

Cllr Anthony Hunt, Leader, Torfaen County Borough Council (WLGA
Spokesperson for Finance and Resources)

Dave Street, Director of Social Services, Caerphilly County Borough Council
(Representative for the Association of Directors of Social Services Cymru)

Supporting documents:

FIN(6)-01-22 P2 - Welsh NHS Confederation

FIN(6)-01-22 P3 - Welsh Local Government Association

FIN(6)-01-22 P4 - Association of Directors of Social Services Cymru

Research Service Brief

6 Motion under Standing Order 17.42 (ix) to resolve to exclude the public from the remainder of this meeting.

(12.35)

7 Scrutiny of the Welsh Government Draft Budget 2022-23:

Consideration of evidence

(12.35-12.55)

8 Nomination of the Public Services Ombudsman for Wales –

Consideration of draft report

(12.55-13.10)

(Pages 179 – 190)

Supporting documents:

FIN(6)-01-22 P5 - Draft report

Concise Minutes – Finance Committee

Meeting Venue:

This meeting can be viewed

Video Conference via Zoom

on [Senedd TV](#) at:

Meeting date: Wednesday, 22 December
2021

<http://senedd.tv/en/12539>

Meeting time: 09.30 – 13.16

Remote

Attendance

Category	Names
Members of the Senedd:	Peredur Owen Griffiths MS (Chair) Peter Fox MS Mike Hedges MS Carolyn Thomas MS (In place of Rhianon Passmore MS)
Witnesses:	Rebecca Evans MS, Minister for Finance and Local Government Andrew Jeffreys, Welsh Government Emma Watkins, Welsh Government Laura Fox, Welsh Government Andrew Hewitt, Welsh Government Lynsey Edwards, Welsh Government Anna Adams, Welsh Government
Committee Staff:	Leanne Hatcher (Second Clerk) Georgina Owen (Second Clerk) Mike Lewis (Deputy Clerk) Martin Jennings (Researcher)



	Christian Tipples (Researcher) Ben Harris (Legal Adviser) Charlotte Barbour (Expert Adviser)
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In accordance with Standing Order 34.19, the Chair has determined that the public are excluded from the Committee's meeting in order to protect public health. This meeting will be broadcast live on www.senedd.tv

Private pre-meeting – Informal (09.15–09.30)

1 Introductions, apologies, substitutions and declarations of interest

1.1 The Chair welcomed Members to the virtual meeting of the Finance Committee.

1.2 Apologies were received from Rhianon Passmore MS. Carolyn Thomas MS attended as a substitute.

2 Paper(s) to note

2.1. The papers were noted.

3 Scrutiny of the Welsh Government Draft Budget 2022–23: Evidence session 1

3.1 The Committee took evidence from Rebecca Evans MS, Minister for Finance and Local Government; Andrew Jeffreys, Director, Treasury; and Emma Watkins, Deputy Director, Budget & Government Business on Scrutiny of the Welsh Government Draft Budget 2022–23.

3.2 The Minister agreed to ask the Minister for Health and Social Services to provide the Committee with a note on:

- Funding allocation for health care professionals in the voluntary sector, in particular hospices.

4 Motion under Standing Order 17.42 (ix) to resolve to exclude the public from items 5 and 7.

4.1 The motion was agreed.

**5 Scrutiny of the Welsh Government Draft Budget 2022–23:
Consideration of evidence**

5.1 The Committee considered the evidence.

BREAK (11.15–12.00)

Public

6 Welsh Tax Acts etc. (Power to Modify) Bill: Evidence session 1

6.1 The Committee took evidence from Rebecca Evans MS, Minister for Finance and Local Government; Anna Adams, Deputy Director, Tax Strategy and Intergovernmental Relations Division; Andrew Hewitt, Head of Tax Legislation; and Lynsey Edwards, Lawyer on the Welsh Tax Acts etc. (Power to Modify) Bill.

Private

7 Welsh Tax Acts etc. (Power to Modify) Bill: Consideration of evidence

7.1 The Committee considered the evidence.

Agenda Item 2.1

Jeremy Miles MS
Gweinidog y Gymraeg ac Addysg
Minister for Education and Welsh Language



Llywodraeth Cymru
Welsh Government

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

22 December 2021

Dear Peredur,

Thank you for your letter of 26 November following my attendance at Committee to give evidence on the Tertiary Education and Research (Wales) Bill ('the Bill'). Your letter raised a number of questions and I'm pleased to set out answers and further information.

Q. Costs attributed to the new Commission - the Regulatory Impact Assessment notes that the Commission will manage a budget of around £500 million per annum. Can you provide details of what other financial risks the Welsh Government associates with the Bill, by area of cost, along with a breakdown on how each area of cost was calculated?

As implementation of the Commission gathers pace, decisions will be taken that impact on the assumptions made to estimate the overall costs of the Commission both in terms of setting up the Commission and ongoing costs. The three largest financial risks areas associated with the Bill are staffing, IT and location. These areas are subject to potential significant volatility as decisions are made. The costs are broken down as follows

	Transitional costs	Ongoing
	Total £m	
Staff Costs	0.5	13.0
IT Costs - capital	4.9	5.2
Location costs - capital	1.8	0.3

Key risks that could impact these costs are:

- COVID, which has upended assumptions in relation to the kind of office space organisations need. The decisions around location will need to take as much of the impact of COVID and wider societal changes into account or risk burdening

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Gohebiaeth.Jeremy.Miles@llyw.cymru
Correspondence.Jeremy.Miles@gov.wales

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

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

the Commission with expensive and/or unsuitable office space. COVID is also driving an increased demand for both IT hardware and specialist skills increasing staffing and IT costs.

- Location, which must take into account the current location of HEFCW and Welsh Government workforce. A relocation from south east Wales (while perhaps saving money initially) could potentially impact the number of staff who transfer into the organisation, increasing staff recruitment and training costs significantly.
- IT strategy Key decisions have not yet been taken so it is likely that some initial cost assumptions may change as choices over systems and processes are finalised.

Further breakdown for ongoing staff and IT costs is covered in the following questions. In addition more details around how estimates were calculated are set out in detail in the original Regulatory Impact Assessment (RIA).

As outlined at Committee, when the RIA is revised, in line with standard procedure, after Stage 2, I will ensure that all cost estimates are reviewed against the latest implementation decisions so as to give the most up-to date estimates of cost.

There are two other broad areas of financial risk associated with the Bill that I wanted to mention, as at the present time it has not been able to quantify them. These are the costs of the new powers the Bill confers on the Commission and, if there will be additional costs to bodies in the Tertiary Education Sector as a result of the Bill or the actions of the Commission. In both cases the financial risk is that the Bill would place additional or excessive additional costs on either the Commission or providers in the sector. While it is not possible yet to quantify these risks as they will depend upon decisions taken by the Commission once it is established, we continue to monitor and engage closely with stakeholders to ensure any additional costs incurred due to the bill are absolutely necessary and kept to a minimum.

All the areas of financial risk noted above will be impacted by the decisions taken during the transition phase and I want to reiterate, as I said at Committee, that these costs will be closely managed. In terms of that ensuring that risks are both identified and managed effectively, a post compulsory education and training (PCET) programme team has been established within the Welsh Government. The programme team will manage the delivery of the Bill and oversee the necessary legislative, operational, HR etc. related activity necessary to establish the Commission. The programme team will also be the front line for managing broader risks. In addition there are a number of other controls in place to manage the risks of the project:

- Internally and in line with the requirements of Managing Welsh Public Money the programme to establish the new Commission will be reviewed monthly as part of the normal management accounting and financial management arrangements within Welsh Government. Progress against plan is then considered within the Skills, Higher Education and Lifelong Learning directorate and reviewed periodically by the Economy, Skills and Natural Resources' Audit and Risk Assurance Committee (ARAC) and if necessary at a higher level by the Welsh Government ARAC. This process may be the focus of subsequent review by Audit Wales and the Public Accounts Committee.
- As mentioned at Committee I have also established a Strategy and Implementation Board, which I chair and whose membership is drawn from key stakeholders from across the tertiary education sector. This Board will work

collectively, providing expert advice to inform and support the delivery of the reforms, transition and implementation of the Bill and the establishment of Commission.

Q. Staff costs are the biggest expense for the new Commission, totalling just under £13 million per annum from 2023-24. During evidence, you stated that “only £3.3 million of those costs are new; the £9.7 million balance relates to existing HEFCW and Welsh Government staffing”. You agreed to provide a breakdown of the £13 million for both the Welsh Government and the Commission staff.

The high level target operating model assumes a staff maximum of 169 for the Commission, including 53 from HEFCW. The staff costs incorporate all current HEFCW staff and a count of WG staff currently working on the functions included in the Bill. It is important to note that no decisions have been made regarding staffing and roles, so these assumptions were taken to estimate costs. The figure of 169 represents the maximum staff needed to run the Commission based on current assumptions. The breakdown of the £13m staff costs is:

	Staff		Cost (£M)	No. of staff
CTER	Existing	HEFCW staff:	£3.2	53
	Existing	Welsh Government transferred in:	£6.5	110
	New	Additional staff for IT, HR and Finance:	£0.4	6
WG	New	New WG Sponsorship Team staff:	£2.9	45
Total			£13.0	214

Q. On-going IT costs for the new Commission are in excess of £5 million per annum anticipated from 2023-34. You provided a breakdown of the estimated IT costs in four main categories: software development (£0.15 million); annual security and recertification (£0.03 million); user costs (£4.28 million); and consultancy costs (£0.69 million) (total £5.15 million). You indicated that some of the costs included in the breakdown would be incurred regardless of the reform, due to upgrading existing systems. Can you provide a breakdown of what the ‘business as usual’ costs would be and the additional costs of the reform; and what risks may impact these costs?

The breakdown of the ongoing ‘business as usual’ costs and their comparison with the ‘ongoing costs’ for the Commission are set out below. The establishment of the Commission offers an opportunity to ensure that the IT system in place is high performing, secure and reliable. Simply maintaining existing legacy systems incurs ‘hidden opportunity costs’ in terms of maintaining inefficient processes. In addition, in time, the systems will not be able to cope with the ambition of the reform and the demands that need to be placed upon them. At this stage costs have been included for upgrading and maintaining existing systems only as opposed to replacement, as it is unclear at this stage exactly when this would have to happen.

	Ongoing IT costs for CTER (£M)	Business as usual costs (£M)	Difference (£M)
IT Running Cost - development software	£0.15	-	£0.15
IT Running cost - annual security recertification	£0.03	-	£0.03

IT Running Costs - user costs	£4.28	£3.13	£1.15
IT Running costs - IT Consultants	£0.69	-	£0.69
Cost of upgrading/maintaining legacy systems	-	£0.25	-£0.25
Total	£5.15	£3.38	£1.77

These forecast costs are driven by assumptions based on the best estimates of need and cost for the new Commission. As noted above decisions are taken through the implementation phase, and indeed beyond, it is likely that some initial assumptions will prove to be wide of the mark. Given that IT running costs for users makes up by far the biggest amount of ongoing costs it is here that the biggest risks of a mismatch occurs. We have mitigated that risk by:

- Being prudent in our cost estimates, for example including using Welsh Government costs for hardware/software at the high end of the scale of cost.
- Testing the assumptions with members of Welsh Government digital profession.
- Including the maximum number of staff in our assumptions.

Q. Data collection - the Bill confers a series of new powers on the Commission, including introducing an improved, compliant and effective data collection, analysis and dissemination system with the aim of ensuring timely, accessible and relevant information about tertiary education in Wales is available for all who need it. You agreed to provide examples of what this data collection might entail.

There are a number of data sources in the tertiary education sector. At this stage no decisions have been made on what data the Commission will collect, and therefore no decision has been taken on additional data, if any is to be collected. However by using an example of data that is already collected by the Welsh Government we can demonstrate what data collection might entail and what improvements we hope to make. The data collection and utilisation systems will play a vital role supporting the Commission in achieving the aims of the reform. The systems will contribute to the evidence base underpinning the important decisions that the Commission will take every day.

A large set of data that the Commission may either need to collect, or have access to, is data currently collected via the Lifelong Learning Wales Record (LLWR). Operational data is collected on a monthly basis from approximately 48 providers, comprised of Further Education Colleges, Work-Based Learning providers (including apprenticeships and traineeships), and Adult Community Learning providers. The LLWR is used widely throughout Welsh Government for funding calculations and to allocate funding to the providers, analysis, and for reporting and information purposes.

LLWR is not a single system or piece of software. It is better described as a collection of ways of doing things along with the use of standard cross-functional software. It is widely recognised among those using LLWR that there are currently many challenges resulting from LLWR being a legacy environment which has not been modernised for many years. For example data is transferred from each provider to the Welsh Government in XML format via a web portal, and then undergoes extensive validation before being loaded into a Welsh Government database if valid. Any records which fail validation are not loaded, and are reported back to the provider through the website for re-submission. Currently there is a high level of validation failures for incoming data (caused by a large amount of duplicated

data). It is clear that in the case of LLWR data it could not be a case of 'lift and shift' without also importing these challenges and deficiencies.

The new data collection system might entail having web APIs (Application Programme Interfaces) as a solution to collect data. An important principle for designing the data collection system will be to reduce unnecessary burden on the data providers and a web API based system would deliver this by enabling data providers to simply log on to and submit data, with automated validation built in before accepting the data.

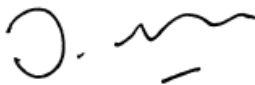
In the case of data currently collected through the LLWR improvements in data collection would lead to:

- Providers no longer have to produce data in a complex and increasingly out-of-date format at odds with the way that most of us submit data in the digital age.
- A reduction in validation failures for incoming data, improving processing efficiency and reducing work for providers.
- Increased flexibility as the current extended timescales relating to any changes to the data collection format could be greatly reduced.
- An improvement in overall data quality and streamlined sharing of data with the other organisations that are allowed to utilise it (e.g. Welsh Government).

Regardless of whether CTER becomes responsible for collecting LLWR or not, there is a need to update and improve it. Importantly if all or parts of LLWR were replaced with more efficient processes and up to date software then future changes to the system could be much easier and quicker to make to the data collection process, reducing pressure on resources and costs, and reducing the burden on providers. It would also give the data users the ability to integrate additional data in the future leading to more insightful analysis.

I have copied this letter to the Chairs of the Children, Young People, and Education Committee and the Legislation, Justice and Constitution Committee.

Yours sincerely,

A handwritten signature in black ink, consisting of a circular initial followed by a stylized, wavy line.

Jeremy Miles AS/MS
Gweinidog y Gymraeg ac Addysg
Minister for Education and Welsh Language

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref MA-RE-3441-21

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

4 January 2022

Dear Peredur

In line with established practice I intend to publish a Second Supplementary Budget for 2021-22. This letter is advanced notice of my intention which will allow you to plan for the appropriate scrutiny.

The main purpose of the Second Supplementary Budget will be to reflect budgetary changes since the First Supplementary Budget 2021-22, which was published by the Welsh Government in June. It will set out a number of allocations from our reserves, transfers between Welsh Government portfolios, transfers with UK Government Departments and will include revised Annually Managed Expenditure forecasts. It will also include revisions to forecasts of devolved taxes, the Block Grant Adjustment, funds drawn from the Wales Reserve, and proposed borrowing from the National Loan Fund.

I intend to table the Second Supplementary Budget for 2021-22 on 15 February. The budget will also be published on the Welsh Government internet site the same day.

Given the spring recess, I have agreed to delay moving the Second Supplementary Budget by a week until 15 March. This provides an additional week beyond the three week period outlined in Standing Orders.

I hope you find this helpful,

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Correspondence.Rebecca.Evans@gov.wales
Gohebiaeth.Rebecca.Evans@llyw.cymru

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

Agenda Item 3

Office for
**Budget
Responsibility**

Welsh taxes outlook

December 2021

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1 Introduction

Background

- 1.1 The Office for Budget Responsibility (OBR) was established in 2010 to provide independent and authoritative analysis of the UK's public finances. Alongside the UK Government's Budgets and other fiscal statements, we produce forecasts for the economy and the public finances. We publish these in our *Economic and fiscal outlook (EFO)*.
- 1.2 In December 2016 the Welsh and UK Governments agreed the Welsh Government's fiscal framework. This established a mechanism for adjusting the block grant funding that the Welsh Government receives from the UK Government to reflect the devolution of tax powers. The fiscal framework also established a requirement for independent forecasting, stating that "*the Welsh Government will be able to decide whether to use the OBR's forecasts or put in place alternative independent forecasting arrangements*".¹ In the event, the Welsh Government chose to use our forecasts to meet this requirement.²
- 1.3 A Memorandum of Understanding, Terms of Reference and a Financial Framework with the Welsh Government guide our work. In the second half of 2020, we jointly reviewed these arrangements to ensure they reflected any lessons learnt in the first year of forecasting.³ We published our first *Welsh taxes outlook (WTO)* alongside the Welsh Government's 2020-21 Draft Budget in December 2019.
- 1.4 In this *WTO*, published alongside the Welsh Government's 2022-23 Draft Budget, we describe our latest forecasts for three sources of revenue:
- the **Welsh rates of income tax**;
 - **land transaction tax (LTT)**; and
 - **landfill disposals tax (LDT)**.

We also explain how each has changed since the previous forecast.

- 1.5 As set out in Chapter 1 of our 2019 *WTO*, we focus exclusively on these devolved taxes given their role in the fiscal framework. Some areas that are therefore beyond the scope of our role include: a full macroeconomic forecast for Wales; a forecast for Welsh Government spending; and an assessment of any policy proposals (rather than stated policies).

¹ More detailed information on the relevant legislation and governance is available on our website.

² Written statement by the Cabinet Secretary for Finance, *Provision of Welsh tax forecasts by the Office for Budget Responsibility*.

³ The joint review has been published on our website alongside the 2020 *Welsh taxes outlook*.

Introduction

- 1.6 These forecasts are consistent with the central forecast for the UK economy and public finances presented in our October 2021 *EFO*. As it explained, the continuing vaccine rollout and booster programme, the possibility of further public health interventions, and the potential long-term implications of the pandemic, all remain areas of uncertainty around the economic outlook. Additionally, there has been an unusual amount of economic news since we closed our latest forecast, but our current assessment is that the implications for our medium-term fiscal forecast are relatively modest, with risks in both directions. We continue to emphasise the unusual degree of uncertainty around our forecasts.
- 1.7 The methodology and the forecasts represent the collective view of the three independent members of the OBR's Budget Responsibility Committee (BRC). We take full responsibility for the judgements that underpin them.
- 1.8 All the charts and tables presented in this document, plus supplementary forecast material, are available in spreadsheet format on our website.

Forecast timetable

- 1.9 In order to produce the forecasts presented in this document:
- Analysts from the Welsh Government and HMRC produced draft Welsh tax forecasts, using determinants published in our October 2021 *EFO*, plus the latest available liabilities and receipts data.
 - These were scrutinised by the BRC in two meetings on 14 and 16 September.
 - Updated LTT and LDT forecasts reflecting the latest receipts and house price data were produced by Welsh Government analysts and scrutinised by the BRC during November.
 - On 23 November, we finalised our Welsh taxes forecast, incorporating the impacts of UK Government policy announcements up to and including the Autumn Budget and Spending Review 2021, as well as updated outturn data published since then.

Structure of the document

- 1.10 The rest of this document is structured as follows:
- **Chapter 2:** income tax on non-savings, non-dividend income from the Welsh rates.
 - **Chapter 3:** land transaction tax.
 - **Chapter 4:** landfill disposals tax.
 - **Annex A:** summary of the forecasts required for the block grant adjustments.

2 Welsh rates of income tax

2.1 This chapter:

- describes the **Welsh rates of income tax** and how they are levied on non-savings, non-dividend income by tax band;
- sets out our **methodology** for forecasting UK income tax liabilities and the Welsh share of this total, before splitting this share by tax band;
- presents our **latest forecasts** for the Welsh rates and for UK income tax liabilities; and
- outlines some of the **risks and uncertainties** around our Welsh rates forecast.

What are the 'Welsh rates of income tax'?

2.2 The Welsh rates of income tax came into effect in April 2019. They are administered and collected by HMRC. There are four important aspects of the design and operation of these rates in Wales that distinguish them from our UK-wide income tax forecasts:

- First, they apply only to Welsh taxpayers, who are defined as **individuals whose main place of residence is in Wales** for the majority of the tax year. Individuals who are classified as Welsh resident are given a 'C' flag on their HMRC tax identifier.
- Second, the Welsh rates represent only the first **10p in the pound for each tax band**. Each year, the Welsh Government is required to set the tax rates for each of the basic, higher and additional tax rates, which replace a 10p reduction in the reserved UK Government element of each tax band. Since 2019-20 these rates have all been set at 10p, such that overall income tax rates paid by Welsh taxpayers remain aligned with those in England and Northern Ireland. The remaining income tax raised from Welsh taxpayers – i.e. 10p in the pound from basic rate payers, 30p from higher rate payers and 35p from additional rate payers – is reserved to the UK Government.
- Third, the Welsh rates are levied on **non-savings, non-dividend (NSND) income**. NSND income accounts for just over 90 per cent of UK-wide income tax liabilities, and around 95 per cent in Wales.
- Finally, the Welsh rates are assessed on a **liabilities basis** rather than a National Accounts basis. This means that our forecast of self-assessment (SA) income tax used for the Welsh rates will differ from the cash basis used in the National Accounts and our UK-wide SA income tax forecast, due to the lag between liabilities being incurred and the associated tax being paid.

2.3 Chart 2.1 illustrates how the current income tax liability of three specimen Welsh taxpayers would be split between the UK and Welsh Governments:¹

- **For a basic rate taxpayer earning £30,000** from one source of employment income, their £3,486 liability would be split equally between the two administrations. This results in an effective income tax rate paid by this individual of 11.6 per cent (lower than the 20 per cent basic rate thanks to the £12,570 tax-free personal allowance).
- **For a higher rate taxpayer earning £60,000**, with £55,000 coming from employment and £5,000 of dividends from company shareholdings, 41 per cent of their £10,407 liability would relate to the Welsh rates and 59 per cent would be reserved to the UK Government, including all the £975 due on their dividend income. The effective income tax rate paid by this individual is 17.3 per cent.
- **An additional rate taxpayer earning £250,000**, with £200,000 from employment income and £50,000 in dividends, would have a total tax liability of £90,802. Of this, only 22 per cent would relate to the Welsh rates, while 78 per cent would go to the UK Government. At this income level a taxpayer would not receive any personal allowance. The higher share for the UK Government reflects two factors: first, all earnings above £37,700 would be taxed at the higher or additional rates where the UK Government share is much larger; and second, the taxpayer has a liability of £18,288 from their dividend income, all of which is retained by the UK Government. The effective income tax rate paid by this individual is 36.3 per cent.

2.4 These examples illustrate the relative importance of higher earners for tax receipts, but that this is much less the case for the Welsh rates. The higher rate taxpayer earns twice as much as the basic rate taxpayer and has an overall tax liability that is three times greater, but their Welsh rates liability is only a little over twice as large. The additional rate taxpayer earns four times as much as the higher rate taxpayer and has a tax liability that is more than eight times greater, but their Welsh rates liability is somewhat less than five times greater. The UK Government's tax revenues are therefore more sensitive to changes in high-earners' incomes than the Welsh Government's revenues are.

¹ In addition to the income tax parameters reported in Table 2.2, this also reflects the personal allowance taper that withdraws £1 of personal allowance for every £2 of earnings above £100,000; the dividend allowance of £2,000; and tax rates on dividend earnings of 7.5 per cent for basic rate taxpayers, 32.5 per cent for higher rate taxpayers and 38.1 per cent for additional rate taxpayers. These specimen examples are illustrative and do not include all aspects of the income tax regime, for example the use of reliefs to lower liability.

Chart 2.1: Illustrative splits between Welsh and UK Government income tax liabilities



2.5 The December 2016 fiscal framework agreement between the Welsh and UK Governments detailed how the Welsh rates would operate.² In doing so it placed a requirement on us to forecast income tax liabilities in Wales, and in England and Northern Ireland combined, split by tax band. This was not something that had previously been necessary (or possible).³

Methodology

2.6 Our Welsh income tax forecasts are produced on a 'top-down' basis.⁴ The main steps are:

- First, we establish the **whole of the UK NSND income tax liabilities** forecast.
- Next, we calculate the **share of NSND income tax liabilities subject to the Welsh rates**, taking into account the relevant tax base in Wales and how this maps onto the announced tax regime. Much of our analysis first looks at the total share of income tax from Wales – including amounts paid by Welsh taxpayers but reserved to the UK Government – before estimating the proportion that is subject to the Welsh rates. We have also calibrated this to the outturn share for the Welsh rates in 2019-20, based on the first year of outturn data for Welsh income tax liabilities, which HMRC published in July. We evaluate our forecasts for the Welsh rates in 2019-20 in Box 2.1.
- Finally, we add our estimates of the effect of **new policies** announced since our previous forecast on Welsh rates liabilities.

² HM Government and Welsh Government, *The agreement between the Welsh Government and the United Kingdom on the Welsh Government's fiscal framework*, December 2016.

³ For more on our approach, see Mathews, P. *Working paper No.14: Devolved income tax: forecasting by tax bands*, September 2018.

⁴ For more detail on our forecast methodology see Chapter 2 of our December 2019 *Welsh taxes outlook* and the 'Welsh tax forecasts' page of our website.

Pre-measures UK-wide forecast

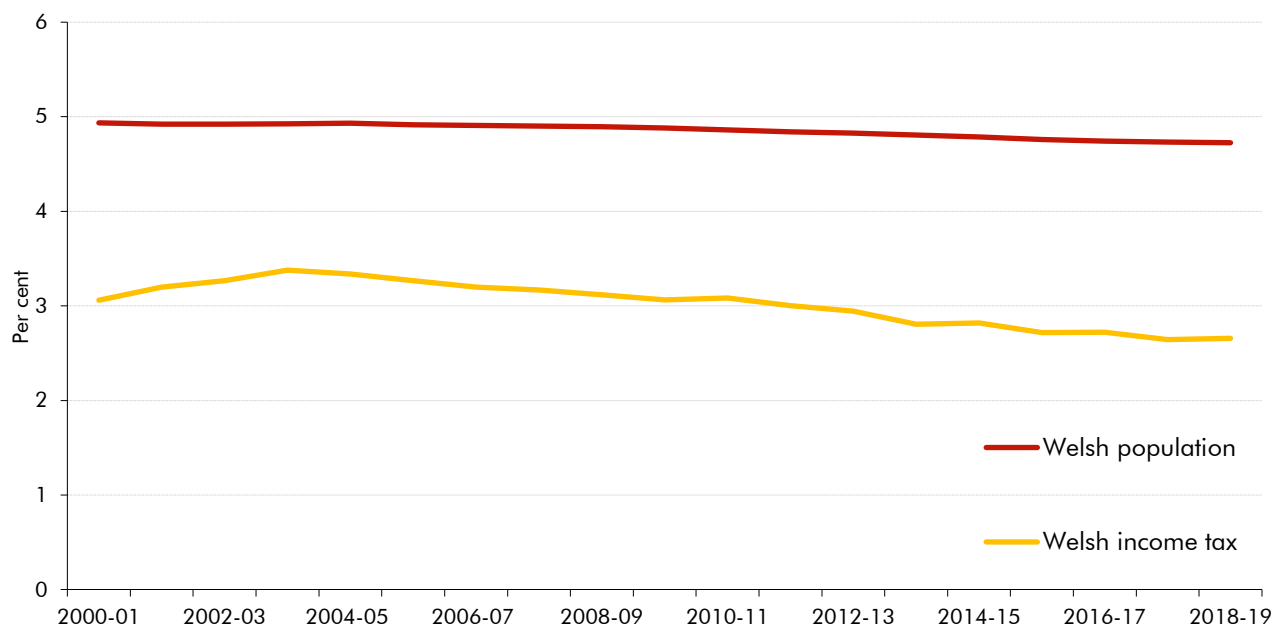
- 2.7 We use HMRC's latest published UK-wide NSND income tax liabilities outturn for the previous tax year (currently 2019-20) as the starting point for our pre-measures forecast. To project liabilities between that outturn year and the year in progress, we produce an in-year estimate based on HMRC's most recent monthly tax receipts data.
- 2.8 We forecast growth in the UK income tax base in line with our wider economy forecast. The key determinants are employment and average earnings growth, which determine the amount of labour income that can be taxed, and CPI inflation, which is used to uprate tax thresholds in the absence of other stated policies. (In our latest forecast, CPI inflation has little effect because thresholds are frozen at the UK level until 2025-26.)
- 2.9 We forecast income tax at the UK level according to the different methods by which HMRC collects the tax. PAYE income tax accounts for over 80 per cent of revenue, with nearly all the remainder collected via the SA system. PAYE income mainly represents the earnings of employees plus some pensions income, while SA income includes profits from self-employment and income from dividends, land and property, and savings.

The share of UK-wide income tax liabilities subject to the Welsh rates

The overall Welsh share of UK-wide income tax liabilities

- 2.10 Armed with our forecast for UK NSND income tax liabilities, we then need to calculate the share that will be subject to the Welsh rates and apply this to the UK forecast. This is done in two steps. First, we calculate the overall Welsh share of income tax as captured by HMRC's survey of personal incomes (SPI). This is an annual survey based on a sample of around 768,000 individuals in contact with HMRC. It is published with a long lag, with the 2018-19 SPI being the latest year currently available. This pre-dates the Welsh rates coming into effect, so it refers to all income tax paid by Welsh taxpayers.
- 2.11 Chart 2.2 compares the Welsh share of UK income tax liabilities with the Welsh share of the UK population. Both have been declining – the Welsh share of income tax more rapidly. Perhaps the two most striking features of the chart are how much lower the Welsh share of income tax is compared with the Welsh share of the population (2.7 versus 4.7 per cent in 2018-19) and the difference in the relative rate of decline in the Welsh share of income tax compared with the share of population (13.2 versus 4.3 per cent since 2000-01). On this basis, income tax liabilities per person in Wales in 2018-19 were 44 per cent lower than in the UK as a whole (£1,579 versus £2,808).

