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Mr Darren Millar AM  
Chair of the Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff CF99 1NA

Date: 14 January 2014  
Our ref: HVT/2051/fgb  
Page: 1 of 1

Dear Chair

I am writing to share the attached exchange with the Permanent Secretary concerning the presentation of the additional funding for health in the draft budget for 2014-15. The exchange is relevant to the Committee's consideration of its draft report on Health Finances.

The exchange concerns the issue of whether the budget provides for a real terms increase in spending on health. The main issue concerned the impact of the additional £150 million for 2013-14 on any comparison between years. The Permanent Secretary has responded positively to this query and has taken action to amend the tables in the final budget, which now include a footnote explaining that, once the additional funding is taken into account, there is indeed a real terms reduction in health funding in 2014-15.

Yours sincerely

**HUW VAUGHAN THOMAS**  
**AUDITOR GENERAL FOR WALES**

*Encs*



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Mr Derek Jones CB  
Permanent Secretary  
Welsh Government  
Cathays Park  
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Date: 19 November 2013  
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Page: 1 of 2

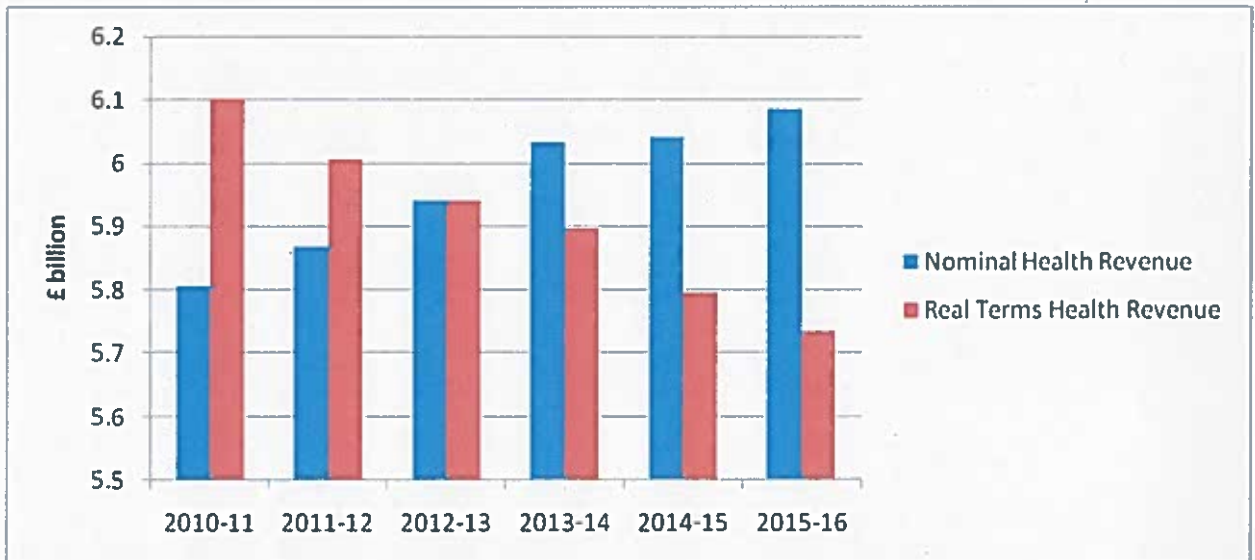
*Dear Derek*

I am writing to draw to your attention an issue with the presentation of the draft 2014-15 Budget proposals and specifically the presentation of 'additional funding' for health. My own analysis of the figures does not support that presentation. As these figures will underpin my next annual report on Health Finances, I should be grateful if you, as Principal Accounting Officer responsible for the overall Welsh Government budget, could confirm that the position that I have outlined below is factually accurate.

Table 19.1 of the Draft Budget Narrative describes the year-on-year position in respect of revenue funding for the Health and Social Care Department. It purports to show a 1.1 per cent real terms increase in the revenue allocated to NHS Delivery in 2014-15. I note that a Briefing Paper prepared by Members Research Services, to support Assembly Members' scrutiny of the budget, also reports the same real terms increase for 2014-15.

