

Agenda – Finance Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date: 17 July 2019

Meeting time: 09.00

For further information contact:

Bethan Davies

Committee Clerk

0300 200 6372

SeneddFinance@assembly.wales

1 Introductions, apologies, substitutions and declarations of interest

(09:00)

2 Paper(s) to note

(09:00)

2.1 Letter from the Minister for Health and Social Services: Health and Social Care (Quality and Engagement) (Wales) Bill – 8 July 2019

(Pages 1 – 5)

3 Inquiry into the Welsh Government's capital funding sources: Evidence session 7

(09:00–10:00)

(Pages 6 – 43)

Rebecca Evans AM, Minister for Finance and Trefnydd

Andrew Jeffreys, Director Treasury, Welsh Government

Steven Davies, Deputy Director Innovative Finance, Welsh Government

Paper 1 – Evidence paper from the Minister for Finance and Trefnydd

Research brief

4 Motion under Standing Order 17.42 to resolve to exclude the public from part of the meeting (Items 5, 7, 8 and 9)

(10:00)



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

5 Consideration of proposals to amend the Public Audit (Wales) Act 2013: Briefing

(10:00–10:30)

(Pages 44 – 65)

Siwan Davies, Director of Assembly Business

Matthew Richards, Head of Legal Services

Nia Morgan, Director of Finance

Bethan Davies, Clerk to the Finance Committee

Paper 2 – Letter from Suzy Davies AM, Commissioner for Budget and Governance – 27 June 2019

Research brief

6 Consideration of proposals to amend the Public Audit (Wales) Act 2013: Evidence session 4

(10:30–11:30)

(Pages 66 – 96)

Adrian Crompton, Auditor General for Wales

Isobel Everett, Chair of the Wales Audit Office

Martin Peters, Head of Law and Ethics, Wales Audit Office

Steve O'Donoghue, Director of Finance, Wales Audit Office

Research brief

7 Consideration of proposals to amend the Public Audit (Wales) Act 2013: Key issues

(11:30–12:00)

(Pages 97 – 99)

Paper 3 – Consideration of proposals to amend the Public Audit (Wales) Act 2013: Next steps

8 Welsh Government Draft Budget 2020–21: Consideration of an expert adviser

(12:00–12:05)

(Pages 100 – 106)

Paper 4 – Welsh Government Draft Budget 2020–21: Consideration of an expert adviser

9 Inquiry into the Welsh Government's capital funding sources: Key issues

(12:05–12:30)

Vaughan Gething AC/AM

Y Gweinidog Iechyd a Gwasanaethau Cymdeithasol
Minister for Health and Social Services



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: MA-L/VG/0420/19

Dai Lloyd AM
Chair, Health, Social Care and Sport Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

8 July 2019

Dear Dai,

The Health and Social Care (Quality and Engagement) (Wales) Bill

Following my appearance before the Finance Committee on 3 July to discuss the financial aspects of the Bill, I thought it may be helpful to provide further information prior to my appearance before the Health, Social Care and Sport Committee on 11 July.

At Finance Committee, it became apparent that, while there is general support for the broad policy intent behind the proposals, there is interest in how the objectives and benefits will be realised specifically in relation to the duties of quality and candour.

Context for the Bill:

Quality must be at the heart of every aspect of health care provision, and placing quality in a prominent position in the NHS Wales Act, underlines the policy intent to ensure quality is at the heart of decision making in the health service in Wales. It also draws together the other changes included in the Bill including the duty of candour and strengthening the voice of the citizen to support quality improvement.

The Parliamentary Review of Health and Social Care in Wales in 2018, recommended the vision for health and care in Wales should aim to deliver against the four mutually supportive goals of the “Quadruple Aim”, which are to continually:

- improve population health and well-being through a focus on prevention;
- improve the experience and quality of care for individuals and families;
- enrich the well-being, capability and engagement of the health and social care workforce; and
- increase the value achieved from funding of health and care through improvement, innovation, use of best practice, and eliminating waste.

The provisions in the Bill aim to help realise these ambitions in a number of inter-connected ways by placing improvement in quality as the central concept underpinning the provisions within the Bill.

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
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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.

The intent set out in the Bill aligns with the ‘Quadruple Aim’ by ensuring quality is a consideration across all the functions of health bodies in Wales. It will improve service user experience, communication and engagement between the NHS and its service users. Allowing us to build on the work that has already been undertaken to ensure NHS bodies in Wales are open and honest when things go wrong, and support the drive towards a system that is always learning and improving and has the trust and confidence of patients and service users.

Duty of quality:

Background:

NHS bodies have been under a duty to make arrangements for the purpose of improving the quality of health care since 2003, under section 45(1) of the Health and Social Care (Community Health and Standards) Act 2003 ("the 2003 Act").

Although this Act requires NHS bodies to make arrangements to monitor and improve the quality of health care, it has largely been interpreted as requiring NHS bodies to have quality assurance (control) arrangements in place to monitor and improve the quality of healthcare provided rather than a comprehensive focus on the three aspects of a quality system as described by the parliamentary review:

- quality planning;
- improvement; and
- control to ensure a focus on quality services at a wider population level.

The new provision places a focus on quality of services at a wider population level and embeds quality considerations so that they are at the heart of decision making processes.

The new provision is, therefore, about ensuring a whole system approach to quality, and not only to be simply related to clinical services which have assurance (control) arrangements in place or need to meet quality standards – it is and must be much wider to drive sustained quality improvements and outcomes.

Enacting a broader duty of quality in legislation, more in keeping with how we now want NHS bodies to work, will strengthen actions and decision making to drive improvements in quality that will focus on the outcomes for people of Wales.

