

By email

19/09/2017

**A call for information – Welsh Government draft budget proposals for 2018-19: response from the Future Generations Commissioner**

Dear Simon,

Thank you for the opportunity to provide my views, in general terms, on the Welsh Government draft budget. I am taking this opportunity to inform you about the work of my office, in relation to a number of the areas of interest noted in your consultation letter and the Well-being of Future Generations (Wales) Act (the Act).

1. I am pleased to see a growing awareness, amongst public bodies, of the potential for the Act to be a catalyst for transformational organisational change. It is widely recognised that system-wide change in organisational culture and behaviours is crucial, to enable the public service to rise to the challenges and seize the opportunities of the 21st century. There are a growing number of public bodies seeking to work with us to challenge business as usual, by using the five ways of working to maximise their contribution to each of the seven well-being goals. However, I continue to be concerned that the five ways of working are not being consistently applied to challenge decision making in policy making or governance arrangements in the Welsh Government, national bodies or at the local level. There is, therefore, the continuing risk, in some areas of the public service, of a superficial, tick box response that will add cost without adding value.
2. Challenging and strengthening the budget process would mean using the five ways of working to maximise the contribution that setting a budget across Welsh Government can make, through the Welsh Government's objectives, to the seven national well-being goals. In order to do this well, all involved will need to acknowledge that effectively applying five ways of working will pose a fundamental challenge to how this process is currently undertaken.

**Priority Areas**

3. Wanting to make real, long-lasting change with limited resources I have recognised the need to identify some priority areas for action during my term in office. Over the past nine months my Office has undertaken a far-reaching and thorough process to set these priorities, engaging with over 1,300

people across Wales, including representatives from public bodies and policy experts as well as diverse citizens including groups of homeless young people, migrant women and domestic abuse survivors.

4. Reflecting my commitment to 'walk the talk' of the Act, the process has not only been inclusive but has also focused on addressing the causes rather than the symptoms of problems, and identifying those areas for action where there's most opportunity to generate positive impact across the four pillars of wellbeing: environmental, economic, social and cultural.
5. Working with the New Economics Foundation, my Office applied Multi Criteria Analysis tools to the output of this exercise and identified the following as priority areas for my work:
  - Creating the right infrastructure for future generations, with a focus on:
    - Energy generation and use
    - Transport planning
    - Housing stock
  - Equipping people for the future, with a focus on:
    - Skills for the future
    - Alternative models for improving health and well-being
    - Preventing and addressing Adverse Childhood Experiences (ACEs)

I will be seeking opportunities through my work programmes to highlight these areas in particular.

### **Public Service Boards**

6. Over the last twelve months I have undertaken a major piece of work focused on Public Service Boards (PSBs). This involved reviewing each of the nineteen well-being assessments and providing individual feedback to each PSBs. This work has been designed and delivered to be able to inform both the well-being planning of the PSBs and the advice, that I am required by the Act to provide to them, on the steps they are taking in their plans.
7. I have seen this as the first indicator of the readiness of PSBs to challenge business as usual and embrace the new ways of working that the Act requires. PSBs are to be congratulated for the positive approach they have taken to completing the assessments; they are a step in the right direction but they also highlight where the real challenges for public bodies lie in considering the needs of future generation. I have produced a report<sup>i</sup> summarising the key learning that can be drawn from the exercise, so far, so that it can be shared and used to inform the practice of all of us. I summarise the key findings below.
8. The evidence the well-being assessments include and how it is interpreted is a fundamental part of improving the well-being of our people and communities, now and into the future. I have identified some key areas where PSB members and those providing support locally and nationally, including

my office, need to focus on in order to help public bodies and PSBs make the best of the Act, not just a tick-box, compliance exercise, but a framework for improving public services, so that they are fit to meet the needs of current and future generations. These key areas for challenge include:

