

National Assembly for Wales
Finance Committee

Scrutiny of Welsh Government Draft Budget 2016-2017

February 2016

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



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Finance Committee

The Committee was established on 22 June 2011. The Finance Committee's role is to carry out the functions set out in Standing Order 19. This includes consideration of the use of resources by the Assembly Commission or Welsh Ministers, and in particular reporting during the annual budget round. The Committee may also consider any other matter relating to expenditure from the Welsh Consolidated Fund.

The Finance Committee's remit also includes specific statutory powers under the Public Audit (Wales) Act 2013 relating to new responsibilities for governance oversight of the Wales Audit Office.

Current Committee membership:



Jocelyn Davies (Chair)
Plaid Cymru
South Wales East



Peter Black
Welsh Liberal Democrats
South Wales West



Christine Chapman
Welsh Labour
Cynon Valley



Mike Hedges
Welsh Labour
Swansea East



Alun Ffred Jones
Plaid Cymru
Arfon



Ann Jones
Welsh Labour
Vale of Clwyd



Julie Morgan
Welsh Labour
Cardiff North



Nick Ramsay
Welsh Conservatives
Monmouth

The following Member attended as a substitute during the course of this inquiry:



Jenny Rathbone
Welsh Labour
Cardiff Central

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Chair's foreword

Members of the Finance Committee approached the scrutiny of this draft budget with our usual determination to ensure that the spending plans of the Welsh Government will achieve value for money for the Welsh people. In these times of austerity and reduced public spending, we think it is more important than ever that the spending plans of the Welsh Government are properly scrutinised and providing outcomes which will benefit the people of Wales.

One of our main considerations this year has been the allocation of almost half the Welsh Government's total budget to health. Whilst we do not doubt the allocations to health are needed, we remain concerned that there appears to be no firm plan for transforming the health service to ensure a focus on wellbeing and healthy living. This links to our continued concerns on preventative spending. Throughout the Fourth Assembly we have been keen to see allocations being spent in a manner which prevents problems arising later on. This is why we wish to see the Welsh Government undertaking work to ensure non-statutory services in Local Government are continued. The benefits of local government services such as leisure centres, parks and libraries, cannot be underestimated in terms of ensuring a healthy population. We envisage these sort of facilities playing a primary role in supporting the health of the Welsh nation.

However, whilst as a Committee we were keen to see these local government services continue, we also recognise that Local Government, on the whole, were relatively content with their settlement. With this in mind I hope health and local government will continue to work together to improve on and increase the number of examples of joint working we heard from both sectors during our scrutiny.

We received a great deal of evidence, both formal written and oral evidence to the Committee and more generally during the scrutiny period in relation to funding for higher education services. We heard evidence in relation to how the proposed cuts will impact on services being offered by universities and we have urged the Welsh Government to reconsider these cuts in light of the evidence received. It was clear that a reduction in funding of this level will reduce the ability to prioritise widening access and will impact on

students wishing to study part time, or through the medium of Welsh. Additionally, as a Committee we were concerned about how these cuts would impact on the level and quality of research being undertaken by Welsh universities.

Due to the Spending Review taking place in the Autumn 2015 term, this draft budget was laid shortly before the Christmas recess. Whilst appreciating this timing was not ideal, as a Committee we felt this provided us with the opportunity to consult on the actual figures contained in the draft budget (as opposed to our usual consultation on expected allocations). We received 32 responses, this is significantly more than we have received in previous years and I believe this shows the benefit of a consultation taking place after the draft budget has been published. I sincerely hope that the changes to the budget process that will take place before the devolution of some tax raising powers in 2018, will allow the future Finance Committee to continue this practice.

The scrutiny of this draft budget is the last one to be considered by the current Finance Committee in the Fourth Assembly. Indeed, the outcomes of the funding being allocated by this draft budget will be scrutinised by Members of the Fifth Assembly. As such I hope our scrutiny of this draft budget and resulting recommendations are accepted by the current Welsh Government for implementation by the next Government.

A handwritten signature in cursive script that reads "Jocelyn Davies".

Jocelyn Davies AM

Chair

Recommendations and Conclusions

Conclusion 1: The Committee will be considering how the quality of financial information accompanying legislation could be improved and presented more clearly in its upcoming legacy based work. (Page 19)

Recommendation 1: The Committee still wishes to see a firm and consistent definition of preventative spend agreed and recommends information is included in Welsh Budgets to show both the proportion of the Welsh Budget that is being directed towards preventative spend and how this is increasing over time. (Page 24)

Recommendation 2: The Committee recommends that the Welsh Government work with public services in Wales to identify and understand variations in the way services are delivered, with a view to encourage and promote new practice as it emerges. (Page 24)

Conclusion 2: While supporting prioritisation of the health service, the Committee continues to question the justification of the additional health spend on the evidence of one report and would like to see how such needs are balanced against evidence of pressures in other key areas of the public sector which can impact on health spend. (Page 31)

Conclusion 3: The Committee did not receive sufficient evidence that the additional funding allocated in 2016-17 to health will lead to significant reform and service improvements rather than funding inefficiencies or compensating for overspends. (Page 31)

Conclusion 4: Whilst welcoming the examples of the impact that the Intermediate Care Fund was having on the collaborative provision of preventative services, the Committee did not receive sufficient evidence that the balance of funding was shifting significantly towards preventative healthcare that will reduce demands on the health service in the future. (Page 32)

Recommendation 3: The Committee recommends the Welsh Government commit to a visibly supportive approach where service transformation is needed and sought by the NHS, and also ensuring there is clear and effective dialogue with and involvement from the

public and front-line professions to understand and influence any service changes. (Page 32)

Conclusion 5: The Committee was impressed with evidence provided of the impact of the Intermediate Care Fund and welcomes the additional funding to protect social services. However, the Committee notes that there will still be real term cuts to overall social services budgets and the reduction in local government funding will have a significant impact on non-statutory services such as leisure facilities and libraries which will put further pressure on the health service. (Page 37)

Recommendation 4: If the trend of health service spending continues to be an increasing proportion of Welsh Government spend throughout the rest of the Spending Review period, the Committee is concerned that many non-statutory services will become unsustainable unless alternative delivery mechanisms are put in place and recommends the Welsh Government commit to undertaking work to limit the impact of cuts in these areas. (Page 37)

Recommendation 5: The Committee acknowledges that this year's settlement has an adverse effect on rural authorities such as Powys and recommends a funded floor is introduced in the Final Local Government settlement to limit the maximum cuts in individual authorities in order to protect service delivery. (Page 40)

Recommendation 6: Whilst recognising that the local government settlement will always result in some authorities having a more favourable settlement than others, the Committee recommends that the Welsh Government commit to undertaking a fundamental review of the funding formula and the data used for the local government settlement. (Page 41)

Conclusion 5: In making Recommendation 6 the Committee recognises that revising the formula will not increase the total amount being distributed, but hopes a revised formula will result in a fairer settlement for all authorities. (Page 41)

Recommendation 7: The Committee recommends the allocations to Higher Education are revisited in light of the evidence received by Finance Committee and the concerns raised by the relevant policy committees. (Page 48)

Conclusion 6: The Committee are concerned about the lack of progress in reducing poverty. While accepting that the main method to reduce poverty is through taxation, wage levels and benefits, which the Welsh Government does not control. The Committee believe that Welsh Government policy programmes have been too focussed on alleviating poverty, rather than the root causes (such as the creation of secure jobs). (Page 54)

Recommendation 8: The Committee recommends the Welsh Government reconsider the benefit of area-based approaches to poverty reduction and promotes a more joined up approach to poverty reduction in formation of all policy across all departments. (Page 54)

Recommendation 9: The Committee recommends that the Welsh Government ensure that the protection offered to the supporting people budget will result in a protection of front line service delivery. (Page 54)

Conclusion 7: The Committee intends to write to the Auditor General for a view on whether the presentation of changes to year-on-year allocations in the Draft Budget narrative is appropriate. (Page 63)

Recommendation 10: The Committee believe that the different presentation of year-on-year comparisons has reduced transparency and recommends that the Welsh Government consult with the Finance Committee when making significant changes to budget presentation are made, as has been made in this draft budget. (Page 63)

Conclusion 8: The Committee welcomes the statement from the Deputy Minister for Culture that there will be no cuts to the Welsh Books Council and the Committee expects to see this confirmed when the Final Budget is published. (Page 65)

Recommendation 11: The Committee recommends that the information on the forecasts of non-domestic rates and future devolved taxes are an area of focus for the equivalent Committee in the Fifth Assembly. (Page 66)

1. Committee background & standing orders

Who are we?

1. The Finance Committee (the Committee) is a cross party committee of the National Assembly for Wales (the Assembly), made up of Members from all four political parties represented at the Assembly.
2. The Committee is responsible for reporting on proposals laid before the Assembly by Welsh Ministers relating to the use of resources. The Committee can also consider and report on any other matter related to, or affecting, expenditure out of the Welsh Consolidated Fund.

What is the Welsh Government's draft budget?

3. Standing Order 20.7 details that the Welsh Government's draft budget should set out how they intend to use their resources for the following financial year, and their provisional proposals for future years.¹

What is the role of the Finance Committee?

4. The Committee is responsible for reporting on the draft budget and can also recommend changes to the amounts proposed in the draft budget providing these changes do not increase or decrease the overall amount of resources or cash proposed.²
5. Although the Committee is responsible for reporting on the draft budget, under the Assembly's rules, other committees may also consider and report to the Finance Committee on the draft budget.³
6. The Committee scrutiny of the draft budget is the first stage in the budget process. Following the publication of this report, there will be a debate in plenary on the draft budget.⁴
7. Subsequently, there will be a final budget motion (the annual budget motion), as required by *The Government of Wales Act 2006*.⁵

¹ Standing Orders of the National Assembly for Wales, Standing Order 20.7

² Standing Orders of the National Assembly for Wales, Standing Order 20.11

³ Standing Orders of the National Assembly for Wales, Standing Order 20.10

⁴ Standing Orders of the National Assembly for Wales, Standing Order 20.8

The four objectives of financial scrutiny

8. In previous years the Committee has worked closely with the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA encouraged the Assembly to consider the following four objectives when undertaking financial scrutiny:

- **Affordability** - Is the big picture of total revenue and expenditure appropriately balanced?
- **Prioritisation** - Is the division of allocations between different sectors/programmes justifiable and coherent?
- **Value for money** - Are public bodies spending their allocations well – economically, efficiently and effectively? ie outcomes;
- **Budget processes** - Are they effective and accessible? Is there integration between corporate and service planning, and performance and financial management?

Consultation

9. Due to the Comprehensive Spending Review which was announced on 25 November 2015 the publication of the draft budget took place on 8 December 2015, this is later than would normally be expected.

10. In previous years, the Committee has issued a pre-budget consultation, inviting stakeholders to comment on the expected draft budget proposals. Due to the timing of this year's draft budget the Committee issued a call for evidence on the actual draft budget. The call for information invited consultees, organisations and individuals to let us know their views of the draft budget.

11. The Committee were pleased to receive responses from a range of organisations. Links to these contributions can be found at the back of this report.

⁵ The Government of Wales Act 2006, [Section 125](#)

2. Setting the scene: the wider economic context

Funding overview

12. Despite recent discussions around the devolution of tax powers to Wales, the block grant from the UK Government provides the majority of the funds available to the Welsh Government to provide public services. This is largely determined by the Barnett formula, and thus is dependent on the UK Government's public spending decisions – a change in spending at a UK level in a devolved area results in a positive or negative impact on the Welsh block.⁶ Thus, the level of funding available to the Welsh Government is largely dependent on UK spending decisions, which are, in turn, dependent on the wider economic and fiscal environment.

13. The UK Spending Review took place on 25 November 2015, alongside the Autumn Statement 2015. This provided the funding levels for Wales for 2016-17 and provisional funding for a further three years up to 2019-20.

Summary of UK Spending Review

14. The resources available to the Welsh Government set out in the Spending Review are £14.6 billion. This is an increase, in cash terms, of £0.2 billion compared to 2015-16. Resource Departmental Expenditure Limits (DEL) is £13.0 billion and Capital DEL is £1.5 billion.⁷ Note, non-domestic rates receipts are no longer included in the Welsh block figures.

15. The UK Government is introducing a floor in the level of relative funding provided to the Welsh Government at 115% of comparable spending per head in England. The Statement of Funding⁸ does not set out how this floor will be applied.

16. The UK government has announced its intention to legislate to remove the requirement for the Welsh Assembly to hold a referendum in order to implement the Welsh Rates of Income Tax.

⁶ Further information on the operation of the Barnett formula can be found in Research Service publications: [Budget Series 1: Funding Welsh devolution](#) and [The Barnett formula and the changing face of devolution funding](#)

⁷ At the time of briefing figures for 2016-17 were only available to the nearest £0.1 billion.

⁸ HM Treasury, [Statement of funding policy: funding the Scottish Parliament, National Assembly Wales and the Northern Ireland Assembly](#), November 2015

17. The UK government is working with the Cardiff Capital Region and the Welsh Government to deliver an ambitious City Deal for Cardiff. The Spending Review announces an in principle commitment to contribute to an infrastructure fund for the Cardiff region.

18. The Spending Review does not move forward the devolution of Airport Passenger Duty. There were no updates on rail electrification in North and South Wales or the Swansea Bay tidal lagoon.

