

**National Assembly for Wales**  
Finance Committee

Scrutiny of Welsh Government  
Draft Budget motion 2012–2013

November 2011



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Finance Committee  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

Tel: 029 2089 8597  
Fax: 029 2089 8021  
email: [FinanceCommittee@wales.gov.uk](mailto:FinanceCommittee@wales.gov.uk)

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## Finance Committee

The Finance Committee's functions include:

- considering and reporting on any report or other document laid before the Assembly by Welsh Ministers or the Commission containing proposals for the use of resources;
- considering and reporting on any other matter relating to or affecting expenditure out of the Welsh Consolidated Fund.

A reference to the use of resources is a reference to their expenditure, consumption or reduction in value and includes expenditure payable out of the Welsh Consolidated Fund and any other expenditure met out of taxes, charges and other sources of revenue.

## Powers

The Committee was established on 22 June 2011. Its powers are set out in the National Assembly for Wales's Standing Orders, particularly SO 16. These are available at [www.assemblywales.org](http://www.assemblywales.org)

## Committee Membership



**Jocelyn Davies (Chair)**  
South Wales East  
Plaid Cymru



**Peter Black**  
South Wales West  
Welsh Liberal Democrats



**Christine Chapman**  
Cynon Valley  
Welsh Labour



**Paul Davies**  
Preseli Pembrokeshire  
Welsh Conservative Party



**Mike Hedges**  
Swansea East  
Welsh Labour



**Ann Jones**  
Vale of Clwyd  
Welsh Labour



**Julie Morgan**  
Cardiff North  
Welsh Labour



**Ieuan Wyn Jones**  
Ynys Môn  
Plaid Cymru

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## Chair's foreword

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Our consideration of the 2012-2013 draft budget took place in a period of tremendous pressure both on public expenditure, and on the delivery of effective public services.

Following the May 2011 Assembly election, the Welsh Government has set out its Programme for Government. In examining the 2012-2013 draft budget, we have sought to establish how the new Welsh Government has reprioritised its spending plans (to align them with this programme, and respond to recent economic developments) and how it intends to monitor spending to ensure that the desired outcomes and value for money are achieved.

We welcome the Welsh Government's stated intention to be open and transparent about its budgetary planning. We are also aware that there remains room for greater transparency in the Welsh Government's presentation of its proposed budget allocations, and welcome Ministers' efforts to continue to improve this process.

In light of the current economic climate, we note the rationale of the Welsh Government seeking to manage financial risks, rather than to avoid them. However, concerns remain around the level of reserves retained in the 2012-2013, and whether such would be sufficient to deal with unforeseen circumstances.

We welcome the Welsh Government's stated commitment to delivery, and to developing an outcome focussed budget. However, we are concerned that this commitment to clear, transparent, measurable outcomes has not yet been realised by Welsh Government departments. Recognising that this is the first draft budget of the new Welsh Government, we look forward to greater clarity being developed in the future.

Finally, I would like to thank the Ministers and their officials for giving evidence to the Finance Committee, and the other Committees of the National Assembly for Wales throughout the budget process. I would also like to thank the various external organisations who provided us with evidence and assisted us in our deliberations. Without your knowledge and expertise we could not have scrutinised the Welsh Government's draft budget effectively on behalf of the people of Wales.

## The Committee's Recommendations

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The Committee's recommendations to the Welsh Government are listed below, in the order that they appear in this Report. Please refer to the relevant pages of the report to see the supporting evidence and conclusions:

**Recommendation 1.** We recommend that the Welsh Government continues to work towards ensuring that the intended outcomes of public expenditure- and mechanisms for monitoring such- are consistently identified and published in a timely way that enables effective scrutiny of the sufficiency and value for money of the Welsh Government's budgetary proposals. **(Page 21)**

**Recommendation 2.** We recommend that in presenting future draft budgets, the Welsh Government provides detail of year-on-year proposed budgetary changes (using the figures from the previous financial year's most recent budget as a baseline). **(Page 28)**

**Recommendation 3.** We recommend that in presenting future draft budgets, the Welsh Government seeks to make all relevant and requested information on proposed budgetary allocations (including detail of proposed budgetary allocations within departments, such as BELs) available to National Assembly for Wales Committees, providing a sufficient level of detail for scrutiny in a consistent and co-ordinated manner, at the time of the draft budget's publication, or as close to it as reasonably possible. **(Page 28)**

**Recommendation 4.** We recommend that the Minister for Finance responds to the concerns of the Committees of the National Assembly for Wales, and takes on board the views of stakeholders, in order to improve the timeliness and level of detail published in the draft budget proposals, to enable more effective scrutiny of the budget proposals in relation to specific areas. **(Page 28)**

**Recommendation 5.** We recommend that the Welsh Government works expeditiously towards developing a strategic approach towards the utilisation of its capital resources, providing quarterly reports to the Finance Committee on its progress. We recommend that this should provide clarity on which elements of the Welsh Government's planned capital expenditure, and how it will be administered and monitored, are included within the National Infrastructure Plan, to enable scrutiny of such. **(Page 35)**

**Recommendation 6.** We recommend that the Welsh Government continues to explore all avenues for increasing and maximising capital funding opportunities and maximising the benefits for Wales. We anticipate



this would include a robust analysis of both the short and long-term consequences for Wales of such mechanisms for increasing capital funding. We anticipate the Welsh Government would also provide us with quarterly reports on the matters raised in these recommendations. **(Page 36)**

**Recommendation 7.** We recommend that a full equality impact assessment is carried out for all proposed allocations within the Welsh Government's final budget. We anticipate this would be accompanied by an assessment of the budget's impact on the development of the Welsh Language. **(Page 45)**

**Recommendation 8.** We recommend that a full Sustainability Impact Assessment is carried out for all proposed allocations within the Welsh Government's final budget. **(Page 45)**

**Recommendation 9.** We recommend that the Welsh Government engages in dialogue with Local Health Boards to ensure that their service plans are finalised and made publically available as soon as possible, and that the Minister then reports on whether the funding available to Local Health Boards will be sufficient to deliver such plans **(Page 55)**

**Recommendation 10.** We recommend that the Welsh Government clarifies the role of its delivery unit in ensuring the delivery of the outcomes intended to be enabled by the draft budget. We anticipate this would include clarity of the role of the delivery unit in both monitoring the delivery of outcomes, and enabling appropriate action to be taken where outcomes are in danger of not being realised. **(Page 60)**

# Introduction

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## Who are we?

1. The Finance Committee is a cross party committee of the National Assembly for Wales, made up of Members from all four political parties represented at the Assembly.
2. The Committee is not part of the Welsh Government. Rather, the Committee is responsible for reporting on proposals laid before the Assembly by Welsh Ministers relating to the use of resources. The committee can also consider and report on any other matter related to, or affecting, expenditure out of the Welsh Consolidated Fund.

## What is the Welsh Government's draft budget?

3. Standing Order 20.7 sets out that:

“A Welsh Minister must lay before the Assembly a draft budget setting out the amounts of resources and cash which the government proposes to use for the following financial year and provisional amounts for the subsequent two years or for such other period as the Minister considers appropriate.”<sup>1</sup>

4. The Finance Committee is responsible for reporting on this draft budget. Standing Order 20.11 establishes the parameters of this report, detailing that:

“The responsible committee's report may recommend changes to the amounts proposed in the draft budget provided that the net effect of those changes would not increase or decrease the aggregate amounts of resources or cash proposed in the draft budget for the government.”<sup>2</sup>

5. We therefore cannot suggest altering the overall amount of resources or cash proposed in the draft budget.
6. Although the Finance Committee is responsible for reporting on the draft budget, Standing Order 20.10 also establishes that:

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<sup>1</sup> National Assembly for Wales, Standing Orders of the National Assembly for Wales, July 2011, Standing Order 20.7

<sup>2</sup> National Assembly for Wales, Standing Orders of the National Assembly for Wales, July 2011, Standing Order 20.11

“Any committee, other than the responsible committee, may consider and report to the responsible committee on the draft budget for the government.”<sup>3</sup>

7. We have therefore sought to incorporate within this report the key findings of other committees considering the Welsh Government’s draft budget.

### **Why did we scrutinise this draft budget?**

8. Naturally, any budget produced by the Welsh Government will have significant ramifications for the people of Wales. Our scrutiny of the draft budget is the first stage in the budget process, as provided in the Standing Orders of the National Assembly.

9. Following this report, there will be a debate in plenary on the draft budget. This report will inform that debate.

10. Subsequently, there will be a final budget motion (the annual budget motion), as required by Section 125 of the Government of Wales Act 2006. The Government of Wales Act 2006 provides that there must be at least one budget motion (the annual budget motion) moved in relation to each financial year. Standing Order 20.29 sets out that no amendments can be tabled to the annual budget motion.

### **How did we scrutinise this draft budget?**

#### ***Prior to the draft budget’s publication***

11. Standing Order 20.5 establishes that:

“the responsible committee (Finance Committee) must be given at least five weeks to report on the draft budget for the government.”<sup>4</sup>

12. Earlier this year, we were advised that the 2012-2013 draft budget would be laid on 4 October 2011, and that we would be responsible for reporting on it by 8 November 2011. We recognised that this would mean there would be limited time for stakeholders to comment on the draft budget proposals.

13. Consequently, prior to the draft budget being laid, we launched a call for information on 29 July 2011. The call invited consultees, organisations and individuals to let us know what their expectations of the 2012-13

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<sup>3</sup> National Assembly for Wales, Standing Orders of the National Assembly for Wales, July 2011, Standing Order 20.10

<sup>4</sup> National Assembly for Wales, Standing Orders of the National Assembly for Wales, July 2011, Standing Order 20.5

budget were, and whether they had particular concerns about funding allocations in particular areas.

14. In this call for information we recognised that we did not know what the Welsh Government's 2012-13 draft budget proposals would be. However, we knew they would take place in a time of particular financial pressure for the public sector in Wales, and we were able to draw our consultees' attention to the indicative figures provided in the current Welsh Government's summer 2011-2012 supplementary budget. We anticipated that the Welsh Government's 2012-2013 draft budget would include changes from the indicative figures included in the summer 2011-2012 supplementary budget, but considered that the information provided by consultees would help us to assess the effectiveness of these changes. A significant number of consultees made a point of welcoming this opportunity to comment at an early stage on the indicative proposals of the draft budget.<sup>5</sup>

15. We also took oral evidence from representatives of the Welsh Local Government Association (WLGA) on 28 September 2011, who outlined their concerns and expectations of the 2012-2013 draft budget.

### ***Following the draft budget's publication***

16. The Minister for Finance and Leader of the House, Jane Hutt AM, presented the Welsh Government's Draft Budget Proposals 2012-13<sup>6</sup> to Plenary on 4 October 2011. This was accompanied by a statement,<sup>7</sup> narrative document<sup>8</sup> and detailed expenditure allocation tables.<sup>9</sup>

17. We scrutinised the Minister for Finance on her draft budget on 12 October 2011.

18. We also took oral evidence on the draft budget from the Welsh Council for Voluntary Action (WCVA), the Welsh NHS Confederation, and scrutinised the Minister for Local Government and Communities.

19. Through correspondence, five of the National Assembly for Wales' other committees also provided us with reports of issues arising from their scrutiny of the draft budget, focussed on budget proposals within their respective remits.

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<sup>5</sup> Including: Construction Skills Wales, Governors Wales, Community Housing Cymru, Action for Children, TPAS Cymru, Welsh Women's Aid, NIACE Cymru, Save the Children, Llamau and Cymorth Cymru.

<sup>6</sup> Welsh Government, [Draft Budget Proposals 2012-13](#), October 2011

<sup>7</sup> Welsh Government, Minister for Finance and Leader of the House, Jane Hutt, [Draft Budget 2012-13](#), Cabinet (Oral) Statement, 4 October 2011

<sup>8</sup> Welsh Government, [Draft Budget 2012-13 Narrative](#), October 2011

<sup>9</sup> Welsh Government, [Draft Budget 2012-13 Expenditure Allocations](#), October 2011

20. We invited the Minister for Finance to respond to the concerns raised by our consultees, witnesses and other committees, during our meeting of 31 October 2011.

21. We are very grateful to all those who provided evidence or assisted us with our deliberations. Full details of all the organisations who gave evidence to us are included at

<http://senedd.assemblywales.org/mgIssueHistoryHome.aspx?Ild=1530>

### **The Financial Context of the 2012-2013 Draft Budget**

22. The Comprehensive Spending Review 2010 (CSR 2010)<sup>10</sup> announced a period of unprecedented restraint in the public finances in order to reduce the UK's budget deficit.

23. The Welsh Government's 2011-12 draft budget and the report on it from the previous Finance Committee was produced in the wake of this spending review. Since then, the UK Government has continued with its fiscal plans, intended to eliminate the structural current deficit (i.e. that which cannot be eliminated by growth) by 2014-15.

24. The 2011-12 budget round was presented against the backdrop of the spending review and the reductions to the Welsh block. At this time, the economy had begun to show signs of recovering from the downturn. GDP growth was stronger than expected and the Office for Budget Responsibility (OBR) had revised its forecasts upwards.<sup>11</sup> In the medium term, inflation was expected to remain around its 2 per cent target level (CPI), partially due to the increase in VAT. Overall, it was expected that the economy would recover from the recession, but at a relatively slow pace.

25. However, during 2011 economic growth has been hindered to some extent by global events, including oil price shocks, the earthquake in Japan and the sovereign debt crisis in the Euro zone and economic crisis in the USA.

26. These factors, in combination with austerity measures in place in many European countries, have led to forecasts being revised. Consequently, the 2012-13 draft budget was presented against a climate of increasing economic uncertainty, amid speculation of a worsening economic picture and fears of further recession.

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<sup>10</sup> HM Treasury, [Spending Review 2010](#), October 2010

<sup>11</sup> Office for Budget Responsibility, [Economic and Fiscal Outlook](#), March 2011. This publication is due to be updated in November 2011.

27. The impact on the departmental expenditure limits (DEL)<sup>12</sup> in the Welsh block at the time of the CSR 2010 was forecast to be a cumulative reduction of £1.9 billion in real terms over the spending review period (2010-11 to 2014-15). Subsequent changes, as a result of the UK Budget 2011<sup>13</sup> and revised inflation forecasts, mean that at the current time the Welsh block is predicted to see a cumulative reduction of £2.1 billion over this period. Schedule 6 of the Draft Budget Proposals shows £15.4 billion has been made available by HM Treasury for the total Welsh block<sup>14</sup> in 2012-13 financial year.<sup>15</sup>

28. In January 2011, at the time of the Final Budget 2011-12, the forecasts for the UK economy showed an average forecast of 3.0% for CPI and 3.9% for RPI in 2011.<sup>16</sup> The latest version of this publication<sup>17</sup> shows that the forecasts for 2011 have changed significantly, with average estimates for CPI and RPI estimated to be 4.6% and 5.2% respectively. Forecasts for 2012 remain more optimistic, with average estimates for CPI and RPI expected being 2.2% and 2.7% respectively.

29. Several stakeholders commented to us that they were aware of the constrained economic realities of the current climate. For example, the WLGA noted that:

“We know that the finances available for the public sector are tighter than they have been in previous spending years. To a certain extent, I am not sure that the situation is hugely different from where we were last year when I gave evidence to the committee.”<sup>18</sup>

30. Similarly, the WCVA suggested that:

“there are not any major shocks or surprises in the budget, from what we can tell... Much of this was forecast in last year’s budget and the sector had to get its head around it then and take it on board.”<sup>19</sup>

31. At the same time as available funding for public services now being increasingly constrained, it was also suggested to us that there was

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<sup>12</sup> **Departmental expenditure limit (DEL)** - normally set over three or four years as part of the UK Government’s Spending Review process, this is the multi-year budget limit for the Welsh Government. Most of the DEL is unhypothecated (the assigned budget, or block grant) and allows the Welsh Government full discretion over its spending priorities. Changes in provision for such spend are determined by the Barnett formula.

<sup>13</sup> HM Treasury, [Budget 2011](#), March 2011

<sup>14</sup> Including departmental expenditure limits and annually managed expenditure.

<sup>15</sup> Welsh Government, [Draft Budget Proposals 2012-13](#), October 2011 (Schedule 6 page 24)

<sup>16</sup> HM Treasury, [Forecasts for the UK Economy: A comparison of independent forecasts](#), January 2011

<sup>17</sup> HM Treasury, [Forecasts for the UK Economy: A comparison of independent forecasts](#), October 2011

<sup>18</sup> RoP, Finance Committee, 28 September 2011, Para 83

<sup>19</sup> RoP, Finance Committee, 12 October 2011, Para 120

simultaneously a greater pressure on public services. For example, the WCVA stated that:

“We are beginning to see increases in demand. I do not think that we have seen the worst of what is to come. Probably next year and the year after, we will see it really increasing. As organisations that work with the most vulnerable know, part of that is because people have some resilience. They are able to turn to family and friends, or move to an interest-only mortgage. There will be some built-in resilience, and it takes a while before this is reflected in the figures. Some people will get a job or move on, which is great, but we know from research that was done in previous times of economic difficulty that we will see more mental health problems, more drug and alcohol problems, more domestic abuse and more young people falling out with their parents and leaving home in an unplanned way. For some people, these things will result in homelessness. We know that this is coming, and we are beginning to see the start of it.”<sup>20</sup>

### **The structure of our report**

32. We considered that this financial context only sharpens the need for the Welsh Government’s budget to deliver maximum benefit for Wales and its people. Using this as our guiding principle, our consideration of the Welsh Government’s 2012-2013 draft budget is outlined over the following chapters:

- the strategic objectives of the Welsh Government’s 2012-2013 draft budget;
- presentation of the Welsh Government’s 2012-2013 draft budget
- capital investment;
- the sufficiency of the Welsh Government’s reserves;
- impact assessments;
- the potential impact of the Welsh Government’s draft budget for providers of public services in Wales;
- the need for collaboration.

