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Llywodraeth Cymru
Welsh Government

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

8 December 2014

Dear Jocelyn,

**Finance Committee's Report: Scrutiny of the Draft Budget Motion 2015-16;
November 2014**

Thank you for your letter of 11 November, enclosing a copy of the Finance Committee's report on its scrutiny of the Draft Budget Motion 2015-16 (November 2014).

I enclose a note at Annex A, which responds to the recommendations contained within the Committee's report.

A handwritten signature in black ink that reads "Jane".

Jane Hutt AC / AM
Y Gweinidog Cyllid a Busnes y Llywodraeth
Minister for Finance and Government Business

Response to Recommendations in Finance Committee Report

Taxation Levers – Council Tax

Recommendation 1: The Committee recommends that the Welsh Government undertake a detailed evaluation of the Council Tax Reduction Scheme. This should include the financial impact of the scheme on individual authorities.

A review of the longer term arrangements for Council Tax Reduction Schemes (CTRS) was completed in October.

The review was undertaken by officials from the Welsh Government, Local Government, the Welsh Local Government Association and Citizens Advice Bureau and included engagement with Local Government, Third Sector Organisations and the public through a comprehensive public consultation. The review considered the operation of CTRS since its introduction in Wales in April 2013, as well as looking at the wider effects of welfare reform and emerging research on the impact of changes to Council Tax Support in England.

As a result of this review, the Welsh Government agreed to maintain entitlements for all eligible applicants and to continue with the existing funding arrangements for a further two years (2015-16 and 2016-17). This continuing support for local government through the Local Government Settlement reflects the shared ownership of CTRS, which was developed in collaboration with local government, and which provides support to applicants in meeting their locally determined council tax liability.

We continue to monitor the operation of CTRS and work with local government to ensure these arrangements remain fit for purpose.

Taxation Levers – Non-Domestic Rates (NDR)

Recommendation 2: The Committee recommends the Welsh Government provide information on how they will monitor the accuracy of Non Domestic Rate receipts forecasts in-year and improve the accuracy of these forecasts going forward.

Recommendation 3: The Committee recommends that the Government concludes its negotiations with HM Treasury as soon as possible and provides details of the arrangements it proposes to put in place to manage the consequences of any tax volatility.

As announced in the Autumn Statement, agreement has been reached on full devolution of non-domestic (business) rates policy. A fully devolved regime will be operational by April 2015. There are still details to be addressed regarding the exact budgetary arrangements, which will be the subject of ongoing negotiations.

Whilst there is already a system in place to forecast and monitor NDR receipts in-year, consideration of information requirements for accurate forecasts of NDR revenues following the full devolution of NDR to Wales forms a major part of the ongoing Non Domestic Rates (NDR) devolution work programme. The NDR devolution work programme will identify changes needed to this system in the light of full NDR devolution.

As the Minister for Finance and Government Business confirmed in her letter to the Finance Committee on 16 October, we will look to publish details once negotiations have concluded.

Affordability - Expenditure

Recommendation 4: The Committee would expect that in the second year of operation of the new financial planning system that all NHS bodies should have agreed robust three year plans and recommends the Welsh Government put in place steps to ensure this happens.

The NHS Finance (Wales) Act 2014 included a statutory requirement for NHS organisations to prepare three-year integrated plans, which will result in a more formal scrutiny and challenge process, whilst at the same time ensuring better quality through the integration of the service, workforce and financial elements.

We have recently refreshed and updated the planning framework and guidance to support the preparation and submission of the next round of integrated three-year plans, covering the period 2015-16 to 2017-18. As we work towards the submission date of 31 January 2015, we will be holding stakeholder engagement events, workshops and peer-review meetings to ensure the next round of three-year plans are suitably advanced and developed to meet our requirements.

Following appropriate challenge and scrutiny by the Welsh Government we are hopeful that we will be in a position to approve additional plans over and above the four which have been approved for the current three-year period. However, the Minister for Health and Social Services has made it clear that only those plans which fully meet the planning requirements and can demonstrate a robust, realistic, balanced financial position over the three-year period will be approved.

Recommendation 5: The Committee recommends that the Government undertakes a rigorous review of the current process for costing legislation and for incorporating the costs in the budget. The review should cover the process for planned legislation in addition to existing legislation.

The Welsh Government is committed to improving the transparency of the budget, including providing clarity on the costs of legislation. In line with this, all Ministers assess the costs of legislation and the impact on those it affects as an essential part of the policy development process.

