



Jocelyn Davies AM
Chair, Finance Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

24 October 2012

Dear Jocelyn

The Environment and Sustainability Committee took oral evidence from the Minister for Environment and Sustainable Development ('the Minister') and the Deputy Minister for Agriculture, Food, Fisheries and European Programmes ('the Deputy Minister') in relation to the Welsh Government's draft budget on 18 October 2012. Our scrutiny concentrated on matters affecting our committee portfolio, the main conclusions of which are outlined in this letter and will be published on our website.

I hope our comments assist with the Finance Committee's overarching scrutiny of the draft budget. We have set out our key issues in accordance with the four principles of financial scrutiny adopted by your committee: affordability, prioritisation, value for money and budget process.

1. Affordability

1.1 Central staffing budgets

The Minister and Deputy Minister responded to several questions around resourcing by referring to sufficient finance being available from central departmental and Welsh Government-level staffing budgets. We have some concern that a number of Welsh Government's policy and legislative priorities are at risk if the Minister and Deputy Minister are unable to access sufficient finance for their delivery. The Finance Committee may wish to explore this reliance on unspecified sources of finance.

1.2 Natural Resources Body

We questioned the Minister on the level of resource available to the Natural Resources Body in its first year of operation. He has assured us that sufficient resources have been allocated for the successful merger of the existing bodies and to ensure that there is no diminution of service during the transition period, despite

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a reduction in the revenue available to the newly merged body in 2013-14 compared with the level of combined resource available to the individual existing bodies in 2012-13. The Minister also referred to money available to the Natural Resources Body for the delivery of several policy commitments, including the achievement of biodiversity targets.

The Minister informed us that he believed the creation of the Natural Resources Body would deliver £90 million net benefit to the organisation over ten years. The Minister stated that it would be the responsibility of the new body and not the Government to monitor and report on these savings. It is not clear whether these expected savings will result in a further reduction of the funding the Natural Resources Body receives in future years.

The Minister's budget allocation for 2013-14 includes £2 million for *Natural Environment Framework restructuring*. £2 million is also being moved from this budget line to fund two new budget lines on the natural and urban environments. Matthew Quinn (Director of Environment and Sustainable Development) told us in June of this year that funds within this budget line were principally for staff costs in relation to preparing the Natural Environment Framework for that period. The Minister explained to us what the £2 million which is being moved from this budget line would be spent on but it was unclear what the £2 million being retained within this budget will deliver. We intend to ask the Minister for further clarity on what specific outcomes will be delivered by this budget line.

The Finance Committee may wish to consider the affordability of the Welsh Government's plans in this area.

1.3 Fisheries enforcement vessels

The Deputy Minister indicated that he is at the business case stage for investing in new fisheries enforcement vessels. He indicated that, due to pressures on the Royal Navy, the Welsh Government's vessels will be required to patrol the offshore area of the Welsh Fisheries Zone in addition to its existing task of patrolling Welsh inshore waters. This new duty carries with it a significant responsibility. Failure to take adequate enforcement action in the offshore areas could lead to breaches of commitments under the Common Fisheries Policy and the Birds and Habitats Directives which in turn could lead to infraction proceedings.

A quantum for the capital required for this investment has yet to be arrived at, and no budget allowance has been made for 2013-14. The Deputy Minister believes that he will be able to find sufficient funding from within his departmental budget, the BETS budget or centrally from the Welsh Government. Given the pressure on capital budgets, we will be interested to see how this proposed investment progresses and expect the source of the capital to be transparently set out once it has been identified.

1.4 Transfer of fisheries functions

The Deputy Minister told us that there is going to be a substantial devolution of powers to Wales in relation to vessel registration and quota management. He indicated that the main costs associated with this transfer of responsibilities would be IT costs. He stated that his officials were building on existing systems to make them fit for purpose and that these costs would be met within his budget

allocations. We will be monitoring spend in relation to this closely. Additionally, we will be asking the Deputy Minister to clarify whether this work will be undertaken in this financial year or whether funds will also be needed in 2013-14.

1.5 EID Database

The Deputy Minister has committed to developing an Electronic sheep Identification Database for Wales. The Deputy Minister told us that, while no final decision had been made on the design of the database, indicative figures have shown that it may cost between £2 and £3 million. The Deputy Minister stated that the cost would be met from within his departmental budget but had not included this in his Draft Budget for 2013-14. The Deputy Minister told us that 80 per cent of his budget is committed to match funding the Rural Development Programme and that only a small proportion of his budget was flexible. We will be monitoring closely the final projected costs for the database and will be asking the Deputy Minister to inform us of any changes to planned budget allocations for 2013-14 as soon as possible.

