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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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2nd December 2013

Dear Jocelyn,

FINANCE COMMITTEE'S REPORT: SCRUTINY OF WELSH GOVERNMENT DRAFT BUDGET 2014 -15; NOVEMBER 2013

Thank you for your report on the 'Scrutiny of Welsh Government Draft Budget 2014-15'.

As I said in the plenary debate on the Draft Budget, I welcome the work, led by the Committee, to drive effective scrutiny of our budget proposals. This is, of course, the first year that the Assembly has been able to scrutinise, in full, a budget that includes proposals jointly developed by the Welsh Government and other parties within the Assembly. This is an important achievement and a sign of an increasingly effective and respected Budget process, engaging the Welsh Government and the Assembly.

I enclose a note at Annex A which responds to the specific recommendations for the Welsh Government as highlighted in the Committee's report. We will continue to explore opportunities to improve the budget process and I look forward to continuing the on-going and constructive dialogue with the Finance Committee.

Best wishes,

Jane

Jane Hutt AC / AM
Y Gweinidog Cyllid ac Arweinydd y Ty
Minister for Finance

Annex A – Response to Recommendations

Recommendation 1. We recommend that the Welsh Government continues to work with the UK Government and other devolved governments to ensure that Barnett consequential – whether positive or negative – are clearly identified at the earliest opportunity to enable more effective medium and long term financial planning.

We recognise the importance of effective planning in both the medium and longer term. That is why I have continually pressed the UK Government for early notification of spending decisions which will impact on our budget.

This has been more important than ever over the current spending review period when, as the Committee is aware, the UK Government has made a number of spending announcements outside of the normal Budget setting and Autumn Statements processes.

At the Finance Ministers' Quadrilateral in November, we discussed the handling of UK Government funding announcements and the need for early clarity on the devolved implications of announcements. I pressed the importance of early notification and considering the impact on devolved administrations.

Recommendation 2. We recommend that the Welsh Government supports local government in exploring the potential for raising additional income from fees and charges, and review all statutory caps. We also reiterate last year's recommendation (6) that the Minister for Local Government reports back on the potential for, and impact of, raising fees and charges – both to increase income and manage demand – in time for next year's draft budget.

The Minister for Local Government and Government Business indicated during her evidence session with the Communities, Equality and Local Government Committee that we are keen to work with local authorities to explore the potential for alternative arrangements in respect of fees and charges. However, it is important that local authorities retain responsibility for considering the effects of imposing or removing charges in their areas because it is local authorities which will understand and respond to the likely local consequences of such actions. This includes taking account of the impact of increased financial pressures on local taxpayers, upon whom many of the increased fees and charges would fall.

It is worth noting that whilst this is a key area for raising finance, it is important that local authorities consider the other sources of self-financing available to them alongside central government grants, such as the use of reserves and council tax income. It is also important that local authorities' systems for collecting fees and charges are sufficiently robust to maximise income by minimising non collection costs.

Recommendation 3. We welcome the Minister's commitment to review the classification and management of EU income and recommend that this matter is addressed in the second Supplementary Budget of 2013-14.

As I set out in my letter to the Committee in the context of the Final Outturn Report 2012-13 (dated 31 October), I have asked my officials to review whether improvements can be made in the way we classify and financially manage European income, within the confines of the current legislation. In taking this work forward, we will look to undertake closer monitoring of claims and earlier forecasting by business areas to ensure that we have a clear picture of outturn well in advance of the year end.

A Second Supplementary Budget is planned early in the New Year and although there is no impact on EU budgets (because the surrendering of funds represents a cash adjustment only), I can confirm that action will be taken to ensure the funding is made available for 2013-14.

Recommendation 4. To provide greater transparency on the total level of funding available to the Welsh Government we recommend it publishes alongside the Budget proposals a breakdown of EU funds available for spending during that budget period.

