

National Assembly for Wales
Finance Committee

Report on GEN-LD8296 –
Draft Budget Proposals 2011–12

January 2011



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Finance Committee

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Finance Committee

The Finance Committee's remit is to ensure that proper scrutiny is given to the budget and expenditure of the Welsh Government, the Assembly Commission, the Ombudsman, the Children's Commissioner, the Older People's Commissioner and various Welsh Government Sponsored Bodies and NHS Bodies.

The Committee has, in broad terms, three main functions:

- to consider and report on Assembly budget proposals;
- to consider and, where it sees fit, report on the financial information presented in support of Assembly Measures;
- to consider any other matter relating to, or affecting, expenditure by the Government or out of the Welsh Consolidated Fund.

Powers

The Committee was established on 26 June 2007. Its powers are set out in the National Assembly for Wales's Standing Order 14. These are available at www.assemblywales.org

Committee Membership



Angela Burns (Chair)
Carmarthen West and South
Pembrokeshire
Welsh Conservative Party



Lorraine Barrett
Cardiff and South Penarth
Labour



Peter Black
South Wales West
Welsh Liberal Democrats



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Swansea West
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Chris Franks
South Wales Central
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Brian Gibbons
Aberavon
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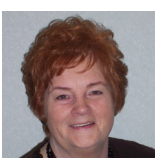


Nick Ramsay
Monmouth
Welsh Conservative
Party



Janet Ryder
North Wales
Plaid Cymru

The following Members attended meetings of the Finance Committee as substitutes during the period of this report:



Rosemary Butler
Newport West
Labour



Alun Davies
Mid and West Wales
Labour

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Summary of Conclusions and Recommendations

The Finance Committee is disappointed by the UK Government's continuing unwillingness, to recognise and put right the deficiencies in the out-dated Barnett formula. It supports the Welsh Assembly Government in continuing to make the case for change. The Committee also regrets that the UK Government has linked taxation and borrowing issues to the referendum on legislative powers. These are entirely separate issues and such a link can only add unnecessary confusion to issues that the electorate have been asked to address and might lead to a lack of clarity over the terms of the referendum. The Finance Committee states unequivocally that the Barnett formula must be addressed sooner rather than later. It also refers the Chief Secretary to the support the Finance Committee gave to addressing the issue of further borrowing powers as detailed in its report of Public Private Partnerships. (Paragraph 20)

The Finance Committee notes and agrees with the general approach being followed by the Minister for Business and Budget. If budget planning is to be effective it is vital that Departments set their objectives in terms of delivery outcomes in a consistent way which allows performance and value for money to be monitored. (Paragraph 29)

The Committee acknowledges the progress made by the Minister for Business and Budget and her Department in this regard but is concerned to note the variability in the application of financial management practices in different portfolios. (Paragraph 30)

The Committee was particularly concerned that in a number of departments the setting of budgets appeared to precede consideration of the precise outcomes to be delivered with the resources and how success is going to be measured. (Paragraph 31)

The Committee notes that there seems to be variable progress across departments in having outcome monitoring frameworks in place. The Committee recommends that the Minister for Business and Budget sets out an approach which starts with her setting the context by which the various outcomes should be prioritised in line with the overall Assembly Government budget and Departmental Ministers then

specifying the outcomes to be delivered. The Minister should also ensure that it is followed by all departments and that they do so in a consistent way. (Paragraph 32)

The Finance Committee very much welcomes the approach being followed by the Efficiency and Innovation Board and the development of a measurement framework to ensure the delivery of quantifiable savings. The key benefit of such a framework must be that it ensures the savings delivered are genuine savings and not mere assertions. It should also enable lessons learned to be evaluated and applied to deliver savings in other service areas. (Paragraph 38)

The Committee recommends that this approach is developed as swiftly as possible and that the framework is then made public to provide full transparency of the approach. (Paragraph 39)

The Finance Committee very much welcomes the development of Invest-to-Save activities. It welcomes that the Minister for Business and Budget is looking at this holistically in an attempt to break down the inefficiencies that might be missed by silo working within the Welsh Assembly Government and the Welsh public sector. The Committee notes the further information the Minister provided on the level of savings that have already been made, and are in train, from these Invest-to-Save projects. (Paragraph 41)

We recommend that the Minister for Business and Budget, as a matter of urgency, develops systems to ensure that these kind of savings are identified, incentivised and delivered. (Paragraph 44)

The Finance Committee looks forward to seeing finalised details of the new system on DEL underspends and welcomes the fact that the Welsh Assembly Government will retain the ability to carry forward any underspends. This is particularly important in view of the reductions made in capital budgets. However, the Committee is still concerned that any End-Year-Flexibility 'stocks' remaining under the present arrangements will be lost at the changeover and looks forward to receiving further information about this from the Chief Secretary. The Committee is also concerned that the new arrangements may not provide the necessary level of flexibility that is appropriate for a devolved administration. (Paragraph 47)

The Finance Committee supports the WLGA's view on accelerating the transfer of hypothecated grants into the Revenue Support Grant. Although it notes that progress in this regard will depend on agreeing suitable approaches to measuring and agreeing the outcomes to be delivered. (Paragraph 56)

The Finance Committee was pleased that the representatives of both local authorities and Local Health Boards were confident that their constituent organisations would meet the challenges required by the proposed budget while delivering the outcomes required of them. However, the Committee would have had more confidence if the evidence presented to them by the WLGA and the NHS Confederation to justify their assurances had been stronger. (Paragraph 57)

Nonetheless, the Finance Committee hopes that the lack of response from individual Local Authorities and Local Health Boards to the Committee's consultation can be taken as evidence that they support this positive view. The Finance Committee notes the NHS Confederation's emphasis on the political support they would need in order to bring about some possibly unpopular changes which would be needed to make the NHS more efficient in the coming years. (Paragraph 58)

The Finance Committee notes the Minister's responses in regard to the costs of Government and will consider these further when concluding its inquiry into the Welsh Assembly Government's staffing. (Paragraph 62)

The Finance Committee reiterates its view of the importance, not just in these difficult economic times, of capital funding being used as effectively as possible. The Committee notes with interest the development of the Centrally Retain Capital fund and will consider this further in concluding its inquiry into the allocation of capital resources in Wales. (Paragraph 66)

REPORT FROM THE FINANCE COMMITTEE

Draft Budget Proposals 2011-12

Introduction

1. The Welsh Assembly Government laid **GEN-LD8296 - Draft Budget Proposals 2011-12** on 17 November 2010. This draft budget motion was accompanied by a supporting document Draft Budget 2011-2012 which explained the different elements of the amounts to be authorised in the budget motion and gave the detail of the allocations to individual departments and central administration. A further document setting out the proposed allocations within each Main Expenditure Group for the three years from 2011-12 to 2013-14 accompanied these.

2. Standing Orders lay a number of specific responsibilities on the Finance Committee, in particular:

27.2 No motion may be moved in plenary in respect of the draft budget for the government until the Finance Committee has made its report on the draft budget under Standing Order 27.4.

27.4 The Finance Committee must consider and report to the Assembly on the draft budget no later than four weeks after it has been laid before the Assembly. The Finance Committee's report must append any recommendations which the Finance Committee has received from other committees.

27.5 The Finance Committee's report may recommend changes to the amounts proposed in the draft budget provided that the net effect of those changes would not increase or decrease the aggregate amounts of resources or cash proposed in the draft budget for the government.

3. Because of the 2010 Comprehensive Spending Review, the report of which was published on 20 October 2010, Standing Order 27.4 was amended by Standing Order 27A to revise the deadline for the Finance Committee laying its report to 11 January 2011

Evidence

4. The Minister for Business and Budget, with officials, presented the draft budget to the Finance Committee on 18 November 2010.

5. The Finance Committee held a meeting with the Rt Hon Danny Alexander MP, Chief Secretary to the Treasury on 22 November to discuss the overall Welsh settlement and related issues including the Barnett formula, and the potential for Wales to have its own borrowing and taxation powers.

6. The Finance Committee launched a short consultation on the draft budget proposals on 17 November inviting comments from particularly local authorities and the local health boards but also from other bodies affected by it. The consultation letter is at Annex A. The Committee was anxious to receive views focused specifically on the draft budget, and not merely on the general financial pressures in the public sector in Wales. It therefore invited short submissions focused on the proposals in the Welsh Government's draft budget. Bearing in mind the limited time available for the scrutiny of the draft budget it asked for these by 29 November 2010. The Committee was disappointed that, notwithstanding the tight deadline, only one response was received and surprised that, given the difficult financial situation Wales faces, voices are so muted.

7. Subsequently, on 2 December 2010, the Finance Committee took oral evidence from representatives of bodies covering the two largest areas of expenditure within the budget namely Local Government and the National Health Service:

- Cllr Rodney Berman and Steve Thomas, Welsh Local Government Association,
- Nigel Aurelius, Society of Welsh Treasurers

- Kate Watkins, Welsh NHS Confederation
- Jonathan Davies, Welsh NHS Confederation

8. Further oral evidence was received on 6 December from the Minister for Business and Budget and her officials. The Minister subsequently wrote to the Committee, following up points raised in the meeting, on 17 December 2010.

9. The Finance Committee is grateful to all those who provided evidence or assisted with its deliberations. It is particularly grateful to the Minister for Business and Budget and her officials, who in addition responded at very short notice to requests for further information. Full details of the individuals giving evidence are included on The Finance Committee's web site.

Budget Context

10. The Economic and Fiscal Outlook produced by the Office of Budget Responsibility on 29 November 2010 (Cm 7979) suggests that the UK economy has recovered more strongly since the spring than was expected at the time of the June Budget. Gross Domestic Product (GDP) growth was greater than expected in both the second and third quarters and previous forecasts have been slightly revised upwards. In contrast to these elevated projections for GDP, the latest figures on regional gross value added (GVA) demonstrate that in 2009 the Wales GVA dropped 2.2 per cent from the level in 2008. In the same period Welsh GVA per head dropped 2.5 per cent to £14,842 per head, the lowest GVA figure of all the UK regions.¹ Inflation is expected to remain above the 2 per cent (CPI) target for 2011 due in part to the increase in VAT.

11. The Office of Budget Responsibility's central forecast is that the economy will continue to recover from the recession, but at a slower pace than in the recoveries of the 1970s, 1980s and 1990s. This relatively sluggish medium-term outlook reflects the gradual normalisation of credit conditions, efforts to reduce private sector indebtedness and the impact of the UK Government's fiscal consolidation.