19. The Autumn Statement 2015 provided updated UK economic and fiscal estimates:

- UK GDP growth forecast for 2016 is 2.4%;
- UK inflation (CPI) forecast for 2016 is 1.0 %. The latest figure for CPI inflation over the past 12 months is 0.2%.⁹

20. Regional Gross Value Added (GVA) figures are released annually in December. The latest available figures for Wales are for the 2013 year, showing an increase of 3.4% per head compared to 2012. Whilst this is a larger increase than other UK countries, GVA per head in Wales is 72.2% of the UK average, the lowest amongst the devolved countries and English regions.¹⁰

Welsh Government initial response to Spending Review

21. In response to the Spending Review, Jane Hutt, Minister for Finance and Government Business set the following tone for the Welsh Government's Budget 2016-17:

“We will set our budget plans in the context of the national well-being goals for Wales which were agreed through the Well-being of Future Generations Act. The national goals, and the principles of prevention, involvement, integration, collaboration and a focus on the long-term will be at the heart of the way Wales will respond to the challenges presented by today's Spending Review.”¹¹

⁹ Office for National Statistics, [Consumer Price Inflation](#), December 2015

¹⁰ Office for National Statistics, [Regional Gross Value Added](#)

¹¹ Welsh Government, [Written Statement - Response to UK Government Spending Review and Autumn Statement](#), 26 November 2015

3. Budget Overview

22. The Welsh Government's Draft Budget for 2016-17¹² was laid on 8 December 2015. This was supplemented by a statement,¹³ narrative document¹⁴ and detailed expenditure allocation tables¹⁵.

23. The figures used by the Welsh Government as the 2015-16 baseline are included in the Draft Budget 2016-17. Baselines have been adjusted from the First Supplementary Budget 2015-16 due to:

- Removal of non-recurrent transfers and allocations to or from Reserves;
- Reflecting prior commitments;
- Net repayment to Invest to Save Fund.

24. When comparisons have been made in this report to year-on-year changes in budget allocations, these have been made in either "cash" or "real terms". "Cash terms" shows the actual allocations made in each year in pounds and does not take into account inflation. "Real terms" calculations attempt to take account of general price inflation and make comparisons across years at consistent prices. Where real terms calculations have been shown in this report, these have been derived using HM Treasury's [latest estimate for GDP deflators for 2016-17](#), of 1.7%.¹⁶

¹² Welsh Government, [Draft Budget Proposals 2016-17](#), December 2015

¹³ Welsh Government, [Written Statement - Draft Budget 2016-17 - Fairer, Better Wales - Investing for the Future](#), 8 December 2015

¹⁴ Welsh Government, [Draft Budget Narrative 2016-17](#), December 2015

¹⁵ Welsh Government, [Draft Budget action tables 2016-17](#), December 2015

¹⁶ HM Treasury, [GDP deflators at market prices, and money GDP](#), July 2015

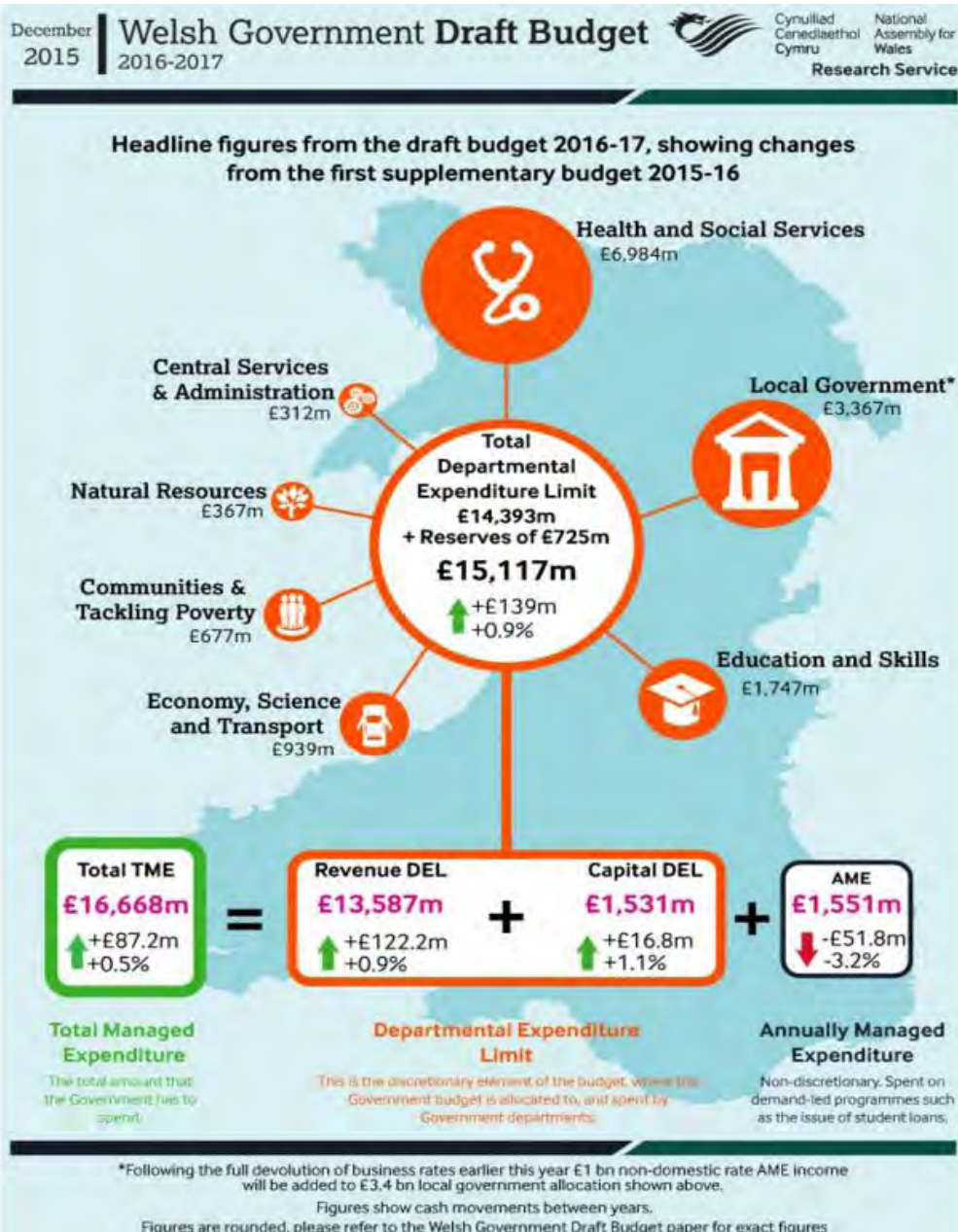


Figure 1: Total DEL allocations to Welsh Government departments, 2016-17

25. Figure 1 presents total DEL allocations to Welsh Government departments in 2016-17. Comparisons between years are made on a cash basis. As non-domestic rates were fully devolved in 2015, a further £1bn is to be added as Local Government Annually Managed Expenditure (AME) income.

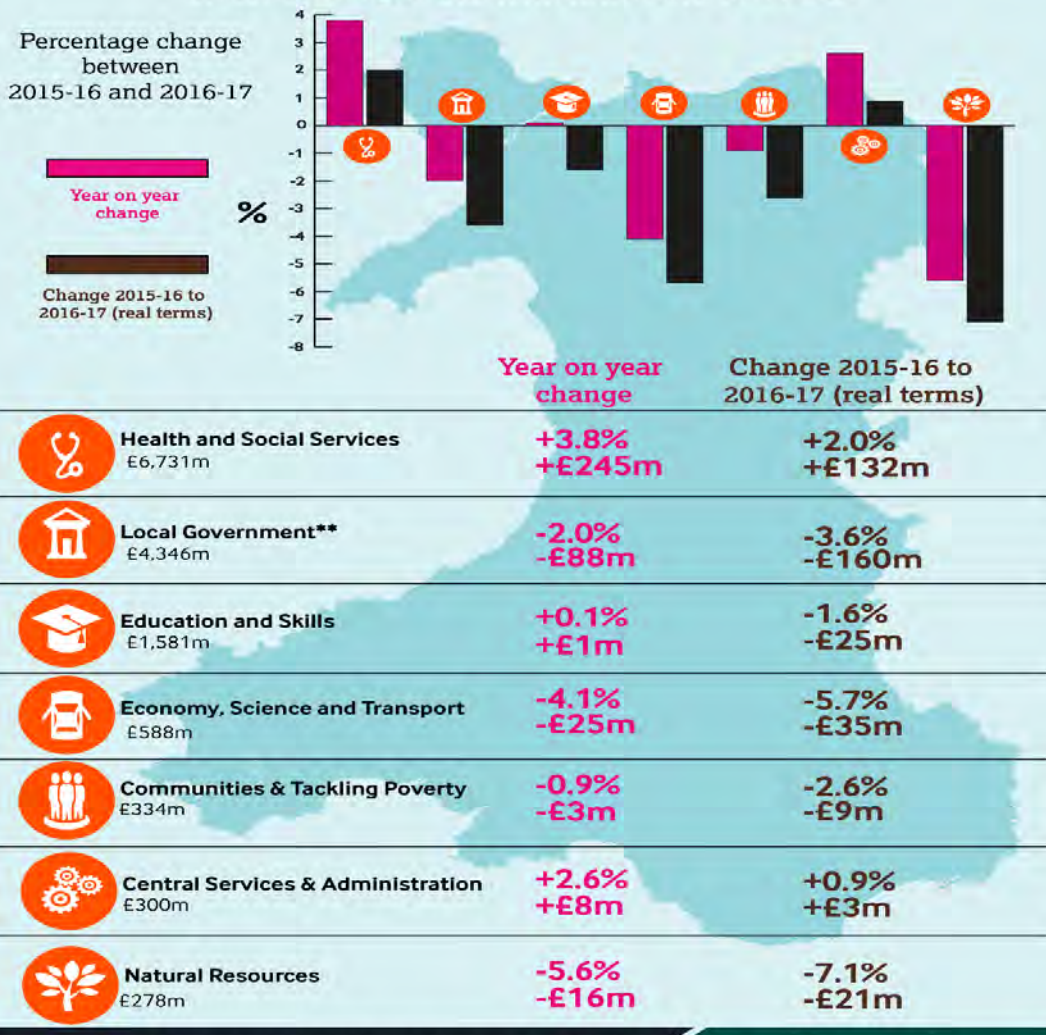
26. Figure 2 shows the year-on-year percentage change, actual and in real terms, in the total departmental revenue allocations, against the

percentage change in the overall total revenue DEL. Looking at allocations to individual departments, it can be seen that:

- The Health and Social Services department saw the largest numerical and percentage revenue increases between 2015-16 and 2016-17, of £244.6 million, or 3.8%;
- With the exception of Education and Skills and Central Services & Administration Main Expenditure Groups (MEGs), all other departments saw a decrease in their total revenue allocations between 2015-16 and 2016-17. The Local Government department saw the largest numerical decrease of £87.8m while the Natural Resources saw the largest percentage decrease for the second consecutive year of 5.6%.



Changes between the Revenue* Departmental Expenditure Limits in the draft budget 2016-17, from the 2015-16 baseline



*Revenue allocations consist of day-to-day running costs such as staff pay and the purchase of consumable goods and services.
 **Includes £1,002m Local Government funding AME, the majority of which is expected business rates receipts.
 Figures show cash movements between years. Figures are rounded, please refer to the Welsh Government Draft Budget paper for exact figures

Figure 2: Year on year changes in DEL by departments, 2016-17¹⁷

¹⁷ Column headed “year on year change” shows the actual changes in £ between 2015-16 and 2016-17. The column headed “change 2015-16 to 2016-17 (real terms)” shows the comparison adjusted for inflation. See paragraph 24 for explanation.

4. Affordability: Expenditure - Costs of Welsh Government legislation

27. The draft budget documentation provides a table showing the costs for legislation implemented by the Welsh Government this Assembly. The costs are for 2016-17 estimated at published Regulatory Impact Assessment stage or enactment.

28. In relation to the cumulative costs of legislation the NHS, representatives said they go through a process of assessing costs of each piece of legislation to identify costs and whether they have the budget for them.¹⁸ When asked about the costs of implementing legislation compared to the estimated costs, the NHS representatives said:

“..., as we implement the requirements of any form of legislation, we will be doing that with a view to minimising, to the extent that we can, the additional costs that we need to incur in order to remain compliant... I wouldn't have for you a line by line assessment of the legislation.”¹⁹

29. Evidence from Welsh Women's Aid stated that whilst “policy and legislation focuses on long-term approaches to decision making, this is not supported by a corresponding long-term approach to funding the third sector”.²⁰

30. The Wales Council for Voluntary Action (WCVA) said that the current legislative and policy landscape sets out a clear vision for the third sectors role in delivery of legislation, but to be successful the third sector requires sufficient resource and investment.²¹

31. In written evidence the Welsh Local Government Association (WLGA) called for “realism in terms of new legislative duties for Councils and far more robust financial impact assessment of new policies”.²²

¹⁸ National Assembly for Wales, Finance Committee, RoP 14 January 2016, paragraphs 418 and 425

¹⁹ National Assembly for Wales, Finance Committee, RoP 14 January 2016, paragraph 428

²⁰ Written Evidence, Finance Committee, WGDB_16-17 28

²¹ Written Evidence, Finance Committee, WGDB_16-17 13

²² Written Evidence, Finance Committee, WGDB_16-17 27

32. Questions were also raised by the Health and Social Care Committee regarding the costs of legislation impacting on the health sector. They have sought assurances from the Minister for Health regarding the overall costs of legislation, work being done to control and monitor costs and whether funding is sufficient for the implementation of legislation, specifically the Social Services and Well-being (Wales) Act 2014.²³

Evidence from the Minister

33. In relation to the costs of legislation the Minister said:

“I am absolutely vigilant with colleagues about the fact that we have to have fully costed proposals in terms of legislation, when we’re planning and developing Bills. It’s not just us, but for delivery partners as well. So, consulting and engaging with them is crucial. But when they actually, implement it, it’s those actual costs, which you quite rightly say, that have to be met from existing budgets. So, if they vary from what was anticipated in the regulatory impact assessment, there will be lessons learnt. I think we have given you as much transparency about what we expect from the cost of legislation.”²⁴

Committee view

34. The Committee notes that work is ongoing to improve estimated costs of legislation, however, we firmly believe there should be further improvement in this area. The Committee’s recent report on the Tax Collection and Management (Wales) Bill referred to the lack of financial information available when the Bill was introduced. This was the last Bill to be introduced during the Fourth Assembly and the Committee believes the Government have had time to improve the quality of cost information accompanying Bills on introduction.