The European Commission's regulations require the Managing Authority (WEFO) to ensure fair and open access to EU funds under its administration. While the Welsh Government has been successful in being awarded funding by WEFO for some of its projects / programmes in the past, and has every reason to expect that it will again, we can not say which projects will be developed and approved for implementation in the next round of funding, or exactly when they will run. Furthermore, the Simplified Costs regulations being introduced by the Commission mean that the basis for funding those projects may well be different for the next round of programmes, and that could affect the timing of receipts from EU funds.

Given the uncertain timetable for project development and approval it is difficult to align the current budget period and the European programme periods. The Committee will be aware that European funding is allocated over a seven-year programme period rather than on an annual basis, and that the funding is managed on a calendar year rather than a financial year basis. In addition, in the period covered by the Draft Budget, there is the added complexity that we are able to utilise funding from two different programme periods, as their delivery overlaps by a period of nearly two years.

A further reason for complexity over forecasting income available over the Programme period is that exchange rates can vary greatly during the Programme period. European funding is awarded to the Programmes in Euros, making it difficult to accurately determine the levels of funding available, in advance.

Whilst clearly there are number of factors which need to be considered, my officials will consider any scope for providing greater transparency on the level of European funding available over the budget spending period.

Recommendation 5. We recommend that the Finance Minister undertakes a review of the financial planning and management within the Natural Resources and Food portfolio – in particular, the planning for and use of European funding.

All Additional Accounting Officers have responsibility to ensure that there is a sound framework of control within their Departments. This should include robust financial controls, governance arrangements and sound risk management processes. One of the mechanisms used to provide this assurance is through the work of internal audit.

Internal audit have developed an audit needs analysis which identifies all auditable areas within the Welsh Government. From this, an annual internal audit plan is drawn which identifies the areas that internal audit will examine during any financial year. A review of budgetary control within the Sustainable Futures Department has been scheduled.

Recommendation 6. We recommend that the Finance Minister reports back to the Finance and Environment and Sustainability Committees on the future use of the remaining headroom for match funding of the Rural Development Plan.

As our budget tightens, it is more important than ever that we seek to maximise our investment opportunities, including through the strategic use of European funding. In Wales, we have made great use of European funding to support our investment through both European Structural funds and the Rural Development Plan. In drawing on these funds, joined up working between all Ministers is vital to ensure the joint effective management of the resources available.

As the Committee is aware, funding for the Rural Development Plan sits within the Natural Resources and Food MEG. It is the responsibility of all Ministers to ensure the effective and efficient use of the resources available and on that basis, the use of the remaining headroom for match funding of the Rural Development Plan, is a matter for the Minister for Natural Resources and Food.

Recommendation 7. We recommend the Minister provides a clear picture of the investment available and the cost for each financial year of the budget period, broken down by portfolio area.

We are committed to providing as much clarity as possible around all our investment decisions, including the investment funded through innovative financing schemes, which has a cost to the tax payer just as capital-funded investment does.

With that in mind, I am happy to provide the Finance Committee with a breakdown of the actual, or, where appropriate, the forecast costs, of the innovative finance schemes that we have implemented or announced. I will write to the Committee separately with this information.

Recommendation 8. We welcome the improvements to the presentation of the budget, which build on work begun last year. However we recommend this work continues to further improve the transparency of how the budget allocations are aligned to the Programme for Government.

Recommendation 10. The Welsh Government should ensure more transparency about re-prioritisation decisions. As much transparency should be provided for reductions as for additional allocations.

Recommendation 16. We recommend that any specific projects announced in-year should have its own budget line to increase transparency and clarity about funding commitments made.

We are committed to improving the transparency and presentation of our spending plans and I welcome the progress we have made together in recent years to further this agenda.

In this Draft Budget, we have looked to build on this work by providing clarity on the priorities that underpin our spending decisions and greater transparency in our budget narrative on how our allocations across different portfolios support these priorities in terms of Growth and Jobs, Educational Attainment and Supporting Children, Families and Deprived Communities. This is reflected in the thematic approach we have taken to the presentation of the narrative. Ministers have also taken steps in the Draft Budget narrative to highlight explicitly where policies and programmes support a preventative approach. Building on the work we did last year, we have also published, once again, a document setting out the alignment between the outcomes in the Programme for Government and our budget actions. Taken together, our approach this year has helped provide a better understanding of the priorities that underpin our spending decisions for both our stakeholders in the public sector, third sector and private sector, as well as better supporting the scrutiny process.

