



Wales Centre for Public Policy
Canolfan Polisi Cyhoeddus Cymru

Long-term approaches to fiscal & budgetary policy making in Wales

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Summary

- Following recent global crises, governments are strengthening and developing medium- and long-term approaches to fiscal and budgetary policy making, to enhance the sustainability of public finances, promote fiscal responsibility and shift the focus from immediate needs to future challenges.
- To support work on the next Welsh Spending Review, the Welsh Government asked the Wales Centre for Public Policy (WCPP) to review international practices in public financial management (PFM) which enable governments to adopt a medium- to long-term perspective in fiscal and budgetary decision-making.
- This report discusses various tools and practices used globally to enable medium- and long-term approaches to fiscal and budgetary decision-making, including studying long-term spending trends and pressures, strengthening the strategic phase in the budget process, spending reviews, medium-term budget frameworks (MTBFs), and strategic budget initiatives.
- Many governments study long-term spending trends and pressures in areas like ageing, health, and climate change to better create fiscal forecasts, anticipate events and plan accordingly.
- Strengthening the strategic phase in the budget process can help align financial resources with long-term policy goals, moving beyond short-term or ad-hoc budgeting. Starting the strategic phase early in the budgeting process, developing baseline scenarios, and forming a technical working group are recommendations for making the strategic phase of budget preparation more effective.
- While a brief overview is provided in this report, more detail about Spending Reviews and MTBFs is available in two linked policy briefings published alongside this report.
- Strategic budget initiatives can help governments to align their spending with medium-term social, economic, and environmental goals, enhancing resource allocation, policy coherence, and decision-making transparency. Implementing these initiatives gradually, securing strong political support, and investing in training can help to ensure their success.
- Adopting a medium- to long-term perspective in fiscal and budgetary policy making in Wales involves consideration of several key factors including the optimal budgeting timeframe, securing political commitment, strong institutional arrangements, legal and administrative frameworks, capacity building and transparency.

Introduction

Following a series of recent global crises which resulted in a need to navigate emergencies and prioritise immediate spending, governments worldwide are seeking to strengthen and develop medium- and long-term approaches to fiscal and budgetary policymaking to enhance the sustainability of public finances (World Bank, 2023b). Longer-term approaches are important in helping governments to improve long-term fiscal responsibility and discipline (World Bank, 2023b). They also encourage a shift away from simply responding to immediate needs to enable better planning for future challenges, opportunities, and broader political goals (such as demographic, climate, and technological changes) (Boston and Prebble, 2013; World Bank, 2023b).

Longer-term approaches to budgetary policymaking can promote confidence and trust in governments' ability to manage public finances responsibly by creating an environment of predictability, transparency, and accountability (Boston and Prebble, 2013). By communicating their fiscal strategies and long-term goals, and providing the public, businesses, and investors with information for evaluating the effectiveness of budgetary decisions, governments also signal their effectiveness in meeting their long-term goals. Indeed, longer-term approaches to budgeting can improve government performance (World Bank, 2023a). Improved confidence encourages businesses to invest in projects and expand their operations, which is crucial for economic growth. Similarly, the public can be more amenable to government policies when changes are implemented gradually over a longer horizon and the impacts of such policies “[unfold over a period of several decades](#)” (Posner & Rubin, 2000). A long-term approach also helps governments to more robustly monitor and evaluate their budgetary policies, with policies assessed and adjusted as needed to stay on track with long-term objectives.

Additionally, governments typically have multiple goals that cannot be fully accomplished within a single financial year. Therefore, prioritising spending across multiple budget cycles helps to balance competing expenditure pressures in the medium to long term (Long & Welham, 2016).

Policy Context

In June 2024, the Cabinet Secretary for Finance announced that the next Welsh Spending Review would move beyond immediate priorities to address key medium- to long-term challenges and opportunities (Senedd Cymru, 2024). This shift aims to advance a whole-government approach to identifying priorities and achieving outcomes. The next UK Spending Review will conclude in spring 2025, and although

the Welsh fiscal position will remain largely contingent on the overall settlement from the UK Government, the next Welsh Spending Review will also be able to draw on a range of approaches to adopting a medium- and long-term perspective in fiscal and budgetary decision-making.