12. The Office of Budget Responsibility's forecast was produced following the UK Government's budget on 22 June 2010 and the Comprehensive Spending Review published on 20 October 2010. The backdrop for the budget and spending review was unprecedented levels of public sector borrowing following the crisis in the financial services sector and the subsequent economic downturn. A key aim of the UK Government is to eliminate the structural current deficit (i.e. that which cannot be eliminated by growth) by 2014-15 and place public sector net debt on a downward path from then on.

¹ Office for National Statistics Statistical Bulletin, *Regional, sub-regional and local gross value added 2009*, 8 December 2010

13. The Comprehensive Spending Review therefore ushered in a period of unprecedented restraint to reduce substantially the UK's budget deficit. This restraint has also come at a time when the economy has just started to show signs of recovery from the recent economic downturn.

14. The Treasury's allocation to the Welsh block has, as in previous years, been determined by the Barnett formula. In absolute terms, the revenue DEL allocation will, over the next four years, increase from the 2010-11 baseline of £13.3bn to £13.5bn in 2014-15. However, after adjusting for inflation, this represents a real-terms reduction of 7.5 per cent on the 2010-11 baseline² or 8.4 per cent on the actual budget for that year. The capital allocation will fall from £1.7bn to £1.1bn over the same period – a real terms reduction of 41 per cent.³ The Welsh Government has had to set its own budget having regard to these significantly reduced levels of funding.

15. Tables 1 and 2 summarise the key changes proposed in the draft budget and the projected changes for 2010-11 to 2013-14.

16. Previous budgets have always been accompanied by exhortations to secure greater economies and efficiencies. This time was no exception. However, the severity of the Comprehensive Spending Review will mean that the budgetary savings needed cannot be achieved by traditional economy and efficiency measures alone. The Welsh Government will need to look very carefully at how spending priorities have been determined in relation to its key objectives, and seek to ensure that public services are delivered in the most effective way possible. Spending programmes will need to be reconsidered with this "effectiveness agenda" at the forefront of everyone's minds. In examining the 2011-12 budget in this context, the Finance Committee has sought to establish how the Welsh Government has prioritised its spending plans and how it will measure the effectiveness of the delivery of key public services.

Devolution of tax raising and borrowing powers to Wales

17. Although not strictly related to the 2011-12 draft budget, the Finance Committee has also recently given some initial consideration

² The baseline excludes one-off and time-limited expenditure and assumes that the Welsh Government defers 50% of the cuts required for 2010-11 to 2011-12.

³ As is usual with the CSR, the allocations exclude depreciation. This non-cash charge will be added to the total allocation for inclusion in the Assembly budget motion.

to broader aspects of funding public expenditure in Wales. In July 2010, the final report of the Holtham Commission (Fairness and accountability: a new funding settlement for Wales) was published. This report and the Commission's interim report published in July 2009 highlighted a number of deficiencies in the Barnett formula and recommended that it be replaced with a simpler needs based formula. The interim report also identified some possible "quick fixes" in the interest of fairness and transparency. The Holtham Commission also recommended that it would be appropriate to consider devolving limited taxation powers and the power to borrow to finance capital expenditure. The Finance Committee took evidence from Gerry Holtham, in relation to his final report, on two occasions during the year and is very grateful to him for explaining the basis and potential consequences of his recommendations.

18. The Finance Committee explored these issues further in a meeting with the Chief Secretary to the Treasury on 22 November 2010. The Chief Secretary told the Committee⁴ that if there was a consensus in Wales to take forward a discussion about additional financial powers or potential financial devolution he would respond positively to it. However, now was not the time to open up a debate about reforming the Barnett formula. More generally, the UK Government has indicated that its consideration of the proposals in the Holtham reports will be dependent on the result of the referendum on legislative powers scheduled for 3 March 2011.⁵

19. At his meeting with the Finance Committee, the Chief Secretary did not make any specific comment⁶ in relation to the 'Barnett floor' and the Committee shares the disappointment of the Minister for Business and Budget that implementation of this was not announced in the spending review. The Committee was nonetheless pleased to hear from the Minister that the Chief Secretary was open to discussions on this.⁷

20. Comment: The Finance Committee is disappointed by the UK Government's continuing unwillingness, to recognise and put right the deficiencies in the out-dated Barnett formula. It supports the Welsh Assembly Government in continuing to make the case for

⁴ RoP p120, 22 November 2010, Finance Committee

⁵ HM Treasury, *Spending Review 2010*, page 70

⁶ RoP p127 - 131, 22 November 2010, Finance Committee

⁷ RoP p212, 6 December 2010, Finance Committee

change. The Committee also regrets that the UK Government has linked taxation and borrowing issues to the referendum on legislative powers. These are entirely separate issues and such a link can only add unnecessary confusion to issues that the electorate have been asked to address and might lead to a lack of clarity over the terms of the referendum. The Finance Committee states unequivocally that the Barnett formula must be addressed sooner rather than later. It also refers the Chief Secretary to the support the Finance Committee gave to addressing the issue of further borrowing powers as detailed in its report of Public Private Partnerships.⁸

Strategic priorities and outcomes

21. Given the reduced level of resources available to the Government for 2011-12 the main focus of the Committee's scrutiny has been to understand the approach of the Government to planning its use of the resources it has available to meet its strategic priorities. The Finance Committee wrote to all Ministers on 29 July in advance of the budget round, asking for information on the approach they would be following in allocating resources for the coming year. In particular the Committee asked Ministers what they saw as the key elements of their expenditure programmes, in terms of their key priorities and the outcomes they expected to be delivered. The Committee also requested details on the levels of efficiency savings that they expected to make.

22. The Minister for Business and Budget replied⁹ on 28 August on behalf of all Ministers saying, in essence, that they were working on the basis of planning assumptions of 3 per cent revenue and 10 per cent capital reductions, and that the Assembly Government's priority was to protect and improve public services, to protect to a degree the budgets for skills, schools, secondary and community healthcare and universal benefits. The letter went on to detail the work in hand to improve efficiency and promote innovation but emphasised that until the actual level of resources available was known it was not possible to be more specific.

⁸ Finance Committee, *Inquiry into Public Private Partnerships*, February 2009

⁹ Finance Committee FIN(3)-16-10(p3), *Letter from the Minister for Business and Budget*, 14 October 2010

23. The Finance Committee wrote again to individual Ministers on 23 November after the announcement of the conclusions of the Comprehensive Spending Review, and the publication of the draft budget. The Committee asked Ministers what priorities they had set in determining their budget for 2011-12 and how these would contribute to meeting the Assembly Government's overall strategic objectives. The Committee also asked how Ministers proposed to monitor the delivery of outcomes of these strategic objectives.

24. The Finance Committee also wrote to individual Scrutiny Committees asking them to consider the same issues in their scrutiny of the draft budget.

25. In her oral evidence to the Finance Committee the Minister for Business and Budget said¹⁰ that the Assembly Government was clearly focused strategically on delivering outcomes for people in Wales and that is how the budget should be judged. She also stated that individual portfolio Ministers are responsible for determining how to measure the impacts and outcomes of their spending priorities, and that this informs resource allocation and the business planning process. Members noted¹¹ that the responses from individual Ministers, and from Committees, demonstrated a markedly different approach from different departments. For example, one Minister spoke clearly about the future impact of the budget on their department in terms of efficiencies. Looking to the future she had highlighted capital funding reductions and monitoring outcomes within an operating framework and as a means of assessing performance. In contrast, another spoke simply of 'outcome monitoring' and subsequent monitoring by senior officials and what was essentially a retrospective process.

26. The Finance Committee particularly noted that several department budgets had been allocated on the basis of strategic objectives and yet there was no process in place for monitoring and assessing delivery. A number of Ministers said that now they had published their spending plans they were in the process of developing more detailed business plans which will set out the key deliverables and outcomes against their strategic priorities. This seemed to be in complete

¹⁰ RoP p214, 6 December 2010, Finance Committee

¹¹ RoP p221, 6 December 2010, Finance Committee

contrast to the Minister for Business and Budget's view that such decisions inform the resource allocation process.

27. The Minister for Business and Budget acknowledged¹² that she had noticed differences herself between departments and that she was sure that there would be lessons to be learned from the process that can feed through to the strategic direction that needs to be taken. The Minister said¹³ that the Finance Committee's scrutiny of the draft budget in this way would provide her with helpful feedback on how the Government can get the change of direction that was needed in terms of effective resource allocation.

28. The Minister for Business and Budget said¹⁴ that her Department provided the framework for the detailed planning process to manage and then support the detailed process of developing business plans.

29. **Comment:** The Finance Committee notes and agrees with the general approach being followed by the Minister for Business and Budget. If budget planning is to be effective it is vital that Departments set their objectives in terms of delivery outcomes in a consistent way which allows performance and value for money to be monitored.

30. The Committee acknowledges the progress made by the Minister for Business and Budget and her Department in this regard but is concerned to note the variability in the application of financial management practices in different portfolios.

31. The Committee was particularly concerned that in a number of departments the setting of budgets appeared to precede consideration of the precise outcomes to be delivered with the resources and how success is going to be measured.

32. The Committee notes that there seems to be variable progress across departments in having outcome monitoring frameworks in place. The Committee recommends that the Minister for Business and Budget sets out an approach which starts with her setting the context by which the various outcomes should be prioritised in line with the overall Assembly Government budget and Departmental Ministers then specifying the outcomes

¹² RoP p226, 6 December 2010, Finance Committee

¹³ RoP p226, 6 December 2010, Finance Committee

¹⁴ RoP p228, 6 December 2010, Finance Committee

to be delivered. The Minister should also ensure that it is followed by all departments and that they do so in a consistent way.

Maximising the use of resources

33. The Finance Committee has in previous years emphasised the importance of seeking to improve the efficiency and effectiveness with which services are delivered. With the reduced level of resources available in 2011-12 the need for an even more radical approach to public service delivery is needed. It focused on a number of issues in its discussion with the Minister for Business and Budget.

Efficiency and Innovation Board

34. The Finance Committee noted that there was a funding allocation in 2012-13 for the Efficiency and Innovation Board despite the fact that it is scheduled to run only until March 2012. The Minister for Business and Budget¹⁵ told the Committee that it would be a matter for the new Government, after the forthcoming election, to consider whether it wanted to continue with a similar approach to developing public service management and improvement.

35. Nonetheless she thought that this would be in the agenda for any future Government. From her perspective the budget line did not relate just to efficiency and innovation but also to possible match funding from the European Structural Funds that Wales has, such as the 'Making the Connections ESF budget line. She mentioned also¹⁶ the potential for savings through public service broadband aggregation, Xchange Wales and work streams which were already identifying savings at an authority level and at a pan public-sector level.

