

Agenda – Finance Committee

Meeting Venue:	For further information contact:
Video Conference via Zoom	Owain Roberts
Meeting date: 6 July 2023	Committee Clerk
Meeting time: 09.30	0300 200 6388
	SeneddFinance@senedd.wales

At its meeting on 28 June 2023, the Committee agreed a motion under Standing Order 17.42(ix) to exclude the public from today's meeting.

Registration (09.15–09.30)

- 1 Introduction, apologies, substitutions and declarations of interest**
(09.30)
- 2 Welsh Government Draft Budget 2024–25: Approach to Budget Scrutiny**
(09.30–10.00) (Pages 1 – 7)
Supporting documents:
FIN(6)–12–23 P1 – Approach to Draft Budget Scrutiny 2024–25
FIN(6)–12–23 P2 – Letter from the Minister for Finance and Local Government
FIN(6)–12–23 P3 – Letter from the Minister for Rural Affairs and North Wales, and Trefnydd
- 3 Consideration of the Forward Work Programme**
(10.00–10.15) (Pages 8 – 18)
Supporting documents:
FIN(6)–12–23 P4 – Forward Work Programme



- 4 Financial implications of forthcoming legislation to reform the Senedd**
(10.15–10.30) (Pages 19 – 21)
Supporting documents:
FIN(6)–12–23 P5 – Financial implications of forthcoming legislation to reform the Senedd
- 5 UK Parliament: Public Administration and Constitutional Affairs Committee Inquiry**
(10.30–10.45)
Supporting documents:
[Devolution Capability in Whitehall: Terms of reference](#)
- 6 Consideration of responses on the Statement of Principles review**
(10.45–11.15) (Pages 22 – 41)
Supporting documents:
FIN(6)–12–23 P6 – Response from the Minister for Finance and Local Government
FIN(6)–12–23 P7 – Response from the Public Services Ombudsman for Wales
FIN(6)–12–23 P8 – Response from Audit Wales
FIN(6)–12–23 P9 – Response from the Senedd Commission
FIN(6)–12–23 P10 – Response from the Electoral Commission
FIN(6)–12–23 P11 – Research Service Brief
- 7 Audit Wales Supplementary Estimate 2023–24**
(11.15–11.30) (Pages 42 – 56)
Supporting documents:
FIN(6)–12–23 P12 – Letter from Audit Wales – 26 June 2023
FIN(6)–12–23 P13 – Audit Wales Supplementary Estimate 2023–24

Document is Restricted

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government



Llywodraeth Cymru
Welsh Government

Peredur Owen Griffiths MS
Chair of Finance Committee
Senedd Cymru
Cardiff Bay
CF99 1NA
SeneddFinance@senedd.wales

29 June 2023

Dear Peredur,

When we met on Tuesday 20th June, we discussed the timetable for the 2024-25 Budget. I indicated that the Trefnydd would be writing to Business Committee two weeks before the end of the summer term to set out a draft timetable for when the 2024-2025 Draft Budget will be laid, and the annual budget motion will be tabled.

We acknowledged that the Chancellor of the Exchequer has not yet published the date of the fiscal event in which we will learn the precise details of our budget settlement for the financial year 2024-25. While we already have indicative budget allocations under the multi-year Spending Review, the subsequent and substantial inflationary pressures coupled with significant uncertainty until we receive confirmation of our final settlement means we are likely to face challenging choices once our settlement is known. As a result, this means that once again we are obliged to recognise that the only prudent choice is to follow a budget timetable similar to the one employed in recent years, where we publish our draft budget late in the autumn term.

Publishing a draft budget when learning details of our final budget settlement at such a late stage presents challenges for both the development of departmental spending plans and their scrutiny by the Senedd. The timetable we intend to follow recognises the need to provide sufficient time to ensure we can effectively undertake our budget preparations and provide an appropriate level of detail in our budget documentation, while also ensuring the maximum available time for scrutiny in the Senedd.

Standing Order 20.6 makes provision for the Committee to make changes to the timetable at the request of the Government. Subject to this, and on the understanding that we will provide a firm timetable as soon as possible after the UK Government has made an announcement regarding its Budget, the Trefnydd has indicated that we are planning to publish the outline and detailed draft Budgets together on **12 December 2023**, and the final Budget on **27 February 2024**.

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Gohebiaeth.Lesley.Griffiths@llyw.cymru
Correspondence.Lesley.Griffiths@gov.wales

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

As we discussed, these dates would require the Finance Committee to publish its report on the Draft Budget on or before Monday 5 February to enable the debate on the Draft Budget to take place on Tuesday 6 February.