The Research

To assist the Welsh Government, the Wales Centre for Public Policy was asked to review international practice in public financial management (PFM) techniques that facilitate longer-term fiscal and budgetary policymaking. Specifically, we explored:

- 1 How are governments internationally adopting PFM processes and frameworks to enable a more medium to long-term approach to fiscal and budgetary policy? In particular, which PFM processes and frameworks have been effective in helping governments to:
 - anticipate and plan for public spending pressures over a longer time horizon; and
 - better mobilise nearer term fiscal decision-making towards medium- and long-term policy outcomes?
- 2 What key lessons and best practices can be identified from their approaches, with a particular focus on:
 - case studies of how governments have tackled significant public spending challenges through longer-term planning; and
 - international examples that are comparable to Wales in terms of fiscal levers that are currently or potentially available to the Welsh Government?

Scope of the Report

This report introduces tools and mechanisms that have been used internationally to promote long-term, strategic fiscal and budgetary planning. These include:

- strengthening the strategic phase of the budget process;
- spending reviews;
- medium-term fiscal and budgetary frameworks; and
- strategic budget initiatives.

These tools and the ways in which they help governments to adopt a longer-term approach to their budgeting process are briefly outlined below before we discuss some of the key considerations for the Welsh Government when considering implementing approaches to adopting a longer-term perspective in budgetary

decision-making. International case studies illustrating the different approaches are provided throughout.

This overarching report on long-term approaches to fiscal and budgetary policymaking is being published alongside more in-depth policy briefings on **spending reviews** and **medium-term fiscal and budgetary frameworks**. The policy briefings discuss these approaches in greater detail to provide a more comprehensive overview compared to the general summary outlined in this report.

Incorporating a medium- and long-term perspective into fiscal and budgetary policymaking: key policy instruments and mechanisms

Governments that adopt a medium- and long-term perspective in fiscal and budgetary policymaking extend their focus beyond the annual budget cycle to carefully consider the future fiscal and policy implications of current revenue and expenditure decisions. This involves planning and implementing policies that focus on achieving sustainability and strategic goals over several years rather than just addressing immediate concerns, as well as consideration of the broader economic, social, and environmental impacts of policy decisions.

The main objectives of incorporating a medium- and long-term perspective into fiscal and budgetary policymaking include (Curristine et al., 2024; World Bank, 2013):

- Ensuring fiscal policies are sustainable over the long term by avoiding short-term measures that might risk future financial stability, helping governments to balance their budgets and manage public debt.
- Enhancing governments' ability to strategically plan and allocate resources to fulfil long-term priorities and goals.
- Providing a stable and predictable fiscal environment to encourage economic growth and investment.
- Improving transparency and accountability in government decision-making by providing a clear framework for assessing the effectiveness of budgetary policies over time.
- Improving governments' capability to plan for and mitigate against potential future challenges and uncertainties, such as those arising from demographic trends and climate change, improving their resilience to such events.

Countries with advanced budgeting systems use various mechanisms and instruments to better understand and consider medium- and long-term spending pressures to ensure these are appropriately accounted for in resource allocation decisions. The following mechanisms and instruments are discussed below:

- Analysis of long-term spending trends and pressures
- Strengthening the strategic phase of the budget process
- Spending reviews
- Medium term fiscal and budgetary frameworks
- Strategic budget initiatives

Analysis of long-term spending trends and pressures

Many governments invest in the study and analysis of long-term spending trends and pressures in critical areas such as ageing, health, and climate change. This can help to inform governments about long-term fiscal pressures, develop fiscal forecasts, anticipate future challenges and plan accordingly.

Many countries also conduct sector-specific reviews, particularly in vital sectors like health and defence. While these studies, and the ensuing fiscal forecasts, are affected by the inherent level of uncertainty about the future, they represent sustained efforts to anticipate and plan for potential long-term spending pressures.

