

National Assembly for Wales
Finance Committee

National Assembly for Wales Assembly
Commission Draft Budget Proposals 2010-11
and National Assembly for Wales Assembly
Commission Supplementary Budget 2009-10

October 2009



The National Assembly for Wales is the democratically elected body that represents the interests of Wales and its people, makes laws for Wales and holds the Welsh Government to account.

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Summary of recommendations

Paragraph	Recommendation
7	The Finance Committee accepts the need for the ICT development proposed and welcomes the long term view to this investment that the Commission has taken. The Finance Committee would like to see the outcome of the Wales Audit Office's tests of reasonableness.
9	The Finance Committee asks the Assembly Commission to consider preparing a full explanatory paper alongside any future supplementary budgets.
23	The Finance Committee recommends that the Commission ceases using the contingency fund in the way it has been.
25	The Finance Committee asks the Assembly Commission to clarify whether the savings specified in Annex 5 of the Financial Management Report 30 June 2009 are merely overestimates or true 'efficiency' savings.
27	<p>The Finance Committee makes the following recommendations to help improve the transparency of future budgets:</p> <ul style="list-style-type: none">• Budget lines should show the Assembly Commission's best estimate of the expenditure likely to be incurred. Where these are subject to an element of uncertainty (e.g. cost of future pay settlements, planned staff recruitment), this should be made clear;• Planned savings known when the budget is set should be factored into appropriate budget lines at the outset and explained in the budget paper;• A prudent contingency should be added to the budget for use only in the event of genuine unforeseen or unplanned expenditure. Accordingly, the amount of contingency should be reassessed in the light of this new criterion;• Further, if there is no true contingency within the contingency fund the Finance Committee is concerned for the robustness of the Commission's budget;

- The Commission’s internal budget management arrangements should be modified to include appropriate arrangements for authorising virement between budget headings in the light of the above;
- Savings on budget lines in addition to those factored in at the outset should either be clearly allocated to other budget lines where an overspend is unavoidable or released to the wider block budget and explained in the annual accounts. Where such savings are identified during the year, the amounts allocated to budget holders should be reduced at the earliest opportunity;
- Unavoidable overspends on budget lines should be met by virement from expected savings on other budget lines before recourse to the contingency;
- Overall, the Finance Committee would expect the Commission’s budget to be sufficient to provide a level of service that the Assembly is entitled to expect including an appropriate transparent amount for genuine contingencies but no other hidden “reserve” amounts.(Para 27)

28 The Finance Committee asks that the figures within the budget motion are re-presented to the Finance Committee by the end of the calendar year on the basis described above in order to provide a fully transparent picture of the Commission’s plans and a clear baseline for next year’s budget round.

30 The Finance Committee recommends that, with the advent of the Remuneration Board, the Commission should have separate authorised amounts for (a) expenditure that will be determined by the Board and (b) the remainder which will continue to be under the Commission’s direct control.

31 The Finance Committee asks that futures budget motions will be supported by sufficient information, and be sufficiently transparent, that no additional briefing is required.

NATIONAL ASSEMBLY FOR WALES
REPORT FROM THE FINANCE COMMITTEE

GEN-LD7705 - National Assembly for Wales Assembly Commission Draft Budget Proposals 2010-11

and

National Assembly for Wales Assembly Commission Supplementary Budget 2009-10

Background

Standing Order 27 states:

- 27.7 Not later than 24 September in each financial year, a member of the Commission must lay before the Assembly a draft budget for the Commission setting out the amounts of resources and cash which the Commission proposes to use for the following financial year and provisional amounts for the subsequent two years or for such other period as the Commission has agreed with the Welsh Ministers.*
- 27.8 The Finance Committee must consider and report to the Assembly on the draft budget for the Commission no later than three weeks after it has been laid before the Assembly...*

Introduction

1. The Finance Committee considered the National Assembly for Wales Commission Draft Budget at its meeting on 28 September 2009. The draft budget had been laid on 22 September 2009.
2. At the meeting the Finance Committee took evidence from:
 - Lord Dafydd Elis-Thomas - Presiding Officer, Chair of the National Assembly for Wales Commission
 - Claire Clancy - Chief Executive and Clerk of the Assembly
 - Dianne Bevan - Chief Operating Officer
 - Steven O'Donoghue - Head of Assembly Resources
3. At the meeting on 28 September the Assembly Commission tabled a further document 'Supporting Briefing' which expanded on and clarified many of the figures in the draft budget. The Chief Executive and Clerk subsequently wrote (on 1 October) to the Chair of the Finance Committee responding to some questions asked at the meeting. A further letter of clarification was received on 9 October 2009.

