

Agenda – Finance Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: Wednesday, 23

November 2016

Meeting time: 09.00

For further information contact:

Bethan Davies

Committee Clerk

0300 200 6372

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1 Introductions, apologies, substitutions and declarations of interest

(09.00)

2 Paper(s) to note

(09.00)

(Pages 1 – 3)

Letter from the Cabinet Secretary for Finance and Local Government –

Appointment of the Chair of the Welsh Revenue Authority – 14 November 2016

(Pages 4 – 5)

3 Welsh Government Draft Budget 2017–18: Consideration of draft report

(09.00)

(Pages 6 – 68)

Paper 1 – Scrutiny of the Welsh Government Draft Budget 2017–18 – Draft report

Paper 2 – Letter from the Chair of the Equality, Local Government and Communities Committee to the Cabinet Secretary for Finance and Local Government

Paper 3 – Letter from the Chair of the Equality, Local Government and Communities Committee to the Cabinet Secretary for Communities and Children

Paper 4 – Letter from the Chair of the Economy, Infrastructure and Skills Committee to the Finance Committee

Paper 5 – Letter from the Chair of the Culture, Welsh Language and Communications Committee to the Finance Committee

Paper 6 – Letter from the Chair of the Climate Change, Environment and Rural Affairs Committee to the Cabinet Secretary for Environment and Rural Affairs

Paper 7 – Letter from the Chair of the Children, Young People and Education Committee to the Cabinet Secretary for Communities and Children



Paper 8 – Letter from the Chair of the Children, Young People and Education Committee to the Cabinet Secretary for Education

Paper 9 – Letter from the Chair of the Health, Social Care and Sport Committee to the Cabinet Secretary for Health, Well-being and Sport

11.00–11.10 Break

4 Land Transaction Tax and Anti-avoidance of Devolved Taxes

(Wales) Bill: Consideration of draft report

(11.10)

(Pages 69 – 93)

Paper 10 – Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill – Draft report (chapters 1-4)

Concise Minutes – Finance Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: Thursday, 17 November
2016

Meeting time: 10. – 16.00

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/3878>

Attendance

Category	Names
Assembly Members:	Simon Thomas AM (Chair) Mike Hedges AM Eluned Morgan AM David Rees AM Steffan Lewis AM Nick Ramsay AM Mark Reckless AM
Witnesses:	Mark Drakeford AM, Cabinet Secretary for Finance and Local Government, Welsh Government Margaret Davies, Welsh Government Andrew Jeffreys, Welsh Government
Committee Staff:	Bethan Davies (Clerk) Catherine Hunt (Second Clerk) Georgina Owen (Deputy Clerk) Martin Jennings (Researcher) Joanest Varney-Jackson (Legal Adviser)



2 Introductions, apologies, substitutions and declarations of interest

2.1 The Chair welcomed Members to the meeting.

3 Paper(s) to note

3.1 The papers were noted.

4 Welsh Government Draft Budget 2017–18: Evidence session 6

4.1 The Committee took evidence from Mark Drakeford AM, Cabinet Secretary for Finance and Local Government; Margaret Davies, Deputy Director – Strategic Budgeting, Welsh Government; and Andrew Jeffrey, Director – Treasury, Welsh Government.

5 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting and the meetings on 23 November 2016, 1 December 2016 and 7 December 2016

5.1 The motion was agreed.

6 Welsh Government Draft Budget 2017–18: Consideration of evidence

6.1 The Committee considered the evidence received.

7 Wales Audit Office and the Auditor General for Wales estimate of income and expenses 2017–18: Consideration of draft report

7.1 The Committee agreed the report with minor amendments.

8 Legislative Consent Memorandum: Criminal Finances Bill

8.1 The Committee discussed and agreed to report on the Legislative Consent Memorandum on the Criminal Finances Bill.

Agenda Item 2.1

Y Pwyllgor Cyllid | Finance Committee
FIN(5)-13-16 PTN1

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



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref: PO111/EJ/BD
Ein cyf/Our ref: MD/05481/16

Elin Jones AM/AC
Assembly Member for Ceredigion
Presiding Officer
National Assembly for Wales
Ty Hywel
Cardiff Bay
Cardiff
CF99 1NA

Llywydd@assembly.wales

14 November 2016

Dear Elin,

Thank you for your letter of 8 November regarding the appointment of the chair of the Welsh Revenue Authority (WRA).

I welcome your positive response to my proposal and your view that a pre-appointment hearing for the WRA chair would be a matter for the Finance Committee.

As you note, having a pre-appointment hearing for a Ministerial appointment will be a new approach. My view is that having such a unique approach to the appointment of the WRA chair is very much in keeping with the status and governance arrangements of the WRA, which will be our first non-Ministerial Department.

In your letter, you ask about how I intend to take account of the outcome of the Committee hearing in making my final appointment decision.

I am mindful that the Finance Committee will want to consider how a pre-appointment hearing for the WRA Chair might impact upon their subsequent role in scrutinising the performance of the WRA and by extension the Chair. In the circumstances, I had seen a hearing in this case as providing an early opportunity for the Finance Committee to find out more about the preferred candidate's skills and experience, and to ask questions about the preferred candidate's priorities and approach on taking up the post. The Committee may for example wish to seek views on developing the WRA board and its governance capability. Importantly, a hearing would also provide an opportunity for the preferred candidate to understand the Assembly's expectation of the post-holder.

Bae Caerdydd • Cardiff Bay
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0300 0604400

Gohebiaeth.Mark.Drakeford@llyw.cymru
Correspondence.Mark.Drakeford@gov.wales

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.

I mentioned in my previous letter I was looking to make early progress on the WRA chair appointment. It is my intention to advertise the opportunity shortly. I would like to mention in the appointment information pack the need for a preferred candidate to attend a pre-appointment hearing with the Finance Committee and to give an indication of the timing of this. Perhaps you and Simon Thomas could confirm whether you are both content for me to do that.

I intend to have reached a view on a preferred candidate before the end of February 2017 and therefore I would hope that a hearing could be held shortly afterwards.

I would welcome any further thoughts that you or Committee chairs might wish to offer on the pre appointment hearing for this specific appointment and would be happy to discuss the approach if you would find this helpful. In the meantime, I look forward to hearing from you.

Best wishes,
Mark

Mark Drakeford AM/AC

Ysgrifennydd y Cabinet dros Gyllid a Llywodraeth Leol
Cabinet Secretary for Finance and Local Government

Cynulliad Cenedlaethol Cymru
Y Pwyllgor Cydraddoldeb, Llywodraeth Leol a Chymunedau

National Assembly for Wales
Equality, Local Government and Communities Committee

Mark Drakeford AM
Cabinet Secretary for Finance and Local Government
Welsh Government

10 November 2016

Welsh Government Draft Budget 2017-18

Dear Mark,

Thank you for attending our meeting on 3 November to give evidence on the Welsh Government's draft budget proposals for 2017-18.

The Committee would like to draw your attention to the matters set out below, and looks forward to receiving your response as soon as possible.

General

We note the total allocation for the local government portfolio for 2017-18 is £3.405 billion, which is an increase of 1.5 per cent in cash terms compared to 2016-17.

You made clear in your evidence that this draft budget is "unusual" in avoiding cuts for local government and that this is unlikely to be replicated beyond 2017-18, particularly given the anticipated 9 per cent real terms reduction in the Welsh Government's overall budget by 2020. You also warned that there will be "harder choices and tougher times ahead" and that "the next 18 months must be used in a purposeful and rigorous way" to prepare for this.



While the draft budget may provide some, albeit limited respite, it is unlikely to counteract the wider financial challenges facing local government in Wales. We are concerned about the prospect of further and deeper funding cuts in future years and the impact of these on the sector and on service delivery. We welcome your commitment to supporting the sector in meeting these challenges. In planning for the longer term, we note that you intend to continue to engage with local government around your reform proposals.

