

Simon Thomas
Chair, Finance Committee
National Assembly for Wales
Tŷ Hywel
Cardiff Bay
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8 June 2018

Dear Simon

Thank you for your committee's Report on **The Assembly Commission's use of the Remuneration Board's Determination underspend**, published on 1 May 2018. The Commission discussed your report and the Remuneration Board's consultation at its 4 June 2018 Board meeting. The Commission's response to the Finance Committee recommendations is detailed in the annex attached.

I would like to thank the Committee for its scrutiny and I look forward to presenting a draft budget, later this year, after reflecting on the Committee's recommendations and the outcome of the Remuneration Board's current consultation to consider whether to implement changes so as to increase flexibility for Members in their use of various elements of the Determination.

We note that the Committee welcomes the steps already taken by the Commission to improve the transparency of the budget. The Commission's approach is always to try to operate with openness, transparency and clarity; if there is any further information your Committee would like to have, in addition to the enclosed annex, please let me know.



Yours sincerely

Suzy Davies

Suzy Davies

cc Assembly Commissioners, Manon Antoniazzi, Nia Morgan



The Assembly Commission's use of the Remuneration Board's Determination underspend

Recommendation 1. The Committee recommends that the Assembly Commission continues to provide the level of information contained in its most recent budget documentation (2018–19) as a minimum standard for future budgets and estimates.

Agreed.

We note that the Committee welcomes the steps already taken by the Commission to improve the transparency of the budget. The Commission's approach is always to try to operate with openness, transparency and clarity.

The Commission has considered the Finance Committee's report and the decisions made by the Remuneration Board, following its recent consultation. The draft budget to be laid before the Assembly by 30 September 2018 will include changes, which further enhance the transparency of the Commission's budget hopefully addressing any remaining concerns noted within the Committee's report.

Recommendation 2. The Committee would like to understand in more detail how the new governance arrangements within the Assembly/Commission differ to the previous arrangements, how these arrangements will strengthen governance and how the Commission intends to measure if the change is successful. The Committee recommends the Commission provide further details on these areas to the Committee

Agreed.



How the new governance arrangements differ to the previous

The Assembly Commission now has in place an Executive Board and Leadership Team. These two boards replace the previous model of governance arrangements, which comprised of an Investment and Resourcing Board and Management Board. The new arrangements provide more clarity as to how decisions are made and the roles the different boards play, implementing recommendations from an internal audit report in 2017 after a consultation with senior staff.

Previously, the Management Board was a decision-making and review body and dealt with corporate strategy and planning, organisational management and operational and policy matters relating to all Commission services. The Investment and Resourcing Board had strategic responsibility for ensuring: that the Commission's Investment Fund was used effectively and efficiently; and that resource capacity aligned with the Commission's goals and priorities and provided governance and assurance to significant change projects.

Under the new arrangements, the Executive Board is the sole strategic decision making body for all matters delegated by the Assembly Commission. This includes investment decisions, subject to recommendations from the Leadership team and, where not delegated, Commissioners' decisions. The Board also acts as an advisory body to the Assembly Commission, to ensure that it receives clear advice in setting the Commission's strategy, goals and priorities, together with the annual budget.

The Leadership Team is an advisory body to the Executive Board and an enabler for effective delivery of operational plans, priorities and our governance arrangements.

The Terms of Reference of both Boards can be provided to the Committee upon request.



How these arrangements will strengthen governance

Under the new arrangements, the Executive Board sets operational priorities based on the Commission's strategy, goals and priorities. The Executive Board monitors the budget, agrees investment and resourcing priorities, oversees corporate risk and has an oversight of change management.

The Leadership Team generates ideas and provides constructive challenge. Its role as a forum for sharing and disseminating information has been strengthened. The Leadership Team conducts scenario-planning exercises, options analyses and supports the Executive Board by undertaking a first-stage prioritisation exercise on all proposed investments. Leadership Team membership has been extended and now includes all Service Heads. The Chief Executive and Directors still attend, but the group is chaired by one of its members. The Chair of the Leadership Team attends Executive Board and minutes of each meeting of the Executive Board are circulated to the Leadership Team.

The new arrangements introduce greater understanding about what is on the horizon, which enables us to plan more effectively and ensure that the appropriate topics get coverage at the right time. A co-ordinated forward work programme has been introduced. The Leadership Team challenges proposals and gives a steer to Executive Board before the Board makes its final decision. A shared secretariat, newly established, will help with this alignment.

The responsibility for setting the overall strategic direction for the organisation will be retained by the Commission, as the governing board. The Commission will continue to approve the budget strategy and will be provided with details of the investments approved by the Executive Board. The Commission will also continue to receive assurance from the Audit and Risk Assurance Committee on matters of risk, control and governance.



How the Commission intends to measure the success of the change.

Built into the terms of reference for both Boards is the commitment to periodically organise a review of the Board's effectiveness. This will be undertaken by the Head of Governance and Assurance. The Board will reflect on findings and develop an action plan, if necessary.

The clarified arrangements at a senior decision-making level will also be underpinned by governance awareness training throughout the organisation. Improved understanding, ownership and application of our governance arrangements will be an important measure of our success.

We will work together to ensure that good governance remains part of "business as usual", improving our engagement with stakeholders and ensuring that effective decision-making is based upon robust management information. This will enable us to deliver the Commission's priorities within our agreed financial and resourcing targets.

Recommendation 3. The Committee recommends the Commission reviews its approach to funding capital projects, ensuring that funding is allocated for core projects within its capital budget.

Agreed.

The Commission, following consideration of the Committee's report and the Remuneration Board's decisions, following its consultation, has reviewed its approach to funding capital projects.

