

National Assembly for Wales
Finance Committee

Scrutiny of Welsh Government Draft Budget 2014-15

November 2013



Cynulliad
Cenedlaethol
Cymru

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Wales

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Information on the Committee, its membership, its remit and previous publications can be found at: **www.senedd.assemblywales.org/mgCommitteeDetails.aspx?ID=229**

A list of witnesses and oral and written evidence of relevance to this report is available at: **<http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?IId=5722>**

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Finance Committee

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Budget 2014-15**

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Finance Committee

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

Current Committee membership



Jocelyn Davies (Chair)
Plaid Cymru
South Wales East



Peter Black
Welsh Liberal Democrats
South Wales West



Christine Chapman
Welsh Labour
Cynon Valley



Paul Davies
Welsh Conservatives
Preseli Pembrokeshire



Mike Hedges
Welsh Labour
Swansea East



Ann Jones
Welsh Labour
Vale of Clwyd



Julie Morgan
Welsh Labour
Cardiff North



Simon Thomas
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Mid and West Wales

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Chair's foreword

The Assembly's approach to financial scrutiny is evolving, and this year's draft budget process marks another step forward.

Last year was the first time we had engaged an expert adviser to support the committee, and we were delighted that Angela Scott, Head of CIPFA Regions, was able to return to work with us this year. Between times, Angela has worked with Assembly staff to develop a programme of financial scrutiny development for Assembly Members, their support staff, and the Assembly's clerking and research teams. The impact of that work could be seen clearly in this year's draft budget process. This improvement in institutional capacity has enabled the Assembly's committees to be more demanding than ever.

Significant issues continue to cause concern. The financial impact of legislation passed by the Assembly is not fully known, while the volume of legislation is accelerating.

Despite the Finance Minister's best intentions, there is a disconnection between the Welsh Government's stated priorities – jobs and growth – and a budget whose clearest priorities are indicated by directing additional money towards the health service.

The Assembly's drive to be World Class when it comes to financial scrutiny has further to go. This year committees and staff will be working to develop our financial scrutiny of legislation, and in policy inquiries. With the first anniversary of the Silk Commission's first report recommending greater monetary powers for the Assembly fast approaching, it's a timely reminder of our need to build capability within the present system and also be ready for greater fiscal powers if granted.

As an Assembly, and as a Finance Committee, we have a duty to be the best we can be – to get the best value for Welsh taxpayers.



Jocelyn Davies
Chair, Finance Committee

The Committee's Recommendations

The Committee's conclusions and recommendations are grouped according to the four objectives of financial scrutiny which underpinned the finance and standing Committees' approach to 2013-14 budget scrutiny. They are listed below, in the order that they appear in this report. Please refer to the relevant pages of the report to see the supporting evidence:

Conclusion 1. The political negotiation being concluded ahead of the draft budget permitted Assembly scrutiny of the proposals. However, we note there are still some issues of clarity to resolve around certain elements of the agreement, which are covered later in this report. (Page 13)

Recommendation 1. We recommend that the Welsh Government continues to work with the UK Government and other devolved governments to ensure that Barnett consequential - whether positive or negative - are clearly identified at the earliest opportunity to enable more effective medium and long term financial planning. (Page 19)

Conclusion 2. While it seems likely that council tax rates will rise, this is unlikely to be on a scale which will have a significant effect on council incomes. (Page 20)

Conclusion 3. In her letter to committee, the Minister gave a clear statement regarding the legal position regarding fees, charges and where legislation exists capping what can be charged. We received evidence from local government that they are reviewing fees and charges as a way to raise additional income. (Page 21)

Conclusion 4. We have received insufficient evidence to conclude whether fees/charges are being maximised, or being used effectively as a level to manage demand for services. (Page 21)

Recommendation 2. We recommend that the Welsh Government supports local government in exploring the potential for raising additional income from fees and charges, and review all statutory caps. We also reiterate last year's recommendation (6) that the Minister for Local Government reports back on the potential for, and impact of, raising fees and charges - both to increase income and manage demand - in time for next year's draft budget. (Page 22)

Conclusion 5. Although we accept that the £30m of EU funding has not been lost to Wales, we consider that this confusion could have been avoided with better financial management practices. (Page 23)

Recommendation 3. We welcome the Minister's commitment to review the classification and management of EU income and recommend that this matter is addressed in the second Supplementary Budget of 2013-14. (Page 23)

Recommendation 4. To provide greater transparency on the total level of funding available to the Welsh Government we recommend it publishes alongside the Budget proposals a breakdown of EU funds available for spending during that budget period. (Page 23)

Recommendation 5. We recommend that the Finance Minister undertakes a review of the financial planning and management within the Natural Resources and Food portfolio – in particular, the planning for and use of European funding. (Page 23)

Recommendation 6. We recommend that the Finance Minister reports back to the Finance and Environment & Sustainability Committees on the future use of the remaining 'headroom' for match funding of the Rural Development Plan. (Page 24)

Conclusion 6. Capital investment, irrespective of financing route, plays an important role in economic growth. In light of reduction in capital budgets, maintaining capital investment is likely to be by greater use of innovative models. Choices have to be made and revenue resources have to be found to repay the innovative financing models. The level of indebtedness facing future generations as a result of use of innovative models needs to be made more transparent. (Page 25)

Recommendation 7. We recommend the Minister provides a clear picture of the investment available and the cost for each financial year of the budget period, broken down by portfolio area. (Page 25)

Conclusion 7. We encourage the Welsh Government to give greater guidance and leadership to the wider public sector to manage assets, given the increasing reliance on capital receipts as a funding stream. We will review progress made after 12 months on the recommendations of our Asset Management report. (Page 26)

Conclusion 8. We have real concerns that the cost of already enacted legislation is neither fully known, nor fully budgeted, nor accounted for transparently. (Page 27)

Conclusion 9. There are widespread concerns that current and future legislation – including the Social Services and Wellbeing Bill which would create the framework for wide-ranging secondary legislation – is only likely to add to this problem. (Page 27)

Conclusion 10. We are convinced that we need to:

- 1) Undertake an inquiry into the financial implications of legislation previously enacted by the Assembly, and how this impacts on the Welsh Government budget;
- 2) Produce recommendations to Welsh legislators to ensure that the costs of new bills, and secondary legislation within them are assessed as robustly as possible and that Explanatory Memoranda are able to evidence the long term affordability of legislation as it is enacted. (Page 28)

Conclusion 11. The Minister has spoken repeatedly of her intention to align the budget process with the Programme for Government. We support this aim. However, we remain unconvinced that the Government is able to demonstrate an alignment between resources and stated priorities in all cases. (Page 30)

Recommendation 8. We welcome the improvements to the presentation of the budget, which build on work begun last year. However we recommend this work continues to further improve the transparency of how the budget allocations are aligned to the Programme for Government. (Page 30)

Conclusion 12. We welcome the steps taken by the Minister to address health spending. Long term, the additional money going in, and shift to a three year budgeting pattern, as recommended by Finance Committee last year, should prove beneficial. However, we remain sceptical, based largely on past failures, that all health boards have the correct plans in place to ensure they can live within their budgets as an aging population puts greater demands on them. (Page 31)

Recommendation 9. Within the health budget there is a lack of clarity around the intentions of the additional funding to deal with the Francis Review. We recommend that the Health Minister clarifies the position urgently. (Page 32)

Recommendation 10. The Welsh Government should ensure more transparency about re-prioritisation decisions. As much transparency should be provided for reductions as for additional allocations. (Page 33)

Conclusion 13. It would appear that although the Welsh Government supports programmes which are preventative in nature, there is no systematic, strategic approach to prevention across Government. For example, the budget reduction for Care & Repair. We are committed to ensuring that scrutiny supports improvement so have stated our intention to conduct a future inquiry in relation to preventative spend, which the Minister has welcomed. (Page 34)

Recommendation 11. We recommend that Welsh Government takes greater efforts to evidence the value for money considerations that go into its funding decisions. Without clear evidence Assembly committees and the people of Wales are not able to say clearly whether Government policies and initiatives are delivering value for money. (Page 36)

Recommendation 12. We recommend the Finance Minister presses the Treasury to provide clarity on how financial transactions will impact on the Budget Exchange System, and the Welsh Government's freedom to carry forward capital. (Page 37)

Recommendation 13. We recommend that the Finance Minister, working with colleagues in the other devolved administrations, seeks clarity from HM Treasury on the arrangements for repayment of financial transactions. We further recommend that she reports to the Finance Committee on whether the projects allocated financial transaction funding are capable of making the necessary repayments. (Page 37)

Conclusion 14. Late and inaccurate papers make it more difficult for Assembly Members to consider the full implications of what is being proposed and undermine the Assembly's attempts to improve the effectiveness of its scrutiny. (Page 38)

Conclusion 15. The Finance Committee endorses the view of the Environment & Sustainability Committee that providing papers late not only breaches the agreements between the Welsh Government and the National Assembly for Wales, but also shows a lack of respect for the Committee, the Assembly and the scrutiny function. (Page 38)

Recommendation 14. We recommend that the Welsh Government's Strategic Budgeting department be given a stronger oversight role in

ensuring that evidence provided to committees is accurate and timely.

