

## Agenda – Finance Committee

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Meeting Venue:	For further information contact:
Committee Room 2 – The Senedd	Bethan Davies
Meeting date: 13 June 2018	Committee Clerk
Meeting time: 09.00	0300 200 6372
	<a href="mailto:SeneddFinance@assembly.wales">SeneddFinance@assembly.wales</a>

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- 1 Introductions, apologies, substitutions and declarations of interest**  
(09.00)
- 2 Paper(s) to note**  
(09.00) (Pages 1 – 2)
  - 2.1 PTN1 – Letter from Secretary of State to Chair – Inquiry into the preparations for replacing EU funding for Wales – 21 May 2018**  
(Page 3)
  - 2.2 PTN2 – Letter from Cabinet Secretary for Finance and Local Government to the Chair – Celebrating 10 years of Fiscal Devolution – 24 May 2018**  
(Page 4)
  - 2.3 PTN3 – Letter from the Chair to the Cabinet Secretary for Finance – Celebrating 10 years of Fiscal Devolution – 25 May 2018**  
(Pages 5 – 6)
  - 2.4 PTN4 – Letter from the Cabinet Secretary for Finance – Public Health (Minimum Price for Alcohol) (Wales) Bill: Fiscal Framework – 4 June 2018**  
(Pages 7 – 8)
  - 2.5 PTN5 – Letter from the Cabinet Secretary for Finance – Implications for the 2019–2020 and 2020–2021 Budgets – 7 June 2018**  
(Pages 9 – 10)
- 3 Childcare Funding (Wales) Bill: Evidence session**  
(09.00–09.50) (Pages 11 – 21)  
Huw Irranca–Davies AM, Minister for Children, Older People and Social Care



Owain Lloyd, Deputy Director, Childcare, Play and Early Years Division, Welsh Government

Faye Gracey, Head of Policy Analysis, Welsh Government

[Childcare Funding \(Wales\) Bill](#)

[Explanatory Memorandum](#)

**4 Motion under Standing Order 17.42 to resolve to exclude the public from items 5, 9 and 10**

(09.50)

**5 Childcare Funding (Wales) Bill: Consideration of evidence**

(09.50–10.00)

**6 Inquiry into preparations for replacing EU funding for Wales: Evidence session 1 (Wales Programme Monitoring Committee)**

(10.00–10.40)

(Pages 22 – 46)

Julie Morgan AM, Chair of the Wales Programme Monitoring Committee

Dr Grahame Guilford, EU Funding Ambassador

Sioned Evans, Chief Executive, Welsh European Funding Office

Paper 1 – Written evidence: Wales Programme Monitoring Committee

Paper 2 – Written evidence: Dr Grahame Guilford

**7 Inquiry into preparations for replacing EU funding for Wales: Evidence session 2 (Welsh Local Government Association)**

(10.40–11.20)

(Pages 47 – 54)

Councillor Rob Stewart, Leader, Swansea Council and Welsh Local

Government Association Deputy Leader and spokesperson on Economic Development, Europe and Energy

Tim Peppin, Director of Regeneration and Sustainable Development, Welsh Local Government Association

Paper 3 – Written evidence: Welsh Local Government Association

**8 Inquiry into preparations for replacing EU funding for Wales:**

**Evidence session 3 (Hywel Ceri Jones)**

(11.20–12.00)

Dr Hywel Ceri Jones, Former European Funding Ambassador

**9 Inquiry into preparations for replacing EU funding for Wales:**

**Consideration of evidence**

(12.00–12.20)

(Pages 55 – 66)

Paper 4 – Summary of consultation responses

[Consultation pack](#)

**10 Inquiry on the Remuneration Board’s Determination Underspend:**

**Consideration of the Assembly Commission's response**

(12.20–12.30)

(Pages 67 – 81)

Paper 5 – Assembly Commission’s response – 8 June 2018

Paper 6 – Letter from the Remuneration Board – Review of staffing support for Members: Flexibility of the allowances – 6 June 2018

## Concise Minutes – Finance Committee

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Meeting Venue:

Committee Room 4 – Tŷ Hywel

Meeting date: Wednesday, 23 May 2018

Meeting time: 09.03 – 10.26

This meeting can be viewed  
on [Senedd TV](#) at:

<http://senedd.tv/en/4838>

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### Attendance

Category	Names
Assembly Members:	Simon Thomas AM (Chair) Mike Hedges AM Jane Hutt AM Nick Ramsay AM David Rees AM
Witnesses:	Huw Irranca-Davies AM, Minister for Children, Older People and Social Care Albert Heaney, Welsh Government Judith Cole, Welsh Government
Committee Staff:	Bethan Davies (Clerk) Georgina Owen (Deputy Clerk) Joanne McCarthy (Researcher)

### 1 Introductions, apologies, substitutions and declarations of interest

1.1 The Chair welcomed Members to the meeting.

1.2 Apologies were received from Steffan Lewis AM and Neil Hamilton AM.



## **2 Paper(s) to note**

2.1 The papers were noted.

2.1 PTN1 – Letter from the Chair of the Children, Young People and Education Committee – Budget transparency – 15 May 2018

2.2 PTN2 – Letter from the Chair of the Equality, Local Government and Communities Committee – Public Services Ombudsman (Wales) Bill – 15 May 2018

## **3 The Cost of Caring for an Ageing Population: Evidence session 7 (Minister for Children, Older People and Social Care)**

3.1 The Committee took evidence from Huw Irranca-Davies AM, Minister for Children, Older People and Social Care; Albert Heaney, Director of Social Services and Integration; and Judith Cole, Deputy Director, Local Government Finance Policy, Workforce and Social Partnerships Division on its inquiry into the cost of caring for an ageing population.

## **4 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting**

4.1 The motion was agreed.

## **5 The Cost of Caring for an Ageing Population: Consideration of evidence**

5.1 The Committee considered the evidence received.

## **6 Senedd@delyn**

6.1 The Committee noted the correspondence.



**Rt Hon Alun Cairns MP**  
Secretary of State for Wales  
Ysgrifennydd Gwladol Cymru

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Chair, Finance Committee  
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**203SUB18**

20<sup>Feb</sup> May 2018

## **INQUIRY INTO PREPARATIONS FOR REPLACING EU FUNDING FOR WALES-CONSULTATION**

Thank you for your letter inviting me to attend your committee's inquiry into preparations for replacing EU funding for Wales after the UK leaves the EU.

I fully recognise the importance of EU funds to Wales. The guarantees set out by the UK Government show the importance that we place on these funds, as does the position we have since reached with the EU on participating in the 2014-2020 EU programmes until closure.

I believe the UK's exit from the EU provides us with an opportunity to reconsider how funding for growth across the UK is designed and delivered, with our commitment to creating a UK Shared Prosperity Fund. Whilst I do not think it necessary for me to attend your inquiry in person, I would like to reassure you that this is a priority for the Government and we will engage with you at earliest opportunity.

