



Inquiry Response

Welsh Assembly Finance Committee

September 2018

Inquiry into Welsh Government Draft Budget Proposals 2019-20

CLA Cymru: The voice of the Rural Economy

1. CLA Cymru represents the broadest possible range of economic players in Wales. These include rural businesses and service-providers, manufacturers and the supply chain for primary producers and those who can manage land as amenity. In Wales, rural business totals nearly 105,000¹ enterprises.
2. While we participate as experts in agricultural issues, we offer expertise on the requirements of the whole rural community including issues affecting businesses such as planning, investment and economic management, housing, connectivity and physical infrastructure.
3. In Wales, CLA Cymru's membership reaches over 3,000 businesses. Here, we play a full and dynamic part in government and stakeholder engagement. Part of a well-established UK-wide organisation, the CLA includes some 33,000 members.

General Comments

1. There has never been a more crucial time for the Welsh Government to make every penny of their budget allocation count. Allocating the budget to optimise return on that investment is key. Ministers will need to be bold in their decision making and progressive in their thinking to meet the challenges ahead – the uncertainty of Brexit will no doubt continue to build over the next few months and creating the most favourable possible conditions to promote economic stability must be at the heart of the next budget round. The foundation of the Welsh economy is the myriad of businesses that operate here and the wealth they create for their communities. Encouraging, supporting and providing confidence for these businesses to grow and invest in Wales is fundamental for success and this starts with the Welsh Government budget process.

Process

2. This is not an easy task, but as a stakeholder with a real interest in understanding how the budget is spent, it is often difficult to interpret how money is allocated and where it is used and, equally, how this expenditure is then monitored. The process and proposals are opaque. The language and the acronyms associated with the budget are complex and often bear little resemblance to how the money is defined 'on the ground.'
3. This is a time of change for Wales and there will be significant knock-on effects to the Welsh Government budget. This does not seem to be reflected in any thinking associated with the budget. Wales has been a notable beneficiary of monies from the European Union – in particular the European Structural Funding Programme, including Objective 1 it's legacy funding. Whilst there has been political noise on the need to replace every penny that

¹ CLA research, *Standing Up for Rural Business*, p 4-5

Wales historically received from EU, it is as yet unclear if this will be respected or in what manner such monies would be delivered to Wales.

4. The Welsh Government budgetary process contains little analysis of where monies come from and what they are spent on. It is difficult to see how, or even if, we should be continuing to spend money in the same way we have historically. There is no idea of what holes might need to be plugged in the future, or what we might want to scrap.
5. The performance monitoring of the budget in Wales concentrates on the legality and operation of monetary control— we audit whether or not there was any wrong doing in how money has been spent but there is little comprehensive analysis of the value of the product delivered with public money and the return on investment. There is some “scheme” level analysis but this is mostly linked to the requirements of EU funding and isn’t strategic or always helpful. A more transparent and robust focus on evaluating the impact of funding is essential, especially as budgets constrict in the future.

Investment

6. Exclusive CLA research show that our members, operating in the land based economy and rural communities, invest more than £1 billion into their business annually whilst modelling demonstrates strong growth potential if “good conditions” can be achieved.²
7. Good conditions include supportive enabling policy and confidence in government strategy and spending. This draws out another failing in the financial planning system in that it is not always clear how policy and budget are aligned. It feels that the high level budget allocation drives policy but one could argue that policy should drive the budget.
8. There can be seen in Welsh Governments approach to business investment. Whilst Wellbeing of Future Generations Act and sustainability principles in the Environment Act would promote the path of connecting and growing our indigenous business, this approach is overshadowed in favour of attracting big business to specific areas in Wales. This actually creates a more volatile working environment for the people and communities in Wales where losing one business can have a catastrophic effect on the local economy. For example, the plethora of small tech and gaming companies currently operating across North Wales has the potential to become a world leading tech hub and is a more stable investment and opportunity for the people and economy of Wales than attracting a large tech company to the area.
9. This approach of utilising and investing in the natural resources of Wales would also allow us to be more ambitious in terms of growth, investment and prosperity. At present, Welsh Government ambition is too disjointed to realise its full potential and delivery of targets usually not given enough time to reach fruition before priorities change. Budgets are short term where outcomes need to be longer.
10. Until we can overcome the problems of cohesion between the public and private sector and better collective working within government itself, our shared ambition to see a prosperous and secure Wales will not be delivered.

² CLA Research Unlocking Potential, Unlocking Investment in Rural Wales (2015)

Consultation questions

Q1: What, in your opinion, has been the impact of the Welsh Government's 2018 – 2019 budget?

11. We have no comment to make on this question at this time.

Q2: What expectations do you have of the 2019-20 draft budget proposals? How financially prepared is your organisation for the 2019-20 financial year, and how robust is your ability to plan for future years?