I remain mindful of both Standing Order 20.5 and the arrangements agreed between the Welsh Government and the Welsh Parliament regarding the period provided for scrutiny. Standing Order 20.5 provides, in 'normal' circumstances, for the Finance Committee to be given eight weeks to report on the outline budget proposals and five weeks for committees to consider the detailed Budget proposals. Whilst this cannot be termed a 'normal' year under the current version of Standing Orders and the Budget Protocol, we remain committed to ensuring the fullest possible scrutiny of our spending proposals. As a result, the timetable I have set out would enable 7 weeks and four days for scrutiny of the draft Budget, comprising 4 sitting weeks and four days and 3 non-sitting weeks.

If the Chancellor's announcement were sufficiently early to allow additional time for both the preparation and scrutiny of the Draft Budget, I would plan to revisit the publication dates.

As in recent years, recognising the impact to the Senedd I am happy to support the Committee's pre-budget scrutiny and will continue to provide information to the Committee prior to summer recess on various factors that can be drawn upon to inform future budget planning.

I am grateful for the Committee's understanding and trust these arrangements are acceptable given the circumstances, which are once again driven by external factors beyond our immediate control.

Yours sincerely,

A handwritten signature in black ink that reads "Rebecca Evans". The signature is written in a cursive, flowing style.

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government



Ein cyf/Our ref: LG/PO/217/2023

Elin Jones MS
Llywydd
Chair of Business Committee
Senedd Cymru
Cardiff Bay
CF99 1NA

SeneddBusiness@senedd.wales

22nd June 2023

Dear Elin,

Under Standing Order 20, as Minister with responsibility for Senedd Business, I am required to write to the Business Committee two weeks before the end of the summer term to set out a timetable for when the 2024-2025 Draft Budget will be laid, and the annual budget motion will be tabled.

The Chancellor of the Exchequer has not yet published the date of the fiscal event in which we will learn the precise details of our budget settlement for the financial year 2024-25. While we already have indicative budget allocations under the multi-year Spending Review, the subsequent and substantial inflationary pressures coupled with significant uncertainty until we receive confirmation of our final settlement means we are likely to face challenging choices once our settlement is known. As a result, this means that once again we are obliged to recognise that the only prudent choice is to follow a budget timetable similar to the one employed in recent years, where we publish our draft budget late in the autumn term.

Publishing a draft budget when learning details of our final budget settlement at such a late stage presents challenges for both the development of departmental spending plans and their scrutiny by the Senedd. The timetable we intend to follow recognises the need to provide sufficient time to ensure we can effectively undertake our budget preparations and provide an appropriate level of detail in our budget documentation, while also ensuring the maximum available time for scrutiny in the Senedd.

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Gohebiaeth.Lesley.Griffiths@llyw.cymru
Correspondence.Lesley.Griffiths@gov.wales

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Standing Order 20.6 makes provision for the Committee to make changes to the timetable at the request of the Government. Subject to this, and on the understanding that we will provide a firm timetable as soon as possible after the UK Government has made an announcement regarding its Budget, I wish to indicate now that we are planning to publish the outline and detailed draft Budgets together on **12 December 2023**, and the final Budget on **27 February 2024**.

In proposing these dates, I am mindful of both Standing Order 20.5 and the arrangements agreed between the Welsh Government and the Welsh Parliament regarding the period provided for scrutiny. Standing Order 20.5 provides, in 'normal' circumstances, for the Finance Committee to be given eight weeks to report on the outline budget proposals and five weeks for committees to consider the detailed Budget proposals. Whilst this cannot be termed a 'normal' year under the current version of Standing Orders and the Budget Protocol, we remain committed to ensuring the fullest possible scrutiny of our spending proposals. As a result, the timetable I have set out would enable 7 weeks and four days for scrutiny of the draft Budget, comprising 4 sitting weeks and four days and 3 non-sitting weeks.

These dates would require the Finance Committee to publish its report on the Draft Budget on or before Monday 5 February to enable the debate on the Draft Budget to take place on Tuesday 6 February. The Minister for Finance and Local Government has discussed this with the Chair of the Finance Committee to ask if this arrangement can be accommodated.

The Minister is writing formally to the chair of the Finance Committee to seek the Committee's understanding given the circumstances. The Minister and I would like to take the opportunity at Business Committee to seek confirmation from my fellow Business Managers that they would be similarly supportive.

I am grateful for the Committee's understanding and trust these arrangements are acceptable given the circumstances, which are driven by external factors beyond our immediate control.

Yours sincerely,

A handwritten signature in cursive script that reads "Lesley Griffiths". The signature is written in a light grey or blue ink on a white background.

Lesley Griffiths AS/MS
Y Gweinidog Materion Gwledig a Gogledd Cymru, a'r Trefnydd
Minister for Rural Affairs and North Wales, and Trefnydd

Agenda Item 3

By virtue of paragraph(s) ix of Standing Order 17.42

Document is Restricted

Document is Restricted

Y Pwyllgor Cyllid / Finance Committee
FIN(6)-12-23 P6
Agenda Item 6

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government



Llywodraeth Cymru
Welsh Government

Our Ref: RE/182/2023

Peredur Owen Griffiths MS
Chair of Finance Committee
Senedd Cymru/ Welsh Parliament
Cardiff Bay
SeneddFinance@senedd.wales

15 June 2023

Dear Peredur,

Thank you for your letter of 9th May regarding the Finance Committee's review of the Statement of Principles to which the Committee expects directly funded bodies to adhere when making budget proposals.

