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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
Cardiff
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19 September 2014

Dear Jocelyn,

**FINANCE COMMITTEE'S REPORT: SCRUTINY OF SUPPLEMENTARY BUDGET -
July 2014**

Thank you for your letter of 10 July enclosing a copy of the Finance Committee's report on the Welsh Government Supplementary Budget - July 2014.

I enclose a note at Annex A, which responds to the recommendations contained within the Committee's report on the First Supplementary Budget 2014-15.

Best wishes,
Jane

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Response to Recommendations in Finance Committee Report

Programme for Government

Recommendation 1: While the Committee recognises that the Government is making progress in this area, and that there are a number of difficulties in presenting the budget allocations against the Programme for Government, we still expect to see continual progress towards linking budget allocations to the Government priorities in each budget round.

The Welsh Government welcomes the Finance Committee's acknowledgement of the progress that has been made to improve the transparency and presentation of its spending plans, including the progress made in previous Draft Budgets to draw out the links between the Programme for Government (PfG) and budget allocations.

As the Minister for Finance and Government Business set out in her letter of response on the 9 September to the Finance Committee's report on best practice budget processes, the Government and Committee have a shared objective to understand more about how allocations link to the objectives of spend. In this regard, the significance of the Well-being of Future Generations Bill and the anticipated improvements in performance management and scrutiny will combine to shape how the Government plans and reports in future. In taking this work forward, it will be important to take the opportunity of developing a fresh approach, which supports the clarity and transparency we strive for. As the Minister for Finance and Government Business has indicated, the Government is keen to build a strong evidence base around current experience and practice of the budget process and scope for improving it.

Alongside this work, we will continue to describe, in our Budget narrative, what will be delivered through the budget allocations to each Main Expenditure Group. This year's Programme for Government Annual Report was a step forward in aligning targets to the process we make.

Pupil Deprivation Grant and 1% Schools Protections

Recommendation 2: The Committee welcomes that the additional money for pupil deprivation grant is administered through the regional consortia directly to schools. However, the Committee feels that there is some confusion and misunderstanding around the 1% increase for schools, and whether the pupil deprivation grant is additional to this. We believe that a clearer explanation is needed with regards to what is meant by the 1% increase to help schools plan effectively and would recommend that this is published alongside the data on the 1% protection.

The Welsh Government recognises the importance of being open and transparent, particularly in terms of the delivery of its key commitments. That is why, in the context of the 1% protection for schools funding, the former Minister for Local Government and Government Business wrote to all Local Authorities in Wales to explain how the schools protection would be funded in 2014-15. Following this, the former Minister for Local Government and Government Business also wrote to all Assembly Members on 22 July to provide information which shows that local authorities in Wales have met, and in many cases exceeded, the required protection for front-line schools spending in each year since the beginning of this Assembly term.

Whilst these steps reflect our commitment to provide clarity on the delivery of the schools protection, the Welsh Government recognises that the funding arrangements for schools are complex. In light of this, the Minister for Finance and Government Business is considering options for providing further information on how we are delivering the commitment to increase schools funding by 1% above changes to the DEL.

Capital – Wales Infrastructure Investment Plan

Recommendation 3: While the Committee understands that there may be a significant number of projects that fall under the threshold, there needs to be a centrally held list of these projects, and more information published about these projects. Projects valued at just under £15 million are a significant investment and should be mapped against the WIIP. The release of this information could be done via banded information or through releasing information about WIIP projects above a certain cut off point, for example £1 million. This is essential to be able to establish links between the WIIP and the budget.

As outlined to the Committee in July, since May 2012 the Wales Infrastructure Investment Plan pipeline has detailed all nationally strategic and significant Welsh Government investments with a total scheme value of over £15m and more recently, local authority investments over £2m and private sector rail and energy schemes. Further to the Committee's request to receive additional information on the number and total value of the projects which fall under the £15m threshold, a geographical breakdown of Welsh Government capital investments with a total value of £500k, is provided at Annex B.

Recommendation 4: The Committee believes that it is important to consider the outcomes of any proposed capital projects to make sure the projected savings are achieved.

Maximising the value for money provided by our investments is a priority of our Wales Infrastructure Investment Plan (WIIP). Central to this is high quality business assurance and scheme delivery across the Welsh Government and the wider public sector. Over recent years, we have taken steps to introduce a standardised best practice approach to business case development and appraisal, better monitoring of investments and a new approach to management and control of major schemes.

