

Y Pwyllgor Amgylchedd a Chynaliadwyedd Environment and Sustainability Committee

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Cynulliad
Cenedlaethol
Cymru
National
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Wales



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Annwyl Jocelyn

We took oral evidence from the Minister for Natural Resources and Food on his budget, on 16 October, followed by evidence from the Ministers for Communities and Tackling Poverty, and Finance looking at the broader issue of sustainable development considerations across all portfolios during the budgeting process. This letter outlines some of the issues and concerns that we have following these evidence sessions, which you may wish to pursue with the Minister for Finance.

1. Natural Resources and Food

We have significant concerns about the financial management and planning within the Natural Resources and Food portfolio. This is the result of a number of key issues arising from our consideration of the draft budget 2014/5.

Our budget scrutiny was hampered by the lateness of the budget paper. It was not provided by the Minister for Natural Resources and Food until late morning on Monday 14 October, less than 48 hours before the scrutiny session. I wrote to the Minister to indicate our dissatisfaction with this, highlighting that it put the Committee in breach of Standing Orders and meant that Members had very limited time to prepare. I enclose a copy of this letter for your reference.

This was not the only barrier to effective budget scrutiny. When the Minister gave evidence to the Committee it was felt that he did not give sufficient information or adequate clarity on a range of issues. On occasion, the responses we received were in direct contradiction to the information provided in the written papers. This is indicative of the concerns we have about the general financial management and planning of this Department.

Additionally, we also noted a number of basic errors within the narrative of the Draft Budget, including references to the True Taste Awards which were disbanded earlier this year, and reference to the Agriculture Wages Board, which has now been replaced by the Agriculture Advisory Panel.

1.2 In-year issues

Before detailing our concerns about the 2014 / 15 budget, I would like to draw your attention to issues about the 2013/14 budget.

An oversight occurred in respect of the accruing resources for the Minister's portfolio in the June 2013 / 14 Supplementary Budget. This related to the money required to make Single Farm Payments in December 2013. We were advised that this was an administrative oversight made during the restructuring of the budget following the Ministerial reshuffle. Both officials and the Minister made clear that this would have no impact on the Government's ability to make these payments. However, there is a discrepancy between officials and the Minister about whether or not this shortfall will need to be covered from other areas within the Welsh Government budget. The Minister in oral evidence stated that there is no impact on the budget, as this money comes directly from the European Commission and the Welsh Government acts purely as a payment agency. However, in response to a query about this issue before the oral evidence session, we were told that *'Welsh Government has one control total for income and so any potential shortfall would be covered within the headroom of the WG Income ambit'*.

While we acknowledge the clarity that this administrative oversight will not impact on the Welsh Government's ability to make these payments, we are concerned that this mistake was made, and remain unclear as to the impact this error will have on the ability of other Ministers to manage their resources for 2013-14 effectively.

The Finance Committee may wish to seek clarity from the Minister for Finance on whether any shortfall will have an impact on the ability of other Ministers to manage their resources effectively.

1.3 Financial planning - Rural Development Plan budget

There is considerable 'headroom' within the Rural Development Plan (RDP) domestic budget. While we acknowledge the Minister and his officials explanation that this is the result of having to plan a multi-annual demand led budget, and that there will need to be some level of 'headroom', we remain unclear on why the levels of 'headroom' were so high. Additionally, we are unclear as to why this 'headroom' was able to accumulate over a number of years. Taken alongside our other concerns, it suggests problems with the financial planning and management of the department. However, we welcome the commitment from the Minister that these significant levels of headroom will not happen in the future.

In terms of the 'headroom', it seems that the Minister is seeking to use some of it to fund a range of potential projects (see paragraphs 1.3.1 and 1.3.2 for more details) yet he has not had confirmation from the Minister for Finance

that he will be able to retain this 'headroom' within the Natural Resources and Food portfolio.

The Finance Committee may wish to highlight this issue with the Minister for Finance and ask what discussions have been held on the poor management of the Rural Development Plan domestic budget and on the retention of the resulting 'headroom' within the Natural Resources and Food portfolio.

1.3.1 Financial planning – State of Nature and Biodiversity

In July 2013 the Minister for Natural Resources and Food announced £6m of funding for a wildlife management scheme. This was in response to the 'State of the Nature' report. The Committee was therefore surprised that this allocation wasn't clearly identifiable within the Minister's Draft Budget proposals when published. In written evidence the Minister stated this funding would come from the 'headroom' within the current domestic RDP budget. However, in oral evidence, as mentioned previously, the Minister initially stated that he had not had confirmation from the Finance Minister that he would be able to keep the RDP 'headroom' within his Natural Resources and Food portfolio.

Following further oral questions from Members the Minister then stated that he did have authorisation from the Finance Minister to use £6 million in 'headroom' for this specific proposal. The Minister went on to state that the £6 million had been included within his Draft Budget proposals for 2014-15 but within the unrelated BEL line on the 2014-20 RDP.

