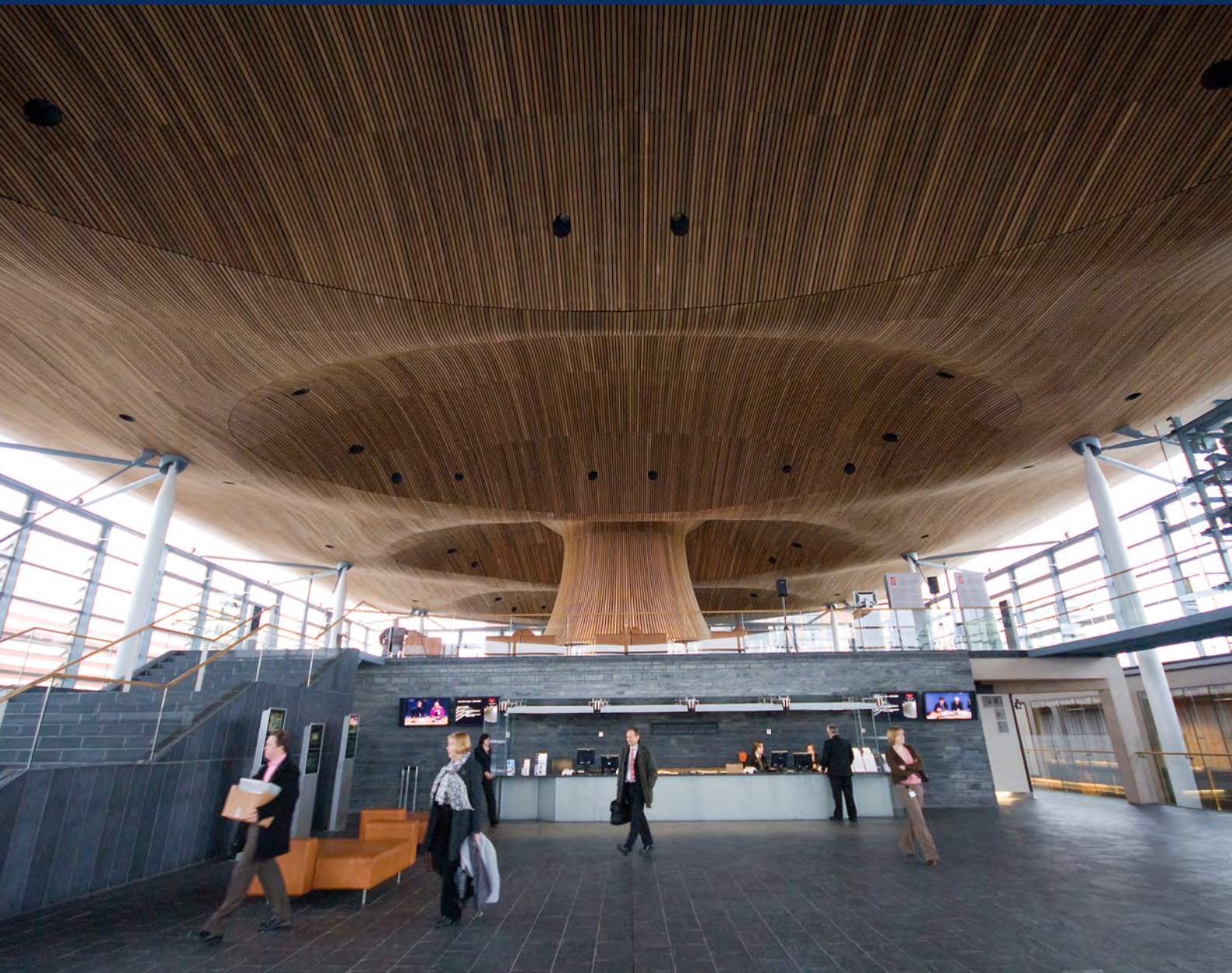


The Assembly Commission's use of the Remuneration Board's Determination underspend

May 2018



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The Assembly Commission's use of the Remuneration Board's Determination underspend

May 2018



About the Committee

The Committee was established on 22 June 2016. Its remit can be found at:
www.assembly.wales/SeneddFinance

Committee Chair:



Simon Thomas AM
Plaid Cymru
Mid and West Wales

Current Committee membership:



Neil Hamilton AM
UKIP Wales
Mid and West Wales



Mike Hedges AM
Welsh Labour
Swansea East



Jane Hutt AM
Welsh Labour
Vale of Glamorgan



Steffan Lewis AM
Plaid Cymru
South Wales East



Nick Ramsay AM
Welsh Conservatives
Monmouth



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Chair's foreword

It is clear that when other public services in Wales are facing extensive and continuing real terms cuts, our own Assembly Commission cannot be immune to austerity measures. It is crucial the Commission's budgeting decisions are clear and transparent and stand up to public scrutiny.