Chart 2.2: Welsh share of UK income tax liabilities and population

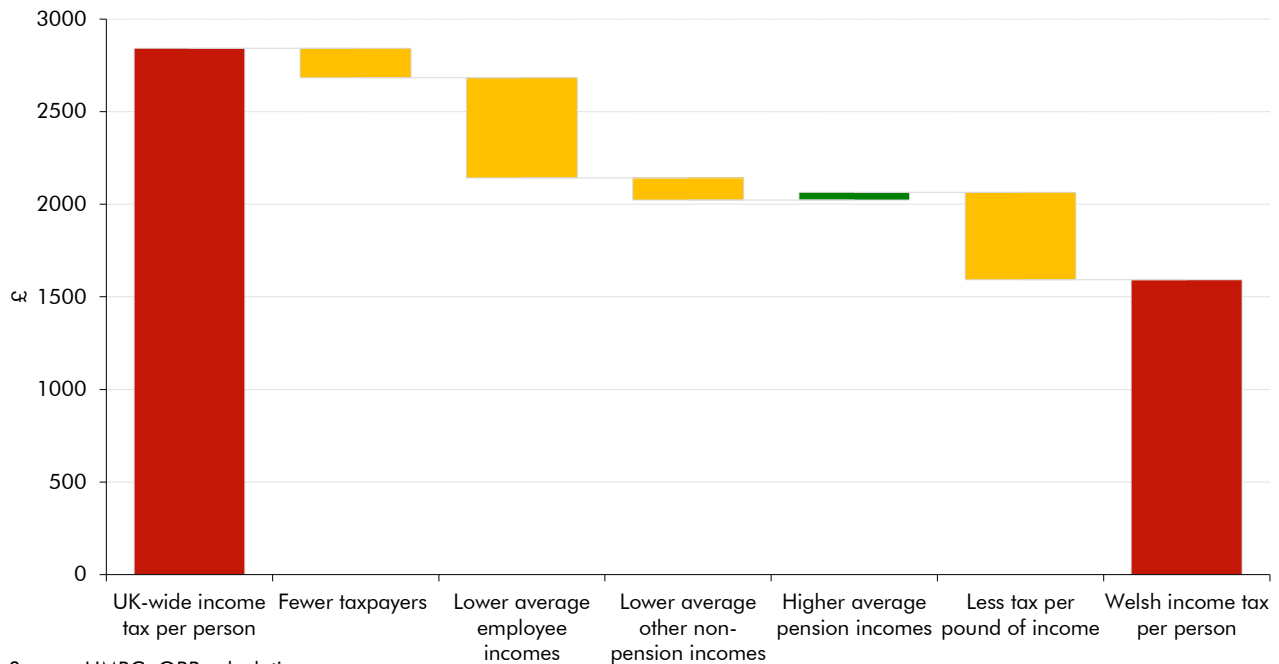


Note: Tax data unavailable for 2008-09 so the proportional shares are based on interpolation from the adjacent years.

Source: HMRC, ONS

- 2.12** We can readily incorporate differences in expected population growth in our forecasts as the ONS publish these, but understanding why tax per person in Wales is lower than in the UK and declining in relative terms, and how it has evolved over the past, can help inform other assumptions we make about the future Welsh tax share. In order to accommodate some of this observed difference, in this forecast we have included share updates based on in-year real time information (RTI) to adjust the SPI-based shares. This should provide us with more up-to-date share values for our forecast and help us capture some of these more recent dynamics. A more thorough investigation of these differences will be presented in a working paper on devolved income tax that we intend to publish in 2022.
- 2.13** In Chart 2.3 we use the latest SPI data to show how the difference in tax liabilities per person can be attributed to three underlying factors: the proportion of the population that are taxpayers; the average incomes of those taxpayers (split into three different sources); and the amount of tax paid per pound of income (i.e. the effective tax rate (ETR)). Analysing the difference in this way facilitates any forecast judgements we may wish to make about how the Welsh share of income tax will evolve.

Chart 2.3: Welsh and UK income tax liabilities per person in 2018-19

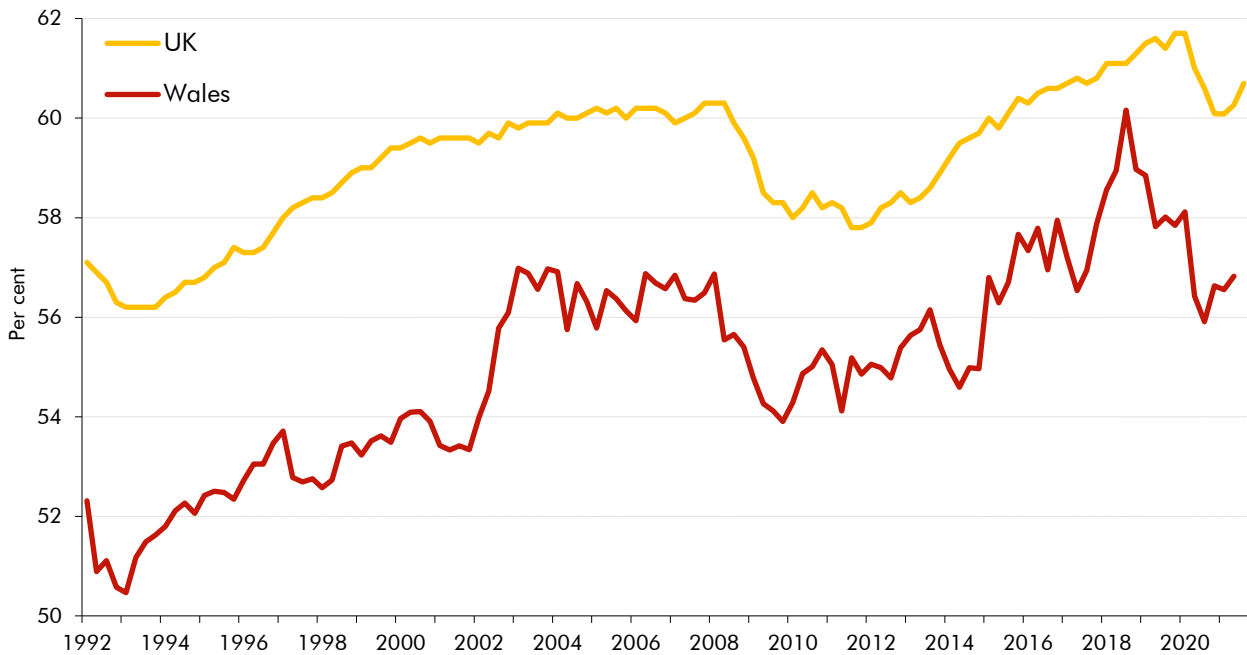


The proportion of the population that pay income tax

- 2.14** The likelihood of an individual paying income tax is lower in Wales than it is in the UK as a whole. According to the 2018-19 SPI, 47 per cent of the Welsh population paid income tax, compared to 50 per cent of the UK’s population, accounting for around 13 per cent of the gap between Welsh and UK income tax liabilities per person.
- 2.15** There are two main factors that are likely to explain the lower proportion of taxpayers in the population in Wales. First, the employment rate in Wales is lower than in the UK as a whole. Chart 2.4 shows that the employment rate in Wales has been consistently below that in the UK in recent years.⁵ On average since 1992, the rate in Wales has been 4.1 percentage points lower than that in the UK as a whole. In 2018-19 it was 2.1 percentage points lower. The employment rate in Wales has also been around twice as volatile as in the UK as a whole, leading to greater sensitivity to employment shocks. In 2020 the employment rate fell by 2.3 percentage points in Wales, compared to 1.1 percentage points in the UK as a whole, as a result of the pandemic, but it has recovered more quickly so far in 2021.

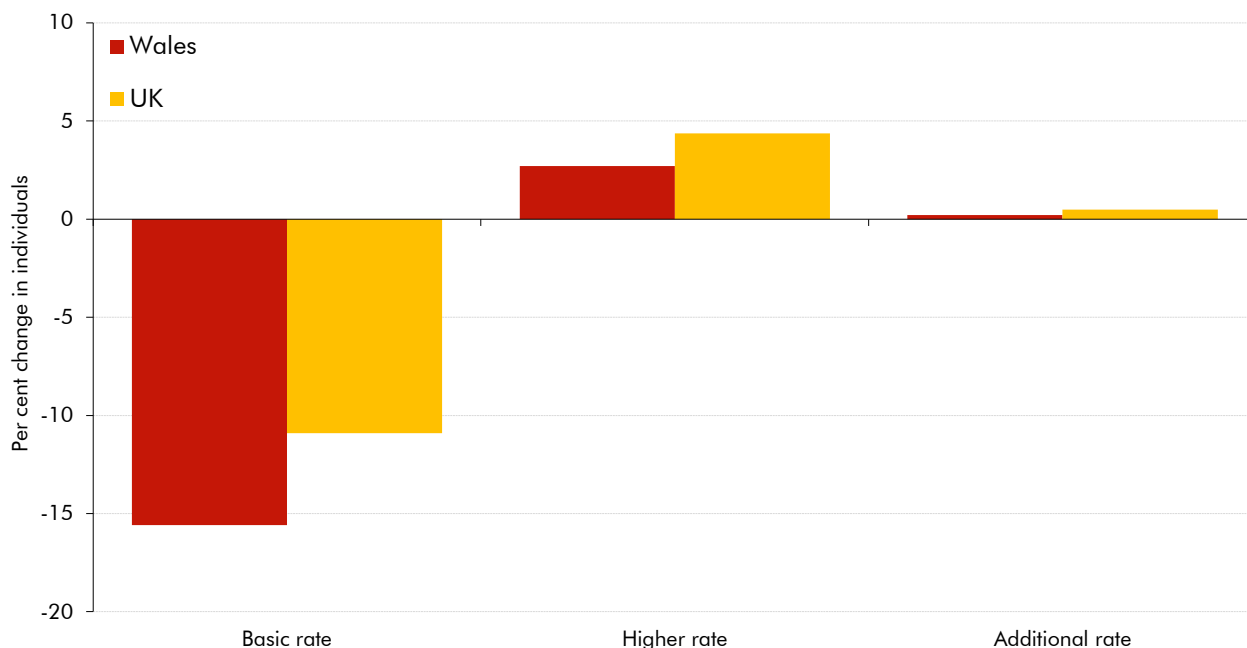
⁵ The employment rate here is the proportion of people aged 16 and over who are in paid work.

Chart 2.4: Employment rate for the UK and Wales



2.16 Second, successive rises in the tax-free personal allowance – from £6,475 in 2010-11 to £11,850 in 2018-19 (and further to £12,570 in 2021-22) – are likely to have taken proportionately more Welsh residents out of income tax altogether due to differences in the earnings distribution between Wales and the UK as a whole. Chart 2.5 shows the relative change in the number of taxpayers in each tax band between 2010-11 and 2018-19. The significantly larger decline in basic rate taxpayers in Wales (nearly one and a half times that in the UK), reflects the greater concentration of the tax base in this band and the resulting disproportionate effect of raising the personal allowance. Conversely, the Welsh increase in the other two bands is around half that of the UK as a whole. This points to the greater decline in basic rate taxpayers in Wales being due to taxpayers dropping out of the basic rate rather than moving up into the two higher bands. This helps explain why the number of taxpayers grew by 1 per cent in the UK between 2010-11 and 2018-19, but dropped by 6 per cent in Wales, despite increases in the population and employment rates in both.

Chart 2.5: Change in taxpayers by tax band between 2010-11 and 2018-19



Source: HMRC, OBR

Average income per taxpayer

- 2.17 The most important reason for the gap between UK and Welsh tax per person as recorded in the SPI is that Welsh taxpayers had lower average incomes. This explains around half the shortfall in tax per person in 2018-19.
- 2.18 Table 2.1 displays different sources of income averaged across all income taxpayers. It shows that the vast majority of taxpayer income in both the UK and Wales comes from employee jobs, so it is not surprising that this represents the largest source of difference in tax liabilities per taxpayer (as shown in Chart 2.3 above). It also shows that the SPI implied average income in Wales is 18 per cent lower than in the UK as a whole, with the difference particularly marked in self-employment and other non-pension income (including savings and dividends). By contrast, the average income from pensions is 9 per cent higher in Wales. The higher proportion of the Welsh population that are of pension age (21 per cent in 2018 versus 18 per cent in the UK as a whole), and the higher proportion of public sector workers in Wales, will both contribute to this difference.

Table 2.1: Average incomes in 2018-19 by type

	UK	Wales	Difference	
	£ per taxpayer		£s	Per cent
Employee income	24,873	20,368	-4,506	-18
Self-employment and other non-pension income	3,108	2,625	-483	-16
Pension income	4,905	5,346	441	9
Total income	35,443	29,044	-6,399	-18

- 2.19 Table 2.2, which focuses just on employee income, shows that this large gap in average earnings is also reflected in other sources of labour income data. The coverage of each

differs so they are not fully comparable, which explains why the level of average earnings reported by each is different. But even so, they tell a consistent story of average employee incomes in Wales being considerably lower than those for the UK as a whole.⁶

Table 2.2: Different measures of average employee earnings in 2018-19

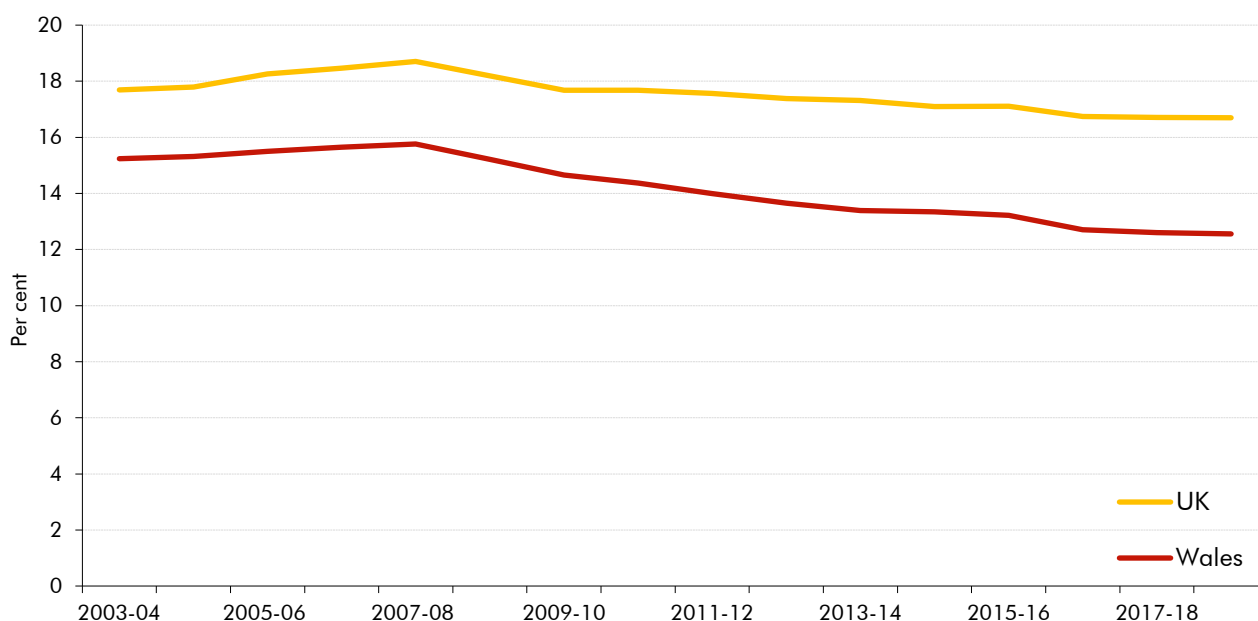
	UK	Wales	Difference	
	£ per employee		£s	Per cent
HMRC Survey of personal incomes	32,614	27,157	-5,457	-17
HMRC Real-time information	29,156	24,250	-4,906	-17
ONS Annual survey of hours and earnings	29,077	25,013	-4,064	-14
ONS Labour force survey	32,446	28,240	-4,206	-13

Average amounts of tax paid per pound of income

2.20 Even once we have accounted for differences in the number of taxpayers per person and the average income per taxpayer, income tax per person in Wales falls well short of that in the UK because less tax is paid per pound of income. This lower effective tax rate explains over a third of the difference.

2.21 Chart 2.6 shows that the effective income tax rate in Wales has been considerably lower than that in the UK across the past decade. It has also declined somewhat faster, by around 3 percentage points between the peak in 2007-08 and 2018-19 compared with around 2 percentage points in the UK as a whole.

Chart 2.6: Effective income tax rates in Wales and the UK



Note: Data unavailable for 2008-09 so the proportional shares are based on interpolation from the adjacent years.

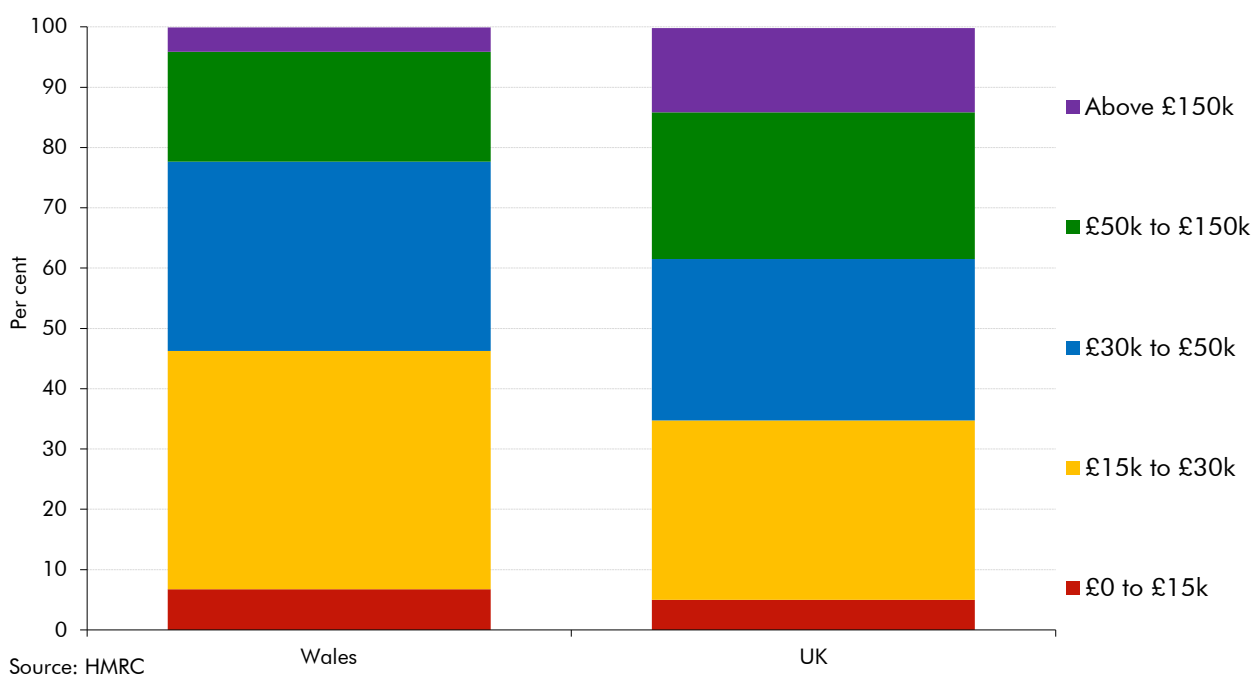
Source: HMRC

⁶ The difference in the SPI average between Tables 2.1 and 2.2 is because the latter is only averaging across those individuals with employment income, while the former is doing so across all individuals. This explains why the average is lower in Table 2.1, since it includes some individuals, for example pensioners, with no employment income.

Welsh rates of income tax

2.22 In part this reflects the progressive income tax structure interacting with lower average incomes – for example, all else equal there will be a higher share of tax paid at the basic rate in Wales than there is in the UK as a whole. But it also reflects the shape of the income distribution. Chart 2.7 compares total taxpayer income grouped by income bands between Wales and the UK as a whole, as recorded in the 2018-19 SPI. It shows that taxpayers earning over £50,000 account for around 40 per cent of total taxpayer income in the UK as a whole, nearly double the equivalent share for Wales. This is reflected in the share of total tax paid at each income band, with nearly 65 per cent of total tax paid in the UK coming from those earning over £50,000, compared with around 40 per cent in Wales.

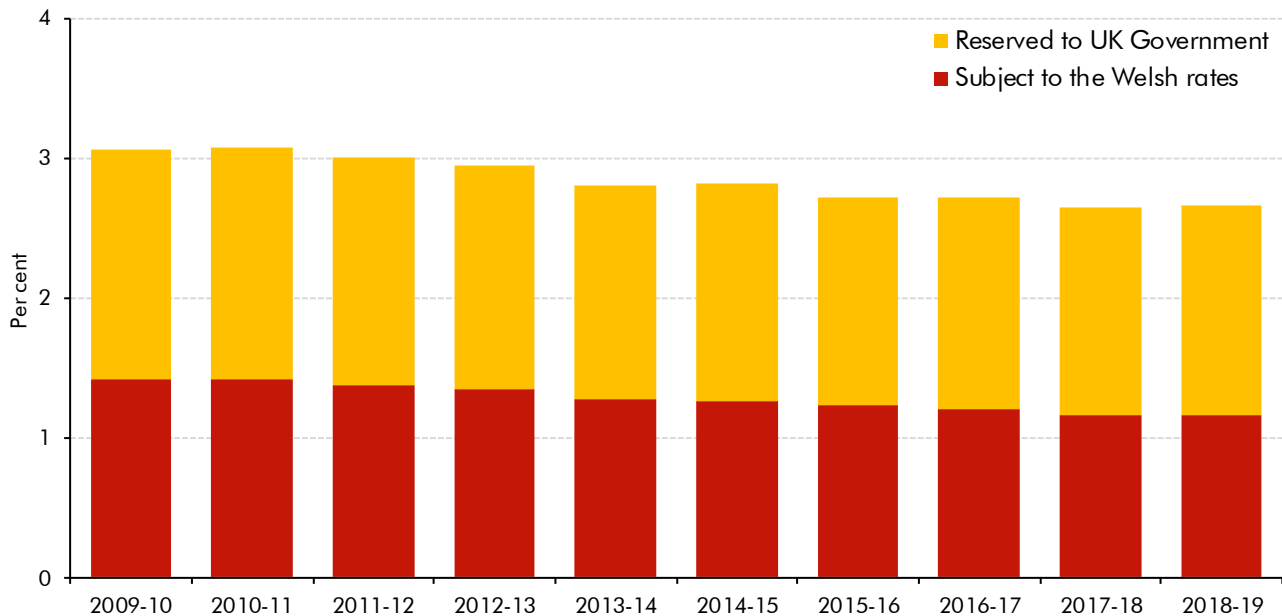
Chart 2.7: Proportion of total taxpayer income in the UK and Wales by income band



The share of Welsh income tax liabilities subject to the Welsh rates

2.23 The final step in estimating the share of UK income tax liabilities that will be subject to the Welsh rates is a mechanical one. We estimate the share of Welsh NSND income that will be taxed in each tax band and then calculate the relevant fraction of it that would be covered by the first 10p – i.e. 50 per cent for income taxed at the basic rate, and so on. Chart 2.8 shows all the income tax collected from Welsh taxpayers as a proportion of total UK income tax (2.7 per cent in 2018-19) and compares it to the amount actually devolved – i.e. the share that would be subject to the Welsh rates (1.2 per cent in 2018-19).

Chart 2.8: Welsh shares of total UK income tax liabilities: all tax from Welsh taxpayers versus the Welsh rates of income tax



Source: HMRC

Forecasting the share of income tax liabilities subject to the Welsh rates

2.24 From these starting points, we adjust our forecast for the overall Welsh share in three ways:

- **RTI earnings:** we fill in the period between 2018-19 and 2021-22 using HMRC's estimate of outturn Welsh income tax liabilities in 2019-20 and more timely RTI data on the Welsh share of total pre-tax employee earnings (i.e. the product of employee numbers and average earnings) since then. In the absence of timely information on other forms of NSND income, we assume that the RTI earnings data are representative of the total. Applying this approach in our Scottish income tax forecasts has suggested that it provides a reasonable guide to movements in NSND income shares.
- **Population:** beyond 2021-22, we factor in relative population growth rates based on the most recent ONS principal population projections, which pre-date the pandemic. These show the Welsh share of the UK population continuing to decline, and we would expect this to reduce the Welsh share of income tax payers.⁷ We adjust for this using an index of the Welsh share of the UK's adult population.
- We include adjustments for **gift aid and those previously announced policies** that have been or will be implemented between the SPI base year (2018-19) and the end of our forecasts and that are expected to affect the Welsh share.

2.25 Finally, we calculate the share of all Welsh income tax subject to the Welsh rates. For the forecast years this is done via HMRC's 'personal tax model', which is based on outturn SPI

⁷ See Box A.2 in Annex A of our 2018 *Fiscal sustainability report* for a discussion of the fiscal risks that might be associated with demographic trends in the constituent nations of the UK.

Welsh rates of income tax

data, and follows the same methodology as has been used to estimate the share subject to Welsh rates in outturn.

New policy costings

- 2.26** Our post-measures forecast is produced by adding the effects of new policies announced since our previous forecast. The introduction of the Welsh rates and the associated terms of the fiscal framework have meant that we now need to assess the effect of new policies on the individual bands of income tax rather than simply their overall cost or yield.
- 2.27** Many of the general sources of uncertainty around policy costings that we routinely highlight in our forecast publications are likely to be amplified as we disaggregate costings by geography and tax band. For that reason, we believe a relatively simple approach that makes sufficient allowance for asymmetric effects across countries and bands, while not seeking spurious precision, is appropriate.

Latest forecast

UK income tax forecast

- 2.28** As set out in Chapter 1, our latest forecast for UK NSND income tax is based on the economic forecast published in our October 2021 *Economic and fiscal outlook (EFO)*. Table 2.3 reports the UK and Welsh rates and thresholds that we have used in this forecast. The UK Government has frozen each of the three tax thresholds between 2021-22 and 2025-26. In 2026-27 the personal allowance and higher rate thresholds rise in line with CPI inflation, but the additional rate threshold remains fixed in cash terms.

Table 2.3: UK Government and Welsh income tax parameters

	Per cent					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
UK Government tax rates for Welsh taxpayers						
Basic rate	10	10	10	10	10	10
Higher rate	30	30	30	30	30	30
Additional rate	35	35	35	35	35	35
Welsh rates of income tax						
Basic rate	10	10	10	10	10	10
Higher rate	10	10	10	10	10	10
Additional rate	10	10	10	10	10	10
Total income tax rates						
Basic rate	20	20	20	20	20	20
Higher rate	40	40	40	40	40	40
Additional rate	45	45	45	45	45	45
£						
Tax thresholds (reserved to the UK Government)						
Personal allowance	12,570	12,570	12,570	12,570	12,570	12,830
Higher rate	50,270	50,270	50,270	50,270	50,270	51,330
Additional rate	150,000	150,000	150,000	150,000	150,000	150,000

Note: Shaded cells represent policy baselines assumed for forecasting purposes. We assume that Welsh rates will remain unchanged until the Welsh Government states otherwise.

- 2.29** Table 2.4 sets out the forecast for UK NSND income tax liabilities that underpins our Welsh rates forecast. Despite the sharp fall in nominal GDP in 2020-21, UK-wide NSND income tax liabilities actually rose modestly (by £4.4 billion) as incomes were supported by pandemic-related schemes. Revenues are expected to rise modestly in 2021-22, then more steadily from 2022-23 onwards.
- 2.30** Relative to our March 2021 forecast, liabilities were higher than expected in 2020-21, after which they have been revised up more significantly (by an average of £23 billion or 11 per cent). This revision is largely thanks to a faster recovery so far this year, a downward revision to the degree to which we expect real GDP to be scarred by the pandemic (from 3 to 2 per cent), and higher and more sustained inflation boosting nominal GDP. This all results in substantial upward revisions to the income tax base. We have also revised up the expected yield from the income tax threshold freezes announced in the UK Government's March 2021 Budget, as significantly higher inflation increases the amount raised relative to the pre-measures position in which thresholds increased with CPI inflation. On a liabilities basis, the yield in 2025-26 has been revised up by £15.5 billion.
- 2.31** The effects of individual UK Government policies in its October 2021 Budget on NSND income tax liabilities were dominated by the (largely indirect) consequences of two measures whose direct effect is outside the NSND tax base:
- A 1.25 percentage point increase in the rate of NICs on employees, employers and the self-employed for 2022-23 only, which is then replaced by **a new 1.25 per cent health and social care levy** on the same terms from 2023-24 onwards. This reduces income tax via both its indirect effects on wages and the increased incentive to incorporate that it generates. We assume that 80 per cent of the economic incidence of the levy is passed through by firms to lower nominal wages within two years (with the other 20 per cent passed through to consumers via higher prices, while profits absorb some of the cost in the first year). This leaves nominal wages 0.5 per cent lower from 2023-24 onwards. In addition, increased marginal tax rates for those who are employed or self-employed strengthen the incentive to set up as a company to pay corporate taxes instead of income tax. In total, these effects reduce UK NSND income tax liabilities by amounts rising from £2.2 billion in 2022-23 to £3.9 billion in 2025-26.
 - The **1.25 percentage point increase in tax rates levied on dividend income**, which affects NSND income tax liabilities by reducing the incentive for individuals to incorporate. This increases UK NSND income tax liabilities by £0.1 billion in 2023-24, rising to £0.4 billion by 2025-26, partly offsetting the effects of the levy.
- 2.32** In addition, the October 2021 Budget and Spending Review announced a material discretionary fiscal loosening, which boosts the level of nominal GDP by 0.4 per cent in 2022-23, with growth slightly weaker thereafter as the direct effect of discretionary easing fades. In isolation, this raises NSND income tax liabilities by a maximum of £4.8 billion in 2022-23 and declining amounts thereafter. From 2024-25 onwards, the NSND income tax losses associated with the health and social care levy outweigh the gains from other sources.

Welsh rates of income tax

Table 2.4: Whole UK forecast of tax liabilities on non-savings, non-dividend income

	£ billion							
	Outturn		Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast restated	174.9	177.7	178.9	190.8	198.0	212.5	225.0	
December forecast	176.8	182.0	198.0	212.0	223.7	233.8	248.1	261.8
Change	1.9	4.4	19.1	21.2	25.7	21.3	23.1	
<i>of which:</i>								
UK NSND outturn alignment		4.6	4.9	5.2	5.5	5.8	6.2	
Pre-measures forecast		-0.2	14.1	13.5	18.0	15.7	19.0	
Effects of UK Government policies		0.0	0.1	2.6	2.3	-0.1	-2.0	
<i>of which:</i>								
Health and social care levy		0.0	0.0	-2.2	-3.0	-3.1	-3.9	
Dividend tax rate increase		0.0	0.0	0.0	0.1	0.3	0.4	
Other direct effects		0.0	0.0	0.0	0.4	0.4	0.5	
Other indirect effects		0.0	0.0	4.8	4.7	2.2	1.0	

Share subject to the Welsh rates

2.33 Outturn data for 2019-20 published by HMRC in July 2021 show the Welsh share to have been very close to our March 2021 forecast. In our March forecast we included a temporary uplift to the Welsh share reflecting in-year RTI data for 2020-21. We have replaced this adjustment with updated Welsh shares based on the latest RTI data for 2020-21 and the first four months of 2021-22. This change results in modest reductions in our forecast for the Welsh share between 2020-21 and 2021-22, as shown in Table 2.5.