Local Government Main Expenditure Group (MEG)

We note that within the overall increase in the allocation for the local government portfolio, the ‘Police General Revenue Funding’ Budget Expenditure Line (BEL) shows a net reduction of £51 million. While we understand that this may be due to technical and presentational changes within the Local Government MEG and does not represent a reduction in the total police funding provided within the draft budget, **we seek clarification from you on this change. In addition, we would like a detailed explanation of the purpose and effect of changes to the ‘Police General Revenue Funding’ BEL.**

The draft budget shows an increase of £82 million in Annually Managed Expenditure (AME) (which is entirely made up of receipts from Non-Domestic Rates (NDR)) compared to 2016–17. In your evidence to the Finance Committee on 19 October 2016, you suggested that the increase in AME was because NDR receipts in the previous financial year had been greater than estimated. You stated that this “creates a pool that you can take forward and deploy next year”. **We would like further clarification from you on whether the £82 million includes receipts carried over from 2016–17, and, if so, how much is carry over funding.**

Provisional local government settlement

The budget provides the first cash increase in the local government revenue settlement since 2013–14, which we welcome. While the increased allocation is an improvement on previous years, almost half of all authorities will still see a cash terms cut in their allocations. This is likely to add to the existing and significant



financial challenges facing those authorities. To this end, we are pleased that the funding floor has been retained for 2017–18, which means that no authority will face a cut in its allocation of more than 0.5 per cent. This has helped protect four authorities against more severe cuts than they would otherwise be facing.

When asked whether the funding floor arrangements would continue beyond 2017–18, you told us you were “willing to look at [it] on a year-on-year basis” but that it would “depend on the circumstances each year”. Given the Welsh Government’s commitment in its Programme for Government to “provide funding to put in place a floor for future local government settlements”, **we ask for further clarification on this issue.**

Additional allocations within the settlement

We welcome the additional £25 million allocation for social care which you have made available through the settlement. This builds on the additional £21 million allocated through the settlement in 2016–17. We recognise the preventative potential of investment in social services, which are key to ensuring the health and well-being of some of the most vulnerable people within our communities. We are acutely aware of the growing pressures on social services and the need to continue to work with local government to ensure their effective delivery.

When asked about how you intended to monitor the additional spend on social care, you told us that “[the Welsh Government] will monitor this as [it] monitors everything” and that it would be using existing systems, which involved the collection and monitoring of local authority data. You also told us that it was a matter for individual authorities to decide on how best to use the additional allocation for social care, taking account of local needs. While any additional funding for local government is to be welcomed, we believe it is essential to ensure that robust arrangements are in place to monitor spend, outcomes and value for money in the areas that you have chosen to allocate this additional funding. **We would welcome further details from you on the system used to monitor spend on social services, on the outcomes that you expect to achieve**



from the additional £25 million allocation for social care, in 2017–18, and on when you expect to be able to report back to the Committee on those outcomes.

We welcome the additional funding being made available to local government as a result of the agreement between the Welsh Government and Plaid Cymru, namely: £25 million to support the delivery of vital services; £1 million for school transport; and £3 million to support town centre car parking pilot schemes. We understand that this funding will be provided through the settlement and will therefore be un-hypothecated.

You told us that the additional £25 million for the delivery of vital services was not “designated for any particular purpose” and was “just part of the funding that we can provide for local authorities”. We refer you to our previous point on monitoring spend and outcomes. **We seek further clarification on the outcomes you expect to achieve from the additional £25 million funding for vital services. We would also like details on how you intend to monitor spend and outcomes.**

On the £3 million for town centre car parking pilot schemes, we note that one of the aims of the schemes is to assist in revitalising town centres and in supporting small business. We were pleased to hear that you intend to work with authorities to “draw up the rules that will govern the use of that money” and that you “[will] be able to monitor its use as a separately accountable sum of money”. **We would like clarification from you on the proposed timescales for the development and implementation of the schemes. We would also like further details on how you intend to monitor spend and outcomes and how these outcomes will inform future funding decisions in this area.**

You told us that the additional £1 million for school transport being provided to help ameliorate “invidious decisions” that authorities have had to make “to provide school transport arrangements at the very minimum of what the law requires”. We acknowledge that such decisions are likely to have a detrimental impact on families who are already struggling to make ends meet. **We would like further details from you on how you envisage local authorities using this**



additional funding to help protect some of the most disadvantaged families and whether you intend providing guidance to authorities in this regard.

Local government reform

We know that, in the last Assembly, the main arguments put forward by the Welsh Government and others for the reform agenda centred on the need to address the financial challenges facing local government, and to improve governance arrangements and service delivery. Given this, we asked you whether in planning for future reform you will be anticipating a similar level of savings as estimated in the draft Local Government Bill. You stated that “by working regionally in some key services, there will be some financial efficiencies that local authorities will be able to obtain” and that “there are other resiliencies beyond the financial ones that will be gained by working in a more regional way”. You implied that, while regional collaboration “would mean financial efficiencies”, these may be lower than were estimated for mergers.

We note that any legislative proposals for reform will be accompanied by a full Regulatory Impact Assessment setting out the costs and benefits of those proposals. We will, of course, be taking a keen interest in the reform agenda as it develops, including the financial implications for local government of proposals, particularly in the context of on-going budgetary constraints facing the sector.

Specifically in relation to the allocations for 2017–18, we note that you have made available £5 million for ‘Transformation and Legislation’, which you told us will be used “to provide pump prime funding to support [the reform agenda]”. You also explained that this funding could be used to help support authorities in preparing for voluntary mergers.

While there has been an increase of £2.7 million in this allocation compared to 2016–17, we question whether this will be sufficient to enable authorities “to invest in transformative activities such as developing shared services required to deliver the reforms”, as envisaged by you. We believe it is important to ensure that those authorities who are keen to undertake preparatory work ahead of the



anticipated legislative changes, either through regional collaboration or voluntary mergers, are able to access funding to support this. **We seek further assurance from you on this issue.**

We were pleased to be able to discuss with you your proposals for the reform of local government more generally. We look forward to more detailed proposals from you in the New Year and will be inviting you to give evidence to us on this issue in due course.

Well-being of future generations


In explaining the approach that you had taken to applying the Well-being of Future Generations (Wales) Act 2015 (the Act) to the local government budget, you told us you “absolutely accept that this is work in progress” but that you were “feeling some confidence” that you had “made a proper start”. When questioned, you were able to provide specific examples of how the Act has influenced your spending decisions, including the Cardiff Metro, Cardiff City deal, and the additional £25 million allocation for social services.

We acknowledge that this is the first draft budget since the Act has come into force and, in this respect, it is still early days. Looking ahead, we believe that the Act must become an integral part of the budget setting process and be used to support future spending decisions. You have made clear the Government’s intention to continue to work towards this aim and to develop a more sophisticated approach in this regard, and we take some assurance from this. We note you provided limited evidence in the documentation accompanying the budget and in your written evidence to demonstrate that the Act is being used to influence budget decisions. To assist in the scrutiny of future budgets, we would like more detailed evidence from you on this issue.



I am copying this letter to Simon Thomas AM, Chair of Finance Committee.

Kind regards

A handwritten signature in black ink that reads "John". The letter 'J' is large and stylized, with a long horizontal stroke extending to the left.

John Griffiths AC / AM

Cadeirydd / Chair



Carl Sargeant AM
Cabinet Secretary for Communities and Children
Welsh Government

17 November 2016

Welsh Government Draft Budget 2017-18

Dear Carl,

Thank you for attending our meeting on 9 November to give evidence on the Welsh Government's draft budget proposals for 2017-18.

The Committee would like to draw your attention to the matters set out below, and looks forward to receiving your response as soon as possible.