12. Expectations for next year's budget focus on Welsh Government's preparedness to deal with, and respond to Brexit. While there continues to be significant uncertainty on detail, we must anticipate change. Business on the ground will face potential challenges ranging from adapting to new rules right through to catastrophic change in markets and supply chains. This is particularly true of the agri-food sector³. This range of impacts needs to be acknowledged and adequate and appropriate support put in place in terms of preparedness and change. While this is often seen as requiring cash injections, it should not be limited to a financial measures alone. If the outcome does lead to more significant change, then a comprehensive programme of analysis of what interventions might be needed to enable people and businesses to meet the new world requirements.
13. This does not necessarily equate to funding through a replacement CAP structure alone. There is as much to be gained from investment in people through skills and knowledge, help supply the services that are needed for business such as connectivity as well as provide direction and steer through enabling policies to make achieving positive outcomes easier.
14. Farming and land use is a long term business. Decisions taken today will not come to fruition for many years. For our beef and sheep farmers, it can take many years between the decision to breed to the point of a return on that investment. For forestry businesses the natural cycle is decades. With this in mind, an annual budgeting process is wholly inappropriate and offers little certainty for the long term. While this is not a point unique to this financial year, with Brexit on the horizon, the lack of long term strategy and funding, coupled with the removal of the CAP framework, mean it is more acutely felt.
15. Brexit scenario planning undertaken by Welsh Government⁴ project an increase of 5 and 30% in trade and export costs. This figure is considered conservative by some when also factoring in time delays and access to ports. Welsh exports are increasing⁵ and the UK in general is an export / import nation. Whilst much remains unknown about our future trading arrangements, what government should be doing now is preparing businesses for the potential impacts of a worst case scenario as the ripple effect of a failing business can be ruinous across some supply chains. This is particularly true within agriculture and food.

³ <https://gov.wales/docs/dra/publications/180219-summary-of-eu-exit-scenario-planning-workshops-en.pdf>

⁴ *ibid*

⁵ <https://gov.wales/newsroom/businessandconomy/2018/180308-welsh-exports-up-by-1.8billion/?lang=en>

Q3. 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?

- Approach to preventative spending and how is this represented in resource allocation

16. Preventative spending is an interesting concept and is as much about mind-set as process. Such an approach could be transformational in terms of outcomes but will require time to adapt – to ensure that people / projects / communities do not ‘fall through the gaps’ as funding allocation is shifted. A preventative spending approach in resource allocation also requires much greater fluidity and co-operation than the current budgeting process allows.
17. The classic example of preventative funding is the impact that increased access to the outdoors can have on maintaining a healthy lifestyle. It sounds simple but actually takes a lot of planning and joined up working across departments and budget lines to achieve. For the majority, walking paths need to be circular with parking and a toilet nearby so that they are accessible, they need to be near to population centres. There is less benefit in making investment and creating paths where people can’t get to / must drive to. All this requires planning permission, working with landowners to get permission, securing long term maintenance support and should logically be considered in new housing developments. So what is the process to ‘take’ the money from the health budget and allocate it to land use and local authorities? The area statement trials under the Environment Act looked at this concept in the Rhondda but achieved limited success as policy barriers are difficult to overcome when looking at new working models.
18. Preventative spending is currently at the forefront of the thinking in the *Brexit and our Land* consultation. Proposals centre on the premise that there are certain “public goods” that can be delivered through specific land management and that these outcomes can and should be supported in the future from the public purse. The consultation specifically references ideas such as land management to prevent flooding downstream or specific actions that could help reduce emissions and tackle climate change through land use. Whilst there is growing evidence to support this approach, it is strongly predicated on the idea that prevention is better than cure and proving the avoidance of a negative outcome has never been the most successful route to a long term budget. CLA Cymru are supportive of this approach but recognize the shift in culture is required to make it work.
19. How this policy will be taken forward will be a defining moment for Welsh Government in setting out their commitment to preventative spending – land based activities can take a long time to produce results and it will be interesting to see how for Government commit to this course of intangible action in the long term.
20. Preventative spending only truly works if people understand the story behind it and why it is in their interests. It is not just about Government adopting this approach and expecting people to follow – preventative spending requires commitment and action from both sides of the coin – public and private, long term outcomes require confidence and understanding between all concerned.

- Sustainability of public services, innovation and service transformation

21. Being able to access public services is often one of the most basic requirements for all families and communities. Rural Local Authorities are often hardest hit by budget cuts⁶ and we are increasingly reaching a point where communities in these areas are facing viability questions due to lack of service provisions.
22. Basic geography means rural communities are challenges by distance to health care, receive the lowest percentage of mobile and broadband connectivity in Wales, find lack of viability for house building or access to social spaces. This is leading to depopulation and a vicious circle of declining sustainability in many of the heart lands of Wales.
23. This can and should be overcome through collaboration and visionary leaders who can embrace and deliver change. Rural communities should be at the forefront of this work as the challenges that need to be overcome will necessitate innovation. This starts with connectivity. A sustainable village no longer means a Post Office – it means access to email and grocery delivery services.