You asked for my views on the supplementary budget/estimate process for directly funded bodies and whether the current arrangements provide sufficient flexibility or whether the process could be strengthened through the Standing Orders or by making changes to the principles themselves.

I believe the Statement of Principles continues to be useful guidance for directly funded bodies and remains fit for purpose. This is evidenced by the helpful level of information that has been provided by directly funded bodies when presenting budgetary information to the Committee prior to supplementary budgets being tabled. While I do not necessarily see a need to formalise this practice through changes to Standing Orders, I would be willing to support such a proposal, with the proviso that any changes must not curtail or restrict the Welsh Government's timescales for preparing budgets.

Welsh Ministers remain committed to working with the Senedd Committees to produce budgetary information in the most transparent and open manner possible. In this regard, I will continue to provide information to the Finance Committee prior to summer recess on various factors that can be drawn upon to inform future budget planning. I will, of course, continue to attend Finance Committee to support the Committee's scrutiny of our annual and supplementary budgets.

Yours sincerely,

Rebecca Evans AS/MS
Minister for Finance and Local

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff

Correspondence.Rebecca.Evans@gov.wales
Gohebiaeth.Rebecca.Evans@llyw.cymru

CF99 1SN

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.



Ombwdsmon
Ombudsman
Cymru · Wales

Your ref:

Ask for: Michelle Morris

Our ref: MAM/CV/mm

Date: 12 June 2023

Peredur Owen Griffiths
Chair, Finance Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

By email only
seneddfinance@senedd.wales

Dear Peredur

Review of the Statement of Principles

Thank you for your letter of 4 May and for the opportunity to comment on the Statement of Principles that the Finance Committee expects Directly Funded Bodies to have regard to in their budget proposals.

The budget principles, in my view, continue to be appropriate and relevant and I have worked to make sure that my Estimates submission and Supplementary Budget submissions respect and reflect those principles.

The information provided by the Minister for Finance and Local Government is broadly helpful. There is an unavoidable tension here in that early receipt of that information is helpful in our preparation of the draft Estimate for consideration by my Advisory Panel, but inevitably the financial picture becomes clearer and more certain as time progresses.

I will now turn to the Supplementary Budget process. Firstly, I have no strong views on changes to Standing Orders to reflect the way that the Committee and Directly Funded Bodies work in practice. Whilst this detail is not currently reflected in Standing Orders, Standing Orders do not hinder or prevent this approach.

ombwdsmon.cymru
holwch@ombwdsmon.cymru
0300 790 0203
1 Ffordd yr Hen Gae, CF 35 5LJ
Rydym yn hapus i dderbyn ac
ymateb i ohebiaeth yn y Gymraeg.

ombudsman.wales
ask@ombudsman.wales
0300 790 0203
1 Ffordd yr Hen Gae, CF 35 5LJ
We are happy to accept and respond
to correspondence in Welsh.

More generally, the Supplementary Budget process is essential where budgets include no contingency, where there is no ability to carry funding from one year to another and where we are not able to hold reserves. That means that the Supplementary Budget process is the only mechanism to deal with significant in-year budget pressures. In the case of my office, as you know, these are likely to be either pay award costs (which are outside my control) or legal costs associated with challenges to decisions of the Adjudication Panel for Wales in Code of Conduct cases (or potentially to legal challenges to my casework decisions on public service complaints). In recent years, additional legal costs have been the result of Code of Conduct cases.

Under current arrangements there are only two opportunities to submit Supplementary Budgets – early in the financial year or in January of the following year. The early Supplementary Budget is valuable but, since it is so early in the year, there is substantial scope for pressures to emerge after the deadline for submission. The second Supplementary Budget process does not result in a decision until March, very close to the year-end. If a Supplementary Budget were to be unsuccessful, this gives no time to attempt to save money on an emergency basis, looking to reduce staff numbers, delay contract payments or take other action to avoid overspending and the resultant qualified accounts. A mid-year Supplementary Budget (perhaps to be considered at the same time as Directly Funded Bodies' Estimates for the following year) would therefore be hugely valuable.

On more general budget issues, I would like to move towards development of a three-year budget plan, which I would share with the Committee. I recognise the difficulties of multi-year budgeting, but I consider that sharing this with the Committee might be helpful to the Committee. I would welcome any greater certainty over future years' funding that the Committee could give.

Yours sincerely

Handwritten signature of Michelle Morris in black ink.

Michelle Morris
Public Services Ombudsman

Peredur Owen Griffiths MS
Chair, Finance Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

1 Cwr y Ddinas / 1 Capital Quarter
Caerdydd / Cardiff
CF10 4BZ
Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600
Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

By email only to SeneddFinance@Senedd.Wales

Reference: AC/363/caf
Date issued: 16 June 2023

Annwyl Peredur

Review of the Statement of Principles

Thank for your letter of 4 May 2023 seeking views on the Statement of Principles (the Principles) and on the supplementary budget/estimate process.