Conclusion: The Committee will be considering how the quality of financial information accompanying legislation could be improved and presented more clearly in its upcoming legacy based work.

²³ National Assembly for Wales, Health and Social Care Committee, [Letter to the Minister for Health and Social Services and the Deputy Minister for Health](#) - 19 January 2016

²⁴ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 282

5. Affordability: Expenditure – Preventative Spend

Draft Budget presentation of preventative spending

35. The Draft Budget 2016-17 narrative document states that preventative spending has been prioritised as a way of avoiding more costly interventions at a future point, and to improve quality of life in the long term.

36. In line with the Finance Committee's previous recommendation to provide further clarity on how the Budget supports preventative interventions, the Welsh Government "are working with the Third Sector to develop a common definition of preventative spend". In terms of evidence the narrative states that:

"It is an analysis of evidence on current trends and projections that has helped us to focus on those areas which are most critical to delivering the needs of the population of Wales and which has informed these spending proposals.

"We have assessed the evidence and identified the key service areas that contribute the most to the achievement of our overarching priorities, and looked closely at the actions required, particularly what we can do now to prevent problems arising in future, to ensure these services are sustainable and can meet current and future needs."²⁵

37. The Committee previously requested that the Auditor General for Wales provide information on work undertaken that is relevant to the preventative agenda in the NHS to feed into draft budget scrutiny. The Auditor General provided a letter on 29 September.²⁶ This letter focussed on:

- Management of chronic conditions;
- Orthopaedic services;
- Hospital catering and patient nutrition;
- Independence of older people. (*This report was published in October, after the Auditor General's letter to the Committee.*)

²⁵ Welsh Government, [Draft Budget Narrative 2016-17](#), December 2015

²⁶ Auditor General for Wales, [Letter to Chair of Finance Committee](#), 29 September 2015

38. The draft Budget scrutiny which has been undertaken by the Health and Social Care Committee refers to two of these reports from the Wales Audit Office (WAO) (A Picture of Public Services 2015²⁷ and Supporting the Independence of Older People: Are Councils doing enough?²⁸) which outline that preventative services that support older people to live independently have experienced a 16.8% cut, with budgets falling from £147.3 million in 2013-14 to £122.5 million in 2014-15.²⁹

39. In written evidence the NHS confederation said that whilst protection of preventative programmes was welcomed, there was concern around the development of programmes which were not fulfilling their potential. The evidence also stated that the amount the NHS spends on preventative service is too little, but there is limited flexibility to shift significant investment away from traditional treatment services when the current demands on the health service are so great.³⁰

40. The WCVA supported a preventative approach and hoped this would continue with the Well-being of Future Generations Act, they advocate a focus on “earlier interventions and preventative measures”.³¹

41. Concerns were raised by Cymorth Cymru regarding the reduction in the Homelessness Grant, which is “a key part of homelessness prevention activity, and there is a risk that reducing the grant will mean less preventative work can be undertaken”.³²

42. The Carers Trust felt there was not a clear emphasis on preventative services in the draft budget.³³

43. Y Lab and the Public Policy Institute for Wales highlighted that historically evidence has not always been used effectively to make policy decisions and weigh up the value of alternative interventions.

²⁷ Wales Audit Office, [A Picture of Public Services 2015](#), December 2015

²⁸ Wales Audit Office, [Supporting the Independence of Older People: Are Councils doing enough?](#), October 2015

²⁹ National Assembly for Wales, Health and Social Care Committee, [Letter to the Minister for Health and Social Services and the Deputy Minister for Health](#) - 19 January 2016

³⁰ Written evidence, Finance Committee, WGDB_16-17 09

³¹ Written Evidence, Finance Committee, WGDB_16-17 13

³² Written Evidence, Finance Committee, WGDB_16-17 17

³³ Written Evidence, Finance Committee, WGDB_16-17 22

This is partly due to a lack of information available, but also due to the culture, values and incentives within academia and public services.³⁴

44. An example given was Abertawe Bro Morgannwg University Health Board (ABMU) who unsuccessfully sought additional capital resource to extend renal support in the hospital. As a consequence they invested in dialysis to treat a large number of patients in their own home. This resulted in reduced costs, improved care and better outcomes for patients. It highlighted the need for such examples to be more easily translated and disseminated to other parts of the system.³⁵

Evidence from the Minister

45. In evidence, the Minister said there was a focus on prevention and early intervention, and used examples of supporting people and Flying Start.³⁶ The Minister said she'd met:

“... people from social care, volunteers, housing and health ... They saw integrating services, engaging, collaborating across sectors, including the third sector, all part of the preventative long term agenda... we've used this approach much more constructively this year because of the guidance from the future generations Act, and also because the Finance Committee has been very clear about prevention and wanting us to have further clarity on how we can support preventative interventions.”³⁷

46. In further oral evidence the Minister said because of the focus on prevention and early intervention the Government was protecting social care-related grants from cash reductions. The Minister referred specifically to Communities First, Supporting people and Flying Start as “key programmes in terms of not just social care-related, but

³⁴ National Assembly for Wales, Finance Committee, RoP 3 December 2015, paragraph 58

³⁵ National Assembly for Wales, Finance Committee, RoP 3 December 2015, paragraph 74

³⁶ National Assembly for Wales, Finance Committee, RoP 9 December 2015, paragraph 33 and 39

³⁷ National Assembly for Wales, Finance Committee, RoP 9 December 2015, paragraph 39

prevention and targeting and providing support in our most disadvantaged areas”.³⁸

47. In relation to the WAO reports the Minister said:

“we’ve tried to address that very point that we wanted to not only continue to protect social services and put more money into social services, but actually a programme, the intermediate care fund – developed very much in partnership – is a way forward to provide that kind of integrated approach to health and social care, and has a very preventative impact. It prevents unnecessary hospital admissions and delayed discharges. So, I hope that the Wales Audit Office would see that we’ve actually made a difference.”³⁹

48. When asked how the Minister ensures that preventative spending is prioritised consistently when allocating funds to portfolios in Welsh Government departments, the Minister said:

“...its absolutely critical that we look at investing in prevention as a hallmark of our draft budget...Every Minister has had to look at what their priorities are in terms of prevention, assessing the impact of spending decisions...prevention, integration and collaboration ... are all crucial to spending scarce public money.”⁴⁰

49. The Minister was asked about progress of the Committee’s previous recommendation around a definition of “preventative spend”, the Minister agreed there was a need to “...be clear about the definition of preventative spend”.⁴¹

Committee view

50. Throughout the fourth Assembly the Finance Committee have focused on the importance of preventative spending. Following the scrutiny of the draft Budget for 2015-16 the Committee recognised the

³⁸ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 66

³⁹ National Assembly for Wales, Finance Committee, Draft RoP 20 January 2016, paragraph 88

⁴⁰ National Assembly for Wales, Finance Committee, Draft RoP 20 January 2016, paragraph 196

⁴¹ National Assembly for Wales, Finance Committee, Draft RoP 20 January 2016, paragraph 198

Government's increased focus on preventative spend and recommended a definition was brought forward on what constituted preventative spend.

Recommendation: The Committee still wishes to see a firm and consistent definition of preventative spend agreed and recommends information is included in Welsh Budgets to show both the proportion of the Welsh Budget that is being directed towards preventative spend and how this is increasing over time.

51. The Committee heard numerous examples of good practice, use of evidence and trailing new approaches during scrutiny of the Draft Budget, but there was little evidence that Welsh Government was encouraging wholesale change.

Recommendation: The Committee recommends that the Welsh Government work with public services in Wales to identify and understand variations in the way services are delivered, with a view to encourage and promote new practice as it emerges.

6. Prioritisation- Health Finance

Funding for Health

Background

52. The Health and Social Services MEG revenue funding has risen by £245 million, or 3.5%, in cash terms (2.0% real terms) in the Draft Budget 2016-17 compared to the Welsh Government's baseline for 2015-16. This compares to a reduction in the Local Government MEG of £88 million, 2.6%, (3.6% real terms).

53. The Draft Budget documentation states that £260 million additional funding is being provided to the NHS. The main changes are in the Revenue allocation:

- £200 million additional to support core NHS delivery, which Welsh Government state demonstrates their commitment to a sustainable NHS in Wales based on the reforms outlined in the Nuffield Trust report (*A decade of austerity in Wales? The funding pressures facing the NHS in Wales to 2025/26*),⁴² which also acknowledges the scope for the NHS to continue to achieve efficiency savings in the medium and long term;
- The Intermediate Care Fund has increased from £20 million which is the level it was at in 2014-15 to £50 million;
- £30 million extra for older people and mental health services.

54. The £200 million funding will be allocated to individual Health Boards based on population shares. In line with existing policy, the updated Townsend formula has only been applied to additional allocations, not existing core allocations and there is no current intention to apply the formula to baseline allocations. The additional £65 million allocated in 2015-16 for primary care, delivery plans, health technology and mental health will be made available again in 2016-17 for the same purposes. However, the funding will not be allocated recurrently until the projects initiated in the current financial year have been reviewed. The use and distribution of the £30 million for older people and mental health services allocated in the Draft Budget has also yet to be determined.

⁴² Nuffield Trust, [A decade of austerity in Wales? The funding pressures facing the NHS in Wales to 2025/26](#), June 2014

55. In relation to the additional funding Cardiff and Vale UHB said they were assigning the additional funding to meet unfunded efficiency savings for 2016-17:

“our first task was to understand exactly what we thought the total cost of looking after our population would be for the year ahead. Then we have to design ways in which we can find efficiencies that allow us to continue to meet that demand... When we received news of our allocation, we were then able to set that against all of those costs, and, for us, we’re left with around about £26 million of efficiency still to find.”⁴³

Prudent Health Care and Service Transformation

56. The Health Minister has set out the need for a move towards a system of “*prudent healthcare*”, where the Welsh Government can create the conditions for the general public to make better lifestyle choices around their health.⁴⁴

57. The move towards prudent health care links to the Committee’s interest in preventative spend. The Draft Budget narrative and supporting Strategic Integrated Impact Assessment set out that preventative activity in this area ranges from programmes focused on promoting positive lifestyle messages and supporting people to become better informed about their health and wellbeing, through to immunisation and vaccination programmes and preventative public health services such as smoking cessation services. They also stress the importance of working with other stakeholder organisations to deliver the preventative agenda.

58. The Draft Budget narrative highlights additional funding areas:

- £10 million to be spent on service delivery plans - including a number of chronic conditions;
- £30 million for mental health and older people;
- An additional £30 million for the Intermediate Care Fund;
- £86 million as core funding for Public Health Wales.

⁴³ National Assembly for Wales, Finance Committee, RoP 14 January 2016, paragraph 274

⁴⁴ Welsh Government, [Making Prudent Healthcare Happen in Wales](#), 7 October 2014

59. The 2014 Public Health Wales publication *Achieving prudent healthcare in NHS Wales* stated that:

- An estimated 10 per cent of all healthcare interventions are associated with some harm;
- Approximately 20 per cent of all work done by the health service has no effect on outcomes.⁴⁵

60. In relation to service transformation, the Welsh NHS Confederation stated:

“Radical change is what is needed if the NHS is to meet the level of demand being placed upon it while living within its means. Sustainable plans will have to be developed to enable the NHS to deliver financially as well as provide high quality care to patients. This is a significant and complex challenge which will require the support of the political community and the public.”⁴⁶

61. The WLGA said:

“We are all working under the banner of ‘Prudent Health Care’ to shift the system radically towards prevention and focus on wellbeing rather than ill health.”⁴⁷

62. At the scrutiny session with NHS organisations it was acknowledged that the new three year financial planning regime was enabling health boards to plan more strategically and instilled better financial discipline, even for those health boards who do not have three year plans in place yet. NHS representatives felt that there was some headway in transforming services and discussed the importance of informing and engaging the public at the earliest possible opportunity to ensure there is public and political buy-in for transformational change. Evidence was provided of numerous initiatives and changes on a small scale, which cumulatively will have positive impact, though arguably evidence was not provided around how the significant radical change that is required will be achieved.

