

The background of the cover features a photograph of a stone building with windows and a large tree. Overlaid on the right side is a large, stylized silver dragon logo, which is the emblem of the Welsh Government. A teal rectangular box covers the left and center portions of the page, containing the title and date. A red curved shape is visible on the right side of the page.

Finance Committee **Scrutiny of the Welsh Government Draft Budget 2017-18**

November 2016

Llywodraeth Cymru
Welsh Government



National Assembly for Wales
Finance Committee

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Finance Committee
**Scrutiny of the Welsh Government
Draft Budget 2017-18**

November 2016



National Assembly for Wales
Finance Committee

Finance Committee

To carry out the functions of the responsible committee set out in Standing Order 19; the functions of the responsible committee set out in Standing Orders 18.10 and 18.11; and consider any other matter relating to the Welsh Consolidated Fund.

Current Committee membership:



Simon Thomas AM (Chair)
Plaid Cymru
Mid and West Wales



Mike Hedges AM
Welsh Labour
Swansea East



Steffan Lewis AM
Plaid Cymru
South Wales East



Eluned Morgan AM
Welsh Labour
Mid and West Wales



Nick Ramsay AM
Welsh Conservative
Monmouth



Mark Reckless AM
UKIP Wales
South Wales East



David Rees AM
Welsh Labour
Aberavon

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



Lee Waters AM
Welsh Labour
Llanelli

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Chair's foreword

The scrutiny of this draft budget is the first to be undertaken by the new Finance Committee of the Fifth Assembly, and my first as Chair of the Committee. The scrutiny of the draft budget from its publication to our reporting deadline is five sitting weeks. In this time we have undertaken an online conversation, held two evidence sessions with the Cabinet Secretary for Finance and Local Government, had a number of formal evidence sessions, considered correspondence from the policy and legislation committees and, for the first time, we held a stakeholder event on the draft budget to allow an open and honest conversation with stakeholders prior to our final evidence session with the Cabinet Secretary. In addition to this five week period of intense activity we held an open call for information over the summer. This report is the outcome of all of this activity. Hopefully this report reflects the extensive evidence we have received in this short period of time. Going forward, I hope we can build on these relationships with stakeholders to enable us to continue to utilise the wealth of experience across civic society in Wales when undertaking future inquiries, including future budget scrutiny.

The draft budget this year is a better settlement for many than was expected, and this has been reflected in the evidence we received. However, it was also clear from the Cabinet Secretary that organisations should be using this settlement to prepare for tougher times ahead, the Committee was concerned not to have seen evidence of this preparation taking place and it would urge organisations, particularly the health service and local government to ensure they are thinking ahead and putting steps in place to enable them to manage with less in future years.

With regards to the NHS the Committee was disappointed that some Health Boards do not yet have approved three year plans. The National Health Service Finance (Wales) Act came into force in April 2014 and placed a statutory requirement on NHS organisations to prepare three year integrated plans. Much like our predecessor Committee, we are concerned that plans have not been approved for all health boards. In November 2015 the previous Finance Committee undertook post legislative scrutiny of this Act, and this is an area we will be pursuing.

The Well-being of Future Generations Act was also a piece of legislation whereby the Committee expected to see progress, but was disappointed with how the requirements of this Act have been reflected in the draft budget documentation. We as Members hope to see a quantifiable improvement on this in the draft budget next year.

This is the last year the draft budget will be considered under the current process. From April 2018 the Welsh Government will have increased powers in relation to taxation and borrowing. As such, the role of the Finance Committee will change, we will be considering revenue raising plans, tax forecasting and borrowing. When questioned, the Cabinet Secretary was open about the Government's commitments in relation to borrowing, and this was welcomed by the Committee. However, detail on borrowing, debt, repayment and non-domestic rates was lacking from the draft budget documentation, and as a Committee we hope to see a drastic improvement on this in next year's draft budget. Additionally, in light of the announced change in the Autumn Statement to the UK budget timing the Committee will look to consider the impact of this on the budget process and we hope to work with the Welsh Government in exploring participatory budgeting and improved scrutiny.

I would like to thank everyone who has contributed to this scrutiny, as a Committee we are acutely aware that time for the draft budget scrutiny is short and we are grateful to everyone for their valuable contributions.

A handwritten signature in black ink, appearing to read 'Simon Thomas'.

Simon Thomas AM
Chair

Recommendations

Recommendation 1... The Committee recommends that in future years the draft budget documentation should clearly demonstrate how the Programme for Government has informed and driven the budget setting process and also shows a stronger link to outcomes that the funding is expected to achieve. Page 18

Recommendation 2... Whilst welcoming the transparency from the Cabinet Secretary regarding borrowing, debt and repayments, the Committee believes this information should be more readily available and recommends that detailed information on the Government’s financial commitments should be included, and easily accessible within the draft budget documentation. Page 25

Recommendation 3... The Committee believes the detail around the non-domestic rates income, including the provision of meaningful forecasts and level of non-domestic rates carried forward, should be more transparent and recommends the inclusion of these details in draft budget documentation to aid transparency. Page 25

Recommendation 4... The Committee believes an effective strategic integrated impact assessment could be a useful way of identifying how the Well-Being of Future Generations Act has influenced the budget, and recommends that the Government explore using this approach. Page 32

Recommendation 5... The Committee recommends that the Government should show greater detail of how the Well-Being of Future Generations Act and the five ways of working have influenced both individual budget allocations and the budget as a whole in future years. Page 32

Recommendation 6... The Committee recommends that the Government ensures that in future years the publication of any performance information relating to, or any changes to, well-being objectives should be published before the draft budget to enable stakeholders to track how the budget aligns with the well-being objectives. Page 32

Recommendation 7... The Committee recommend that the Government provide more supporting information to accompany future draft budgets to demonstrate how the balance of funding is changing between primary care, secondary care, social care, the integration of services, and programmes in general. Page 39

Recommendation 8... The Committee recommends that the Government should provide more supporting information at the time of future draft budgets to demonstrate how the allocations are supporting investment in prevention and transformation..... Page 44

Recommendation 9... The Committee recommends that the Government should commit to providing leadership, support and direction to enable the NHS to press forward the cultural change and empowerment of staff needed to reduce the barriers to investing in preventative, transformative or collaborative projects and to ensure the required change is achievable. Page 44

Recommendation 10. The Committee is concerned by the view of witnesses that the current performance regime does not appear to recognise or incentivise the preventative agenda and supports the view that how performance is measured needs to support the preventative agenda and recommends that the Government addresses this..... Page 45

Recommendation 11. The Committee accepts that the approach to local government reform has changed but believes there is a need for clarity on the objectives of the expenditure included within the draft budget for “Transformation and Legislation” and further detail required on the longer-term assumptions the Government may have regarding reform of local government services, we recommend that the Government address these concerns. .. Page 51

Recommendation 12. The Committee is concerned that the short term approach to revenue budgeting for local government has an adverse impact have on local government’s ability to effectively plan for the future, and recommends that the Cabinet Secretary considers the option of multi-year settlements. Page 52

Recommendation 13. The Committee recommends the Government ensure that legislation which is introduced over the course of the fifth Assembly is subject to early engagement and continued liaison with relevant stakeholders. In particular should the Government proceed with the introduction of a Local Government Bill the Committee would expect to see this level of engagement with local government representatives to ensure accurate costings are available on introduction..... Page 60

Recommendation 14. The Committee notes the concerns of stakeholders regarding the potential impact on the workforce of the NHS and the social care sector in Wales leading up to and following the UK’s exit from the EU and recommends the Government works closely with the NHS and local government to mitigate any potential repercussions within those sectors..... Page 64

Conclusions

Conclusion 1. The Committee notes the decision by the Government to publish the draft budget in October with only one year revenue funding, and recognises that this was appropriate on this occasion. It looks forward to certainty on funding decisions being provided in the future.

Conclusion 2. The Committee is committed to effective, inclusive public engagement in the scrutiny of the budget and recognises, that with more time, the work undertaken this year could be improved upon. It hopes that the new budget process will afford the Committee the opportunity to engage further more effectively, at an earlier stage, with the public in future.

Conclusion 3. The Committee notes the Government's commitments in terms of historic debt and accepts this is not a debt acquired through the current Governments spending, but believes the issue requires further scrutiny and will write to the Public Accounts Committee to suggest they may wish to consider this area.

01. 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 the 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 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. The Committee's 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.
5. Subsequently, there will be a final budget motion (the annual budget motion), as required by The Government of Wales Act 2006.
6. Although the Committee is responsible for reporting on the draft budget, other committees may also consider and report to the Finance Committee on the draft budget.

The four objectives of financial scrutiny

7. During the Fourth Assembly the previous Finance Committee worked closely with the Chartered Institute of Public Finance and Accountancy (CIPFA). At that time 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? i.e. outcomes;
 - budget processes - Are they effective and accessible? Is there integration between corporate and service planning, and performance and financial management?
8. This Committee has decided to continue this approach for this year's draft budget scrutiny.

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

Consultation

9. The Committee issued a pre-budget consultation, inviting stakeholders to comment on the expected draft budget proposals. The call for information invited consultees, organisations and individuals to let us know their expectations of the forthcoming draft budget.
10. In addition to the written consultation, Members were keen to receive the views of stakeholders on the allocations within the draft budget, so ran an online conversation.
11. Finally, on the morning of the final evidence session with the Cabinet Secretary for Finance and Local Government (the Cabinet Secretary), the Committee held a stakeholder event in Merthyr Tydfil with a range of organisations to allow them the opportunity to directly discuss their views with the Committee.



Picture 1: Committee Members meeting stakeholders to discuss the draft budget

12. The Committee were pleased to receive responses to the written consultation from a range of organisations. Links to these contributions can be found at Annex B to this report.

02. Setting the scene

Funding overview

13. The 2017-18 budget will be the last budget before Stamp Duty and Landfill taxes are devolved. This draft budget is presented in the context of the Welsh Government's Departmental Expenditure Limits (DEL) funding having already fallen by 8.2% in real terms between 2010-11 and 2015-16. It is forecast that between 2010-11 and 2019-20, the Welsh Government's DEL will fall by 11.6% in real terms.²

14. The UK Government has introduced a floor in the level of relative funding provided to the Welsh Government at 115% of comparable spending per head in England for the duration of this UK Parliament. The Statement of Funding does not set out how this floor will be applied.³

15. The UK Spending Review in November 2015 and UK Budget in March 2016 set out the funding levels for Wales for 2016-17 and provisional funding for a further three years up to 2019-20.

16. In consideration of the evidence around the draft budget the Committee has been mindful of the following uncertainties:

- there are potentially £3.5 billion additional spending cuts planned by the UK Government⁴ that are yet to be allocated to specific areas such as the block grant to the Welsh Government;
- conversely, the new Chancellor of the Exchequer suggested that he may “reset economic policy”⁵ in the UK Government Autumn Statement 2016 on 23 November. This may mean a more gradual approach to deficit reduction which no longer seeks to achieve a budget surplus by 2019-20;
- inflation may rise following the decision to leave the EU and the fall in value of the pound, reducing the real-terms value of funding.

17. The Autumn Statement⁶ was published shortly before this report was published. The Statement included the following:

- £436m of capital funding between 2016-17 and 2020-21 on capital projects as a result of extra spending on transport in England;⁷
- £35.8 million additional revenue for Wales funding over 4 years;
- There will be a single major fiscal event, the Autumn Budget 2017 (The Autumn Statement will be abolished and the March Budget 2017 will be the last). The Office for Budget Responsibility will produce a spring forecast from spring 2018 and the UK Government will make a Spring Statement responding to that forecast;⁸

² IFS Report (R120), [Welsh budgetary trade-offs to 2019-20](#) – September 2016

³ UK Government, [Statement of funding policy](#)

⁴ IFS Report (R120), [Welsh budgetary trade-offs to 2019-20](#) – September 2016

⁵ BBC News, [Chancellor may 'reset' economic policy in Autumn Statement](#), 22 July 2016

⁶ [Autumn Statement 2016](#)

⁷ Written Statement: [Welsh Government Response to the Chancellor of the Exchequer's Autumn Statement 2016](#)

⁸ [Autumn Statement 2016](#)

- The UK Government intends to identify £3.5 billion of savings in 2019-20 and intends to allocate £1 billion of these savings for re-investment in priority areas. The Efficiency Review was launched to help identify these savings and the UK Government will report on progress in autumn 2017.⁹

⁹ Autumn Statement 2016

03. Draft Budget Overview

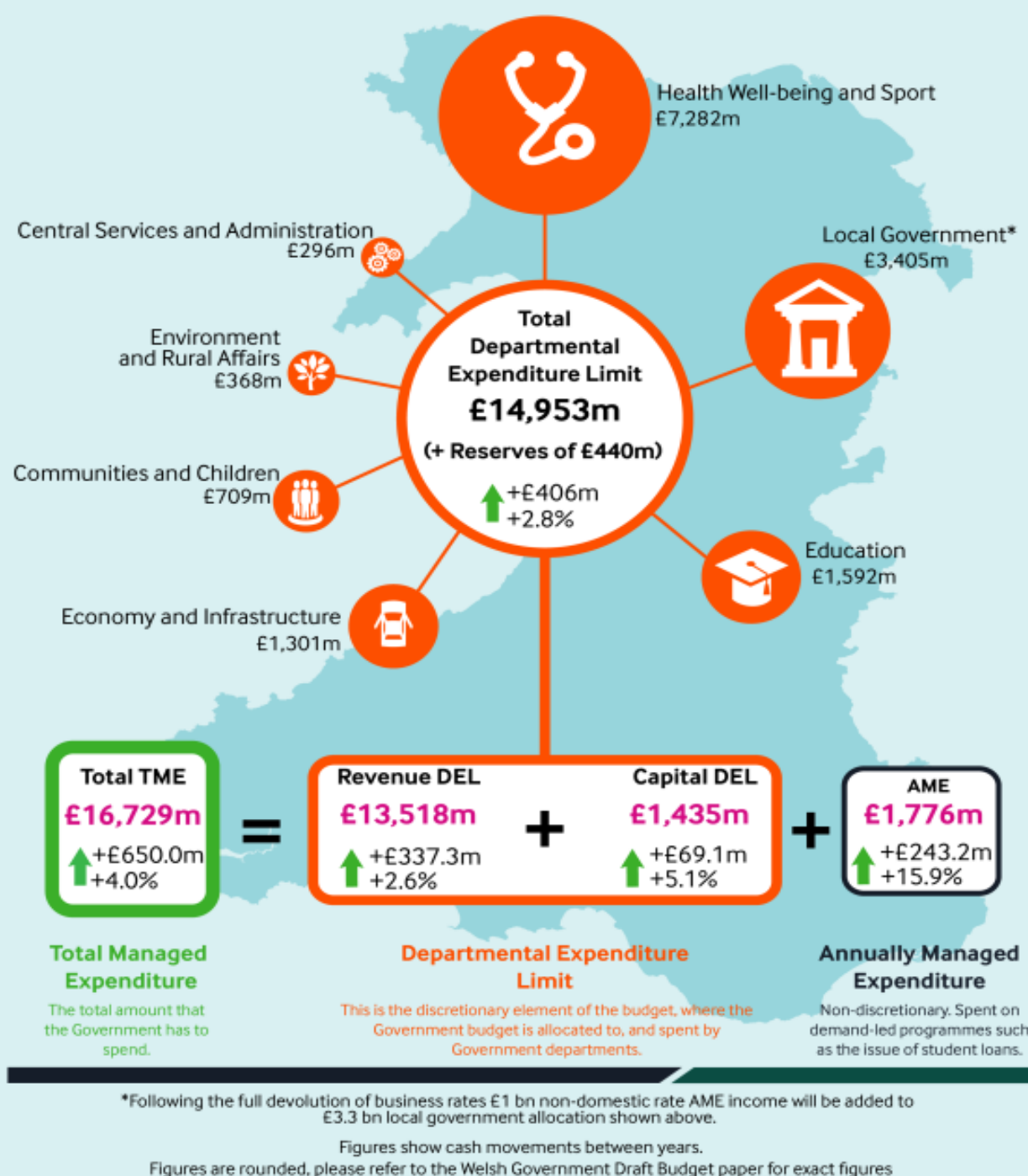
18. The Welsh block grant is comprised of allocations to Welsh Government departments, plus provision for the Assembly Commission, Auditor General for Wales and Public Services Ombudsman for Wales, as well as reserves.

