

**Mark Drakeford AM/AC**  
Ysgrifennydd y Cabinet dros Gyllid a Llywodraeth Leol  
Cabinet Secretary for Finance and Local Government



Llywodraeth Cymru  
Welsh Government

Eich cyf/Your ref  
Ein cyf/Our ref: MA-P/MD/1306/17

Simon Thomas AM,  
Finance Committee Chair,  
The National Assembly for Wales,  
Cardiff Bay,  
Cardiff  
CF99 1NA

18 April 2017

Dear Simon

Thank you for your Committee's scrutiny of the Second Supplementary Budget 2016-17 and the report that followed.

I attach a written response to the recommendations made.

I hope you find this useful and look forward to working with you in future.

Yours sincerely

A handwritten signature in black ink that reads "Mark". The letters are cursive and slightly slanted.

**Mark Drakeford AM/AC**  
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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.

**Written Response to the Report of the Finance Committee: Scrutiny of the Welsh Government Second Supplementary Budget 2016-17**  
**13 April 2017**

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The main purpose of the Second Supplementary Budget, as is normal practice, was to reflect budgetary changes since the First Supplementary Budget 2016-17 which was published by the Welsh Government in June 2016. It also regularised a number of allocations from our reserves, transfers between Welsh Government Departments, transfers with UK Government Departments and included revised Annually Managed Expenditure forecasts.

It was the last opportunity to amend budgetary plans before the end of the 2016-17 financial year.

Given the calibrated nature of the Committee's Recommendations, the Government has provided a narrative response alongside each one identifying areas of agreement and issues requiring further consideration. I would like to thank the Finance Committee for the work undertaken and I look forward to working with the members in future.

**Detailed Responses to the report's recommendations are set out below:**

**Recommendation 1**

Whilst the Committee acknowledges that this is a Supplementary Budget and the Well-being of Future Generations Act was enacted less than a year ago, it believes that the implementation of the Act is weak, as are the linking of objectives and performance indicators relating to implementation of the Act. The Committee recommends the Welsh Government should review its approach to implementing the WFG Act to ensure that its principles are embedded within the decision making culture of the Welsh Government.

**Response:**

The Welsh Government is committed to making improvements which show more clearly how it is using the Well-being of Future Generations Act to inform budget decisions.

When I gave evidence to the Finance Committee in October, I said more would need to be done to think about how the Welsh Government uses the five ways of working in future.

The Well-being of Future Generations Act will act as a cultural shift in the way we work. The Welsh Government recognises that there will be some specific allocations where there is an obvious and apparent link to the Act. However, it is important to look at how the budget as a whole supports the Act, rather than simply focusing on multiple separate strands.

During the Plenary debate on 6 December, I committed to introduce some changes next year to the internal budget preparations, working through improvements which can be made by using the principles within the Act. Not all changes will happen at once nor will they all happen overnight. Work to identify changes will be looked at in parallel with broader work to embed the principles of the Act.

**Financial Implications:** None.

**Recommendation 2**

The Committee recommends the Welsh Government commit to providing an annual report on the Invest to Save fund, which should include details on amounts loaned, repaid and repayment schedules.

**Response:**

The Invest to Save Fund already publishes an Annual Report which is posted on the Welsh Government website. The report is also supported by a Directory of Projects. Both can be found by following the links below.

<http://gov.wales/topics/improvingservices/invest-to-save/2016-annual-report?lang=en>

<http://gov.wales/topics/improvingservices/invest-to-save/2016-directory-of-projects/?lang=en>

This directory is currently in the process of being updated for the most recent projects. It contains the name of the project, the organisation, the amount of investment and a brief description of the initiative.

The timescales for the repayment of investments vary from project to project. Typically, energy efficiency projects take slightly longer to repay and can take up to 8-10 years due to the fact that the savings rely on the technology implemented in the project.