- Welsh Government policies to promote economic growth, reduce poverty, gender inequality and mitigate welfare reform

24. As already stated, CLA Cymru would support an approach of investment in indigenous business. This would open up new opportunities as well as providing a more stable and secure economic base to the benefit of communities across Wales.
25. The path to economic prosperity is also changing globally. There is increased focus on emerging markets such as Natural Capital – rich as we are in natural resources, these are untapped markets that could provide significant opportunity for people and business in Wales.
26. With 80% of land in Wales in private ownership, opportunities around using our natural resources will require new ways of working between government and the private sector. It is the private sector that creates wealth and prosperity and working hand in hand with Government to ensure that business can prosper gives Wales the best chance for success.
27. Moving away from bureaucratic constraints and silo-thinking is important for long-term success. This is especially important for our rural communities and economy. Geographical location should no longer be the barrier it was historically. The decision to operate a business in a rural area is now more often based on lifestyle choices than constraints. This can and should be supported by Welsh Government through policy and funding that acknowledges that a business operating in a rural community is fundamentally no different from a business operating in an urban community and needs the same type of support albeit at a different scale.
28. This is obviously wider than a budgetary issue and requires Government to break down the false barriers that plague policy across planning, tax, economic development, housing and wider. Change does, however, start with the budget. Allocation should reflect growth

⁶ <https://www.bbc.co.uk/news/uk-wales-politics-41557214>

potential and opportunity across Wales especially as we look to replace or recreate current systems such as CAP and Structural Funds.

- The Welsh Government's planning and preparedness for Brexit

29. As already outlined, CLA have some concerns with Welsh Government's planning and preparedness for Brexit. It is too often difficult to distinguish between practical action and political pandering which can be confusing and misleading to business trying to prepare for the challenge ahead. More clarity around what Welsh Government hope to achieve and how they are working with UK Government to ensure the best outcome for the people and business of Wales is essential.
30. How the UK as a whole will function once we leave the EU is a primary concern. Supply chains and customers rarely respect political boundaries and working together to ensure we don't create artificial barriers in pursuit of political capital is in the interests of everyone.
31. There are also unanswered questions around how and for what purpose funds such as the First Minister Brexit Preparedness Fund will be allocated. There are warm words about helping business prepare but little clarity around where the money is coming from or even what type or scale of aid will be available. With Brexit fast approaching, business are keen to prepare but are unsure of what to do with little or no help being provided by Government.

- How the Welsh Government should use taxation and borrowing powers, particularly in relation to the Welsh Rate of Income Tax

32. Tax raising power is a powerful tool and Ministers should exercise such powers sensibly. We recognise that this gives Welsh Ministers the opportunity to be distinctive and create differences, but greater focus must be placed on undertaking a rational analysis of unintended consequences and practicalities for businesses of creating new regimes. Change for changes sake is never the answer.
33. Change takes resource not just for government but also for businesses. This is the "jagged edge" of devolution – as issues such as tax become more divergent, we increasingly do not have the capacity or quality of professionals to service growing demand of Welsh businesses. This is especially true in rural areas where choice is limited so quality becomes the necessary compromise.

- How evidence is driving Welsh Government priority setting and budget allocations

34. As already outlined, CLA Cymru would question the veracity of the priority setting and budget allocation process across Welsh Government to the extent that we would question what type and quality of evidence is used for this purpose. Substantial and strategic monitoring of budget spend based on a triple line accounting methodologies to ensure transparency and value for money as well as meet our sustainability targets should be the approach going forward.

- The Welsh Government policies to strengthen the economy and promote innovation

35. The CLA Cymru path to strengthen the economy is set out above.
36. In addition, we would suggest Welsh Government undertake a review of potentially using new tax powers to promote innovation. Although not within Welsh Government control, an underappreciated but useful driver for innovation in business is the various preferential VAT rates available. In looking at new tax powers. It is not always the case that direct funding is the solution to drive innovation. This too often leads to “project” mentality where the pursuit of grant funding overwhelms the purity of innovation and dissemination of new ideas. Indirect methods of support can be more beneficial in the long-term.

- How the Future Generations Act is influencing policy making

37. To date, despite being a looming force over all policy development for the last couple of years, in reality it has been difficult to identify any real tangible impact that it is making a difference to business on the ground. The concept underpinning the legislation is transformational, but as is often the case, it is easy to create shiny institutions and positions, much more challenging to change the culture to embed those ideas in practice, procedure and ways of working. At a time when the policy and regulatory framework for our future generations is actually up for debate, it is not clear what role the Commissioner or the ideas set out in the legislation are being considered.

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