Since we published the WIIP, we have invested available Welsh Government capital Reserves in line with our investment priorities. Through our Better Business Case best practice, approach, business cases are in place for all schemes to achieve best value for money as well as monitoring and evaluation arrangements to measure their progress and the outcome.

This process is designed to ensure that capital investments represent value for money and will deliver our policy objectives. We invest capital to achieve a range of objectives, including but not exclusively the delivery of more efficient and economical public services. Where this is the objective, it is important to understand that against the backdrop of austerity this can be investing to limit the upward trend in costs, rather than achieving cash savings per se. As the population and the expectation of public service provision increases, so do the costs.

Additionally we use the better business case process to reduce costs of projects over their life span. Where our investments are delivering savings (over original estimates) during the construction phases, the monies are often recycled back into the schemes. For example some of the 21st Century school investments have used construction savings to increase the scope of the service provision provided by the facilities.

A further category of savings relates to preventative spend. The Welsh Government is investing for a sustainable future. Our flood investments for example do not directly save money, however they do protect Welsh citizens and significant infrastructure assets, reducing environmental damage and ongoing maintenance costs to the private and public purse. In addition our Arbed and Nest energy efficiency schemes do not produce direct savings for the public sector expenditure, but instead they enable individual citizen's to live in more efficient properties, reducing the individual energy bills.

In the evidence session on the First Supplementary Budget 2014-15, the Minister for Finance and Government Business agreed to provide the Committee with examples of schemes which have delivered cost savings. Details are provided at Annex C.

Budget Process

Recommendation 5: The Committee recommends that any in year announcement from a Minister tied to a funding allocation sets out clearly where funding is being sourced, whether from existing departmental budgets, or a transfer from reserves or another department.

The Welsh Government recognises the importance of providing clarity on the costs and sources of funding for in-year announcements.

As the Minister for Finance and Government Business acknowledged in Committee, this information can be helpful and constructive as part of financial scrutiny. In this context, the Welsh Government will look to ensure that it provides greater clarity on issues of funding.

Recommendation 6: The Committee recommends that the Welsh Government publish all Barnett consequentials (both positive and negative) as they come through from the UK Government. The Committee believes that this would help make the consequentials more easily identifiable and transparent.

The Welsh Government acknowledges the Committee's interest in receiving information regarding Barnett consequentials and will look to provide information on the impact of consequentials on the Wales DEL following UK Government fiscal events.

Annex B - Welsh Government capital investments

Table 1 below provides a breakdown of the data that we currently have available. The map at Figure 1 illustrates how the postcode areas relate to the economic regions.

The following points should be noted when considering validity of the data:

- The data is a snapshot of Welsh Government capital investments collated from departments, in July 2014 with a total scheme value of over £500,000;
- Whilst every effort has been taken to ensure the widest scope of Welsh Government schemes are captured, due to commercial sensitivities it cannot be guaranteed that all investments are captured;
- Total scheme value includes a combination of Welsh Government funding and other funding sources from across the private sector, public sector and European funds;
- Geographical location of investment has been determined where possible using a postcode indicator;
- Welsh Government investment figures for 2014-15 were correct as of July 2014.