4. In addition to considering the Assembly Commission's draft budget for 2010-11, the Finance Committee also took evidence on the supplementary budget for 2009-10 which was incorporated within the Supplementary Budget Motion laid by the Welsh Government on 14 July 2009 (GEN-LD7634 - Supplementary Budget Motion 2009-10)

2009-10 supplementary budget

5. The Assembly Commission's original resource budget for 2009-10 amounted to £47.751m – an increase of 3.4% on the amount authorised for 2008-09. The original budget for 2009-10, which was laid in October 2008, identified a number of potential developments that could impact on the budget for that year including a major review of ICT related services. At the time, it was not possible to estimate accurately the potential costs of these developments, although the Commission stated that the ICT costs were likely to be significant and warned that it might need to consider a supplementary budget request during the course of 2009-10.
6. The Commission's Supplementary Budget for 2009-10 requests an additional £1.950m to fund in part the creation of a unified IT network which will separate the ICT structure for the Assembly from that of the Welsh Government and bring together the Members' systems with those of the Commission. The work costing £2.667m is expected to take place largely in the current financial year and the balance of £0.717m is intended to be funded from the contingency and savings. The Commission informed the Finance Committee that this work would be inevitable at some point in the future and that completing it early, in 2009-10, would produce a saving of at least £900,000. The Wales Audit Office has agreed to test the reasonableness of the financial assumptions supporting the Commission's decision.
7. The Finance Committee accepts the need for this work and welcomes the long term view to this investment that the Commission has taken. We would like to see **the outcome of the Wales Audit Office's tests of reasonableness**. We comment further in on the use of the contingency and efficiency savings later in this report.
8. We are also grateful to the Commission for their openness in flagging the possible supplementary both in the original budget paper and in a letter to the Chair in July 2009. We note that the 2010-11 draft budget proposals provide some detail on the 2009-10 supplementary budget.

Procedure

9. On a general point of procedure, we note that the Standing Orders do not require the Commission to prepare a formal supplementary budget paper. On a future occasion, timing might not permit a supplementary budget request to be explained within the budget proposals for the next financial

year. While any additional resources requested by the Commission would, of course, be incorporated within the formal supplementary budget motion laid by the Welsh Government, we consider that it would be good practice for the Commission to prepare a full explanatory paper detailing any changes and the reasons. This paper could be laid alongside the formal supplementary budget motion for consideration by the Finance Committee. **We ask the Commission to consider this suggestion in respect of future supplementary budgets.**

Draft Budget Proposals 2010-11

Introduction

10. The Presiding Officer, as Chair of the Assembly Commission, informed the Finance Committee that in planning the draft budget for 2010-11 the Commission wanted to achieve sustainable growth and improvement from within a straightened and frugal budget bid. He stressed that they could not ignore the wider context for public expenditure in the United Kingdom and beyond, or the effects of this in particular on the Welsh block.
11. The Presiding Officer said the Commission was seeking savings to fund part of the growth in projects and aimed to develop services without seeking more resources. They had planned for savings of £400,000, and had saved around £1m through a 'Realignment of budgets' following an in-house accounting review of their base budget.

Overall budget

12. Overall the Commission has proposed a budget of £48.973m – an increase of £1.2m, or 2.6 per cent on the authorised budget of £47.751m for 2009-10. However, taking account of the supplementary budget of £1.95m for 2009-10, which revises the 2009-10 budget to £49.701m, the 2010-11 proposals represent a £0.728m, or 1.5 per cent reduction on the 2009-10 budget.
13. The Commission states in its budget proposals for 2010-11 that the increase of £1.2m consists of two components: expenditure on Commission services and Members Pay and Allowances (£2,968m), and non-cash charges (£0.868m). These are offset by savings of £2,614.
14. The budget proposals are set out in detail in the Budget motion.

General approach

15. The Finance Committee acknowledges and heartily supports the Commission's commitment to achieving sustainable growth and improvement within a frugal budget bid. Regardless of the economic circumstances, it is imperative that public money is always used as efficiently

and effectively as possible. Good stewardship is about ensuring the maximum benefit for taxpayers' money. In that context, the Finance Committee has some reservations about the Commission's aim to underspend its budget. Whilst recognising that overspending the authorised resource budget would be irregular, the Finance Committee considers that it would be far better if the Commission aimed to budget accurately. Obviously it should always seek to achieve cost savings during the year, but such a reference to underspending might imply that a budget had been deliberately set at a higher level than was necessary and, in turn, would lead to there being fewer resources available for other programmes (or for the taxpayer to retain). Good financial stewardship is as much about financial planning as it is about financial management.

