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Dear Alun,

I attach my response to the Finance Committee's report on the draft budget.

As I said during the debate on the draft budget in plenary on 11 December, I believe that the Finance Committee has a very valuable role in informing debate and scrutiny of the budget and I know how much work you, the other Committee members and officials have put in to producing the report in a very tight timescale. I very much welcome the Committee's report and have taken it into account in formulating the final budget published today.

The attached paper responds to each of the recommendations in the report on the draft budget, apart from the recommendation at paragraph 37 which the Presiding Officer ruled out of order. I did, however, respond to this point during the plenary debate on the draft budget.

I hope that the attached response is helpful to Committee members and I look forward to discussing it and the final budget with you on Thursday.

A number of action points resulted from my last appearance before the Committee on 27 November. Most of these have now been discharged, either in my note of 29 November or in the attached response. However, three action points identified in the minutes issued on 11 January remain outstanding:

- *2.5 The Minister agreed to provide the Committee with details of the progress made in meeting the First Minister's commitment to public sector revenue funding going to universities from the Higher Education Funding Council for Wales – I will be providing a note on this in due course;*
- *2.7 The Minister agreed to provide clarification on the apparent transfer of £500,000 to the Wales Office each year for the last three years – this transfer is a result of machinery of government changes in Whitehall. Prior to 2005-06, the Assembly*

Government budget included an amount for services (mainly financial) provided by the Assembly Government to the Wales Office but not otherwise charged for. Following the move of the Welsh Office into the Department for Constitutional Affairs, these services are no longer provided to the Wales Office by the Assembly Government and the transfer of £490,000 in 2005-06, 2006-07 and 2007-08 recognises that the cost of providing these services no longer falls on the Assembly Government; and

- *2.8 The Minister agreed to provide the Committee with details of the pilot project to help first-time buyers, including the criteria for assessing the project's outcomes – I will be providing a note on this in due course.*

*James*

*Andrew*

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## ANNEX A

**DRAFT RESPONSE TO FINANCE COMMITTEE REPORT OF 3 DECEMBER 2007 ON THE ASSEMBLY GOVERNMENT DRAFT BUDGET PROPOSALS**

**Paragraph 6 – “The Finance Committee will, in the light of its experience, be considering how these procedures [for scrutiny of the budget] have operated in practice with a view to producing a separate report on the budget process after the present round has been completed. The Finance Committee strongly recommends that, in future, the budget process is prioritised in the diaries of both Ministers and committees to ensure sufficient time is made available for adequate scrutiny.”**

It is entirely appropriate to review the Assembly's procedures for scrutiny of the budget after their first year in operation. I welcome the Finance Committee's intention to conduct such a review and look forward to their report.

The procedures for scrutiny of the budget are set out in Standing Orders and change would, therefore, be a matter for the Business Committee and the Assembly more widely. However, I would have no objection in principle to prescribing more time for the process or to any other changes to improve the quality of consultation and scrutiny.

**Paragraph 7 – “The Finance Committee welcomes the Minister's willingness to agree a protocol for the budget process that will supplement the broad requirements laid down in the Standing Orders. This should help address some of the difficulties experienced with the present budget round.”**

I agree that a protocol would be beneficial and I have asked my officials to work with the Committee Clerk to produce an initial draft as soon as possible, with the aim of agreeing a protocol by 31 March 2008.

**Paragraph 8 – “The Finance Committee ... welcomes the Minister's agreement to provide it with progress reports at key points during the year so that it can keep abreast of the changing pattern of expenditure.”**

My officials will work with the Committee Clerk to develop a schedule for reporting to the Committee at key points during the year.

**Paragraph 12 – “The Finance Committee would like to have an explanation for ... the Finance Minister's apparent change of view [in relation to the adjustments made to the Assembly Government's baseline in CSR07]”**

I have not changed my view about the adjustments made to the Assembly Government's Departmental Expenditure Limit baseline by the Treasury as

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part of CSR07. As I have made clear to the Finance Committee on a number of occasions, the settlement we received – real growth averaging 1.8% per year – was in line with expectations and the Treasury's baseline reductions do not affect our spending plans in the current year. But as I have also made clear, there were aspects of our settlement with which I was – and remain – unhappy. The scale and timing of the baseline adjustment is one of those aspects.

