

Agenda – Finance Committee

Meeting Venue:	For further information contact:
Video Conference via Zoom	Bethan Davies
Meeting date: 15 June 2020	Committee Clerk
Meeting time: 14.00	0300 200 6372
	SeneddFinance@senedd.wales

The Committee resolved on 4 June 2020 to exclude the public from the meeting

- 1 Introductions, apologies, substitutions and declarations of interest**
(14.00)
- 2 Welsh Government First Supplementary Budget 2020–21: Consideration of draft report**
(14.00–14.20) (Pages 1 – 32)
Paper 1 – Draft report
- 3 Impact of variations in national and sub-national income tax: Consideration of draft report**
(14.20–14.40) (Pages 33 – 73)
Paper 2 – Draft report
- 4 Implementation and operation of Part 2 (Finance) of the Wales Act 2014 and the Fiscal Framework: Scoping paper**
(14.40–15.00) (Pages 74 – 76)
Paper 3 – Inquiry scoping paper
- 5 Legislative Consent: Finance Bill 2020**
(15.00–15.15) (Pages 77 – 85)
Paper 4 – Legal paper: Finance Bill



Paper 5 – Written statement by the Minister for Environment, Energy and Rural Affairs, Government Response – The future of UK carbon pricing

Paper 6 – Draft report

[Finance Bill – Legislative Consent Memorandum](#)

6 Inquiry into a legislative budget process: Response from the Minister for Finance and Trefnydd

(15.15–15.30)

(Pages 86 – 91)

Paper 7 – Response from the Minister for Finance and Trefnydd

7 Oversight of the Wales Audit Office: Update for the Finance Committee

(15.30–15:40)

(Pages 92 – 95)

Paper 8 – Letter from the Auditor General for Wales and Chair of the Board – 5 May 2020

8 Oversight of the Wales Audit Office: The Chair's expenses

(15.40–15.50)

(Pages 96 – 103)

Paper 9 – Letter from the Auditor General for Wales – 5 May 2020

Paper 10 – Legal advice

9 Oversight of the Wales Audit Office: Remuneration arrangements for the Auditor General for Wales

(15.50–16.00)

(Pages 104 – 108)

Paper 11 – Cover paper

Paper 12 – Letter from the Head of Law and Ethics – 7 February 2020

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Agenda Item 4

By virtue of paragraph(s) vi of Standing Order 17.42

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Llywodraeth Cymru
Welsh Government

WRITTEN STATEMENT BY THE WELSH GOVERNMENT

TITLE Government Response - The future of UK carbon pricing

DATE 01 June 2020

BY Lesley Griffiths MS, Minister for Environment, Energy and Rural Affairs

Today, I jointly published the Government response to the consultation on the future of UK carbon pricing alongside Ministers of the other UK nations. We intend to establish a UK Emissions Trading System (UK ETS) with Phase I running from 2021-2030, which could operate as either a linked or standalone system. This scheme delivers on our environmental ambition while managing costs to businesses and leading the development of global carbon markets.

The UK ETS is a key policy to support cost-effective reduction in emissions from our highest emitting sites. Around 50% of Welsh greenhouse gas emissions are generated by the power, industry and aviation businesses covered by the scheme. Our businesses need certainty and, at this difficult time, we will support industry to recover to an economically and environmentally sustainable future.

Our policies in Wales will deliver our statutory targets and contribute fully to net zero UK emissions by 2050. As such, the cap will initially be set 5% below the UK's notional share of the EU Emissions Trading System (EU ETS) cap for Phase IV which starts in 2021. However, we will review this level following receipt of advice from the Committee on Climate Change regarding our carbon budgets and future emissions reduction pathway.

Many of the features of the scheme will be familiar to participants. Auctioning will continue to be the primary means of introducing allowances into the market, with free allowances to safeguard competitiveness and manage the risk of carbon leakage. In a standalone scenario, there are mechanisms to manage the price of allowances in the early years. Opt outs for small emitters and hospitals ensure the burden of compliance is proportionate. International credits will not be permitted in a UK ETS at this time.