36. The Minister went on to say¹⁷ that they had brought together a group of experts to provide a measurement framework for these activities and these involved people not just from the Government but also from a wide range of public sector organisations including the Wales Audit Office.

¹⁵ RoP p251, 6 December 2010, Finance Committee

¹⁶ RoP p253, 6 December 2010, Finance Committee

¹⁷ RoP p257, 6 December 2010, Finance Committee

37. The Committee was reassured by the positive comments made by the Welsh Local Government Association¹⁸ on the linkages that these collaborations were making between social care departments and health boards and the synergies that were resulting from these. The Finance Committee also welcomed the similarly positive remarks from the NHS Confederation.¹⁹

38. Comment: The Finance Committee very much welcomes the approach being followed by the Efficiency and Innovation Board and the development of a measurement framework to ensure the delivery of quantifiable savings. The key benefit of such a framework must be that it ensures the savings delivered are genuine savings and not mere assertions. It should also enable lessons learned to be evaluated and applied to deliver savings in other service areas.

39. The Committee recommends that this approach is developed as swiftly as possible and that the framework is then made public to provide full transparency of the approach.

Invest to Save

40. The Finance Committee asked the Minister for Business and Budget about the Invest-to-Save Fund. Clearly in the current economic climate investments that lead to savings are to be welcomed and that they should be readily and transparently quantified. In turn it is essential that schemes to promote such investments should require these savings to be identified in advance. The Minister told the Finance Committee²⁰ that much of the work in relation to Invest-to-Save involves collaboration across the public sector and engagement with local government and the NHS. She said there was a robust procedure with expressions of interest, evidence of the need as well as evidence of the approach to the work, savings and innovation. In a subsequent letter to the Committee,²¹ the Minister for Business and Budget outlined the criteria against which proposals were assessed which included the extent to which they met the Assembly Government's One Wales agenda, the objectives of Making the Connections and Efficiency and Innovation programmes. She said also that they include

¹⁸ RoP p59-60, 2 December 2010, Finance Committee

¹⁹ RoP p199, 2 December 2010, Finance Committee

²⁰ RoP p283, 6 December 2010, Finance Committee

²¹ Finance Committee FIN(3)-02-11(p3), *Draft Budget 2011-12 – Further Information from the Minister for Business and Budget*, 12 January 2011

consideration of a proposal's payback period, rate of return on investment, and the 'additionality' case. The letter also included a list of the projects that had received awards and the savings estimated to be achieved by each.

41. **Comment:** The Finance Committee very much welcomes the development of Invest-to-Save activities. It welcomes that the Minister for Business and Budget is looking at this holistically in an attempt to break down the inefficiencies that might be missed by silo working within the Welsh Assembly Government and the Welsh public sector. The Committee notes the further information the Minister provided on the level of savings that have already been made, and are in train, from these Invest-to-Save projects.

Cross-department savings

42. The Finance Committee noted that there are opportunities for savings to be made by actions that spanned more than one portfolio. For example, the Minister for Environment, Sustainability and Housing had said²² that it had been estimated that every £1 spent on 'Rapid Response Adaptation' would result in a saving of £7.50 in Health and Social Services. The Minister for Business and Budget confirmed²³ that they were very much seeking collaboration of this kind – particularly between the NHS and social services and this was a key factor in relation to the importance of the bid. The Minister emphasised²⁴ that while this type of project could be described as 'cross-portfolio' it was actually 'cross-collaboration' at the local level and in some circumstances such as Health and Social Services they had joint appointments to manage such collaborations.

43. Given the departmental structure of the Welsh Assembly Government there is the potential for this kind of saving to be missed because a department considering investment might look only at savings within its own area of responsibility and not see the scope for wider benefits. The Minister for Business and Budget, and her department, has a crucial role in ensuring there are systems in place to identify this kind of opportunity and, to consider how to incentivise departments to look for benefits outside their immediate areas.

²² Finance Committee FIN(3)-22-10(p3), *Welsh Assembly Government Draft Budget 2011-12 – Responses from Welsh Ministers*, 6 December 2010

²³ RoP p286, 6 December 2010, Finance Committee

²⁴ RoP p291, 6 December 2010, Finance Committee

44. We recommend that the Minister for Business and Budget, as a matter of urgency, develops systems to ensure that these kind of savings are identified, incentivised and delivered

End year flexibility

45. The Finance Committee has expressed interest in the past about the levels of accumulated Welsh stocks of end year flexibility monies. The issue is particularly relevant to the proposals to terminate the end year flexibility system. The Committee discussed this with the Chief Secretary at its committee meeting with him on 22 November. He confirmed that although details of the new system were under development, the devolved administrations would retain the ability to carry forward underspends into the next financial year.²⁵ He also stated that unlike the end year flexibility system, there would be no capacity to build up accumulated stocks under the new system.²⁶ With reference to existing end year flexibility stocks available to Wales, he stated that all requested drawdowns would be honoured, but that no further requests for drawdown would be accepted and he agreed to confirm the level of stocks remaining to Wales.²⁷ The Committee was concerned that, on the face of it, any stocks not drawn down might be lost.

46. The Minister for Business and Budget told the Committee, at its meeting on 6 December,²⁸ that the Chief Secretary to the Treasury had confirmed to her that the devolved administrations were different from Whitehall Departments and that the new mechanisms would allow Wales to carry forward underspends to the following year without the need for agreement with the Treasury. She said she had written to the Chief Secretary to confirm the way forward and would share the correspondence with the Committee.

47. Comment: The Finance Committee looks forward to seeing finalised details of the new system on DEL underspends and welcomes the fact that the Welsh Assembly Government will retain the ability to carry forward any underspends. This is particularly important in view of the reductions made in capital budgets. However, the Committee is still concerned that any End-Year Flexibility 'stocks' remaining under the present arrangements will

²⁵ RoP p182, 22 November 2010, Finance Committee

²⁶ RoP p67, 22 November 2010, Finance Committee

²⁷ RoP p69, 22 November 2010, Finance Committee

²⁸ RoP p212, 6 December 2010, Finance Committee

be lost at the changeover and looks forward to receiving further information about this from the Chief Secretary. The Committee is also concerned that the new arrangements may not provide the necessary level of flexibility that is appropriate for a devolved administration.

Impact on the NHS and Local Government

48. The Finance Committee was concerned about the impact of the proposed budget on public sector organisations and particularly on the NHS which accounts for about 40% of the Government's budget and on local government which accounts for about 30%. In its limited consultation on the draft budget the Committee wrote to all Local Health Boards and all Local Authorities (Annex A) asking how they would ensure that the available resources were channelled to ensure maximum impact in delivering the Government's objectives and how they will assess the outcomes delivered.

49. The Finance Committee was surprised and disappointed at the lack of response to its invitation to Local Health Boards and Local Authorities. The Committee expected they would welcome the opportunity to give their views directly to the Committee given that this was a golden opportunity to scrutinise the draft budget

50. In its oral evidence to the Finance Committee the Welsh Local Government Association said²⁹ that they fully understood the financial situation of the country as a whole and³⁰ were looking at a -1.4% increase on average for local government this year. They said this was better than they had expected but that the settlement was still very tough. They went on to say that managing their finances was not going to be easy, that costs will rise, and that they will have to fight to plug the gap. However³¹ they welcomed the fact that they had received an allocation on a level similar to those for the NHS and the Welsh Assembly Government, which they felt had not been the case in previous years.

51. The Finance Committee was reassured by the positive response from the Welsh Local Government Association³² that local authorities were already looking at a number of measures to bridge the gap

²⁹ RoP p12, 2 December 2010, Finance Committee

³⁰ RoP p13, 2 December 2010, Finance Committee

³¹ Ibid

³² RoP p35, 2 December 2010, Finance Committee

between increasing demands and costs in the fields of education and social care and the level of protection provided for these areas within the revenue support grant. The Committee was told³³ that while responding to the lower level of budgetary provision in 2011-12 will involve considerable pain for local authorities, they would want to manage their medium-term financial planning to ensure they protected front-line services. The challenge³⁴ for local authorities is how they can reduce expenditure while delivering genuine efficiencies that do not impact on services.

52. The Finance Committee was similarly reassured by the positive messages received from the NHS Confederation³⁵ which said that Local Health Boards were confident that they could protect, deliver and develop core services because they were confident that they could make the necessary efficiency savings. They stressed nonetheless that they would need support because some unpopular decisions would have to be made about the way in which services are delivered in the future. Health Managers and Clinicians were looking for support with what would be a difficult task.

The Confederation said that each organisation had its own programme of efficiency savings and these came together under the five year strategy. The NHS recognised³⁶ that it had a major transformation project ahead over the next few years. But some changes³⁷ had already happened. The Confederation said³⁸ that their financial settlement was adequate to carry out these changes provided they are given the opportunity to make them, and provided that they receive political and public support for the service reconfiguration.

53. The Finance Committee was nonetheless concerned about the scale of the challenges facing the NHS in delivering the changes necessary. It therefore wrote to the Finance Directors of individual Local Health Boards to seek further information on the costs of making the changes and the savings necessary to achieve the outcomes desired. In a collective response³⁹ the Finance Directors said that all

³³ RoP p93, 95-97, 2 December 2010, Finance Committee

³⁴ RoP p97-98, 2 December 2010, Finance Committee

³⁵ RoP p220, 2 December 2010, Finance Committee

³⁶ RoP p140, 2 December 2010, Finance Committee

³⁷ RoP p265, 2 December 2010, Finance Committee

³⁸ RoP p267-268, 2 December 2010, Finance Committee

³⁹ Finance Committee FIN(3)-02-11(p4), *Draft Budget 2011-12 - Response from the NHS Directors of Finance in Wales*, 12 January 2011

Health Boards have known and understood that they needed to develop their service plans in the light of a very difficult economic outlook. They said they recognised a need to provide high levels of efficiency coupled with the continued transformation of services described by the NHS Confederation. They concluded by saying that all Boards were currently undergoing rigorous assurance processes to ensure their plans were deliverable. At this stage it was difficult to consolidate them all in a meaningful way as evidence to the Finance Committee.

54. The Finance Committee is concerned that the Health Service must be careful to make efficiency savings whilst retaining service delivery. It has an obligation to provide healthcare for the people of Wales and this must be maintained despite the need to make savings.