The budget for Members' salaries and related costs is calculated in the independent Remuneration Board's Determination and is not subject to the vote of AMs. To allow for this, the practice to date of the Assembly Commission has been to budget for the maximum possible spend for each Member/party. The Commission has then utilised any underspend to fund its investment priorities. There has been no requirement to seek approval from the Finance Committee or the National Assembly to permit this. This has effectively given the Commission maximum discretion over the use of any underspend related to the Determination.

This practise is of concern to the Finance Committee, as we believe it reduces the transparency around the total funding available to the Commission. In the past, during in-year scrutiny of the Commission's budget, we made a number of recommendations with a view to improving transparency and aiding scrutiny.

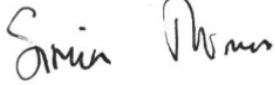
The Commission has already taken some steps to provide further information on its budget and we encourage it to continue to provide such level of detail in future.

Nevertheless, we are of the view that core projects should be identified and funded separately. By using the underspend for such projects, the Commission is reliant on an unpredictable resource in order to fulfil its obligations and ambitions.

The flexibility afforded to the Commission is not available to the other directly funded bodies in Wales. Those bodies are required to identify project work during budget planning, which is then scrutinised by the Finance Committee, providing transparency for the public. The Commission should not be exempt from operating in this way.

During our inquiry we looked to our counterparts to establish how other Parliaments, within the UK and more widely, set budgets and utilised underspends. We also considered alternative budget models proposed by the Commission.

It appears that practices across legislatures varies widely and there is not a one-size fits all approach to this complex budgeting issue. Whilst the Commission continues to consider alternative models and reviews its procedures, we urge the Commission to consider budgeting processes at other legislatures.

A handwritten signature in black ink that reads "Simon Thomas". The signature is written in a cursive, slightly slanted style.

Simon Thomas AM, Chair of Finance Committee

Recommendations and Conclusion

Recommendation 1. The Committee recommends that the Assembly Commission continues to provide the level of information contained in its most recent budget documentation (2018-19) as a minimum standard for future budgets and estimates..... Page 17

Recommendation 2. The Committee would like to understand in more detail how the new governance arrangements within the Assembly/Commission differ to the previous arrangements, how these arrangements will strengthen governance and how the Commission intends to measure if the change is successful. The Committee recommends the Commission provide further details on these areas to the Committee..... Page 22

Recommendation 3. The Committee recommends the Commission reviews its approach to funding capital projects, ensuring that funding is allocated for core projects within its capital budget..... Page 23

Recommendation 4. The Committee recommends that the Commission clearly identifies funding streams for projects that might or will be brought forward as investment priorities, particularly where these projects span multiple years. In addition, the Committee expects risk analysis to be undertaken when activities are brought forward, given the unpredictable and precarious nature of funding from the underspend. Page 23

Recommendation 5. The Committee recommends that the Commission fully explores the benefits and risks of changing processes around the Remuneration Board's Determination underspend, with a focus on maximising transparency. This should also take into account the outcome of the Remuneration Board's current consultation on the flexibility of the allowances within the Determination. Page 26

Conclusion 1. The Committee recognises the practice for setting budgets and utilising underspends across UK legislatures varies widely. The Committee notes that some legislatures operate different systems for budgeting and returning underspends and suggests that the Commission considers these processes when it reviews its budgeting procedures. Page 29

1. Introduction

1. The Finance Committee undertook a short, focused inquiry to establish:
 - how the Assembly Commission utilises the underspend associated with the Remuneration Board's Determinations; and
 - to consider whether the way in which information around the underspend is presented in a clear and transparent manner.
2. The inquiry also considered how other Parliaments, within the UK and more widely, budget for expenditure related to Members' pay and allowances, and received evidence on alternative approaches to managing any underspends.

1.1. Background

3. The Remuneration Board (the Board) is a body independent of the National Assembly for Wales (the National Assembly), established by the **National Assembly for Wales (Remuneration) Measure 2010** (the 2010 Measure). The Board's primary role is to ensure that Assembly Members have appropriate resources to undertake their roles. The Board prepares a **Determination**, which outlines the salaries and levels of financial support available to Members. The system provides funds to cover the expenses associated with being a Member and/or Office Holder.¹
4. During the course of this inquiry the Remuneration Board issued a **consultation on the flexibility of the allowances within the Determination**, the consultation is due to close on 11 May 2018.
5. The Assembly Commission (the Commission) is responsible for administering the arrangements of the Board's Determination. The Commission prepares a draft budget annually, which is laid before the National Assembly.
6. The Commission currently chooses to draw down funding allowing for the maximum allowance for each Member/Party. This has led to an underspend against that budget associated with Members' spending. This underspend has traditionally been utilised by the Commission to fund in-year investment priorities. The Commission is not required to inform the Finance Committee (the

¹ **If the Member holds one of the offices listed in the Remuneration Board's Determination, Table 1, page 10**

Committee) or the National Assembly when it uses the underspend for investment priorities.

