

**Welsh Government response to the recommendations from the Finance Committee Report: Best Practice Budget Process Part 2 – Planning and implementing new budget procedures**

**Recommendation 1 - The Committee recommends that the Welsh Government and the Assembly should work together to develop a new budget process, which allows for:**

- **UK budget announcements,**
- **a two part process,**
- **the need to provide an early indication to other public bodies of their budgets for the following financial year,**
- **adequate time for Assembly scrutiny, and**
- **“future proofing” for any further fiscal devolution**

I accept the Committee’s recommendation that the Welsh Government should work with the Assembly to develop a new budget process. It is vital that we continue our co-operative approach and I am committed to developing a budgetary procedure on which we can all agree.

As the Committee noted, there are challenges in designing the budget process to allow for the timing of UK budget announcements, provide adequate time for scrutiny and the ability to provide early certainty to our delivery partners. In addition to highlighting these issues, I welcome the Committee’s recognition that the budget process should be ‘future proofed’ for any further fiscal devolution. This will require a flexible approach to developments as the details of further fiscal devolution become clear.

We will explore the possibility of a two part budgetary process and look forward to working with the Assembly as this takes shape. The suggested model provided at Annex A is a useful starting point for consideration and ongoing discussion. We will need to carefully consider the timeframe of the budget process and the potential impact that any lengthening of the process may have particularly on our key stakeholders and delivery partners. Together, we will need to consider the capacity of both the Assembly and the Welsh Government to effectively implement and operate a revised budgetary process.

**Recommendation 2 - The Committee recommends that an integrated approach is taken to ensure that well-being indicators and budget headings align with one another where possible. This will increase the value of both sets of information.**

**Recommendation 3 - The Committee recommends that the Welsh Government should consider further how key targeted output or delivery measures could be linked to budget allocations as part of the budget process, perhaps with pilot trials undertaken in one or two Ministerial portfolio areas before rolling it out across the Welsh public sector.**

Over recent years the Welsh Government has shared a commitment with the Committee to improve its approach to Budgets and particularly the transparency and presentation of its proposals. It is heartening to see the progress that we have made over the last 3 years to align our budget process and our allocations with the

Programme for Government. Recommendations 2 and 3 are a natural next step in this work.

I have informed the Chair of the Finance Committee previously that there is more we can do in this area and that I had set work in train to inform fundamental improvements to the way we integrate information about our outcomes, spending programmes and the results we are seeking to achieve.

Changes to the Welsh Government's Budget stemming from the Wales Act, as well as the implementation of the Well-being of Future Generations Act give us an opportunity to accelerate this work. To respond to the Act, we will need to reform the way we plan, budget and report on performance. I see this as a further opportunity to 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.

With the future in mind, I support the suggestion that we consider further how targeted output or delivery measures could be linked to budget allocations. As we work with the Committee to understand fully the implications of a two stage budget process, we will need to consider the appropriate level of detail at each stage, including in relation to delivery measures. In light of the move to a two stage budget process, there would be added practical benefits in piloting improvements before moving fully to a new approach.

**Recommendation 4 - The Committee recommends that the Welsh Government works closely with the Wales Audit Office to help ensure that the alignment of the budget and the Welsh Government's accounts with the Treasury's budget boundary is completed timeously and successfully.**

In response to part 1 of this inquiry, I agreed in principle for an alignment exercise to be carried out to ensure that the Welsh Government's accounts use the same boundary for the budget presented to the Assembly, as that used by the Treasury for the control of public expenditure. The scoping of that work is underway and we will engage with the Auditor General for Wales and the Wales Audit Office at the appropriate time.

**Recommendation 5 - With regards to the production of a wider Whole of Government of Wales Account, the Committee considers that the arguments made by the Auditor General for Scotland apply equally to Wales especially if further fiscal devolution is delivered, and recommends the Welsh Government works with the Wales Audit Office on the production of such an account.**

There are potential complexities to producing a Whole of Government of Wales account. We need to be clear on the purpose and potential audience for such an account and consider whether there are more appropriate alternative and potentially more cost-effective methods to producing the information required. The Association of Chartered and Certified Accountants is currently undertaking a study on the users of and usefulness of the Whole of Government Accounts and I will consider the findings of that study as we develop our thinking. We will engage with the Auditor General for Wales and the Wales Audit Office as we take this work forward.

**Recommendation 6 - The Committee welcomes the steps taken by the Welsh Government so far in relation to improved economic data, but would like to see firm steps taken as soon as possible to ensure that better data and analysis will**

**be ready in good time for the 2018-19 budget at the latest. The Committee recommends that a strategy should be developed which explains how the Welsh Government will collect, forecast and publish Welsh economic data. This should include provision for forecasts to be produced independently or subjected to independent validation.**

I wrote to Assembly members on 3 February this year setting out the conclusions of the review of economic data requirements conducted by the Chief Economist and Chief Statistician.

The Welsh Government already finances boosts in Wales to economic and labour market surveys run by the Office for National Statistics. These boosts enable detailed analyses of the economic situation in Wales and the regular production of reliable labour market statistics and short term output indices for the Welsh economy.

