

Finance Committee Consultation on Welsh Government Draft Budget Proposals 2017-18: Response by the Bevan Foundation

1. The Bevan Foundation develops new ideas based on sound evidence to make Wales fair, prosperous and sustainable. It is an independent, non-aligned charity. In the last two years it has made a significant contribution to public policy in Wales on matters such as the outlook for the Welsh economy, employment and skills by 2020, increasing the number of people paid the voluntary Living Wage and the potential for new devolved taxes. We are partners of Joseph Rowntree Foundation and are working closely with them on UK and Welsh strategies to 'solve poverty' by 2030.
2. We are grateful for the opportunity to submit our views to the Committee – our answers to the Committee's questions that we are able to answer are below.

What, in your opinion, has been the impact of the Welsh Government's 2016-17 budget?

3. In our view the 2016-17 budget was essentially a stopgap budget because of the National Assembly for Wales elections. It made no major changes in budget allocations and arguably did not therefore address some of the major challenges facing the Welsh Government.

What expectations do you have of the 2017-18 draft budget proposals?

4. We would like to see a budget which:
 - addresses the substantial financial pressures facing the Welsh Government by making some key strategic decisions;
 - addresses the ongoing challenge creating an economy and society which is prosperous without poverty;
 - addresses the other major challenges of economic growth (including Brexit), climate change and changing demographics, as outlined in our recent report '**The Shape of Wales to Come**'.¹
5. We hope that the 2017-18 budget will reflect a thorough re-prioritisation of spending, in which areas of spending which have a low / zero impact are cut and those which are proven to make a difference to a fair, prosperous and sustainable society are increased.

How financially prepared is your organisation for the 2017-18 financial year, and how robust is your ability to plan for future years?

¹ Bevan Foundation (2015) **The Shape of Wales to Come: Wales' economy, environment and society in 2020.**
<https://www.bevanfoundation.org/publications/shape-wales-2020/>

6. The Bevan Foundation's income in 2015/16 was just £156,000, generated from grants from charitable trusts and foundations, donations and commissions – we do not receive Welsh Government funding.

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 the areas identified below?

Preventative Action

7. One of the most important preventative actions that the Welsh Government could undertake is to promote economic growth that is benefits everyone and especially the least well-off. This would have multiple benefits, including significantly reducing poverty.
8. Poverty has significant impacts on children's development, mental and physical health, productivity at work and the need for support in later life. As well as blighting lives, the additional needs also cost the public purse. The Joseph Rowntree Foundation² estimates that poverty costs the UK public purse £78 billion a year in additional spending on healthcare, school education, justice, children's and adults' social services and housing, and in lost tax revenue.³ With Wales having 5.26% of the UK's people in poverty, it is likely that poverty adds roughly £4.1 billion each year to Welsh public spending requirements.
9. Reducing poverty is therefore likely to result in significant savings in public spending. A fall in poverty in Wales to the UK rate of 21% would result in a drop in the number of people on low incomes in Wales of 70,000. Assuming public spending on healthcare, school education, justice, children's and adults' social services and housing fell pro-rata, there would be a saving to the Welsh public purse of £0.4 billion.⁴ A larger reduction in the number of people in poverty would result in corresponding larger savings – a fall of 200,000 could save £1.1 billion. Savings would also accrue to the Exchequer from fewer social security claimants. While these figures are no more than indicative, they nevertheless demonstrate that poverty is a significant burden on Welsh spending and that there is a sound business case to reduce it.

Welsh Government policies to reduce poverty, mitigate welfare reform and prepare for an aging population

² Joseph Rowntree Foundation (2016) **UK Poverty: causes, costs and solutions**
<https://www.jrf.org.uk/report/uk-poverty-causes-costs-and-solutions>

³ A further £70 billion a year is spent on social security related to poverty.

⁴ In 2015, 700,000 people out of a population of 3m were in poverty in Wales, a rate of 23%. If the rate fell to 21%, the UK rate, the number would fall to 3,000,000 x 21% = 630,000. The Wales share of the UK population in poverty would then be 630,000/13,200,000 x 100 = 4.7%. The Wales share of the cost to the UK would be 4.7% x £78m = £3.666 bn. The saving is £4.103bn - £3.666bn = £1.139bn.

