

Draft Budget Scrutiny 2018-19

December 2017

01. Overview

The Committee has scrutinised three Ministers on the draft budget for 2018-19 and reported below.

- 1.** The Committee would like to thank the Leader of the House and Chief Whip, and the Minister for the Welsh Language and Lifelong Learning for attending the Economy, Infrastructure and Skills Committee on 15 November as part of our scrutiny of the Welsh Government's Draft Budget Proposals 2018-19. Video and a transcript of the session is available at the Committee's webpage.
- 2.** Due to exceptional circumstances, the Committee agreed to scrutinise the Cabinet Secretary for Economy and Transport in writing. Copies of the correspondence were published for the meeting on 29 November. After considering that correspondence, the Committee agreed to invite the Cabinet Secretary in for further financial scrutiny following publication of his Economic Action Plan.
- 3.** As in previous years, the Committee's scrutiny of the 2018-19 draft budget was centred on the four fundamental principles of financial scrutiny: Affordability; Prioritisation; Value for money; and Budget process.



Affordability

Are the resources available are sufficient to meet the plans and are they appropriately balanced?

Rail Franchise and Metro

4. In response to questions about the affordability of the new rail franchise, where £1bn of revenue funding (over the 15 year life of the franchise) remains in dispute between the Welsh and UK Governments, the Cabinet Secretary acknowledged this has not been fully resolved.
5. The Committee was alarmed to read that “these risks will become clearer during discussions with the UK Government and once we have a winning bid.”¹
6. This response suggests that the winning bid will be chosen without full knowledge of the funding available to subsidise it. This is clearly a major and on-going risk, to one of the Welsh Government’s flagship projects.

Conclusion 1. The Committee will continue to monitor discussions between UK and Welsh Government Minister, which are fundamental to the success of the biggest investment in railways Wales has ever seen.

Valleys Task Force

7. The Committee raised concerns on the affordability of the Welsh Government’s Valleys Taskforce, due to the absence of any extra funding allocation for this policy in the draft budget. The Committee questioned whether the Taskforce would be able to achieve its aims – particularly in relation to skills and job creation – without increased funding.

Conclusion 2. The Committee will monitor the ability of the Valleys Task Force has sufficient funding to deliver its ambitions in our in-year budget scrutiny.

Careers Wales

8. While the funding allocation for Careers Wales for 2018-19 remains the same as the 2017-18 figure, the Committee noted that over recent years Careers Wales has seen its budgets and staffing reduced by half. Acknowledging the Welsh Government review currently being undertaken into the role of Careers Wales and the possibility of

¹ LETTER

building synergies with Business Wales, the Committee questioned whether the level of allocated funding for Careers Wales was sufficient to deliver the *Changing Lives* vision. The Committee will be reporting on Careers Wales and apprenticeships in the coming weeks, and will have more to say on this issue.

Development Bank for Wales

9. The Committee notes that the Development Bank for Wales has acknowledged that its ability to raise fees to cover its operating costs is the biggest single risk it faces.

Conclusion 3. The Committee will continue to monitor the self-financing capacity of Development Bank for Wales.

Prioritisation

Is the division of allocations between different portfolios, programmes, sectors justifiable and coherent, and do these match the strategic objectives of government?

Science, innovation and life sciences

10. The Committee noted that continued investment in science, innovation and life sciences is a Welsh Government commitment as stated in its 'Taking Wales Forward' programme for government.

11. The allocated funding for Innovation for 2018-19 showed a 78% (CHECK) reduction from the 2017-18 figure. Although the Leader of the House and Chief Whip stated the reduction in Innovation funding reflected the completion of several significant capital projects, the Committee was still concerned as to the level of prioritisation afforded to Innovation by the Welsh Government.

12. The Committee voiced similar concerns regarding the reduction in allocated funding for Life Sciences. Allocated capital funding has decreased from £9.7m in 2017-18 to £3.7m in 2018-19. The Leader of the House and Chief Whip again cited the completion of several significant capital projects as the reason for the reduction in funding.

13. The Committee is concerned that the drop in funding gives the impression to potential investors that the Government has reduced its support for this sector. The Leader of the House told the Committee that if there were bids for innovation centres, then those bids would be considered and additional funding could be found.

Recommendation 1. The Committee feels strongly that if – as the Minister indicated – capital funding is available to invest in innovation centres it should be retained and visible in the budget – allowing the government to be proactive in seeking investment partners, rather than reacting to bids which may come in.

Foundational economy

14. The Committee is grateful for the Cabinet Secretary's clarification regarding support for the Foundational Economy. The Committee has earmarked this as an area for future work, and will look in more depth at how this money is being spent at that time.

Value for money

Is public money being well utilised, i.e. for the resources put in, what are the outputs and outcomes being achieved, and does this deliver in terms of economy, efficiency and effectiveness?

Dualling the A465

15. The Cabinet Secretary confirmed in his letter that innovative financing, using the Mutual Investment Model, would be used to fund the remaining dualling of the A465. The Mutual Investment Model is relatively new and little tested. The committee will be interested to monitor in due course how this model can demonstrate value for money, relative to borrowing at what remain historically low interest rates, or funding through core capital budgets. Following the Cabinet Secretary's statement on 27 November, the Committee noted concerns at the increase in costs on this project. This is an area where the Committee will seek to ask further questions of the Cabinet Secretary.

Putting Digital Infrastructure to use

16. In her paper to Committee, the Leader of the House and Chief Whip focussed on digital infrastructure when addressing the ICT area of her portfolio.

Recommendation 2. The Committee would be grateful for further details on the Welsh Government's strategy to use the new digital infrastructure it is helping to establish, especially in relation to how it views it will be used to transform public services and the economy.

Active Travel

17. The Committee is grateful for the additional information around the review of funding for Active Travel. The lack of a single funding pot to support Active Travel was highlighted by the Enterprise and Business Committee in its initial review of the Active Travel Act.

Conclusion 4. The review of funding for Active Travel is welcome. The Committee will be undertaking detailed post-legislative scrutiny of the Active Travel Act in March 2018, and will be consulting on this issue later this month.

Budget process

Are the budget processes effective and accessible, and is there integration between government and departmental planning and performance and financial management?

Future Generations and the M4 Relief Road

18. The public inquiry in to the M4 Relief Road has highlighted a difference of opinion between the Welsh Government’s legal representatives to the M4 Public Inquiry and the Future Generations Commission about the application of the Well-being and Future Generations Act 2015.

19. In his answers to the Committee the Cabinet Secretary for Transport has reiterated the department’s belief that its support for the M4 Relief Road does comply with the Act. He also states that all the departments work complies with the spirit and the letter of the Act. It is not clear to the Committee that this is the case.

20. However, the Committee notes that the Cabinet Secretary is “keen to collaborate with the Future Generations Commissioner” to ensure that the wider transport strategy maximises contribution to the wellbeing of Wales. This is welcome.

Conclusion 5. The Well-being of Future Generations Act was intended to be a transformational piece of legislation which changed the way public services are done in Wales. Yet despite the Welsh Government’s claims to be embedding the new ways of working and thinking, the Committee sees no demonstrable transformation of the way money is being allocated.

21. After studying the Cabinet Secretary’s correspondence, the Committee also raised concerns about the borrowing method being proposed in relation to the M4 Relief Road, which will be pursued in future scrutiny.