Case Study: Australia and New South Wales' Intergenerational Reports

The Australian Government is required to produce an intergenerational report every five years, projecting the outlook for the economy and the Australian Government's budget over the next 40 years. The reports examine the long-term sustainability of current policies and how demographic, technological and other structural trends may affect the economy and the budget. Similar trends and drivers are examined in the Welsh Government's Future Trends Report, produced at the beginning of each Senedd term in line with the requirements of the Well-being of Future Generations (Wales) Act 2015 and in the Wales Economic and Fiscal Report produced by the Chief Economist alongside the draft budget.

The **2023 Intergenerational Report** is the sixth intergenerational report to be published, projecting the outlook of the economy and the Australian Government's budget to 2063. It provides analysis and projections of the key drivers of economic growth to inform and improve public policy settings to better position Australia for the next 40 years.

The report considers 5 major forces affecting the coming decades:

- population ageing
- technological and digital transformation
- climate change and the net zero transformation
- rising demand for care and support services
- geopolitical risk and fragmentation.

The report includes a 'Methodology and assumptions' section which outlines how projections have been calculated for the required correction to safeguard the expenditure ceiling.

New South Wales

New South Wales (NSW) is the largest sub-national economy in Australia. The NSW Government also produce an Intergenerational Report to inform policies to respond to projected population, economic and financial changes. Their current [report](#) looks 40 years into the future to 2061.

NSW Treasury publish a series of '[Treasury Technical Research Papers](#)' to present the underlying assumptions and methodologies used to inform the intergenerational reports, policy advice, as well as subsequent research.

Sources: Australian Treasury, 2023; New South Wales Treasury, 2022, Welsh Government 2021, Welsh Government 2024

Strengthening the strategic phase of the budget process

In the budget process, the strategic phase is the phase in which high-level political decisions are incorporated into the specific financial allocations that comprise the budget; these high-level political decisions include choices about the allocation of budget resources in line with the government's policy priorities and the desired mix of different types of expenditure, such as revenue and capital investment. Typically, the strategic phase involves three overlapping activities (Long & Welham, 2016):

- top-down determination of the aggregate resource envelope, often a largely technical process of macroeconomic and fiscal forecasting, but which may also incorporate political decision-making (for instance on tax and borrowing);
- a bottom-up process of costing key expenditure categories; and

- reconciling these technical inputs with political and policy priorities, in order to formulate detailed guidance on budget preparation to issue to spending departments and agencies.

The latter often takes the form of a ‘budget circular’ which codifies the high-level political and policy decisions made during the strategic phase into a set of specific spending conditions, priorities and constraints on some or all spending institutions; spending agencies must subsequently prepare their detailed budgets in line with these. In some contexts, spending agencies are issued with indicative budget planning ceilings to elicit bottom-up input into the strategic phase, before final budget ceilings are approved and issued in the budget circular.

Strengthening the strategic phase of the budget process can assist in effectively aligning financial resources with medium- and long-term policy priorities and to move beyond short-term or ad-hoc budgeting, especially in sectors that require sustained investment, such as education, health, or infrastructure.

However, governments can face challenges in implementing the strategic phase, including data limitations and weak institutional frameworks, which can hinder progress in incorporating it. Political and institutional constraints, including entrenched spending patterns and resistance to change can further complicate the process (Long & Welham, 2016). Additionally, governments may face challenges in aligning policy priorities with available resources (Nicol & Dosen, 2023).

Long & Welham (2016) provide recommendations on how to make the strategic phase more effective.

1 Beginning the strategic phase early in the budget cycle.

Starting early enables better coordination of analytical inputs, which helps translate political priorities into financial targets. Delaying the strategic phase can lead to political interference, administrative issues, and a lack of necessary information, postponing critical decisions until budget execution. To start early, Schiavo-Campo and Tommasi (1999) and Shah (2007) recommend:

- **Obtaining political decisions early:** Structuring the strategic phase to ensure difficult choices are presented to political leaders at the earliest opportunity increases the chances of clear budget policy constraints being implemented.