- A tendency to revert to describing well-being in traditional ways rather than relating local data to the well-being goals as defined in the legislation
  - Addressing the clear lack of capability and confidence in relation to looking at the long-term
  - The lack of meaningful consideration of the interconnections between issues and what data means in different contexts and communities
9. My reflections on the assessments and the conversations that I and my team have had with all PSBs suggest that some of the challenges reflect a need for better resourcing, more time and more practical and policy support to deliver the scale of change needed. However, they also reflect the need for a clearer demonstration of the willingness to change, to step out of siloes and to move away from a short-term approach to doing things the way they have always been done. Delivering the Act is a challenge that will require the strongest leadership to make the most of the opportunities for change it offers. The report aims to highlight what the assessments say about well-being (and what they don't say), and what the learning from the ways in which the assessments have been undertaken means for well-being planning.
10. The report presents 17 recommendations, some challenging PSBs on how they may have fallen into traditional ways of doing things, some recommendations about how assessments need to evolve and the majority focusing on what needs to change to enable well-being planning that will create the step change we need for future generations. I will be keeping a close eye on how PSBs and public bodies respond to these recommendations, linking them in with the priority areas which be the focus for my office.

### **Support and challenge for public bodies**

11. Following extensive engagement, I am about to undertake a major piece of work that will explore and explain the practical implications for public bodies of using the five ways of working to maximise their contribution to each of the seven well-being goals. I am seeking to work in partnership with a range of organisations from across the public service, third sector and academia. I will also be exploring how we can make sure this work is rooted in the lived experience of citizens. This programme of work, called the Art of the Possible, is a key feature of my Fit for the Future approach to providing support and challenge to public bodies and will:
- Provide a foundation for future on-going change with a focus on the long term;
  - Empower public servants to be agents for change;
  - Build capacity and capability in public bodies through continuous, active shared learning;

- Provide networking and collaborative opportunities to access and apply expertise, local and regional knowledge;
  - Integrate and understand the interdependence between goals;
  - Focus on key areas of change including: corporate planning, financial planning, workforce planning, procurement, assets, risk management and performance management.
12. The core guidance, Shared Purpose, Shared Future, produced by the Welsh Government to support the implementation of the Act identifies seven areas of corporate activity 'where the change needs to happen'. These are corporate planning, financial planning, workforce planning, procurement, assets, risk management and performance management. This will also provide a key focus for my work with public bodies on the practical implications of safeguarding the ability of future generations to meet their needs.
13. Following meetings with Cabinet Secretary for Finance and Local Government and between my Office and his officials, we have agreed on a small number of finance related areas in which focused action could be taken to embed the five ways of working. These areas are:
- Procurement;
  - Participatory Budgeting; and
  - Decarbonisation (carbon assessment).
14. My Office is engaging with Welsh Government officials in these areas to explore how the five ways of working and the statutory obligation to take all reasonable steps (in exercising its functions) to meet those objectives can be used to drive different approaches and outcomes in these areas. A key challenge, in the case of procurement, is to ensure that all of the £6 billion spent on goods and services by the public service in Wales is spent sustainably. Feedback indicates that a key barrier to progress is a narrow focus on cashable savings, as opposed to maximising contribution to each of the well-being goals. A key challenge with carbon assessment will be to ensure that the information provided by carbon assessments becomes integral to decision making, in public bodies. Barriers to better decision making include narrow, short term approaches to the concept of 'value', traditional approaches to budgeting, accounting and reporting, and assessing risk.
15. The Cardiff City deal provides an example of how much work still needs to be done to ensure that the plans public bodies are putting in place, and the way they intend to spend public money, properly addresses the lived experience of citizens and especially safeguards the needs of future generations. I have set out in correspondence some of the challenges and questions which the City Deal must address, these include:
- Ensuring the business opportunities that will be pursued through the City Deal are appropriate to a low-carbon economy

- Ensuring investment in transport infrastructure as proposed realistically reduces the environmental costs of travel in the Cardiff Capital Region. It must take into account future travel needs, such as changing patterns of work, modes of transport and implications of an ageing population
- Taking action on inequalities in health and well-being and breaking inter-generational cycles of poverty
- Putting mechanisms in place to ensure that community voice is a key driver of the developments that will come about through this programme.