33. Throughout these chapters, we have sought to primarily consider the Welsh Government’s budget from a strategic perspective. Rather than duplicate the work of other Assembly committees by considering proposals for specific Ministerial portfolios in detail, we have detailed in this report the overarching themes emerging from scrutiny of the Welsh Government’s draft budget. Reports from scrutiny committees of the National Assembly

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<sup>20</sup> RoP, Finance Committee, 12 October 2011, Para 207

for Wales, which relate to the more specific budgetary proposals within individual Ministerial portfolios, are included at Annex 1.



# 1. The strategic objectives of the Welsh Government's 2012-2013 draft budget

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## Alignment with the Welsh Labour Manifesto

34. When we launched our initial consultation on the draft budget, the Welsh Government had not yet published its programme for Government.

35. Ahead of the draft budget's publication, several stakeholders commented that the indicative budget proposals for 2012-13 reflected the priorities of the Welsh Labour manifesto. For example, Hospices Cymru noted that that the:

“indicative budget proposals for 2012 – 13 reflect the priorities of the Welsh Government set out in the Welsh Labour manifesto and the legislative programme announced on 12 July.”<sup>21</sup>

36. Similarly, TPAS Cymru observed that:

“it is clear that the indicative budget proposals for 2012/13 reflect the priorities of the Welsh Government, set out in the Welsh Labour Manifesto and the legislative programme announced in July 2012, with the largest proportion of the budget allocated to health, social care and communities.”<sup>22</sup>

## Suggested strategic priorities

37. Ahead of the draft budget's publication, our stakeholders also suggested a number of strategic priorities for the Welsh Government. The most prominent of these can broadly be described as ‘enabling economic recovery’ and ‘protecting the vulnerable.’ For example, TPAS Cymru asserted that:

“the first priority for Welsh Government should be prevention of social, environmental or economic problems. The outcomes for the programme of government should focus on reduction of problems through prevention rather than treatment. TPAS Cymru believes that the second priority for the programme of government should be to harness increasing proportion of public spending to regeneration and local employment.”<sup>23</sup>

38. Similarly, Homes for All Cymru suggested that the key areas of public expenditure were:

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<sup>21</sup> FIN(4) DB 19

<sup>22</sup> FIN(4) DB 11

<sup>23</sup> FIN(4) DB 11

“Promoting economic activity/growth and... combating the human cost of a difficult economic climate to ensure when the economy recovers, the people of Wales are in a position to take the country forward, in particular investing in services that support people and also lead to longer term cost savings.”<sup>24</sup>

39. While Llamau acknowledged that:

“difficult decisions will need to be made with regard to supporting Wales’ long term economic growth, and as importantly, the development of a just and cohesive society in Wales where we meet our responsibility to defend the rights of the most vulnerable”<sup>25</sup>

### **The strategic priorities of the Welsh Government’s 2012-2013 draft budget**

40. In broad terms, the Welsh Government’s 2012-2013 draft budget is intended to help realise the objectives set out in its Programme for Government. The Minister advised us that:

“We have very specific targets in terms of the five [outcomes] that were included in our programme for government. As you know, we go further in the annex. There is one for each chapter of the programme document. Our programme covers a great deal more in terms of making a difference to people’s lives and the ambitions for the next five years. The key point about milestones and assessing progress and delivery is that we will be reporting on this every year, starting in May next year—a year after we were elected. That will demonstrate what we are doing to deliver and how we are working for the people of Wales, particularly in this very uncertain global economic climate. That will be for everyone to see, to judge progress and to assess the impact and outcomes. That will be how we will show the delivery of the programme for government.”<sup>26</sup>

41. In presenting its budget, the Minister for Finance specifically emphasised that this was a budget ‘for growth and jobs.’ The Minister stated that there was a clear consensus on the need:

“to take action to stimulate economic growth... the spending plans I have presented provide the support we need to deliver jobs and economic growth in Wales and direct and ongoing support for businesses to create the necessary environment for innovation. That includes the approach I have outlined for boosting capital investment, with the development of a national infrastructure plan,

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<sup>24</sup> FIN(4) DB16

<sup>25</sup> FIN(4) DB 18, P1

<sup>26</sup> RoP, Finance Committee, 12 October 2011, Para 111

and exploring all potential mechanisms for leveraging in additional investment... these plans set the tone for this Assembly of a responsible Government with a credible budget and put the economic interests of Wales at the centre. From that come the opportunities for employment, training, skills development and supporting vulnerable people.”<sup>27</sup>

42. We welcomed this apparent alignment of the budget with the key objectives suggested by our consultees. However, we were concerned as to whether the detail of the Welsh Government’s draft budget matched up to these strategic priorities. For example, one of our Members asked the Minister why the Business, Enterprise, Technology and Science MEG was being reduced, if the budget was intended to stimulate the Welsh economy, commenting that:

“the economy is in a worse situation than it was when you were preparing your draft budget. We see that the business, enterprise, technology and science budget, which for this year is £280 million, will decrease next year to £271 million. That is a significant cut in one year. Then, cuts ... are to be implemented over the period to 2015. Given that there is a high percentage of capital in that budget, and that that is partly why those cuts look worse than the cuts for other departments, would you, in the current economic situation, be willing to reconsider the allocation to that department? ... At a time when we know that the economic situation is going to deteriorate, it seems very bad for the Government that the sums going to that department are decreasing more than the sums going to other departments, apart from the housing department, and that at a time of economic crisis.”<sup>28</sup>

43. We also noted that the WLGA had acknowledged that funding from local government for economic development was more likely to be cut than funding for statutory services, commenting that:

“We are having discussions with our colleagues in services such as leisure and culture, and they tell us that they are being hit very hard. This is largely because they are non-statutory services. The same is true of economic development as, unfortunately, it is a non-statutory service. Traditionally, when it comes to budget cuts, local authorities tend to place the emphasis on those services before they cut the statutory services.”<sup>29</sup>

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<sup>27</sup> RoP, Finance Committee, 12 October 2011, Paras 5-7

<sup>28</sup> RoP, Finance Committee, 12 October 2011, Paras 5 and 90

<sup>29</sup> RoP, Finance Committee, 28 September 2011, Para 139

44. In response to these concerns, the Minister asserted that:

“This is going to be about how we can support economic renewal and development, not just through the BETS MEG, but through the other levers that we have. We also have to recognise that there are some adjustments across and between these actions that we may need to clarify. However, the JEREMIE fund has attracted £60 million in European funding, and it is important that we use European funding as well to help fund the Jobs Growth Wales scheme for young people.”<sup>30</sup>

45. The Minister also suggested to us that consequential funding from the council tax freeze in England might be focused upon enabling economic recovery, advising us that:

“we believe it is important to use the nearly £40 million that will come to us in the current financial year to support the work of BETS, to support economic renewal.”<sup>31</sup>

46. We note that the Enterprise and Business Committee had invited the Minister for Business, Enterprise, Technology and Science to provide it with:

“a note at the appropriate time that outlines the extent to which any of the additional money will be allocated to your department, and what it will be intended to deliver.”<sup>32</sup>

47. We are grateful to the Enterprise and Business Committee for seeking this information, and consider that the Welsh Government should swiftly provide clarity on how this money will be utilised, bearing in mind the Minister for Finance acknowledgement that such consequentials are “for this financial year... it is this year’s money.”<sup>33</sup>

### **The need for clear outcomes to be delivered by the draft budget**

48. When we originally launched our call for information, the Welsh Government had not yet published a Programme for Government. However, the Welsh Government had emphasised that it would seek to deliver an outcomes-based approach, with the First Minister declaring that “delivery will be the watchword of the next Welsh Labour government.”<sup>34</sup>

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<sup>30</sup> RoP, Finance Committee, 12 October 2011, Para 87

<sup>31</sup> RoP, Finance Committee, 12 October 2011, Para 91

<sup>32</sup> Enterprise and Business Committee, Letter to Minister for Business. Enterprise, Technology and Science, 26 October 2011, P4.

<sup>33</sup> RoP, Finance Committee, 31 October 2011

<sup>34</sup> BBC Wales, Ed Miliband urges Welsh Labour to vote against ‘dogma,’ 19 February 2011, available at <http://www.bbc.co.uk/news/uk-wales-12512344>

49. Several stakeholders responding to our consultation welcomed this intention, and urged the Welsh Government to adopt the principles of an outcome focused approach, observing that this should also enable the Government's success to be monitored and measured. For example, TPAS Cymru welcomed:

“the focus on delivery which the Welsh Government has indicated that it will be pursuing in this Government term. Many within the housing sector are already working within the “Outcomes Agenda.”<sup>35</sup>

50. Several consultees suggested that the delivery of outcomes needed to be monitored, with Construction Skills Wales proposing that:

“outcomes could be included as part of the final budget document and therefore allow bodies such as the Finance Committee, but also other organisations measure the success, or not, of the Welsh Government.”<sup>36</sup>

51. Similarly, the Older People's Commissioner advised that she had:

“discussed ways of monitoring impact with Ministers in the previous Welsh Government. I am not yet satisfied that suitably detailed monitoring is in place... the Welsh Government need to move much faster and further so that older people themselves consistently experience practical improvements.”<sup>37</sup>

52. On 27 September 2011, the Welsh Government published its Programme for Government, which the First Minister stated would:

“set... out how we will measure progress on the manifesto outcomes, the key actions we will take to drive that progress and how we will judge whether our actions are on track.”<sup>38</sup>

53. The Minister for Finance argued that the Programme for Government provided “very specific targets.”<sup>39</sup> However, other committees expressed concerns about a lack of targets identified during their scrutiny of the budget. For example, the Communities, Equalities and Local Government Committee expressed concern that:

“there was a lack of targets in the evidence provided by Ministers. We are concerned that the absence of targets will make it difficult for the Government to determine whether or not funding allocations are

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<sup>35</sup> FIN(4) DB 11, P4

<sup>36</sup> FIN(4) DB 01, Para 4

<sup>37</sup> FIN(4) DB 14

<sup>38</sup> Welsh Government, Programme for Government, September 2011, Foreword.

<sup>39</sup> RoP, Finance Committee, 12 October 2011, Para 111

being used effectively and, in addition, makes it difficult for the Assembly to scrutinise the effectiveness of the budget.”<sup>40</sup>

54. Similarly, the Enterprise and Business Committee advised the Minister for Business, Enterprise, Technology and Science that they were:

“concerned about progress in setting performance targets for your Department’s activities. We appreciate that the Welsh Government needs to develop a more sophisticated, longer-term approach to measuring and evaluating performance, and that you are currently in the process of developing this work. You also informed us that you were establishing baselines and targets for measuring outcomes. We would like you to publish your performance measurement framework as soon as possible and we look forward to scrutinising it in due course.”<sup>41</sup>

55. Responding to these concerns, the Minister for Finance stated that:

“The programme for government provides us with a very important way forward in terms of our planning processes. The programme for government sets out our plans on how we will seek to deliver our ambitions for Wales, the outcomes that we want to see from those and the progress of which will be measured. We will report on that progress through the annual report. The programme for government was developed alongside the budget, which will provide a more coherent package in order for the committee, the people of Wales and our partners to ascertain how we are delivering in terms of outcomes. The programme offers greater coherence between our business planning and the Government’s objectives..”<sup>42</sup>

56. We recognise the intention of the Programme of Government to deliver coherence between business planning and Welsh Government objectives. However, as one of our Members commented “I can see plenty of aspirations in the Government programme, but... [few]... specific targets.”<sup>43</sup>

57. In response the Minister provided a number of specific targets, and emphasised that the Programme for Government would “not affect existing or new targets which are set out in detailed policy.”<sup>44</sup>

58. Nevertheless, we remain concerned that few specific targets or objectives with measurable outcomes were clearly presented for scrutiny,

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<sup>40</sup> Communities, Equalities and Local Government Committee, Letter to Chair of Finance Committee, P1

<sup>41</sup> Enterprise and Business Committee, Letter to Minister for Business, Enterprise, Technology and Science, P3

<sup>42</sup> RoP, Finance Committee, 31 October 2011

<sup>43</sup> RoP, Finance Committee, 31 October 2011

<sup>44</sup> RoP, Finance Committee, 31 October 2011

against which Committees could consider the potential impact and effectiveness of the allocations proposed in the draft budget, and evaluate value for money achieved with resources allocated.

59. In the current financial climate, with limited resources available, we consider it to be critical that those scrutinising public expenditure- as well as all individuals involved in delivering public services- are clear about the ultimate outcomes that are intended to be delivered by such expenditure.

60. We also note that in its report on the Draft Budget Proposals 2011-2012,<sup>45</sup> the previous Finance Committee expressed concerns about the consistency of budget planning across Welsh Government departments. In particular the Committee noted the need for delivery outcomes to be set in a consistent manner, to allow performance and value for money to be monitored. The Committee noted that in some departments, the allocation of budgets seemed to precede the consideration of outcomes to be delivered with the resources. In her response to the report, the then Minister for Business and Budget (Jane Hutt AM) stated that:

“We are in the early stages of a journey to improve our processes and the internal planning process structure is still in development. The intention is that this structure and planning process will increasingly enable Ministers to better understand how they are using resources to deliver outcomes and the effectiveness of these.”<sup>46</sup>

61. The evidence we have received from other committees suggests that in a number of departments the setting of budgets continues to precede consideration of the precise outcomes to be delivered with the resources and how success is going to be measured.

**We recommend that the Welsh Government continues to work towards ensuring that the intended outcomes of public expenditure- and mechanisms for monitoring such- are consistently identified and published in a timely way that enables effective scrutiny of the sufficiency and value for money of the Welsh Government’s budgetary proposals.**

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<sup>45</sup> National Assembly for Wales, Finance Committee, [Report on GEN-LD8296 – Draft Budget Proposals 2011-12](#), January 2011

<sup>46</sup> National Assembly for Wales, Finance Committee, [FIN\(3\)-05-11 : Paper 2 : Welsh Assembly Government Response to Committee Report on Draft Budget 2011-12](#), 2 March 2011

## 2. Presentation of the Welsh Government's 2012-2013 draft budget

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### The need for transparency

62. Ahead of the draft budget's publication, a number of consultees emphasised to us the importance of the budget being presented in an open and transparent fashion. For example, Construction Skills Wales commented that:

"Any changes to spending priorities or budget allocations should be **clearly** outlined in the explanatory information, with information provided by the Welsh Government as to the reasons behind the changes and the expected impact of these decisions. Without this information the success of the decision cannot be effectively judged."<sup>47</sup>

63. Similarly, Save the Children noted that historically a:

"lack of transparency in public expenditure on children means that it is currently not possible to tell without more detailed analysis, whether the Welsh Assembly Government is using available resources to the maximum extent to fulfil children's rights UNCRC and whether there are sufficient levels of expenditure to achieve the laudable aim of ending child poverty by 2020... we would like to see a child friendly version of the Welsh Government's budget proposals produced to help engage children and young people with the consultation process."<sup>48</sup>

64. Save the Children recommended:

"much greater detail on specific areas of spend where the level of resource allocated to children is not easy to track (for example on health) and further detail on how the budget will translate into delivery on the commitments included in the Child Poverty Strategy at local level"<sup>49</sup>

65. Construction Skills Wales also suggested that a greater length of time to consider the draft budget would also make scrutiny more achievable, commenting that

"if the Welsh Government and the Finance Committee are able to consult for an appropriate length of time with a range of

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<sup>47</sup> FIN(4) DB 1, P5

<sup>48</sup> FIN(4) DB 17

<sup>49</sup> FIN(4) DB 17



organisations (and CSW is pleased to have this opportunity comment at this early stage) it will ensure that the Welsh Government's budgets are not presented (or at least ***perceived***) as a ***fait accompli***.<sup>50</sup>

66. We recognise the concerns expressed by stakeholders around the need for transparency, and were content that the Minister asserted to us, ahead of the draft budget's publication, that she was:

"committed to working in an open and transparent way, which I hope will make the scrutiny role as effective as possible."<sup>51</sup>

### **Budget comparisons**

67. However, following the draft budget's publication, several committees expressed concern to us about its transparency. For example, the Children and Young People Committee had:

"serious concerns about the presentation of the budget and the lack of transparency and accountability, particularly in the Health, Social Services and Children Main Expenditure Group (MEG). Members felt this compromised their ability to fulfil their role in scrutinising the Department's budget and in holding the Minister to account."<sup>52</sup>

68. Similarly, the Enterprise and Business Committee commented to us that they:

"had serious concerns about the presentation of the budget and the lack of clarity in the Minister's paper over baselines and transfers. We believe this compromised our ability to fulfil our role in scrutinising the Department's budget and in holding Ministers to account on behalf of the people of Wales."<sup>53</sup>

69. We asked the Minister to respond to these concerns, who commented that:

"I recognise that there are issues regarding presentation and the transparency of our budget proposals, and I want to learn from you how we can improve... or explain how we have made the presentation this year."<sup>54</sup>

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<sup>50</sup> FIN(4) DB 1, P5. Italicised and emboldened emphasis provided in the original paper

<sup>51</sup> RoP, Finance Committee, 28 September 2011, Para 6

<sup>52</sup> Children and Young People Committee, Letter to the Finance Committee, 20 October 2011, P1

<sup>53</sup> Enterprise and Business Committee, Letter to the Finance Committee, 20 October 2011, P1.

