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Llywodraeth Cymru
Welsh Government

Jocelyn Davies AM,
Chair, Finance Committee,
The National Assembly for
Wales,
Cardiff Bay,
Cardiff

September 2014

Dear Jocelyn,

Finance Committee's Report: Best Practice Budget Processes Inquiry

Thank you for your report on the first part of the Committee's inquiry into best practice budget processes. This inquiry is providing valuable input to the budgetary reform process to ensure that Wales has a 'fit for purpose' budgetary procedure following implementation of its new responsibilities within the Wales Bill.

I was pleased to note your focus on co-operation to devise new budgetary procedures which are holistic, match best practice, are suitable for Wales and are acceptable to the Welsh Government as well as to the Assembly as a whole. The Welsh Government has long been committed to improving our approach to budgets and to the presentation of budget information. Through close collaboration with the Finance Committee we have been able to make some significant progress. However, the new legislation gives us fresh opportunities and the scope for more fundamental consideration, which I welcome.

A recurring theme in the report is the need to understand the impact of our spend – an objective that I support. Your report starts to lay out the challenges involved in achieving that, not least because of the complexity of the Welsh Government and the long term nature of the policy challenges that we face. The Programme for Government is the Welsh Government's roadmap for this Assembly term and was an important step in shifting how we account for our progress in terms of outcomes. Over the last three years, we have taken a number of steps to build the Budget process around the Programme for Government. There are challenges associated with this as there are with building the understanding about how allocations link to the objectives of spend. We have a shared objective in building this understanding and I am pleased that the report acknowledges the challenges involved in doing so. In this context, I am keen to use the experience of how we have used the budget process to respond to the Programme for Government to inform future developments and I have set work in train to do this.

The Well-being of Future Generations Bill and the improvements in performance management and scrutiny which the Commission on Public Service Governance and Delivery has called for also present opportunities to shape this agenda. Alongside the Programme for Government, these developments will set the framework within which we develop planning and reporting. As we continue this journey, there will be many practical issues to resolve. There will be issues for the Welsh Government to resolve relating to how we align budget allocations to the outcomes we are seeking to achieve.

A recurring issue over recent years has been how we can openly and accurately reflect our plans for spending £15 billion on public services in Wales – the scale of the budget, the range of different services that we are supporting and the diversity of partner organisations will continue to challenge us and there is unlikely to be an easy answer on the level at which we budget and provide information. There will also be issues for us to resolve with the Committee in terms of how we can balance the requirements of the scrutiny process with the need to provide early certainty to our delivery partners and the need to allow the Government flexibility to respond to changing circumstances. There are unlikely to be easy answers to these issues, however the Wales Bill gives us the opportunity to consider issues afresh and to consider fundamentally the best budgetary procedures for our objectives. I look forward to working with the Committee on these issues to design the most effective and proportionate response possible.

Clearly, the devolution of taxes will bring a new dimension to our planning and modelling and will require us to develop new forecasting and modelling processes. That said, given that the bulk of our funding will still come from UK Government, we will continue to work within the constraints of their processes and timescales. We need to consider what this means for our processes, going forward. For example, a particular issue over recent years has been the timing of the Autumn Statement in relation to the Final Budget motion, which has meant that our Budget plans have been out of date before they have been agreed by the Assembly. These timing issues, along with the annuity of our Welsh block grant will continue to act as constraints.

The timing of taxation changes should be aligned with the budgetary process to allow the Assembly to see such changes within the context of the wider fiscal position. We need to consider whether the formal approval of tax changes and spending plans are more appropriately undertaken within a single or separate pieces of legislation and, as noted by the Committee, look forward to considering the practicality and implications of this in the second part of the inquiry.

I firmly believe that robust scrutiny of the Welsh Government's borrowing plans and long term commitments is an essential element of the budgetary process. The Wales Bill and accompanying Command Paper set out the high level controls that will be operated by HM Treasury within the UK fiscal framework. The aggregate level, purpose and repayments of any long-term borrowing entered into for capital investment should form part of the Welsh Government's spending plans and we will need to consider the detail of information that is appropriate to ensure effective scrutiny and transparency of the Welsh Government's budget. This will include the

timing of information on outstanding long-term financial commitments outside of the annual accounts publication.

In contrast, the nature of short-term borrowing to manage the volatility of taxation revenue, is likely to be relatively unplanned and retrospective. The Assembly should have oversight of this arrangement. As we gain clarity on the operation of this arrangement, we will need to consider how that oversight is most appropriately achieved within the new budgetary process.

In principle, I support the Committee's recommendation for an 'alignment exercise' to be carried out to ensure that Welsh Government accounts use the same boundary for the budget presented to the Assembly, as that used by the Treasury for the control of public expenditure. I will need to consider further the timing of this within the context of wider budgetary reform. The results of this exercise should lead to a simplification of the current annual budget motion in respect of the reconciliations within the supporting schedules.

Work is underway to consider the capacity issues which arise as part of the programme of Welsh Treasury Implementation. Some capacity is in place and I am considering how it might need to be augmented, including potentially with some independent input.

I look forward to the Committee's report on the second part of its inquiry and our continued co-operation.

*Best wishes,
Jane*

Jane Hutt AC / AM
Y Gweinidog Cylchog
Minister for Finance

