Welsh Government

Budget Improvement Plan
Introduction

As part of this year’s annual Budget preparations, we have developed a Budget Improvement Plan that outlines our vision, including short-term and medium-term ambitions over the next 5 years, to improve the budget process using the Well-being of Future Generations Act and the five ways of working to drive continuous improvement.

In developing this Plan, we have applied the principles of the Future Generations Commissioner’s ‘journey checker’. It is a tool which has been designed to allow public bodies in Wales to communicate the steps they are taking, or plan to take, to embed the Act.

Our Plan also acknowledges the steps we have already taken in our journey to embed the Act in our approach to the Budget, and how we have built, or plan to build, on this work in future years.

We intend to refine and update our Plan in future years, by publishing an updated five year Plan annually alongside our Draft Budget, to recognise the ongoing nature of driving and sustaining longer term change and outline the measures we have undertaken since the previous year.

Budget Improvement Oversight

We will establish a Budget Improvement Oversight Group to oversee and help shape these planned improvements to the Welsh Government’s annual Budget process. Work will include developing and testing an agreed vision for what an effective process will look like in the Welsh context and how this helps us to ensure that the Well-being of Future Generations Act demonstrably underpins the Welsh Government’s strategic spending priorities through consideration of our well-being objectives. We will also explore options for setting longer-term plans for the period for which we have a funding settlement. Our intention is that the planned improvements to the budget process will result in greater transparency in the annual Budget documentation to show how the Act has influenced budget decisions.

Given the cross cutting nature of the annual Budget process, our Plan includes our ambitions for different aspects of the Budget. These are summarised below:
1. **Spending Decisions** – To improve existing processes across Welsh Government that identify and develop spending proposals, improve capabilities to prioritise decisions that more clearly align with the well-being goals and ways of working and to explore opportunities to improve longer-term planning.
   - **Embedding the Act in budget decisions** – To explore how we can more clearly demonstrate the ways in which the Act is shaping high-level spending priorities, and our medium-term plans to align the annual Budget process and ongoing budgeting activities across the wider organisation to take forward these improvements. This will align with the other work areas which capture the more detailed actions we will take towards embedding the Act.
   - **Longer-term financial planning** – To identify how we can further embed longer-term financial planning into annual budget preparations drawing on sources such as the Future Trends Report and approaches such as scenario modelling.
   - **Prevention agenda** – To demonstrate how we are taking forward the prevention agenda, building on the working definition agreed in 2019 with a focus on how we deploy our resources to support a shift in preventative activities.
   - **Responding to climate change and biodiversity** – To review how we need to change our budgetary approaches to respond to the challenges of climate change; including minimising carbon impacts and increasing biodiversity, based on current and emerging evidence.
   - **Transparency of Budgetary data** – To demonstrate our plans to publish financial data in more open and accessible formats to support its use.

2. **Fiscal & Economic Analyses and Assessing Impact:**
   - **Fiscal Analyses** – To develop capability to understand the distributional impact of both public spending and taxation decisions.
   - **Economic Analyses** – Developing the Chief Economist’s report to reflect the well-being goals, and developing Value for Money guidance to include consideration of the Act.
   - **Assessing Impact of budget decisions to improve outcomes** – To improve our processes around decision-making on spending proposals to better link spending to outcomes. This includes work to revisit and clarify purpose of the Strategic Integrated Impact Assessment (SIIA) of the budget and the evidence-base underpinning it and exploring and developing a gender budgeting approach.

3. **Infrastructure Planning** – Using the opportunity presented by the successor to the current Wales Infrastructure Investment Plan, this work stream aims to improve how we consider and align strategic priorities and decisions on capital investment, noting the long-term nature of capital expenditure and the need for greater integration. Opportunities to ensure alignment between long-term infrastructure planning and the capital budgeting process will be explored.

4. **Supplementary Budgets** – To develop a more comprehensive account on significant allocations from reserves. Consider developments occurring in other areas of the budget planning process and assess if and how these are appropriate for the supplementary budget process.

5. **Taxation Strategy** – To demonstrate how we are taking forward delivery under our tax policy framework aligned with our five tax policy principles. This area will explore how we can raise revenue to fund public services as fairly as possible. Tax should help deliver wider fiscal and policy objectives. We will ensure tax policy is simple, clear, progressive and stable, with legislative and administrative clarity and efficiency.

