

Jane Hutt AC / AM  
Y Gweinidog Cyllid ac Arweinydd y Ty  
Minister for Finance and Leader of the House



Llywodraeth Cymru  
Welsh Government

Eich cyf/Your ref  
Ein cyf/Our ref

Jocelyn Davies AM  
Chair, Finance Committee  
National Assembly for Wales  
Cardiff Bay  
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3 December 2012

*Dear Jocelyn*

**FINANCE COMMITTEE'S REPORT: SCRUTINY OF WELSH GOVERNMENT DRAFT BUDGET MOTION 2013 – 2014; NOVEMBER 2012**

Thank you for your letter of 7 November enclosing a copy of the Finance Committee's report on the Welsh Government Draft Budget Motion 2013-14.

As I said in the Plenary debate on the Draft Budget, I welcome the feedback which emerged from the scrutiny of our spending plans. In particular, I welcome the comprehensive and constructive approach that the National Assembly for Wales adopted, including the integrated approach building on the four objectives of affordability, prioritisation, value for money and the budget process. To this end, I hope the improvements we have made to the transparency and presentation of our budget proposals have helped to support this process.

We have considered the Finance Committee's recommendations, together with the other evidence received during the scrutiny process. While we note the Committee's concerns about affordability, we have concluded that, in the main, our allocations are in the right place to deliver the Programme for Government. We have, as you know, strengthened our support in some areas and these changes are reflected in the Final Budget 2013-14 which I published on 27 November.

I enclose a note at Annex A which responds to the specific recommendations for the Welsh Government as highlighted in the Committee's report. The residual recommendations are matters more appropriate for the National Assembly for Wales.

On a separate but related matter, when I gave evidence to the Finance Committee on 25 October, I agreed to provide further information on the take-up of Council Tax Benefit. I enclose a note at Annex B.

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*Wedi'i argraffu ar bapur wedi'i ailgylchu (100%)*

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I look forward to continuing the on-going and constructive dialogue with the Finance Committee around how we can improve the budget process.

Best wishes,



**Jane Hutt AC / AM**

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## **Annex A**

**Recommendation 2. We recommend that Welsh Ministers keep the appropriate committees informed of any transfers of responsibilities, obligations or funding arising for the Welsh Government as a result of transfers of functions or powers, or other legislative changes from the UK Government. We will monitor the impact of any changes of this nature through our in-year financial scrutiny.**

Welsh Government Ministers provide regular updates to Committees of the Assembly on matters affecting their portfolios, including matters arising as a result of changes from the UK Government. In addition, funding transfers are reflected in the relevant Supplementary Budgets, or Draft/Final Budgets, as appropriate. We will continue to follow this practice.

**Recommendation 3. We recommend that the Welsh Government makes greater efforts to estimate fully the financial implications arising out of its legislation and clearly indicates appropriate funding in future budgets.**

**Recommendation 4. We endorse the following recommendation of the Communities, Equalities and Local Government Committee and advocate it as good practice for all Ministers with respect to all bodies affected by legislation: 'Where the Minister intends to introduce new legislation that impacts on local government during forthcoming financial years, his budget proposals should explain more clearly how**

**the introduction of that legislation has been taken into account. If there will be no new financial burdens on local government, the budget documents should show how that conclusion has been reached. If there will be new burdens arising from the legislation, the budget documents should explain that and show how any necessary funds will be delivered.'**

Identifying the financial costs of legislation is an essential part of the policy making process, especially as we are moving through a period of significant financial constraint. There is a procedure for doing this – the Regulatory Impact Assessment (RIA) within the Explanatory Memorandum- which applies equally to all pieces of our legislation and ensures that we develop and publish a costed options appraisal alongside the justification and rationale for the Bill.

Preparing coherent policy is at the core of any Bill. Translating the impact of those proposals into practice and evaluating the full range of consequences, requires detailed analysis. In the past we have rightly prioritised this and in doing so sometimes the detailed financial implications have not been fully considered until relatively late in the process. We are therefore seeking to make sure the timing of the preparation of the RIA is more realistically built in to the legislative process.

We have already taken steps in this year's Budget documentation to provide a greater level of detail on the costs associated with

delivering the Government's Legislative Programme. We will look to build on this in future budgets.

**Recommendation 6. We recommend that the Minister for Communities and Local Government reports back on the potential for raising fees and charges in time for next year's Draft Budget.**

Given the challenging economic circumstances it is important that local authorities consider all the options available to them.

