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Y Gweinidog dros Fusnes a'r Gyllideb
Minister for Business and Budget



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Eich cyf/Your ref
Ein cyf/Our ref

Angela Burns AM
Chair, Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

23 February 2011

Dear Angela,

**FINANCE COMMITTEE'S REPORT ON GEN-LD8296- DRAFT BUDGET PROPOSALS
2011-12**

As I said in the recent debate on the Final Budget, scrutiny of our spending plans has never been as important as it is now in these challenging financial times. It is an important element in the budget process of developing and testing our proposals. That is why I welcomed the extensive scrutiny of our Draft Budget plans both within the Assembly and by our external partners.

The Finance Committee, together with other Assembly Committees, have played an important role in the budget process, culminating in the Finance Committee's report which offered a constructive and measured response to the Draft Budget 2011-12. In finalising our spending plans, we considered the detail of the Finance Committee's Report carefully, alongside the other evidence and feedback we received throughout the budget process, including comments made during the debate on the Draft Budget and the response to our plans by our partners and key stakeholders.

Many of the issues identified in the Finance Committee's Report were covered in the subsequent plenary debates on the Draft and Final Budget. However, in recognition of the importance I attach to the scrutiny process, I indicated in the Final Budget debate that I would respond formally to the Finance Committee's Report in due course. In line with this commitment, I attach, at Annex A, a note which addresses the specific conclusions and recommendations contained in the Report.

However, I would also like to take this opportunity to respond in more general terms to some of the main themes covered in the Report:

Fair Funding for Wales

All parties within the Assembly have supported the need for a funding floor, one of the key recommendations of the Holtham Commission's first Report.

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The failure by the UK Government to take action to address our underfunding in the Spending Review was particularly unfair given that our settlement was even more harsh than that given to the other devolved administrations.

I do, however, welcome the constructive discussions I have had since with the Chief Secretary to the Treasury on this matter. He has confirmed that the UK Government will consider the Holtham Commission's proposals with us in due course, including the proposal for a floor. To this end, I am pleased that my officials have already held initial discussions with his on this aspect of the Holtham Commission's Report.

Strategic Priorities and Outcomes

I welcome the Finance Committee's endorsement of the general approach that we are taking. We have made significant progress in linking our policies and programmes clearly to our priority outcomes in a way that enables us to better understand and monitor performance and value for money. I am pleased that the Committee recognises the progress we have made in this regard across the Assembly Government.

We are committed to improving continuously our approach to business planning. As I set out in my evidence to the Committee (FIN(3)-19-10), the focus of this work is ensuring that we are taking a joined-up and coordinated approach to key strategic challenges, that we are using evidence in the most effective way possible and that we are incentivising innovative approaches to organisational and policy challenges.

I note, however, the Committee's concerns in terms of the variability in the application of financial management practices in different portfolios. In my letter of 17 December 2010, I explained that the internal planning structure is still in development. For this reason, it is perhaps inevitable that there is a certain level of variation. However, the intention is that this structure and planning process will increasingly enable us to understand better how we are using resources to deliver outcomes and other strategic objectives, and the effectiveness of that delivery. Improving this process, and promoting more consistency between Departments, is an important priority for the Welsh Assembly Government.

End Year Flexibility (EYF)

I share the Committee's concerns with regard to the UK Government's plan to take away all of our existing EYF stocks. We discussed this issue in detail when I gave evidence to the Committee on 14 February in relation to the Second Supplementary Budget 2010-11. In my evidence, I indicated that I and my counterparts in Scotland and Northern Ireland would be writing a joint letter shortly to the Chancellor repeating the request for accumulated stocks of EYF to be released. We have since sent that letter but have yet to receive a response. It is our shared view that this is money voted by Parliament to the devolved administrations and should be available in future years to promote economic growth and support investment in public services.

In terms of the replacement mechanism for EYF, we are also pressing the UK Government to ensure that the new arrangement provides a similar level of flexibility and respects the status of devolved administrations.

Capital Investment

As I said in my letter of 7 February in relation to the Finance Committee's inquiry into the allocation of capital funds, prioritising capital spend and ensuring our capital allocations are

closely aligned with our strategic priorities is more important than ever in the face of reducing capital budgets.

We have consistently stated that continuing capital investment is key to supporting the economic recovery and transforming public services. In recognition of this, we have already acted in-year to mitigate the potentially devastating effect of the capital reductions – on services and on the economy. We have protected capital spending by using our EYF stocks to pay off the in-year capital cuts of £49 million. We have also announced an additional capital investment package in-year of over £49 million to stimulate the economy and to help the most vulnerable.