6. **Tax and Budget engagement** – To develop a strategic approach to engagement on the Budget, from raising awareness of public spending and taxation; engaging meaningfully with key stakeholders and individuals impacted by budget decisions to discuss and consider their views; and working collaboratively with stakeholders to shape improvements to spending and taxation proposals.

The conceptual diagram on the next page sets out the relationship between the different aspects of the annual Budget included in this Plan, and summarised above.
How does it all work together?

Tax and Budget Engagement

Annual Budget Setting and wider budgeting processes

- **FUNDING**
  - TAX STRATEGY
  - BLOCK GRANT

- **EXPENDITURE**
  - SPENDING DECISIONS
    - EMBEDDING ACT IN SPENDING DECISIONS
    - PREVENTION AGENDA
    - RESPONDING TO CLIMATE CHANGE AND DECREASES IN BIODIVERSITY
    - LONGER-TERM FINANCIAL PLANNING
    - TRANSPARENCY OF BUDGETARY DATA

- **SUPPLEMENTARY BUDGETING**

- **ECONOMIC ANALYSES**
- **FISCAL ANALYSES**
- **ASSESSING IMPACT**
- **INFRASTRUCTURE PLANNING**
Since 2017, the Finance Minister has held an annual ‘lessons learnt’ meeting with the Future Generations Commissioner and senior finance officials to reflect on the latest budget and discuss improvements for the next budget round.

New approach to focus on cross-cutting priorities to maximise the impact of resources. Budget preparations have been shaped by eight priority areas of early years, social care, housing, skills and employability, better mental health, decarbonisation, poverty and biodiversity. We recognise these eight areas as having the greatest potential contribution to long-term prosperity and well-being.

Engage with stakeholders (internal and external) to explore how Budget narrative can more clearly demonstrate how the Act has influenced decisions taken including the five ways of working and our Well-being objectives.

Focussed application of the prevention definition as part of delivery of the “Mental Health Delivery Plan 2019-22”.

Review the application of the prevention working definition as a tool to support a shift in funding preventative activities; consider how best to support wider application of the definition to activities.

Work with Departments to explore how to expand the application of prevention definition across all portfolios in all MEGs to support a shift in funding preventative activities. Linked with developments to the policy profession (through the Policy Capability Review), review how the definition can support and demonstrate increased preventative activities. Align this to spending, whilst applying definition to inform this approach. Work collaboratively with Finance teams to deliver training and guidance.

Subject to findings from previous work, explore how a whole Budget approach to preventative activity could be best supported. Consider commissioning an external review to test the value and outcomes of applying the prevention definition to Budget lines to support a shift to preventative activities.

Explore the feasibility and value of producing supplementary reports to the main Budget documentation on cross-cutting areas, working collaboratively across Welsh Government and aligning with Departmental publication plans e.g Poverty, Decarbonisation.

Subject to the new administration, review the approach on how we can measure the progress of our activities in delivering on the objective(s) they are aligned to.

Subject to Budget restructure, review the alignment of existing activities to identify opportunities for further collaboration across the organisation.

Present analysis and insight in Budget documentation to highlight and promote good practice.

Ongoing reflection on lessons learnt on approach to reporting on Prevention activities and progressing Prevention agenda including identifying any tools and further training needed to support wider application.
Spending Decisions

Responding to climate change and decreases in biodiversity

We have made use of current trends, future projections and the Chief Economist’s report to inform previous budget decisions but our aim is to fully integrate this analysis, including scenario modelling into budget planning to undertake longer term financial planning.

In March 2019, we published our Low Carbon Delivery Plan 2016-2020, which will set out policies and proposals to demonstrate the actions on how we will meet our first carbon budget, 2020 target and set us on our low carbon pathway to 2050.

Publication of Prosperity for All: A Low Carbon Wales 2016-2020 containing defined actions. Consideration of the allocation of capital as part of the 2020-21 Budget.

As well as working with a range of experts and governments we will engage with the HM Treasury led work on a Net Zero review. Continue to develop and publish second Low Carbon Delivery Plan 2021-2026 based on analysis of the UK Committee on Climate Change’s (UKCCC) advice received in May 2019 and further advice in 2020. This collaboration will be essential to influence and understand how the UK Government plans to use its levers, as well as influencing development of our own policies relating to financial and non-financial levers.

