

Agenda – Finance Committee

Meeting Venue: Hybrid – Committee room 3, Senedd and video conference via Zoom	For further information contact: Owain Roberts Committee Clerk 0300 200 6388 SeneddFinance@senedd.wales
Meeting date: 31 January 2024	
Meeting time: 09.30	

At its meeting on 18 January 2024, 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 Scrutiny of the Welsh Government Draft Budget 2024–25:**
Consideration of draft report
(09.30–10.30) (Pages 1 – 104)
Supporting documents:
FIN(6)–03–24 P1 – Draft report
 - Chapter 1 – Introduction
 - Chapter 2 – Overview and Economic Context
 - Chapter 3 – Budget Narrative and Presentation
 - Chapter 4 – Fiscal Levers
 - Chapter 5 – Cost of Living Support
 - Chapter 6 – Sustainability of Public Services
- 3 Review of the Statement of Principles**
(10.30–11.00) (Pages 105 – 118)
Supporting documents:



FIN(6)-03-24 P2 – Cover paper

FIN(6)-03-24 P3 – Letter from the Minister for Finance and Local Government
– 14 November 2023

FIN(6)-03-24 P4 – Letter from the Public Services Ombudsman for Wales – 12
December 2023

FIN(6)-03-24 P5 – Letter from the Senedd Commission – 11 December 2023

FIN(6)-03-24 P6 – Letter from Audit Wales – 20 December 2023

4 National Audit Office Report – Administration of Welsh Income Tax 2022–23

(11.00–11.15)

(Page 119)

Supporting documents:

FIN(6)-03-24 P7 – Letter from the National Audit Office (includes hyperlink to
its report on ‘Administration of Welsh Income Tax 2022–23’ – 19 January
2024.

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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
Welsh Parliament
Cardiff Bay
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14 November 2023

Dear Peredur,

I am writing in response to your letter regarding the review of the statement of principles for Directly Funded Bodies (DFBs).

I note the feedback you have received regarding the fiscal information in the annual letter I provide to the Committee to support forward planning for those bodies. As you say, the Welsh Government's own financial position beyond the current year is often not clear, so it is not always possible to provide detailed guidance on future fiscal prospects. However, I am happy to consider whether it's possible to provide additional longer run information if that would be helpful, looking at different potential future funding scenarios.

I already provide a Written Statement following the UK Government's Autumn Statement, setting out the implications for the Welsh Government's Budget. In addition, the Chief Economist's Report, published alongside our Draft Budget, includes information regarding medium term fiscal prospects. This takes account of the UK Government's Autumn Statement and the latest forecasts from the Office for Budget Responsibility.

Supplementary budgets are routinely published in June and February of each financial year. The exact timings can be dependent on both the Senedd calendar in respect of when recess falls and the expected publication of the UK Government's Main and Supplementary Estimates. In practice, the DFBs are notified of the dates of supplementary budgets when I inform the Committee. However, going forward I will copy my letter to the Committee to the DFBs to formalise our communication of those dates.

Yours sincerely,



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

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
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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.



Ombwdsmon
Ombudsman
Cymru • Wales

Your ref:

Ask for: Michelle Morris

Our ref: MAM/mm



Date: 12 December 2023



Peredur Owen Griffiths
Chair, Finance Committee
Welsh Parliament
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By email only
seneddfinance@senedd.wales

Dear Peredur

Review of the Statement of Principles

I refer to your letter of 18 October about your review of the Statement of Principles. Thank you for consulting me on this.

Clarity of funding position in the public sector

Your letter helpfully explores some of the challenges around the timing of our Estimate, in particular where the current timing does not fit well with UK fiscal events. I acknowledge that the position is complicated by delays and uncertainty in UK financial announcements and decisions, but the current timing does present difficulties. Our Estimate is prepared in September, for consideration by your Committee in October. That is 6 months before the start of the year. When public finances and inflation are uncertain and volatile, that means that assumptions, for example around inflation and pay awards, may be significantly out of date by the start of the financial year.

Independence from the Welsh Government and Supplementary Budgets.