(Page 38)

Recommendation 15. We recommend that the Natural Resources and Food department improves their co-ordination with the Central Budgeting Unit at all stages of the budgeting process, including Draft and Supplementary Budget stages as a matter of urgency (Page 38)

Recommendation 16. We recommend that any specific projects announced in-year should have its own budget line to increase transparency and clarity about funding commitments made. (Page 39)

Conclusion 16. We note that the Welsh Government has made a commitment to reduce the number of specific grants. Although we appreciate protecting budgets ensures the Welsh Government's priorities are pursued, we have heard evidence that this puts additional pressure on other areas of local government budgets. (Page 39)

Recommendation 17. We recommend that the Welsh Government works with local authorities to identify the sweet spot between the Welsh Government's desire for accountability, and local government's desire for freedom to spend its own way. A successful agreement, which scrapped specific grants could free up significant money for front line services. (Page 40)

Conclusion 17. The early negotiation of the budget means that, for the first time in the fourth Assembly, the full slate of budget proposals can receive proper scrutiny. In previous years, budget concessions have been announced between the draft budget's publication and the final budget debate - making it difficult to conduct meaningful scrutiny. (Page 40)

Recommendation 18. We recommend that all political parties involved in future budget negotiations should provide as much clarity as possible on intended outcomes and value for money of commitments, particularly where those commitments span multiple years. (Page 40)

Recommendation 19. We recommend that Ministers work swiftly to clarify: what the Intermediate Care Fund is intended to achieve; and what the process and criteria will be for submitting and approving bids. We also recommend that a thorough evaluation is undertaken of the fund after the first year of operation and report submitted to the Finance Committee on whether it provided value for money. (Page 41)

Recommendation 20. We reiterate the recommendation of the Communities, Equalities & Local Government Committee that Equality considerations should be an integral part of the budget process at a formative stage. Children’s rights should be a key part of this process.

(Page 42)

Recommendation 21. We recommend that the Welsh Government reviews its formal and informal mechanisms for indicating future budgets to public delivery bodies in the light of this year’s experience. This should include consideration of a formal annual forward look before the end of the summer term which would give a clear indication of the best and worst case scenarios for changes in the following year’s budget and provide support for public bodies to plan on that basis.

(Page 42)

Recommendation 22. The Committees of the National Assembly should continue to take an innovative approach to bringing the public voice into budget scrutiny. They should consider how best to engage the public voice for next year’s budget round. This might include wider use of social media and/or work as part of the push for greater youth engagement.

(Page 44)

1. Budget Overview

1. The Minister for Finance, Jane Hutt AM, laid the Welsh Government's Draft Budget Proposals 2014-15¹ before the National Assembly on 8 October 2013. These were accompanied by a narrative document,² action tables³ and an oral statement.⁴
2. The Draft Budget Proposals 2014-15⁵ shows that £16 billion has been made available by HM Treasury for the total Welsh block in 2014-15 financial year.
3. This is a 1.3% increase on 2013-14, however, in real terms (i.e. taking account of inflation) this is equivalent to a reduction of just under 1%. Compared to indicative plans published in the most recent supplementary budget, the Welsh Block has increased by £133m.

Budget Agreement

4. In the foreword to the narrative document, the Minister states:

“Our Budget proposals are influenced by the cuts we are facing but we have shaped our plans to respond to the needs of Wales. We have also forged an agreement with Plaid Cymru and the Welsh Liberal Democrats to deliver a response to two of the key challenges facing Wales, including our commitment to break the link between poverty and educational attainment and to promote the integration of health and social care.”
5. The three party budget agreement announced on 8 October 2013 was worth £100 million and included:
 - £35m boost to the Pupil Deprivation Grant;
 - £50m for an innovative new Intermediate Care Fund;
 - £5.5m to mitigate planned cuts to the Supporting People Programme;
 - and

¹ Welsh Government, [Draft Budget Proposals 2014-15](#), October 2013

² Welsh Government, [Draft Budget 2014-15 Narrative](#), October 2013

³ Welsh Government, [Draft Budget 2014-15 Action Tables](#), October 2013

⁴ Welsh Government, Jane Hutt (Minister for Finance), [Draft Budget 2014-15](#), Cabinet Oral Statement, 8 October 2013

⁵ Welsh Government, [Draft Budget Proposals 2014-15](#), October 2013 (Schedule 6 page 25)

- £9.5m additional funding for the Health Technology & Telemedicine Fund.

Conclusion: The political negotiation being concluded ahead of the draft budget permitted Assembly scrutiny of the proposals. However, we note there are still some issues of clarity to resolve around certain elements of the agreement, which are covered later in this report.

2. Introduction

Committee background & standing orders

Who are we?

6. The Finance Committee is a cross party committee of the National Assembly for Wales, made up of Members from all four political parties represented at the Assembly.

7. The Committee is not part of the Welsh Government. Rather, the Committee is responsible for reporting on proposals laid before the Assembly by Welsh Ministers relating to the use of resources. The Committee can also consider and report on any other matter related to, or affecting, expenditure out of the Welsh Consolidated Fund.

What is the Welsh Government's draft budget?

8. The Welsh Government's draft budget sets out how they intend to use their resources for the following financial year, and their provisional proposals for future years.⁶

What is the role of the Finance Committee?

9. The Finance Committee is responsible for reporting on this draft budget and can also recommend changes to amounts – so long as those changes don't alter the size of the overall pot.⁷

10. Although the Finance Committee is responsible for reporting on the draft budget, under the Assembly's rules, other committees may also consider and report to the Finance Committee on the draft budget.⁸ This has been done through a series of letters to the Finance Committee.

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

⁶ National Assembly for Wales, Standing Orders of the National Assembly for Wales June 2012, Standing Order 20.7

⁷ *ibid*, June 2012, Standing Order 20.11

⁸ *ibid*, June 2012, Standing Order 20.10

Why did we scrutinise this draft budget?

12. Naturally, any budget produced by the Welsh Government will have a significant impact on the people of Wales. Our scrutiny of the draft budget is the first stage in the budget process, as provided in the Standing Orders of the National Assembly.

13. Following the publication of this report, there will be a debate in plenary on the draft budget.

14. Subsequently, there will be a final budget motion (the annual budget motion), as required by law⁹. The *Government of Wales Act 2006* says that there must be at least one budget motion (the annual budget motion) moved in relation to each financial year. Under the Assembly's rules¹⁰, no amendments can be tabled to the annual budget motion – Assembly Members can merely vote for, against or abstain.

How did we scrutinise this draft budget?

Prior to publication

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

16. In line with previous years, we issued a pre-budget consultation, inviting stakeholders to comment on the expected draft budget proposals. Our call for information invited consultees, organisations and individuals to let us know their expectations of the forthcoming draft budget, based on the latest available indicative figures.

17. We were pleased to receive responses from a range of organisations. Links to their contributions can be found at the back of this report.

18. For the first time, we also received a letter from the Assembly's Public Accounts Committee¹², which set out a number of issues it had come across in its work on value for money during the year. This letter marks an important step forward in joining up our financial scrutiny work. It ensures that the value for money inquiries conducted by the Wales Audit Office, and

⁹ The Government of Wales Act 2006, [Section 125](#)

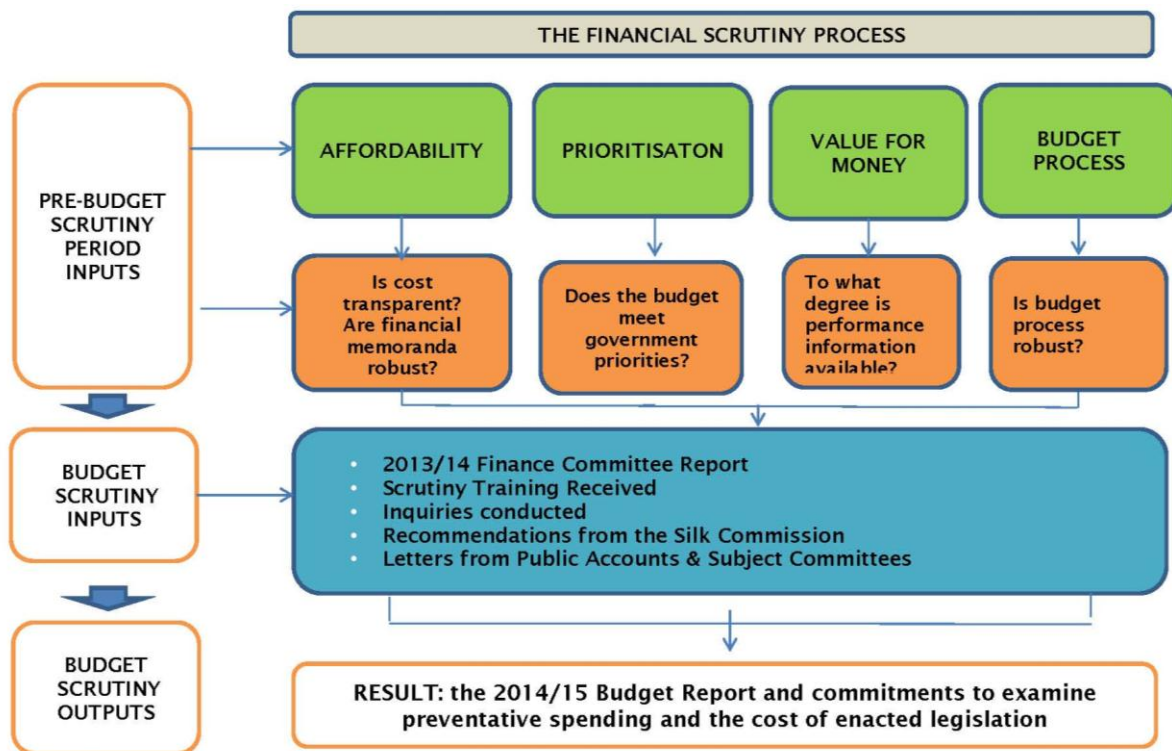
¹⁰ National Assembly for Wales, Standing Orders of the National Assembly for Wales, June 2012, Standing Order 20.29

¹¹ *ibid*, June 2012, Standing Order 20.5

¹² Letter from Chair of Public Accounts Committee, 24 September 2013

the scrutiny of the PAC feeds into our overall assessment of whether money is being spent effectively. The letter was shared with the five subject committees to ensure they were fully informed for their own scrutiny sessions.

19. Through the year Subject committees have undertaken periodic scrutiny of Ministers, and the Finance Committee has scrutinised two supplementary budgets and considered the end year report for 2012-13. This in-year work has also fed into our draft budget scrutiny.