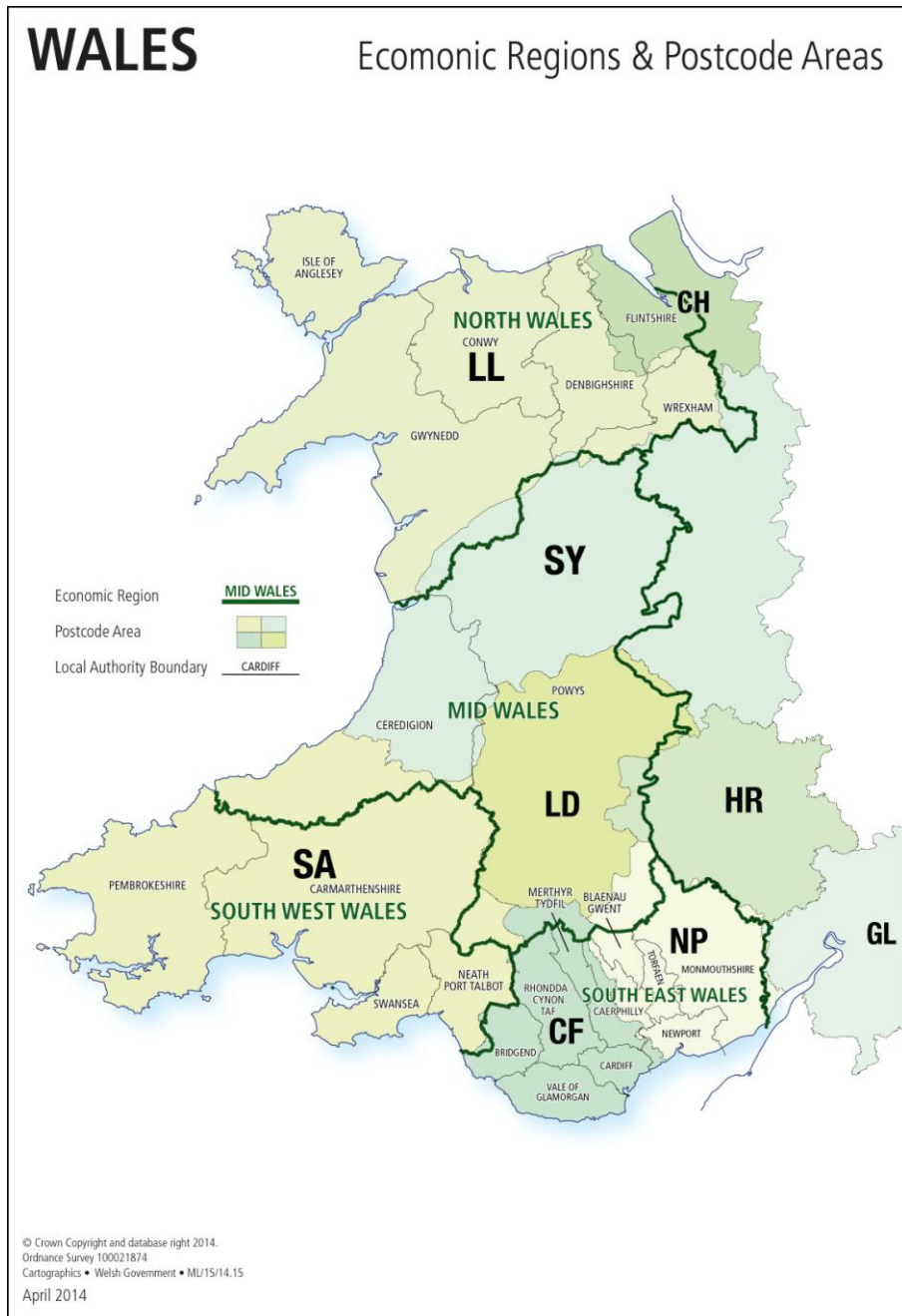
Table 1. Capital Spend per Region and postcode area

Economic Region	No. of Schemes	2014-15 WG Forecast	Total WG capital investment £m	Total scheme value £m*
All-Wales	73	312.238	1,260.499	2,163.291
North Wales Postcode Area: <ul style="list-style-type: none"> • Chester • Llandudno • Shrewsbury 	182	199.006	938.961	1,570.100
Mid Wales Postcode Area: <ul style="list-style-type: none"> • Llandrindod Wells • Newport • Shrewsbury • Swansea** 	79	73.312	343.769	466.293
South-East Wales Postcode Area: <ul style="list-style-type: none"> • Cardiff • Newport 	399	344.872	4,073.293	5,543.566
South-West Wales Postcode Area: <ul style="list-style-type: none"> • Swansea** 	192	174.150	1,135.489	1,904.689
Total	925	1,103.577	7,716.011	11,647.939

* includes Welsh Government and other sources of funding

** postcode area spans multiple economic regions – see Fig.1

Figure 1.