Publication of the second Low Carbon Delivery Plan 2021-26 which will contain defined actions and outline the actions we are taking as part of the allocation of the next financial budget.

Continue to develop the strength of the current evidence base to provide assurance around Value for Money to support prioritisation of investment. Review budgetary approaches against emerging evidence on decarbonisation and biodiversity, reviewing current spending plans to minimise carbon impacts and accelerating forward planning for those areas with which government interacts.

Enhance approach or promote existing approach to appraising financial decisions to avoid the risk that Welsh Government would support infrastructure that increases emissions without a clear understanding of how the impact would be mitigated and how the mitigation would be funded. Continue to explore the principle of aligning financial and carbon budgets, alongside developing the evidence base.

Build on previous and existing work to consider long-term funding needs.

Potentially work with stakeholders to produce shared longer-term plans and an approach to how indicative forecasts could usefully be used.

Look to see what lessons can be learnt from international stakeholders about how they undertake a longer horizon, particularly on revenue.

These will need to be a multi-year programmes and built on lessons from previous years.

Ongoing implementation of planned actions set out in the Low Carbon Delivery Plan 2021-26, including Welsh Government’s use of its other non-financial levers to influence reduction in carbon emissions.

Publication of a new Wales Infrastructure Investment Plan to be developed by drawing on a robust evidence base to integrate consideration of other essential benefits - including decarbonisation, and biodiversity – so that these major investments have the maximum positive impact on Wales’ wellbeing.

Align financial and tax plans to inform longer-term financial plans. Potentially work with stakeholders to produce shared longer-term plans and an approach to how indicative forecasts could usefully be used.

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<td>Distributional impact of Public Spending - undertaken research into models used elsewhere which analyse impact of spending across the income distribution.</td>
<td>Since the 2018-19 draft Budget, published figures showing departmental budget allocations at Budget Expenditure Level in open data format.</td>
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<td>Distributional impact of taxation decisions - established analytical capacity to undertake distributional analysis, providing information on the effect of tax decisions on different households in Wales. Developed a model using Welsh specific data.</td>
<td>Distributional impact of Public Spending level published figures showing departmental budget allocations at Budget Expenditure Level in open data format.</td>
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<td>Develop Chief Economist’s report alongside the annual Budget.</td>
<td>Developed and published guidance on Value for Money, setting out key economic principles on Value for Money (VFM) considerations in Wales, including in the context of the Wellbeing of Future Generations Act.</td>
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<td>First Government in UK to publish a comprehensive equality impact assessment of its spending plans.</td>
<td>Established the Budget Advisory Group for Equality (BAGE) to embed equality considerations into our spending plans.</td>
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<tr>
<td>Produced a Strategic Integrated Impact Assessment (SIIA) of the Budget since 2015-16.</td>
<td>The 2019 Chief Economist’s report will include an account of the fiscal risks associated with climate change.</td>
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<td>Engage with Commissioners who contributed views to Budget scrutiny, and scrutiny Committees, to explore their views on purpose and aims of the SIIA and how current approach can be developed to meet this clarified purpose.</td>
<td>Continued engagement with FSG officials about potential collaboration to develop a Welsh chapter to the HM Treasury Green Book, which is used to appraise and evaluate government policies, projects and programmes.</td>
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**Previous Years**

<table>
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<th>Activities that have been introduced</th>
<th>2020-21 Budget planning and production</th>
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<td>Published open data commitments in an Open Data Plan since 2016, with the latest commitments on financial engagement published in May 2019.</td>
<td>Explore the suitability of existing Welsh Government technology options that could be used to published and analysed more detailed budgetary information.</td>
<td>Publish Budgetary data in a more open format that can facilitate interactive interrogation.</td>
<td>Monitor and evaluate the use of a developed ‘budget data tool’ and any feedback gathered to inform its ongoing development.</td>
<td>Review effectiveness of distributional approach in budget spending scenarios, and decide on whether to fully embed.</td>
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<td>Explore potential for developing a specific Welsh model on distributional impact of public spending, using the National Survey for Wales and the Family Resources Survey. Test any model arising from this work to determine its usefulness and credibility.</td>
<td>Consider whether and how a Welsh Distributional Impact Assessment model for public spending could best aid and inform the budgetary process.</td>
<td>Attempt to incorporate Distributional impact capability into the budget impact assessment process.</td>
<td>Develop and pilot an approach to scenario analysis of Budget spending options using distributional data.</td>
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<td>Consider whether and how the developed model could further aid the tax policy and budgetary process.</td>
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**2019**

- Revisit and continuously develop the existing evidence base that helps inform high-level spending priorities, including sources that demonstrate longer-term trends in Wales.