55. On a specific area where savings could be made, the WLGA stated in their written evidence to the committee that ring-fencing of grants have administration and audit costs associated with them, which are estimated to be in the region of five per cent of the total grant cost. In their oral evidence they asked the Committee to support them on accelerating the transfer of more of these grants into the revenue support grant to save the money that is going into administration. While they acknowledged that some progress was being made in this regard, they felt that the Welsh Assembly Government could move more quickly on this than it has been doing. **The Finance Committee supports this view although it notes that progress in this regard will depend on agreeing suitable approaches to measuring and agreeing the outcomes to be delivered.**

56. **Comment:** The Finance Committee was pleased that the representatives of both local authorities and Local Health Boards were confident that their constituent organisations would meet the challenges required by the proposed budget while delivering the outcomes required of them. However, the Committee would have had more confidence if the evidence presented to them by the WLGA and the NHS Confederation to justify their assurances had been stronger.

57. Nonetheless, the Finance Committee hopes that the lack of response from individual Local Authorities and Local Health Boards to the Committee's consultation can be taken as evidence that they support this positive view. The Finance Committee notes

the NHS Confederation's emphasis on the political support they would need in order to bring about some possibly unpopular changes which would be needed to make the NHS more efficient in the coming years.

Welsh Assembly Government Staff costs

58. The Finance Committee noted that the Central Services and Administration main expenditure group showed a reduction of 20 per cent in real terms over the budget period and that the accompanying narrative stated that it is intended to reduce the cost base for the size of the workforce. The Committee has for some time been concerned about the costs of staffing the Welsh Assembly Government and has asked the Minister for Business and Budget how this reduction will be achieved.

59. In her response⁴⁰ the Minister for Business and Budget confirmed that the Welsh Assembly Government would be looking to reduce the cost of its workforce. She referred to constraints on recruitment and overtime but said also that they would need to use voluntary severance to reduce the size of the workforce. A first round had been completed and they hoped to run a second round after Christmas. The Minister referred also to 'Solutions' which was a new process for the allocation of staff resources to ensure they continued to deliver during the period of change and to ensure that skills, and training, were used to best effect.

60. The Finance Committee noted also that the narrative document accompanying the draft budget suggested that there would be losses of some 30,000 public sector jobs in Wales. Given that the Office for Budget Responsibility had reduced their previous forecast for the corresponding job losses in the UK from 490,000 to 330,000 during the Spending Review period (with an additional fall of 80,000 in 2015-16) it wondered whether the figure of 30,000 quoted for Wales was likely to be revised. The Minister for Business and Budget said in her letter⁴¹ that she did believe there was any need to modify the estimates.

⁴⁰ Finance Committee FIN(3)-02-11(p3), *Draft Budget 2011-12 – Further Information from the Minister for Business and Budget*, 12 January 2011

⁴¹ Finance Committee FIN(3)-02-11(p3), *Draft Budget 2011-12 – Further Information from the Minister for Business and Budget*, 12 January 2011

61. **Comment: The Finance Committee notes the Minister's responses in regard to the costs of Government and will consider these further when concluding its inquiry into the Welsh Assembly Government's staffing.**

Capital Investment

62. The Finance Committee noted the significant reduction in capital budgets as a result of the overall 30 per cent reduction in capital over the budget period and is concerned about the impact this may have on infrastructure investment in Wales.

63. Clearly the need to use resources as effectively as possible applies as much, maybe even more, to capital budgets because of their very large reductions. The Finance Committee is already part way through an inquiry into the way that capital investment is allocated and managed by the Welsh Assembly Government and will need to have regard to the current budgetary position in concluding this work. The Committee has in the past commented on the Strategic Capital Investment Framework and the way in which the Government is developing its strategic approach to the use of these resources. The Committee notes that the Central Services and Administration main expenditure group in the draft budget contains an allocation for the administrative and operational costs of the framework in every year of the budget period.

64. In her letter to the Finance Committee⁴² the Minister for Business and Budget said that the Strategic Capital Investment Framework would not continue past 2010-11 but that provision had been made in the Draft Budget for centrally retained capital. This would involve the availability of a Centrally Retain Capital fund of up to £150 million over the period 2010-11 to 2013-14.

65. **Comment: The Finance Committee reiterates its view of the importance, not just in these difficult economic times, of capital funding being used as effectively as possible. The Committee notes with interest the development of the Centrally Retain Capital fund and will consider this further in concluding its inquiry into the allocation of capital resources in Wales.**

⁴² Finance Committee FIN(3)-02-11(p3), *Draft Budget 2011-12 – Further Information from the Minister for Business and Budget*, 12 January 2011

Conclusions

66. The Finance Committee has examined the Government's draft budget and has taken evidence on it from some key stakeholders. Wales faces some challenging times in the coming year as it has to cope with reduced levels of funding. It is therefore as important as ever that every effort is made to ensure the maximum value is obtained from every pound that is spent.

67. The Committee welcomes the Government's approach to focusing on its key objectives and doing so within a framework that allows outcome performance and value for money to be monitored. The Committee welcomes the efforts made by the Minister for Business and Budget in developing systems to deliver such an approach but is concerned that greater efforts should be made to ensure consistency in practices across different individual departments. The Committee also emphasises the importance of considering outcomes, the way in which they will be delivered and success measured, before decisions are taken on budget allocations.

68. The Committee welcomes the approach being followed by the Efficiency and Innovation Board and the development of a measurement framework to ensure the delivery of quantifiable savings. It recommends this work is developed as swiftly as possible. Similarly the Committee welcomes the approach being followed in relation to Invest-to-Save. It noted in particular the benefits to be obtained from making savings through coordinated action in different departments and urges the Minister for Business and Budget to develop systems to ensure these opportunities are not missed.

69. The Finance Committee shares the Minister for Business and Budget's concerns that End Year Flexibility monies might be lost to Wales and supports her in her efforts to protect these. The Committee is also concerned that the new arrangements proposed by the UK Government to provide budget flexibility between years might not have the flexibility appropriate to a devolved administration.

70. The Finance Committee welcomes the positive messages from both local government and the National Health Service in relation to meeting their objectives in the coming year despite the reduced resources. It notes though the concerns of the NHS about the need for political support for possibly unpopular changes. It agrees with the

Welsh Local Government Association about the importance of reducing the number of hypothecated grants – subject to these being accompanied by suitable agreed approaches to measuring the outcomes to be delivered by local authorities.

71. The Committee notes the developments in relation to staff costs and capital allocations and intends to come back to these in its final inquiries.

72. On an issue wider than the Government's draft budget, the Finance Committee is disappointed by the UK Government's continuing unwillingness to recognise and put right the deficiencies in the Barnett formula, and urges the Welsh Assembly Government to continue to make the case for change. The Committee is also concerned that the Treasury appears to be linking taxation and borrowing issues to the referendum on legislative powers. These are entirely separate matters and making the link risks causing confusion during the referendum of further powers for the National Assembly.

Angela Burns AM
Chair, Finance Committee

Table 1: Total managed expenditure (TME) in the Welsh block 2010-11 to 2011-12 and cumulative change 2010-11 to 2013-14

Main Expenditure Group	2010-11 Supplementary Budget	2011-12 Draft Budget New Plans	Change 2010- 11 to 11-12	Change 2010- 11 to 11-12	Real terms change 2010- 11 to 2011-12	Real terms change 2010-11 to 2011-12	Cumulative change 2010- 11 to 2013-14	Cumulative change 2010- 11 to 2013- 14	Real terms cumulative change 2010- 11 to 2013-14	Real terms cumulative change 2010- 11 to 2013- 14
	£000	£000	£000	per cent	£000	per cent	£000	per cent	£000	per cent
Total Welsh Government TME allocations	15,321,636	15,017,082	-304,554	-2.0	-584,558	-3.8	-424,757	-2.8	-1,393,337	-9.1
Revenue Reserves	187,219	164,148	-23,071	-12.3	-26,132	-14.0	187,809	100.3	163,425	87.3
Capital reserves	266,619	50,448	-216,171	-81.1	-217,112	-81.4	-216,170	-81.1	-219,450	-82.3
Assembly Commission	46,227	48,822	2,595	5.6	1,685	3.6	-1,206	-2.6	-4,133	-8.9
Auditor General for Wales	5,047	4,853	-194	-3.8	-284	-5.6	-194	-3.8	-510	-10.1
Public Services Ombudsman for Wales	4,166	3,962	-204	-4.9	-278	-6.7	-206	-4.9	-463	-11.1
Direct Charges	675	675	0	0.0	-13	-1.9	0	0.0	-44	-6.5
Total Wales TME	15,831,589	15,289,990	-541,599	-3.4	-826,692	-5.2	-454,724	-2.9	-1,454,512	-9.2

Source: Members' Research Service calculations from Welsh Government Draft Budget 2011-12.

The figures for 2010-11 revenue and capital reserves shown in this table **do not match those published in the draft budget** document. This is because the published figures have not been restated in the same way as all other 2010-11 baseline figures. The figures shown here have been restated and were obtained from the Welsh Government. However, this means that **reserves cannot be compared between 2010-11 and 2011-12**.

Table 2: Total DEL in the Welsh block 2010-11 to 2011-12 and cumulative change 2010-11 to 2013-14

Main Expenditure Group	2010-11 Supplementary Budget	2011-12 Draft Budget New Plans	Change 2010- 11 to 11-12	Change 2010- 11 to 11-12	Real terms change 2010- 11 to 2011-12	Real terms change 2010-11 to 2011-12	Cumulative change 2010- 11 to 2013-14	Cumulative change 2010- 11 to 2013- 14	Real terms cumulative change 2010- 11 to 2013-14	Real terms cumulative change 2010- 11 to 2013- 14
	£000	£000	£000	per cent	£000	per cent	£000	per cent	£000	per cent
Health & Social Services	6,170,809	6,132,587	-38,222	-0.6	-152,569	-2.5	-69,694	-1.1	-466,382	-7.6
Social Justice & Local Government	4,459,941	4,373,218	-86,723	-1.9	-168,265	-3.8	-42,392	-1.0	-329,616	-7.4
Economy & Transport	973,730	903,042	-70,688	-7.3	-87,526	-9.0	-126,810	-13.0	-181,876	-18.7
Children, Education, Lifelong Learning & Skills	1,878,043	1,846,817	-31,226	-1.7	-65,661	-3.5	-29,023	-1.5	-149,244	-7.9
Environment, Sustainability & Housing	801,743	740,953	-60,790	-7.6	-74,606	-9.3	-123,618	-15.4	-167,709	-20.9
Rural Affairs	143,289	136,556	-6,733	-4.7	-9,279	-6.5	-9,395	-6.6	-18,101	-12.6
Heritage	157,584	150,850	-6,734	-4.3	-9,547	-6.1	-10,551	-6.7	-20,111	-12.8
Public Services & Performance	70,393	63,782	-6,611	-9.4	-7,800	-11.1	-13,344	-19.0	-17,053	-24.2
Central Services & Administration	365,621	346,499	-19,122	-5.2	-25,583	-7.0	-46,968	-12.8	-67,686	-18.5
Total Welsh Government DEL Allocations	15,021,153	14,694,304	-326,849	-2.2	-600,835	-4.0	-471,795	-3.1	-1,417,779	-9.4

Source: Members' Research Service calculations from Welsh Government Draft Budget 2011-12.