Additionally, the Welsh Ministers have responsibility for oversight of the NHS in Wales and many of the policies that are developed by the Welsh Ministers, whether legislative or otherwise, have an impact on how NHS bodies in Wales operate. However the 2003 Act does not place a duty of quality on the Welsh Ministers in the exercise of their health related functions. The Bill addresses this gap.

Finally, the 2003 Act lacks any reporting mechanisms. Reporting mechanisms are beneficial as they allow bodies that are subject to the duty of quality to demonstrate how their functions have been exercised to secure improvement in the quality of services provided. Additionally, reporting also provides a mechanism for holding bodies to account as well as supporting evaluation and assessment of benefit over time and is a transparent way of demonstrating how the duty has been complied with.

Expected outcomes:

Reframing the duty of quality to require NHS bodies and the Welsh Ministers to exercise their functions with a view to securing improvements in the quality of services they provide will shift the focus of decision making and represent a further step on the journey towards ever-higher standards of person-centred health services in Wales.

It will require NHS bodies and the Welsh Ministers to think and act differently by applying the concept of “quality”, not just to services being provided, but to all decisions and arrangements within the context of the health needs of their populations.

The new duty reflects the fact that all parts of the system can contribute to quality improvement and outcomes. For example, Velindre NHS Trust who hosts NWIS (NHS Wales Informatics Service) can improve the quality of health services by improving its digital services and this in turn can improve the effectiveness of health services overall and the experience of the service user. The duty therefore reflects the quality of clinical services can be improved through improvements to backroom services such as these.

Another example might include reporting on actions taken to improve safety by reductions in hospital acquired infections or improvement in the detection of sepsis which will in turn result in improved outcomes for patients.

By requiring NHS bodies to consider the wider implications of how their decisions will improve health outcomes for their population, the proposed duty encourages Local Health Boards to work with their neighbours and cross sector partners to reduce unwarranted variation and health inequality. It will encourage the sharing of resources and expertise which will in turn unlock opportunities to improve the effectiveness, safety and quality of services.

This approach supports the five ways of working within the Future Generations 2015 Act. It encourages long-term thinking and integrated and collaborative action that works to achieve the well-being goal of a healthier Wales.

The reporting requirement will require the Welsh Ministers (in relation to their health related functions) and NHS bodies to assess the improvement in outcomes achieved during the reporting year, demonstrating how we are improving the quality of health services in Wales. The requirement to report annually will make explicit how the delivery of the duty has led to improvements in quality, providing a baseline to measure and monitor future improvement, and adding to the openness and transparency of the system. The Welsh Minister's report will be laid before the Assembly allowing it to be scrutinised by Assembly Members and the public.

Duty of candour:

Background:

All health and social care providers have a shared goal to deliver high quality care.

It is important to recognise that various steps have already been taken with the aim of developing a “culture of openness” in the NHS. These include the introduction of new arrangements for handling complaints in the National Health Service (Concerns, Complaints and Redress Arrangements) (Wales) Regulations 2011, better reporting and investigation of serious incidents, reviews of all deaths in hospitals and the publication of Annual Quality Statements by LHBs, NHS Trusts and the Welsh Government. Additionally, as in England and Scotland, we have also sought to learn lessons from real cases where harm has been

caused together with the recommendations of various reports and reviews.

It is therefore apparent that a great deal of work has been done to develop and support a culture of openness within the NHS in Wales. This work has placed health organisations in a favourable position to implement a more formal duty of candour, which is the next logical step in the series of measures already undertaken to improve quality and openness.

Expected outcomes:

There is evidence that increased openness, transparency and candour are associated with the delivery of higher quality health and social care. Organisations with open and transparent cultures are more likely to spend time learning from incidents, rather than responding defensively, and they are more likely to have processes and systems in place to support staff and individuals when things go wrong.

A statutory duty of candour, set at an organisational level for NHS bodies in Wales, will:

- help create a whole system approach to candour;
- promote a culture of openness and improve the quality of care within the health service by encouraging organisational learning, avoiding future incidents;
- reducing staff fear associated with institutional repercussions or blame;
- support NHS bodies to build on the work under the Putting Things Right process to embed candid behaviour, making openness and transparency with people in relation to their care and treatment a normal part of the culture across these bodies in Wales; and
- encourage organisational reflection and learning - requiring bodies to report on an annual basis.

Placing the duty at organisational level, helps create the conditions for individual health professionals to act with candour and should help provide the support of the body within which they work to be open and honest with individuals. This is something which has been welcomed by providers of NHS services.

Recent events in Cwm Taf provide real evidence for why an enhanced and strengthened duty of quality and an organisational duty of candour is needed. These duties will require Boards to be more transparent in their decision making, to actively consider quality and identify where improvements are needed and take steps to remedy them.

The duties are part of a suite of legislative and non-legislative measures which, taken together, put in place arrangements for improving and protecting the health of the population by placing improvement in quality as the central concept. It will not, on its own, prevent poor quality care but it will go some way to help ensure the health service has quality at the heart of its decision making and is continually improving and learning.

I look forward to providing evidence to the Committee in due course.

I am copying this letter to the Chairs of the Finance Committee and the Constitutional and Legislative Affairs Committee.