7. The Committee is responsible for undertaking **budget scrutiny of the bodies directly funded from the Welsh Consolidated Fund**. This includes the Commission's budget under **Standing Order 20.14**.

8. Both the current Committee and the Finance Committee of the Fourth Assembly have scrutinised the management of the underspend and raised concerns regarding the way in which the Commission has utilised that resource. In particular, the Committee has been concerned that the Commission relies on the underspend to fund certain projects and activities.

2. Timeline

2.1. Recommendations from the Fourth Assembly

9. In October 2015, the Finance Committee of the Fourth Assembly **reported** on its in-year scrutiny of the Commission's Draft Budget 2016-17 and recommended:

“...that the Assembly Commission provide clarity as to what happens to the funds which are not accessed by Assembly Members in relation to the Remuneration Board's Determination.”²

10. At the end of the Fourth Assembly, the Finance Committee's legacy report recommended the following:

“Recommendation 11. The Committee recommends that any future responsible committee follows up the recommendation in the 2016-17 Draft Budget report concerning the use of underspends in funds associated with the Remuneration Board's Determination for Assembly Members' pay and allowances.”³

2.2. Scrutiny of the Commission's budget in the Fifth Assembly

11. The Committee **reported** in October 2016 on the Commission's Draft Budget 2017-18. The Committee believed there should be clarity over how the underspend is utilised and recommended:

“...that the Assembly Commission provides an update shortly before the end of the financial year, detailing the projected underspend in relation to money drawn down to fund the Remuneration Board's Determination and justify how this underspend is being utilised by the Assembly Commission.” [*Recommendation 3*]⁴

12. In response to this recommendation, the Commission wrote to the Committee on **28 March 2017**, providing information on the forecasted underspend. The Committee replied on **24 May 2017**, expressing its concerns, particularly that the Commission seemed to be relying on the expected

² **Finance Committee, Scrutiny of Assembly Commission Draft Budget 2016-2017, October 2015, Page 10**

³ **Finance Committee, Fourth Assembly Legacy Report, March 2016, Page 13**

⁴ **Finance Committee, Scrutiny of Assembly Commission Draft Budget 2017-2018, October 2016, Page 13**

underspend to fund investment priorities. The Committee subsequently invited the Commission to attend a scrutiny session on **29 June 2017** to explore these issues further.

13. Prior to this meeting, **the Committee wrote to the Auditor General for Wales (AGW)** seeking his views on the approach taken by the Commission in setting its budget in this area and whether the current process reflected good practice and was reasonable, or if there were alternatives. The Assistant AGW replied on **20 June 2017**, setting out his views on these issues. His letter set out options for consideration including establishing a separate resource control total for Remuneration Board determinations or maintaining the status quo with additional reporting.

14. On **29 June 2017**, the Commission attended a scrutiny session which focused on the Commission's reliance on the underspend to fund investment priorities. In particular the refurbishment of the ground floor of Tŷ Hywel and the work undertaken to increase the number of committee rooms. The Committee was particularly concerned that being informed of this significant expenditure retrospectively did not allow for clear scrutiny.

15. After considering the evidence presented at Committee and the correspondence from the Assistant AGW, the Committee wrote to the Commission making the following request:

“In your draft budget submission we would like you to provide further detail on the maximum amount you are requesting and an early forecast of the expected take up of determination spend, this should include your best estimation for Members' spends on offices, staff etc. This should enable the Committee to have an idea of the possible amount you are requesting as 'contingency'.

Information on the projects and priorities on which any underspend may be utilised. Whilst appreciating this is not an exact science, as you explained in the evidence session, and decisions will be taken through the year by the Investment and Resourcing Board, we believe the Commission should provide some transparency on the items of decisions the underspend will fund.

The Committee's view is that this approach more closely matches the spirit of HM Treasury guidance for budgets to be based on 'taut and realistic spending plans'.⁵

16. The Committee again revisited the underspend as part of its scrutiny of the **Commission's Draft Budget 2018-19**. In October 2017, the Committee **reported** and recognised that the Commission had taken on board its recommendations and the draft budget had included an underspend forecast for the year detailing how the underspend may be allocated in-year. However, the Committee still held the view that the inclusion of this forecasted underspend did not increase the transparency of the total funding available to the Commission.