- **Avoiding delays in macroeconomic and fiscal forecasting:** Strategic budgeting, including macro-fiscal forecasting, should be a continuous activity.
- **Ensuring the budget process is not open-ended:** Without active management, political leaders might issue instructions and priorities at unplanned points or not at all, which can cause the strategic phase to extend into the phase in which detailed budgets are prepared.

Many countries use a formal budget calendar to allocate adequate time for key activities to the organisations and individuals with defined responsibilities that must be carried out within a given timetable during the strategic phase. Budget calendars also help communicate the timing and nature of expected inputs to external stakeholders. The budget calendar should be developed and agreed with key stakeholders to make sure the time scheduled for certain actions are realistic. This can also increase buy-in from stakeholders. While delays are common, the budget calendar can build in margins to try and accommodate them without too much negative impact. Analysis at the end of the budget cycle to review implementation of the previous year's budget calendar can be used to redesign the calendar for the next budget cycle to bring it closer to reality.

2 Developing specific baseline scenarios and other options for headline macroeconomic and fiscal variables

This can significantly streamline decision-making for senior political leadership. By presenting different scenarios, it can be easier for politicians to make decisions compared to starting from scratch with an infinite set of possibilities.

A straightforward method involves using the first iteration of a macroeconomic framework as the baseline scenario to forecast what is likely to happen if current policies remain unchanged. Once the baseline scenario is established, different policy scenarios (e.g., adjustments in taxation) can be worked in. The implications of the policy scenarios for the expenditure envelope can then be presented as explicit options for political consideration, helping to guide and focus decision-making.

3 Forming a technical working group

A working group dedicated to producing the macroeconomic framework and the resulting expenditure envelope can help ease the coordination of the

various actors involved in the process. The creation of a formal technical working group can assist in establishing the necessary information flows and working relationships to maintain a standard macroeconomic and fiscal forecast useful for the strategic phase. It can also formalize and institutionalize the forecast production process, allowing for targeted capacity-building efforts.

Spending reviews

Spending reviews are an important tool in helping governments incorporate a medium- and long-term perspective into fiscal and budgetary policymaking. They provide a structured framework for governments to evaluate current spending patterns, allowing them to prioritise spending based on both immediate needs and future challenges (Bova et al., 2020). By identifying areas where resources can be reallocated, governments can shift spending to investments that yield the greatest benefits for society (Robinson, 2013).

Spending reviews allow governments to adopt a multi-year approach to budgeting (Bova, Ercolo & Vanden Bosch, 2020), which can help smooth out budgetary cycles and reduce the pressures of short-term fiscal constraints. Additionally, they help governments identify areas that may be unsustainable in the future (Doherty & Sayegh, 2022). By analysing these trends, spending reviews provide recommendations for reforming programmes to ensure their financial viability in the long run, thus supporting overall economic stability.

It is important to note that the definition of spending reviews varies across countries and are shaped by their purpose and the way they are conducted. For example, in the UK, spending reviews are used to describe the process whereby the Government sets out departmental spending plans and is therefore more akin to medium-term budgeting (Bartrum and Paxton, 2024). In other countries, spending reviews are used to assess governments' baseline expenditure for a range of purposes including identifying potential savings, improving the effectiveness of public spending and programme impact and better aligning spending with government priorities.

More details and international case examples are provided in our linked policy briefing on spending reviews.

Medium-term fiscal and budgetary frameworks

Medium-term fiscal and budgetary frameworks (MTFBs) are another tool used by governments to take a more medium to long-term approach to fiscal and budgetary policymaking by extending the horizon of fiscal and budgetary decisions beyond the

annual budget cycle. MTFBs enable the government to plan resource allocations over multiple years, supporting long-term policy agendas that require medium- to long-term fiscal planning. Not all countries make resource allocations across multiple years. Instead, they plan their budgets with a medium-term perspective in mind, but budget allocations are made on an annual basis, and no commitments are made beyond this.