Yours sincerely,



Vaughan Gething AC/AM

Y Gweinidog Iechyd a Gwasanaethau Cymdeithasol
Minister for Health and Social Services

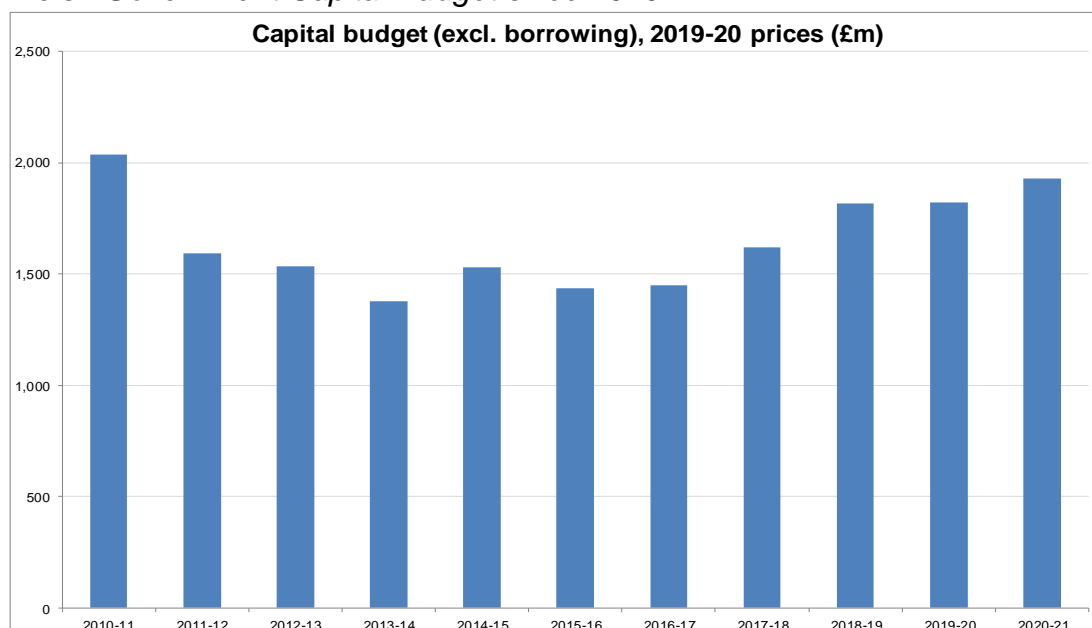
Introduction

1. The purpose of this paper is to provide written evidence to the Committee on Welsh Government capital funding sources.
2. The UK Government's austerity programme has resulted in less to spend on infrastructure investment in Wales since 2010-11. Despite this, ensuring we maximise the use of all funding sources available has been and continues to be of paramount importance to achieve our ambitions for Wales.
3. As set out in *Prosperity for All: the national strategy* the way we plan our capital investment decisions can have a big impact on the economy, help different organisations to deliver their services in a single place and minimise the individual's need to travel.
4. Guided by the Wales Infrastructure Investment Plan (WIIP) we published in 2012, high quality, modern infrastructure is a key enabler of competitiveness and productivity. Investment can act as a catalyst for wider regeneration and supporting vibrant communities. This investment needs to be intelligently planned and well delivered to have maximum impact.

UK Government Capital DEL funding

5. The main funding source available to the Welsh Government is the annual capital budget received from HMT. On a like for like basis over the last decade our capital budget has been cut by 10% in real terms as a result of the UK Conservative Government's relentless pursuit of austerity. In 2019-20, this means we will have £200m less to spend than we did in 2010-11, but our plans and demand for capital investment in Wales have continued to grow.

Welsh Government Capital Budget since 2010-11



6. It is against this backdrop that the Welsh Government has looked to make full use of all sources of capital funding available, and develop new and innovative sources of funding, including the Welsh Mutual Investment Model.
7. In 2019-20, funding available for capital investment, including borrowing, stands at just under £2.3bn. While we have firm figures for our capital budget to 2020-21, until we know the outcome the UK Government's next Spending Review, we can only estimate the budget for subsequent years, based on the OBR's economic and fiscal forecasts.

Capital DEL - Financial Transactions

8. A growing proportion (currently 15%) of our capital DEL is in the form of Financial Transactions. A key limitation of this funding source is that 80% is repayable to HMT. We also can only use it to make loans or equity investments and only to third parties where lending would not score against public sector net borrowing. This means that we cannot use Financial Transactions to finance the Welsh Government's own capital expenditure, grants, the NHS or Local Authorities.
9. The restrictions placed on this source of funding continue to constrain our freedom to invest in what we otherwise might have wanted to prioritise for investment. Whilst we do not welcome the UK Government's decision to place these restrictions on our capital budget, we are committed to using every pound available to invest in infrastructure and boost economic growth in the long-term. Through significant additional activity we are maximising the opportunities this funding source presents. We are investing in schemes such as Help to Buy Wales and creating various new innovative business and development schemes, many of which are strengthening the support and service we provide to the economy across Wales via the Development Bank of Wales.

Drawing on other funding streams

10. We are continually exploring opportunities to access other funding sources to support our infrastructure ambitions. For example:

UK City Deals

Significant additional UK Government resources (£736m) have been secured, or are in the process of being secured, as a result of successful bids to ensure Wales benefits from the UK Government's city and growth deals policy.

The Cardiff Capital Region City Deal has created an investment fund of £1.2bn over a 20-year period for the region, which covers 10 local authorities in South East Wales. Over its lifetime, it is anticipated that the city deal will deliver up to 25,000 new jobs and will attract an additional £4bn of private sector investment.

The £1.3bn Swansea Bay City Region Deal was the second deal to be signed in Wales which, over 15 years, aims to boost the local economy by £1.8bn and generate almost 10,000 new jobs.

The UK Government has also made a commitment to provide £120m for a North Wales Growth Deal with discussions also ongoing with UK Government, lead local authorities and regional stakeholders in mid Wales to explore how a Mid Wales Growth Deal might transform the economy in region.