17. The Committee made three recommendations in regard of the underspend:

- Recommendation 5. The Committee recommends that the Commission provides an in-year update (before the end of each calendar year) on likely Remuneration Board underspend along with any significant changes to planned projects to be funded using these underspends.
- Recommendation 6. The Committee recommends that the Commission gives consideration to the priorities associated with the Remuneration Board underspend to ensure that the priorities directly reflect services which provide support to Members.
- Recommendation 7. The Committee remains concerned as to the transparency associated with budgeting for forecasted underspends, however, it is recognised that there is a new Chief Executive and Clerk to the Assembly and the 2018/19 budget will be her first as Accounting Officer, as such the Committee recommends that serious consideration is given to how the budget is determined.⁶

18. In addition, the Committee also concluded that it would undertake a short inquiry to firmly establish how other parliaments, within the UK and more widely, budget for expenditure related to Members' pay and allowances.⁷

⁵ **Letter from the Finance Committee to the Assembly Commission, 6 July 2017**

⁶ **Finance Committee, Scrutiny of the Assembly Commission Draft Budget 2018-2019, October 2017, Page 15**

⁷ **Finance Committee, Scrutiny of the Assembly Commission Draft Budget 2018-2019, October 2017, Page 15**

19. On 7 November 2017, the **Commission responded** to the Finance Committee's recommendations. The Commission agreed to accept the three recommendations relating to the underspend.

3. Approach to scrutiny

20. Given the narrow scope of the inquiry, the Committee agreed to write specifically to relevant bodies and legislatures (within and outside of the UK), with operational similarities to Wales. The bodies that the Committee wrote to were asked to consider the following terms of reference of the inquiry:

- how the Assembly Commission forecasts its budget for Remuneration Board Determinations;
- whether the way in which the Assembly Commission provides information on the underspend is clear and transparent;
- how the Assembly Commission decides to utilise the underspend after meeting the Remuneration Board's Determinations;
- how other parliaments, within the UK and more widely, budget for expenditure related to Members' pay and allowances.

21. The Committee received **16 responses**.

22. On 15 March 2018, the Committee took oral evidence from the Assistant AGW, followed by the Commission. A list of witnesses is at Annex A.

4. Budgeting and Forecasting

4.1. Background

23. The Commission forecasts its budget for the Remuneration Board's Determination by estimating the cost of fulfilling its maximum obligation under the most recent Determination. Currently, the Commission budgets at the maximum amount for all aspects of expenditure relating to the Determination.

Evidence

24. Following on from previous scrutiny, one of the key areas the Committee explored with the Commission was whether the current processes around the Determination are the most transparent and effective way to plan for that resource.

25. The Commissioner, Suzy Davies AM said:

“Some of the decisions that we have to make in setting the budget are subject to variances that happen after the decision on what the budget's going to be is made.”⁸

26. The Assistant AGW confirmed this is a practical issue for the Commission that the Determination is not confirmed until after the budget and estimate is set. He said from the “Commission's point of view”, it was probably an effective way to plan and budget and that if he was in the same position, “would probably do something similar”.⁹

27. The Committee also questioned the processes around year-end and the impact of uncertainty at this point in the financial year. The Commission's Director of Finance stated:

“It is very difficult to anticipate how you as Members use your allowances, and, because you are completely independent, and the remuneration board is completely independent, we have no influence on telling you, ‘You must spend’ or ‘You need to spend’. So, we are very much reactive to your spending patterns. We can try to anticipate. We can try to forecast. But, ultimately, it's down to you as Members

⁸ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 232

⁹ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 149

whether you decide to submit those claims on a regular monthly basis or, as happened last year, quite a substantial amount came in in April.”¹⁰

28. In line with the Committee's previous requests, the Commission included in its **2018-19 budget information** an annex (Annex 3), which provided detail on the estimated funds becoming available from capital and operational budgets and from the Remuneration Board's Determination. It also provided further detail on the Commission's investment priorities. Similar information for 2017-18 was also provided to the Committee as part of the Commission's written evidence. In regard of this additional information, the Assistant AGW commented:

“I think the level of detail that's now provided in the budget—so, that's annex 3, with the likely underspend to how that's broken down—provides the level of transparency and information that would assist scrutiny by this committee and others of the Commission's plans, and raises some of the questions that have already been asked about funding priority projects through that mechanism. So, you now have the ability to question the Commission, through its budgeting process, on how it plans to deliver those. My view is that it does provide that—as it is currently—opportunity for the committee to scrutinise the use of the underspend in detail. Now, whether that's sufficient detail is clearly for the committee to determine, but I think that's a very positive step forward, I have to say.”¹¹

29. In relation to this point, the Chief Executive and Clerk of the Assembly, Manon Antoniazzi said:

“...it has certainly been useful to share with you all the information that we have. It's been very encouraging to have a positive opinion from the Wales Audit Office on our budgetary management. That's given me confidence.”¹²