I welcome your comments about the independence of directly funded bodies and your intention to clarify this on your Committee's webpages. Whilst that increased clarity will be helpful, the more substantial issue is about the reliance on the Welsh Government to take forward a DFB's supplementary budget following the support of the Finance Committee. As your letter indicates, there is no requirement for the Welsh Government to bring forward a supplementary budget following a submission by a DFB. That fundamentally challenges the principle of independence and allows the Welsh Government to deny DFB's supplementary budgets. Since the DFBs all have some level of oversight of the Welsh Government, that is not appropriate.

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We are happy to accept and respond to correspondence in Welsh.

We have no reserves and no carry-over, so the supplementary budget process is of considerable importance to us. Our budget is taken up predominantly by staff costs and largely fixed premises and IT costs. We therefore have very little flexibility in our budget and the limited actions we might be able to take to offset unforeseen cost pressures (for example, not filling vacant posts) create instability and adversely affect service delivery. The supplementary budget process is the only way we have of managing significant new financial pressures and it is important that, if supported by your Committee, supplementary budgets are progressed promptly.

I welcome the fact that the Welsh Government has, to date, taken forward supplementary budgets proposed by DFBs and supported by your Committee. However, to address this risk to independence I would support changes to Standing Orders that effectively **require** the Welsh Government to progress (subject to the outcome of your Committee's consideration) supplementary budgets sought by DFBs, within a specified period. I am conscious that this change may not be achieved quickly, and in the meantime, it might be useful if your Committee reported separately on DFB supplementary budgets (rather than incorporating this into the report on your scrutiny of the overall Welsh Government Supplementary Budget) and makes an explicit recommendation to the Welsh Government that the DFB supplementary budgets are progressed through the Senedd within a specified period. These changes would reflect and support the independence of DFBs. They would also give DFBs greater control over when they submit supplementary budgets as well as allowing your Committee to consider matters independently, rather than working to the Welsh Government's timetables.

I hope that this response is a helpful contribution to your consideration.

Yours sincerely



Michelle Morris
Public Services Ombudsman

Peredur Owen Griffiths MS
Chair of the Finance Committee

By email

11 December 2023

Dear Peredur

Thank you for your letter of 18 October 2023 and the opportunity to contribute to the Review of the Supplementary Budget Process.

By way of setting out our issues I will set out the process for budgeting for the Commission and the key reasons we require to use the supplementary budget request process.

The Senedd Commission, due to the timing of the laying of its draft budget by 1 October, almost two months in advance of the UK autumn Statement and three months in advance of the Welsh Government budget, finds itself having to lay budgets based on out of date information, or unable to budget accurately as it is awaiting decisions which are being taken in line with UK Treasury budget timetable. Examples of this include

- Taxation changes brought forward in the Autumn statement
- Triannual Civil Service pension valuation and changes to employer pension contributions
- Large projects which are not fully specified at the time of budgeting which is submitted a full six months before the start of the year to which the budget relates.

These types of changes create the need for supplementary budget requests in order to either request further funding or return funds due to reduced cost. In some years we find ourselves undertaking both.

I have set out below our thoughts on the processes for both supplementary budget and annual budget and made some suggestions on how some of this could be addressed.

Supplementary Budget

The cost of living payment made to Commission staff in this financial year has highlighted some issues with the supplementary budget process which it may be helpful to address.



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Section 126 of the Government of Wales Act 2006 (GOWA) details the process for a supplementary budget for the Welsh Government and for the bodies funded directly from the Welsh Consolidated Fund (Directly Funded Bodies or “DFB”s).

The provisions in GOWA are expanded in Standing Orders. I understand the practice encouraged by your predecessor Committee, and continued with the current Finance Committee, was for DFBs to submit draft Explanatory Memoranda in advance of the supplementary budget motion being laid by the Welsh Government. This provided an opportunity for the Committee to scrutinise the requests. This process reduced the risk that a request made by a DFB would lead to a rejection of the Welsh Government’s whole supplementary budget.