Table 2.5: Share of pre-measures liabilities subject to the Welsh rates

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn		Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast (pre-measures)	1.16	1.18	1.18	1.17	1.17	1.17	1.17	
December forecast	1.15	1.17	1.16	1.17	1.18	1.18	1.17	1.17
Change	0.00	-0.01	-0.02	0.00	0.01	0.00	0.00	
<i>Memo: Population index</i>		100.0	99.4	99.2	99.1	98.9	98.7	98.5
<i>Memo: RTI index (2017-18 = 100)</i>		100.8	100.8	100.8	100.8	100.8	100.8	100.8
<i>Memo: Combined index</i>		100.8	100.1	100.0	99.8	99.7	99.5	99.3

Latest forecast for the Welsh rates of income tax

2.34 Table 2.6 sets out our latest forecast for the Welsh rates of income tax and a breakdown of the changes since March, while Table 2.7 shows the forecast by tax band. We have revised the forecast up by £217 million (9 per cent) on average, close to three-quarters of which relates to the improved outlook for UK NSND receipts. Aligning our forecast to the latest UK income tax outturn data boosts the forecast by £60 million a year on average, with the adjusted Welsh share providing only a small offset in most years.

2.35 As with UK-wide liabilities: the introduction of the new health and social care levy reduces liabilities (by amounts rising from £28 million in 2023-24 to £39 million in 2025-26); the higher dividend tax rate lifts liabilities modestly (by £2 million a year on average); and the wider boost to the tax base from the discretionary fiscal easing raises liabilities (particularly in 2022-23 and 2023-24, by £56 million and £55 million respectively). The net effect is positive up to 2024-25 but turns negative thereafter.

Table 2.6: Welsh rates of income tax forecast

	£ million							
	Outturn		Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast restated	2,027	2,093	2,113	2,233	2,315	2,495	2,643	
December forecast	2,041	2,127	2,301	2,478	2,629	2,748	2,911	3,063
Change	14	34	188	245	315	253	268	
<i>of which:</i>								
Welsh share modelling		-17	-37	-12	0	-11	-14	
UK NSND outturn alignment		53	57	60	64	67	72	
UK NSND forecast and other changes		-2	168	158	210	184	223	
Effects of UK Government policies		0	1	38	41	12	-12	
<i>of which:</i>								
Health and social care levy		0	0	-17	-28	-28	-39	
Dividend tax rate rise		0	0	0	1	3	4	
Other direct effects		0	0	0	13	12	11	
Other indirect effects		0	0	56	55	26	11	

Table 2.7: WRIT forecast of tax liabilities on NSND income by tax band

	£ million							
	Outturn		Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
December forecast	2,041	2,127	2,301	2,478	2,629	2,748	2,911	3,063
<i>of which:</i>								
Basic rate	1,762	1,818	1,953	2,098	2,208	2,292	2,412	2,528
Higher rate	233	260	292	318	346	375	415	445
Additional rate	45	50	57	61	75	82	84	90
	Per cent							
Basic rate	86.3	85.4	84.9	84.7	84.0	83.4	82.9	82.5
Higher rate	11.4	12.2	12.7	12.8	13.1	13.6	14.3	14.5
Additional rate	2.2	2.4	2.5	2.5	2.9	3.0	2.9	2.9

Key uncertainties

2.36 There are several sources of uncertainty around our forecast for income tax liabilities subject to the Welsh rates. We summarise some of the most important ones here.

Coronavirus pandemic

2.37 Our forecast for the Welsh rates, like our UK income tax forecast, remains subject to increased uncertainty due to the coronavirus pandemic. Both are dependent on the outlook for labour income and the level of employment, which in turn reflect our assumptions about the degree to which underlying productivity and the labour market will be scarred in the medium term by the pandemic.⁸ While there has been a faster rollout of more effective than expected vaccines, this is partly counterbalanced by the emergence of the more transmissible Delta variant. Key uncertainties remain in terms of the path of the virus through this winter, with the risk that a stronger than expected seasonal spike could require the reintroduction of restrictions – which the continued vaccine booster programme could mitigate.

2.38 Further uncertainties relate to the impact of the pandemic on longer-term internal and international migration flows, and thus the relative size of the Welsh population versus the UK as a whole, as well as how the recovery from the pandemic continue to play out across different sectors of the economy and different parts of the income distribution.

Brexit

2.39 Another key macroeconomic uncertainty relates to Brexit and the future course of the relationship between the UK and the EU. The Trade and Cooperation Agreement (TCA) negotiated between the UK and the EU ensures tariff- and quota-free trade, subject to meeting relevant 'rules of origin' and other requirements. The UK Government has announced that the introduction of full customs checks on goods arriving from the EU will be delayed by a further six months to 31 December 2021. And the UK Government's 21 July 2021 Command Paper stated its intention to renegotiate several aspects of the existing Northern Ireland Protocol that it agreed with the EU and ratified in 2020. These include the full customs and sanitary and phytosanitary measures that are currently applied to all goods entering Northern Ireland from Great Britain, regardless of final destination. There remains significant uncertainty around the longer-term operation of the protocol, and the Government has not ruled out unilateral measures via the protocol's Article 16 safeguard mechanism. The ultimate arrangements to be put in place and shape of the future relationship with the EU are therefore still uncertain.

2.40 As we set out in our October *EFO*, current import and export trends have so far been consistent with our previous assumptions of a 15 per cent reduction in trade intensity as a result of leaving the EU. While it is too early to draw definitive long-term conclusions, this reduction in trade drives our estimate of a 4 per cent long-run loss of potential productivity

⁸ These assumptions are detailed in Chapter 2 of our October 2021 *EFO*.

that we assume will eventually result from the UK's departure from the EU. The future path of these figures and potential future disruptions to the trading relationship with the EU could have significant implications for the income tax bases in the UK as a whole and in Wales.

The Survey of personal incomes base data

- 2.41 The representativeness of the geographical and income distributions reported in the SPI base data is important for the development of our forecasts. The SPI is designed to be representative at the UK level, but the sample is not stratified by geography (i.e. smaller sample sizes in each geographical area mean it is likely to be less representative at those levels than it is at the UK level). In the latest version, the confidence interval around the SPI estimate of tax liabilities at the UK level was just 0.5 per cent, but for Wales it was a more material 4 per cent. Sampling variation – in particular due to the small number of observations of high-income taxpayers in Wales – is another potential source of error, although the SPI does have a relatively large sample size overall and is designed to over-sample taxpayers with higher incomes. While we now have the first year of outturn data for Welsh income tax liabilities and so can now calibrate our forecasts to the outturn share, uncertainties around the input data of our Welsh rates forecast remain a forecast risk.

Relative performance of the Welsh and UK income tax bases

- 2.42 As described in this chapter we use our UK-level macroeconomic forecasts with only a few adjustments to forecast Welsh income tax liabilities. This reflects our assumption that future disparities between growth in any of the variables that determine the tax base in Wales and the UK as a whole are as likely to go in one direction as the other, so a central assumption is that they move in parallel. As our analysis of tax liabilities per person shows, there are large differences between Wales and the UK as a whole at present that have been getting steadily, if only modestly, larger over time. Further divergence or a period of convergence would represent downside or upside risks to our forecast. We will present a detailed investigation of these trends and the effects they have on our forecasts in a forthcoming working paper on devolved income tax next year. This will help to inform future forecast judgements in respect of trends in the Welsh share of income tax over time.
- 2.43 The key adjustment we make at present relates to different rates of population growth, but we do not make any further allowance for differences in the rate at which the population is ageing in Wales and the UK as a whole. We therefore capture the effect of changing numbers of taxpayers, but not any age-related changes in the distribution of taxpayers and average incomes across the different age groups. We will consider this further in the future.

Box 2.1: Evaluating our forecasts for the Welsh rates of income tax for 2019-20

In July 2021, HMRC published outturn data for the Welsh rates in 2019-20, the first year of their operation. Assessing the performance of our forecasts after the event is important for transparency and accountability, but also helps us understand and identify ways to improve them. This is the first time that we can do this for the Welsh rates and while a more detailed assessment will be published in the *Welsh taxes outlook* update alongside the final Budget early next year, we present a preliminary discussion here. Table A presents the outturn and our forecasts from the five forecasts prior to outturn data being published for both the Welsh rates and the pre-measures Welsh share of UK NSND income tax.

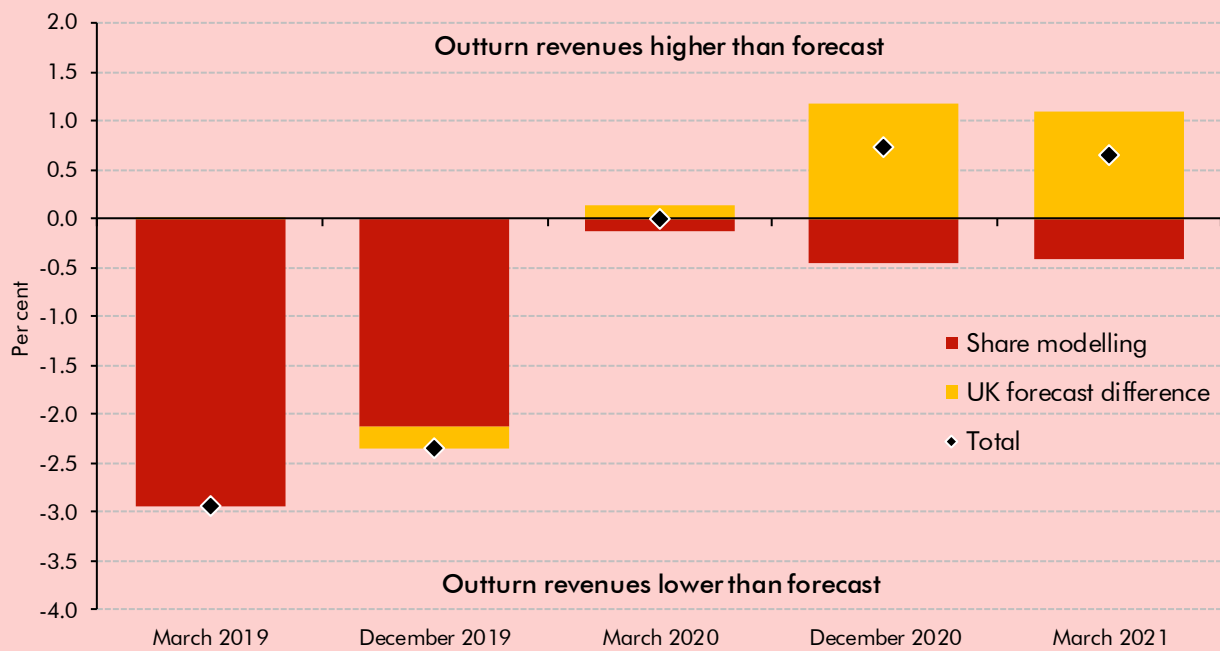
Table A: Successive forecasts for Welsh rates of income tax and the share of pre-measures liabilities subject to the Welsh rate (2019-20)

	Outturn	Forecasts				
		Mar 2019	Dec 2019	Mar 2020	Dec 2020	Mar 2021
WRIT (£ million)	2,041	2,101	2,089	2,041	2,026	2,027
Difference from outturn (£ million)		60	48	0	-15	-14
Welsh share (per cent)	1.15	1.19	1.18	1.16	1.16	1.16
Difference from outturn (per cent)		0.04	0.02	0.00	0.00	0.00

Chart A breaks down the overall differences between the same five forecasts and the outturn for 2019-20, into those relating to the UK NSND forecast and those resulting from our estimate of the share of the total subject to the Welsh rates. In March 2019 and December 2019 we overestimated receipts by 2.9 per cent and 2.3 per cent respectively. These errors were largely explained by overestimates for the Welsh share of the total, with the UK-wide liabilities forecast remarkably accurate.

From March 2020 onwards, our estimates of the Welsh share benefited from Welsh-specific data on earnings and tax paid in Wales from HMRC’s RTI system. As a result, both the overall forecast differences and the contribution from errors in our estimates of the Welsh share were much smaller than in the earlier forecasts. Indeed, our March 2020 forecast was accurate to within £0.1 million. But the two subsequent forecasts in December 2020 and March 2021 underestimated receipts by around 0.7 per cent in each case. While our estimates of the Welsh share remained more accurate than the first two forecasts, we underestimated UK NSND receipts by a little over 1 per cent in each forecast.

Chart A: Successive forecast differences for Welsh rates of income tax (2019-20)



Source: HMRC, OBR

As the Welsh rates are calculated on a liabilities basis with a considerable lag, our forecasts generally improve over time with the incorporation of data for the year in question. Most importantly, we learn more about PAYE income tax paid on employee earnings from the RTI system, which informs both our UK-wide forecast and our estimates of the Welsh share. We have made increasing use of this in-year data to improve our estimates of the Welsh share over time. But uncertainties around the portion of Welsh income tax paid via self-assessment remain until the point at which those payments are analysed by HMRC to estimate the outturn.

3 Land transaction tax

Introduction

3.1 This chapter:

- describes the **introduction of land transaction tax (LTT)** in Wales and compares it to the stamp duty land tax (SDLT) regime in operation in England and Northern Ireland;
- outlines our **methodology for forecasting LTT** and explores trends in **property prices and transactions** in Wales that drive growth in the LTT tax base;
- presents our **latest forecasts** and explains how they have changed since the forecasts published in our *March 2021 Economic and fiscal outlook*; and
- discusses some of the key **risks and uncertainties** around these forecasts.

What is 'land transaction tax'?

3.2 Land transaction tax (LTT) replaced stamp duty land tax (SDLT) in Wales from April 2018.¹ It is an *ad valorem* transaction tax levied on the transfer of a property. It is paid by the purchaser, but its incidence is on the house price so the burden actually falls on the seller.²

3.3 LTT has many of the same features as SDLT including different treatment for residential and commercial properties, a tax-free threshold, as well as a surcharge on additional residential property purchases. But there are also some notable differences. For example, LTT has different rates and thresholds; it does not include a relief for first-time buyers; and it is collected by the Welsh Revenue Authority (WRA) rather than by HMRC.

Forecast methodology

3.4 The methodology for generating our LTT forecasts involves three steps.³ These are:

- First, we produce an **in-year estimate** that uses monthly receipts outturn data from the WRA as its starting point. Typically, we gross up the year-to-date receipts by assuming

¹ Both taxes are broadly based on the historical tax 'stamp duty', one of the oldest forms of taxation having been originally introduced on a range of products in 1694. The original duty required legal documents associated with a transaction to be authenticated by means of a physical 'stamp'. Stamp duty was replaced with SDLT in December 2003.

² Best, M. and Kleven, H., *Housing market responses to transaction taxes: Evidence from notches and stimulus in the U.K.*, June 2017.

³ For more detail on our forecast methodology see Chapter 3 of our December 2019 *Welsh taxes outlook* and the 'Welsh taxes outlook' page of our website.

the remainder of the year follows a similar path to previous years, augmented as necessary by information about the performance of the property market and economy.

- Next, we generate our **pre-measures forecast**, using four separate ‘price bins’ models – one each for residential main rates, the additional properties surcharge, commercial sales and commercial leases.⁴ The models aggregate transactions within relatively small ‘bins’, calculating the tax due on the average price in each bin, and then projecting that forward in line with our forecasts for prices and transactions.⁵
- Finally, we add estimates of the effects of any **new policy measures** to produce our post-measures forecasts.

Property market determinants of the forecast

3.5 By far the most important driver of our forecast for LTT receipts over the medium term is our forecast for growth in the value of property transactions, which in turn reflects assumptions about prospects for property prices and the volume of transactions. Activity in both the Welsh and UK-wide property markets recovered sharply through 2020-21, following the removal of property market restrictions that were in place at the start of the year, but both markets have exhibited significant volatility this year. This reflects the impact of the pandemic and associated restrictions on housing and business needs, the build-up of ‘forced savings’ flowing into house purchases, and time-limited transaction tax holidays.⁶

Property prices

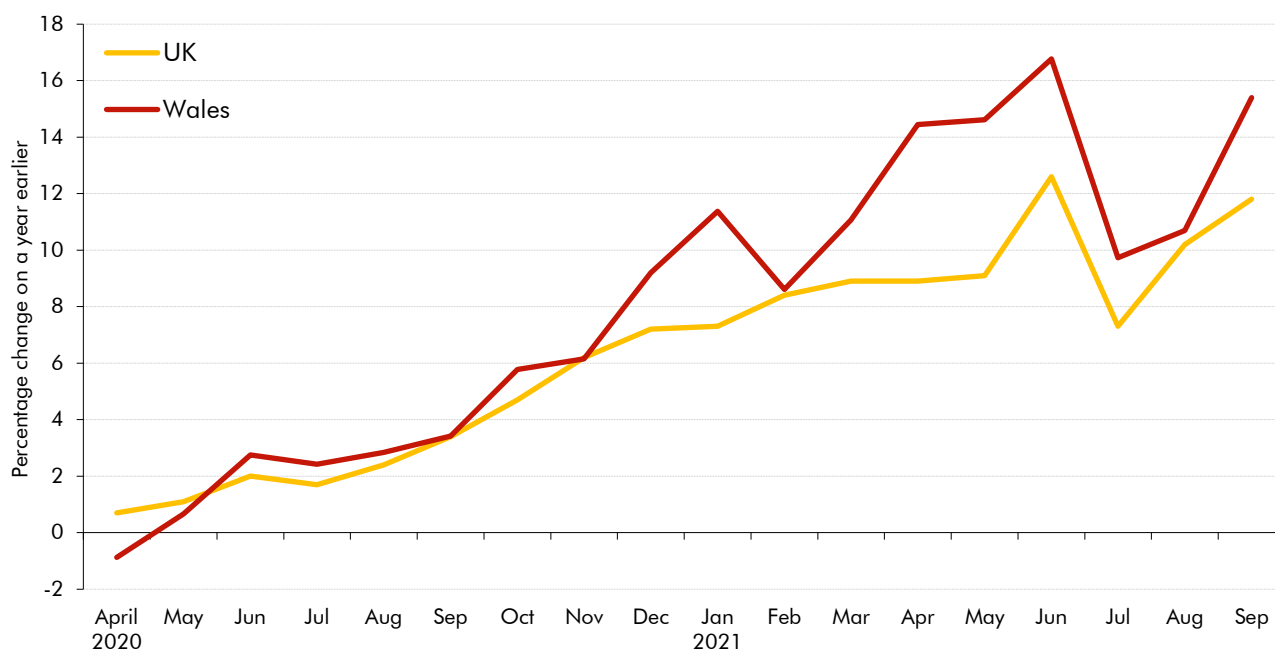
3.6 Chart 3.1 shows that house price inflation accelerated through 2020-21 in both the UK and Wales, peaking at 8.9 per cent and 11.4 per cent, respectively. This reflects a release of pent-up demand as property market restrictions were eased, plus the effect of the temporary tax holidays. This momentum has continued into 2021-22 and although house price inflation in both countries dipped in July, following the ending of the LTT tax holiday and the lowering of the SDLT tax-free threshold on 30 June, it has since bounced back once more. Overall, house prices in Wales rose slightly faster than those across the UK as a whole in 2020-21 and have risen 3.6 percentage points faster so far in 2021-22.

⁴ These models are operated on our behalf by analysts in the Welsh Government, but the underlying forecast assumptions and judgements are those of the OBR’s Budget Responsibility Committee.

⁵ The methodology for forecasting these is set out in the ‘In-depth’ pages of our website.

⁶ The Welsh Government raised the tax-free threshold for residential LTT transactions from [£180,000] to £250,000 between 27 July 2020 and 30 June 2021. The UK Government raised the tax-free SDLT threshold from £125,000 to £500,000 between 8 July 2020 and 30 June 2021. It was then lowered to £250,000 between 1 July 2021 and 30 September 2021, after which it reverted to £125,000.

Chart 3.1: House price inflation: Wales versus the UK as a whole



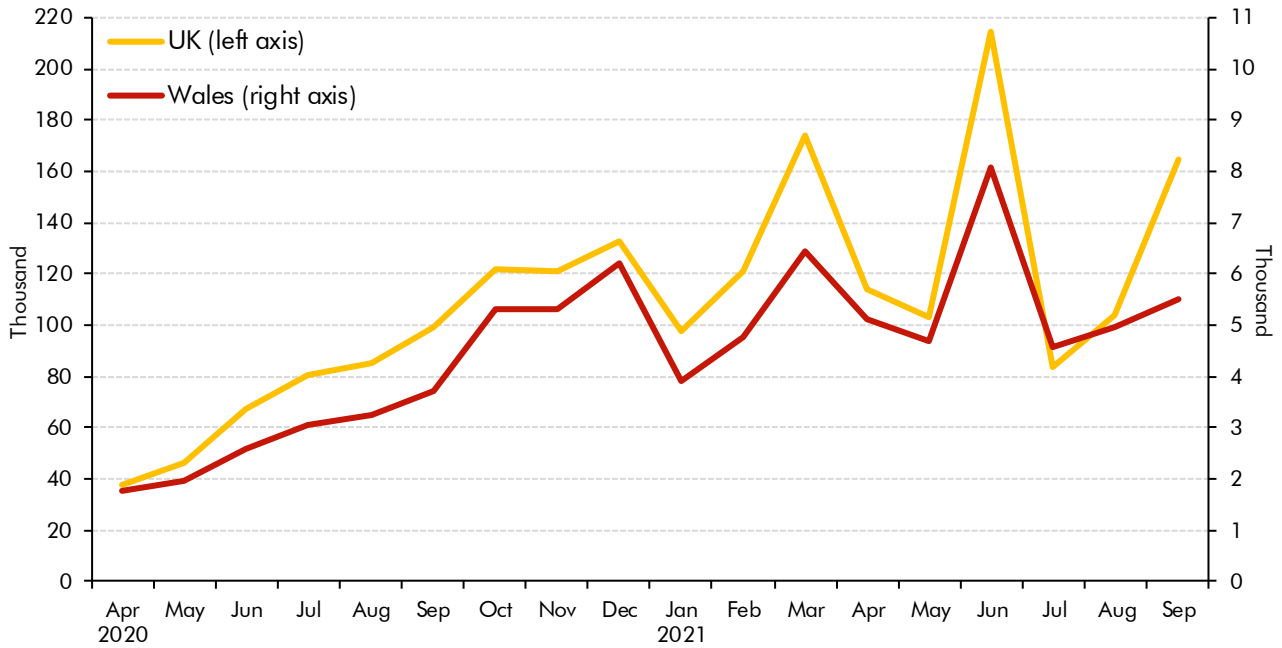
Source: ONS

- 3.7 Commercial property prices in both Wales and the UK rose even more sharply in the first half of 2021-22, by 53 per cent and 21 per cent respectively on a year earlier.

Property transactions

- 3.8 Residential transactions were depressed throughout the UK during the second quarter of 2020, as a result of the national lockdowns introduced in late March and the associated restrictions on property markets, but they recovered through the remainder of the year as restrictions were eased and pent-up demand was released.
- 3.9 Monthly transactions in 2021 have been volatile in both Wales and the UK as a whole, with peaks in March and June followed by sharp reductions in activity. These reflect forestalling (the bringing forward of transactions in order to pay less tax) related to the temporary tax holidays in operation in both tax regimes. The temporary holidays were initially due to end in March but were subsequently extended to June, after which the generosity of the SDLT holiday was reduced. The additional spike in UK transactions in September reflects forestalling ahead of the end of the SDLT holiday, with transactions falling back sharply again in October.
- 3.10 Overall, transactions fell by 13 per cent in Wales in 2020-21, but rose by 1 per cent in the UK as a whole. Transactions to date in 2021-22 are up by 62 and 77 per cent in Wales and the UK respectively, with much of this growth attributable to the weakness of transactions in the early months of 2020-21.

Chart 3.2: Residential property transactions

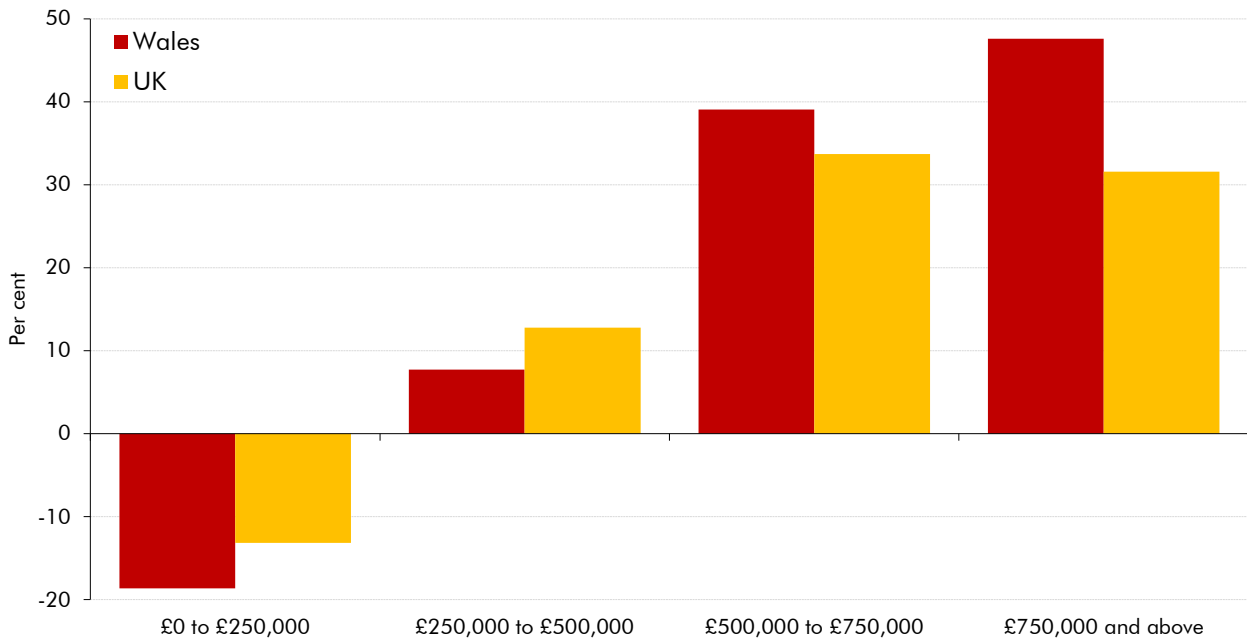


Source: HMRC

3.11 The price distribution of residential transactions changed significantly between 2019-20 and 2020-21, both in Wales and across the UK as a whole (Chart 3.3) – with the changes in Wales even greater than at the UK level. Across the UK, transactions increased much faster for higher-priced properties than for lower-priced ones, but this effect was particularly pronounced in Wales where there was a near 50 per cent increase in the number of transactions over £750,000.⁷ Given the progressive structures of both the LTT and SDLT tax regimes, this increased the effective tax rate relative to what would have been seen had the price distribution of transactions been unchanged from 2019-20.

⁷ Due to the aggregated nature of property price data, it is not possible to determine how much of the change is due to house price inflation pushing more of the housing stock into higher bands or greater turnover of higher value properties changing the composition.

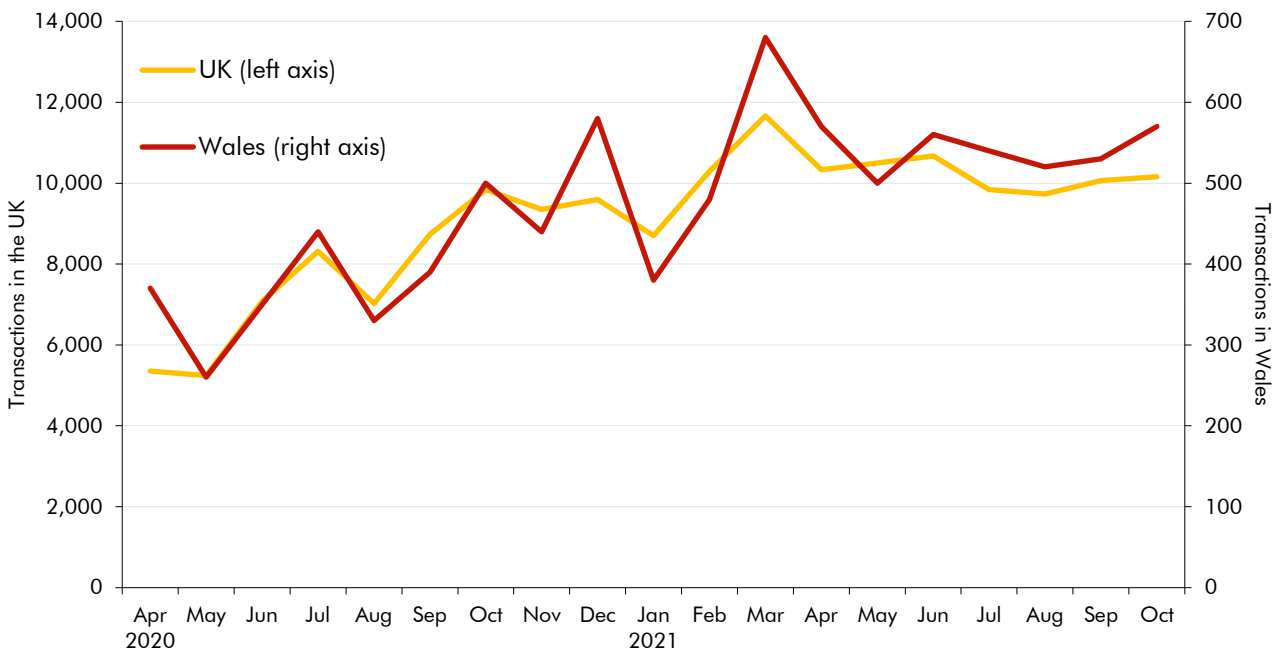
Chart 3.3: Growth in residential property transactions by price in 2020-21



Source: HMRC, WRA

3.12 Commercial property transactions have also been volatile month-to-month, though they have trended upwards since the lockdown-affected start of 2020-21 (Chart 3.4). The level of transactions has stabilised in recent months, perhaps due to greater confidence regarding future business activities as pandemic-related uncertainty recedes. Transactions to date in 2021-22 are up by 44 and 38 per cent in Wales and the UK respectively.