Annex A Consultation letter

**Pwyllgor Cyllid
Finance Committee**

To:
Chief Executives of
Local Authorities & Local Health
Boards in Wales

Cynulliad Cenedlaethol Cymru/
National Assembly for Wales
Bae Caerdydd / Cardiff Bay
Caerdydd / Cardiff
CF99 1NA

11 November 2010

Dear Colleague

The Welsh Assembly Government intends to lay its draft budget for 2011-12 on 17 November.

The coming year is going to present particular challenges for everyone in the public sector with authorities and public bodies having to manage the delivery of services to achieve the best outcomes they can with the limited resources that will be available. In recognition of this, the Finance Committee is planning to focus its scrutiny of the Government's draft budget on the Government's priorities and the outcomes that will be delivered. The Committee has written to the Welsh Assembly Government asking it to indicate, at the time the draft budget is laid, how it will ensure that the available resources are channelled to ensure their maximum impact in delivering the Government's strategic objectives and how it will assess the outcomes delivered.

The Finance Committee is inviting views on the Government's draft budget from public bodies and anyone else affected by it. The Finance Committee has only a very short time in which to scrutinise the Government's draft budget and therefore needs to have received all submissions by close on 29 November 2010. The Finance Committee is conscious that this is a very short timescale and requests short submissions focused on the proposals in the Government's draft budget.

Croesewir gohebiaeth yn y Gymraeg a'r Saesneg / We welcome correspondence in both English and Welsh

Y Pwyllgor Cyllid / Finance Committee
Gwasanaeth y Pwyllgorau / Committee Service
Ffôn / Tel : 029 2089 8225
Ebst/Email: Finance.comm@wales.gov.uk

Submissions should be sent to the Clerk at finance.comm@wales.gov.uk, or the address above, to arrive no later than **Monday 29 November 2010**.

Disclosure of Information

It is normal practice for the National Assembly to publish evidence provided to a Committee. Consequently your response may appear in the Committee's report or in supplementary evidence to a report. The National Assembly will not publish information which it considers to be personal data.

In the event of a request for information submitted under UK legislation, it may be necessary to disclose the information that you provide. This may include information which has previously been removed by the National Assembly for publication purposes.

If you are providing any information, other than personal data, which you feel is not suitable for public disclosure, it is up to you to stipulate which parts should not be published and to provide a reasoned argument to support this. The National Assembly will take this into account when publishing information or responding to requests for information.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Angela Burns', with a small dot at the end.

**Angela Burns AC/AM,
Chair, Finance Committee**

Annex B

Recommendations and conclusions made by other Assembly Committees

The Finance Committee has received reports on scrutiny of the draft budget from the following scrutiny Committees:

Children and Young People
Communities and Culture Committee
Enterprise and Learning Committee
Equality of Opportunity Committee
Health, Wellbeing and Local Government Committee
Sustainability Committee
Rural Development Sub-Committee

The recommendations and conclusions made by the other Committees are summarised in the table below.

Summary of recommendations and conclusions from other Committees:

Recommendation / Conclusion	Action by
<i>From the Children and Young People Committee</i>	
The Committee recommends that in future years, the Children and Young People Cabinet Sub-Committee are involved in budget allocation discussions at a much earlier stage in order to better facilitate its strategic role of implementing the UNCRC and the seven core aims.	Welsh Assembly Government
The Committee calls on the Deputy Minister for Children to work with local authorities to eliminate any remaining doubt with regards to Cymorth funding streams for 2011-12 and to ensure that local authorities are fully aware of the transitional arrangements.	Welsh Assembly Government
The Committee recommends that the Deputy Minister for Children revises the decision to split the children and families organisational grant between Health and Social Services Department and the Children, Education and Lifelong Learning Services departments in 2012-13.	Welsh Assembly Government
The Committee recommends that the Welsh Government monitors the soft ring fencing approach closely in 2011-12, and takes steps to	Welsh Assembly Government

enable greater ring fencing if necessary to the funding streams to education and social services.	
The Committee recommends that the Welsh Government closely monitors the thresholds for receipt of services, in particular child protection thresholds, applied by local authorities across Wales. Furthermore, clear guidance should be issued by April 2011 containing definitions of 'vulnerable' and the minimum child protection thresholds that should apply.	Welsh Assembly Government
The Committee recommends that the Deputy Minister for Children writes to all local authorities in Wales to remind them of the importance, effectiveness and value of early intervention services for children, young people and families and to remind local authorities that cuts to these services could be costly both to families in crisis, and in financial terms for local governments in the future.	Welsh Assembly Government
<i>From the Communities and Culture Committee</i>	
We recommend that when engaging in dialogue with AGSBs about possible future funding arrangements, the Welsh Government ensures that as result of such dialogue it is able to determine indicative estimates of the potential consequences of funding cuts or increases for those AGSBs	Welsh Assembly Government
We recommend that the Welsh Government ensure that reductions in funding for revenue funded clients of the Arts Council of Wales are limited to around 4% over a three year period, as set out by the Minister for Heritage	Welsh Assembly Government
We recommend that the Welsh Government works with partners (such as local authorities and the Arts Council of Wales) to enable the identification of geographic areas in Wales where people have particularly limited access to arts and cultural activities via public transport	Welsh Assembly Government
We recommend that the Welsh Government provide a clear account of the anticipated costs of establishing the office of the Welsh Language Commissioner	Welsh Assembly Government

<i>From the Enterprise and Learning Committee</i>	
<p>We recommend that the Welsh Government should develop, as a matter of urgency, a framework for measuring the impact of its economic development policies against strategic objectives.</p> <p>We also recommend that Welsh Ministers should clarify the role they expect the newly announced Council for Economic Renewal to play in ensuring that the Government's performance in this area can be regularly held to account.</p>	Welsh Assembly Government
<p>We recommend that the Finance Committee should scrutinise the impact of the Welsh Government's proposals for the future costs of the concessionary fares scheme on both the revenue and capital budgets for developing sustainable travel, and should make recommendations to Ministers for safeguarding other public transport initiatives.</p>	Finance Committee
<p>We believe it is imperative that Wales's excellent record in road safety be maintained and we therefore recommend that the Finance Committee question the Welsh Government further on the cost-effectiveness of proposals to reduce its road safety budget.</p>	Finance Committee
<p>We recommend that the Welsh Assembly Government should build into future evaluations the contribution that the school breakfasts initiative makes to economic development.</p>	Welsh Assembly Government
<p>We recommend that the Finance Committee scrutinise further any risk of underspend in the European Social Funds programme as a result of the draft budget proposals.</p>	Finance Committee
<p>We recommend that the Welsh Government should carry out an evaluation of the merits of different public private partnership models as a means of generating alternative sources of funding to deliver capital projects and also of saving on revenue expenditure over the longer term.</p>	Welsh Assembly Government
<i>From the Equality of Opportunity Committee</i>	
<p>The Committee welcomed the Minister's assurance that the budgetary decisions had been based on an assessment of equality impact. However, we believe that there is a need for greater transparency and, in</p>	Welsh Assembly Government

<p>line with the guidance from the Equality and Human Rights Commission; the Welsh Assembly Government should publish the results of the equality impact assessment.</p>	
<p>The Committee highlighted the importance of measuring the effectiveness and outcomes of the Welsh Assembly Government's priorities in terms of their impact on different groups of people.</p>	<p>Welsh Assembly Government</p>
<p>The Committee was concerned about the impact of the reduced settlement to local government on their ability to implement equal pay policies for women, as we would not want to see the situation in Wales falling any further behind.</p>	<p>Local Government</p>
<p>We recognise that the Welsh Assembly Government has done what it can to try and protect the most vulnerable in society. However, we are concerned that many of our priorities are for determination and delivery at a local level and, given the Welsh Assembly Government's position regarding the allocation of hypothecated funding, we would urge the Minister to use the equality impact assessment process to ensure that local authorities and public bodies give due regard to equality impacts in the decisions they take when spending money allocated to them by the Welsh Assembly Government.</p>	<p>Welsh Assembly Government</p>
<p><i>From the Health, Wellbeing and Local Government Committee</i></p>	
<p>Concern was expressed at the level of resources allocated to implement the Proposed Mental Health (Wales) Measure, which has been broadened to include people under the age of 18. Although the Finance Committee endorsed the Measure, it did not, at that time, include provision for under-18s. The Committee therefore recommends that the Minister for Health and Social Services monitors the situation carefully.</p>	<p>Welsh Assembly Government</p>
<p>The Committee expressed concern at the decrease of 4 per cent in the funding for NHS workforce training. Concern was also expressed about the amount of money spent training staff who then decide to work outside Wales, and the moral issue of taking medical staff from other countries, including sub-Saharan African countries. The</p>	<p>Welsh Assembly Government</p>

<p>Committee would ask the Minister for Health and Social Services to consider ways of incentivising those trained in Wales to stay in Wales, which would also lead to less reliance on staff from other countries, where they may be desperately needed.</p> <p>Concern was also expressed about the investment made to train staff when there were not necessarily positions available for them, and the field of midwifery was given as an example. The Committee feels that the Government needs to reconsider the way in which workforce planning feeds into budgetary decisions on training provision.</p>	<p>Welsh Assembly Government</p>
<p>The Minister for Health and Social Services told Committee that £200,000 has been earmarked to implement the Pennington Report recommendations. The Committee expressed concern at the difference between the sum earmarked by the Government and the figure of £2.75 million suggested by Professor Pennington as the sum required to implement his recommendations. The Committee would therefore urge the Government to reconsider the amount of funding allocated to implement these recommendations, which are vital to ensuring that the tragedy of 2005 is not repeated.</p>	<p>Welsh Assembly Government</p>
<p>The Committee noted with concern the reduction in funding relating to CAF/CASS Cymru and were surprised to learn that it specifically relates to contact centres, given that the availability of, and funding for, contact centres had been raised as a concern in the Committee's Report of Inquiry into CAF/CASS. The Committee would urge the Minister for Health and Social Services to look again at the recommendations of the Committee's report on CAF/CASS and, in particular, funding for contact centres.</p>	<p>Welsh Assembly Government</p>
<p><i>From the Sustainability Committee</i></p>	
<p>The Minister for Environment, Sustainability and Housing (ESH) should provide greater clarity regarding where savings are to be made to pay for those areas of the DESH budget that have been protected, and what One Wales objectives will not be achieved as a result;</p>	<p>Welsh Assembly Government</p>