**Paragraph 13 – “The Finance Committee would like the Minister to provide further information on [the reasons why Wales did not receive a consequential of funds allocated to the 2012 Olympics in CSR07]”**

The Assembly Government's view is that Wales – and the other devolved administrations – should receive a consequential for funding for the Olympics which is used to support comparable activity, particularly regeneration and improvements in transport infrastructure. We are also concerned about the impact on Wales of diversion of lottery funding to the Olympics.

The Treasury's view, however, is as follows:

- spending is either comparable or non comparable under the Barnett formula. Expenditure which is incurred on behalf of the UK as a whole at programme or sub-programme level is non comparable;
- Olympics spending is non comparable because the Games are a UK event which will benefit all parts of the UK;
- although the budget for the Games has a number of different components, it is a single programme with a single budget. All elements of the published Olympics budget are necessary for the delivery of a successful Games. The regeneration aspect of the Games was a crucial part of the original winning bid; and
- the only cost elements included within the Olympics budget are 'Olympic costs' and 'infrastructure and regeneration costs associated with the Olympics Park and other venues'. The staging costs will be financed by the London Organising Committee of the Olympics Games (LOCOG), which is a private sector company, and are not part of the published £9.3bn Olympics budget. Wider costs, for example transport links in London and expenditure by the London Development Agency to acquire the land for the Olympics Park, are also not part of the £9.3bn budget and attract Barnett consequentials in policy areas that are comparable.

**Paragraph 14 – “The Finance Committee calls for more detail of the arrangements [for the new Strategic Capital Investment Board] including a timetable, the proposed composition of this Board and the criteria for decision making. The Finance Committee also notes the Minister's view that the new regime will be flexible and will not create delays whilst**

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departments compete against each other for resources. It intends to monitor closely the Board's operation in the years ahead.

I will make a statement to the Assembly on our agenda for improving our approach to capital, including the arrangements for the strategic capital investment board, in the coming months.

**Paragraph 15 – “The Finance Committee seeks an assurance that the outcome of the [Strategic Capital Investment] Board's deliberations will be made public and clearly linked to the resulting allocations to departments and projects in the papers supporting the budget and supplementary budget motions.**

I welcome the Finance Committee's interest in capital investment decisions and can assure the Committee that future investment decisions will be as transparent as possible.

**Paragraph 17 – “The Finance Committee recognises the difficulties the Minister faces in this regard but this is a vital area of Assembly expenditure and would welcome further information from the Minister on how the Government's capital programme will be financed.”**

A strategic capital investment programme is being developed which will set out the Assembly Government's investment priorities. This will be presented to the Assembly in due course.

Funding to deliver the Government's capital investment programme over the next three years will be drawn mainly from the capital resources allocated to the Assembly Government. These are shown in the table below.

	£m			
	2008-09	2009-10	2010-11	Total
Capital DEL	1,568	1,678	1,841	5,087
	Capital EYF stock			145
	Total capital resources available			5,232
	<i>Of which resources available to strategic fund for capital investment</i>			484

We will also be seeking to leverage in additional funding from other sources where appropriate. Key sources will include EU Structural Funds and partnerships with the private sector.

**Paragraph 18 – “The total capital allocation [to reserves] amounts to £338 million which is less than the £400 million over the three year period mentioned by the Minister that has been allocated to the Strategic Capital Investment Board. This suggests that the remainder has already been allocated to Ministerial portfolios and the Finance Committee would welcome an explanation as to how this has been done.”**

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The budget establishes a strategic fund for capital investment worth around £400m over the next three years. The resources for this fund will be drawn from capital reserves (£339m) and capital EYF (£145m). Taken together, these amount to over £480m over the next three years.

The anticipated profile of the strategic fund for capital investment is shown in the table below, along with the Assembly Government total capital DEL, the amount allocated to MEGs, the amount currently unallocated and anticipated drawdown of EYF. The actual profile of EYF drawdown and of the strategic fund for capital investment will vary depending on the profile of suitable projects and unanticipated capital pressures.

	£m		
	2008-09	2009-10	2010-11
Capital DEL	1,568	1,678	1,841
Allocation to MEGs*	1,577	1,584	1,594
Unallocated reserve	-	93	246
Anticipated EYF drawdown	50	27	4
Anticipated profile of strategic fund for capital investment	50	120	250

\* MEG capital allocations have been set above the Assembly Government capital DEL in 2008-09. Any spend above this level will be funded from EYF or transfers from the revenue DEL.

