

Chair, Children, Young People and Education Committee
Chair, Climate Change, Environment and Rural Affairs Committee
Chair, Culture, Welsh Language and Communications Committee
Chair, Economy, Infrastructure and Skills Committee
Chair, Equality, Local Government and Communities Committee
Chair, External Affairs and Additional Legislation Committee
Chair, Health, Social Care and Sport Committee

21 June 2018

Dear Committee Chairs

Welsh Government Draft Budget 2019–20

At our meeting on 21 June, the Finance Committee agreed its approach to the budget scrutiny. I am writing to all Chairs of subject committees to share our thinking, and to encourage your committees to consider how you can contribute to delivering the most coherent and effective scrutiny of the Government's spending plans.

Budget focus

We have agreed to continue the approach followed in previous years, whereby budget scrutiny is centred on the four principles of financial scrutiny: affordability, prioritisation, value for money and process. The principles are:

- **Affordability** – to look at the big picture of total revenue and expenditure, and whether these are appropriately balanced;
- **Prioritisation** – whether the division of allocations between different sectors/programmes is justifiable and coherent;
- **Value for money** – Essentially, are public bodies spending their allocations well – economy, efficiency and effectiveness (i.e.) outcomes; and
- **Budget processes** – are they effective and accessible and whether there is integration between corporate and service planning and performance and financial management.

Following a stakeholder event in Swansea, we have identified a number of areas which we would like to see the focus of the scrutiny, these are:

- *How the Welsh Government should use taxation and borrowing powers, particularly in relation to the Welsh Rate of Income Tax*
- *Approach to preventative spending and how is this represented in resource allocation (Preventative spending = spending which focuses on preventing problems and eases future demand on services by intervening early), particularly in relation to the financing of local health boards and health and social care services*
- *Sustainability of public services, innovation and service transformation*
- *Welsh Government policies to promote economic growth, reduce poverty, gender inequality and mitigate welfare reform*
- *The Welsh Government's planning and preparedness for Brexit*
- *How evidence is driving Welsh Government priority setting and budget allocations*
- *How the Future Generations Act is influencing policy making*

We would encourage you to use some of these areas as the focus for your budget scrutiny.

Draft budget consultation

As has been the previous practice, we will be undertaking a consultation on behalf of all Committees over the summer recess and the responses will be shared with you in the Autumn in order to assist your scrutiny of the draft budget.

I enclose a summary of the views we heard at the Finance Committee's pre-budget stakeholder event in Swansea on 7 June, which may inform your budget scrutiny.

Timetable

We have not yet been notified of the dates for the draft budget, the Cabinet Secretary for Finance is required to do this two weeks prior to summer recess. I have asked the Finance Committee Clerk to liaise with your Clerk once dates are known.

As you will be aware the provisions in relation to the reporting by policy committees changed in 2017, and you are now able to report in your own right (if you so wish), and your reports can be used as a supporting document to the draft budget debate.

As a Committee we are considering how we can maintain a strategic, oversight role of financial scrutiny. The Committee noted during our review of draft budget scrutiny in January 2018, the wide range of evidence gathered before and during



scrutiny last autumn, particularly in the health, local government and education areas. This led to insightful conclusions and recommendations, which we are pleased to see has been followed up throughout the year. We would welcome any views from you as to how the process may be improved.

If you have any questions about any aspect of the draft budget process, please feel free to contact me or the Clerk to the Finance Committee, Bethan Davies, 0300 200 6372, Bethan.Davies@assembly.Wales

Yours sincerely

A handwritten signature in black ink that reads "Simon Thomas". The signature is written in a cursive style with a large initial 'S'.

Simon Thomas

Chair



Stakeholder Engagement: Welsh Government Draft Budget 2019–20

Finance Committee | 13 June 2018

The Committee held an informal stakeholder event at the National Waterfront Museum, Swansea City Bay Region, on 07 June 2018. The event focussed on pre-budget scrutiny and the inquiry into preparations for replacing EU funding for Wales.