Underspend in 2008-9 baseline

16. The Finance Committee noted that Commission's 2008-09 accounts showed an underspend of £2.2m (4.7%). The draft budget proposals for 2010-11 detail this underspend as consisting of:

- 1.8% in relation to Members' Pay and Allowances due to lower than anticipated movements in pension provision 0.6%; lower than anticipated Assembly Member salary related costs 0.3% and lower than anticipated spend on Assembly Member allowances 0.9%. These underspends have been factored in to our assumptions for 2010-11;
- 1.1% in relation to Commission services, primarily due to Contingency funds not needing to be fully utilised;
- 1.8% in relation to depreciation and notional interest charges resulting from an overestimate of the forecast costs.

17. The Finance Committee notes that in respect of Members' Pay and Allowances the underestimate appears to be the result of expenditure not reaching the amount provided in the estimates rather than specific action to provide the same results more effectively. The Finance Committee acknowledges the difficulty in planning for such 'demand-led' expenditure. The Finance Committee also notes the action being taken by the Commission to improve its forecasting of expenditure on depreciation and notional interest charges.

Use of the contingency fund

18. The Finance Committee noted that the 2010-11 draft Commission budget did not incorporate any provision for certain specific cost pressures including pay settlements for Members, Support Staff and Assembly Staff; general inflation; the forthcoming rise in VAT, any costs arising from the implementation of the Independent Review Panel's recommendations; and the operational implications in establishing the new Pierhead visitor facility. The Commission accepts that such costs are bound to be incurred and

provided some indicative estimates in response to the Finance Committee's questions.

19. The known costs to be met from the contingency fund and savings are stated to be as follows:

AM/AMSS/staff pay award	£500,000
Unified network final payment	£250,000
Pierhead	£45,000
Additional staff	£100,000
Independent Review	£75,000
Total	£970,000

20. However, of necessity at this stage, these costs are only broad estimates and remain unconfirmed. In addition, although some budget headings reflect known or expected price rises, no allowance has been made for general price inflation which will also have to be funded from savings and the contingency in this way.

21. The Commission said it intended to fund these costs through use of the contingency and identification of further savings and efficiencies.

22. In response to the Finance Committee's questions, the witnesses explained that the amount of contingency varied during the year with increases arising from realisation of savings and decreases as it is released to other budget lines when additional costs are finally determined.

23. The Finance Committee considers that the management of the use of savings and other unallocated amounts in this way is unusual and more complex than the straightforward approach usually adopted by other public bodies. Normally a contingency is held centrally to meet the cost of events which are genuinely unexpected and unforeseen. In the Finance Committee's view, the Commission's current approach is less transparent than including specific provision within the appropriate budget lines, particularly as it appears that indicative cost estimates for known pressures had been made. **The Finance Committee recommends that the Assembly Commission should cease using the contingency fund in this way.** The level of contingency should be set at a realistic level, perhaps 1.0 – 1.5 % of expenditure, and should be protected and kept available for use if needed to respond to unforeseen circumstances. This is normally the prime use for a contingency budget. All other expenditure should be set out in the draft budget.

Efficiency Savings

24. The Finance Committee supports the Commission's continuing drive to secure efficiency savings. However, to be an efficiency saving, the benefit should be realised without significant detriment to the level of service provided to the Assembly. It should also result from a change in the way

services are delivered and not merely be a fortuitous cash surplus at the end of the year. Furthermore, as stated in our report on the Commission's 2008-09 budget, the Finance Committee would not wish such savings to be secured at the expense of staff workload and morale. In that respect, we were pleased to note the extremely positive comments made by the independent "Investors in People" assessor and do not wish to see any diminution in that position when the accreditation is reviewed.

25. The Finance Committee notes the savings of £373m declared by the Commission in Annex 5 of the Financial Management Report 30 June 2009. It also notes that many of these savings are described as money 'returned' from various budgets and **asks the Commission to clarify whether these are merely overestimates or true 'efficiency' savings.**
26. Finally, the Finance Committee accepts that from time to time, the Commission may seek to cut costs by reducing the level of some services, or even eliminating some services altogether, in situations where the demand is very low. This seems entirely acceptable although, in such circumstances, we would expect that such decisions would be taken only after appropriate consultation and engagement with Members.