### **Preventative Public Spending**

16. Making progress in relation to preventative public spending is crucial in terms of safeguarding the ability of future generations to meet their needs. This issue has been an important feature of my discussions with government especially in respect of health spending.
17. I noted the recommendations relating to preventative spend that your Committee made in the scrutiny of the 2017-18 budget, and I flagged these recommendations to the Cabinet Secretary for Health, Well-being and Sport when I last met him in April, as I feel that his budget should be leading the way in supporting investment in prevention. Your recommendations were very clear and I hope that we will see evidence that Welsh Government have acted upon them in the past year.
18. In my written evidence to the Parliamentary Review of Health and Social Care, I noted that to ensure a sustainable approach, health and social services should prioritise prevention i.e. stopping the need for people to use services in the first place and reducing the need for services over time. This is particularly important in relation to primary prevention which aims to stop problems from emerging (rather than secondary prevention which is more focused towards stopping problems getting worse). In many cases, primary prevention requires better collaboration and integration and an understanding of the action that needs to be taken across a range of services rather than the focus being on the actions in one area such as the NHS.
19. In that written evidence, I referred to the University of Stirling<sup>ii</sup> who have published a useful paper about 'why is there such a gap between our expectations for prevention policy and the actual result?' It lists a range of barriers to prevention which relate well to the Welsh policy context. These include different understanding and definitions of prevention, the difficulty of measuring benefits and success and the fact that current approaches to performance management do not enable or incentivise prevention.
20. My office is working in partnership with Public Health Wales' Health and Sustainability hub to align our support for NHS bodies on the implementation of the Well-being of Future Generations Act. The prevention agenda is a key part of this collaboration, including through exploring the role of

Integrated Medium Term Plans in enabling the shift to investment in prevention, and also through providing support and challenge to the team working on the Parliamentary Review on Health and Social Care and their next steps.

21. More recently I have had meetings and an exchange of correspondence with the Cabinet Secretary for Finance and Local Government in which he noted that the Act provides a definition of prevention, now established in law, and directing the Welsh Government into active exploration of how to apply prevention in policy making and budget handling. The Cabinet Secretary notes that they will be drawing upon the work already done by the Early Action Task Force. He informed me that officials are evaluating existing categorisations of prevention to agree definitions to apply to budget analysis. It is in my view imperative that the Government explores and agrees a definition of this in order to track progress in applying this way of working, within the Act.
22. In my response to the Parliamentary Review I also made the point that the 'primary prevention of ill health needs to feature far more strongly in the *raison d'être* of all health and social care bodies in Wales. Preventing illness, through effective interventions, rather than responding to ill health with costly clinical interventions, would ensure a sustainable approach to improved outcomes and best value in health and social care in Wales. It should be part of the core business of each Health Board and any tendency towards categorising preventative policy and practice as the responsibility of a body or set of bodies outside of Health Boards themselves should be challenged'.
23. On the other hand, in a public service that is effectively collaborating to provide an integrated approach, investment in prevention cannot just be about the NHS. Public Services Boards have huge potential to help enable the shift to prevention across the public service, through the approaches they take to jointly resourcing their shared well-being objectives. We cannot miss this opportunity to use the legislation to break down organisational siloes and meaningfully collaborate at the practical as well as strategic level.
24. Making progress in relation to preventative public spending is crucial in terms of safeguarding the ability of future generations to meet their needs, and for this reason has been an important feature of my discussions with government.

### **Addressing the long term**

25. I have identified a number of international initiatives that could support the implementation of the Act, these include Integrated Reporting<sup>iii</sup>, International Framework: good governance in the public sector<sup>iv</sup> and the United Nations Inquiry, 'The Financial System We Need'<sup>v</sup>. All of these initiatives will be informing my Fit for Future approach to providing challenge and support for public bodies.
26. In 2018, Wales will receive the first tranche of newly devolved taxes. The Welsh Government will also acquire significant borrowing powers in this historic development of devolution. Such powers

will give the new Welsh Government greater financial accountability that will require close scrutiny in the Fifth Assembly.