Paragraph 21 – “The Finance Committee notes that in the past the level of reserves has been set at 1% and would welcome a statement from the Minister on the ideal level of contingency reserve that he feels should be maintained from year to year and his plans for getting to that level. The Finance Committee also calls on the Minister to confirm separately the amounts held in reserve for revenue and capital (excluding the amounts set aside for planned expenditure by the Strategic Capital Investment Board).”

In line with established practice, my intention is retain reserves at around 1% of the budget for the coming financial year, and 2% and 3% for the subsequent years.

The following table summarises the reserve position as at final budget.

		£000s		
		2008-09	2009-10	2010-11
Total reserves*		130,943	316,871	579,014
Resource	Near-cash	112,705	267,718	496,074
	Non cash	18,238	49,153	82,940

\* Excluding funds set aside for the strategic fund for capital investment.

As a proportion of the Assembly Government DEL, total reserves – excluding funds set aside for the strategic fund for capital investment – are equivalent to 0.9% in 2008-09, 2.1% in 2009-10 and 3.6% in 2010-11.

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**Paragraph 24 – “The Minister did accept that, in the future, it would assist the Finance Committee and the Government to be able to audit progress by making a clear link between the strategic policy objectives and particular budget lines. The Finance Committee expects this to be done well before the next budget round.”**

Work is ongoing to develop the Assembly Government's operational planning, budget planning and financial management processes and systems. Making clearer links between spending programmes and strategic objectives is one of the key objectives of this work.

My officials will also be working with Finance Committee officials over the coming months to identify how we can make the presentation of the budget clearer, more meaningful and more accessible – for the Finance Committee but also for Assembly Members and other interested parties.

I am confident that significant progress will be made in this area ahead of the next budget round.

**Paragraph 25 – “The Finance Committee is unclear as to the Finance Minister's expected level of efficiency saving and calls on him to provide detailed forecasts with evidence to demonstrate their achievability.”**

We have set a clear and ambitious target as part of our 'Making the Connections' agenda of achieving £600 million of efficiency improvements across public bodies by 2010 and have required public bodies to adopt their own efficiency targets.

Public sector bodies across Wales have recently reported details of their value for money achievements in 2006-07. Details of self-assessments have been published. In local government, authorities have included information in their improvement plans. In the NHS, bodies have reported details in their annual accounts. Overall, the reports show that the public sector are making good progress towards the Welsh Assembly Government target of achieving the £600 million target.

But more needs to be done to improve efficiency and release the resources needed to sustain the pace of improvement in public services and allow investment in new priorities.

**Paragraph 26 – “The Finance Committee considers that the time is now right to review progress on 'Making the Connections' with a view to establishing revised auditable efficiency targets and we look forward to learning the outcome of the ongoing work in this area.”**

We are monitoring progress against the 'Making the Connections' efficiency target. Furthermore, the Wales Audit Office has recently completed an audit of efficiency gains reported by 80 public sector bodies in Wales and have considered some 500 value for money projects. They have audited gains for 2005-06 in respect of local government and for both 2005-06 and 2006-07

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across the remainder of the public services. The results of these audits have been fed back by the Wales Audit Office to the respective bodies individually to help them develop their value for money arrangements.

**Paragraph 27 – “In the pursuit of clarity, the Government should provide at least percentage increases to Main Expenditure Group figures both in real and absolute terms. This would enable a more informed discussion around the real changes to ministerial portfolios. The Finance Committee calls for explicit notes and figures reconciling the baselines the Government is using, as they do not appear to correspond with other data available.”**

As said in response to paragraph 24, my officials will be working with Finance Committee officials over the coming months to identify how we can make the presentation of the budget clearer. As part of that work, I am supportive of an agreed, standard approach being developed for expressing changes in MEG totals and fixing baselines.

In accordance with standard practice, in presenting the final budget, the Assembly Government has used MEG totals as set out in the 2007-08 Supplementary Budget as the baseline for changes in future years. Adjustments are made only where they are necessary to ensure comparability between years.

**Paragraph 30 – “The Finance Committee has grave concerns that the current local government settlement is inadequate to safeguard core services and asks the Minister to review the total funding.”**

The budget is the product of a very thorough process of review, analysis and consultation. As a result of the plans set out in the final budget, including an additional £4.7m for the Revenue Support Grant in 2008-09 on top of the allocation announced in the draft local government settlement, draft funding for local government will rise by over 3%. This is clearly a tough settlement, but it is a realistic one given the overall rate of growth in public spending. The Assembly Government is satisfied that the budget provides sufficient resources to deliver our *One Wales* programme which will mean real and noticeable improvements in outcomes for the people of Wales.