- Work with the Welsh Government finance teams to explore their approach to impact assessment of spending decisions at portfolio level, to inform future plans about the SIIA of the budget.

- Implement an improved impact analysis of the Budget that effectively considers all the developments in previous years, in a way that more clearly demonstrates how the WFG Act underpins all these considerations. This will include addressing recommendations from a commissioned review (if applicable).

**2020**

- Consider the implications of the review of Welsh Government’s Integrated Impact Assessment Tool (expected Spring 2020), feedback gathered from Commissioners, and ongoing developments to enact the socio-economic duty as part of the Public Sector Equality Duty in Wales to explore whether new approach to the SIIA of the Budget is needed.

- (If agreed to pursue) In parallel, commission further work to reconsider the role of impact assessment of Budget decisions, to determine how the following considerations can be reflected to develop a robust and transparent approach to impact assessment of spending decisions:
  - Building on stakeholder’s views gathered on its purpose;
  - How to more effectively and visibly demonstrate the act as the underpinning framework for all other duties;
  - Developments to the IIA tool;
  - Developments to the distributional impact assessment of public spending in Wales;
  - Ambitions for gender budgeting including using a gender lens to take an intersectional approach;
  - Considering the balance of long-term versus short-term goals and impacts of spending decisions.

**2021**

- Identify actions that can be taken under the existing framework in the short-term while taking forward longer term work exploring alternate methods.

**2022**

- Consider whether and how the developed model could further aid the tax policy and budgetary process.
Based on stakeholder feedback and related developments to impact assessment, decide on the scale of improvements required, and determine whether to commission external input to help shape a new approach to the Impact Assessment of Budget.

Take stock of the gender budgeting pilot roll out and identify other priority areas to target. Take into account lessons learnt to date, including how the pilot can be used to take an intersectional approach to consider other protected characteristics.

Review the approach to date, and consider the value of commissioning a review of the approach to inform future implementation plans for gender budgeting.

Convene the existing membership of the Budget Advisory Group for Equality (BAGE) and other potential members in a workshop to develop a collaborative approach to agree the future role of the group, drawing on findings and recommendations from Welsh Government’s Gender Equality Review, published in Autumn 2019.

Consider extending the gender budgeting approach to other policy areas, aiming to integrate the chosen approach into the wider budget impact assessment considerations.

Ongoing review of the newly agreed purpose, role and membership of the Budget Advisory Group for Equality and if needed, refine the terms of reference and engagement mechanisms to maximise the value to all stakeholders. As part of this, consider how the group can best advise on a gender budgeting approach and related considerations.

Extend gender budgeting piloting further across portfolios in a way that best aligns with the ambitions identified in response to the 2019 Gender Equality Review recommendations. Produce interim reports on findings from gender budgeting pilot(s) to set out key findings and any changes in policy development or delivery as a result.

Work collaboratively with Welsh Government’s Organisational Development & Engagement Division to develop training to embed equalities competence in budgeting considerations across Welsh Government. Consider how best to draw on external expertise to advise on and support Welsh Government’s approach to policy development and allocation of financial resources.

Work collaboratively with key internal stakeholders such as Equalities teams, Heads of Finance, and the policy profession, to support the wider understanding and application of gender budgeting approaches to policy development and ‘budgeting’ activities across Departments.

(LONGER TERM) Develop a Welsh approach to gender budgeting in partnership with the Wales Centre for Public Policy and other experts as needed.

This will take into account the context in Wales and the Welsh Treasury’s role in developing the Welsh Government Budget to provide the high level strategic context and fiscal constraints within which the wider budgeting process takes place across all Welsh Government departments.