63. Evidence was not provided of the “radical change” that the Welsh NHS Confederation and other sources agree is needed. The

⁴⁵ Public Health Wales, [Achieving prudent healthcare in NHS Wales](#), June 2015

⁴⁶ Written Evidence, Finance Committee, WGDB_16-17 09

⁴⁷ Written Evidence, Finance Committee, WGDB_16-17 17

Confederation and both Cardiff and Vale and Hywel Dda stated the importance of communicating the reasons for change with the public early in the process and also having political backing when significant restructure of health services are proposed.⁴⁸

64. Evidence from Y Lab confirmed this view in terms of process re-engineering:

“As you know better than me, often the struggle is to persuade the clinicians and the public that this isn’t just about a cut, it’s about improving the service. So, I think there’s a lot more that we need to do over time to explain to people the reasons why we’re reconfiguring services, because all of us are excited by change, but many people out there are a bit worried about change and scared about differences in the service that they’re receiving. So, I think there’s a big job to be done in terms of dialogue with the public and the front-line professionals to win them over.”⁴⁹

65. The Health and Social Care Committee’s letter following their scrutiny session on the draft Budget states that they “would welcome further information on plans that are being put in place to deliver the flexibilities needed to facilitate the further development of preventative services called for by the Welsh NHS Confederation”.⁵⁰

Evidence from the Minister

66. The Draft Budget narrative highlights the importance of the Nuffield Trust Report as justification for the resource allocation decision to health.⁵¹ The Minister was asked about the use of the Nuffield Trust Report to justify funding decisions, she said:

“I think the commitment and the priority that we put into the Welsh NHS was fundamental in terms of setting not only this draft budget but earlier budgets. It’s interesting that, in terms

⁴⁸ National Assembly for Wales, Finance Committee, RoP 14 January 2016, Paragraphs 340-344

⁴⁹ National Assembly for Wales, Finance Committee, RoP 3 December 2015, paragraph 78

⁵⁰ National Assembly for Wales, Health and Social Care Committee, [Letter to the Minister for Health and Social Services and the Deputy Minister for Health](#) - 19 January 2016

⁵¹ Nuffield Trust, [A decade of austerity in Wales? The funding pressures facing the NHS in Wales to 2025/26](#), June 2014

of the Nuffield Trust— obviously, it’s an independent organisation—it was commissioned to do this work to enable us to see what we would need to put into the Welsh NHS in order to make it sustainable and also to look at ways in which we could invest to sustain and transform the NHS, moving it to a more primary care led service and to get their independent assessment of that. But, of course, we partly went to Nuffield because Nuffield had done a similar piece of work in England in 2012. So, it was very natural to look to that kind of independent source of advice. So, the key thing about choosing to get that evidence to focus independently on NHS needs is because, of course, the NHS is arguably, I would say, the most important universal public service that we’re responsible for. Of course, it’s now taking up 48 per cent of our budget.”⁵²

67. With regard to the performance of the health service the Minister said:

“...if we just go back to what the Nuffield review identified, it did identify that the additional funding that we needed...to enable us to deliver that high-quality, safe service for the people of Wales. But it did also ... set out that scale of challenge, to 2025-26, that would increase if we didn’t change the way the NHS delivers our services. So, I think we’ve got to see this isn’t just, ‘This needs more money’; this was on the basis of a change in the way that we deliver our services. Some of the extra money that we’ve put in for the draft budget, of course, responds to that—about new service models, and particularly the extra money for the intermediate care fund, the extra money into pump-priming changes in primary care, efficiency and technology, in terms of equipment and diagnostic equipment, and an integrated approach to health and social services. Those are all factors that were identified in terms of the independent assessment by Nuffield. But also, we now start to see some of the outcomes of the way we’ve invested, for example, in health and social care, so that we’ve

⁵² National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 5

now got delayed transfers of care that are going down, whereas, of course, in England, they're going up."⁵³

68. The Minister continued:

"... it's not just more money, it is about changing the way we deliver our services. And I'm sure the health and social services Minister—obviously, I've looked at all the reports from committees on how the evidence has been given by different Ministers—I think he's very clearly focusing on the total picture of health spend. I've mentioned the additional money into primary care—that's an extra £70 million. We put that in this financial year. Next year, we're putting £60 million more into not just the intermediate care fund, but older people's health service and mental health services as well. That's going to help enable changes to provide care closer to home. But we have to evaluate that. All the outcomes of that additional investment will be evaluated.

"Also, local health boards, as you say—I mean, they've got their responsibilities, and they've got to produce integrated medium-term plans, and they've got to prioritise the approach to prudent healthcare, primary care and other community priorities. The intermediate care fund—. They've got to develop plans and work with regional boards to deliver care closer to home; they've got to develop new and better outcomes for their population. But I think it's also worth mentioning the Social Services and Well-being (Wales) Act 2014 here, because that's coming into force as well, in April. They've got to also plan on a regional board basis, and that got powers for the creation of pooled budgets, which we know can help with the integration of health and social care.

"So, I think the Health Minister, in his evidence on 14 January, did give some examples of what is described as a 'whole-system approach', providing care closer to home, which, of course, keeps people out of hospital and discharged back home more quickly."⁵⁴

⁵³ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 9

⁵⁴ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraphs 36-38

Committee view

69. A focus of the Committee's scrutiny last autumn was around the additional funding provided for the NHS following the publication of the Nuffield Report, *A Decade of Austerity for Wales? The funding pressures facing the NHS in Wales to 2025-26*.⁵⁵

70. The Committee also discussed the need for significant service transformation and a move towards a system of "prudent healthcare", where the Welsh Government can create the conditions for the general public to make better lifestyle choices around their health.

71. Whilst it is clear the health service is facing long term funding and sustainability pressures including an increasingly ageing population increased morbidity; growing rates of obesity and related conditions; and continual developments in technology leading to more complex treatments coming online, evidence provided to the Committee did not demonstrate how the health service is expected to transform to ensure resources are used effectively.

72. During last year's scrutiny health witnesses said additional funding was needed to deal with existing pressures rather than fund reforms, this seems to have been repeated this year. A variety of good examples of preventative projects was provided by witnesses and some initiatives of collaborative working with local government and third sector providers were identified when the Health witnesses attended committee this year. However, the Committee were not convinced that evidence was provided that the additional funding allocated for 2016-17 would lead to service improvement rather than funding inefficiencies or compensating for overspends.

Conclusion: While supporting prioritisation of the health service, the Committee continues to question the justification of the additional health spend on the evidence of one report and would like to see how such needs are balanced against evidence of pressures in other key areas of the public sector which can impact on health spend.

Conclusion: The Committee did not receive sufficient evidence that the additional funding allocated in 2016-17 to health will lead to

⁵⁵ Nuffield Trust [A Decade of Austerity for Wales? The funding pressures facing the NHS in Wales to 2025-26](#), June 2014

significant reform and service improvements rather than funding inefficiencies or compensating for overspends.

Conclusion: Whilst welcoming the examples of the impact that the Intermediate Care Fund was having on the collaborative provision of preventative services, the Committee did not receive sufficient evidence that the balance of funding was shifting significantly towards preventative healthcare that will reduce demands on the health service in the future.

Recommendation: The Committee recommends the Welsh Government commit to a visibly supportive approach where service transformation is needed and sought by the NHS, and also ensuring there is clear and effective dialogue with and involvement from the public and front-line professions to understand and influence any service changes.

7. Prioritisation - Local Government Finance

Overall funding

73. The Strategic Impact Assessment that accompanies the Draft Budget states that:

“... we know that tough decisions will need to be made about local services that benefit the people of Wales. To provide sustainable local services such as libraries, leisure centres and waste services for future generations will require a collaborative approach which seeks alternate delivery models and moves beyond solely focusing on efficiencies.”⁵⁶

74. The 2016-17 draft budget has been welcomed by the WLGA as:

“an outcome which councils will view in a positive light with Welsh Government recognising the importance of preventative council services such as education and social care... Key ministers have reflected upon this in detailed discussions with WLGA spokespersons and have produced a fair and balanced outcome.”⁵⁷

75. In evidence, Local Government representatives welcomed the fact that cut of 1.4% to the revenue support grant was less severe than scenarios of up to 4% that had been expected.⁵⁸

76. During evidence from Local Government, it was noted that the cuts to Local Government are compounded for some sectors as local authority budgets themselves include protected areas such as social services and education which can account for at least 53% of spending.⁵⁹ This can lead to significant cuts for non-protected services.

77. In addition, cost pressures which local government is facing in 2016-17 are negatively impacting on local authority budgets with the WLGA estimating financial, inflationary and demographic pressures to

⁵⁶ Welsh Government, [Draft Budget Strategic Impact Assessment 2016-17](#), December 2015

⁵⁷ Welsh Local Government Association, [Local government settlement - 'as good as it gets in the current climate' says WLGA](#), December 2015

⁵⁸ National Assembly for Wales, Finance Committee, RoP 14 January 2016, paragraph 16

⁵⁹ Wales Audit Office, [A Picture of Public Services 2015](#), December 2015

be £208m across all local authorities. In its evidence, the WLGA confirmed:

“...there is no doubt in absorbing that kind of pressure you can’t mitigate everything. It will have an impact on local services... but (I think) it has been anticipated by local authorities across Wales.”⁶⁰

Service transformation and preventative spend

78. The Wales Audit Office published “A picture of public services 2015” in December 2015. One of its key conclusions was:

“Despite some progress, Wales’ public services are still too focused on organisational pressures. Many still follow a cycle of managing annual performance targets. Public services need to expand their horizons in many different directions. They need to better understand and plan for the huge future opportunities and challenges from things like demographic change and technological innovation.”⁶¹

79. The 2016-17 draft budget narrative recognises the financial challenge the settlement represents for services outside education and social services and stressed the need for local government to adapt to the challenging financial climate:

“...it is important for local government, together with all public services, to continue to explore innovation in service delivery and how they can invest in transforming services in preparation for more challenging settlements.”⁶²

80. In its response to the 2015-16 draft budget, the WLGA highlighted the fact that considerable evidence exists on the benefits of preventative spending, but the:

“difficulty is to find the additional investment required to introduce these measures at a time of financial austerity while still managing to provide existing demand.”⁶³

⁶⁰ National Assembly for Wales, Finance Committee, RoP 14 January 2016, paragraph 228-229

⁶¹ Wales Audit Office, [A Picture of Public Services 2015](#), December 2015

⁶² Welsh Government, [Draft Budget Narrative 2016-17](#), December 2015

⁶³ Written Evidence, Finance Committee, [FIN\(4\) - 15-16 WGDB19](#)

81. During the oral evidence sessions funding for the Intermediate Care Fund was warmly welcomed by both NHS and local government representatives. It was felt that it was now commonplace for NHS community services and local government services to be delivered in tandem. Examples showing demonstrable impact were given.

82. In its evidence, Cardiff University highlighted its role in supporting public service delivery through delivering different approaches to public services innovation. It has partnered with Nesta and the Welsh Government to establish 'Y Lab', which is working to devise and test new solutions to major public services challenges in Wales.

83. Subsequently, Welsh Government introduced the £250,000 Digital Innovation Fund in November 2015 to grow use of digital technology in public services, which will be delivered by Nesta and 'Y Lab'. It will support public service organisations wishing to use digital technology to trial smarter and more efficient ways of working.

84. As highlighted earlier in this report, the Wales Audit Office report published in October, *Supporting the Independence of Older People: Are Councils Doing Enough?* sets out following:

- Preventative services that support older people to live independently have experienced a 16.8 per cent cut with budgets falling from £147.3 million in 2013-14 to £122.5 million in 2014-15, with seven of the areas they have reviewed seeing their budgets reduce;
- To compensate for protecting social care services, councils have had to make difficult decisions and cut funding elsewhere, often in those broader preventative services that help older people to live independently.⁶⁴

Evidence from the Minister

85. The Minister was asked about the cuts to local government and whether this would fall disproportionately on non-statutory services such as libraries and leisure centres. The Minister said there were difficult decisions to be made but that statutory services had to be

⁶⁴ Wales Audit Office, [*Supporting the Independence of Older People: Are Councils Doing Enough?*](#), October 2015

protected,⁶⁵ and Local Government have had more financial freedom “but the overall settlement for local government is much better than they were expecting, and that’s been welcomed by the WLGA”.⁶⁶

86. The Minister was asked whether the availability and quality of social services, including prevention and intervention services, would not decrease. The Minister said:

“we are putting an additional £21 million into social services next year to local authorities. It does build on the additional £10 million that we’ve got in this financial year, but because of our focus on prevention and early intervention, we’re protecting those social care-related specific grants from cash reductions. I mentioned those earlier on in terms of prevention, Communities First, Supporting People and Flying Start. Those are key programmes in terms of not just social care-related, but prevention and targeting and providing support in our most disadvantaged areas.”⁶⁷

87. The Minister was also asked whether the level of funding for local government was sufficient to enable them to transform services. The Minister said:

“I think Welsh local government has welcomed the fact that we’ve been able to protect them from the more severe cuts that they were perhaps anticipating, and the extra £21 million is going to help them in terms of the transformation of services. But, again, I think we need to look also at the intermediate care fund and the protection of Supporting People. I think we all know in this room how Supporting People—. You know, it’s an investment that actually helps people to stay in their own homes; it helps them deal with their daily lives when they are very vulnerable. It’s very preventative.”⁶⁸

⁶⁵ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 49

⁶⁶ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 51

⁶⁷ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 66

⁶⁸ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 72

Committee view

88. Overall, Members were surprised by the optimistic outlook from local government in relation to the expected settlement. However, Members do have concerns regarding the likely job losses resulting from reduced local authority budgets. This is particularly worrying in areas such as those with high levels of deprivation and rural areas, where a substantial proportion of employment opportunities are provided by public sector employers.

89. The representatives from local government used the evidence session to outline innovative methods they have implemented to continue providing services in view of budget cuts.

90. The Committee was pleased to hear examples showing demonstrable impact from joint working with local government and health, even though levels of investment in joint projects still remains small compared to the overall funding of the NHS and local government.

91. The Committee firmly believe the role of local government is critical in delivering service transformation and prudent healthcare. Whilst the additional £21 million for social services included within the revenue support grant is welcomed, the Committee notes that this is still a real terms cut compared to total overall social services spend.