The setting of fees and charges are matters for them to determine. In doing so authorities will wish to take into account a range of factors including:

- the level of discretion that applies;
- the impact fees and charges have on their citizens, and particularly where there is an impact on the costs and benefits for those members of their communities that are least able to pay; and
- the economic considerations such as in the case of car parking charges the impact on trade in town and city centres.

It is also important that authorities' systems for collecting fees and charges are sufficiently robust to maximise income by minimising non collection costs.

**Recommendation 7. The Enterprise and Business Committee recommended that the Minister for Business, Enterprise, Technology and Science should 'publish information on the measurable outputs, outcomes and targets you expect to achieve'. We would like to endorse this recommendation and extend it to all Ministers, so that all their budget allocations include details of the specific outputs and outcomes they expect to achieve in line with their stated priorities. This will allow us to monitor in-year.**

It was acknowledged by a number of Committees of the Assembly during the scrutiny of our spending plans that we have already made a good start in improving the alignment of our Budget with our priorities. In keeping with this, we provided in the Draft Budget Explanatory Note, a separate reconciliation showing how our Budget proposals align with the strategic outcomes set out in the Programme for Government.

We will continue to explore how we can improve the level of information we provide in this area, reflecting the recommendation of the Enterprise and Business Committee.

**Recommendation 8. We recommend that the Welsh Government ensures there is internal consistency when deciding whether schemes provide sound value for money.**

The Welsh Government uses a variety of schemes to support a wide range of public and private activities. These programmes are

diverse in volume, value, complexity, delivery models and cost of administration.

We have recognised the need for consistency across Grant schemes and established an internal Centre of Excellence which is developing consistent guidance and approaches to these schemes.

Turning specifically to the Invest-to-Save Fund and the Regional Collaboration Fund, value for money considerations are a key feature of both funds, which includes accessing on a case-by-case basis the most appropriate form of support for projects. The Invest-to-Save Fund is an established and valued model that pump-primes public service improvement schemes that lead to significant on-going savings. The Regional Collaboration Fund will support work to ensure the long-term resilience of local government and its partners so that they are well positioned to manage future financial and demand pressures against the background of on going public expenditure constraint.

These Funds support a consistent Welsh Government public service agenda that continues to encourage collaboration and joint working to achieve the most effective and efficient public services for the people of Wales.

**Recommendation 9. We recommend that the Welsh Government take responsibility for ensuring greater consistency and sustainability in collaboration raised in our evidence.**



The Welsh Government is working in partnership with the public sector on a programme of Public Sector Reform to meet the challenges of increasing demands against a backdrop of financial pressures. This programme is based upon collaboration, simplification and accountability and democracy.

Through the work of the Public Service Leadership Group, collaboration and joint working is developed, challenged and supported. The Compact agreed between Local and Welsh Government defines areas where, across local government, work is being undertaken to define the benefits, ways and implementation of joint working to improve services, improve resilience or deliver savings. Progress is well advanced on the scoping work being undertaken in around 15 service areas, to assess how we might best deliver shared services. We expect the implementation of these changes to be driven forward with pace over the next year. The Government has also put in place new arrangements for single integrated plans and improved scrutiny both of which will support consistent and sustainable planning and delivery of services.

The Welsh Government has set out agreed regions or areas for public service collaboration based on health authority boundaries and contiguous with police authority boundaries. This consistent approach supports simplification and accountability and enables local government, police, health and fire services to focus on



effective planning and delivery of services including understanding cross service issues.

Financial support continues to play a role within this overall programme. We have heard from local authorities that, at times, collaboration has not been taken forward as the initial costs of implementation are a barrier to delivery. In addition to the support available under the Invest-to-Save programme, the £10m regional collaboration fund announced as part of the Local Government Settlement statement is aimed specifically at supporting local authorities to overcome this barrier. It can be used to increase the scale and pace of collaboration as part of an approach to delivering public services that relies on greater collaboration to provide and protect services.

**Recommendation 10. We recommend that Ministerial papers should strive for consistency across all Ministers and Departments. Future papers should address affordability, prioritisation and value for money in a consistent manner, and provide the appropriate level of detail to allow the scrutiny of resource allocation against stated Government priorities.**

We have already taken measures in this year's Budget to provide additional levels of information in a consistent manner across Ministerial portfolios and to improve consistency of approach in the way information is provided to Committees during the scrutiny process.

We will look to build on this as we consider our preparations for next year's Budget.