19. Total managed expenditure (TME) within the Welsh block for 2017-18 is £17.2 billion. Of this, £16.7 billion is allocated to the Welsh Government.

20. Figures used by the Welsh Government as the baseline for comparisons between 2016-17 and 2017-18 are complicated by the addition of a revised baseline 2017-18 column for revenue allocations. This column includes transfers of spending areas between Ministerial portfolios, it also includes additions and removals from the supplementary budget allocations such as Invest-to-Save allocations, and one-off allocations made in the First Supplementary Budget 2016-17. This results in the Welsh Government revenue baseline for 2017-18 being lower overall than the allocations made at the First Supplementary Budget 2016-17 by £33.7 million.

21. Total DEL allocations to Welsh Government departments 2017-18 are shown below:

Headline figures from the draft budget 2017-18, showing changes from the first supplementary budget 2016-17



Picture 2: Headline figures from the draft budget 2017-18

22. Almost half of the total DEL budget is allocated to the Health, Well-being and Sport portfolio, as shown in the table below, which shows the proportion of Welsh Government DEL allocated to each main expenditure group (MEG).¹⁰

¹⁰ National Assembly for Wales, Research Service, calculations from Welsh Government budgets

Main expenditure group	Revenue DEL %	Capital DEL %	Total DEL %
Health, Well-being and Sport	52.1	17.1	48.7
Local Government	24.1	10.0	22.8
Communities and Children	2.7	23.5	4.7
Economy and Infrastructure	5.8	35.7	8.7
Education	11.0	7.0	10.6
Environment and Rural Affairs	2.1	5.8	2.5
Central Services and Administration	2.1	0.8	2.0

Programme for Government

23. On 20 September the Welsh Government published the Programme for Government (PFG).¹¹ Taking Wales Forward. Some of the key commitments in the PFG are:

- thirty hours free childcare for working parents of 3 and 4 year olds for 48 weeks per year – estimated additional cost of £84 million per financial year;
- a tax cut for 70,000 small businesses – current cost of small business rate relief is £98 million in 2016-17 and has been extended to 2017-18;
- creating a minimum of 100,000 apprenticeships over the Assembly term – additional financial commitment is not clear;
- new treatment fund for life-threatening illnesses – estimated additional cost of £16 million per financial year;
- double the capital limit for those going into residential care to £50,000 – estimated additional cost of £10 million per financial year; and
- invest an additional £100 million to improve school standards over the Assembly term.

24. The First Minister said on BBC Radio Wales that the increases in spending required to deliver these commitments means that there will be cuts to other areas and programmes:

There are going to be cuts... I'm not going to pretend otherwise. Of course, our budget is shrinking, it has been for many years and that means very difficult decisions have to be taken. We are going to have to look at some of the schemes we have delivered for many, many years and make a judgement.¹²

Cabinet Secretary's evidence

25. The Cabinet Secretary was asked what trade-offs were considered when deciding on the new Programme for Government, he said that due to the "modest cash increases ... there are no great areas in this budget where you will see massive reductions in programmes".¹³

26. However, the Cabinet Secretary warned:

"...our budget will fall by 9 per cent in revenue terms and by a third in capital terms between about 2009 and 2019. There will be less money to go around

¹¹ Welsh Government, **Programme for Government**, November 2016

¹² BBC News, **Welsh Government's five year plan "will mean cuts"**, 20 September 2016

¹³ National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraph 50

every single year. For probably an unusual set of circumstances, the next financial year is not as bad as some of the others, but it's for that reason that it's a period to plan and use that opportunity to think ahead.”¹⁴

Committee view

27. The Committee is surprised that the draft budget documentation does not provide clearer links between the draft budget and the Programme for Government, demonstrating how the Government's spending plans are informing the development of the PFG. The Committee believes the link between the PFG, the draft budget and the requirements under the Well-being of Future Generations (Wales) Act should be more explicit. Further details on the Well-being of Future Generations (Wales) Act can be seen in chapter 6.

Recommendation 1. The Committee recommends that in future years the draft budget documentation should clearly demonstrate how the Programme for Government has informed and driven the budget setting process and also shows a stronger link to outcomes that the funding is expected to achieve.

¹⁴National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraph 53

04. Public Engagement and budget scrutiny

Background

28. The previous Finance Committee frequently raised the concern that the lack of time available to scrutinise the Government's budget limits the impact and influence of the Assembly and the ability to engage the public in the scrutiny process.

Cabinet Secretary's evidence

29. During the scrutiny session at the Equalities, Local Government and Communities Committee on 3 November, the Cabinet Secretary described how the Government was considering a pilot of participatory budgeting for next year's budget:

"I am very keen to learn from, and to encourage, some of the work that's already gone on in local authorities in relation to participatory budgeting. So, part of our agreement with Plaid Cymru for the work of the finance liaison committee is that we will look to see whether we can have a pilot of participatory budgeting across the whole of the Welsh Government's budget next year. But to do that, I'm keen to learn from some of the ways in which Gwynedd, for example, mounted a significant exercise to involve its local population in facing some of the tough decisions that that local authority has to make."¹⁵

30. In relation to participatory budgeting and the Committee's stakeholder event, the Cabinet Secretary told the Finance Committee:

"I would be very keen to have a sharing of experiences, because you clearly already have done some work, which would be very interesting for us to hear about, and I'm very, very happy to share whatever thoughts we've got with the committee and to have a, sort of, iterative approach about them. I'm just keen to do it in the best way we can..."¹⁶

Committee view

31. The Committee understands that this draft budget was framed in uncertainty and that the Government has had to balance the need for early certainty of funding for delivery partners and the knowledge that announcements that would significantly change the funding available in 2017-18 were anticipated in the autumn statement. The Committee recognises that the ability of the Government to plan and provide certainty is impacted by the timing of UK Government's autumn statement and, this year, the issues associated with the apprenticeship levy.

32. Following the Autumn Statement¹⁷ on 23 November 2016 which announced the move from a spring budget to an autumn budget and the abolishing of the autumn statement, the Committee recognises that this may cause timing issues for the Government in future years and will wish to consider this with the Cabinet Secretary going forward.

¹⁵ National Assembly for Wales, Equalities, Local Government and Communities Committee, [Record of Proceedings](#), 3 November 2016, paragraph 122

¹⁶ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 237

¹⁷ [Autumn Statement 2016](#)

33. The Committee has not had sufficient time to fully engage with the public and stakeholders when considering this draft budget, due to a number of factors, namely:

- the time available for scrutiny of the detailed Government’s draft budget;
- the lack of provisional figures available ahead of the publication of the draft budget due to the late autumn statement;
- the Programme for Government being published in September, shortly before the publication of the draft budget;
- the Well-being objectives in being published in November, after the publication of the draft budget.

34. However, the Committee was grateful for the contribution made by stakeholders to the scrutiny process this year and the stakeholder event in Merthyr was particularly helpful to the understanding of the issues faced by stakeholders. The Committee hopes to continue this practice in future years to ensure inclusive public engagement on the draft budget. It would welcome the opportunity to work with the Cabinet Secretary on public participation within the budget process.

Conclusion 1. The Committee notes the decision by the Government to publish the draft budget in October with only one year revenue funding, and recognises that this was appropriate on this occasion. It looks forward to certainty on funding decisions being provided in the future.

Conclusion 2. The Committee is committed to effective, inclusive public engagement in the scrutiny of the budget and recognises, that with more time, the work undertaken this year could be improved upon. It hopes that the new budget process will afford the Committee the opportunity to engage further more effectively, at an earlier stage, with the public in future.

05. Taxation and Borrowing

Background

35. In its report *Scrutiny of Welsh Government Draft Budget 2016-2017*, the previous Finance Committee recommended:

“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.”¹⁸

Non-domestic rates

36. The full devolution of non-domestic rates from April 2015 led to a corresponding reduction in the block grant. In 2016-17, business rates were estimated to fund £977 million of Government expenditure, 6% of its total budget.

37. In a letter to the previous Assembly’s Enterprise and Business Committee, the previous Minister for Finance and Government Business noted that from 2016-17, the Government DEL will be £98.5 million per year higher than previously,¹⁹ 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 volatility in revenue from devolved taxes.

38. However, in response to questions in Plenary on 8 December 2015, the First Minister noted:

“we are concerned that the new approach is inconsistent with the principles that should be applied when considering the interaction between the block grant and devolved taxes ... we will keep on pressing the UK Government to realise that this is not an appropriate way to conduct affairs with regard to the formula itself.”²⁰

39. The Government 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 Government budget shows expenditure financed by non-domestic rates as a separate item. The Cabinet Secretary that the estimates assumed no change in policy in 2017-18²¹ and also included £30 million income carried forward from 2015-16.

40. To date there has been little divergence from policy in England. The Cabinet Secretary has recently announced²² that the small business rate relief scheme will continue into 2017-18, while a review takes place with a view to introducing a new more targeted scheme in 2018-19. Additionally,

¹⁸ National Assembly for Wales, Finance Committee, *Scrutiny of Welsh Government Draft Budget 2016-2017*, February 2016

¹⁹ Fourth Assembly, *Letter from the Minister for Finance and Government Business to the Chair of the Enterprise and Business Committee*, 5 March 2015

²⁰ National Assembly for Wales, Plenary, *Record of Proceedings*, 8 December 2015

²¹ National Assembly for Wales, Finance Committee, *Record of Proceedings*, 19 October 2016, paragraphs 121-122

²² National Assembly for Wales, Finance Committee, *Draft Record of Proceedings*, 17 November 2016, paragraphs 24

the Government has announced a £10 million transitional relief scheme for small businesses negatively affected by the 2017 business rates revaluation, to come in from 2017-18.²³

Taxation powers coming to Wales

41. Legislation in relation to Land Transaction Tax and Landfill Tax needs to be in place by April 2018 and the Government is currently negotiating a fiscal framework with the UK Government discussing how to adjust the block grant following devolution of these taxes.

42. During 2017-18 there will be costs to the Government relating to the setting up of the Welsh Revenue Authority (WRA).

Borrowing

43. The Government does have early access to borrowing and also is liable for other borrowing whether directly or through providing revenue streams to support borrowing. This draft budget is the first to use the borrowing powers under the Wales Act 2014. The borrowing limits are £500 million overall and a limit of £125 million per year. The Cabinet Secretary told the Committee that fiscal framework discussions do include consideration of an extension to the level of borrowing.

44. The Government intends to borrow £395 million from the National Loans Fund over four years:

- £20 million in 2017-18; and
- £125 million in each year from 2018-19 to 2020-21.

45. This borrowing is intended for the M4. The £20 million for next year will only be used if there are capital requirements for the M4 and no conventional capital reserves are available. The draft budget has £110 million usable capital reserves.

46. Also, the decision by the Office for National Statistics that housing associations are to be reclassified as public sector bodies could add over £2 billion to the public sector balance sheet in Wales. The First Minister stated he is considering resolving this issue through legislation.²⁴

Cabinet Secretary's evidence

47. The Cabinet Secretary was asked about the nature of non-domestic rates and the risk/reward associated with the tax, he said:

“... it is inherently volatile ...and that it is based on estimates of the income that we expect to receive through non-domestic rates, year on year, although there is a long history of it, so it's by no means an untutored guess. The risk is held by the Welsh Government. We collect it all in and we dispose of it. If more comes in than was expected, then we are able to use that from Welsh Government. If less comes in, then we have to make that good, as far as local government is concerned.”²⁵

48. The Cabinet Secretary was asked to clarify the additional non-domestic rates income being carried forward into the draft budget, he said:

²³ Written Statement - Transitional Relief to Support Small Businesses Affected by the 2017 Non-domestic Rates Revaluation

²⁴ National Assembly for Wales, Plenary, [Record of Proceedings](#), 4 October 2016

²⁵ National Assembly for Wales, Finance Committee, [Record of Proceedings](#), 19 October 2016, paragraph 124

“...more income has been derived from domestic rates in the last financial year than was estimated ... So, there is a small increase in the estimated income for next year and there is a pool that we’re able to take forward because of more buoyant incomes in the last financial year.”²⁶

49. The Cabinet Secretary confirmed that the figure that has been brought forward in the draft budget from last year is £30 million.²⁷

50. In relation to preparation for tax powers, the Cabinet Secretary said there was £2.5 million set aside in the budget to support the WRA,²⁸ he continued:

“We think £2.5 million is what will be required; that is within the RIA estimates that were provided with the tax collection and management Bill. You will know that I gave an undertaking in front of this committee during the first scrutiny session of the land transaction tax Bill that we would update that RIA as we move into more certain territory. At the moment, we think that the range of costs provided in the original RIA is holding up, but we will refine it as we move on, and there is specific provision now for the WRA in next year’s budget.”²⁹

51. The Cabinet Secretary was asked about the borrowing plans within the draft budget, he said:

“... on the capital side, we have an agreement now with the Treasury. We will have early access to a small amount of borrowing, and then we’re able to borrow £125 million a year for capital purposes. The capital budget that is in front of the committee deploys that ability to the full. We don’t get to £500 million, which is our top line, because over four years you don’t get to that. You get to ... £395... there’s £395 million-worth of capital borrowing in this budget, set out in that yearly sequence.”³⁰

52. In relation to the M4 the Cabinet Secretary said:

“If there are capital costs that are associated with the M4, that £20 million, if it is needed next year for M4 capital purposes, can be drawn down. If there are no capital requirements for the M4 purposes, that money will not be used. That doesn’t mean to say that there aren’t other costs, of a revenue sort, associated with the M4—preparing for the public inquiry, holding the public inquiry and so on. So, there may be costs associated with the M4 that are still being covered next year, over and above any use of the £20 million.”³¹

53. In response to questions about the intended arrangements for the prospective M4 borrowing, the Cabinet Secretary said:

²⁶ National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraph 129

²⁷ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 24

²⁸ National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraph 185

²⁹ National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraph 185

³⁰ National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraph 136-138

³¹ National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraph 165

“We will be borrowing from the National Loans Fund. As I understand it, loans are typically over a 30 year period, although it is possible to vary the term depending of the life of the asset that the loan is financing.”³²

54. Following the Cabinet Secretary’s first evidence session the Committee requested more detail on the annual costs of historic liabilities that the Government supports, and supported borrowing in relation to commitments to provide revenue funding for investment in housing and flood risk. The Cabinet Secretary provided clarity by detailing:

- Inherited historic borrowing on the merger with the Welsh Development Agency (WDA). Outstanding debt just over £11 million (£11.406 million) in 2015-16. Annual cost is £1.745 million per annum;
- The Housing Finance Grant 1 launched in 2013-14 and has seen around £130 million invested by Registered Social Landlords (RSLs). Partly funded by an annual revenue payment of £4 million by the Welsh Government to the RSLs involved, which will continue until 2032-33;
- Local Government Borrowing Initiative: £170 million investment in highways last Assembly and £170 million in 21st Century Schools Programme (to be delivered by 2018-19), annual repayment £22 million;
- There are also a number of historic Private Finance Initiative (PFI) schemes which were entered into by Welsh Local Authorities and other bodies, such as Local Health Boards. In 2015-16, revenue liabilities were expected to be around £99 million;
- The commitment in the budget to provide £250 million for house building supported in partnership by the Housing Finance Grant 2 and the £150 for flood prevention is likely to lead to repayments over a period of around 30 years, with revenue repayments expected to peak at £16.3 million in 2020-21.^{33 34}

Committee view

55. The previous Finance Committee recommended that information on the forecasts of non-domestic rates and future devolved taxes is an area of focus for this Committee. The Committee valued the clarifications provided by the Cabinet Secretary on national non-domestic rate forecasts and income and both historical debt and plans to support borrowing in the budget. However, the Committee believes that such information on tax forecasts, borrowing and interest payments should be more readily available.