<sup>54</sup> RoP, Finance Committee, 31 October 2011

70. We are grateful to the Minister for this reassurance. Bearing this in mind, we note that concerns were raised about the use of different baseline figures for budget comparisons. In particular the Minister for Education and Skills used baseline figures from his:

“working budget [which] was a bit different to the published budget, which is what the baselines in the draft budget and final budget are always based on..”<sup>55</sup>

71. As a result, the Enterprise and Business Committee advised the Minister for Education and Skills that:

“the confusing presentation of changes made to the Education and Skills Main Expenditure Group has made it very difficult for us as a Committee to track and scrutinise those changes. In particular, the baselines referred to in your paper did not match those in the published budget documents, and there was a lack of clarity between indicative plans at the time of the supplementary budget, the transfers made and what the budget is now.”<sup>56</sup>

72. The Health and Social Care Committee also expressed concern to us:

“that the HM Treasury GDP deflator figure, as generally used in budget planning, may not be particularly relevant for the healthcare budget as healthcare inflation tends to be higher than standard levels of inflation. In their evidence to us, health officials suggested that more relevant inflation figures were used when planning healthcare budgets, but no further detail was provided as to the assumptions used to derive real-terms impacts of the budget changes.”<sup>57</sup>

73. Moreover, we note that the Welsh Government’s narrative document showed comparisons with the indicative figures from the supplementary budget, rather than year-on-year comparisons. This was not consistent across Welsh Government departments, with the Enterprise and Business Committee welcoming the fact that by contrast the Minister for Business, Enterprise, Transport and Science provided a paper in which “the majority of the analysis... focused on year-on-year changes.”<sup>58</sup>

74. We asked the Minister for Finance why her draft budget had been presented using comparisons with the indicative figures of the 2011-2012

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<sup>55</sup> RoP, Finance Committee, 31 October 2011

<sup>56</sup> Enterprise and Business Committee, letter to Minister for education and skills, 20 October 2011.

<sup>57</sup> Health and Social Care Committee, Letter to Finance Committee, October 2011, P1

<sup>58</sup> Enterprise and Business Committee, Letter to the Minister for Business, Enterprise, Transport and Science, P1

supplementary budget, rather than the more usual approach of showing year-on-year changes. In response, the Minister asserted that:

“The way that we have presented it is consistent with the standard practice of using the latest published figures. That is the issue to do with the comparisons. We have used the first supplementary budget of 2011-12 as the baseline, adjusted to remove non-recurrent allocations. The important thing is that those indicative allocations are built on the development from the first supplementary budget.”<sup>59</sup>

75. A Welsh Government official also advised us that:

“The way that we have presented the numbers this year is the standard way that we present figures. It is probably worth mentioning the situation last year, which was quite unusual in that we were publishing a budget without having already published a set of indicative plans for future years, because we were at the start of a spending review period. When we published this budget, we had already set out plans for three years. So, the standard practice is to show the changes from those already published plans, as opposed to showing changes from a base year. It would be interesting to know whether the committee prefers that form of presentation or a different form of presentation.”<sup>60</sup>

76. We note that the narrative document for the 2010-2011 budget did include

“Indicative Plans figures for 2010-11 [which were]... from the 2009-10 Final Budget in December 2008.”<sup>61</sup>

However the narrative document for the 2010-2011 budget specifically showed “percentage change 2009-10 to 2010-11,”<sup>62</sup> using the baseline of the previous financial year for comparisons (as detailed in the then most recent budget: the 2009-10 supplementary budget).

77. We note and welcome the Minister’s assertion that:

“if there is anything else that we can do about the nature and format of the information that we present, as a Government, to respective scrutiny committees, we can think more about that.”<sup>63</sup>

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<sup>59</sup> RoP, Finance Committee, 12 October 2011, Para 9.

<sup>60</sup> RoP, Finance Committee, 12 October 2011, Para 12

<sup>61</sup> Welsh Assembly Government, Draft Budget 2010-2011, October 2009, Note to tables 1.2 and 1.3, page 8.

<sup>62</sup> Welsh Assembly Government, Draft Budget 2010-2011, October 2009, table 1.1

<sup>63</sup> RoP, Finance Committee, 31 October 2011

78. We consider there to be some value in being able to scrutinise the changes made by the Welsh Government between its indicative proposals for a financial year. This enables scrutiny of the extent to which a Government is holding to- or varying from- its original indicative proposals. We consider that it would be useful for the Welsh Government to facilitate such comparisons.

79. However, we consider there to be greater value in being able to scrutinise budgetary changes through year-on-year comparisons, to assess the potential impact of changes to the budget being made by the Welsh Government. We consider that it to be essential that the Welsh Government facilitates such comparisons.

### **Transparency of receipts paid into the Welsh Consolidated Fund**

80. The Environment and Sustainability Committee advised us that they had discussed with the Minister for Environment and Sustainability:

“what happened to payments received by the Forestry Commission as landlords from wind farm schemes on Forestry Commission managed land.”<sup>64</sup>

81. We note that the Minister for Environment and Sustainability had advised this Committee that:

“that money goes into the consolidated fund. It does not come directly to me or the environment department, sadly, but goes into the general coffers of the Welsh Government. As I said earlier, sustainable development is a central organising principle and applies right across the Welsh Government, in any event. I would hope that those moneys would be put to good use, respecting that principle.”<sup>65</sup>

82. Consequently, the Environment and Sustainability Committee expressed concern that:

“these payments go into the consolidated fund and are not scrutinised in any way in any Minister’s budget lines.”<sup>66</sup>

83. Responding to these concerns, the Minister for Finance advised us that as income from such payments was very volatile, they were not included in the draft budget but rather the receipts of such were accounted for in-year.

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<sup>64</sup> Environment and Sustainability Committee, letter to Minister for Environment and Sustainability, 25 October 2011, P3

<sup>65</sup> RoP, Environment and Sustainability Committee, 19 October 2011, Para 162

<sup>66</sup> Environment and Sustainability Committee, letter to Minister for Environment and Sustainability, 25 October 2011, P3

The Minister assured us she would “account for them in the supplementary budget in February.”<sup>67</sup>

84. We consider that such receipts should be used for environment and sustainability purposes. We anticipate that we shall scrutinise the receipt of such payments as part our consideration of the Welsh Government’s supplementary budget in February.

### **Scrutiny of the Welsh Government’s Central Services and Administration**

85. We note that when we sought to scrutinise the Minister for Finance on an increase of £1.2 million in the Staff costs of the Central Services MEG she advised us that:

“this is the responsibility of the Permanent Secretary, but I am happy to give some clarification on the point, although you may wish to write to the Permanent Secretary about this.”<sup>68</sup>

86. We intend to invite the Permanent Secretary to respond to these issues, but due to time constraints were unable to consider this issue in preparing our report on the Welsh Government’s draft budget.

### **Timeliness of detail provided in relation to the draft budget**

87. Finally, the WCVA expressed concerns to us that:

“it is difficult for us to scrutinise and assess the impact on the sector effectively. We do not have the detail under that action level, so it is hard for us to know, and hard for external organisations to understand, what the impact might be. We would ask that the committee requests that the Minister for Finance publish that more detailed level in future, to help external organisations engage with the budget scrutiny process, and that each Minister assess the impact of their budget on the third sector.”<sup>69</sup>

88. On this issue we are pleased that the Minister informed us that “as far the Wales Council for Voluntary Action is concerned, I have asked my officials... to provide a breakdown of budget action tables.”<sup>70</sup>

89. Other organisations also expressed concern that they might have to wait a considerable length of time to determine what the draft budget meant for them. For example, Welsh Women’s Aid asserted that they:

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<sup>67</sup> RoP, Finance Committee, 31 October 2011

<sup>68</sup> RoP, Finance Committee, 31 October 2011

<sup>69</sup> RoP, Finance Committee, 12 October 2011, Para 121

<sup>70</sup> RoP, Finance Committee, 31 October 2011

“and numerous other third-sector agencies were only informed of their budget for 2011/12 very late in March 2011. As a result, all staff were given their redundancy notices. This eleventh-hour notification of funding has unfortunately been rather commonplace within the sector for some time, but in times when all staff members are aware that the financial situation is extremely difficult and cuts are likely, it is extremely damaging to morale and inhibits effective collaborative working.”<sup>71</sup>

90. Similarly, the Older People’s Commissioner advocated:

“more surety of funding ... this would enable the Commission to enhance our strategic planning and make the most effective use of our resources.”<sup>72</sup>

91. The Enterprise and Business Committee echoed concerns about the timeliness of information being provided, reporting that:

“our task was made even harder by the fact that we received crucial information [from the Minister for Education and Skills] only the day before our scrutiny session [on 12 October].”<sup>73</sup>

92. We note that the draft budget was laid by the Welsh Government on 4 October this year. However, we also note that various Ministers subsequently provided to different committees papers providing more detailed breakdowns (such as budgetary expenditure lines (BELs)) and narrative comment on their departments’ proposed budgetary allocations.

**We recommend that in presenting future draft budgets, the Welsh Government provides detail of year-on-year proposed budgetary changes (using the figures from the previous financial year’s most recent budget as a baseline).**

**We recommend that in presenting future draft budgets, the Welsh Government seeks to make all relevant and requested information on proposed budgetary allocations (including detail of proposed budgetary allocations within departments, such as BELs) available to National Assembly for Wales Committees, providing a sufficient level of detail for scrutiny in a consistent and co-ordinated manner, at the time of the draft budget’s publication, or as close to it as reasonably possible.**

**We recommend that the Minister for Finance responds to the concerns of the Committees of the National Assembly for Wales, and takes on**

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<sup>71</sup> FIN(4) DB 12

<sup>72</sup> FIN(4) DB 14

<sup>73</sup> Enterprise and Business Committee, Letter to Minister for Education and Skills, 26 October, P2

**board the views of stakeholders, in order to improve the timeliness and level of detail published in the draft budget proposals, to enable more effective scrutiny of the budget proposals in relation to specific areas.**

### 3. Capital investment

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#### Limited funding for capital investment

93. The 2011-2012 budget included a significant cut in funding for capital investment as a result of the 2010 CSR. Ahead of this year's draft budget, we noted concerns from the WLGA around limited capital funding, which they identified as:

“an issue for public services across Wales. We face continuing pressures in that regard. We have been through a couple of harsh winters, which have caused damage to roads across Wales. Our ability to find the funding to resurface the roads, and so on, remains a challenge. That is one issue. We continue to be concerned about the shortfall in capital available for areas such as housing. There is no doubt that it is also an issue for the Welsh Government in areas like health... when the budget came out last year, I was surprised at how restrained you all were about the announcement on capital. I thought that it would cause a row, because it is a savage cut: it is 40 per cent. We have huge problems in local government. School stocks is one of them, but local roads is another. Capital funding is becoming the big debate that we really have to start paying attention to.”<sup>74</sup>

94. Similarly, Hospices Cymru recommended that “the Welsh Government should consider a time-limited capital investment programme for hospice care,”<sup>75</sup> while Action for Children considered that:

“Capital... spending must facilitate the improvement of community infrastructure, (such as integrated children's centres, community centres, community-focused schools, youth and leisure centres) to make health, social care and other family support services fit for purpose and fully accessible to all.”<sup>76</sup>

95. Likewise, Homes for All Cymru expressed concern that the:

“indicative budget allocations for 2012-13 propose that capital investment to increase the supply and choice of housing will be cut by 12.5 per cent. Wales needs to achieve 14,000 new dwellings a year between 2006 and 2026 to meet housing need<sup>77</sup>. At a time when affordability, due to a lack of supply, is the key issue constraining the Welsh housing market, cutting funding in this area

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<sup>74</sup> RoP, Finance Committee, 28 September 2011, Paras 84 and 212

<sup>75</sup> FIN(4) DB 19, P4

<sup>76</sup> FIN(4) DB 07, P2

<sup>77</sup> Welsh Assembly Government (2010) Housing Need and Demand in Wales 2006 to 2026



is retrogressive .Making best use of the existing stock by, for example, bringing more of Wales' 26,000<sup>78</sup> empty homes back into use, could be more cost-effective at meeting housing need than relying solely on new build."<sup>79</sup>

96. The 2012-2013 draft budget detailed that the capital departmental expenditure Limit (DEL) allocated to Welsh Government departments in 2012-13 was now £1.1 billion, representing a decrease of £79.2 million, or 6.5% on that for 2011-12. In real terms this represented an 8.8% decrease. The Health and Social Care Committee observed that the Welsh Government had acknowledged the scale of the cut in capital funding, commenting that they:

"welcomed the Deputy Minister's directness about the level of cuts to capital expenditure on her portfolio."<sup>80</sup>

97. The Minister for Local Government and Communities also confirmed to us that capital funding was now very limited, observing that:

"We are in a very different place in terms of finances: local authorities have had a cut in the twenty-first century schools programme; there is big pressure on local government delivery; and the transport budget was hit extremely hard in terms of its capital spend element."<sup>81</sup>

98. The Minister for Finance acknowledged that the Welsh Government had "been very open about the challenges we face about UK budget cuts, particularly in relation to capital."<sup>82</sup> However, the Minister also advised us that while the Welsh Government recognised the limited funds available for capital investment, it was:

"doing everything that we can to try to lever funds into our capital budget. We looked at the transfer from revenue to capital in terms of what we describe, and you know, as the centrally retained capital fund. We anticipated about £57 million transferring from revenue to capital."<sup>83</sup>

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<sup>78</sup> CIH Cymru and Shelter Cymru (June 2009) Empty Properties: making the most of the existing stock

<sup>79</sup> FIN(4) DB 16

<sup>80</sup> Health and Social Care Committee, Letter to the Chair of the Finance Committee, P3

<sup>81</sup> RoP, Finance Committee, 20 October 2011, Para 110

<sup>82</sup> RoP, Finance Committee, 31 October 2011

<sup>83</sup> RoP, Finance Committee, 12 October 2011, Para 22

## **The need to use limited capital funding in a timely and strategic fashion**

99. Given the limited funding available for addressing public sector capital needs, we consider it imperative that remaining capital funding is used as effectively as possible. We consider that capital investment has a significant role in promoting and developing Wales' economy.

100. However, we heard the Children and Young People Committee:

“felt there was a lack of strategic vision and questioned how the Welsh Government would identify where capital was to be used. Concern was raised over the delivery of the 21<sup>st</sup> Century Schools programme, with the draft budget indicating a large reduction in capital expenditure, but no indication of how the reduced budget was to be allocated. Members also questioned why the Minister was unable to advise on the capital allocation to local authorities to enable forward planning, especially as the Minister for Local Government and Communities had announced his provisional Local Government Settlement for 2012-13 on 18 October.”<sup>84</sup>

101. Similarly, the Health and Social Care Committee advised us that they:

“have serious concerns about the impact delays in decision making may have on the timely future implementation of capital projects, especially at a time when public capital schemes are so important to the broader economy.”<sup>85</sup>

102. Our predecessor committee, the third Assembly's Finance Committee commented in the past on the importance of “the way in which the Government is developing its strategic approach to the use of... [capital] resources.”<sup>86</sup> The Minister for Finance confirmed to us that the Welsh Government was continuing to progress this work, seeking to:

“bring together all our capital programmes in a strategic way in the national infrastructure plan, but the point about the plan is that it is taking us beyond the programmes. It is going to be about how we identify key infrastructure priorities across the economy, transport, education and health and social services. We are already being more strategic about our programming, and we need to use what we already have in the capital programme as the baseline for that.”<sup>87</sup>

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<sup>84</sup> Children and Young People Committee, Letter to the Chair of the Finance Committee, 26 October 2011, Annex, P2.

<sup>85</sup> Letter to Finance Committee from Health and Social Care Committee, Scrutiny of Draft Budget proposals 2012-13, 26 October 2011

<sup>86</sup> 3<sup>rd</sup> Assembly Finance Committee, Report on GEN-LD8296 - Draft Budget Proposals 2011-12, January 2011, Para 64

<sup>87</sup> RoP, Finance Committee, 12 October 2011, Para 99

103. However, when we asked the Minister for Finance whether the Minister for Health and Social Services had had to “put on hold any new capital projects until she has had a view from the health boards as to what they want to do in the future”<sup>88</sup> she advised us that she was “not aware”<sup>89</sup> of any such delays.

104. By contrast the Health and Social Care Committee had reported to us that:

“The Minister [for Health and Social Services] stated that decisions on strategic healthcare expenditure were on hold while healthcare service plans were developed.”<sup>90</sup>

105. We are concerned that the Minister for Finance was unaware that such capital projects were currently on hold. We are also concerned that she could not provide us with information on when the reprioritisation of the National Transport Plan spend would take place.<sup>91</sup> We consider that this reflects a need for the Welsh Government to further improve its strategic overview of its capital programmes.

106. We are also concerned that unnecessary delays in the announcement and introduction of capital projects will have a damaging impact on Wales’ economy. We are concerned that if funding for capital investment is not utilised, it may limit Wales’ capacity to argue that there is a need for it to receive greater funding for capital investment from the UK Government in future years. On these issues, the Minister for Finance sought to reassure us that no money was “being held back in the capital spend of our resources,”<sup>92</sup> and that all the capital projects that the Welsh Government was able to fund would be funded, and no money would be lost.

107. We therefore welcome the efforts of the Welsh Government to take a strategic approach to its capital programmes, but anticipate that it will work collaboratively with partners- including those in local government- in continuing to develop and improve a more strategic overview.