30. The Commission's Director of Finance outlined to the Committee the methodology used to estimate the 2018-19 underspend included in the budget information. She stated:

“As you know, we've estimated an underspend for 2018-19, and based on past trends, we would base any future underspends on a similar method, because when we set the budget, we're so far away from the

¹⁰ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 252

¹¹ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 200

¹² Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 221

start of the financial year, so we're not able to base it on the actual staff that you have in place six to nine months ahead. As Manon mentioned, the volatility within staffing, month on month, is incredible. So, these are two options that we will be looking at with the Commissioners over the next few months, but I'm also heartened by the response that you've had from WAO, which is very much in line with what we've presented to you within the budget, which is the increased transparency."¹³

31. The Remuneration Board noted the underspend can be used for "unforeseen circumstances", citing the example of the cost to provide additional security measures for Members following the tragic murder of Jo Cox MP.¹⁴ The response went on to say that:

"...these decisions can be taken by the Board, when necessary, without recourse to the Assembly Commission seeking additional funds."¹⁵

Committee view

32. The Committee notes that additional information has been included in the Commission's most recent budget proposal for 2018-19, relating to investment priorities and use of the underspend. The Committee welcomes the steps taken by the Commission and believes that this added transparency will aid budget scrutiny.

Recommendation 1. The Committee recommends that the Assembly Commission continues to provide the level of information contained in its most recent budget documentation (2018-19) as a minimum standard for future budgets and estimates.

¹³ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 312

¹⁴ **Letter from the Chair of the Remuneration Board, 22 January 2018**

¹⁵ **Letter from the Chair of the Remuneration Board, 22 January 2018**

5. Utilisation of the underspend

5.1. Background

33. Prior to the Committee's evidence session on 15 March 2018, the Commission operated an Investment and Resourcing Board (IRB), which made investment prioritisation and expenditure decisions. However, during the evidence session, Manon Antoniazzi confirmed that she was making changes to the governance structure following an internal audit review.

34. Under previous governance arrangements, the Commission allocated the funding made available through the Determination underspend to projects identified by the IRB. In-year forecasts were revised by Commission officials on a fortnightly basis and then reviewed by the IRB. Under the Assembly's procedures, allocation of the underspend does not require a supplementary budget or the approval of the National Assembly.

Evidence

35. In discussing the changes to the governance structure and replacing the IRB, Manon Antoniazzi said:

"...in terms of the governance changes that we're making, this goes back to a report that came out of our internal audit processes last year, and looked at the function of the investment and resources board, which is a key board for controlling the expenditure of money in the course of the year. And this was a board performance report; it was a very positive report. The one improvement that it suggested that could be made was that the relationship between it and our wider management board be clarified. And so, the changes that I've introduced are more to do with clarifying where the strategic decisions are made and where the financial decisions are made, which would be in what is now called the executive board, and the function of the leadership group, which is the heads of service below that."¹⁶

36. The Assistant AGW said that in the past there has been a lack of transparency in the Commission's practice for utilising the underspend and that, in most cases, he would anticipate that organisations would need to bid for any additional funding relating to specific projects. Referencing the Wales Audit Office (WAO)

¹⁶ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 215

and Auditor General for Wales Estimate 2018-19 (scrutinised by the Committee in November 2017), the Assistant AGW said:

“...if you look at our own estimate, we've set out some specific projects there, such as data analytics, which are important; we want them to be properly funded. We've made a case and we will be held accountable for delivering that.”¹⁷

37. The Assistant AGW said that some of the Commission's possible projects were “probably nice-to-haves, rather than absolute essentials”.¹⁸ However, he went on to say:

“... I do note, from the most recent budget, that they have determined the likely underspends in a number of areas and they've identified the projects they want to do. I think that's a hugely positive move on the part of the Commission to provide that greater transparency to the committee and others.”¹⁹

38. Manon Antoniazzi said the process for projects to be approved “can trace their genesis back to the goals that are set by the Commission at the start of an Assembly”.²⁰ She outlined that:

“...this is the starting point for an assessment of risks and benefits and delivery requirements. We then go into a cycle of feasibility studies and outline business plans and full business plans, which come in front of IRB—which will be the executive board—and then that is placed in front of the Commission, so the Commission can take a view as to whether this links back appropriately with the goals that we were originally set.”²¹

39. The Assistant AGW said that “flexibility, to a certain extent, is a good thing” and allows the Commission to respond to unforeseen events. However, he highlighted the drawback associated with reallocating funds from the underspend to other projects without any further scrutiny by the Assembly.²²

40. In relation to utilising the underspend effectively, Manon Antoniazzi explained:

¹⁷ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 158

¹⁸ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 159

¹⁹ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 268

²⁰ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 268

²¹ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 268

²² Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 184

"I think that, certainly, having an investment fund that we manage very closely during the year means that we can release funds in good time to get best value for them in the course of the year, as we become more comfortable with our ability to manage our core commitments."²³