**Rt Hon Alun Cairns MP**  
Secretary of State for Wales  
Ysgrifennydd Gwladol Cymru

## Agenda Item 2.2

Mark Drakeford AM/AC  
Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance



Llywodraeth Cymru  
Welsh Government

Simon Thomas  
Chair, Finance Committee  
National Assembly for Wales  
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23 May 2018

*Annwyl Simon,*

In July, it will be ten years since First Minister Rhodri Morgan and Deputy First Minister Ieuan Wyn Jones announced the launch of the *Independent Commission on Funding and Finance for Wales* – soon to become known as the 'Holtham Commission' – kick-starting Wales' journey to fiscal devolution.

Since then, a great many people have helped the successive Welsh Governments and National Assemblies to reach our current position: the first Welsh taxes for hundreds of years; a permanent positive adjustment to the Barnett formula; capital and revenue borrowing provisions; and preparations in train for the introduction of Welsh rates of income tax.

These are momentous changes, and to mark the decade I am intending to invite some of the significant contributors to an early evening gathering on 16 July. It will be an opportunity to thank them for their help, acknowledge what has been achieved, and look ahead to some of the next challenges on the horizon.

The Finance Committee has played an important part in this process, and I will be inviting members past and present. However I also wondered whether, as chair of the committee, you would be prepared jointly to host the event with me?

Our offices can discuss the details but I hope you, and the other members of the committee, will be able to attend.

*In gywir,*  
*Mark*

**Mark Drakeford AM/AC**  
Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance

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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.

**Pack Page 4**

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.

Cynulliad Cenedlaethol Cymru  
Y Pwyllgor Cyllid

National Assembly for Wales  
Finance Committee

25 May 2018

Dear Mark,

Thank you for your letter of 23 May 2018, in which you invited me to co-host a celebration of 10 years of fiscal devolution in Wales on 16 July 2018. I would be delighted to co-host the event with you, and will ensure the invitation to attend the celebration is extended to members of the Finance Committee.

The Finance Committee officials will be happy to work with your office on any practical arrangements.

Kind regards,



Simon Thomas AM

*Croesewir gohebiaeth yn Gymraeg neu Saesneg*

*We welcome correspondence in Welsh or English*



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Mark Drakeford AM/AC  
Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance

Llywodraeth Cymru  
Welsh Government

Eich cyf/Your ref:

Ein cyf/Our ref: MA-L/MD/0283/18

Simon Thomas AM  
Chair  
Finance Committee  
National Assembly

[SeneddFinance@assembly.wales](mailto:SeneddFinance@assembly.wales)

4 June 2018

Dear Simon

Thank you for letter dated 17 April regarding the Public Health (Minimum Price for Alcohol) (Wales) Bill.

In your letter, you note the potential financial implications of introducing a minimum unit price (MUP) for alcohol and asked for confirmation that the spill-over effects of the policy and any consequential reduction in alcohol duty will not impact on the provision of funding for Wales.

Applying the principles of the fiscal framework, in the context of the Public Health (Minimum Price for Alcohol) (Wales) Bill, it is important to recognise the conditions under which any spill-over effects would be considered. The fiscal framework states: "The UK and Welsh governments have also agreed behavioural effects can be accounted for in exceptional circumstances, where the effects are material and demonstrable, and both governments agree it is appropriate to do so."

The estimated impact of an MUP in Wales on UK alcohol duty is not expected to be material for these purposes. As noted by the Cabinet Secretary for Health and Social Services in his response to recommendation three from the Finance Committee: "The most recent analysis by the University of Sheffield's Alcohol Research Group on the impacts of MUP in Wales notes that all MUP policies are estimated to reduce the total tax take from alcohol duties, with these losses increasing more quickly at MUP levels above an MUP of 55p. As an example, the annual revenue to the exchequer from alcohol duties and VAT in Wales is

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estimated to fall by 0.4% or £1.9m, if the MUP is specified at 50p. For a 55p MUP, the annual revenue to the exchequer is estimated to fall by £2.1m and for a 60p MUP, it would be a fall of £3m.”

As the Bill’s Regulatory Impact Assessment highlighted, there are a number of other impacts of introducing an MUP, which could generate financial savings for the UK Government. It is important to recognise the treatment of behavioural impacts is a symmetrical one where costs and benefits would need to be considered.

In addition, for there to be a consideration of spill-over impacts, there would need to be demonstrable evidence on the impacts which will only be available post implementation.

As outlined in the response from the Cabinet Secretary for Health and Social Services to the Finance Committee’s report, Welsh Treasury officials have discussed the Bill with officials in HM Treasury regarding the possibility of any financial impacts associated with the introduction of a minimum price for alcohol in Wales in the context of the Statement of Funding Policy and the fiscal framework. At this stage there is agreement that the conditions for spill-over impacts are not met.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark', with a stylized, cursive script.

**Mark Drakeford AM/AC**

Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance

Mark Drakeford AM/AC  
Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance

Agenda Item 2.5



Llywodraeth Cymru  
Welsh Government

Eich cyf/Your ref  
Ein cyf/Our ref

Simon Thomas AM  
Chair of Finance Committee  
National Assembly for Wales  
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[SeneddFinance@assembly.wales](mailto:SeneddFinance@assembly.wales)

7 June 2018

Dear Simon

In publishing the 2018-19 Budget last autumn we signalled the constraints and impact continued austerity and fiscal uncertainty has on our ability to provide longer-term financial certainty for our public services. Despite this we published revenue plans for two years (2018-19 and 2019-20), the period for which we have a firm revenue settlement. As we enter the detailed planning stage for the 2019-20 Budget, a key consideration is the period for which we publish revenue plans.

We currently have a revenue funding settlement for 2019-20 and a capital settlement to 2020-21. The UK Government announced in this year's Spring Statement the intention for a Spending Review in 2019, which will set out the spending envelope for 2020-21 and beyond. There has been no confirmation by the UK Government of the length or the timing of the Spending Review at this stage. It is, as you know, always our ambition to publish plans for longer than 12 months but this needs to be balanced with our ability to provide realistic and sensible planning assumptions. With the continued fiscal uncertainty, together with the further uncertainty associated with leaving the EU, we have taken the decision to publish revenue plans for 2019-20 only, in the autumn, with capital plans for the next two years, 2019-20 and 2020-21.

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We will include an analysis of longer-term fiscal projections to inform scenarios for the path of future resource and capital spending in Wales in the Chief Economist's report, which will be published alongside the draft Budget in 2018.

### UK Government Spending Review

The UK Government's 2019 Spending Review is also likely to have implications for the timing of the 2020-21 Budget. In a normal year, and when we have certainty on future funding settlements, we would look to publish the final Budget by the end of the autumn term, providing early certainty for our partners on future spending plans. Next year, we will not know our settlement for 2020-21 and beyond until the UK Government's Spending Review is completed and published.

In years where the UK Government has not announced the results of its Spending Review until late in the autumn, such as in 2010 and 2015, we have considered it appropriate to delay publication of our own plans. I would hope to follow an indicative timetable for the 2020-21 Budget similar to the one we followed in previous years, and publish the draft Budget within 4 weeks of the UK Government's announcement.

The probable effect on the Budget timetable is that the Welsh Government would be likely to propose a scrutiny timetable of less than 8 weeks as anticipated within the budget protocol we agreed last year. I would, of course, keep the Finance Committee informed as the timetable develops.

It will not be possible to make definitive plans until we have an indication of the timing of the UK Government Spending Review conclusions but I wanted to provide an early indication now that we are likely to need to work together, next year, to agree a revised approach to the budget process, given the exceptional circumstances.

