

National Assembly for Wales
Finance Committee

Scrutiny of Welsh Government Draft Budget
motion 2013–2014
November 2012



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Finance Committee

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Finance Committee

The Committee was established on 22 June 2011. The Finance Committee's role is to carry out the functions set out in Standing Order 19. This includes consideration of the use of resources by the Assembly Commission or Welsh Ministers, and in particular reporting during the annual budget round. The Committee may also consider any other matter relating to expenditure from the Welsh Consolidated Fund.

Current Committee membership



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Plaid Cymru
South Wales East



Peter Black
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South Wales West



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Chair's foreword

When we first started thinking about this draft budget, I was keen that we improve the effectiveness of our financial scrutiny. The present financial climate demands that we ensure that the resource available to Wales is spent in the most economic, efficient and effective way.

That drive to improve, led us to appoint our first ever adviser for the budget process. Working with Angela Scott, we have adopted an integrated approach, built upon the four objectives of financial scrutiny: affordability; prioritisation; value for money; and budget process. That approach has been adopted by all committees, Members and their support staff, and has coordinated our scrutiny across committees like never before. In addition, the advisor delivered training for all involved in the process. This new way of working has challenged us to think differently about the numbers, and the policy aims behind them.

The four objectives of financial scrutiny are not only relevant when government presents its annual budget but continue to be relevant thereafter and therefore should be tested throughout the course of the financial year and into subsequent years. We have approached this year's scrutiny of the budget mindful of the need to consider implications for in-year and end of year financial scrutiny. In addition, our consideration of the impact of legislation on the budget has led us to consider the need for stronger scrutiny of the financial implications of legislation both before and after it becomes law. This emphasis in our approach is reflected in our recommendations.

One of the fundamental objectives of good scrutiny is to ensure that the public's voice is heard. In addition to improving the impact of our scrutiny, I was also keen to strengthen the public's voice within our financial scrutiny. As a result, we have developed new ways of reaching out to capture voices outside the Senedd's glass walls.

This is the start of a journey which we hope will lead to better, financial scrutiny of the Government. Scrutiny, if done well, should result in performance improvement which drives up the value generated from the billions spent on behalf of the people of Wales.

Reflecting for a moment on the progress made since our last budget scrutiny exercise, twelve months ago Finance Committee made a number of recommendations to encourage the Welsh Government to improve transparency in the 2013-2014 draft budget. There is, of course, still work to do, but the progress so far has been tremendous. I'm also pleased to report that the Welsh Government is making some progress on building stronger links between their Programme for Government – which sets out its policy priorities – and the budget, which sets out where the money goes.

Our findings on the scrutiny of the 2013-14 budget are structured around the four objectives and we have identified a series of recommendations.

In adapting a new approach to financial scrutiny, I'm confident the Assembly as a whole will be better able to monitor spending throughout the financial cycle – not just at budget time.

Finally, I would like to thank Ministers, officials and external organisations for giving evidence to the Finance Committee and the other Committees of the National Assembly for Wales. Without your knowledge and expertise we could not have scrutinised the Welsh Government's draft budget effectively on behalf of the people of Wales.

A handwritten signature in black ink, reading 'Jocelyn Davies'. The signature is written in a cursive, flowing style.

Jocelyn Davies
Chair, Finance Committee

Conclusions and recommendations

The Committee's conclusions and recommendations are grouped according to the four objectives of financial scrutiny which underpinned the finance and standing Committees' approach to 2013-14 budget scrutiny. They 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:

Affordability

Recommendation 1. Given the unanswered questions on affordability and the financial track record of Local Health Boards we are unconvinced that LHBs will come in on budget this year. We recommend that the committees of the National Assembly for Wales monitor whether the Programme for Government can be delivered, within the funding allocated, during their in-year financial scrutiny.
(Page 20)

Conclusion: We believe it is likely that welfare reform, council tax support and pension auto-enrolment will increase the pressure on the Welsh Government's budget. We intend to revisit the implications of all three examples again during scrutiny of supplementary budgets and during our in-year and end year financial scrutiny. We also look forward to the publication of the second report by the Ministerial Task and Finish Group on the Impact of Welfare Reform.
(Page 22)

Recommendation 2. We recommend that Welsh Ministers keep the appropriate committees informed of any transfers of responsibilities, obligations or funding arising for the Welsh Government as a result of transfers of functions or powers, or other legislative changes from the UK Government. We will monitor the impact of any changes of this nature through our in-year financial scrutiny.
(Page 23)

Conclusion: The lack of clear costings around new legislation – whether from Westminster or Cardiff Bay – brings uncertainty to the Welsh budget and as a result a lack of clarity over the affordability of the legislation.
(Page 24)

Recommendation 3. We recommend that the Welsh Government makes greater efforts to estimate fully the financial implications arising out of its legislation and clearly indicates appropriate funding in future budgets. (Page 24)

Recommendation 4. We endorse the following recommendation of the Communities, Equalities and Local Government Committee and advocate it as good practice for all Ministers with respect to all bodies affected by legislation: “Where the Minister intends to introduce new legislation that impacts on local government during forthcoming financial years, his budget proposals should explain more clearly how the introduction of that legislation has been taken into account. If there will be no new financial burdens on local government, the budget documents should show how that conclusion has been reached. If there will be new burdens arising from the legislation, the budget documents should explain that and show how any necessary funds will be delivered.” (Page 25)

Recommendation 5. We recommend that the committees of the National Assembly for Wales ensure that financial scrutiny of legislation explores cost issues in depth, and how they may impact on the budget either through additional costs, or by generating savings. (Page 25)

Recommendation 6. We recommend that the Minister for Communities and Local Government reports back on the potential for raising fees and charges in time for next year’s draft budget. (Page 26)

Prioritisation

Conclusion: We note the usefulness of Invest to Save funding, in transforming public services. We are also aware that the Auditor General has indicated that ‘double-running’ may not be feasible in the future. The Committee is about to begin an inquiry in to Invest to Save and will investigate these issues further. (Page 28)

Conclusion: We were concerned there was no clear evidence to reassure us that strong forward planning was in place to deal with major Barnett consequentials, or that clear priorities had been drawn up to deal with possible cuts in future allocations. (Page 29)

Value for money

Conclusion: Tuition fees policy raises issues around prioritisation and value for money which are important and complex, and would benefit from further consideration. We are pleased to note that the Enterprise and Business Committee has indicated it intends to address these issues with the Minister for Education and Skills once figures on student enrolment become available. (Page 30)

Conclusion: We share the concerns of the Health and Social Care Committee about aspects of the current model of financing Local Health Boards. There is a risk that if this year's funding is inadequate, then the need for additional cash for health will draw funding from other portfolios, and undermine the Government's prioritisation. We will come back to the issue of the adequacy of NHS resources when we examine the second supplementary budget for 2012-13. (Page 31)

Recommendation 7. The Enterprise and Business Committee recommended that the Minister for Business, Enterprise, Technology and Science should "publish information on the measurable outputs, outcomes and targets you expect to achieve". We would like to endorse this recommendation and extend it to all Ministers, so that all their budget allocations include details of the specific outputs and outcomes they expect to achieve in line with their stated priorities. This will allow us to monitor progress in-year. (Page 32)

Conclusion: The evidence we received did not provide assurance that there is a shift in budget emphasis towards preventative spending. However, we will await the Minister's report, and make a judgement at that time whether this would be a fruitful area for a committee inquiry. (Page 34)

Conclusion: The Public Accounts Committee (PAC) has already published an interim grants management report (August 2012) which recommended that all existing grants be reviewed by 31 December 2013. PAC intends to conduct further investigations in to these issues. (Page 35)

