

The Budget Process Protocol between the Assembly and the Welsh Government

Approved by the Assembly: 21 June 2017

Introduction

1. The Protocol sets out an understanding between the Finance Committee and the Welsh Government on the administrative arrangements for the scrutiny of the annual draft budget and other related budgetary matters. Whilst the Protocol is an understanding between the Finance Committee and the Welsh Government, the Protocol has been agreed by Assembly resolution.
2. This Protocol is intended to complement the revised Standing Order provisions in relation to the revised budget scrutiny procedures following the devolution of taxation and borrowing powers in the Wales Act 2014. This Protocol replaces the former 'Protocol on changes to the budget motion' agreed between the Finance Committee and Welsh Government.
3. The Wales Act 2014 devolved new tax and borrowing powers to Wales, increasing the complexity of the Welsh Government's funding arrangements. Although further changes will be needed to accommodate a potential legislative budget process, this Protocol is intended to enable budget scrutiny under the new powers.
4. The Finance Committee and Welsh Government acknowledge that the presentation of budgetary information is an evolving process. Recognising this, the Finance Committee and Welsh Government agree to continue to work together to improve the information that is provided to ensure it is fit for purpose. This includes the impacts of the programme for Government, the Well-Being of Future Generations (Wales) Act 2015 and in respect of preventative spend.

Finance Committee budget consultation / budget strategy

5. The Finance Committee will undertake its own pre-budget strategy session prior to the autumn. It is expected this will cover longer term strategic scrutiny and public engagement. The sessions may look at Welsh Government strategy, funding and priorities going forward, and incorporate the views of stakeholders, prior to the budget setting. It is not expected that the Welsh Government will be asked to provide evidence nor attend this session.
6. The pre-budget strategy stage will inform the public consultation which will be undertaken by the Finance Committee, on behalf of the policy committees scrutinising the draft budget. This will also inform the direction provided by the Finance Committee to the policy committees as to specific areas of interest for the draft budget scrutiny.

Draft Budget Scrutiny

Timing of the draft budget publication

7. Standing Orders sets out that the Welsh Government must "normally" allow at least eight weeks for reporting on the outline budget proposals and that policy committees must be given at least five weeks to consider the detailed budget proposals.

8. The Finance Committee and Welsh Government recognise that in some years, due to circumstances beyond the Welsh Government's control, it may not be possible to allow eight weeks, and flexibility may be required, but there will never be less than five weeks for scrutiny of the outline and detailed budget proposals.
9. Where the Welsh Government envisages there will not be the time to afford eight weeks, the Cabinet Secretary responsible for Finance should inform the Chair of the Finance Committee, although it is recognised that this may not be possible on all occasions.
10. Where this timeframe includes a week of half-term recess, the Welsh Government will publish its outline and detailed budget proposals (in accordance with Standing Orders and this protocol) before recess commences.
11. In general, a budget/financial year will not be "normal" when there is significant uncertainty in respect of the Welsh Government's future financial position. Although this list is not exhaustive, examples would include when there are no future budget figures provided by the UK Government; there is a UK fiscal event such as a Comprehensive Spending Review or Emergency Budget; or a significant change in the overall fiscal outlook such as an economic shock or changes affecting UK tax policy.
12. It is expected that the UK Budget will usually be published after the Welsh Government has published its outline and detailed budget proposals.
13. Whilst the Welsh Government will have the option of proposing changes to its final budget, in a 'normal' year, the impact of the UK Budget is not expected to be material within the context of the Government's overall budget. Therefore, the Government and the Finance Committee agree that the integrity of the scrutiny process is maintained by considering any non-material changes arising as a result of the UK Budget in the Welsh Government's subsequent supplementary budget.

The outline draft budget proposals

14. The outline draft budget proposals will set out the high-level strategic spending and financing plans of the Welsh Government.
15. The Welsh Government will include within its outline budget proposals, as a minimum:
 - I. the proposed expenditure allocations to Ministerial portfolios. This could include showing how these allocations have been aligned with Welsh Government priorities and desired outcomes;
 - II. how the expenditure proposals will be financed, such as the amounts of financing from the block grant, taxation, borrowing, private financing, not-for-profit vehicles and any other sources;
 - III. the overall level of capital borrowing and debt including the estimated amounts owing in principal and interest, and the period over which the amounts must be repaid.
16. The Finance Committee and Welsh Government recognise that as the budget process evolves, both its presentation and scrutiny will change over time. This requires a flexible

approach when considering the information included within and supporting the budget.

17. With this in mind, the Finance Committee would anticipate seeing at the time the outline budget is published:

- the rationale for taxation levels;
- a range of relevant economic statistics and analyses for Wales;
- a demonstration of how the programme for Government and Well-Being of Future Generations (Wales) Act 2015 have influenced the budget allocations .

18. The Finance Committee and the Welsh Government commit to continue to work together to ensure the information supports meaningful scrutiny of the Welsh Government's spending plans.

19. A report outlining the independent scrutiny and assurance in relation to forecasts for devolved taxes and how methodology is being improved will be published at the same time as the Welsh Government's draft outline budget.

The detailed draft budget proposals

20. In its detailed draft budget, the Welsh Government will provide budget proposals for each portfolio at the Budget Expenditure Line (BEL) level or equivalent with appropriate supporting narrative.

