

Mark Drakeford AM/AC
Ysgrifennydd y Cabinet dros Gyllid a Llywodraeth Leol
Cabinet Secretary for Finance and Local Government



Llywodraeth Cymru
Welsh Government

Simon Thomas AM
Chair, Finance Committee
National Assembly for Wales
Cardiff
CF99 1NA

9 January 2017

Dear Simon,

**Finance Committee's Report: Scrutiny of Welsh Government Draft Budget
2017-2018 (November 2016)**

I am pleased to respond to the Finance Committee's report on its scrutiny of the Draft Budget 2017-18 (November 2016).

I enclose a note at Annex A, which responds to the recommendations contained within the Committee's report.

A handwritten signature in black ink that reads "Mark Drakeford". The signature is written in a cursive, slightly slanted style.

Mark Drakeford AM/AC
Ysgrifennydd y Cabinet dros Gyllid a Llywodraeth Leol
Cabinet Secretary for Finance and Local Government

Response to Finance Committee's report on the draft Budget

Programme for Government

Recommendation 1: The Committee recommends that in future years the draft Budget documentation should clearly demonstrate how the Programme for Government has informed and driven the budget setting process and also shows a stronger link to the outcomes that the funding is expected to achieve.

Response: Accept in principle

Taken together, the 2017-18 Draft Budget narrative and 'Budget At A Glance' leaflet clearly set out how spending plans were informed by '*Taking Wales Forward*' and how our Budget makes progress in delivering our ambitions for Wales and against the key commitments in our programme for government.

When the Cabinet Secretary for Finance and Local Government gave evidence to the Finance Committee, he said that the presentation of budgetary information is an evolving process and the Committee acknowledged this is the case. In terms of outcomes, he said that it is not always easy to draw a direct line between funding and outcomes but that the system as a whole is much more focused on trying to capture the outcomes and the difference that spending makes to people's lives. He also referred to the discussions that individual spending Ministers have to identify specific outcomes that they expect programmes to secure.

In preparing for future budgets, we will reflect on the evidence and feedback received during scrutiny of the Budget.

Taxation and Borrowing

Recommendation 2: Whilst welcoming the transparency from the Cabinet Secretary regarding borrowing, debt and repayments, the committee believes this information should be more readily available and recommends that detailed information on Welsh Government financial commitments should be included, and easily accessible within the draft Budget documentation.

Response: Accept in principle

In his letter to the Finance Committee on 1 November, the Cabinet Secretary for Finance and Local Government provided the latest information on the impact of borrowing on budgets, including in respect of revenue funded borrowing schemes.

We will undertake to publish details of any new borrowing commitments on an annual basis, and, in doing so, will consider the most appropriate time in the budget cycle to do this.

Recommendation 3: The Committee believes the detail around the non-domestic rates income, including the provision of meaningful forecasts

and level of non-domestic rates carried forward, should be more transparent and recommends the inclusion of these details in draft Budget documentation to aid transparency.

Response: Accept

When the Cabinet Secretary for Finance and Local Government gave evidence at Finance Committee in October, he explained that forecasting non-domestic rates income is inherently difficult. This is because the forecasts of income and other factors, which feed into the calculation of the overall estimate of the amount available for distribution, require a range of assumptions to be made, for example, about future inflation levels and changes in the tax-base in the current year and the year ahead. The Welsh Government will explore options for improving the information provided about non-domestic rates within the draft Budget documentation to aid transparency.

Well-being of Future Generations Act

Recommendation 4: The Committee believes an effective strategic integrated impact assessment could be a useful way of identifying how the Well Being of Future Generations Act has influenced the budget, and recommends that the Government explore using this approach.

Response: Accept

In each of the last three years, we have taken an integrated approach to our impact assessment, focusing on making informed strategic budget decisions based on analysis of supporting evidence about protected groups. This has included consideration of the sustainable development principle in preparation for the introduction of the Well-being of Future Generations Act.

The strategic integrated impact assessments are one example of the way in which we try and look at evidence in a connected way across everything that Welsh Government does. This year, the Welsh Government presented the strategic integrated impact assessment as part of the budget documentation, rather than as a stand-alone document as a step to help people see how budget decisions are made in a way that aligns with what the evidence is showing.

In the debate on the draft Budget, the Cabinet Secretary for Finance acknowledged that as a result of the work carried out in the Fourth Assembly by the previous Finance Minister, Jane Hutt, the Welsh Government had taken an increasingly sophisticated focus on equality impacts in the budget round. The preparation of the 2017-18 draft Budget had drawn heavily on the legacy of that work, both in individual departments and centrally.

The Cabinet Secretary for Finance and Local Government explained that we take account of demographic projections and age profiles because we know

that demands for services vary across the life-cycle. We look at the protected characteristics individually, and seek to balance this information with the information on demographics and long-term trends that we include in the strategic integrated impact assessment.

The Cabinet Secretary for Finance and Local Government committed to explaining how improvements can be made for the next budget round, including looking again at how we apply the equality principles to our budget planning over the longer timetable. The work undertaken in the previous administration provides a platform for considering further improvements and these will be looked at in parallel with any changes developed through using the principles of the Act.