Recommendation 8. We recommend that the Welsh Government ensures there is internal consistency when deciding whether schemes provide sound value for money. (Page 35)

Conclusion: Although the Welsh Government is clearly providing financial backing for collaboration, we would like to see a matching commitment to provide non-financial support to address the barriers to collaboration raised in our evidence. (Page 37)

Recommendation 9. We recommend that the Welsh Government takes responsibility for ensuring greater consistency and sustainability in collaboration across the public sector. (Page 37)

Budget process

Recommendation 10. We recommend that Ministerial papers should strive for consistency across all Ministers and departments. Future papers should address affordability, prioritisation and value for money in a consistent manner, and provide the appropriate level of detail to allow the scrutiny of resource allocation against stated Government priorities. (Page 39)

Recommendation 11. We recommend that the Welsh Government should conduct a systematic, consistent and transparent equality impact assessment of the entire budget in line with the Equality and Human Rights Commission guidance on an annual basis, and publish the assessments themselves alongside the narrative document, at the time of the draft budget. (Page 40)

Recommendation 12. We recommend that Welsh Government undertakes further work to standardise impact assessments undertaken with regard to sustainable development, the Welsh language, children and older people, and the way they are presented alongside the draft budget. (Page 41)

Recommendation 13. We recommend that the Finance Minister informs the committee of any changes in awards to projects, or in the nature of the projects themselves, under Centrally Retained Capital (CRC) through supplementary budgets. Any funding allocated which cannot be spent within the financial year should be returned to the central reserve for re-allocation. (Page 42)

Recommendation 14. We recommend the Minister addresses the case for additional flexibility for Local Health Boards to manage their funding across financial years. (Page 44)

Public engagement

Conclusion: We acknowledge that three year funding allows for better planning. However, given that the Welsh Government itself doesn't have certainty over its budget for three years, we believe that its current practice of allocating indicative funding for future years is the best that can be realistically done. (Page 46)

Recommendation 15. We commend the innovative and co-ordinated approach of the National Assembly for Wales (NAfW) in seeking new ways to engage with the public and stakeholders on what can be seen as a technical and difficult issue. We recommend that the NAfW should build on this work, extending the opportunities available, and producing a co-ordinated plan for engagement in future years. (Page 46)

1. Introduction

Committee background & standing orders

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. The Welsh Government's draft budget sets out how they intend to use their resources for the following financial year, and their provisional proposals for future years.¹

What is the role of the Finance Committee?

4. The Finance Committee is responsible for reporting on this draft budget and can also recommend changes to amounts – so long as those changes don't alter the size of the overall pot.²
5. We therefore cannot suggest putting in more money (or less), but we could recommend more for one area and less for another.
6. Although the Finance Committee is responsible for reporting on the draft budget, under the Assembly's rules, other committees may also consider and report to the Finance Committee on the draft budget.³ This has been done through a series of letters to the Finance Committee.

¹ National Assembly for Wales, Standing Orders of the National Assembly for Wales June 2012, Standing Order 20.7

² National Assembly for Wales, Standing Orders of the National Assembly for Wales, June 2012, Standing Order 20.11

³ National Assembly for Wales, Standing Orders of the National Assembly for Wales, June 2012, Standing Order 20.10

7. We have tried to incorporate the key findings of other committees within our report.

Why did we scrutinise this draft budget?

8. Naturally, any budget produced by the Welsh Government will have a significant impact on 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 the publication of this report, there will be a debate in plenary on the draft budget.

10. Subsequently, there will be a final budget motion (the annual budget motion), as required by law.⁴ The *Government of Wales Act 2006* says that there must be at least one budget motion (the annual budget motion) moved in relation to each financial year. Under the Assembly's rules,⁵ no amendments can be tabled to the annual budget motion – Assembly Members can merely vote for, against or abstain.

How did we scrutinise this draft budget?

Prior to publication

11. Under Assembly rules, the Finance Committee has to have at least five weeks to report on the draft budget.⁶

12. In line with last year, recognising that we would have just a short time to report on the draft budget, we issued a pre-budget consultation, inviting stakeholders to comment on the expected draft budget proposals.

13. Our call for information invited consultees, organisations and individuals to let us know their expectations of the forthcoming draft budget, based on the latest available indicative figures.

14. We were pleased to receive responses from the following organisations:

⁴ The Government of Wales Act 2006, Section 125

⁵ National Assembly for Wales, Standing Orders of the National Assembly for Wales, June 2012, Standing Order 20.29

⁶ National Assembly for Wales, Standing Orders of the National Assembly for Wales, June 2012, Standing Order 20.5

- Governors Wales
- Welsh Sport Association
- University and College Union
- Chwarae Teg
- WCVA
- Older Peoples Commissioner or Wales
- Niace Dysgu Cymru
- Higher Education Wales
- Diverse Cymru.
- Colleges Wales
- WWF Cymru
- Welsh Local Government Association

Following publication

15. The Minister for Finance and Leader of the House, Jane Hutt AM, presented the Welsh Government's Draft Budget Proposals 2013-14 to Plenary on 2 October 2012. This was accompanied by a statement, narrative document, detailed expenditure allocation tables and a leaflet to communicate the budget to a young audience.

16. We scrutinised the Minister for Finance on her draft budget on 11 October 2012, and again on 25 October 2012.

17. We also took oral and written evidence on the draft budget from two Local Health Boards, two Local Authorities, a University, and an FE College. The Wales Council for Voluntary Action (WCVA), also provided an additional paper following budget publication.

18. 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 fields of interest.

19. 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 the back of this document.

The four objectives of financial scrutiny

20. Throughout our draft budget scrutiny preparations and our inquiry we have worked closely with our technical advisor Angela Scott of CIPFA. In addition to advising the Finance Committee on the budget, Angela has provided training to Assembly Members and their support staff, and also to National Assembly for Wales staff.

21. That training has encouraged all involved to consider four objectives of financial scrutiny: Affordability, Prioritisation, Value for money and Budget processes.

Affordability – Is the big picture of total revenue and expenditure appropriately balanced?

Prioritisation – Is the division of allocations between different sectors/programmes justifiable and coherent?

Value for money - Are public bodies spending their allocations well – economically, efficiently and effectively? ie outcomes

Budget processes - Are they effective and accessible? Is there integration between corporate and service planning, and performance and financial management?⁷

22. Consequently, this training has enabled the whole institution to work in a structured, integrated way, considering the four objectives in their scrutiny of the draft budget 2013-14.

23. Our report – and the contribution of the other committees of the Assembly – is built around these objectives.

The financial cycle

24. Our integrated approach was also concerned with the need to consider not only budget scrutiny at the start of the financial cycle (the draft budget), but also that financial scrutiny, should continue into in-year scrutiny, end of year scrutiny and then taking the evidence across the year in to the following year's budget – integrating the financial cycle.

⁷ Angela Scott, CIPFA

2. The draft budget at a glance

How much money comes to Wales?

25. The Welsh Block⁸ for 2013-14 is £15.4 billion. This represents a decrease of £69.7 million, or 0.5% on that for 2012-13. In real terms,⁹ when inflation is taken in to account, this equates to a 2.9% reduction.

How much does the Welsh Government get?

26. Of the £15.4 billion Welsh Block, £15.1 billion is allocated to Welsh Government departments. This represents a decrease of £148.9 million, or 1.0% on that for 2012-13. In real terms this equates to a 3.4% reduction.

27. Revenue reserves in 2013-14 are £213.2 million, or 1.5% of the revenue portion of the block over which the Welsh Government has discretion.

28. Capital reserves in 2013-14 are £18.9 million, or 1.6% of the capital portion of the block over which the Welsh Government has discretion.

29. Capital reserves are at relatively low levels, as compared with the same stage in the financial cycle in previous years.