Best wishes,



**Mark Drakeford AM/AC**

Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance

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# Agenda Item 6

Welsh Local Finance Committee

FIN(5)-14-18 P1

## **Finance Committee inquiry into preparations for replacing EU funding for Wales.**

### **Purpose**

1. This paper is provided in response to an invitation from the Chair of the Finance Committee to present evidence for the Committee's inquiry into preparations for replacing EU funding for Wales, and the involvement to date of the Wales Programme Monitoring Committee 2014–2020 which I chair.

### **Background**

2. The Wales Programme Monitoring Committee 2014-2020 (PMC) monitors the effective delivery of the programmes for the European Regional Development Fund (ERDF), European Social Fund (ESF) and European Agricultural Fund for Rural Development (EAFRD) programmes, and considers how these funds can work best together to achieve maximum impact in Wales. A single PMC was established in Wales to cover all three ESI funds managed by the Welsh Government (ERDF, ESF, EAFRD) and provide strategic direction and oversight of the investments being made across Wales.
3. The Committee consists of a panel of six expert members appointed via the public appointments process and 22 members nominated on a representative basis (meeting regulatory requirements) from partners and statutory bodies including local government, higher and further education, the public, private and voluntary sectors, trade union, social partners and those with statutory responsibilities for the cross-cutting themes of environment and equality. A list of members is attached at Annex A. This formation helps ensure that there is a balance of members who, together, have a range of abilities, experiences and qualifications relating to the functions of the PMC. With cross sector representation on the PMC it also ensures messages about the delivery of the programmes can be communicated across all sectors.

The European Commission (DG REGIO DG EMPL and DG AGRI), are invited to participate in the Committee in an advisory capacity. Welsh Government senior officials from WEFO and Rural Development Division attend meetings of the PMC to update members on the preparation, implementation, monitoring and evaluation of the programmes.

4. All papers presented at PMC meetings are available via the Welsh Government's EU funding pages at <https://gov.wales/funding/eu-funds/2014-2020/programme-monitoring-committee/?lang=en>

### **The role of the PMC in the future of replacing EU Funding in Wales**

5. In line with regulatory requirements, the Terms of Reference of the PMC state that the PMC should satisfy itself with implementation of the programmes and their progress towards achieving the objectives agreed with the EC. Members

are therefore rightly focused on steering the 2014-2020 programmes to a successful conclusion.

6. The Terms of Reference do not allow the PMC to act as a forum to enter into political debate over the replacement of EU funding in Wales. However, the PMC has been provided with updates on progress in respect of future regional policy.
7. Papers to the PMC on the future of Regional Policy to date have therefore been limited to updates on the emerging debate. The PMC has been provided with such updates at each of its meetings since June 2017. These have addressed:
  - The current status of Brexit related policy papers and the Welsh Government's position on key negotiating priorities;
  - Progress with key developments and the work programme around developing a future approach.
  - Members have also been encouraged to respond to the engagement exercise on the Welsh Government's Future of Regional Policy Brexit paper, and to attend the formal stakeholder engagement events to help inform the debate.
8. The Cabinet Secretary for Finance has also attended the PMC in February 2017 to set out the Welsh Government's key areas for negotiation as set out in the policy paper Securing Wales Future [https://beta.gov.wales/sites/default/files/2017-01/30683%20Securing%20Wales%C2%B9%20Future\\_ENGLISH\\_WEB.pdf](https://beta.gov.wales/sites/default/files/2017-01/30683%20Securing%20Wales%C2%B9%20Future_ENGLISH_WEB.pdf)

#### **Other relevant PMC discussions**

9. The primary focus of the PMC's work remains ensuring the successful implementation of the 2014-2020 programmes in a challenging and rapidly changing socio-economic climate. There are, however, some important linkages between the current programmes and any successor arrangements.
10. Whilst the UK Treasury has provided a guarantee that underwrites EU funded investments agreed before the UK exits the EU in March 2019, PMC Members remain concerned about the impact that any delay in agreeing successor Regional Policy funding arrangements may have upon their ability to retain their existing operational capacity. Without clarity and certainty around forward funding arrangements there is a risk that the considerable expertise, developed over successive programme periods, within many of the organisations responsible for delivering these major investment programmes will be eroded or lost, with a consequent negative impact on the individuals, businesses and communities that currently receive their support.
11. For example, lessons learned and best practice through the current programmes should be taken into account and influence the shape and



design of future programmes. Consequently, much of the work already being undertaken by the PMC will have a bearing on any future approach.

12. The PMC is presented with a six-monthly update informing them of progress of the various research and evaluation studies undertaken by WEFO, which provides it with the opportunity to feed into programme evaluation plans. These evaluations and discussions will have an important bearing on the future shape of programmes as lessons are learned and the respective impact and effectiveness of different interventions are measured.
13. There are also three Cross Cutting Themes (CCTs) Annual Reports presented to the PMC, each detailing the progress being made on integrating Equal Opportunities and Gender Mainstreaming, Sustainable Development and Tackling Poverty and Social Exclusion into programme and project delivery. The reports highlight progress on the formal CCT indicators agreed with the European Commission, alongside evidence of how projects are delivering the CCT objectives laid out in the Operational Programme. The PMC in June 2015 agreed a set of additional CCT Case (Project) Level indicators as a mechanism to show the good practice which is being delivered through EU funded projects. Evidence of progress regarding these indicators is also provided to the PMC three times a year.
14. In addition to this the PMC has placed a strong emphasis on ensuring investments made for 2014-2020 will be sustainable, and has asked the Welsh Government to ensure longer-term and wider impacts of investments are measured and reported.

### **Next Steps**

15. Although there remains a great deal of uncertainty on replacement funding for Wales given the UK Government is yet to confirm details, the PMC will continue to consider its role in contributing to the future of Regional policy debate within the remit of its functions and responsibilities for the 2014-2020 programmes.
16. The principles of ensuring sustainability of investments and learning lessons from programme implementation are at the heart of the work of the PMC and are regular points of discussion across the entire scope of our work programme to date. These remain vital for the successful delivery of the 2014-2020 programmes, and we hope will also help inform the basis for any future approach.