The Welsh Government has been clear and consistent in our strong preference for a UK ETS linked to the EU system. This was also the preference of a large proportion of stakeholders who responded to the consultation. It is the responsibility of the UK

Government to deliver this for our businesses as part of the wider Brexit negotiations. I call on the negotiating teams on the UK and the EU sides to do what's best for all parties and deliver a linking agreement between our carbon markets. I also call on the UK Government to ensure any funds raised from a UK ETS are recycled to support businesses in Wales and across the UK, to transition to a cleaner, more prosperous future.

I will be writing to the relevant Senedd Committees on this policy in accordance with their role in scrutinising UK wide frameworks.

The government response can be accessed here:

<https://gov.wales/future-uk-carbon-pricing>

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Agenda Item 6

Rebecca Evans AM
Minister for Finance and Trefnydd

9 January 2020

Dear Rebecca

Inquiry into a legislative budget process

I am writing to provide an update on the Finance Committee's recent **[inquiry into a legislative budget process](#)**. As you may be aware, the Committee has engaged with Daniel Greenberg (a lawyer specialising in legislation and the legislative process) and taken evidence from Dr Joachim Wehner on international best practice in budget scrutiny.

Whilst recognising that the budget process and devolved settlement in Wales is different from most other countries, Scotland has been considering very similar issues. Therefore, the Committee's evidence gathering included holding a formal meeting in Edinburgh to learn from the work of the Scottish Budget Process Review Group.

The Committee has reached the conclusion that a legislative budget process would better reflect the maturity of the Assembly, providing an opportunity to review the appropriateness of the existing budget process, improve transparency and strengthen the role of both the Welsh Government and Assembly following the devolution of fiscal powers.

The Committee notes the success of the approach taken in Scotland to establish a group to fundamentally review the existing budget process and believes a similar approach may be suitable in Wales.

Members agree that the principles of simplicity, transparency and accountability should be at the heart of any legislative process and recognise the need to consider how a legislative budget process would accommodate tax resolutions; incorporate alternative spending, taxation or borrowing proposals; dovetail with Wales Audit Office processes; be flexible enough to accommodate delays at a UK level; and facilitate public participation.

We believe that further work is also needed to establish:

- whether a Budget Bill or a Finance Bill would be better suited for the authorisation of Welsh spending plans and taxation;



- how Welsh Government modelling and independent forecasting would be built in to the process;
- how and when amendments to a Bill could be made, whilst maintaining the Welsh Government's ability to control its own budget;
- the impact on the Assembly's wider financial scrutiny, such as in-year scrutiny, draft budget and Bill scrutiny;
- the expectations on the Welsh Government to provide multi-year budgets, particularly for local government and delivery partners.

In the short term, the development of timetabled scrutiny in Plenary would improve the quality of and participation in the existing budget scrutiny process. Therefore, we would urge you to schedule a debate on the Welsh Government's spending priorities in May/June to inform the 2021-22 draft budget.

The Committee would welcome your attendance at Committee to discuss the Government's view on moving to a legislative budget process. I would be grateful if your officials could liaise with the Finance Committee Clerks to arrange a suitable time for you to attend Committee. It would also be helpful to receive a paper from you in advance of the session.

Yours sincerely



Llyr Gruffydd AM

Chair



Rebecca Evans AS/MS
Y Gweinidog Cyllid a'r Trefnydd
Minister for Finance and Trefnydd



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref RE/00221/20

Llŷr Gruffydd MS
Chair of Finance Committee
Senedd Cymru
Cardiff Bay
CF99 1NA

09 May 2020

Dear Llŷr,

Earlier this year you wrote to me regarding the Committee's inquiry into a legislative budget process and invited me to attend Committee and provide an evidence paper.

Since then, our priority has been responding to the coronavirus pandemic. With sincere apologies therefore that I have not been able to provide this sooner, please find enclosed a paper for the Committee's consideration.