Chart 3.4: Commercial property transactions



Source: HMRC

Forecasts for property market determinants

- 3.13** Our forecasts for property transaction taxes are underpinned by our UK-wide property market forecasts. We assume Welsh prices and transactions move in line with those for the UK as a whole, unless there are clearly reasons to depart from that. In this forecast, the evidence supports assuming different paths for key determinants in 2021-22.
- 3.14** The drivers of differences in transactions growth (Chart 3.2) and the more tax-rich composition of transactions (Chart 3.3) are likely to be temporary, so we have assumed they unwind over 2021-22. That means transactions bounce back more strongly in Wales than in the UK, and the effective tax rate falls back more sharply to return to a point closer to the 2019-20 distribution of transactions. Our forecasts for residential prices and transactions in 2021-22 in Wales therefore diverge from our UK-wide forecasts. On top of this we have added a 3.2 percentage point uplift to our forecast for house prices in 2021-22 to reflect the greater momentum in monthly Welsh house price inflation shown in Chart 3.1. While house price inflation in Wales from 2022-23 is in line with the UK, the relatively higher inflation in 2021-22 will feed through to higher house price levels relative to the UK in all future years. From 2022-23 onwards we use the same determinants as in our UK-wide property market forecasts (Table 3.1).
- 3.15** Relative to our March forecast, we have revised up our forecasts for both residential prices and transactions in Wales for 2021-22. For prices, this reflects the unexpectedly strong performance in the year to date. For transactions, it reflects a rebound from the sharper-than-expected falls in transactions in 2020-21. From 2022-23 onwards we expect house price inflation to slow, bringing the house price to income ratio back to pre-pandemic levels in the UK as a whole. Transactions also fall back in 2022-23, before rising modestly thereafter. Relative to March, both prices and transactions are higher in 2025-26.
- 3.16** As with the residential markets, we assume that commercial transactions in Wales will return to the price distribution seen in 2019-20 as pandemic-induced changes in 2020-21 unwind. This involves a strong rebound in transactions in 2021-22 (Table 3.1). Relative to our March forecast, commercial prices have been revised up 6 per cent by 2025-26, whereas transactions have been revised down 15 per cent.

Table 3.1: Forecasts for Welsh property prices and transactions

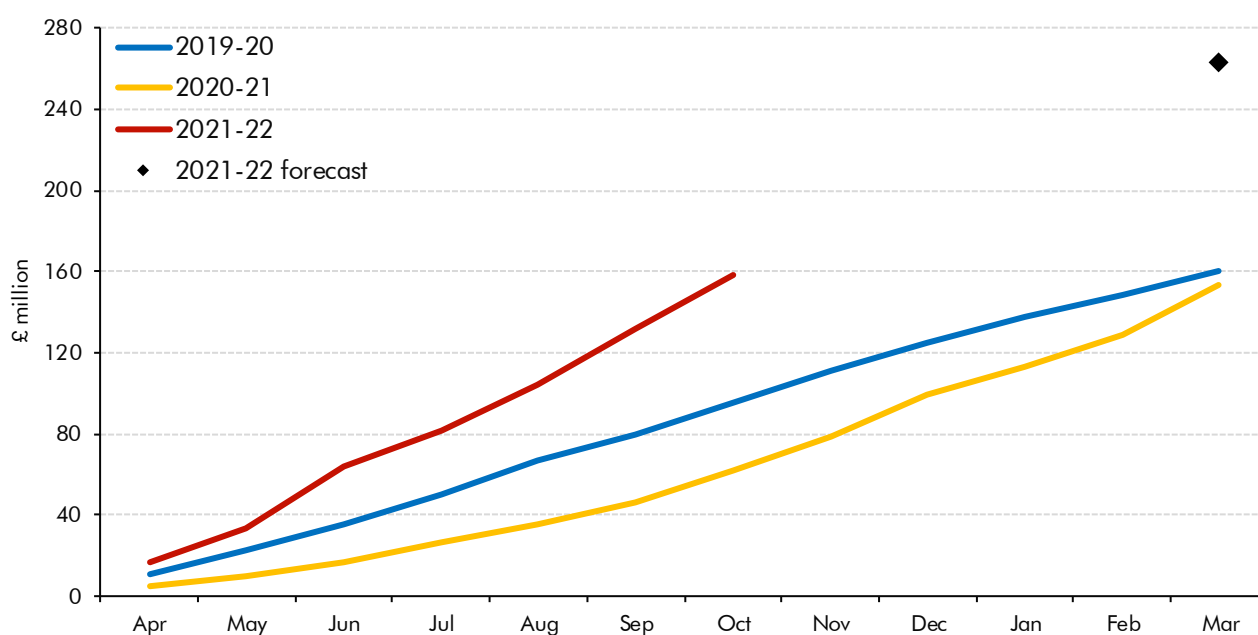
	Percentage change on previous year						
	Outturn 2020-21	Forecast					
		2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Residential property prices	6.7	11.0	2.2	1.0	2.2	3.1	3.6
Residential property transactions	-12.8	29.9	-1.4	3.2	1.7	1.0	1.2
Commercial property prices	3.0	2.3	2.2	2.2	1.9	2.0	2.1
Commercial property transactions	-8.7	10.4	-1.0	1.7	1.4	1.6	1.7
Change since March forecast							
Residential property prices		5.0	3.5	-0.5	-2.1	-1.1	
Residential property transactions		17.5	-5.5	2.1	0.9	0.2	
Commercial property prices		3.2	2.0	0.4	-0.2	-0.2	
Commercial property transactions		-0.5	-5.9	-2.2	-2.4	-1.8	

Trends in LTT receipts

Residential property receipts

3.17 Chart 3.5 shows that residential LTT receipts (net of refunds) so far this year are significantly higher than during the same period in the past two years. In the seven months to October, residential LTT receipts totalled £158 million, well over double their level at the same point in 2020-21. Receipts from the main and additional rates are up by £66 million and £30 million respectively. We expect continued strength in receipts in the remainder of the year, and for full-year receipts to be £109 million higher than in 2020-21.

Chart 3.5: Cumulative residential LTT receipts

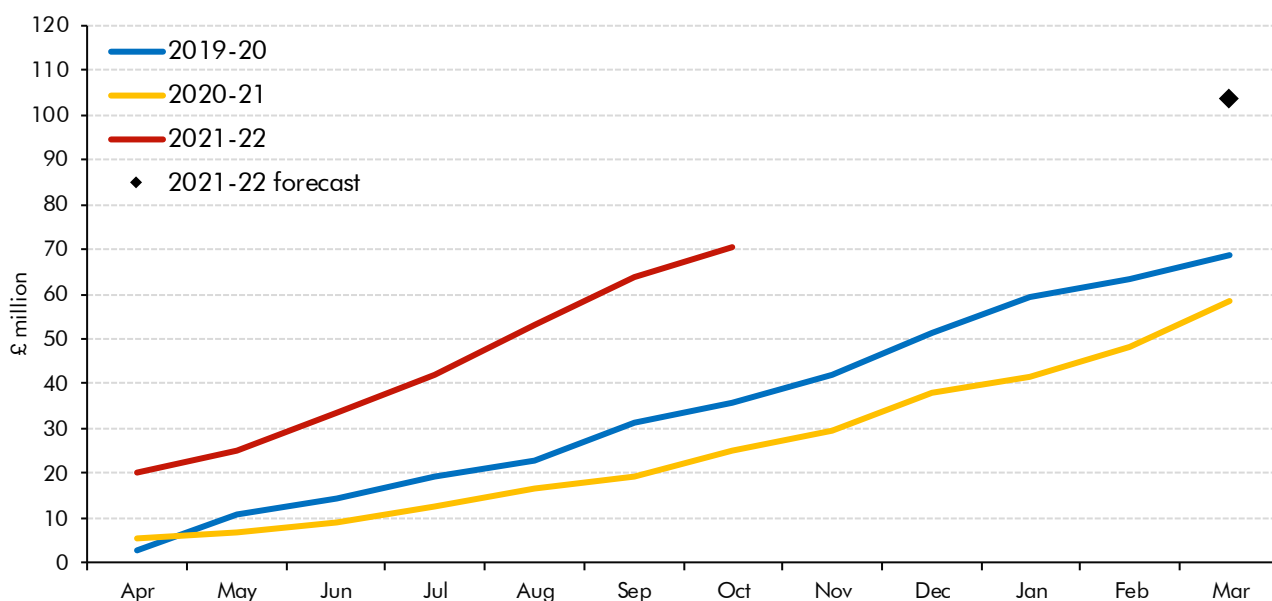


Source: WRA, OBR

Commercial property receipts

3.18 Chart 3.6 shows a similar picture for commercial LTT receipts. Year-to-date receipts are £71 million, nearly three times higher than at the same point last year. We have assumed that some of the strength in the first half of the year relates to one-offs, so expect slightly weaker receipts in the second half of the year. Even so, we expect full-year receipts to be £45 million higher than in 2020-21 and £35 million higher than in 2019-20.⁸

Chart 3.6: Cumulative commercial LTT receipts



Note: The monthly receipts shown above for 2019-20 do not include the transfer of the Core Valley Lines (CVL) rail network into public ownership. The WRA records this as an untypically large transaction, which adds £28 million to total LTT receipts in 2019-20. Source: WRA, OBR

Latest LTT forecasts

3.19 Table 3.2 sets out our latest forecast for overall LTT revenue and its components. Relative to March, overall receipts are up by an average of a third (£97 million) from 2021-22 onwards. This reflects the upward revisions to our forecasts for both residential main rates and commercial LTT, by an average of £51 million and £43 million respectively.

⁸ This value does not include the Core Valley Lines purchase in 2019-20 which is excluded from WRA monthly figures since it is classed as an abnormally large transaction. With its inclusion, the difference with 2019-20 full-year receipts drops to £7 million.

Table 3.2: LTT forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	
Total LTT							
March forecast	190	260	272	285	310	338	
December forecast	212	367	366	383	404	432	465
Change	22	107	93	98	94	94	
Residential (excluding additional properties)							
March forecast	83	131	133	141	158	177	
December forecast	89	176	185	196	209	229	252
Change	6	46	51	55	52	52	
Additional properties							
March forecast	59	77	84	86	90	95	
December forecast	66	87	86	87	91	95	100
Change	6	10	2	2	1	0	
Commercial							
March forecast	49	52	55	58	62	66	
December forecast	58	104	95	100	104	108	113
Change	10	52	40	41	41	42	

Residential LTT forecast

- 3.20** Table 3.3 sets out the changes in our main rates forecast since March. The upward revision in each year is driven by the more optimistic outlook for house prices, which boosts receipts by an average of £44 million a year. The stronger rebound in transactions this year adds to receipts in 2021-22, but this effect is reversed in 2022-23 as transactions fall back from this year's elevated levels, with little impact in subsequent years. We have revised up our in-year forecast based on the stronger than expected receipts outturn for the year to date.
- 3.21** Table 3.4 presents the changes in our additional rates forecast since March. We have revised up receipts in 2021-22 by £10 million, reflecting the improved near-term outlook for transactions and prices, but from 2022-23 onwards the revisions are small. This reflects the diminishing effects of faster house price inflation being progressively offset by the negative impact of modelling changes. These stem from our expectation, based on the latest receipts data, that there will be a higher level of refund payments on additional rate property purchases than we assumed in March.
- 3.22** Our forecasts for both the main and additional rates are also affected by the extension of the LTT holiday, from an end date of 31 March 2021 to 30 June 2021. We estimate that around 7,300 transactions will have benefitted from this extension, with an average LTT saving of £1,700 to give an overall cost of £12 million in 2021-22. The additional rates charged on second homes and buy-to-let properties were not reduced, so all the tax paid for liable transactions on the portion of the property valued between £180,000 and £250,000 will be recorded as revenue from the additional rates during the period of the extension, boosting these receipts by £2 million in 2021-22.

Table 3.3: Residential main rates LTT forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast	83	131	133	141	158	177	
December forecast	89	176	185	196	209	229	252
Change	6	46	51	55	52	52	
<i>of which:</i>							
Modelling changes		6	6	6	6	7	
Price changes		33	50	50	45	44	
Transaction changes		4	-3	-1	1	1	
In-year data		16	0	0	0	0	
LTT holiday extension		-14	0	0	0	0	

Table 3.4: Residential additional rates LTT forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast	59	77	84	86	90	95	
December forecast	66	87	86	87	91	95	100
Change	6	10	2	2	1	0	
<i>of which:</i>							
Modelling changes		-5	-7	-8	-8	-9	
Price changes		8	11	10	9	8	
Transaction changes		4	-2	0	0	1	
LTT holiday extension		2	0	0	0	0	

Latest commercial LTT forecast

3.23 Table 3.5 shows changes in our commercial LTT forecast relative to March. The strength in receipts so far in 2021-22 has been sufficient to lead us to double our full-year forecast for 2021-22. Receipts from 2022-23 onwards have been revised up by an average of £41 million a year, thanks both to an improved outlook for prices and our assumption that around two thirds of the unexpected strength in 2021-22 outturn persists. Commercial LTT receipts can be volatile from year to year, so this judgement is particularly uncertain.

Table 3.5: Commercial LTT forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast	49	52	55	58	62	66	
December forecast	58	104	95	100	104	108	113
Change	10	52	40	41	41	42	
<i>of which:</i>							
Modelling changes		-1	-1	-1	-1	-1	
Price changes		13	15	16	17	18	
Transaction changes		7	4	2	1	0	
In-year data		31	21	22	23	24	

Risks and uncertainties

3.24 In this section we summarise some key uncertainties around our central LTT forecast. The outlook for property markets, like the wider economy, may still be subject to uncertainties related to the path of the coronavirus pandemic over the coming months and years. The key risks to the residential property market are likely to stem from the outlook for household incomes. The commercial property market could also be sensitive to any persistent changes in the composition of economic activity, such as greater prevalence of working from home or the accelerated shift of high street retail sales online.

3.25 In this forecast we have added a **house price inflation** uplift for Wales in 2021-22. We then assume that prices rise in line with the UK as a whole from 2022-23 onwards, so one clear risk is that price inflation in Wales will continue to diverge in future years. That could come in the form of continued higher price rises, if demand were to remain stronger for houses in Wales than in the UK as a whole. Or the recent outperformance could be followed by a period of underperformance if the drivers of recent price rises proved transient. There is not yet sufficient evidence to say which is more likely, hence assuming that prices will move in step beyond the near term. To illustrate the scale of this risk, if house prices in Wales were 1 per cent higher than assumed from 2022-23 onwards, LTT receipts would be £6 million a year higher on average (an increase of slightly more than 1 per cent due to the progressive nature of the LTT tax schedule).

3.26 Other risks relating to our LTT forecasts include:

- **Mapping property market determinants to the true tax base.** It is challenging to map from the whole property market to only those transactions that will be subject to LTT. Only a very small minority of all potential taxpayers will pay LTT in any given year, which differs from most other taxable activities, where taxpayers incur a liability year after year. There are around 1.4 million dwellings in Wales, but there were only around 55,000 residential transactions in 2019-20. Our LTT forecasting models are still calibrated to the distribution of transactions in 2019-20 as we believe the distributional changes in 2020-21 (shown in Chart 3.3) are likely to reflect temporary pandemic-induced changes and the LTT holiday, so 2020-21 is unlikely to be representative of property market activity in a typical year. If these changes are permanent and result in differences between the simulated tax base and the future composition of LTT-liable transactions, this will generate forecast errors.
- **Tax base concentration.** LTT has a progressive tax schedule: a £200,000 residential transaction will pay £700 in tax, whereas a transaction for five times this price (£1,000,000) pays over eighty-five times more tax (£61,200). In 2019-20 around a third of residential revenue came from the top 4 per cent of transactions.⁹ Our LTT forecast will also be sensitive to high-value commercial property transactions in

⁹ Temporary tax measures in 2020-21, while adding to the concentration of this figure, are unlikely to be representative of future years. Price increases since 2019-20 will have also pushed this proportion higher.

Cardiff. In 2020-21, 5 per cent of the total (280) commercial transactions accounted for just over two-thirds (69%) of commercial LTT receipts.

- **Frequent policy changes.** The property transaction tax regime has been subject to repeated policy changes. These changes, especially when they are pre-announced, add uncertainty to our forecasts in respect of how taxpayers will respond to the new tax incentives they face. This applies to the temporary raising of both the LTT and SDLT thresholds from July 2020 to June 2021 and September 2021 respectively.
- **Forestalling.** Where rises in property taxes are pre-announced it allows for purchases to be brought forward in order to be taxed at the existing lower rate. It can be difficult to gauge the strength of this response and therefore the quantity of transactions that will be brought forward from future periods.¹⁰ Our costing for the extension of the LTT holiday to 30 June assumed a level of forestalling commensurate with the evidence from past episodes, with around 1,000 transactions being brought forward to benefit from the holiday, at a cost of £2 million. Residential transactions in Wales almost doubled between May and June, before then halving in July (Chart 3.2), pointing to significant degrees of forestalling.
- **Future LTT policy changes.** Our forecasts only include the effects of current stated policies, and not policy intentions or ambitions that are under consideration (reflecting the requirements placed on us by the UK Parliament when establishing the OBR). The Welsh Government has stated its intention to extend the refund period for the additional rates in cases such as unsafe cladding and other exceptional circumstances.¹¹ It has not set a start date for this measure, but if implemented we would expect it to result in a small increase in refunds and therefore to reduce additional rates receipts. Alongside its draft Budget, the Welsh Government has also published a consultation exploring options for local variation in LTT rates on second homes.¹² The scale and direction of the risk these pose to our LTT forecast will depend on a number of factors, most notably the extent to which any new powers for differential rate setting are used and the rates chosen. We will include costings for these measures in our forecast if and when the Welsh Government states them as firm policy.

¹⁰ For more detailed information on this see Mathews, P., *OBR Working Paper no. 10: Forestalling ahead of property tax changes*, October 2016.

¹¹ Written Statement by the Minister for Finance and Local Government, *Land Transaction Tax higher residential rates refund period extension where exceptional circumstances apply*, 16 November 2021.

¹² Government of Wales, *Local variation of Land Transaction Tax for second homes and holiday lets or additional residential properties*, 20 December 2021.

4 Landfill disposals tax

Introduction

4.1 This chapter:

- describes the **landfill disposals tax** levied in Wales;
- sets out our **methodology** for forecasting receipts; and
- presents our **latest forecast** and some **key uncertainties** around it.

What is the 'landfill disposals tax'?

4.2 Landfill tax was introduced in the UK in 1996. It applies to all waste disposed of by way of landfill at a licensed site unless the waste is specifically exempt. In Wales it was replaced with landfill disposals tax (LDT) from April 2018. The Welsh Government has said that LDT is designed to *"promote positive environmental behaviours through greater prevention of waste to landfill sites and to encourage the reuse, recycling and recovery of waste"*.¹

4.3 LDT is charged per tonne of waste disposed of at a landfill site. It is payable by landfill site operators, who are expected to pass the costs onto those making the disposals. A small number of disposals are exempt from LDT while some reliefs and discounts are also available. The tax is collected by the Welsh Revenue Authority (WRA). The Welsh Government has thus far set rates that match those in the rest of the UK.

4.4 Our forecast is driven by the amount of waste sent to landfill and the effective tax rate that will be paid. The latter largely depends on policy decisions on rates, but also on the composition of waste sent to landfill as there are three different rates – a 'standard rate', a 'lower rate' and an 'unauthorised disposals rate'. In 2020-21 revenue from standard rate waste accounted for 95 per cent of total revenue from LDT.

Forecast methodology

4.5 The LDT forecast uses a bottom-up model operated on our behalf by analysts in the Welsh Government. The assumptions and judgements that are fed into it are those of the Budget Responsibility Committee. The forecast methodology is straightforward – the main steps are:

¹ Welsh Government, *Landfill Disposals Tax (Wales) Bill 2016: Impact Assessments*.

Landfill disposals tax

- establishing an **in-year estimate** drawing on the latest administrative data (and other relevant sources) to estimate the level of receipts in the current year in progress;
- producing a **pre-measures forecast** by using the LDT forecast model to multiply the amount of liable waste sent to landfill (the tax base) by the relevant duty rate; and
- generating a **post-measures forecast** by adding the effects of any new policy measures.

We discuss each step in turn.

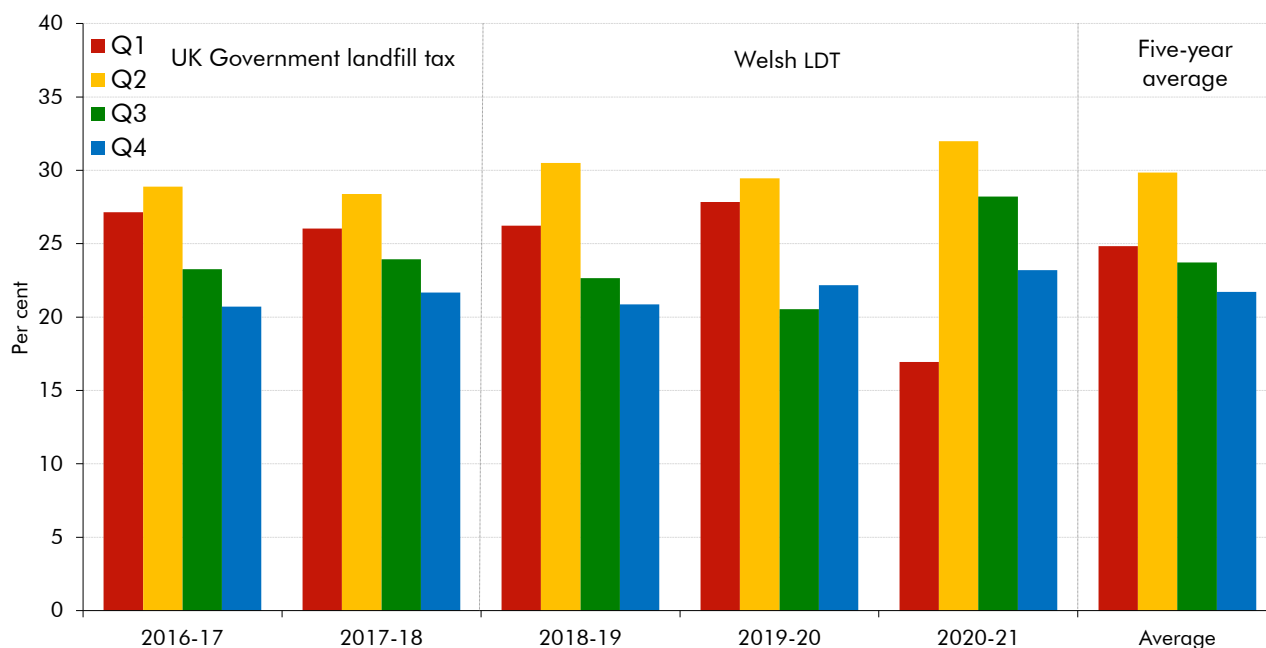
Establishing an in-year estimate

4.6 Most landfill site operators have a calendar year annual accounting period. Most LDT returns are received by the WRA at the end of April, July, October and January (returns must be sent by the last working day of the month following the end of the accounting period). The WRA publishes LDT receipts outturn data on a quarterly basis.²

4.7 Our in-year forecast is based on outturn data from the first half of 2021-22. Chart 4.1 shows the percentage of annual tax receipts in each quarter of the fiscal year, for the UK Government's landfill tax in 2016-17 and 2017-18 and then for LDT thereafter. It suggests there is some seasonality in the amount of waste that is disposed of at landfill sites. Each quarter, aside from the lockdown-affected first quarter in 2020-21, contributes at least a fifth of full-year receipts, but the highest share of receipts in each year comes in the second quarter. The profile of receipts in 2020-21 was unusual due to pandemic-related restrictions and their impacts on economic activity, which were most acute in the first quarter. As a result, the share of receipts in the first quarter of the year was unusually low and the shares (if not the absolute amounts) in the remaining quarters of the year were unusually high.

² A smaller number of site operators use different accounting periods, which means that monthly data releases could be disclosive. We do not draw on the WRA's unpublished monthly administrative data when preparing our in-year estimates.

Chart 4.1: Percentage of annual landfill taxes receipts from each quarter



Source: HMRC, WRA

The pre-measures forecast

Tax base: the volume of waste sent to landfill

4.8 The volume of waste sent to landfill is estimated by calibrating data from Natural Resources Wales (NRW) with outturn data from the WRA. Our model sorts these data by 'European waste catalogue' code into tonnages liable to the standard and lower rates of LDT. This allows us to remove waste that is exempt from LDT. The LDT-liable tonnages are then projected forward using information on local authority waste management plans, waste infrastructure developments, and an assumption about the future path of other waste.

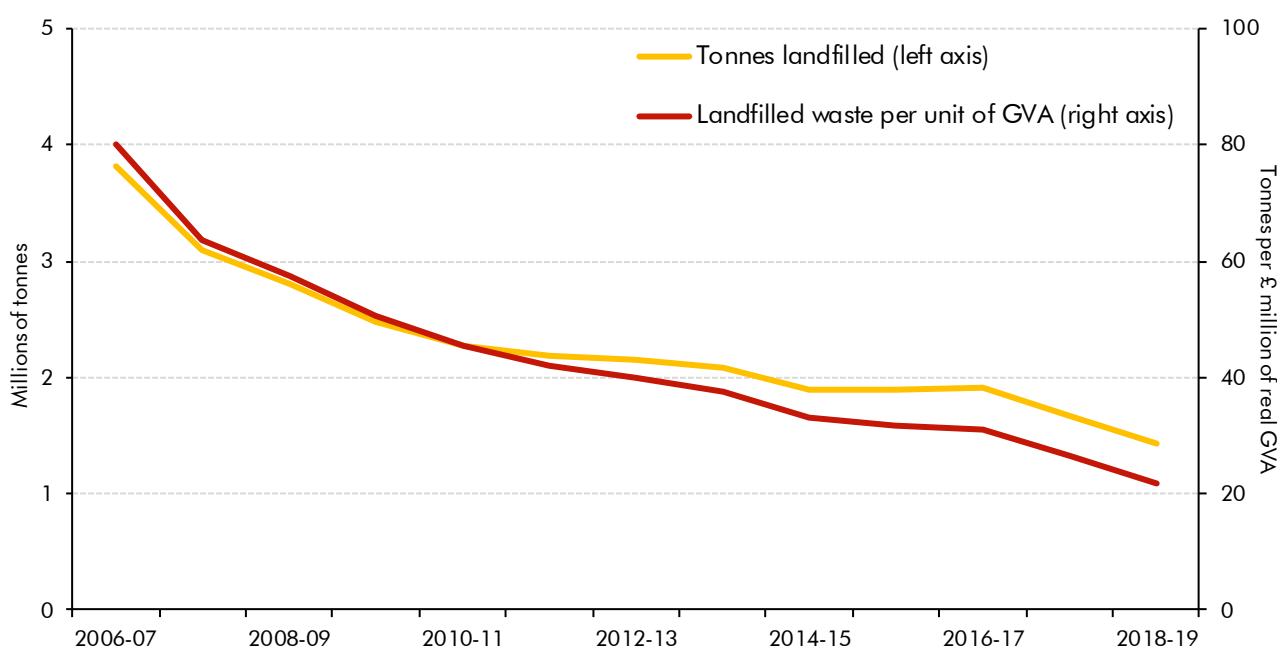
4.9 There are several alternatives to sending waste to landfill sites, including:

- **Recycling and incineration**, the levels of which depend on the capacity of available Welsh infrastructure. Given the much smaller tax base in Wales, changes in alternative waste treatment infrastructure can lead to proportionally larger effects on LDT receipts than an equivalent change in England would have on UK landfill tax receipts.
- **Exporting waste**, which can be cheaper than sending it to landfill. There are currently two external factors that may limit the volume of exports over the medium term – the UK's future trading relationship with the EU and the Chinese Government's ban on the imports of solid waste. Each could increase the amount of waste sent to landfill (including waste generated in England) and represent an upside risk to LDT receipts. If these or other factors have already affected LDT receipts then this would be captured implicitly in our in-year estimate rather than via an explicit forecast adjustment.

Landfill disposals tax

- 4.10 We do not explicitly model the use of these alternatives. Instead, we assume they provide sufficient headroom to accommodate future growth in waste arising without affecting the volume of landfilled waste. The granular level of information available to us on Welsh infrastructure means that we can factor in expected changes when we need to.
- 4.11 The volume of waste sent to landfill in the UK as a whole has been trending down and Chart 4.2 shows a similar pattern in Wales. The volume sent to landfill has fallen by around two-thirds between 2006-07 (3.8 million tonnes) and 2018-19 (1.4 million tonnes). Chart 4.2 also shows that over the same period progressively less waste has been sent to landfill per unit of gross value added (GVA – a measure of economic activity).

Chart 4.2: Landfill waste tonnage in Wales relative to Welsh economic activity



Source: NRW, ONS

The effective rate of landfill disposals tax paid

- 4.12 There are two main rates for LDT – a ‘standard’ rate and a ‘lower’ rate. The lower rate applies to waste that is ‘inert’ – i.e. less hazardous or less polluting materials such as bricks, concrete and sand. The standard rate applies to everything else that is neither exempt (see below) or unauthorised.³ In this Budget the Welsh Government has kept rates aligned with those in the UK for 2022-23, setting a **standard rate of £98.60 per tonne** of waste and a **lower rate of £3.15 per tonne**.⁴ Our forecast assumes that both rates rise in line with RPI inflation in future years (in line with the UK Government’s default indexation assumption). The Welsh Government has not set out its policy for future years and would be free to set other rates if it so wished.

³ The Welsh Government has also introduced a third ‘unauthorised disposals’ rate that applies to all disposals that are made outside of authorised landfill sites, regardless of whether they would have qualified for the standard or lower rates. The 2022-23 rate for such disposals has been set at £147.90 per tonne of waste.

⁴ All rates are subject to approval by the Senedd.

4.13 As with UK landfill tax, LDT legislation allows for both exemptions and reliefs. Where a disposal is exempt, for example within a pet cemetery, there is no tax liability and the site operator does not need to record it on a tax return. Where a disposal is eligible for a relief, such as when it contains material removed from water by dredging, it does need to be accounted for by the site operator, but the relief can be claimed via the tax return. The effective rate paid depends not just on statutory rates and exemptions, but also the composition of waste disposals. In 2020-21 the effective rate paid was £32.42 per tonne of waste sent to landfill.

Post-measures forecast

4.14 The final stage in our forecast process is to add the effect of new policy measures that have been announced since our previous forecast was published. For landfill tax and LDT these are typically small, although they can still be subject to some uncertainty. For example, the UK Government's decision to extend landfill tax to illegal sites started six months later than planned due to delays in implementing the health and safety procedures required to safeguard the new compliance staff that were taken on to police it.