Conclusion: The Committee was impressed with evidence provided of the impact of the Intermediate Care Fund and welcomes the additional funding to protect social services. However, the Committee notes that there will still be real term cuts to overall social services budgets and the reduction in local government funding will have a significant impact on non-statutory services such as leisure facilities and libraries which will put further pressure on the health service.

Recommendation: If the trend of health service spending continues to be an increasing proportion of Welsh Government spend throughout the rest of the Spending Review period, the Committee is concerned that many non-statutory services will become unsustainable unless alternative delivery mechanisms are put in place and recommends the Welsh Government commit to undertaking work to limit the impact of cuts in these areas.

8. Prioritisation - Local Government settlement formula

92. The Provisional Local Government Settlement 2016-17 is summarised in figure 3, and shows an average decrease of 1.4% in funding to individual local authorities relative to 2015-16. Table 1 shows the provisional Local Government Settlement 2016-17, aggregate external finance per capita.

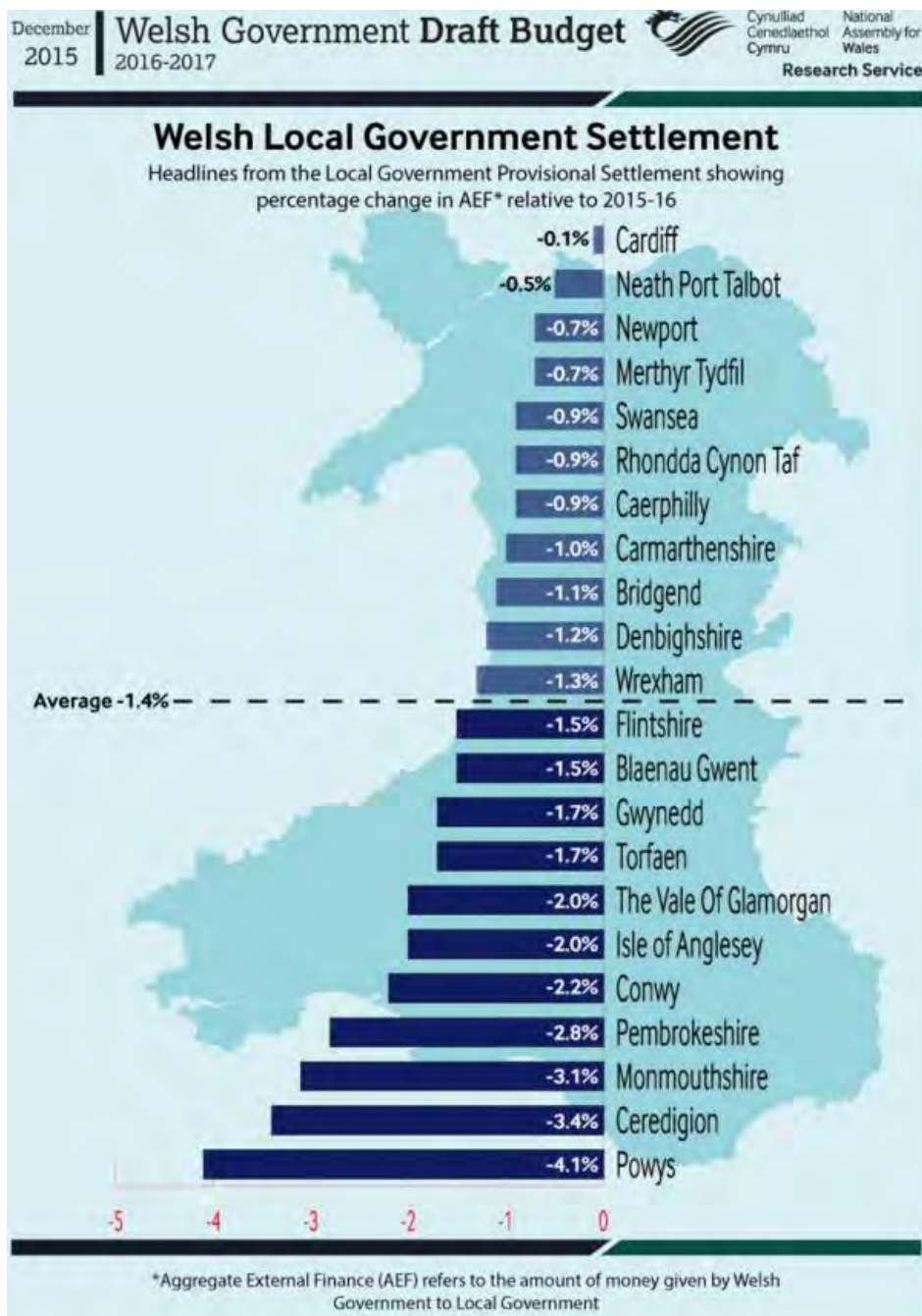


Figure 3: Local Government provisional settlement 2016-17

Unitary Authority	Provisional AEF (£000s)	Provisional AEF per capita (£)*	Rank
Isle of Anglesey	91,925	1,310	12
Gwynedd	166,990	1,356	9
Conway	149,429	1,287	13
Denbighshire	139,602	1,454	6
Flintshire	184,743	1,196	19
Wrexham	169,761	1,200	18
Powys	168,488	1,252	17
Ceredigion	96,570	1,269	14
Pembrokeshire	156,932	1,263	15
Carmarthenshire	251,685	1,333	10
Swansea	307,754	1,255	16
Neath Port Talbot	205,567	1,457	4
Bridgend	187,508	1,311	11
The Vale of Glamorgan	150,443	1,167	20
Rhondda Cynon Taf	353,769	1,500	2
Merthyr Tydfil	89,188	1,485	3
Caerphilly	263,293	1,455	5
Blaenau Gwent	109,252	1,576	1
Torfaen	129,296	1,405	7
Monmouthshire	31,439	994	22
Newport	209,133	1,388	8
Cardiff	426,285	1,162	21
Total Unitary Authorities	4,099,052	1,309	

*Based upon 2011-based, 2016 population projections

Table 1: Provisional Local Government Settlement 2016-17, aggregate external finance per capita⁶⁹

93. Whilst the better than expected settlement for local government has been welcomed⁷⁰ there have been calls to revisit how the local government settlement is calculated in light of the impact of cuts on rural local authorities, with Powys having the highest cut of 4.1% in the provisional settlement.

⁶⁹ Welsh Government, [Provisional Local Government Settlement 2016-17](#)

⁷⁰ Welsh Local Government Association, [Local government settlement - "as good as it gets in the current climate" says WLGA](#), December 2015

94. A BBC news article showed the “WLGA wanted to see an overhaul to the formula that calculates how much money councils get from the Welsh government”. It further quoted them as saying the formula is “outdated” and the faster-growing populations in towns and cities means the countryside is being financially “squeezed”.⁷¹

95. In written evidence the WLGA called for a fundamental review of the funding formula, they said:

“At authority level the funding formula determines the settlement for each authority and continues to deliver a range of reductions. The range in grant reductions was extreme this year. With Cardiff receiving a 0.1% reduction and Powys receiving a 4.1% reduction, the range was 4%. For grant allocations the range is driven by three factors: needs equalisation, resource equalisation (both of which are driven by the funding formula) and, finally, the damping mechanism.”⁷²

96. The WLGA continued to outline the reasons for the review of the formula as being:

- The continuing need to amend aspects of the formula and to bring historical data up to date suggests that the current formula is still far from stable;
- Reliance on historical data and spending patterns in a period of austerity and significant change is likely to have implications for the appropriateness of the existing distribution mechanism and brings with it a danger of loss of consensus but also the possibility of direct challenge;
- The current formula mechanism is based on a methodology that does not meet established standards of statistical practice. Regression analysis of only twenty-two cases (i.e. the Welsh local authorities) is susceptible to over-fitting of the data and to influential cases skewing the estimates. This issue is likely to become even more pressing if the number of authorities reduces further;
- Finally, given the reliance on collaboration for the delivery of many key services across Wales, there is a need to consider in

⁷¹ BBC Wales, [Rural councils call for more cash after 'raw deal'](#), 8 January 2016

⁷² Written evidence, Finance Committee, WGDB_16-17 27

what ways joint production of services might need to be incorporated within the formula.⁷³

97. The WLGA also referred to the joint initiative by the WLGA and CIPFA to appoint an Independent Commission to look at the future of Local Government Finance in Wales which is chaired by Professor Tony Travers. The Commission is not tasked with evaluating the formula directly but is taking a broader view of the system and whether funding may be better incentivised or even localised. A balance needs to be struck between a system that better incentivises and one that fully equalises and reflects need. The WLGA manifesto makes a case for more localisation and the corollary to this is greater fiscal devolution.

98. The Minister for Public Services has frequently mentioned that the WLGA is part of the distribution sub-group which approves the formula each year. However, the WLGA has stated that the distribution sub-group has limited influence on the formula:

“I think it’s a matter of semantics... The distribution sub-group produces a report. It’s usually a report of what the group has covered on its work programme. It’s usually a small part of the formula... The distribution sub-group ... only deals with a few tweaks and changes annually. We, the WLGA, ended up agreeing to that as an association. That’s not an agreement that the whole formula is right, it’s just an agreement that we’ve delivered on the DSG work programme.”⁷⁴

99. The Federation of Small Businesses (FSB) Wales echoed the call for a review of the local government formula, saying:

“We welcome the better-than-expected settlement for Local Government, but are concerned about the challenges facing rural authorities and the impact lower budgets will have on the delivery of non-statutory services. In particular we are concerned that the tourism and economic development budgets within local authorities may be hit hard. If economic development is not seen as a priority for local authorities then we may find that this creates further issues in terms of

⁷³ Written evidence, Finance Committee, WGDB_16-17 27

⁷⁴ National Assembly for Wales, Finance Committee, RoP 14 January 2016, paragraph 236

sustainability of services, local employment and poor health outcomes.”⁷⁵

Evidence from the Minister

100. The Minister was asked about a review of the local government funding formula, the Minister said the funding formula was agreed through a distribution sub group, including local government representatives from rural authorities.⁷⁶

101. The Minister said decisions on a floor for local governments are taken by the Minister for Public Services.⁷⁷

102. In a letter to the Committee the Minister said the local government distribution formula is kept under continual review and that the longer term review of local government will include a fuller review of the funding formula in due course.⁷⁸

Committee view

103. The Committee felt it was time for a fundamental review of the Local Government Settlement. It is clear that the data used from the 1991 Census and much of the underlying analysis is ten years old and out of date. The Committee recognises that there has been significant change to local government both in terms of funding and delivery since then.

104. Members recognise that the Local Government Settlement formula is refined annually through the Distribution Sub Group (DSG) and the WLGA are involved in agreeing changes, however, the scope of changes considered by the DSG is limited and changes are incremental rather than substantial.

Recommendation: The Committee acknowledges that this year’s settlement has an adverse effect on rural authorities such as Powys and recommends a funded floor is introduced in the Final

⁷⁵ Written evidence, Finance Committee, WGDB_16-17 12

⁷⁶ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 121

⁷⁷ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 115

⁷⁸ Welsh Government, [Letter from the Minister for Finance and Government Business to the Chair of the Finance Committee](#), 28 January 2016

Local Government settlement to limit the maximum cuts in individual authorities in order to protect service delivery.

Recommendation: Whilst recognising that the local government settlement will always result in some authorities having a more favourable settlement than others, the Committee recommends that the Welsh Government commit to undertaking a fundamental review of the funding formula and the data used for the local government settlement.

Conclusion: In making recommendation 6 the Committee recognises that revising the formula will not increase the total amount being distributed, but hopes a revised formula will result in a fairer settlement for all authorities.