Yours sincerely,

Rebecca Evans AS/MS
Y Gweinidog Cyllid a'r Trefnydd
Minister for Finance and Trefnydd

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Inquiry into a legislative budget process

Introduction

The Welsh Government has worked closely with the Finance Committee over many years to improve the budget process, increase transparency and to support robust scrutiny.

Since devolution, the budget has been approved through a budget motion. With the devolution of tax powers, this represented a significant milestone in the fiscal journey for Wales and placed an even greater emphasis on the budget process.

In recognition of the additional fiscal responsibilities, we welcomed the Finance Committee's previous inquiry into Best Practice Budget Process. As a result of this work a new process was agreed between the Senedd Cymru ("the Senedd") and the Welsh Government in 2017.

We also welcome the Committee's current inquiry which provides an opportunity to reflect on the changes to the budget process over the course of this administration and the suitability of the current arrangements.

Current budget process

The new budget process was agreed between the Welsh Government and the Senedd in 2017. Key features of the new process include:

- a 2-stage process to aid scrutiny and improve transparency, with stage 1 setting out the main fiscal building blocks and strategic spending plans and stage 2 providing more detailed portfolio budget information;
- an increase in the period for scrutiny from 5 weeks up to 8 weeks; and
- a protocol setting out the principles underpinning the budget process, including a mechanism for agreeing revisions to the process in recognition that external factors can impact on the timeline for the production of the Welsh Government's budget.

The above changes were first introduced in the 2017 Budget. Since then, we have faced a number of uncertainties, such as the UK's exit from the EU and more frequent UK elections, which have impacted on UK fiscal events and hence the timing of the Welsh Government's annual budget. However, the budget protocol has provided sufficient flexibility in the process to accommodate these exceptional circumstances without unduly compromising the scrutiny arrangements.

Improving transparency of our budget proposals has also been at the heart of developments in recent years to include a greater level of detail and supporting information at both stages of the draft budget. Working with the Committee, this work has acknowledged the complexity of the information we are presenting at various points of the cycle and the variety of purposes for which stakeholders use the information.

To support robust scrutiny, the Welsh Government now publishes a suite of additional documents as part of the budget package, including:

- the Chief Economist's Report - providing an analysis of recent economic performance in the UK and Wales and economic and fiscal prospects in the short and long-term.
- a Welsh Tax Policy Report and annual tax policy work plan - providing an update on the delivery of the Welsh Government's strategic tax objectives and analysis to inform the development of tax policy.
- 'Welsh Tax Outlook' – the Office for Budget Responsibility's independent assessment of our tax proposals
- MEG Budget Expenditure Level tables - a lower level of budget information than previously published.

Comparison with Scotland

We note the Committee's consideration of the Scottish legislative budget process. While there are clear distinctions between approaches in Scotland and Wales, there are some important similarities that exist between both processes.

- *Opportunity for amendments to be tabled* - The current Welsh Budget process provides for the Senedd to propose amendments following the laying of the draft budget and before the Welsh Government publishes its firm spending plans. This effectively provides a similar mechanism to the Scottish process which allows the laying of amendments to the budget bill at stage 1.
- *Period for scrutiny* - The introduction of the 2 stage budget process in Wales now 'normally' allows for a period of up to 8 weeks for scrutiny. Within Scotland their standing orders set out that normally the Budget (noting that they no longer produce a draft budget) will be published no more than 3 weeks after publication of the UK budget and the budget bill will be introduced one week later. Although the timings are not fixed, in a normal year the Scottish budget is published shortly before Christmas, with the scrutiny being conducted in January and the budget bill passed in February. This means in a normal year, there is a longer period for scrutiny in Wales than in Scotland.

An important consideration is the timing of the budget publication. As described above, in a normal year the Scottish Budget is published shortly before Christmas. In Wales, we have always sought to publish our budget proposals in the early autumn in order to complete the process before the Christmas recess and to provide early funding certainty for delivery partners. In this context, we welcomed the Finance Committee's recommendation as part of scrutiny of the draft budget 2019-2020 that the Welsh Government continues with its current practice of publishing its draft budget in the autumn regardless of the timing of the UK Budget.