41. The Committee raised concerns about the timing of decisions taken by the Commission to use the underspend to fund certain longer-term projects and the potential risk that sufficient funds would not be available, due to unforeseen circumstances. In response Manon Antoniazzi said:

"...what we do is manage it very closely during the year. Certainly, we will have a round of project planning that is associated with any particular project. And, when we bring forward feasibility studies, outline business cases, and then full business cases, it is a subject of close scrutiny by the investment and resources board what the affordability of the project is over the long term.... So, in terms of the other projects, we have a rolling three-year ICT programme, as you know, and a 10-year estates programme. So, there is flexibility there to move things forward into years where the underspend is greater, or to defer them from years where the underspend is larger [correction: smaller]."²⁴

42. The Director of Finance confirmed that the Commission has a key performance indicator of 0.5 per cent underspend forecast at year-end, which is £262,000, and that the Commission is currently "holding a buffer of" around £200,000 for unforeseen circumstances as the end of year approaches.²⁵

43. The Committee also raised concerns that essential maintenance and health and safety issues were potentially being left to the uncertainty of the underspend.²⁶ On this point, the Assistant AGW said:

"I probably would expect to see statutory obligations reflected specifically in the budget and not being subject to flexibility... I would be concerned if there are vitally important or urgent projects that, on the face of it, are subject to underspends."²⁷

²³ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 224

²⁴ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 226

²⁵ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 254

²⁶ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 188

²⁷ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 189

44. However, Suzy Davies AM, outlined that many of these activities were being brought forward within plans. She stated:

“If you look at the core budget—the main budget—every year, it will contain quite a considerable amount of expenditure relating to the maintenance of the estate and the rolling three-year ICT programme. I don't want you to run away thinking that all of our funding is done through that process. As we've explained, there's a list of priorities that go through the whole process that Manon has described. During that process, certain items of expenditure on things like IT and repairs to the estate will be identified as capable of being brought forward from next year. So, it's not a case of them being critical that they are done this year because they would have been in the budget originally, but it's actually very useful to bring them forward a year, if there's space for them and the investment fund can support that. And they are items, in some cases, which are obligatory, which may have been obligatory the following year, but it's actually helpful to bring them into this year.”²⁸

45. The Committee questioned the priorities associated with the underspend, building on recommendations made following its scrutiny of the Commission's Draft Budget 2018-19 in which it recommended the underspend was used for priorities directly linked to Members. Suzy Davies AM stated:

“... I'll just start off by just reminding Members that any underspend from the remuneration board figure goes into the investment fund, along with underspends from the Commission's operational service activities, if you like. And that investment fund is spent for the benefit of Members. I would argue that making sure that the lift is fixed when it's actually started to go wrong during the course of the year is something that benefits Members. I think if we could just crack the temperature in the Chamber, that would be one thing that's definitely for the benefit of Members. So, you have to consider that the remuneration board underspend, and the Commission's operational underspend, are combined in order to meet the priorities that we've been talking about already. And those priorities are set according to the three strategic aims of the Commission, the first of which is to provide outstanding parliamentary support. So, everything we do is for the benefit of Members, I suppose is what I'm saying.”²⁹

²⁸ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 290

²⁹ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 272

Committee view

46. The Committee is pleased that the Commission has reviewed its governance arrangements and believes that clarity over where financial and strategic decisions are made has the potential to bring benefits to the organisation. However, the Committee would like to understand in more detail how these new governance arrangements differ from the previous arrangements, how it will strengthen governance arrangements and how the Commission intends to measure if the change is successful.

47. The Committee accepts that the funding of certain statutory or obligatory activities (such as maintenance) through the underspend may relate to projects being brought forward from future years. However, the Committee notes the Commission's intention to fund certain projects through the underspend, over multiple years, and is concerned that the Commission is reliant on this unpredictable resource in order to fulfill all of its obligations (in the past such projects have included MySenedd, Assembly Reform and Youth Parliament, all of which were funded through the investment fund in 2017-18 and 2018-19). The Committee is of the view that the Commission should identify and fund core maintenance projects separately.

48. The Committee continues to believe that any underspend relating to the Remuneration Board's Determination should be used to support activities which directly provide services to Members and does not accept the Commission's argument that indirect activity such as maintenance of the Commission estate falls into this category.

49. Furthermore, the Committee recognises the point made by the Assistant AGW that any project work which is identified as being required by the WAO, needs to be identified in its budget planning and is subject to scrutiny by the Committee, this also applies to the Public Services Ombudsman for Wales (PSOW). The Committee believes there should be the same level of scrutiny applied to all the directly funded bodies. If funding has been allocated for a specific project to the WAO or the PSOW this is scrutinised by the Committee and followed up in future years to ensure that body is accountable for delivering that project.