I am responding as Auditor General in two capacities and with the agreement of the Chair of the Wales Audit Office, on her behalf also. The two capacities in which I respond as Auditor General are (a) as the Chief Executive of the Wales Audit Office, which is the “relevant person” in the meaning of section 124(3) of the Government of Wales Act 2006 (i.e., a body that receives funds from the Welsh Consolidated Fund (WCF), as approved by annual and supplementary budget motions), and (b) as the controller of issues from the WCF.

The Statement of Principles

Looking at the Principles afresh, they seem to omit some key considerations that are relevant to a proper budget/estimate process for directly funded bodies (DFBs). I think this risks driving a lopsided approach.

I think it would be helpful to include in the introduction to the Principles some recognition of the reason why the DFBs have a distinct budget/estimate process, to ensure that that is not overlooked.

Each of the DFBs perform functions that are necessary for the overall healthy functioning of a parliamentary democracy and good administration. This includes, among other things, scrutiny of Welsh Ministers (the executive) and wider public sector, and safeguards against government misuse of public money. While DFBs should, of course, be mindful of wider pressures on the public purse, there are risks in tying their funding too closely to short-term variations in block grant or overall Welsh Government resourcing.

For DFBs and their support of the Senedd to be effective, they need to operate independently of the executive, including in terms of decisions on their funding. In particular, in order to maintain the proper functioning of DFBs, decisions on DFBs' financing need to be kept separate from the Welsh Ministers' prioritisation of executive government spending. Accordingly, the law requires each of the DFBs to present a separate budget/estimate for consideration by the Finance Committee, rather than providing for this to be included from the outset in Welsh Ministers' budget proposals.

Within the text under the heading "Principles approach" I think it would be helpful to include some further reflection of the fundamental point outlined above. I would suggest including a line or two to say that budget requests should be made with full regard to the resourcing needed for the DFB to properly undertake its statutory functions, including with regard to the constitutional significance of those functions in both the short and long terms.

I would also suggest revising paragraph 5 so that it is symmetrical in effect. I suggest adding at the end, "Neither should DFBs assume that a reduction in the block grant must lead to a decrease in funding."

At a somewhat more operational level I note that paragraph 8 of the Principles says:

The Minister for Finance and Trefnydd will provide information to the Finance Committee prior to summer recess on various factors which can be drawn upon to inform future budget plans such as the latest guidance on public sector pay remits, GDP deflator forecasts, forecasts of devolved taxes and the Welsh Government's best possible assessment of the overall level of funding available in future years. This information will be forwarded on to DFBs by the Finance Committee for consideration.

This is reasonable in itself. However, the assessment received in the Minister's letter to you 14 July 2022 of the overall level of funding available in future years said that

there would be, “*very little growth in resources over the next two years,*” but did not quantify this and only provided some contextual statistics, such as those concerning the UK Government’s fiscal deficit. Such an unquantified assessment was not of great practical help to DFBs attempting to meet the Principles, particularly that set out in paragraph 3, “*Budget requests should be set in the context of the long term financial funding situation in Wales.*”

It would be helpful therefore if the Statement were amended to require the Minister to provide a numerical estimate of the overall level of funding available in future years, preferably in terms of overall percentage change by year. I realise, of course, there will inevitably be uncertainty, but expression of the estimate in terms of a range of percentage changes around a mid-point, would nonetheless be helpful.

The supplementary budget/estimate process

I do not see a pressing need for Standing Orders to be amended to include provision for DFBs to provide an explanatory memorandum sooner than the current requirement when the Welsh Government tables its Supplementary Budget motion. Clearly, in practice, any proposed variation is accompanied by necessary explanatory material, and it is in the interests of DFBs to do so to inform the Committee’s consideration. If that is working to the Committee’s satisfaction, I do not think it necessary to amend Standing Orders, especially if that removed the current scope for pragmatism and flexibility.

A more useful amendment would be to require the Welsh Ministers to give notice to the Auditor General (as the controller of the WCF) of their intention to present any supplementary budget motion. In my controller function, I am required to authorise the lawful issue of money from the WCF. Not all supplementary budget motions contain proposed variations for Wales Audit Office (which the Auditor General would be aware of), and as the Welsh Government do not notify the Auditor General (or WAO staff working on his behalf) of their intentions to present such motions, time must be spent checking for the presentation of such motions. Amending Standing Orders to require such notification would assist efficiency and reduce the small chance of error.

Yours sincerely



ADRIAN CROMPTON
Auditor General for Wales

Peredur Owen Griffiths MS
Chair of the Finance Committee

By email

23 June 2023

Dear Peredur

Thank you for your letter of 4 May 2023 and the opportunity to contribute to the Review of the Statement of Principles.