### **The potential for increasing funding for capital investment**

108. The WLGA also suggested to us that more exploration could be made of more innovative approaches to capital funding:

“not least of all around local authorities being allowed by the Assembly to do supported borrowing. It might well be a one-off, but

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<sup>88</sup> RoP, Finance Committee, 31 October 2011

<sup>89</sup> RoP, Finance Committee, 31 October 2011

<sup>90</sup> Letter to Finance Committee from Health and Social Care Committee, Scrutiny of Draft Budget proposals 2012-13, 26 October 2011

<sup>91</sup> RoP, Finance Committee, 31 October 2011

<sup>92</sup> RoP, Finance Committee, 31 October 2011

there are ways of bringing more money into the Welsh economy. We have to be radical about that.”<sup>93</sup>

109. The WLGA advised us that they had:

“started discussions with Welsh Government officials about the need for a more strategic group to look at the whole of public sector capital needs, the availability of capital and the options for, potentially, generating more resources to deal with the needs that we have. That is looking not just at schools, but also transport and economic development opportunities. That would also be about looking at the whole budget and being able to say that if we do certain aspects of borrowing you can then release resources that are in the Welsh block to spend on other non-commercial generating schemes, such as schools. It is about translating that from an idea into reality and how we can make that happen.”<sup>94</sup>

110. The Minister for Finance confirmed to us that the Welsh Government recognised the:

“need to look at new ways to lever in private finance effectively—this will be part of our national infrastructure plan discussions with our private sector partners... it is important that we use the new borrowing opportunities that...can help us to bring forward capital investment projects. However, we must recognise that this has to be done in partnership with local government to see the way forward.”<sup>95</sup>

111. However, the Minister for Finance cautioned that the cost of financing any new borrowing would ultimately still have to be borne, observing that:

“We need to be clear about liabilities that arise from that new borrowing, and it has to be a fair exchange in terms of capital projects that would be supported.”<sup>96</sup>

112. The Minister for Local Government and Communities concurred with these concerns, noting that:

“The technical problem that we have found is that when you support the borrowing of local authorities, the debt comes back onto Welsh Government spreadsheets, so the debt comes back to us, potentially reducing the block grant that we receive from Westminster. It is quite complex. We are trying to find a different way of doing supported borrowing with local authorities without having the debt on our

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<sup>93</sup> RoP, Finance Committee, 28 September 2011, Para 96

<sup>94</sup> RoP, Finance Committee, 28 September 2011, Para 100

<sup>95</sup> RoP, Finance Committee, 12 October 2011, Paras 24 and 29

<sup>96</sup> RoP, Finance Committee, 12 October 2011, Para 37

books. That is the complexity of this... we must remember that we are a Government for a term and we are talking of borrowing terms of 20 to 25 years, so we have to make sure that this is right for the future as well. We are potentially committing Governments of the future to investments in supported borrowing. There is only one pot of money, whether it is capital or revenue, and you have to balance that in terms of getting the distribution right... We recognise that there is possibly an opportunity to invest a revenue stream for supported borrowing in road maintenance, which would give us a long-term opportunity to fix all of the roads in Wales quite easily if we could get supported borrowing from local authorities as well.”<sup>97</sup>

113. The Minister for Finance also clarified that boosting local government borrowing might not be through ‘supported borrowing’ as:

“Treasury budgetary rules... [state that] the budgetary cover for supported borrowing does score in the Welsh Government capital ... What we are talking about is how we can boost unsupported borrowing by local authorities.... so that it would not score against the capital DEL.”<sup>98</sup>

114. We support the Welsh Government in exploring the possibility of seeking to boost borrowing by local authorities, as a potential means to increase funding for capital investment, whilst also being aware of the longer-term effects of such borrowing on the finances of individual authorities.

115. We recognise the Welsh Government’s prudent concerns about the impact such borrowing could have on future Welsh Governments and local authorities. In itself, this does not automatically rule out the possibility of such borrowing: part of the role of any Government is to make decisions and commitments that will have an impact beyond its own term of office. But we do consider it to be sensible for the Welsh Government to ensure such decisions are justifiably in the interests of both the people of Wales now, and in the future.

**We recommend that the Welsh Government works expeditiously towards developing a strategic approach towards the utilisation of its capital resources, providing quarterly reports to the Finance Committee on its progress. We recommend that this should provide clarity on which elements of the Welsh Government’s planned capital expenditure, and how it will be administered and monitored, are included within the National Infrastructure Plan, to enable scrutiny of such.**

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<sup>97</sup> RoP, Finance Committee, 20 October 2011, Para 99 and 107

<sup>98</sup> RoP, Finance Committee, 31 October 2011

**We recommend that the Welsh Government continues to explore all avenues for increasing and maximising capital funding opportunities and maximising the benefits for Wales. We anticipate this would include a robust analysis of both the short and long-term consequences for Wales of such mechanisms for increasing capital funding. We anticipate the Welsh Government would also provide us with quarterly reports on the matters raised in these recommendations.**

## **4. The sufficiency of the Welsh Government's reserves**

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116. The draft budget narrative shows that the near cash revenue reserve for 2012-13 stands at £127 million.<sup>99</sup> However, the Minister for Finance advised us that some of these reserves were already earmarked for particular purposes:

“In terms of the reserves for 2012-13, to clarify, we have provisionally earmarked £12.2 million for the non-recurrent funding for orthopaedic services. That will be an in-year allocation, and will of course be subject to certain milestones in terms of delivery. You mentioned £15 million of transitional support to help public services in their transition to new, more efficient forms of service delivery.”<sup>100</sup>

117. The Minister clarified that after these earmarked allocations, the Welsh Government's reserves actually stood at:

“£99.5 million, which is 0.74 per cent of the Wales fiscal resource DEL. As you are aware, this is where we have to be clear about the risks that we are taking on with regard to the management responsibilities of the spend. I have already identified that the allocations that I have outlined have to be subject to delivery milestones, but we are confident about this level of reserve. We do not want to leave the year with a level of reserve; we want to spend the reserve as planned for the following year.”<sup>101</sup>

118. We also noted that the Minister detailed that £6.5 million of Invest to Save funding had come from recycled receipts, rather than reserves. However, the Minister also detailed that these recycled receipts consisted of, from 2010-2011:

“£0.7 million of recycled payments... So far for this year, we have received £2 million in receipts, and a further £2.7 million is due before the end of the year.”<sup>102</sup>

119. We noted that these received and projected receipts totalled £5.4 million, and were concerned that this might imply that further funding was required from the Welsh Government's reserves.

120. We asked the Minister whether she considered the Welsh Government's reserves to be sufficient, bearing in mind the potential for an unexpected crisis such as:

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<sup>99</sup> Welsh Government, [Draft Budget 2012-13 Narrative](#), October 2011, P22

<sup>100</sup> RoP, Finance Committee, 12 October 2011, Para 45

<sup>101</sup> RoP, Finance Committee, 12 October 2011, Para 49

<sup>102</sup> RoP, Finance Committee, 31 October 2011

“the Corus crisis about 10 years ago, which led to substantial investment in the Newport and Blaenau Gwent areas. That would have had to come entirely from the Assembly’s reserves, and, from memory, it must have been about £50 million, or maybe more than that. That would be the type of crisis to which the Welsh Government would have to respond. If something like that happened again, are you happy that you have enough resource to cope with it?”<sup>103</sup>

121. The Minister responded that:

“We would very much hope that we would not have to face that kind of situation again, but you cannot predict it. On the other hand, we have the opportunity to shift money; I have mentioned the centrally retained capital fund and also transitional support funding, which must be about spending on change and development within the public sector. However, there is room for manoeuvre within the allocations that we have made. I would say very clearly to this Finance Committee that, in these challenging times, I have to take the risk on delivering a budget that enables us to get money out for the economy and for public services, and I would not want money in my reserves. I would also say that I look to the reserves held by local authorities, for example, which are extraordinarily varied in their amounts, and one wonders for what purpose they are holding them.”<sup>104</sup>

122. We note that the Minister for Finance acknowledged to us the risks entailed of limiting the amounts held in the Welsh Government’s reserves for 2012-2013. We consider that in the present financial climate, it is even more crucial for the Welsh Government to adopt a proper risk management (rather than risk averse) approach to financial planning.

123. However, given these limited reserves, we are concerned that the full budgetary impacts of several Welsh Government commitments appear to be as yet undetermined, or currently under review. The Health and Social Care Committee, for example, advised us that they were:

“concerned about the budgetary impact of Government commitments and planned legislation, four of which are set out in an Annex to this letter. In our scrutiny session, Ministers emphasised that each were still subject to discussion, with no as-yet settled conclusions about the budgetary implications of these commitments in future years. We remain concerned at the potential impact which delivering these commitments may produce in future budget planning rounds, and

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<sup>103</sup> RoP, Finance Committee, 12 October 2011, Para 51

<sup>104</sup> RoP, Finance Committee, 12 October 2011, Para 52



intend to keep this issue under review, in our own future work programme.”<sup>105</sup>

124. Both the Enterprise and Business Committee and the Communities, Equalities and Local Government Committee noted that the Minister for Business, Enterprise, Technology and Science was still in the process of reviewing spending plans. The Enterprise and Business Committee commented that:

“We appreciate that some degree of flexibility will be required to adjust your Department’s spending to changes in your priorities, and also to changes in the economic climate as they arise. However, there also needs to be a core spend that allows us as a Committee to monitor expenditure over consecutive years and to evaluate the activities of your Department against set targets and outcomes. You have stated that such targets are still in the process of being formulated.”<sup>106</sup>

125. Furthermore the Children and Young People Committee advised us that:

“it was anticipated that further funding would be allocated to CAFCASS Cymru in 2012-13, over that which was in the draft budget proposals, and that this would come from central funds. Members were concerned about the potential impact this would have on funding for other programmes and asked for regular updates on the programmes affected.”<sup>107</sup>

126. While the Environment and Sustainability Committee noted in correspondence to the Minister for Environment and Sustainability that:

“We discussed with you the allocation for TB compensation in the budget. We welcome your clarification that the current figures are based on the historical payments for last year. We are concerned, however, that, due to the cyclical nature of the incidence of TB there may not be sufficient funds available to cover any increase in compensation payments.”<sup>108</sup>

127. We recognise that several of these commitments may primarily have an impact on future financial years, rather than necessarily the period covered

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<sup>105</sup> Health and Social Care Committee, Letter to Chair of Finance Committee, 26 October 2011, P2

<sup>106</sup> Enterprise and Business Committee, Letter to Minister for Business, Enterprise, Technology and Science, 26 October 2011, P2

<sup>107</sup> Children and Young People Committee, Letter to Chair of Finance Committee, 26 October 2011, Annex, P3

<sup>108</sup> Environment and Sustainability Committee, Letter to Minister for Environment and Sustainability, 25 October 2011, Ps1-2

by the 2012-2013 draft budget. Nevertheless, with limited funds available in the Welsh Government's 2012-2013 reserves, we consider that it would be prudent for the Welsh Government to quickly ascertain and make public the full budgetary implications of all its existing commitments for the 2012-2013 financial year.

## 5. Impact Assessments

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### Equality impact assessments

128. In February 2011 the Welsh Government published a detailed equality impact assessment alongside the Final Budget 2011-12.<sup>109</sup>

129. Ahead of the publication of the 2012-2013 draft budget, a range of stakeholders advocated that this budget should likewise be equality impact assessed. For example, University College Union Wales recommended that the:

“Welsh Government should analyse any proposed outcomes to determine whether there is a disproportionate impact on any of the equality groups. UCU Wales believes that it is necessary to consider whether the outputs are fairly distributed between the equality groups and how they equate to equality, as well as the objectives themselves. To ensure that this is achieved, UCU Wales calls on the Welsh Government to equality impact assess every future draft budget.”<sup>110</sup>

130. Similarly, the Equality and Human Rights Commission urged us:

“to consider how submissions to its consultation promote equality or exacerbate inequality. We would also encourage you to influence other scrutiny Committees to consider proposals before them within the context of the new equality duties and the use of equality impact assessments.”<sup>111</sup>

131. Diverse Cymru likewise advocated that “thorough Equality Impact Assessments are required on each budget line and in relation to the overall budget,”<sup>112</sup> while Chwarae Teg stressed:

“the importance of Equality Impact Assessments to inform the development of the final budget... [and] would also promote a *gender budget analysis* approach to ensure gender equality in policy development.”<sup>113</sup>

132. However, the Welsh Government’s 2012-2013 draft budget narrative<sup>114</sup> stated that as the allocations were largely unaltered from last year, a detailed equality impact assessment had not been repeated. The narrative

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<sup>109</sup> Welsh Government, [Draft Budget 2011-12: Assessing for Equality Impacts](#), February 2011

<sup>110</sup> FIN(4) DB 04, P5

<sup>111</sup> FIN(4) DB 05

<sup>112</sup> FIN(4) DB 09

<sup>113</sup> FIN(4) DB 10

<sup>114</sup> Welsh Government [Draft Budget 2012-13 Narrative](#), October 2011 (Annex C)

document detailed that where plans had changed significantly, they had been impact assessed for equality.

133. The Communities, Equality and Local Government Committee expressed concern regarding this lack of a full equality impact assessment, commenting that:

“a detailed equality impact assessment (EIA) was undertaken in 2010. However, the same work had not been undertaken for this year’s budget. The Committee feels that, given that new equality legislation has been introduced in the past year (including the Equality Act 2010 and the specific equality duties for Wales), and the reductions in budget allocations, it would be appropriate to undertake a new EIA.”<sup>115</sup>

134. Similarly, the Environment and Sustainability Committee noted to the Minister for Environment and Sustainability that they were concerned to find:

“no equality impact assessment has been carried out on the budget itself since the budget round in 2010, especially as the main areas of reduction are to the delivery of the Rural Development Plan. We will be recommending to the Finance Committee that they urge Minister for Finance to ensure that equality impact assessments are carried out for all budgets in the 2012-13 budget round and that any changes made as a result of the assessment are shown in the figures provided to the relevant committees for scrutiny.”<sup>116</sup>

135. Responding to these concerns, the Minister for Finance advised us that:

“we delivered a detailed equality impact assessment last year... This time, we have an update on the assessment that reflects any changes.”<sup>117</sup>

136. In the draft budget’s narrative document, the Welsh Government explained that:

“Welsh Government Departments undertook an initial screening on proposed changes to consider whether there may be a potential impact in terms of equality. Following the initial screening, if it was apparent that there was a significant impact on people with protected characteristics then a full Equality Impact Assessment (EIA)

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<sup>115</sup> Letter to Finance Committee from Communities, Equality and Local Government Committee, 26 October 2011

<sup>116</sup> Environment and Sustainability Committee, Letter to Chair of Finance Committee, 25 October 2011

<sup>117</sup> RoP, Finance Committee, 12 October 2011, Para 85

was required to better understand the equality impact of the proposed budget allocations and to meet legislative requirements.”<sup>118</sup>

137. However, we are concerned that this initial screening may not have considered the full ramifications of changes in the budget, in terms of equality. We note for example, the concern expressed by Welsh Women’s Aid that:

“Protecting the domestic abuse budget revenue budget line within one department is welcomed, but the potentially positive impacts of this decision are likely to be negated by cuts to budgets in other departments.”<sup>119</sup>

138. Moreover, one of our Members noted that:

“It became apparent in the scrutiny in the communities, Equality and Local Government Committee that you have cut the disabled people’s facility grant next year by £6 million and a further £10 million the year after. However, this appears to have been missed out by your initial screening, and there appears to be no full equality impact assessment of that particular decision.”<sup>120</sup>

139. We note that the Minister for Finance welcomed this issue being raised with her, and emphasised that she considered equality impact assessment to be a continuous process, rather than ending with the draft budget. However, given the Minister’s comments that “[o]ther Governments in the UK are looking to us to see how we have developed our equality impact assessment”<sup>121</sup> we consider that the Welsh Government should seek to be an exemplar in this field, rather than risk becoming complacent.

## **The Welsh Language**

140. Ahead of the draft budget’s publication, Ymateb Metrau Iaith Cymru expressed concern to us that in the indicative budget proposals:

“the only time that funding for the Welsh language is mentioned is in relation to the Welsh Language Board, under the heading ‘Business Improvement and Resource Investment.’”<sup>122</sup>

141. The Communities, Equalities and Local Government Committee advised us in correspondence that the Welsh language was not included in the Welsh

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<sup>118</sup> Welsh Government, Draft Budget 2012-2013: A budget for growth and jobs, October 2011, Para 4.2

<sup>119</sup> FIN(4) DB 12

<sup>120</sup> RoP, Finance Committee, 31 October 2011

<sup>121</sup> RoP, Finance Committee, 31 October 2011

<sup>122</sup> FIN(4) DB 15, P1

Government's Equality Impact Assessment. The Committee advised us that the Minister with responsibility for the Welsh Language told them that:

“he would write to the Minister for Equalities on this issue, and would write to other Welsh Ministers in relation to the equality of Welsh and English languages in communications between the Government and the Welsh public.”<sup>123</sup>

142. We consider that an analysis of the draft budget's impact on the Welsh language should be carried out alongside a broader Equality Impact Assessment. We also welcome the Minister with responsibility for the Welsh Language's intention to address this issue.

### **Sustainability Impact Assessments**

143. The Environment and Sustainability Committee also expressed concern to us that there had been no sustainability impact assessments conducted on the budget as a whole.<sup>124</sup> The Committee recommended to us that we:

“urge the Minister for Finance to ensure that sustainability impact assessments are carried out for all budgets in the 2012-13 budget round and that any changes made as a result of the assessment are shown in the figures provided to the relevant committees for scrutiny, together with an explanation of the rationale for such changes.”<sup>125</sup>

144. Responding to these concerns, the Minister for Finance sought to assure us that:

“the impact on sustainable development was a key plank of our resource exercise assessment. It was something that I raised at every bilateral meeting with every Minister. There is not a single document that sets out this work, but it underpins everything that we do on evidence gathering for the impact of the draft budget on sustainability.”<sup>126</sup>

145. However, we consider that there remains room for greater appraisal of the draft budget's impact on sustainability. Indeed, we note that the Minister for Business, Enterprise, Technology and Science advised the Enterprise and Business Committee that she would:

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<sup>123</sup> Communities, Equalities and Local Government Committee, Letter to Chair of Finance Committee, 26 October 2011, P3

<sup>124</sup> Letter to Finance Committee from Environment and Sustainability Committee, 26 October 2011 [no link available at time of writing]

<sup>125</sup> Environment and Sustainability Committee, Letter to Finance Committee, 26 October 2011

<sup>126</sup> RoP, Finance Committee, 31 October 2011

“undertake further work in this area between now and your preparation of the final budget. We encourage you to carry out the promised work on a sustainability appraisal of your final budget, and also to consider funding conditions for Welsh Government support for businesses that promote green issues such as carbon emissions reductions and energy efficiency, and which uphold corporate social responsibilities.”<sup>127</sup>

146. We consider that the draft budget’s impact on sustainable development should be considered as part of a full Sustainability Impact Assessment of the Welsh Government’s draft budget.