European Investment Bank

11. In the Government's White Paper, Securing Wales' Future, we argued that the UK should remain a subscribing partner of the European Investment Bank (EIB). The EIB brings direct benefits to our economy as well as improving economic capacity elsewhere, thus helping the global trading environment which we support. Last February the House of Lords adopted a report where it noted that the UK's infrastructure had been the beneficiary of more than €118 billion of lending from the EIB. It noted the marked decline in funding from the EIB since the referendum and triggering of Article 50; and lamented the fact that despite our losing access to the EIB after Brexit, the Conservative Government had said little about any future relationship with the EIB or possible domestic alternatives.
12. I would prefer the UK to remain a subscribing partner in the Bank. The UK Government, in contrast, has failed to set out any meaningful proposals on a future relationship with the EIB, or domestic alternatives. As an absolute minimum, we will continue to argue that a mandate should be in place for continued EIB lending in the UK after we withdraw from the EU. . Officials have advanced these policies as part of the UK Government's Infrastructure Finance Review; and I have also nominated an independent expert to the panel conducting the review.

European Funding

13. Wales is a major beneficiary of EU funding and current Structural Fund programmes are worth £2bn¹, driving a total investment of nearly £3.2bn over the 2014–2020 funding period.
14. European Structural Funds are the main EU instrument for tackling significant economic, social and territorial disparities across Europe and supporting investment in jobs and growth. Within these, the main source of capital investment comes from the £1bn European Regional Development Fund (ERDF). The current ERDF programmes support investments in four priorities: Research and Innovation, Business Competitiveness, Renewable Energy and Energy Efficiency and Connectivity (transport and sustainable urban development).

¹ Exchange rate of €1.17/£1

15. Under the Connectivity priority the Wales European Funding Office (WEFO) has approved ERDF of some £91m towards road improvements involving the A55 in North and the A40 in South Wales; over £182m on public transport (including some £165m on the South Wales Metro); over £55m on high speed broadband; and over £142m on regionally prioritised infrastructure supporting a regional or urban economic strategy.
16. Of the total structural fund project investment to date, £1.34bn (40%) is supporting individuals, £981m (29%) is helping businesses, £117m (4%) the environment, £839m (25%) strategic infrastructure, and £69m (2%) technical assistance.
17. WEFO's ERDF programmes for the 2014-2020 Structural Fund Programmes are currently 91% committed.
18. The Welsh Government published a policy paper in December 2017 setting out our approach to developing a regional investment policy after the UK leaves the EU. We believe the baseline of the UK block grant payment for Wales must be readjusted at the point of exit from the EU to reflect the real loss of funds in Wales arising from Brexit and taking into account funding which Wales would have otherwise reasonably expected from EU sources. Additionally, any replacement system must respect the devolution settlement, ensuring that regional investment decisions continue to be made in Wales, reflecting our unique policy and legislative landscape.

Government loans (including borrowing limits)

19. The Wales Act 2014 provided the Welsh Government with powers to borrow over the long-term for capital investment. Initially, the Welsh Government could borrow up to £125m per year from 2018-19 within an overall cap of £500m. These limits were increased to £150m per year and £1bn overall as part of the fiscal framework agreement with the UK Government, alongside the introduction of Welsh Rates of Income Tax from 2019-20.
20. The Welsh Government can borrow from the National Loans Fund (via the Secretary of State for Wales) or through a commercial loan (directly from a bank or other lender).
21. Capital borrowing helps us manage our resources in a more efficient way and deliver our infrastructure goals – working alongside our existing capital budget and our innovative funding schemes. However, capital borrowing is not additional money and must be repaid. We have carefully considered how we use these powers, taking a strategic view of Welsh priorities.
22. Interest is payable on any loans taken by the Welsh Government at the rate available at the time the loan is drawn. Repayments of the loan principal are financed by tax receipts into the Welsh Consolidated Fund; repayments of loan interest are a cost to the Welsh Government and financed by revenue funding provided through the block grant.

Repayments of loan principal and interest reduce the level of resources available to spend over the period of repayment.

Bonds

23. On 1st December 2018 the Welsh Government gained new powers to issue redeemable bonds to help fund capital infrastructure projects. At a time when our capital budgets are continuing to fall, these additional powers provide us with the full suite of borrowing levers so we can continue to invest in our ambitious infrastructure plans for Wales.
24. The ability to issue bonds does not increase our ability to borrow. Any funds raised by a Welsh Government bond (or a bond attributed to a wholly owned subsidiary, such as Transport for Wales) would be counted against our borrowing limit. The bonds – in common with other forms of borrowing – must be repaid with interest and will have an impact on the revenue available to the Welsh Government to fund day-to-day public services.
25. At present we have no plans to use this power as the Welsh Government is able to borrow via the National Loans Fund, which, in general, would involve lower interest rates than a Welsh Government bond would attract. However, the power to issue bonds remains important as it means there is another way in which the Welsh Government can borrow money in the event that the UK Government decided to increase our cost of borrowing. Should a future Welsh Government decide to issue Welsh bonds, consideration would need to be given to the mechanisms and processes required to manage them effectively.

Borrowing powers of Welsh Government bodies

26. As most Welsh Government bodies are mainly funded directly by the Welsh Government, borrowing by those bodies is tightly controlled and only allowed in exceptional circumstances. Any borrowing undertaken by Welsh Government bodies within the central government budget boundary will score against the capital resources available to the Welsh Government and included within the Welsh Government's overall borrowing limit as set out above.

Borrowing powers of local authorities (LAs)

27. Although not a Welsh Government body, since 1st April 2004 LAs in Wales have been able to borrow without Government consent when carrying out their duties under Part 1 of the Local Government Act 2003, but are required by the, '*Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003*', to have regard to the Prudential Code published by the Chartered Institute of Public Finance and Accountancy. Section 3 of the Local Government Act 2003 also imposes a duty for LAs to determine, and keep under review, the amount they can afford to borrow; and Empowers the Welsh Ministers

to define that duty in more detail in regulations, which may require LAs to have regard to specific codes of practice.