Recommendation 2. The Committee would like to understand in more detail how the new governance arrangements within the Assembly/Commission differ to the previous arrangements, how these arrangements will strengthen governance and how the Commission intends to measure if the change is

successful. The Committee recommends the Commission provide further details on these areas to the Committee.

Recommendation 3. The Committee recommends the Commission reviews its approach to funding capital projects, ensuring that funding is allocated for core projects within its capital budget.

Recommendation 4. The Committee recommends that the Commission clearly identifies funding streams for projects that might or will be brought forward as investment priorities, particularly where these projects span multiple years. In addition, the Committee expects risk analysis to be undertaken when activities are brought forward, given the unpredictable and precarious nature of funding from the underspend.

6. Alternative budgeting models

50. In the Commission's **consultation response**, it provided two alternative budget models that it would be considering:

- a ring-fenced budget for the Remuneration Board's Determination, set at 100 per cent, with unused amounts being returned to the Welsh Consolidated Fund via a supplementary budget, with a corresponding increase seen in the Commission's operational budget;
- a reduced amount, e.g. 98 per cent, being set as a budget for the funding of the Remuneration Board's Determination, with a corresponding increase seen in the Commission's operational budget.

Evidence

51. During evidence, the Committee explored the models proposed by the Commission. The Commission's Director of Finance confirmed the Commission was considering these options to address concerns around transparency that the Committee had previously raised rather than because "there's anything broken with the old way that we do things".³⁰

52. The Commission's Director of Finance highlighted the "risks and inefficiencies associated with those models" which could potentially result in additional supplementary budgets.³¹ She said "the risks are that we devote even more resource than is proportionate to a budget of this size", adding:

"For example, £100,000 or £200,000 is a huge amount of money in the context of the Commission budget, but not in the Welsh Government block, so we would be using your scarce resource to examine a supplementary budget for something maybe as small as £100,000 or £200,000, because that would make a world of difference to, for example, the ICT hardware replacement project—that we would have to make the effort to do that supplementary process, whereas at the moment we're able to use some of the underspend or phase things over years that we have. So, it's weighing up the costs and the benefits."³²

³⁰ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 312

³¹ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 312

³² Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 324

53. The Assistant AGW proposed alternative options in his letter of 20 June 2017, including separating out the Commission's request for resources. The letter stated:

"At present the Budget Motion approved by the National Assembly includes a single resource limit for the Commission relating to all its expenditure. You could consider with the Commission the option of separating this out into two resource requests: the first for Remuneration Board determinations; and, the second for the Commission's other expenditure."³³

54. The Assistant AGW noted that whilst this option would provide for greater transparency in the overall budget process, "it would be unusual for a legislature to exercise such detailed control over a body's budget".³⁴

55. The Financial Audit Lead for the audit of the Commission's accounts at the WAO said neither models being considered would actually result in a reduction in the amount of funding requested from the Commission.³⁵

56. The Northern Ireland Assembly's response noted they had considered the potential to split its budget vote so that Members of the Legislative Assembly (MLAs) costs are voted on separately to Commission incurred-running costs. However, it concluded that "a single vote has prevailed".³⁶

57. In the Cabinet Secretary for Finance's response to the inquiry, he stated that the Wales Reserve would provide the opportunity to carry forward underspends from one year into the next and that all bodies may propose and request changes to their budget in-year via the supplementary budget process.³⁷

58. When asked whether it would be reasonable for any unutilised funds relating to the Determination underspend to go into the Wales Reserve, Manon Antoniazzi agreed, saying:

"I suppose we would be looking for a reasonably streamlined process to do that and for the ability to apply for those funds to be returned to us at a future stage if they were necessary for Assembly use."³⁸

³³ **Letter from the Auditor General for Wales, 20 June 2017, Page 2**

³⁴ **Letter from the Auditor General for Wales, 20 June 2017, Page 3**

³⁵ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 155

³⁶ **Letter from the Northern Ireland Assembly, 9 February 2018**

³⁷ **Letter from the Cabinet Secretary for Finance and Local Government, 7 February 2018**

³⁸ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 319

Committee view

59. The Committee welcomes the Commission's commitment to consider alternative budget models. Whilst the alternative models would likely result in increased transparency, the Committee notes any changes are unlikely to reduce the overall amount of funding requested by the Commission on an annual basis.

60. The Committee notes the evidence that a change in the model may result in additional supplementary budgets, but is not convinced by this argument. If the Commission is aware of a project taking place over a specific financial year the Committee would expect the costs of this project to be fully estimated in the annual budget documentation. Should the Commission then require a supplementary budget for further work on a specific project it would appear that their cost estimations have not been accurate.