As the Minister for Finance and Government Business highlighted to the Finance Committee, a regulatory impact assessment is conducted for every item of legislation and includes best estimates of the financial impact of the legislation, including the

timescales over which such costs would be expected to arise. We continually review this information to ensure that the financial costs take account of further policy developments or to reflect changes made to the legislation during the scrutiny process. Importantly, the Assembly Committees also have the opportunity to scrutinise changing costs during the normal passage of legislation through the Assembly.

In terms of incorporating costs in the budget, we have looked to improve the information we provide on legislation in the Budget Narrative over the last few years. This is in line with our commitment to continually review our approach to ensure that costings are robust. For the Draft Budget 2015-16 we have provided for the first time an Annex to the Budget Narrative showing the additional costs of both previously enacted legislation and draft legislation covered by this Budget period, where Bills have been introduced into the Assembly. This has been welcomed by the Assembly.

We are committed to building on this approach to support the scrutiny of our spending plans and explore further options to improve the provision of financial information relating to our legislation in future budgets.

Public Service Reform

Recommendation 6: The Committee recommends the Welsh Government sets out what the expectations and timescales are from the planned reforms in both health and local government.

The Welsh Government is committed to delivering high quality public services across Wales, including supporting reform where needed.

In terms of health, we are driving reform through the three year integrated medium-term planning process. Under the NHS Finance (Wales) Act (the Act), each Local Health Board (LHB) is required to prepare an integrated medium term plan, which sets out how it will improve and deliver health care provision to its resident population, utilising its core provision. The 2015-16 Integrated Medium Term Plans, which are due to be submitted in January 2015, will help to inform the allocation to each LHB in 2015-16.

The Act was underpinned by a new robust planning framework issued to NHS organisations, last Autumn. This framework will help deliver the collective ambition for the years ahead and the ongoing commitment to focus on better outcomes for patients, in line with our principles of prudent healthcare.

Reforms will continue to be delivered on an ongoing basis by centralising highly specialised services, providing more care in communities closer to patients homes, preventing people from being admitted to hospital for routine treatment, further increasing the integration with social services and pursuing a prudent healthcare agenda across all the services we deliver.

In respect of reform within local government, the White Paper on Reforming Local Government published in July 2014 set out detailed timings. Following this, the Minister for Public Services published a prospectus for voluntary mergers with a

deadline of 28 November for expressions of interest. Fully developed merger proposals will need to be submitted by June 2015. The Minister for Public Services reiterated this timetable in his statement to Plenary on 23 September.

In October, the Minister also published proposals for a Public Service Staff Commission to assist in the transition process.

Looking ahead, in January 2015, the Government will publish its first Local Government Bill and we will also publish the main Local Government White Paper early in 2015 which will say more about our vision for Local Government. Later in the Autumn of 2015, we will publish a draft Local Government Reform Bill for implementation after 2016.

Recommendation 7: The Committee recommends that the Government provide a realistic estimate of the costs, benefits and timescales associated with local government mergers. Further clarity is required on the incentives available to merging local authorities.

We will bring forward a properly worked through Regulatory Impact Assessment alongside our legislation, which will provide full details of the costs and benefits associated with local government reform. This is for both voluntary mergers which we aim to legislate for in this Assembly term, and for the more comprehensive programme of mergers we aim to legislate for in the next Assembly term. The next Assembly term is beyond the horizon of this Budget 2015-16, but the proposed comprehensive merger programme will be an important consideration in the Welsh Government's budget setting process beyond 2015-16.

In relation to voluntary mergers and the incentives that will be available, Local Authorities were invited to come forward by 28 November with expressions of interest for voluntary mergers. These proposals are now subject to evaluation. We have said that any proposal would be assessed on its merits and we would provide support as appropriate. That is the process now being worked through.

In terms of providing detail on incentives available to support Local Authorities as part of the merger process, section 8 of the Voluntary Merger Prospectus sets out examples of the various forms of support that could be available.

Preventative Spending / Financial Planning

Recommendation 8: The Committee recommends the Minister provide a realistic, concise, acceptable definition on what constitutes preventative spending.

Recommendation 10: The Committee recommends the Minister provide a comprehensive list of preventative spending, based on clearer criteria, to identify the proportion of each portfolio allocated to preventative spending year on year to enable the Welsh Government to evidence a shift towards a budget more focussed to preventative spend.

During the course of the budget scrutiny this year, a clear consensus has emerged on the importance of prevention and early intervention, particularly in the context of continued austerity.

The Draft Budget proposals we published on 30 September highlighted many examples across all portfolios of where we are investing in prevention. The improvements that we made to provide more information on how we are supporting preventative approaches through our budget have been welcomed by the Finance Committee. However, the scrutiny process has also highlighted the clarity needed in defining what we mean by preventative spend.