<p>The Minister for ESH should provide full details of how she intends to fulfil her capital commitments when, in real terms, the budget for capital drops by 20.9% in 10/11 and 32.6% in 13/14, and the revenue budget by 4.4% in 11/12 and 9.5% in 13/14. The Committee does not feel that the Minister adequately explained how she was going to be able to capitalise a substantial portion of the revenue budget without having an effect on her Department and agencies' ability to deliver on their objectives;</p>	<p>Welsh Assembly Government</p>
<p>The Minister for ESH should clarify the situation regarding the Invest-to-Save grants awarded to her department and the projected savings from these projects;</p>	<p>Welsh Assembly Government</p>
<p>The Minister for ESH should make an assessment of how the budget cuts will affect the Welsh Government's ability to fulfil the obligations set out in the <i>Marine and Coastal Access Act 2009</i> and the <i>Flood and Water Management Act 2010</i> and its ability to build capacity ahead of the devolution of building regulations;</p>	<p>Welsh Assembly Government</p>
<p>When making a decision regarding the future of environmental delivery bodies in Wales, the Minister for ESH should publish clear and detailed information on the financial implications of her decision;</p>	<p>Welsh Assembly Government</p>
<p>The Minister for ESH should think creatively regarding opportunities for additional revenue-raising by public bodies within her remit.</p>	<p>Welsh Assembly Government</p>
<p><i>From the Rural Development Sub Committee</i></p>	
<p>The Minister for Rural Affairs (RA) reported that as TB compensation payments were demand led, it was likely that there would be overspend on this budget. The Committee recommends that the Minister adjust this budget, in line with best estimates and expenditure in previous years, to reflect the actual levels of compensation payments for TB. The Committee believes that this will highlight the true nature of the TB problem in Wales as well as allowing for more accurate budget scrutiny.</p>	<p>Welsh Assembly Government</p>
<p>Although the Minister for RA undertook to safeguard the funding for the Rural Development</p>	<p>Welsh Assembly Government</p>

<p>Plan, she did not undertake to maintain the budget for Glastir at the current level. The Committee would like an assurance from the Minister that the money will be available for Glastir in the longer term.</p>	
<p>The Committee were very concerned that the Minister for RA had decided to make cuts to the food and drink marketing budget but were encouraged to hear that the Minister was considering the role of the processing and marketing grant within the Rural Development Plan. The Committee would urge the Minister to move forward with accepting new applications to this grant, to minimise the impact of cuts in this area.</p>	<p>Welsh Assembly Government</p>
<p>The Minister for RA stated that although she felt confident that the current resource implications of the proposed legislation on dog breeding could be found from within her budget further resource implications may come to light through the consultation process on the legislation. The Committee would welcome further information on the resource implications of this legislation as they become apparent and urges the Minister to take these into account in future budgeting rounds.</p>	<p>Welsh Assembly Government</p>
<p>The Minister for RA informed the Committee that match funding for the European Fisheries Fund, which provides grants to individuals within the fishing industry, would be protected despite the cuts in the food and fisheries budget. However, the Minister did not provide the Committee with any information as to how the budget had taken account of the additional fisheries responsibilities given to the Minister under the <i>Marine and Coastal Access Act 2009</i>. The Committee urges the Minister to outline in further detail how these additional responsibilities will be resourced.</p>	<p>Welsh Assembly Government</p>
<p>In addition to the above points on the budget for the Rural Affairs department, the Committee was also concerned from a wider perspective about the use of underspend within budgets to meet compensation payments, and the impact this may have on the process of robust budget scrutiny. The Committee understands and supports the need for flexibility within budgets, but is concerned about</p>	<p>Welsh Assembly Government</p>

<p>the potential for changing political priorities through planning underspends in some areas to offset other areas. This practice makes scrutinising spending priorities within departments difficult, as the emphasis for expenditure in the budget may not reflect the actual priorities of the department.</p>	
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Annex C

Welsh Assembly Government Draft Budget 2011-12 – Responses from Welsh Ministers

The Finance Committee wrote to portfolio Ministers following its initial evidence session on the Draft Budget on 18 November. The responses are attached below.

Alun Ffred Jones AC/AM
Y Gweinidog dros Dreftadaeth
Minister for Heritage



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Ein cyf/Our ref: SF/AJ/00156/10

Angela Burns AM
Chair, Finance Committee
Cardiff Bay,
Cardiff.
CF99 1NA

29th November 2010

Dear Angela,

Scrutiny of the Welsh Assembly Government's Draft Budget for 2011- 12

The purpose of this letter is to respond to your letter of 23rd November concerning the Heritage contribution to the Welsh Government's draft budget published on 17th November.

The Heritage budget contains most of the public funding provided to support the arts, national museums and libraries, sport, the Welsh language and the built heritage and to promote and support the development of Wales as a tourist destination. The majority of the Heritage budget is paid out to Assembly Government Sponsored Bodies (AGSBs). Funding is also provided to Visit Wales, Cadw and Cymal. My proposals take into account discussions with each of the AGSBs during the period preceding the budget announcement and a detailed assessment of the pressures they face.

You have asked me to inform you of the priorities I had in determining the budget for 2011-12 and how these would contribute to meeting the Governments overall strategic objectives. My priorities are four fold.

Firstly I have prioritised the protection of front line services whenever possible. We will also maintain our commitment to widening access to each of those services including free entry to the National Museum sites. Each of the AGSB running cost budgets will be reduced by a greater amount than the programmes they support. Our ability to continue to deliver the wide range of outcomes that characterise the Heritage budget will be crucially dependant on our ability to generate efficiency savings, both as a Department and through the organisations that we fund. It will be important to explore the extent to which these can be achieved through greater joint working across and between the arms length bodies that we fund. I am also anxious to generate greater synergies between the distinctive programmes within the Heritage portfolio. Casgliad y Werin – the People's Collection is an excellent example of what can be achieved by organisations working together. It is a partnership between Amgueddfa Cymru, the National Library and the Royal Commission. It's funding will be increased reflecting its strategic importance. I want to see stronger action across a broad front to maximise the opportunities surrounding cultural tourism. I also want to emphasise the cross cutting contribution Heritage makes across a range of the Government's programmes including areas such as public health, community regeneration and education.

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Secondly, I have accorded a particular priority to the support government provides for promoting the Welsh language. I will shortly be publishing the government's revised Welsh language strategy and this additional funding will enable some of the important new proposals contained within the strategy to be implemented. I have also made provision to support the introduction of the new Welsh Language Commissioner.

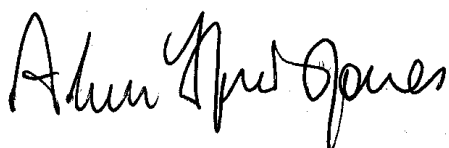
Thirdly, I have sought to maintain Tourism and Cadw budgets at a level that will enable us to provide matching funding for the European structural funds resources that have been made available to support work in this area. We will continue our investment in the promotion and marketing of tourism with a view to growing the visitor economy to take advantage of Wales' natural, heritage and cultural assets combined with high quality hospitality and ease of access. By growing the visitor economy, jobs are created and sustained throughout Wales, especially in rural areas and for the more disadvantaged sectors of society.

And finally, on the capital side, I have prioritised the Government's support for the redevelopment of St Fagans. I have been anxious to ensure that we could construct a funding package that will enable us to draw down lottery funding to support this project which is of strategic importance to our tourism economy. It is also of course a magnificent facility for the people of Wales.

Now that we have published our spending plans we are in the process of developing more detailed business plans which will set out the key deliverables against our strategic priorities. Going forward, we will monitor the outcomes of our interventions as part of the Assembly Government's business planning process. In the past there has always been a thorough evaluation of our programmes and this will continue. ACW evaluates its own programmes, for example the Welsh presence at the Venice Biennale, the ACW presence at Hay Festival and regularly publishes information on audiences from the arts etc. In Visit Wales evaluation is part of the budget for every programme and these statistics are published. I take delivery of outcomes very seriously and with every AGSB I oversee, they will continue to be subject to Quarterly Monitoring Meetings, where their progress against their own business plan, which I approve annually, and against Key Performance Indicators will be monitored. I will continue to meet all the Chairs and CEOs regularly as part of our scrutiny and monitoring regime.

The funding provided to the Heritage MEG has enabled me to continue to provide funding for each of our main spending programmes. There will be individual projects within each of those programmes that will need to be stopped or scaled back but comprehensive information on the nature of those more detailed changes is not yet available.

Yours Sincerely,



Alun Ffred Jones AC/AM

Y Gweinidog dros Dreftadaeth / Minister for Heritage

Carl Sargeant AC/AM

**Y Gweinidog dros Gyfiawnder Cymdeithasol a Llywodraeth
Leol
Minister for Social Justice and Local Government**



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29 November 2010

Dea Angela

Scrutiny of Welsh Assembly Government Draft Budget 2011-12

Thank you for your letter of 23 November 2010 asking a number of questions in relation to the Draft Budget and the Social Justice and Local Government (SJLG) portfolio.

Taking each question in turn, my department's spending priorities are closely aligned to the Assembly Government's commitments in One Wales and are based on the budget criteria set out by the Cabinet. As such, the focus has been on protecting front line services and, in particular, services to the most vulnerable in our society. In setting budgets, we have considered and assessed the impacts of the changes both on the organisations affected and on the services delivered. We have worked with our third sector partners, issuing a joint letter with the Welsh Council for Voluntary Action about the process to set the Welsh Assembly Budget and the implications for the third sector. We have also assessed the potential impact of budget reductions in terms of equalities. The protection being given to local authority social care budgets takes account of this, as well as reflecting more generally the need to maintain services to the most vulnerable in society. My *Your services, your say* summer tour around Wales also gave me an opportunity to meet frontline workers, volunteers and citizens, and ask them for their thoughts about the services they provide and how these could be done better against a difficult financial background.

Monitoring the delivery of outcomes in respect of our strategic priorities is very important and is at the heart of our policy making and implementation. Now that we have published our spending plans we are in the process of developing more detailed business plans which will set out the key deliverables against our strategic priorities. Going forward, we will monitor the outcomes of our interventions as part of the Assembly Government's business planning process.