28. LAs borrow from a number of sources, including other LAs, the Public Works Loan Board (PWLB) and commercial banks. The majority of debt is however with other authorities or the PWLB, where the best rates can be achieved. In addition, each authority will have its own Treasury Management policy and acceptable risk profile. As per the Whole of Government accounts for 2017-18 the total debt in LAs PWLB, bank & other borrowing (excluding overdrafts) is £5.4bn.
29. Local authorities enter into long-term borrowing to finance large-scale investment in a range of projects such as building schools and acquiring equipment to deliver services. It has been used extensively by authorities to accelerate school investment programmes; to fund roads resurfacing; one-off infrastructure projects (e.g. bridge refurbishments) and also generically to support across the board capital programmes where there is a funding gap.
30. The main caveats of undertaking borrowing are that the authority must use its own professional judgements to determine that the funding raised is "Sustainable, Affordable and Prudent" taking into account the authorities overall financial position.

Mutual Investment Model

31. We are committed to delivering three schemes using this form of innovative funding – completing the dualling of the A465; additional investment in the next phase of the 21st Century Schools and Education programme; and the new Velindre cancer centre.
32. Together these schemes have a capital value of more than £1bn, and would not be affordable from our current, denuded capital budgets. Had we not developed the model, projects such as these would have to wait in line until enough capital became available.
33. From the outset, our intention has always been to ensure that the Mutual Investment Model promotes the public interest in the widest possible definition of that term. To that end, the model will deliver positive, additional outcomes in relation to wellbeing, value for money, and transparency; and in so doing will avoid many of the criticisms levied at historic forms of public-private partnership – in some cases, criticisms that the Welsh Government was among the first to raise.
34. The MIM will only be used to finance projects or programmes with a sufficient capital scale that will both attract the interest of funders and constitute value for money for the taxpayer.
35. We will require all MIM schemes to be subject to the rigorous investment appraisal of the *Five Case Model* – an internationally accredited appraisal tool, co-owned by the Welsh Government. The G20 Finance Ministers have adopted the model's principles as the basis for a global standard for infrastructure investment appraisal. We

have also developed a new project assurance tool that all MIM schemes will be subject to – Commercial Approval Point checks.

36. To increase the value for money of our schemes, we have taken a conscious decision not to use the Mutual Investment Model to finance soft services, such as cleaning and catering, which was one of major criticisms of previous PFI contracts. Nor will it be used to finance capital equipment. The Government will invest a small amount of risk capital in each scheme, ensuring that the public sector participates in any return on investment.
37. Following the recognition of United Nations Economic Commission for Europe (UNECE) that the MIM constitutes a People First model of Public Private Partnership, in June the Scottish Government announced that it would adopt the MIM to support its own infrastructure priorities. In doing so, it noted that the value for money and additionality benefits of the model developed in Wales.

Capital receipts

38. Land and property assets are predominantly held by Welsh Ministers for operational / policy requirements. That covers a wide range of activities including administration, transport infrastructure together with support for housing and business. However, while the portfolio is not generally one held with a view to generating a cash return we do recognise the important part it can play in maximising the overall return to the people of Wales.
39. Following the National Assembly for Wales Finance Committee review into asset management in the public sector our corporate governance has moved forward and included the creation of a corporate asset management strategy and departmental asset management plans. Income from property can be broadly categorised under 3 headings (below) and any sums received are recycled to support further policy work within the departments responsible for the asset.

Sales

Assets no longer required to support business and not needed by the wider public sector in Wales (surplus) are sold usually through open marketing. We follow published guidance (both internal and HM Treasury) in order to maximise a return which can sometimes require modest investment in the asset to boost its potential.

Some assets are sold in direct support of a particular policy objective. By example assets previously held by the Land Authority for Wales and the former Welsh Development Agency (WDA) are sold so as to maximise the support they can give to business development or facilitate affordable housing. However, we are still guided by the principles which require a disposal to show overall value for money.

Lettings

To maximise the use of our office space, agreements are in place whereby other public sector bodies occupy accommodation within our buildings. In accordance with best practice this is on a cost recovery

basis. There are groups of property which are held temporarily while awaiting operational use. This would include land and buildings we were required to purchase under planning blight legislation in advance of highway works. Until the scheme is ready to proceed, the asset is let (on market terms) which provides an income but equally an occupier ensures the property is secure. To strengthen business development and employment activity some (predominantly) industrial units are held to fill gaps in the property market. Units are let subject to Independent verification of the terms offered.

Clawback / Overage

Some assets have been sold / transferred subject to conditions in our favour that may generate further receipts in the future. Typically improvements in value by changes in use or valuable planning changes would trigger additional payments.

Welsh Government approach to use of capital funding sources

40. The reduction in our capital budget means we need to continue to develop new and innovative ways to fill the capital gap and maximise the use of our existing capital funding sources. The principle which underpins the use of capital in Wales is that we will always exhaust the use of the least expensive forms of capital before moving on to using other sources.
41. We will always use conventional capital, including financial transactions capital first, ensuring we use every penny available to Wales, to fund our infrastructure commitments. The second source of capital funding that we are able to access is the European funds which come to Wales – for example, we are currently working on the basis of a £159m contribution from the European Regional Development Fund (ERDF) to deliver the South Wales Metro as part of the Cardiff Capital Region City Deal.
42. We then use the new borrowing powers which we have secured in Wales – our budget takes account of the capital borrowing available to us over this budget period to 2020-21 to fund our infrastructure programme.
43. Our next source of capital is to support borrowing in other public bodies, including local authorities and housing associations – we will use these sources to help deliver our target of 20,000 affordable homes over this Assembly term.
44. Our final source of capital funding is innovative finance, including the Mutual Investment Model, which has been developed in Wales and which will be used to deliver a further £1bn programme of work, including the new Velindre Cancer Centre, a significant part of Band B of the 21st Century Schools and Education programme and sections 5 and 6 of the Heads of the Valleys road.