In this regard, we note the Finance Committee's recommendation and the Minister for Finance and Government Business will look to build on the approach we have taken this year to provide further clarity on how our budget supports preventative interventions.

Recommendation 9: The Committee recommends the Minister look again at the allocations to the Supporting People Programme, with a view to revisiting the funding reduction decision.

The Welsh Government published the Final Budget 2015-16 on 2 December. It proposed only minimal changes from the Draft Budget 2015-16, reflecting our confidence that we have developed robust spending plans which will enable us to support our priorities within the available budget.

In terms of the Supporting People Programme, as the Minister for Communities and Tackling Poverty indicated when she gave evidence to the Communities, Equality and Local Government Committee, the Welsh Government will continue to work very closely with stakeholders, including Local Authorities and the Programme's National Advisory Board, to consider how best to mitigate the impact of budget reductions where these have had to be made.

Health Finance

Recommendation 11: The Committee is concerned about the conflicting evidence that was received on the underlying rationale for the increase in resources. The Minister asserts that the additional funding for health will be accompanied by reform, yet the health sector witnesses have said the funding will be used to 'plug a gap'. The Committee recommends that the Government clarify the position as soon as possible.

The independent report published by the Nuffield Trust clearly sets out the future financial challenges facing the NHS in Wales. It concludes by saying the NHS in Wales is affordable in the future if it receives a share of national income and continues to deliver the productivity and efficiency gains it has in the past. The report comments positively on the actions the NHS has already taken to reform and reshape its services but we need to go further and continue to realise the benefits which come from delivering our services differently.

Consequently, the additional funding announced in the Draft Budget 2015-16 will be used, alongside the totality of the existing healthcare budget, to continue to deliver the high-quality and safe services our patients expect while at the same time ensuring the whole budget is used in a way which contributes to reshaping and reforming the way we deliver our health services to ensure we are on a more sustainable footing. In addition, following the Autumn Statement last week the Minister for Finance and Government Business announced that we would allocate the full health revenue consequential of £70m to provide additional targeted support for NHS reform. The Minister for Health and Social Services will provide further details on the use of this funding in due course.

We have been clear on the importance of utilising all available funding to support the health service to reshape and reform. This has been communicated strongly to the NHS in the new planning framework and guidance, which was issued on 31 October 2014. The NHS plans will be key to identifying how we will be delivering our services differently, particularly in respect of the prudent healthcare agenda and our focus on providing more care in the community, closer to people's homes. The plans should clearly demonstrate this shift and added focus by investing more in this area, from health board's core allocation and from the additional funding announced in the Draft Budget 2015-16.

Fundamentally, the plans will show how all of the health boards' funding allocation will support investment in service change while continuing to deliver existing services.

Recommendation 12: The Committee recommends the Government provide details of exactly what reform the health service will be expected to achieve and what will be the financial consequences if that reform is not evident.

If the NHS is to continue to deliver sustainable health services into the future and meet the projected demand it must change the way it delivers services. The Nuffield Trust report comments positively on the actions the NHS has already taken and states this has resulted in the projected funding requirements reducing from a potential £1.2bn to £221m by 2015-16. Measures such as improvements in efficiency and productivity, reductions in length of stay in hospital and reductions in hospital admissions have all contributed to this. These actions will continue with further potential efficiencies coming from centralising highly-specialised services, providing more care in communities closer to people's homes, preventing people from being admitted to hospital for routine treatment, further increasing the integration with social services and pursuing a prudent healthcare agenda across all the services we deliver.

The refreshed planning guidance clearly outlines our expectations in terms of the changes we expect to see. The extent of the reforms and changes NHS organisations are planning to make will be evident within their three-year integrated plans due to be submitted in January. In order to obtain Welsh Government approval they will need to clearly demonstrate how such reforms will contribute to meeting the policy objectives and enable the continued delivery of sustainable services.

The Minister for Health and Social Services has made clear his expectation that local health boards must live within their means.

Recommendation 13: The Committee recommends significant, future, in-year funding announcements should not be made at the same time as introducing the Draft Budget.

Each financial year we monitor our budget carefully and allocate our reserves in response to pressures and opportunities as they arise. These allocations often have implications for future years and in these situations, we are keen to support our stakeholders to scrutinise our decisions in the round.

In the context of the current financial year, we were able to prioritise the allocation of additional funding to the health service in 2014-15. This was announced alongside the Draft Budget 2015-16, which also announced significant additional investment for the health service in 2015-16. This approach enabled a clearer year-on-year comparison to be made between the funding position in the current financial year and the proposals in the Draft Budget 2015-16.