MTFBs are considered to bring multiple benefits to fiscal and budgetary decision-making (World Bank, 2023, Moretti, 2023, Harris, et al., 2013). They ensure that fiscal objectives and constraints are translated into strategic priorities which encourages better alignment of spending decisions with the government's broader fiscal goals, rather than merely responding to short-term needs. Furthermore, by providing a medium-term perspective, MTFBs reduce budgetary volatility and help move away from unproductive spending towards more stable and predictable budgeting, which is important for fiscal sustainability. The longer-term perspective offered by MTFBs brings greater realism to budget formulation and offers a clearer basis for fiscal discipline, thereby improving government accountability. Additionally, MTFBs provide mechanisms for prioritising expenditures within agreed timeframes, helping expenditures align with medium-term fiscal objectives and policy priorities, which are crucial for maintaining a balanced budget over time (Network of EU Independent Fiscal Institutions, 2021).

With clear accountability arrangements, MTFBs allow the public and legislature to assess governments' adherence to their long-term fiscal and budgetary objectives by holding governments accountable for their fiscal strategy over multiple years (Harris et al., 2013). By integrating medium-term fiscal objectives into the political decision-making arena, MTEFs ensure that budgetary policies reflect long-term goals rather than short-term political considerations.

While uncertainty exists regarding future demands, MTFBs help mitigate this by providing a framework to assess the fiscal space available and decide on reallocation (Harris, et al., 2013). This supports governments to stay on track to meet medium-term fiscal targets. Effective MTFBs are also linked to the annual budget process, allowing for a cohesive approach that connects long-term fiscal objectives with short-term budgetary decisions (Curristine et al., 2024).

More details and international case examples are provided in our linked policy briefing on medium-term fiscal and budgetary frameworks.

Strategic budget initiatives

Strategic budget initiatives support governments to better align their spending with medium-term social, economic, and environmental goals (Nicol & Dosen, 2023). They enhance the efficacy of resource allocation and policy coherence across departments to enable a more coordinated and sustainable policymaking environment, and promote transparency in decision-making, helping to hold governments accountable for their spending decisions, particularly in long-term goals such as gender equality and environmental sustainability.

Examples of strategic budgeting initiatives, such as gender budgeting and green budgeting, demonstrate how governments can channel resources toward achieving long-term objectives. By implementing an initiative, governments can also send a clear message that certain goals are a political priority and help foster long-term commitment to the initiative's objectives (Nicol & Dosen, 2023). Multiple objectives can be implemented, but governments are advised to implement strategic budgeting initiatives gradually to avoid overwhelming existing systems (Nicol & Dosen, 2023).

A central coordination mechanism, such as a central budget authority can help with the management of strategic initiatives, facilitating inter-departmental collaboration and a reduction in siloed practice, which is vital for sustained long-term goals (Nicol & Dosen, 2023). Strong political support and, in some cases, legal backing are also important for the success of strategic budget initiatives to ensure that these long-term goals are embedded into the budgeting process (OECD, 2023). Governments also need to invest in training staff and resources, particularly in areas like impact assessment, which are essential for evaluating the long-term effects of budgetary decisions for strategic budgeting initiatives to have the greatest chance for success (Nicol & Dosen, 2023). Tools like impact assessments, and spending reviews are vital for monitoring the effectiveness of strategic initiatives over the long term and helping budget allocations to continue to align with ongoing and evolving priorities.

Case Study: Green Budgeting in Brittany, France

In 2020, the French region of Brittany embarked on developing its own green budgeting process to align its financial decisions with environmental and climate objectives. To develop their approach, Brittany was provided with methodological support from the Institute for Climate Economics and participated in a green budgeting working group alongside other French regions to facilitate knowledge exchange. As a result, climate budget tagging, which is a method used to assess the environmental impact of budget allocations by categorising expenditures based on their contribution to climate adaptation and mitigation, was applied to test ex-post on its 2020 accounts and understand how regional financial decisions aligned with climate goals. The exercise provided valuable insights into the region's spending patterns concerning climate adaptation and mitigation for medium-term decision-making.

Brittany faced several challenges throughout the pilot. A key challenge was that integrating climate considerations into existing financial systems required capacity-building amongst staff unfamiliar with environmental budgeting. Challenges also arose in developing a clear and standardised criteria for assessing expenditures which proved to be a complex process (e.g. for items with mixed climate impacts).

