

Ken Skates MS, Senedd Commissioner

Adrian Crompton, Auditor General for Wales

Dr Kathryn Chamberlain, Chair of Audit Wales Board

Michelle Morris, Public Services Ombudsman for Wales

18 October 2023

Dear All,

Review of the Statement of Principles: Update

I wrote to you on 4 May 2023 inviting views on the Statement of Principles ('the Principles'), as well as on the timeliness of the information provided by the Minister for Finance and Local Government informing how Directly Funded Bodies (DFBs) approach their budget plans.

We considered your responses at the Committee's meeting on 6 July and 5 October, alongside a response from the Minister.

We were encouraged by your broad support for the Principles which indicates that they remain effective, appropriate and relevant and are helpful to DFBs when preparing their annual budget proposals.

As a Committee, we also believe that the Principles are crucial in ensuring that DFBs take a consistent approach when preparing their budgets. In particular, they enshrine our view that any estimates submitted are transparent, prudent and reflective of the wider context within which DFBs operate and that they are not immune to financial pressures experienced by organisations elsewhere in the Welsh public sector.



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We are therefore not persuaded that the Principles themselves should be changed. Their strength lies in providing high level direction to the DFBs, as well as clarity and consistency in terms of the Finance Committee's expectations, regardless of the economic context. They also provide a basis for the Committee to conduct its oversight role in relation to DFBs.

However, we have reflected on the comments and concerns made and addressed them below.

Clarity of funding position in the public sector

A number of the DFBs noted uncertainties caused by the timing of UK fiscal events and the impact this has on their ability to plan effectively, both in terms of funding for the estimates for the next financial year and also medium-term financial planning.

The Committee recognises the impact that delaying the publication of the Welsh Government's draft budget has on DFBs, given that draft estimates need to be published before the Welsh Government's final budget is laid and the difficulties this can cause. This is particularly the case in years where the UK fiscal event is held late in the autumn term, as will happen again this year.

We also note concerns regarding the information provided to DFBs by the Minister annually to inform budgetary planning, particularly that it does not include much detail and is of little practical use. We recognise that this makes it difficult for the DFBs to meet the requirement in the Principles that "budget requests should be set in the context of the long term financial funding situation in Wales".

We do recognise that the Minister for Finance and Local Government has delayed the laying of the Welsh Government draft budget for the past five years due to uncertainty regarding the funding available from the UK Government.

However, although the Minister told us that she would "continue to provide information to the Finance Committee" to inform the future budget planning of DFBs, we would like the Minister to consider providing further clarity. In particular, I will ask the Welsh Government to consider the impact that the later timing of its draft budget is having on the information available for DFBs to plan their estimates. This could include the provision of a range of percentage changes around a midpoint, as suggested by the Auditor General, and a summary of risks and expectations in terms of funding scenarios following any subsequent autumn fiscal event.

Given the timing of this year's UK fiscal event and that the Draft Budget's publication will be delayed again this year, we are keen to explore during this year's budget round whether the timescales for agreeing the budgets and estimates of DFBs, as set out under Standing Orders and related legislation, remain fit for purpose.



Independence from the Welsh Government

A number of responses mentioned that the Principles should be strengthened to reflect the distinct status of DFBs as well as the need for them to operate independently from the executive with separate funding arrangements.

While we fully recognise the distinct status of the DFBs as well as the need for them to operate independently from the Welsh Government, particularly in terms of budget setting and oversight, we are not persuaded of the need to include additional details in the Principles themselves. Instead, we will update the Committee's web pages to provide greater clarity in terms of the DFBs budgets to reflect their unique positions, including explaining the reasons why they have distinct funding processes.

Changes to Standing Orders regarding Supplementary Budgets

There was a lack of support from the DFBs for wholesale changes to the Standing Orders in relation to the procedures for supplementary budgets. However, recent experiences since the Committee issued its consultation letter in May, has called into question the suitability and sustainability of these procedures and whether they accurately reflect the constitutional status of the DFBs.

This relates to instances where requests for supplementary funding have been made by DFBs, despite clear indications from Welsh Government that they do not intend to bring forward a supplementary budget to release such funds.

In particular, although it is established and accepted practice that the Welsh Government will include any variations requested by the DFBs in its supplementary budget motion, it is not an explicit Standing Order requirement. We therefore ask for further views on this issue, including whether changes need to be brought forward to remove any ambiguity in the current process.

Whilst we note the Auditor General's views that Standing Orders should be amended to require the Welsh Government to inform the DFBs of their intention to present any supplementary budget motion, we believe that doing so would not be proportionate. Nonetheless, we recognise the practical difficulties caused to the DFBs when the exact timings of the Welsh Government's supplementary budgets are not known. That is why I have written to the Minister asking her to proactively provide details of any supplementary budgets the Welsh Government intends to bring forward to the DFBs, as soon as the relevant dates are agreed.

We would like to thank you for providing constructive comments in response to this review. We are pleased that the Principles remain fit-for-purpose and continue to be an integral part of the budget setting process. However, we would appreciate your further consideration of the issues relating to the Senedd's supplementary budget procedures, as outlined above.



Yours sincerely

A handwritten signature in black ink, appearing to read 'Peredur Owen Griffiths', with a long horizontal flourish extending to the right.

Peredur Owen Griffiths MS
Chair of the Finance Committee

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