The Commission accepts that it is appropriate for the Welsh Government alone to have the right to bring forward supplementary budget motions. However, it would be helpful to amend Standing Orders to formalise the process described above. This would mean that when the date of the Welsh Government’s Supplementary budget is known, DFBs, if requiring a variation to their agreed budgets, would submit their explanatory memorandum to the responsible Committee. This would happen in advance of the motion being tabled to allow time for a responsible committee to report and make recommendations regarding the requests for additional information made by the DFB(s).

This approach would remove any perception that the Welsh Government can “block” requests from DFBs and maintains their independence.

Annual Budget Motion

As you are aware, in recent years, the UK Government has held an autumn fiscal event which has necessitated the Welsh Government delaying the publication of its budget. The difficulties associated with a late UK fiscal event also apply to the Commission when we are preparing our annual budget. This is especially the case given that Standing Orders 20.13 and 20.14 require the Commission to lay its draft budget proposals no later than 1 October and for a responsible committee to report on those proposals by 22 October. This means we are often required to prepare and lay our draft and final budget based on an incomplete fiscal context. Therefore, we are unable to budget as accurately as we would like because we are awaiting decisions about funding levels within the Welsh Consolidated Fund. This difficulty notably arose this year in respect of the Civil Service Pension triannual valuation (see my letter dated 13 November 2023).

Ultimately, we think it might be helpful for Standing Orders to be revised so that the Commission’s budget timetable could be moved to a later date. However, we recognise that UK fiscal events could again change to a spring date and we would want to avoid any unintended consequences as a result. For that reason, in the short term, we would like to suggest a small change to Standing Order 20.20 to widen the circumstances where the Commission could propose a different timetable to that specified in Standing Orders. It is suggested that the reference to a spending review could be broader, to allow the Commission to request flexibility in the event of a late autumn statement or should the Welsh Government’s intention be to lay a late draft budget.



We consider this small change would allow us the flexibility to alter the Commission budget timetable if wider fiscal events mean this would improve our ability to budget accurately and effectively.

I hope these comments are helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ken Skates', with a large, stylized flourish at the end.

Ken Skates MS

cc Senedd Commissioners, Manon Antoniazzi, Kate Innes

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



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Reference: KC23010/AC401/caf

Date issued: 20 December 2023

Dear Peredur

Review of the Statement of Principles: Update

Thank you for your letter of 18 October 2023. I am responding both for myself and, with her agreement, the Chair of the Wales Audit Office.

We are grateful to the Committee for its consideration of the response we submitted on 16 June 2023, though we are sure you will understand our disappointment that you do not feel able to support many of the suggestions we made. While encouraging Directly Funded Bodies (“DFB”s) to be mindful of pressures on the public purse is reasonable, we continue to think that the principles are somewhat lopsided and lack recognition of why the DFBs properly have distinct budgeting processes so as to ensure DFB financing is kept separate from the Welsh Ministers’ prioritisation of executive government spending.

We are pleased, however, that the Committee intends to provide some explanation of the distinct funding processes for DFBs on its web pages. Likewise, it is reassuring that the Committee recognises the difficulties caused by the delay in the publication of the Welsh Government’s draft budget and the limited information provided to inform budgetary planning. And it is encouraging that the Committee is keen to explore during this year’s budget round whether the timescales for budgets and estimates set out in Standing Orders and legislation are fit for purpose.

We are also grateful that the Committee has written to the Welsh Government to ask that the Minister actively provides detail of any intention to present a supplementary budget motion. Noting that you felt it disproportionate to propose amending Standing Orders to require the Welsh Government to provide such notification, we should

perhaps clarify what we are suggesting and why. Specifically, our suggestion was intended to strengthen the effectiveness of the Auditor General's controller function (approvals to draw) and to streamline the effort that is needed to ensure the procedure is watertight. We were not suggesting that Ministers be required to inform DFBs generally. We would suggest that our proposal for such notification may still usefully be incorporated into any more general review of procedures taking place before the end of the Senedd as it would undoubtedly strengthen the overall system of financial control.

You mention in relation to the procedures for supplementary budgets that recent experiences since your consultation letter in May 2023 have called into question the sustainability and suitability of those procedures and whether they reflect the constitutional status of the DFBs. We share your concerns.