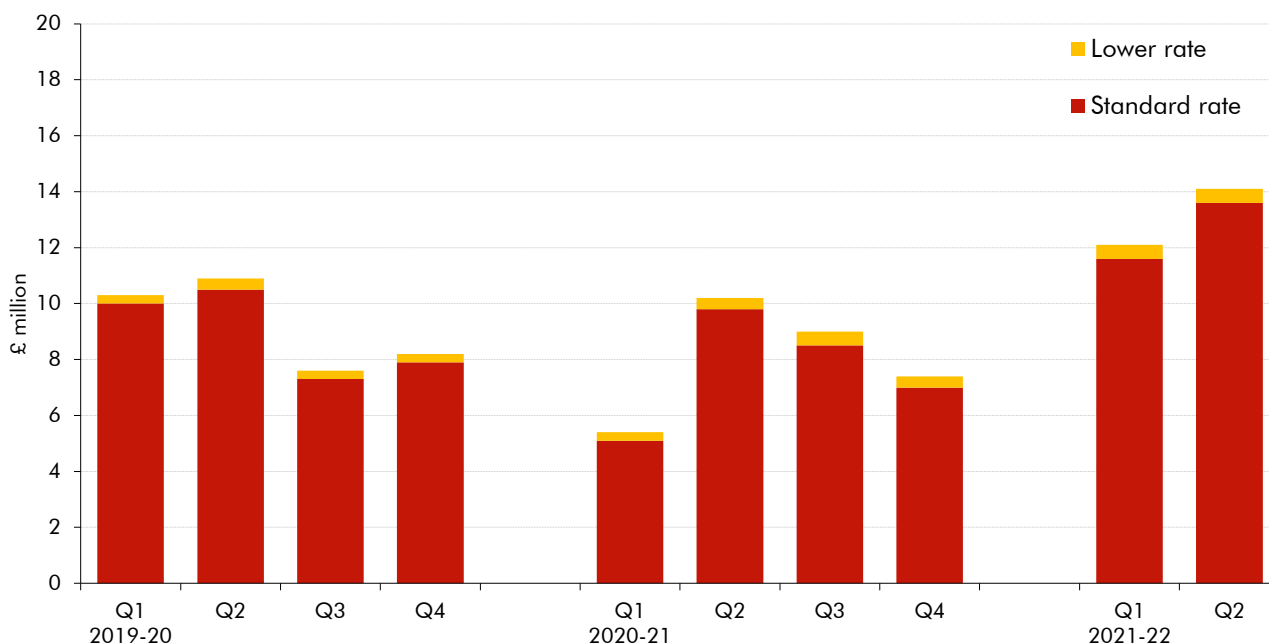
Landfill disposals tax forecast

4.15 Using the methodology described above and based on LDT outturn data for the first two quarters of 2021-22, this section describes our latest forecast and changes since March.

Receipts outturn

4.16 Chart 4.3 shows that receipts in the first half of 2021-22 are up 68 per cent (£10.6 million) on the same period last year. This reflects the pandemic-related lockdowns that hit economic activity and the volumes of waste sent to landfill. Receipts in the first quarter of 2020-21 were less than half their level in the first quarter of 2021-22. Receipts in the first half of 2021-22 were also 24 per cent (£5 million) higher compared to the same period in 2019-20. We expect lower receipts in the remainder of 2021-22 – in line with the quarterly pattern of receipts shown in Chart 4.1 – but for them to total £45 million in the full year, £8 million and £13 million higher than in 2019-20 and 2020-21 respectively.

Chart 4.3: Quarterly LDT receipts



Source: WRA

Latest forecast

4.17 Table 4.1 presents our LDT forecast and the sources of changes since March. We have revised receipts in 2021-22 up £11 million in light of the strong outturn data in the first half of the year. Part of this strength is assumed to persist, but its effect on the forecast is partly offset from 2022-23 onwards by updated inputs to our modelling of the effect of additional use of incineration.

Table 4.1: LDT forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast	31	34	34	33	33	32	
December forecast	32	45	36	36	36	35	35
Change	1	11	2	3	3	3	
<i>of which:</i>							
Outturn data		11	5	5	5	5	
Modelling and other		0	-3	-2	-2	-2	

Risks and uncertainties

4.18 This section summarises some of the main uncertainties around our central LDT forecast. We would not expect the risk posed by any of these to be particularly large. They include:

- The **net volume of waste arising** is assumed to remain constant over the forecast period. Changes in Welsh infrastructure, such as increases in incineration usage, mean that the forecast for tonnes of waste sent to landfill trends down. As Chart 4.2

showed, waste sent to landfill has tended to fall over time, but it did increase slightly between 2014-15 and 2016-17. This illustrates the scope of the tax base to surprise us on either side of our central forecast.

- All taxes are subject to a degree of **non-compliance**, ranging from simple errors to deliberate criminal activity. At the UK level, HMRC uses statistical techniques to measure the difference between the theoretical tax liability and what is actually paid, the 'tax gap'. Its latest estimate of the tax gap for the UK landfill tax is 22.7 per cent or £200 million.⁵ There is no estimate yet for the LDT tax gap, but if the gap were the same in percentage terms, then this would imply that around £9 million of potential receipts in 2020-21 were not collected. We do not yet have sufficient information on the WRA's LDT compliance activities to take a firm view so, for now, our forecast implicitly assumes no change in the (currently unknown) rate of non-compliance in future years. Any changes in that rate would pose a risk to receipts.
- LDT on **unauthorised disposals** is not a self-assessed tax, with the tax liability instead arising from the WRA identifying suitable cases and issuing charging notices. The WRA's scoping work around this was delayed because of the impact of the pandemic, but its plan to resume activities from this year could lead to additional tax revenue.⁶ The amount collected would depend on resources, planning and risks of litigation.
- Our forecast implicitly assumes that there is sufficient **incineration and recycling capacity** in Wales to absorb any increase in waste arising. These assumptions would need to be revisited if there were problems with infrastructure capacity, for example if a large incinerator were to be offline for a significant period or new capacity were delayed. Such events would imply a higher share of total waste being sent to landfill than implicitly assumed in our forecast and therefore higher LDT receipts.
- The Welsh Government has stated its intention to bring in **new business recycling regulations**, to increase recycling and reduce the amount of waste entering landfill. These will, among other things, require businesses to separate out waste into different waste streams and ban certain materials from incineration or landfill. We will factor them into our forecast once the Welsh Government has set the date from which the regulations will come into force and provided more detail on their operation.⁷
- It is possible that non-Welsh Government policies could affect LDT receipts. The **UK's exit from the EU** could make exporting waste to Europe less attractive, at least in the short to medium term. For now, we have not assumed any waste-specific impediments to the UK's future exports to the EU. Were any to materialise, more waste could be sent to landfill representing an upside risk to LDT receipts. Similarly, the **Chinese Government's ban on the import of solid waste** that came into force on 1 January

⁵ This relates to 2019-20. For more detail see HMRC's *Measuring tax gaps 2021 edition*.

⁶ Welsh Revenue Authority, *Annual Report and Accounts 2020 to 2021*, July 2021.

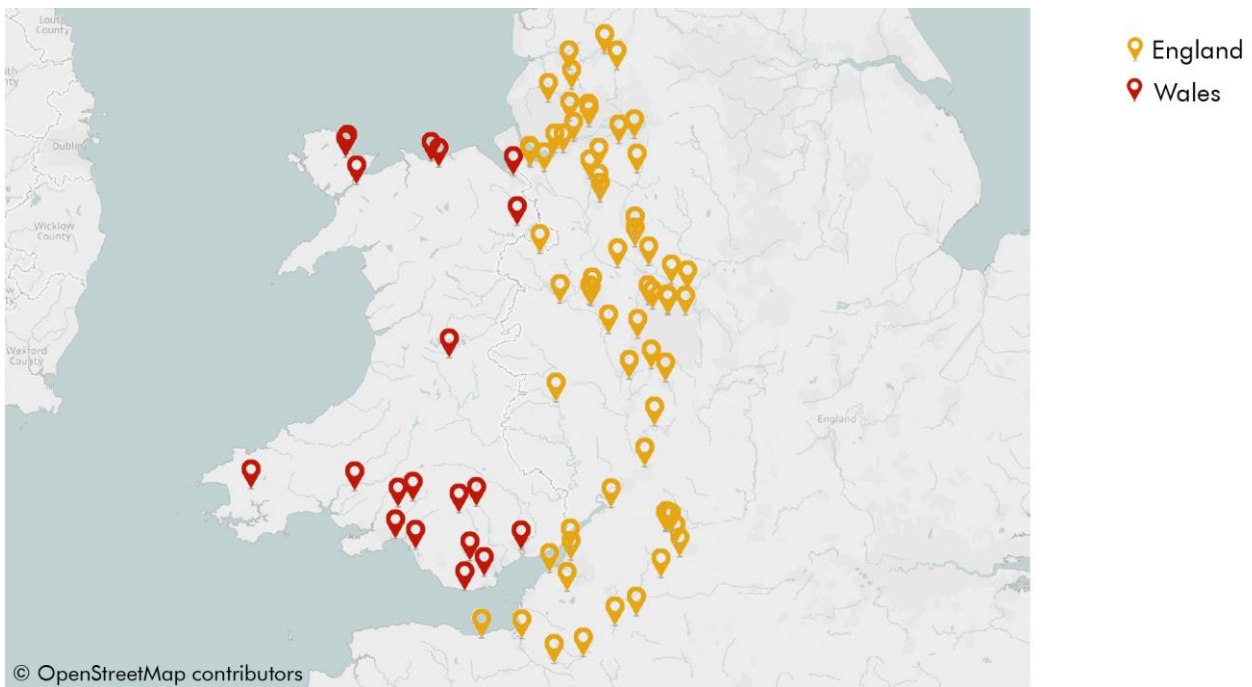
⁷ The Welsh Government's *Net Zero Wales Carbon Budget 2 (2021-2025)* suggests that new business recycling regulations are due to be implemented in early 2022, however a date has not been specified.

Landfill disposals tax

2021 could divert waste that would otherwise have been exported (either from Wales or England) to landfill in Wales, also raising LDT receipts.⁸

- **Behavioural responses to policy changes.** The Welsh Government has so far aligned LDT rates with those for UK landfill tax. If those rates were to diverge then we would expect some waste to be diverted across the border to the sites that were subject to the lower rates. A significant share of waste being sent to landfill in Wales originates in England.⁹ Moreover, as Figure 4.1 shows, there are numerous landfill sites relatively close to either side of the Welsh-English border, so there would clearly be scope for such behavioural responses to take place.¹⁰ The degree to which they did would depend on how the potential tax saving compared to the transport and other costs associated with sending waste to a landfill site subject to the lower tax rates. For example, the biodegradable municipal waste (BMW) ban in Scotland, effective from 31 December 2025, will prevent biodegradable household (or other similar) waste entering landfill. We expect a significant behavioural response with much of the Scottish BMW instead being landfilled in England. The introduction of a similar policy in England or Wales would be likely to induce a significant behavioural response.

Figure 4.1: Landfill sites in Wales and within 60 miles of the border with England



⁸ Trade data suggest that some of this impact might have materialised prior to the full ban taking effect, with the amount of solid waste imported by China falling sharply since 2017.

⁹ Data from Natural Resources Wales show that in each year from 2015-16 to 2019-20 waste from England accounted for over 20 per cent of standard-rated waste sent to landfill in Wales.

¹⁰ The 60-mile corridor from the border is purely illustrative.

A Forecasts required for the block grant adjustments

- A.1** The block grant is a mechanism for transferring funds from the UK Government to the devolved administrations, as allocated from within the departmental spending limits set by the Treasury. The block grants for the Welsh and Scottish Governments are adjusted in accordance with their respective fiscal frameworks.¹ The OBR has no direct involvement in these spending decisions or block grant negotiations, but the spending settlements do draw on our tax forecasts.
- A.2** This annex presents those forecasts, which largely relate to the UK Government's revenue from the taxes equivalent to those that have been devolved. For the three taxes covered in this report, the corresponding UK Government tax is (non-savings, non-dividends) income tax, stamp duty land tax, and landfill tax, all from England and Northern Ireland.
- A.3** The forecast methodologies for the Scottish and UK Government taxes are largely the same as those described for Wales in Chapters 2 to 4. We first establish an in-year estimate using the latest administrative data to estimate the level of receipts in 2021-22. We then project over the five-year horizon using the respective forecast models and our own judgements. The economic determinants used are from our October 2021 *Economic and fiscal outlook*.
- A.4** Tables A.1 to A.4 compare our current forecasts for the devolved Welsh (and Scottish) taxes to their UK Government equivalents (which relate to England and Northern Ireland). In the near term, our income tax forecasts reflect the package of policy measures announced by the UK Government in its Autumn Budget and Spending Review 2021. In the longer term, differences in our income tax forecasts will mainly reflect assumptions about relative population growth, while differences in our forecasts for property transaction taxes derive from the more progressive structure of the Welsh and Scottish tax schedules, which delivers greater revenue gains from fiscal drag as house prices rise.

¹ *The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework*, December 2016, and *The agreement between the Scottish Government and the United Kingdom Government on the Scottish Government's fiscal framework*, February 2016.

Forecasts required for the block grant adjustments

Table A.1: Income tax on non-savings, non-dividend income

	£ billion							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Whole UK NSND income tax	176.8	182.0	198.0	212.0	223.7	233.8	248.1	261.8
<i>of which:</i>								
Welsh Government income tax (WRIT basis)	2.0	2.1	2.3	2.5	2.6	2.7	2.9	3.1
UK Government NSND income tax from Wales	2.6	2.8	3.0	3.3	3.5	3.7	4.0	4.2
Scottish income tax	11.8	12.0	12.9	13.8	14.5	15.0	15.8	16.6
England and Northern Ireland NSND income tax	160.3	165.1	179.7	192.5	203.2	212.3	225.4	238.0
Whole UK NSND income tax excluding Scottish income tax	165.0	170.0	185.1	198.2	209.3	218.8	232.3	245.2
UK Government NSND income tax¹	162.9	167.9	182.8	195.7	206.7	216.0	229.4	242.2
		Percentage change on a year earlier						
Whole UK NSND income tax		3.0	8.7	7.1	5.5	4.5	6.1	5.5
<i>of which:</i>								
Welsh Government income tax (WRIT basis)		4.2	8.2	7.7	6.1	4.5	5.9	5.2
UK Government NSND income tax from Wales		5.7	9.2	8.0	7.4	5.5	6.7	5.7
Scottish income tax		1.4	7.3	7.0	4.8	3.9	5.3	5.1
England and Northern Ireland NSND income tax		3.0	8.8	7.1	5.5	4.5	6.2	5.6
Whole UK NSND income tax excluding Scottish income tax		3.1	8.8	7.1	5.6	4.5	6.2	5.6
UK Government NSND income tax¹		3.1	8.8	7.1	5.6	4.5	6.2	5.6

¹ Whole UK NSND income tax excluding Scottish income tax and Welsh Government income tax (WRIT basis).

Table A.2: Welsh rates and England and Northern Ireland equivalent income tax by band forecasts

	£ billion							
	Outturn		Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
England and Northern Ireland NSND income tax (WRIT basis)	59.5	61.3	66.6	71.4	75.2	78.2	82.6	86.9
<i>of which:</i>								
Basic rate	40.8	41.9	45.3	48.7	51.0	52.6	55.1	57.6
Higher rate	11.3	12.0	13.2	14.2	15.1	16.0	17.3	18.3
Additional rate	7.5	7.4	8.1	8.5	9.0	9.5	10.2	11.0
Welsh rates	2.0	2.1	2.3	2.5	2.6	2.7	2.9	3.1
<i>of which:</i>								
Basic rate	1.8	1.8	2.0	2.1	2.2	2.3	2.4	2.5
Higher rate	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Additional rate	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
		Percentage change on a year earlier						
England and Northern Ireland NSND income tax (WRIT basis)		3.0	8.6	7.2	5.3	4.0	5.7	5.2
<i>of which:</i>								
Basic rate		2.8	8.0	7.5	4.8	3.2	4.7	4.5
Higher rate		6.4	10.5	7.4	6.4	6.1	7.9	5.7
Additional rate		-1.0	8.6	5.6	6.2	5.5	7.0	7.8
Welsh rates		4.3	8.2	7.7	6.1	4.5	5.9	5.2
<i>of which:</i>								
Basic rate		3.2	7.4	7.5	5.2	3.8	5.3	4.8
Higher rate		11.5	12.3	9.0	8.7	8.5	10.7	7.2
Additional rate		11.1	13.2	8.2	23.2	8.4	2.6	7.2

Table A.3: Property transaction taxes

	£ million						
	Outturn		Forecast				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Whole UK property transaction taxes	9,396	14,693	15,759	16,410	17,181	18,128	19,370
<i>of which:</i>							
LTT (Wales)	212	367	366	383	404	432	465
LBTT (Scotland)	517	731	773	811	849	895	949
SDLT (England and Northern Ireland)	8,667	13,595	14,620	15,216	15,929	16,800	17,956
UK excluding Scottish LBTT	8,879	13,963	14,986	15,599	16,332	17,232	18,420
		Percentage change on a year earlier					
Whole UK property transaction taxes		56.4	7.3	4.1	4.7	5.5	6.9
<i>of which:</i>							
LTT (Wales)		73.1	-0.4	4.6	5.5	7.1	7.4
LBTT (Scotland)		41.3	5.8	4.9	4.7	5.5	6.0
SDLT (England and Northern Ireland)		56.9	7.5	4.1	4.7	5.5	6.9
UK excluding Scottish LBTT		57.3	7.3	4.1	4.7	5.5	6.9

Forecasts required for the block grant adjustments

Table A.4: Landfill taxes

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Whole UK landfill taxes	730	741	683	667	636	573	575
<i>of which:</i>							
Landfill disposals tax (Wales)	32	45	36	36	36	35	35
Scottish landfill tax	106	109	107	90	93	77	18
Landfill tax (England and Northern Ireland)	592	587	540	541	507	461	522
UK excluding Scottish landfill tax	624	632	576	577	542	496	557
		Percentage change on a year earlier					
Whole UK landfill taxes		1.5	-7.8	-2.4	-4.7	-9.9	0.4
<i>of which:</i>							
Landfill disposals tax (Wales)		42.1	-20.8	-0.1	-0.5	-0.8	-0.2
Scottish landfill tax		2.8	-2.2	-15.5	3.0	-17.7	-76.5
Landfill tax (England and Northern Ireland)		-0.9	-7.9	0.0	-6.3	-9.1	13.3
UK excluding Scottish landfill tax		1.3	-8.8	0.0	-5.9	-8.5	12.3

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By virtue of paragraph(s) ix of Standing Order 17.42

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Agenda Item 5

	The Welsh NHS Confederation response to the Finance Committee scrutiny of the Welsh Government's 2022-2023 Draft Budget proposals.
Contact:	Nesta Lloyd-Jones (Assistant Director): [REDACTED]
Date:	24 November 2021

Introduction

1. The Welsh NHS Confederation welcomes the opportunity to respond to the Finance Committee's scrutiny of the Welsh Government's Draft Budget 2022-23 proposals.
2. The Welsh NHS Confederation represents the seven Local Health Boards, three NHS Trusts, Digital Health and Care Wales and Health Education and Improvement Wales (our Members). We also host NHS Wales Employers.
3. The COVID-19 pandemic is arguably the biggest challenge the health and care system across the UK, and the world, has ever faced, with unprecedented demand and pressure on the system resulting in worsening health inequalities, performance against targets, workforce pressures and funding shortfalls. To recover from the pandemic, the NHS must transform what care it delivers and how it is delivered. That means now is the moment to scale up recent innovations in digital care and patient experience and embed integration to improve patient outcomes and reduce inequalities.
4. As the membership body representing NHS leaders, we ask that the Welsh Government budget for 2022-23 supports the NHS by:
 - Providing additional funding to cover ongoing COVID-19 costs, recovery of care services and addressing the backlog in elective care.
 - Providing Local Authorities allocations that are ring-fenced for social care funding to support system-wide health and wellbeing sustainability. This could be expanded to elements of education and housing budgets as appropriate.
 - Setting a nominal proportion of health and social care funds which should be spent on preventative activities and to hold spending bodies to account for the use of these monies. In this approach, the variation in underlying need for preventative activities is taken into account in the allocation formula.
 - Providing recurrent funding to support the pump priming of 'upstream/out of hospital' transformation and long-term service development.
 - Developing a 5-year investment plan for service change to reshape the NHS estates and infrastructure, including digital, making them more sustainable, reducing carbon emissions and maximising public assets.
 - Publishing an ambitious cross-government strategy and delivery plan to tackle inequalities, and invest in long-term prevention across all sectors, especially housing, education and transport. Also, work in partnership with people and communities to change lives for the better.
 - Increasing investment in NHS workforce so we continue to see an increase in the number of students and trainees across a range of professional groups.



- Recognising the significant contribution the NHS makes to wider economic and social recovery when allocating funding. More than ever, the past 20 months have shown the NHS to be a significant economic force and an ‘anchor institution’, which positively impacts on people’s wellbeing, provides employment and boosts local economies. The NHS will be able to do this even more effectively with adequate funding. As large employers, purchasers, and capital asset holders, NHS organisations are well positioned to use their spending power and resources to address the adverse social, economic, and environmental factors that widen inequalities and contribute to poor health outcomes.
5. Finally, the response from NHS Wales organisations to the challenges of the pandemic serve to demonstrate that the system can respond quickly and effectively to challenges when the resource framework supports the direction of travel and aims to achieve the same outcomes. The NHS is clear: when the financial and resource backing is there, the NHS can evolve quickly and effectively to respond to the challenges it faces.
- 1. What, in your opinion, has been the impact of the Welsh Government’s 2021-22 budget including funding related to COVID-19?**
6. The Welsh Government 2021-22 budget recognised the ongoing need to stabilise the health system following the pandemic and it provided significant additional financial support to Health Boards and NHS Trusts as they continued to respond to the challenges in the health and social care system, including the financial challenges.
7. With regard to the NHS, the Welsh Government COVID-19 funds have enabled the NHS to maintain financial stability whilst also supporting:
- At a local level, to be COVID-19 ready and for NHS services to continue their COVID-19 response through a period of increasing infection rates;
 - The recovery of waiting lists and waiting times that have grown significantly during the pandemic;
 - The continued successful delivery of all-Wales programmes to support the containment of the pandemic, including Test Trace Protect and the vaccination programme;
 - The capacity of the NHS to respond to increased emergency pressures and prepare for an extremely difficult winter;
 - The social care system, including discharging patients from hospital;
 - The health and wellbeing of NHS staff.
8. The budget has enabled the NHS to support the vaccination programme, manage COVID-19 at the current level and make plans for the backlog reductions. It has also given the NHS opportunities to manage increased unscheduled care demand, with the limiting factor being availability of workforce rather than finance.
9. The funding has enabled many NHS organisations in Wales to implement changes and support innovative service models by integrating services across sectors, shifting services upstream and taking a preventative approach to design and

delivery. The NHS in Wales response to COVID-19 created a need to radically rethink and accelerate the way the service interreacts with patients and delivers care. The Welsh financial response has been supported by upscaling, accelerating and adopting new digital solutions, as highlighted within [The NHS Wales COVID-19 Innovation and Transformation Study Report](#). It also capitalised on the data, software and functionality that already existed, but which now incorporates greater flexibility and reporting.

10. The additional funding has allowed NHS organisations to amend their forecast for 2021-22. However, the forecast remains fluid in terms of COVID-19 response requirements for future months and the impact on the delivery of savings. The delivery of savings remains a challenge across Health Boards and Trusts in Wales and a significant proportion of planned recurring savings assigned to improve the underlying position are currently not forecast for delivery in 2021-22. Therefore, further efficiency savings are required to help secure financial sustainability and support service and quality improvements going forward.
11. Opportunities will continue to focus on improving the efficiency of services; providing a safe, secure and healthy NHS estates environment; and the effective use of resources.

2. How do you think Welsh Government priorities for 2022-23 should change to respond to COVID-19?

12. The priority areas should remain focused on managing the pandemic, recovering elective waiting times and maintaining financial stability. In addition, support would be welcomed in addressing capacity difficulties in mental health recovery, emergency services, social care, primary care and improvements in the infrastructure to allow for innovation in support of COVID-19 management.
13. The budget must help the NHS recover and continue to manage the direct and indirect costs of COVID-19. The pandemic's effects on the NHS are two-fold. Firstly, it introduced a range of new costs, such as test and trace, PPE, vaccination and long COVID. Secondly, COVID-19 increases the costs of providing normal NHS services and meeting performance targets. The pandemic reduces the service's productivity while increasing the backlog for physical health and mental health services. COVID-19 also exacerbates issues such as mental ill-health, an underfunded social care system and workforce supply.
14. Reducing the elective backlog will take sustained investment over many years and a commitment from the Government. Reducing the elective backlog must consider all parts of the health and social care system, not just acute hospital settings. Mental health, primary and community care form an eco-system that helps patients wait well before elective treatment. Ambulance services, for instance, play a critical role in supporting communities and working across the entirety of the NHS. They have a unique role in connecting with all parts of the NHS, as well as other emergency services, and can play a big role in helping transform the way that patients interact with the health service. There is a need for recurrent funding to

support the pump priming of 'upstream/out of hospital' transformation and long-term service development.

15. In addition to day-to-day funding, capital investment is key to continue to deliver high-quality, safe health services as well as meet longer-term goals to integrate care. Creating a multi-year capital funding settlement for the entire NHS would support reducing the backlog, ensure the safety of the NHS estate, embed positive pandemic-era changes, and truly make inroads to reducing inequalities by transforming models of care. Research shows capital constraints hamper the ability of NHS organisations to successfully deliver care, that the state of the built environment affects patient outcomes, and staff are more productive when they have the right up-to-date equipment to efficiently treat patients.
16. A key area where greater capital funding could have an impact is in embedding recent digital innovations accelerated by the pandemic. COVID-19 has highlighted the opportunities across the health and care system afforded by digital technology. Its availability, dependency, access, resilience and security are now essential to ensure the continuity of services and NHS organisations are committed to building on the progress made. The Track Trace Protect system has demonstrated the art of delivering a minimal product on a national scale safely, quickly and efficiently. There are future opportunities to accelerate the shift to data driven, value-based and locally delivered models of care. It is important that the Welsh Government's investment priorities in 2022-23 include a significant digital aspect. This means safeguarding and developing the infrastructures that NHS Wales organisations have already developed nationally and locally, but also ensuring transformations in patient pathways continue to support not only the COVID-19 recovery, but also the transition more generally to a healthier Wales.
17. Investing in workforce growth and retention is also key. The NHS workforce has worked tirelessly to fight COVID-19 and protect our communities during the pandemic. As a result, they are understandably exhausted and NHS leaders worry about burnout and the risk of people leaving. Employers are adopting a range of strategies to [support staff wellbeing](#) in the best way possible to ensure we retain our valuable people resource. It is important that we continue to see an increase in student and trainee numbers across a range of professional groups. Well recognised benefits of investing in student education and staff training extend beyond financial and include benefits to patient experience, quality and continuity of care, a reduction in complaints and adverse incidents. Health Education and Improvement Wales (HEIW) has undertaken work which shows that investing in additional nurse student placements can be repaid in a little over a year of those students graduating and working within the health system and social care system in Wales through reducing reliance on agency staff. It is also evident that investment in educating and training existing staff to acquire new skills and expertise is essential to support NHS Wales' drive to deliver new ways of working and adopt innovative technology, which supports the sustainability of the system and patients to maintain physical and mental wellbeing at home. This is of particular relevance given the immediate and medium-term challenges brought about by the COVID-19 pandemic, including rehabilitation.

18. Finally, NHS Wales organisations also recognise that partners across the public sector are facing acute financial challenges due to COVID-19. To enable health and wellbeing systems to operate effectively, the whole system needs to be appropriately resourced and this will include increasing the funding provided to social care. Social care services play a crucial role in continuity of care pathways and protecting NHS capacity by keeping people well for longer outside of hospital, and enabling faster, safer discharges home. The last 20 months have exposed deep cracks in the system and have exacerbated structural vulnerabilities, with devastating consequences for social care residents and their families. The introduction of a health and social care levy is a good first step towards a long-term plan for social care, but the challenge is much more than finding a funding mechanism, crucial though that is. In addition, increasing tax on NHS and social care employers through increased national insurance contributions may prove counterproductive. It is vital to ensure appropriate access for those who need support, with adequate state funding to improve access and quality of care. We also need to secure a stable provider market which is providing the right model of care. A sustainable workforce is also required which is properly valued, paid and respected for this vitally important work.

3. How financially prepared is your organisation for the 2022-23 financial year, and how can the budget give you more certainty in planning and managing budgets given the ongoing volatility and uncertainty?

19. Whilst NHS Wales organisations welcome the additional funding provided by Welsh Government, there is a concern that the ongoing impact of the COVID-19 pandemic will significantly hinder NHS organisations ability to recover services and to shift the focus onto achieving sustainability and delivering transformation.

20. The NHS has started its resource planning for 2022 - 23. Managing resources was extremely challenging in 2020 - 21 due to uncertainties of resources available and this was eased somewhat in 2021-22 due to earlier resource planning assumptions being made available.

21. An earlier indication of resources available for 2022-23 would enable robust planning in time for the Integrated Medium-Term Plan (IMTP) cycle, where final plans have been requested for approval before March 2022. There is a need for more clarity on the NHS national COVID-19 planning assumptions to inform budget planning assumptions.

22. These plans should include a degree of scenario and risk planning to address ongoing uncertainties. Earlier indication of available resources will support this and enable the NHS to make informed decisions around several competing priorities that support good value and outcomes whilst maintaining financial stability.

23. Investments planned to support patient services as part of medium-term plans have been redeployed to manage the COVID-19 pressures and this deferment will have an impact on future delivery, recognising the pandemic has acted as a catalyst for change in some circumstances e.g. digital and agile working. These



changes need to be consolidated and capitalised upon to maintain the good practice for patient care.

24. It will be challenging to focus attention on the delivery of transformational services as operational services rightly focus on meeting the challenges brought about by the COVID-19 pandemic, particularly with regard to the impact on the NHS Wales workforce. The delivery of savings will remain a challenge across NHS Wales organisations. As a consequence, the underlying financial position across NHS Wales as a whole will remain a significant challenge.

25. Finally, transparency regarding the level of funding held in reserve at the centre and for all-Wales projects would also be useful to ensure a clear picture could be communicated regarding what is required.

4. Given the ongoing uncertainty and rapidly changing funding environment do you think there should be changes to the budget and scrutiny processes to ensure sufficient transparency and Ministerial accountability?

26. During the ongoing period of the pandemic and given the uncertainties of budgeting at a national level, it might be appropriate to scrutinise the application of consequential received after the main annual budget motion has been completed.

27. Changes to the budget should be minimised once made to ensure clarity. However, changes could be made in exceptional circumstances, such as a significant COVID-19 wave caused by a new variant.

5. Does the Fiscal Framework adequately reflect the impact of the public health emergency in Wales compared to other UK countries and do you support increasing the annual and/or overall limits, £150 million and £1 billion respectively, to current Welsh Government capital borrowing within this Framework?

28. The financial support provided in Wales has been sufficient to meet this public health emergency. Wales has been at the forefront of many achievements when in comparison with other parts of the UK, including research, increased laboratory testing capacity, the vaccination programme and innovation in maintaining elective and core services.