27. In a relatively short space of time, the amount of Welsh Government spending funded through taxation will rise to about 25%, with a matching reduction in the block grant. Given the inevitable concern about raising revenue to support current public spending, I expect the Welsh Government to ensure that its plans for using its fiscal powers safeguard the ability of future generations to meet their needs. It is crucial, therefore, that the Welsh Government applies the five ways of working to maximise its contribution, through this historic opportunity, to achieving each of the well-being goals. The United Nations Inquiry, 'The Financial System We Need' has produced a wealth of evidence to inform and support a sustainable financial system. My expectation is that Welsh Government will engage with this exercise and use it to inform the development of its new fiscal powers. It will also be important for the National Assembly to draw on the Inquiry to inform its scrutiny of these new powers.
28. The report of the Oxford Martin Commission for Future Generations, *Now for the Long Term*<sup>vi</sup> also identifies issues with current approaches to governance and financial decision making, and makes recommendations to address them. The Commission identifies the accounting convention of discounting as a particular issue and concludes that, future generations should not be discriminated against simply because they are born tomorrow and not today.
29. While the UN Inquiry focuses on international financial markets and regulation, it highlights the role of public policy and public finance. This is of particular significance for the work of the Welsh Treasury, the Welsh Revenue Authority and the Development Bank for Wales. Some of the key findings from its report, 'The Financial System We Need: from momentum to transformation', include:
- **Policy, market and broader international drivers are underpinning this momentum.**
    - Adoption of the Sustainable Development Goals and the Paris Agreement on climate change.
    - National development priorities, particularly of developing countries.
    - Efforts to correct market and policy failures across the financial system.
    - Growing technological disruption to the financial system.
    - Rising social expectations of financial system performance.
    - Green finance becoming a competitiveness factor for businesses and financial centres.
  - **Today's momentum remains inadequate to deliver the transformation needed to finance sustainable development.**
    - Natural capital continues to decline precipitously, alongside growing social inequality and unrest.

- Sustainable financial flows and stocks remain marginal to the deployment of capital, worldwide.
- Financial system remains disconnected from the long-term needs of the real economy.
- Financial stability is increasingly threatened by the effects of today's unsustainable economy
- **Key steps can align the purpose and impact of the financial system to serve the real economy in transition to sustainable development.**
  - Anchor sustainability in national strategies for financial reform and development.
  - Channel technological innovation to finance sustainable development.
  - Realize the triple leverage potential of public finance. 4. Raise awareness and build capabilities across the system.
  - Embed sustainability into common methods, tools and standards across the financial system.

### Assessing Impact

30. The Welsh Government included a Strategic Integrated Impact Assessment in the budget narrative of its Draft Budget 2017-2018. The Strategic Integrated Impact Assessment provided an explanation of the process that had informed and shaped the Welsh Government's decision making for the 2017-18 budget. It also provided a description of the aspirations and policy intent. What it did not do was assess the likely positive and negative impacts of the budget decisions.
31. Along with the other public bodies listed in the Well-being of Future Generations (Wales) Act 2015 (the Act), Welsh Ministers must carry out sustainable development. They are also required to 'act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their needs'. It is important that Welsh Ministers lead by example, in this respect, and ensure that future impact assessments provide a clear picture of both the expected positive and negative impacts of the budget. This will be important if the Welsh Ministers, and the Welsh Government, are to deepen their understanding over time of how budget decisions are likely to impact the ability of future generation to meet their needs. Integrated reporting
32. The Strategic Integrated Impact Assessment of the 2017-18 makes a cursory reference to the Act. It refers to only two of the five ways of working and explains how 'spending will strike a balance between the short and long term', whereas Welsh Ministers are actually required to 'act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their needs'.
33. I would expect future Strategic Integrated Impact Assessments to focus on whether the draft budget proposals are likely to help the Welsh Ministers take all reasonable steps to meet their well-being objectives, and thereby maximise their contribution to achieving each of the well-being goals. I



would also expect the Impact Assessment to identify likely positive and negative impacts of budget decisions in respect of the sustainable development principle, by addressing each of the five ways of working.