56. The Committee welcomes the clarification from the Cabinet Secretary that borrowing under the Wales Act 2014 would be under the National Loans Board.

57. The Committee notes the Cabinet Secretary’s reassurances with regards to the allocations to support the setting up of the WRA, but will continue to monitor progress in the setting up of the WRA.

³² National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 39

³³ **Letter from the Cabinet Secretary for Finance and Local Government to the Finance Committee**, 1 November 2016

³⁴ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraphs 29-30 and 37

Recommendation 2. Whilst welcoming the transparency from the Cabinet Secretary regarding borrowing, debt and repayments, the Committee believes this information should be more readily available and recommends that detailed information on the Government's financial commitments should be included, and easily accessible within the draft budget documentation.

Recommendation 3. The Committee believes the detail around the non-domestic rates income, including the provision of meaningful forecasts and level of non-domestic rates carried forward, should be more transparent and recommends the inclusion of these details in draft budget documentation to aid transparency.

Conclusion 3. The Committee notes the Government's commitments in terms of historic debt and accepts this is not a debt acquired through the current Governments spending, but believes the issue requires further scrutiny and will write to the Public Accounts Committee to suggest they may wish to consider this area.

06. Well-being of Future Generations (Wales) Act 2015

Background

58. The Well-being of Future Generations (Wales) Act 2015³⁵ (the WFG Act) came into force on 1 April 2016. It aims to improve the social, economic, environmental and cultural well-being of Wales by placing a duty on public bodies to think in a more sustainable and long-term way, and is designed to ensure that actions meet the needs of the present, without compromising the ability of future generations to meet their own needs.

59. The WFG Act puts in place seven well-being goals that public bodies must work to achieve and take into consideration across all their decision-making, and five ways of working to achieve the goals. It places a well-being duty on public bodies (including local authorities and the Welsh Ministers) requiring them to set and publish objectives to show how they will achieve the vision for Wales set out in the well-being goals. Public bodies must take action to make sure they meet the objectives they set. It also establishes Public Services Boards (PSBs) for each local authority area in order to improve economic, social, environmental and cultural well-being in its area by strengthening joint working across all public services.

60. The WFG Act also establishes a statutory Future Generations Commissioner for Wales, whose role is to act as a guardian for the interests of future generations in Wales, and to support the public bodies listed in the Act (including the Welsh Ministers) to work towards achieving the well-being goals.

61. The previous Government highlighted that draft budgets would be aligned with the 46 national indicators for Wales:

“...clarify the alignment between indicators, outcomes and budget decisions to achieve the improvement in transparency that we seek for Welsh taxpayers. It is vital that there is a line of sight between the goals and priorities of Government and the plans of the public bodies that we fund, and the taxpayer expects to be able to see this.”³⁶

62. Section 8 of the Act requires the Welsh Ministers to set and publish well-being objectives within six months of an Assembly election. These 14 objectives were published on 4 November 2016, and reflect the Welsh Government’s aspirations for change over the longer term.³⁷

63. The Government’s “Budget at a Glance” leaflet sets out its intentions for maximising its impact on the national well-being goals, stating in relation to the draft budget 2017-18 that:

“This is not a stand-still budget. It is a budget which looks to the future.

These budget proposals set out the spending decisions that support delivery of our government programme, Taking Wales Forward, and are framed by the Well-Being of Future Generations Act. We will further develop our approach to maximising our impact on the National Well-Being Goals through four cross-

³⁵ [Well-being of Future Generations \(Wales\) Act 2015](#)

³⁶ [Welsh Government response](#) to the previous Finance Committee’s report: Best Practice Budget Process Part 2- Planning and implementing new budget procedures

³⁷ Welsh Government, [Taking Wales Forward: Welsh Government’s Well-being Objectives \(2016\)](#)

cutting strategies, Prosperous and Secure, Healthy and Active, Ambitious and Learning and, United and Connected.”³⁸

64. The Future Generations Commissioner for Wales, Sophie Howe, stated in response to the publication of the draft budget that:

“The publication of this draft budget is the start of an important stage of this journey and offers the opportunity to shape policies and spending in a way which reflects this. The Act also requires me to act as a guardian of the ability of future generations to meet their needs and to encourage public bodies to take greater account of the long term impact of the things they do. I look forward to providing advice and support to Welsh Government as they work towards their final budget which will help set public bodies on the right track by ensuring budget priorities demonstrate a shift to preventative spending, a more integrated approach in the way public services are funded and therefore delivered and reflect long term thinking and financial planning.”³⁹

Evidence

To what extent is the draft budget influenced by the Well-being of Future Generations Act and the five ways of working?

65. Prior to publication of the draft budget, consultation responses from Oxfam Cymru⁴⁰ and WWF Cymru highlighted the need for the draft budget to show how the Government is driving through the changes required by the Act. WWF Cymru stated that while they did not expect this draft budget to demonstrate all of its expectations relating to the Act, this budget should not be “business as usual” and should be supported at the very least by a narrative explaining the change in process and overall vision.⁴¹

66. WWF Cymru and Oxfam Cymru expected the draft budget to show:

“A clear shift in expenditure towards programmes aimed at preventing problems occurring;

Financial arrangements, such as pooled budgets, that encourage and require collaboration amongst public bodies and facilitate the achievement of multiple well-being goals; and

An emphasis on addressing long-term problems such as climate change and the decline of biodiversity.”⁴²

67. Witnesses representing both WWF Cymru and Chwarae Teg expressed concern that it was hard to understand from the budget documentation how the allocations within the draft budget had been influenced by the Act and the five ways of working. The representative from WWF Cymru stated:

³⁸ Welsh Government, [Budget at a Glance](#)

³⁹ Future Generations Commissioner for Wales, [Press Release: Welsh Budget must set public bodies on right track](#), 18 October 2016

⁴⁰ Written evidence, Finance Committee, [WGDB_17-18 06, Oxfam Cymru](#)

⁴¹ Written evidence, Finance Committee, [WGDB_17-18 07, WWF Cymru](#)

⁴² Written evidence, Finance Committee, [WGDB_17-18 06, Oxfam Cymru](#) and Written evidence, Finance Committee, [WGDB_17-18 07, WWF Cymru](#)

“What I really wanted from the budget—not about the detail of it—was that this is the first budget created since the Act came into place and we wanted to make sure it was an exemplar of how you want things to happen in future for other public bodies who’ll be doing this over the coming year, I suppose. I understand all the constraints of time, and we weren’t expecting perfection by any means, but actually having a little more narrative and a little more clarity about how that spending is going to be applied to delivering those outcomes, I think, would have been a rather good way forward.”⁴³

68. Chwarae Teg noted there was possibly less detail on how the five ways of working had influenced the Government’s budget than in 2016-17. They felt that the way information was presented in the 2016-17 budget had been particularly helpful in explaining the Government’s approach to external stakeholders.⁴⁴

69. In her written evidence to the Committee, the Future Generations Commissioner for Wales noted that she would expect to see all of the five ways of working and the well-being goals considered in the way which the Government allocates resources. She said it would be part of an approach where the Government makes full use of the WFG Act as a tool for change rather than something to comply with. The Commissioner went on to state that she expected to have seen a better reflection of this within the budget narrative and would certainly hope to see a more detailed analysis when the Government publishes its well-being objectives.⁴⁵

70. Professor Marcus Longley, Director of the Welsh Institute for Health and Social Care and Professor of Applied Health Policy at the University of South Wales, told the Committee:

“...it’s [the budget] not a perfectly designed tool for this purpose, I think, but nevertheless, I wouldn’t want to say it’s got nothing to do with the budget, because I think that would be abdicating one of the things that we could be using. Again, I think it comes back to this transparency about how money is spent. Now you can do that crudely or you can do that subtly, and obviously you’d want to do it subtly, but it would be very useful, I think, to see, in addition to the crude budgetary heads that we currently have, more information about that programmatic-type spend. You know, within these budget headings, how is it actually being spent? That’s a process of evolution. It requires some development, but at the moment, I wouldn’t say the whole process is very transparent, really, and that is probably a missed opportunity.”⁴⁶

71. Assembly committees also noted their concern that more needs to be done to demonstrate how the draft budget is shaped by the WFG Act. The Equality, Local Government and Communities Committee noted that the Cabinet Secretary had provided limited evidence in the documentation accompanying the budget to demonstrate how the WFG Act influences budget decisions and requested more detailed evidence from the Cabinet Secretary on this.⁴⁷

⁴³ National Assembly for Wales, Finance Committee, Record of Proceedings, 3 November 2016, paragraph 161

⁴⁴ National Assembly for Wales, Finance Committee, Record of Proceedings, 3 November 2016, paragraph 194

⁴⁵ [Letter from the Future Generations Commissioner for Wales](#), October 2016

⁴⁶ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 231

⁴⁷ [Letter from the Chair of the Equality, Local Government and Communities Committee to the Cabinet Secretary for Finance and Local Government](#)

72. The Economy, Infrastructure and Skills Committee stated in its letter that it was not clear how the WFG Act was having an impact on budget decisions, nor what – if anything – had changed as a result. That Committee noted that the Cabinet Secretary for the Economy and Infrastructure cited the maintaining of funding for the Bus Services Support Grant at £25 million as an example of how the FWG Act had influenced budget decisions, but that the fund had been fixed at that amount since 2013-14, before the FWG Act became law.⁴⁸

Impact Assessments

73. In relation to how equality and sustainability impact assessments inform the draft budget 2017-18, WWF Cymru expressed concern that budget allocations made by the Government are not sufficiently informed by evidence. It said that to assess the most cost-effective budget allocations, the Government needs to assess the social, environmental and economic gains.⁴⁹

74. WWF Cymru also refer to using carbon impact assessments to inform budget allocations. They note that the Scottish Government is legally required to assess the impact of its budgets on carbon emissions reduction, and believe this issue should be given a similar status to equality issues by the Government.

75. Chwarae Teg notes that the Government has aimed to prepare for the Act by moving from a basic equality impact assessment to an assessment including wider well-being as well as impacts on those with protected characteristics. It considers that an unintended consequence of this has been a less comprehensive analysis of the gender implications in the strategic integrated impact assessment and called for a full gender analysis of the draft budget and in the long-term support the use of gender responsive budgeting tools to do this. Chwarae Teg suggested this would help to deliver a gender sensitive budget, highlight any gaps between policy commitments and resource allocated, and help the Government to meet the national well-being goals of a more equal Wales, a prosperous Wales and a resilient Wales.⁵⁰

76. One way that was suggested by both WWF Cymru and Chwarae Teg as a way of presenting information on how the WFG Act had influenced the budget was to include more detail in the strategic integrated impact assessment. Chwarae Teg noted that:

“This is where a quality, robust impact assessment comes into its own. It’s that process that will allow a proper evaluation of how these spending commitments can deliver across multiple goals. I would make the argument that delivering on a more equal Wales is absolutely integral to delivering a more prosperous Wales, and a more resilient Wales as well. It’s that step back and assessment of what the impact will have on what approach might need to be taken in terms of implementing these spending commitments that will help us to understand whether or not the budget is effectively delivering across all of the well-being goals, and perhaps if there are areas where we need to put a bit more focus on.”⁵¹

77. The Climate Change, Environment and Rural Affairs Committee noted its disappointment that no specific reference was made to how issues of socio-economic disadvantage, equality, the Welsh

⁴⁸ **Letter from the Chair of the Economy, Infrastructure and Skills Committee to the Finance Committee**

⁴⁹ Written evidence, Finance Committee, **WGDB_17-18 07, WWF Cymru**

⁵⁰ Written evidence, Finance Committee, **WGDB_17-18 10, Chwarae Teg**

⁵¹ National Assembly for Wales, Finance Committee, Record of Proceedings, 3 November 2016, paragraph 209

language, sustainable development, children's rights or tackling poverty were made within the environment portfolio. It said it would have expected more detail on how consideration of these cross-cutting issues had shaped budget allocations, and perceived that they were not central to the decision-making process.⁵²

Looking forward

78. WWF Cymru stated that the budget must be the start of the transformational change required for a sustainable Wales. Looking strategically, WWF Cymru consider that the Finance Committee is best placed to take an overarching look at whether the budget is making the best possible contribution to maximising the well-being goals. In terms of looking at how the Government uses the budget to achieve specific well-being goals, WWF Cymru suggested that individual subject committees could look at this, or work together when appropriate.

79. The WFG Act also establishes Public Services Boards for each local authority area. The Membership of each Board must include the local authority, the Local Health Board, the Fire and Rescue Authority and Natural Resources Wales. The role of the PSB is to improve the economic, social, environmental and cultural well-being of its area by assessing the state of these aspects of well-being and setting objectives that are designed to maximise its contribution to the well-being goals.