Following publication

20. The Minister for Finance, Jane Hutt AM, presented the Welsh Government’s Draft Budget Proposals 2014-15 to Plenary on 7 October 2013. This was accompanied by a statement, narrative document, detailed expenditure allocation tables and a leaflet to communicate the budget to a young audience.

21. We scrutinised the Minister for Finance on her draft budget on 8 October 2013, and again on 23 October 2013.

22. We also took oral and written evidence on the draft budget from two Local Health Boards, The Welsh Local Government Association, Torfaen and Bridgend County Borough Councils, The Wales Council for Voluntary Action (WCVA), Care & Repair Cymru and David Robinson – an expert on preventative spending.

23. Through correspondence, the National Assembly for Wales' five Subject committees also provided us with reports of issues arising from their scrutiny of the draft budget, focussed on budget proposals within their respective fields of interest.

24. We are very grateful to all those who provided evidence or assisted us with our deliberations. Full details of all the organisations who gave evidence to us are included at the back of this document.

25. As we have worked to increase the quality of our scrutiny, we are making increasing demands on witnesses to provide high quality evidence. Based on the evidence we received, they are rising to that challenge.

The four objectives of financial scrutiny

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

27. That training has encouraged all involved to consider four objectives of financial scrutiny:

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

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

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

Budget processes - Are they effective and accessible? Is there integration between corporate and service planning, and performance and financial management?¹³

28. We remain convinced of their relevance and so have continued to use these objectives to guide our scrutiny of the draft budget 2014-15.

Our scrutiny process

29. Starting from the objectives, the Finance Committee's technical adviser identified a number of issues in her pre-budget report and set out some key areas for investigation during the committee's sessions once the budget was published. She wrote:

“As Budget adviser my advice is that optimum Parliamentary scrutiny will be achieved if there is a clear division of the principles to be examined between the Finance and subject committees.”¹⁴

30. Consequently, the Finance Committee has focused its work on affordability and budget process, with some interest in the strategic linkages between the Programme for Government and the budget.

31. The primary focus of the subject committees has been on prioritisation and value for money. Subject committees have written to the chair of Finance Committee formally sharing their findings. These have been incorporated into this report.

¹³ Welsh Government Draft Budget Pre-briefing - Angela Scott, Expert Advisor to the Finance Committee

¹⁴ Welsh Government Draft Budget Pre-briefing - Angela Scott, Expert Advisor to the Finance Committee

3. Affordability

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

33. Our scrutiny raised a number of unanswered questions about affordability. The lack of clarity around Barnett consequentials, financial transactions and the potential for greater use of fees and charges were our main concerns.

Income

Barnett Consequentials

34. Uncertainty over the amount of money the Welsh Government will receive as a consequence of UK Government spending decisions continues to have an impact on the Welsh Government's ability to plan effectively.

35. Following the publication of the Finance Minister's letter to the committee setting out allocations expected as a result of UK Government spending on High Speed Rail links (HS2), there were media reports of disagreement between HM Treasury and the Welsh Government over these figures. While this incident has since been resolved, it highlights one of the key weaknesses of the Barnett formula – that despite its reputation for simplicity, there can be significant confusion around the calculation of consequentials.

Recommendation: We recommend that the Welsh Government continues to work with the UK Government and other devolved governments to ensure that Barnett consequentials – whether positive or negative – are clearly identified at the earliest opportunity to enable more effective medium and long term financial planning.

Taxation Levers

36. The Assembly has no tax raising powers of its own. Local government is funded by a combination of Welsh Government funding and its own local taxation powers: council tax and non-domestic rates.

37. Non-domestic or business rates provide a significant income source to Welsh local government. In her letter to Finance Committee the Finance Minister said that this was anticipated to be worth £1,037m for 2014-15.¹⁵

38. While in theory, councils could offset any reduction in Welsh Government funding by pushing up council tax, there are three practical barriers to this: the gearing effect, which means large increases in council tax have a relatively small impact on overall income; the Welsh Government's ability to cap council tax rises; and the changes to the way that Council Tax Benefit works.

39. John Rae, Director of Resources for the WLGA, told us:

“...On council tax income, with the new council tax reduction scheme, local authorities now have to essentially swallow their own smoke on any council tax increases, so there is a brake on the ability to raise additional income from council tax. About a quarter to a third of the increase will have to go on funding the council tax reduction scheme.”¹⁶

40. Cllr Anthony Hunt, Torfaen Council's cabinet member for Finance, explained that in his authority, an additional £300,000 used to be raised by every 1% increase in council tax but due to the impact of the council tax reduction scheme, this was now closer to £200,000.¹⁷

41. The Welsh Government has not adopted the freeze on council tax adopted in England and Scotland.

Conclusion: While it seems likely that council tax rates will rise, this is unlikely to be on a scale which will have a significant effect on council incomes.

Additional Income from Fees and Charges

42. Increasing fees and charges for public sector services are a potentially rich source of income. This could include charges for leisure centre use, town centre parking, or even certain kinds of social care. However, increasingly, fees and charges are also being seen as powerful levers to change citizen behaviour – particularly in areas of high demand.

¹⁵ Letter from Minister for Finance Minister, 21 October 2013

¹⁶ National Assembly for Wales, Finance Committee, RoP 17 October 2013, Paragraph 397

¹⁷ National Assembly for Wales, Finance Committee, RoP 17 October 2013, Paragraph 399

43. The ability of the Welsh Government and local government to increase its income by raising fees and charges was a source of contention between the Minister for Communities and Local Government and Welsh councils last year.¹⁸

44. In her pre-budget report, Angela Scott quotes an example for Les Sorinières in Western France, where the debate about the potential to introduce charges for waste triggered a 20% increase in recycling – so the charge was never introduced.

45. In Wales, we have seen how the introduction of a small charge for single-use carrier bags has become a lever for widespread behaviour change.

46. Vanessa Young, Director of Finance at Bridgend CBC, said:

“We have also done a review of all of our fees and charges and have identified areas where we can consider introducing charges for the first time, and we have done that this year in terms of garden waste, for example. We have also looked at the scope for increasing the charges that we have set. However, we need to be careful to balance that against people’s ability and willingness to pay, because what you can do if you increase a charge too much is that you reduce the demand and end up with less income.”¹⁹

47. The Finance Minister made a similar point about the need for balance in her letter to committee. While there appears to be a consensus that high charges can deter people from doing something, there doesn’t appear to be sufficient thought to how this could be used to drive positive behaviour change.

Conclusion: In her letter to committee, the Minister gave a clear statement regarding the legal position regarding fees, charges and where legislation exists capping what can be charged. We received evidence from local government that they are reviewing fees and charges as a way to raise additional income.

Conclusion: We have received insufficient evidence to conclude whether fees/charges are being maximised, or being used effectively as a level to manage demand for services.

¹⁸ [BBC Wales news](#) story 16 October 2013

¹⁹ National Assembly for Wales, Finance Committee, RoP 17 October 2013, Paragraph 402

Recommendation: We recommend that the Welsh Government supports local government in exploring the potential for raising additional income from fees and charges, and review all statutory caps. We also reiterate last year’s recommendation (6) that the Minister for Local Government reports back on the potential for, and impact of, raising fees and charges – both to increase income and manage demand – in time for next year’s draft budget.

EU funding income

48. EU funding makes a significant contribution to what can be spent in Wales. However, much of it is not included in the Welsh budget, which means it is difficult to get a clear picture of the total resources at the disposal of the Welsh Government.

49. The presentation of the budget provides no clarity or transparency on overall EU funding.

50. On 9 October the Finance Minister was asked about the risk of having to repay EU funds due to non-compliance with EU rules. She said:

“I do not think that the committee needs to be concerned about that in terms of our management of risk, but, obviously, it is always the case that we would have to respond if it were to arise.”²⁰

51. Yet we know from the end-year report 2012-13 that the Welsh Government returned £30m of EU funding in that financial year. The Minister provided clarification in a letter to finance Committee on 31 October 2013²¹. This letter suggests that the money was not available for use in 2012-13, but that the Minister intends to carry it over to 2013-14 in a supplementary budget.

52. The Finance Minister wrote:

“Officials will review whether there is a better way to classify and financially manage European income within the confines of the current legislation. As for the recovery of the funds, although there is and DEL impact (surrendering of funds represents a cash adjustment only) action will be needed at the second supplementary budgetary motion stage to ensure the cash is made available for 2013-14.”

²⁰ National Assembly for Wales, Finance Committee, 9 October 2013, RoP, Paragraph 65

²¹ Letter from Minister for Finance, 31 October 2013

53. The Minister also added that the Wales European Funding Office (WEFO) is taking action to prevent this happening in the future.

Conclusion: Although we accept that the £30m of EU funding has not been lost to Wales, we consider that this confusion could have been avoided with better financial management practices.

Recommendation: We welcome the Minister’s commitment to review the classification and management of EU income and recommend that this matter is addressed in the second Supplementary Budget of 2013-14.

Recommendation: To provide greater transparency on the total level of funding available to the Welsh Government we recommend it publishes alongside the Budget proposals a breakdown of EU funds available for spending during that budget period.

Management of EU funding

54. In their letter the Environment & Sustainability Committee, note that the Rural Development Plan budget includes higher level of “headroom”.²²

55. The committee also states that:

“While we acknowledge the Minister and his Officials’ explanation that this is the result of having to plan a multi-annual demand-led budget, and that there will need to be some level of headroom, we remain unclear on why the levels of ‘headroom’ were so high. Additionally we were unclear as to why this ‘headroom’ was able to accumulate over a number of years.”²³

56. The Environment & Sustainability Committee expressed concern that this may be due to problems in the financial planning and management of the department. The committee also queried whether the Minister for Natural Resources and Food would be able to retain this ‘headroom’ within his portfolio.

Recommendation: We recommend that the Finance Minister undertakes a review of the financial planning and management within the Natural

²² Letter from the Chair of Environment and Sustainability Committee, 25 October 2013

²³ *ibid*

Resources and Food portfolio – in particular, the planning for and use of European funding.