The non energy efficiency projects can have repayment periods ranging from one year to 5 or 6 years but the times are set on a case by case basis as many different circumstances can have an effect, such as:

- The level of investment which the recipient has to make in the project. There could be a draw on their resources as the Fund normally invests a maximum of 75% of project costs.
- The number of initiatives underway. For example Cwm Taff University Health Board received funding for several projects in 2014.
- The budget profile of the Fund. We want to try and avoid 'lumpy' budget profiles as we need to manage the demand for new projects each year.
- The financial position of the recipient organisation. They may need to see some immediate financial benefit as soon as projects are completed. As part of their application they may therefore submit a case for a slightly

longer repayment period than would be the case if all of the savings were used to repay the investment as soon as possible.

- Project slippage which means that some benefits may be delayed which can have a knock on effect on the timing of repayments if deemed justified.
- Some organisations may ask for an early repayment if their budget position is due to change and they find that an early repayment would allow them to meet their future financial obligations easier.

The position regarding repayments can therefore be quite complex and changeable. What is however the case, and has been since 2009, is that 100% of the investments made have been repaid and the Fund is in a position where it has significant funds programmed in for re-investment until 2022-23.

**Financial Implications:** None.

### **Recommendation 3**

The Committee recommends that further work is undertaken by the Welsh Government to address the lack of transparency over funding allocated to the Health, Well-being and Sport portfolio.

### **Response:**

The Welsh Government will consider the scope to provide more information on funding shifts between care sectors in the budget evidence to the Health, Social Care and Sport Committee in future budget rounds. In the meantime, publically available information includes:

*[LHB 2017-18 Health Boards and Public Health Wales NHS Trust Allocations \(WHC \(2016\) 055\)](http://gov.wales/docs/dhss/publications/161221whc055en.pdf)*

<http://gov.wales/docs/dhss/publications/161221whc055en.pdf>

*[NHS expenditure by budget category and year](https://statswales.gov.wales/Catalogue/Health-and-Social-Care/Health-Finance/NHS-Programme-Budget/NHSExpenditure-by-BudgetCategory-Year)*

<https://statswales.gov.wales/Catalogue/Health-and-Social-Care/Health-Finance/NHS-Programme-Budget/NHSExpenditure-by-BudgetCategory-Year>

**Financial Implications:** None.

**Recommendation 4**

The Committee recommends that the Welsh Government review whether there are structural factors, which are not currently considered in health board allocations, that impact on the health boards' ability to deliver services within their resource allocations. The Welsh Government should implement any changes to funding allocations required.

**Response:**

In line with my evidence to the Committee on 16 February 2017 a zero based review will be undertaken, on behalf of the Cabinet Secretary for Health, Well-being and Sport, on the structural factors in the current configuration in Hywel Dda Local Health Board. The findings of the review will inform any proposed changes to funding allocations.

**Financial Implications:** None.

**Recommendation 5**

The Committee recommends that the Welsh Government work with health boards and social care providers to ensure health boards are strategically planning for and limiting the impact of seasonal spikes in demand, particularly in the winter months.

**Response:**

The Welsh Government fully recognises the importance of the need for our health and social care services to respond to the challenges we will face all year round, not just for the winter – and this is why we have taken a whole system approach when planning and delivering services for the people of Wales.

The Welsh Government continues to support health and social care organisations in Wales through a number of mechanisms including our quarterly National Seasonal Planning meetings to inform the development of their seasonal plans, which include preparedness for winter. This involves identifying the lessons learned from previous years and continuing a collaborative approach by facilitating the sharing of good practice across the NHS and care community.

We have established statutory Regional Partnership Boards under the Social Services and Well-Being (Wales) Act 2014. These Boards bring together health boards, social services, the third sector and other partners to assess, plan and provide jointly for the needs of their populations and improve outcomes and well-being.

Support has also been provided to health boards through the National Programme for Unscheduled Care (NPUC), who commissioned the NHS Wales Delivery Unit to develop a 'Daily Flows Tool', which has enabled the collation of information from each district general hospital in Wales regarding the daily flow of patients through A&E departments, into the hospital system and post discharge.