The Senedd Commission supports the Statement of Principles as an effective means to develop and make budget proposals. As a Commission we will be receiving at our July meeting a paper from the Senedd Commission's Executive Board, which sets out in detail how resources will be prioritised and managed over the medium term (over three years) and the Statement of Principles are at the heart of this approach.

This medium-term planning approach is set out in the Senedd Commission's Medium Term Resourcing Framework which was considered by the Senedd Commission's Executive Board on 16 June. This Medium-Term Resourcing Framework will further enable us to evidence the Commission's adherence with the Statements of Principles.

Adopting a medium-term view of future expenditure and funding will significantly improve the Directly Funded Bodies (DFBs) ability to plan and prioritise resource allocation and it would be helpful if future funding estimates were available to enable DFBs to better meet the Statement of Principles.

The DFBs have statutory responsibilities and each has a distinct role within the wider framework of oversight of Welsh Government and wider public sector in Wales. It would be helpful if this were recognised more strongly within Statement of Principles with the rationale for DFBs – due to their need to operate independently of the executive - having a distinct budget and estimates process being set out.

You also asked for comment on our views on the supplementary budget and estimates process. The supplementary budget and estimates process is a helpful and flexible mechanism to deal with in-year matters. As DFBs do not have the means to otherwise manage unforeseen significant in-year pressures such as holding contingency or reserves, the timely confirmation of the outcome of



Senedd Cymru
Bae Caerdydd, Caerdydd, CF99 1SN

✉ Sulafa.Thomas@senedd.cymru
☎ 0300 200 6227

Welsh Parliament
Cardiff Bay, Cardiff, CF99 1SN

✉ Sulafa.Thomas@senedd.wales
☎ 0300 200 6227

supplementary budget submissions is essential to the effective management of resource in year, recognising that the DFBs supplementary budgets are subject to the timeline for the overall Welsh Government supplementary budget of which they are part.

As mentioned earlier adopting an enhanced approach to medium term budgeting with greater certainty over future years' funding would help mitigate against unexpected pressures and reduce the reliance on the supplementary budget and estimates process.

I hope these comments are helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ken Skates', with a stylized flourish extending to the right.

Ken Skates MS

cc Senedd Commissioners, Manon Antoniazzi, Ed Williams

Croesewir gohebiaeth yn Gymraeg neu Saesneg / We welcome correspondence in Welsh or English



David Rees MS
Deputy Llywydd
Chair, Llywydd's Committee
Senedd Cymru
Cardiff Bay
Cardiff
CF99 1SN

08 June 2023

Dear Chair,

Review of the Statement of Principles

Thank you for the invitation to comment on the Finance Committee's proposed statement of principles for financial scrutiny. We have gathered views from within the Electoral Commission and hope the feedback provided is helpful in informing the Llywydd's Committee's response.

The Commission supports the clarity provided by having a statement of principles for the Finance Committee. Clearly, this statement is based on beliefs and intentions, and each statement is both understood and largely supported. However, further clarity on the application of the principles would be welcomed.

Our views on principles 3 to 7 are detailed below.

Principle 3. Budget requests should be set in the context of the long-term financial funding situation in Wales and funding pressures in the wider public sector.

- We suggest that the context of these pressures is explained in advance of bids being finalised to ensure proposed priorities are aligned to expectations on affordability and focused on the Senedd's priorities.

Principle 4. Requests should show how annual and multi-annual objectives will be prioritised, monitored and achieved.

- We agree there is a need to appreciate context on one-year settlements, linking to medium to longer term priorities and gaining confidence of progress being on track.

Principle 5. DFBs should not assume an increase in funding, regardless of the block grant change as any increase to their funding reduces resources available to other devolved public bodies.

- We agree that measures should avoid cost creep, however consideration will need to be given to what will be considered unavoidable inflationary pressures, especially agreed pay and unavoidable contractual increases. In addition,

real terms reductions in funding may have consequences on outputs and outcomes and so we suggest these need to be clearly stated.

Principle 6. DFBs should continually seek to improve processes and accrue efficiencies.

- We agree that efficiencies should continue to form a key element of a balanced bid.
- *Point of clarity: Is this principle suggesting that efficiencies should be clearly identified and stated as part of the bid processes? Will this also consider cessation of specific services that are not perceived as good value and/or unaffordable?*

Principle 7. Where any increases in funding are requested, these should be backed by evidence both of the need, benefit and attempts that have been made to reduce such costs. Also, the consequences of not obtaining the requested increase in resource should be made clear and quantified.

- We agree growth of spend should be justified based on expected benefits and perceived outputs and outcomes. However, we suggest consideration is also given to other elements of outcome delivery, including public perceptions, organisational capacity and effective use of resources to ensure a balanced case of value for money is considered.
- Could consideration be given to highlight key and/or significant risks within the proposals?

Thank you again for the opportunity to comment, and I hope our response is useful.