Recommendation 5: The Committee recommends that the Government should show greater detail of how the Well Being of Future Generations Act and the five ways of working have influenced both individual budget allocations and the budget as a whole in future years.

Response: Accept

This was the first Welsh budget to be shaped by the Well-being of Future Generations Act since it came into force in April. The Welsh Government is committed to making improvements which show more clearly how it is using the Well-being of Future Generations Act to inform budget decisions.

When the Cabinet Secretary for Finance and Local Government gave evidence to the Finance Committee in October, he said more would need to be done to think about how the Welsh Government uses the five ways of working in future. He explained that they had been a way to test the alignment of the budget with the requirements of the Well-being of Future Generations Act.

The Cabinet Secretary for Finance and Local Government said that the purpose of the Well-being of Future Generations Act was to act as a cultural shift in the way we work. The Welsh Government recognises that there will be some specific allocations where there is an obvious and apparent link to the Act. However, it is important to look at how the budget as a whole supports the Act, rather than focusing on multiple separate strands.

During the Plenary debate on 6 December, the Cabinet Secretary for Finance and Local Government said he intends to introduce some changes next year to the internal budget preparations, working through improvements which can be made by using the principles within the Act. He was clear that not all changes will happen at once nor will they all happen overnight. Work to identify changes will be looked at in parallel with broader work to embed the principles of the Act.

Recommendation 6: The Committee recommends that the Government ensures that in future years the publication of any performance information relating to, or any changes to, well-being objectives should be published before the draft Budget to enable stakeholders to be able to be able to track how the budget aligns with the well-being objectives.

Response: Accept in principle

We are committed to looking at the way in which we report on progress in delivering *Taking Wales Forward* and the associated well-being objectives. The Well-being of Future Generations Act, the seven national well-being goals and the Welsh Government's fourteen well-being objectives will underpin our broader approach to monitoring and reporting. We recognise that the steps developed to deliver these objectives will need to be carefully monitored and reported on annually, in line with the Act. We will provide further detail in due course about how we will monitor this delivery.

Health Finance

Recommendation 7: The Committee recommend that the Government provide more supporting information to accompany future draft Budgets to demonstrate how the balance of funding is changing and between primary care, secondary care, social care, the integration of services and programmes in general, both historically and going forward.

Response: Accept

The Welsh Government is committed to providing information which supports scrutiny at the macro level of the draft Budget and at the level of portfolio allocations.

The annual local health board revenue allocation provides high level information about the allocation of NHS funding, which extends to providing detail between sectors, such as primary care and hospital and community services. The Welsh Government can, and does, highlight in the allocation letter where it has made a specific investment to support integrating services, such as the Intermediate Care Fund or the Primary Care Fund.

Currently, local health boards are notified about their allocations in December which is after the draft Budget is published. To prepare for future draft budgets, the Welsh Government will consider the timing options of notifying health board allocations. We will also consider the scope to present information about how funding changes between sectors.

Health - Prevention and Service Transformation

Recommendation 8: The Committee recommend that the Government provide more supporting information at the time of future draft Budgets

to demonstrate how the allocations are supporting investment in the prevention and transformation.

Recommendation 9: The Committee recommends that the Government should commit to providing leadership, support and direction to enable the NHS to press forward the cultural change and empowerment of staff needed to reduce the barriers to investing in preventative, transformative or collaborative projects and to ensure the required change is achievable.

Recommendation 10: The Committee is concerned by the view of witnesses that the current performance regime does not appear to recognise or incentivise the preventative agenda and supports the view that how performance is measured needs to support the preventative agenda and recommends that the Government addresses this.

Response: Accept

The Welsh Government acknowledges that it can do more to demonstrate how allocations contribute towards prevention and transformation. Work is under-way within the Health, Well-being and Sport portfolio to progress our understanding of how the Welsh Government's investment in health and social care is making a shift towards preventative spending.

Specific funding is set aside in 2017-18 to incentivise further transformational change in the NHS, particularly in plans that further strengthen prevention, achieve further shifts from traditional hospital based care models of service provision and where there is a clear demonstration of collaborative and regional approaches to service change.

One example of transformational funding is the £40 million additional funding allocated in the Final Budget for the Welsh NHS Estate, to support the delivery of new models of care and bring forward plans for facilities in primary and community care and a new generation of integrated health and social services centres across Wales.

Working with NHS professionals, the Welsh Government continues to press ahead with collaborative approaches and projects which are in line with prudent healthcare principles and will continue to provide leadership in promoting the cultural changes required.

'Staying healthy' is the first domain of the NHS outcomes framework. This focuses on ensuring people in Wales are well informed and supported to manage their own physical and mental health, as well as focusing on giving children a healthy start in life. Prevention continues to be a prominent part of the delivery and performance regime, and the Welsh Government monitors a range of performance and outcome indicators through the current NHS outcomes framework and the public health outcomes framework.