Before delving into particulars, we think it is helpful to consider the supplementary budget arrangements in their wider context. As you know, section 126 of the Government of Wales Act 2006 provides for the supplementary budget process. That section must, however, of course be read and interpreted in the wider context of Part 5 of the Act (Finance), as well the Senedd's Standing Orders.

In very brief summary, Part 5 of the Act establishes the Welsh Consolidated Fund as a neutral account for Wales' finances. Reflecting the Westminster parliamentary model, the Fund is operated by the Welsh Ministers but not owned or controlled by them. The Fund provides funding not just for the Welsh Government but also the DFBs, which are the "relevant persons" defined in section 124 of the Act other than the Welsh Government. The Fund is held by the Paymaster General (in practice the UK Government Banking Service), and money may only be paid from the Fund if the Auditor General provides an approval to draw, which in itself may only be given if the sum is charged on the Fund by legislation or authorised or deemed authorised by a Senedd budget resolution. These are essential overall controls to ensure that government only spends money with parliamentary approval.

Budget motions to obtain such approval, whether annual or supplementary, may only be moved by Ministers (sections 125(2) and 126(5)). This reflects the constitutional convention that government asks for money and parliament (the Senedd) grants it. It is also worth noting as a matter of practicality that on average Welsh Government expenditure makes up about 99.7% of issues from the Fund.

Confining the movement of budget motions does, however, leave DFBs at the mercy of Welsh Government co-operation if a DFB needs to make a change to its budget because of unforeseen developments. As DFBs may not hold reserves and are generally highly constrained in terms of financial flexibility, this is a serious problem. It is particularly problematic in the case of the Wales Audit Office, which is subject to very exacting and inflexible rules in relation to fees, as has been explained before.

Changing the legislation so as to expand the range of persons enabled to move budget motions would be a deviation from the Westminster model and given the comparatively very small sums required by DFBs might be regarded as a disproportionate measure. It also seems likely to cause confusion. However, the model clearly requires the Welsh Ministers to act appropriately where a DFB has a need to seek a supplementary change to its budget.

We would support an amendment to Standing Orders to require the Welsh Government always to incorporate and move a supplementary budget motion from a DFB. More particularly the commitment would be to incorporate into a supplementary budget motion any proposal from a DFB that has been laid and reported on by the relevant committee. If amendment to Standing Orders is not feasible, a less formal solution might be for the Committee to write to the Minister seeking a written undertaking to the same effect.

Another option might be to set out somewhat firmer expectations by way of general timetable. Experience shows that the Welsh Government, if not DFBs, usually need two supplementary budget motions each year: one around June and one around February. We think it would be helpful for all concerned, including the Senedd, to seek to set this pattern as the minimum normal timetable. In other words, for Standing Orders to require all relevant persons to lay (or present to the relevant committee) by specified dates each year an explanatory memorandum in respect of the subsequent supplementary budget motions to be moved by Ministers. Where a relevant person does not require any change in resources, the explanatory memorandum can simply note that. This would be a regularisation and extension of the Committee's existing practice and reduce the risk or perception that the Welsh Government can interfere with the Senedd's consideration of supplementary budgets in respect of DFBs. It would also help the Senedd to have a greater degree of certainty as to the timing of supplementary budget motions.

We hope that is helpful. We should be happy to discuss.

Yours sincerely



KATE CHAMBERLAIN
Chair, Wales Audit Office



ADRIAN CROMPTON
Auditor General for Wales



National Audit Office

Comptroller and Auditor General
Gareth Davies

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Agenda Item 4

The UK's independent public spending
watchdog

Telephone [REDACTED]

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Date 19 January 2024

Dear Peredur,

ADMINISTRATION OF WELSH INCOME TAX 2022-23

I am pleased to be able to share with you my report on the [Administration of Welsh rates of income tax 2022-23](#), which has been published today.

I should be very happy to discuss the findings of my report with you and other members of the Committee, if you would find this useful.

Yours sincerely,

GARETH DAVIES