80. The WLGA raised concerns regarding the detail of the logistics in aligning budgets with the annual well-being report and how progress will be monitored.⁵³

Cabinet Secretary's evidence

81. With regards to the WFG Act being incorporated within this budget the Cabinet Secretary said:

"It's been an important consideration in this budget, albeit that this is still work in progress, and the impact of the Well-being of Future Generations Act won't stop with this budget, and we'll continue to have to think about how we deal with it, but the five ways of working have been the way in which we have tried to test the alignment of the budget with the requirements of the Act."⁵⁴

82. The Cabinet Secretary provided details around how the Government has incorporated the five ways of working into the draft budget. He gave examples of how individual allocations have done this:

- in relation to taking a long-term approach, he considers that the budget allocations for the Metro and medical health professional education have taken this approach;
- protecting Supporting People, Flying Start and public health budgets are cited as examples of supporting prevention and early intervention;
- releasing land held by Welsh Government departments to assist in taking forward the target of building 20,000 new affordable homes across the Assembly term is put forward as an example of integration;

⁵² Letter from the Chair of the Climate Change, Environment and Rural Affairs Committee to the Finance Committee

⁵³ Written evidence, Finance Committee, WGDB_17-18 26, Welsh Local Government Association

⁵⁴ National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraph 71

- collaboration is the fourth way of working, and the Cabinet Secretary considers that his approach to local government reform and funding achieves this; and
- involving parents in the development of the childcare pledge in the Programme for Government through undertaking pilot work on the best model for delivery is the example of involvement given.⁵⁵

83. In response to the request of WWF Cymru that the Committee recommend the Government should specifically identify the carbon impact of the budget, and should work with stakeholders to develop the best way for achieving this, the Cabinet Secretary stated:

“I think it would be fair to say that we are at the earlier end of being able to demonstrate how, in budget allocation terms, we are taking forward the de-carbonisation agenda, although we’ve made a start on it and there is further work going on between my officials and Lesley Griffiths’ officials to try and make sure that we can take that forward further next year.”⁵⁶

84. The Cabinet Secretary told the Equalities, Local Government and Communities Committee:

“I absolutely accept that this is work in progress, and that we hope we will develop in the sophistication of our ability to use the possibilities that the Act provides to do more of this in future. But I did come out of the discussions that I had with officials feeling some confidence that we’ve made a proper start on that in this budget, as far as the local government side is concerned.”⁵⁷

85. The Cabinet Secretary agreed it was for the Government to provide leadership to other public bodies in driving forward the WFG Act and the Government had tried to do that in putting together this draft budget, but he accepted that the Government “could do more”,⁵⁸ he continued:

“We’ve all learned lessons here from the first time, and, of course, for me, the commissioner is there, as are groups such as WWF Cymru and Chwarae Teg—they are there to assist us and to push us to do more and to do better.”

86. The Cabinet Secretary also agreed that the publications of the draft budget and the well-being objectives could be better aligned:

“...I decided it was more important to observe the legal requirements and to do the best we could within the timescale available, but we did need to use all the time we did have available. But I did make it clear when they were published on 4 November that they were there now for a richer seam of consultation and discussion and that I would come back to them at the beginning part of next year to see how we could further shape them as a result of that process. So, look, I’m absolutely recognising the clash of timetables here; it would have

⁵⁵ National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraph 74

⁵⁶ National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraph 82

⁵⁷ National Assembly for Wales, Equality, Local Government and Communities Committee, **Record of Proceedings**, 3 November 2016, paragraph 117

⁵⁸ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraphs 11-12

been preferable to have had things the other way round, and I don't think we'll be in exactly the same position when we do it next year.”⁵⁹

Committee view

87. The Committee notes the evidence received from stakeholders regarding the WFG Act and finds it to be persuasive. Whilst appreciating that the implementation of WFG the Act is at an early stage, it does not consider that sufficient progress has been made in reflecting how budget allocations have been influenced by the WFG Act.

88. This year's draft budget could have been the first step in delivering transformational change. The Committee is very disappointed that some stakeholders view last year's budget as being potentially easier to link to the WFG Act. While the Committee appreciates the examples the Cabinet Secretary gave of incorporating the five ways of working into the draft budget, there was very little information around this in the published budget documentation. Therefore, the Committee believes this opportunity for improvement in future years should not be missed

89. The Committee notes the suggestion made by Chwarae Teg that a robust and detailed strategic integrated impact assessment could be a useful way of identifying how the WFG Act has influenced the budget and believes this should be investigated further.

90. In relation to the well-being objectives, the Committee is disappointed that these were not published alongside the draft budget, to enable it and stakeholders to clearly identify how one has informed the other. Additionally, the Committee finds the well-being objectives have mainly made high level general statements on how the draft budget relates to the WFG Act, rather than including specific examples.

91. The Committee notes that WWF Cymru had expected that the Government would publish a statement explaining how resources are being allocated to meet these objectives, and that the Future Generations Commissioner expected to see a better reflection of how the budget allocations relate to the well-being objectives in the budget documentation. The Committee believes that this would provide evidence as to whether the Government is changing its budget allocations to achieve these objectives, and delivering the transformational change promised by the WFG Act.

92. The Committee appreciates the candidness of the Cabinet Secretary in recognising that there is an opportunity for the Government to provide leadership on the implementation of the WFG Act and the Committee would hope to see vast improvements next year.

Recommendation 4. The Committee believes an effective strategic integrated impact assessment could be a useful way of identifying how the Well-Being of Future Generations Act has influenced the budget, and recommends that the Government explore using this approach.

Recommendation 5. The Committee recommends that the Government should show greater detail of how the Well-Being of Future Generations Act and the five ways of working have influenced both individual budget allocations and the budget as a whole in future years.

Recommendation 6. The Committee recommends that the Government ensures that in future years the publication of any performance information relating to, or any changes

⁵⁹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 19

to, well-being objectives should be published before the draft budget to enable stakeholders to track how the budget aligns with the well-being objectives.

07. Health Finance

Overall funding

93. The 2017-18 draft budget shows a £294 million, or 4.4% increase, in revenue for the Health, Well-being and Sport department, compared to the First Supplementary Budget 2016-17.

94. Capital allocations are £245 million, which is £28 million, or 10.2%, below the supplementary budget. The most significant changes being:

- £240 million additional to support core NHS delivery, to “enable NHS organisations to continue to meet the ongoing growth in demands and costs of services”⁶⁰ including £20m ring fenced for mental health services;
- £16m investment in a treatment fund; £15m capital funding for diagnostic equipment; and
- £7m additional for health care professional education, including medical schools.⁶¹

95. Additionally of note is that the Intermediate Care Fund (ICF) is retained at £60m, the same as in the 2016-17 supplementary budget. Of this, £50m is revenue and £10m capital. The Government plans to use a new Welsh Mutual Investment Model to develop the new specialist Velindre Cancer Centre.⁶²

96. The draft budget narrative and the evidence presented to the Committee by the Cabinet Secretary, highlight the importance of the Health Foundation report “The path to sustainability: Funding projections for the NHS in Wales to 2019/20 and 2030/31” as justification for this allocation decision. This report stated that the NHS in Wales is “facing the most financially challenging period in its history” and the savings needed are “extremely challenging”.⁶³

97. A common theme in previous scrutiny of the Government budgets is the transparency of NHS allocations, with over £6 billion of revenue funding going into the “Delivery of Core NHS Services”.

NHS Finance (Wales) Act 2014

98. The NHS Finance (Wales) Act 2014 (the NHS Finance Act) introduced a key change in the financial planning of Local Health Boards (LHBs). The purpose of the NHS Finance Act was to change the financial duties of LHBs from a statutory requirement for expenditure requiring them not to exceed their annual resource limit, to a regime which considers the financial duty to manage their resources within approved limits over a three year period. It was envisaged that allowing planned deficits that would be repaid over the three year planning cycle would give the flexibility needed to enable transformational change.

99. The NHS Finance Act is underpinned by Integrated Medium Term Plans (IMTPs), produced annually by LHBs and NHS Trusts in Wales to set out their plans for the coming three years. These plans are submitted for approval to the Government and, where a three year plan cannot be agreed, a one year plan is set.

⁶⁰ Welsh Government, Draft Budget narrative, paragraph 4.23

⁶¹ Welsh Government, Draft Budget narrative, paragraph 1.17

⁶² Welsh Government, Draft Budget narrative, paragraph 3.10

⁶³ The path to sustainability: Funding projections for the NHS in Wales to 2019/20 and 2030/31

100. The NHS Finance Act was first implemented for the 2014-15 financial year and the plans considered in January of this year were the third set of plans to be considered under the Act.

101. The table below gives a high level summary, in terms of three year plans⁶⁴ for the financial years that the NHS Finance Act has been in place. This includes plans approved and recent outturn and forecasts for 2016-17. Additional cash support continues to be provided when required to all Boards in deficit to enable them to meet their normal cash commitments. This cash assistance is repayable in future financial years when appropriate and improved plans are developed and approved under the Act to enable the repayment of deficits.

Local Health Boards and NHS Trust	2014-15		2015-16		2016-17			Date of latest forecast	2014-15 to 2016-17 Forecast performance against financial duty (£ million)
	Plans Approved	Outturn (£m)	Plans Approved	Outturn (£m)	Plans Approved	Current Revenue Performance (£ million)	Forecast end-year outturn (£m)		
Abertawe Bro Morgannwg UHB	3y	0.1	3y	0.1	1y	-12.5	-20.1	31-Aug-16	-19.9
Aneurin Bevan UHB	1y	0.5	3y	0.2	3y	-9.8	-19.1	31-Aug-16	-18.4
Betsi Cadwaladr UHB	1y	-26.6	1y	-19.5	1y	-12.6	-30.0	31-July-16	-76.1
Cardiff and Vale UHB	3y	-21.4	3y	0.1	1y	-10.8	-9.4	31-July-16	-30.7
Cwm Taf UHB	3y	0.0	3y	0.0	3y	0.0	0.0	31-July-16	0.0
Hywel Dda UHB	1y	-7.5	1y	-31.2	1y	-23.9	-38.3	31-Aug-16	-77.0
Powys Teaching Health Board	1y	0.0	3y	0.0	3y	-0.3	0.0	31-July-16	0.0
Public Health Wales Trust	1y	0.0	3y	0.0	3y	-0.1	0.0	31-May-16	0.0
Velindre NHS Trust	3y	0.0	3y	0.0	3y	-0.1	-0.8	31-May-16	-0.8
Welsh Ambulance Service Trust	1y	0.0	1y	0.0	3y	-0.1	0.0	31-Aug-16	0.0

(Note subsequent additional revenue funding of £68.4m has been allocated to address forecast 2016-17 overspends in Betsi Cadwaladr and Hywel Dda⁶⁵)

102. Of note is that:

- Betsi Cadwaladr UHB and Hywel Dda UHB are yet to have an agreed three year plan;
- Four health boards did not have three year plans approved for the period 2016-17 to 2018-19, compared to two in 2015-16;
- Public Health Wales, Velindre and Welsh Ambulance Service Trusts have three year plans approved for 2016-17 to 2018-19;
- Betsi Cadwaladr UHB (deficit of £19.5 million); and Hywel Dda UHB (£23.9 million) reported overspends against budgets in 2015-16 and Cardiff and Vale carried forward a £21.4 million overspend from 2014-15.

103. The Cabinet Secretary for Health, Well-being and Sport stated in written evidence to the Health, Social Care and Sport Committee:

“Details of the allocation of this funding to NHS organisations will be provided in the 2017-18 NHS revenue allocations, which will be published later in the autumn. Welsh Government will allocate a significant proportion of this additional funding to NHS organisations to enable them to meet pay awards for NHS employees and independent contractors, the costs to NHS Wales of the UK government’s Apprenticeship Levy, and other inflationary cost increases.

⁶⁴ Welsh Government, Written statement: Medium term planning update, June 2016

⁶⁵ Welsh Government, Written Statement - 2016-17 Revenue Allocation to the Health, Well-being and Sport portfolio, November 2016

Both boards [Betsi Cadwaladr and Hywel Dda] will receive their share of additional funding which will be allocated to all local health boards to meet cost and demand pressures. In addition, both boards will require additional financial support to be able to prepare a deliverable plan in 2017-18, and the extent of the additional funding to be provided for this purpose will be confirmed as part of the 2017-18 NHS planning process.”⁶⁶

Capital investment

104. The Welsh NHS Confederation stated in its evidence that the availability of capital funding is a key element of securing service change and transformation, not just in hospital services but also in terms of primary care. It said the shortage of capital funding is “a very particular barrier to service change”. The Confederation called for “transformation and transition funding” to get new models of delivery up and running.

105. In relation to capital investment, the Health Foundation report stated:

“Pressures for adult social care are projected to rise faster than for the NHS, by an average of 4.1% a year.”⁶⁷

Evidence

106. Cwm Taf University Health Board, told the Committee that the integrated medium term planning regime has had a positive impact, they said:

“...the integration of service, workforce and financial plans is, maybe, the more important change, in a way, than the three-year plans, but they’re both important.”⁶⁸

107. However, concerns were raised around the pressures associated with funding the health service. The Welsh NHS Confederation described the financial outlook for the NHS in Wales as ‘clearly precarious’ and identified financial pressures that will need to be met in 2017-18:

- Workforce: In respect of capacity to deal with increased demands and the increased cost of the workforce through increments and pension contributions;
- Non pay cost increase: Through increasing demands, price increases and the increasing demands for high cost drugs;
- Community care: Increased volumes of packages of care for patients in the community meeting the continuing NHS healthcare and funded nursing care criteria as a result of our growing elderly population;
- Prescribed drugs: Increased demand for prescribed drugs within primary care;
- The Apprenticeship Levy: The Welsh NHS Confederation C estimated this to be £14 million across the NHS;

⁶⁶ Welsh Government, Written evidence to the Health, Social Care and Sport Committee in relation to the draft budget 2017-18

⁶⁷ Health Foundation, The path to sustainability, Funding projections for the NHS in Wales to 2019/20 and 2030/31, October 2016

⁶⁸ National Assembly for Wales, Finance Committee, Record of Proceedings, 3 November 2016, paragraph 291

- The NHS Pension Scheme Administration Charge: anticipated to be around £2.5m across the NHS; and
- Capital: critical in both addressing the NHS maintenance backlog and investing in new facilities.⁶⁹

108. The NHS Confederation stated:

“Perhaps the largest financial risk is the unforeseen or unfunded pressure on the pay bill, which could easily derail NHS performance, finance and improvement.”⁷⁰

109. A representative from Cwm Taf UHB told the Committee that the additional funding allocations would struggle to meet the current funding gap, underlying balances and growth in demand:

“...my health board is projecting we’re going to break even this year, but that won’t be on a recurrent basis; there are some one-off factors behind that. So, all health boards, even those such as ours that are breaking even this year, have got an underlying imbalance as we go into next year. If we look at the Health Foundation report, then, I think that’s saying that the pressures of, as you say, pay rises, demand increases and so forth are about 3.2 per cent in real terms. So, to stand still—we’ve all got a problem going into next year, coming out of this year, and then we’ve got a new pressure of something like 3.2 per cent. The £240 million is about 2.5 per cent in real terms. So, depending on different health boards’ overhead, if you like, coming out of this year, they’ve got different levels of efficiencies needed just to stand still.”⁷¹

110. Witnesses 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 that do not have three year plans in place for the 2016-17 to 2018-19 period.⁷²

111. Further cost pressures were raised with the Committee at the Stakeholder event on 17 November 2016, in terms of the impact of the national wages and travel time (as a result of Working Time Regulations).