**Julie Morgan, AM**  
**Chair of Wales Programme Monitoring Committee 2014-2020**  
**May 2018**

**WALES PROGRAMME MONITORING COMMITTEE 2014–2020 MEMBERSHIP****Chair:**

Julie Morgan, Assembly Member

**22 Members nominated, on a representative basis from partners and statutory bodies:**

Councillor Rob Stewart	Local Government
Councillor Dyfrig Siencyn	
Peter Crews	Business and Enterprise
Julie Cook	
Tom Whyatt	
Paul Byard	
Rudi Plaut	
Derek Walker	Third sector
Phil Fiander	
Iestyn Davies	Education
Dr David Blaney	
Professor David Shepherd	
Arfon Williams	Environment
Rhian Jardine	
Charlotte Priddy/Rachel Lewis-Davies	Farming and Rural Business
Duncan Hamer	Welsh Government
Rachel Garside-Jones	
Lowri Owain	LEADER Action Groups

**6 Members selected via the Public appointments process:**

- David Davies
- Professor Richard Davies
- Dr Grahame Guilford
- Joy Kent
- Sian Price
- Beth Winkley

## **Preparations for Replacing EU Funding for Wales**

### **Inquiry by the Finance Committee of the National Assembly**

#### **Evidence Paper – Dr Grahame Guilford**

##### **Disclaimer**

The author is currently a member of the Programme Monitoring Committee for the 2014-2020 Structural Funds programme and has been involved in a range of other economic development work for Welsh Government and other Welsh public bodies. While those activities have, of course, informed the content of this paper, the views and opinions expressed are those of the author alone

##### **Summary**

1. At the end of the current Structural Funds (SF) period, Wales will have been in receipt of SF for more than 20 years. The reaction to the fact that SF may cease as a result of Brexit has therefore been predictable. The potential implications are complex, however, and so it is very important that Wales plans ahead for life after the “SF years”. I therefore welcome the Finance Committee’s inquiry and the opportunity to provide evidence to it
2. I think that there are people in Wales who will automatically assume that the non-availability of SF will have negative impacts, both economically and socially. I believe that this is a mistaken view and that it actually provides opportunities for Wales to develop a more bespoke and integrated approach to economic and social development which can still achieve significant impact even if levels of replacement funding are lower in absolute terms
3. This is because SF, for all the undoubted benefits they have brought to Wales, have inherent constraints in terms of where and how they can be applied. It has also proved more difficult than was probably expected originally to link the separate objectives and targets of the ERDF and ESF funding programmes to the Welsh Government’s strategic economic and social development plans in a way that would serve to maximise the synergistic potential of SF
4. 20 years of experience of a particular funding regime provides significant learning opportunities. What has worked well in Wales and what has not? How has the specific political climate in Wales affected our utilisation of SF? What does this mean for the way we should design our own approach to economic and social development now that we may have fewer constraints than before?
5. This paper will propose that the answers to those questions should be underpinned by four key principles:
  - Strategy – economic and social – top down, long term
  - Communication – integrated, inter departmental communication within Welsh Government and its partners to ensure decision making is consistent and informed by strategy

- Demand driven – establishing economic priorities that then lead to appropriate support for business, skills and social development
- Synergy – all the public sector economic levers pulling in the same direction

## Background

6. In addition to my membership of the PMC, I have been involved in two reviews commissioned by Welsh Government (references 1,2) examining different aspects of the utilisation of European programmes and funding in Wales and how the impact of these could be maximised. The first review looked at lessons learned from the 2007-13 SF programme and how they could be usefully applied to increase the impact of the 2014-20 programme; the second looked more broadly at how Wales could derive greater benefit from its relationship with Europe by learning from best practice elsewhere and by more effectively integrating the use of SF with other EU programmes such as Horizon 2020, Interreg, Erasmus and so on. I believe that many of the conclusions and recommendations of those reviews may be relevant to the Committee's current enquiry
7. As part of my wider work with Welsh Government on economic development (reference 3), I had the opportunity to spend a large amount of time in Europe, particularly in Brussels, between 2013 and 2017 and was able to talk to a wide range of Commission officials and representatives from other EU members on their own experiences of SF. Those discussions were reported in detail in the second review referred to above and I have drawn on them in this paper

## Constraints and Lessons

8. The application of SF in Wales has clearly resulted in a number of benefits most obviously perhaps in infrastructure and HE expansion. However, that application has had to deal with a number of constraints which have arguably limited its impact. Some of these are inherent in the regulations underpinning SF, some have been exacerbated by the implementation policies we have used in Wales. These constraints and the reasons for them are discussed in greater detail in the reviews referred to above but, in summary, I believe there are six main areas in which they have manifested themselves
  - **Overestimation of impact** – The amounts of money available through SF since the initial Objective 1 programme have seemed very large which has perhaps led to over-optimistic views of what they could achieve in isolation. In fact SF has always represented relatively small single figure percentages of Wales' overall GDP and, as such, was only likely to achieve significant impact if used synergistically with other funding and initiatives
  - **Link to overarching economic development strategy** – To use the funds synergistically requires that their application is driven by an overarching understanding of key economic and social priorities and this has proved difficult to establish and maintain in Wales

- **Eligibility criteria** – As pan-European funding programmes, the ERDF and ESF required the establishment of specific criteria to determine the eligibility of individual projects for support. These funds are provided through different directorates in the Commission which means that using them synergistically, even where there is local agreement on priorities is not always straightforward
- **Geography** – In order to meet the overall eligibility criterion for SF support (GDP less than 75% of the EU average), Wales was divided into two regions which resulted in the more economically active areas, critical to the regeneration of the less economically active areas, being ineligible for the highest levels of investment
- **Scale** – The vast majority of SF investments in Wales have been at the sub 50m euro level and, in isolation, this scale of investment will often struggle to create critical mass. I heard from senior Commission officials in Brussels that they have observed this problem in the application of ERDF in particular across Europe
- **Risk Management** – The use of public funds to invest in economic regeneration and development is a risk based investment no different in principle to a private sector investment. The public sector has, however, felt an obligation to seek mechanisms to mitigate this risk. These mechanisms typically result in longer decision making cycles which can themselves then lead to additional risk.

### **Opportunities and Benefits**

9. As with much of the fallout from Brexit, the area of future funding for economic and social development in Wales is one where there are more questions than answers. While it is absolutely right for Welsh Government to consider the post-Brexit options, the number of different scenarios and their implications, make this a difficult task
10. My own view, therefore, is that Welsh Government should focus on the principles that will underpin a future funding structure and how that structure might be effectively integrated with its existing policy objectives rather than on the minutiae of alternative scenarios
11. I also believe that while maintenance of an external political position of “pound for pound” replacement may be understandable, internal planning should be based on an assumption that absolute values of available support funding are likely to be lower in the future than they are now
12. The important thing, therefore, is for Wales to ensure that it has more freedom to determine the administrative mechanisms it uses to manage the funding and that these are not pre-determined by the provider
13. The Welsh Government’s Economy Department has recently published its economic action plan “Prosperity for All”. This document provides a potential template for an administrative structure that could adapt to a variety of funding scenarios

14. It would be a mistake, however, to assume that responsibility lies solely with a small number of individual departments within Welsh Government. Our existing links with Europe, many of which may continue post-Brexit, involve the economy, education, environment, social care, healthcare, culture, business and all the financial mechanisms that underpin those areas. All of these areas have their own impacts on ensuring “Prosperity for All” and it is essential, therefore, that Welsh Government takes a joined-up approach to future delivery with senior level inter-departmental contacts as a fundamental basis
15. These inter-departmental contacts can only be effective if they are informed by a consistent, top-down, view of Wales’ economic, educational and social priorities. Prioritisation in the real world means making hard choices, particularly where resources are constrained, and this can only be delivered from the senior levels of Government
16. Effective inter-departmental contacts, in the context of clear priorities, make synergies much easier to deliver. Synergies, in turn, can deliver the critical mass necessary for transformational change
17. Critical mass typically requires levels of investment well beyond what Government alone can provide. The role of Government and the public sector as a whole should therefore be an enabling role, creating the environment that facilitates private sector investment. Swansea University’s Bay campus or the Financial Services developments in Cardiff are obvious examples in which investments in the hundreds, rather than tens, of millions have been mobilised in areas where the geography is ideally suited to support additional leveraged investment. The City Deals in Cardiff and Swansea have the potential to be similarly successful if strategic thinking and the attraction of private investment are prioritised
18. This type of critical mass can then stimulate broader economic and social development through demand led educational, technical and vocational skills creation
19. Weaning ourselves off SF will not be straightforward in Wales but I believe it is not only achievable but can result in a more positive approach to economic and social development if we are prepared to take the long term strategic view