Regeneration

We are concerned about the significant reduction in the capital Regeneration BEL from £62.6 million in 2016-17 to £14.9 million in 2017-18 (a reduction of around 76 per cent) and the potential impact of this on economic regeneration and well-being of our communities. You told us that, given the ongoing cuts to overall funding from the UK Government, difficult decisions have needed to be made. While we note your response, **we would like a more detailed explanation on your rationale for this decision, in particular for such a stark reduction in the allocation.**

We were concerned to hear that the reduction in the capital Regeneration BEL could mean that that the Welsh Government's regeneration programme, Vibrant



and Viable Places, may not return for its second phase, despite its apparent success. **We would like you to report back to us on this issue once a decision has been made. We would also like you to provide details of any other regeneration programmes that are likely to be affected by your decision to reduce the capital Regeneration BEL.**

You told us that “to mitigate the reduction, [you] will work with the Regeneration Investment Fund for Wales Board to ensure monies currently held by the Fund will be released as soon as possible as contributions towards a regeneration programme.” You also told us that you were “hopeful” of being able to increase the capital Regeneration BEL allocation if more funding becomes available following the UK Government’s Autumn Statement. While we acknowledge your response, we would like to have received a firm commitment from you on this issue. In the event of a favourable outcome from the Autumn Statement, we urge you to consider increasing the capital Regeneration BEL allocation as a matter of priority. **We would like you to report back to us on your consideration of this matter as soon as possible following the Autumn Statement.**

Tackling poverty

Communities First

We note that there have been structural changes to the Children and Communities Main Expenditure Group (MEG) since the previous budget, and that the revenue budgets for Communities First, Flying Start and Families First have been combined. It is therefore not possible to distinguish the exact allocation for Communities First from the draft budget 2017–18, the accompanying documents, or your paper to us. **We would like clarification from you on the allocation for Communities First for 2017–18 and on how it will be used if you choose to phase out the programme.**

When we questioned you on the future of Communities First, you reported that you were currently consulting stakeholders and that you would be making a further statement in Plenary on this issue in the New Year. Looking forward, if a



decision is taken to phase out Communities First, we believe it is important to ensure that elements of the programme that have worked well and have delivered positive outcomes are retained in any new proposals. We await your decision with interest and will be inviting you to a future meeting to discuss any further proposals as they emerge.

You confirmed that, regardless of your decision on Communities First, you would continue to deliver Lift and Communities for Work, as planned. **We would like clarification from you on the allocation for Lift and Communities for Work from the draft budget 2017–18 and on the level of European Union funding for the programme for 2017–18. We would also like details on the outcomes achieved from these programmes to date, including the number of participants who have secured employment, and on the outcomes you expect from the allocations for 2017–18.**

You told us that you were currently considering the concept of Children's Zones, which involved a multi-agency approach to support children and young people, and that you intended to trial these once the concept had been fully developed. **We would like further details from you on Children's Zones as they emerge.**

Welfare reform

In its response to the Finance Committee's consultation on the draft budget, the Bevan Foundation suggested that the budget should take account of the possibility that responsibility for care needs of older people previously met through Attendance Allowance could be devolved. This issue was also raised with us by stakeholders as part of our discussions on our priorities for the Fifth Assembly. When questioned about the arrangements in place to prepare for the devolution of Attendance Allowance, you told us that you were still awaiting details from the UK Government. **We would like you to keep us informed on any future developments in relation to this.**



Financial inclusion

We questioned you about progress on development of the Financial Inclusion Delivery Plan to support the Financial Inclusion Strategy, and on how the Strategy had influenced the allocation for 2017–18. You told us that the Strategy would be funded from the £20 million allocation within the Financial Inclusion Budget Expenditure Line (BEL), which would be used to support credit unions, advice services and the Discretionary Assistance Fund. **We would like clarification from you on how much of the £20 million in 2017–18 you have allocated specifically to support implementation of the Delivery Plan.** We look forward to the publication of the Delivery Plan next month and will be keeping a watching brief over progress made in the implementation of the Strategy.

Community Facilities Programme

We note the considerable reduction in allocation for the Communities Facilities Programme from £10.95 million in 2016–17 to £2 million in 2017–18. We are aware that the aim of the programme is to develop and improve facilities for communities in order to tackle poverty and its effects and are therefore concerned about the potential impact of the reduction on some of our most disadvantaged communities. **We would like further details from you on the types of projects that the programme has been used to support and on the outcomes achieved to date. We would also like details of any assessment undertaken of the impact of the reduction in allocation.**

Community safety

Violence against Women, Domestic Abuse and Sexual Violence (Wales) Act 2015

We acknowledge that the overall allocation for Domestic Abuse Actions remains unchanged at £5.4 million since 2016–17. From this allocation, £330,000 has been made available for the delivery of the National Strategy on Violence against Women, Domestic Abuse and Sexual Violence 2016–2021.



In your evidence to inform our post-legislative scrutiny work on the Violence against Women, Domestic Abuse and Sexual Violence (Wales) Act 2015, you told us that you intend to “target additional resources where there is greatest need to ensure sustainability of specialist services going forward”. Despite this, the allocation for 2017–18 remains unchanged from the previous year. You subsequently told us that, given existing financial constraints, you were unable to commit to additional funding. You highlighted that other allocations for other policies and programmes, such as the Supporting People Programme and homelessness prevention, would be used to support the implementation of the Act.

We believe that, if the Welsh Government is to successfully deliver the aims of the Act, it is vital to ensure that sufficient funding is made available for the implementation of its provisions. It is likely that, as the Act beds in, there will be an increase in reports of violence against women, domestic abuse and sexual violence, which could lead to an increase in demand for specialist services. We are aware that the sector has already expressed serious concerns about the funding of specialist services and the impact of funding cuts on the sustainability of those services. We are concerned that, without access to specialist services, the Act will struggle to achieve its potential.

On this issue, you told us that the reformed Violence against Women, Domestic Abuse and Sexual Violence Advisory (VAWDASV) Group would be undertaking work on long-term sustainable funding, which would include assessing service need and delivery costs. **We would like you to report back to us on the findings of the VAWDASV Advisory Group as soon as possible. We would also like you to report back on how you intend to use those findings to support future funding decisions in this area.**

Youth justice

We questioned you on the concern raised in our discussion with representatives of the Youth Justice Board that the Welsh Government may withdraw funding for youth services if the Wales Bill does not devolve responsibility in this area. You



told us that you were concerned about the potential consequences of the findings of the UK Government's 'Review of the Youth Justice System' on youth justice in Wales, which was undertaken by Charlie Taylor. The review looked at what works to prevent youth crime and rehabilitate young offenders; how the youth justice system can most effectively interact with wider services for children and young people; and whether the current delivery models and governance arrangements remain fit for purpose and achieve value for money. **We would like you to expand on your concerns about the impact of the Charlie Taylor Review on youth justice in Wales. We would also like further information about your assessment of the likely impact of a decision by the UK Government to retain responsibility for youth justice on youth justice services in Wales and on your future funding decisions in this area.**

Housing supply

During the session, we asked you about the Welsh Government's target to deliver 20,000 new affordable homes during the Fifth Assembly and on the allocations in the draft budget 2017–18 to support the delivery of this.

Rural housing

We note that, in previous budgets, there has been an allocation to support the work of Rural Housing Enablers. However, it is not clear from the draft budget proposals or from your evidence to us whether any allocation has been made available for 2017–18, and **we ask you for clarification on this issue.**

Sustainable housing

In your evidence, you emphasised the importance of “the design, location and energy efficiency of new homes if we are to build successful and sustainable communities”. We were therefore concerned to hear of emerging evidence that new models of housing “can cost more to build than traditional housing” at least in the short term. You told us that you had “disputed” this evidence and had already commissioned research on new models of housing “that will address some



of the key challenges we face including fuel poverty, carbon emissions and climate change”. **We would like you to report back to us on the findings of the research and on how these will inform any future decisions on the provision of new models of housing.**

Help to Buy

We note that over £103 million of financial transactions funding is allocated for Phase 2 of the Help to Buy scheme and other schemes in 2017–18. By way of explanation, you told us that the Help to Buy scheme supports the development and purchase of new build property costing up to £300,000. The aim of the scheme is to support home ownership and the delivery of the Welsh Government’s affordable homes target.