112. The Committee heard evidence that there were still barriers to joint working between the NHS, local authorities and other providers and that there was a lack of transparency around the sums of money involved and how this is changing over time:

“There is a lot of resistance to the very crude notion of pooled budgets, and lots of very interesting arguments around that. But nevertheless, we know, for example, that, in a typical health board, health and social care typically spend about £100 million together on looking after older people in the community. That’s a significant sum of money for a population of about half a million. Now,

⁶⁹ Written evidence, Finance Committee, [WGDB_17-18 22, Welsh NHS Confederation](#)

⁷⁰ Written evidence, Finance Committee, [WGDB_17-18 22, Welsh NHS Confederation](#)

⁷¹ National Assembly for Wales, Finance Committee, Record of Proceedings, 3 November 2016, paragraph 303

⁷² National Assembly for Wales, Finance Committee, Record of Proceedings, 3 November 2017, paragraphs 289, 292 and 297

it would be very good to track shifts in that expenditure. Health boards aren't asked to do that at the moment, but why not? It's at that level of detail, I think, that you start to appreciate what can and can't be achieved, and how much progress is being made.”⁷³

113. Professor Ceri Phillips, Professor of Health Economics at Swansea University, suggested that all policy areas should be considering how they could contribute to the general health improvements and reducing pressures on the health service. He said:

“I'm not advocating that we don't have additional expenditure on health, but it may well be that every other policy area has some consideration given to how, by developing policy and delivering policy, that can contribute to a health premium.”⁷⁴

Cabinet Secretary's evidence

114. In relation to the additional £240 million allocated to the NHS, the Cabinet Secretary said:

“... the £240 million fills the Nuffield gap and was largely endorsed in the Health Foundation work that's been carried out this year ... we outspend England in relation to health spending—we're 1 per cent ahead there. But, on health and social care together, we are 6 per cent ahead. And what I think that demonstrates is a point that I had to make many, many times when I was responsible for health and social services, that, in Wales, we have protected the system in the round and we haven't done what has been done elsewhere, which is artificially to rob social services budgets and pretend that that investment is available in a fresh way to the health service, because it really doesn't work like that. We've protected the system...”⁷⁵

115. The Cabinet Secretary told the Committee that, while the budget did not provide any breakdown of core funding to the NHS, more detailed information on financial breakdowns was provided in Welsh Government Health Circulars⁷⁶ and could be used to track changes in where allocations are intended⁷⁷.

116. The Committee questioned the Cabinet Secretary on how unexplained variations between comparable procedures are monitored and investigated. The Cabinet Secretary described the work of the Efficiency Board, which has been set up by the Cabinet Secretary for Health, Well-being and Sport.⁷⁸

117. In response to questioning about the evidence of the impact budget allocations has on the demand for hospital services and reducing pressure on the NHS and Welsh Government budgets, the Cabinet Secretary said:

⁷³ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 239

⁷⁴ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 177

⁷⁵ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 112

⁷⁶ **Welsh Government Health Circulars**

⁷⁷ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 121

⁷⁸ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 130

“...the two clearest examples that are there..., are the intermediate care fund and then the £40 million additional funding that’s been provided for primary care last year. The intermediate care fund is very directly evaluated and was from the very beginning. So, there is a plethora of examples right across Wales where you can look directly at the impact that it has had on use of secondary care services. Cwm Taf has extended reablement services for people with dementia. It showed that, in the year 2015-16, over 100 bed days were saved as a result of its intervention. The Pembrokeshire intermediate voluntary organisations team—the evaluation there showed that it had avoided 100 hospital admissions and that, in 230 referrals, 960 bed days had been avoided because people were now being looked after in the community, who otherwise would have been in hospital.

So, on the intermediate care fund, one of the reasons—going back to a question I was asked earlier about evidence—one of the reasons why we’ve been able to protect its budget at £50 million again next year is because it has that solid evidence of how services provided at the interface between health and social care have succeeded in keeping people in the community.

The £40 million primary care fund is, equally, being evaluated—money directly to clusters, bypassing the health board. Members here will know of the range of investments the clusters have made, particularly in diversifying the primary care team. So, for the primary care audiology service in ABMU, you can see the figures very clearly indeed. For those people who would’ve had to go to hospital in the past, for outpatient appointments and sometimes for inpatient treatment, it’s now being delivered in the GP surgery by a primary care audiology team, and that team didn’t exist without that fund. That’s another direct example of the way you can use the money to divert services.”⁷⁹

Committee view

118. The Committee is concerned that some health boards have been running deficits in concurrent years and that the number of health boards having three year plans agreed for the 2016-17 to 2018-19 period was fewer than the previous year.

119. Whilst it is understood that core NHS funding is unhypothecated and goes to health boards and NHS Trusts, the Committee find it difficult to trace how funding allocations are changing and to effectively scrutinise the impact of decisions within the budget in relation to health. The Committee notes that the draft budget does not evidence how health allocations are split between primary care, secondary care, social care, the integration of services, and programmes in general.

Recommendation 7. The Committee recommend that the Government provide more supporting information to accompany future draft budgets to demonstrate how the balance of funding is changing between primary care, secondary care, social care, the integration of services, and programmes in general.

⁷⁹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraphs 143-145

08. Prevention and Service Transformation

Background

120. The Finance Committee of the Fourth Assembly, in its Scrutiny of Welsh Government Draft Budget 2016-17 report, highlighted its continued concerns in identifying and increasing preventative spending during the Fourth Assembly term:

“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.”⁸⁰

121. The Health Foundation’s “The Path to Sustainability” report shows that growth in hospital admissions for people with chronic conditions is a key pressure on the NHS. The report found that any change in the trend of admissions would have substantial implications for future costs and the level of investment in prevention services – both within the health sector and, crucially, more broadly would be an important factor in managing the rate of growth in these admissions, and therefore the long-term sustainability of the NHS.⁸¹

Evidence

122. There was agreement among health economists that in focussing on prevention, it was important to be able to identify and track where allocations to budgets are being made and show how this is changing over time. The Health Foundation said:

“I would think that if there was one thing maybe that could be done to really help support ensuring that this budget does achieve what it wants, being very clear about part of this budget being dedicated to that transformative change and having some accountability about that would potentially be a really positive and helpful thing to do.”⁸²

123. Whilst Professor Ceri Phillips said:

“...I think the budget could do a few things that would be demonstrably about prevention. So, for example, there is this issue about how much the health service spends on early years...

It’s very difficult, I think, to see in the budget how it’s doing anything specifically about that. Now, that may be happening in terms of policy in the health department, but it isn’t explicit in the budget. One other issue that the budget could address, I think, is this issue about the need for some sort of investment in innovation, in doing things differently, and all the issues about double-running and the need for pump-priming and so on. If we’re going to make a step change, which would include something around prevention, the

⁸⁰ Finance Committee of the Fourth Assembly, Scrutiny of Welsh Government Draft Budget 2016-17 report, February 2016

⁸¹ Health Foundation report, The path to sustainability, Funding projections for the NHS in Wales to 2019/20 and 2030/31, October 2016

⁸² National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 194

budget could be explicit about addressing some of those barriers to doing that. So, those would be a couple of concrete things, I guess, that the budget could do.”⁸³

124. Professor Marcus Longley emphasised that prevention is both primary and secondary:

“It is common to regard prevention as being about ‘stopping bad things ever happening’ –preventing chronic conditions like diabetes from developing – primary prevention. This is clearly important, but probably of equal importance is secondary prevention - minimising the harmful consequences of those bad things once they have already set in (helping people to reduce the side effects of their diabetes, for example). Preventing diabetes in the first place is great, but will never be 100% successful; so secondary prevention is vital.”⁸⁴

125. The representative from Powys Teaching Health Board felt that improvements have been made in transforming services:

“The task is to actually make sure that the breadth of what’s required has got enough of our attention and management effort behind it to make sure that they’re embedded at scale across the organisation.”⁸⁵

126. Witnesses said that there is a need for effective leadership and cultural change to empower staff to help in reducing the barriers to investing in preventative, transformative or collaborative projects. Professor Marcus Longley said:

“...there’s an issue about removing some of the barriers. For example, there is a lot of discussion around the difficulty of making a shift from the services we currently provide towards a more preventative approach. The standard argument, and I’m sure you’ve heard it many times, is, ‘We can’t stop doing what we do now in order to be preventative. We have to do that and—.’ So, how is the budget addressing that ‘and’ problem? We’ve got to do what we’re doing now, but we also want to make a step change. I don’t think the budget really talks explicitly about that, but it is a very big issue out there, as it were.”⁸⁶

127. The Health Foundation told the Committee that “this budget is a real opportunity for the NHS in Wales”,⁸⁷ however the sheer volume of day-to-day pressures on the health service risked crowding out the design and implementation of preventative and transformative initiatives and the capacity to drive such initiatives. Its representative commented:

“...I think, are some real risks. One is that day-to-day pressures will crowd out the thinking and the preparation for the future and the shift to care, which is why I would argue for a real focus on transformation. The second issue is just how easy it would be for all of this to get derailed by the huge pressures on the workforce. So, I would think, being a former Treasury official myself, that one

⁸³ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 179

⁸⁴ Written evidence, Finance Committee, [WGDB_17-18 27, University of South Wales](#)

⁸⁵ National Assembly for Wales, Finance Committee, Record of Proceedings, 3 November 2016, paragraph 386

⁸⁶ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 190

⁸⁷ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 272

of the things that, from a finance point of view, is of real concern is just how all the pay pressures are going to be managed within the system and making sure that the health boards and the health department doesn't just have a plan for transformative change, which is about new models of care, but it has a really clear plan about how to secure and retain and engage the workforce that it needs to deliver and execute.”⁸⁸

128. Professor Ceri Phillips gave the view that the current targets do not incentivise the preventative agenda and do not drive change:

“I also think, just to reinforce that, that perhaps the way in which performance is measured within the health system is not conducive to prevention. The targets that health boards have to hit—the resources tend to be concentrated in those areas, rather than, perhaps, being rewarded for avoiding hospitalisation or getting people out of hospital appropriately, and it may be that some work needs to be done at a Government level, through this committee, to suggest that targets are realigned.”⁸⁹

129. Whilst the WLGA felt that almost all local government services could fall into the definition of “preventative spend”, social care and its interaction with health services is seen as a particularly relevant relationship. However, the WLGA states that it believes the term preventative spend to be poorly defined by the Government and therefore it does not have a significant impact on resource allocation.⁹⁰ The Local Government representative continued:

“I can't think of many services that the local authority provides that don't have that preventative value. Housing is critical, isn't it, to someone's well-being and health—that they've got a roof over their head, they've got security in that and they're in good-quality housing? That's a local authority function. Even where we've had stock transferred, it's still our responsibility around that strategic housing function. Related to that is environmental health, where we're monitoring the quality of particularly the private sector. Another big area of spend for us is sport, physical activity, leisure services, libraries and culture. All of those services, you could argue, are critical to well-being, particularly around elderly people who suffer from loneliness and isolation. There is increasing evidence that that keeps people physically well and physically healthy and keeps them out of the NHS.”⁹¹

130. Social care was raised by the WLGA as an increasingly important service in terms of its preventative nature and highlighted concerns regarding the funding and demographic pressures currently being experienced by these services. The WLGA stated:

“I think the reality is that, by far, the biggest pressure that local government faces is in social services. Indeed, the Health Foundation's recent report has

⁸⁸ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraphs 272-273

⁸⁹ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 196

⁹⁰ Written evidence, Finance Committee, [WGDB_17-18 26, Welsh Local Government Association](#)

⁹¹ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 100

identified that the budget pressures facing social services are bigger than the pressures facing the NHS.”⁹²

131. The WLGA continued:

“Sometimes, the best way of saving money in the health service isn’t by putting more money into the health service, it’s by investing in the front-line of social care, and the boundary there between social care and healthcare.”⁹³

Cabinet Secretary’s evidence

132. In response to questioning about driving efficiency in the health service, the Cabinet Secretary referred to the recently established health department efficiency board, explaining that the board was to drive longer term efficiencies.

133. The Cabinet Secretary acknowledged that the “pace of change has to be increased” but said:

“...we have to be fair and recognise that there has been very substantial change in the health service. That Nuffield report ... said that it wasn’t for change that the health service itself had introduced—that will be £1.2 billion this year, and that £1 billion of that gap had been filled by changes that the health service itself that brought about ... by diverting chronic conditions admissions, emergency admissions and readmissions, reducing those very effectively by continuing to look after people in the community.”⁹⁴

134. In response to questioning about the preventative work of local authorities and the impact this has on the health services budget, the Cabinet Secretary stressed that often prevention in one area does not result in a cash saving in another:

“...these are not cashable savings, because the bed that isn’t full with a person who hasn’t tripped on the pavement is simply filled by somebody else. So, yes, you have avoided a demand on the health service, but you haven’t avoided the costs.”⁹⁵

135. In response to questioning about funding which has been provided with a specific focus on moving services into the community, the Cabinet Secretary said:

“I think the two clearest examples ... are the intermediate care fund and then the £40 million additional funding that’s been provided for primary care last year. The intermediate care fund is very directly evaluated and was from the very beginning. So, there is a plethora of examples right across Wales where you can look directly at the impact that it has had on use of secondary care services. Cwm Taf has extended reablement services for people with dementia. It showed that, in the year 2015-16, over 100 bed days were saved as a result of its intervention. The Pembrokeshire intermediate voluntary organisations team—the evaluation there showed that it had avoided 100 hospital admissions

⁹² National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 16

⁹³ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 18

⁹⁴ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 159

⁹⁵ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 184

and that, in 230 referrals, 960 bed days had been avoided because people were now being looked after in the community, who otherwise would have been in hospital.”⁹⁶

Committee view

136. The Committee heard evidence that it was difficult to define preventative spending. However, despite the difficulty defining what is classed as preventative spending, it is clear that prevention should be integrated into service delivery but this doesn't mean that it should not be possible for the Government to evidence how the focus of allocations are changing over time to support a shift to a more preventative approach.

137. The Committee believes that the draft budget does not provide the necessary information to establish a baseline for preventative spending. The Committee agrees that there is a need for clarity regarding how the budget supports prevention and transformative change. Having accountability around this would be helpful both for scrutiny, evidencing and pushing forward an agenda of change. The Committee believes that this would also assist in tracking and evidencing how changes impact on the balance of funding between these areas shown at the time of the Government budget.

138. The Committee believes that the scale of transformation needed in the health service to respond to current and future pressures in the current funding climate needs to be faster and more ambitious. The Committee believes that the budget needs to provide the opportunity for management to have time to plan for transformation, secure and train its workforce without these being crowded out by day to day pressures. Furthermore, it believes staff need to feel empowered to do things differently, which will require the right culture, systems and leadership to be in place.