Recommendation: We recommend that the Finance Minister reports back to the Finance and Environment & Sustainability Committees on the future use of the remaining ‘headroom’ for match funding of the Rural Development Plan.

Capital Investment from Innovative Finance

57. Our July 2012 report on Prudential Borrowing and Innovative Finance recommended a greater use of these methods to invest in capital projects. While there is some progress, very few models are in active use. One reason may be the tightening budgets.

58. Bridgend Council’s Vanessa Young summed up the essence of the problem:

“‘Innovative sources of finance’ is an interesting phrase. Generally speaking, it is about finding revenue to fund capital when we talk about innovative methods. The key point is that, whichever way you do it, you have to pay for it. So, you are either paying for it from capital, which is under pressure, or you are paying for it from revenue, which is under pressure.”²⁴

59. In the narrative document accompanying the draft budget the Finance Minister refers to a number of innovative approaches to finance, many of which have been previously announced. She refers to a non-dividend vehicle being used to finance dualling of the A465 Heads of the Valleys Road.

60. The health sector generally has been slow to embrace innovative funding. However, in the Health & Social Care Committee there was a discussion that capital investment in Velindre NHS Trust might also involve an innovative system. We asked the Finance Minister how much money was being used to repay innovative capital schemes across the public sector.

61. The budget shows neither how much is being raised via innovative mechanisms, nor the cost of such financing.

²⁴ National Assembly for Wales, Finance Committee, RoP 17 October 2013, Paragraph 332

62. However, in the Minister’s letter following her appearance on 23 October, she published a table (reproduced below) setting out almost £1bn in funding commitments.²⁵

Scheme	Sum borrowed (£ms)*
Local Government Borrowing Initiative – Highway improvements	170
Local Government Borrowing Initiative – 21 st Century Schools	170
Housing Finance Grant	130
Ely Bridge Development Company	106
Welsh housing Partnership	82
A465 / Sections 5 and 6	300
Total	958

* All figures are estimates. The actual amount borrowed may vary in some cases reflecting outturn costs and interest rates at time of borrowing.

Conclusion: Capital investment, irrespective of financing route, plays an important role in economic growth. In light of reduction in capital budgets, maintaining capital investment is likely to be by greater use of innovative models. Choices have to be made and revenue resources have to be found to repay the innovative financing models. The level of indebtedness facing future generations as a result of use of innovative models needs to be made more transparent.

Recommendation: We recommend the Minister provides a clear picture of the investment available and the cost for each financial year of the budget period, broken down by portfolio area.

²⁵ Letter from the Finance Minister to Finance Committee, 6 November, 2013.

Capital Receipts

63. Evidence from local government showed the importance of the moneys received from the sale of land or buildings (capital receipts), which are then used to match fund new buildings/purchases.

64. In our report on Asset Management²⁶ we recommended, “that public bodies are given greater incentives to effectively manage their assets, by ensuring that they keep an appropriate proportion of any value accrued by transfer or disposal.”

65. The Welsh Government accepted this recommendation in principle.

66. Representatives of local government stressed their growing dependence on money coming in from selling off buildings and other assets. Vanessa Young said:

“What we have done is earmark a number of capital assets that we know we are going to dispose of, or that we hope to dispose of, over the next couple of years specifically for that match [funding for 21st Century Schools programme]. However, the issue is about what the market is like and whether we can realise those values.”²⁷

67. With capital budgets shrinking, the sales of assets will be an important source of funding across the Welsh public sector. As the amount of money available at any given time will be heavily dependent on the strength or weakness of the market in that area, this adds a considerable element of risk to public sector budgets.

Conclusion: We encourage the Welsh Government to give greater guidance and leadership to the wider public sector to manage assets, given the increasing reliance on capital receipts as a funding stream. We will review progress made after 12 months on the recommendations of our Asset Management report.

²⁶ National Assembly for Wales, Finance Committee, [Asset Management in the Public Sector](#), August 2013

²⁷ National Assembly for Wales, Finance Committee, RoP 17 October 2013, Paragraph 321

Expenditure

Costs of Legislation – past and present

68. Across all the committees' scrutiny there was little evidence that the costs of past legislation are being built into budgets. Our experience through the year has been that increasing familiarity with the process of legislation has not led to improvements in financial planning.

69. On 9 October, the Minister discussed issues around the financial implications of current and future legislation, in particular in relation to costs associated with secondary legislation.²⁸

70. We were particularly concerned that the Finance Minister told us that it was often impossible to know the full financial implications of a Bill, prior to its enactment, due to uncertainty around the cost of secondary legislation within that Bill.

“The difficulty with the costs is that, sometimes, they do not materialise until you implement the legislation, and that could be beyond the budget period. However, we have to develop those costs clearly in the regulatory impact assessments, which I monitor very carefully as the Minister for Finance.”²⁹

71. However, there is also a body of legislation which has already been enacted, including that from the Third Assembly, which has financial implications for the current budget. Any legislative burden needs to be identified and planned for, as many of the Measures passed during the Third Assembly were ‘enabling’ in nature (ie enabled power to be granted via secondary legislation).

Conclusion: We have real concerns that the cost of already enacted legislation is neither fully known, nor fully budgeted, nor accounted for transparently.

Conclusion: There are widespread concerns that current and future legislation – including the Social Services and Wellbeing Bill which would create the framework for wide-ranging secondary legislation – is only likely to add to this problem.

²⁸ National Assembly for Wales, Finance Committee, RoP 9 October 2013, paragraph 132

²⁹ National Assembly for Wales, Finance Committee, RoP 9 October 2013, Paragraph 130

72. We appreciate that costing forthcoming legislation is sometimes a matter of estimates and assumptions. And we are keen to support the Welsh Government and look in depth at the systems and processes to improve effectiveness. Effective scrutiny is not just a matter of criticism, but of constructive engagement in finding solutions. To that end, we intend to conduct two pieces of work over the coming year.

Conclusion: We are convinced that we need to:

1) Undertake an inquiry into the financial implications of legislation previously enacted by the Assembly, and how this impacts on the Welsh Government budget;

2) Produce recommendations to Welsh legislators to ensure that the costs of new bills, and secondary legislation within them are assessed as robustly as possible and that Explanatory Memoranda are able to evidence the long term affordability of legislation as it is enacted.

Backlogged claims for Continuing Health Care

73. A Wales Audit Office report has previously noted that there was a “significant risk” that the June 2014 deadline for clearing compensation claims relating to Continuing Health Care might not be achieved.

74. The Health & Social Care Committee questioned the Health Minister on this matter, and note in their letter to the Minister that:

“Despite the conclusion of the Wales Audit Office’s Implementation of the National Framework for Continuing NHS Healthcare³⁰ report that retrospective claims for costs wrongly charged to individuals between 1996 and 2003 may not be cleared by June 2014, we note your confidence to the contrary.”³¹

75. The Committee also requested updates on progress in this area to ensure it was not having an impact on the wider budget.

³⁰ Wales Audit Office, [Implementation of the National Framework for Continuing NHS Healthcare](#), June 2013

³¹ Letter from the Chair of the Health and Social Care Committee to the Minister for Health and Social Services and the Deputy Minister for Social Services, 25 October 2013

4. Prioritisation

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

77. Our main concern in this section is the confusing evidence we received about the developing links between the Programme for Government and the budget.

Alignment of the budget with the Programme for Government

78. The Programme for Government Annual Report 2013 opens with the statement:

“My top priority is to deliver jobs and growth and to tackle poverty. I have instructed the Civil Service to mobilise the whole machinery of government, and the wider public sector in Wales, to line up squarely behind delivering these aims.”³²

79. Last year's draft budget for 2013-14 was entitled '*A Budget for Growth and Jobs*' and this was the focus of the stated priorities.³³ However, this year the focus of the priorities appears to have expanded, with the Draft Budget 2014-15 narrative is entitled '*Priorities for Wales*' and highlights three key areas:

“**Growth and Jobs** – supporting growth and creating jobs to support the economy and to tackle poverty;

“**Educational Attainment** – delivering a world class education system, with high levels of attainment; and

“**Supporting Children, Families and Deprived Communities** – taking action to support routes out of poverty for the individual and for families and to improve the health, access to learning and prosperity of deprived communities.”³⁴

80. When questioned, the Finance Minister denied that her priorities had changed:

³² Welsh Government, [Programme for Government Annual Report 2013](#), June 2013

³³ Welsh Government, [Draft Budget 2013-14 A Budget for Growth and Jobs](#), October 2012

³⁴ Welsh Government, [Draft Budget 2014-15 Narrative](#), October 2013

“I would say that our priorities have remained the same in terms of jobs and growth, schools, protecting universal benefits and health. So, our priorities haven’t changed.”³⁵

81. The Minister also talked about ‘themes’ and said that these were intended to focus the Portfolio Ministers on the priorities:

“What we sought to do this year is drill down, particularly because it was a reducing budget, so that Ministers could see the impacts if they do need to reprioritise or need to look at how they can protect. As a result of that, we themed the budget, as you will see in the narrative, into jobs and growth, enhancing education and attainment—which is critical, of course, if you are going to protect and support funding into schools—and then looking at the key issues about supporting families and deprived communities. So, it is not about a reprioritisation or extra priorities, but about trying to drill down better to ensure that, and that we have a cross-cutting approach by Ministers to those themes.”³⁶

82. Alongside the draft budget for 2014-15 the Welsh Government published tables showing alignment of the budget actions to sub-outcomes and chapters within the Programme for Government.³⁷

Conclusion: The Minister has spoken repeatedly of her intention to align the budget process with the Programme for Government. We support this aim. However, we remain unconvinced that the Government is able to demonstrate an alignment between resources and stated priorities in all cases.

Recommendation: We welcome the improvements to the presentation of the budget, which build on work begun last year. However we recommend this work continues to further improve the transparency of how the budget allocations are aligned to the Programme for Government.