We are dissatisfied that the Minister could not provide absolute clarity about the funding of scheme within his Draft Budget proposals given that an announcement had been made to stakeholders about this scheme in July 2013. The inclusion of these spending proposals within the unrelated RDP 2014-20 BEL as opposed to the Nature/Conservation BEL makes it difficult for both the Committee and stakeholders to scrutinise these plans. It is this general lack of clarity within the Minister's Draft Budget proposals that has made it difficult for the Committee to effectively scrutinise this budget. (We will also discuss this in para 1.3.2).

It is also unsatisfactory to the Committee that, as of yet, no outcomes for this significant level of expenditure have been identified.

1.3.2 Financial planning – Proposed projects

Within the Minister's budget papers, details were provided of a number of costed proposed projects, yet these projects have not been included in the Draft Budget. The Minister did not offer a comprehensive explanation as to why these proposed projects were not included in his Draft Budget proposals. It has proven very difficult for the Committee to scrutinise the Minister's budget plans when a number of his key projects have been

omitted from it. It will also make it difficult for stakeholders to assess the likely impacts of the Minister's plans on their organisations and businesses. Additionally, while we welcome the Minister's publication of the costs for CAP implementation in a consultation document, it is very disappointing that he was not able to identify if funds had been allocated in the draft budget.

These concerns all suggest to us that the financial management and planning within Natural Resources and Food is currently flawed, and that it needs to improve as a matter of priority.

1.3.3 Financial planning – Prioritisation

There were two examples in the evidence that we took from the Minister which suggest a lack of effective budget management.

Marine Policy and Fisheries

The Committee made recommendations in our Marine Policy in Wales report in January 2013 that a strategic action plan be published by April 2013, including expected outcomes and delivery costs. The Government accepted this recommendation, but the Strategic Action Plan is not due to be published until November. However the budget for marine policy has been agreed and we were told that there was no provision for additional expenditure which may arise as a result of the Action Plan. This is an example of the budget shaping the plan, rather than the other way round. Considering the chronic underinvestment in this area over many years, this is an area of particular concern and interest to the Committee, and we will be revisiting this issue.

Flood Prevention

We are also concerned that the funding for flood prevention has been allocated before the development of the Single Investment Plan. As with Marine Policy this suggests no clear co-ordination between policy development and budget planning.

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The Minister in his oral evidence stated that he was confident that this project was delivering value for money, however he had not yet received the project evaluation that should have concluded in September 2013. It is concerning that additional resources of £1m would be allocated to a scheme for which the evaluation of its value for money has not yet been completed.

We also sought information from the Minister about which budget areas were most at risk from budget pressures (especially important when so many projects have not been included in the Draft Budget.) However, he was not able to identify any areas, and merely said that significant changes would be

made through the Supplementary Budget, with the Committee also notified of changes. This response does not give the Committee assurances that the budget is being planned, managed and monitored effectively.

We wish to make two recommendations relating to financial planning and management within the Natural Resources and Food portfolio:

Recommendation: We recommend that the Natural Resources and Food department improves their co-ordination with the Central Budgeting Unit at all stages of the budgeting process, including Draft and Supplementary Budget stages as a matter of urgency

Recommendation: We recommend that any specific projects announced in-year should have its own budget line to increase transparency and clarity about funding commitments made.

The Finance Committee may wish to ask the Minister for Finance for her views on the financial management within the Natural Resources and Food portfolio, and if she is confident that it is robust and fit for purpose.

I will now move on to a number of issues, which while closely linked to our serious concerns about financial management are focused on specific areas.

1.4 Natural Resources Wales

It was very disappointing that the Welsh Government only provided us with gross benefit figures for Natural Resources Wales (NRW) in the paper, as opposed to the net benefit figures. We were able to secure these figures directly from NRW, but this is not an indicator of a transparent budget process.

NRW are facing a number of budget pressures because of; the reduction in funding; the re-profiling of net benefits of the merger which have led to increased costs in the early years, and additional service pressures as the result of the outbreak of tree diseases. Given this budgetary pressure the Committee was disappointed that the Minister was not able to identify to the Committee the likely service areas that NRW would need to cut or reduce. While we acknowledge that the Minister is at the start of his discussions with NRW about the remit letter for 2014/15, we would expect that he could provide some information on the areas he wishes NRW to prioritise in a climate of funding reduction. Otherwise we cannot be confident that the amount allocated to NRW is sufficient. In addition this does not provide transparency for users of the body that could be impacted by changes to services

1.5 Animal Welfare

The Chief Veterinary Officer told us that they believe they will be able to deliver the Government's animal welfare priorities within budget but that to achieve this the Government will need to look to 'partner' organisations to

help deliver these priorities. We are aware that these partner organisations, especially within the local government and third sector, are facing their own financial pressures. As a result, we will continue to keep a watching brief on this issue. We also have specific concerns about the impact of UK legislation on animal welfare budgets which we detail in para 1.7.