Despite these challenges, several factors contributed to the success of Brittany's green budgeting initiative:

- High-level political and administrative support ensured that the project had both the drive and the necessary resources to proceed.
- A collaborative approach involving multiple departments fostered cross-sector engagement and knowledge-sharing and helped to address resistance to change.
- Aligning the budgeting process with Brittany's existing climate and environmental strategies helped to reinforce the region's broader sustainability goals.
- By piloting climate budget tagging ex-post before integrating it into forward-looking financial planning, Brittany had the opportunity to refine its approach, learn from how their financial decisions had impacted on climate goals and make it more longer-term focused and effective for future implementation.

Building on the insights gained from the pilot phase, Brittany refined its green budgeting methodology for full adoption in its 2023 draft budget, citing a dedication to enhancing the transparency and effectiveness of its environmental actions through informed financial decision-making.

Sources: OECD, 2022

Adopting a medium- to long-term approach to fiscal and budgetary policy making in Wales: Key considerations

This report and the two linked policy briefings highlight several key considerations for the Welsh Government as they seek to strengthen their approach to adopting a medium- to long-term perspective in fiscal and budgetary policy making. However, insights from the literature and international case studies must be considered in relation to the specific context of Wales and the policy levers available to the Welsh Government. Here, we explore several key factors highlighted in this report and the accompanying policy briefings as important for the success of medium- to long-term

fiscal and budgetary policy making in the context of Wales. Related questions for consideration by the Welsh Government are listed in Appendix 1.

1 Budgeting timeframe

Adopting a medium- to long-term perspective in budgetary requires careful consideration of the timeframe for budget allocations. A key decision is whether budget allocations for ministries and departments should be given on an annual or multi-year basis. If a multi-year approach is chosen, it must be determined whether the budget process should align with the political cycle or be set independently and follow a rolling timeframe (for example, 3 years or 5 years). Neither approach is inherently superior. However, multi-year budget allocations require a high degree of revenue predictability; without this, an annual approach may be more appropriate. This should not be interpreted as meaning that medium-term budgeting itself is dependent on a high degree of revenue predictability. Indeed, an annual approach to budget allocations is fully compatible with the core principle of medium-term budgeting: that all spending and tax decisions are made from a medium-term perspective, with an understanding of their budget impact not just for the next 12 months, but for the outer years of the medium-term framework. This is less dependent on revenue predictability, and more on capacity to accurately forecast costs of existing and new policies over a multi-year timeframe (see the points on forecasting below).

2 Political commitment

Effective fiscal planning requires political commitment at the highest level, as well as wider political support. The note of wider political support also raises the question of how to ensure cross-political buy in for stability across electoral cycles, especially when a multi-year approach to budgeting is applied and a rolling timeframe is set independently of the political cycle. A degree of flexibility for some discretionary spending to balance political choice and fiscal robustness is encouraged, but the degree of flexibility is another question for consideration. Accountability and accountability mechanisms should also be decided and managed at the political level, with defined fiscal objectives that as far as possible have cross-party agreement.

3 Institutional Arrangements

If there is not already a clear assignment of overarching responsibility for upholding the budgetary process and overseeing budget reform, a decision regarding who should undertake these roles, as well as an assessment of their

ability to do so, is needed. An assessment of ability may signal the need for capacity building. Responsibility for scrutinising forecasts should also be considered. The trend internationally is to have independent scrutiny of budget and macroeconomic forecasts by an expert body. The UK Government goes even further in assigning the forecasting role to the Office of Budget Responsibility. Either of these approaches requires appropriate forecasting expertise.