The difficulty of the reported year-on-year position is the use of the Supplementary Budget 2013-14 as a baseline. The baseline budget for health services in 2013-14 changed significantly as a result of the additional £150 million in-year allocation to health. Clearly, the additional funding for 2013-14 impacts on the year-on-year change between 2013-14 and 2014-15. Consequently, having taken account of this additional funding in 2013-14, it means that, in real terms, the NHS Delivery revenue budget will be 1.6 per cent lower in 2014-15 than 2013-14.

I thought it would be helpful to show how I would be likely to present the position across the 'health revenue budget' in my next annual report on Health Finances, which would be consistent with the approach taken in my previous reports in July 2012 and July 2013. My analysis, summarised in the Figure below, shows that 2014-15 will see a 1.7 per cent real cut to the health revenue budget. This would be the largest real year-on-year reduction to health revenue since the introduction of public spending cuts in 2010-11.



As you will see, that presentation contrasts starkly with the presentation within the draft budget proposals which are currently being scrutinised by Assembly Members. Given the importance of the year-on-year position to my work examining financial planning in NHS bodies and the overall health system, I should be grateful if you could confirm whether my understanding of the financial pressures on the budgets for health, as summarised here, accurately reflects the position for 2014-15 and 2015-16. If there are any queries on the basis of our analysis, my staff would be happy to explain further.

I am copying this letter to David Sissling, and Michael Hearty.

**HUW VAUGHAN THOMAS**  
**AUDITOR GENERAL FOR WALES**

cc Mr David Sissling, Director General for Health & Social Services, and  
Chief Executive, NHS Wales  
Mr Michael Hearty, Director General, Strategic Planning, Finance and Performance

Derek Jones CB  
Ysgrifennydd Parhaol  
Permanent Secretary



Llywodraeth Cymru  
Welsh Government

Mr Huw Vaughan Thomas  
Auditor General for Wales  
Wales Audit Office  
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Dear Huw,

19<sup>th</sup> December 2013

Thank you for your letter concerning the presentation of the Draft Budget published by the Government in October. The Finance Minister has been clear about her commitment to transparency in presenting the Budget proposals and to providing an appropriate level of information to support the Assembly's scrutiny. Given the importance of effective scrutiny, I take your concerns very seriously.

Over recent years, the Finance Minister has undertaken work with the Finance Committee to improve the quality of Budget information and to help the Assembly's Budget scrutiny. That work has acknowledged the complexity of the information that we are presenting and the variety of different purposes for which stakeholders use the information. The current budget presentation seeks to balance the Government's desire to show clearly the changes that it has made to its previous spending plans with the Assembly's desire to see clearly the year on year changes. The compromise position in the Draft Budget narrative is that the main body of the document highlights the changes for any given year compared to the last published figures for the same year and an annex provides the information on the basis of year on year changes.

The issues that you raise relate to the information provided in the annex and specifically the baseline year for comparisons. In that table, we have adopted our normal practice of using the latest published figures. This approach responds to a previous recommendation made by the Finance Committee and reflects the Assembly's desire to have figures which are easily reconcilable to the last set of figures that they scrutinised, in this case the June Supplementary Budget. It is not usual for the plans for the current year to be altered by announcements at the Draft Budget. However, in this instance it



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was felt that the additional allocation to the NHS for 2013-14 did have a bearing on future years and so was announced alongside the Draft Budget. The allocation for 2013-14 will not be reflected in plans for that year until the Second Supplementary Budget, and for this reason was not included in the baseline on which table 19.1 was based.

Whilst the numbers used in table 19.1 are factually accurate and reflect the standard approach that we have adopted to presenting numbers, I acknowledge that, in doing so, they cannot fully reflect the announcement that accompanied the Budget. I would like to stress that at no time during the scrutiny period have Ministers claimed that there is a real terms growth in the NHS budget – rather they have highlighted the challenge that the budget settlement represents. Nevertheless, in publishing the Final Budget, we have included a footnote to the comparable table to highlight that once the in-year allocation is included there is a real terms reduction in NHS funding in 2014-15.

Turning to the chart that you include in your letter, without seeing the source figures we can not validate the numbers – I am sure that there will be an opportunity for our officials to agree on the figures and presentation before you publish your next report. However, I do not dispute your conclusion that there is a real terms reduction in the NHS budget between now and 2015-16.

I trust that this responds to your concerns and thank you once again for raising the issue.

Yours,  
David