The Supplementary Budget process provides a further opportunity for scrutinising in year spending decisions. In the context of 2014-15, there will be an opportunity for robust scrutiny of the in year funding announcement for health when we table the Second Supplementary Budget for 2014-15 early next year.

Local Government Finance

Recommendation 14: The Committee recommends that the Government calculate the extent of the impact on non-protected services and that this should be clearly set out in the strategic impact assessment.

Recommendation 17: Whilst welcoming the Strategic Impact Assessment the Committee has concerns about the level of detail currently provided in the document. The Committee recommends the Minister develop future SIAs with a view to providing more detail, particularly where there are negative impacts due to funding decisions.

The Strategic Integrated Impact Assessment (SIIA) of the Draft Budget 2015-16 focuses on the positive and negative impacts of our key spending decisions, including those where there have been significant changes to budgets. There is greater emphasis on assessing the different impacts of proposals on the various groups in our society, where these are likely to be significant.

In producing the SIIA of the Draft Budget 2015-16, we have responded to feedback from the Budget Advisory Group for Equality (BAGE) and produced a clearer, more focused account of the impacts of the Government's decisions.

Balancing our ambition to provide a more accessible and strategic document with the need to provide sufficient information to support scrutiny is, of course, challenging. In developing our future budget plans, we will look closely at what information we

include in the SIIA, and will consider carefully feedback from scrutiny of this year's Draft Budget and ongoing discussions with the BAGE.

Recommendation 15: Given the additional allocation to the Pupil Deprivation Grant, the Committee strongly recommends that work is undertaken to identify the benefits of the grant to pupil performance.

An evaluation of the Pupil Deprivation Grant (PDG) was published on the Welsh Government's website on 22 October.

The evaluation was undertaken by Ipsos Mori and WISERD and considered how the PDG was interpreted and implemented in its first year, and what impact it is having on pupil performance and school practice.

The evaluation includes many positive findings which support our decision to allocate additional funding to the PDG as part of the Budget Agreement. These included reference to how the introduction of the PDG has led to schools funding a significant amount of new activity aimed at supporting pupils they identify as disadvantaged. The evaluation also found that although the PDG represents a relatively small proportion of the total school budget (less than 4% on average), it amounts to significant sums of money that schools spend on activities to tackle disadvantage. Additionally, over half the interventions currently funded using the PDG (59% in primary, 71% in secondary schools) were not run in schools prior to the PDG's introduction

Most teachers surveyed believed that PDG-funded activities had a positive effect on pupil wellbeing and engagement. The report also noted that it is evident that it has engendered a culture change in many schools by raising the profile and awareness of how schools can tackle disadvantage and monitor the impact of interventions targeted at disadvantaged pupils.

Going forward, we will of course continue to monitor and evaluate the effectiveness of the PDG and act on these findings as they emerge. This will involve ensuring our programmes complement each other and work towards common goals, in line with the approach set out in the Tackling Poverty Action Plan.

Value for Money

Recommendation 16: The Committee recommends the Welsh Government take greater care to evidence the Value for Money considerations that go into funding decisions. Without clear evidence Assembly Committees and the public are not able to see clearly whether Government policies and initiatives are delivering Value for Money.

The Welsh Government is committed to ensuring that we secure value for money for every pound that we spend and that our spending decisions are informed by robust evidence. This is more important than even in the current financial climate, when it is essential that the most cost-effective approaches to delivery are adopted.

As the Minister for Finance and Government Business highlighted at Finance Committee on 3 November, all Ministers make use of the wealth of research and evidence available when determining their detailed spending plans and identifying value for money is one of the high level principles which informs our approach to research and evaluation within Welsh Government.

Value for money is also about ensuring that we consider the impacts of our spending decisions throughout policy development and the Strategic Integrated Impact Assessment we published alongside the Draft Budget highlights the approach we have taken to consider the impact of our budgetary decisions. Since then, we have also published a Review of Evidence on Inequalities in Wales to support these considerations in future.

In the context of considering value for money, we also recognise the importance of having clear inputs, outputs and outcomes and have looked to provide further information on how our investment supports their delivery. Since 2012 we have published an analysis of how our budget proposals align to the outcomes in the Programme for Government. This year, for the first time, we have also shown how resources are aligned to the four outcome themes that have shaped our budget allocations. As the Minister for Finance and Government Business said during the Plenary Debate on Part 1 of the Best Budget Practice Inquiry, the Welsh Government has welcomed the ongoing work of the committee in this area and we are committed to improving our approach in future years to support the Assembly's scrutiny of our spending proposals.