How does the Welsh Government share out its money?

30. The biggest spending department is Health, Social Services & Children – which includes the Welsh NHS – followed by Local Government – which includes spending on all our schools.

31. When the National Assembly for Wales asked members of the public which areas they thought received most money, the most common misconception was that people thought more money was allocated to business and the economy.¹⁰

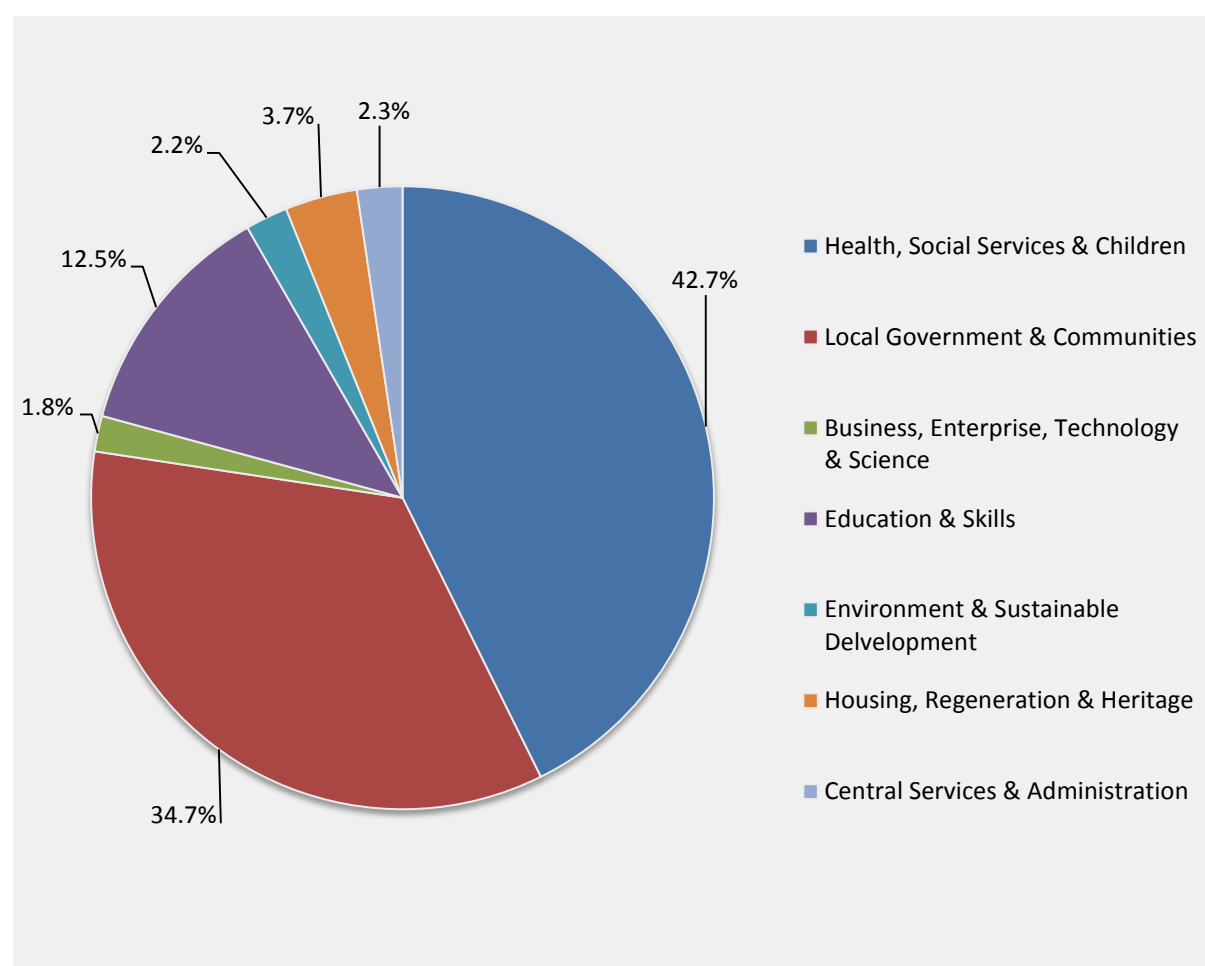
⁸ We have used Welsh Block to mean the entirety of the resources (TME) made available by HM Treasury.

⁹ Using HM Treasury's GDP deflators (as updated September 2012) to account for inflation.

¹⁰ National Assembly for Wales, Outreach Exercise conducted at Summer Shows

32. The following pie chart shows more clearly how more than three of every four pounds the Welsh Government has discretion over goes on health and local government.

Figure 1: Percentage of spend at the discretion of the Welsh Government allocated to each department



Source: Welsh Government Draft Budget 2013-14

33. The 2013-14 budget falls within the UK spending review 2010 which covered the period 2010-2015 and therefore in publishing the 2013-14 budget the Welsh Government was able to publish indicative figures for 2014-15. We recognise that the Welsh Government cannot go beyond indicating budget figures for 2014-15 until the 2015 spending review.

34. During our scrutiny, we asked some witnesses about the budget assumptions for planning for the future – all witnesses, including the

Minister, indicated they were assuming that funding in the next spending review period would match the current spending review period or be reduced.

3. Affordability

Overview

35. In the absence of tax and borrowing powers, the Welsh Government receives the vast majority of its income from UK Government. As a result, the test of affordability is not about testing whether the proposed levels of taxation and borrowing are affordable but more about whether the Welsh Government's commitments can all be resourced from the available resource. Commitments to spend resource arise from both the Welsh Government's own Programme for Government and its own legislative programme. Commitments to spend do also arise as a result of the UK Government's legislative programme as well as incremental transfers as part of the devolution process.

AIM: to test whether all the commitments can be afforded within the available resource limit.

36. Our scrutiny raised a number of unanswered questions about affordability. The confidence of Ministers that there was sufficient money to deliver their programme, was not always matched by other evidence. The uncertainty surrounding UK Government initiatives, and questions about the cost and timetable for Welsh Government legislation meant this was a key area of consideration for the Committee.

Funding the Programme for Government

37. A key area of consideration for the committee in its scrutiny of affordability was to seek assurance that there was sufficient evidence that the Programme for Government could be delivered within the funding envelope. When asked whether there was enough money the Finance Minister said:

“We’ve commitments to the whole of the programme for government... It’s going to be challenging, particularly in terms of demand-led budgets, but we believe the way we have prioritised the commitments will stand us in good stead.”¹¹

¹¹ National Assembly for Wales, Finance Committee, RoP 25 October 2012, para 43

38. However, this statement was not consistent with the evidence we received from witnesses and subject committees. That uncertainty was greatest in the area of health spending, where Local Health Boards have often required additional funding either during, or at the end of the year.

39. In their letter to the chair of Finance Committee, the Health and Social Care Committee write:

“The Committee noted its concerns about the overall level and individual allocations of funding to LHBs following our consideration of the 2012-13 draft budget last year. We remain concerned about aspects of the current model of financing LHBs.”

Given the unanswered questions on affordability and the financial track record of Local Health Boards, we are unconvinced that LHBs will come in on budget this year. We recommend that the committees of the National Assembly for Wales monitor whether the Programme for Government can be delivered, within the funding allocated, during their in-year financial scrutiny.