Taking these considerations together, the process in Wales allows for the same level of scrutiny and scope to make amendments as the Scottish Government process without the need for a full legislative process.

Pre-Budget engagement

In line with our commitment to improve transparency and understanding of the Welsh Government's spending priorities, we have looked to maximise the opportunities in recent years to increase engagement and scrutiny prior to publication of our draft

budget. This has included engagement with a range of stakeholders, including the Budget Advisory Group for Equality, the Welsh Local Government Association and directly-funded bodies.

In addition, and following discussions with the Finance Committee, we have agreed to build on the steps we took last year and to hold a debate in Plenary before the summer recess, focusing on strategic issues.

Multi-year budgets

It is always our ambition to provide multi-year settlements whenever possible. However, our ability to provide longer-term funding certainty is dependent on the UK Government's budget cycle and not related to our own budget process.

Combined tax and spending legislation

We note that the Committee is considering the case for a single legislative vehicle covering both taxation and spending plans. It is generally understood that budget legislation is a method specifically for approving overall spending limits and tends to be a simplified legislative procedure that limits non-government amendments. Budget legislation tends to use an accelerated timescale to ensure approval before the start of the financial year.

An important consideration is whether introducing other elements such as taxation as part of the same legislative vehicle as is used to approve spending limits would require normal scrutiny and amendment procedures. This could compromise the approval of spending plans before the start of the financial year and could impact on the ability to provide funding certainty to partners and stakeholders. Any proposal to move to a single legislative vehicle would therefore need careful consideration and with clear evidence as to additional benefits this would bring.

It also remains the case that Welsh Government currently has limited powers over taxation. On the basis of our current tax powers the need for, and benefits of, annual tax legislation is not clear. However, we acknowledge the importance of being able to make swift changes to tax legislation in certain circumstances. In this context, we are exploring the case for a Bill for Year 1 of the next Senedd that will provide Welsh Ministers with powers to make changes to the Welsh Tax Acts at very short notice. We look forward to working collaboratively with the Finance Committee to bring this legislation forward and are currently planning to go out to consultation in July.

Conclusion

Taking forward further developments to the budget process would require a significant amount of engagement and collaboration over the coming months, at a time when we are facing unprecedented challenges as a result of the coronavirus pandemic. We would also need to be satisfied of the benefits of moving to a different approach relatively soon after we moved to the current process.

Mr Llyr Gruffydd AM
Chair of the Finance Committee
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Reference: IE/20004/AC/191/caf

Date issued: 5 May 2020

Dear Llyr

Update for the Finance Committee

In these extraordinary times, we wanted to update the Committee on the potential impacts of the coronavirus crisis on our own delivery and financial position.

Annual Plan and Estimate 2020-21

As you know, last month we pulled back from all on-site audit work to allow the public service to focus on its immediate response to the pandemic. The feedback received to that decision was universally positive. We have continued to make progress on other activity whilst working and engaging remotely.

We remain committed to ensuring that our audit work does not have a detrimental impact on the efforts of severely stretched public bodies to deal with the national emergency. That is not to say, however, that we should be entirely passive. Well targeted and well delivered public audit has a more important part to play than ever at this time in ensuring value for money, good governance and accountability.

Our challenge is to provide the appropriate level of evidence-based reporting to support accountability and provide insight at the most suitable time. We must not get in the way of public servants working hard to save lives, but we must also ensure that our reporting is sufficiently robust and prompt to support proper accountability for public money. The Auditor General wrote to the Chief Executives of all audited bodies this week, explaining how we will be approaching our work over the coming months. The key themes are outlined below, all of which we believe will provide important insight to support the work of the Committee and the Senedd as a whole.

It is already apparent to audit teams that people and organisations right across the Welsh public services are developing novel and innovative ways of working in response to COVID-19. The crisis is forcing us all to innovate and address long-

standing issues with urgency. Both opportunities and risks will doubtless emerge during this period which, if acted upon sooner rather than later, can generate real-time benefits and help to mitigate other risks. To that end, the Auditor General has initiated ground-breaking work to provide real-time capture and sharing of learning and experience across audited bodies. We will share the resulting insights swiftly to our key contacts across the Welsh public service.