139. The Committee agrees with evidence provided by NHS organisations and health economists that specific identifiable funding is required to drive transformation in the way services are structured, patient pathways redesigned and new models of care are delivered and that this will require additional 'pump priming' funding.

140. The Committee acknowledges that the Intermediate Care Fund has been regarded as a success and can form part of this funding support, however the £60 million and other funding available from arrangements under Section 33 of the National Health Service (Wales) Act does not cover the scale of change needed. Due to the lack of transparency, in terms of where funding is directed within the budget, it is not possible for the Committee to come to a view as to whether there is sufficient funding within the current budget for supporting the transformation and integration of services.

Recommendation 8. The Committee recommends that the Government should provide more supporting information at the time of future draft budgets to demonstrate how the allocations are supporting investment in prevention and transformation.

Recommendation 9. The Committee recommends that the Government should commit to providing leadership, support and direction to enable the NHS to press forward the cultural change and empowerment of staff needed to reduce the barriers to investing in preventative, transformative or collaborative projects and to ensure the required change is achievable.

⁹⁶ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 143

Recommendation 10. The Committee is concerned by the view of witnesses that the current performance regime does not appear to recognise or incentivise the preventative agenda and supports the view that how performance is measured needs to support the preventative agenda and recommends that the Government addresses this.

09. Local Government Finance

Background

Overall funding for Local Government Main Expenditure Group

141. Local government received the second largest Departmental Expenditure Limit (DEL) allocation of the seven Main Expenditure Groups (MEGs) at £3.4 billion. This is £51.5 million more than 2016-17, which is a cash increase of 1.5% (a reduction of 0.3% in real terms).

142. Local Government funding includes £3.262 billion revenue, which is a decrease of £71 million or 2.1% in cash terms (3.9% in real terms), it also includes general capital funding of £143 million, an increase of £123 million due to transfers from other MEGs (total capital funding £442 million). Capital funding allocations have been made for the next four years, over that period the level of capital funding for local government remains unchanged each year at £143 million.

143. Additionally, £1.059 billion of Annually Managed Expenditure (AME) comprised of Non-Domestic Rates (NDR, also referred to as Business Rates) receipts will be allocated to local authorities and police and crime commissioners.

Overall funding in the Provisional Local Government Settlement 2017-18

144. The largest component of the Local Government MEG is the provision for the core un-hypothecated funding for local authorities. The Provisional Local Government Settlement 2017-18 published following the draft budget is a £3.8 million increase compared to 2016-17.

145. The Government's Provisional Local Government Settlement 2017-18⁹⁷ will allocate £4.107 billion, including £1.006 billion business rates to local authorities. Revenue allocations have been made for one year only, whereas capital allocations have been made for the next four years.

146. The settlement represents a 0.1% cash increase in revenue and is therefore a real terms reduction. This is the first increase in cash funding since 2013-14. Total capital funding is £442 million, which includes hypothecated monies.

147. The Welsh Government has identified £25 million additional funding for social care which will be delivered through the local government settlement, this builds on the £21 million allocated through the 2016-17 settlement.

148. The 2016 budget agreement with Plaid Cymru includes three allocations to the Revenue Support Grant (RSG) to support local government. These are:

- £25 million to support the delivery of vital services;
- £3 million to support town centre car parking pilot scheme;
- £1.5 million for school transport and safer routes to schools.

149. Additionally, £1.059 billion of Annually Managed Expenditure (AME) comprised of NDR receipts will be allocated to local authorities and police and crime commissioners. (Further details on the Committee's views on NDR can be found in Chapter 5)

⁹⁷ [Provisional Local Government Settlement 2017-18](#)

150. The Wales Audit Office⁹⁸ has highlighted that between 2010-11 and 2016-17, local government in Wales has faced a real-terms reduction of £761 million (17%) in Aggregate External Finance, which forms the bulk of its general revenue funding.

151. In its scrutiny of the draft budget 2016-17, the previous Finance Committee⁹⁹ recommended the introduction of a funding floor to limit maximum cuts to authorities, particularly for rural authorities which saw the largest cuts in the 2016-17 Local Government Settlement¹⁰⁰. Additionally, whilst recognising that the local government settlement will always result in some authorities having a more favourable settlement than others, it recommended that the Government commit to undertaking a fundamental review of the funding formula and the data used for the local government settlement.¹⁰¹

152. The Programme for Government commits to funding a floor for future local government settlements, and also to reforming local government funding to make councils more sustainable and self-sufficient. The Government has stated that the work of the Independent Commission on Local Government Finance¹⁰² and the Finance Futures Panel will shape future reforms.

153. In terms of changes to the funding formula, the Cabinet Secretary stated in Plenary on 21 September 2016 that he expected the current system of continual annual modification of the formula would continue rather than a fundamental review.¹⁰³

154. The Provisional Local Government Settlement includes £2.3 million deployed to ensure that no local authority receives greater than a 0.5% reduction in funding in 2017-18.

Financial planning in local government

155. The Programme for Government commits to make local authorities “more sustainable and self-sufficient” using the findings of the Independent Commission and the Welsh Government’s Finance Futures Panel.

156. The draft budget 2017-18 outlines that moving specific grants to un-hypothecated funding in the RSG is a deliberate strategy to “reduce the administrative burden”. The RSG¹⁰⁴ now includes £3.1 million funding previously provided through specific grants, including;

- £2.85 million previously provided through the social services “delivering transformation grant”;
- £184,000 to support “deprivation of liberty safeguards”;
- £57,000 to deliver the food hygiene rating scheme; and
- £21,000 to fund the blue badge scheme.

⁹⁸ [Wales Audit Office Report: Financial resilience of local authorities in Wales 2015-16, August 2016, paragraph 1](#)

⁹⁹ Finance Committee of the Fourth Assembly, [Scrutiny of Welsh Government Draft Budget 2016-17 report](#), February 2016

¹⁰⁰ [Local Government Finance Report \(No. 1\) 2016-17 \(Final Settlement – Councils\)](#)

¹⁰¹ Finance Committee of the Fourth Assembly, [Scrutiny of Welsh Government Draft Budget 2016-17 report](#), February 2016

¹⁰² [Independent Commission on Local Government Finance](#)

¹⁰³ National Assembly for Wales, Plenary, [Record of Proceedings](#), 21 September 2016

¹⁰⁴ Welsh Government. [Written Statement: Provisional Local Government Settlement 2017-18](#), October 2016

Social care and links with health

157. Sustainability of the NHS is interlinked with sustainability of other public services, in particular social services, as well as other local authority services which help maintain both physical and mental well-being.

158. The Health Foundation report: The Path to Sustainability,¹⁰⁵ projected that pressures for adult social care will rise by an average of 4.1% in real terms, annually and that social services spending pressures are greater in Wales.

159. The Intermediate Care Fund¹⁰⁶ (ICF) represents an enabler for integrated working between social services, health and housing and the third and independent sectors. The focus of the ICF has been on avoiding unnecessary hospital admissions. In 2016-17 the revenue available was £60 million.

160. The previous Finance Committee's report on the 2016-17 budget welcomed the ICF's impact on the collaborative provision of preventative services. However, the Committee also indicated that it had insufficient evidence that the balance of funding was shifting significantly towards preventative healthcare that will reduce demands on the health service.¹⁰⁷

Taxation levers – council tax

161. Following the abolition of council tax benefit by the UK Government, the Government developed and funded the council tax reduction scheme. An additional £22 million has been provided annually to local government to fund this scheme in 2013-14 to 2016-17, following the UK Government devolving the powers with a 10% reduction in funding. Average Band D council tax increased by 3.2% in 2013-14, 4.1% in 2014-15, 4.1% in 2015-16 and 3.5% in 2016-17.

Evidence

162. In relation to the overall funding settlement the WLGA and Local Government representatives said:

“...compared to the expectations that local government had, it's a positive thing at the moment. Our initial reactions are pleasant ones, and we hope that it'll allow us to, if we take difficult choices and if we prioritise accordingly, safeguard some of the vital front-line services that you've seen over the border in England really struggle to continue. So, yes it's tough, and if you'd have come in here 10 years ago and talked about a flat-cash settlement as being a good news story, you may have got some ashen faces back from local government, but in the spirit that it's offered and in the spirit of difficult financial times for you, I think we recognise the effort that the Welsh Government and the Assembly have gone to try and value and safeguard local services.”¹⁰⁸

¹⁰⁵ Health Foundation, The path to sustainability. Funding projections for the NHS in Wales to 2019/20 and 2030/31, October 2016

¹⁰⁶ Intermediate Care Fund

¹⁰⁷ Finance Committee of the Fourth Assembly, Scrutiny of Welsh Government Draft Budget 2016-17 report, February 2016

¹⁰⁸ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 9

163. The WLGA's written evidence outlined that the greatest reductions in service spend between 2001-02 and 2016-17 have fallen on planning and regulatory services, which play a significant role in regeneration and prevention.¹⁰⁹

164. This year the WLGA did not raise a specific concern regarding the funding formula and welcomed the funding floor which has been included within the provisional settlement. The ability of this mechanism to limit significant fluctuations was seen as important.¹¹⁰

165. In its written evidence, the WLGA highlighted the difficulties faced in planning for the longer term when there is uncertainty around future budgets:

"The WG [Welsh Government] has retreated from a sound medium-term approach which it had at the outset of the 2010 Spending Round. The budget cycle has returned to an annual incremental approach accompanied by a complete withdrawal of the system of multiyear settlements for local government that had been developed as far back as 2007. However, we do understand that the uncertainties of Brexit make planning ahead for this year one of the most difficult so far but as that uncertainty recedes we really need to see a return to proper financial planning framework."¹¹¹

166. During oral evidence, the WLGA's representative continued:

"...multi-year budgets is something we've advocated for a number of years, because all the planning we do now we've been encouraged to do on a multi-year basis. We've planned, for example, over the next three years, but we don't know what the figures are going to be. The more solid indications we can have, the more we can plan. You can plan prudently, but also I think there's an aspect of the dangers of planning too pessimistically if you're not careful. You end up closing services that you could otherwise keep open. If you just had the certainty of figures, you could maybe use that to keep things going because you know the length and the depth of the tunnel. That's a bit of a stretched analogy, but if you know how much you're going to have to save more solidly over a number of years, you can plan and you do things that aren't quite so knee-jerk, and you can take risks in the savings you make, for example, to try and keep services going. So, the more information we can have across a number of years, the better."¹¹²

167. The WLGA continued to address the pressures facing local government in relation to social care provision, they said:

"...we estimate that the additional pressures facing local government will be £190 million per year, so that allocation—if I can use that term—will be used to meet existing and growing pressures. It's not extra money for extra new services, it's about continuing to provide what we already do and facing those extra pressures. Those extra pressures are particularly acute in the social

¹⁰⁹ Written evidence, Finance Committee, **WGDB_17-18 26, Welsh Local Government Association**, paragraph 9

¹¹⁰ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 11

¹¹¹ Written evidence, Finance Committee, **WGDB_17-18 26, Welsh Local Government Association**, paragraph 22

¹¹² National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 86

services sector because, unfortunately, that's where most of our lowest paid workers are.”¹¹³

168. The WLGA welcomed the additional £25 million that has been included within the provisional settlement and the recognition this has regarding the impact of cuts on social care. The WLGA felt that investment in social care could save the health service money. Whilst additional funding was desirable the WLGA was satisfied with the additional funding, stating:

“It isn't sufficient, but we completely understand the position that Welsh Government finds itself in. I think we do need to recognise that, in the future, we will need additional resources to cope with that extra demand. If the health service in Wales is to be sustainable, the other clear message from the Health Foundation report is that a sustainable health service is dependent upon investment in social services because of those pressures...”¹¹⁴

Cabinet Secretary's evidence

169. The Cabinet Secretary made it clear in his evidence to the Equalities, Local Government and Communities Committee, that the draft budget was unusual in nature and should enable local government to prepare for “tougher times that lie ahead”.¹¹⁵

170. The Cabinet Secretary advised the Finance Committee that:

“...the impact of austerity on our budget is absolutely real, and it is inescapable that if you've got 10 per cent less revenue to provide for public services in Wales over a decade, you're not going to be able to do that without there being real impacts in real services and in real people's lives.”¹¹⁶

171. The Cabinet Secretary felt that social care was being better funded in Wales than elsewhere and outlined how the Government was reinforcing this through the 2017-18 draft budget and the Social Services and Well-being (Wales) Act 2014. He added that social services needed to undertake a “big job of work” to ensure that funding “goes further” in terms of outcomes.¹¹⁷

172. The Cabinet Secretary outlined the increase of £2.7 million to the Transformation and Legislation expenditure line, increasing the budget to support the local government reform agenda to £5 million. The WLGA, in its Manifesto: Localism 2016-21 called for the development of a £20 million capacity fund for transformation activities.¹¹⁸ The Cabinet Secretary advised that the budget for 2017-18 reflects how the Government is trying to align the funding to the current point in the local government reform “cycle”:

“...in the next financial year, we will be preparing for the point at which those more mandatory and systematic regional arrangements that we've talked about will come into being—£5 million is not a great deal of money to help with that, but it's more than was there before. In the next years, when we're doing it for

¹¹³ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 17

¹¹⁴ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 20

¹¹⁵ National Assembly for Wales, Equalities, Local Government and Communities Committee, Record of Proceedings, 3 November 2016, paragraph 8

¹¹⁶ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 87

¹¹⁷ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 189

¹¹⁸ [Localism 2016-21 - A plan for public services in Wales](#)

real, we'd have to look again at what would be required to help to make that happen.”¹¹⁹

173. In terms of assisting local government to prepare budgets for the longer term, taking into account potential reform activity, the Cabinet Secretary advised that this is done partially through the WLGA but also through government officials. The Cabinet Secretary advised the Welsh Government had an active role in advising local government of the tools available and in providing advice.¹²⁰

174. In regard of the budget process associated with the collaboration and reform activity and the Government's role in supporting scrutiny of governance arrangements for new organisations, the Cabinet Secretary advised that he was asking five key questions to local authorities to understand how reform may be implemented:

- What regional footprint will be covered?
- What services will be included?
- What governance arrangements will be in place?
- How will finance flow through the system?
- How will the system incorporate answerability for citizens?¹²¹

Committee view

175. The Committee recognises that local government has received an improved settlement for this year compared to previous years, but it also notes the Cabinet Secretary's assertion that there are harder times ahead, yet there was little evidence that local authorities were planning for future years with less favourable settlements. However, whilst welcoming the additional funding provided through the settlement, the Committee notes, particularly in the case of social care, the evidence from the WLGA which states that cost and demographic pressures exceed what has been provided.

176. The Committee notes that only a one-year revenue settlement has been produced, but welcomes the four-year capital settlement. The Committee would welcome any planning assumptions from the Cabinet Secretary as and when these may become available.

177. The Committee recognises that local government reform is separate from the draft budget and that this process is likely to have a limited impact on financial allocations for 2017-18. However, the Committee would welcome any clarity that can be provided with regard to reform of local government services in order to address uncertainty organisations may experience in 2017-18 and to allow local government to understand the wider context within which these budget allocations are made.