Legislation

Welfare reform (UK Legislation 1)

40. The UK Government’s welfare reforms will have an impact on the level of benefit resource being received by the people of Wales. There will also be an impact on the Welsh Government’s budget and on public service delivery bodies. During the scrutiny of the draft budget, we have heard concerns about the difficulties in quantifying the impact of these changes. For example, in their consultation response the Welsh Local Government Association (WLGA) state:

“The Welfare Reform Agenda has the potential to have a significant effect on the poorest and most deprived areas of Wales. Local government will be at the forefront of the need to respond to this and it is crucial that the Welsh Government’s budget reflects the support that will be required to assist with this. Living in poverty can affect life chances fundamentally and the Welsh public sector’s role is to protect and support those

who are most vulnerable while implementing policies that help to reduce the levels of poverty and deprivation in Wales.”¹²

41. In response to our questions, the Minister confirmed that a Ministerial Task and Finish Group was still looking at this issue, and that the second stage of its work would be completed by the new year.

42. The evidence from both the Welsh Government and other witnesses was consistent in the inability to accurately assess the financial effects of welfare reform. Although the Committee notes that discussions between the Welsh Government and the UK Government are ongoing, the conclusion to these discussions is not expected until early 2013. Consequently, the full financial impact on the 2013-14 Welsh Government budget cannot yet be identified.

Council tax support (UK Legislation 2)

43. The UK Government’s proposals on Welfare Reform include a requirement to introduce a replacement scheme for council tax support. The draft budget narrative states that discussions are ongoing with the UK Government in relation to the transfer of funding as a result of these reforms.¹³

44. In our first evidence session with the Minister she expressed concern that the transfer of funding to support this change was expected to be 10% lower than current expenditure.

45. The Minister for Local Government and Communities Carl Sargeant suggested to the Communities, Equality and Local Government Committee that it may be more like 14-15% less in real terms.¹⁴ Written evidence from the WLGA has suggested the gap could even be as high as 20%.¹⁵ Final figures for the transfer are not expected before December (at the time of the Autumn Statement).

¹² National Assembly for Wales, Finance Committee, [Consultation on the Welsh Government’s Draft Budget proposals 2013-14: Response from the Welsh Local Government Association](#), September 2012

¹³ Welsh Government, [Draft Budget 2013-14 Narrative](#), (page 27), October 2012

¹⁴ National Assembly for Wales, Communities, Equality and Local Government Committee, RoP 10 October 2012

¹⁵ National Assembly for Wales, Finance Committee, [Consultation on the Welsh Government’s Draft Budget proposals 2013-14: Response from the Welsh Local Government Association](#), September 2012

46. We were concerned that the Welsh Government would simply pass on any shortfall to local government, and that ultimately, the impact would fall on vulnerable households.

47. The Finance Minister told us:

“It would be helpful for me if the committee could acknowledge our concerns on this matter and the adverse impact of a 10% cut in this transfer. It would be helpful if it could acknowledge that it is not getting the figures right in the calculation based on the take-up and future take-up, and if it could acknowledge that we should have funding cover for extra administrative costs and if it could recognise that this is a very difficult situation that we, and the people of Wales, have been put in, as a result of the UK Government’s policy.”¹⁶

Pension auto-enrolment (UK legislation 3)

48. The UK Government has introduced automatic pension enrolment for all employees from 1 October 2012, but implementation dates are different for different sized businesses (roughly, the fewer employees you have, the longer you have to comply). In addition, staff can opt out of the scheme.

49. Ceredigion Council’s evidence was that introducing this measure could cost up to £450K if all those auto-enrolled stayed in the scheme. Ceredigion is one of the smallest local authorities in terms of population, for larger authorities the potential cost of this measure could be significantly more. Wrexham Council had not arrived at any decision whether to do it now, or wait until their implementation date. This lack of certainty – about when it would be implemented in each authority, and how much it would cost – makes it almost impossible to provide robust scrutiny at this stage of the financial cycle. This is an issue to which the committee will return during our in-year financial scrutiny.

Conclusion: We believe it is likely that welfare reform, council tax support and pension auto-enrolment will increase the pressure on the Welsh Government’s budget. We intend to revisit the implications of all three examples again during scrutiny of

¹⁶ National Assembly for Wales, Finance Committee, RoP, 25 October 2012, para 30

supplementary budgets and during our in-year and end year financial scrutiny. We also look forward to the publication of the second report by the Ministerial Task and Finish Group on the Impact of Welfare Reform.

Transfer of functions within the UK

50. In addition to legislation, there are other routes which the UK Government can increase the commitments placed on the Welsh Government. One of the subject committees in particular has drawn out a couple of examples and these are noted below:

- (1) Fisheries Enforcement Vessels: The Environment and Sustainability Committee in its report to the Finance Committee, note that due to pressures on the Royal Navy the Welsh Government's vessels will be required to patrol the off shore area of the Welsh Fisheries Zone in addition to existing task of patrolling Welsh in shore waters. During evidence, the Minister confirmed that the capital implications of this have not been quantified and no budget allowance made within the 2013-14 budget, although the Minister advised that he believes it can be contained within the department's budget.
- (2) Vessel Registration: the Environment and Sustainability Committee has identified that there appears to be a substantial devolution of powers to Wales in relation to vessel registration and quota management – the main cost implication appears to be IT costs. Again, the Minister is advising that these costs can be contained.

We recommend that Welsh Ministers keep the appropriate committees informed of any transfers of responsibilities, obligations or funding arising for the Welsh Government as a result of transfers of functions or powers, or other legislative changes from the UK Government. We will monitor the impact of any changes of this nature through our in-year financial scrutiny.

Welsh Legislation

51. Throughout our evidence gathering, we found little awareness of the impact of forthcoming Welsh legislation. Where there was

awareness there was concern that the financial impact would result in additional costs and would not be fully funded.

52. In their written evidence, the WLGA noted:

“Local government’s key concern is the scale and potential impact of the legislative programme in the current financial climate. There are a wide range of legislation and regulation scheduled to be enacted or to come into effect over the coming financial year and beyond. Often the policy objectives are supported by local government but our concern is that these will add to the responsibilities and duties placed on local authorities without the provision of adequate resources to enable them to be implemented.”

53. Three particular legislation issues were flagged for our attention by other committees:

Further and Higher Education (Wales) Bill - in its report to the Finance Committee, the Enterprise and Business Committee noted that consultation on this Bill had only recently concluded but the Committee would like the financial implications of implementing the Bill clarified.

Active Travel (Wales) Bill – Enterprise and Business Committee seeks clarity on how much this Bill will cost once enacted.

School Standards and Organisation (Wales) Bill – the Children and Young People Committee in its report to the Finance Committee note its concern that the Minister has underestimated the overall cost of the Bill and there does not appear to be any contingency within the budget.

Conclusion: The lack of clear costings around new legislation – whether from Westminster or Cardiff Bay – brings uncertainty to the Welsh budget and as a result a lack of clarity over the affordability of the legislation.

We recommend that the Welsh Government makes greater efforts to estimate fully the financial implications arising out of its legislation and clearly indicate appropriate funding in future budgets.

We endorse the following recommendation of the Communities, Equalities and Local Government Committee and advocate it as good practice for all Ministers with respect to all bodies affected by legislation: “Where the Minister intends to introduce new legislation that impacts on local government during forthcoming financial years, his budget proposals should explain more clearly how the introduction of that legislation has been taken into account. If there will be no new financial burdens on local government, the budget documents should show how that conclusion has been reached. If there will be new burdens arising from the legislation, the budget documents should explain that and show how any necessary funds will be delivered.”

We recommend that the committees of the National Assembly for Wales ensure that financial scrutiny of legislation explores cost issues in depth, and how they may impact on the budget either through additional costs, or by generating savings.

Levering in external resource

Capital resource

54. The capital budget squeeze was a big issue for several witnesses, particularly Local Government and Local Health Boards.

55. We made a series of recommendations in our report *Borrowing Powers and Innovative Approaches to Capital Funding*¹⁷ earlier this year. The Welsh Government has undertaken a range of actions in response and we will assess what impact this has had in due course.