29. It is important to note that most of this funding will be required non- recurrently for a few years until the services return to some form of normality. Increased borrowing would be supported to allow for greater flexibility in supporting the resetting of public services going forward. As we emerge from the COVID-19 pandemic we need to identify and support new opportunities to improve health and reduce inequalities, ensuring we improve on our pre-pandemic population health status.

30. Additional COVID funding is required to treat patients with the virus, take measures to limit the spread within healthcare facilities and recover the backlog in elective work due to the cessation at the height of the pandemic.



6. The Committee would like to focus on a number of specific areas in the scrutiny of the budget, do you have any specific comments on any of the areas identified below, particularly in light of the COVID-19 situation and how these should be reflected in the 2022-23 budget?
- How resources should be targeted to support economic recovery and what sectors in particular need to be prioritised.
 - What are the key opportunities for Government investment to support 'building back better' (i.e. supporting an economy and public services that better deliver against the well-being goals in the Well-being of Future Generations Act).
31. The Welsh Government, when considering economic recovery and 'building back better' must place the NHS at the heart of all national COVID-19 recovery and economic plans. The civic, economic and social impact of the NHS will be particularly important in delivering on the Government's economic priorities.
32. The UK faces a further period of economic uncertainty as COVID-19's long economic tail continues to be felt throughout our communities. Thankfully, the NHS doesn't just treat patients but plays a significant economic role too, which is highlighted in our briefing, [Health, wealth and wellbeing: The NHS' role in economic and social recovery](#). NHS Wales should be considered an 'anchor institution' as it is well-positioned to use its spending power and resources to address adverse social, economic and environmental factors that widen inequalities and contribute to poor health. The term usually refers to large, typically non-profit organisations whose long-term sustainability is tied to the wellbeing of the populations it serves. For example, NHS Wales organisations are often the largest employers in local areas, with over 100,000 people employed by the NHS in Wales. In addition to direct employment, NHS Wales is estimated to support almost 145,400 jobs and £5.4bn of gross value added (GVA), which was highlighted in the Cardiff University research, [NHS Wales and the Regional Economy](#). This accounts for 11% of total Welsh employment and 9% of Welsh GVA, excluding important impacts via NHS Wales' capital spending programme. The research highlighted that every £1bn of direct NHS revenue spending supports an estimated 19,000 total jobs in the Welsh economy. As the link between employment and wellbeing is so well-established, increasing the amount of hiring an NHS organisation does locally may be an opportunity to increase the impact it has on the wellbeing of local communities.
33. In addition, NHS Wales is a key purchaser of goods and services, and a capital estate holder and developer. Both functions mean that NHS Wales, directly or indirectly, has an impact on the conditions and wellbeing of workers that are not employed directly in the health and social care sector. We would emphasise that the NHS needs to be viewed as a force for economic regeneration, so it can best support population health and play a key role in keeping the Welsh population happy, active and healthy.
34. The size, scale and reach of the NHS means it has a significant influence on the health and wellbeing of local populations. It will play a vital role in raising wellbeing

and addressing the challenge of reducing regional inequalities throughout Wales. Health, wellbeing and the economy are bound tightly together; a healthy (physically, psychologically and socially) population results in a more economically active population. Interventions designed to improve health, inclusive growth and wellbeing in Wales should be a shared priority as they are in the interests of all local, regional and national partners, businesses and communities..

35. As the NHS seeks to reset its services and priorities, it will focus on how it can influence wider community issues in its role as an anchor institution. This includes how its resource allocation and utilisation can support local economic development, influence social and economic determinants of health, reduce its carbon footprint and help build sustainable communities.

- **To what extent alleviating climate change should be prioritised in supporting economic recovery.**

36. Alleviating climate change must be a priority in supporting economic and social recovery but further investment is required to support public bodies to reach the net zero target by 2030 set by Welsh Government in [NHS Wales Decarbonisation Strategic Delivery Plan](#).

37. The climate crisis has serious direct and indirect consequences for the health and wellbeing of the population. A 2018 [Public Health Wales report](#) on reducing health risks associated with road traffic air pollution in Wales stated “*the societal cost of air pollution from health service costs and lost work-days is estimated to be £1 billion each year*”. Exposure to air pollution is estimated to cause the equivalent of 40,000 premature deaths in the UK each year, with an estimated burden on early deaths in Wales in an equivalent range of between 1,000 and 1,400.

38. NHS organisations have a significant impact on the environment and are some of the largest contributors to climate change and air pollution. Delivering high-quality health and care places numerous demands on natural resources and the environment, such as: the use of energy, water and consumables, including single-use plastics; waste production and waste management; travel, which requires fossil fuels and contributes to air pollution.

39. NHS Wales organisations are looking at establishing new, local supply chains using its buying powers, which will have the additional impact of shortening the supply chain and reducing carbon. In addition, making better use of digital technology across our services and communities, including video consultations, will reduce the environmental impact of healthcare delivery.

40. Given its large carbon footprint, any action taken by the NHS to support responsible consumption and reduce waste has a significant impact on the environment. This is important not only to reduce carbon impact but to support more sustainable utilisation of finite resources overall across Wales and the UK. The NHS has the power and responsibility to influence action on a broader scale, to reduce its contribution to climate change and protect resources for the health of future generations.



- **How resources should be prioritised to address the pressures felt in sectors that need to “catch-up”, such as Health and Education.**
 - **Approach to preventative spending and how is this represented in resource allocations (Preventative spending = spending which focuses on preventing problems and eases future demand on services by intervening early).**
41. NHS Wales leaders recognise that partners across the public sector are facing acute financial challenges due to COVID-19. The whole system needs to be appropriately resourced, from social care, housing to education. This will allow it to respond to the significant demand facing the NHS and enable health and wellbeing systems to operate effectively.
42. In addition to recognising the impact that a range of organisations and sectors have on the populations health, there also needs to be a shift to increasing preventative spending. The shift to increasing preventative spending needs to be supported with very clear evidence and data to demonstrate a cause-and-effect relationship between these competing factors along with a clear impact timeframe. This will provide confidence to the public and patients of Wales that the improved future health state is worth investing in now in comparison with short term investment in treatments. NHS Wales organisations are committed to delivering on the vision set out in the Well-being of Future Generations (Wales) Act 2015. This supports new ways of working across the health and social care system and acts as a framework for considering how the impact of decisions made in the here and now will likely impact the health and wellbeing of future generations.
- **Welsh Government policies to reduce poverty and gender inequality.**
43. The pandemic has demonstrated the inextricable link between wider determinants of health, such as housing, education and employment. Improving physical and mental health and wellbeing, as well as reducing health inequalities, should be a key outcome across all departments of Government. But the NHS alone cannot fight health inequalities. A shift towards a preventative approach therefore requires tackling the underlying causes of health inequalities, with investment targeted at infrastructure and services which provide sustainable solutions. We are calling for the Welsh Government to publish an ambitious cross-government strategy and delivery plan to tackle inequalities. It should also invest in long-term prevention across all sectors, especially housing, education, health, energy, and transport, working in partnership with people and communities to change lives for the better.
44. Health inequalities are the result of many and varied factors, arising as a result of the social and economic inequalities that shape the conditions in which people are born, grow, live, learn, work and age. The NHS alone does not hold all the levers required to create the necessary conditions for good health and wellbeing. Meaningful progress will require coherent, strategic efforts across all sectors, using their available resources, expertise and relationships to close the gap.
45. While COVID-19 has revealed and exacerbated pre-existing health inequalities, there have been many detailed and well-evidenced reports on health inequalities in recent years. In just the past year, many reports have called for system-wide



action on health inequalities including the Welsh Health Equity Status Report initiative, [Placing health equity at the heart of the COVID-19 sustainable response and recovery](#) (Public Health Wales and Welsh Government), [The Marmot Review 10 Years On](#) (Institute of Health Equity and the Health Foundation) and the most recent [Unequal pandemic, fairer recovery](#) (the Health Foundation). Every one of these reaffirms the need for coherent, coordinated activity across all delivery partners. COVID-19 recovery presents an opportunity to create a healthier and more resilient society by addressing the root causes of poor health.

46. In April 2021, the Welsh NHS Confederation's Health and Wellbeing Alliance published a short paper, [Making the difference: Tackling health inequalities in Wales](#). In this paper, we suggest initial steps the new Welsh Government should take in their first year to respond urgently to health inequalities and make the greatest possible impact by coordinating a renewed commitment from all partners. A key driver within this is the Well-being of Future Generations (Wales) Act 2015.

- **Sustainability of public services, innovation and service transformation.**

47. It is not possible to consider the long-term future of healthcare in Wales without considering the issue of how, and to what level, the social care system should be funded in the future. We need to work towards achieving a consensus that the NHS and social care services are interdependent. Care home sector stability is vital to our health and care system. In recent years, there have been significant pressures around capacity and demand for care services and COVID-19 has exacerbated this problem.

48. The pandemic has once again demonstrated the need for a new settlement for social care and highlighted the critical role the sector plays in the delivery of health and care services. The challenges facing social care services include vulnerabilities in funding and market stability, increased demand on the sector, growing unmet need, staff vacancy issues, contingency planning and the need for consistent standards and quality measures between health and social care. For the future sustainability of the health and care system, it is vital that social care is reformed to ensure a sustainable social care system, backed up by long-term funding.

49. NHS Wales organisations support an approach to further protect funding for preventative measures that recognise the importance of improving population health outcomes and sustainability of services in the longer term. Some examples of how this could be enacted include:

- Providing Local Authorities allocations that are ring-fenced for social care funding to support system-wide health and wellbeing sustainability. This could be expanded to elements of education and housing budgets as appropriate; and
- Setting a nominal proportion of health and social care funds which should be spent on preventative activities and to hold spending bodies to account for the use of these monies. In this approach, the variation in underlying need for preventative activities is taken into account in the allocation formula.



Conclusion

50. Healthcare, reducing health inequality and maintaining people's mental health and wellbeing, should be at the heart of the Welsh Government's draft budget. NHS Wales organisations do not underestimate the significant challenges of public service budget-setting in a time of unprecedented challenges as a result of the pandemic. NHS organisations across Wales are committed to doing the very best they can to deliver high-quality, timely and safe care to the people of Wales. Our members also recognise the importance of improving population wellbeing by supporting an environment that enables people to maintain good physical and mental health for as long as possible. Finally, we need to emphasise the importance of working with partners across the public sector so that we may rise collectively to the challenges we face.



Senedd Finance Committee Consultation

Scrutiny of the Welsh Government Draft Budget 2022-23

26th November 2021

Jon Rae

Welsh Local Government Association - The Voice of Welsh Councils

We are The Welsh Local Government Association (WLGA); a politically led cross-party organisation that seeks to give local government a strong voice at a national level. We represent the interests of local government and promote local democracy in Wales.

The 22 councils in Wales are our members and the 3 fire and rescue authorities and 3 national park authorities are associate members.

We believe that the ideas that change people's lives, happen locally.

Communities are at their best when they feel connected to their council through local democracy. By championing, facilitating, and achieving these connections, we can build a vibrant local democracy that allows communities to thrive.

Our ultimate goal is to promote, protect, support and develop democratic local government and the interests of councils in Wales.

We'll achieve our vision by

- Promoting the role and prominence of councillors and council leaders
- Ensuring maximum local discretion in legislation or statutory guidance
- Championing and securing long-term and sustainable funding for councils
- Promoting sector-led improvement
- Encouraging a vibrant local democracy, promoting greater diversity
- Supporting councils to effectively manage their workforce



Introduction

1. This paper is largely based on a paper the WLGA presented to the Finance Subgroup in October. Much of the new information presented in that paper focussed on a survey the Society of Welsh Treasurers (SWT) carried out of the 22 local authorities to inform the next Welsh Government budget round. Last year's survey and the impact to date of COVID-19 on local government also features in the report. It is evident the need to deal with the implications of the pandemic is on-going and will likely last more than one financial year.
2. This SWT survey collected information on the estimated financial pressure over the next three years. The survey also sought the estimated financial impact of COVID-19 on local authorities' finances. The results point to an inevitable legacy impact of the pandemic on local government. The core pressure identified in the survey is triangulated with estimates modelled by the WLGA from central returns and those done by Wales Fiscal Analysis.
3. The close working between Welsh Government and Local Government in response to the pandemic has also built up a considerable body of data on the pressures faced by the sector. This financial year FSG has received reports indicating the estimated financial impact of the ongoing response to the COVID-19 emergency.
4. The response to the pandemic has seen unprecedented partnership working between Welsh Government, councils, and NHS Wales. Inevitably the pandemic has caused Medium Term Financial Plans to be revised because of the pressures. During the last year councils commenced a move to a recovery phase and see this as a key part of their role. The continuation of the Welsh Government's approach to funding Covid related pressures has played a key part in ensuring councils can continue to support their communities. Financial certainty and support will be key to the on-going recovery phase.
5. The survey gathered data on the estimated financial pressure faced by councils. It also sought estimates of Covid related funding requirements over the medium term. The information was also sought for schools.
6. This year's survey placed an emphasis on the medium-term financial planning that all 22 councils carry out. As a result, headline data over three years is included in the report. The report also includes information provided by Wales Fiscal Analysis who recently looked at the outlook for the Welsh Budget.
7. The survey was carried out prior to the recent significant volatility in the energy sector. The significant additional costs will affect councils through direct running cost increases and also the cost of commissioned services. It is likely to see an increase in fee levels from care home providers and other suppliers of services. Just recently at least one small authority was estimating

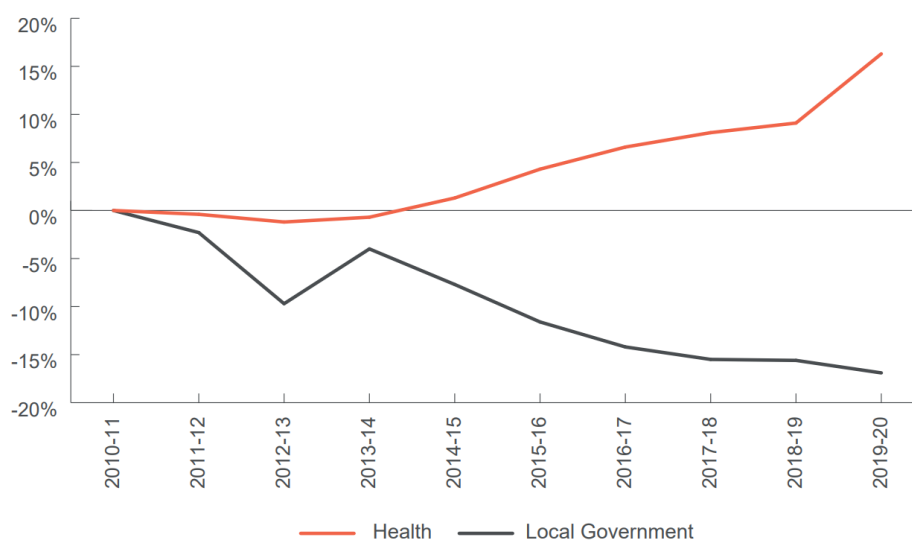


an £800k pressure next year arising from gas and electricity based on pricing coming out of Crown Commercial Services.

Overview

8. The recently published report a [Picture of Public Services 2021](#) from Audit Wales gives a useful context for the Welsh Government Budget. The Auditor General identifies just over half (52%) of the total revenue budget is now allocated to Health and Social Care. Figure 1 shows Welsh Government revenue funding for NHS Wales has increased 16% in real terms, while revenue funding to local government fell by 17% between 2010-11 and 2019-20.

Figure 1: Change in core Welsh Government revenue funding for health and local government, 2010-11 to 2019-20 (real terms, 2019-20 prices)



Source: Audit Wales 2021

9. In response to reduced Welsh Government funding, councils have increased council tax by 35% over and above inflation between 2010-11 and 2019-20. However, total revenue expenditure across local government fell by 8% over the period and these cuts have not fallen equally across all local services. The deepest cuts have come in leisure and culture and library services which have seen cuts of over 40% and regulatory services, such as development control, building control, trading standards and consumer protection which have seen cuts of over 30% over that period.
10. The past year has seen Local Government delivering a key pandemic response that has been over and above its usual role. The unprecedented situation has demonstrated the strength of the partnership with Welsh Government, the wider public sector and the third sector. Local government



staff have ensured the most vulnerable have been supported in the crisis. The continuation of Welsh Government's Hardship Fund has been key to the success of the response; without this financial support councils would not have been able to meet the demand created by the pandemic.

11. At this time last year, it was noted that the response to the pandemic had understandably redirected local authority efforts to dealing with the impact of the pandemic and to deliver their community leadership role. This has continued in this financial year and local authorities continue to provide a wide range of services.
12. The impact of the pandemic has inevitably affected local priorities and council finances. However, the Hardship Fund coupled with sound local financial management has assisted the position. Even so, demand led services in the social care sector have been particularly badly affected and real concern about service continuity and the on-going impact on finances will continue.
13. Councils are currently going through budget processes. What seems likely is that the understandable need to concentrate on the response to COVID may have deflected effort to deliver agreed savings. Councils had engaged in transformation programmes to deliver prior years' savings, and these will inevitably be complex; their delivery will be key to the longer term for councils. Any delay will potentially require deeper cuts to services.
14. The following table shows the financial gap from the result of the survey. Excluding COVID related pressures the underlying pressures for 2022-23 total £280m and similar patterns are evident in the next two years.

Figure 2: Pressures by theme, 2022-23 to 2024-25

Pressure by theme (£m)	22-23	23-24	24-25
Pay inflation	105,380	95,445	95,003
Non pay inflation	75,962	70,540	70,554
Fees and Charges	- 8,482	-7,788	-7,007
Demand related pressures	101,740	90,423	85,833
Capital financing pressures	11,066	15,915	27,625
Reduction in specific grants	9,504	4,030	3,348
Local priorities	13,335	6,313	4,635
Other	23,347	26,168	16,022
Covid Pressures	75,529	26,168	16,022
Total Pressures	407,381	314,451	304,979

Source: SWT Survey 2021



15. The above table gives the scale of challenge faced by Welsh Local Government over the next three years with pressures totalling £407m next year giving a cumulative amount of £1.03bn by 2024-25.
16. The figures do not include any impact of the Health and Social Care Levy, but this is estimated to cost local government in Wales anywhere between £30m to £47m.
17. The Wales Fiscal Analysis indicated that local authority spending will need to increase by 3.4% (cash terms) to meet spending pressures over the coming years.
18. The figures do not take into account the revenue implications of commitments made recently by the 22 LAs related to the target of a net zero carbon public sector by 2030 (see Appendix). Whilst many of those commitments will require capital expenditure (see below) it is possible that at least some of the investments will have to be achieved through local government borrowing, with associated revenue implications over a period of years.
19. The commitment to ensure procurement is informed by the carbon implications of purchased goods and services (in their development, use and at end of use) will also result in higher upfront costs. The wider *benefits* that arise along the supply chain from such procurement practices are critically important, as procurement accounts for around 60% of councils' carbon emissions. However, they are difficult to capture and quantify directly and from a narrow financial perspective will simply appear as higher costs.
20. Other revenue implications will arise from the need to provide training in the skills needed to support decarbonised operations (e.g. retraining of mechanics, engineers, energy managers) and community support to adapt to climate change already 'built in' (e.g. responses to more frequent and severe weather events; working with communities to build resilience and ensure they are prepared for such events).
21. The financial position of some councils is likely to become critical in 2022-23 in relation to reserve levels. Financial shocks are much more difficult to absorb in some councils and it would be wrong to see overall reserves as an indication of the sector being able to navigate and deal with a settlement that does not recognize the current position.

Spending Review and Survey Responses

22. This year's survey sought the estimated position over three financial years and so matched councils' medium-term financial planning time horizons. The survey was being conducted at a time when the spending review was



announced along with the introduction of a new hypothecated levy (tax) in the form of a National Insurance increase to fund Health and Social Care.

23. On 7th September the announcement of the Spending Review was accompanied by the UK government's plans for funding health and social care through a National Insurance increase. Whilst details affecting Social Care relate largely to England, the devolved nature of social care in Wales, Scotland and Northern Ireland means it will be a matter for the Welsh Government to implement the proposed changes.
24. The details relating to National Insurance will affect the four nations as this is not a devolved matter but from April 2022, there will be an increase of 1.25% on employee and employer national insurance contributions. This is in effect a 2.5% increase in the tax rate on employment earnings. It will also be extended to those in work who are over pension age. This is the first time that those over pensionable age will be required to pay national insurance. The potential unfunded impact on Welsh Local Government is estimated to be between £30m to £47m including schools.
25. The announcement of additional funding will potentially benefit local government but only if its role is acknowledged and an appropriate amount is passported to councils. It is estimated that over the next 3 years £36bn will be raised from which the NHS will receive around £25bn, Social Care £5.4bn and approximately £6bn going to devolved administrations.
26. Social care is a key concern for councils and the pandemic has created additional pressure. The increase in referrals and workload has resulted in increased activities undertaken and higher cost services being provided often due to lack of capacity. Children's services has seen an increase in statutory work with demand creating significant cost pressures. One authority has seen a 53% increase in Children's Services contacts to the 'front door' when comparing August 2019 and August 2021. A similar comparison of referrals to the assessment team saw an increase of 44%. The pattern was also evident in the same authority's Adult Services that saw a 66% increase in referrals to the 'front door'.
27. Of relevance to councils' Medium Term Financial Planning arrangements, it has been stated that after 3 years the increased sums for the NHS will be redirected to social care because the Covid backlog will have been dealt with. Clearly this will depend on the willingness to transfer this funding from the NHS to the care system at a time when more demand for health services is likely.
28. The survey indicated that most councils are making consistent assumptions in respect of a pay award in 2022-23. This is against a backdrop of the Treasury putting downward pressure on public sector pay increases as evidenced by



the Chancellor's 7th September letter announcing the spending review. It is likely that the final position on a pay award will not be resolved for some time. On 1st October, Unison announced the result of their ballot on pay which was a 79% rejection of the Employers' final offer of 1.75% (with 2.75% for those on the lowest pay point).

29. Councils report that the pandemic has reset demand levels for some services that is very unlikely to be contained within one budget settlement and therefore the financial impact has been included for future years albeit at a reduced level. One council has identified an additional £5m for Social Services that it believes is required to invest into the service and resolve the systemic issues (primarily Children's but also Adult Services) caused by the impact of the pandemic over the last 18 months.
30. There is also concern about income loss reflecting that some income levels remain at 15% lower than pre-covid conditions. If these risks materialise without the additional funding, then interim mitigations will need to be identified during 2022-23 with a reset of priorities over the medium term.
31. Pressures noted in the survey include homelessness, adult social care, children's services, and waste services. One authority indicated it is facing a potential £2m per annum cost pressure on its homelessness budget.
32. Schools account for approximately 35% of a council's budget with social care accounting for 25%. The survey responses indicate the pressure faced by these areas and this is complicated by the overall requirement to balance budgets and it seems likely that they may have to contribute savings in some councils with a consequent impact on services.
33. The survey indicated financial pressure in schools amounted to £82.3m. This is at a time when a number of school budgets are already in deficit positions. Any cuts would further destabilise those schools seeking to deliver balanced budgets as part of an agreed recovery plan. The impact on school improvement measures would also be significant.
34. There is likely to be a hidden inflationary cost in the independent commissioned social care sector with COVID being one source. Providers will continue to require PPE for some time, and this is likely (as with energy costs) to feed through into fee levels.
35. The Hardship Fund has played a significant role in meeting the demands placed on councils by the pandemic. As the financial support unwinds it is clear that councils will have to deal with a 'tail' of financial consequences affecting service demand and also lost income with one council stressing that leisure centres are unlikely to return to pre pandemic levels for some considerable time.



Social care

36. The WLGA/SWT survey noted the financial pressure caused by demand for social care that has been further increased due to the pandemic. The factors have also been brought to Welsh Government's attention in a letter from the President of ADSS Cymru to the Chief Social Care Officer for Wales.
37. The pressure being faced by both Adult Services and Children's Services share many common factors including the recruitment and retention of staff. This is also affecting commissioned services from providers. A resultant increase in agency related costs is further adding to financial pressure.
38. The impact of the pandemic has been significant for the social care sector and its workforce with some areas harder hit than others, for example, the care home sector has been particularly negatively affected with the high number of deaths experienced due to Covid-19. Care home residents, staff and businesses continue to be affected as community transmission remains high. However, all areas of social care work were affected by the pandemic and while some sectors have moved to a recovery model, social care is still operating at a response level and the pandemic continues to impact and affect the delivery of some services in different ways.
39. The toll of the pandemic on the workforce cannot be underestimated. During the pandemic many staff went 'above and beyond' to ensure services were provided to vulnerable people, continuing to provide face to face services and personal care and carry out their safeguarding responsibilities, developing new ways of undertaking their roles. There have been high staff absences, some due to having Covid or needing to self-isolate, and this has increased pressures on existing staff, many working longer shifts and hours and some undertaking new tasks reflecting an 'all hands-on deck' approach to cover service needs. Other council staff were also involved in supporting the care sector. While two additional payments of £500 were paid to social care staff by Welsh Government (through local authorities) in recognition of their efforts during the pandemic, this does not address the long-term low pay of social care staff.
40. Councils are working together to look at workforce action planning by examining a range of measures. However, these are likely to include a financial commitment that will need to be funded. It is evident that there is a need to attract people to work in social care to deal with the current and future demand, but this will take time and won't immediately resolve acute pressures in the system.



41. The survey indicates the pandemic has exposed the fragility of the care market, and this has a clear and direct link to the financial pressures faced by all councils. The long-term sustainability of the sector will need resources especially as the letter to the Chief Social Care Officer noted that 'demand continues to grow exponentially in comparison to capacity. Moreover, the added complexity of those presenting to social care services is unique and unprecedented.'
42. In addition, councils are currently having to pay for facilities in care homes that cannot be used. Paid voids are a considerable financial pressure that assist the long-term sustainability of the market but means that pressure to find alternative supply is creating system wide issues. Councils also note pressure on reablement provision because some home care packages are being handed back by providers.
43. There is also evidence of pent-up demand in the system with assessment waiting lists continuing to rise. The pent-up demand may in fact be more severe because this is hidden by the significant contribution of unpaid carers. Should these unpaid carers cease to be able to provide support it will add to the pressure faced by all councils.
44. Issues faced by Children's Services are similar. Workforce shortages at a time of increasing demand is creating pressure that is heightened by the difficulty finding 'looked after' placements for children. Increasing pressures faced by families requires regular respite care and this is equally difficult to provide for similar reasons to longer term placements.
45. Social care pressures are often resolved through the collective work of different parts of councils. These areas include assisting those who find themselves homeless. The pandemic has put severe strain on this area of council activity, and it is clear that increased demand for services will remain because of unemployment, isolation and family breakdown.
46. The concern raised in the survey was that the impact of the pandemic will not end at any given point. It will continue to affect the lives of the most vulnerable and therefore create increased demand for services.
47. ADSS Cymru has set out the need for a longer-term settlement that is sustainable and able to meet local needs. ADSS has serious concerns about a variety of factors including system and market failure, increasing complexity and levels of need as well as the impact on an overstretched workforce.
48. Audit Wales recently published 'A Picture of Social Care' that summarised key information about Social Care in Wales. It noted that demand for adult social care is likely to increase significantly. Whilst being cautious about the impact of Covid it states 'The challenge of addressing the indirect impact of COVID-



19 will likely continue for years into the future. The problem is compounded by the fact that there are significant, long-standing issues in the social care sector which pre-date the pandemic.'

49. The Audit Wales report also states 'The Welsh Government published its Social Care Recovery Framework in July 2021 to provide an overarching structure to support recovery planning in the sector. The Framework sets recovery priorities for people who need care and support, unpaid carers, the social care workforce, and service providers. More broadly, the Welsh Government committed to spend £1 billion to support its recovery in health and social care in May 2021. So far, it has not set out how much funding will be available for social care.' Seeing this outcome is a matter of considerable importance to councils.

50. The pressures faced by social care and the acknowledgement of its key role in the overall system means it will need to be resourced so that early intervention and prevention ensure minimize the requirement for social care. An appropriate funding settlement will accelerate this approach and deal with issues that pre-date the pandemic but have been further complicated and deepened as a result of its impact.

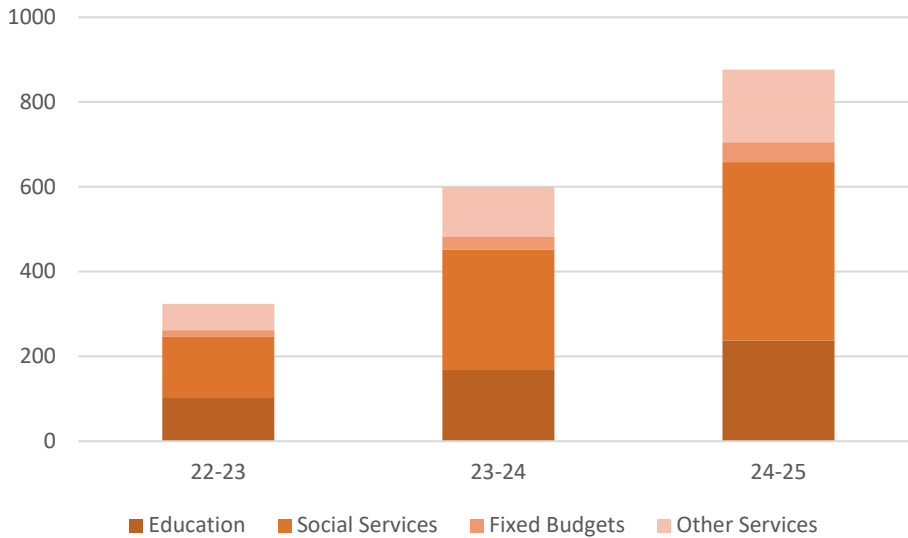
WLGA and Wales Fiscal Analysis modelling

51. The returns from the survey are consistent with our own modelling of local government pressures and fall in the range estimated by Wales Fiscal Analysis team earlier this year.

52. The WLGA model is most sensitive to the assumptions underpinning pay and demand and provides consistent forecasts over a 3-year period, in this case from 2022-23 to 2024-25. The underlying pressures for 2022-23 totals £324m and similar patterns were evident over the next two years: rising by £276m in 2023-24 and then by £277m in 2024-25. The increase to employer NI is built into the baseline in the latter two years. The cumulative pressure rises to £877m by 2024-25 as set out in the figure below.