This approach will also need to be developed in collaboration with finance leaders within Welsh Government departments to recognise their role in determining budgets within individual Ministerial portfolios. This takes place independently of, but feeds into, the annual Welsh Government Budget.
### Infrastructure Planning

**Activities that have been introduced**

- Created the 10 year Wales Infrastructure Investment Plan (WIIP) and associated WIIP pipeline in 2012.

The expected carbon impact of investment proposals was an important consideration in the allocation of new capital funding as part of the Wales Infrastructure Investment Plan mid-point review 2018.

**Supplementary Budgets**

- The Explanatory Note to supplementary budgets has developed to provide commentary on how significant allocations from reserves align to government priorities and contributes to the requirements of the Well-being of Future Generations Act.

**Taxation Strategy**

- Published a Tax Policy Framework in 2017 to set out the Welsh Government's approach to tax policy and commitments to being open, honest and transparent about decisions in relation to Welsh taxes. It sets out the principles we will follow in developing our strategic approach to tax including the need for tax policy to meet Wales' well-being objectives. We produced 2017 and 2018 Tax Policy Work Plans and Welsh Tax Policy Reports.

- The Welsh Revenue Authority was established in October 2017 and began collecting land transaction tax and landfill disposal tax on their introduction on 1 April 2018.

### UK General Election

**2020-21 Budget planning and production**

- Commence the planning cycle for next the Wales Infrastructure Investment Plan.

**2021-22 Budget planning and production**

- Determine the capital reserve allocations for 2020-21 year, considering in particular biodiversity and decarbonisation considerations in deployment.

**2022-23 Budget planning and production**

- Continue the development of the successor to the WIIP, considering how infrastructure investment priorities can maximise their impact across a longer term horizon and how we might change supporting budgetary processes to better encompass biodiversity and decarbonisation decisions. Identify how to better align the WIIP with the National Development Framework and the National Infrastructure Commission for Wales.

**2023-24 Budget planning and production**

- Review delivery against the existing WIIP (and WIIP midpoint review).

**2024-25 Budget planning and production**

- Continue the development of the WIIP and its role in responding to the National Infrastructure Commission for Wales' report.

- Explore opportunities to draw on the new Carbon Budget to influence the development of the successor WIIP.

### National Assembly for Wales Election

**2021**

- Publish Annual Tax Policy Plan and report.

- Planned call for evidence to canvas stakeholders views on the merits and challenges of a potential tourism tax for Wales.

- Ongoing work to enhance Wales' tax capabilities in the areas of policy, analysis, communications & engagement, research & evidence, and administration.

- Potential public consultation on proposals for vacant land tax following work to secure necessary competence from UK Government.

- Review existing and potential new taxes to help secure Tax Policy Framework principles and objectives and to inform Ministers' decisions on potential areas for future development.

- Anticipated potential tax-related manifesto commitment by parties in advance of the May 2021 Senedd Cymru / Welsh Parliament election relating to Welsh rates of income tax, Landfill Disposals Tax and Land Transaction Tax and the wider tax devolution agenda.

### Previous Years

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- **2020**
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- **2022**
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- **2023+**
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- **2024-25 Budget planning and production**
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  - Ongoing work to enhance Wales’ tax capabilities in the areas of policy, analysis, communications & engagement, research & evidence, and administration.
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- **2025**
  - Activities that have been introduced
  - The Explanatory Note to supplementary budgets has developed to provide commentary on how significant allocations from reserves align to government priorities and contributes to the requirements of the Well-being of Future Generations Act.

- **2026**
  - Activities that have been introduced
  - Published a Tax Policy Framework in 2017 to set out the Welsh Government’s approach to tax policy and commitments to being open, honest and transparent about decisions in relation to Welsh taxes. It sets out the principles we will follow in developing our strategic approach to tax including the need for tax policy to meet Wales’ well-being objectives. We produced 2017 and 2018 Tax Policy Work Plans and Welsh Tax Policy Reports.