Yours sincerely,



Shaun McNally CBE
Chief Executive and Accounting Officer

Document is Restricted

1 Cwr y Ddinas / 1 Capital Quarter
Caerdydd / Cardiff
CF10 4BZ

Tel / Ffôn: 029 2032 0500

Fax / Ffacs: 029 2032 0600

Textphone / Ffôn testun: 029 2032 0660

info@audit.wales / post@archwilio.cymru

www.audit.wales / www.archwilio.cymru

Peredur Owen Griffiths MS
Chair of the Finance Committee
Senedd Cymru

Via email

Reference: KC23002/AC364/
caf **Date issued:** 26 June 2023

Dear Peredur

Thank you for visiting our new Cardiff office in May. We hope you agree that it provides an excellent environment for our staff to work collaboratively – benefitting both their wellbeing and audit quality - whilst delivering savings for the public purse.

You will see from our recently published [Annual Report and Accounts](#) that we delivered this project for substantially less than originally estimated. The final capital cost of the move was £351,000 as compared to the £575,000 original estimate.

As set out in our [Supplementary Estimate for 2022-23](#) we expect to deliver ongoing annual savings of around £220,000 compared with the cost of the previous office. We are proud of this and the approach we took to the move:

- We achieved capital savings on the move, in large part, by maximising re-use of furniture and equipment.
- We spent £274,000 on fit-out, £250,000 of which went to Welsh-based SMEs and the remainder to UK-based SMEs.
- We applied a circular economy approach drawing some £150,000 of social value from the move through, for example, the re-use of the previous tenant's fittings, re-purposing of storage disposed of by another tenant, the use of recycled materials and the donation of surplus paint to another tenant. A fuller breakdown is attached to this letter at Annex A.
- As our space was reduced by 40%, we donated furniture and equipment that we could not bring with us to other public and third sector organisations and

We are still in discussion with the landlord of our former office at Cathedral Road on the final dilapidation settlement for that property. Based on discussions to date, we have made sufficient provision within our Annual Report and Accounts for 2022-23 and identified sufficient cash funding in our Estimate for 2023-24 to meet these costs.

Our North Wales office

As discussed during your visit, the next phase of 'our Future Workplaces' project is to relocate our Abergele office to the Welsh Government offices in Sarn Mynach, Llandudno Junction. This move will require a Supplementary Estimate in 2023-24 for IFRS16 technical accounting purposes only, and this is attached to this letter. The resource and cash requirements for the move are minimal and were allowed for in our Estimate for 2023-24 and so do not require any supplementary request for funding.

This move will take advantage of underutilised public sector accommodation in North Wales, benefitting both Audit Wales and the Welsh public sector more generally. We expect to deliver annual savings of around £30,000 from the move contributing to the £500,000 savings target within our annual Estimate.

As auditors of the Welsh Government, we have had to consider whether this move posed any risk both to our ethical standards and independence. We are confident that those risks are minimal and acceptable. Nonetheless, we want to make them clear to the Committee, as annexed to this letter.

Please do not hesitate to contact us if there is any further clarification we can provide.

Yours sincerely







KATE CHAMBERLAIN
Chair, Wales Audit Office



ADRIAN CROMPTON
Auditor General for Wales

Annex A

Breakdown of expenditure and Social Value	£000s
 A Prosperous Wales	
More opportunities for local businesses and SMEs	
Business awarded to SMEs in Wales (fit-out & furniture)	£250
Business awarded to SMEs in UK	£24
Social value of expenditure to local SME & Welsh Economy	£140
Percentage of total spend to SME businesses	78%
Resource efficiency and the circular economy	
Reuse of fittings, furniture, and equipment <ul style="list-style-type: none"> Fit-out - the prior tenants meeting rooms, kitchens, and carpets, and equipment were reused wherever viable. The main alterations made were to improve shower area and LED lighting. Furniture - reused furniture from our previous office where possible within space constraints (residual value £36.1) Reused built in cupboards disposed of by another company, diverting 1 tonne of waste (savings of £15k) Procured refurbished office chairs & used donated reused meeting chairs in place of new Used recycled materials where possible Donated our surplus paint to another tenant for their fit-out 	Contributed to Capital savings above Social value estimated at £150k (unaudited)
 A Wales of cohesive communities	
Donated surplus furniture and equipment to - <ul style="list-style-type: none"> Sardis House, Interim Housing Options - Homelessness & supporting people, Rhondda Cynon Taff. Mass Vaccination programme site, Aneurin Bevan Health Board. Cwm Arian Renewable Energy, Pembrokeshire – a community benefit society working on green energy projects, to furnish a new community stiwdio and community office. Primary and community Care Services Group - meeting room, office, and kitchen to move a non-acute unit off Princess of Wales site; and a new wellbeing and meeting area on site. Open Access Outreach Support – Education and Family Support, supporting a new evening youth provision in Bridgend. Value Independence CIC, Pembrokeshire – dedicated care and assistance to individuals wanting to live an independent and active lifestyle. Paul Sartori House, Pembrokeshire - charity supporting hospice at home. 	Estimated value at £30k residual value of existing stock
 A globally responsible Wales	
Carbon emissions reduced - energy emissions savings of 265t (lease life)	£100 NPV benefit
 A more equal Wales	
<ul style="list-style-type: none"> Engaged Ministry of Furniture & Merthyr Institute for the Blind for limited furniture (30% disadvantaged workforce) Engaging all staff and representative groups in the design 	