When questioned about the £300,000 threshold, you reported that the threshold for the equivalent scheme in England was double at £600,000 and that you had taken advice from the housing sector before setting the threshold. You also told us that the interim evaluation of the scheme had shown that, to date, the scheme had been used to support the development and purchase of many properties significantly below the £300,000 threshold. **We would like you to provide further details on this point.**

We question whether £300,000 is an appropriate threshold in Wales, particularly given the aim of the scheme. We believe it is important for the Welsh Government to ensure that, when prioritising allocations for affordable homes, it can demonstrate value for money. This is particularly important given existing budgetary constraints. **We would like you to keep the £300,000 threshold for the Help to Buy scheme under review and report back to us on any further considerations on this issue, particularly in light of the interim report published in March 2016.**

We note the Welsh Government’s commitment to develop a Rent to Own scheme and **we would like you to update us on details of the proposals as they emerge. In**



the meantime, **we would like you to clarify when you anticipate work to begin on those proposals.**

Independent Living

We note that home adaptations are funded from a number of different budget allocations, and highlighted with you previous concerns about performance monitoring. We acknowledge the steps that have been taken to improve this and **would welcome an update on progress that has been made towards implementing a more robust performance monitoring framework.**

I am copying this letter to Simon Thomas AM, Chair of Finance Committee.

Kind regards

A handwritten signature in black ink that reads "John". The signature is written in a cursive style with a long horizontal stroke at the beginning.

John Griffiths AC / AM
Cadeirydd / Chair



Dear Finance Committee

Welsh Government's draft budget for 2017-18

On 3 November 2016 the Economy, Infrastructure and Skills Committee questioned the Cabinet Secretary for Infrastructure and Skills and the Minister for Skills and Science, as part of our scrutiny of the Welsh Government's draft budget for 2017-18.

I am writing to draw a number of headline issues to your attention.

Inflation

We heard from the Deputy Permanent Secretary that assumptions for inflation in the budget had been based around 2-3%. The National Institute for Economic and Social Research published a forecast on Thursday 3 November suggesting that inflation could rise to 4% by the end of 2017. And while 4% is the headline forecast, it is normal that different sectors will have different, and potentially higher, rates of inflation within each sector.

The infrastructure portfolio contains a number of large-scale, multi-year investment projects – most notably the M4 Relief Road and the South Wales Metro – whose costs could rise considerably, were inflation to rise sharply after a lengthy period at historically low levels.



While an increase in inflation of 1–2% within the financial year 2017–18 is likely to be uncomfortable but manageable within the Economy and Infrastructure portfolio, higher rises in future years could have a significant and negative impact on the cost of long-term multi-million pound projects. It is crucial that the government acknowledges the risk posed by rising inflation not just to the budget, but all its policy goals.

We note too that higher inflation rates would not just impact on portfolios within our remit area, but are a potential risk across all areas of Government activity in the coming years.

We would welcome further details of how the department is modelling the potential impact of higher levels of inflation.

Budget process

In July 2016 the Finance Committee recommended that in future the Welsh Government should publish "greater evidence setting out the rationale behind budget allocations... including details of the anticipated economic impact." The Welsh Government accepted this recommendation.

However, within this year's Strategic Impact Assessment, which covers 10 pages for the whole of the budget, the only reference to enterprise zones states that "research has shown that area based initiatives, like enterprise zones, can have positive impacts on employment and regional GDP." This is one of a number of references to the economy and infrastructure portfolio which lack any of that evidence-based rationale requested by Finance Committee, and agreed by the Government. In response to our questions, the Minister noted that measurement of economic outputs was not an exact science – which is clearly true. But in order for others to assess whether the priorities chosen are reasonable, and whether the anticipated outputs represent value for the public money invested, it is vital that greater effort is put in to sharing the thinking and evidence which underpins the government's spending decisions. That thinking can sometimes be found in other places (we were given an example in the Finance Wales annual report), so should be included in the budget narrative.



Measuring outputs and outcomes

There is also work to be done in ensuring outputs and outcomes are measurable and meaningful. In the current economy, where employment is at record levels, 'jobs created' is not always necessarily the most effective measure of success, nor is it always necessarily the most desirable, particularly if those jobs are not ones which are attractive to, or a good skills match with, the local workforce. Equally, it may be the case that businesses are seeking support from the Welsh Government to increase their productivity and raise their output but without wishing to create jobs and take on additional staff in the process.

The realities of the current economy should always be reflected in both the support available from the Welsh Government and the indicators used to measure success.

In our discussion with the Minister for Skills and Science she noted that her budget lines for innovation, for example, required a longer term view to judge return on investment than a simple grant for job creation.

It is vital that the ongoing work to develop a new economic strategy includes some effort to ensure that outcomes which arise as a result of Welsh Government investment can be more effectively predicted in advance, and measured afterwards. In this way it would be possible to provide truly effective scrutiny of the decisions behind budget allocations, and the net impact of that investment. This will not only allow make it clearer where schemes are unsuccessful,

Cross-cutting themes

The new government has set a high priority on the cross-cutting nature of government portfolios and responsibilities. This move away from silo-ed working which has characterised government at every level is welcome.

However, the current budget is not especially well-presented to capture the impact of these cross-cutting themes. Nor where multiple-departmental budgets feed in to aspirations (eg Active Travel, where spending in the health, local government or economy and infrastructure portfolios could all contribute to the successful implementation of the Active Travel Act.)



Within its own budget, we could not easily identify the total Welsh Government spend on the skills of its own staff, for example. Nor could we say how much is spent on R&D.

Wellbeing and Future Generations

While both Ministers have clearly stated in their responses to the committee that the principles of the Future Generations have been embedded in all their decision making, it was not clear to us how this was having an impact on budget decisions, nor what – if anything – had changed as a result. When asked for a specific example, the Cabinet Secretary for the economy and infrastructure cited maintaining funding for the Bus Services Support Grant (BSSG) at £25m. This fund has been fixed at £25m since 2013–14 – long before the WFG Act passed in to law.

While the Future Generations Commissioner has indicated she expects the impact of the Act on public bodies – including Welsh Government – to grow over time, it is not clear at present if the new framework is being used to challenge the status quo, or merely to justify decisions that have previously been taken.

Our discussion raised a number of other specific issues, which we will raise and monitor with the relevant Ministers in our regular scrutiny throughout the year.

Yours sincerely

A handwritten signature in black ink that reads "Russell George". The signature is written in a cursive style with a long horizontal flourish underneath.

Russell George AM
Chair
Economy, Infrastructure and Skills Committee



Cynulliad Cenedlaethol Cymru
Y Pwyllgor Diwylliant, y Gymraeg a Chyfathrebu

National Assembly for Wales
Culture, Welsh Language and Communications Committee

Simon Thomas AM
Chair
Finance Committee
National Assembly for Wales
Tŷ Hywel
Cardiff Bay CF99 1NA

16 November 2016

Dear Simon

Welsh Government Draft Budget 2017-18

Committee Remit

The Culture, Welsh Language and Communication Committee is responsible for scrutinising Welsh Government expenditure on culture, the arts, the historic environment, the Welsh language, communications, broadcasting and the media.

Ministers responsible and Scrutiny

Within the Economy and Infrastructure Main Expenditure Group (MEG), the Cabinet Secretary for Economy and Infrastructure is responsible for funding in respect of the Arts; Museums, Archives & Libraries; Media & Publishing and the Historic & Natural Environment.