We remain committed to building on the work we have already done to improve the presentation and transparency of our spending plans, in particular considering options for how we present budget information. As we have previously discussed, there is no easy answer to the question of how much detail we should provide in the budget tables and there is no one budget format which will answer all the questions that every differing interest wants answered about the budget plans. We have to balance our commitment to providing information with the need to publish meaningful information. This includes agreeing a format which will make sense over the whole budget period, in order to enable year on year comparisons.

That being said, I will consider any scope for further improving the budget information we publish and, in that context, I look forward to progressing this agenda in partnership with the Finance Committee over the next year.

Recommendation 9. Within the health budget there is a lack of clarity around the intentions of the additional funding to deal with the Francis Review. We recommend that the Health Minister clarifies the position urgently.

On 17 October, the Minister for Health and Social Services issued a written statement providing further clarity on the use of this funding, including details of how the funding of £150m for 2013-14 will be allocated to each Local Health Board.

Taken together, this funding package of £570m represents a significant amount and it is crucial that it is targeted where it will make the most impact and deliver the best outcomes for the people of Wales. Such decisions need careful consideration and planning and further information on the use of this funding in 2014-15 and 2015-16 will be provided by the Minister for Health and Social Services in due course.

Recommendation 11. We recommend that Welsh Government takes greater efforts to evidence the value for money considerations that go into its funding decisions. Without clear evidence Assembly committees and the people of Wales are not able to say clearly whether Government policies and initiatives are delivering value for money.

We are committed to ensuring that our spending decisions are informed by robust evidence and that we consider value for money throughout policy development. This is more important than even in the current financial climate, when it is essential that the most cost-effective approaches to delivery are adopted.

Ensuring we achieve value for money through making the maximum use of available resources has never been so important for those delivering public services in Wales, which is why, in considering budget allocations, we have given a greater focus to prevention measures rather than mitigation. We have also considered equality, children's rights, socio-economic disadvantage, Welsh language and sustainable development in developing our spending plans and these considerations provide important evidence to support our decision making process. As the Committee is aware, the Equality Impact Assessment of our budget was published alongside the Draft Budget 2014-15.

In allocating additional capital funding between the Draft Budget 2014-15 and Final Budget 2014-15, we have looked to ensure that investment decisions are supported by robust evidence. This principle underpins our approach to capital investment more generally and we aim to deliver all major programmes and projects in accordance with best practice assurance principles - both in the business case development phase using the HM Treasury 5 Case Business Model, and in the delivery phase, drawing on best practice programme and project management. The Economic Case within the Better Business Case approach, demonstrates that a wide range of options have been considered and that the preferred option has the optimum mix of; benefits, costs, dis-benefits and risks.

We recognise that consideration of value for money should be an integral part of our policy development and decision making within the Welsh Government. My officials will continue to work closely with Departments to support more robust consideration of value for money and to ensure that resources are invested wisely.

Recommendation 12. We recommend the Finance Minister presses the Treasury to provide clarity on how financial transactions will impact on the Budget Exchange System, and the Welsh Government's freedom to carry forward capital.

I have been pressing Treasury for clarity on this issue and at the Finance Ministers' Quadrilateral meeting on 18 November we agreed, in principle, greater flexibility

around the use of the Budget Exchange System to manage financial transactions funding.

I will provide an update to the Committee when more detailed information is available on the arrangements for next year.

Recommendation 13. We recommend that the Finance Minister, working with colleagues in the other devolved administrations, seeks clarity from HM Treasury on the arrangements for repayment of financial transactions. We further recommend that she reports to the Finance Committee on whether the projects allocated financial transaction funding are capable of making the necessary repayments.