In light of the considerable potential for the Daily Flow Tool to be used to support planning based on evidence of patterns of demand, the Chief Executive of NHS Wales has written to health board and Welsh Ambulance Services NHS Trust Chief Executives, Chief Operating Officers and Directors of Planning, encouraging them to use the Tool to consider how resources could be aligned to support robust planning and delivery, initially focussing on the Easter weekend to break the cycle and mitigate the impact of the expected increase in demand over the Easter weekend.

Work is also in train to define an average day across the whole system. The Association of Directors for Social Services Wales and the Programme

Director for Primary Care Strategic Development are working with the NPUC to identify indicators for social care services and primary care, respectively.

Finally, in November 2016, the Cabinet Secretary for Health, Well-being and Sport made a commitment to undertake a review of the resilience of health and social care services over winter 2016/17. The NPUC Board has since approved a rigorous and multi-agency evaluation of the resilience of the health and social care system over the winter period and Stephen HARRY, Director for the national programme for unscheduled care will oversee this work, with input from health boards, Public Health Wales, WAST, Local Authorities, Welsh Government and other key partners.

The aim of the evaluation is to determine the extent to which health and care services' integrated plans delivered anticipated results across the whole system, and to consider areas of good practice that could be shared nationally to contribute to enhanced delivery next winter.

As a result of actions and investment over recent years, waiting times for elective procedures and for diagnostic tests will have fallen during the whole of 2016/17, as have delayed transfers of care.

**Financial Implications:** None.

### **Recommendation 6**

The Committee recommends that the Welsh Government provide a breakdown of how costs in this Supplementary Budget relate to the UK and Welsh Government policy decisions in relation to student loans and how changes may have impacted on costs of the policy going forward.

### **Response:**

The changes outlined in the budget have no impact on the affordability of the policies outlined in the Welsh Government response to Diamond. The Welsh Government has submitted revised forecasts to the UK government outlining

its plans for an increased provision of loans in Wales. These forecasts were accepted by HM Treasury in December 2016.

The changes reflected in this budget include cover for provision of additional student loans. This reflected an increase in demand for loans in the 2016-17 financial year and was not directly correlated to a decision by either the Welsh Government or UK Government.

Other changes are a result of changes to the student loans model such as revised interest rates which are outside of Welsh Government control.

**Financial Implications:** None.

#### **Recommendation 7**

The Committee believes that there are significant sums requested in the Supplementary Budget with insufficient description of what these funds are required to fund, in particular the £30.8 million additional funding for the Sectors Action and the £22 million for M4 route development. The Committee recommends that future budget documentation provides more transparency.

#### **Response:**

Where provided, additional funding within the Sectors Action will deliver against this Government's economic development priorities to support growth and jobs.

However, in terms of budget documentation published a balance has to be struck between transparency and confidentiality. As I outlined at Committee the particular interventions associated with the Sectors allocations include amounts that are subject to ongoing commercially confidential discussions. In this respect, it is clear that to publish potentially sensitive funding arrangements would put the recipient businesses at risk.

In relation to the general requirement for adequate descriptions on the use of funding allocations, the Welsh Government intends that that budget documentation should be sufficiently detailed to provide appropriate transparency for Committee scrutiny.

**Financial Implications:** None.

### **Recommendation 8**

The Committee recommends the Welsh Government commit to providing a detailed profile of funding provided to Cardiff Airport and details of when outstanding debt is due to be repaid.

### **Response:**

The current value of the Welsh Government loan to Cardiff International Airport (CIAL) was £23m at the date of the Committee. The value of our investment as at the end of each financial year is included in our audited accounts which are published on the Welsh Government internet site. The value of the loan facility drawn down at 31 March 2017 is £25.6m.

Loans to CIAL are made in accordance with the Market Economy Operator Principle i.e. on commercial terms. Repayments have been agreed with CIAL to match future planning assumptions and forecasts, which support the continuation of the growth of the airport following the capitalisation of commercial opportunities through the attraction of new routes.

CIAL will publish certain details regarding the repayment of the loan arrangement with Welsh Government in their statutory accounts and in accordance with normal accounting requirements. It is not the intention of the Welsh Government to publish details which may be significantly detrimental to CIAL and advantageous to competitors.

**Mark Drakeford AM**

**Cabinet Secretary for Finance and Local Government**