1. Preventative Spend, Health & Social Care

A major theme across all discussions was the importance of preventative spend, and putting a greater emphasis on preventative measures in the budgets for health and social care. Stakeholder views and experiences include the following:

- One delegate indicated that some preventative spend measures should act as investment on a community level, in order to continue the role that European Structural Funding has played in supporting communities and aiding prevention.
- Some stakeholders encouraged a linking of the preventative care & Future Generations agenda with regards to public health. An example offered by stakeholders is to include, within the Health Budget, specific funding for leisure centres, to help to promote long-term health through active lifestyles.
- Some stakeholders suggested that specific measures to improve health, including ring-fenced budgets, are preferable to simply allocating a larger proportion of the overall budget to Health, while others, in contrast, approved of the continued prioritisation and increases in the Health Budget.
- Another set of stakeholders suggested that consideration of greater interaction between health, research and research institutions should be made. One stakeholder indicated investing more of the Health Budget in Research and Development would lead to more targeted and efficient services.. Another stakeholder suggested that we consider how universities could be used to support the NHS and relieve it of some of its burdens.
- While stakeholders tended to agree that Active Travel is a good initiative, there were calls for a review of the degree to which it has been successful so far, of its long-term deliverability, and whether or not it requires additional funding.



- Stakeholders expressed concern that adult social services are being put under increasing pressure. Concern was expressed regarding the lack of funding allocated to older people and social care, suggesting that preventative spend is decreasing in this area.

2. Long-Term Planning & Strategies

Stakeholders consistently expressed dissatisfaction with all but NHS funding budgeted on an annual basis in Wales, calling for longer-term budgeting across the board for the sake of stability and certainty, and to enable better strategic planning, more efficient financial management and decision making.

Stakeholders said that long-term strategic planning and budgeting was also required for effective preventative & transformational spending. One third-sector organisation described a preventative care initiative of theirs which is funded – and, therefore, planned – on a rolling 6-month basis. The organisation describes this as inhibiting the initiative’s efficacy in delivering this preventative care. This sentiment was mirrored across a number of other third-sector stakeholders and local authority representatives, who claim that it will be difficult to sustain successful services over the long-term when budgeting is performed on a short-term basis. Specifically, local authority representatives suggested establishing funding arrangements for 2–3 year periods to ensure better planning and promote stability.

Stakeholders also emphasised the importance of the link between the Welsh Government’s strategic priorities and the Budget. Some delegates suggested that the Budget allocations should be more greatly influenced by the Well-being of Future Generations Act, by putting a greater focus on the environment and the need to develop skills in areas of long-term future value. Included within this is investment in skills which will prepare the workforce for automation and the widespread use of artificial intelligence throughout the economy, with one stakeholder claiming that the Government should be making far larger investments in such preparations. Further, a stakeholder stated that “the Welsh Government employability plan is good, but needs more funding allocated to it”.

Additional comments from stakeholders include the following:

- There should be officials in the Welsh Government who are tasked with discussing the impact of future legislation, policy and plans with local government, so that local authorities are aware early and can contribute to these potential changes.
- The National Farmers Union Wales currently have CAP 7-year funding programme, but are concerned this could drop to a 1-year funding programme after Brexit, meaning that the success of long-term planning may suffer.



- That Wales is very reactive in terms of construction at the moment: if we need something, we build it. Stakeholders said there was a need to be cleverer and more efficient with funding, and suggest the establishment of a hub–spoke model.
- That innovation is important to enable long–term saving.
- That there should be a clearer link between the Economic Action Plan and the Budget.

3. Economy, businesses & the Third Sector

A number of issues relating to the business and third sectors were raised by stakeholders.

A number of delegates highlighted the need for the Economic Action Plan to be reflected in the budget, to highlight where changes in government policy had led to changes in allocations.