Future procedures

27. The Finance Committee supports the Commission's drive to secure better value for money in the delivery of Assembly services and, in furtherance of that support, **makes the following recommendations** to help improve the transparency of future budgets:
- Budget lines should show the Commission's best estimate of the expenditure likely to be incurred. Where these are subject to an element of uncertainty (e.g. cost of future pay settlements, planned staff recruitment), this should be made clear;
 - Planned savings known when the budget is set should be factored into appropriate budget lines at the outset and explained in the budget paper;
 - A prudent contingency should be added to the budget for use only in the event of genuine unforeseen or unplanned expenditure. Accordingly, the amount of contingency should be reassessed in the light of this new criterion;
 - Further, if there is no true contingency within the contingency fund the Finance Committee is concerned for the robustness of the Commission's budget;
 - The Commission's internal budget management arrangements should be modified to include appropriate arrangements for authorising virement between budget headings in the light of the above;

- Savings on budget lines in addition to those factored in at the outset should either be clearly allocated to other budget lines where an overspend is unavoidable or released to the wider block budget and explained in the annual accounts. Where such savings are identified during the year, the amounts allocated to budget holders should be reduced at the earliest opportunity;
- Unavoidable overspends on budget lines should be met by virement from expected savings on other budget lines before recourse to the contingency;
- Overall, the Finance Committee would expect the Commission's budget to be sufficient to provide a level of service that the Assembly is entitled to expect including an appropriate transparent amount for genuine contingencies but no other hidden "reserve" amounts.

28. The Finance Committee recognises the limited time available at this stage of the budget process and does not wish to hold up the process by asking for the Commission's budget to be presented in a more transparent way. **Nonetheless, it asks that the figures within the budget motion are re-presented to the Finance Committee by the end of the calendar year on the basis described above in order to provide a fully transparent picture of the Commission's plans and a clear baseline for next year's budget round.**

Remuneration Board

29. The implementation of the Independent Review Panel's recommendations will mean that, from 2011-12, the amount of expenditure on Assembly members pay, allowances and support staff will, in effect, be determined by the proposed Review Board subject to the successful passage of the necessary Assembly Measure. Such expenditure would be a significant part (around 28%) of the Commission's budget and historically this budget line has been underspent due to the demand led nature of certain elements.
30. At present the budget motion only authorises one amount to cover the Commission's net resource usage. **The Finance Committee recommends that, with the advent of the Remuneration Board, the Commission should have separate authorised amounts for (a) expenditure that will be determined by the Board and (b) the remainder which will continue to be under the Commission's direct control.**

Budget documentation

31. The Finance Committee was very surprised that the Supporting Briefing to the Assembly Commission's Draft Budget Proposals was tabled by the Commission at its meeting with the Finance Committee. This document provided a considerable amount of additional information and clarified many of the figures in the Commission's budget. The Finance Committee cannot

see why this was not published at the same time as the draft budget and notes that tabling it in this way could be considered a breach of Standing Order 10.39 which requires papers to be available (where practicable) at least two working days before a Finance Committee meeting. The Finance Committee is grateful for the assurance from the Chief Executive and Clerk of the Assembly that in future any additional briefing will be provided in advance of the meeting. **The Finance Committee asks that future budget motions are supported by sufficient information, and sufficiently transparent, that no additional briefing is required.**

Conclusion

32. The Finance Committee accepts the need for the proposed supplementary budget for 2009-10. It welcomes the Assembly Commission taking a long term view of this investment and will be interested in the conclusions of the Wales Audit Office's tests of the reasonableness of the financial assumptions supporting the Commission's decision. It asks the Commission to consider, for future supplementary budgets, preparing a full explanatory paper detailing any changes and the reasons for them to be laid alongside the formal supplementary budget motion.
33. The Finance Committee notes the Assembly Commission's recognition, in its draft budget proposals for 2010-11, of the difficult economic climate and of the need to examine all expenditure as critically as possible. The Finance Committee welcomes the Commission's commitment to delivering efficiency savings but notes that an underspend on a budget does not in itself constitute an efficiency saving. An efficiency saving is achieved by finding new ways to do things, and delivering the same results using fewer resources, or by cutting out unnecessary activities. The Finance Committee is also concerned that efficiency savings are not achieved at the expense of staff workload and morale.
34. The Finance Committee has concerns about the way the Commission proposes to manage the use of savings and other unallocated amounts through the contingency fund. It considers the approach unusual, opaque and more complex than the straightforward approach usually adopted by other public bodies. It also feels it reduces transparency which the Commission has always been keen to provide. The Finance Committee has made various recommendations to address this issue and, while it does not wish to delay the budget motion, has asked the Assembly Commission to re-present its draft budget in due course in the recommended format.

Angela Burns AM
Chair, Finance Committee