9. Prioritisation and Affordability- Grant funding for Higher education institutions

105. The Higher Education Revenue budget expenditure line (BEL) finances HEIs via HEFCW. This funding is for areas such as research, part-time, and expensive subjects (rather than full-time courses generally which are financed by students' tuition fees). The BEL decreased by £41.1 million (41.7%) from 2015-16 to £57.5 million. The Minister for Education and Skills says this is for two main reasons:

- A transfer out of £21.1 million for the final element of the tuition fee grant transfer, resulting from moving responsibility and associated resources for the payment of the tuition fee grant to students (via the Student Loans Company) from HEFCW to the Welsh Government. (The money is moved to the Post 16 Learner Support Action where the rest of the tuition fee is financed). The majority of the funding was transferred in the first Supplementary Budget of 2015-16. This additional expenditure would have been top sliced from the HEFCW budgets regardless of where responsibility for the payment of the tuition fee grant lies;
- A £20 million reduction to HEFCW programme budgets, which provide funding for the implementation of the Welsh Government priorities. As stated above, this money is allocated by HEFCW to cover Quality Research, part-time and expensive subjects, and funding for the Coleg Cenedlaethol.⁷⁹

106. In submissions to the Finance Committee, both the Open University's management and its student association have expressed concern about the particular impact on part-time provision females and older people who are disproportionately represented among part-time students.⁸⁰

107. The Open University contrast the treatment of part-time and specialist provision that is still funded via HEFCW with the "generous

⁷⁹ National Assembly for Wales, Children, Young People and Education Committee, [CYPE\(4\)-01-16 - Paper 1](#)

⁸⁰ Written Evidence, Finance Committee, WGDB_16-17 01 and WGDB_16-17 08

full-time tuition fee grant” which is non-means tested and has been “protected” in the draft budget.⁸¹

108. The umbrella organisation for HEIs in Wales, Universities Wales, also reacted to the draft budget saying:

“Actual figures - the proposed cut of £41.4m (32%) in investment to universities in Wales could actually result in significant in-year cuts in addition to the £41m reduction for 2016/17 of up to £61m in HEFCW’s allocations for the 2016/17 academic year ...The proposed cuts would mean a sixth successive year of major cuts to the HE budget, and a reduction of £365m or 81% since 2010/11 in cash terms (or £373m and 82% in real terms. ... In conclusion, university funding needs to secure strong, high quality, economically valuable universities in Wales that have the ability to deliver for both the people of Wales and for the students that study in them, rather than focussing on lowering the cost of a university education to Welsh students, wherever they study.”⁸²

109. Cardiff University said the draft budget will have far reaching consequences for the HE sector and for Wales. They raised the following issues:

- The draft budget shows that the Welsh Government underestimated the amount of funds required by the Tuition Fee Grant (including the amount of funding leaving Wales to fund English universities) which they say is evidenced by the transfer of over £20 million from HEFCW’s budget to the Post-16 learner support budget line;
- Universities’ income from full-time undergraduate tuition fees has been eroded by inflation;
- The Fee Plan requires universities to spend at least 30% of *new* fee income (i.e. income over the £4,000 fee baseline) to increase equality of opportunity and to promote higher education (for example on bursaries for widening access);
- They have calculated that the maximum fee is effectively only worth £6,710 per student in 2015/16 once inflation and Fee Plan “top-slicing” has been taken into account and that all

⁸¹ Written Evidence, Finance Committee, WGDB_16-17 01

⁸² Written Evidence, Finance Committee, WGDB_16-17 26

student areas cost more than £6,230 per student to run. Undergraduate medicine and dentistry cost more than £15,000 per student per year.⁸³

110. If HEFCW cuts direct funding for Cardiff University, the University say that they may have to:

- shift the balance of their subjects to lower cost subjects;
- if Quality Research funding is cut, they may need to look to other sources such as industry, philanthropy or international partnerships; and
- make cuts in funding for widening access, retention, part-time study and Welsh medium delivery.⁸⁴

111. HEFCW's response states that they are concerned that the proposed cuts undermine Welsh Government priorities and make the HE sector in Wales less competitive. HEFCW highlight that they have already had to make difficult decisions and reduce funding in strategic priority areas including innovation and part-time provision. HEFCW note that based on current trends, in 2016/17 the Welsh Government will be paying more in fee grant to HE providers outside of Wales than will be invested in recurrent grant funding (excluding fee grant) to HE providers in Wales.

112. Cardiff and Vale UHB discussed their close working relationship with Cardiff University in terms of research and teaching at the scrutiny session. At present the health board do not have concerns about the funding relationship, although they were aware of views within the university in relation to the cuts.

113. Funding for the Higher Education sector was also raised by a number of Assembly policy committees during their scrutiny of the draft budget.

114. The Children, Young People and Education Committee (CYPE) questions why the reduced allocations for Higher Education hadn't been staged over a number of years along with reductions to Further

⁸³ Written evidence, Finance Committee, WGDB_16-17 11

⁸⁴ Written evidence, Finance Committee, WGDB_16-17 11

Education which would have resulted in the same level of reductions but with additional preparation time.⁸⁵

115. The CYPE Committee were also concerned that the funding reduction will “disproportionately affect certain organisations who specialise in provision of part-time courses, research and expensive subjects such as medicine, dentistry and performing arts”.⁸⁶ These concerns were also raised by the Enterprise and Business Committee (E&B), who additionally raised the possibility of a reduction in the “standing of Welsh HEI’s in league tables making it harder to attract students and their accompanying tuition fees”.⁸⁷

116. Both the CYPE Committee, and the E&B Committee also questioned how they could effectively assess the impact of cuts to higher education without the detail around how the Government priorities.

117. It was also noted that the CYPE Committee was told by the Minister for Education and Skills that part-time courses will be prioritised. Additionally, the First Minister told the Communities, Equality and Local Government Committee that Coleg Cymraeg Cenedlaethol would be a priority. The letter from the Minister formally addressing the Governments priorities for HEFCW is not yet available.

Evidence from the Minister

118. The Minister said that Higher Education funding has “not been cut by £41 million as has been suggested”, but changes to the way the tuition fee grant is administered “means that £21 million is going to be allocated directly to universities by the Welsh Government and not by HEFCW, and that’s in line with the Wales Audit Office recommendation. So, the reduction in HEFCW’s budget is actually £20 million, and we do understand the challenges that this presents”.⁸⁸

119. The Minister continued to say:

⁸⁵ National Assembly for Wales, Children, Young People and Education Committee, [Letter to Minister for Education and Skills](#), 19 January 2016

⁸⁶ National Assembly for Wales, Children, Young People and Education Committee, [Letter to Minister for Education and Skills](#), 19 January 2016

⁸⁷ National Assembly for Wales, Enterprise and Business Committee, [Letter to Chair of Finance Committee](#), 18 January 2016

⁸⁸ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 151

“we have to recognise that higher education has been relatively protected from the impact of the UK Government’s cuts to our budget compared to other parts of education...Obviously, HEFCW has to actually look at these impact assessments itself in terms of how it will manage these cuts, which are budget reductions that we do not wish to have to instigate. But they are as a result of making these tough decisions on all the priorities we’ve been discussing.”⁸⁹

120. The Minister stressed that the “HEFCW budget is not the only funding that’s available to the higher education sector”,⁹⁰ the Minister added that ‘part time provision would be a stated priority’.⁹¹

121. The Minister was asked about the impact of the cuts being predicted by the universities, such as loss of jobs and loss of students, particularly around science, technology, engineering and mathematics (“STEM”) subjects, the Minister said that recruitment to Welsh Universities was very strong.⁹²

122. In relation to the money going from the Welsh Government to English institutions the Minister said:

“...this is benefitting Welsh students anyway, wherever they study, but it’s certainly benefitting Welsh students who study at Welsh universities.”⁹³

123. The Minister was asked about the effect this reduction would have on the economy, in terms of jobs and the ability of universities to undertake valuable research, the Minister said:

“We are investing in science, research and development to benefit the economy. I did make the point, and I will make it again because it’s very topical, that, when I went to Tata, and when I went to Swansea bay and the university, Tata managers and engineering doctorates, benefitting from our money and

⁸⁹National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 152

⁹⁰ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 161

⁹¹ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 165

⁹² National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 180

⁹³ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 182

EU funding, said that this is vital to keep Tata steelworks open.”⁹⁴

Committee view

124. The Committee is concerned by the significant cut in the Higher Education budget expenditure and the impact this will have on widening access and the capacity to provide part time courses, undertake research and teach through the medium of Welsh. The impact in 2016-17 will be further exacerbated by the differences between the financial year and the academic year.

125. In addition there are longer term concerns around the impact on STEM subjects and the availability of research funding which will have an impact on the Welsh economy in the longer term.

126. The Committee heard from many witnesses about the lack of relevant data and research available when developing new policy options, measuring the potential impact of these policies and in particular preventative interventions. The sector is playing an increasingly crucial role in providing evidence, helping to identify and test solutions to service re-engineering and enabling these innovative approaches to be translated and disseminated across the public sector. The Committee is concerned that cuts to the higher education sector could weaken recent progress made in this area.

127. Following on from the Committee’s 2014 report into “Higher Education Funding”,⁹⁵ and in light of these cuts Members continue to be concerned about the ability of HEFCW to fund the Welsh Governments strategic priorities for the higher education sector.

Recommendation: The Committee recommends the allocations to Higher Education are revisited in light of the evidence received by Finance Committee and the concerns raised by the relevant policy committees.

⁹⁴ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 187

⁹⁵ National Assembly for Wales, Finance Committee, [Higher Education Funding](#), May 2014

10. Prioritisation - Strategy on eradication of poverty, domestic abuse and homelessness

Reducing poverty

128. Whilst accepting that the Welsh Government does not have all the poverty-related policy levers at its disposal, the Bevan Foundation argues that it should use its existing powers to focus efforts on:

- providing affordable housing, food and warmth;
- making Wales a Living Wage nation;
- establishing productivity and innovation strategies for low-paid sectors;
- creating a 'moving into work' framework with the private sector;
- providing free childcare;
- closing the attainment gap, and building resilience through financial and healthy relationships education.⁹⁶

129. The Bevan Foundation's response to the Committee's consultation re-stated their view that:

"... the Welsh Government's approach to reducing poverty and mitigating the impact of welfare reform are insufficiently focused on the problems, should make better use of evidence on 'what works', and are of insufficient scale to make an impact... we suggest that it is more important that good use is made of its proposed £333 million budget, which remains a substantial sum not least in comparison with expenditure on natural resources and the economy itself. In our view actions to reduce poverty and those to develop the economy and skills should be much more closely aligned."⁹⁷

130. In evidence the Bevan Foundation and Joseph Rowntree Foundation produced the following concerns:

- It is difficult to track spending and the impact of policies;
- To maximise the impact of policies these need to be co-ordinated across the Welsh Government;

⁹⁶ Bevan Foundation, [Proposals for a National Programme to Spread Prosperity and Improve Life Chances by 2020](#), October 2015

⁹⁷ Written evidence, Finance Committee, WDGB_16-17 02

- Poverty reduction needs to be embedded throughout policy making;
- The quality of data availability is poor and the income based indicator of poverty used is not a good measure;
- The cost of not sharing ideas, innovation and success is huge;
- There needs to be discussions on the impact of UK policy decisions that impact on poverty in devolved countries to maximise the impact of policies.⁹⁸

Domestic abuse and homelessness

131. There are three main sources of funding for organisations providing domestic abuse services. One of these is via the ‘Domestic Abuse’ action in the Local Government Main Expenditure Group. Compared to the 2015-16 baseline, it can be seen that:

- The revenue allocation to the Domestic Abuse action has increased from £4.1 million in 2015-16 to £4.5 million in 2016-17. This is a cash-terms increase of £400,000 or 9.8%;
- The capital allocation to the Domestic Abuse action is £969,000 in 2016-17, the same level as in 2015-16.

132. The Minister for Public Services’ paper to the Communities, Equality and Local Government Committee⁹⁹ notes that this increased allocation is to support the implementation of the Violence Against Women, Domestic Abuse and Sexual Violence (Wales) Act 2015.

133. Domestic abuse services also receive funding through other budget actions such as Supporting People and Homelessness Prevention. The revenue allocation to the Supporting People action has been held constant between 2015-16 and 2016-17, at £124.5 million. However, Welsh Women’s Aid highlights that expected budget cuts for local domestic abuse provision in 2016-17 are 10-20% from Supporting People funding, despite the overall allocation from the Welsh Government remaining at the same levels.¹⁰⁰

134. The revenue allocation to the Homelessness Prevention action had been reduced from £6.4 million in 2015-16 to £5.9 million in

⁹⁸ National Assembly for Wales, Finance Committee, RoP 14 January 2016

⁹⁹ National Assembly for Wales, Communities, Equality and Local Government Committee, [CELG\(4\)-01-16 Paper 1](#)

¹⁰⁰ Written evidence, Finance Committee, WGDB_16-17 28

2016-17. This is a cash terms reduction of £524,000 or 8.1%. In a letter to the Committee,¹⁰¹ the Minister noted that while this represents a reduction to the Homelessness Prevention budget, the Minister for Communities and Tackling Poverty will be making available an additional £2.2 million to local authorities in 2016-17 to support the implementation of the new homelessness legislation, central to which is preventing homelessness.

135. Welsh Women's Aid's response to the Committee's consultation stated that over half of refuge services in Wales report facing proposed reductions to their services from local authorities in 2016-17, and that in 2015-16 some Women's Aid branches saw cuts of up to 70% in funding from public authorities. Welsh Women's Aid's written evidence makes a key recommendation that the Welsh Government commits to protecting the funding for independent specialist domestic abuse and sexual violence services in Wales in 2016-17; and to establishing sufficient resources and a sustainable funding model for these specialist services in future.¹⁰²

136. Welsh Women's Aid highlight the need for transitional protection funding for the sector in 2016-17, as there is a danger of services closing ahead of national statutory commissioning guidance being brought in during 2017 to implement the Violence Against Women, Domestic Abuse and Sexual Violence (Wales) Act 2015. Welsh Women's Aid noted the uncertainty that they, and other organisations in the sector, face around future funding arrangements. While they have certainty of funding for Welsh Government funded projects such as the Live Fear Free helpline and providing Ask and Act training, Welsh Women's Aid has 30% of its public sector funding confirmed from April 2016.¹⁰³

137. Welsh Women's Aid highlighted the increased investment by the Scottish Government¹⁰⁴ of £20 million between 2015-16 and 2017-18 as good practice that is widening access to specialist advocacy and support services for those affected by domestic abuse.¹⁰⁵

¹⁰¹ Welsh Government, [letter from the Minister for Finance and Government Business to the Chair of the Finance Committee](#), 7 January 2016

¹⁰² Written evidence, Finance Committee, WGDB_16-17 28

¹⁰³ Written evidence, Finance Committee, WGDB_16-17 28

¹⁰⁴ Scottish Government, [Support for victims of violence](#), 28 March 2015

¹⁰⁵ National Assembly for Wales, Finance Committee, RoP 14 January 2016, paragraph 666

138. When asked about the legislation in relation to homelessness and the £2.2 million given to implement the legislation the WLGA said they welcomed the additional funding and it would be used to train staff in homelessness services and invest in IT. However, the WLGA were unsure whether the funding was a one off payment or would be re-occurring.¹⁰⁶