One such issue raised by stakeholders was the lack of focus on small and medium–sized enterprises (SMEs). In particular, some stakeholders raised the problem of a limited number of exit plans available to SMEs, suggesting that options such as buy–outs from the Development Bank of Wales should be made more viable, rather than selling to large companies outside of Wales.

Another issue raised concerns grants that are available to businesses in Wales. Stakeholders noted that there are difficulties in obtaining grants from Business Wales, largely due to the lack of clarity and understanding on the criteria for eligibility for such grants. A similar uncertainty over eligibility criteria exists for the £50 million Brexit transition fund for businesses and public sector bodies: in particular, whether or not third sector organisations are eligible for funding in this manner.

Finally, some stakeholders raised concerns over the source of financing for the City Deals.

4. Education funding

Some stakeholders expressed concern that education funding had not been seen as a priority, and that other areas tended to overshadow it. They felt that this had led to the situation where capital investment in schools is now partially funded through the Mutual Investment Model, a form of Private Finance Initiative. They also highlighted that the uncertainty around annual allocations of local government revenue funding impacts on schools, who do not find out their budgets until relatively late on, which leads to redundancies.

5. Transparency & Scrutiny

Some stakeholders commented on the lack of transparency of the scrutiny process and details of spending. An example of this lack of transparency and detail raised by



stakeholders was the removal of the school uniform grant, which prompted one stakeholder to suggest that a year's notice should be provided by the Welsh Government in the event of budget cuts.

Others called for more scrutiny on budgetary increases, to ensure that value for money is achieved. The Finance Committee was asked to lead on this front, in terms of getting Committees to engage in the scrutiny process in order that the best questions are asked.

Stakeholders commented that the Assembly must ensure it has the resources and expertise to scrutinise newly devolved taxation and borrowing powers on behalf of the electorate, and that it could learn from Scotland in this regard.

The Finance Committee scrutiny of the budgets of organisations funded directly from the Welsh Consolidated Fund, such as the Assembly Commission, Auditor General for Wales and Public Service Ombudsman, should reflect changes to public sector funding.

6. Equality & Vulnerable Groups

The needs and representation of vulnerable groups, and how they are included in the Budget, were raised by a number of stakeholders. One discussion resulted in a call for more scrutiny of the "Equalities Impact Assessment", to assess and mitigate for over- or under-representation of certain interest groups in the Budget and budgeting process itself, and to assess the impact of proposals on protected characteristics. Calls were also made to engage further with disadvantaged and vulnerable groups, including young people, during the budgeting process, to remedy misrepresentation and recognise any harm to, or negligence of, such groups in the Budget.

Specific advisory comments advanced by stakeholders include: the requirement to consider the needs of people with disabilities in the Welsh Government's commitment to constructing 20,000 new homes by 2021; to continue the Independent Living Grant scheme; to consider how success will be ensured in post-16 reforms to the Additional Learning Needs Act without additional funding; and for the Welsh Government to commit to making preparations for mitigating the effects of welfare reforms.

7. Taxation

A suggestion offered by a stakeholder is to consider whether the setting of business rates should be more locally devolved, and whether taxes should be levied on income or on profits. Subsequent discussions resulted in the recommendation of thorough impact assessments to ensure that the impact of these considerations on very small businesses should be minimal, and that start-ups shouldn't be inhibited. Further, stakeholders called for efforts to be made to ensure that the tax systems isn't overly complicated.



Calls were also made by stakeholders for greater consideration of the impact of tax on incomes of people as a whole. Stakeholders suggested looking at the wider impact of tax decisions, for example by looking at demographics and the impact on the population, and how this links into council tax. Stakeholders also asked what modelling is being done in this respect, and say that greater transparency with respect to the research underpinning tax rates is needed.

8. Attitudes & Approaches

A number of general comments in relation to the required attitudes and approaches to ensure successful government were made. These include:

- The need to foster an atmosphere of ambition rather than negativity.
- An attempt to make the Budget more connected, so that the separate budgets support each other.
- The need to obtain better evidence on the degree of success of Welsh Government projects.