1.6 National Parks

The Minister was unwilling to confirm whether he had had discussions with the Minister for Culture and Sport about the budget reduction for the National Parks and National Botanic Gardens. This is of interest to the Committee because the National Parks and Botanic Garden play a role in delivering environmental and biodiversity projects. We, therefore, remain unclear on whether this cut will impact the Minister's ability to deliver these projects, and whether this is even an issue that has been discussed between Ministers.

The Finance Committee may wish to consider how these cross department issues are considered and resolved through the budget process.

1.7 Financial implications of legislation

As with the rest of the budget, a lack of coherent information means we cannot be confident that the budget provides sufficient funding for the delivery of Welsh, UK and European legislation in the coming financial year.

In the written paper, the Minister stated the UK Anti-Social Behaviour, Crime and Police Legislation may have 'some impact on budgets, specifically in relation to changing behaviour of dog owners and encouraging responsible dog ownership'. Yet when asked about this in Committee, we were told that there were no financial implications, other than that of staff time. We are concerned about this inconsistency, and yet again seems to suggest a lack of coherence in the financial planning within this department.

The Finance Committee may wish to pursue how well integrated the consideration of the financial impacts of Welsh, UK and European legislation is in the budget process across departments.

We are disappointed with the timeliness of information provided by the Minister, and the oral evidence session, where a number of questions were evaded or contradictory information provided. We believe that this is an indicator of problems at the heart of the financial management and planning of this department, and we will continue to keep a very close eye on these issues both in-year, and at future budget rounds. We believe that this department's approach to financial management hinders general transparency. We are therefore unable to assess whether the budget is appropriately prioritised and is providing value for money.

2. Sustainable Development

The oral evidence session with the Minister for Finance, and the Minister for Communities and Tackling Poverty was focused on the mainstreaming of sustainable development in the budgeting process.

As the Welsh Government has a constitutional duty placed upon it to consider sustainable development, we believe that it should be an exemplar organisation in all aspects of this, including the budgeting process. We are disappointed that this is currently not the case. However we welcome the Minister for Communities and Tackling Poverty's commitment to ensuring that the Welsh Government becomes an exemplar organisation under the auspices of the work being conducted on the Future Generations Bill.

While we favour an integrated approach to the consideration of sustainable development alongside other factors, we are not convinced that this year's Equality Impact Assessment enabled full consideration and weight to be given to sustainable development. This was evidenced in that they were not in a position to identify clear outcomes, or provide information on any mitigation measures put in place as a result of the Sustainable Development assessments.

It is concerning that the Ministers appeared to contradict themselves when asked for examples of how budget proposals had changed as a result of sustainable development considerations. The Minister for Communities and Tackling Poverty indicated that figures could be given for changes made to Draft Budget proposals but the Minister for Finance said that specific figures could not be provided. It is concerning that examples are not available, and we are therefore unable to consider the robustness of the sustainable development assessments being made on the budget.

The Finance Committee may wish to explore with the Minister how the Welsh Government intends to strengthen the consideration of sustainable development, and how they can provide improved evidence of this consideration.

Additionally we are concerned that in some cases there is not sufficient baseline information collected in order to assess whether specific projects are delivering value for money. In our Climate Change work, we heard from representatives of the Climate Change Commission for Wales that during Arbed Phase 1 no measurements were taken of energy consumption before and after the improvements were made, so they are unable to assess how effective the measures are.

There are examples of good practice within the Welsh Government which we believe could be used to help strengthen the consideration of sustainable development. Lessons could be learnt from the Future Generations Bill Advisory Group, to the mainstreaming of sustainable development. We also

welcome the fact that all capital investment projects within the Wales Investment Plan were SD assessed, and believe this should be broadened out.

Recommendation: We recommend that the Welsh Government consider rolling out the approach taken in considering the sustainable development impacts on capital investment projects within the Wales Investment Plan. There should be reporting arrangements to improve transparency and to identify where changes or mitigating measures have been put in place as a result of sustainable development considerations.

2.1 Carbon Budgets

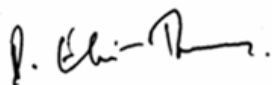
While we raised this issue with the Minister for Finance, we were unable to get a satisfactory response as to whether this was being considered by the Welsh Government. This may wish to be an issue the Finance Committee wishes to follow up with the Minister.

3. Housing and Regeneration

While we did not take oral evidence from the Minister for Housing and Regeneration, we did seek details on the planning budget. We noted that despite a budget deduction of £1m, the Minister stated 'the reduction will not impact on the work of the Programme for Government commitments, including the Planning Reform Bill'. We will be writing to the Minister to seek further detail on how a reduction of 13.5% will not have any impact on this work.

We trust that you find our comments useful in your scrutiny of the Draft Budget. We will be sharing this letter with the relevant Ministers, and will continue to pursue these issues through our general and financial scrutiny.

Yn gywir



Lord Dafydd Elis-Thomas AM
Chair – Environment and Sustainability Committee

Cc: Minister for Natural Resources and Food
Minister for Finance
Minister for Communities and Tackling Poverty