Within the Education MEG, the Minister for Lifelong Learning and Welsh Language is responsible for funding in respect of the Welsh Language, with a specific remit for the implementation of the Welsh medium Education Strategy, funding the Office of the Welsh Language Commissioner and funding to support the implementation of the Welsh Government's Welsh Language Strategy.

Both Ministers attended our meeting on 2 November to answer Members' questions. In advance of this, each Minister provided the Committee with a Memorandum on the Draft Budget for 2017-18 in relation to their specific



funding responsibilities. A copy of each memorandum is attached for your Committee's information.

Summary of Baseline Provision and Budget Proposals

Culture (Revenue)

Total baseline revenue provision in these areas in 2016–17 is £81.3 million (plus £3 million annually managed expenditure [AME]). It is proposed that this should increase by £2.9 million to £84.5 million (plus £3 million AME) in 2017–18.

Culture (Capital)

Baseline capital provision in 2016–17 is £9.3 million. It is proposed that this should increase by 9.5 million to £18.7 million in 2017–18, and then fall by £12.8 million (to £5.9 million) in 2018–19 and then by £0.3 million to (£5.6 million) in 2019/20 before increasing by £1.6 million (to £7.2 million) in 2020/21.

Welsh Language

Total baseline revenue provision for the Welsh Language is £25.6 million. It is proposed that this should increase by £10.6 million to £36.1 million. There is no capital provision.

Committee's Overall View on the Budget Proposals

The Committee welcomes the overall increases in the budgets for both Ministers' portfolios. The –2017–18 cash increase in capital funding in the Culture portfolio of over 100% and the cash increase of over 40% in the Welsh Language budget are particularly noteworthy, although a very significant part of the latter increase appears to be straightforward transfers of existing funding within the Education MEG. When this is taken into account, the actual cash increase is around 19%, which is, nevertheless, still significant.

The increase of over 3.5% in the Culture revenue budget is also very welcome, particularly given general budgetary pressures.

Specific Issues Arising from Scrutiny of Ministers



Culture

Cadw – Capital Programme and Income Target

There is a planned reduction in Cadw's capital budget of £1.5 million, from the 2016–17 baseline of £4.8million to £3.3 million in the 2017–18 draft budget, a reduction of 32 per cent in cash terms.

The Cabinet Secretary explained that reductions in the capital budget could be partly offset by additional income that Cadw has been asked to generate (for 2016–17 Cadw has an income generation target of £6.2 million). This additional income, although generated as revenue, would be available to support both revenue and capital programmes. We have asked for further information on what the income generation target for 2017–18 is.

We are concerned at the level of reduction in what is in any event a relatively small capital programme. We are also concerned at the possibility that resources may be directed to sites that are relatively more successful in generating income at the possible expense of less 'popular' sites. It seems unlikely that the additional income that Cadw is being expected to generate will offset the whole of the cut and the Cabinet Secretary indicated that at least part of it will be added to revenue rather than capital spending.

We have written to the Cabinet Secretary asking that he sets out in more detail how much of Cadw's self-generated income is recycled into supporting Cadw's work as well as a breakdown of how this income will be spent this year and the plans for the next financial year. We will publish the Cabinet Secretary's response when it is received.

In addition, it is not entirely clear what the impact will be on Cadw if it fails to meet its income generation target. We have also sought an assurance that all additional income generated by Cadw will be ring-fenced and used to support Cadw's work. We have also written to the Cabinet Secretary on these points and will publish his response.

Arts Council of Wales – Income Generation



Funding for the Arts is primarily channelled through the Arts Council of Wales: £31.2 million revenue out of £31.7 million allocated in this area in the draft budget. Revenue funding in this area increases by 3.5% in cash terms compared to the 2016–17 revised baseline. This increase is to be welcomed following a number of years of cuts.

Despite this increase in funding for the Arts Council, the Cabinet Secretary has asked the Council to “*accelerate its work to help its portfolio organisations, and the wider sector, to increase their self-generated income*”. In evidence, the Cabinet Secretary outlined ambitious targets for increasing income generation for the organisations supported by the Arts Council.

The Arts Council has a target of increasing the value of private sector income to the arts in Wales by 20 per cent between 2015 and 2018. In the longer term, the Cabinet Secretary outlined the view that about a third of a cultural organisation’s income should be self-generated, a third from government (through the Arts Council) and a further third coming from fundraising, charitable donations etc.

Like Cadw, it is not entirely clear what the impact will be on Cadw if it fails to meet its income generation target. We also have to express some scepticism as to whether the ‘three thirds’ funding model is realistic in the Welsh context because it has historically proved difficult to attract philanthropic funding to the same extent as in more affluent parts of the UK.

Again, we have written to the Cabinet Secretary and will publish his response.

Welsh

Welsh in Education BEL

All the increased spending on the Welsh language is contained in this BEL, which increases by £10.6 million. However, as noted earlier, £5.7 million of this apparent increase involves straight transfers between budgets within the Education MEG.

The transfer is made up of the following:



- £5.4 million for Coleg Cenedlaethol Cymraeg. (For clarity, the Finance Committee may wish to recommend that this funding line is separately identified in the final budget as it for a very specific purpose which is somewhat different in its nature from the remainder of the BEL.);
- £0.5 million from the Education Standards Action for supporting young people's informal use of Welsh; and
- £0.2 million to the Qualifications Action for Welsh for Adults examinations.

There is also a budget reduction of £0.15 million within the BEL with the shortfall made up by unspecified savings.

This leaves £4.85 million according to the Minister's Memorandum (para 14) to support '*the further development of Welsh for Adults, and in particular the provision of Welsh language courses for the workplace, with the remainder used to support other initiatives to promote the use of Welsh*'. How this funding will be used will be decided in line with the priorities of the new Welsh language Strategy, which is being consulted on.

The £4.85 million along with the £0.15million reduction are together claimed as '*an additional £5 million in 2017-18 allocated as a result of a budget agreement with Plaid Cymru.*' It seems clear that claiming that an additional £5 million has been allocated to this BEL may be somewhat misleading. The additional amount is £4.85 million. The Government may intend to spend £5 million but it will only be able to do so by making reductions elsewhere in the budget. It would be better if this was clearly spelled out in the budget.

Whatever the level of additional funding (which we accept is significant) we are concerned that the use to which it will be put is currently unclear and ill-defined. We appreciate that the new Welsh Language Strategy once it is in place will guide the spending decisions and that it would, to some extent, be putting the cart before the horse to make firm decisions before the final strategy has been decided.

Nevertheless, it does not seem unreasonable that there should be a greater degree of clarity on potential options for using this money before the Assembly



approves the final budget. This should include some clear assessment of the objectives for how (and how much of) the new funding will support the work of the National Centre for Learning Welsh as well as the evaluation process by which the success of this new spending will be judged.

In response to questions the Minister also suggested that part of this funding may be used to set up a new agency for the promotion of the Welsh language or to create a similar function within an existing body. Again, there is no detail. However, the Minister has indicated his intention to write to the Committee once he is in a position to take decisions on this, which he hopes will be before the final budget comes before the Assembly in December.

Welsh Language Commissioner's Budget

The Commissioner's budget was reduced by 10% last year and there have been year on year cuts to her budget which has seen a total cash reduction of 25% over the last 4 years. However, an additional non-recurring amount of £150,000 was provided to the Commissioner last year to, as the Minister put it, '*ensure that she is able to carry out her current responsibilities*'.

The draft budget proposes no increase in 2017-18, remaining at £3.0 million. If the Commissioner is not currently able to meet all her responsibilities, we believe there is a case to be made that some level of additional resource is needed.

When we questioned the Minister about this, he made it clear that the Commissioner had not made any request for an increase in her budget. However, following the Minister's appearance before the Committee we were contacted by the Commissioner's office who said in an e-mail:

'Following the discussion on the budget for the Welsh Language in the Culture Committee today, this is a message on behalf of the Commissioner to clarify our budget estimate for 2017/18.