We are currently in the process of developing repayment profiles, and in their development, I have had discussions with colleagues in the other devolved administrations.

These profiles will need to be agreed with HM Treasury and I will update the Committee on progress with this work in due course.

Recommendation 14. We recommend that the Welsh Government's Strategic Budgeting department be given a stronger oversight role in ensuring that evidence provided to committees is accurate and timely.

Recommendation 15. 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.

We have taken a number of steps over recent years to improve the consistency of approach in the way information is provided to Committees and I welcome the Committee's acknowledgement of this in its report. These measures include producing guiding principles for Departments on submitting evidence to Committees, one of which is the importance of timeliness.

As part of the wider agenda to improve the transparency and presentation of Budget information, there is a working group at official level comprising representatives from each Department, including the central Budgeting team. This ensures a co-ordinated and joined up approach across all Ministerial portfolios, as part of the budget process. We will, of course, continue to explore how we can further improve the process in light of the Committee's recommendations.

Recommendation 17. We recommend that the Welsh Government works with local authorities to identify the sweet spot between the Welsh Government's desire for accountability, and local government's desire for freedom to spend its own way. A successful agreement, which scrapped specific grants, could free up significant money for front line services.

During the Summer, the Minister for Local Government and Government Business discussed options with other Ministers for rolling further specific grants into the

Revenue Support Grant, with the aim of increasing the flexibility available to local authorities.

As the Finance Committee has recognised, we need to balance this approach with the need to retain a level of accountability. We have already taken steps to increase the flexibility available to local authorities by reducing the number of hypothecated grants. In the Draft Budget 2014-15, we transferred £64.7m of Grants into the Revenue Support Grant, which comprised £28.6m in respect of post-16 special education needs (SEN); £32.9m in respect of the Learning Disability Resettlement Grant; and £3.2m in respect of the First Steps Package. This takes the total value of grants rolled into RSG so far during this Assembly term to over £150m.

The Minister for Local Government has commissioned a review in partnership with Local Government of funding flexibilities, which will consider how best to ensure funding, including specific grants, can be used for its intended purpose whilst providing appropriate flexibility and reducing administration. We will report on the review's findings in due course.

Recommendation 18. We recommend that all political parties involved in future budget negotiations should provide as much clarity as possible on intended outcomes and value for money of commitments, particularly where those commitments span multiple years.

We are committed to ensuring that our spending plans are aligned to deliver the outcomes we want to see for Wales and that value for money considerations underpin our decision making processes. These principles apply equally to the allocations we make as part of budget negotiations. In the context of this year's budget, the agreement with Plaid Cymru and the Welsh Liberal Democrats reflects our shared priorities for Wales and clearly aligns to our previously stated priorities to increase educational attainment and to support vulnerable people.

As a Government, we are held accountable for all of the decisions we make, which is why I was pleased we were able to reach an agreement this year at an earlier stage. This approach has meant that, for the first time, the Assembly has had the opportunity to scrutinise a Budget in full and I know that this earlier agreement has been welcomed by both our stakeholders and by the Finance Committee.

Recommendation 19. We recommend that Ministers work swiftly to clarify: what the Intermediate Care Fund is intended to achieve; and what the process and criteria will be for submitting and approving bids. We also recommend that a thorough evaluation is undertaken of the fund after the first year of operation and report submitted to the Finance Committee on whether it provided value for money.

Our investment in the Intermediate Care Fund reflects our commitment to modernise services, improve co-operation across public services and support a more coordinated and joined up approach between health, housing and social care services.

The broad tenets and scope of the Intermediate Care Fund, which has been established with £50m in 2014-15 only, have been discussed with Plaid Cymru and Welsh Liberal Democrat Spokespeople and has been broadly welcomed by our stakeholders. We are working to develop detailed proposals as matter of priority.

The Deputy Minister for Social Services will provide an update to the Assembly on this work shortly.