(Unaudited figures – social value based on TOMS Wales social value measurement). We are unable to report publicly in our accounts without further review

Page 3 of 5 - Please contact us in Welsh or English / Cysylltwch â ni'n Gymraeg neu'n Saesneg.

Annex B

Ethical Standard

The Ethical Standard sets out that the appointed auditor should not go into business with a body it audits unless it is not material to either party and has been arranged on an arm's length basis (e.g., by an agent).

The payment is in the region of £29k per year for rent and service charge, which at 0.1% of our annual expenditure (and some infinitesimally small proportion of WG income), is well below materiality.

The property was being offered by the WG as set out in the Ystadau Cymru, Estate Co-location and Land Transfer Protocol, which states 'As part of the land transfer protocol, public sector property that is available to let or buy is initially only available to other public sector organisations.' The Protocol also sets out that arrangements must be formalised through leases or license arrangements. As the premises are not being marketed publicly, we could not use an agent (although we did consider other properties where an agent was engaged).

While not arranged through an agent, WG's estates team have offered the space on a standard price basis i.e., they would charge any tenant the same price.

- The same price of the unit was also offered to Transport for Wales and the email sent to them was forwarded to us for consideration.
- There is also some distance in the arrangement as it is not being arranged by the AGW with Welsh Ministers directly, although it is not completely arm's length because WAO monitors, advises and resources the AGW and his work.
- The approach is consistent with public sector aims for collaboration and sharing; and
- A similar approach was also adopted with our Penllergaer office. It transferred to Welsh Government during the initial lease, and so when the lease came to be renewed it could only be made on an arm's length basis with an artificial co-ordination through an agent (which would have led to ineffective use of public funds).

Independence

We have considered independence for the AGW's audit of WG's accounts and VFM examinations/study powers in respect of WG's estate management.

We concluded that in terms of the AGW's audit of WG's accounts, an objective, reasonable and informed third party would not view our leasing of accommodation at Llandudno Junction as impairing objectivity.

The AGW's VFM examinations/study powers in respect of WG's estate management, could conceivably be considered to impair objectivity. On balance we consider that risk to be small and that may also be considered as helpfully informative. We do not have any plans to undertake such work in the next few years.

We also considered that PAPAC may have interest in WG use of estates – it has been doing an enquiry on Regeneration of Town Centres and may consider as part of that WG's approach to its estate in the context of its Town Centres First policy. We also reported on the WG workforce planning and management which noted WG's plans to take forward its workforce strategy aligned with its new workplace and digital strategy as part of its WG 2025 initiative. PAPAC also took evidence and so may comment on workplace issues in its report.

On balance, for VFM work, it was also considered that an objective, reasonable and informed third party would not conclude that our objectivity would be impaired by such a lease.

We have also written to the WG in line with the Standard.



Explanatory Memorandum to the Finance Committee Regarding the Variation of the Estimate of the Wales Audit Office for the Year Ending 31 March 2024

Issued: June 2023

Document reference:

Submitted to the Finance Committee of the Senedd for consideration under Standing Order 20.35.

Adrian Crompton
Auditor General for Wales

Kate Chamberlain
Chair, on behalf of the **Wales Audit Office**

Contents

Explanatory memorandum	
Introduction	4
Reason for change	4
Adjustments to resource budgets	5
Appendices	
Appendix 1 – Summary of the 2023-24 budget requirements for inclusion in the Welsh Ministers' Supplementary Budget Motion under section 126 of the Government of Wales Act 2006	7

Explanatory memorandum

Introduction

- 1 For each financial year, the Wales Audit Office must submit an annual estimate of its income and expenditure to the Finance Committee of the Senedd. The responsible committee must examine that Estimate and lay it before the Senedd after making any amendments that it considers appropriate.
- 2 The Estimate for the Wales Audit Office for 2023-24 was included in the Welsh Government's Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 7 March 2023 following scrutiny by the Finance Committee.
- 3 The budget motion authorised the Wales Audit Office to retain £16.133 million of accruing resources, generated through fees charged to audited bodies, and supplied a further £8.452 million of other resources in support of our expenditure plans for the year. Together, this £24.585 million is used to fund the costs of the Wales Audit Office in delivering its duties under the Public Audit (Wales) Act 2013.
- 4 The Wales Audit Office now seeks to amend the approved Estimate for the year ending 31 March 2024.