**We recommend that a full equality impact assessment is carried out for all proposed allocations within the Welsh Government’s final budget. We anticipate this would be accompanied by an assessment of the budget’s impact on the development of the Welsh Language.**

**We recommend that a full Sustainability Impact Assessment is carried out for all proposed allocations within the Welsh Government’s final budget.**

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<sup>127</sup> Enterprise and Business Committee, Letter to the Minister for Business, Enterprise, Technology and Science, P1.

## **6. The potential impact of the Welsh Government's draft budget for providers of public services in Wales**

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147. In producing this report, we have considered the findings of five other National Assembly for Wales committees, which scrutinised the implications of the Welsh Government's draft budget for responsibilities within their remits. These committees were:

- The Children and Young People Committee;
- The Communities, Equalities and Local Government Committee;
- The Enterprise and Business Committee;
- The Environment and Sustainability Committee; and
- The Health and Social Justice Committee.

148. These Committees considered the implications of the draft budget for a range of public service providers. For example, the Health and Social Care Committee identified that:

“both the Care Council for Wales and Older People's Commissioner are expected to deliver approximately 3% efficiencies next year... we are mindful of the pressures that changing demographics and increased awareness of the office are likely to bring to the Older People's Commissioner.”<sup>128</sup>

149. Rather than replicate the detailed consideration given by these Committees to particular portfolios within the draft budget, letters from these different Committees are included at Annex 1.

150. However, we were particularly concerned about the potential impact of the proposed budget for the National Health Service (NHS) and Local Government, which were proposed to receive- and therefore be collectively responsible for- well over two thirds of the Welsh Government's draft budget.

### **The potential impact of the 2012-2013 draft budget for the NHS in Wales**

151. Ahead of the draft budget's publication, we noted that several organisations suggested areas of the health service that could be prioritised for investment.<sup>129</sup>

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<sup>128</sup> Health and Social Care Committee, Letter to Chair of Finance Committee, 26 October 2011, P3.

<sup>129</sup> For example, the British Lung Foundation advocated investment in smoking cessation services, and Hospices Cymru recommended making a palliative care a greater priority, and



152. In the Draft Budget 2012-13, additional funding of £239 million has been allocated to the HSSC MEG over the three years (£83 million in 2012-13, £83 million in 2013-14 and £73 million in 2014-15), which is stated to be in order to place Local Health Boards on a sustainable financial footing.

153. In addition to this the Minister for Health, Social Services and Children (Lesley Griffiths AM) announced an additional £103 million in the current financial year (2011-12), to be sourced from a combination of reserves and the HSSC budget.<sup>130</sup>

154. In oral evidence the Welsh NHS confederation welcomed these additional allocations, commenting that they:

“would not presume to do anything other than welcome the fact that the Minister for Finance has outlined an additional £280 million for health services over the next three years. It will be well used, it is very welcome, and it will make a difference to patient care. We are also very pleased that the Minister for Health and Social Services is making available £100 million this financial year to help the NHS to meet the intense financial pressures that it faces.”

155. The Welsh NHS confederation stated that this additional funding would allow for better financial planning, but stated that delivering on the budget would still be a “tough ask,”<sup>131</sup> with them being required to “make savings of £250 million.”<sup>132</sup> We were concerned whether this additional funding would be sufficient for the NHS, with one of our Members noting that:

“as far as I am aware, in every previous financial year, in order to break even, money had to be found from the Government reserves to ensure that local health boards did not go over their budgets.”<sup>133</sup>

156. The Health and Social Care Committee also expressed concerns as to whether NHS funding would be sufficient, commenting that while they welcomed:

“the Government’s commitment to:

- provide an additional £83 million in 2012-13 to place LHBs on a sustainable financial footing; and
- provide further funds in the next two years,

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the WCVA noted concerns from mental health organisations about the adequacy of funding for addressing mental health. FIN(4) DB06, FIN(4) DB08, FIN(4) DB19.

<sup>130</sup> Welsh Government, News Release, [£288 million extra for NHS in Wales](#), 5 October 2011

<sup>131</sup> RoP, Finance Committee, 20 October 2011, Para 222

<sup>132</sup> RoP, Finance Committee, 12 October 2011, Para 57

<sup>133</sup> RoP, Finance Committee, 12 October 2011, Para 162

we have reservations about whether the overall level and individual allocations of funding will be sufficient to address the funding difficulties which LHBs have already identified in the current year.”<sup>134</sup>

157. Responding to these concerns, the Minister for Finance asserted to us that Local Health Boards:

“have already been under a firm savings regime. They delivered savings of more than £300 million last year. I was interested to hear the response last week from Dr Bailey, the chair of the British Medical Association’s GP committee, who said that they are going to have to work harder to deliver important changes in getting more patients supported in the community, recognising that new technologies can help and supporting the workforce in that way. The NHS Confederation has been supportive of the budget, and its director in Wales welcomed the extra funding.”<sup>135</sup>

158. Similarly, the Welsh NHS confederation outlined how a potential restructuring of health services could enable efficiencies, commenting that:

“if you had a number of district hospitals—where we are now is a good example—within a fairly short travelling time of each other, and 10 services were provided in every one, then you might consider providing four of those services in one hospital, four in another and two in another. You might go to different district general hospitals for different services, but those services would still be provided... Some of it will depend on the longer-term changes that the NHS is allowed to make. If the NHS is allowed to make transformational changes, cost will be involved as well; we are not so unrealistic that we do not appreciate that. However, if the service is allowed, with proper consultation—I am not asking for a carte blanche or for you to say that everything that we do is fantastic—to make changes that we can demonstrate need to be made that are clinically more effective and will improve the quality of services, we have a good shot. This will be along with the efficiency savings, because we still have to make them. We are still looking at making real-term savings of at least 5 per cent year on year.”<sup>136</sup>

159. However, the Health and Social Care Committee questioned whether these efficiency savings were realistic, observing that they:

“have continuing reservations specifically about the ability of every Local Health Board to deliver the level of efficiencies required. We did

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<sup>134</sup> Health and Social Care Committee, Letter to Chair of Finance Committee, 26 October 2011, P2

<sup>135</sup> RoP, Finance Committee, 12 October 2011, Paras 58 and 206

<sup>136</sup> RoP, Finance Committee, 20 October 2011, Para 169

not find it easy to share the Minister's confidence that these levels of efficiency will be consistently achievable across the health sector in Wales. Moreover, we heard that a key mechanism for delivering the required efficiencies will be through 'service transformation'. We are sure that further clarification will be needed, during the period of this budget, as to on how such service transformation will deliver efficiencies in practice."<sup>137</sup>

160. We note the rationale behind the Welsh Government's decision to provide additional funding to the NHS in Wales at the beginning, rather than during, the financial year.

161. However, we remain concerned that "when we get to April...health boards [may] be looking for that all-important bail-out."<sup>138</sup> Given the limited nature of the Welsh Government's reserves, we are concerned that it is imperative that local health boards deliver the overall savings anticipated by the Minister for Finance. In this context, we were particularly concerned by the Children and Young People Committee's report to us that:

"Members were also concerned at the apparent lack of accountability at Local Health Board level, given the Minister's belief that it was inappropriate for her to intervene in local decision making. The Committee believe it is essential to enhance clarity in this area to allow for more effective monitoring and scrutiny in the future. Members felt that the Minister was reliant upon Local Health Boards allocating expenditure appropriately to meet her policy commitments but was unable to demonstrate any clear mechanism for measuring outcomes. Members were also concerned that the Minister did not appear to have a contingency plan if Local Health Boards were unable to deliver these commitments."<sup>139</sup>

162. We are also concerned that Local Health Boards' plans remain unpublished, with one of our Members commenting that:

"it would be helpful once we see the plans because, at least then, we will have something to judge. The fact that the plans are constantly evolving and are kept secret means that everyone will be suspicious."<sup>140</sup>

163. Given the trust and public funding being invested in Local Health Boards, we would urge the Minister to ensure that their finances are

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<sup>137</sup> Health and Social Care Committee, Letter to Chair of Finance Committee, 26 October 2011, P2

<sup>138</sup> RoP, Finance Committee, 31 October 2011

<sup>139</sup> Children and Young People Committee, Letter to Chair of Finance Committee, 26 October 2011, P2

<sup>140</sup> RoP, Finance Committee, 31 October 2011

monitored very carefully throughout the year, that any corrective action is taken at an early stage and that there is a clear mechanism for holding them to account for their expenditure over the financial years ahead. Whilst we note the confidence of the NHS confederation that the savings can be achieved, we share the Health and Social Care Committee's serious concerns about whether the overall level and individual allocations of funding will be sufficient to address the funding difficulties which LHBs have already identified in the current year and to deliver the level of savings required by their funding allocation.

### **The potential impact of the 2012-2013 draft budget for Local Government in Wales**

164. The Local Government and Communities Main Expenditure Group (MEG) accounts for around 35 per cent of the Welsh Government's total DEL allocation in each of the years of the budget period (2011-12 to 2014-15). Notably the:

- overall DEL allocated to LGC department in 2012-13 is £5.1 billion, representing 34.7% of the Welsh Government DEL. This is a decrease of £10.8 million, or 0.2% on that for 2011-12. In real terms this is a 2.6% decrease;
- capital DEL allocated to LGC department in 2012-13 is £261.6 million, representing a decrease of £19.5 million, or 6.9% on that for 2011-12. In real terms this is a 9.2% decrease.

### ***Efficiency savings required of Local Government***

165. Ahead of the draft budget's publication, the WLGA described the efficiency savings that were already being required- and discovered- by local authorities, describing how there were:

"savings and efficiency gains that local authorities needed to make in order to present a balanced budget. So, those efficiency savings comprise a range of different things: some are procurement savings, business process re-engineering—introducing lean systems and improving their processes—voluntary redundancy schemes, changes to terms and conditions, and improvements in asset management. So, they [local authorities] have looked at a whole range of things and when they put forward their budget they also put forward saving plans to their councils for approval. Those plans are now being implemented, and the indications are that authorities will come to the end of the year with a balanced budget position."<sup>141</sup>

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<sup>141</sup> RoP, Finance Committee, 28 September 2011, Para 108

166. However, the WLGA also recognised the requirement of local authorities to deliver efficiency savings. Rather than seek a significant increase in funding for local government, they advocated a:

“commitment to the existing indicative revenue budget allocations will enhance local government and the wider public sector’s ability to plan and deliver cost reductions in a planned and strategic way.”<sup>142</sup>

167. The Minister for Local Government and Communities concurred that savings were being required of local authorities, noting that:

“the changes to services that I have requested from the entire public sector, not just local government, are to do with delivering a better service, cheaper, through collaboration or individually. We are seeing signs of that already happening. I assume that this committee has questioned, or will be questioning, Leighton Andrews. He is working on a school-improvement programme where cost-benefits have already been seen, just by doing things differently. It is a better service and we are savings millions of pounds... We included the opportunity for remote attendance at committees in the Local Government (Wales) Measure 2011, so there is opportunity to make savings with travel and so on. We also have an opportunity for savings with regard to collective responsibility.”<sup>143</sup>

168. In particular, we noted that the Welsh Government draft budget 2012-13 set out an updated approach to driving the delivery of efficiencies in the public sector. The overall aim was for the Welsh Government to provide leadership by simplifying and streamlining partnership arrangements, providing clarity on a regional collaboration and putting in place a framework for national collaborative leadership and governance between central and local government and other key public service providers.

169. One aspect of this was that the Welsh Government proposed to standardise collaboration on a ‘*common footprint*’. Standardising collaboration would be intended to enable and support joint working across local government, health and police services, reducing complexity and providing a clear framework for collaborative working as the Simpson review and the other major reforms are implemented. To enable such reform, Wales had been divided into six areas (illustrated in the map below).

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<sup>142</sup> FIN(4)-03-11 (Paper 2)

<sup>143</sup> RoP, Finance Committee, 20 October 2011, Para 6 and Para 29



Source: Welsh Government Draft Budget 2012-13 narrative document

170. In relation to these six regional areas, the WLGA commented to us that:

“the only thing that we are concerned about is to make sure that, when we put in all of these regional arrangements, we do not have a democratic deficit. The danger is that everything goes to a regional level, but where is the scrutiny and the accountability, and does the public understand what we are doing?”<sup>144</sup>

171. In response to this concern, the Minister for Local Government and Communities agreed that:

“democratic accountability is really important. I have said in the Chamber, often, that I genuinely believe that 22 authorities can work in terms of service delivery, but they have to operate in a different way... Operationally, the Local Government (Wales) Measure 2011 provides provision for joint scrutiny with other authorities, so more than one authority can scrutinise. This is already happening in some areas—I have examples in Cardiff, Monmouth, Newport and the Vale of Glamorgan on the waste partnership. It works well; all the councillors—over 50 of them, I think—come to a collective agreement on that service provision for that area. So, it does work, but it is new, and we have to support it.”<sup>145</sup>

<sup>144</sup> RoP, Finance Committee, 28 September 2011, Para 234

<sup>145</sup> RoP, Finance Committee, 12 October 2011, Para 23-24

172. The WLGA also identified a number of challenges to regional collaboration, including the initial costs of enabling such<sup>146</sup> and existing investments in IT systems, commenting that:

“when we did work on the big south-east Wales project, which did not come off, part of the problem with that was that a lot of authorities had already invested in brand new payroll systems when we started talking. That is not their fault; we started to talk about it after they had invested. The problem is that, once you have done that, you want to cash in on your investment and so it would be a problem to have to go to another IT system because it needs to be a shared IT system. So, getting the various IT systems to speak together is a big issue for all of us.”<sup>147</sup>

173. In response, the Minister for Local Government and Communities recognised these concerns, and acknowledged that:

“It will take a little longer sometimes to make those changes. Notwithstanding, there are some elements that need pump-priming in terms of delivery.”<sup>148</sup>

174. We welcome the efforts by both the Minister and Local Authorities to render efficiency savings, utilising a collaborative approach where possible. We also recognise that adopting such an approach may require shifts in the culture of local authorities, and therefore may require a long-term approach.

***The passage of funding from local government to other public service providers***

175. Ahead of the draft budget’s publication, several stakeholders expressed concern that with tight budgets, there might be reluctance from local authorities to pass funding on to other organisations providing services for the public. For example, the WCVA identified that:

“a critical issue at the moment is whether more of the identified moneys that go out to local government and then to health boards will be retained by those bodies rather than going out to the third sector... It is a challenge for our sector to get that message through to local government and to ask it, if it is thinking of changing the route of the money, to think about all of the things that might then be lost.”<sup>149</sup>

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<sup>146</sup> FIN(4) 3-11 WLGA Briefing, [Written evidence on the Welsh Government’s Draft Budget Motion 2012-13](#), Para 47, 28 September 2011

<sup>147</sup> RoP, Finance Committee, 28 September 2011, Para 115

<sup>148</sup> RoP, Finance Committee, 20 October 2011, Para 49

<sup>149</sup> RoP, Finance Committee, 20 October 2011, Para 135

176. The Minister for Local Government and Communities concurred that:

“Where there are financial pressures, it tends to be the third sector that drops off the edge. Often, the service need does not go away, it is just transferred somewhere else. So, you do not solve the problem, you just move it elsewhere. So the third sector has an important part to play. It has a seat on the public service leadership group, and is taking part in the public service transformation agenda. I see it as being a fundamental part of transformation in terms of delivery for the future... I have written to every local authority insisting that, prior to legislation, they seek to arrange a compact with the third sector. Some authorities do this very well, but some not so well.”<sup>150</sup>

177. We welcome and support the Minister’s actions on this issue. We are also aware that the Communities, Equalities and Local Government Committee:

“noted that reductions in funding could mean that local authorities will need to look to the voluntary sector to provide services. The Committee is concerned that this will place an additional burden on the voluntary sector when budgets in the sector are also being cut. We will keep this under review.”<sup>151</sup>

178. We are grateful to the Communities, Equalities and Local Government Committee for its intention to keep this issue under review. We consider that the voluntary sector plays a critical role in delivering public services, and note WCVA research that the voluntary sector can offer particularly high value for public money, finding that “for every £1, the sector secured over an extra £1 from other sources.”<sup>152</sup>

179. A similar concern was expressed by Governors Wales in terms of the proportion of funding passed on to schools, which asserted that:

“there needs to be a default mechanism in place to ensure that this funding is passed on to the schools by Local Authorities. Local Authorities generally have a good record in this respect, but given the difficult financial circumstances, there may be potential for channelling of some of the additional funding to other services.”<sup>153</sup>

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<sup>150</sup> RoP, Finance Committee, 20 October 2011, Para 82 and 84

<sup>151</sup> Communities, Equalities and Local Government Committee, Letter to Chair of Finance Committee, 25 October 2011, P2

<sup>152</sup> FIN(4)-5-11 Paper 2, Para 18

<sup>153</sup> FIN(4) DB 02 Para 4



180. However, the WLGA argued that:

“we have given a commitment that 80 per cent of school budgets will be delegated to schools over the next period. The target eventually goes up to 85 per cent over time. On the surface, that sounds right, and we have pledged to do that. We want to do that. However, some schools do not want that. Many schools do not want to be picking up budgets for special educational needs, school transport or a range of other factors. We are currently discussing with the Minister for education what we delegate and what we do not. I hear people saying that 100 per cent of the budget should be delegated to schools, but that is illegal. The education authorities have to provide certain functions.”<sup>154</sup>

181. We welcome the commitment from the WLGA to ensure that 80 per cent of school budgets are delegated to schools over the next period.

182. We also note the WLGA’s statement that “it is ultimately a question of trust, of whether we will spend the money in the way that Ministers want it spent.”<sup>155</sup> With this trust being extended to local authorities in the form of public funds, we consider it critical that local authorities are able to demonstrate, and are held to account for, the delivery of outcomes.