Recommendation 20. We reiterate the recommendation of the Communities, Equalities and Local Government Committee that Equality considerations should be an integral part of the budget process at a formative stage. Children's rights should be a key part of this process.

The Welsh Government is committed to assessing the impact of our spending decisions on the people of Wales and we have worked to consider equality, socio-economic disadvantage, children's rights, Welsh Language and sustainable development throughout the budget planning process. This approach, which has built in these considerations from the outset, has ensured that our spending decisions reflect the different needs of the Welsh population now and in the longer term.

As the Committee is aware, this year we have taken steps towards an integrated approach to impact assessments by publishing the outcome of our work to assess the impact of our spending decisions in one document – the Equality Impact Assessment. This approach, which includes children's rights considerations, supports the recommendation in your report on the Draft Budget 2013-14, that we move towards a more integrated approach to impact assessments. Of course, the primary focus this year has remained on equality but this reflects our relative experience of the various impact assessments and the more developed equality legislation.

In terms of children's rights specifically, we are committed to meeting our obligations under the Rights of Children and Young People (Wales) Measure 2011. For this budget, we have also considered how our spending decisions respect or give greater affect to the articles contained within the UN Convention on the Rights of the Child. We are looking to build on our approach to consider children's rights in future budgets alongside the work we are doing to improve our approach to impact assessments more generally. This work will reflect the requirement under the Rights of Children and Young People's (Wales) Measure 2011 that due regard to the UNCRC will apply to all Ministerial functions from May 2014.

The Programme for Government also sets out our commitment to improve the transparency of budgeting for children and young people at Welsh Government level. In accordance with article 12 of the UNCRC, we have ensured that appropriate information is available to children and young people. Actions we have taken to support this include developing two toolkits, the first aimed at improving the financial capability of young people aged 11–19 to enable them to gain better control of their personal finances and the second to support local authorities and their partners to involve young people in making decisions about how to spend local budgets that affect them. In line with our approach last year, we have also published a leaflet

alongside the Draft Budget, which provides information on our spending plans for 2014-15 in an accessible format for children and young people.

Within the context of the proposed Future Generations (Wales) Bill, we are also taking steps to move towards a more integrated approach to impact assessments, including our considerations around the Rights of the Child, and will look to build on this in future budgets.

Recommendation 21. We recommend that the Welsh Government reviews its formal and informal mechanisms for indicating future budgets to public delivery bodies in the light of this year's experience. This should include consideration of a formal annual forward look before the end of the summer term which would give a clear indication of the best and worst case scenarios for changes in the following year's budget and provide support for public bodies to plan on that basis.

We recognise the importance of providing clarity to our stakeholders and over the course of this Spending Review period, we have worked closely with the wider public sector, the third sector and private sector to help them manage what has turned into a series of difficult budget settlements. Over the last few years, the financial landscape has changed significantly and we acknowledge the challenges that this has presented for our partners in responding to these changes.

Since we first published our indicative plans for 2014-15 in Autumn 2011, our revenue budget for that year has reduced multiple times and even since publishing our indicative plans last Autumn, the UK Government has reduced our Budget twice, so it is now £81m lower in 2014-15 than at this stage last year. Whilst these changes have posed a challenge in our own planning, we also recognise the impact on our delivery partners.

In the context of the Draft Budget 2014-15, we have warned for some time about the stark reality of the difficult decisions and challenges we faced in delivering our priorities within a budget that is reducing in real terms. In particular, the Minister for Local Government discussed the potential for changes in budget levels and the necessity for service change to improve efficiency, with Local Government representatives over recent months. Over the Summer, I, alongside my Ministerial colleagues, undertook to engage and consult on our priorities with our partners at the sharp end of delivery – in local government and the third sector, and also with service users.

Whilst we have taken steps this year to engage with our partners, we will reflect on our processes to ensure that our stakeholders are best able to manage any further adjustments. This reflects our commitment to work openly and transparently and to support our delivery partners in responding to new pressures, rising demands and costs pressures which outstrip general inflation levels.