The Commissioner's financial estimate for 2017/18 was sent to the Government on 6 October. There is a statutory duty to send the estimate to the Government at least five months before the relevant financial year.



The Commissioner's budget for 2016/17 was £3,051,000. In the estimate the Commissioner made a case for an additional £150,000 over the next two years. That is, £75,000 more for 2017/18, or a budget of £3,126,000.

I can confirm, therefore that the Commissioner has made a request for more money for 2017/18.

I would be grateful if you could explain this to the Committee.

There is clearly some confusion between what we were told by the Minister and what we have since been told by the Commissioner. The amounts concerned are relatively small but we are concerned that the Minister appeared not to know of this request for additional funding.

We have written to the Minister to seek further clarification and will publish his response when it is received.

Funding within other Ministers' Portfolios

In addition, to the funding for which he is directly responsible, the Minister for Lifelong Learning and Welsh Language identified in his Memorandum (para 25) a number of areas of designated funding aimed at supporting the Welsh language and delivering Welsh language services, which are the responsibility of other Ministers.

It should also be noted that a significant amount of spending in support of Culture and the Welsh language is funded indirectly through other parts of the budget. For instance, a very significant part of the expenditure supporting Welsh language provision in education goes to local authorities through the revenue support grant (RSG). As the Welsh language is mainstreamed across Ministerial portfolios, other budgets will also help support provision for and development of the Welsh language but may not be wholly visible. Support for aspects of the arts, museums and libraries is also spent by local authorities through the RSG.

The Committee accepts the mainstream nature of much of Government spending on Welsh in particular. The Committee is not calling for this other spending to be

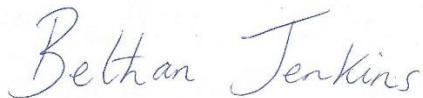


enumerated separately. Disentangling spending in this way would probably be impractical, time-consuming and still not provide a full and accurate picture of overall spending.

Nevertheless, the position is worth noting and the Finance Committees may wish to consider whether the scrutiny of the budget by other Assembly Committees may provide some further information about expenditure supporting Culture and the Welsh language.

I am sending a copy of this letter to Ken Skates and Alun Davies for information.

Yours sincerely

A handwritten signature in cursive script that reads "Bethan Jenkins". The signature is written in black ink on a white background.

Bethan Jenkins AM
Chair



Ken Skates AM
Cabinet Secretary for Economy and Infrastructure
Welsh Government
Tŷ Hywel
Cardiff Bay
CF99 1NA

16 November 2016

Dear Cabinet Secretary

Welsh Government Draft Budget 2017–18

Thank you for attending the Culture, Welsh Language and Communication Committee's meeting on 2 November to discuss the Welsh Government's draft budget proposals 2017–18. You agreed to write to the Committee to provide some further information and there are also one or two areas where the Committee would be grateful for some further clarification.

Cadw – Capital Programme

You confirmed that there would be no reduction to the planned capital expenditure programme as a result of the cut in the capital budget and that income raised at Cadw sites would be used to secure that capital spending. You indicated that you would write setting out which Cadw sites would benefit from capital funded works over the next four years, confirming that there would be no fall in planned expenditure and, further, what additional work there will be at sites if yet more income is generated and allocated to capital expenditure by Cadw.

Cadw – Income Generation

It is not entirely clear what the impact will be on Cadw if it fails to meet its income generation target. The Committee would be grateful to know how any shortfall will be met if targets are not reached and for an assurance that any additional income generated by Cadw will be ring-fenced so that it is used to support



Cadw's work. In addition, the Committee would also be grateful for further information on:

- the extent to which additional income generated by Cadw in previous years was ring-fenced for use by Cadw;
- a breakdown of how Cadw's self-generated income was used in the current financial year; and
- the income target for 2017-18 as well as how it is planned this income should be used.

Arts Council of Wales – Income Generation

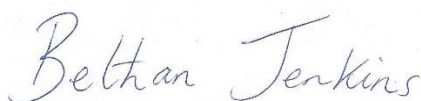
Like Cadw, it is not entirely clear what the impact will be on the Arts Council if it fails to meet its income generation target. The Committee would be grateful to know how any shortfall will be met if targets are not reached.

Committee Members were also somewhat sceptical as to whether the 'three thirds' funding model (i.e. funding is obtained from a third each of public funding, income generation and philanthropic sources) is realistic in the Welsh context because it has historically proved difficult to attract philanthropic funding to the same extent as in more affluent parts of the UK. The Committee would be grateful for your views on this and what plans there are for moving closer to such a model.

Museums Expert Review

Could you provide further details of progress towards a new museums strategy, and the extent to which budget allocations in this area may change depending on the shape this new strategy takes.

Yours sincerely



Bethan Jenkins AM , Chair



Alun Davies AM
Minister for Lifelong Learning and Welsh Language
Welsh Government
Tŷ Hywel
Cardiff Bay
CF99 1NA

16 November 2016

Dear Minister

Welsh Government Draft Budget 2017–18

Thank you for attending the Culture, Welsh Language and Communication Committee's meeting on 2 November to discuss the Welsh Government's draft budget proposals 2017/18. There were a number of areas where you agreed to write to the Committee to provide further information. There are also one or two areas where the Committee would be grateful for some further clarification.

Bilingual Champions

You indicated that an evaluation of the project had been carried out and that you would write to the Committee with more details of the findings.

Agency for the Promotion of Welsh

You indicated that consideration is being given to the establishment of an agency for the promotion of Welsh language and what the structure and role of such an agency might be. You hoped to be able to take final decisions on these matters before the final budget is considered by the Assembly in December. You promised that you would write to the Committee once you were in a position to take decisions.



Strategic Integrated Impact Assessment

You promised to provide additional details of how you intend to deliver on the priorities and commitments on the Welsh language and related outcomes in terms of the integrated strategic impact assessment in the narrative of the Welsh Government's draft budget.

Welsh in Education BEL

In response to questions you indicated that part of the additional £4.85 million the Welsh in Education BEL may be used to set up a new agency for the promotion of the Welsh language or to create a similar function within an existing body. You indicated that you would write to the Committee before the final budget comes before the Assembly in December.

Welsh Language Commissioner's Budget

At the meeting you indicated that the Commissioner had not made any request for an increase in her budget. However, we were subsequently contacted by the Commissioner's office who told us:

'The Commissioner's financial estimate for 2017/18 was sent to the Government on 6 October. There is a statutory duty to send the estimate to the Government at least five months before the relevant financial year.

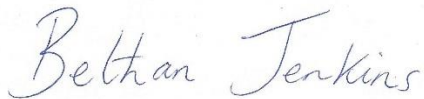
The Commissioner's budget for 2016/17 was £3,051,000. In the estimate the Commissioner made a case for an additional £150,000 over the next two years. That is, £75,000 more for 2017/18, or a budget of £3,126,000.

I can confirm, therefore that the Commissioner has made a request for more money for 2017/18.



There is clearly some confusion between what you told us and what we have since been told by the Commissioner. I would be grateful if you could clarify the position as a matter of urgency.

Yours sincerely

A handwritten signature in cursive script that reads "Bethan Jenkins". The signature is written in black ink on a white background.

Bethan Jenkins AM
Chair



Simon Thomas AM
Chair of the Finance Committee
National Assembly for Wales

18 November 2016

Dear Simon,

Scrutiny of the Welsh Government's draft budget for 2017-18 – the Environment and Rural Affairs Main Expenditure Group

We considered the Welsh Government's draft budget for 2017-18 on 2 November 2016. I set out our headline observations below.

In addition to this letter, I have written to the Cabinet Secretary for Environment and Rural Affairs to request additional information in number of areas.