**We recommend that the Welsh Government engages in dialogue with Local Health Boards to ensure that their service plans are finalised and made publically available as soon as possible, and that the Minister then reports on whether the funding available to Local Health Boards will be sufficient to deliver such plans**

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<sup>154</sup> RoP, Finance Committee, 28 September 2011, Para 153

<sup>155</sup> RoP, Finance Committee, 28 September 2011, Para 151

## 7. The need for collaboration

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183. In response to the current economic climate a range of stakeholders suggested that greater use could be made of collaboration to ensure that the value for money was maximised. They suggested more joined up working could take place:

- between the Welsh Government's own departments;
- between the Welsh Government and other public service providers;
- and between other public service providers themselves.

### **Joined up working within the Welsh Government**

184. Several stakeholders recommended a greater emphasis on a joined up approach within the Welsh Government. For example, Community Housing Cymru considered that "joining up the work of departments at the Welsh Government is essential if savings are to be delivered and value for money ensured."<sup>156</sup> Similarly, Welsh Women's Aid were concerned that:

"the lack of strategic and joined-up approach to tackling violence against women across all relevant departments and portfolio areas is problematic and does not lend itself to effective collaborative working."<sup>157</sup>

185. TPAS Cymru contended that a solution to this challenge was for the Welsh Government:

"to implement a "whole government" approach to policy, initiative and strategy development. Currently we are concerned that new policies, initiatives and strategies are only circulated between departments once the new development has been fully planned. We feel that this is too late, and that the Welsh Government should have mechanisms in place to coordinate the involvement of other departments during the initial ideas stage, so that overlap of new initiatives and developments is picked up. This can lead to synergies between departments, and will eliminate duplication across the Welsh Government and prevent money and resources being wasted."<sup>158</sup>

186. We consider that the development of clear outcomes- and mechanisms for monitoring the delivery of such- will greatly assist the Welsh Government in addressing these concerns. To this end, we also welcome the Welsh

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<sup>156</sup> FIN(4) DB 03

<sup>157</sup> FIN(4) DB 12

<sup>158</sup> FIN(4) DB 11

Government's development of a Delivery Unit. We believe the unit should have a significant role in both monitoring the delivery of outcomes, and enabling the Welsh Government to take pre-emptive action if outcomes are in danger of not being realised. We were however concerned that the Communities, Equalities and Local Government Committee reported that:

"no evidence was provided to the Committee on the role of the Welsh Government's Delivery Unit in monitoring the effectiveness of budget allocations to specific policy areas."<sup>159</sup>

187. We consider that the Welsh Government could usefully provide greater clarity on the role and anticipated function of its Delivery Unit.

### **Collaboration between the Welsh Government and other public service providers**

188. Stakeholders also suggested that the Welsh Government could do more to work effectively with other public service providers. For example, Chwarae Teg suggested that the:

"Welsh Government might consider further collaboration with the third sector, using WCVA forums to explore ideas."<sup>160</sup>

189. In particular the WLGA called for a more collaborative approach to engagement with local government, suggesting that dialogue with local government was currently limited. The WLGA stated that:

"there is an opportunity for us to work co-operatively with the Welsh Government to look at how we can plug gaps in capital funding. I would welcome some sort of dialogue on that... we need to have a dialogue between local government and Welsh Ministers to see where that balance should be drawn... we had been lobbying the Welsh Government for an enterprise zone, but I first heard that we were going to get an enterprise zone when somebody telephoned to tell me that the Minister had just announced it live on the regional news that evening."<sup>161</sup>

190. The Minister for Local Government and Communities outlined to us the steps that the Welsh Government was already undertaking to enable collaborative working, talking:

"of the outcome agreements with local authorities and of the audit inspection regime of the Wales Audit Office and that, following some of its more difficult reports on some local authorities, we have had to

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<sup>159</sup> Communities, Equalities and Local Government Committee, Letter to Chair of Finance Committee, 26 October 2011, P1.

<sup>160</sup> FIN(4) DB 10

<sup>161</sup> RoP, Finance Committee, 28 September 2011, Para 87, 93 and 231

intervene in some areas. You will be aware of those interventions, which were because of authorities' failure to deliver services. On the toolbox, this is about driving that agenda forward, and most authorities are on board with that agenda; however, should there be some reluctance to change, for whatever reason, that is wrong and there is evidence that it is wrong, there are things that I can do through the Local Government (Wales) Measure 2011 to cajole or force local authorities to reconsider the issue."<sup>162</sup>

191. We consider that it is valuable for the Welsh Government to seek to engage with local authorities in a collaborative and constructive fashion. However, as noted in the previous chapter, given the trust and public funding which local authorities are responsible for, we also consider that it is reasonable for the Welsh Government to have developed defined outcomes for local authorities to work towards.

### **Facilitating collaboration between other public service providers**

192. Finally, a range of stakeholders acknowledged that other public service providers needed to work more collaboratively, pooling resources where appropriate, to deliver the best public services possible. The Welsh NHS Confederation, for example, recognised that it had a role in:

“joining up services. The NHS is very mindful that much of what it does, particularly with regard to older people and in the context of an increasing elderly population, cuts across professional boundaries and any boundaries that we might have put in place at any time. We recognise that there has to be work with social services, for example, and there are already some outstanding pockets of excellent practice. It is a case again of ensuring that we share that, spread those messages and talk to the right people and join services up.”<sup>163</sup>

193. Similarly, the WCVA acknowledged that:

“the third sector infrastructure recognises the importance of collaboration and merger, and encourages its members to consider joint working so that they are in a position to respond to a changing environment and make informed decisions about whether collaborating or merging is in the best interests of their service users.”<sup>164</sup>

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<sup>162</sup> RoP, Finance Committee, 20 October 2011, Para 53

<sup>163</sup> RoP, Finance Committee, 20 October 2011, Para 186

<sup>164</sup> FIN(4) DB 08

194. While Homes for All Cymru suggested that it would be valuable to:

“bring together a range of specialist organisations to meet multiple needs... pooled resources would encourage much more effective joint working to produce shared outcomes.”<sup>165</sup>

195. A number of suggestions were also put forward in relation to the Welsh Government facilitating such collaborative practices. For example, Cymorth Cymru noted that:

“many in the housing sector have argued for the need for specific grant funding that can only be accessed by joint bids across statutory and third sector organisations. We feel this “carrot” has considerable merit and would suggest that this would help support more collaborative working.”<sup>166</sup>

196. The WCVA also suggested that competitive tendering for contracts could undermine efforts at collaboration, warning that:

“there is a definite trend towards more competitive procurement, particularly in local government. That is a real concern, because of what it does to the sector. We would all prefer to be in collaboration rather than competition, and having competitive tendering as the main route for procurement undermines that significantly, as it pits parts of the sector against other parts, when we want to work together more closely. It also drives a wedge between local government and third sector organisations. If one organisation gets the money that other organisations are competing for, that will have a knock-on effect on their relationships. We believe that we are all in this together and we want to play our part in getting Wales through the difficult times that we are in and that we are anticipating. However, that kind of environment makes it difficult to do that.”<sup>167</sup>

197. The WCVA recommended that it would:

“like government to reverse the trend to procurement where this is not a legal requirement with greater use of grants and service level agreements, organised in ways that ensure value for money and best value.”<sup>168</sup>

198. We asked the WCVA for further information on this trend, which reported that:

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<sup>165</sup> FIN(4) DB 16

<sup>166</sup> FIN(4) DB 20

<sup>167</sup> RoP, Finance Committee, 12 October 2011, Para 138

<sup>168</sup> FIN(4) DB 08, Para 32

“Data gathered by WCVA’s Research Team during 2006 and 2009<sup>169</sup> identified the following trends in the income of the Welsh third sector:

- grant income has fallen from £428m in 2006 to £291m in 2009;
- income from contracts has increased considerably, from £167m in 2006 to £378m in 2009.”<sup>170</sup>

199. We are conscious that in the current financial climate, there is a strong argument in favour of rigorously examining all mechanisms utilised to fund external bodies with public funds. At the same time, we are conscious that the use of grants- instead of competitively tendered contracts- can sometimes offer better value for public money, and can engender a more collaborative approach.

200. In this context, we welcome the Minister for Local Government and Communities comments that:

“the third sector is a critical part of service delivery. That is why we are looking to legislate in order to seek a compact between local government and third sector organisations.”<sup>171</sup>

201. We support that the Welsh Governments’ efforts to enable a more collaborative approach between local government and the voluntary sector.

**We recommend that the Welsh Government clarifies the role of its delivery unit in ensuring the delivery of the outcomes intended to be enabled by the draft budget. We anticipate this would include clarity of the role of the delivery unit in both monitoring the delivery of outcomes, and enabling appropriate action to be taken where outcomes are in danger of not being realised.**

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<sup>169</sup> WCVA Funding surveys

<sup>170</sup> WCVA response to action point, 12 October 2011

<sup>171</sup> RoP, Finance Committee, 20 October 2011, Para 82

## Conclusions

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202. Together with the other National Assembly for Wales' Committees, we have examined the Welsh Government's draft budget, seeking to take evidence on it from a range of key stakeholders. We have not suggested any amendments to resources detailed within the draft budget, although we have expressed serious concerns about the adequacy of funding for the Welsh NHS.

203. Wales continues to face challenging times as it copes both with reduced levels of public funding, and potentially greater pressure on public services. It is therefore as important as ever that every effort is made to ensure that maximum value is obtained from every pound that is spent.

204. To this end, we welcome the Welsh Government's stated commitment to delivery, and to developing an outcome focussed budget. However, we are concerned that this commitment to clear, transparent, measurable outcomes has yet to be delivered by Welsh Government departments. Recognising that this is the first draft budget of the new Welsh Government, we look forward to greater clarity being developed in the future.

205. We also welcome the Welsh Government's efforts to delivery transparency over its budget planning and proposed allocations. We hope that the Minister will take on board the concerns of the Committees of the National Assembly and their recommendations on the level of detail and consistency in the budget information presented.

206. In the interest of a rounded scrutiny process, we intend to retrospectively examine the sufficiency of this draft budget, to deliver its intended outcomes, around the time of the end of the 2012-2013 financial year.

207. Finally, we welcome the positive attitude shown by a range of public service providers in terms of seeking to meet their objectives despite restricted resources. We are concerned that this positive approach needs to be backed up with results, and anticipate that bodies responsible for the trust and funds of the public- such as the NHS and local authorities- will make public their plans and progress in relation to meeting objectives over the next financial year.

## **Annex 1: Correspondence received from other Committees of the National Assembly for Wales**

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Annex A

### **Sustainability Committee**

Jocelyn Davies AM  
Chair of the Finance Committee  
National Assembly for Wales

25 October 2011

Dear Jocelyn

I enclose a copy of the letters we have sent to Alun Davies, Deputy Minister for Agriculture, Fisheries, Food and European Programmes and John Griffiths, Minister for the Environment and Sustainability following their attendance at scrutiny sessions on the draft budget on 13 and 19 October respectively.

Many of the observations and recommendations relate directly to each of the Ministers but I would like to draw your committee's attention to the comments made about payments into the Welsh Consolidated Fund and the absence of sustainability and equality impact assessments on the either of the budgets. I would be grateful if your committee would take these two issues up with the Minister for Finance.

Yours sincerely

Dafydd Elis Thomas  
Chair of the Environment and Sustainability Committee



## **Sustainability Committee**

Alun Davies AM

Deputy Minister for Agriculture, Fisheries, Food and European Programmes  
Welsh Government

25 October 2011

Dear Alun

We would like to thank you for attending the Environment and Sustainability Committee meeting on 13 October as part of our scrutiny of the Welsh Government Draft Budget Proposals 2012-13.

The Committee would like to make a number of comments for your consideration. We are also writing to the Minister for Environment and Sustainability. Both letters are being copied to the Finance Committee to inform its overarching strategic scrutiny of the Draft Budget, and they will be published on our website.

### **Budget priorities**

We discussed with you in the evidence session how the £1.5 million reduction in your budget would affect the expenditure plans for your priority policy areas. You indicated that your budget is based on the Welsh Government's Programme for Government and therefore reflects the priorities set by that. You also indicated that you are confident that you will be able to fully meet all the commitments outlined in the Programme for Government. We remain concerned about the real impact of the reduction in the budget, especially on the delivery of the Rural Development Plan given your assertion that: "I cannot pretend that there will be no impact at all".

1. We would urge you to ensure that sufficient funding has been allocated to the priority areas outlined in your paper to fulfil all the commitments under them.

2. We strongly recommend that you make public and publicise widely, at the earliest opportunity, plans to manage any negative impacts to your priority areas which become apparent:

- during the current budget process; and
- once the relevant financial year has started.

## **Marketing and Promotion of Welsh Food**

We discussed with you at the evidence session the impact of the £275,000 reduction in the budget SPA for developing and marketing the Welsh food and drink sector. We welcome your establishment of a review of the sector, a sector skills panel and the indication of your intention to revise the food strategy. We remain concerned, however, about the impact of the reduction in funding for this area.

3. We would urge you to produce the new strategy as soon as possible so that the reduction in the budget for the current strategy does not negatively impact on the sector.

4. Whilst we consider that it is important that you to ensure that sufficient funding is made available for the new strategy, we recommend that that the funding currently available is not its only driver.

## **Developing, Managing and Enforcing Welsh Fisheries and Aquaculture**

We discussed with you in the evidence session the impact of the reduction in real terms on the revenue and capital budget lines for developing, managing and enforcing Welsh Fisheries and Aquaculture will have on your ability to deliver your obligations with regards to fisheries legislation. We welcome your reassurance that you do not foresee that these reductions in the budget will impact upon your ability to meet the obligations of the Welsh Government under European legislation and the Marine and Coastal Access Act. However in light of the on-going reforms and changes in this policy field we remain concerned about the long-term impacts of these reductions.

5. We would urge you to keep under careful review the budget allocated for the management and enforcement of fisheries in Wales to ensure that the Welsh Government has the capacity to meet any new obligations placed upon it.

## **Sustainability Impact Assessment**

We asked you during the evidence session whether a sustainability impact assessment had been completed for your budget. You have kindly supplied us with a copy of extracts from the Rural Development Plan 2007-2013 Mid Term Evaluation Report covering Sustainability. We are concerned, however, that no sustainability impact assessment has been carried out on the budget itself, especially as the main areas of reduction are to the delivery of the Rural Development Plan.

6. We will be recommending to the Finance Committee that they urge the Minister for Finance to ensure that sustainability impact assessments are carried out for all budgets in the 2012-13 budget round and that any changes made as a result of the assessment are shown in the figures provided to the relevant committees for scrutiny.

### **Equality Impact Assessment**

We asked you during the evidence session whether an equality impact assessment had been completed for your budget. You have kindly supplied us with a copy of extracts from the Rural Development Plan 2007-2013 Mid Term Evaluation Report covering Sustainability. We are concerned, however, that no equality impact assessment has been carried out on the budget itself since the budget round in 2010, especially as the main areas of reduction are to the delivery of the Rural Development Plan.

7. We will be recommending to the Finance Committee that they urge Minister for Finance to ensure that equality impact assessments are carried out for all budgets in the 2012-13 budget round and that any changes made as a result of the assessment are shown in the figures provided to the relevant committees for scrutiny.

### **Further information**

You kindly agreed to provide us with the following information:

- A copy of the sustainability impact assessment carried out by the Welsh Government on the draft budget 2012-13 and details of any changes made as a result of that;
- Further information on the young entrants scheme;
- Updates on progress on the development of a new food strategy; and
- Further information on the review of enforcement activities on marine and fisheries legislation.
- Changes to the Axis 2 budget as a result of the Rees Roberts Review.

Thank you for assisting the Committee in its work, and we look forward to receiving your response to the points raised in this letter as soon as possible.

Yours sincerely

Dafydd Elis Thomas

Chair of the Environment and Sustainability Committee

c.c. Jocelyn Davies AM  
Chair, Finance Committee

## Sustainability Committee

John Griffiths AM  
Minister for Environment and Sustainability  
Welsh Government

25 October 2011

Dear John

We would like to thank you for attending the Environment and Sustainability Committee meeting on 19 October as part of our scrutiny of the Welsh Government Draft Budget Proposals 2012-13.

The Committee would like to make a number of comments for your consideration. This letter is being copied to the Finance Committee to inform its overarching strategic scrutiny of the Draft Budget, and they will be published on our website.

### **Budget priorities**

We discussed with you in the evidence session how the £2.9 million reduction in your budget between 2011-12 and 2012-13 would affect your ability to deliver the Welsh Government's Programme for Government. We welcome your assurance that there is a clear relationship between the Programme for Government, your priorities and the draft budget.

### **Bovine TB**

We discussed with you the allocation for TB compensation in the budget. We welcome your clarification that the current figures are based on the historical payments for last year. We are concerned, however, that, due to the cyclical nature of the incidence of TB there may not be sufficient funds available to cover any increase in compensation payments.

**1. We strongly recommend that the compensation payments for TB are monitored closely and that subsequent budget allocations adequately reflect any changes in payment levels from year to year.**

## **Planning**

We discussed the reduction in the planning budget line and its implications for increasing the capacity of local planning authorities to deal with complex infrastructure projects. We are concerned that insufficient resources are being made available to local planning authorities to help them access expert advice and support in order to deal efficiently with large energy projects. We will report further on this issue at the end of our current inquiry into energy policy and planning.