10. We note that the Programme for Government 2016-2021 does not include any references to poverty or welfare reform: it remains to be seen if there will be specific allocations to them in the 2017/18 budget.
11. The Joseph Rowntree Foundation, with the Bevan Foundation, will be publishing an 'action plan' to promote prosperity without poverty in Wales on 8th November, drawing on its major review of evidence of 'what works'. That process culminated in the publication of a UK strategy on 6th September. The UK strategy identifies the following key actions:
- sufficient, decent jobs
 - an excellent education for children and a skilled workforce of all ages
 - strong family and community relationships
 - reduced costs, including of housing, essential goods and services and 'enabling' goods and services
 - an effective social security system.
12. Delivering these effective approaches requires that mainstream Welsh Government activity be adjusted to focus on ensuring everyone benefits, and in particular ensuring inclusive prosperity. We would therefore like to see significant investment in growing the economy and skills in an inclusive way, rather than in small-scale, anti-poverty initiatives.

Preparation for the UK to leave the EU

13. Leaving the EU raises major challenges for the economy in Wales, as well as raising concerns about employment, environmental protection, community relations, public spending and the constitution.⁵
14. We have argued that economic policies should be 'stress tested' against Brexit and suggested that they be re-focused on the so-called foundation economy, on SME development and on promoting exports, with adaptation plans for the most vulnerable sectors.
15. We would hope that the Welsh Government's draft 2017/18 budget would take into account its in-depth assessment of the implications of Brexit and the mitigating actions required.

Preparation for the impact of further devolution included with the Wales Bill

16. The 2017/18 budget clearly needs to include provision for any new powers that are devolved via the Wales Bill.

⁵ Bevan Foundation (2016) **Wales After Brexit: an Agenda for a Fair, Prosperous and Sustainable Country.** <https://www.bevanfoundation.org/publications/wales-brexit-agenda-fair-prosperous-sustainable-country/>

17. It also needs to take into account the possible devolution of other functions, notably the possibility that responsibility for the care needs of older people previously met through Attendance Allowance could be devolved.⁶

The previous Welsh Government have highlighted that the draft budget 2017-18 will be aligned with national indicators for Wales. What, if any, additional national and local indicators would you like to see as a means of supporting the shift towards a greater focus on preventative spending. What, if any, additional national and local indicators would you like to see as a means of supporting the shift towards a greater focus on reduction or eradication of poverty?

18. We are concerned about the proposal to align expenditure with the national indicators for several reasons.
19. First, the Welsh Government has only a limited impact on a significant number of them, such as the percentage of people moderately or very satisfied with their jobs, the concentration of carbon and organic matter in soil and GVA per head to name but three. It is entirely feasible that performance on an indicator might deteriorate due to actions far outside the control of the Welsh Government – Brexit being an excellent example.
20. Second, there is no neat fit between indicators and expenditure, not least because many of the indicators are measures of outputs. For example, an increase in healthy life expectancy owes at least as much to past economic performance and the distribution of incomes as it does to current public health programmes.
21. Third, many indicators are all-Wales averages and so do not address differences between groups of people or places within Wales. For example the indicator on the percentage of people in employment does not address issues such as youth unemployment; the indicator on the percentage of people satisfied with local area as a place to live does not distinguish between different parts of Wales.
22. If the budget is to be aligned with indicators then we suggest that where appropriate and feasible, indicators be broken down by location and by gender, age, disability, ethnicity and socio-economic group.

What spending commitments and priorities would you like to see in the 2017-18 draft budget in order to ensure that progress is being made on reducing poverty and preparing for an aging population?

⁶ HM Government (2015) **The provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years - consultation** <https://www.gov.uk/government/consultations/provisional-local-government-finance-settlement-2016-to-2017-and-an-offer-to-councils-for-future-years>

23. On poverty, please see our answer to question 4. There will be more detail available when the strategy for Wales is published on November 8th.
24. On an aging population, we respectfully point out that this is not the only demographic challenge facing Wales - the number of children is also forecast to rise. Nor should it be assumed that aging will inevitably increase demand for health and social care – future cohorts of older people may not have the same morbidities and hence health and care needs as previous cohorts. So while we have argued that demographic change is one of the biggest challenges facing Wales, the issues are more complex than greater care needs.