Conclusion

45. It is more important than ever that we maximise all the levers available to us to boost capital funding and prioritise our investment in ways that deliver the most benefit in line with our priorities. Ensuring we identify and effectively utilise all capital funding sources available therefore continues to be a Welsh Government primary objective to enable our critical role in delivering major infrastructure projects across Wales.
46. As a direct result of what we have achieved since the WIIP was published in 2012, we have made capital allocations totalling over **£15bn**, been instrumental in enabling significant additional investment to be generated from borrowing, and created the right conditions to attract crucial private sector investment. There is much still to do so we will continue to seek and maximise the use of all funding sources available and engage with key stakeholders to facilitate the most effective future investment, ensuring we make the most of financing opportunities.

Minister for Finance and Trefnydd

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Agenda Item 5

Cynulliad Cenedlaethol Cymru
Comisiwn y Cynulliad

National Assembly for Wales
Assembly Commission

Llyr Gruffydd AM
Chair of Finance Committee
National Assembly for Wales
Tŷ Hywel
Cardiff Bay
CF99 1NA

27 June 2019

Dear Llyr

Public Audit (Wales) Act 2013

I am writing in response to your letter dated 4 June 2019 and the Finance Committee's consideration of proposals to amend the Public Audit (Wales) Act 2013 ("the **2013 Act**").

Your letter requests that the Commission provides a written submission detailing the following:

- the administrative, compliance and other costs of delivering the functions relating to the oversight of the Wales Audit Office (set out in Standing Order 18.10-18.11),
- the timescales over which such costs have occurred, and
- any reflections or issues identified with the operation of the Act to date (e.g. with regard to the fee regime).

We have compiled a response providing this detail and this is set out in the Annex accompanying this letter; I hope it provides the information you require.

Commission officials with overarching responsibility for delivering the duties placed on the Assembly by the 2013 Act will also be available on 11 July to provide further clarification and evidence to the Committee.

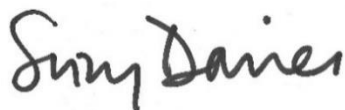


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As ever, if there is any further information your Committee would like, please let me know.

Yours sincerely

A handwritten signature in black ink that reads "Suzy Davies". The signature is written in a cursive, flowing style.

Suzy Davies

cc Assembly Commissioners, Manon Antoniazzi, Nia Morgan



Annex 1

The administrative, compliance and other costs of delivering the functions relating to the oversight of the Wales Audit Office ("the **WAO**") as set out in Standing Orders 18.10-18.11 are set out below.

These are derived from the statutory requirements placed upon the Commission by the 2013 Act and the Government of Wales Act 2006, the provision for which is absorbed within the Commission's budget.

The specific requirements of Standing Orders 18.10-11 are addressed individually. The estimated cost of each function is noted, along with the frequency/timescale of that cost, the information reflects costs incurred since the introduction of the 2013 Act. A summary of these costs is provided in Annex 2. Where relevant other issues arise in respect of these functions these issues are also noted.

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| Standing Order 18.10 (i) | Scrutiny of the WAO's annual budget estimate of income and expenditure |
|---------------------------------|---|

Commission activity: Provide support to the Finance Committee, including the preparation of briefing and production of a report, plus ad hoc requirements.

Cost to the Commission: £4,600

Frequency: Annually

Other Considerations: No issues

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| Standing Order 18.10 (ii) | Scrutiny of any supplementary budget motions (and supporting WAO Explanatory Memorandum) which amend amounts previously authorised by the Assembly in respect of the WAO |
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Commission activity: Provide support to the Finance Committee

Cost to the Commission: £500

Frequency: Annually (could be up to twice a year).

Other Considerations: No issues



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| Standing Order 18.10 (iii) | Scrutiny of any WAO expenditure in excess of its approved budget |
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Commission activity: Provide support to the Finance Committee

Cost to the Commission: £Nil

Frequency: Not utilised to date

Other Considerations: No issues

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|----------------------------------|--|
| Standing Order 18.10 (iv) | Oversight by the Finance Committee of the appointment and removal process of the Auditor General for Wales (AGW) and the Chair of the WAO and making recommendations to the Assembly. |
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Commission activity: Provide support to the Finance Committee and appointment panel, overseeing the recruitment process, sift process, interview process, preparation of contracts etc.

Cost to the Commission: £48,400

Frequency: Every eight years for the AGW and at least every four years for the Chair of the WAO.

Other Considerations:

The Committee has indicated it wishes to use the services of a head hunter for the next recruitment exercise for the AGW. The approximate cost of this will be £30,000, to be funded from the Commission's budget.

The 2013 Act¹ requires the chair of the WAO to be appointed by the Assembly from amongst the non-executive members of the WAO. The Committee may wish to note that there is scope within the 2013 Act for alternative interpretation of the provisions regarding an extension of the appointment of the Chair of the WAO.

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|---------------------------------|--|
| Standing Order 18.10 (v) | Appointment of Non-Executive Members of the WAO board |
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Commission activity: Provide support to the Finance Committee and appointment panel, overseeing the recruitment process, sift process, interview process, preparation of contracts etc.

