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Annwyl Peredur

Review of the Statement of Principles

Thank for your letter of 4 May 2023 seeking views on the Statement of Principles (the Principles) and on the supplementary budget/estimate process.

I am responding as Auditor General in two capacities and with the agreement of the Chair of the Wales Audit Office, on her behalf also. The two capacities in which I respond as Auditor General are (a) as the Chief Executive of the Wales Audit Office, which is the “relevant person” in the meaning of section 124(3) of the Government of Wales Act 2006 (i.e., a body that receives funds from the Welsh Consolidated Fund (WCF), as approved by annual and supplementary budget motions), and (b) as the controller of issues from the WCF.

The Statement of Principles

Looking at the Principles afresh, they seem to omit some key considerations that are relevant to a proper budget/estimate process for directly funded bodies (DFBs). I think this risks driving a lopsided approach.

I think it would be helpful to include in the introduction to the Principles some recognition of the reason why the DFBs have a distinct budget/estimate process, to ensure that that is not overlooked.

Each of the DFBs perform functions that are necessary for the overall healthy functioning of a parliamentary democracy and good administration. This includes, among other things, scrutiny of Welsh Ministers (the executive) and wider public sector, and safeguards against government misuse of public money. While DFBs should, of course, be mindful of wider pressures on the public purse, there are risks in tying their funding too closely to short-term variations in block grant or overall Welsh Government resourcing.

For DFBs and their support of the Senedd to be effective, they need to operate independently of the executive, including in terms of decisions on their funding. In particular, in order to maintain the proper functioning of DFBs, decisions on DFBs' financing need to be kept separate from the Welsh Ministers' prioritisation of executive government spending. Accordingly, the law requires each of the DFBs to present a separate budget/estimate for consideration by the Finance Committee, rather than providing for this to be included from the outset in Welsh Ministers' budget proposals.

Within the text under the heading "Principles approach" I think it would be helpful to include some further reflection of the fundamental point outlined above. I would suggest including a line or two to say that budget requests should be made with full regard to the resourcing needed for the DFB to properly undertake its statutory functions, including with regard to the constitutional significance of those functions in both the short and long terms.

I would also suggest revising paragraph 5 so that it is symmetrical in effect. I suggest adding at the end, "Neither should DFBs assume that a reduction in the block grant must lead to a decrease in funding."

At a somewhat more operational level I note that paragraph 8 of the Principles says:

The Minister for Finance and Trefnydd will provide information to the Finance Committee prior to summer recess on various factors which can be drawn upon to inform future budget plans such as the latest guidance on public sector pay remits, GDP deflator forecasts, forecasts of devolved taxes and the Welsh Government's best possible assessment of the overall level of funding available in future years. This information will be forwarded on to DFBs by the Finance Committee for consideration.

This is reasonable in itself. However, the assessment received in the Minister's letter to you 14 July 2022 of the overall level of funding available in future years said that

there would be, “*very little growth in resources over the next two years,*” but did not quantify this and only provided some contextual statistics, such as those concerning the UK Government’s fiscal deficit. Such an unquantified assessment was not of great practical help to DFBs attempting to meet the Principles, particularly that set out in paragraph 3, “*Budget requests should be set in the context of the long term financial funding situation in Wales.*”

It would be helpful therefore if the Statement were amended to require the Minister to provide a numerical estimate of the overall level of funding available in future years, preferably in terms of overall percentage change by year. I realise, of course, there will inevitably be uncertainty, but expression of the estimate in terms of a range of percentage changes around a mid-point, would nonetheless be helpful.

The supplementary budget/estimate process

I do not see a pressing need for Standing Orders to be amended to include provision for DFBs to provide an explanatory memorandum sooner than the current requirement when the Welsh Government tables its Supplementary Budget motion. Clearly, in practice, any proposed variation is accompanied by necessary explanatory material, and it is in the interests of DFBs to do so to inform the Committee’s consideration. If that is working to the Committee’s satisfaction, I do not think it necessary to amend Standing Orders, especially if that removed the current scope for pragmatism and flexibility.

A more useful amendment would be to require the Welsh Ministers to give notice to the Auditor General (as the controller of the WCF) of their intention to present any supplementary budget motion. In my controller function, I am required to authorise the lawful issue of money from the WCF. Not all supplementary budget motions contain proposed variations for Wales Audit Office (which the Auditor General would be aware of), and as the Welsh Government do not notify the Auditor General (or WAO staff working on his behalf) of their intentions to present such motions, time must be spent checking for the presentation of such motions. Amending Standing Orders to require such notification would assist efficiency and reduce the small chance of error.

Yours sincerely



ADRIAN CROMPTON
Auditor General for Wales