The challenge now for the public sector as a whole in Wales – and for the Assembly Government as much as for local government – is to continue to deliver real and noticeable improvements in public services while spending is growing at a slower rate.

**Paragraph 31 – “The Committee therefore looks to the Minister to ensure that there is clarity between any new requirements placed on local government – including those to be conferred by One Wales – and resulting increased funding.”**

As I have already made clear, the Government continues to accept the principle that where new requirements are placed on local government which



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entail additional costs, the cost of these new requirements should be fully funded, either through the Revenue Support Grant or specific grants where appropriate. Where such costs have been identified as a result of *One Wales* commitments, for example in relation to delivering commitments on waste management or cutting class sizes for 3 to 7 year olds, these costs have been fully funded.

**Paragraph 33 – “Representatives of the health service raised the issue of the ‘Grogan judgement’ and the resulting additional financial responsibilities being placed on NHS bodies. The Finance Committee wishes to know how the Finance Minister has addressed the issue of striking the appropriate balance between health and social care funding in making financial allocations between the NHS and local authority budgets.”**

A variety of factors are taken into consideration in determining overall portfolio allocations including: the overall level of resources available; the scope for delivering value for money improvements; pay and price pressures; the consequences of legal changes; changes to the demand for public service; the cost of delivering existing commitments; and the costs of delivering specific *One Wales* commitments.

The precise implications of the ‘Grogan judgement’ for health and social services budgets will not be clear for some time. However, what is clear is that the judgement will increase pressures on health service budgets and, as the Minister for Health and Social Services has made clear, significant additional funds have been allocated to deal with these pressures. It is also possible that the judgement may transfer some burdens from social services budgets to health budgets. Discussions are ongoing between Local Health Boards, NHS Trusts and local authorities on the implications of the judgement.

The Government are very aware of how interlinked health and social services are, and we are committed to delivering the social services and the health elements of *One Wales*. These include creating a more level playing field on domiciliary care services, thus helping more people stay at home rather than enter hospital or residential care, and developing new not-for-profit nursing homes. We are also putting a greater focus on ill-health prevention and promoting healthy lifestyles. *One Wales* commits us to investing £190 million in public health and health improvement over the course of the Assembly term.

**Paragraph 35 – “The Finance Committee seeks assurances from the Finance Minister that the budget for the NHS has been appropriately planned to deliver the Government’s policies.”**

The final budget allocates an additional £1.25bn to the Health and Social Services Main Expenditure Group (MEG) over the next three years, taking the budget to over £6bn by 2010-11. The Assembly Government is satisfied that the budget provides sufficient resources to deliver our *One Wales* programme

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which will mean real and noticeable improvements in outcomes for the people of Wales.

Detailed decisions on allocations of resources within the Health and Social Services Main Expenditure Group are a matter for the Minister for Health and Social Services.

**Paragraph 38 – “The Finance Committee welcomes the Ministers agreement to produce an auditable analysis of the information that can be provided on these programmes [related to tackling child poverty] and calls for this by the end of the current financial year.”**

As I said when this matter was raised in Committee, it may be difficult to give an accurate or definitive analysis of overall spending on tackling child poverty given the cross-cutting nature of interventions in this area. My officials will investigate whether it is possible to provide such an analysis and I will respond to the Committee in due course.

**Paragraph 39 – “Concern was expressed in the Finance Committee about the static funding for community safety in both capital and revenue budget lines over the next three years, in particular in the context of the promised anti-social behaviour units for each local authority area. The Minister agreed to provide a note on this point. The Finance Committee would like further clarification on the budget lines and on how the proposed units will be delivered in the light of static budgets.”**

*One Wales* includes a commitment to "establish units in every local authority area, encouraging positive citizenship, discouraging and addressing anti-social behaviour through strategies such as mediation, reparation orders, child safety orders and acceptable behaviour contracts."

Home Office funded Anti-Social Behaviour co-ordinators already exist in each Community Safety Partnership. Organisations such as the Police and other agencies have supplemented this to create anti-social behaviour units in most areas. The Assembly Government supports Community Safety Partnerships to tackle anti-social behaviour from the Safer Communities Fund and has funded a variety of pilot projects aimed at finding creative ways to tackle anti-social behaviour and deal with the consequences of the late night economy.