Reason for change

Changes to our office accommodation

- 5 In March 2023, Audit Wales relocated our Cardiff from Cathedral Road office to significantly smaller premises in Cardiff's Capital Quarter – delivering annual savings of around £220,000 along with significant improvements in environmental performance, whilst providing a workplace for our staff that better meets our new hybrid working arrangements.
- 6 As part of our on-going review of our workplace requirements we have subsequently reviewed options to move our North Wales office in line with our strategic aims to consider:
 - environmental improvements - working toward our net zero ambitions;
 - meeting business needs (enabling audit quality of delivery, enabling staff to be productive, creative, and efficient, and support wellbeing); and
 - securing cost savings
- 7 In June 2023, the Wales Audit Office Board approved a business case to relocate the current North Wales office from Abergele to a shared space within Sarn Mynach, Llandudno Junction -Welsh Government's North Wales office. A ten-year lease (with a 5-year break) from September 2023 is proposed.
- 8 Several alternative office locations were considered but Sarn Mynach scored highest for quality of the premises and the potential benefits in terms of achieving environmental improvements as we work towards our net zero aims, cost savings and meeting our business needs. The building has:

- good access to public transport and active travel options, with green space supporting biodiversity, and the building set to move to solar power in 2024.
 - a very good range of meeting facilities and collaboration spaces, which would support hybrid working and provide flexibility to support future needs, with a variety of spaces to deliver quality audit work.
 - a range of amenities including canteens and flexible spaces to promote wellbeing of staff.
- 9 Annual savings of around £30,000 are expected from this move. There are limited up-front costs associated with this move (which can be met from within existing budgets) but there will be non-cash adjustments associated with IFRS16 for the new lease arrangements.
- 10 Savings identified for 2023-24 will go towards the efficiency savings target of £500,000 identified within our approved Estimate.
- 11 Estimated annual savings, as compared to remaining in the Abergele office, are set out below.

Exhibit 1: estimated savings

	Abergele	Sarn Mynach	Savings
Lease costs	31	12	19
Running costs	34	23	11
Net	65	35	30

Adjustments to resource budgets

- 12 As explained above, the Wales Audit Office is seeking a non-cash adjustment in respect of IFRS16 of £94,000 in 2023-24 – this is for accounting purposes only. The supplementary estimate is made up of
- Lease cost depreciation under IFRS16 (£70,000)
 - Structural dilapidations depreciation (£24,000)
- 13 The associated budget changes for 2023-24 are set out in **Exhibit 2**.

Exhibit 2: budget changes 2023-24

	Estimate 2023-24 £'000	Supplementary Estimate 2023-24 £'000	Revised Estimate 2023-24 £'000
Revenue resource	8,142	-	8,142

	Estimate 2023-24 £'000	Supplementary Estimate 2023-24 £'000	Revised Estimate 2023-24 £'000
Capital resource	310	-	310
Capital resource (IFRS16)		94	94
Accruing resources	16,133		16,133
Total expenditure	24,585	94	24,679
Net cash requirement	8,642	-	8,642

Appendix 1

Summary of the 2022-23 budget requirements for inclusion in the Welsh Ministers' Supplementary Budget Motion under section 126 of the Government of Wales Act 2006

Under section 126 of the Government of Wales Act 2006 (the 2006 Act), Ministers may move a Supplementary Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the Consolidated Fund for certain relevant persons, including the Wales Audit Office.

In respect of the services and purposes of the Wales Audit Office in the year ending 31 March 2024, the Budget Motion will authorise:

- the amount of resources to be used by the Wales Audit Office;
- the amount of resources accruing to the Wales Audit Office which may be retained (rather than paid into the Consolidated Fund); and
- the amount which may be paid out of the Consolidated Fund to the Wales Audit Office.

These requirements, which due to the variability of income streams can only be estimates, are summarised in **Tables 1 and 2** below.

Table 1: summary of the estimated 2023-24 budget requirements

	£'000
Resources other than accruing resources for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office, the Auditor General and local government appointed auditors, and on the administration of the Wales Audit Office:	
• Revenue	8,142
• Capital	404
Accruing resources from fees and charges for audit and related services; other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences, and provision of administrative and professional and technical services for use by the Wales Audit Office on related services and the administration of the Wales Audit Office.	16,133
Net cash requirement from the Consolidated Fund to meet the net amounts falling due for payment in the year by the Wales Audit Office.	8,642

Table 2: reconciliation of resource requirement to cash drawing requirement from the WCF

	Estimate 2023-24 £'000	Supplementary Estimate 2023-24 £'000	Net change £'000
Net request for resources – revenue and capital	8,452	8,546	94
Non-cash adjustment – depreciation and interest charges	(640)	(640)	–
Lease rental payments	280	280	–
Non-cash adjustment – movements in working capital	550	550	–
Non-cash adjustment IFRS16	–	(94)	(94)
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	8,642	8,642	-



Audit Wales

1 Capital Quarter

Cardiff CF10 4BZ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.