Senedd Cymru Finance Committee

Welsh Government Draft Budget 2023/24

Response by the Bevan Foundation

The Bevan Foundation is Wales' most influential think tank and is independent of government or any interest group. We are grateful for the opportunity to submit evidence to the Finance Committee's inquiry. The first part of our evidence answers the questions posed by the Committee, while the second half comments on the draft budget published on 13th December 2022. All our responses focus on low-income households.

Key points

We recognise that the Welsh Government's budget has been produced at a time of significant social, economic and environmental challenges, and that its block grant has required some tough choices.

The need to invest in recovery from the pandemic strengthens the case for increasing the Welsh Rate of Income Tax and for radical reforms of other taxes. There is a case of expanding powers over income tax to include bands as well as rates in future.

We welcome the steps taken to ease cost of living pressures on low-income households in 2022-23. We have recommended a set of actions focused on the essentials of shelter, food and warmth and welcome the inclusion of some them in the 2023-24 draft budget.

We understand that there are fewer resources in 2023-24, but are disappointed at the lack of provision for 16–18-year-old low-income learners and constraints on investment in social housing and energy efficiency / fuel poverty.

We are particularly concerned about the impact of inflation on people in rural communities.

Short-term measures to ease cost of living pressures are not a substitute for action to reduce poverty. Such action needs to focus on the three essentials of providing goods and services to meet needs; supporting progression into and through work; and enabling people in all communities to access services such as health, education and transport.

What, in your opinion, has been the impact of the Welsh Government's 2022-23 Budget, including funding related to the recovery of the pandemic?

The Welsh Government's 2022-23 budget included some actions that helped to offset some of the challenges of recovery from the pandemic and the cost of living crisis. These included provision of free school meals in the school holidays, extension of Pupil Development Grant-Access, continued flexibility in the Discretionary Assistance Fund, the Welsh Fuel Support Scheme and the first steps towards roll-out of Free School Meals for primary school pupils. The budget provision for these actions provided targeted, timely and much-needed help. We do however have some concerns about the reach and take-up of some schemes.

In other services, the 2022-23 budget allocations in respect of health and social care, social housing, education and public transport, struggled to match demand in general and in particular struggled to meet the needs of people on low incomes. Inequalities in health, housing and education have all worsened during the 'recovery' from the pandemic rather than improving. These public services are as fundamental to supporting people on low incomes as specific 'anti-poverty' measures.

How financially prepared is your organisation for the 2023-24 financial year, how will inflation impact on your ability to deliver planned objectives, and how robust is your ability to plan for future years?

The Bevan Foundation is funded by charitable trusts and foundations, donations and by trading as a social enterprise – it does not receive core funding from the Welsh Government. Financial years 2022-23 and 2023-24 are challenging and it anticipates drawing on its reserves over these periods as well as changing some of its operations.

With inflation and costs of living issues continuing to escalate, what action should the Welsh Government take to help households cope with this latest crisis?

The Bevan Foundation's latest report[1] called for a mix of short- and medium-term action, based on addressing people's basic needs for shelter, food and warmth and focusing on proven interventions which we called 'best buys'. In the short term we urged the Welsh Government to:

- Extend eligibility for free school meals to children in years 7 to 11 who live in households that receive Universal Credit, without a cap on earnings – cost £1.3 million per term.
- Uplift EMA by £5 a week (or two £50 payments for autumn and spring terms) to enable 16–18-year-old learners to afford to buy a decent lunch – cost £1.8 million.
- Top up the Discretionary Housing Payment budget by £1 million for the rest of financial year 2022/23 and allocate £4 million top up in 2023/24.
- Extend the Wales Fuel Support Scheme with a further £200 payment to eligible households in January 2023 at a cost of approx. £40 million.

In the medium- to longer-term we urged the Welsh Government to:

- Accelerate the provision of social housing, if necessary through acquisition of existing vacant properties as well as new build.
- Bring forward plans for a new Warm Homes programme, with a substantial increase in investment, a focus on insulation measures, broader eligibility criteria and stronger programme management.
- Improve data used to set Local Housing Allowance[2] rates and seek devolution of powers to determine LHA rates in future.
- Phase in free school meals for secondary school pupils beginning with years 7 and 8.
- Apply inflation-linked uplifts to all devolved, means-tested grants and allowances on an annual basis, with effect from April 2023.

[1] Bevan Foundation (2022) Easing the cost of living crisis this winter, https://www.bevanfoundation.org/resources/easing-the-cost-of-living-crisis-this-winter/
[2] The maximum help with private sector rent that can be received by a low income household, determined by the UK Government

- Accelerate implementation of a Welsh Benefits System to be fully operational by April 2025 at the latest.

We are particularly concerned about the impact of the cost of living crisis on rural communities. People here have been hard hit because of below-average earnings and high levels of self-employment; above-average costs for heating, food and transport (coupled with energy inefficient housing and reliance on oil or solid fuels which are not covered by the energy price guarantee); plus rural households are often remote from support services such as advice centres or food banks.

Are Welsh Government plans to build a greener economy clear and sufficiently ambitious? Do you think there is enough investment being targeted at tackling the climate change and nature emergency? Are there any potential skill gaps that need to be addressed to achieve these plans?

We are disappointed that successive budgets have not taken steps at sufficient scale to make the transition to a greener economy. We are particularly concerned at the slow progress in refreshing the Welsh Government's Warm Homes programme at a time when energy efficiency measures are urgently needed. It is a year since the publication of a consultation paper (in December 2021), during which time energy costs have soared. The ARBED scheme closed in November 2021 and has not been replaced while the NEST scheme is due to end in March 2023.