Figure 3: Local Government Spending Pressures to 2024-25, £m

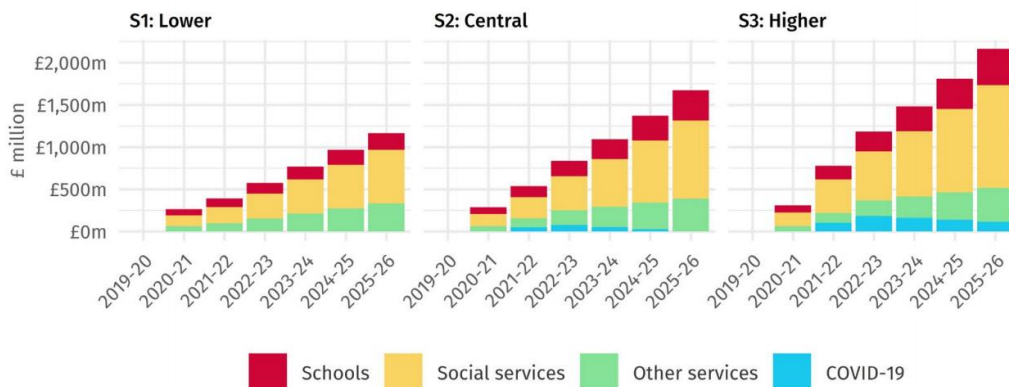


Source: Base estimates: RO and RA returns (2019-20 to 2020-21)

53. The Wales Fiscal Analysis team also made an assessment of local government pressures in their publication [Local Government & the Welsh Government Budget: Outlook and Challenges for the next Welsh Government](#). This was part of a series of reports published in the run up to the elections, assessing the implications for the Welsh Government Budget next year and beyond.

54. They produced three different scenarios of pressures facing local services, summarised in figure 4 below. Implicit in these estimates are pressures in the next financial year (2022-23), ranging from £184m in the lower scenario to £403m in the higher scenario. In the following year (2023-24) they range from £195m to £300m.

Figure 4: Wales Fiscal Analysis' Assessment of Components of Local Government Spending Pressures to 25-26





Source: Wales Fiscal Analysis 2021

Workforce

55. There are a number of workforce issues that are affecting local government services at this present time. Local government in Wales has for many years struggled to recruit in several key areas. These have consistently been in areas of Social Workers, Regulatory Officers, Legal Services, IT, Planning and Building Control. The recent additions of social care, HGVs drivers and supply teachers, have added to this list of recruitment issues. This means that most service sectors are affected in some way or another.
56. There are now real challenges in relation to recruitment and retention both for in-house and commissioned services across both adult and children's services. This issue has been exacerbated by a number of issues including:
- Competition both from the Health service and other sectors who are able to offer better terms and conditions. This has been further exacerbated as a result of a reduction in immigration since the UK left the EU, which has increased the need for the hospitality industry to recruit locally, effectively competing for the same pool of staff as social care.
 - A reduction in staff prepared to continue to work in the sector, with some making lifestyle choices to reduce working hours and many leaving the sector because they are exhausted.
 - Some have felt let down by the lack of recognition given to social care workers, with NHS workers seemingly more valued and so some are walking away.
 - Increasing demand and pressure being placed on an under-valued and over-stretched workforce.
 - Difficulties in filling staff voids due to a large number of staff having to self-isolate. This has been coupled with pressures of staff trying to take long over-due leave over the summer and early autumn.
57. The introduction of the Real Living Wage would impact differently in the public and private sectors. Most in-house care roles already meet the RLW but the picture is more mixed in commissioned services.
58. The current jobs market is very buoyant, with many vacancies available which often leads to pay inflation to attract candidates and recruit into positions. This has placed local government in a challenging position of trying to recruit to key roles in a very competitive market, particularly competing against the private sector where they often have more flexibility to increase pay rates and salaries to meet demand.



59. The pay inflation implied in the above estimates are arguably pragmatic and understated. We are in an uncertain time around the impact of wider pay inflation in the economy and indeed general inflation itself which impacts on how we reward our workforce.
60. The current pay negotiations have significantly stalled with all 3 unions balloting for industrial action having rejected the 1.75% offer. The NHS unions, who include many of the local government unions, are proposing industrial action having rejected a 3% offer.
61. Local government will find itself in a highly competitive and challenging situation around pay, trying to keep pace with public sector counterparts, the wider economy and inflation itself.

Free School Meals

62. The survey indicated that Free School Meals is featuring in budget planning because of the significant financial impact of the necessary policy response during the Pandemic. The Welsh Government policy of paying for free school meals vouchers during school holidays created through Covid response has resulted in significant uptake, especially during the holidays and there is evidence that an expectation that this will be provided is now in position making it hard to remove.
63. There is a significant unfunded cost if councils must maintain the voucher scheme going forward. There is a case that this should be treated as a new burden and funded as clear additionality in the settlement.

Homelessness

64. A consistent theme from councils is the increase in numbers of those impacted of those facing homelessness. For one council this is a £2m cost pressure. Councils have worked hard to provide accommodation and support those who are homeless during the pandemic.
65. Councils have a statutory duty to help those who are sleeping rough, or at risk of finding themselves without accommodation and on the street. The response is often to provide emergency accommodation. Councils have also been acutely aware of the need for rapid action because Covid spreads easily especially as those without accommodation are forced to use accommodation or sleep on the streets making it difficult to keep to the government health advice for hygiene, self-isolation and social distancing.



Capital

66. The survey confirms the considerable capital commitments still being made by councils with a consequent impact on local regeneration and the post pandemic recovery phase. Total capital expenditure is estimated at £853m in 2022-23 with £671m in 2023-24 and £467m in 2024-24. Over the term of a three-year medium term financial planning horizon this amounts to nearly £2 billion of investment of which £521m is schools related and £747m is Housing.
67. Funding includes 21st Century schools' allocations but over the period councils are showing a sizeable commitment with £24m of capital financing costs being built into financial plans over the three years. The eventual level of expenditure could be higher, given the commitment to establish and address the cost differential of building schools to net zero or carbon positive standards (see Appendix A).
68. There are other implications for capital expenditure arising from the commitments set out in the Appendix. These include, for example, investment in low carbon heating and renewable energy sources, fleet electrification and flood management measures.
69. Some of these investments may be best tackled by Wales-wide programmes. They would ensure a co-ordinated approach and raise the possibility of developing the supply base within Wales. These may require specific grant support from Welsh Government, and acceptance by LAs of such hypothecation in light of the climate change emergency situation that has to be tackled by working together.
70. In addition, there is an increased likelihood of having to make repairs to infrastructure damaged by severe weather events. Whilst such events are difficult to predict and cost, it is clear these occurrences (e.g flood damage; coal tip remediation works) could increase. It is therefore prudent – or perhaps necessary - to plan ahead and make additional allowances for them in capital budgets.
71. Construction inflation is a concern for council capital projects. One industry body notes the adjustment to the 2021 forecast is their largest upward revision on record. Whilst 5.5% is now expected in 2021, some projects may experience inflation of up to 10.0%. Following these highs, inflation will then settle for a period before normalising to 4.5% in 2025.

Conclusion



72. Councils have been relatively resilient despite the prolonged period of real terms budget reductions. The last 19 months has seen councils meet the unprecedented challenges of dealing with the impact of COVID-19.
73. There is little doubt the substantial in year support from Welsh Government and effective partnership working meant services were maintained at a time of crisis. As councils move ever more deeply into the recovery phase it is important to indicate residual pandemic pressures remain and that a fair 2022-23 settlement will be needed to avoid deep cuts in key areas of local government.
74. Budget pressures in the forthcoming financial year will total over £324m which is 7% of Aggregate External Finance or just over 5% of net revenue expenditure. There is the possibility that pressures are exacerbated by the withdrawal of funding such as at the Integrated Care Fund that is currently supporting the core social care offer.
75. Finally, on social care, it is evident from the social care profession that the current demand across adults and children's services is having a profound impact on the whole system. Local authorities are finding it very difficult to manage the pressure in these services for the most vulnerable people in our communities. The additional funding available to Welsh Government from the anticipated the health and social care levy following the increase in National Insurance contributions provides a unique opportunity to address systemic issues in the social care delivery models in Wales through sustainable investment.

Cleared by: Councillor Anthony Hunt

For further information please contact:

Jon Rae
[REDACTED]



APPENDIX – LA DECARBONISATION COMMITMENTS

These commitments, agreed by Leaders, have been included in the draft ‘Public Sector’ chapter of the Net Zero Wales document being prepared for release to coincide with COP26 and Wales Climate Change week. (

LA Key commitments for 2021-2025

Local Government strategic commitments	
<p>Commitment # - Strong structures in place for strategic planning and communication and a two year programme of support through the WLGA funded by WG. Commitment # - All LAs have living decarbonisation action plans in place, which will be reviewed regularly with lessons and best practice shared through the WLGA support programme, the first review by end of 2021. Commitment # - from 2021 onwards emissions will be monitored annually, using baseline data. Annual reviews will report progress and drive improvements</p>	
<p>Buildings</p> <p>Commitment # - Develop and deliver a strategic plan for the local authority estate decarbonising existing (retained) buildings including retained council housing, moving to renewable energy sources for electricity and heating, and ensuring any new build is to net zero standards (in construction and operation)</p> <p>Commitment # - Ystadau Cymru as strategic lead for the public sector will work with LA estate managers to identify and shape what the estate will look like longer term (following recovery from the pandemic) ensuring decarbonisation is at the forefront of this agenda, and help drive the next three commitments:</p> <ul style="list-style-type: none"> • Develop a strategic plan for decarbonising buildings by the end of 2023 • All public buildings are supplied with low carbon heat by 2030 and generate their own electricity where feasible. • All new [new build and new acquisitions, e.g. hubs and lease arrangements] public sector buildings are built to net zero standard, including supply chain impacts as soon as practicable/dates to be confirmed as part of strategic plan. (net zero build and net zero operation) <p>Commitment # - Work with the 21st Century schools programme to establish and address cost differential and barriers to building net zero/carbon positive schools [note assuming a separate 21st C Schools programme contribution in the NZW – this could come out?]</p> <p>Commitment # - Plan ahead for a coordinated programme of boiler replacement in council-owned properties</p> <p>Commitment # - Work with colleges to develop a ‘pipeline’ of skilled workers, through apprenticeships and training, to support LA retrofit work.</p>	<p>Procurement</p> <p>Around 60% of a council’s carbon emissions are from procuring supplies and services. There are significant opportunities for councils and other public sector bodies to collaborate on specifications to minimise the carbon impact of goods and services procured (e.g. setting contractual expectations in respect of reusable packaging, delivery of goods by electric vehicles, elimination of single use plastics, waste recycling targets for each business)</p> <p>Commitment # - Develop a good understanding by end of 2022 of all procured goods and services and its emissions profile.</p> <p>Commitment # - Set out carbon reduction specifications in all new or reviewed contracts to accelerate the decarbonisation agenda.</p> <p>Commitment # - Focus on a number of prioritised scale/impact contracts and share the learning regarding decarbonisation across all LAs by end of 2022 to develop a robust decarbonisation reduction approach to be applied to all contracts by 2023.</p>
<p>Mobility and Transport</p> <p>Commitment # - Accelerate transformation towards a zero emission fleet. Building on LA fleet reviews completed in 2021, develop business plans through 2022 setting out how LAs will decarbonise their fleet, including:</p> <ul style="list-style-type: none"> • Accelerate the roll-out of EV charging infrastructure • All new cars and light goods vehicles being net zero/ultra-low emission by 2025. • Reduce the carbon footprint of buses, taxis and private hire vehicles to zero by 2030. <p>Commitment # - Grey Fleet review completed by end of 2022 to identify how to support staff and service delivery to reduce travel requirements where possible and transition to low/zero emission transport.</p> <p>Commitment # - Support remote working by staff where possible and appropriate, at home or in ‘hubs’, and encourage travel to work via active travel and public transport to reduce car journeys.</p>	<p>Land Use</p> <p>Commitment # - In collaboration with NRW / WLGA / WG map out LA land holdings by April 2022 to identify types of land and their sequestration potential to develop plans to maximise carbon benefits, renewable energy and to identify potential flood management measures</p> <p>Commitment # - Carbon sequestration seen by leaders as a valid core purpose for use of public land and opportunities actively pursued by LAs on their own land, including habitat restoration, tree planting etc as appropriate</p> <p>Commitment # Develop a specific five-year training and apprenticeship programme on peatland restoration to support the supply chain (which could tie into proposals for a National Nature Service).</p>

**ADSS Cymru Evidence to the Finance Committee's Inquiry into
Welsh Government's Draft Budget 2022-23
January 2022**



ADSS Cymru

Yn arwain Gwasanaethau
Cymdeithasol yng Nghymru
Leading Social Services in Wales

General Comment

The Association of Directors of Social Services (ADSS) Cymru is the professional and strategic leadership organisation for social services in Wales and is composed of statutory directors of social services, the heads of service and tier three managers who support them in delivering statutory responsibilities: a group which consists of over 300 social services leaders across the 22 Local Authorities in Wales.

The role of ADSS Cymru is to represent the collective, authoritative voice of senior social care leaders who support vulnerable adults and children, their families, and communities, on a range of national and regional issues in relation to social care policy, practice, and resourcing. It is the only national body that articulates the view of those professionals who lead our social care services.

As a member-led organisation, ADSS Cymru is committed to using the wealth of its members' experience and expertise. We work in partnership with a wide range of partners and stakeholders to influence the important strategic decisions around the development of health, social care, and public service delivery. Ultimately our aim is to benefit the people our services support and the people who work within those services.

We welcome this opportunity to respond to the invitation extended by the Senedd's Finance Committee regarding its inquiry to scrutinise the Welsh Government's Draft Budget for 2022-23 and its potential impact on social care services in Wales.

Policy Context

The impact of the pandemic has inevitably affected local priorities and council finances. However, the Hardship Fund coupled with sound local financial management has assisted the position. Even so, demand led services in the social care sector have been particularly badly affected and real concern about service continuity and the on-going impact on finances will continue indefinitely.

It is widely accepted that key areas of social service functions are facing challenges in a system that is facing unprecedented levels of complexity and demand. This, combined with fundamental workforce shortages, has exposed an already fragile situation. The reasons for this include:

- Pent up demand suppressed during the COVID-19 pandemic and periods of Lockdown
- Increased complexity and frailty in older people from reduced prevention, medical care, increased waiting lists and a greater level of community isolation
- A vicious cycle of delay and deconditioning/decompensation in hospital because of delays and shortages in key healthcare roles to ensure timely discharge
- Exhaustion across health and social care workforces with more frequent early retirements and people leaving the sector to pursue other careers
- Increased wages and competition from sectors such as retail and hospitality
- The impact of immigration controls across sectors post Brexit
- A growing mental health crisis in young people and in family instability post pandemic
- Difficulty in recruiting and retaining social workers in sufficient numbers across the sector, particularly in frontline children services.

Whilst not an exhaustive list, these pressures have led to a crisis of delivery in health and social care. It is our view that the current pressures are now more profound and wide ranging than at any time during the management of this COVID-19 pandemic. This situation is starting to limit our ability to support some of our most vulnerable people in the community. This is equally attributable to both Adult and Children's Services.

The social services safety net that all children and adults living in Wales assumed was there when they needed it, is in danger of collapsing without immediate action. Failure to address these issues will inevitably cost lives of the most vulnerable in society and further exacerbate the critical position acute hospitals find themselves in.

We believe that Local Government Social Care must have a strong revenue and capital settlement, not just this next financial year but at least the next 3 financial years to allow it the fiscal autonomy and flexibility to respond to local needs and priorities. Our members are going to be managing the impact of the pandemic for at least the next 3 financial years and they require the resources to do that properly based on permanent uplifts rather than bureaucratic short-term grants.

We have set out the medium to long-term funding challenges in our ***strategic priorities and positions paper*** (Annex A). Essentially, we require a sustainable, long-term settlement for Local Authorities to meet the needs of the local population that balances the growing pressures in all parts of the social care service. Ultimately, that investment focus will be around prevention and early intervention and will address the fundamental route of the challenges we face, for example, the causes of why children and families require social services input.

While there has been considerable media attention recently on the plans the UK Government have presented to the UK Parliament in relation to the creation of a UK-wide health and social care levy, the focus has largely been on the England system, with very little in the way of impact on devolved settings. The devolved nature of social care in Wales, means it will be a matter for the Welsh Government to implement the proposed changes.

Announcement of additional funding will potentially benefit local government, but only if its role is acknowledged and an appropriate amount is passported to councils. It is estimated that over the next three years £36 billion will be raised, from which the NHS will receive around £25 billion, social care £5.4 billion and approximately £6 billion will go to devolved administrations.

It has been stated that after three years the increased sums for the NHS will be redirected to social care because the Covid backlog will have been dealt with. Clearly this will depend on the willingness to transfer this funding from the NHS to the care system at a time when more demand for health services is likely.

We need to understand what the full consequential spend for Wales would be, what additional Welsh legislation is required and what the Welsh Government intends to do with the money to support the sustainability of the whole social care system (both children's and adults) over the medium to long-term.

Comments on the Draft Budget and areas of concern

The Welsh Government have taken note of some of the pressures that we have set out in discussions with them. Whilst we welcome the initial allocation and the headline percentage increase, we must reserve some caution because as a sector, we cannot in one year address all the challenges we face. Therefore, it is helpful in that context to have some forward indicative allocation of the funding to follow to provide some confidence to progress some initiatives and service developments that are required. At the present time, we only have broad budgetary envelopes for Main Expenditure Groups, which will be revisited in subsequent budget rounds. While certain budgetary assumptions can be made, greater clarity would be welcome.

As we digest the detail of the Draft Budget 2022-23, we are also cautious about certain budgetary elements that will be inherited, for example certain grants will be incorporated into the RSG but others will be hypothecated. There is also likely to be a hidden inflationary cost in the independent commissioned social care sector, related in part to COVID but also increased wage costs and energy costs, which will feed through into fee levels and significantly erode the uplift gains provided.

It is also noticeable that capital funding may initially be reduced but could increase in future. This is significant because if the Welsh Government is looking to rebalance the care sector in a bid to make it more sustainable, Local Authorities must be given the confidence to actively position themselves as trusted and confident providers of quality care and support services both now and in the future. This will require additional capital investment to support a rebalancing of public provided service models that enable stability for all parts of the social care sector.

For example, in Children's Services, there has been a significant shift in the provision and ownership of residential care placements, with Local Authorities less likely to own and operate children's homes. It is clear the current market model is not delivering sufficiency. There is more that can be done to re-balance and re-shape the care placement market, so that there is a mixed economy of service provision and placements, which actually meet the real and present needs of children who are currently looked after. This will require investment to allow Local Authorities to purchase, enhance or remodel assets in a phased way and the Welsh Government will need to think through the resource mechanisms to facilitate this.

In Adult Services, we know that there will be a requirement to provide additional support to informal, unpaid carers who would have experienced significant pressure during the various lockdowns. We also know there needs to be a re-evaluation about the viability of day care services provided in the community. These services along with respite care relieve pressure on families to allow them to continue look after their family members in the best way possible. However, we must embark on this change in a thoughtful and co-produced manner. Developing the right kind of local service and getting the right type of respite beds, including high-end residential and for adults developing dementia, is going to be crucial. Therefore, Welsh Government must work with the sector to understand the capital and revenue cost implications of increasing capacity and implementing new care models.

Workforce:

The workforce is the priority for ADSS Cymru at the moment. While some sectors have moved to a recovery model, social care is still operating at a response level and the pandemic continues to impact and affect the delivery of some services in different ways.

Workforce capacity and the significant challenges in recruitment and retention (for both in-house and commissioned service) are issues that cut across all of the issues highlighted, and are the main reasons for the lack of capacity to provide packages of care needed to undertake assessments or provide reablement support; with the loss of existing staff and challenges in recruitment as significant concerns. This lack of capacity has seen a resultant

increase in agency related costs, which has added further financial pressure to local authority budgets.

Despite the impact, the sector has maintained a constant recruitment programme across Wales which has seen some success, but the market remains very volatile, particularly in relation to domiciliary care/care at home workforce. We of course welcome the support Welsh Government have given to fund further national media drives around the 'We Care Wales' campaign, which has been matched by Local Authorities within their localities. However, Local Authorities and independent providers are both struggling to retain and recruit carers. This has always been a challenge but over recent months it has become significantly more difficult.

However, addressing the current pressures needs a multi-pronged approach. ADSS Cymru, is working with the Welsh Government, Social Care Wales, the NHS and the WLGA to examine workforce action planning by examining a range of measures. However, these are likely to include additional financial commitments that will need to be funded. It is evidenced that there is a need to attract people to work in social care to deal with the current and future demand, but this will take time and will not immediately resolve acute pressures in the system. The pandemic has exposed the fragility of care markets, and this has a clear and direct link to the financial pressures faced by all Local Authorities.

We believe that there is a need for a clear and sustainable offer to stabilise the domiciliary care and care home workforce and to provide proper and fair remuneration for the workforce. ADSS Cymru is fully supportive of the Welsh Government's intention to increase pay for social care workers to the Real Living Wage (RLW) and we have been working with them to provide workforce data and intelligence. However, it is becoming increasingly clear that our ambition must go beyond this if we really want to be able to offer 'fair pay' for those who are undertaking some of the most important roles in society. There is also a need to take immediate action – the workforce challenges are already with us, and so there is a need to do all we can to increase social care workers pay now, there is simply no room to delay.

As sector leaders, we continue to call for an urgent focus on parity of esteem with health in relation to pay, terms and conditions and career progression and this requires additional investment now and over the next 3 years. We believe we need a national pay and grading system for care workers, which will ensure that conditions of pay, holiday entitlement, job security and opportunities for career development and growth are as equally ambitious as the healthcare workforce.

This is even more acutely felt in relation to professional social workers, as we know that there is a shortage of experienced qualified social workers across the sector but within

children's services in particular. Rebalancing the workforce so that capacity mirrors demand will take time.

We welcome the work that Social Care Wales are undertaking to increase student training commissions, enhance bursaries and increase access to them. It is also positive to note the creation of post-graduate professional development pathways linked to improving pay and career progression. However, this work needs to be expedited, as sufficient supply at all levels of practice, including the leadership capacity, is a very present barrier.

We are concerned about the competition for such scarce social worker resource between public bodies – not just between Local Authorities but between Local Authorities and Health Boards, Care Inspectorate Wales, CAF/CASS Cymru and the offices of Wales' Police and Crime Commissioners. We feel it would be beneficial for the Welsh Government to co-produce a national pay and grading system for social workers to dampen competitive drivers. The fact there are national bandings for teachers, youth workers and health professionals mean that movement based solely on pay incentivisation is significantly reduced. We think this is a fundamental issue that must be addressed within the next 3 years.

We also need to see the restoration of workforce grant funding and inflationary uplifts to the Social Care Workforce Development Programme (SCWDP), all of which ensures we promote the effective development of the current and future social care workforce to enhance skills and capacity.

At the present time we are trying to compete with other sectors including health, retail and hospitality and we are falling behind the competition in the employment market. We need additional investment in the workforce because within current financial arrangements, Local Government cannot fund the step change required.

The Model of Domiciliary care:

The principal model of domiciliary care as support for older and disabled people in the community is fundamentally flawed. The current model was developed to maximise 'efficiency' and reduce costs. In this model, the task is prescribed with routes for frontline workers set by algorithm to maximise the number of runs and visits a single person can do in a shift. It is widely accepted that the UK moved from a predominantly public sector provision 30 years ago to a point where most services were outsourced with costs saved through reduced terms and conditions of staff. Tenders have been difficult to win without the use of zero or low hour contracts for staff. Providers report that giving guaranteed hour contracts of 28-37 hours a week would make the largest single difference in retention. However, many contracts, as they stand, make this financially impossible for providers and unaffordable for commissioners.

Even when it is in the public sector, the pressure of visits and routes are increasingly unsustainable. People cared for by frontline workers are getting progressively frailer and the needs of individuals on each visit are becoming increasingly unpredictable.

Any government intent to rebalance the mix of public and private provision is currently limited by the disparity in cost and terms and conditions between the sectors. Alongside this, reduced terms and conditions, expectations of registration, regulation of tasks and even the cost to stay on the register are all presenting issues that have fallen increasingly out of step with reward or status. Social care workers are now being asked to meet a health professionals standard of practice and registration, without any of the status or reward afforded by their public sector health colleagues.

Whilst some good attempts have been made through commissioning models and additional spend to reform this, tangible change has only been realised on a very small part of the sector. ADSS Cymru is certain that fundamental change is needed in how we deliver domiciliary care. The Change required:

- a) Contracts that give staff guaranteed hours would cost approximately 20%ⁱ more to deliver. This allows staff to be paid regardless of cancelled visits or changes to runs. It affords them the right to a regular wage and the benefits such as mortgage eligibility that most people accept as standard when they work.
- b) Domiciliary care workers are contracted to deliver high levels of productivity within their work. However, the autonomy to fulfil their role is far more limited than any other health or social care worker. This makes the roles they do unsustainable, and they are voting with their feet. Paid time for training, autonomy of task so they can flex visits to meet real personalised need, allowing time for paid supervision, training and development, and reimbursement of rising travel costs, would afford them what every other community health and social care worker has. Our estimate is that to give them 5.5 hours paid non-contact time would necessitate an increase in costs of 15%. This would also enable a move away from split shift work patterns.

Early calculations indicate that delivering this model will cost in the region of £110 million across Wales. However, we will need to undertake further analysis of workforce data with Social Care Wales and other partners to be sure that this figure will meet future demand. This could be delivered incrementally through mandatory commissioning guidance and subsequently renewed contracts allowing the social care workforce to grow by the required 30+% over a period of two years. In conjunction with minimum wages, we are of the view that this is possible to deliver.

Without these changes the pressure on communities and hospitals and associated costs will continue to grow and cost society and the NHS more.

Children's Services:

As need increases in communities, we are seeing corresponding increases in the number of children looked after and children at risk. It is crucial that current growth does not simply meet care and statutory intervention costs. Preventative services must develop and expand to meet need at the earliest possible point. Current statutory service growth has been between 12 and 20%.ⁱⁱ However, meeting this growth simply balances the budgets.

We believe that a significant percentage increase in preventative services for vulnerable children should be made available. For example, for every £1 spent to meet immediate statutory demand an additional £2 should be spent on preventative services to reverse the current position.

Early calculations of this figure is estimated at approximately £40-50 million per annum. This investment could potentially be tapered down in a realistic timeframe as the prevention investment is realised with reduced demand in other parts of the system. This investment will assist us in supporting the removal of profit in the care sector as part of safe Children Looked After reduction strategies.

In terms of children's placements, there is growing concern that placement availability is being further constrained from a position which was already considered to be a crisis. Action must be taken now to avoid a worsening situation. In our view, the principle underpinning the objective of removing profit from the care of children who are looked after is a positive one and it has our resounding commitment.

However, we need a clear transitional pathway to achieving that outcome. We are mindful of the current market situation, the well-known placement crisis and workforce challenges. The steps to removing profit must not de-stabilise either current placements or the work that is underway in developing suitable local supply in the near future. A detailed and informed approach, attuned timing, and compatible messaging is essential to ensure the competent management of the journey to achieving this objective. However, as we have referenced above, the need for additional investment, particularly capital investment, is crucial if we want Local Authorities and social enterprises to be a part of this market.

Conclusion

While we of course welcome the increases earmarked by the Welsh Government in the Draft Budget for 2022-23, we are conscious that this is not going to put social care on a longer-term path to stability and sustainability. It is going to require significant additional investment over the coming years. As leaders in the sector, we continue to work with partners to help develop a medium to long-term plan that will ensure we have a sustainable

social care system in the future that delivers high-quality care to meet the needs of all of our citizens that require support.

References

ⁱ This figure is based on modelling in a single region and then extrapolated across Wales.

ⁱⁱ This is evidence taken from a Social Care Director's survey.



ADSS Cymru

Yn arwain Gwasanaethau
Cymdeithasol yng Nghymru

Leading Social Services in Wales

ASSOCIATION OF DIRECTORS OF SOCIAL SERVICES (ADSS) CYMRU

National Strategic Priorities (2021-2024) &

Position Statements for Children's and Adults Social Services in Wales

September 2021

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Association of Directors of Social Services (ADSS) Cymru

The Association of Directors of Social Services (ADSS) Cymru is the professional and strategic leadership organisation for social services in Wales and is composed of statutory directors of social services, the heads of service and tier three managers who support them in delivering statutory responsibilities: a group of approximately 300 social services leaders across the 22 local authorities in Wales.

The role of ADSS Cymru is to represent the collective, authoritative voice of directors of social services, heads of adult and children’s services, together with senior lead professionals who support vulnerable adults and children, their families, and communities, on a range of national and regional issues of social care policy, practice, and resourcing. It is the only national body that can articulate the view of those professionals who lead our social care services.

As a member-led organisation, ADSS Cymru is committed to using the wealth of its members' experience and expertise, working in partnership with other agencies, to influence the important strategic decisions around the development of health, social care, and public service delivery, to the benefit of the people it supports and the people who work within those services.

Foreword by the President of ADSS Cymru

This last 18 months have been the most significantly challenging in our lifetime. We have not witnessed a public health crisis of this scale and ferocity in over 100 years. The COVID-19 pandemic has impacted every aspect of life, and the journey to rebuild in its aftermath will shape public policy decisions for years to come.

While we have recognised for some time the challenges, we all face in delivering high quality, innovative and responsive services to those who need care and support, whatever their age and wherever they live in Wales, we now face an even greater range of challenges. These challenges will impact on peoples' lives and the ability of health and social care services to deliver for many years.

The consequences of the global health pandemic and the potential state of our public finances mean that we will need to renew, innovate, and evolve the way we work, the way we engage with citizens and most crucially, the way we deliver services.

While it is important that we continue to focus on the objective to deliver seamless, integrated services with the NHS in a fair and equitable way, the pressures of operating in a post-pandemic environment with an impacted workforce and uncertain financial resources means that we need to prioritise our work and our collective effort.

The national voice of professional leadership for social work needs to be raised now more than ever. As president of ADSS Cymru, I want to ensure that the views of our members, which are grounded in their profession as practitioners delivering key services to people face-to-face, contribute to the national thinking required to find the practical solutions to the current challenges we face.

This suite of national strategic priorities and series of position statements – one for children's services and one for adults' services – provide an insight and context regarding what our profession has and continues to endure on the frontline of the public sector's response to the COVID-19 pandemic but also what we need to do as a matter of urgency to rebuild our communities, tackling inequality and recovery of our workforce.



Jonathan Griffiths

President of ADSS Cymru 2021-2022

Our strategic priorities for 2021-2024

As the national professional leadership organisation for social services in Wales, our vision is to ensure that children and adults in need, experience well-being and achieve what matters to them by accessing the right care and support at the right time within their communities, and that we ensure vulnerable children and adults are safeguarded.

We believe in working in partnership with the wider social care and health sector to improve services, whilst maintaining the local autonomy, flexibility of approach and diversity of choice that supports people to have genuine voice and control regarding the services they want and how they want them delivered. We recognise in our priorities the need to continue to rebalance the sector to ensure delivery of choice for children and adults.