**Recommendation 11. We recommend that the Welsh Government should conduct a systematic, consistent and transparent equality impact assessment of the entire budget in line with the Equality and Human Rights Commission guidance on an annual basis, and publish the assessments themselves alongside the narrative document, at the time of the Draft Budget.**

We were the first UK Government to publish an Equality Impact Assessment (EIA) alongside its Budget for 2011-12 – a move which was warmly welcomed by many across the UK. Since then, we have continuously looked at ways of improving the equality assessment of our spending proposals. The latest EIA provides an analysis of our spending plans for 2013-14 and we are continuing to build on our approach and learn lessons – clearly, we are on a journey.

Earlier this year, the EHRC conducted an independent, Appreciative Inquiry on our approach to EIA which was published on 27 November. I will consider the recommendations from this report as we look to develop our approach to EIA further.

I have also announced the establishment of the Budget Advisory Group on Equality which will have a key role in supporting the continuous improvement of the EIA undertaken on the Welsh

Government's Budget by providing expertise to inform the equality considerations of future budgets.

**Recommendation 12. We recommend that the Welsh Government undertakes further work to standardise impact assessments undertaken with regard to sustainable development, the Welsh Language, children and older people, and the way they are presented alongside the Draft Budget.**

Our obligations and commitments to Sustainable Development, Equality, Welsh Language, Children and Young People and Older People are integral to the core business of the Welsh Government and we have placed these considerations at the centre of our budget processes when developing our spending plans.

This Government's leadership in driving equality considerations of our spending proposals is well documented. In addition, we have evidenced steps that we have taken to ensure that sustainable development is embedded into the development of our policies and programmes, including in the Draft Budget 2013-14.

In addition, as part of our work to improve the transparency and presentation of our spending plans, for the first time this year we published a leaflet which provides more accessible information on our Budget for children and young people. This is an important step to engage children and young people in the budget process so they understand what it means and how it affects their life.

While improvements have been made, we recognise that there is more to do and we will continue to develop our approach to impact assessments, including looking at the way information is presented.

**Recommendation 13. We recommend that the Finance Minister informs the Committee of any changes in awards to projects, or in the nature of the projects themselves, under Centrally Retained Capital (CRC) through Supplementary Budgets. Any funding allocated which cannot be spent within the financial year should be returned to the central reserve for re-allocation.**

Changes to centrally funded projects will not always require budgets to be returned to central Reserves: in some cases, with the agreement of the Finance Minister and provided the project will still be delivered, it will be appropriate for budgets to remain in the relevant Main Expenditure Group to be reallocated to other projects within an overall programme of investment.

However, any substantial changes to projects allocated funding from Central Reserves - including major changes in funding profile or scope - will continue to be reported to the Assembly and reflected in Supplementary Budgets, or Draft/Final Budgets, as appropriate.

**Recommendation 14. We recommend the Minister addresses the case for additional flexibility for Local Health Boards to manage their funding across financial years.**

In October 2011, the Health Minister launched a strategic document *'Together for Health'* which is a five year vision for the NHS in Wales. One of the commitments within this document is to put in place a *'new finance regime that will improve planning and utilisation of financial resources in line with clinical priorities'*.

Health officials have been preparing plans on how this commitment will be delivered, with a particular focus on how Local Health Boards can be given additional flexibility to plan and manage their finances over a greater period than one year.

The options being considered include the flexibility that can be accommodated within the existing legislative framework for NHS Wales, as well as considering whether changes to the NHS statutory financial regime are required to provide greater flexibility in the longer term.

## Annex B

### Council Tax Benefit Take-Up Rate

Figures for Council Tax Benefit (CTB) Take-up are only produced at a GB level, with the latest available data produced in 2008/09. This showed that CTB has the lowest take-up rate in GB across all means-tested benefits - between 63 and 70 per cent. If all entitled households claimed CTB, then the number of claimants would increase by between 40 to 60 per cent.

In 2008-9 there was estimated to be between 2.130m and 2.930m Entitled Non-Recipients in GB. Out of this total:

- around two-thirds are pensioners;
- non-pensioners without children account for between 10% and 15%;
- around 10% are couples with children ; and
- single people with children account for between 5% and 10% (DWP 2011)<sup>1</sup>.

#### Take-up rates in Wales

Analysis suggests that Wales is likely to have a similar take-up rate to GB (KPMG in association with Oxford Economics 2010: p. 34). This is also consistent with DWP take-up statistics, shown in table 1, below. As a percentage of GB, Entitled Non Recipients in Wales are proportional to Entitled Recipients.