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### Tax and Budget Engagement

#### Activities that have been introduced

- Developed and published a Budget Calculator online and promoted through social media to encourage public to learn about budget.
- Ongoing activities to raise awareness of Budget e.g. Presentation at Eisteddfod.
- Budget Tours held across Wales with invited representatives from the third sector, public bodies and other interested groups to discuss budget matters.
- Invited citizens in Wales to engage with the Finance Minister ahead of an Assembly debate on new taxes, via an informal social media survey, with the intention of raising awareness about Wales' new tax-raising powers. This was followed up in November 2017 with a visit to a secondary school in north Wales and a social media campaign and survey on the four short-listed new taxes.
- Budget Advisory Group for Equality (BAGE) established in December 2012 to assist the Welsh Government in embedding equality considerations into spending plans.
- Tax Advisory Group, including three appointed tax specialists, established to advise the Finance Minister on the impact of Welsh taxes across sectors and citizens in Wales.
- Exploratory work in relation to Participatory budgeting to engage members of public about Budget matters.
- High level narrative developed for tax and public spending in Wales and used for Welsh Treasury messaging.
- Targeted stakeholder engagement for each of the shortlisted taxes.
- Working with HMRC to communicate Welsh rates of income tax with taxpayers. Broader work developing a high level narrative to engage wider citizens in Wales about taxes in Wales and how they contribute to Welsh public services. Baseline survey carried out with Beaufort Research Ltd and user testing undertaken with citizens to test messaging.
- Introduction of Welsh rates of income tax announced with a visit to a south Wales secondary school and a discussion with Year 6 pupils about how the Welsh Government raises its money and where it is spent.

#### 2020-21 Budget planning and production

- Ministerial engagement with representatives across 8 cross-cutting areas to convey key messages for 2020-21 budget.
- High level narrative developed to illustrate spend and impact. To be evaluated and tested through engagement.
- Moving from awareness to involvement, drawing on good practice identified, to help assess the impact of budget decisions and influence spending priorities.

#### 2021-22 Budget planning and production

- Identify best practice from public sector approaches to involvement.
- Explore opportunities to use social media and improve published budget documentation to disseminate key messages simply, to raise public awareness of Welsh Government Budget (Tax and Spending).
- (Also referenced under 'Assessing Impact') Convene the existing membership of the Budget Advisory Group for Equality (BAGE) and other potential members in a workshop to develop a collaborative approach to agree the future role of the group, drawing on findings and recommendation from Welsh Government’s Gender Equality Review, published in Autumn 2019.
- Explore other engagement opportunities with key stakeholder groups across Welsh Treasury, to determine how we could most effectively engage these groups to influence budget priorities.

#### 2022-23 Budget planning and production

- Review and refresh remit and role of Welsh Treasury’s Tax Advisory Group ensuring diverse input to inform tax policy as tax work moves into significant second phase.
- Further mapping and analysis of stakeholders for tax areas to ensure effective whole engagement effort for tax agenda. Review methods for measuring impact engagement efforts.
- Explore opportunities to engage across Welsh Government departments to develop narrative around spend and impact and increase reach.

#### 2023-24 Budget planning and production

- Welsh Treasury's annual tax conference (typically held before summer recess) - helping to deliver on our commitment to open, honest and transparent approach to tax policy. The conference aims to bring together stakeholders from across Wales, the UK and from international partners to help promote the Welsh tax agenda, share good practice and latest developments on tax policy and invite input to help inform policy development.

#### 2024-25 Budget planning and production

- Work with partner organisations, and draw on expertise from others such as WOPP, to explore ways of amplifying high level narrative across channels to increase understanding of devolution in Wales with the aim of encouraging more interest and engagement from wider citizens on how money is raised and spent in Wales.
- Reflect on learning and advice to inform and develop 3 year engagement strategy to build on and strengthen engagement efforts with the aim of increasing impact at both stakeholder level and amongst wider citizens in Wales on budget priorities.
Key

Review Point

**WFG Act** – Well-being of Future Generations (Wales) Act  
**SIIA** – Strategic Integrated Impact Assessment of the budget  
**IIA** – Integrated Impact Assessment  
**UKCCC** – UK Committee on Climate Change  
**WCPP** – Wales Centre for Public Policy  
**MEGs** – Main Expenditure Groups  
**BELs** – Budget Expenditure Lines  
**WIIIP** – Wales Infrastructure Investment Plan  
**NICW** – National Infrastructure Commission for Wales  
**FGC** – Future Generations Commissioner  
**BAGE** – Budget Advisory Group for Equality