Revenue resource

56. During the draft budget scrutiny process The Minister for Local Government and Communities Carl Sargeant appeared in media reports¹⁸ suggesting that local authorities could raise fees and charges to meet some of the financial challenges they face.

¹⁷ National Assembly for Wales, Finance Committee, *Borrowing Powers and Innovative Approaches to Capital Funding*, July 2012

¹⁸ BBC Wales: Councils 'could cover budget shortfalls with charges'
<http://www.bbc.co.uk/news/uk-wales-politics-19969066>

57. In their oral evidence just hours after this story was first reported, Local Authorities provided a reasonable and balanced insight in to the issues associated with setting local fees and charges. They observed that for many of the services they provide (e.g. leisure centres, town centre parking) they can't raise charges in the current economic climate, or they'll simply drive people away from using services.

We recommend that the Minister for Communities and Local Government reports back on the potential for raising fees and charges in time for next year's draft budget.

Inflation

58. In oral evidence, the Committee heard from representatives of the education sector, local authorities and local health boards that inflation was higher in their sector than in general.

59. However, as salaries have effectively been frozen in these sectors in recent years, with inflation running above 2%, we were unconvinced by this argument.

4. Prioritisation

Overview

60. The process of budgeting involves the allocation of resource to specific activities. It is inevitable, that choices have to be made between activities as there is generally insufficient resource to cover everything an organisation would like to do. In addition, the financial environment has further reduced the available resource which means that more choices have to be made between priorities.

AIM: to make the Government's choices transparent, and to require Government to justify the choices it has made.

61. While the Welsh Government has improved the links between its policy priorities and the budget – the overhaul of the transport budget is a good example of this – in the overall budget it remains difficult to see evidence of clear prioritisation in the way spending is allocated.

Invest to save

62. The commitment to the Invest to Save fund provides evidence that the Government has prioritised the need to support bodies to transform service delivery.

63. This support is appreciated by recipients. Karen Miles, Director of Finance and Economic Reform, Hywel Dda told us:

“It [Invest to Save] is most definitely very useful. It is a key enabler. It provides confidence, when you are going through that double-running position, bringing in new models of care. We have a comprehensive £2.7 million invest-to-save scheme that is considerably strengthening our community teams. I cannot envisage that not having that benefit would provide the kind of stability and confidence that organisations need when they go through transformational change, and that is provided to our staff and to our patients. So, from our perspective, we have really welcomed what it has done, in terms of allowing us to take the pressure off staff and patients by having the model

there, developed, while we are double-running. So, it is invaluable.”¹⁹

Conclusion: We note the usefulness of Invest to Save funding, in transforming public services. We are also aware that the Auditor General has indicated that ‘double-running’ may not be feasible in the future. The Committee is about to begin an inquiry in to Invest to Save and will investigate these issues further.

Barnett consequentials

64. We were concerned about how changes in UK Government funding could impact on the Welsh block through the Barnett formula – the mechanism by which funding is allocated to Wales. Under the formula, when the UK Government announces changing in its spending in devolved areas, these trigger a consequential change in the Welsh block. These changes are known as Barnett consequentials.

65. In the first decade of devolution the operation of the formula generally meant that additional spending on health and education in England, for example, boosted the Welsh block. However, the formula works both ways, so cuts to the capital budget in England over the current spending review period, have also led to cuts in the Welsh capital budget.

66. We asked the Finance Minister about forward planning for the Autumn Statement on December 5, but the evidence received was not reassuring. She confirmed that any consequentials – whether positive or negative – would be taken at the centre, and allocated according to the Welsh Government’s priorities.

67. However, Jo Salway, the Welsh Government’s Head of Strategic Budgeting, pointed out that the size of consequentials was generally small and small changes could be managed through reserves. She said:

“It depends on the size of the reduction. If we had another reduction like the emergency budget, it would be exceptionally difficult. If it were more like the last autumn statement, where there was a small positive consequential on revenue and a

¹⁹ National Assembly for Wales, Finance Committee, RoP, 11 October 2012, para 111

slightly larger negative consequential that had a net reduction but was very small, we could absorb that using the reserves. Much depends on the scale. That is important in dealing with positive consequential as well. They are at the margins of the Government's spending when compared with £15 billion, so the time and effort goes into managing effectively the money that we have in the core budget and then responding as the issues arise."²⁰

Conclusion: We were concerned there was no clear evidence to reassure us that strong forward planning was in place to deal with major Barnett consequential, or that clear priorities had been drawn up to deal with possible cuts in future allocations.

Higher Education priorities

68. Cardiff University called for a level playing field to compete with institutions in England on recruitment. This year, English Universities could recruit as many students with grades AAB as they liked, but were capped for grades below that. Welsh universities were capped at all grades. This issue was also flagged as a concern in our pre-budget consultation by Higher Education Wales.

69. Hugh Jones, Chief Operating Officer at Cardiff University, told us:

“Certainly, English universities have had fewer restrictions on their recruitment this year than Welsh universities. Although, in Cardiff, this year we have done very well—we have grown as a university; not many can say that—it is something that, in future, we see as being a concern, if English universities are able to compete in ways that we are prevented from using.”²¹

70. On the question of University recruitment restrictions we note the concerns around the new tuition fees structure, and the potential for current funding and recruitment patterns to lead to an outflow from the Welsh Government Budget to English Universities, rather than those in Wales.

²⁰ National Assembly for Wales, Finance Committee, RoP 25 October 2012 [no link available at time of writing]

²¹ National Assembly for Wales, Finance Committee, RoP 17 October 2012, para 269

71. A follow up paper from Cardiff University estimates that as a consequence of the Welsh Government's policy on tuition fees, £10m more will be spent in English Universities than Welsh Universities in the first year.

"Approximately £69.6m of funding will flow from Wales into English universities in 2012/13 to cover first year undergraduate Welsh domiciled students' tuition fees;

"The tuition fee grant for first year undergraduate Welsh domiciled students studying in Welsh universities will cost approximately £60.9M in 2012/13."²²

Conclusion: Tuition fees policy raises issues around prioritisation and value for money which are important and complex, and would benefit from further consideration. We are pleased to note that the Enterprise and Business Committee has indicated it intends to address these issues with the Minister for Education and Skills once figures on student enrolment become available.²³

Specific concern around the adequacy of funding to health

72. In our evidence we explored the risk of local health boards not being able to live within their means for 2012-13. If LHBs struggle again to live within their allocation, this would cast doubt on the adequacy of the resource allocated for 2013-14.

73. Dr Andrew Goodall, Chief Executive of Aneurin Bevan Local Health Board, told us:

"...from an NHS perspective our financial targets are statutory targets that are placed on us. Every board starts with a financial plan. That is important to make sure that we get an overview of the services, our workforce changes, and also to make sure that the finance lines up around it. We are at the mid-point of this year. We are expecting to get to break even by the end of the year. We have plans to work our way through the last six months, and I would just say, from a Government perspective,

²² National Assembly for Wales, Finance Committee, 17 October 2012 Response to action point – Cardiff University - annex

²³ Letter from Enterprise and Business Committee to the Minister for Education and Skills – see annexe

that every board does take that individual position very seriously.”²⁴

Conclusion: We share the concerns of Health and Social Care committee about aspects of the current model of financing Local Health Boards. There is a risk that if this year’s funding is inadequate, then the need for additional cash for health will draw funding from other portfolios, and undermine the Government’s prioritisation. We will come back to the issue of the adequacy of NHS resources when we examine the second supplementary budget for 2012-13.