## References

1. Investing in Growth and Jobs: An Independent Review of Arrangements for Implementation of European Structural Funds Programmes 2014-2020, Dr Grahame Guilford, March 2013
2. Europe Matters to Wales: EU Policy and Funding Opportunities for Wales 2014-2020, Dr Grahame Guilford, Dr Hywel Ceri Jones and Gaynor Richards
3. Dr Grahame Guilford worked in business for 30 years in life science and healthcare sector in Wales. During that time, he worked closely with the WDA and subsequently Welsh Government in economic development. He chaired Welsh Government’s advisory panel in the Life Science sector and was a Board member of the Life Science Hub for the first four years of its existence. He has worked closely with the HE sector in Wales, notably with Cardiff and Swansea Universities, in developing their regional

and national economic impacts. He chaired one of the Thematic Advisory groups during the Objective 1 period and has been a member of the PMC for the 2007-13 and 2014-20 programmes

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

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# National Assembly for Wales' Finance Committee Inquiry into preparations for replacing EU funding in Wales

May 2018



CLILC • WLGA

## **INTRODUCTION**

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales, and the three national park authorities, the three fire and rescue authorities, and four police authorities are associate members.
2. It seeks to provide representation to local authorities within an emerging policy framework that satisfies the key priorities of our members and delivers a broad range of services that add value to Welsh Local Government and the communities they serve.
3. We welcome the opportunity to respond to the National Assembly for Wales' Finance Committee Inquiry into Preparations for replacing EU funding in Wales.
4. The Welsh Local Government Association is proactively engaging and communicating regularly with its members on Brexit-related issues, including replacement EU funding and implications for regional & rural policy. Our response takes into account the collective views of local government across Wales, as individual Local Authorities in some cases, and as part of wider Regional Partnerships in others.
5. We look forward to continuing our engagement as the developments on this key policy area continues to evolve.

## **Key Messages**

6. Local Government has been a key partner in delivering EU Funding in Wales over several programming periods. Local Government plays a key role both in the delivery of EU funded activity within localities and regions through the direct delivery of capital and revenue schemes supporting improvements to places and supporting people back into employment. Local Authorities also play a strategic role in the delivery of the programmes locally through the management and co-ordination of the funds at a local level, as Lead Beneficiaries or Lead Bodies – taking responsibility for the local management of risk and expenditure, to reduce the administrative burden to third parties to facilitate access to the programmes by local stakeholders and groups.
7. Local Government also plays a central role in the evolving regionally-focused models of economic development, and supporting the strategic co-ordination of the delivery of EU

funding in the 2014-20 period aligned with regional partnership structures through the Regional Engagement Teams<sup>1</sup>.

8. All delivery is local. It is only through a combination of efforts from partners across Welsh regions, across all sectors and all levels of Government, planned and co-designed in partnership – that successful economic outcomes can be achieved.
9. **A key priority for Wales is to understand the rules of engagement for accessing any replacement funding after Brexit.** The Welsh Local Government Association is in full support of the Welsh Government’s lobbying of the UK Government to fully respect the devolution of economic development policy and funding, and to ensure full replacement funding for Wales. However, there is currently little to no certainty on the shape and possible governance of any future funding. This has implications on the governance and policy frameworks that we have in Wales in our ability to access UK-level funding to compete alongside structures in England and the other devolved nations, in competition.
10. The Welsh Local Government Association recently responded to the Welsh Government’s consultation titled “Regional Investment in Wales After Brexit”. This response builds on some of the key issues outlined in that consultation response, for reference, the WLGA’s response can be found on our website<sup>2</sup>.

## **Financial planning for replacement EU funding streams in Wales**

11. In considering the response to this consultation, it is important to first recognise the breadth of support currently available through EU funds, and what we would constitute as “EU funding” that is currently administered at a Welsh level, that we will lose access to upon our departure from the EU:
  - European Structural Funds (ERDF/ESF)
  - Rural Development Programme (EAFRD) & CAP Pillar 1 support
  - Ireland Wales Cross Border Programme (ETC; jointly with Ireland)
12. Additionally, it is important to consider the wider European funds (e.g. Horizon 2020, Erasmus, other Territorial Co-Operation Programmes – Atlantic Area & North West Europe etc) that are managed on the European level, that we may, or may not retain access to

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<sup>1</sup> <https://gov.wales/funding/eu-funds/2014-2020/applying/?lang=en>

<sup>2</sup> <http://www.wlga.wales/SharedFiles/Download.aspx?pageid=62&mid=665&fileid=1530>

post Brexit. Although the UK Government recently reaffirmed<sup>3</sup> its recognition of the importance of continued access to some of these programmes, the whole question of continued access to these remains tied up with negotiations on the final Brexit deal.

13. There is currently a great deal of uncertainty as to the availability of future replacement EU funding in Wales. Whilst there have been initial announcements at the UK level of the development of a UK Shared Prosperity Fund, and on post-Brexit agricultural support, there has been no further substantive detail on the shape, coverage or availability of funding streams that would constitute “replacement EU funding”.
14. Ostensibly therefore, in terms of those Structural and Rural funds we will lose access to; we could be looking at three potential scenarios for the governance/management of replacement EU funding from funds managed at the UK level, to funds devolved to Wales, or no replacement funding at all. To complicate further, we could have a mix of these governance scenarios across a range of policy areas.
15. We are aware of, and in full support of the Welsh Government’s lobbying of the UK Government to fully respect the devolution settlement in regard to economic development and agriculture and rural development policy and funding, and to ensure full replacement funding to Wales.
16. However, we are unclear as to the extent of planning in Wales in anticipation of a potential non- devolved funding scenario. It should be a key priority for the Welsh Government and its partners to understand the rules of engagement for accessing any replacement funding post Brexit. This needs to fully consider how Welsh stakeholders accesses and interacts with any UK-led policy approaches, and considering how our emerging Regional Economic Development partnerships and approaches are “fit for purpose” to compete alongside Local Enterprise Partnerships and Combined Authorities in England.
17. Additionally, we are currently uncertain of the implications of any Brexit deal (or no deal) for our economy at a Macro (UK level), and the resulting influences on Wales and its regional economies. Whilst discussions on the future of our relationship with the EU develop, there could be a range of different scenarios which could potentially have an influence on the shape and nature of the economy at various levels.

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<sup>3</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/699106/UK\\_position\\_paper\\_on\\_future\\_of\\_cohesion\\_policy\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/699106/UK_position_paper_on_future_of_cohesion_policy_.pdf)

18. It is critical therefore that there is a strong, committed and proactive effort by the Welsh Government in partnership with its Welsh stakeholders to identify, map and plan these potential implications – so that resulting policy responses are cohesive, joined-up and fit for purpose – responsive to the funding landscape post-Brexit.