4 Legal and Administrative Frameworks

In some countries, elements of the budgetary process are enshrined in law which raises the question about whether PFM practices, including those governing budgeting, need to be codified in law in Wales. This can be helpful in ensuring departments engage in processes and procedures, however, it can be difficult to change laws once enacted, hindering the flexibility of budgetary mechanisms which can present its own set of challenges as practice will likely evolve over time. The Welsh Government may wish to consider whether Wales should, in time, implement a Public Financial Management Act to codify the fiscal framework; or, indeed, whether practice could be codified in another way, for example, via statutory guidance or regulations. Debate in the Senedd would help build consensus, but there must be clarity regarding the process, timetable, and both short- and long-term plans for implementation in the meantime. Consideration should also be given to whether reforms should be implemented in stages or piloted first. Starting with a pilot phase could help develop a credible process, allowing Wales to build capacity over time. Training staff within the Treasury and other ministries will be essential to ensure smooth implementation. To guide this process, it is important to consider what coverage the Welsh Government should seek to introduce in the initial phase, what role capacity-building will play and who will be responsible for it.

5 Implementation, monitoring and reporting

The Welsh Government's intention to establish a permanent spending review process whereby baseline expenditure is assessed, is a positive step toward aligning short- and medium-term priorities. However, the success of spending reviews relies on effective implementation and monitoring. To ensure this, it is important to consider how Wales can integrate existing medium-term processes into a comprehensive fiscal framework and who will be responsible for monitoring and ensuring the delivery of reforms. International best practice indicates that parliaments should oversee these processes, with clear

responsibility assigned to relevant institutions, who will often need additional resources and training to support them with their responsibilities.

6 Independent forecasting capability

Credible, independent forecasting, along with creating different scenarios that take potential risks into account is vital for long-term fiscal planning and risk management and should be integrated with the strategic phase of the budget process. Decisions about the frequency of updates, how forecasts are constructed, and who is responsible for them need careful consideration. In countries with advanced budgeting frameworks it is common for independent fiscal institutions to play a role in producing or scrutinising estimates of the medium- to long-term fiscal and budgetary implications of government policies, as the UK's Office of Budget Responsibility (OBR) does for UK Government policy decisions as part of its multi-annual forecasts for the UK economy and public finances. While the Welsh Government currently commissions the OBR to produce revenue forecasts for devolved Welsh taxes, the OBR does not produce a full macroeconomic forecast for Wales or forecast Welsh Government spending, in line with the requirements in its founding (UK Government) legislation. The question of how to strengthen the role of independent forecasting capability in producing or scrutinising estimates of the medium- to long-term expenditure implications of Welsh Government policies may be an area for future consideration.

7 Transparency

Transparency is essential for securing political commitment and maintaining support across parliaments and the public. It helps to clarify decision-making processes and financial priorities. Fiscal transparency, as demonstrated by New Zealand, is crucial, with initiatives like Citizens' Budgets can assist with helping the public understand how resources are raised and spent. To improve fiscal transparency, it is important to consider steps the Welsh Government can take, such as whether a Citizens' Budget document should be prepared for wider dissemination and what regular documents should be published to promote transparency.

Case Study: New Zealand's focus on transparency

New Zealand's fiscal policy framework, the set of rules that government must adhere to when setting fiscal policy, is based on transparency. Rather than emphasising compliance with a set of legally binding rules, it focuses on disclosure of information. New Zealand have taken this approach as they judge it to provide effective incentives for New Zealand governments to conduct responsible fiscal policy. A legislated fiscal rule will not necessarily reflect the current government's view of good fiscal policy and is, therefore, more likely to be breached. A transparency-based framework is also typically more flexible than a legislated fiscal rule. For instance, a cap on Crown borrowing could compel a government to cut spending even if evidence suggests that such cuts would negatively impact economic growth or overall living standards. Successive New Zealand governments have rejected changing this approach to adopt a legislated fiscal rule.

The Open Budget Survey (OBS) assesses budget transparency by measuring public access to information on how governments raise and spend public resources. It evaluates the online availability, timeliness, and comprehensiveness of eight key budget documents. New Zealand scored highly in the latest results, publishing all eight documents. Furthermore, with their shift to Wellbeing Budgeting, New Zealand now also releases data on living standard outcomes, a practice not common in many other jurisdictions or assessed by the survey. However, the survey identified a key area for improvement would be to enhance the current Citizens Budget to provide a simpler and less technical version of the government's budget to make it more accessible and understandable for the public.

Sources: New Zealand Treasury (2015); International Budget Partnership (2023).