Annex C - Examples of capital projects which have delivered cost savings

Health

Cardiff & Vale University Health Board (C&VUHB) – Development of an Adult Acute Mental Health Unit, University Hospital Llandough (UHL)

The scheme will bring together all general adult mental health inpatient services from Whitchurch Hospital and the Llanfair Unit at UHL and also specialist services for clients requiring low secure, addiction, neuropsychiatry, intensive care, supportive recovery services along with associated therapy and support services. Work commenced in August 2013. Anticipated completion January 2016

- Benefits/outcomes: One of the main outcomes and benefits to be derived from the proposed investment is to improve quality, safety and effectiveness of acute inpatient care for adults with mental health problems in modern facilities which is designed to ensure:
 - Improved access to specialist support;
 - Gender specific accommodation;
 - Reduction in stigma;
 - Meets expectations for privacy, safety, dignity, accessibility, cultural background;
 - Improved access to physical healthcare, including diagnostics;
 - Improved access to mental health advice and support and reduction of disruption to care programme and exposure to stressful situations for those requiring other healthcare provision.
 - Consistent quality of service for residents of both Cardiff and the Vale of Glamorgan;
- Total costs: The total project cost and total Welsh Government Funding will be £88m.
- Savings: The business case identifies revenue savings of £0.434 million per annum as a result of the overall reduction in beds, together with economies of scale arising from the co-location of mental health services on the UHL site.

Health Vision Swansea Phase 1B scheme 2 - Development of clinical support and diabetic services accommodation at Morriston Hospital.

The scheme will develop a new accommodation block for Clinical Support and Diabetic Services Accommodation, a new sub-station and site rationalisation at Morriston Hospital. Diabetic clinical accommodation is temporarily located in refurbished accommodation.

- Benefits/outcomes: The proposed development will provide proximity for the Diabetic clinic to core services and enable access to DDA-compliant car parking.

It will be fully compliant with national best practice in terms of layout and configuration, and sited in a fully complaint stand-a-lone clinic with easy access for patients. The development will also provide compliant, clinical and administrative accommodation for over 562 people who are located within the oldest and poorest quality; non compliant accommodation parts of Morriston Hospital, or inappropriately within clinical areas on wards. These include consultants and clinical support staff, renal support staff, and capital planning staff, and staff providing Diabetic Clinical services and the Health Board's Occupational Health services.

The full business case (FBC) is due to be submitted by the Health Board in early August which could enable the full start on site to occur in September 2014. With a 53 week build programme, the completion is currently projected to be late 2015. Opening of the facility is likely to be 4-6 weeks later once all of the equipment has been delivered and operational commissioning complete.

- Total costs: The total investment is £18.443m, including non-recoverable VAT.
- Savings: The outline business case projects that it will deliver recurring revenue savings from 2016-17 of £1.001m.

Powys Teaching Health Board – Integrated Health and Social Care Centre for Builth Wells

Powys teaching Health Board and Powys County Council working in partnership with the Community Health Council, Powys Association of Voluntary Organisations, local GP's and other community stakeholders to develop a new model of integrated health and social care services for Builth Wells. The new facility replaces Builth Cottage Hospital which closed in January 2013. The ground floor provides a range of patient services whilst the upper floor houses a 12 bedded, GP managed in-patient facility.

Services include: wound care, minor surgery, dentistry and a range of consultant outpatient clinics. The latter include age care medicine; urodynamics and prostate assessment clinic; and palliative care.

- Benefits/outcomes: Extended community nursing hours into the evenings, extending the options for care at home especially palliative care that is mostly currently provided in Powys hospitals
 - A reablement service that will provide domiciliary physiotherapy and occupational therapy to assist people to adapt to remaining at home after illness
 - Faster access to domiciliary social care services to provide a rapid response care service for people in urgent need
 - Provision of a minimum framework of third sector Tier 1 services in line with a model of services being developed across
 - Hospice at home services provided by the third sector
- Total costs: Total capital costs £5.25m

- Savings: In terms of revenue, Powys Local Health Board state that this scheme generates significant recurring revenue savings, of c. £0.7m per annum.

Education

Abercynon Community Primary School, RCT

The project for a new build community primary school at Abercynon, Rhondda Cynon Taf was approved under the Transitional 3 School Buildings Grant Programme.

- Benefits/outcomes: The project delivered a brand new 2 storey, 420 place primary school with SEN provision.
- Total costs: The total project cost was £8,871,697, with Welsh Government contribution of £6,210,188 and Local Authority funding of £2,661,509.
- Savings: Capital savings of circa £1.8m were realised on this project. The savings were primarily generated due to good economic conditions, the procurement strategy used and other efficiencies. In November 2013, Welsh Government's Capital Investment Panel agreed to approve the re-investment of the £1.8m into a Welsh medium primary school (Llwynocrwn, Beddau) where substantial refurbishment would take place including the use of standardised build product.