## **Administrative Approaches for replacement EU funding streams in Wales**

19. In terms of both Structural and Rural funding in Wales, these have been managed at the national level by the Welsh Government for several programming periods, in line with its devolved competencies.
20. This ensured that Wales, and Welsh stakeholders had a voice in the design and delivery of the funding streams that impact on their localities – by default through the European principles of partnership and subsidiarity.
21. Should funding not be devolved to a Welsh level (UK managed), there would be immediate and significant changes to how Welsh stakeholders have traditionally engaged and accessed what was historically “EU funding”.
22. If funding remained at a UK level, it is perhaps less of a question of administration at a Welsh level, but rather a question of strategic co-ordination and support for Welsh stakeholders to be able to access these funds, and that relevant supporting structures (e.g. regional partnerships) are fit for purpose to enable access, and to compete on an “even keel” with other UK areas for funding.
23. Assuming that funding would be devolved to Wales, there would be a number of considerations for the future administration of funding to ensure that the design of the programmes take full account of the evolving governance and policy landscape driving economic development in Wales (principally, the evolving regional models of economic development through City & Growth Deals).
24. The case for continued funding: We are fully supportive of the Welsh Government’s efforts to ensure that Wales does not lose out financially as a result of the decision to leave the European Union.
25. EU Regional Policy exists to improve the economic wellbeing of regions and the policy framework at a European level is positively biased towards higher funding levels to those regions with lower comparative levels of economic performance. In Wales, this has

ensured that we have traditionally qualified for the highest levels of funding support available. Recognising the scale of the challenge in responding to the particular needs and opportunities of those areas lagging behind; to help people in those areas to get to where there are jobs or to develop local options for employment, including infrastructure to improve access to and movement within the areas identified.

26. EU Rural Policy has also ensured that funding has been available to support interventions to address the social, economic and environmental challenges that rural areas face. EAFRD funding has ensured the development of a separate Rural Development Plan for Wales, tailored to the specific needs, challenges and opportunities of rural areas in Wales.
27. Programming approach: Whilst Brexit does provide an opportunity to do things better e.g. the removal of artificial programme boundaries enables the development of interventions that reflect functional economic areas, the removal of thematic concentration and the opportunity to develop or own rules and regulations enables a more streamlined and integrated approach to be developed. There are also many attributes that we would like to see retained, such as the planning certainty that having multi-annual programmes provided, as well as the partnership and subsidiarity principle that was applied in the planning and delivery of the programmes.
28. Partners have traditionally had to bid into separate capital and revenue funding streams, in competition, each programme with its own programme management arrangements, investment criteria and differing administrative requirements. This has inevitably led to investments coming forward in silos, lacking the integration and strategic fit necessary to have a meaningful impact on the region's economy.
29. We wish to see Wales take full advantage of this through the development of a Single Fund, combining capital and revenue, and much more streamlined and simplified processes for accessing and delivering funding.
30. Regionally-focussed model of economic development – taking a whole economy approach: Wales is a region of contrasting opportunities and needs. This contrast between our localities goes far beyond traditional categorisations of "rural" and "urban" or compartmentalising the economy into traditional economic sectors.
31. Continued austerity affecting our public sector institutions and the potential implications of Brexit will impact our localities in different ways. This will require tailored responses

to the differing challenges and opportunities that are sensitive to the market failure of those specific localities - and here lies the strength of the regional approach. Identifying the specific needs and opportunities of each region's localities, delivered locally as part of a broader collaborative regional strategy within an overall national policy framework. As an example, the business case to bring forward a sites & premises development in Wrexham will differ from sites in say Gwynedd or Anglesey. However, all investments align to national policy objectives (enabling provision of modern sites & premises to allow business to grow as well as attract investment opportunities); are regionally identified and prioritised in collaboration as a key driver in stimulating business growth by responding to demand; but are delivered locally – sensitive to the economic and social characteristics of the locality to deliver fit for purpose and sustainable investments.

32. Strengthened regional co-ordination does not translate into an elevated delivery model, nor does it mean an additional layer of governance - but rather a blend of devolution and new approaches to delivering regional priorities and opportunities within an overarching national policy framework through local delivery.
33. Local partnerships and stakeholders have a crucial role in identifying the differences in both need and opportunity, sensitive to the complexities of place and localities across the region. There are a multitude of delivery structures and partnerships that have been developed to support the delivery of European Structural and Rural programmes – specifically responding to the particular needs of specific geographies or population groups (e.g. LEADER groups through the Rural Development Programme or specific networks/delivery models targeting people further away from the labour market). In this regard, an additional point should be made in regard to the role that the LEADER has played in enabling the trial of innovative concepts/proposals at risk. This has enabled a number of trialling/pilot projects to come forward that have since gone on to mainstream or other funding sources.

## **Conclusion**

34. Investing in future regional policy is essential if Welsh regions are to catch-up and compete at a UK-level let alone at a European or international level post Brexit. Funding levels should match the scale and ambition of regionally-prioritised interventions to ensure that the right amount of investment addresses the appropriate interventions. As such, it is essential that future regional & rural policy maps to the emerging regionally-focussed economic development model, taking a “whole economy approach” to ensure we are investing in the right priorities in the right areas, through the most appropriate

delivery models/partners - complementing and integrating other funding domestic funding streams and major developments to achieve inclusive growth. It is critical that economic planning and investment must be co-designed and mutually agreed by both regional bodies and national government, with the realities of how regional economies actually work in mind; otherwise the potential of Welsh-administered replacement EU funding, or accessing UK-led Local Industrial Strategies will never be fully realised.

**For further information please contact:**

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Simon Thomas  
Chair, Finance Committee  
National Assembly for Wales  
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CF99 1NA

8 June 2018

Dear Simon

Thank you for your committee's Report on **The Assembly Commission's use of the Remuneration Board's Determination underspend**, published on 1 May 2018. The Commission discussed your report and the Remuneration Board's consultation at its 4 June 2018 Board meeting. The Commission's response to the Finance Committee recommendations is detailed in the annex attached.

I would like to thank the Committee for its scrutiny and I look forward to presenting a draft budget, later this year, after reflecting on the Committee's recommendations and the outcome of the Remuneration Board's current consultation to consider whether to implement changes so as to increase flexibility for Members in their use of various elements of the Determination.

We note that the Committee welcomes the steps already taken by the Commission to improve the transparency of the budget. The Commission's approach is always to try to operate with openness, transparency and clarity; if there is any further information your Committee would like to have, in addition to the enclosed annex, please let me know.



Yours sincerely

*Suzy Davies*

Suzy Davies

cc Assembly Commissioners, Manon Antoniazzi, Nia Morgan



## The Assembly Commission's use of the Remuneration Board's Determination underspend

*Recommendation 1. The Committee recommends that the Assembly Commission continues to provide the level of information contained in its most recent budget documentation (2018–19) as a minimum standard for future budgets and estimates.*

Agreed.

We note that the Committee welcomes the steps already taken by the Commission to improve the transparency of the budget. The Commission's approach is always to try to operate with openness, transparency and clarity.

The Commission has considered the Finance Committee's report and the decisions made by the Remuneration Board, following its recent consultation. The draft budget to be laid before the Assembly by 30 September 2018 will include changes, which further enhance the transparency of the Commission's budget hopefully addressing any remaining concerns noted within the Committee's report.