2. Prioritisation

2.1 Marine policy

The level of priority afforded to this policy area appears insufficient and the financing of this policy is not transparently presented in the draft budget.

Although there is an action within the Minister's budget for Delivering Nature Conservation and Marine Policies, there is no single BEL that deals with marine policy and neither the Minister's paper or the Welsh Government's Draft Budget 2013-14 document identify the amount of resource that will be available to implement marine policy in 2013-14.

When questioned about this apparent lack of prioritisation and clarity, Matthew Quinn (Director of Environment and Sustainable Development) responded by stating that there was £120 thousand available to the Department for delivering marine policy under the 'Delivering nature conservation and marine policies' action line. This leaves us no clearer, as the three BELs under this action make no reference to marine policy.

This falls short of the levels of transparency we expect from the Welsh Government. Our concern is exacerbated by the evidence we have received to date in relation to our inquiry into marine policy in Wales. Almost every respondent and witness has pointed to a lack of Welsh Government resource for marine policy as a major concern. We will be looking at this in more detail, but have raised these concerns here for the purpose of budget scrutiny. We certainly expect to see a clearer picture of how marine policy is being financed by the Welsh Government in future budgets.

3. Budget process

3.1 General observation

There have been improvements in the presentation and clarity of the budget papers and the written evidence provided by the Minister and Deputy Minister. We welcome moves towards greater transparency; however there is still considerable room for improvement. Whilst steps have been taken towards linking financial planning with Programme for Government policy objectives, more needs to be done to make these links clear. Greater clarity is needed to enable more comprehensive financial

3.2 Sustainable development

The Minister indicated that his officials have worked with the strategic budgetary team to ensure that Sustainable Development was a more meaningful part of the process. Through this, officials from other Departments were asked to demonstrate how sustainable development was considered in their spending plans. We welcome this work and the identification in Chapter 7 of the Draft Budget of projects which will contribute to Sustainable Development. However, we would like further evidence from the Welsh Government in future budget rounds of how sustainable development influenced spending allocations. For example, we would like to know whether policies were modified to deliver more sustainable outcomes or whether one policy option was selected over another for sustainability reasons. This will enable the Welsh Government to become an exemplar of good practice for other public sector organisations. This is of acute importance, as many of these organisations will be required to include sustainable development as a central organising principle of their budget process, should the proposed provisions of the Sustainable Development Bill come to fruition.

3.3 Re-profiling Rural Development Programme plans

The Deputy Minister told us that the European Commission had changed the deadline by which funding for multi-annual agri-environment schemes, such as Glastir, needs to be committed and spent. Whilst previously the Welsh Government believed it would be able to spend funds in 2014-15 it will now have to have committed and spent these funds by December 2013. This, the Deputy Minister concluded, has meant that there will need to be a re-profiling of planned spend within the Rural Development Programme to ensure expenditure before programme end. We are concerned that failure to do this urgently will result in funds having to be returned to the EU. We will therefore be asking the Deputy Minister for clarity on the extent of the re-profiling, a timeline for the re-profiling exercise and clarity on the level of risk that exists of some funds having to be returned to the EU.

4. Value for money

Whilst budget scrutiny is not the natural point in the financial scrutiny cycle to assess value for money, we received commitments from both the Minister and the Deputy Minister that will be useful in making future value for money assessments.

4.1 Invest to save and the Natural Resources Body

The Department for Environment and Sustainable Development received funds for 2012-13 to pay for IT and HR infrastructure costs associated with the creation of the Natural Resources Body. The Minister's written paper indicates that the Department will be required to repay these funds (£1.5 million revenue) in 2014-15.

The Minister confirmed that savings accrued from the establishment of the Natural Resources Body will be discernable from 2014-15 onwards, as will repayments to the invest-to-save fund.

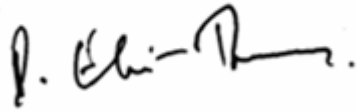
4.2 Food promotion grants

The Deputy Minister informed the Committee that each grant awarded for food promotion was conditional on meeting turnover and job creation objectives. He also stated that he believed a global picture of how these objectives are being met could

be arrived at. This is an area that we will return to with a view to obtaining this information from the Minister for further consideration in value for money terms.
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I hope this information is helpful. You may wish to be aware that we will also share the letter with the Minister Deputy Minister. We will be pursuing some actions and requests for further information to assist us with our on-going financial scrutiny work.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Elis-Thomas'.

Dafydd Elis-Thomas AM
Chair of the Environment and Sustainability Committee