Evidence from the Minister

139. The Minister was asked what was being done to co-ordinate and embed poverty reduction in decision making, the Minister said this was the:

“...key responsibility of all Welsh Government Ministers and departments. Again, I think what’s important for our draft budget for next year is that we have an emphasis on socioeconomic disadvantage as well as children’s rights and Welsh language equality and sustainable development. So, that socioeconomic disadvantage, which we in the Welsh Government decided was key in terms of impact assessments, is also taken into account in our spending plans. That’s why Flying Start, which provides free childcare in the most disadvantaged areas, Communities First, tackling provision in terms of health and training, Supporting People—again critically important, all, in terms of the ways in which we can prevent and support services and tackle poverty. But, you know, this is across the board, because we’ve got tackling poverty champions in every department of the Welsh Government.”¹⁰⁷

140. The Minister continued:

“I would like to put on record for the committee again some of those statistics you don’t always hear. Three hundred and seven thousand households have been supported through maintaining entitlements to council tax relief in 2014-15, 2015-16 and 2016-17... Sixty thousand individuals have been assisted to get online through the six years of the Communities 2.0 programme; 42,500 people have been assisted with

¹⁰⁶ National Assembly for Wales, Finance Committee, RoP 14 January 2016, paragraphs 97-101

¹⁰⁷ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 221

requests for advice and information through investment in front-line advice services; and 70,000 people have been assisted through the Welsh

“Government’s discretionary assistance fund. An additional 774 one to two-bedroomed homes, again to deal with the bedroom tax; that’s a one-off cost of £40 million from 2013 to 2016. So, despite the cuts to our budget, we are also prioritising action to mitigate poverty.”¹⁰⁸

141. In relation to domestic abuse and homelessness the Minister said:

“the domestic abuse services grant has been increased by £500,000. That is the grant that the Minister for Public Services makes available... this is a decision to increase that grant because of the Welsh Government’s commitment to tackling domestic abuse and violence against women... Supporting People we’ve protected. So, that will help local refuges and local groups. I think there is a move to develop a regional funding model, which might help assure services in 2016-17. I think that this is an area where you had specific evidence where I would like to more fully respond to you—and from colleagues, not just the Minister for Public Services; I know that the Minister for Communities and Tackling Poverty has an interest in this, as well as for her housing responsibility.”¹⁰⁹

142. The Minister did agree “that there is possibly an opportunity to try and have more consistency across Wales with this move to regional funding”.¹¹⁰

Committee view

143. The Committee is concerned about the impact the budget allocations will have on service users trying to access specialist support in relation to domestic abuse and homelessness. The Committee believes that the issue of domestic abuse needs to be considered further to ensure that not only is financial support is given

¹⁰⁸ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 224

¹⁰⁹ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraphs 100-105

¹¹⁰ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 112

to implement the legislation but that support is available to ensure services are able to continue providing an essential service to those in need. The Committee believes that demand for services will likely rise in the short term due to the implementation of the legislation and this should be reflected in budget allocations.

Conclusion: The Committee are concerned about the lack of progress in reducing poverty. While accepting that the main method to reduce poverty is through taxation, wage levels and benefits, which the Welsh Government does not control. The Committee believe that Welsh Government policy programmes have been too focussed on alleviating poverty, rather than the root causes (such as the creation of secure jobs).

Recommendation: The Committee recommends the Welsh Government reconsider the benefit of area-based approaches to poverty reduction and promotes a more joined up approach to poverty reduction in formation of all policy across all departments.

Recommendation: The Committee recommends that the Welsh Government ensure that the protection offered to the supporting people budget will result in a protection of front line service delivery.

11. Value for Money

144. This chapter looks at some of the key recommendations from each of the Assembly's subject committees. Each Committee has undertaken an in-depth value for money scrutiny session with the relevant portfolio Minister(s) on the allocation of funding within their portfolio areas.

Enterprise and Business

145. The E&B Committee raised concerns around the reduction of funding for HEFCW (which is also raised in this report in chapter 9). The Committee raises concerns regarding the ability of HEFCW to deliver its objectives, and the ability of the Committee to assess the potential impact of the cuts without an indication of the Ministers priorities.

146. The Committee raised concerns in relation to equalities, noting that a reduction in part time courses is likely to “have a detrimental effect on female and older learners”.¹¹¹

147. The E&B Committee also raised concerns regarding a further reduction for Careers Wales although the Committee welcomed additional funding for apprenticeships.

148. In relation to Economy, Science and Transport (EST) the main concerns of the E&B Committee related to the presentation of the budget (covered further in chapter 13). The Committee refers to changes in the way the Welsh Government calculates baselines, and how this is unhelpful to effective scrutiny if figures do not offer a direct comparison, which meant “the overall presentation made it very difficult to have high levels of confidence in the affordability and value for money of the EST budget”.¹¹²

149. The Committee also noted issues around responsibility and accountability where responsibilities for projects and funding appeared to cross Ministerial portfolios, citing the commitment to the Cardiff City Deal being the responsibility of the Finance Minister, whilst

¹¹¹ National Assembly for Wales, Enterprise and Business Committee, [Letter to Chair of Finance Committee \(in relation to education\)](#), 18 January 2016

¹¹² National Assembly for Wales, Enterprise and Business Committee, [Letter to Chair of Finance Committee \(in relation to transport\)](#), 18 January 2016

funding is provided through the Minister for EST through the METRO project whilst, projects included in phase 2 of the Metro project are a matter for the First Minister.

Environment and Sustainability

150. The Environment and Sustainability Committee (E&S) raised concerns about the presentation of the budget and how this makes year on year comparisons difficult.

151. The E&S Committee also raised issues around the funding and budget implications for Natural Resource Wales, implications for leaving the European Union, the European Investment Bank, flood risk management and the UK Department for Environment, Food and Rural Affairs.¹¹³

Health and Social Care Committee

152. The Health and Social Care Committee (HSC) recognised the pressures facing the health service in Wales, but requested further information in relation to demonstrate that allocations will:

- ensure that service transformation is being delivered;
- lead to further service improvement; and
- deliver of key performance targets.

153. The HSC Committee also raised concerns that the decrease in allocations for local government may impact on the sustainability of social care services and asked for further assurance from Welsh Government that the impact of these cuts will not have a detrimental effect on the role local government plays in preventative and early intervention services that reduce the demand for health services and discharge.

154. The HSC Committee raised concerns about GP recruitment and retention, and requests information in relation to how the draft Budget will ensure there is a sustainable primary care workforce and what steps are being taken to balance the proportion of GPs and other health professionals in primary care.

¹¹³ National Assembly for Wales, Environment and Sustainability Committee, [Letter from the Chair of to the Chair of Finance Committee](#), 28 January 2016

155. The HSC Committee considered preventative services and “that a shift of resources from treatment to prevention is needed to support people to make better lifestyle choices”.¹¹⁴

Communities, Equality and Local Government Committee

156. In a letter to the Minister for Public Services the Communities, Equality and Local Government Committee (CELG) referred to the local government settlement (covered further in chapter 8) stating “Overall, we believe the allocation is reasonable and provides a fair settlement for local government in Wales”.¹¹⁵ The CELG Committee sought assurance around the additional funding for social services and schools being allocated for the purposes intended, as this is held within another Minister’s budget. As the Minister for Public Services has responsibility for these allocations and funding decisions within his portfolio, whilst accountability for delivery of policies lies with the relevant Ministers.

157. The CELG Committee raised concerns regarding the “potential impact of the funding reductions on unprotected and discretionary services, such as leisure services”.¹¹⁶ They recognised that these services have a preventative effect and contribute to wellbeing, and “welcomed the publication of the report on co-operative and mutual models in public service delivery and the recent consultation on the Action Plan for alternative models”.¹¹⁷

158. In relation to local government reform, the CELG Committee thought the reform agenda in relation to potential mergers may disincentivise authorities seeking ways to improve, and “there should be a clear expectation on authorities to seek opportunities to improve and collaborate”.¹¹⁸

159. The CELG Committee also held a scrutiny session with the First Minister in relation to the Welsh Language. The CELG Committee are

¹¹⁴ National Assembly for Wales, Health and Social Care Committee, [Letter to the Minister for Health and Social Services and the Deputy Minister for Health](#), 19 January 2016

¹¹⁵ National Assembly for Wales, Communities, Equality and Local Government Committee, [Letter to Minister for Public Services](#), 22 January 2016

¹¹⁶ National Assembly for Wales, Communities, Equality and Local Government Committee, [Letter to Minister for Public Services](#), 22 January 2016

¹¹⁷ National Assembly for Wales, Communities, Equality and Local Government Committee, [Letter to Minister for Public Services](#), 22 January 2016

¹¹⁸ National Assembly for Wales, Communities, Equality and Local Government Committee, [Letter to Minister for Public Services](#), 22 January 2016

concerned how vitality in and growth of the Welsh Language can be “achieved when the Government continues to withdraw vital financial support in this area”.¹¹⁹ The Committee raised a number of questions about Welsh Language provision in Wales, including echoing concerns about the cuts to the HEFCW budget and the impact this will have on courses studied through the medium of Welsh.

160. Following a scrutiny session with the Deputy Minister for Culture, Sport and Tourism, the CELG Committee questioned why the allocations for sports and physical activity had been reduced, compared with the increase in the health and social care budget when the Strategic Integrated Impact Assessment noted the importance of prevention in this area.¹²⁰

161. In a letter to the Minister for Communities and Tackling Poverty the CELG Committee expressed concerns over a lack of a “demonstrable link” between investment into, and measurable outcomes from the Communities First programme to determine value for money.¹²¹ The Committee also raised this concern with the Minister for Finance and Government, and questioned the usage of Results Based Accountability while taking the decision to protect the funding for Communities First in addition to wider decisions in the draft budget.¹²²

Children, Young People and Education Committee

162. The CYPE raised concerns around the transparency of funding allocations, referring specifically to this year’s cuts to the HEFCW budget. The CYPE Committee notes that “over recent years the Further Education (FE) sector’s funding have been significantly cut whereas the Higher Education (HE) has been protected. This year, the FE sector has been largely protected, while the HE sector faces significant cuts”.¹²³ The CYPE Committee did not understand the rationale for this

¹¹⁹ National Assembly for Wales, Communities, Equality and Local Government Committee, [Letter to the First Minister](#), 22 January 2016

¹²⁰ National Assembly for Wales, Communities, Equality and Local Government Committee, [Letter to Deputy Minister for Culture, Sport and Tourism](#), 27 January 2016

¹²¹ National Assembly for Wales, Communities, Equality and Local Government Committee, [Letter to Minister for Communities and Tackling Poverty](#), 27 January 2016

¹²² National Assembly for Wales, Communities, Equality and Local Government Committee, [Letter to Minister for Finance and Government Business](#), 27 January 2016

¹²³ National Assembly for Wales, Children, Young People and Education Committee, [Letter to Minister for Education and Skills](#), 19 January 2016

approach and suggested gradual reductions across both sectors could have achieved the same outcome. The CYPE Committee said “it is often unclear whether the Government is prioritising in a strategic way or simply managing shortfalls from year to year.”

163. The CYPE Committee was also concerned by the cuts to the HEFCW budget, particularly the impact on part time learners. The CYPE Committee agrees that it is difficult to assess the potential impact of cuts without understanding which priorities the Welsh Government will outline in its annual remit letter to HEFCW.

164. The CYPE Committee raises further issues around financial planning and how robust this is. The CYPE Committee uses a further example in relation to teachers continuing professional development, reforms to which have been allocated additional funding.

165. The Committee raise concerns regarding the ability of the Welsh Government to fully assess the value for money of the pupil deprivation grant, this echoes recommendation 15 of the Finance Committees report on the draft budget 2015-16.¹²⁴ In a letter to the Minister for Communities and Tackling Poverty, the CYPE Committee raised concerns about a lack of sufficient monitoring information to evidence value for money of the Flying Start programme.¹²⁵

166. The CYPE Committee also believed that there was a need for the Minister for Communities and Tackling Poverty to evaluate value for money for the “range of individual programmes” within the portfolio,¹²⁶ citing the Social Mobility and Child Poverty Commission’s concerns in this regard in their latest State of the Nation Report.¹²⁷

167. The CYPE Committee also expressed a disappointment in the lack of a “standalone and transparent Child’s Rights Impact Assessment” in the Draft Budget to identify the impact of allocations on children and young people.¹²⁸

¹²⁴ National Assembly, Finance Committee, [Scrutiny of the Welsh Government Draft Budget 2015-16](#), November 2014

¹²⁵ National Assembly for Wales, Children, Young People and Education Committee, [Letter to Minister for Communities and Tackling Poverty](#), 26 January 2016

¹²⁶ National Assembly for Wales, Children, Young People and Education Committee, [Letter to Minister for Communities and Tackling Poverty](#), 26 January 2016

¹²⁷ UK Government, Social Mobility and Child Poverty Commission, [State of the Nation 2015](#), December 2015

¹²⁸ National Assembly for Wales, Children, Young People and Education Committee, [Letter to Minister for Communities and Tackling Poverty](#), 26 January 2016

12. Budget Process - Budget Presentation

168. A change to how the presentation of year-on-year comparisons has caused confusion in this year's budget, especially with regard to capital. In previous years, figures in the Draft Budget are compared to the in-year figures from the latest available Supplementary Budget. Two sets of in-year comparisons are shown in this year's documentation.

169. The difficulties caused by having two sets of figures is shown in the paper provided to the Environment and Sustainability Committee which states:

“In the Draft Budget 2016-17, the Natural Resources Capital budget increases by £25.635m (40.5%) compared to the 2015/16 revised baseline.”¹²⁹

170. Whilst table 6.2 of the Draft Budget Narrative¹³⁰ shows that capital budget compared to the Supplementary Budget has reduced by £26.9 million (23.2%).