Audit Wales is tracking the various COVID-19 funding flows from both UK and Welsh Governments and considering how best to assure the people of Wales that those funds are well managed and that there is appropriate governance and accountability for the use of public money. Looking a little further ahead, we envisage a focus on what the impact of the current crisis means both in terms of the resilience and the future shape of public services in Wales.

We have worked closely with Welsh Government officials to develop a sensible and pragmatic way forward for accounts audit work, with a view to extending the practical accounts and audit timetables for central government and NHS bodies. The Auditor General and Welsh Government Permanent Secretary set this out in their joint letter of 14 April to the Finance Committee and Public Accounts Committee.

If it becomes apparent that statutory deadlines may be missed arising from the revised timelines agreed, we will endeavour to notify the Committee as soon as possible. It is unfortunate that the very helpful amendments to laying requirements proposed in the Committee's draft Public Audit (Amendment) (Wales) Bill will almost certainly not be in place in time to prevent breaches of statutory deadlines.

In respect of local government, we are working with the Society of Welsh Treasurers and individual local authorities on useful changes that could be made to the accounts for this year which will nonetheless still meet legal and professional requirements. Legislation already permits local authorities to delay the publication of audited accounts.

We hope that this provides the Committee with assurance that we have the review of our work programmes well in hand and plan to report back to you in coming months. We intend using our Interim Report as the formal mechanism to amend this year's deliverables.

Aligned with the review of our audit and corporate work programmes, we will be reassessing our expenditure and income assumptions for the year. We flag now though the probability of a significant reduction in our estimated fee income from the public bodies we audit, due to changes in the quantum and timing of our audit work for the year. Early indications are that we will need to seek supplementary budget funding from the WCF to make up the shortfall between this loss of fee income, less the reductions in operating costs that we are able to secure. The reality is that with staff costs making up almost 80% of our running costs, there is no easy or rapid response we can make to reducing our running costs, but we are minimising spend that is not directly aligned with delivery of our revised

programmes of work. As mentioned above, we are reprioritising our audit expertise and capacity on to other value-added work, but that work is not chargeable through the Audit Plans we have agreed with the bodies we audit. Again, we are working this through in detail and will update the Committee in coming months.

Audit Wales

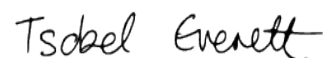
You will have noticed the identity and name change in this letter. In response to feedback on how we communicate and engage, we took the decision last year to bring together the separate identities of the Auditor General for Wales and the Wales Audit Office under a single umbrella identity – Audit Wales. This followed on from our communications and impact transformation project, which we've previously discussed with the Committee. This is clearly a secondary matter in the current circumstances, so we have made no great fanfare for the change and will simply be rolling it out softly and at minimal cost over coming months.

The Auditor General for Wales and the Wales Audit Office remain separate legal entities with their own legal functions, but we will operate as Audit Wales henceforth in the vast majority of our public facing work. It is just one part of a wider programme of change for our audit reports; our website; our communications style and the way we engage more generally, that we hope you will recognise and value. We will work with the Committee's clerking team on the use of the new identity and will communicate more widely across the Assembly at the appropriate time.

Finally, we would like to place on record with the Committee the superb response of Audit Wales staff at this extraordinary time. All are working from home and engaging remotely with colleagues in audited bodies to be as supportive and flexible as possible in the delivery of our work. We have been putting a considerable emphasis on staff well-being, working closely with our trades' union representatives, and feedback from staff has been positive.

We hope that this update is helpful to the Committee and, of course, are very happy to provide more information if needed.

Yours sincerely



ISOBEL EVERETT
Chair, Wales Audit Office



ADRIAN CROMPTON
Auditor General for Wales

Agenda Item 8

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Agenda Item 9

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