*Recommendation 2. The Committee would like to understand in more detail how the new governance arrangements within the Assembly/Commission differ to the previous arrangements, how these arrangements will strengthen governance and how the Commission intends to measure if the change is successful. The Committee recommends the Commission provide further details on these areas to the Committee*

Agreed.



## How the new governance arrangements differ to the previous

The Assembly Commission now has in place an Executive Board and Leadership Team. These two boards replace the previous model of governance arrangements, which comprised of an Investment and Resourcing Board and Management Board. The new arrangements provide more clarity as to how decisions are made and the roles the different boards play, implementing recommendations from an internal audit report in 2017 after a consultation with senior staff.

Previously, the Management Board was a decision-making and review body and dealt with corporate strategy and planning, organisational management and operational and policy matters relating to all Commission services. The Investment and Resourcing Board had strategic responsibility for ensuring: that the Commission's Investment Fund was used effectively and efficiently; and that resource capacity aligned with the Commission's goals and priorities and provided governance and assurance to significant change projects.

Under the new arrangements, the Executive Board is the sole strategic decision making body for all matters delegated by the Assembly Commission. This includes investment decisions, subject to recommendations from the Leadership team and, where not delegated, Commissioners' decisions. The Board also acts as an advisory body to the Assembly Commission, to ensure that it receives clear advice in setting the Commission's strategy, goals and priorities, together with the annual budget.

The Leadership Team is an advisory body to the Executive Board and an enabler for effective delivery of operational plans, priorities and our governance arrangements.

The Terms of Reference of both Boards can be provided to the Committee upon request.



## How these arrangements will strengthen governance

Under the new arrangements, the Executive Board sets operational priorities based on the Commission's strategy, goals and priorities. The Executive Board monitors the budget, agrees investment and resourcing priorities, oversees corporate risk and has an oversight of change management.

The Leadership Team generates ideas and provides constructive challenge. Its role as a forum for sharing and disseminating information has been strengthened. The Leadership Team conducts scenario-planning exercises, options analyses and supports the Executive Board by undertaking a first-stage prioritisation exercise on all proposed investments. Leadership Team membership has been extended and now includes all Service Heads. The Chief Executive and Directors still attend, but the group is chaired by one of its members. The Chair of the Leadership Team attends Executive Board and minutes of each meeting of the Executive Board are circulated to the Leadership Team.

The new arrangements introduce greater understanding about what is on the horizon, which enables us to plan more effectively and ensure that the appropriate topics get coverage at the right time. A co-ordinated forward work programme has been introduced. The Leadership Team challenges proposals and gives a steer to Executive Board before the Board makes its final decision. A shared secretariat, newly established, will help with this alignment.

The responsibility for setting the overall strategic direction for the organisation will be retained by the Commission, as the governing board. The Commission will continue to approve the budget strategy and will be provided with details of the investments approved by the Executive Board. The Commission will also continue to receive assurance from the Audit and Risk Assurance Committee on matters of risk, control and governance.



## How the Commission intends to measure the success of the change.

Built into the terms of reference for both Boards is the commitment to periodically organise a review of the Board's effectiveness. This will be undertaken by the Head of Governance and Assurance. The Board will reflect on findings and develop an action plan, if necessary.

The clarified arrangements at a senior decision-making level will also be underpinned by governance awareness training throughout the organisation. Improved understanding, ownership and application of our governance arrangements will be an important measure of our success.

We will work together to ensure that good governance remains part of "business as usual", improving our engagement with stakeholders and ensuring that effective decision-making is based upon robust management information. This will enable us to deliver the Commission's priorities within our agreed financial and resourcing targets.

*Recommendation 3. The Committee recommends the Commission reviews its approach to funding capital projects, ensuring that funding is allocated for core projects within its capital budget.*

Agreed.

The Commission, following consideration of the Committee's report and the Remuneration Board's decisions, following its consultation, has reviewed its approach to funding capital projects.

Following the Remuneration Board consultation, the Commission considers that trying to accurately estimate the likely underspend on the Determination budget will prove more challenging. This creates an unacceptable level of risk associated with funding capital and core projects from an investment fund, partly supplemented from the underspend on the Determination during 2019-20.



Bearing in mind both this and the Finance Committee's concerns, the Commission is therefore proposing a change to the way in which core projects within its capital budget are funded. The 2019–20 draft budget document, which will be scrutinised by the Committee in autumn 2018, will reflect this change.

It is proposed that priority projects identified for completion during 2019–20 will be identified in the budget document and will now be fully funded from the Commission's core budget, with no reliance on the Remuneration Board's Determination budget line.

This is likely to result in a compensating increase to the "core" Commission budget, reflecting expenditure that would otherwise have been funded via the investment fund from the underspend on the Remuneration Board's Determination budget line.

Always mindful of our strategic goal of using resources wisely, even with improved prioritisation procedures, this change is highly likely to take the increase in the overall budget in excess of the increase anticipated in the "Welsh Block" for 2019–20.

The "core" budget is the Commission's "operational budget" which excludes the budget for the Remuneration Board's Determination and the Annually Managed Expenditure (AME) budget line for Assembly Member Pension finance costs, a non-cash accounting adjustment.

We are mindful of the Finance Committee's previous recommendation, accepted by the Commission, not to increase our budget beyond any increase to the Welsh Block.

The Commission will not utilise the underspend on the Remuneration Board's Determination budget line. An amount equal to the underspend will not, therefore, be drawn from the Welsh Consolidated Fund. This ensures that the overall increase to the Commission budget, net of any unused funds, remains in





line with the increase to the Welsh Block grant. These unused funds will be available to the Welsh Government in future years via the Welsh Reserve.

*Recommendation 4. The Committee recommends that the Commission clearly identifies funding streams for projects that might or will be brought forward as investment priorities, particularly where these projects span multiple years. In addition, the Committee expects risk analysis to be undertaken when activities are brought forward, given the unpredictable and precarious nature of funding from the underspend.*

Agreed.

The Commission already clearly identifies funding streams for projects that could be brought forward as investment priorities.

The Commission is happy to continue to set out its investment priorities in its budget document for the forthcoming year. It is inevitable that, during the year, priorities and their scope may change. Funding may, therefore, become available by stopping some previously planned projects and delaying others.

Risk assessment is built into all of our investment prioritisation planning. It will be taken into account wherever there is change in the prioritisation of our investments, including where we bring forward or defer projects to different financial years.

As noted above, the Commission is proposing a change to how it presents its budget to reflect the reduction or removal of reliance on the Remuneration Board's determination budget underspend.



*Recommendation 5. The Committee recommends that the Commission fully explores the benefits and risks of changing processes around the Remuneration Board's Determination underspend, with a focus on maximising transparency. This should also take into account the outcome of the Remuneration Board's current consultation on the flexibility of the allowances within the Determination.*

Agreed.

The Commission's priority is to ensure that it is in a position to meet all payments and reimbursement of costs to which Members are entitled under the Determination.

The Commission forecasts its budget for the Remuneration Board's Determination in three ways: (i) by estimating the cost of fulfilling its obligation under the most recent Determination, (ii) by understanding the work programme of the Board for the following financial year, and (iii) through discussions with officials supporting the Board.