Turning to your specific question about Fire and Rescue Service (FRS) funding, the three Welsh Fire and Rescue Authorities (FRAs) are core funded through levies placed on their constituent local authorities. They cannot raise council tax directly and it will be for the

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FRA's to negotiate their budgets with their constituent local authorities. In 2011-12, Local Government will receive over £4.004 billion through the settlement to fund key core services which represents a decrease of 1.4% on what authorities received last year taking into account transfers. RSG plans for 2012-13 and 2013-14 are £4.014 billion and £4.066 billion, increases of 0.2% and 1.3% respectively. The provision of indicative settlements for 2012-13 and 2013-14 for local authorities should assist the FRA's in planning future levies.

In terms of grants for specific initiatives, there are two budgets within the SJLG MEG which provide funding to the FRS. The Fire and Rescue Services Resilience budget provides support outside of RSG for resilience and other major Fire and Rescue Service (FRS) projects such as the Firelink and New Dimension programmes. Separately, the Fire and Rescue Services National Framework budget provides funding for a range for fire prevention and community safety initiatives such as Home Fire Safety Checks, tackling arson and working with young people.

Finally, you asked about the council tax benefit schemes. There are currently four separate schemes funded from the SJLG MEG in relation to benefit advice including provision to help pensioners with council tax and funding and funding for local authorities to increase awareness and take-up of council tax benefit. I believe that there is scope for improved effectiveness and have therefore decided that it would make sense for there to be a consolidated budget making provision for the range of advice services with £2 million being transferred from the Council Tax Benefit Schemes budget to the Financial Inclusion budget. This will bring the four funding streams together in one budget and I am currently considering the scope of future provision in this area.

I hope that this answers your queries.

Yours sincerely



Carl Sargeant AM/AC

Edwina Hart MBE OStJ AM

Y Gweinidog dros Iechyd a Gwasanaethau Cymdeithasol
Minister for Health and Social Services

Our ref: SF/EH/0540/10

Your ref:

Angela Burns AM
Chair
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29 November 2010

Scrutiny of Welsh Assembly Government Draft Budget, 2011-12

Thank you for your letter of 23 November setting out the issues raised by the Finance Committee in relation to the Health & Social Services (HSS) portfolio, as part of the overall scrutiny of the Welsh Assembly Government's future spending plans.

In terms of my budget priorities, my portfolio leads the delivery of the Welsh Assembly Government's key strategic outcomes to promote a healthy population with a good quality of life and to ensure that health care and social care are readily available.

Revenue Funding

The overall revenue funding for the HSS Main Expenditure Group (MEG) remains unchanged, in cash terms, from the latest 2010-11 budget. This has allowed me to protect the funding for core health services delivered by the NHS in Wales. In doing so, my priority was to provide a solid platform for the NHS to take forward the 5-Year Service, Workforce and Financial Strategic Framework.

Outside of the main allocations to LHBs, the budget also ensures that we have protected funding streams aimed at vulnerable groups. This includes the funding I have made available for Children and Adolescent Mental Health Services (CAHMS); Veterans, and for tackling substance misuse.

I have also increased the funding available to implement the Mental Health Measure and ensured that the delivery of the *One Wales* commitments remains on track.

I am maintaining the level of investment in Research and Development, which recognises the significant contribution that health R&D makes to the economic renewal programme - particularly through income generation and job creation.

In addition, promoting health improvement and ensuring health protection continue to be a priority, as this is crucial to improving life in Wales and in reducing burdens on the NHS and other services.

Maintaining our investment in Social Services is crucial. The Local Government settlement allows funding for Social Services within the Revenue Support Grant to increase by £35m a year by 2013-14 – representing a 3% uplift. I am also maintaining investment in Social Services funded through the HSS MEG.

Efficiencies

In relation to driving efficiencies, the NHS in Wales has a very successful track record. It has already delivered £850 million of efficiency savings over the past four years. However, the service recognises that it will need to continue to deliver efficiencies in order to meet unavoidable cost increases in future years including, for example, increasing demand and ensuring access to new drugs and therapies against a backdrop of increasing demand and an ageing population.

The efficiency drive is underpinned by the 12 National Programmes that form part of the 5-Year Strategic Framework, which are being developed to drive transformation and service change. These are:

- Prevention and Promotion
- Unscheduled Care
- Mental Health
- Long-Term Conditions/Primary Care/Primary Care Assurance
- Continuing Health Care
- Acute Care
- Medicines Management
- Informatics
- Workforce Modernisation
- Social Services/Partnerships
- Patient Engagement/Experience
- 1000 Lives Plus

Capital Funding

Clearly the reduction in the Assembly Government's capital budget impacts greatly on the Health Capital programme. The capital reduction for the HSS MEG totals approximately 27% in cash terms over three years with a 12.6% reduction next year.

All approved schemes will go ahead, although there will be some inevitable phasing of start dates. The reduction in capital funding will require a review of the cost, content and timing of future schemes, and an acceleration of the disposals to increase income. The avoidance of PFI schemes, with their impact on revenue, has proved to be the right decision and the use of alternative means of providing and funding capital development will need to be tested with caution.

Monitoring Outcomes

Turning to the monitoring of delivery of outcomes by the NHS, I will continue to do this through the Annual Operating Framework. For social services, there is a clear set of arrangements to monitor and evaluate delivery established at both national and local levels. This involves registration inspection, compliance and enforcement of both service providers and the workforce.

Withdrawal of Funding

You also asked about the withdrawal of schemes where outcomes cannot be demonstrated. The appraisal of programme effectiveness is a routine part of leading and managing the portfolio, and this is undertaken as a matter of course for spending decisions taken throughout the year.

Autism Funding

£1.8m has been allocated for the Strategy for 2010-11. The production of awareness raising packages and arrangements for adults are key actions proposed for this year and representatives from Autism Cymru and the National Autistic Society (NAS) have agreed to be involved in their development.

For next year, there is provision in my portfolio budget to enable us to continue to deliver on the Autism Strategy action plan and agreed projects. This funding is contained within the Children's Social Services Action Budget.

In addition, I have also agreed an additional transfer to the Revenue Support Grant as part of the draft budget, to implement the Children & Young People Act 2008. This transfer sum includes increased resources for short breaks to disabled children and their families - which would include children with autism.

For adult services, £1.7 million has been allocated to develop and provide additional services to support adults with ASD over the next three years, to include:

- the development and introduction of an all Wales network offering a diagnostic and counselling service for adults;
- additional monitoring/support for adults with Asperger Syndrome;
- the development of ASD specific assessments tools and awareness raising materials; and
- the appointment of a Wales ASD Employment Ambassador and awareness raising and training support for staff within Careers Wales, JobCentre Plus and for Disability Employment Advisors.

Welsh Housing Investment Trust

With regard to the Welsh Housing Investment Trust, until the Trust is established and the detail of its structure and financing resolved, it is too soon to assess its wider applicability to the NHS.

Management Costs

The Organisational Change Policy (OCP) proved its worth in ensuring a very successful NHS reorganisation, where key service and financial targets were maintained during the transition period. The Service is on track to achieve the 20% saving, with over £17 million saved since reorganisation.



Elin Jones AM/AC
Y Gweinidog dros Faterion Gwledig
Minister for Rural Affairs



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Eich cyf/Your ref
Ein cyf/Our ref

Angela Burns AM
Chair, Finance Committee
Cardiff Bay,
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29 November 2010

Dear Angela

Scrutiny of the Welsh Assembly Government's Draft Budget for 2011- 12

I write in response to your letter dated 23 November 2010 regarding the above.

The priorities I set when determining my Draft Budget for 2011-12 were as follows:

- Funding to deliver the various strands of the £795m Rural Development Plan 2007-13 has been protected. This will allow us to continue with funding to farmers under schemes to protect and enhance the countryside; schemes to support farming businesses, and funding to improve the quality of life in rural areas;
- Payments made under the Single Farm Payment Scheme total some £263m of EU funding. To deliver the scheme successfully and ensure farmers receive accurate payments on time requires a very significant level of investment in IT systems. The budget for the Scheme's administration has therefore been protected at some £7m per annum;
- A comprehensive bovine TB eradication programme is in place and includes measures to address all sources of TB infection. £10.4m is being committed to the TB eradication programme in 2011/12, in order to deliver the planned programme for the year and take forward this *One Wales* Commitment; and
- The Young Entrants' Support Scheme, introduced this year, has been protected at £1.7m per annum. The initiative, which exceeded expectations in its first year with 114 successful applications, will help address the issue of the ageing farming population and ensure a viable future for the industry.

Now that we have published our spending plans we are in the process of developing more detailed business plans which will set out the key deliverables against our strategic priorities. Going forward, we will monitor the outcomes of our intentions as part of the assembly Government's business planning process. I would highlight the following:

- Under the Rural Development Plan, I am introducing a new sustainable land management scheme, *Glastir*, from 2012, to deliver on climate change, carbon/water/soil/habitat management and bio-diversity. It has 2 elements – the All-Wales element, and a Targeted element. The All-Wales element provides an entry level land management scheme which will allow far larger numbers of farmers and far greater areas of farmland to be brought under land management. The Targeted element focuses on 3 main elements: soils and soil carbon management, water management and the management of biodiversity. *Glastir* will replace the four existing agri-environment schemes contained within the Plan, and stringent monitoring arrangements are being put in place;
- Bovine TB Eradication programme - the scale of the disease in Wales means that the eradication of bovine TB is a long term aim. This was fully recognised when I introduced the programme and allocated the budget of £27.7 million for the last 3 years. It is necessary to monitor the medium to long term trend in the disease in order to establish the outcomes from the programme.

There are no schemes or projects within my portfolio that have had to be turned down or withdrawn because their outcomes could not be demonstrated or were undeliverable.



Elin Jones AC/AM
Y Gweinidog dros Faterion Gwledig
Minister for Rural Affairs

Ieuan Wyn Jones AC/AM
Dirprwy Brif Weinidog /Deputy First Minister



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Angela Burns
Chair of the Finance Committee
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29 November 2010

Dear Angela,

Scrutiny of Welsh Assembly Government Draft Budget 2011-12

I refer to your letter of 23 November regarding the priorities I have set in determining my budget for 2011-12.

The proposed budget allocations that I have outlined for my Department in the draft budget announcement on 17 November have been planned to ensure that we continue to support the economic recovery and promote economic growth whilst at the same time ensuring that we safeguard essential services including protecting the more vulnerable in our society.

One of the core principles of *Economic Renewal: a new direction* is to ensure that we target our resources at those areas which will add the most value. That is why we need to prioritise our business support activities to six key business sectors and that we will be providing less funds for one to one business support and investing more in infrastructure, research & development and improving the conditions in which businesses operate. Through prioritising our economic development budget in this way, we will be better able to make a difference and contribute to one of the Assembly Governments overall strategic priorities of promoting economic growth.