³⁵ National Assembly for Wales, Finance Committee, RoP 23 October 2013, Paragraph 73

³⁶ National Assembly for Wales, Finance Committee, RoP 23 October 2013, Paragraph 73

³⁷ Welsh Government, Draft Budget 2014-15, [Alignment between the programme for Government and the Budget](#), October 2013

Health

83. On the wider health front, a range of Assembly committees have previously expressed concern about the ability of health boards to live within their budgets. This theme emerged again both in Health & Social Care Committee, and in Finance Committee.

84. However the additional investment in health proposed for 2014-15 and 2015-16, plus the Minister's proposed NHS Finances (Wales) Bill are seen as helpful steps in this regard. Health & Social Care Committee has also welcomed the review of the funding formula to ensure that funds are distributed fairly.

85. In our session with health chiefs, there remained concerns about the ability of LHBs to continue to generate 5% savings year-on-year. Adam Cairns of Cardiff & the Vale UHB admitted it would be difficult.

“The approach that we took to our plans was not to look at a number and then say, ‘Deduct that from where we think we are and then come up with some ideas’. We said, ‘Let’s compare how well we do with international comparisons, let’s challenge ourselves to see whether the care and the treatment that we are delivering matches the best, and let’s quantify the difference in cost between really great care and care that could be better.’ In each of those areas, we challenged our clinical teams to work with us to develop proposals to improve the way in which that care is delivered.

“Do not let me leave you in any doubt that managing this kind of change is complex and difficult. You have to do it with your clinical staff and you have to take people with you. They have to own it. Some of the changes are very hard to deliver. Nevertheless, the plans that we have are largely based on what other people have done elsewhere.”³⁸

Conclusion: We welcome the steps taken by the Minister to address health spending. Long term, the additional money going in, and shift to a three year budgeting pattern, as recommended by Finance Committee last year, should prove beneficial. However, we remain sceptical, based largely on past failures, that all health boards have the correct plans in

³⁸ National Assembly for Wales, Finance Committee, RoP, 17 October 2013, Paragraph 503

place to ensure they can live within their budgets as an aging population puts greater demands on them.

Recommendation: Within the health budget there is a lack of clarity around the intentions of the additional funding to deal with the Francis Review. We recommend that the Health Minister clarifies the position urgently.

Transparency about priorities

86. The draft budget narrative states that ‘we cannot continue to fund everything we do’ and that prioritisation and reprioritisation are key. However, under questioning the Finance Minister found it difficult to clearly identify what those things were, beyond efficiency savings and a reduced spend on marketing in one portfolio.

87. The budget narrative, and the Minister’s statements have repeatedly called this “the toughest budget since devolution”.³⁹ Yet we found little evidence of specific tough decisions being openly discussed.

88. Children and Young People Committee highlight in their letter⁴⁰ that a £400,000 reduction in funding for the Welsh Language Commission was not brought to their attention.

89. While we acknowledge that talking publicly about cuts is politically difficult, in a mature democracy this must be an inevitable consequence of tough economic conditions.

90. In relation to the additional funding allocations to the health portfolio, the Finance Minister was clear there had been no reprioritisation.

91. Looking purely at the numbers, the draft budget provides significant extra money to the health department. Funding for local government is greatly reduced. The financial changes proposed from this year to next suggest very strongly that investing in health is the main priority. In relation to the additional funding allocations to the health portfolio, the Finance Minister was clear there had been no reprioritisation. She said:

³⁹ National Assembly for Wales, Finance Committee, RoP 23 October 2013, Paragraph 145

⁴⁰ Letter from Chair of Children & Young People’s Committee to the Minister for Education and Skills and the Deputy Minister for Skills and Technology, 25 October 2013

“I think that, perhaps, it is an over-simplification to say that this has been a reprioritisation from local government to health, because we set this budget based on our priorities, and our priorities have been and are jobs and growth, health, schools and universal benefit.”⁴¹

Recommendation: the Welsh Government should ensure more transparency about re-prioritisation decisions. As much transparency should be provided for reductions as for additional allocations.

Preventative Spending

92. The Finance Committee made explicit early on in the budget process that the use of preventative spending would be a key focus during scrutiny of the budget, recognising that in light of present financial settlements, prevention was key to ensuring financial sustainability.

93. During her appearance on 9 October the Minister stated that the Intermediate Care Fund was an example of preventative spending, and also discussed a few other specific examples. However, she did not make any attempt to quantify what proportion of the Welsh budget was spent on preventative measures.⁴² Neither could she explain the rationale, nor impact of the 10% cut to the core budget of Care & Repair.

94. The National Audit Office, in their Landscape Review of 2013 estimated **only 6 per cent of spending across four UK central government departments was devoted to early action.**⁴³ David Robinson of the Community Links Early Action Task Force told the committee that he would be ‘surprised’ if the proportion of the Welsh budget targeted at early action was any greater than this 6 per cent.⁴⁴

95. In evidence from a stakeholder session on 17 October,⁴⁵ witnesses from the voluntary sector, local government and health boards raised some common themes in relation to preventative spending:

- Savings resulting from preventative measures generally involve cost avoidance, rather than cashable savings;

⁴¹ National Assembly for Wales, Finance Committee, RoP 9 October 2013, Paragraph 153

⁴² National Assembly for Wales, Finance Committee, RoP 9 October 2013, Paragraph 156

⁴³ National Audit Office, [Early Action: landscape review](#), January 2013

⁴⁴ National Assembly for Wales, Finance Committee, RoP 17 October 2013, Paragraph 190

⁴⁵ National Assembly for Wales, Finance Committee, RoP 17 October 2013

- Costs and benefits need to be evaluated in the long term, (eg a ten year test should be applied to each budget line, and these should be published and open to challenge)
- Such savings are not always made by the same body investing the money, therefore shared benefit arrangements need to be in place to fairly distribute the benefits;
- Acute pressures on services make prevention difficult to consider in times of reducing budgets; and
- The preventative agenda needs an overall strategic approach on a national level and should be an integral part of the budget process

96. As effective prevention involves collaboration, stakeholders told us they would appreciate an overall strategic approach to prevention on a national level, and that this should be an integral part of the budgeting process across the public sector.

Conclusion: It would appear that although the Welsh Government supports programmes which are preventative in nature, there is no systematic, strategic approach to prevention across Government. For example, the budget reduction for Care & Repair. We are committed to ensuring that scrutiny supports improvement so have stated our intention to conduct a future inquiry in relation to preventative spend, which the Minister has welcomed.

5. Value for Money

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

97. This chapter looks at some of the key recommendations from each of the Assembly's subject committees, which looked in depth at issues around value for money.

Finance Committee

98. In her evidence on 23 October, the Finance Minister was questioned on what evidence there had been to base the decision to extend Jobs Growth Wales. Given the long-term nature of its work, it seemed unlikely that there was a great evidence base on which to judge it a success.

99. The Minister said:

“Everything has to be tested against the outcomes and the evidence; certainly, that would apply to Jobs Growth Wales, and the benefits that are already accruing from it.”⁴⁶

100. We found little evidence that this was happening to great effect in this example, nor in any individual portfolio, let alone systematically across government.

Enterprise & Business Committee

101. The Enterprise & Business Committee welcomed the plan to publish performance data for Enterprise Zones later this year, but also raised value for money questions about bus services and concerns about the effective evaluation of the current National Transport Plan.

102. Similarly the proposals for a South Wales Metro system appear to have £62m allocated to them, but without firmly established costs or benefits for the final project.

Environment & Sustainability Committee

103. The Committee discovered that a failure to benchmark energy consumption before home improvements were made under the Arbed

⁴⁶ National Assembly for Wales, Finance Committee, RoP 23 October 2013, Paragraph 181

Scheme meant it was impossible to assess what impact this use of public money had achieved.

Health & Social Care Committee

104. The Committee raised a number of issues around social care, in particular calling for a note on allocations from the Intermediate Care Fund. This is covered in more detail in the chapter on budget process.

Communities, Equality and Local Government Committee

105. The Committee has sought additional information on the monitoring and evaluation of the Welsh Government's Communities First programme – in order to have greater confidence that it is providing value for money. It also raised similar issues around capital allocations for the Community Facilities and Activities Programme (CFAP), and the Gypsy and Traveller Sites Capital Grant.

106. The Committee also questioned the Minister for Communities and Tackling Poverty on Flying Start over the delay in publication of survey data. They also want to see a greater comparison between areas which have Flying Start support and those which don't in order to assess value for money.

Children & Young People's Committee

107. While the Committee welcomed the doubling of funding for the pupil deprivation grant, it also raised questions about how impact was being monitored. The Education & Skills Minister said that it was too soon to assess. The Committee has indicated it will monitor this through the year.

108. In discussions with the Health Minister the Committee welcomed his indications that Designed to Smile was providing strong value for money, but urged the Minister to make the data publicly available so that it could be scrutinised.

Recommendation: We recommend that Welsh Government takes greater efforts to evidence the value for money considerations that go into its funding decisions. Without clear evidence Assembly committees and the people of Wales are not able to say clearly whether Government policies and initiatives are delivering value for money.

6. Budget Process

Aim: to examine the processes and to consider what improvement could be made solely with the focus of improving scrutiny.

Budget Exchange and Financial Transactions

109. The Budget Exchange System is the formal name for the mechanism by which unspent money from one year can be carried forward to the next year, subject to specific revenue and capital caps.

110. However, given that HM Treasury have limited the use of a proportion of the capital DEL as financial transactions (which can only be used as equity investment or loan) it is unclear how this impacts on the cap for Budget Exchange.

Recommendation: We recommend the Finance Minister presses the Treasury to provide clarity on how financial transactions will impact on the Budget Exchange System, and the Welsh Government's freedom to carry forward capital.

