



Our ref: NB/MM

Ask for: Marilyn Morgan

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Llyr Gruffydd AM
Chair
Finance Committee
National Assembly for Wales

By Email Only
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Dear Llyr

Annual budget proposals for directly funded bodies

Thank you for your letter of 14 January about annual budget proposals for directly funded bodies. I welcome the opportunity to provide my comments on this important matter.

Firstly, let me be clear that I recognise and respect the importance of the Finance Committee's role in considering, scrutinising, challenging and reaching conclusions on the budget proposals of directly funded bodies. This provides proper scrutiny and oversight of proposals whilst maintaining the important independence of directly funded bodies.

Whilst I acknowledge that the Finance Committee concluded in 2017 that "changes to the Ombudsman's Estimates should remain either below or in line with the Welsh Block", I did not interpret this a meaning that my budget submission should mirror changes to the Welsh Block, nor did I assume that any increase at or below the increase in the Welsh Block would automatically be supported. My initial budget submission for 2019/20 was submitted following a bottom-up assessment of need, careful consideration by my Management Team and scrutiny by the Advisory Panel, which is made up of independent members. The increase sought was below that in the Welsh Block.

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I recognise that there are limitations and concerns about taking into account changes to the Welsh Block in considering budget proposals. One issue is that the final value for the Welsh Block for the forthcoming financial year is not known at the time that directly funded bodies submit their estimates. (Although not a perfect solution, it was for this reason that my approach was to look at the known change in the Welsh Block between the previous and current years.) Reference to estimated or likely changes in the Welsh Block for the following year leads to unhelpful uncertainty, such as occurred in the consideration of 2019/20 budget proposals

Where an estimated increase in DEL of 1.6% was used, though the actual increase in TME (which appears to be a more appropriate measure because it is unaffected by devolved tax powers) was 6.2%. (Total Managed Expenditure in Schedule 6 of the annual budget motion increased from £18,012,283,000 for 2018/19 to £19,131,276,000 for 2019/20.)

There is also a legitimate question as to whether changes in the overall Welsh Block will always have relevance to the pressures on, and requirements of, directly funded bodies. Whilst increases in the scale, complexity or range of health service provision (with associated increases in funding for health services) could result in increased complaints to the Ombudsman, it is not possible to quantify this impact and increased expenditure on health services will not necessarily result in a proportionate increase in complaints. That said, the scale and extent of public services in Wales will clearly have some link to the workload of the Ombudsman's office.

I believe it is important to consider the purpose and intended use of any measure. I anticipate that the Committee will want to continue its current scrutiny of submissions (at whatever level they are pitched) and that any measure would therefore be a yardstick or comparator rather than a formula for budget approval.

On that basis, whilst guidance from the Committee in advance of the submission of estimates would be useful, in practice the Committee would be able to take into account a number of factors and indicators in its scrutiny. This could include indicators of budget pressures (e.g. CPI inflation, pay inflation, changes in employer pension or national insurance contributions, impact of legislative change, changes in workload) and indicators of the financial context (e.g. changes to the Welsh Block, changes to funding for public services). In addition, there may be specific short-term pressures, such as the costs of responding to legal challenges, which might be reflected in estimates submissions, and which the Committee would wish to consider.

I note from the Committee's consideration of my estimates submission for 2019/20 that the Committee was concerned about simply looking back at past changes (whether changes in the Welsh Block between the current and previous year, or other measures). There are few measures that do look forward at future pay and price increases, and in that context it would seem to me be worth considering reference to the GDP deflator published by HM Treasury, which provides estimates of future trends rather than simply looking back at past changes.

Consequently, I would suggest that directly funded bodies are asked to submit their estimates as they currently do, explain changes and particular pressures, but that they should also include comparators with CPI, pay inflation and the GDP deflator to support the Committee's scrutiny of the submissions.

I hope that my comments are helpful and would be happy to comment further or provide clarification should you so wish.

Yours sincerely



Nick Bennett
Ombudsman