Ysgol y Gogarth, Conwy

The project was approved under the Transitional (Tranche 3) Funding Programme, for a new build Special Education Needs School in Llandudno, for the county. The new two storey school replaced the existing 1960's one storey school and also provided new residential for approximately 180 pupils between the ages of 3 and 19, with a wide range of disabilities and individual needs, in more inspirational environments

- Benefits/outcomes: Conwy local authority had a strategic vision for their additional learning needs provision, which was to central provision for the county on to one site. This project met this vision, delivering a school facility with specialist facilities, such as a hydrotherapy pool, light room, quiet room, an ICT suite, Sensory & Autism classes, outdoor learning environments, outdoor pursuits facilities and vocational areas such as horticulture, car valeting. The school also serves as an exceptional central facility to allow disabled/ALN students from primary to secondary school age to be educated in county and have better access to education social workers and clinics that they require.
- Total costs: The total project cost was circa £18.157 million, with a Welsh 70% contribution of circa £12.701 million and local authority funding circa of £5.456 million.
- Savings: Capital savings of circa £3.807 million on the original project cost of circa £21.964 million have been realised on this project. The savings were primarily made through value engineering as part of the procurement process.

Flood and Coastal Risk Management

Colwyn Bay

The Colwyn Bay scheme renewed existing coastal defences and raised beach levels to reduce risk to homes, businesses and infrastructure.

- Benefits/outcomes: Reduced risk from coastal flooding to 200 homes and businesses, the North Wales mainline railway and the A55. The project also allowed for economic growth and regeneration of the area in the form of a revitalized waterfront, promenade and beach area and improved recreation, sport and tourism facilities
- Total costs: This was jointly funded through Welsh Government (FCERM and Regeneration budgets), European Regional Development Fund and Conwy County Borough Council. Total project costs (including regeneration element) was £11 million. £5million of which was for the coastal defence work (£2.287 million ERDF and £2.713 million WG).
- Savings: Direct savings of around £1-2 million were made during this project by working on the coastal flood defence and regeneration work in tandem rather than separately.

Energy efficiency

Arbed 2 ERDF

The Arbed 2 ERDF area based energy efficiency scheme is a £45 million programme that has a £33 million investment from the European Regional Development Fund (ERDF). The scheme is scheduled to run from 2012 to 2015 and targeted with the improvement of nearly 4800 homes and the creation of 283 new jobs. The scheme has to date completed over 3000 homes and exceeded the jobs target by creating over 470, these included 107 new employment opportunities for people that live in or near Tackling Workless Households (TWH) Communities First clusters.

In addition to delivering energy efficiency improvements to Welsh homes across Wales Arbed 2 ERDF is having a wider impact and benefit on our communities that are in addition to the original plan; Fochriw in Caerphilly has benefitted from the installation of solar PV panels at the local community hall, which is the hub of the village. The system has been provided free of charge to the community by the SMEs and supply chain companies who have been working in the village. The system will provide sustainable low cost energy to the community hall as well as a long term income through the 'feed in tariff'.

The Arbed scheme managers have also worked in the development of the 'Value Wales Community Benefit Tool' and have realised up to a £2 return into the local communities for every £1 of investment by the scheme.

Nest

The Welsh Government's fuel poverty programme 'Nest' has helped over 56,000 householders with advice and support to reduce their fuel bills, increase their income, and improve the energy efficiency of their homes, since the scheme started in April 2011, this exceeds the schemes targets of 45,000 in the same period. Over 13,400 of these householders, who were on low incomes and living in the most energy inefficient homes, received a package of free home energy improvements.

These improvements are estimated to deliver average energy bill savings of over £475 per household per year, making a real difference to people who are struggling with the impact of flat-line or falling incomes and Welfare Reform, in addition to significant energy price rises.

Nest is working in partnership with the Prince's Trust to launch 'Get into Engineering' Local SMEs working on Nest are involved and as part of this 30 young people will attend a 'taster day'. 15 of these young people will go on to participate in an agreed programme of training and work experience.