## **A Single Environmental Body (SEB)**

We discussed several aspects of the proposed SEB at the meeting. We understand that further progress on the setting up of the SEB is dependent on the business case currently being developed. There are some areas of concern, however in terms of budgetary matters:

- We are concerned that the invest to save aspect of the proposed merger of the 3 environmental bodies will not identify specific savings whilst incurring a number of additional costs. It also unclear whether or not the current Natural Environment Framework budget expenditure line of £1.1m in the current year and £13m over the next three years is on an 'invest to save' basis;
- We are concerned that the costs of the SEB performing its role as a statutory consultee will not be reduced as those functions currently carried out by CCW and EA Wales will need to be separated within the SEB; and
- We are concerned that the SEB will be taking on additional work in helping to develop legislative proposals through the implementation of the Natural Environment Framework schemes and projects and will therefore not demonstrate a cost saving.

**2. We would urge you to take these considerations into account when evaluating the business case for the SEB and to clarify whether or not 'Invest to Save' funds are already being used for the restructuring process.**

We welcome your commitment to let the committee have sight of the SEB business case once it is finalised.

## **Adjustments to budget lines and capacity issues**

You referred during the meeting to the need to make adjustments accordingly to the budget lines for bovine TB budget and the development of building regulations. You also indicated that work being done to bring forward legislation would be done using existing Welsh Government resources.

- 3. We recommend that the delivery on the appropriate budget lines is monitored closely.**
- 4. We recommend that any adjustments that are made to those budget lines during the year are transparent and show where the money being brought into them has come from.**
- 5. We recommend that the impact of legislative work on current resources is monitored closely and that sufficient resources are made available to meet the needs of the legislative timetable.**

#### **Fuel poverty**

We discussed the real terms reduction in the budget line for the fuel poverty programme. We are concerned that, at a time of rising fuel prices, this cut will not be sufficient to make a significant impact on the reduction in fuel poverty.

- 6. We strongly urge you to be proactive in finding additional sources of funding for fuel poverty alleviation measures not only from the major energy companies but from as many sources as possible.**

#### **Scrutiny of receipts into the consolidated fund**

We discussed what happened to payments received by the Forestry Commission as landlords from wind farm schemes on Forestry Commission managed land. We are concerned that these payments go into the consolidated fund and are not scrutinised in any way in any Minister's budget lines.

- 7. We will be recommending to the Finance Committee that they take this issue up with the Minister for Finance.**

## **Sustainability Impact Assessment**

We asked you during the evidence session whether a sustainability impact assessment had been completed for your budget. We are concerned that no sustainability impact assessment has been carried out on the budget itself, especially in the light of reductions in your budget for the coming year.

**6. We will be recommending to the Finance Committee that they urge the Minister for Finance to ensure that sustainability impact assessments are carried out for all budgets in the 2012-13 budget round and that any changes made as a result of the assessment are shown in the figures provided to the relevant committees for scrutiny, together with an explanation of the rationale for such changes.**

## **Equality Impact Assessment**

We asked you during the evidence session whether an equality impact assessment had been completed for your budget. We are concerned, however, that no equality impact assessment has been carried out on the budget itself since the budget round in 2010.

**7. We will be recommending to the Finance Committee that they urge Minister for Finance to ensure that equality impact assessments are carried out for all budgets in the 2012-13 budget round and that any changes made as a result of the assessment are shown in the figures provided to the relevant committees for scrutiny, together with an explanation of the rationale for such changes.**

## **Further information**

You kindly agreed to provide us with the following information:

- Information on the procurement arrangements for anaerobic digestors;
- The detailed business case for the formation of the SEB, once it has been completed.

Thank you for assisting the Committee in its work, and we look forward to receiving your response to the points raised in this letter as soon as possible.

Yours sincerely

Dafydd Elis Thomas

Chair of the Environment and Sustainability Committee

c.c. Jocelyn Davies AM  
Chair, Finance Committee

**Y Pwyllgor Plant a Phobl Ifanc**  
**Children and Young People Committee**

Jocelyn Davies AM  
Chair, Finance Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff CF99 1NA

Bae Caerdydd / Cardiff Bay  
Caerdydd / Cardiff CF99 1NA

26 October 2011

Dear Jocelyn

At its meeting on 19 October, the Children and Young People Committee scrutinised the Minister for Education and Skills and Deputy Minister for Skills and the Minister for Health and Social Services and Deputy Minister for Children and Social Services on the draft budget for the two portfolios relevant to the remit of the Children and Young People's Committee.

The Committee had serious concerns about the presentation of the budget and the lack of transparency and accountability, particularly in the Health, Social Services and Children Main Expenditure Group (MEG). Members felt this compromised their ability to fulfil their role in scrutinising the Department's budget and in holding the Minister to account.

The Committee believes that budget scrutiny should be a continuous process, not a once a year event. It is therefore our intention that it will be an integral part of our work and we will be asking Ministers to return to the Committee on a regular basis to ensure that spend is achieving the required outcomes in specific policy areas.

We will be writing to the relevant Ministers setting out our more detailed concerns and these are included in an annex for your information.

Yours sincerely



**Christine Chapman AM**  
**Committee Chair**



**Children and Young People Committee**  
**Scrutiny of draft Welsh Government budget – 19 October 2011**  
**Minister for Education and Skills**

**Capital**

Members felt there was a lack of strategic vision and questioned how the Welsh Government would identify where capital was to be used. Concern was raised over the delivery of the 21<sup>st</sup> Century Schools programme, with the draft budget indicating a large reduction in capital expenditure, but no indication of how the reduced budget was to be allocated. Members also questioned why the Minister was unable to advise on the capital allocation to local authorities to enable forward planning, especially as the Minister for Local Government and Communities had announced his provisional Local Government Settlement for 2012-13 on 18 October.

**14-19 Learning**

Members were concerned that delivering the 14-19 Learning Pathways may be challenging, with some local authorities having to restrict transportation for students in an attempt to reduce costs. Members were also concerned that this Budget Expenditure Line (BEL) was reliant on savings from elsewhere. They noted the Minister's suggestions to overcome these potential difficulties but remained concerned that the Minister was relying on partners for a considerable amount of the programme's delivery.

The Minister advised the Committee that regional working would achieve savings in a number of areas which he planned to transfer to front-line services. Members noted that these savings were dependent on the co-operation of external partners and were concerned how the savings would be delivered if these partnerships were not forthcoming.

**Nursery Education**

Members were unclear from the draft budget what funding was allocated to nursery education and what part nursery education played in the strategy to improve standards and achievement. As agreed, Members look forward to receiving additional information from the Minister on the implications of the draft budget for nursery education.

## **Minister for Health and Social Services**

### **Transparency and Accountability**

The Committee had serious concerns about the presentation of the budget and the lack of transparency and accountability. Members felt this compromised their ability to fulfil their role in scrutinising the Department's budget and in holding the Minister to account. It was particularly difficult to track funding allocations for children's services due to the lack of detail in the budget. This was compounded by the split of responsibilities between a number of delivery organisations. Furthermore, the bulk of spending on health is provided to Local Health Boards through the NHS Delivery SPA, which the Committee lacked sufficient information to scrutinise. Members were also concerned at the apparent lack of accountability at Local Health Board level, given the Minister's belief that it was inappropriate for her to intervene in local decision making. The Committee believe it is essential to enhance clarity in this area to allow for more effective monitoring and scrutiny in the future.

Members felt that the Minister was reliant upon Local Health Boards allocating expenditure appropriately to meet her policy commitments but was unable to demonstrate any clear mechanism for measuring outcomes. Members were also concerned that the Minister did not appear to have a contingency plan if Local Health Boards were unable to deliver these commitments.

The Committee welcomed the Minister's commitment to annually review ringfenced budgets but were concerned that there appeared to be no clear principles about when ringfencing was used.

### **Autism**

The Committee expressed concern that funding for children with autism was being moved to the Adult and Older People Action budget line from the Children's Social Service budget line, as this may result in a diminished service for children and be difficult to track and monitor in the future.

### **Flying Start**

Despite the additional allocation to Flying Start in the draft budget, Members questioned whether this would be sufficient to achieve the policy intention of doubling the amount of children being included in the

programme. This appeared to be in conflict with previous information provided to the Committee. Furthermore, Members were concerned that local authorities were being asked to formulate plans for the expansion of Flying Start before the Welsh Government had published the evaluation of the effectiveness of the current programme.

### **CAFCASS Cymru**

The Committee noted that it was anticipated that further funding would be allocated to CAFCASS Cymru in 2012-13, over that which was in the draft budget proposals, and that this would come from central funds. Members were concerned about the potential impact this would have on funding for other programmes and asked for regular updates on the programmes affected.

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## Annex C

Pwyllgor Cymunedau, Cydraddoldeb a  
Llywodraeth Leol

Communities, Equality and Local Government  
Committee

Jocelyn Davies AM  
Chair of Finance Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

Bae Caerdydd / Cardiff Bay  
Caerdydd / Cardiff  
CF99 1NA

26 October 2011

Dear Jocelyn

As part of the scrutiny process for the draft budget for 2012-13, the Committee invited a number of Ministers to be scrutinised on the budget proposals which relate to the Committee's remit.

The Committee scrutinised Ministers over two sessions:

- 13 October

Minister with responsibility for Equalities; and

Minister with responsibility for Housing and Heritage.

- 19 October

Minister with responsibility for Local Government;

Minister with responsibility for the Welsh Language; and

Minister with responsibility for Tourism.

This letter outlines our comments which may inform your overarching strategic scrutiny of the Draft Budget.

## **General Issues**

The Committee noted that there was a lack of targets in the evidence provided by Ministers. We are concerned that the absence of targets will make it difficult for the Government to determine whether or not funding allocations are being used effectively and, in addition, makes it difficult for the Assembly to scrutinise the effectiveness of the budget. Related to this, no evidence was provided to the Committee on the role of the Welsh Government's Delivery Unit in monitoring the effectiveness of budget allocations to specific policy areas.

## **Scrutiny of Ministerial Portfolios**

### ***Minister with responsibility for Equalities***

The Minister informed the Committee that Welsh Government Departments had undertaken screening in order to assess potential equality impacts of draft budget proposals. While the Committee acknowledges the importance of screening policies once they have been developed, we did not hear evidence that equality issues were borne in mind during that process. The Committee feels that, if equality issues are to be mainstreamed, they should form a central part of policy development.

The Committee noted that a detailed equality impact assessment (EIA) was undertaken in 2010. However, the same work had not been undertaken for this year's budget. The Committee feels that, given that new equality legislation has been introduced in the past year (including the Equality Act 2010 and the specific equality duties for Wales), and the reductions in budget allocations, it would be appropriate to undertake a new EIA.

The Equality and Human Rights Commission recommend that a robust EIA should include: the purpose of the decision; evidence of engagement with stakeholders; the identification of any positive and negative impacts; plans to alleviate any negative impacts; and plans to monitor the actual impact of the proposals. While we accept that it might be difficult to apply these principles to decisions taken in relation to budget allocations, the Welsh Government should aspire to delivering such an EIA. In particular, the Committee was concerned at the lack of evidence of plans to monitor the impact of the budget proposals.

### ***Minister with responsibility for Housing and Heritage***

The Committee noted that the budgets for these portfolio areas have been reduced. Given these reductions, we were concerned that we did not hear evidence of targets or plans for monitoring the effectiveness of budget allocations. In times where budgets are being squeezed, we feel that it is vital to have procedures in place to monitor the effectiveness of policy and funding.

### ***Minister with responsibility for Local Government***

The Committee noted that efforts to resolve equal pay claims and to introduce fair pay and grading structures were continuing. During discussions, the Minister undertook to write to the Committee to explain whether or not it would be possible to bring forward legislation to assist local authorities in reaching settlements, and also to provide information on how the additional £54 million of Welsh Government funding allocated to address this issue had been spent by local authorities. The Committee feels that the issue of equal pay is important and will keep the matter under review.

The Committee noted that reductions in funding could mean that local authorities will need to look to the voluntary sector to provide services. The Committee is concerned that this will place an additional burden on the voluntary sector when budgets in the sector are also being cut. We will keep this under review.

### ***Minister with responsibility for the Welsh Language***

The Committee noted that the Welsh language was not included in the Welsh Government's Equality Impact Assessment. The Minister informed the Committee that he would write to the Minister for Equalities on this issue, and would write to other Welsh Ministers in relation to the equality of Welsh and English languages in communications between the Government and the Welsh public.

The Committee noted that the distribution of funding between the Government's Welsh Language Unit and the Welsh Language Commissioner had not been finalised, although amounts had been allocated in the budget. We intend to look at this allocation in future to ensure that it is appropriate.

***Minister with responsibility for Tourism***

The Committee noted that the Minister for Business, Enterprise, Technology and Science is in the process of reviewing spending plans to ensure they demonstrate efficiency and effectiveness. The budget therefore reflects current expenditure plans in her Department but these may be subject to change in the short to medium term. We feel that, in these circumstances, it is difficult to consider the budget thoroughly and we will return to this in due course once the spending plans are finalised.

I trust you will find our comments helpful with your future budget scrutiny.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ann Jones'.

Cadeirydd / Chair

**Communities, Equality and Local Government Co**

## Annex D

### **Y Pwyllgor Menter a Busnes Enterprise and Business Committee**

Jocelyn Davies AM  
Chair, Finance Committee  
National Assembly for Wales

26 October 2011

Dear Jocelyn

The Enterprise and Business Committee met on 12 and on 20 October to question Ministers as part of our scrutiny of the Welsh Government Draft Budget Proposals 2012-13.

We have written to the Minister for Education and Skills, the Minister for Business, Enterprise, Technology and Science and the Minister for Local Government and Communities outlining our concerns and recommendations. Copies of the three letters are attached, and will be published on our website.

We should like to draw the Finance Committee's attention to the following points as we hope this will inform your overarching strategic scrutiny of the Government's budget proposals.

#### **Minister for Education and Skills**

We had serious concerns about the presentation of the budget and the lack of clarity in the Minister's paper over baselines and transfers. We believe this compromised our ability to fulfil our role in scrutinising the Department's budget and in holding Ministers to account on behalf of the people of Wales. We therefore draw your attention to the section



on Presentation of the Draft Budget and recommendation 1 in our letter.

**Minister for Business, Enterprise, Technology and Science**

We had some concerns about the level of detail in the presentation of the Draft Budget, the consistency of analysis in the Minister's paper, and also the lack of alignment between the Draft Budget and delivery of the Programme for Government commitments. We therefore draw your attention to recommendations 1 and 3 in our letter.

We also had concerns regarding the lack of performance targets and monitoring and evaluation framework for much of the BETS portfolio. We therefore draw your attention to recommendation 4 in our letter.

**Minister for Local Government and Communities**

We had some concerns about the lack of detail about delivery within the budget, as the Minister is currently reviewing the National Transport Plan, as this made it difficult to scrutinise the budget.

We trust these points will be helpful to your Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nick', with a horizontal line underneath.

Nick Ramsay AM  
Chair, Enterprise and Business Committee

**Y Pwyllgor Menter a Busnes**  
**Enterprise and Business Committee**

Carl Sargeant AM  
Minister for Local Government and Communities  
Welsh Government

26 October 2011

Dear Carl

Thank you for attending the Enterprise and Business Committee meeting on 20 October as part of our scrutiny of the Welsh Government Draft Budget Proposals 2012-13.

The Committee would like to make a number of recommendations for your consideration. We are also writing letters containing recommendations to the Minister for Business, Enterprise, Technology and Science and to the Minister for Education and Skills. All three letters are being copied to the Finance Committee to inform its scrutiny of the Draft Budget, and they will be published on our website.

### **Alignment of the Draft Budget and National Transport Plan**

The Committee was reassured by, and welcomed, your statement regarding the reprioritisation of the National Transport Plan, that “nothing would be going in or out of the plan”, and that headline budget figures will not be affected. However, the Committee did find that the lack of detail about delivery within the budget, resulting from the National Transport Plan review, made it difficult to scrutinise the budget. To this end the Committee

will be keen to consider the outcome of the reprioritisation exercise and to subsequently monitor the implementation and spend of the revised National Transport Plan.

- 1. We recommend that you provide us with full details of the outcome of the National Transport Plan reprioritisation exercise once it is complete including any impact this may have on the budget over the next three years.**

### **Managing Projects within the Transport Portfolio**

The Committee was interested to hear about the approach you are proposing to take to awarding future contracts for infrastructure projects. The Committee was, however, concerned about the potential impact this could have on the companies providing the service, particularly those in the voluntary sector. The Committee welcomed the recognition of over-exaggerated time margins or costs in relation to projects and would welcome more detail as to how you propose to avoid this in future contracts.

- 2. We recommend that your proposed new approach to risk management contains safeguards to protect service providers, in particular those from the third sector, from being transferred detrimental levels of risk. We also recommend that you provide us with details about how you propose to avoid over-exaggerated time margins or costs in relation to future projects.**

### **Enterprise Zones**

The Committee was interested in the evidence you provided about enterprise zones, in particular that the location of these would be a factor in the reprioritisation of the National Transport Plan. However, the Committee was concerned that there did not appear to be any additional budget to facilitate integrated transport into the planning for enterprise zones and would encourage you to work with the Minister for Business, Enterprise, Technology and Science to guarantee funding for this from the £10 million consequential.

- 3. We recommend that you keep the Committee updated on how transport is being integrated into plans for the enterprise zones and any potential budgetary implications.**

### **Additional Information**

You agreed to provide us with the following additional information:

- The monitoring tools used by your department to demonstrate success within the National Transport Plan
- An update on the Welsh Government's negotiations regarding potential funding for the electrification of the Great Western mainline to Swansea.
- Clarification on how the non-cash amounts of the budget are set
- A progress report on the smart card initiative

Thank you for assisting the Committee in its work, and we look forward to receiving your response.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nick', with a horizontal line underneath.

Nick Ramsay AM  
Chair, Enterprise and Business Committee

c.c. Jocelyn Davies AM  
Chair, Finance Committee

**Y Pwyllgor Menter a Busnes**  
**Enterprise and Business Committee**

Edwina Hart AM  
Minister for Business, Enterprise, Technology and Science  
Welsh Government

26 October 2011

Dear Edwina

We wish to thank you and your officials for attending the Enterprise and Business Committee meeting on 12 October as part of our scrutiny of the Welsh Government Draft Budget Proposals 2012-13.