Cost to the Commission: £10,100

¹ Schedule 1, Paragraph 5(1)



Frequency: Approximately every 12 to 18 months

Other Considerations:

Issues have been encountered implementing the requirements of the 2013 Act² regarding the reappointment of the non-executive members, which necessitates any candidates for reappointment to the Board being required to participate in a full competition with external candidates. There could be merit in considering whether it would be appropriate for the relevant provisions of the 2013 Act to be clarified in respect of current Board members wishing to serve a second consecutive term of office.

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|----------------------------------|---|
| Standing Order 18.10 (vi) | Appointment of the Auditors of the accounts of the WAO |
|----------------------------------|---|

Commission activity: Provide support to the Finance Committee, overseeing e.g. the tender process used during the appointment, and negotiating the tender and contractual documentation to be entered into between the Assembly Commission, the WAO and the preferred supplier.

Cost to the Commission: £26,600

Frequency: Every four years

Other Considerations:

The Commission's Legal Services Team has undertaken significant work in relation to the appointment of the auditors of the WAO (on two separate occasions, in 2014 and 2018 respectively). Due to the complex nature of the tripartite arrangements between the Commission, WAO and the supplier of audit services, these projects have required input from Legal Services, together with substantial specialist external legal assurance (funded from the Commission's budget). The 2018 appointment process resulted in the Commission engaging external legal advice to the value of £19,500.

The Commission's Procurement Team has also provided assurance over the process of the last two tenders in relation to the appointment of WAO auditors. On both previous occasions the tender process was run via the UK Government's Crown Commercial services framework. The Commission had sight and input into the specification, but was not involved in the evaluation of the responses received, as on both occasions, only one bid was returned.

² Schedule 1, paragraph 6(2)



If the tender process was run outside a framework process, this could potentially result in a greater number of supplier bids returned, however this would result in a higher staff cost to the Commission.

There could be merit in considering whether the 2013 Act would benefit from revision to simplify the arrangements for appointment of the WAO's auditors,

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| Standing Order 18.10 (vii) | Determining the remuneration of the AGW, Chair and Non-Executive Members of the WAO |
|-----------------------------------|--|

Commission activity: Provide support and advice to the Finance Committee

Cost to the Commission: £2,200

Frequency: Every 12-18 months for each WAO Member appointment, at least every four years for the Chair appointment, and at least every eight years for each AGW appointment. As these appointments are staggered, in practice this occurs around every 18 months.

Other Considerations:

The Commission has encountered issues due to the linking of the AGW pay to an external sourced index which could be changed significantly or removed. There could be merit in considering an alternative method of increasing the pay of a future AGW, such as fixed increases.

The 2013 Act requires the Assembly to consult on proposed remuneration levels for these offices³⁴⁵ prior to determining those arrangements. The Committee may wish to note the practical issues the Commission has encountered in identifying the appropriate consultee in respect of WAO Member remuneration (referred to below), and, more generally, whether the requirements to consult remain appropriate.

³ Section 7(2) requires the Assembly to consult the First Minister before setting remuneration arrangements for the AGW.

⁴ Para 5(2) of Schedule 1 requires the Assembly to consult the First Minister before setting remuneration for the chair of the WAO.

⁵ Para 9(1) of Schedule 1 requires the Assembly to consult "an appropriate person with oversight of public appointments" before setting remuneration (and other terms of appointment) for all non-executive Members of the WAO.



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| Standing Order 18.10 (viii) | Determining terms of appointment for Members of the WAO |
|------------------------------------|--|

Commission activity: Provide support and advice to the Finance Committee

Cost to the Commission: £500

Frequency: Periodic review as required

Other Considerations:

The 2013 Act⁶ permits the Assembly to set terms of appointment for the members of the WAO. Since implementation of the legislation, the Commission has developed standard documentation for the appointment of both the chair and other non-executive members. The terms are subject to periodic review, including external legal assurance where necessary, and recommended to the Committee for approval as part of the appointment process for these offices. The most recent external legal assurance exercise resulted in an invoice to the Commission of £500.

The most recent assurance exercise included updating the standard terms to include an automatic remuneration adjustment mechanism. The mechanism provides for an uplift to existing Board members' annual remuneration should the Committee appoint future Board members at a higher rate.

The 2013 Act also requires the Assembly to consult "an appropriate person with oversight of public appointments" before setting terms of appointment. Commission officials have encountered difficulties in establishing a suitable consultee in order to comply with this statutory requirement. The Committee may therefore wish to consider whether the requirement should be revised, or removed altogether.

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| Standing Order 18.10 (ix) | Approval of the Code of Practice dealing with the relationship between the Auditor General and the WAO |
|----------------------------------|---|

Commission activity: Provide support and advice to the Finance Committee

Cost to the Commission: £700

Frequency: Infrequent - the first revision to the Code since implementation of the 2013 Act is due to be considered by the Committee in July 2019.

Other Considerations: None noted

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|---------------------------------|--|
| Standing Order 18.10 (x) | Approval of the scheme for charging fees by the WAO |
|---------------------------------|--|

⁶ Para 8(1) of Schedule 1.



Commission activity: Provide support and advice to the Finance Committee

Cost to the Commission: £600

Frequency: Annually

Other Considerations: None noted

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|----------------------------------|---|
| Standing Order 18.10 (xi) | Publication of a list of offices/positions and arrangements regarding the activities of a former AGW |
|----------------------------------|---|

Commission activity: Provide support to the Finance Committee

Cost to the Commission: £2,000

Frequency: Once, unlikely this will be undertaken regularly

Other Considerations :

Section 5(3) of the 2013 Act requires the Assembly to publish a list of restricted offices, positions or arrangements on which a former AGW would need to consult with the Assembly before accepting or entering into (as appropriate) after leaving office. The Committee considered this requirement in 2017 prior to the appointment of the current AGW and resolved not to specify any requirements.