²⁴ National Assembly for Wales, Finance Committee, RoP, 11 October 2012, para 7

5. Value for Money

Overview

74. Value for money is concerned with ensuring that public resources are used in the most economic, efficient and effective way possible. In other words, for the level of resource put in, that the maximum output is achieved and that as a result of the outputs the best possible outcomes are achieved.

AIM: To test whether the Government can link the resource allocation via the budget (the input) with desired outputs and outcomes.

75. Value for money proved a difficult area to assess at this stage of the financial cycle. It is generally assessed by the Public Accounts Committee using work undertaken by the Wales Audit Office as the evidence base. However, as part of the budget scrutiny value for money is assessed with a view to examining what is intended to be achieved with the resource allocated. The VFM test requires information not only about cost input, but also expected outputs and outcomes. Whilst the Government has made significant progress in making the cost input more transparent via the budget allocations, the scrutiny exposed limitations in terms of the availability of information on intended outputs and outcomes.

76. For example, in our evidence from Deeside College and Collegau Cymru we heard that FE colleges had received additional money to increase the skills of learners to level 3 (equivalent to A-level) and beyond. While there has been an increase in performance, from the evidence received it was not clear that the additional funding has provided value for money.

The Enterprise and Business Committee recommended that the Minister for Business, Enterprise, Technology and Science should “publish information on the measurable outputs, outcomes and targets you expect to achieve”. We would like to endorse this recommendation and extend it to all Ministers, so that all their budget allocations include details of the specific outputs and outcomes they expect to achieve in line with their stated priorities. This will allow us to monitor progress in-year.

Preventative spending

77. The Finance Committee of the Scottish Parliament conducted an inquiry into preventative spending in 2011.²⁵ The Committee's report invited the Scottish Government to frame a definition of preventative spend across the public sector:

“..spending that focuses on preventing problems and eases future demand on services by intervening early, thereby delivering better outcomes and value for money.”

78. The case for change has been accepted but we were disappointed with the quality of evidence we received on evidencing the quantity and quality of preventative spending across the board. As public bodies continue to seek savings, it is essential the Welsh Government leads the way in demonstrating progress.

79. Geoff Lang, Executive Director of Primary Care, Community and Mental Health Services, Betsi Cadwaladr University Health Board, demonstrated the awareness among senior managers that preventative spending would be increasingly important.

80. He said:

“It has become increasingly evident to us that just focusing on the cost input aspect of our work as a health board, and trying to be more efficient and effective on our input side, will get us only so far, and there is still more to do with that. But we have to look at the way in which we deliver services, respond to population need, and even influence population need by intervening earlier thereby, hopefully, promoting and improving health rather than seeking to respond purely to illness and disease.

“That balance will have to shift significantly in the coming years if we are to sustain our position—challenging the historic way in which we do things and challenging our clinicians and staff to think more innovatively. We need to see a shift in the balance of the way in which we deploy our resources, moving

²⁵ Scottish Parliament, Finance Committee, [F1/S3/11/R1: Report on Preventative Spending](#), 2011

forward to one that is more sustainable than the model that we currently have.”²⁶

81. In her answers to these questions – both in two oral evidence session and in a letter to the Committee, the Finance Minister has consistently focused on protecting spending and long term investments, rather than on specific examples of preventative spending.

82. The Finance Minister told us in her second evidence session:

“I welcome the committee’s focus on preventative spending.”

83. The Minister offered to report back on the scale of preventative spending in the budget overall. We feel strongly that more needs to be done to promote the principle and also to spread good practice. The evidence received from local government witnesses did not provide assurance to the Committee that preventative spending was a high priority.

Conclusion: The evidence we received did not provide assurance that there is a shift in budget emphasis towards preventative spending. However, we will await the Minister’s report, and make a judgement at that time whether this would be a fruitful area for a committee inquiry.

Grant management

84. The Wales Audit Office’s (WAO) report in to the Welsh Government’s relationship with the All Wales Ethnic Minority Association (AWEMA) published on 18 October 2012, raised wider concerns about the Welsh Government’s grant management processes. Many of these were first aired in the WAO’s Grants Management report from November 2011.

85. In response to our questions on this issue on 25 October 2012 the Finance Minister said that Wales gives out more grants than any other part of the UK. She also told us that a more strategic approach to grants management is now being applied by the Welsh Government.

²⁶ National Assembly for Wales, Finance Committee, ROP, 11 October 2012 para 23

86. It is unclear why Wales gives out more grants than any other area, and whether this represents better value for money than other forms of distributing money.

Conclusion: The Public Accounts Committee (PAC) has already published an interim grants management report (August 2012) which recommended that all existing grants be reviewed by 31 December 2013. PAC intends to conduct further investigations in to these issues.

Consistency of value judgements

87. The decision by the Minister for Local Government and Communities to take £10m from the local government settlement to create a Collaboration Fund, sparked some concern.

88. While local government have been keen to stress the need for additional support for collaboration, they were unhappy that it had been ‘top-sliced’ from their allocation. They also stressed that money alone wasn’t enough to deliver collaboration – willingness to participate is also a key factor.²⁷

89. Our concern is about the process and priorities involved here. The Collaboration Grant Fund will provide grants to promote collaboration. But the Welsh Government’s Invest to Save scheme – which provides loans to pump prime schemes which promote efficiency and effectiveness – has repeatedly been held up as an example of good value for money in this field, and has been used to fund successful collaborative schemes.

We recommend that the Welsh Government ensures there is internal consistency when deciding whether schemes provide sound value for money.

Collaboration

90. The existence of collaboration was evident from witnesses although the success and the pace of change was variable across the public sector.

²⁷ National Assembly for Wales, Finance Committee, ROP, 17 October 2012 para 142

91. Karen Miles, Director of Finance and Economic Reform, Hywel Dda Health board, told us:

“We have explained to our stakeholders, clinicians and staff that we cannot keep doing the same old, same old. We have to look at more innovative ways to stay within our resources and the regime that is going forward. They take seriously the requirement for us to look to see where integration can cut out duplication and continue to cut out waste, harvesting better relationships between clinicians in the primary and secondary sectors, and helping us with some of the issues going forward.”²⁸

92. In our subsequent session with local government we heard claims that Local Health Boards were ‘stepping out’ of collaborative arrangements, leaving local authorities to pick up the tab.

93. Gwyn Jones, Director of Finance at Ceredigion County Council, said:

“There is a lot of work being done with the health service, but I am not sure whether it is as successful as we would like it to be... However, where in the past we may have shared some costs, the impression I get now is that those costs are falling more and more on local authorities.”²⁹

94. Mark Owen, Head of Finance at Wrexham County Borough Council, told us.

“We work closely with health, although, with the financial situation in north Wales, we are noticing that there is increasing pressure on the local authority children and adult social care budget because health is trying to step out of its arrangements wherever it can really. Therefore, when a joint funding package comes up for a child or an adult, it is being more rigourously reviewed and there is more likelihood that the local authority will be picking up the bigger share, as health tries to withdraw and get its difficulties under control.”³⁰

²⁸ National Assembly for Wales, Finance Committee, RoP, 11 October 2012, para 22

²⁹ National Assembly for Wales, ROP, 17 October 2012 para 13

³⁰ National Assembly for Wales, ROP, 17 October 2012 para 16

95. Further Education provided the most enthusiastic evidence of collaboration. Eleven mergers have taken place, or are currently underway in the sector. Written evidence from Collegau Cymru claims that the mergers that had taken place prior to 2011 had saved an estimated £500,000 per college per year.³¹

96. Health & Social Care Committee also flagged up collaboration in their report to Finance Committee:

“It remains unclear to the Committee, however, what Ministers are doing to use their budgets in future years to encourage and drive collaboration in the sector both in terms of service delivery and administrative arrangements, beyond the existing arrangements for pooled budgets.”