**Table 1: Entitled Recipients (ERs) and Entitled Non-Recipients (ENRs) share by Regions/Country, 2011**

Region / Country	Percentage of ENRs	Percentage of ERs
North East	4	7
North West	13	14
Yorkshire and the Humber	9	9
East Midlands	9	7
West Midlands	9	10
East of England	10	7
London	12	13
South East	11	10
South West	9	7
Wales	6	6
Scotland	8	10
Total	100	100

Source: DWP 2011 table 5.4.7 available at [http://research.dwp.gov.uk/asd/index.php?page=irb\\_2](http://research.dwp.gov.uk/asd/index.php?page=irb_2)

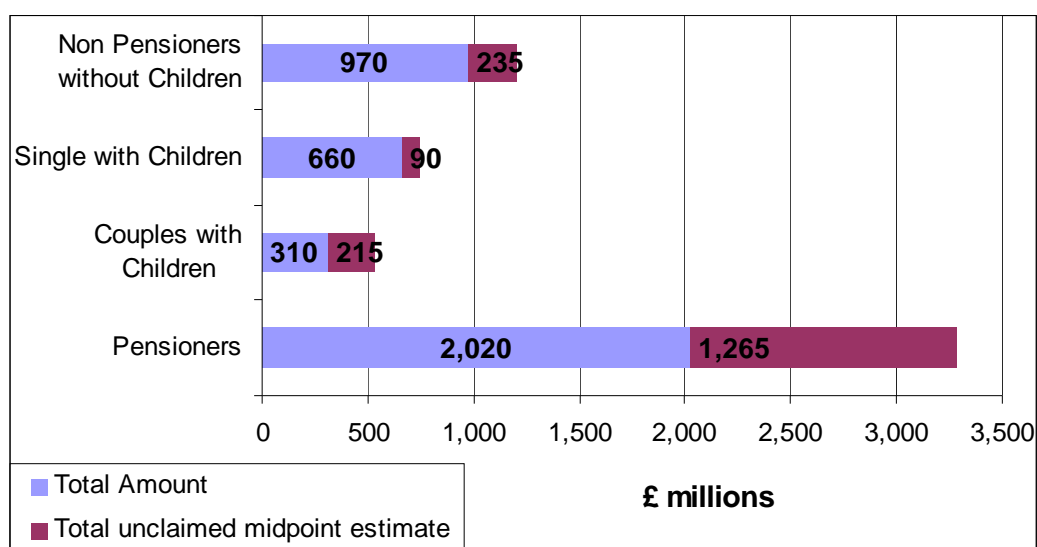
<sup>1</sup> A figure is not shown as large ranges are reported by DWP, so exact figures are not presented.

Using the 6 per cent of the total ENRs from the figure above, Wales could have a possible 118,000 to 162,000 potential extra recipients of CTB.

### Estimates of Unclaimed Expenditure

Most unclaimed expenditure in GB is by pensioners – see figure 1, partly as they are the largest share of total ENRs. The value of unclaimed benefit to couples with children is also proportionately high at around two-thirds of the value of claimed CTB

**Figure 1: Council tax benefit expenditure claimed and unclaimed 2008-9, GB**



Source: Adapted from *Income-related benefits: estimates of take-ups* DWP (2011) available at [http://research.dwp.gov.uk/asd/index.php?page=irb\\_2](http://research.dwp.gov.uk/asd/index.php?page=irb_2)

### Explaining CTB take-up

There are four main factors that are thought to explain why there is a relatively low level of take up for CTB. These are:

- **Low award relative to the effort** in applying – research shows there are proportionately more ENRs at low CTB award levels;
- **Awareness of entitlement** – only 70% of claimants are currently passported onto CTB via receipt of another contributory benefit, as pensioners might be most unfamiliar with the benefit system, they are perhaps the least likely to be aware of their entitlement;
- **Complex claims process** - the current system requiring information on income, savings and other capital holdings has been deemed complex and this puts some people off from applying; and



- **Stigma of means-tested benefits** – the title of ‘benefit’ is also claimed to put some people off from applying

### CTB Caseload Levels

The number of CTB claimants in Wales is shown in **Figure 2**. This chart shows that caseload has increased by 14% from November 2008 to May 2012, to its current high of approximately 330,000. However caseload figures for recent months seem to suggest that caseload increases are now starting to flatten out.

**Figure 2: CTB Caseloads in Wales – Nov 08 to May 12**