Our members know the people they serve more comprehensively than any other public service provider; and understand the intrinsic importance of social care across all ages and in every part of their community. We are keenly aware of the challenges to delivering effective, high quality and sustainable social care services in the years ahead. While these challenges have been amplified by the impact of the Covid-19 pandemic, a systemic transformation was always required to not only meet changing public aspirations regarding the future of care services but also to meet long-term governmental commitments to climate change. Therefore, we recognise that, more than ever, we must develop and adopt innovative and agile approaches to the commissioning and delivery of care and support services. These new models and approaches must be based on high-quality research and a robust evidence-base to allow us to move beyond just sector recovery but to truly respond to the changing needs of individuals, families, and communities right across Wales, now, and in the future.

We believe ADSS Cymru's collective voice is critical to ensuring these needs continue to be at the heart of the seamless social care and health services envisioned by *A Healthier Wales* as well as ensuring that all agencies are held to account for their duties to provide care and support and that opportunities to improve outcomes can be fully realised.

Through our collective experience as professional leaders and practitioners, coupled with the evidence gathered by our organisation and our partners, we have identified four priority areas that we will focus on over the next three years, and work to promote and embody the values that underpin those priorities at a local, regional, and national level.

Recognising the landscape of social care is ever-changing, we have identified the broad activities that we will undertake during the next 12 months. We will develop specific action plans around those activities and then review our position and consider future activities in line with our priorities based on the emerging recovery landscape.

Priority 1: The social care workforce is properly supported, resourced, and valued with the skills and resilience to deliver the high-quality, responsive services that people need.

What does this mean?

- The social care workforce deserves parity of esteem in line with colleagues working in the NHS, by working with unions and other stakeholders to collectively bargain for better pay, terms and conditions.
- National solutions that recognise and reward the value and professionalism of our social care workforce, whilst minimising the challenges of competition should be explored.
- The future role of the social worker profession must be developed, by contributing to the design of innovative and high-quality leadership and career pathways that support succession planning.
- We must ensure that our workforce and systems are equipped to deliver and record care and support services in people's language of need and choice.
- Partner organisations across health and social care must work together to deliver the vision of the integrated workforce strategy for health and social care.
- We have accountability for ensuring that the key action points for local authorities in delivering the outcomes of the Race Equality Action Plan for social care are met, and that we take a lead role in realising the vision for a Wales that celebrates diverse and eliminates inequality.

Our actions for 2021-22 will be...

- **We will work with partner organisations to deliver the vision of the integrated workforce strategy for health and social care in Wales.**
- **We will continue to seek parity of esteem for the social care workforce in line with colleagues working in the NHS by working with the Chief Social Care Officer for Wales, unions, and other stakeholders to collectively bargain for better pay, terms and conditions.**

Priority 2: We want to ensure that people and communities are at the heart of the remodeling of social care and health services.

What does this mean?

- Engagement with individuals and local communities is crucial to understanding their needs and to ensure social care and health services reflect the outcomes that people and communities want.
- Carers in Wales must be supported to ensure their financial and well-being needs, and those of the people whom they care for, are satisfactorily met.
- Families must be supported to stay together, by focusing on interventions that are strengths-based and founded on evidence of what works in our communities.
- Collaboration with public health and primary care services in our communities is fundamental to safeguarding children and young people's mental health; with access to specialist, high quality well-being services being given at the right time.
- The autonomy of local commissioners to make decisions based on the needs of their communities must be upheld, and we must ensure that regional and national partnerships support this work rather than hinder progress.
- There must be consistency of approach across Wales in the application of Continuing Health Care and Continuing Care for Children and Young People, which fully meets the needs of individuals.
- The elective home education sector must be properly regulated to secure and safeguard the rights of home educated children in Wales.

Our actions for 2021-22 will be...

- **We will challenge the inconsistency of approach across Wales in the application of Continuing Health Care and Continuing Care for Children and Young People; ensuring that the needs of individuals, not organisations are paramount.**
- **We will continue to press Welsh Government to pass appropriate legislation to ensure the elective home education sector is properly regulated to secure and safeguard the rights of home educated children in Wales.**
- **To support one another to lead, and continuously improve, relationship- based, outcome focused models of social work. We aspire to deliver services that build on collective strengths and safely prevents family breakdown.**

Priority 3: We want to ensure that people have real choice and control in how their care is delivered.

What does this mean?

- Our workforce must have the necessary skills, time and experience to ensure all care and support plans are person centred.
- Welsh language provision is a fundamental part of the service offer, and the rights of people to receive care and support in the language of need must be championed.
- Black, Asian and Minority Ethnic people should feel confident in accessing and using social services and social care services whenever they are needed; and be provided with the highest quality support that is accessible, dignified, culturally appropriate and does not leave people disadvantaged.
- Digital innovation that has supported the delivery of services throughout the Covid-19 pandemic should continue to be progressed where it is appropriate. It should be beneficial to people who receive care and support, including unpaid carers and ensures that it fully incorporates Welsh language provision.
- People of all ages are aware of, and have access to, appropriate Advocacy services as and when they are required.

Our actions for 2021-22 will be...

- **We will continue to progress digital development that fully incorporates the Welsh language; that enables greater independence for people and helps maintain their connection to networks that provide support; and improves engagement across agencies that deliver social care and health services.**
- **We will deliver work through our Delivering Transformation Programme to explore how Black, Asian and Minority Ethnic people engage with social care services.**
- **We will lead the development of services that mean young peoples' needs can be met as close to home as possible.**

Priority 4: Sustainability is central to the rebalancing of care and support, with local authorities having confidence that services can meet the needs of people now and in the future.

What does this mean?

- Local authorities must be actively positioned as trusted and confident providers of quality care and support services, seeking Welsh Government support for additional capital investment to support a rebalancing of public provided service models that enable stability.
- We must continue to explore innovative models of care and support that draw on the strengths of all parts of the social care and health sector to deliver high quality services.
- Arrangements for commissioning of services for children and adults must consider differing and complex needs of individuals and families, prioritising outcomes and quality.
- Wider and more honest conversations should take place on market reform, transparency of cost, as well as the improvement of care quality, so that the right citizen outcomes are achieved for the right cost to the public purse.

Our actions for 2021-22 will be...

- **We will assist with brokering greater transparency in conversations on market reform and the issue of paying for care, including a better understanding of cost, as well as the improvement of care quality which will have a positive impact on the people we support.**
- **We will actively position local authorities as trusted and confident providers of quality care and support services and seek Welsh Government support for additional capital and revenue investment to support a rebalancing of public provided service models that enable stability.**
- **To proactively contribute to opportunities where we can influence policy, practice and funding, to optimise our success in leading change.**
- **To continue to maximise the benefit of our collaborative working models for adoption, fostering and commissioning.**
- **We will work collaboratively with the Welsh Government to find a long-term and sustainable funding solution to pay for future social care costs.**

All Wales Heads of Children's Services (AWHOCS) Position Statement

July 2021

Children living in Wales deserve excellent services. They should expect services that:

- Are rooted in children's rights and knows the value of hearing their voices
- Intervenes early before problems get worse
- Build on family strengths and are also responsive to parents' needs
- Are outcome focused
- Improved their well-being and reduces risk
- Are attuned to unique personal circumstances and setting
- Are available in Welsh
- Are integrated with other services, reducing the number of professionals children need to get to know

With the right political and strategic support, coupled with stable and appropriate funding, this is achievable.

As the complexity and circumstances of the children, families, and communities we support continues to change, our desire and drive to innovate our services across Wales has never been more important.

Innovation in our work is key, and is well evidenced across Wales:

- Celebrating the achievements of our young people who are looked after and involving them in our work
- Recognising the immense contribution of carers including young carers, foster carers and adopters, and providing them with specialist support
- Through prevention and early intervention services, relentlessly looking for ways to provide better and earlier help
- Providing holistic support for disabled children and their families
- Improving multi-agency responses to children who are at risk
- Providing leadership in public law developments, and the evidence-based intensive interventions that support families, avoiding the looked-after and legal system, wherever it is safe and suitable to the needs of children
- Our National Adoption Service which is improving services through a unique collaborative approach and co-production
- The work of the National Fostering Framework, which has led to Maethu Cymru/Foster Wales
- Improvements in commissioning in our collaborative work with The Children's Commissioning Consortium Cymru (4Cs)
- Co-production with families, for example, via family group meetings and parent advocacy
- Implementation of trauma-informed approaches across services, but especially in our provision for young people known to youth offending services.

In all these areas, we remain committed to providing high quality support with partners from the statutory, voluntary, and independent sectors.

Responding to the pandemic

Children's services across Wales met the challenge of the COVID-19 pandemic by continuing to provide services to vulnerable families with creativity and determination; driven by a focus upon public duty and keeping children safe. Following risk assessment and despite the workforce implications, many staff have continued face-to-face work in the community.

As restrictions ease and eventually cease, we anticipate changing complexity and increasing demand for services as the aftermath of the pandemic takes its toll. We are already seeing the associated increases in poverty, domestic abuse, unemployment, isolation, family breakdown and homelessness, linked to the pandemic. These issues will continue to have an impact upon people's mental health and well-being, to the extent that more parents and children will need services across the spectrum of need, delivered by a resilient and robust workforce.

We are yet to fully understand the hidden impact for children and their families, but we do know that the unprecedented challenge has left the workforce exhausted. Therefore, recovery planning for children's services will have to be nuanced, multifaceted and locally directed across Wales, as the various issues and challenges emerge.

Looking ahead, children and young people must be placed at the heart of local and national government's plans to rebuild communities and create a better future. We must close the policy gaps between social care, health, education and tackling poverty and inequality. Fragmented services that are not people focused will mean more families will mean increased engagement with social care, health services, welfare, and benefits services and, all too often, the criminal justice system too.

Prevention and Family Support

As lead professionals in children's services in Wales, we understand why working on the underlying causes that prevent children from entering the care system needs to be a national priority for all public services.

Going forward, with the right investment our members will continue their already well-evidenced drive to improve interventions and services that support families and prevent family breakdown. We know that well targeted, evidenced and strength based therapeutic interventions that are centred around trusted relationships work.

We will maintain our commitment to working with Welsh Government and build on our progress in continuously improving family support services. All stakeholders need to recognise that it is not just a challenge for social care or local government to solve in isolation. It is a broader multi-dimensional issue that is affected by so many factors, such as mental health, housing, education, employment, crime, poverty, policy and law. We are yet to see the level of drive and commitment across the public services that reflect the need for a consistent joined up approach. Therefore, everyone must step up and fully play their part and take responsibility to ensure the well-being of children and families that need our support.

Heads of Children's Services in Wales have contributed significantly to the Public Law Working Group and will implement the Public Law Reforms that will see even greater emphasis on support that aims to prevent the necessity for care proceedings. We anticipate that this work will result in increased use of s.76, Special Guardianship orders and Supervision Orders that support our work aimed at facilitating family led solutions.

Chief in this, is making sure that parents can access the services including mental health services they need at the right time.

Safeguarding

Maintaining robust safeguarding arrangements has been our members' primary and central duty during the pandemic, and this will not change. It is also vitally important that Wales has a safeguarding system that is founded upon family support so that co-produced solutions can be designed and planned with young people and their families at the very centre.

Safeguarding and supporting the well-being of children and families is everybody's business, and it requires a multi-agency and community response. In the year ahead, Safeguarding Board Member Agencies will re-design their multi-agency safeguarding response to the increasing number of young people who are exposed to harm by influences outside the home, such as criminal exploitation.

Responding to the needs and challenges of adolescents is one of society's more complex issues and we can conclude that the current looked after system does not always deliver best outcomes. We need to better understand what works for children in these circumstances.

Children in care

The most recent Welsh Government data (as of 31 March 2020) shows that there are 16,580 children who receive care and support from children's services across our 22 local authorities.^{[11](#)}

Of those children being supported, 7,180 are looked after. Of those children, 17% live with their families or with other family members through kinship care arrangements, 70% live with foster carers, 8% live in residential care, 3% of children are placed for adoption and 2% of older children live independently with support.

We are immensely proud of our children who are looked after and all their inspirational carers who have made an even greater emotional commitment during the pandemic.

At present, Wales faces a crisis in the shortage of available and suitable placements for young people. The consequences present an impending perfect storm where authorities may find themselves unable to safeguard a child in the foreseeable future. The impact of this for children and their families is considerable.

This is despite the concerted efforts by local authorities to increase the supply of suitable placements. Alongside partners and stakeholders, we need to continue to overcome barriers involved in the provision of sufficient, suitable, stable, and resilient local foster homes, children's homes and supported accommodation. Alongside this, we need to continue to recruit adopters who can meet the needs of children with an adoption plan.

There has been a significant shift in the provision and ownership of residential care placements, with local authorities less likely to own and operate children's homes. It is clear the current market model is not delivering sufficiency. There is more that can be done to re-balance and re-shape the care placement market, so that there is a mixed economy of service provision and placements, which actually meet the real and present needs of children in care today.

There will be a requirement for investment to allow local authorities to purchase, enhance or remodel assets in a phased way and the Welsh Government will need to think through the resource mechanisms to facilitate this. In addition to capital investment, we must be mindful that these provisions cannot thrive without skilled staff teams and wrap-around specialist emotional well-being and mental health services that traumatised children need. Revenue investment is therefore equally critical if we are to make this happen.

The launch of Maethu Cymru/Foster Wales demonstrates the culmination of collaborative working across Wales in respect of fostering services. This will support local authority fostering services to recruit and retain foster carers and realise the collective ambition of placing more fostered children in local authority placements within their home area. Maethu Cymru/Foster Wales will raise the profile of local authority fostering in Wales, increasing the number of foster carers and families available to the growing number of children who need them, and provide a more consistent and quality service to foster children and families alike. Welsh Government are supporting this work; their ongoing commitment, alongside that of our services across Wales, is needed to achieve the ambitious change this represents.

Given the disproportionate impact of the pandemic, there now needs to be an even greater focus on the strategic ambition and support given to children's mental health. The Nyth/Nest Framework^[iii] and Whole School Approach^[iiiii] initiatives are greatly welcomed. Sadly, and despite the very clear recommendations in 'No Wrong Door'^[iv], there remain too many examples of children with complex needs being unable to access the specialist integrated services, accommodation, treatment and support that they need.

These young people are facing an uncertain post pandemic world, and we will need to harness the full potential of our creativity and corporate parenting capabilities if we are to minimise the impact of this, through the provision of well-designed support services. This includes continuing the focus on developing robust adoption support for those children who cannot return to their birth families or communities.

We believe that we should be ambitious in tackling each of these issues and welcome the support and engagement of other key stakeholders in this work.

Workforce

Workforce well-being is a critical factor for Welsh Government and sector leaders to address as a matter of urgency. As the pandemic eases, we are moving very quickly to take stock of staff welfare and the balance of home-to-office working. We need to ensure that the workforce have the right systems and support mechanisms in place to thrive and that there are attractive settings to retain and nurture a healthy and effective workforce.

Virtual engagement, and the wider use of digital technology in professional practice accelerated exponentially during the pandemic. As we move forward, these relatively new approaches, which compliment face to face practice, are now being robustly researched and tested. This will ensure the long-term feasibility of virtual communication and technology within social work practice across Wales.

We know that there is a shortage of experienced qualified social workers within children's services.^[v] Rebalancing the workforce so that capacity mirrors demand will take time.

We welcome the work that Social Care Wales are undertaking to increase student training commissions, enhance bursaries and increase access to them. It is also positive to note the creation of post-graduate professional development pathways linked to improving pay and career progression. However, this work

needs to be expedited, as sufficient supply at all levels of practice, including the leadership capacity, is a very present barrier.

Resources

We cannot get away from the fact that the disruption to children's education, social and family lives has meant that our young people have paid a disproportionate price for keeping our adult population safe. It is vital that sufficient sustainable resources are in place to ensure capacity can meet demand.

It is of critical importance that Welsh Government continues to support local authorities in their work as they seek to intervene with families earlier and prevent problems from escalating. A number of the services that vulnerable families depend upon are funded by short-term and time-limited funding, accompanied by business processes that increase authorities' workload. Government must ensure that local authorities are able to invest in preventative, universal and early help services, so children and families receive practical, emotional, educational, and mental health support as soon as they need it.

As the whole social care system looks to recover after the pandemic, there is a real need to have an open, honest, and transparent discussion between partners in the system about the resources for care. Costs are increasing, particularly placement fees, in a context of reduced local government funding and an overstretched workforce.

Conclusion

Heads of Children's Services in Wales, supported by the Association of Directors of Social Services (ADSS) Cymru has a clear vision in pursuit of excellent services for children. What happens next on the pathway to translating this into consistent national delivery, is in the hands of leaders across the professional and political network in Wales.

We cannot be complacent, neither can we overlook innovation and change. There is a considerable amount of learning that has occurred over the last 16 months that must be synthesised and evaluated. We must look to safeguard the elements that worked well, whilst being open about the challenges in the system and how best to address them collectively.

During the next 2 years Heads of Children's Services, supported by ADSS Cymru will focus their combined leadership efforts on the following:

- Supporting one another to lead, and continuously improve, relationship- based, outcome focused models of social work. We aspire to deliver services that build on collective strengths and safely prevents family breakdown
- Lead the development of services that mean young peoples' care and support needs can be met close to home
- Continuing to maximise the benefit of our collaborative working models for adoption, fostering and commissioning
- Proactively contribute to opportunities where we can influence policy, practice and funding, to optimise our success in leading change.

¹¹ StatsWales, *Children receiving care and support by local authority and looked after status*, 24 March 2021.

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^[v] British Association of Social Workers (BASW) Cymru, *Social Work Manifesto: Senedd Elections 2021*, November 2020. https://www.basw.co.uk/system/files/resources/181170_basw_cymru_social_work_manifesto.pdf

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All Wales Adults' Services Heads (AWASH) Position Statement

July 2021

The pandemic has been an unprecedented challenge for all of Welsh society but none more so than the adult social care sector. Statutory service commissioners and their provider partners have been pushed to their very limits in trying to respond to and deliver services in, what has been an extraordinary public health emergency.

Our members have been at the forefront of our nation's emergency response. Yet, despite the unrelenting pressures, the whole adult care workforce has stepped up to meet the challenge in ways that should be recognised and celebrated.

While we continue to meet the exceptional challenge of the COVID-19 pandemic in partnership with Welsh Government and other statutory agencies, partners and third sector organisations, it is important to reflect on and evaluate the tangible opportunities that the pandemic has caused. Responding at pace to the constantly evolving circumstances initiated by the virus has enabled us to deliver new and innovative models of citizen-centred care. It has also improved partnership engagement and integrated working by removing systemic blockages and organisational barriers. The sector has demonstrated that it can be nimble, flexible, and adaptable in difficult circumstances, managing risk positively to reformulate and change.

In a post-COVID society, we all have a significant opportunity – local and national government, along with the NHS, public health, care providers and the regulator – to recalibrate and renew the sector but still hold true to the objectives set out in the Social Care and Well-being (Wales) Act 2014. It is about people and what matters to them, rather than organisations, processes, and systems. To truly deliver transformative services to the most vulnerable in our communities, all partners need to continue the pathway of change, so that the learning and experiences of the pandemic are maintained and imbedded. Supporting leadership at all levels so that confident and trusted decisions are made at the right place, at the right time will be fundamental.

Rebuild and Renewal

Many of the challenges we now face in adult social care have been with us for some time. They are not new. We accept that the changes in our population profile – with a growing number of older people living longer with different needs, the public finance challenges and pressure of austerity, the fragility and nature of the care market, and the complexity of commissioning – are all well founded concerns that need to be addressed. Some of these aspects have been exacerbated by the COVID-19 pandemic, particularly the complexity that comes with service remodelling, the reablement of older adults who have contracted and suffered the most acute aspects of the virus; as well as the impact on the provider market and imprint left on the well-being of the workforce. We do not want to go back to the way things were because the challenges still exist and need to be overcome. We need a period of renewal. A time to rebuild. We want to work with the new Welsh Government to lead that process.

What this pandemic has shown is that social care deserves true parity of esteem with the NHS. This needs to be backed up by a long-term and sustainable funding settlement for social care, which local government has long been calling for. The only way we can accelerate innovation in preventative services and sustain

new models of health and care, is if local government is properly resourced to undertake the full scale of its work unfettered. The fragility of the acute health sector has been even more exposed by the pandemic. Therefore, we must accelerate the policy intent in *A Healthier Wales*, that focuses on the redistribution of resources away from the medical model of treating ill health, to the social model of preventing ill health.

We know that the wider determinants of health lie beyond the NHS. Education, housing, economic development, along with our community assets – our public infrastructure – prevent people from becoming ill, materially deprived, and socially disconnected. They erode inequality and promote resilience and community cohesion. Only by focusing on these social determinants and on quality well-being outcomes, will we improve the health and life chances of our citizens and our communities. Moreover, only by increasing integrated working at the local level between primary and community health services and social care services, will we be able to intervene at the earliest point of need and provide a holistic response to keep people mentally and physically well.

This cultural and systems shift from a hospital-centred health care system to a health and social care system rooted in the community in its broadest sense, must happen now. There must be an even greater emphasis on prevention to improve health and well-being and reduce the cost burden on public services longer-term. This starts with enabling families to support themselves from a basis of strength rather than weakness. We then build on this by improving and sustaining community resilience and community assets; the realisation of the localism agenda. This is where local government shows leadership and demonstrates its widest value if given the local flexibility and autonomy to do so

Welsh Government must seize this opportunity and be bold and ambitious with both action and resource to not just recover what we had before but to rebuild and renew.

Workforce

The pandemic has placed a spotlight on the incredibly valuable role social care plays. The adults' social care workforce has been on the frontline throughout this crisis, risking their lives, doing an incredible job in extremely challenging circumstances to protect those they care for.

ADSS Cymru welcomes the recognition the Welsh Government has afforded the sector, which has ensured the whole workforce has remained high in the public's consciousness. However, while the introduction of the social care worker card and financial bonuses have been appreciated, we must make the care sector an exciting and vibrant profession of choice, if we are to attract and retain the very best caregivers.

While leadership, culture and values-base are important magnets, it is essential that social care workers, including those working in care homes, are offered the same opportunities and conditions as NHS workers. We need long-term investment in the care workforce and parity right across the system – from students to leaders – which is permanent, sustainable, and easily recognisable to the public. We also need parity between health and local government more broadly. Social care does not work in isolation from other local government services; we work with and rely on each other. The volume and scale of that work, along with the responsibilities and accountabilities must be properly recognised. We will lead on this with other key partners, and we are prepared to work with unions to collectively bargain for improved terms if required to do so.

It cannot go unnoticed that the pandemic has had a devastating impact on people working in social care; particularly those working in residential care. When adjusted for age and sex, social care workers have twice the rate of death due to COVID-19 compared to the general population. The intense and continued pressure

on the entire workforce – including leaders and managers – is a cause of concern, particularly the longer-term impact on mental health and well-being. We must also acknowledge the ageing demographic of the workforce too. ADSS Cymru has real concerns about workforce burn-out and its impact on retention over the next two to three years, as the pandemic has left an indelible imprint on many older workers, which, for some, may be simply too much to bear. While the scale is still unknown, the potential loss of that knowledge, experience and expertise from the sector could well be considerable and we must prepare for that.

Understandably, addressing staff recovery and finding the time to prepare for any future waves of the pandemic is going to be crucial in the short-term. Therefore, it is vitally important that key elements of the national integrated workforce strategy that focuses on workforce well-being are rolled out at pace, so that the workforce is holistically supported to recover over the weeks and months ahead.

Partnership working

In many cases, responding to the pandemic has strengthened joint working at local, regional, and national levels, with more agile and responsive decision-making and action planning being enabled. The sense of urgency created by the crisis meant that all partners worked towards delivering a shared vision and common purpose, without the focus on who pays. This resulted in decisions, sometimes very difficult and complex, being made more quickly. In addition, relationships with providers have been strengthened by the continual and real-time dialogue with local authorities and others, supporting them with the provision of advice and updates, as well as shared learning. We must continue with and build on this good work.

Partnership working at its best – where trusting relationships are formed and nurtured – can lead to better outcomes, more effective and efficient services, and creativity. We want to explore and facilitate further opportunities where this can continue both in terms of integrated decision-making, reduced duplication and the sharing of leadership and workforce cultures; not just with health colleagues but also with providers and critically, the third sector. However, it is important that a more fundamental debate is had between partners and with the public about the future of social care. What are this nation's collective aspirations for social care? What is the final destination point of this integration journey and what does it mean in terms of responsibilities, accountabilities and quality of service? Protracted and resource-intensive discussions around issues like Continuing Health Care and the use of Direct Payments are no longer sustainable or tenable. They simply decelerate progress, test partnerships and undermined relationships. They must be addressed as a matter of urgency because they are not putting the person accessing services at the centre of the decision-making process.

Innovation and sector improvement

As social care leaders, we welcome innovation and improvement of the sector. Even at the very height of trying to manage a public health emergency, local authorities have taken the opportunities afforded to them by the situation to innovate, reconfigure and develop new services to meet citizen need. Having the ability to remain flexible and adaptable to change has been vital.

There have been significant changes in the way people have worked in response to the pandemic, with the greatest impact being on the increased and improved use of digital platforms and technology. So much of what we have taken for granted in both health and social care has transformed. Many services that have been face-to-face has moved online, digital platforms have enabled us to communicate wider and more frequently, and apps have enabled our citizens to access some support from their own homes.

It is, of course, vital that we evaluate the changes and learning that has taken place to working practice and, where possible, harness all the power that technology and digital innovation offer us through effective leadership and workforce development. However, we should not forget that, at its heart, social care is about people; human connection, compassion and empathy. It is about building and maintaining trusted relationships and not all of this can be done online. Similarly, for the workforce itself, particularly in terms of peer-to-peer support, the sharing of experience and maintaining workforce morale; digital technology can only go so far, as some work cannot be done without direct interaction.

What has emerged to some extent during the pandemic is there has been a shift in the level of support that some people who use services have required. There have been many cases of citizens who have previously accessed services finding other ways of coping without the extent of the service they'd previously had. It is not clear what impact this will have on citizen expectation and service delivery in the longer-term. Whether this is because family/friends have been able to fill any gaps in care and support while their work patterns have changed will not fully emerge until the Furlough Scheme is removed. However, we do know that there will be a requirement to provide additional support to informal, unpaid carers who would have experienced significant pressure during the various lockdowns. We also know there needs to be a re-evaluation about the viability of day care services provided in the community. These services along with respite care relieve pressure on families to allow them to look after their own. However, developing the right kind of local service and getting the right type of respite beds, including high-end residential and for adults developing dementia, is going to be crucial. Welsh Government must work with the sector to understand the capital and revenue cost implications of increasing capacity and implementing new care models. We must embark on this change in a thoughtful and co-produced manner.

Cost of care and market fragility

The parity of esteem agenda with the NHS must extend beyond equal pay and conditions for the social care workforce. There needs to be a genuine, long-term, and sustainable funding settlement for social care, which local government has been calling for long before the current COVID-19 crisis. The financial short comings in relation to cost pressures and cost differentiation that existed before the pandemic must be acknowledged and understood in order to put the current period in context. It could easily be argued that existing market models coupled with the funding environment that we have for adult social care, simply is not working.

We believe that the pandemic has exacerbated the precarious financial position that many care providers have found themselves in and calls into question the long-term viability of a number of care providers in the market, particularly within the residential care market, which had been disproportionately impacted by the pandemic. Many residential care providers remain under financial pressure, which is compounded by falling occupancy levels, either due to excess deaths or due to practical restrictions on new admissions, as well as a reduced demand for residential care.

Short-term funding has been made available to offset the cost of occupancy voids through the Welsh Government's Hardship Fund. This has been a significant financial support mechanism and we welcome the Government's continued support into this financial year. However, while we understand that there must be a gradual tapering of this support over the year, we want to work with Government and care providers to ensure this is undertaken fairly and at the right time. If decisions are rushed or arbitrarily taken, it could hasten market withdrawal in the sector and see care homes being returned to the public sector at a time when local authorities and other providers have limited or no capacity to intervene. This means that capacity would be lost from the sector completely and may limit the level of choice when exploring longer-term

provision. Moreover, it would also have a significant impact on the ability to support the hospital discharge process, which would result in even greater pressure being placed on the acute health sector, as well as domiciliary care.

We believe there is a need for a wider and more honest conversation on market reform, transparency of cost and quality improvement that goes beyond the development of national commissioning frameworks. It is reform that must guarantee care providers a much greater level of certainty regarding income but coupled with enhanced expectations about further investment in people and assets to improve and maintain quality provision. However, there needs to be a realisation that rebalancing the care market means increasing local authority market share, to have a full mixed model of provision. Further involvement of local government and not-for-profit providers will initiate reform that promotes co-production and social value, with a much stronger emphasis on the contribution providers can make to the lives of the people they support and to the communities in which they operate.

We need to urgently reflect on the suitability of the social care structural asset base in a bid to understand what is fit for purpose in a post-COVID society. There is a need for increased capital investment to modernise and adapt facilities and spaces to allow us to embed new models and ways of working that have emerged from the pandemic. As leaders, we must support the sector to adapt and improve. Failure to do this will have an impact on revenue costs and there will be spaces and facilities that may not survive this pressure.

While there has been a real focus on protecting vulnerable adults in care homes, we should not lose sight of the support and services that are given to vulnerable adults in the community – those in supported living, in extra care accommodation or in shared lives accommodation, and particularly those receiving domiciliary care at home. Increased service demands and cost pressures are also being felt by care at home providers, particularly in relation to rehabilitating those post-COVID patients who have spent long periods in hospital or who are suffering Post-COVID Syndrome (Long COVID). We are concerned about additional cost pressures of caring for these citizens disproportionately falling on the shoulders social care, particularly as there are domiciliary care supply and demand gaps emerging in some parts of Wales following a significant increase in hospital discharges into community settings.

More Welsh language care provision

ADSS Cymru strongly believes that the language of choice is fundamental in terms of commissioning and delivering services to our citizens. It's not about just complying with legislation and regulation; it's about fundamental human rights - dignity, choice and control. There have to be more positive messages from the Welsh Government around language, culture and heritage implications within social care.

We have been supportive of the policy intent of *More Than Just Words*, but our experience is that this has become less of a strategic priority in recent years compared to the amount of traction that was gained in its first iteration. The strategic framework is almost a decade old, and it needs to be reviewed and refreshed, so we can really embed the right conditions for transformative service change in the Welsh language.

One intervention that could be implemented nationally could be improved training initiatives and supporting tools to enhance oral communication. We know that recording language in people's homes is a challenge, particularly around clinical recording policy versus what the service user and their family want. While local authorities and commissioned providers are constantly attempting to meet people's rights, the current costs of care simply do not consider the cost of providing a bilingual service and the cost of improving the Welsh language skills of the workforce. This needs to change and must be addressed by the Government in its current review regarding improving social care arrangements and partnership working.

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