111. From our previous consideration of this issue, we know that a proportion of financial transactions will need to be repaid to HM Treasury. In her evidence, the Finance Minister explained that there is still a lack of clarity around the timing, amount and arrangements for these payments. She also talked about requesting (with other devolved finance ministers) an aggregate repayment total for financial transactions.

Recommendation: We recommend that the Finance Minister, working with colleagues in the other devolved administrations, seeks clarity from HM Treasury on the arrangements for repayment of financial transactions. We further recommend that she reports to the Finance Committee on whether the projects allocated financial transaction funding are capable of making the necessary repayments.

Consistency of Ministerial papers

112. In recent years there has been a dramatic improvement in the consistency of Ministerial papers provided to committees. This year, there has been some backsliding in this area.

113. The Environment & Sustainability Committee wrote to the Minister for Natural Resources and Food to express their concerns and also noted inaccuracies in the text they finally received.

“I was disappointed and frustrated at the lateness in which the committee received your budget papers. Receiving papers less than 48 hours before a Committee meeting has a grave impact on the Committee’s ability to scrutinise your budget.”⁴⁷

Conclusion: Late and inaccurate papers make it more difficult for Assembly Members to consider the full implications of what is being proposed and undermine the Assembly's attempts to improve the effectiveness of its scrutiny.

Conclusion: The Finance Committee endorses the view of the Environment & Sustainability Committee that providing papers late not only breaches the agreements between the Welsh Government and the National Assembly for Wales, but also shows a lack of respect for the Committee, the Assembly and the scrutiny function.

Recommendation: We recommend that the Welsh Government’s Strategic Budgeting department be given a stronger oversight role in ensuring that evidence provided to committees is accurate and timely.

Environment & Sustainability Committee Recommendations

114. The Environment & Sustainability Committee wrote to us to report on the issues and concerns raised during their evidence session on the draft budget⁴⁸. In this letter they put forward two recommendations which the Committee is pleased to endorse.

Recommendation: We recommend that the Natural Resources and Food department improves their co-ordination with the Central Budgeting Unit at all stages of the budgeting process, including Draft and Supplementary Budget stages as a matter of urgency

⁴⁷ Letter from the Chair of the Environment and Sustainability Committee to the Minister for Natural Resources and Food, 15 October 2013

⁴⁸ Letter from the Chair of the Environment and Sustainability Committee to the Chair of the Finance Committee, 15 October 2013

Recommendation: We recommend that any specific projects announced in-year should have its own budget line to increase transparency and clarity about funding commitments made.

Protected budgets and hypothecation

115. Local government funding in Wales has been protected over the last three years. Now that protection has been largely removed. However, some areas remain protected (eg increases in school funding) which increases the impact of cuts on other areas of the budget. This year, protection has been removed from Social Services funding.

116. In recent years the Welsh Government has committed to reducing the number of specific grants and increasing the amount of funding being given to local authorities to spend as they choose. However, protection for the schools budget, for example, can lead to greater pressures in other areas.

117. Cllr Anthony Hunt, cabinet member for Finance in Torfaen told us:

“A figure of savings that might look to a member of the public to be quite achievable—let us say 4%—becomes a much larger percentage figure on the accessible area for savings. That accessible area for savings includes things such as roads and refuse collection that people value in society, especially, perhaps, people who do not have children—so education does not hit them in the first instance—and people who do not have people involved in the social care system. So, a 4% reduction can easily multiply into needing to take 12% out of some areas that are not very easy to get savings from, if you take into account your statutory duties.

“The idea of schools protection is much more difficult when the settlement is reducing. When it is increasing, you are effectively directing where the extra money goes. When the block as a whole is reducing and you are asking for areas to be protected, then it has a more drastic impact.”⁴⁹

Conclusion: We note that the Welsh Government has made a commitment to reduce the number of specific grants. Although we appreciate protecting budgets ensures the Welsh Government’s priorities are pursued, we have heard evidence that this puts additional pressure on other areas of local government budgets.

⁴⁹ National Assembly for Wales, Finance Committee, RoP 17 October 2013, Paragraph 342

Recommendation: We recommend that the Welsh Government works with local authorities to identify the sweet spot between the Welsh Government’s desire for accountability, and local government’s desire for freedom to spend its own way. A successful agreement, which scrapped specific grants could free up significant money for front line services.

Budget negotiation & agreement

118. On 8 October, before the Draft Budget proposals were released, an ‘unprecedented’ agreement of between the Welsh Government, Liberal Democrats and Plaid Cymru was announced.⁵⁰

Conclusion: The early negotiation of the budget means that, for the first time in the fourth Assembly, the full slate of budget proposals can receive proper scrutiny. In previous years, budget concessions have been announced between the draft budget's publication and the final budget debate - making it difficult to conduct meaningful scrutiny.

Recommendation: We recommend that all political parties involved in future budget negotiations should provide as much clarity as possible on intended outcomes and value for money of commitments, particularly where those commitments span multiple years.

Intermediate Care Fund

119. As part of the budget agreement, an Intermediate Care Fund of £50m has been created to support innovation to support a coordinated approach between health, housing and social services. The money sits in the local government and housing portfolios.

120. In evidence on 17 October, Chris Jones of Care & Repair said he was unsure whether they would be able to access funding from the Intermediate Care Fund. On 9 October the Minister also suggested that:

“...Care & Repair could possibly benefit from the new intermediate care fund in terms of revenue and capital.”⁵¹

⁵⁰ Welsh Government News Release, [A joint statement from Carwyn Jones, First Minister, Leanne Wood, Leader of Plaid Cymru and Kirsty Williams, Leader of Welsh Liberal Democrats](#), 8 October 2013

⁵¹ National Assembly for Wales, Finance Committee, RoP 9 October 2013, Paragraph 156

121. Yet evidence from the Minister on 23 October suggested there is still a lack of clarity about how it will work. She said:

“Discussions are ongoing at official level about elements of the intermediate care fund, based on our constructive discussions and budget agreement. There is a meeting very shortly to discuss this more specifically, particularly with our partners from Plaid Cymru and the Welsh Liberal Democrats.”⁵²

122. A number of areas have highlighted this fund as a potential solution to their own issues. Care & Repair see it as a potential source of funding for their organisation; Local Government for their projects; The Health & Social Care Committee see it as a vehicle for preventative work in the health service. It is a small pot: they cannot all be right.

123. The ambiguity around the ICF mirrors that of previously established top-sliced funds, such as the Regional Collaboration fund established 12 months ago spawned similar questions.

Recommendation: We recommend that Ministers work swiftly to clarify: what the Intermediate Care Fund is intended to achieve; and what the process and criteria will be for submitting and approving bids. We also recommend that a thorough evaluation is undertaken of the fund after the first year of operation and report submitted to the Finance Committee on whether it provided value for money.

Equalities

124. Last year we recommended that the Welsh Government should conduct a more systematic and consistent set of equality impact assessments of the entire budget.

125. Communities, Equalities and Local Government Committee have reported to the Finance Committee that they welcomed the establishment of the Budget Advisory Group on Equality and that this year’s Equality Impact Assessment is an improvement on last year’s. While we note the improvement, there is still room for further improvement in future years. We would also like to see greater transparency around how the Welsh Government considers the rights of children and how their budget decisions impact on children.

⁵² National Assembly for Wales, Finance Committee, RoP 23 October 2013, Paragraph 98

Recommendations: We reiterate the recommendation of the Communities, Equalities & Local Government Committee that Equality considerations should be an integral part of the budget process at a formative stage. Children’s rights should be a key part of this process.

Financial planning in the wider public sector

126. On 9 October, the Committee discussed with the Minister the ability of the FE sector to plan adequately for the 2014-15 financial year, given the changing messages they received on their likely funding.⁵³ This issue was also raised by witnesses from local government on 17 October,⁵⁴ who stated that when they began planning for 2014-15 they were expecting an increase to their funding based on indicative figures published in last year’s budget. As the year progressed they were then told to expect ‘English style’ reductions to their budgets.

127. Local government representatives stated that this was unclear and made it difficult to quantify the scale of the likely reductions, thus impacting on their ability to undertake adequate financial planning.

128. However the Minister’s evidence on 23 October indicated that these messages were being given in adequate time and detail. She said:

“They [public bodies] are updated on the financial position—all of these reductions in our main budget are made very clear to them. They also have to take responsibility for being updated on the financial scenarios. Given the predictions that have come from the Institute for Fiscal Studies and from the UK Government itself on future prospects for public finance, no-one should be under any illusion that it was not going to be tough.”⁵⁵

129. This conflicting evidence suggests that the systems for communication are not operating effectively.

Recommendation: We recommend that the Welsh Government reviews its formal and informal mechanisms for indicating future budgets to public delivery bodies in the light of this year’s experience. This should include consideration of a formal annual forward look before the end of the summer term which would give a clear indication of the best and worst

⁵³ National Assembly for Wales, Finance Committee, RoP 9 October 2013, Paragraph 148

⁵⁴ National Assembly for Wales, Finance Committee, RoP 17 October 2013, Paragraph 295

⁵⁵ National Assembly for Wales, Finance Committee, RoP 23 October 2013, Paragraph 134

case scenarios for changes in the following year's budget and provide support for public bodies to plan on that basis.

7. Public Engagement

130. Last year we recommended that the Assembly should put together a programme to ensure the public voice was heard in the budget process. Taking into account the evidence we received last year, and the reflections of the Silk Commission, we developed a quiz for use by the Assembly's outreach team over the summer of 2013 to establish how much people know about the Assembly's budget scrutiny process, and whether they would wish to engage in the future.

131. The Silk Commission's first report suggested that while financial accountability appeared to be "fundamentally sound" there was an "apparent lack of awareness in Wales about the current scrutiny arrangements".⁵⁶

132. Feedback from our small sample suggests the Silk Commission were right on the second part. It also shows that that where there is a desire for greater engagement, it is via social media, rather than more direct means.