8 Promoting cross-government working

For a medium- to long-term fiscal approach to succeed, cross-government collaboration is essential. South Africa's approach, which divides government into broad functional areas as described in the case study below, could serve as a good model for Wales to promote inter-departmental cooperation.

Case Study: Promoting cross-government working in South Africa

In 2014, the South African Government established seven government clusters. These are groupings of government departments with cross-cutting programmes. The clusters are:

- Infrastructure Development
- Economic Sectors and Employment
- Governance and Administration

- Human Development
- Social Protection and Community Development
- International Cooperation, Trade and Security
- Justice, Crime Prevention and Security

Their main objective is to ensure proper coordination of all government programmes and their alignment with government-wide priorities, helping foster an integrated approach to governance to improve decision-making, service delivery and coordination across national and provincial levels. They also provide a consultative platform for cross-cutting priorities and matters being taken to the Cabinet. This systematic approach aims to streamline government efforts, resulting in more efficient and cohesive governance.

Source: South African Government (n.d)

Conclusion

Adopting a long-term approach to fiscal and budgetary policy making offers significant advantages for the sustainability, predictability, and efficacy of public finances. By focusing on long-term goals, governments can move beyond reactive fiscal decisions and better prepare for future challenges, such as demographic shifts, climate change, and technological advancements. Tools such as MTEFs, strategic budgeting initiatives, and spending reviews can all help governments adopt longer-term budget and fiscal policy making.

International best practice cases can provide important insights for Wales as it navigates the task of budgetary reform in order to balance current fiscal pressures with future demands. The question of how best to design the budget process to reflect long-term priorities is complex, and no single approach offers a definitive solution. However, by making gradual reform and ensuring there is strong political and institutional support and frameworks in place, Wales could better secure a more stable, transparent, and resilient fiscal future, ultimately fostering economic prosperity, social equity and environmental responsibility.

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Appendix

Appendix 1 – Questions for consideration

Budgeting timeframe	<p>What should medium-term budgeting look like in Wales – should ministries/departments be given multi-year or annual fixed budget allocations?</p> <p>Should the budget timeframe align with the political cycle, or set independently to follow a rolling timeframe?</p> <p>What medium to long-term planning documents should underpin the budget?</p>
Political Commitment	<p>How can political commitment, including cross party political support, be developed in Wales?</p> <p>To what extent should the budgeting approach allow flexibility to robustly balance political choice and flexibility?</p> <p>What accountability mechanisms need to be in place?</p>
Institutional Arrangements	<p>Who should have responsibility for upholding the budgetary process and overseeing budget reform?</p> <p>Is there a need for capacity building to allow these roles to be undertaken effectively?</p> <p>Who should be responsible for scrutinising forecasts? Do they have the appropriate expertise?</p> <p>Would the creation of a technical budget advisory group help in driving through and guiding some of these initiatives?</p>
Legal and Administrative Frameworks	<p>Is there a need to codify PFM practices either in law or regulations?</p> <p>What is the short- and long-term ambition for reform? How will this be communicated and disseminated across the Welsh Government?</p> <p>How will the Welsh Government implement reforms gradually? Will there be a pilot phase? How much reform should be introduced in the initial phase?</p> <p>Who will be responsible for capacity building?</p>

Implementation, monitoring and reporting	<p>How can existing medium-term processes be integrated into a new comprehensive fiscal framework?</p> <p>Who will be responsible for monitoring and ensuring the delivery of reforms? What training is needed to ensure proper monitoring and delivery?</p>
Independent Forecasting Capability	<p>Does Wales need an independent forecasting entity?</p> <p>How frequently are forecasting updates needed and how should they be constructed?</p> <p>How can the existing reports be used alongside other forecasting inputs?</p> <p>How will risks be explicitly addressed and mitigated?</p>
Transparency	<p>What further actions can be taken to improve fiscal transparency in Wales?</p> <p>Should a Citizen's Budget document be prepared for wide dissemination?</p> <p>What documents should be published on a regular basis to improve transparency?</p>
Promoting cross-government working	<p>What mechanisms could be used to promote cross-Government working in Wales?</p>

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