Recommendation 11. The Committee accepts that the approach to local government reform has changed but believes there is a need for clarity on the objectives of the expenditure included within the draft budget for “Transformation and Legislation” and further detail required on the longer-term assumptions the Government may have regarding reform of local government services, we recommend that the Government address these concerns.

¹¹⁹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 201

¹²⁰ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 203

¹²¹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 205

Recommendation 12. The Committee is concerned that the short term approach to revenue budgeting for local government has an adverse impact have on local government's ability to effectively plan for the future, and recommends that the Cabinet Secretary considers the option of multi-year settlements.

10. Value for money

178. 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 Cabinet Secretaries on the allocation of funding within their portfolio areas.

Climate Change, Environment and Rural Affairs

179. The Climate Change, Environment and Rural Affairs (CCERA) Committee¹²² raised concern in relation to the core funding allocated to the eradication of fuel poverty, an issue which the Cabinet Secretary for Environment and Rural Affairs had identified as a priority. The CCERA Committee was concerned by the considerable reduction in the relevant BEL, particularly as eradicating fuel poverty has the potential to offer significant benefits in terms of preventing spend in other areas.

180. The CCERA Committee was also concerned with the reduction in capital funding for flood risk management over the course of the next three financial years. It understands that the Government hopes that local authorities will be able to access additional funding through borrowing, however it remained concerned about this reliance.

Children, Young People and Education

Education and lifelong learning

181. The Children, Young People and Education (CYPE) Committee¹²³ expressed concern that the Government's decision to discontinue the Schools Challenge Cymru programme now, prior to the completion of the final phase of its evaluation of the programme, may mean that the full impact of the programme and the full value of the investment may not be realised. The CYPE Committee was concerned by the decision to return the money for the programme to reserves rather than being put to alternative use within the Education MEG. It questioned therefore, how much of the separate £20 million for schools standards was actually net additional funding.

182. The CYPE Committee also noted concern that the Government cannot fully assess the value for money of the Pupil Deprivation Grant (PDG) scheme as it is difficult to attribute specific outcomes to that grant as it is one of a number of interventions in this policy area. It therefore welcomed the evaluation of the grant being undertaken by Estyn and the independent Raising Attainment Advocate. It raised a particular concern around the difficulty in assessing whether the PDG funding allocated to looked after children and adopted children is actually reaching those in need. It also noted the difficulty in monitoring the impact of the funding.

Communities and Children

183. The CYPE Committee¹²⁴ recognised the flexibility offered to local authorities by the Government's decision to merge budget lines for Flying Start and Families First, however it was concerned about the level of oversight the Cabinet Secretary for Communities and Children would have of the expenditure and on the outcomes expected as a result of these policies.

¹²² Letter from the Chair of the Climate Change, Environment and Rural Affairs Committee to the Cabinet Secretary for Environment and Rural Affairs

¹²³ Letter from the Chair of the Children, Young People and Education Committee to the Cabinet Secretary for Education

¹²⁴ Letter from the Chair of the Children, Young People and Education Committee to the Cabinet Secretary for Communities and Children

184. The CYPE Committee also raised a concern in relation to Children’s Zones, a Welsh Government concept still in its infancy. The Committee understood the concept to consist of a number of different interventions targeted to support a child or young person, an approach which it noted was difficult to attribute success to any one intervention and, consequently, to assess the effectiveness and value for money for each intervention.

185. The CYPE Committee questioned the Cabinet Secretary for Communities and Children on the costs of implementing the Welsh Government’s childcare programme. The Committee was concerned that the Cabinet Secretary’s estimated cost for delivering the programme was significantly lower than the costs suggested by the Public Policy Institute for Wales in its analysis, and therefore questioned the prudence of the commitment made by the Cabinet Secretary for Communities and Children to deliver the programme. It noted that should the actual costs of the programme were closer to the higher estimate, there would be a significant, ongoing impact on the budgets of other programmes and departments.

Economy, Infrastructure and Skills

186. The Economy, Infrastructure and Skills (EIS) Committee¹²⁵ noted that there were a number of references within the economy and infrastructure portfolio which lacked the evidence-based rationale requested by the Finance Committee in its report on the supplementary budget in July 2016. It stressed the importance of providing more detail on the evidence underpinning the Government’s spending decisions in order to assess whether the priorities are reasonable and the outputs represent value for money.

187. The EIS Committee felt that more work was needed to ensure that outputs and outcomes are measurable and meaningful. It gave the example of “jobs created” as not being the most effective measure of success if those jobs are not attractive to, or a good skills match with, the local workforce.

Equality, Local Government and Communities

Finance and Local Government

188. The Equality, Local Government and Communities (ELGC) Committee¹²⁶ welcomed the additional £25 million allocation for social care, recognising the preventative potential of investment in social services to ensure the health and well-being of some of the most vulnerable people in society. Nevertheless, it stressed the importance of ensuring that robust arrangements are in place to monitor spend, outcomes and value for money in the areas that had received additional funding. It asked the Cabinet Secretary to provide further details on the system used to monitor social services spending and the outcomes he would expect to achieve from the additional £25 million allocation for social care.

189. The ELGC Committee also welcomed the additional £25 million for vital services, but again it sought clarification from the Cabinet Secretary on the outcomes he expected to achieve for this additional allocation and how he intended to monitor spend and outcomes. It asked the Cabinet Secretary to provide further details on arrangements to monitor spend and outcomes of the £3 million for town centre car parking pilot schemes. In relation to the additional £1 million for school transport, the ELGC Committee requested further detail on how the Cabinet Secretary would envisage local authorities using this money to help protect disadvantaged families.

¹²⁵ [Letter from the Chair of the Economy, Infrastructure and Skills Committee to the Finance Committee](#)

¹²⁶ [Letter from the Chair of the Equality, Local Government and Communities Committee to the Cabinet Secretary for Finance and Local Government](#)

Communities and Children

190. The ELGC Committee, in its letter¹²⁷ to the Cabinet Secretary for Communities and Children, sought clarification on the allocation in the draft budget and the level of EU funding for Lift and Communities for Work programmes. It requested details on the outcomes achieved from these programmes, including the number of participants who have secured employment and on the outcomes expected from the allocations for 2018. The ELGC Committee noted a reduction of over £8 million in the Community Facilities programme, and requested details on the types of projects that the programme has been used to support and on the outcomes. It also sought details of any assessment undertaken of the impact of the reduction in allocation.

191. In relation to housing supply, the ELGC Committee noted its concern in hearing of emerging evidence that new models of sustainable housing can cost more to build than traditional housing, at least in the short term. It acknowledged that the Cabinet Secretary for Communities and Children disputed this evidence and had commissioned research on new models of housing that will address some key challenges, including dealing with fuel poverty, carbon emissions and climate change. The ELGC Committee requested the Cabinet Secretary for Communities and Children report back on the findings of the research and how it will inform any future decisions on the provision of new models of housing. On the Help to Buy scheme, the ELGC Committee questioned whether the threshold value threshold was appropriate for Wales. It emphasised the importance of the Government ensuring that, when prioritising allocations for affordable homes, it can demonstrate value for money particularly given existing budgetary constraints. It asked that the £300,000 threshold be kept under review.

Health, Social Care and Sport

192. The Health, Social Care and Sport (HSCS) Committee¹²⁸ welcomed the additional £240 million investment from reserves to support the NHS in Wales, however it questioned whether this would affect real sustainability of services and transformational change, or would simply go into the bottom line. It sought further details from the Cabinet Secretary for Health, Well-being and Sport on his expectations for the additional funding, specifically the outcomes he would expect to be gained in terms of reform, service improvements and leveraging service change.

193. The HSCS Committee also referred to the additional £25 million allocation for social services, again requesting more information about the monitoring and evaluation measures in place to ensure that the additional allocation is used for the purpose of alleviating the growing pressured facing social services.

194. The HSCS Committee welcomed the continuing investment in the Intermediate Care Fund and the evidence provided by the Cabinet Secretary for Health, Well-being and Sport on the number of bed days saved and hospital stays avoided as a result of the fund. It asked the Cabinet Secretary for Health, Well-being and Sport to provide details of the specific outputs and outcomes expected to be achieved over the course of the next budget.

¹²⁷ [Letter from the Chair of the Equality, Local Government and Communities Committee to the Cabinet Secretary for Children and Communities](#)

¹²⁸ [Letter from the Chair of the Health, Social Care and Sport Committee to the Cabinet Secretary for Health, Well-being and Sport](#)

Culture, Welsh Language and Communications

195. The Culture, Welsh Language and Communications (CWLC) Committee¹²⁹ noted additional investment in the Welsh in Education BEL, and that the funding will be allocated in line with the Welsh language Strategy currently being consulted on. The CWLC Committee was concerned that the use of this money was currently unclear and ill-defined. It acknowledged that the strategy would guide spending decisions, but it felt that it would not be unreasonable for there to be a greater degree of clarity on potential options before the Assembly agrees the final budget.

Committee view

196. The Committee notes the content of all the letters from individual Committees and recognises the validity of the issues raised by each Committee. However, the Committee considers that it is difficult to establish how value for money is considered, evaluated and monitored consistently across Government departments, policies and programmes. The Committee will track the responses from the Government in relation to the issues raised in each letter.

¹²⁹ [Letter from the Chair of the Culture, Welsh Language and Communications Committee to the Finance Committee](#)

11. Costs arising from the Welsh Government's legislative programme

Background

197. The Government has set out details of its legislative programme for Bills to be introduced up to July 2017.

198. Annex E of the 2017-18 draft budget documentation provides a table showing the costs for legislation implemented by the Government during the fifth Assembly. The costs for 2017-18 are estimated at Regulatory Impact Assessment stage or enactment.

Evidence

199. In relation to the costs associated with implementing legislation the Carers Trust said:

“...the Social Services and Well-being (Wales) Act 2014 has introduced new rights for carers and new duties on local authorities to promote the third sector and preventative services. Although too early to evaluate the implementation of this legislation, it appears that the financial pressure on local authorities has made progress in implementing the Act and delivering upon the spirit of the Act slow.”¹³⁰

200. Whilst Shelter Cymru raised concerns around transitional funding in relation to the Housing (Wales) Act 2014:

“This transitional funding has proven to be critical to the success of the legislation, since local authorities use it to fund their individual homelessness prevention budgets. The funding was £5.6 million in 2015-16. It was cut to £3 million for 2016-17, which led some local authorities to reduce their individual prevention budgets. This would be expected to have had an impact on Housing Solutions teams’ prevention success rates (a National Indicator). We understand that the transitional funding was never intended to be a long-term solution but we have asked that the Welsh Government consider retaining it in some form, to assist the success of the legislation.”¹³¹

201. Community Housing Cymru also referred to the requirements to provide adequate funding:

“Welsh legislation on homelessness prevention has been attracting interest as an example of good practice from elsewhere in the UK, and across Europe, and Welsh Government should not jeopardise its important work by reducing other homelessness prevention funds.”¹³²

202. Whilst the WLGA said:

“Our experience of new legislation and associated impact assessments is mixed. Where there is good and early engagement with local government,

¹³⁰ Written evidence, Finance Committee, [WGDB_17-18 14, Carers Trust Wales](#)

¹³¹ Written evidence, Finance Committee, [WGDB_17-18 18, Shelter Cymru](#)

¹³² Written evidence, Finance Committee, [WGDB_17-18 24, Community Housing Cymru](#)

generally satisfactory outcomes in terms of implementation are being achieved. The Housing Bill was a good example of where Welsh Government and local government have worked together on ground-breaking legislation.”¹³³

203. With regard to the Social Services & Well-being (Wales) Act, the WLGA was very supportive but said “the costs were underplayed and benefits oversold. The very nature of this enabling legislation meant that it was difficult to analyse with any degree of rigour”.¹³⁴

204. The WLGA called for the Government to fully fund the costs of new legislation, referencing the model the Department for Communities and Local Government operates in England and the New Burdens Doctrine.^{135 136}

205. The WLGA also stated that the Government’s Regulatory Impact Assessments had been inadequate and repeated that they had lobbied for the introduction of a “new burdens doctrine”, which requires new responsibilities to be funded by the body introducing the change.

206. With regard to budgetary pressures of legislation in 2017-18, the WLGA advised that there have been additional costs to meeting Welsh Language standards, primarily for local authorities who operate in areas with a lower Welsh speaking population.¹³⁷

207. Also, in relation to Welsh Language standards, health representatives said that they are currently in a consultation period, but they noted that there would be additional costs. They said:

“...there are some key issues that would have financial implications and are of concern to our members, and they are a lot around workforce, as you might expect. So, how many Welsh speakers do we currently have within the workforce, and how much would it cost to train others, and also what would the translation costs be if we were to bring in simultaneous translators and also the written translation costs, too? There are also concerns about supply, actually—so, where there’s a shortage in their own workforce, is there a sufficient supply in the marketplace to be able to buy those translation services; and also concern around ICT systems and the extent to which they could be made bilingual and the costs associated with that; and finally, concerns around the requirement for third parties that health boards contract with to be bound by the standards, and the implications that that might have—the financial consequences of that on contracts. So, there are a range of financial concerns, but, as I say, it is early days, because we are in a consultation period at the moment.”¹³⁸

208. However, representatives from Betsi Cadwaladr UHB provided examples of some of the practical steps which have been taken within the health board to improve the provision of services in Welsh.¹³⁹

¹³³ Written evidence, Finance Committee , [WGDB_17-18 26, Welsh Local Government Association](#)

¹³⁴ Written evidence, Finance Committee , [WGDB_17-18 26, Welsh Local Government Association](#)

¹³⁵ UK Government, [New Burdens Doctrine](#)

¹³⁶ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraph 79

¹³⁷ National Assembly for Wales, Finance Committee, Record of Proceedings, 9 November 2016, paragraphs 126-127

¹³⁸ National Assembly for Wales, Finance Committee, Record of Proceedings, 3 November 2016, paragraph 466

¹³⁹ National Assembly for Wales, Finance Committee, Record of Proceedings, 3 November 2016, paragraph 476

Cabinet Secretary's evidence

209. In relation to the costs of legislation and how these are presented, the Cabinet Secretary said:

“I’ve been discussing this with my officials as to thinking about what information I think we can most helpfully provide on the implementation costs of legislation. At the moment, Chair, what my proposal would be going forward—but I’m interested, obviously, in what the committee will say when you come to your conclusions—is that while legislation continues to be in the implementation phase, I think we should try and report to you how those costs have panned out over the implementation period. Once the implementation period is over and the Act is part of the normal way of doing business, then I think that should fall out of the information that we provide because now it’s no longer during the RIA implementation period, it’s gone beyond that. But while implementation is ongoing I’d be happy to provide a year-on-year table, which shows you how costs have shifted.”¹⁴⁰

210. The Cabinet Secretary was asked if he had an estimate of the cumulative impact of the cost of meeting the Welsh Language Standards for local authorities and the NHS, with regards to the NHS he said:

“...there’s been a recent consultation on draft regulations to specify the standards. But the intention is to bring the regulations themselves in front of the Assembly in the first half of next year. There will be a regulatory impact assessment, therefore, published alongside the standards, and the costs involved will, therefore, be in the public domain in that way.”¹⁴¹

211. Whilst with regards to local authorities the official attending with the Cabinet Secretary said:

“...when the regulation for local authorities were introduced in 2005, they were asked to estimate then, the cost of providing the service. But that was pre the Welsh language standards actually being published, and I think the information that came back then showed that there was a range of estimated costs, varying across local authorities. I think the expectation was, because local authorities had already been delivering the Welsh language scheme, that, to a greater or lesser extent, it was absorbing the cost within the existing services that they were providing.”¹⁴²

212. The Cabinet Secretary referred to his intention to bring forward a Bill in relation to Local Government reform during the second year of the Government’s legislative programme and when asked whether the increase in budget was sufficient, he said:

“...my ambition as the local government Minister is to have some detailed discussions with the sector over coming weeks about some of the matters that I set out in my statement on 4 October. If that succeeds, then what will happen next year is that we will, hopefully, be in a position where I could argue for a

¹⁴⁰ National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraph 120

¹⁴¹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 210

¹⁴² National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraph 211

local government Bill in the second year of this Assembly term—I'm not guaranteed to get one at all, but I'd like to be in a position to argue for one.