171. The focus of the Draft Budget Narrative and announcements made by the Welsh Government on funding changes are made against a recalculated baseline. This baseline removes net allocations of £460 million from the supplementary budget 2015-16, £433.5 million of this is capital. The reasons for removing this funding is to remove non-recurrent transfers or allocations to and from reserves and also remove net repayments to the Invest to Save Fund.

172. To demonstrate the difficulty that Committees and the public have in understanding and scrutinising Welsh Government decisions on changes to the allocation of capital in the Draft Budget, the following three statements are all true:

- Capital DEL allocated to Welsh Government departments is up 22.9% on the Baseline for 2015-16;
- Capital DEL allocated to Welsh Government departments is down 15.5% on the First Supplementary Budget 2015-16;

¹²⁹ National Assembly for Wales, Environment and Sustainability Committee, [Budget Scrutiny: Welsh Government Evidence Paper](#), 21 January 2016

¹³⁰ Welsh Government, [Draft Budget Narrative 2016-17](#), December 2015

- Capital DEL within the Welsh Block (i.e. including reserves available to the Welsh Government) is up 1.1% on First Supplementary Budget 2015-16

173. Reserves in the Draft Budget for 2016-17 and the Supplementary Budget for 2015-16 are significantly higher than in previous years, as shown in the table 3. Reserves are yet to be allocated to departments so are not included in comparisons of capital DEL.

£Million						%	
	2014-2015		2015-2016		£ million	2016-2017 reserve increase on	
	Draft Budget	First Supplementary Budget	Draft Budget	First Supplementary Budget		Draft Budget 2014-2015	Draft Budget 2015-2016
Fiscal Revenue	146.0	153.0	137.4	194.8	221.0	51%	61%
Non Fiscal Revenue	91.5	91.5	208.2	208.2	209.9	129%	1%
Total Revenue	237.5	244.5	345.6	403.0	430.9	81%	25%
Capital	12.8	12.6	74.1	73.8	293.7	2201%	297%
Total	250.3	257.1	419.6	476.8	724.6	190%	73%

Table 2 Reserve levels in recent Welsh Government budgets¹³¹

Evidence from the Minister

174. Following the session with the Minister on 9 December, the Minister wrote to explain the approach:

“Turning to the way we have presented the numbers in the Budget this year, the approach we have taken is consistent with standard practice. We have used the latest published figures, adjusted to remove non-recurrent allocations to arrive at a baseline figure.

“... if we had not removed the non-recurrent allocations, the budget position for 2015-16 would be artificially inflated and would distort the ability to make like-for-like comparisons.”¹³²

175. When asked about the level of reserves held in the Draft Budget for 2016-17 compared to previous years the Finance Minister initially

¹³¹ Source: Welsh Government [budgets](#) and Assembly Research Service calculations

¹³² Welsh Government, [letter from the Minister for Finance and Government Business to the Chair of the Finance Committee](#), 7 January 2016

said “I think it’s slightly higher than last year”,¹³³ but when questioned on 20 January the Minister said:

“It isn’t so much higher...

“... We do normally hold reserves around 1 per cent, but, as I said, we didn’t know what our settlement would be until the twenty-fifth. And, also, we have unconfirmed reductions facing us, so we have to balance the need in terms of early funding certainty and announcements, and being able to ensure that we are responsible in terms of financial management.”¹³⁴

176. Additionally, the Minister highlighted that further capital allocations would be made before the Final Budget was laid.¹³⁵

Committee view

177. The Committee has welcomed the improvements to transparency within Welsh Government budgets over this Assembly and the collaborative approach that the Finance Minister and her officials are taking with the Committee with regards to a future budget process.

178. The Committee understand the difficulties that the Welsh Government have had in terms of planning their Draft Budget for 2016-17 allocations, as firm funding figures were only available when the UK Spending Review was published on 25 November 2015.

179. The Committee also understand the difficulties caused when changes are made to in-year funding by the UK Government. Such reductions were felt following the UK Summer Budget 2015, which immediately followed the 2015 UK General Election.

180. However, representations to the Committee that the use of the baseline was a fair representation of year-on-year changes in capital funding in particular was not convincing, evidence is needed that non-recurrent allocations were being treated equally in both years. The Welsh Government is being transparent by also showing comparisons to the First Supplementary Budget 2015-16 in the budget

¹³³ National Assembly for Wales, Finance Committee, RoP 9 December 2015, paragraph 142

¹³⁴ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 142

¹³⁵ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 252

documentation. The use of two sets of figures is confusing as evidenced by the example shown in paragraph 14 regarding the Environment and Sustainability Committee.

181. The Committee considered the approach taken this year in comparison to approaches in other Parliaments. Neither the Scottish Government¹³⁶ nor the Northern Ireland¹³⁷ Executive take an approach that makes year-on-year comparisons of capital allocations after removing non-recurrent allocations.

182. Additionally, the Committee noted that the Auditor General for Wales wrote to the Chair of the Public Accounts Committee in January 2014, to give a view on the presentation in the Draft Budget 2014-15 of in-year additional funding to the NHS. In this letter the Auditor General referred an issue where the non-inclusion of additional in-year funding to Supplementary Budget baselines led to year-on-year changes being overstated in the Welsh Government's Draft Budget documentation.¹³⁸

Conclusion: The Committee intends to write to the Auditor General for a view on whether the presentation of changes to year-on-year allocations in the Draft Budget narrative is appropriate.

Recommendation: The Committee believe that the different presentation of year-on-year comparisons has reduced transparency and recommends that the Welsh Government consult with the Finance Committee when making significant changes to budget presentation are made, as has been made in this draft budget.

¹³⁶ Scottish Government, [Scotland's Spending Plans and Draft Budget 2016-17](#), 16 December 2015

¹³⁷ Northern Ireland Executive, [Budget](#)

¹³⁸ Auditor General for Wales, [Letter to Chair of the Public Accounts Committee](#), 14 January 2014

13. Prioritisation - Welsh Language

183. Funding available to promote the Welsh language in the Draft Budget is due to decrease from £27.2 million in 2015-16 to £25.6 million in 2016-17, a reduction of £1.6 million or 5.9%.

184. In consultation responses to this Committee, several organisations have criticised the decrease in funding, claiming it indicates a lack of long-term strategic planning for the Welsh language.

185. A number of consultation responses specifically expressed concern at the planned reduction to the budget of the Welsh Books Council.

186. Deputy Culture Minister, Ken Skates AM, stated on 20 January 2015 that “We’ve listened to authors, to publishers, to members, and I’m pleased to say the reduction for next year will be zero per cent - there will be no cuts to the Books Council”.¹³⁹

187. It was noted in evidence to the Committee that the preparation for and implementation of Welsh Language standards would lead to additional costs for local authorities and local health boards in 2016-17.

Evidence from the Welsh Government

188. The First Minister’s written evidence to the Communities, Equality and Local Government Committee asserts that the Welsh Government remains committed to securing the future of the language, and that funding on its own is not a solution.

189. The Finance Minister stated that

“... our commitment is absolutely critical to our programme for government, and our commitment to the Welsh language and a bilingual Wales. So, we’ve limited the cut to the total Welsh language budget actually to 5.9 per cent, allocating £1.2 million to support Welsh in the community. Obviously, the First Minister also announced, before Christmas, grants of over £4

¹³⁹ National Assembly for Wales, Plenary, [Record of Proceedings](#)

million to show that we want to protect funding to those main grant recipients to promote language at a community level.”¹⁴⁰

Committee view

190. Whilst understanding that “strengthening the place of Welsh Language in everyday life”¹⁴¹ is embedded throughout the Welsh Government budget, the Committee was concerned by the scale of cuts to budget lines specifically relating to funding of the Welsh language.

Conclusion: The Committee welcomes the statement from the Deputy Minister for Culture that there will be no cuts to the Welsh Books Council and the Committee expects to see this confirmed when the Final Budget is published.

¹⁴⁰ National Assembly for Wales, Finance Committee, draft RoP 20 January 2016, paragraph 272

¹⁴¹ Welsh Government, [Programme for Government](#)

14. Affordability: Taxation Levers

Non-domestic rates

191. The full devolution of non-domestic rates from April 2015 led to a corresponding reduction in the block grant. In a letter to E&B Committee, the Minister noted that from 2016-17, Welsh Government DEL will be £98.5 million per year higher than previously, as a result of full devolution of non-domestic rates, due to a reworking of the 2013 Spending Review. The same amount will be included in a cash reserve, to help manage devolved taxes.¹⁴²

192. The Minister said during Supplementary Budget scrutiny on 1 July¹⁴³ and in a letter to E&B Committee¹⁴⁴ that the forecasting system in place for non-domestic rates uses the latest available information that local authorities and the Valuation Office Agency supply. The forecasts show expected revenues and makes assumptions about growth and prices. This forecast is supplemented by monitoring information that covers in-year changes. The levels of revenues and distributions of non-domestic rates will continue to be reported annually in the Non-Domestic Rating Account for Wales, and the Welsh Government budget will show expenditure financed by non-domestic rates as a separate item.

Committee view

Recommendation: The Committee recommends that the information on the forecasts of non-domestic rates and future devolved taxes are an area of focus for the equivalent Committee in the Fifth Assembly.

¹⁴² Welsh Government, [Letter from Minister for Finance and Government Business to Chair of Enterprise and Business Committee](#), 5 March 2015

¹⁴³ National Assembly for Wales, Finance Committee, RoP 1 July 2015, paragraph 91

¹⁴⁴ Welsh Government, [Letter from Minister for Finance and Government Business to Chair of Enterprise and Business Committee](#), 5 March 2015

Witnesses

The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at

www.senedd.assembly.wales/ielIssueDetails.aspx?IId=13316

Name

Organisation

Thursday 3 December 2015

Simon Brindle	Director, Y Lab, Nesta
Professor Steve Martin	Director, Public Policy Institute for Wales

Wednesday 9 December 2015

Jane Hutt AM	Minister for Finance and Government Business
Jo Salway	Deputy Director, Strategic Budgeting, Welsh Government
Margaret Davies	Head of Budget Delivery, Welsh Government
Jeff Andrews	Specialist Policy Adviser, Welsh Government

Thursday 14 January 2016

Jon Rae	Director of Resources, Welsh Local Government Association
Councillor Huw David	Deputy Leader, Bridgend County Borough Council / Health and Social Care Spokesperson, Welsh Local Government Association
Councillor Anthony Hunt	Deputy Leader, Torfaen County Borough Council / Deputy Finance Spokesperson, Welsh Local Government Association
Adam Cairns	Chief Executive, Cardiff and Vale University Health Board
Steve Moore	Chief Executive, Hywel Dda University Health Board
Dr Victoria Winckler	Director, Bevan Foundation
Michael Trickey	Wales Advisor, Joseph Rowntree Foundation
Eleri Butler	Chief Executive, Welsh Women's Aid

Wednesday 20 January 2016

Jane Hutt AM	Minister for Finance and Government Business
Jo Salway	Deputy Director, Strategic Budgeting, Welsh Government
Jeff Andrews	Specialist Policy Adviser, Welsh Government

List of written evidence

The following people and organisations provided written evidence to the Committee. All written evidence can be viewed in full at www.senedd.assembly.wales/mgConsultationDisplay.aspx?ID=208

Copies of the correspondence and policy committee letters considered in the course of this inquiry can be accessed at

www.senedd.assembly.wales/mgIssueHistoryHome.aspx?IId=13316

<i>Organisation</i>	<i>Reference</i>
Open University in Wales	WGDB_16-17 01
Bevan Foundation	WGDB_16-17 02
Suzy Davies AM	WGDB_16-17 03
Welsh Books Council	WGDB_16-17 04
Dyfodol i'r Iaith	WGDB_16-17 05
Cwlwm Cyhoeddwr Cymru	WGDB_16-17 06
Women's Equality Network (WEN) Wales Women and the Economy Subgroup	WGDB_16-17 07
Open University Students Association	WGDB_16-17 08
The Welsh NHS Confederation	WGDB_16-17 09
Chwarae Teg	WGDB_16-17 10
Cardiff University	WGDB_16-17 11
Federation of Small Businesses Wales	WGDB_16-17 12
Wales Council for Voluntary Action	WGDB_16-17 13
Learning and Work Institute	WGDB_16-17 14
Universities Association of Lifelong Learning (UALL) Cymru	WGDB_16-17 15
Joseph Rowntree Foundation	WGDB_16-17 16

Cymorth Cymru	WGDB_16-17 17
Dathlu'r Gymraeg	WGDB_16-17 18
Mentrau Iaith Cymru	WGDB_16-17 19
Welsh Language Commissioner	WGDB_16-17 20
Higher Education Funding Council for Wales	WGDB_16-17 21
Carers Trust Wales	WGDB_16-17 22
Cymdeithas yr Iaith Gymraeg	WGDB_16-17 23
Undeb Cenedlaethol Athrawon Cymru (UCAC)	WGDB_16-17 24
Shelter Cymru	WGDB_16-17 25
Universities Wales	WGDB_16-17 26
Welsh Local Government Association	WGDB_16-17 27
Welsh Women's Aid	WGDB_16-17 28
University and College Union (UCU) Wales	WGDB_16-17 29
Board of Poetry Wales Press Ltd	WGDB_16-17 30
ATL Cymru	WGDB_16-17 31
Gwasg Carreg Gwalch	WGDB_16-17 32