A robust and transparent framework for monitoring, evaluating, tracking and reporting on our progress is essential to the effective delivery of the policy and, in *Economic Renewal*, a commitment was given to publish a Framework for Measuring Progress. A draft Framework is currently being developed and is likely to be published during December. The Framework will establish the general principles by which information will be identified, developed and made available. The shift in policy requires a similar shift in thinking in terms of the way performance and progress is measured. In the short-term, progress will be primarily monitored by the extent to which *Economic Renewal* commitments are being achieved.

In terms of transport, we will continue to work towards delivering the Wales Transport Strategy and the National Transport Plan and, whilst the budget settlement means that we will have to slow progress in some areas, we remain committed to the objectives and aims set out in the Strategy and Plan.

Another key priority in considering the transport budget allocations is our commitment to Climate Change and reducing our carbon emissions. The revised budget maintains our commitment to sustainable travel and public transport, ensuring that the majority of our transport investment is allocated to support these areas. It also recognises our commitment to protect concessionary fares, a key policy of the Welsh Assembly Government and, together with maintaining the funding levels in 2011-12 for bus services in areas which are not commercially viable, will help to contribute to the Assembly Government's strategic priority to lessen the impact of budget reductions on the more vulnerable groups.

A number of capital road and rail schemes will inevitably be affected in the settlement and I am currently reviewing all projects and will make an announcement on how I intend to deal with the challenges of the capital settlement shortly.

Although funding will be reduced, we have been seeking alternative sources of finance and, within my budget we have already secured £66m of EU funding and have worked closely with local authorities to enable them to secure a further £76m. In addition to this total value of over £140m, we are working to secure a further £116m of capital funds from Europe up to 2015.



Ieuan Wyn Jones

Gweinidog dros yr Economi a Thrafnidiaeth
Minister for the Economy and Transport

Jane Davidson AC/AM

Y Gweinidog dros yr Amgylchedd, Cynaliadwyedd a Thai
Minister for Environment, Sustainability and Housing



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Ein cyf/Our ref: SF/JAD/0489/10

Angela Burns
Chair
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29 November 2010

Dear *Angela,*

We are responding to your letter dated 23 November.

In determining our strategic priorities we have carefully considered how to use our allocation to best effect for the people of Wales. We have been especially mindful of lead role that the portfolio plays for Cabinet on sustainable development and climate change as well as our commitment as a government to protect society's most vulnerable.

This budget reflects our commitment to sustainable development and equality. Despite being in a time of reducing budgets we are protecting the Major Repairs Allowance and remain committed to achieving the Welsh Housing Quality Standard. Further to this we are protecting the Rapid Response Adaptations capital programme budget which allows people to remain in their own homes and saves resources in the NHS and social care. We have also secured additional resources to offer some level of protection for Supporting People services; a programme which makes a significant difference to the everyday lives of some of the most vulnerable individuals in our society, and which also saves money for Social Services, local government and community safety.

We are protecting the most vulnerable in society through the Energy Efficiency and Fuel Poverty programme which aims to reduce fuel poverty whilst reducing carbon emissions and are maintaining 2010-11 funding levels into next year. We are also providing a significant level of protection to our flood risk management programme and climate change considerations have been central to our budget setting process.

We have provided the Communities and Culture and Sustainability Committees with written evidence. These evidence papers clearly set out our priorities and the full extent of our areas of protection. Both evidence papers are appended to this letter for your information.

In terms of evaluating outcomes, all main areas of spending are subject to formal outcome monitoring, which we then subsequently monitor with our respective senior officials. Some clear evidence of this are:

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- We have just published an independent review, which was conducted by Sir Mansel Aylward, on the Supporting People programme. The review confirms that the evidence for the programme's effectiveness is strong and there is a plausible demonstration of its cost-effectiveness and value for money spent;
- Care and Repair Cymru have estimated that the Health and Social Services are saved £7.50 for every £1 spent on Rapid Response Adaptations.
- Our direct investment in Social Housing Grant has delivered a large proportion of the 6,700 new affordable homes built in Wales in the past few years. This effectively meets our One Wales commitment one year early;
- Our current Home Energy Efficiency Scheme has helped around 40,000 households and provided significant employment opportunities;
- Our investment in flood risk management over the past three years has enabled over 60 flood defence schemes to be completed. This has lowered the risk of flooding to 2,200 homes and businesses; and
- Latest figures show a further increase in recycling rates across the 22 local authorities. During 2009-10 local authorities landfilled 55% of the waste collection. This compares to 80% in 2003-04. The Assembly Government's specific waste investment in local authorities has played a significant contribution in diverting waste from landfill.

Even with the challenging budget constraints we have not withdrawn any particular schemes or projects on the basis that the outcomes could not be demonstrated.

I trust that this letter addresses the points raised in your correspondence.

Yours sincerely,



Jane Davidson AM

Y Gweinidog dros yr Amgylchedd, Cynaliadwyedd a Thai
Minister for Environment, Sustainability and Housing



Jocelyn Davies AM

Dirprwy Weinidog dros Dai ac Adfywio
Deputy Minister for Housing and Regeneration

Leighton Andrews AC/AM

**Y Gweinidog dros Blant, Addysg & Dysgu Gydol Oes
Minister for Children, Education & Lifelong Learning**



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Ein cyf/Our ref
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Angela Burns AM
Chair
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29 November 2010

Dear Angela,

You wrote to me on 23 November requesting clarification of a number of points in relation to the Education portfolio. In terms of priorities, the DCELLS budget reflects the positive commitment to protect funding for schools and skills, and to protect those front line services which impact directly on children and the most vulnerable, despite the very difficult settlement received from the UK Government. The budget will enable these services to be extended through the application of increased investment over the next three years. Budgets for schools – both within the Education Department and through the Revenue Support Grant - have been protected by 1% above the rate of change in the Welsh budget. Budgets for skills have been given similar protection.

In addition, some budgets have been re-prioritised to ensure that funding is available to support the full roll-out of the foundation phase, to increase funding for Post 16 learners with Special Educational Needs (Post 16 SEN), to match demand for free primary school breakfasts and to reflect the increases in students within Higher Education.

Capital funding has reduced by £10.1m (5.5%) from 2010-11 budget. These reductions continue forward by £12.1m (7%) and £17.5m, (10.9%) for the next two years from 2012-13. In response the department will seek to manage capital projects on a more strategic basis and carefully prioritise investments.

The need for the department and partner organisations to realise real terms efficiencies alongside budget savings has been central to the budget setting process and is closely linked to the management of the overall budget reduction and the maintenance of front line services.

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In setting its budgets, the department has considered and assessed the impacts of the changes both on the organisations affected and, more importantly, on the learners and learning outcomes. Careful consideration has been given to equality impacts and to the need to tackle social inequalities, including child poverty, more generally. Specifically this is reflected in the protection of budgets which impact directly on children, and increases in a number of budgets including foundation phase, free primary school breakfasts, and post 16 SEN.

The department's spending priorities are fully aligned with the Assembly Government's commitments in One Wales. The focus is on protecting front line services and, in particular, services to the most vulnerable children, families, unemployed young people (to age 25) and those with special educational needs.

Now that we have published our spending plans we are in the process of developing more detailed business plans which will set out the key deliverables against our strategic priorities. Going forward, we will monitor the outcomes of our interventions as part of the Assembly Government's business planning process.

In terms of schemes that have been withdrawn, following consultation I have opted for a phased ending of the ILA (Wales) scheme. The needs of priority groups will be addressed through the operation of the Fees Policy. The 50% ILA band (£100 value) has been withdrawn from April 2010, with full closure from April 2011.

Although the ILA (Wales) scheme has received positive feedback from an independent evaluation by BMG Research it is a small scale scheme with a relatively low uptake (about 7,000 course bookings, which is a small proportion of the main target group of approximately 600,000 adults in Wales who have qualifications below Level 2); it is expensive to administer: of the total 2008-09 expenditure on the scheme 24% went on administration and marketing; and the development of a post-16 Fees Policy (building on the 'Investing in Skills' consultation) will provide an alternative way of meeting most of the priority needs currently addressed through the ILA (Wales) scheme, as the forthcoming policy would exempt priority groups from fees charged by Further Education Institutions (FEIs).

In addition, the Coleg Harlech Bursaries budget has been reduced by £0.3m and £0.1m over the next two years. The reduction in budget reflects the financial implications associated with the my acceptance of recommendations in the Hancock Report. The review group found half of the Coleg Harlech beneficiaries were learners from England, as part of a reciprocal agreement whereby learners from Wales would be supported by the Learning and Skills Council to attend residential colleges in England. This was a very one-sided arrangement with very few Wales residents attending the English colleges with bursary support. Consequently, the Assembly Government is recommended to end the reciprocal arrangement, and to concentrate support on learners from Wales.

In terms of the Autistic Spectrum Disorder (ASD) Strategic Action Plan for Wales, it is funded within the Children's Social Services budget of the Health and Social Services Main Expenditure Group. The Minister for Health and Social Services is considering the levels of funding that will be made available for 2011-12 onwards.

This Government certainly has no intention of returning to the early days of PFI but remains committed to exploring the use of innovative forms of investment in public infrastructure in Wales and I want my department's approach to mirror that. When considering investment in the education infrastructure in Wales we will ensure that it should be citizen-focussed, strategic, partnered, efficient, support the public service workforce where appropriate and pragmatic in outlook. I expect my Department to learn from those innovative forms of

investment opportunities that are currently being developed and taken forward; such as the JEREMIE fund, our innovative Waste Management Programme and the Welsh Housing Investment Trust and any lessons to be learnt from previous methods of investment such as those used in the English Health sector.

The 21st Century Schools Programme will be a long-term and sustained programme of investment. It will seek to deliver a new generation of education buildings that are fit for delivery of education in the 21st Century. However, the constraints on public expenditure, and on capital in particular, for the next few years make it particularly important that we are open to ways in which we can maximise investment in public service infrastructure, including new educational buildings, and are subject to delivering value for money and protecting the position of the public service workforce. I have established a single capital fund in my draft budget proposals that will enable us to support strategic programmes such as 21st Century Schools. It will require us to ensure that capital is handled on a project basis and that decisions are taken on priorities across the sectors. My officials will continue to explore the viability of the various approaches to capital investment.

Yours sincerely
Leighton Andrews

Leighton Andrews AM
Minister for Children, Education & Lifelong Learning