97. It was evident to us that evidence on collaboration was at best inconsistent and it was not clear why there appeared to be a differing pace of change across the public sector. It is unclear whether other sectors are matching the enthusiasm or delivery seen in the FE sector.

Conclusion: Although the Welsh Government is clearly providing financial backing for collaboration, we would like to see a matching commitment to provide non-financial support to address the barriers to collaboration raised in our evidence.

We recommend that that Welsh Government take responsibility for ensuring greater consistency and sustainability in collaboration across the public sector.

³¹ Finance Committee, Fin (4)16-12 – Paper 4, Deeside College and Collegau Cymru para 23.

6. Budget process

Overview

98. The budget processes and other corporate planning frameworks which sit underneath the production of the Government's budget are key in terms of the information generated which is then available to support the committees to undertake their financial scrutiny responsibilities.

AIM: To examine the processes and to consider what improvements could be made solely with the focus of improving scrutiny.

Transparency

99. We, and the other committees of the National Assembly for Wales, have been impressed by the efforts made by the Welsh Government to improve the clarity and transparency of its budget documentation.

100. The on-going dialogue between officials of the National Assembly and the Welsh Government, plus the evident commitment of the Finance Minister to this process, has produced a budget that is easier to read and understand than ever before.

101. We also welcome the distinction made in the narrative document between additional allocations not previously announced and those which have already been detailed elsewhere.

102. This improved clarity was also noted by external witnesses.

Ministerial papers

103. This greater focus on transparency has also seen many Ministers setting a new standard in their detailed papers to other committees. However, there are inconsistencies between departments, and some committees have been critical of a lack of detail in their papers. This is particularly true of health, where £5bn of spending is held within a single line for "Delivery of Core NHS Services".

104. The Environment and Sustainability Committee's letter highlighted another common concern:

“Whilst steps have been taken towards linking financial planning with Programme for Government policy objectives, more needs to be done to make these links clear.”

We recommend that Ministerial papers should strive for consistency across all Ministers and departments. Future papers should address affordability, prioritisation and value for money in a consistent manner, and provide the appropriate level of detail to allow the scrutiny of resource allocation against stated Government priorities.

Equality Impact Assessment

105. The Welsh Government has been a trailblazer when it comes to assessing equality in its budgets. It was the first Government in the UK to publish an Equality Impact Assessment (EIA) on its budget.

106. In a statement on 8 October 2012, Finance Minister Jane Hutt announced the establishment of a Budgetary Advisory Group for Equality to take this work forward.³² We welcome this development.

107. We appreciate the Minister and the Welsh Government has set an example in this regard, but we also acknowledge that action has bred anticipation and we heard evidence of disappointment with what’s been produced both this year and 12 months ago.

108. In their written evidence the Wales Council for Voluntary Action (WCVA) state:

“The Equality Impact Assessment document that has been published is more a narrative and report on the overall process the Welsh Government has taken. Whilst useful in itself we would recommend that the actual impact assessments themselves (which are referenced in the document) should be published as well alongside the narrative. This is a requirement of an Equality Impact Assessment process and we believe it would increase transparency, accountability and improve scrutiny.”³³

³² <http://wales.gov.uk/about/cabinet/cabinetstatements/2012/eiadraftbudget/?lang=en>

³³ Communities, Equality and Local Government (CELG) Committee budget scrutiny letter – see List of further evidence

109. The lack of detail in the EIA was also criticised by the Communities, Equality and Local Government (CELG) Committee.

“The Committee feels that while progress has been made on the Equality Impact Assessment, there are still improvements needed. In particular, the Committee would like to see a more systematic, consistent and transparent approach taken to the EIA next year, in line with the Equality and Human Rights Commission guidance.”³⁴

110. From our questioning of the Finance Minister over the impact of welfare reforms, it appeared that the Welsh Government may have done more work assessing the impact of UK Government policies than on its own decisions on how to allocate resource.

We recommend that the Welsh Government should conduct a systematic, consistent and transparent equality impact assessment of the entire budget in line with the Equality and Human Rights Commission guidance on an annual basis, and publish the assessments themselves alongside the narrative document, at the time of the draft budget.

Sustainability and Welsh Language impacts

111. In addition to question marks over equality impacts, similar issues have been raised with regard to sustainability.

112. The CELG Committee’s letter to Finance Committee states:

“The Committee feels that the Minister should show more clearly in the future how sustainable development appraisals have impacted directly on his decisions in formulating his budget”³⁵

113. Environment and Sustainability Committee’s letter notes:

“The Minister indicated that his officials have worked with the strategic budgetary team to ensure that Sustainable Development was a more meaningful part of the process.

³⁴ Communities, Equality and Local Government (CELG) Committee budget scrutiny letter – see List of further evidence

³⁵ Communities, Equality and Local Government (CELG) Committee budget scrutiny letter – see List of further evidence

“However, we would like further evidence from the Welsh Government in future budget rounds of how sustainable development influenced spending allocations. For example, we would like to know whether policies were modified to deliver more sustainable outcomes or whether one policy option was selected over another for sustainability reasons.”³⁶

114. The Environment & Sustainability Committee notes that it is vital for the Welsh Government to set an example, as the proposed *Sustainable Development Bill* could require other public sector bodies to show how sustainable development has been a central organising principle of their budget process.

115. The Welsh language was another area where there were concerns about the monitoring of impact. In their letter, CELG Committee noted:

“The Minister acknowledged that there could be a more systematic way of ensuring that all Welsh Government policies are screened for their impact on the Welsh language. We would encourage the Minister to look at this as a matter of urgency...”³⁷

116. Members of the Finance Committee have also raised issues with regard to the duties arising from the adoption of the United Nations Convention on the Rights of the Child, and the Older People’s Commissioner makes a similar point for older people in her written response to the pre-budget consultation

We recommend that Welsh Government undertakes further work to standardise impact assessments undertaken with regard to sustainable development, the Welsh language, children and older people, and the way they are presented alongside the draft budget.

Capital funding

117. We welcome the more strategic approach being taken with regard to capital funding. We also support the intention of using investment

³⁶ Environment & Sustainability Committee budget scrutiny letter – see List of further evidence

³⁷ Communities, Equality and Local Government (CELG) Committee budget scrutiny letter – see List of further evidence

through the Wales Infrastructure Investment Plan (WIIP) and Centrally Retained Capital (CRC) to boost jobs and growth.

118. However, we were concerned to hear that allocations are being made from CRC prior to business case approval, and the potential impact this may have on the clarity of funding awarded. It could result in adjustments being made to funding awards at a later date, and make the transparency of awards to projects under the CRC clouded and subject to significant change.

119. The Finance Minister told us on 10 October 2012:

“As committee will be aware, the practice has been to announce capital allocations from the centrally retained capital fund when we have had final business case approval for schemes.

However, that can come rather late in the financial year, so we have been more strategic, in line with our Wales infrastructure investment plan. We feel that it is better to allocate central capital funding at the earliest opportunity, so that is why we are making those announcements. Of course, we still expect business case approval before the spend is approved, but what we are doing is allocating funding in advance of business case approval and adjusting budgets at a later date if we need to or if the profile changes. So, it is about being very clear for our delivery partners about where we want to allocate the funding and not just doing it on an in-year basis, which can appear to be ad hoc, although it is linked to final business case approval.”³⁸

120. While we acknowledge this process of allocating funding prior to business case approval makes things easier and faster for the Government and gives an early indication of funding to the projects themselves, it potentially introduces a greater risk to the public purse. The risk is that projects will be announced, and allocated funding, but that the final approved project will be very different to that announced or the levels of funding actually provided will change. There is a lack of transparency in this process which concerns us greatly.