21. Each portfolio will aim to be consistent and provide information which supports the decisions behind the proposals. This could include:

- how the proposals align to Welsh Government priorities and desired outcomes;
- assessments of the impact of the proposals in line with the Welsh Government's legal and relevant policy obligations such as equality, Welsh Language, United Nations Rights of the Child;
- an explanation of significant changes to budget headings from the previous published plans.

22. It is recognised that requirements may change year on year and, therefore, Committees are encouraged to request relevant information from the portfolio areas who will endeavour to provide within the requested timeframe.

Consideration of the draft budget proposals

23. The Finance Committee will consider the overall strategic decision making and prioritisation of the Welsh Government that is behind the allocations within the outline draft budget proposals, along with taxation and borrowing plans against the backdrop of public finances and the wider economy.

24. Subject committees will scrutinise the detailed spending plans for relevant Ministerial portfolios.

Overarching role of the Finance Committee

25. Under Standing Orders, the Finance Committee may report on the Welsh Government's outline budget proposals. Any recommendation to change the amounts proposed must be revenue-neutral. Recognising the enhanced role of the Finance Committee in respect of the Welsh Government's increased fiscal powers, such recommendations may propose changes to both the spending and financing proposals. Where changes to financing proposals are recommended, these must align with the established legislative procedures for agreeing devolved taxes and in accordance with the agreed Fiscal Framework.
26. Under Standing Orders, policy committees must consider the Welsh Government's detailed budget proposals and are able to report on these proposals if they wish to.
27. Where a policy committee may recommend an increase in spending in a portfolio, the policy committee should ensure their reporting includes:
 - A firm evidence base for the recommendations;
 - Comprehensive details identifying how the proposed increase in spending should be spent;
 - Identification of how the spending increase might be funded.
28. It is expected that policy committees will only recommend such an increase in exceptional circumstances, and the Chair of the relevant policy committee should liaise with the Chair of the Finance Committee prior to reporting in these circumstances.
29. In order to allow the most time possible for scrutiny by the policy committees, the revised Standing Orders do not build time in the process to allow the Finance Committee's report to cover the report and recommendations of the policy committees. However, the Finance Committee should maintain an oversight role of the other committees' scrutiny and will be expected to undertake a session, before the final budget is considered, to review the recommendations of the policy committees.

Draft Budget Debate

30. Under Standing Orders, the Welsh Government will table a motion to note the draft budget. Any reports produced by committees on the draft budget, may be used as supporting documents for the draft budget debate
31. Any amendments proposed to the draft Budget Motion must recognise that proposing tax rates will be a matter for the Welsh Government through the established process. The Assembly will be asked to approve the tax rates but will not have the opportunity to amend the rates, as detailed by Standing Orders.
32. The Assembly will be able to make recommendations in relation to the Welsh Rate of Income Tax. However, only the First Minister or Welsh Ministers may move a motion for a Welsh Rate Resolution, and such a motion may not be amended.

Final Budget

33. The Welsh Government will publish the Annual Budget Motion in accordance with Standing Orders. In supporting the Annual Budget Motion, the Welsh Government agrees to provide, at the same time as laying the Annual Budget Motion, its final budget incorporating spending plans and any changes to financing plans proposed in the outline budget. A reconciliation to changes at the BEL level (or equivalent) will also be provided.

Transparency of In-Year Financial Movements

34. The Welsh Government will continue to lay two supplementary budgets a year, subject to the following two paragraphs.
35. If the Welsh Government does not intend to publish a supplementary budget in the Assembly term preceding the summer recess, it will write to the Committee before the summer recess to explain why one is not required and to seek the Committee's response.
36. In the event that no supplementary budget is published towards the end of the financial year, the Welsh Government will write to the Committee before the end of the financial year to explain why one is not required and to seek the Committee's response. The Welsh Government will also provide a written report to the Committee on any variation between spending plans set out in the latest approved budget for that respective financial year and the latest available budget plans. The report will provide an explanation of any significant budget transfers, including details of:
- transfers between MEGs;
 - major transfers within MEGs.
 - changes to financing plans.

Budget Documentation accompanying a supplementary budget

37. The Welsh Government will continue to provide at least the same level of information contained in the budget documentation accompanying each supplementary budget as previously provided, including an explanation of any significant budget transfers. The main documentation that will be made available alongside the supplementary budget motion will include an Explanatory Note providing details of:
- transfers between MEGs;
 - transfers to/from UK Government;
 - transfers to/from Reserves;
 - major transfers within MEGs;
 - changes to financing plans.
38. In addition, in line with previous practice, the Welsh Government will publish MEG Action tables.

End of Year Reporting Arrangements

39. The Welsh Government will provide a written report to the Committee on final outturn. This report will include a comparison with the spending and financing plans set out in the last supplementary budget of the year and an explanation of significant variations.

Impact on Direct Funded Bodies

40. Any change to the required resources of these direct funded bodies is dependent on the Welsh Government moving a supplementary budget motion. Under the revised arrangements, this continues to be the case as changes to the budget motion only apply to the Welsh Government. As set out in paragraph 26, the Welsh Government is committed to providing the same frequency of supplementary budgets as previously provided. The Welsh Government undertakes therefore to continue to liaise regularly with the direct funded bodies and to seek to accommodate their in-year financial requirements through the supplementary budget process. Any proposal to vary the frequency of supplementary budgets will take into account the requirements of direct funded bodies.

Revisions to this Protocol

41. The Welsh Government or the Finance Committee may propose amendments to this protocol.
42. The Finance Committee will also undertake an inquiry looking at a legislative budget process to replace the annual budget motion which may result in further changes proposed to the budget process.