133. A full summary of the work can be seen at Annex A

Recommendation: The Committees of the National Assembly should continue to take an innovative approach to bringing the public voice into budget scrutiny. They should consider how best to engage the public voice for next year's budget round. This might include wider use of social media and/or work as part of the push for greater youth engagement.

⁵⁶ Commission on Devolution in Wales. [Part 1 report](#). Paragraph 7.3.7

Annex A

Finance Committee

Meeting date: 9 October 2013

Reference: FIN(4)-18-13 (paper 4)

Budget Scrutiny 2013-2014

Who holds the purse strings? An analysis

The attached paper from the Assembly's outreach service summarises the responses to a public consultation exercise conducted at this year's summer shows.

This paper attempts to draw some conclusions, and invites members to consider:

- a) How best to incorporate this work in our draft budget report;
- b) How best to respond to the desire for the public voice to be heard.

Methodology and sample size

Our survey had 48 responses. Given that it was quite a detailed survey, about finances, this is a reasonable number. But it does not allow us to draw firm conclusions – only to gauge impressions.

We estimate that half of those filling in the questionnaire would have been involved in a discussion with a member of the outreach team.

Conclusions

Q1. There was a fairly even split between those who knew the Assembly 'policies' the Welsh Government's spending plans, and those who didn't.

Q2. There was some recognition of the Assembly's role in assessing value for money.

Q3. 62% of respondents thought the Assembly's work had an impact on the WG spending plans.

Q4. How does the Assembly scrutinise the work of the Government? Email questionnaire was the most popular, followed by special events. (but none of the options scored more than 8, which suggests there isn't a widespread public knowledge of how we do scrutiny).

Q5. When told how, there was a split in to thirds of those who thought this was more, less or pretty much what they expected.

Q6. A majority thought the public voice wasn't heard enough in the process. Although a third thought it was!

Q7. Better press coverage and public engagement through social media were the most popular ways to engage that public voice.

Q8. When asked would they like their views heard 38% said no. and 15% weren't sure. This suggests that around half the population has no great interest in actively participating in the budget process.

Summary

Our survey reinforces the Silk Commission's finding that the public's knowledge of the Assembly's process of scrutinising the Welsh Government's annual budget is neither deep nor widespread.

It also suggests that a up to half the country have no interest in doing so. Among those who were interested, email questionnaires were their preferred means of being consulted.

Chamber and Committee Service

October 2013

Finance Committee

Budget Scrutiny 2013-2014

General Summary of Outreach Work

Background

The Outreach team promoted a questionnaire which sought to find out what people think about the Assembly's role in scrutinising the Welsh Government's budget, and if and how they would like to get involved in the future.

The survey was aimed at the general public visiting the Assembly bus during the summer in various locations across Wales. The engagement exercise consisted of one questionnaire in paper format.

The questionnaire concentrated on the key aspects of budget scrutiny and the public's participation in it, namely:

- Raising awareness of the fact that the Assembly has a role in "policing" the way that the Welsh Government spends public money;
- Highlighting how the Assembly examines these spending plans on behalf of the people of Wales;
- Discovering whether the people of Wales think this is enough, especially in relation to capturing the public voice in scrutiny;
-
- Asking whether the public would like to have a say in the scrutiny process; and
-
- Finding out if the public think that the Assembly's scrutiny has an impact on the Welsh Government's budget, financial spend and accountability.

Methodology

As part of the Finance Committee's Welsh Government Budget Scrutiny for 2013-2014, the Outreach team produced a questionnaire on the public knowledge of the Assembly's budget scrutiny, and how the Assembly can help promote and get members of the public involved in the process.

The questionnaire was open to members of the general public, who were targeted through:

- **Summer engagement events;** and
- **Tour groups and visitors to the Senedd**

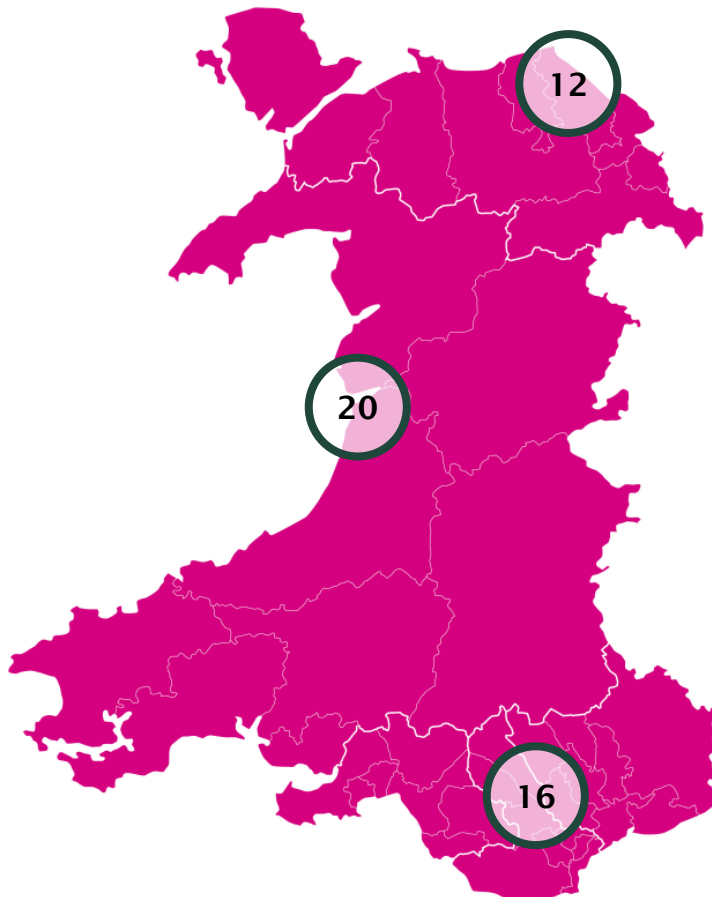
Key Statistics

48 Total number of survey responses received

13 Total number of regional and national events where the survey was promoted

Total Number of Participants by Region

This diagram shows the **total** number of people **engaged with directly** as part of the project.



Breakdown

Total number of members of the public engaged with by region of summer events and Senedd tours/visits:

- North Wales: 12
- Mid and West Wales: 20
- South Wales West: 0
- South Wales Central: 16
- South Wales East: 0

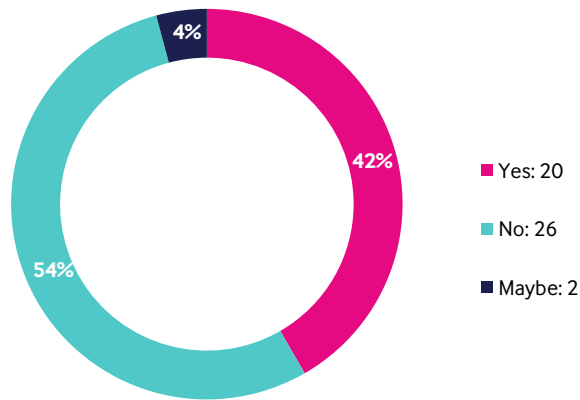
Budget 2013-2014 Activity

Question 1 - Did you know that the Assembly "polices" the Welsh Government's spending plans in this way?

For the purposes of question one, participants were provided with background information on the budget process, that namely:

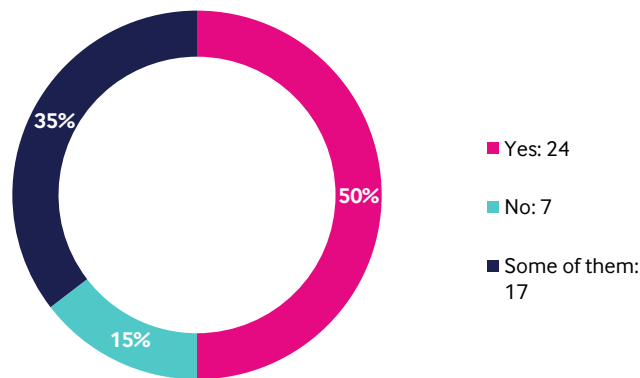
- The Government sets out how it plans to spend public money in the coming year;
- The Assembly examines these plans on behalf of the people of Wales; and

- The Assembly decides whether or not to agree with the Government's spending plans.

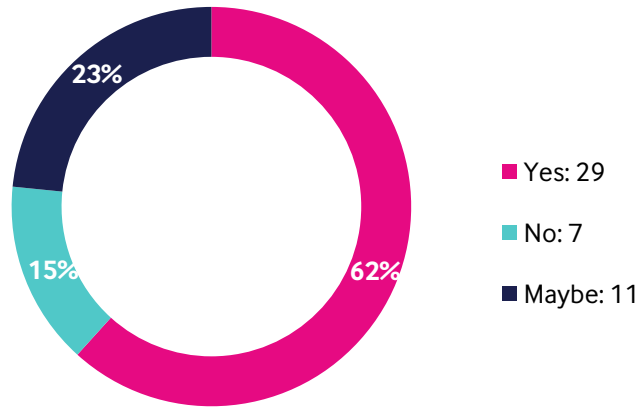


Question 2 - Do you think they measure whether public money is being spent effectively?

For the purposes of question two and three, participants were provided with background information on what values the Assembly looks at when scrutinising the Welsh Government's budget plan, namely: affordability; prioritisation; value for money; and the budget process.