However, section 5(3) provides that the Assembly must publish such a list. Accordingly, the Committee published a document confirming that there are no such restrictions on a former AGW that would require consultation with the Assembly, in order to avoid breaching the requirements of the legislation.

The Committee may therefore wish to consider the merits of making the publication requirement optional, to avoid needing to publish a similar document of limited value in the future.

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|---------------------------------|---|
| Standing Order 18.11 (i) | Scrutiny of the Annual Plan jointly laid before the Assembly by the Auditor General and the Chair of the WAO |
|---------------------------------|---|

Commission activity: Provide support and advice to the Finance Committee

Cost to the Commission: £600

Frequency: Annually

Other Considerations: None noted



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|----------------------------------|---|
| Standing Order 18.11 (ii) | Advising the WAO's auditors on the examinations to be carried out on the use of resources by the AGW and the WAO |
|----------------------------------|---|

Commission activity: Provide support and advice to the Finance Committee

Cost to the Commission: £300

Frequency: Once

Other Considerations: None noted

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|-----------------------------------|---|
| Standing Order 18.11 (iii) | Scrutiny of the reports laid before the Assembly by the auditors of the WAO's accounts |
|-----------------------------------|---|

Commission activity: Provide support and advice to the Finance Committee

Cost to the Commission: £700

Frequency: Annually

Other Considerations: None noted

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|----------------------------------|---|
| Standing Order 18.11 (iv) | Scrutiny of the Annual Report and any interim reports laid before the Assembly by the AGW and Chair of the WAO |
|----------------------------------|---|

Commission activity: Provide support to the Finance Committee

Cost to the Commission: £3,600

Frequency: Annually

Other Considerations: None noted

| | |
|---------------------------------|--|
| Standing Order 18.11 (v) | Determining dates for the AGW and Chair of the WAO to jointly lay Interim Reports |
|---------------------------------|--|

Commission activity: Provide support to the Finance Committee

Cost to the Commission: £Nil

Frequency: Infrequent

Other Considerations: None noted

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|----------------------------------|---|
| Standing Order 18.11 (vi) | Specifying responsibilities of the Accounting Officer of the WAO |
|----------------------------------|---|

Commission activity: Preparation of a draft accounting officer memorandum for the Committee's approval.

Cost to the Commission: £2,200

Frequency: Every 8 years, when a new AGW is appointed

Other Considerations: None noted



Other Reflections or Issues

- any reflections or issues identified with the operation of the Act to date (e.g. with regard to the fee regime).

Fee Regime

As noted in our letter dated 9 May, the AGW only undertakes financial audit work at the Commission. Therefore, some of the complexities outlined in paragraphs 3.4-3.6 of the Proposals document are not relevant to the Commission as the AGW does not undertake a full range of audit functions at the Commission.

Through concerted efforts from the Commission's finance team in tandem with the WAO engagement team, we have seen efficiencies, a slightly reduced fee and refunds in recent years, therefore we have not encountered the disincentive to improving audit efficiency as outlined in paragraph 3.3 of the Proposals document.

As noted previously, from the Commission's viewpoint, clarity and transparency would be the most important aspects of any future fee charging regime. As a client of the AGW and WAO, the Commission would welcome a regime which ensured that fee estimates could be communicated in a timely manner and that an overview of the calculation and methodology used to arrive at the proposed fee remains transparent and explained by the relevant WAO Engagement Lead.



Annex 2 Summary of costs

Staff costs relate to estimated relevant staff time including on-costs. Other costs include advertising costs incurred during recruitment exercises and external legal assurance.

| | Standing Order requirement | Frequency | Staff Costs | Other Costs | Total |
|--------------|--|--------------------|-------------|-------------|--------|
| 18.1 | A responsible Committee must consider/advise on: | | | | |
| i) | Estimate of income and expenditure | Annually | 4,600 | - | 4,600 |
| ii) | Supplementary budget motions | Annually | 500 | - | 500 |
| iii) | Expenditure in excess of budget | | - | - | - |
| iv) | Appointment of AGW and Chair of WAO | Every 4 or 8 years | 29,100 | 19,300 | 48,400 |
| v) | Appointment of non-exec Members | Every 18 months | 10,100 | - | 10,100 |
| vi) | Appointment of the auditor of WAO | Every 4 years | 7,100 | 19,500 | 26,600 |
| vii) | Remuneration of AGW/Chair and Non execs | Every 4 or 8 years | 2,200 | - | 2,200 |
| viii) | Other terms of appointment to WAO | Every 18 months | - | 500 | 500 |
| ix) | Code of Practice | Infrequent | 700 | - | 700 |
| x) | Scheme for charging fees by WAO | Annually | 600 | - | 600 |
| xi) | Employment of former AGW | Infrequent | 2,000 | - | 2,000 |
| 18.1 | A responsible Committee may consider/advise on: | | | | |
| i) | Annual Plan | Annually | 600 | - | 600 |
| ii) | Work carried out by auditor of WAO | Infrequent | 300 | - | 300 |
| iii) | Reports laid by auditor of WAO | Annually | 700 | - | 700 |
| iv) | Annual Report and interim reports | Annually | 3,600 | - | 3,600 |
| v) | Dates for laying interim report | Infrequent | - | - | - |
| vi) | Accounting Officer responsibilities | Every 4 years | 2,200 | - | 2,200 |

| | | | |
|---------------------------|--------|--------|--------|
| Annually | 10,600 | - | 10,600 |
| Every 18 months | 10,100 | 500 | 10,600 |
| Every 4 or 8 years | 40,600 | 38,800 | 79,400 |
| Infrequent | 3,000 | - | 3,000 |



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

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