The Government is actively considering what information will be needed to assess and analyse policy options for the taxes to be devolved in 2018-19 and to produce forecasts of those taxes once they are devolved. Officials are in regular contact with analysts in the Scottish Government, the Office for Budget Responsibility and HM Revenue and Customs to discuss methodologies for analysing policy options and to inform their work in developing forecasting techniques. The Government is also sponsoring a number of research initiatives looking in detail at modelling options for the devolved taxes and the economic and behavioural impact of those taxes.

More broadly, there are major challenges involved in the forecasting of key macroeconomic variables, especially at the Welsh level. Wales is closely integrated with the rest of the UK, and Welsh outcomes, particularly over the short to medium term will be strongly influenced by the performance of the UK economy and UK policy choices. It is therefore likely that forecasts of the Welsh economy could only reasonably be made in the context of a UK model with sub-UK components. There are also issues of data availability which would present further obstacles to complex modelling solutions. Taking these factors into account, the Welsh Government intends to adopt a staged approach to the forecasting of key economic variables, with trend analysis, partial models and scenario planning likely to play important roles at least in the short term. Over the longer run, support to academic researchers will enable the exploration and potential development and validation of macroeconomic modelling approaches.

**Recommendation 7 - The Committee recommends the Welsh Government considers further the advantages and disadvantages of establishing a fiscal commission for Wales having regard to the arrangements in place for Scotland and The Netherlands and share its analysis with the Committee.**

The Government will consider all options for validating and scrutinising the tax forecasts that contribute to its budgetary plans, including the possible establishment of a fiscal commission for Wales. In doing so, it will take account of experience elsewhere in the UK and overseas.

**Recommendation 8 - The Committee recommends that the Welsh Government develops the capability to publish Welsh spending and revenue data on a consistent basis, similar to that produced in Scotland. This will, overtime, provide key information on the Welsh economy and should promote wider debate.**

The Welsh Government already publishes data relating to its own finances and those of local authorities in Wales. These will be developed to take account of devolved taxes. The UK Government publishes estimates of public spending in Wales and UK taxes raised in Wales.

**Recommendation 9 - As regards information provided by the Welsh Government in support of capital expenditure proposals in future budgets the Committee recommends this should specifically include**

- i. Clarity on how capital expenditure proposals will be financed (grant, taxation, borrowing or other methods such as private financing or not for profit vehicles);**
- ii. Information on outstanding borrowing and other capital commitments going forward including how much is owing in terms of principal and interest and the period over which the amounts have to be repaid.**

The Welsh Government firmly believes that robust scrutiny of borrowing and long-term commitments is an essential element of the budgetary process. It follows, therefore, that information regarding the financing of capital expenditure should be transparent and we will work with the Assembly to develop an appropriate format in which to provide such information.

We will adopt a consistent approach in respect of information regarding outstanding borrowing and other capital commitments which will be required as part of the annual accounts process.

**Recommendation 10 - The Committee recommends that an independent arbitration mechanism would be an appropriate route if the Welsh Government and the Treasury failed to agree the amount of any block grant adjustment. The Welsh Government should keep the Committee informed of any agreements on the block grant adjustment which are reached with the UK Government.**

Both the Holtham Commission and the Silk Commission recommended that arms-length bodies should be involved in the technical aspects and detailed administration of the funding system. The Welsh Government supported those recommendations. We will ensure the Committee is updated and informed of progress of any agreements with the UK Government regarding block grant adjustments.

**Recommendation 11 - The Committee recommends that the Welsh Government should seek to ensure that interest should be received from the UK Government when surplus revenue is “banked” by the Welsh Government and such an arrangement should form part of the discussions between the Welsh Government and the UK Government.**

The details of how the cash reserve will operate are to be agreed with the UK Government. The cash reserve and short term borrowing are complementary facilities to help manage the inherent volatility of collecting taxes and should be subject to similar terms. Fairness and parity argue that if one attracts interest, then so should the other.

**Recommendation 12 - The Committee recommends that a Financial Framework Bill should be introduced in the next Assembly. However, the Committee does recognise that discussions on further devolution to Wales are taking place and this recommendation should be considered in the light of any further announcements on devolution.**

The Welsh Government is keen to ensure that a flexible approach is taken in the development of a new budgetary process. The Wales Act 2014 provides the ability to consider reforms within both a statutory and non-statutory framework, but does not, as the Committee noted, give the Assembly competence to amend the accountability provisions within the Government of Wales Act 2006.

Therefore, the Welsh Government welcomes the Committee's recognition that we should consider our approach in light of potential further fiscal devolution. It is prudent at this stage to consider changes to the budgetary process within a non-statutory framework and look to revise the Standing Orders of the National Assembly for Wales and the budget protocol agreement between the Welsh Government and the Finance Committee to implement those changes.

The Welsh Government will consider the introduction of legislation, such as a financial framework bill incorporating both budgetary and accountability arrangements, as clarity is gained on a future devolution settlement.