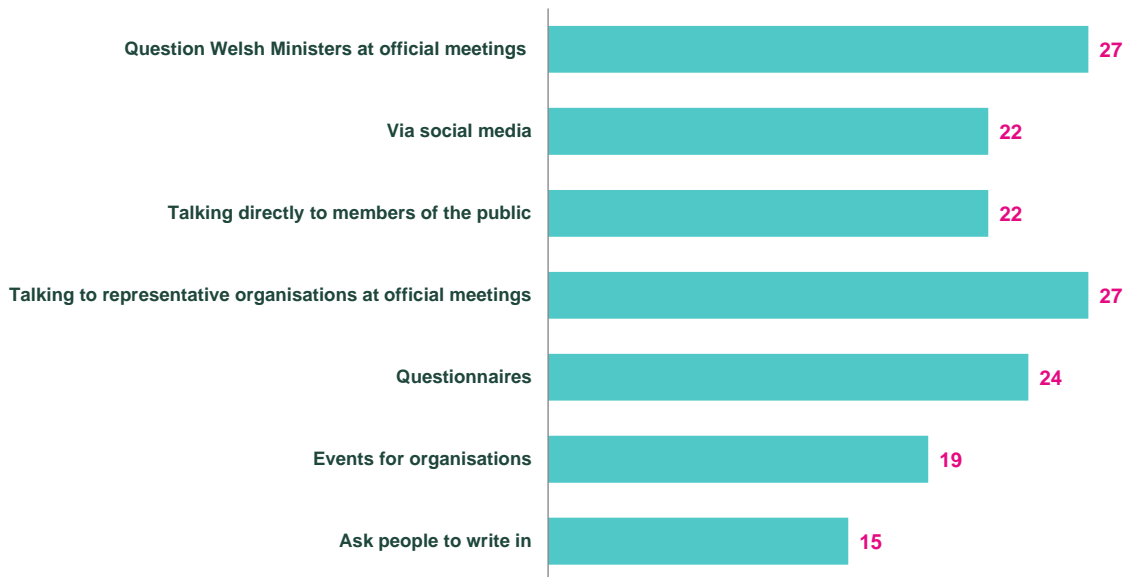


Question 3 - Do you think that the Assembly's work has an impact on the Welsh Government's spending plans and accountability for public money?

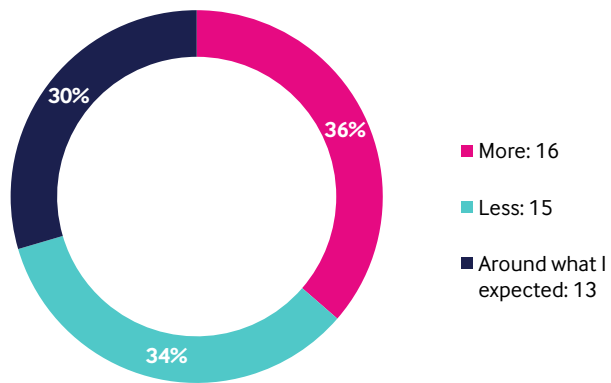


Question 4 - How do you think the Assembly does this?

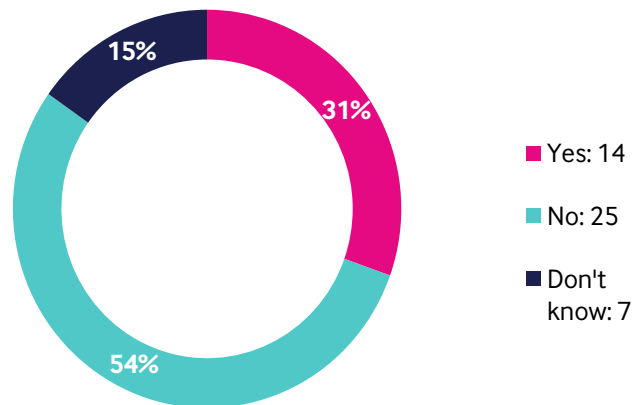
For the purposes of the remaining questions, participants were asked to choose how they thought the Assembly currently scrutinises the work of the Government by picking from a list, some of which the Assembly does, some of which it doesn't.



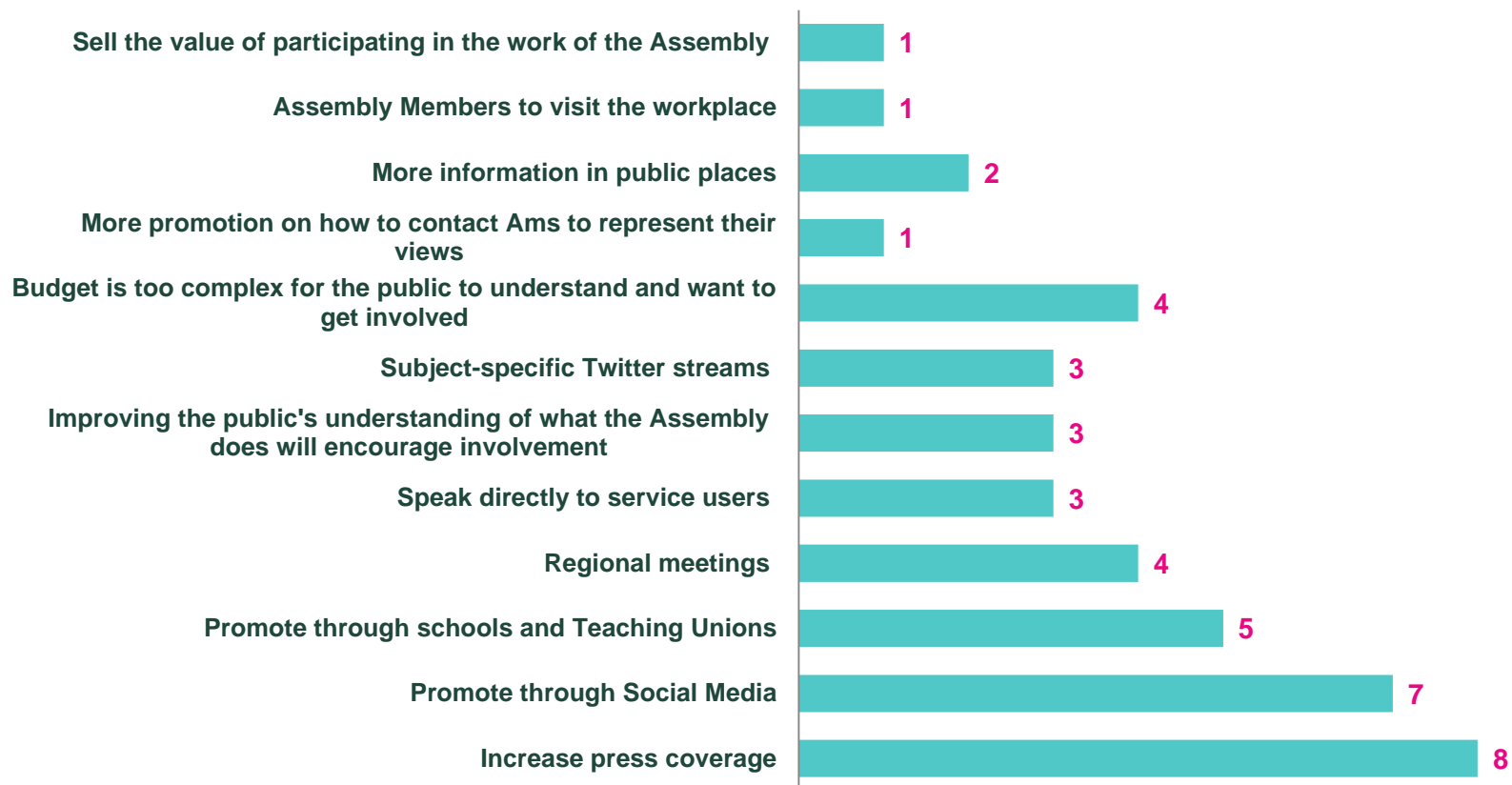
Question 5 - Was this more of less than you expected?



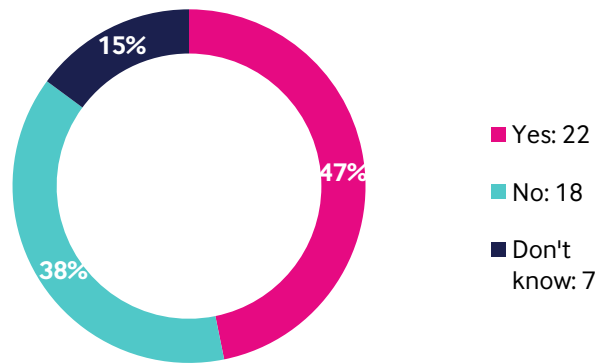
Question 6 - Do you think that the public voice is heard loudly enough in this process, for example through representative organisations?



Question 7 – If you answered no, what do you think the Assembly could do to better make the views of the public heard?



Question 8 – Would you like to have your views heard in this process?



Question 9 – If you answered yes, how?



Witnesses

The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at

<http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?Ild=1243>

9 October 2013

Jane Hutt AM	Minister for Finance
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17 October 2013

Gareth Coles	Welsh Council for Voluntary Action
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Chris Jones	Care and Repair Cymru
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David Robinson	Community Links
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Councillor Anthony Hunt	Torfaen County Council
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Vanessa Young	Bridgend County Borough Council
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John Rae	WLGA
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Geoff Laing	Betsi Cadwallader University Health Board
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Adam Cairns	Cardiff and Vale University Health Board
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23 October 2013

Jane Hutt AM	Minster for Finance
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List of written evidence

The following people and organisations provided written evidence to the Committee. All written evidence can be viewed in full at <http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?Ild=6470>

<i>Organisation</i>	<i>Reference</i>
Chwarae Teg	FIN(4)-WG15-01
Royal College of Nursing Wales	FIN(4)-WG15-02
NIACE Dysgu Cymru	FIN(4)-WG15-03
Women's Equality Network Wales	FIN(4)-WG15-04
Wales Council for Voluntary Action	FIN(4)-WG15-05a
WCVA Wellbeing Bond prospectus	FIN(4)-WG15-05b
ColegauCymru	FIN(4)-WG15-06
Older People's Commissioner for Wales	FIN(4)-WG15-07
Higher Education Wales	FIN(4)-WG15-08
Cardiff University	FIN(4)-WG15-09
Equality and Human Rights Commission Wales	FIN(4)-WG15-10
Cyrenians Cymru	FIN(4)-WG15-11
Welsh Local Government Association	FIN(4)-WG15-12
Society of Welsh Treasurers	FIN(4)-WG15-13