Going forward, we are using every opportunity to maximise our capital investment. That is why our Budget provides for a Centrally Retained Capital (CRC) fund which will make available £50 million in each of the next three financial years to support our strategic objectives and secure best value for investment. The CRC fund will build on the experiences of the Strategic Capital Investment Fund to engender cross-cutting and collaboration across portfolios and the wider public sector.

In our Final Budget, I have also used the additional £57 million available to us next year, as a result of finding all of the in-year savings in this financial year, to maximise our capital investment.

We have done what we can to mitigate the capital reductions but now we must manage our commitments and priorities within the funding available to us. Part of that will involve looking again in detail at our capital spending plans.

In conclusion, we know we have had to make difficult choices and decisions in delivering our Budget for next year, especially given the scale and speed of the cuts imposed on us by the UK Government. Our proposals have been available for scrutiny by the Assembly, the people who deliver services and most importantly the people of Wales. They all acknowledge the difficulties we face but have on the whole endorsed our distinctive Welsh approach. This view was supported by the evidence provided by our partners to the Finance Committee. This endorsement confirms that we have made the right choices and decisions for the people, communities and the economy of Wales.

Our focus now must be on delivery – delivering high quality public services with the resources available to us. Our approach will continue to be underpinned by the methods that supported our planning before the Spending Review outcome, an approach which has efficiency and innovation at the heart of our agenda.

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Annex A

Paragraph 20

The Finance Committee states unequivocally that the Barnett formula must be addressed sooner rather than later. It also refers the Chief Secretary to the support the Finance Committee gave to addressing the issue of further borrowing powers as detailed in its report of Public Private Partnerships.

We are committed to the reform of the Barnett formula and we are very disappointed that the UK Government has ruled out major change for the time being. In my written statement of 11 January, I updated Assembly Members on my recent discussions and exchange of correspondence with the Chief Secretary to the Treasury.

When I met the Chief Secretary in November, I focused on the Holtham Commission proposals. I emphasised that the National Assembly for Wales unanimously endorsed the immediate implementation of a funding floor by the UK Government but had agreed that tax-varying powers would be a future matter for the people of Wales.

The Chief Secretary confirmed that the UK Government will consider the Holtham Commission's proposals with us in due course, and importantly confirmed that these discussions would include the need for a funding floor. My officials have already met Treasury officials to discuss this aspect of the Holtham Commission's report within the terms agreed by the National Assembly for Wales.

We believe there is a good case for the devolution of borrowing powers to Wales in line with the Holtham recommendations, and will pursue this matter in our discussions with the UK Government.

Paragraph 32

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

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

The budget planning round forms part of the annual Business Planning process, which aims to support Departments to monitor progress in the delivery of our strategic objectives and outcomes for Wales. One of the aims of the internal business planning process is to ensure our resources are

directed in the most appropriate areas, and we continue to seek to improve our information and evidence on the effectiveness and focus of our interventions. I recognise, however, that there are variations in the planning and delivery reporting process across Departments.

We are in the early stages of a journey to improve our processes and the internal planning process structure is still in development. The intention is that this structure and planning process will increasingly enable Ministers to better understand how they are using resources to deliver outcomes and the effectiveness of these.

Promoting more consistency between Departments, and improving our understanding of our impact in delivering outcomes, and planning and reporting on this basis, is a high priority for the Welsh Assembly Government.

Paragraphs 38 and 39

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

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

In support of the efficiency and innovation agenda, I published on 7 February further information on the development of the measurement framework. This sets out an approach that is being developed by a working group of experts.

It is based around developing a balanced measurement framework comprising both financial and non-financial indicators. Moreover, as some efficiency and innovation gains are not readily quantifiable, the framework also seeks to capture qualitative examples of initiatives supporting improvements in efficiency and innovation in public services that give a richer context to hard-edged measures.

Identifying the broader benefits will help to illustrate the contribution the programme is making to improve the efficiency and effectiveness of public services, for the benefit of people across Wales.

Paragraph 44

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

This is an important point and cross-cutting investment opportunities are already being appraised, and the funding targeted, through Invest to Save and the European Social Fund. Initiatives such as Gwent Frailty are already producing benefits plans that capture efficiencies across many agencies without double counting.

Para 56

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

The Assembly Government is very conscious of the need to reduce the administrative costs of specific grants. We continue to look at ways in which grants can be consolidated into larger funding streams and the need to appraise the need for continuing grants that may no longer have a strategic importance.

In line with our commitment to reduce hypothecation and reduce the administrative costs, the local government settlement for next year includes a number of funding streams previously provided through specific grants. These include grants for the core funding for Cymorth and the implementation costs of the Children and Young People Act. Rationalisation is also a key feature of the Minister for Children, Education and Lifelong Learning's Review of Front Line Service provision.

We will continue to look to identify further opportunities to reduce the administrative costs of specific grants.