So, in the next financial year, we will be preparing for the point at which those more mandatory and systematic regional arrangements that we've talked about will come into being—£5 million is not a great deal of money to help with that, but it's more than was there before.”¹⁴³

Committee view

213. The Committee notes the evidence around the funding for legislation, particularly the WLGA's different experiences with two Bills. The Committee welcomes the collaborative working which took place between the Government and the WLGA in respect of preparing the Housing Bill for introduction.

214. In the previous Finance Committee's legacy report a recommendation was stated:

“...that any future responsible committee is afforded the opportunity to review the Welsh Government commissioned Public Policy Institute for Wales report on impact assessment processes following publication.”¹⁴⁴

215. The Committee notes this report has been published and it intends to consider this going forward.

216. The Committee is pleased to see that the information included in the draft budget documentation this year has been improved and shows updated forecasts of Government policy in addition to the original cost estimates included in the original Regulatory Impact Assessments.

Recommendation 13. The Committee recommends the Government ensure that legislation which is introduced over the course of the fifth Assembly is subject to early engagement and continued liaison with relevant stakeholders. In particular should the Government proceed with the introduction of a Local Government Bill the Committee would expect to see this level of engagement with local government representatives to ensure accurate costings are available on introduction.

¹⁴³ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 17 November 2016, paragraphs 200-201

¹⁴⁴ Finance Committee of the Fourth Assembly, Legacy report, March 2016

12. Impact of the decision to leave the EU on the draft budget

Background

217. Wales currently receives EU funds through the structural funds programmes, the Common Agricultural Policy, the Rural Development Programme, the Ireland-Wales European Territorial Co-Operation Programme and the European Maritime Fisheries Fund. While these funds sit outside the Government's budget, it manages and spends these funds. There are varying estimates as to how much this funding equates to, the Institute for Fiscal Studies believe £547 million of EU funding is managed by the Government with a further £23 million going directly to universities and the private sector¹⁴⁵, while the First Minister gave a figure of approximately £650 million in Plenary¹⁴⁶.

218. In August 2016, the Chancellor of the Exchequer made an announcement on the future of EU funds, noting that:

- funding for direct payments to farmers through the Common Agricultural Policy will be guaranteed until 2020;
- funding through streams such as Horizon 2020, where universities and other organisations apply directly to the European Commission, will be guaranteed until 2020.

219. the First Minister welcomed confirmation from the Chancellor of the Exchequer that the Treasury will provide a full lifetime guarantee for all structural and investment projects approved before the UK leaves the EU. However, the ability to fully deliver the 2014-20 programmes will be dependent on the UK Government timescale for leaving the EU.¹⁴⁷

Exchange rate fluctuations

220. In November 2015 the Euro to Pound exchange rate was over 1.40, whilst at the start of October 2016 it was around 1.15. The Government's consolidated accounts 2015-16 stated that "should the value of the Euro weaken significantly in that period, the flexibility within programmes may not be sufficient to contain all potential exchange losses".¹⁴⁸

Employment

221. There is also a potential for even more significant impact on the independent sector and social care workforce, which remain very reliant on both EU and non-EU staff. Research undertaken by Independent Age indicates that nearly 1 in 5 care workers were born outside of the UK – around 266,000 people. Non-EU migrants accounted for the greatest proportion of migrants working in care – some 191,000 people – approximately 1 in 7. About 14% of non-EU migrants and some 40% of the EU migrants working in adult social care arrived in the UK between 2011 and 2015.¹⁴⁹

222. Research undertaken by the Public Policy Institute for Wales on the care home sector in Wales is reported in *The Care Home Market in Wales: Mapping the Sector*.¹⁵⁰ This indicates that there is a shortage of staff prepared to work in the domiciliary and care home sector and suggests that local

¹⁴⁵ IFS Report (R120), *Welsh budgetary trade-offs to 2019–20* – September 2016

¹⁴⁶ National Assembly for Wales, Plenary, *Record of Proceedings, 13 September 2016*

¹⁴⁷ National Assembly for Wales, Plenary, *Record of Proceedings, 11 October 2016*

¹⁴⁸ *Welsh Government consolidated accounts 2015-16, page 69*

¹⁴⁹ *Independent Age, Moved to care: the impact of migration on the adult social care workforce*

¹⁵⁰ Public Policy Institute for Wales, *The Care Home Market in Wales: Mapping the Sector, October 2015*

authorities and the Government need to systematically monitor services in order to plan future provision. Care Forum Wales (CFW) reported to the Health and Social Care Committee that competition from other care and non-care organisations is impacting also on the available workforce.¹⁵¹

Evidence

223. The Health, Social Care and Sport Committee reported that it had briefly discussed with the Cabinet Secretary for Health, Well-being and Sport the implications for the health service of the UK's decision to leave the EU and how this was taken into account in financial planning. That Committee highlighted the need to plan in relation to the key areas of staffing, research, regulation and funding and sought reassurance from the Cabinet Secretary for Health, Well-being and Sport on this.¹⁵²

224. In written evidence the WCVA said "the process of exiting the European Union also brings increased uncertainty and the loss of EU grants will have a significant impact if not replaced."¹⁵³ It highlighted the key role of European Structural Funds in supporting voluntary and community organisations, the role the third sector plays in EU Programmes and the concerns of this sector:

"WCVA is working in partnership with WEFO to deliver four projects under the 2014- 20 programmes, through which approximately £33m will be distributed directly to third sector organisations that are engaging with the most disadvantaged in the labour market. Since the referendum, many third sector organisations are concerned that the loss of direct contact and negotiation of these programmes will see the sector's tangible contribution to Welsh and UK policy development negatively impacted, with many of the current best practices led by structural fund programmes lost. Under the 2007-13 programmes third sector organisations generated a total investment of £176.1m, helped 18,800 of the most disadvantaged individuals gain qualifications, supported 7,100 into work and created almost 700 jobs. We are aiming to do the same under the 2014-20 programmes. If Wales is to tackle poverty through employment then the continuation of this work after structural funds cease will be essential."¹⁵⁴

225. The Welsh NHS Confederation also raised concerns over the way in which domestic health policy is linked with EU policy and the possibility of far reaching implications this may have for the NHS but these will not be known until further details on the leaving negotiations are known. It stated there could be impacts in the areas of staffing, research, regulation, funding and finance and provided subsequent evidence to the Committee on this. It also stated that as of 30 September 2015, there were 1,139 EU nationals working in the directly employed NHS workforce, this is 1.3% of the total workforce. Of specific note was that 6.43% of doctors were from the EU and there has been a policy since September 2015 of recruiting from the EU area and any future reductions in staff could

¹⁵¹ National Assembly for Wales, Health, Social Care and Sport Committee, Record of Proceedings, 19 October 2016, paragraph 7

¹⁵² Letter from the Chair of the Health, Social Care and Sport Committee to the Cabinet Secretary for Health, Well-being and Sport

¹⁵³ Written evidence, Finance Committee, WGDB_17-18 20, Wales Council for Voluntary Action

¹⁵⁴ Written evidence, Finance Committee, WGDB_17-18 20, Wales Council for Voluntary Action

adversely impact on agency and locum costs. Any additional inflationary pressures following the fall in the value of sterling could also impact on the health service.¹⁵⁵

226. Cardiff University acknowledged there are currently a number of unknowns in terms of the exit negotiations:

“The main areas of uncertainty in this context remain clarity on access to financial support and fees for EU students and clarity around immigration rules for both students and staff. A drop in student recruitment from the EU would have a financial impact and would change the diversity of our student body. Many of our high performing research teams are strengthened by an environment which promotes international mobility.”¹⁵⁶

227. The employment of medical and social care staff from the EU was also raised by stakeholders at the Committee’s stakeholder event.

Cabinet Secretary’s evidence

228. The Cabinet Secretary was asked whether the devaluation of the pound was impacting upon match funding within the budget and what preparations were being made for the UK exiting the EU, he said:

“the reduction in the exchange rate of the pound at the current level could produce 3 per cent or 4 per cent in inflation terms, according to some models of it. Now, we have, to some extent, Chair, been cushioned from the effects of the reductions in our budget by the fact that inflation has been at such historically low levels. It’s also been part of the way in which wage negotiations have been carried out with trade union colleagues. But, although we’ve gone through a terribly tough year [correction: period] in which people have seen their real wages held down, at least people have not had to face rapidly rising prices in everyday goods, and that does play a part in the negotiations. So, if the question I’m being asked is: do we have to anticipate some adverse effect on our budget from inflation? Then I think the answer would be ‘yes’.

The devaluation of the pound against the euro does have an impact on European funding for Wales. ... in the agriculture field, there is a fixed exchange rate, which is agreed between the Commission and the Welsh Government, but, where structural funds are concerned, they get translated into pounds at the rate that pertains at the time. So, the Welsh European Funding Office has a planning rate that it works from, and it reports to the programme monitoring committee quite regularly on the way that planning rate changes as the pound moves around. WEFO is very used to doing this: the 2007 to 2013 programme, the pound against the euro fluctuated from €1.02 to the pound to €1.48 to the pound during that period. So, it’s well used to having to deal with quite a large range of possibilities.”¹⁵⁷

¹⁵⁵ Letter from Welsh NHS Confederation, 14 November 2016

¹⁵⁶ Written evidence, Finance Committee, WGDB_17-18 11, Cardiff University

¹⁵⁷ National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraphs 22 & 29

229. In relation to the Chancellor’s announcement, the Cabinet Secretary said:

“What that means for us is that we must make sure that we maximise our drawdown during the time that that guarantee lasts. So, WEFO have already taken action to try and make sure that, ... , approvals have to be made in the normal course of business—that we couldn’t artificially approve projects in a way that we wouldn’t otherwise. But WEFO had acted so that, by 23 November, we anticipate that we would have gone to 60 per cent of potential drawdown, which puts us well ahead of profiles elsewhere.”¹⁵⁸

Committee view

230. The Committee is reassured by the Cabinet Secretary’s evidence in relation to the UK’s exit from the EU, however, it recognises the concerns of stakeholders particularly in relation to the employees from the EU within the health and social care sectors.

Recommendation 14. The Committee notes the concerns of stakeholders regarding the potential impact on the workforce of the NHS and the social care sector in Wales leading up to and following the UK’s exit from the EU and recommends the Government works closely with the NHS and local government to mitigate any potential repercussions within those sectors.

¹⁵⁸ National Assembly for Wales, Finance Committee, Record of Proceedings, 19 October 2016, paragraph 33

Annex A – List of oral evidence sessions

The following witnesses provided oral evidence to the Committee on the dates noted below.

Transcripts of all oral evidence sessions can be viewed on the Committee's website.

Date	Name and Organisation
19 October 2016	Mark Drakeford AM, Cabinet Secretary for Finance & Local Government Margaret Davies, Deputy Director – Strategic Budgeting, Welsh Government Andrew Jefferys, Director – Treasury, Welsh Government
3 November 2016	Natasha Davies, Policy Partner, Chwarae Teg Anne Meikle, Head of WWF Cymru Toby Roxburgh, Applied Economics Specialist, WWF UK Vanessa Young, Director of the Welsh NHS Confederation Gary Doherty, representing NHS Wales Chief Executives Eifion Williams, representing NHS Wales Directors of Finance Steve Webster, Director of Finance/Deputy Chief Executive Officer, Cwm Taf University Health Board
9 November 2016	Mari Thomas, Finance Policy Officer, Welsh Local Government Association Jon Rae, Director of Resources, Welsh Local Government Association Councillor Huw David (Deputy Leader, Bridgend County Borough Council), WLGA Spokesperson for Health & Social Care Councillor Anthony Hunt (Deputy Leader, Torfaen County Borough Council), WLGA Deputy Spokesperson for Finance & Resources David Robinson, OBE, Senior Advisor, Community Links Professor Ceri Phillips, Professor of Health Economics, Swansea University Professor Marcus Longley, Director of the Welsh Institute for Health and Social Care and Professor of Applied Health Policy, University of South Wales Anita Charlesworth, Director of Research & Economics, Health Foundation
17 November 2016	Mark Drakeford AM, Cabinet Secretary for Finance & Local Government Margaret Davies, Deputy Director – Strategic Budgeting, Welsh Government Andrew Jefferys, Director – Treasury, Welsh Government

Annex B – List of written evidence

The following people and organisations provided written evidence to the Committee. All **consultation responses and additional written information** can be viewed on the Committee's website.

Organisation	Reference
Welsh Retail Consortium	WGDB 17-18 01
Institution of Civil Engineers Wales Cymru	WGDB 17-18 02
Cymdeithas yr Iaith Gymraeg	WGDB 17-18 03
ATL Cymru	WGDB 17-18 04
Wrexham County Borough Council	WGDB 17-18 05
Oxfam Cymru	WGDB 17-18 06
WWF Cymru	WGDB 17-18 07
Open University of Wales	WGDB 17-18 08
Governors Wales	WGDB 17-18 09
Chwarae Teg	WGDB 17-18 10
Cardiff University	WDGB 17-18 11
Welsh Women's Aid	WDGB 17-18 12
Cymorth Cymru	WDGB 17-18 13
Carers Trust Wales	WGDB 17-18 14
Care Forum Wales	WGDB 17-18 15
Universities Wales	WGDB 17-18 16
Friends of the Earth Cymru	WGDB 17-18 17
Shelter Cymru	WGDB 17-18 18
Equality and Human Rights Commission	WGDB 17-18 19
Wales Council for Voluntary Action	WGDB 17-18 20
Bevan Foundation	WGDB-17-18 21
Welsh NHS Confederation	WGDB 17-18 22
Homes for Wales	WGDB 17-18 23
Community Housing Cymru	WGDB 17-18 24

University and College Union Wales	<u>WGDB 17-18 25</u>
Welsh Local Government Association	<u>WGDB 17-18 26</u>
University of South Wales	<u>WGDB 17-18 27</u>
Community Links	<u>WGDB 17-18 28</u>