There is good evidence that investment in new social housing, retrofitting energy efficiency measures and nature restoration would cut carbon and stimulate the economy – it is estimated that expenditure of £2.33 bn on these measures alone would create more than 35,000 jobs.[3] Investment in energy efficiency in new and existing housing would also ease financial pressure on households.

Is the Welsh Government using the financial mechanisms available to it around borrowing and taxation?

There is a mounting case for the Welsh Government to make greater use of its taxation powers in future years if it wishes to follow a different path to that set by the UK Government's spending plans. Put simply, the Welsh Government cannot have the level and quality of public services it would like while 80% of its budget comes from the UK Government which is committed constraints on public spending.

In respect of specific devolved taxes, we would comment as follows:

- Income Tax: The Welsh Government's powers are limited to varying rates. This is an incomplete instrument and it should seek the ability to vary thresholds (as in Scotland), not least to ensure a better fit with the income distribution in Wales.
- Council Tax: As argued in our oral evidence to the Local Government and Housing Committee on 1st December 2022 on council tax reform,[4] there is scope to make more radical changes to Council Tax so that it taxes property wealth in a more progressive way.

[3] Transition Economics (2020) Job creation in Wales from a Covid recovery infrastructure stimulus https://www.tuc.org.uk/green
[4] https://record.assembly.wales/Committee/13069

- New devolved taxes: The Bevan Foundation has long advocated use of new, devolved taxes both to raise revenue and change behaviours.[5] We welcome progress with the proposed visitor levy and discussions about possible environmental taxes as set out in the Welsh Government's Tax Policy document but are disappointed that discussions about the proposed vacant land tax have stalled.[6]

Specific comments on Welsh Government policies to reduce poverty and gender inequality. Is enough support being given to those people living in relative income poverty?

The current cost of living crisis has exacerbated already-high levels of poverty, deepening the poverty experienced by some and drawing more people into its grip. The focus on short-term measures – though vitally important – are not a substitute for addressing the bigger, long-term challenge of reducing poverty.

There is robust evidence[7] about what the Welsh Government can do to reduce poverty. These can be summarised under the headings of 'pockets, prospects and places'.[8]

- **Pockets -** reducing costs and increasing income by providing cash and services to meet people's basic needs in a reliable and consistent way.
- **Prospects -** supporting people to move out of poverty by accessing decent work, progression, and provision of flexible and affordable childcare.
- **Places** – Creating an enabling environment by improving the provision of good quality, local services (including health, education and transport).
- Support good mental health – by reducing stigma and treating people in poverty with respect.

Comments on 2023-24 draft budget

We welcome the opportunity comment on a draft government budget ahead of it being finalised. Nevertheless, we have concerns about the process, in particular the lack of detail in respect of allocations to specific activities, lack of clarity about benchmarks and difficulties comparing expenditure over financial years.

Overview: we recognise that 2023-24 is extremely challenging when real terms resources are compared with need. However, the Welsh Government's own estimate of 0.5% real terms increase per person is not as bad as the decrease in real-terms day to day expenditure per person experienced in every year bar one from 2010-11 to 2021-22.[9]

[5] Bevan Foundation (2017) Tax for Good https://www.bevanfoundation.org/resources/tax-good-new-taxes-better-wales/
[6] Welsh Government (2022) Tax Policy Report December 2022, https://www.gov.wales/tax-policy-report-december-2022
[7] Wales Centre for Public Policy (2022) Policy and Social Exclusion Review https://www.wcpp.org.uk/project/poverty-and-social-exclusion-review/
[8] This term was originally used by Joseph Rowntree Foundation in relation to Scotland in the early 2010s but neatly sums up recent evidence.
[9] Wales Fiscal Analysis (2020) Welsh Budget Outlook 2020. Cardiff University. Figure 1.

We note that the Welsh Government has opted 'not to take more in Welsh Rates of Income Tax from people for at least as long as the economic impact of Covid-19 lasts'. A counter argument is that the legacy of Covid-19 is such that it demands an increase in taxation in order to reinvest and reequip public services.

On specific allocations mentioned in the budget narrative, we welcome the commitment to ease cost of living pressures on low-income families through 'the Discretionary Assistance Fund, Free School Meals, Pupil Development Grant and homelessness provision'. It is however difficult to assess the scale of the increases. The narrative refers to an additional £18.8 million to the Discretionary Assistance Fund but it is unclear if this figure refers to pre-pandemic expenditure (£13.2 million in 2019/20)[10] or 2022/23 expenditure of £20 million for the year to date.

Similarly, we welcome the additional £9 million allocated to Pupil Development Grant although again the baseline is unclear. Indeed the Senedd Research Service's analysis suggests that there has been a real-terms cut to PDG in 2023-24 compared with 2022-23.

There are other measures that could further support low-income households, particularly households without primary school pupils and those not in severe financial hardship, that have regrettably not been included in the 2023-24 draft budget. The key ones are:

- Education Maintenance Allowance and its eligibility thresholds have been frozen for another year, leaving 16–18-year-old learners in unprecedented need.
- Social Housing Grant has received real-terms cut, despite the urgent need to increase provision.
- The increase in expenditure on fuel poverty measures (11% real terms uplift) is welcome but we are concerned at the slow progress towards the next Warm Homes programme, especially given the huge economic, social and environmental benefits of investment in energy efficiency / fuel poverty measures.

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[10] Welsh Government (2020) Freedom of Information release 14288 – Individual Assistance Payments Annex A https://www.gov.wales/atisn14288