The Committee would like to make a number of comments for your consideration. We are also writing to the Minister for Education and Skills and to the Minister for Local Government and Communities. All three letters are being copied to the Finance Committee to inform its overarching strategic scrutiny of the Draft Budget, and they will be published on our website.

**Presentation of the Draft Budget**

Our responsibility is to scrutinise the expenditure and policies of the Welsh Government and to hold Ministers to account on behalf of the people of Wales. We welcome the fact that the budget tables in your paper either showed year-on-year changes, or enabled these to be calculated, and that the majority of the analysis in your paper also focused on year-on-year changes.

However, if we are to be effective in our role, we need greater clarity and a greater level of detail in the information presented to us. Our scrutiny task was also made harder as we did not receive your paper until 7 October, the Friday before the scrutiny session.

- 1. We recommend that in future years we should be provided with a budget paper that clearly shows in detail where changes have been made, and from which baselines they have been calculated. We also recommend that in future Draft Budgets the proposed**

**changes should be consistently presented and analysed in the Minister's paper on a year-on-year basis and that we should receive this information at least one week before the budget scrutiny session.**

You have agreed to send us a note on the budget transfers that have taken place so far within the different areas of your portfolio. For the record, we also made a request, through the Clerk, on 28 September, for a breakdown of the allocations within your budget for the following policy areas: the promotion of inward investment; each of your nine key sectors; the repayable business finance scheme; Enterprise Zones; and support for micro-enterprises.

- 2. As we did not receive this information, we would request that these details should be forwarded to us as soon as possible.**

### **Alignment of the Draft Budget and Policy Delivery**

It would appear that all other Welsh Government Department Draft Budgets have been re-aligned to delivering the new Programme for Government commitments. We understood from your response to our questions on this that you are still in the process of finalising your portfolio's spending plans because you are still reviewing key policy areas.

We appreciate that some degree of flexibility will be required to adjust your Department's spending to changes in your priorities, and also to changes in the economic climate as they arise.

However, there also needs to be a core spend that allows us as a Committee to monitor expenditure over consecutive years and to evaluate the activities of your Department against set targets and outcomes. You have stated that such targets are still in the process of being formulated.

- 3. We recommend that you provide us with regular updates on how your budget and your priorities are being aligned, and we would like you to appear again before the Committee in the New Year to inform us on progress in achieving that alignment.**

### **Performance Measurement**

We were concerned about progress in setting performance targets for your Department's activities. We appreciate that the Welsh Government needs to develop a more sophisticated, longer-term approach to measuring and evaluating performance, and that you are currently in the process of developing this work. You also informed us that you were establishing baselines and targets for measuring outcomes.

- 4. We would like you to publish your performance measurement framework as soon as possible and we look forward to scrutinising it in due course.**

#### **Repayable Business Finance Scheme**

We understand that the Welsh Government has changed its support to businesses from grants to loans, but as we discussed in the evidence session, we were not able to identify where the revenue stream from that support features in the Draft Budget.

- 5. You offered to provide us with a paper in the New Year on how much revenue can be expected in future from the repayable business finance scheme, and we shall be keen to analyse the detail in due course.**

#### **Inward Investment**

You told us that you are aiming for a more coherent approach to inward investment and that resources may need to go further in this area. You explained that you wanted to see an improvement in Wales's position in the UK, greater professionalism, and greater utilisation of "Team Wales". Officials also referred to improvements needed in the quality of Wales's offer and the number of jobs that are brought into Wales.

- 6. We appreciate that you are still reviewing inward investment policy, but we would urge you to identify some clear outcomes that you expect to deliver as a result of your Department's expenditure and activities in this area.**

#### **Infrastructure**

You told us that you were confident that sufficient funds will be available for the Next Generation Broadband (or "21<sup>st</sup> Century Access") project to be delivered, although we appreciate you could not provide us with much detail on the budget allocation for this because of current contract negotiations.

- 7. We recommend that in the event of potential rises in costs during implementation of the 21<sup>st</sup> Century Access project that the Welsh Government will find the resources to meet those additional costs, and that you provide us with more information on this project once the contract has been agreed.**

#### **Sustainability**

When we asked you whether a sustainability appraisal had been carried out during the preparation of your department's Draft Budget, you informed us that you had taken a broad look at sustainability issues. We were therefore

pleased to hear that you are going to undertake further work in this area between now and your preparation of the final budget.

- 8. We encourage you to carry out the promised work on a sustainability appraisal of your final budget, and also to consider funding conditions for Welsh Government support for businesses that promote green issues such as carbon emissions reductions and energy efficiency, and which uphold corporate social responsibilities.**

#### **First Minister's Announcement on Economic Stimulus**

The afternoon following the budget scrutiny, the First Minister made an announcement on the Welsh Government's approach to economic stimulus.

- 9. We would welcome a note at the appropriate time that outlines the extent to which any of the additional money will be allocated to your department, and what it will be intended to deliver.**

#### **Additional Information**

- 10. You agreed to send us details of successful projects and savings achieved in relation to the Invest-to-Save and Efficiency and Innovation Programme.**

Thank you for assisting the Committee in its work, and we look forward to receiving your response to the points raised in this letter as soon as possible.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nick', with a horizontal line underneath.

Nick Ramsay AM  
Chair, Enterprise and Business Committee

c.c. Jocelyn Davies AM, Chair, Finance Committee

**Y Pwyllgor Menter a Busnes**  
**Enterprise and Business Committee**



Leighton Andrews AM  
Minister for Education and Skills  
Welsh Government

26 October 2011

Dear Leighton

We wish to thank you and the Deputy Minister for Skills for attending the Enterprise and Business Committee meeting on 12 October as part of our scrutiny of the Welsh Government Draft Budget Proposals 2012-13.

The Committee would like to make a number of comments for your consideration. We are also writing to the Minister for Business, Enterprise, Technology and Science and to the Minister for Local Government and Communities. All three letters are being copied to the Finance Committee to inform its overarching strategic scrutiny of the Draft Budget, and they will be published on our website.

### **Presentation of the Budget**

We discussed with you in the evidence session how difficult the Committee has found it to make meaningful comparisons between the 2012-13 Draft Budget compared with previous years because of how the Draft Budget has been presented this time. We are aware that the Government has had to make a number of budget transfers within and between departments as a result of the reconfiguration of portfolio responsibilities, departmental restructuring and refocusing of priorities following manifesto commitments. Yet the confusing presentation of changes made to the Education and Skills Main Expenditure Group has made it very difficult for us as a Committee to track and scrutinise those changes.

In particular, the baselines referred to in your paper did not match those in the published budget documents, and there was a lack of clarity between indicative plans at the time of the supplementary budget, the transfers made and what the budget is now. In addition, our task was made even harder by the fact that we received crucial information only the day before our scrutiny session.

Following the scrutiny session, it has been brought to our attention that with regard to the transfers within the Education and Skills MEG, and the resulting

baseline referred to in your paper, the Welsh Government Draft Budget 2012-13 narrative document states (page 46) that these transfers '*will be reflected in the next Supplementary Budget and as such are not included within the published baseline for 2011-12.*' It would therefore appear that the baselines from which you presented your evidence have not yet been actioned, as the relevant transfers will not actually be made until the next Supplementary Budget for 2011-12 (expected February 2012).

We appreciate that you were demonstrating your intention to make such transfers, but because they have not yet been undertaken, and will not be actioned until a later Supplementary Budget we find it confusing that your evidence in support of the Draft Budget was presented on the basis of a baseline that included these transfers.

We believe that our ability to scrutinise the Department's budget and to hold Ministers to account on behalf of the people of Wales has been compromised as a result of the information with which we were provided.

- 1. We appreciate this has been an exceptional year, but we recommend that in future draft budgets, we should be presented with baselines that match so that we can effectively monitor, track and evaluate Government expenditure. We would also recommend that the 2011-12 baselines referred to in evidence should match those published and should not reflect transfers which have yet to be made. We also recommend that the proposed changes should be shown on a year-on-year basis rather than as changes from indicative figures in the previous supplementary budget, and that all this information should be provided to us at least a week before the scrutiny session so that we have a fair opportunity to analyse the figures.**

### **Higher Education Tuition Fees**

We discussed with you in the evidence session the possible impact that numbers of students coming from outside of Wales will have on Welsh higher education institutions, and therefore on funding. We also asked you how the Welsh Government was assessing the numbers of part-time students and what impact raised tuition fees will have on aspiration. You acknowledged how difficult it was to estimate future cross-border flows and the impact that raised fees may have in future, not only on student numbers, but on whether more Welsh students will choose to study in Wales.

- 2. We would urge you to continue to explore these issues with your advisers and with other countries to reach the best possible estimates, and that you regularly review your budget allocations as a result.**

3. **Further on the issue of part-time study and in the context of more people wanting to retrain, reskill and return to work in this current economic climate, we recommend that you increase focus on forecasting the demand for part-time support for those people who have already graduated. We would encourage you to keep this issue under review.**

#### **European Union students**

4. **We would be grateful if you could keep us informed about any assessments made of the financial implications for the Welsh Government of European students studying in Wales and in other parts of the UK.**

#### **Additional Information**

5. **You agreed to provide us with more information on the following:**

- Examples of college mergers that have provided savings.
- Figures on the additional funding required to cover the rise in tuition fees for Welsh students and where this additional funding has come from.
- A note on the funding increase for Coleg Ffederal and the University Heads of the Valleys Institute.
- A note on whether the budget allocation for the Welsh Language Delivery Unit is to be used for Welsh adult learners.
- A note on the budget allocation for Mudiad Ysgolion Meithrin.

Thank you for assisting the Committee in its work, and we look forward to receiving your response to the points raised in this letter as soon as possible.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nick', with a horizontal line underneath.

Nick Ramsay AM  
Chair, Enterprise and Business Committee

c.c. Jocelyn Davies AM  
Chair, Finance Committee

## Annex E

### Health and Social Care Committee

Jocelyn Davies  
Chair  
Finance Committee

26 October 2011

Dear Jocelyn

The Committee took oral evidence from the Minister for Health and Social Services and the Deputy Minister for Children and Social Services on 20 October in relation to the Welsh Government's Draft Budget as it affects our committee portfolio. This letter outlines our comments which may inform your overarching strategic scrutiny of the Draft Budget.

We will also be sharing our views with the Minister and Deputy Minister and these letters will be published on our website.

#### **Use of inflation figures**

As a general issue, we wish to highlight our concerns that the HM Treasury GDP deflator figure, as generally used in budget planning, may not be particularly relevant for the healthcare budget as healthcare inflation tends to be higher than standard levels of inflation. In their evidence to us, health officials suggested that more relevant inflation figures were used when planning healthcare budgets, but no further detail was provided as to the assumptions used to derive real-terms impacts of the budget changes.

## **Budget assumptions and planning for Government commitments and legislation**

We are concerned about the budgetary impact of Government commitments and planned legislation, four of which are set out in an Annex to this letter. In our scrutiny session, Ministers emphasised that each were still subject to discussion, with no as-yet settled conclusions about the budgetary implications of these commitments in future years. We remain concerned at the potential impact which delivering these commitments may produce in future budget planning rounds, and intend to keep this issue under review, in our own future work programme.

### **Additional revenue support for Local Health Boards**

While welcoming the Government's commitment to:

- provide an additional £83 million in 2012-13 to place LHBs on a sustainable financial footing; and
- provide further funds in the next two years,

we have reservations about whether the overall level and individual allocations of funding will be sufficient to address the funding difficulties which LHBs have already identified in the current year.

We are aware that £20m has already been allocated to Hywel Dda Health Board, with the remaining £63m yet to be allocated. We welcome the Minister's assurance that information on the allocations will be published as soon as it becomes available, possibly within the coming month.

We remain concerned, however, that allocating the available additional funding at the start of the next budget period may not provide the Minister with sufficient flexibility if further support is needed by an individual or multiple Health Boards towards the end of the financial year.

### **Ability of services to deliver on-going efficiencies**

Critical to the Minister's assumptions about implementation of this budget is ensuring that the health and social care sectors achieve high levels of efficiencies. We have continuing reservations specifically about the ability of every Local Health Board to deliver the level of efficiencies required. We did not find it easy to share the Minister's confidence that these levels of efficiency will be consistently

achievable across the health sector in Wales. Moreover, we heard that a key mechanism for delivering the required efficiencies will be through 'service transformation'. We are sure that further clarification will be needed, during the period of this budget, as to on how such service transformation will deliver efficiencies in practice.

Both the Care Council for Wales and Older People's Commissioner are expected to deliver approximately 3% efficiencies next year. We note that budget negotiations are on-going with the Welsh Government, and we intend to return to these issues when the supplementary budget for 2012-13 is laid in the summer of 2012. However, we are mindful of the pressures that changing demographics and increased awareness of the office are likely to bring to the Older People's Commissioner.

Additionally, we discussed with the Minister the implications of ring-fencing the mental health budget for Local Health Boards, and the cost of monitoring and managing this. The Minister agreed to send us further information on the current operation of ring-fencing in this policy area, and said that she was minded to continue with the ring-fence in the future.

### **Capital planning and expenditure**

There has been a significant reduction in capital expenditure across the portfolio. The Minister stated that decisions on strategic healthcare capital expenditure were on hold while healthcare service plans were developed. While understanding that this has no impact on capital schemes which are already under construction, we have serious concerns about the impact delays in decision making may have on the timely future implementation of capital projects, especially at a time when public capital schemes are so important to the broader economy.

We welcomed the Deputy Minister's directness about the level of cuts to capital expenditure on her portfolio, but remain concerned about the impact that the absence of capital expenditure may have for the further roll out of the Flying Start programme.

I trust that you find our comments helpful with your future budget scrutiny.

Yours sincerely

Mark Drakeford.

Mark Drakeford AM

Chair of the Health and Social Care Committee

## **Annex 1 of Health and Social Care Committee's Correspondence**

### **Budgetary implications of Government commitments**

- **Improved access to GPs surgeries during evenings and Saturday mornings**

The Minister told us that initial work looking at improving access within the current core hours for GPs (8.00am-6.30pm) was not expected to have a budget implication and would be completed shortly.

However, further work on extending access on weekends was still in development and no financial information is yet available. We noted the Minister's comment that part of this work could look at 'new models of access' but we continue to look for reassurances about how this commitment can be fully delivered within the current budget plans.

- **Introduction of annual health checks for the over 50s**

While we are supportive of an increased focus on health prevention, we are concerned that no figures have yet been attached to this commitment. Any budget calculations will need to take into account additional costs resulting from identification of any health problems, in addition to the cost of offering the annual health-check.

- **Introduction and implementation of the Food Hygiene Bill**

The Committee were left with a lack of clarity on the budget implications of this legislation, particularly in the context of a significant reduction to the FSA's budget. While acknowledging that there may be opportunities for local authorities to generate income which could help pay for implementation, further consideration needs to be given to the budgetary implications of introducing and implementing this legislation.



- **Introduction and implementation of the Social Services Bill**  
We are aware that funding will be allocated from the Sustainable Social Services budget allocation to progress the Social Services Bill, but the Government continues to carry out the detailed work needed to identify the costs of implementation. While we understand that this will be considered as the Government develop the Bill further, it remains an area where reassurance will be needed that funds will be available to deliver the legislative intentions.

## Annex 2: Witnesses

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The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at <http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?Ild=1243>

### *28 September 2011*

Jane Hutt AM	Minister for Finance
Andrew Jeffreys	Head of Strategic Budgeting, Welsh Government
Jo Salway	Head of Budget Policy, Welsh Government
Jeff Andrews	Specialist Policy Adviser, Finance, Welsh Government
Steve Thomas CBE	Chief Executive, Welsh Local Government Association
Cllr Rodney Berman	WLGA Finance Spokesperson and Leader, Cardiff County Council
Vanessa Phillips	Director of Resources, Welsh Local Government Association

### *12 October 2011*

Jane Hutt AM	Minister for Finance
Andrew Jeffreys	Head of Strategic Budgeting, Welsh Government
Jeff Andrews	Specialist Policy Adviser, Finance, Welsh Government
Michael Hearty	Director General, Strategic Planning, Finance and Performance, Welsh Government
Phil Fiander	Director of Programmes, WCVA
Michelle Matheron	Senior Policy Officer, WCVA
Joy Kent	Director, Cymorth Cymru

Catriona Williams	Chief Executive, Children in Wales.
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*20 October 2011*

Carl Sargeant AM	Minister for Local Government and Communities
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Reg Kilpatrick	Director, Local Government and Public Services, Welsh Government
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Helen Birthwhistle	Director of Welsh NHS Confederation
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*31 October 2011*

Jane Hutt AM	Minister for Finance
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Andrew Jeffreys	Head of Strategic Budgeting, Welsh Government
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Jo Salway	Head of Budget Policy, Welsh Government
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Jeff Andrews	Specialist Policy Adviser, Finance, Welsh Government
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## Annex 3: List of written evidence

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The following people and organisations provided written evidence to the Committee. All written evidence can be viewed in full at <http://www.senedd.assemblywales.org/mglssueHistoryChronology.aspx?Ild=1530&Opt=2>

<i>Organisation</i>	<i>Reference</i>
Minister for Finance, Welsh Government	<a href="#">FIN(4) 03-11 (p1)</a>
Welsh Local Government Association	<a href="#">FIN(4) 03-11 (p2)</a>
Minister for Finance, Welsh Government	<a href="#">FIN(4) 05-11 (p1)</a>
Welsh Council for Voluntary Action	<a href="#">FIN(4) 05-11 (p2)</a>
Welsh NHS Confederation	<a href="#">FIN(4) 06-11 (p1)</a>

Responses to the Committees call for evidence can be viewed in full at <http://www.senedd.assemblywales.org/mglssueHistoryHome.aspx?Ild=1530>