Historically, there has tended to be a significant level of underspend against the Remuneration Board's Determination budget. The Commission has used this underspend to fund priority projects, by adding any underspend to its investment fund. The Commission, following its consideration of the Committee's previous report, has fully explored the benefits and risks of changing the presentation of its budget.

Further consideration has been given, following the outcome of the Remuneration Board's consultation, to ensure maximum transparency and to reduce the risk that the Commission may not be able to fulfil its strategic objectives or obligations under the Remuneration Board's Determination. The 2019–20 draft budget document will reflect a revised presentation.

### **Presentation of the Commission 2019–20 Budget**

As noted in our letter to the Committee, dated 21 December 2017, the Investment and Resourcing Board (IRB), at its 7 December meeting, considered a paper on the



presentation of the 2019–20 Commission Budget. IRB recommended that the Commission consider alternative budget presentations for 2019–20, rather than continuing with the existing presentation. The Commission has done so.

The Commission’s aim in presenting a revised model is to address the concerns raised by your Committee and the implications of the changes to be implemented by the Remuneration Board following its consultation, whilst maintaining flexibility and minimising risk to the Commission budget.

It concluded that the following model is the most transparent:

- a ring-fenced budget for the Remuneration Board’s determination, to include amounts to cover “temporary staffing allowances” and a contingency for e.g. death-in-service. Any underspend would not be relied upon by the Commission to fund its investment priorities;
- the Commission’s investment fund would no longer be supplemented by an underspend from the Remuneration Board’s determination. However, a corresponding increase will be required to offset this shortfall within the Commission’s operational budget, as stated earlier.

*Conclusion 1. The Committee recognises the practice for setting budgets and utilising underspends across UK legislatures varies widely. The Committee notes that some legislatures operate different systems for budgeting and returning underspends and suggests that the Commission considers these processes when it reviews its budgeting procedures.*

Noted.

The Commission has reviewed the correspondence received by the Committee during its enquiry and has considered these processes when considering the revised presentation of the 2019–20 budget document.



It is clear that there are a number of alternative ways of presenting the Commission budget. The Commission believes that the revised budget to be presented to the Assembly later in 2018 will provide additional clarity and transparency and will also progress towards addressing any remaining concerns noted by the Committee in its report.



6 June 2018

Dear Assembly Member,

The Remuneration Board met on 24 May. The following is a summary of its discussions and decisions.

### ***Review of staffing support for Members***

The Board considered the responses it had received as part of its consultation on its proposals to increase the flexible use of the existing allowances within the Determination. The Board also considered the wider implications of making the changes, taking account of its duty to provide Members with adequate resources to enable them to undertake their role effectively while ensuring value for money and transparency in the use of public funds. The Board's decisions on each proposal is outlined below. Members may wish to note that these changes apply to an individual Member's allowances not the Support for Political Parties Allowance.

#### *Removal of 111 hour employment cap on permanently employed staff*

As all responses which referred to the proposal were in favour of the removal of the 111 hour employment cap on permanently employed staff, the Board agreed to implement the proposal.

The Board has decided to implement this decision effective of 1 October 2018. The Board noted that this implementation date should provide Members sufficient time to prepare for the change and consider how they may utilise the increased flexibility.

#### *Viring between budgets*

The Board considered the responses which referred to the increased ability to vire between the allowances. As all the responses were in favour of the proposal the Board agreed to allow Members to vire up to a total of 25 per cent from their Office Cost Allowance and/or the full value of their Policy, Communications and Research Fund (PRCF) into their Staffing Allowances, should they wish to do so.

The Board has decided to implement this decision effective 1 October 2018. As this change will take place halfway through the financial year, the amounts that would be permitted to

be vired will be pro-rata this financial year. As such Members will be able to vire up to 12.5 per cent of their Office Costs Allowance and up to £1,250 of their PRCF allowance from 1 October 2018 to 31 March 2019.

*Budgeting staffing at actual pay points*

All responses received on this issue welcomed the Board's proposals. As a result, the Board agreed to calculate the remaining balance available of the Staffing Allowance at actual cost rather than at total maximum staff cost as is the current practice.

The Board noted that appropriate systems would need to be put in place to assist Members to manage any budget volatility. As a result the Board has agreed that a suitable lead-in time is required and decided that this proposal will take effect as of 1 April 2019. This will allow for suitable support mechanisms to be put in place to support Members and their staff with the change.

*Annual publication of Members total spend on staffing*

As all responses received on this issue agreed with the proposal, the Board agreed to implement the annual publication of Members total spend on staffing.

The Board noted the concerns raised by respondents who sought assurances that personal data of support staff would not be able to be identified from any published data. The Board agreed to implement safeguards to ensure that support staff could not be identified by the published information. This would include a total monetary value for the entire spend for each Member and not for each individual support staff.

The Board has decided to implement this decision effective immediately and the first data will be published at the end of current financial year in April 2019. This information will be published to the Assembly's website as is the current practice for other allowances.

*Reviewing the changes*

The Board noted the concerns raised that the additional flexibility that was being provided by the Board's proposals may not meet the needs of all Members. The Board agreed with the respondents that the impact of these changes should be reviewed following implementation to assess Members' use and the effectiveness of the new flexibility. The Board will review the impact of the changes both six and 12 months after their implementation.

*Publication of the responses*

The Board agreed to publish a summary of the responses received in any output it may agree to produce at the end of the review.

*Impacts of proposed changes on Political Party Support Allowances*

The Board considered the wider impacts of the changes it has agreed on the Political Party Support Allowance. The Board has agreed to consult on similar proposals for this allowance. The details of these proposals are noted in the [separate consultation letter](#).

*Further consideration of evidence*

At its meeting in March the Board agreed to further consider some of the evidence it had received as part of its review of staffing support for Members. The Board agreed to return to these issues in due course.

***Barriers to and incentives for running for election to the Assembly***

The Board met with representatives of the Wales Governance Centre, who undertook the research on behalf of the Board. The Board discussed the report's content and considered how it may wish to approach some of the report's recommendations. The Board will consider the next steps of the review in collaboration with the Wales Governance Centre.

***Dignity and Respect Policy***

The Board noted that the National Assembly had voted to approve its new Dignity and Respect Policy. The Board agreed to work with both the Member and support staff representative groups to identify any changes to existing policies that it has responsibility for in light of the new Policy. The Board has also agreed that this work will consider the outcome of the Standards of Conduct Committee [inquiry](#) which expected before the summer recess. The Board will return to the issue at its July meeting.

**Other matters**

The Board agreed to hold a drop-in session for Members during Plenary on 4 July. This will be an opportunity for Members to meet the Remuneration Board to discuss any issues or matters arising. Further information will be circulated to Members in due course.

This letter will also be published on our website as is our usual practice.

BWRDD **TALIADAU**  
**REMUNERATION** BOARD

If you would like to discuss any matter with me, or with one of my fellow Board members, please do not hesitate to contact me via the [secretariat](#).

Best wishes,



**Dame Dawn Primarolo**

**Chair, Remuneration Board**

Croesewir gohebiaeth yn Gymraeg neu Saesneg.

We welcome correspondence in Welsh or English.