Following the Remuneration Board consultation, the Commission considers that trying to accurately estimate the likely underspend on the Determination budget will prove more challenging. This creates an unacceptable level of risk associated with funding capital and core projects from an investment fund, partly supplemented from the underspend on the Determination during 2019-20.



Bearing in mind both this and the Finance Committee's concerns, the Commission is therefore proposing a change to the way in which core projects within its capital budget are funded. The 2019–20 draft budget document, which will be scrutinised by the Committee in autumn 2018, will reflect this change.

It is proposed that priority projects identified for completion during 2019–20 will be identified in the budget document and will now be fully funded from the Commission's core budget, with no reliance on the Remuneration Board's Determination budget line.

This is likely to result in a compensating increase to the "core" Commission budget, reflecting expenditure that would otherwise have been funded via the investment fund from the underspend on the Remuneration Board's Determination budget line.

Always mindful of our strategic goal of using resources wisely, even with improved prioritisation procedures, this change is highly likely to take the increase in the overall budget in excess of the increase anticipated in the "Welsh Block" for 2019–20.

The "core" budget is the Commission's "operational budget" which excludes the budget for the Remuneration Board's Determination and the Annually Managed Expenditure (AME) budget line for Assembly Member Pension finance costs, a non-cash accounting adjustment.

We are mindful of the Finance Committee's previous recommendation, accepted by the Commission, not to increase our budget beyond any increase to the Welsh Block.

The Commission will not utilise the underspend on the Remuneration Board's Determination budget line. An amount equal to the underspend will not, therefore, be drawn from the Welsh Consolidated Fund. This ensures that the overall increase to the Commission budget, net of any unused funds, remains in



line with the increase to the Welsh Block grant. These unused funds will be available to the Welsh Government in future years via the Welsh Reserve.

Recommendation 4. The Committee recommends that the Commission clearly identifies funding streams for projects that might or will be brought forward as investment priorities, particularly where these projects span multiple years. In addition, the Committee expects risk analysis to be undertaken when activities are brought forward, given the unpredictable and precarious nature of funding from the underspend.

Agreed.

The Commission already clearly identifies funding streams for projects that could be brought forward as investment priorities.

The Commission is happy to continue to set out its investment priorities in its budget document for the forthcoming year. It is inevitable that, during the year, priorities and their scope may change. Funding may, therefore, become available by stopping some previously planned projects and delaying others.

Risk assessment is built into all of our investment prioritisation planning. It will be taken into account wherever there is change in the prioritisation of our investments, including where we bring forward or defer projects to different financial years.

As noted above, the Commission is proposing a change to how it presents its budget to reflect the reduction or removal of reliance on the Remuneration Board's determination budget underspend.



Recommendation 5. The Committee recommends that the Commission fully explores the benefits and risks of changing processes around the Remuneration Board's Determination underspend, with a focus on maximising transparency. This should also take into account the outcome of the Remuneration Board's current consultation on the flexibility of the allowances within the Determination.

Agreed.

The Commission's priority is to ensure that it is in a position to meet all payments and reimbursement of costs to which Members are entitled under the Determination.

The Commission forecasts its budget for the Remuneration Board's Determination in three ways: (i) by estimating the cost of fulfilling its obligation under the most recent Determination, (ii) by understanding the work programme of the Board for the following financial year, and (iii) through discussions with officials supporting the Board.

Historically, there has tended to be a significant level of underspend against the Remuneration Board's Determination budget. The Commission has used this underspend to fund priority projects, by adding any underspend to its investment fund. The Commission, following its consideration of the Committee's previous report, has fully explored the benefits and risks of changing the presentation of its budget.

Further consideration has been given, following the outcome of the Remuneration Board's consultation, to ensure maximum transparency and to reduce the risk that the Commission may not be able to fulfil its strategic objectives or obligations under the Remuneration Board's Determination. The 2019–20 draft budget document will reflect a revised presentation.

Presentation of the Commission 2019–20 Budget

As noted in our letter to the Committee, dated 21 December 2017, the Investment and Resourcing Board (IRB), at its 7 December meeting, considered a paper on the



presentation of the 2019–20 Commission Budget. IRB recommended that the Commission consider alternative budget presentations for 2019–20, rather than continuing with the existing presentation. The Commission has done so.

The Commission’s aim in presenting a revised model is to address the concerns raised by your Committee and the implications of the changes to be implemented by the Remuneration Board following its consultation, whilst maintaining flexibility and minimising risk to the Commission budget.

It concluded that the following model is the most transparent:

- a ring-fenced budget for the Remuneration Board’s determination, to include amounts to cover “temporary staffing allowances” and a contingency for e.g. death-in-service. Any underspend would not be relied upon by the Commission to fund its investment priorities;
- the Commission’s investment fund would no longer be supplemented by an underspend from the Remuneration Board’s determination. However, a corresponding increase will be required to offset this shortfall within the Commission’s operational budget, as stated earlier.

Conclusion 1. The Committee recognises the practice for setting budgets and utilising underspends across UK legislatures varies widely. The Committee notes that some legislatures operate different systems for budgeting and returning underspends and suggests that the Commission considers these processes when it reviews its budgeting procedures.

Noted.

The Commission has reviewed the correspondence received by the Committee during its enquiry and has considered these processes when considering the revised presentation of the 2019–20 budget document.



It is clear that there are a number of alternative ways of presenting the Commission budget. The Commission believes that the revised budget to be presented to the Assembly later in 2018 will provide additional clarity and transparency and will also progress towards addressing any remaining concerns noted by the Committee in its report.