We recommend that the Finance Minister informs the committee of any changes in awards to projects, or in the nature of the projects

³⁸ National Assembly for Wales, Finance Committee, RoP, 11 October 2012, para 254

themselves, under Centrally Retained Capital (CRC) through supplementary budgets. Any funding allocated which cannot be spent within the financial year should be returned to the central reserve for re-allocation.

Freedom

121. We received evidence on issues around greater financial freedom from two of the main recipients of Welsh Government funding.

122. Indeed, in recent months, we heard similar arguments from the Welsh Government, with regards to the way it receives money from the UK Government. In our report on Borrowing Powers and Innovative Approaches to Capital Funding,³⁹ we agreed with the Welsh Government that the UK Government should provide greater freedom to retain unspent money, and to move money between portfolios, and between capital and revenue budgets.

123. From Local Authorities and the WLGA we heard a call to reduce the amount of funding that is hypothecated (ring-fenced) and in particular the Welsh Government's protection of increases in education and social services spending. They told us that the protection of these budgets reduces local authorities' flexibility to target funding to other areas of need. This has also generated a greater squeeze on other areas of their budgets.

124. From Local Health Boards we heard a call for freedom from having to break even on an arbitrary date in the year. In his written evidence Dr Andrew Goodall told us:

“The specific requirement to break even to the last penny means that any surplus that is generated is returned to the Welsh Government and this can limit some of the decisions that are taken locally in order to maximise the funding we use for local services and priorities.”

125. The committee is very clear that additional freedom – in any sector – would come at a price of additional responsibility.

³⁹ National Assembly for Wales, Finance Committee, Borrowing Powers and Innovative Approaches to Capital Funding, July 2012

126. Local Health Boards put a compelling case for being allowed additional financial flexibility at the end of the year. We also note that the Public Accounts Committee has previously recommended that:

“...Local Health Boards are enabled to make more effective use of funding across financial years in line with local Authorities. This would enable improved financial planning in the medium to long term.”⁴⁰

127. In their letter, the Health and Social Care Committee noted:

“We welcome the Minister’s assurance that the statutory requirement for LHBs to break even at the end of the financial year is under consideration. We would welcome further information, however, on the potential options and timescales involved and, in particular, the point at which the Government believes legislative changes will be necessary to amend the current statutory duty.”

We recommend the Minister addresses the case for additional flexibility for Local Health Boards to manage their funding across financial years.

⁴⁰ Public Accounts Committee, A Picture of Public Services, April 2012

7. Public engagement

Innovative methods

128. Ensuring the public have a voice in the budget has been a key theme of this year's budget scrutiny process, in line with the second of the Commission's four strategic aims for the fourth Assembly – to engage with the people of Wales.⁴¹

129. This year has seen the Assembly adopting innovative methods to engage with stakeholders and individuals to ensure the public voice is heard. This includes:

- public engagement on budget awareness at the Summer Shows, including the National Eisteddfod;
- Finance Committee led a pre-budget stakeholder consultation on behalf of all committees;
- speed-networking: three committees invited stakeholders to events where committee members took turns to spend short periods listening to their concerns;
- committees also accepted written submissions following budget publication, in addition to their evidence sessions.

130. The inputs from this engagement have informed the support provided to Assembly Members and Committees, in relation to scrutiny of the draft budget.

131. One thing that came through clearly from our engagement was that people across all sectors understand that times are tough and that public services are likely to be facing cuts.

132. While many organisations told us that cuts to their budget would result in bigger costs in another area down the line, there was little evidence demonstrating clearly where savings could be made as a result of preventative investment.

133. A wide range of organisations made a case for three year funding allocations. Evidence from Local Authorities, Local Health Boards and the third sector (WCVA) all made the case for three year budgets as a way to assist their financial planning.

⁴¹ National Assembly for Wales, Assembly Commission draft budget 2013-2014, p3.

Conclusion: We acknowledge that three year funding allows for better planning. However, given that the Welsh Government itself doesn't have certainty over its budget for three years, we believe that its current practice of allocating indicative funding for future years is the best that can be realistically done.

Future engagement

134. There also remains a perception that the budget is overly complex and difficult to understand. For some organisations – particularly those which work across more than one Ministerial portfolio – it can be difficult to disaggregate the bits of the budget they are interested in.

135. The improved presentation of the budget as a whole and the introduction of a child-friendly four page guide 'Our Draft Budget 2013-2014', should help improve the public perception of the budget's complexity.

We commend the innovative and co-ordinated approach of the National Assembly for Wales (NAfW) in seeking new ways to engage with the public and stakeholders on what can be seen as a technical and difficult issue. We recommend that the NAfW should build on this work, extending the opportunities available, and producing a co-ordinated plan for engagement in future years.

Witnesses

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/mglIssueHistoryHome.aspx?lId=1243>

11 October 2012

Jane Hutt AM	Minister for Finance, Welsh Government
Jo Salway	Head of Strategic Budgeting
Andrew Jeffreys	Head of Strategic Capital Investment
Jeff Andrews	Specialist Policy Adviser
Dr Andrew Goodhall	Chief Executive, Aneurin Bevan LHB
Geoff Lang	Executive Director of Primary Care, Community and Mental Health Services, Betsi Cadwalader LHB
Karen Miles	Director of Finance and Economic Reform, Hywel Dda Health board

17 October 2012

Gwyn Jones	Director of Finance, Ceredigion County Council
Mark Owen	Head of Finance, Wrexham County Borough Council
Professor Hywel Thomas FRS	Pro-Vice-Chancellor (International and Engagement), Cardiff University
Dr Sue Hybart,	Director of Planning, Cardiff University
Hugh Jones	Chief Operating Officer, Cardiff University
David Jones	Principal, Deeside College
John Graystone	Chief Executive, Colegau Cymru

25 October 2012

Jane Hutt AM	Minister for Finance, Welsh Government
Jo Salway	Head of Strategic Budgeting
Andrew Jeffreys	Head of Strategic Capital Investment
Jeff Andrews	Specialist Policy Adviser

List of written evidence

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/ielIssueDetails.aspx?Ild=3829&PlanId=0&Opt=3#AI7601>

Written evidence

<i>Organisation</i>	<i>Reference</i>
Minister for Finance, Welsh Government	FIN(4) 15-12 (p2)
Aneurin Bevan Local Health Board	FIN(4) 15-12 (p1)
Betsi Cadwalader Local Health Board	
Hywel Dda Local Health Board	
Ceredigion County Council	FIN(4) 16-12 (p1)
Wrexham County Borough Council	FIN(4) 16-12 (p2)
Cardiff University	FIN(4) 16-12 (p3)
Deeside College	FIN(4) 16-12 (p4)

Further evidence

All documents and written evidence relating to the draft budget can be viewed in full at:

<http://www.senedd.assemblywales.org/mglIssueHistoryHome.aspx?lId=3829>

This includes:

Consultation responses

Governors Wales
Welsh Sport Association
University and College Union
Chwarae Teg
Wales Council for Voluntary Action (WCVA)
Older Peoples Commissioner for Wales
Niace Dysgu Cymru
Higher Education Wales
Diverse Cymru.
Colleges Wales
WWF Cymru
Welsh Local Government Association (WLGA)

Committee letters

[Communities, Equality and Local Government Committee](#)

[Children and Young People Committee](#)

Enterprise and Business Committee

- [Minister for Local Government and Communities](#)
- [Minister for Business, Enterprise, Technology and Science](#)
- [Minister for Education and Skills](#)

[Environment and Sustainability Committee](#)

- [Deputy Minister for Agriculture, Fisheries, Food and European Issues](#)
- [Minister for Environment and Sustainable Development](#)

[Health and Social Care Committee](#)