In general, we note that the Environment and Rural Affairs Main Expenditure Group (MEG) faces a significant reduction in capital allocations. In light of the work needed to deliver the Government's climate change duties and commitments, reductions to the capital budget within the climate change and sustainability Spending Programme Area (SPA) could be perceived as a risk to the delivery of these commitments (though the Cabinet Secretary assured us that delivery was not at risk). Time will tell and our programme of work in relation to climate change scrutiny will be monitoring delivery.

1 Budget process

1.1 Presentation of information

We are grateful to the Cabinet Secretary and her officials for the provision of information to BEL level. This level of information is essential to our financial scrutiny work and in ensuring transparency.



Notwithstanding the above comments, we would like to see more information relating to changes in expenditure lines provided under the ‘comments’ column. There were a number of decreases in expenditure that were not clearly explained. When questions were put to the Cabinet Secretary in relation to these lines, her officials were able to offer some explanation. Had the decreases been explained in further detail then it may have avoided the need to explore these during the evidence session. I will be writing to the Cabinet Secretary to request this additional detail for future sessions.

1.2 Carbon and fiscal budgets

We are pleased that the Cabinet Secretary is planning to align carbon and fiscal budgets in future and commend this approach. We will follow this development with keen interest and this may be an area of interest to the Finance Committee in the future.

1.3 External sources of funding

It was apparent to us that the Cabinet Secretary is relying on funding from external sources to deliver several objectives. European funding and local authority borrowing are two examples.

She is also hoping for additional allocations from reserves before the draft budget is finalised, subject to the Chancellor of the Exchequer’s Autumn Statement.

In order for us to look holistically at the Cabinet Secretary’s spending plans and to assess the level of risk that might be attached to some of these approaches, we believe that information regarding the funding that is expected from these external sources should be provided to us in future.

1.4 Implementing the Well-being of Future Generations Act and the Strategic Integrated Impact Assessment

We believe more needs to be done to demonstrate how budget decisions are being shaped by the Well-being of Future Generations Act. We have requested further



information from the Cabinet Secretary and hope that this will yield evidence of where particular budget lines have been created, stopped, increased or reduced as a direct consequence of meeting the requirements of this Act.

In terms of the Strategic Integrated Impact Assessment, we were disappointed that no specific reference was made to how issues of socio-economic disadvantage, equality, the Welsh language, sustainable development, children's rights and tackling poverty were considered within the environment portfolio. As with the point we make above in relation to the Well-being of Future Generations Act, we expect more detail of how considering these cross-cutting issues shaped budget allocations. Without this detail, the impression given is that these issues are treated superficially rather than being central to the decision-making process.

1.5 Natural Resources Wales

The Chief Executive of Natural Resources Wales has requested that NRW be provided with a three-year budget settlement. We are sympathetic to this request. In addition to assisting NRW in managing the significant challenges it faces, it would help provide a degree of certainty to NRW's staff. This, in turn, could make some small contribution towards improving staff morale within the organisation.

The Auditor General for Wales also recognised this as an issue in his report *The Development of Natural Resources Wales* published in February 2016.

2 Prioritisation, affordability and value for money

2.1 Fuel poverty

The Cabinet Secretary identified the eradication of fuel poverty as a priority in her budget paper, yet the relevant BEL shows a considerable reduction over the budget period. Whilst officials suggested that this would be compensated for through accessing European funding, we remain concerned about the lack of core funding for such a stated priority; particularly as it has the potential to offer significant benefits in terms of preventing spend in other areas and making a significant contribution to meeting carbon reduction targets.



2.2 Flood protection and coastal risk management

The Cabinet Secretary stated that flood protection was one of the key priorities for her portfolio, and emphasised that maintaining the flood risk management budget is essential to sustain and build resilience to flooding and future climate change.

In his *Coastal flood and erosion risk management in Wales* report, the Auditor General for Wales recognised that recent Welsh Government investment has improved coastal protection and delivered some wider benefits. However, he also raised concerns about the capacity within the Welsh Government and local authorities to manage the risks of erosion and flooding in the future.

As the budget currently stands, it appears to us that the Welsh Government is planning to allocate less capital funding for flood risk management during the course of this Assembly than it did in the last, with a planned decrease from £29 million in 2017–18 to £17 million per year for 2018–19 and 2019–20.

We understand that the Welsh Government hopes that local authorities will be able to access additional funding through borrowing but we remain concerned about this reliance on local authorities – particularly in light of the Auditor General’s findings.

Additionally, the Government has previously indicated that it saw the European Investment Bank as a source of funding for the forthcoming Coastal Risk Management Programme. Whilst it is possible for the EIB to invest in projects outside the European Union, 90% of its investments are made within the European Union. This adds to the uncertainty around the future sources of funding for the Government’s approach.

We intend to undertake an inquiry into this area during the next year and will consider affordability and value for money as part of this work.



We thank the Finance Committee for considering our views and hope they are of use to its work. This letter is copied to the Cabinet Secretary and it will also be published to the Assembly's website.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'M Reckless', written in a cursive style.

Mark Reckless AM

Chair of the Climate Change, Environment and Rural Affairs Committee



Cynulliad Cenedlaethol Cymru
Y Pwyllgor Plant, Pobl Ifanc ac Addysg

National Assembly for Wales
Children, Young People and Education Committee

Carl Sargeant AM
Cabinet Secretary for Communities and Children

16 November 2016

Draft Budget 2017/18

Dear Cabinet Secretary

Thank you for attending the Children, Young People and Education Committee's meeting on 2 November to discuss the draft Budget, and for providing the requested information in advance of the meeting.

The Committee felt the session was productive and welcomes your comments on the need to take brave decisions, particularly in relation to preventative interventions for adverse childhood experiences and resilient communities.

On a general point, the Committee is concerned that there is a lack of clarity about the allocations for specific programmes, such as Flying Start and Families First. Further, the funding for some important policy areas within your portfolio, such as looked after children, currently falls within other Cabinet Secretaries' budgets. This lack of clarity makes scrutiny of those allocations difficult.

The Committee's comments on specific programmes within your portfolio are outlined below.

Families First, Flying Start and Communities First

Prevention and Early Intervention BEL

You told the Committee that you have merged the budget lines for Flying Start, Families First and Communities First into one budget expenditure line (BEL) – the Prevention and Early Intervention BEL. However, the programmes themselves will not be merged and will continue to operate as separate entities.



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In previous years, there were individual BELs for each of the three programmes, and therefore the Committee was provided with the breakdown of allocations in advance of the scrutiny session. In advance of this year's meeting, your officials informed the Committee that a breakdown of the allocations for each programme was not available. However, during the meeting, you were able to tell the Committee the specific amounts that had been allocated to each of the programmes.

This raises three issues which, the Committee believes, need to be addressed.

First, the lack of detailed information about the allocation of funding to these important programmes makes scrutiny difficult. The total amount allocated to Flying Start, Families First and Communities First in the draft budget is £154.38 million – a substantial proportion of the budget for which you are accountable. It is vital for good scrutiny for the Assembly to be able to access information on how much funding has been allocated to major Welsh Government programmes.

Second, it is clear that Welsh Government was in possession of this information, but would not provide it to the Committee. The Committee would be grateful if you would explain why.

Third, the Committee notes that Welsh Government is seeking to give increased flexibility to local authorities for the use of these funds. However, a balance must be struck to ensure the Assembly can hold Welsh Government to account for its decisions; ascertain whether or not Welsh Government is obtaining value for money for the taxpayer; and ensure that policies are effective.

Families First and Flying Start

The Committee notes your commitment, in principle, to the continuation of both Families First and Flying Start. We also recognise that both programmes need to evolve to ensure they are fit for purpose.

As outlined above, the Committee recognises that the merging of the budgets for these two programmes may give more flexibility to local authorities, but there remains concerns about the level of oversight you will have of the expenditure on and the outcomes you are expecting as a result of these key Government policies.

The Committee would be grateful for further information on how you intend to monitor the use of the merged funding for each of the programmes.