34. Using the five ways of working as the framework for making decisions on the Welsh Government budget will help ensure that it is fit for the future. Using the following five areas to frame the assessment will help test whether the likely impact will be positive or negative, in terms of meeting the Welsh Government's objectives. I would expect future Strategic Impact Assessments to take account of the following:
- consider the balance of short term needs 'with the need to safeguard the ability to meet long term needs, especially where things done to meet short term needs may have a detrimental long term effect';
  - the need to take an integrated approach by considering:
    - how the budget decisions may impact upon the ability of the Welsh Government to meet its well-being objectives, and maximise its contribution to each of the well-being goals;
    - how the budget decisions may impact on each other or upon other public bodies' objectives, in particular, where budget decisions may contribute to meeting one objective but may be detrimental to meeting another;
    - the importance of involving other persons with an interest in achieving the well-being goals and ensuring those who are involved reflect the diversity of the population;
    - how acting in collaboration could assist the body to meet its well-being objectives, or assist another body to meet its objectives, by identifying the likely positive and negative impacts of the budget proposals; and
    - whether the likely impact of the budget proposals will contribute to meeting the Welsh Government's well-being objectives, or another public body's objectives, by deploying resources to prevent problems occurring or getting worse.
35. The Act requires public bodies to carry out sustainable development, including setting, publishing and taking steps to meet those objectives designed to maximise their contribution to each of the well-being goals. Using this duty and the requirement to act in accordance with the sustainable development principle, would provide a coherent and consistent framework for assessing the impact of budget proposals. Engaging a range of key stakeholders in the impact assessment would also facilitate a deeper, more consistent understanding, of the likely positive and negative impacts, across the public service in Wales.
36. I would expect the engagement and impact assessment process to run in parallel with, and inform, the development of the budget proposals. This would enable the Strategic Integrated Impact

Assessment to be published alongside the draft budget and, therefore, be available to support and inform scrutiny.

37. The work undertaken by the Auditor General for Wales, the Wales Audit Office and my office also makes an important contribution to informing scrutiny, The Act provides me with the power to provide advice to the Auditor General for Wales on the sustainable development principle. My Office is working closely with the Wales Audit Office as it develops its approach to fulfilling the Auditor General's duty in relation to the Act. This work is also informing how I approach my duty to monitor and assess. A key foundation for this work is a Memorandum of Understanding between the Auditor General and the Commissioner for Future Generations, which will be published by December. This will be underpinned by a programme of joint work to avoid duplication and support a more joined-up approach to monitoring and assessing.

Yours sincerely,



Sophie Howe

## References

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<sup>i</sup> Well-being in Wales: Planning today for a better tomorrow - learning from Well-being Assessments 2017 [https://futuregenerations.wales/wp-content/uploads/2017/07/FGCW\\_Well-being\\_in\\_Wales-Planning\\_today\\_for\\_a\\_better\\_tomorrow\\_2017\\_edit\\_27082017.pdf](https://futuregenerations.wales/wp-content/uploads/2017/07/FGCW_Well-being_in_Wales-Planning_today_for_a_better_tomorrow_2017_edit_27082017.pdf)

<sup>ii</sup> Preventative Spend – policy briefing, University of Stirling  
<http://www.stir.ac.uk/media/schools/socialsciences/sass-ed/images/documents/Preventative%20spend.pdf>

<sup>iii</sup> Integrated Thinking and Reporting: focusing on value creation in the public sector – an introduction for leaders <http://integratedreporting.org/resource/focusing-on-value-creation-in-the-public-sector/>

<sup>iv</sup> International Framework: good governance in the public sector by IFAC and CIPFA  
<http://www.cipfa.org/policy-and-guidance/standards/international-framework-good-governance-in-the-public-sector>

<sup>v</sup> UNEP The Financial System We Need: from momentum to transformation  
<http://unepinquiry.org/publication/the-financial-system-we-need-from-momentum-to-transformation/>

<sup>vi</sup> Now for the Long Term: the Report of the Oxford Martin Commission for Future Generations  
[http://www.oxfordmartin.ox.ac.uk/downloads/commission/Oxford\\_Martin\\_Now\\_for\\_the\\_Long\\_Term.pdf](http://www.oxfordmartin.ox.ac.uk/downloads/commission/Oxford_Martin_Now_for_the_Long_Term.pdf)