The Welsh Government's current emphasis on the three year integrated medium term planning approach ensures that plans developed by the NHS include practical actions which focus on prevention. Funding set aside for intermediate care, mental health and primary care is designed to incentivise a shift to prevention. For example, the direct allocation of funding to primary care clusters was designed to empower front line teams and accelerate delivery of agreed plans. The Welsh Government will continue to invest and support leadership development of staff, including developing clinical leaders, to increase capacity and capability to achieve this.

Local Government Finance

Recommendation 11: The Committee accepts that the approach to local government reform has changed but believes there is a need for clarity on the objectives of the expenditure included within the draft Budget for "Transformation and Legislation" and further detail required on the longer-term assumptions the Government may have regarding reform of local government services, we recommend that the Government address the concerns.

Response: Accept

The funding will be used for a range of purposes to support the transformational activities associated with local government reform.

A white paper on the proposed reforms, setting out the Welsh Government's proposals, is due to be published shortly. Decisions on how the available resources might be most effectively deployed in support of the proposed reforms will become clearer over the coming months as we co-create the agenda with local government and other stakeholders. This engagement will contribute to the determining the priorities for the use of this budget. The investment will build on some of the existing work and enable new areas of research, facilitating, supporting and embedding new ways of working.

Recommendation 12: The Committee is concerned that the short term approach to revenue budgeting for Local Government has an adverse impact on Local Government's ability to effectively plan for the future, and recommends that the Cabinet Secretary considers the option of multi-year settlements.

Response: Accept

This draft Budget was developed against the backdrop of unprecedented uncertainty. Our intention throughout the summer had been to publish a budget for a three year horizon, which would have provided our partner organisations with greater certainty in planning for a longer budget period. However, the lack of clarity about the revenue resources available beyond 2017-18 meant this ambition would not be possible. As a result, we were able to only lay a one-year revenue budget, with capital budgets for four years.

While the funding provided to local government through the Welsh Government unhypothecated settlement is an important component for local government budget setting, it is not the only source. Local authorities receive funding from a number of other sources including grants from other bodies, council tax and income from fees and charges. Local authorities must take account of all the sources of funding available to them alongside their proposals for service delivery in preparing their short and medium term financial plans. Such plans inevitably need to reflect a range of scenarios for income and expenditure and fluctuations in service demand and provision.

As we consider future Welsh Government budgets, we will continue to work with local government to provide the available indicative information to inform their forward financial planning. Our aim is always to provide a longer run of budgets whenever possible.

Costs arising from the Welsh Government's legislative programme

Recommendation 13: The Committee recommends the Government ensure that legislation which is introduced over the course of the fifth Assembly is subject to early engagement and continued liaison with relevant stakeholders. In particular should the Government proceed with the introduction of a Local Government Bill the Committee would expect to see this level of engagement with local government representatives to ensure accurate costings are available on introduction.

Response: Accept

The Welsh Government is committed to providing a detailed analysis of the potential costs and benefits associated with any future Local Government Bill.

Several external engagement events specifically focused on the likely costs and benefits associated with local government reform were organised prior to the publication of the draft Local Government (Wales) Bill by the previous Welsh Government. These events were central to establishing the robust costing assumptions set out in the draft Regulatory Impact Assessment (RIA) which accompanied the draft Bill. Should the Welsh Government proceed with the introduction of a Local Government Bill, liaison and engagement with stakeholders, including the WLGA, will continue to play a vital role in informing the RIA for the Bill.

Impact of the decision to leave the EU on the draft Budget

Recommendation 14: The Committee notes the concerns of stakeholders regarding the potential impact on the workforce of the NHS and social care sector in Wales leading up to and following the UK's exit from the EU and recommends the Welsh Government works closely with the NHS and local government to mitigate any potential repercussions within those sectors.

Response: Accept

Work is underway across the Welsh Government to ensure we maximise our influence in discussions within the UK, and in turn in formal EU negotiations, to secure the best possible outcome for Wales. We are working closely with the UK Government and other devolved governments to ensure the interests of Wales are heard and protected.

This Welsh Government's view is that EU citizens working and living in Wales now should be able to remain here after the UK's exit from the EU. We value the contribution that citizens of other countries living in Wales make to our economy, our public services and our communities. We are committed to exploring all options to facilitate recruitment and retention of NHS workforce from the EU and beyond after the UK leaves the EU. We do not want to see controls introduced that would harm the Welsh economy or Welsh public services, including the NHS.

Clinical research and innovation are key components of NHS activity. EU Research and Innovation programmes enable our researchers to work collaboratively with counterparts across Europe to address the common challenges facing our health systems. This collaboration has helped the NHS to develop new treatments, adopt innovation more quickly, and improve the quality of healthcare delivered. We are working to ensure that, alongside our universities and other research institutions in Wales, health and care organisations can participate in future EU health, research and innovation programmes.

A single EU regulatory framework enables new health technologies to be made available more quickly for the benefit of patients while ensuring a higher level of patient safety and public health protection. We will seek to avoid regulatory divergence between the UK and the EU to ensure that our patients and public services can continue to benefit from early access to innovative health technologies.

It is essential that Wales remains an outward looking and engaged player on the European stage and beyond, regardless of the EU exit.