61. Whilst the Committee notes the Commission's view that the additional funding required may be nominal in the context of the Welsh block as a whole, other bodies funded directly through the Welsh Consolidated Fund are subject to this process and it would therefore be consistent and transparent for the Commission to use supplementary budgets for this reason.

Recommendation 5. The Committee recommends that the Commission fully explores the benefits and risks of changing processes around the Remuneration Board's Determination underspend, with a focus on maximising transparency. This should also take into account the outcome of the Remuneration Board's current consultation on the flexibility of the allowances within the Determination.

7. How other legislatures budget for expenditure related to Members' pay and allowances

62. As part of the inquiry, the Committee contacted a variety of legislatures and bodies, including bodies responsible for setting overall budgets, making estimates and administering salaries and allowances, and bodies responsible for setting and making remuneration and other arrangements related to member expenses.

63. The Committee received **16 responses**. Of the seven legislatures that responded, five (including the National Assembly for Wales) had corporate organisations functioning alongside independent remuneration arrangements.

Evidence

64. Generally, organisations that responded outlined a forecasting process based around their standard budgeting process. This often broke down elected representative driven expenditure into categories, within these, certain aspects were seen as easier to estimate.

65. Respondents had a variety of procedures in relation to how underspends are utilised. Generally, respondents noted that processes were in place to minimise variation from forecasts. The House of Commons said:

“the budgeting process aims to minimise underspend. Underspends are used if necessary and permissible to fund agreed overspends elsewhere in the budget.”³⁹

66. The Scottish Parliamentary Corporate Body (SPCB) operates a similar process to the Commission, where funds are made available for alternative use without the requirement for the corporate body to gain agreement, or, a process where funds associated with Members' pay and allowances is restricted. The **Auditor General for Scotland** said:

“The SPCB can apply budget underspends to fund other SPCB projects without the formal approval of the Scottish Parliament's Finance and Constitution Committee. The reallocation of budgets across expenditure lines is approved by the SPCB's Strategic Resources Board, made up from members of the senior management team. This

³⁹ **Letter from the House of Commons, 7 February 2018**

approach also applies to budget underspends against member costs. Any budget underspends remaining at the year end cannot be carried forward.”⁴⁰

67. Some respondents detailed agreements that require any underspend to be returned. For example the Independent Parliamentary Standards Authority (IPSA) stated in its response that underspends are returned to HM Treasury and funding is not used for IPSA operating activities.⁴¹

68. The Northern Ireland Assembly Commission (NIAC) noted in its response that its budgetary requirements for MLA costs were based on the “maximum possible uptake of those costs”.⁴² Any excess budget provision identified during the financial year is returned to the Northern Ireland Department of Finance. However, this is part of an agreement where, should MLAs’ costs increase for any reason and exceed the initial estimate, the Department of Finance is required to meet these costs and the NIAC is not required to fund this increase from its remaining budget.

69. During evidence, the Assistant AGW noted that “the practices across the UK, they are different”. He said:

“...the Scottish Parliamentary Corporate Body reallocates underspends against Members’ costs for use on other projects without any further approval—so, similar to the Commission here. The Northern Ireland Assembly and the Independent Parliamentary Standards Authority do not reallocate such underspends, so they follow a different practice. So, there is no clear, it would seem to me, right and wrong answer across the UK on this.”⁴³

70. On this issue, Manon Antoniazzi said:

“I think that it’s a matter of different legislatures deciding what is a culturally appropriate fit for them. ...it shows that there are different models of doing this.”⁴⁴

⁴⁰ **Letter from the Auditor General for Scotland, 30 January 2018**

⁴¹ **Letter from the Independent Parliamentary Standards Authority, 9 February 2018**

⁴² **Letter from the Northern Ireland Assembly Commission, 9 February 2018**

⁴³ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 158

⁴⁴ Finance Committee, Record of Proceedings, 15 March 2018, Paragraph 317

Committee view

Conclusion 1. The Committee recognises the practice for setting budgets and utilising underspends across UK legislatures varies widely. The Committee notes that some legislatures operate different systems for budgeting and returning underspends and suggests that the Commission considers these processes when it reviews its budgeting procedures.

Annex A – List of witnesses

The following witnesses provided oral evidence to the Committee on the date noted below. A **transcript of evidence session** can be viewed on the Committee's website.

Date	Name and Organisation
15 March 2018	Anthony Barrett, Assistant Auditor General, Wales Audit Office Ann-Marie Harkin, Financial Audit Lead for the audit of the Assembly Commission's accounts, Wales Audit Office Suzy Davies AM, Commissioner for Budget and Governance Manon Antoniazzi, Chief Executive and Clerk of the National Assembly for Wales Nia Morgan, Director of Finance, National Assembly for Wales