You also referred to the outreach element of Flying Start and how it has “started to address” the limitations of the programme i.e. that it is based on location. The Committee would be grateful to receive information on any assessment or evaluation you have conducted on this element of the programme.



Communities First

The Committee notes you have announced that you are minded to phase out Communities First and that you are currently undertaking a consultation on whether the programme should continue.

You informed the Committee that, if you decide to “exit” Communities First, “it will be a controlled exit”. Please provide further information on what you would consider to be a “controlled exit” and how it will be managed.

The Committee would also be grateful if you could provide information on the evidence base you will consider when making your decision; and the estimates of the costs and benefits of discontinuing the programme.

Children’s Zones

The Committee notes your comments about Children’s Zones, a Welsh Government concept that is still in its infancy. The Committee understands that it will consist of a number of different interventions targeted to support the child or young person. A problem with such an approach is that it is difficult to attribute success to any one intervention and, consequently, to assess the effectiveness and value for money of each intervention. Moreover, multiple interventions may be funded across Ministerial portfolios which will require co-operation.

The Committee will seek more information as the concept is developed.

Childcare

The Committee notes that around £10 million has been allocated to exploratory and piloting work for this ambitious programme. The Committee is supportive of the principle underpinning the programme and recognises that the programme is still in its infancy. Nevertheless, the lack of clarity around a number of issues is a cause for concern.

Costs of the programme

The Committee notes that your estimate of the costs of the childcare offer as it is currently envisaged is £100 million per annum.

Analysis by the Public Policy Institute for Wales (PPIW) suggested that the costs could be between £125 million and £228 million.

You said that the assumptions underlying the PPIW calculations considered a childcare offer for term time, which was incorrect, as Welsh Government’s childcare offer extends not only to term time, but to 48 weeks of the year.



The Committee questions how the Welsh Government's estimate of costs, if it is based on an offer covering more weeks in the year, can be lower than PPIW's estimate. Welsh Government must be making different assumptions to PPIW.

The Committee would be grateful if you could provide information on the assumptions on which you are basing your estimates and the evidence on which you are basing those assumptions. Can you also provide the Committee with information on any other models of provision you have considered and the costs and benefits associated with them?

Further, the Committee would be grateful for information on your assessments of the financial benefits of the programme as currently envisaged, when it becomes available.

You told the Committee that Welsh Government is "absolutely" committed to delivering this programme and that its costs will be managed within Welsh Government's budget. Given the lack of clarity over costs, the Committee questions the prudence of such a commitment. If the actual costs of the programme are closer to the higher estimates made by PPIW, there will be a significant, ongoing impact on the budgets of other programmes and departments.

Workforce

In relation to the capacity of the workforce to deliver the programme, you told the Committee that this was a significant concern for you – more so even than the costs of the programme. You also spoke of the importance of ensuring that the workforce is of a high quality.

You did not, however, provide details of how your concerns about the capacity of the workforce will be addressed. Perhaps this is because the programme is still in the early stages of development, however, the Committee is concerned that the scale of the task is significant and that progress needs to be made quickly.

With this in mind, the Committee would be grateful if you could provide information on assessments Welsh Government has made of the capacity of the workforce to deliver the programme; planning that is being undertaken to address potential problems with capacity; and assessments of the costs of ensuring that the workforce capacity is sufficient to deliver the programme.

Welsh language provision

You said that you had held early discussions with the Minister with responsibility for the Welsh language. You also said that the pilots will provide more information as to how such provision can be made.

The Committee believes that Welsh Government should put measures in place to ensure that there is sufficient provision available in the Welsh language and that



there is sufficient capacity within the Welsh-medium workforce to deliver that provision. Furthermore, given Welsh Government's commitment to increasing significantly the number of Welsh speakers, the Committee believes that you should aim not only to meet demand, but to use the programme as an opportunity to proactively encourage the use of the Welsh language.

Timetable for implementation

You made a clear commitment that the programme will be in place in its entirety by 2021.

The Committee recognises how ambitious this commitment is, given the scale of this programme and the issues that need to be addressed. The Committee would be grateful if you could provide an outline timetable, including milestones and targets, of how you will deliver the programme by 2021.

Positive parenting and costs associated with legislation to remove the defence of reasonable chastisement

You told the Committee that you would be evaluating the use of social media platforms and other communication methods you are using as part of the positive parenting programme. The Committee would be grateful if you could provide further information on the results of the evaluation when it becomes available. Could you also provide the Committee with further information on the proportion of funding allocated to deliver projects within the programme, including the outcomes you expect to see from that investment.

The Committee also notes that funding has not been made available in this budget year for the proposed legislation to remove the defence of reasonable chastisement as the Bill is not due in the next financial year. However, preparatory work will be funded from the positive parenting budget. The Committee would be grateful for details of that preparatory work.

Looked After Children, adoption, CAFCASS Cymru

The number of looked after children has increased by 5% over the last five years, though it has remained relatively stable over the last three years. This will inevitably have an impact on social services budgets and you referred to several interventions that you are exploring with an aim to reduce the number of looked after children. You also referred to an advisory group on looked after children, which is chaired by David Melding AM and which is considering a variety of relevant issues.

The Committee notes that the interventions you described are long-term – they will take time to have an impact. The Committee seeks reassurance from you that you are satisfied that steps are being taken to address the problems as they exist now.



You also informed the Committee that the funding allocations for CAFCASS Cymru “remain at the same level despite increasing demand on referrals over the last 12 months”. The interim Chief Executive of CAFCASS Cymru told the Committee that the service was managing the increase in demand as a result of internal restructuring and a programme of modernisation, which had increased resilience. The Committee seeks reassurance from you that, should demand continue to increase, you are confident the service is sustainable.

Children’s Rights, Participation and Play

The Committee is, again, disappointed that a Child’s Rights Impact Assessment (CRIA) was not prepared for this draft budget. Given that a Government’s financial allocations are clearly one of the most obvious ways in which children’s rights will be affected, it is difficult to understand why such an assessment was not required in order to comply with the Rights of Children and Young People (Wales) Measure 2011. The lack of a standalone and transparent Child’s Rights Impact Assessment means it is more difficult to identify how the Welsh Government’s allocation of resources will impact on children and young people, and on individual groups within that population.

The Committee would be grateful if you could provide examples of how the Draft Budget 2017-18 allocations were affected or changed as a result of Welsh Government’s consideration of children’s rights.

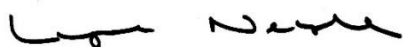
Child poverty

Resilient communities and ACEs

The Committee welcomes your candour when discussing the lack of progress in addressing poverty and notes that some issues in relation to this agenda, such as welfare reform, are outside Welsh Government’s control. We also welcome your comments about the importance of early, preventative, interventions. The Committee also noted with interest your comments about Adverse Childhood Experiences. These are subjects the Committee looks forward to discussing with you over the next year.

I am copying this letter to the Chair of the Finance Committee to inform its overarching scrutiny of the Draft Budget.

Yours sincerely



Lynne Neagle AC / AM
Cadeirydd / Chair

cc Chair of Finance Committee



Cynulliad Cenedlaethol Cymru
Y Pwyllgor Plant, Pobl Ifanc ac Addysg

National Assembly for Wales
Children, Young People and Education Committee

Kirsty Williams AM
Cabinet Secretary for Education

Alun Davies AM
Minister for Lifelong Learning and Welsh Language

16 November 2016

Draft Budget 2017-18

Dear Cabinet Secretary & Minister

Thank you for attending the Children, Young People and Education Committee's meeting on 10 November to discuss the draft Budget. Thank you also for providing your comprehensive paper in advance of the meeting and addressing each of the Committee's requests for specific information. The Committee felt the session was very productive.

It was helpful that your paper to the Committee reaffirmed the Welsh Government's top 10 education priorities. Understanding the link to your main priorities helps with the scrutiny of the budget across your portfolio. The Committee will be considering each of these priorities in detail during the course of this Assembly.

The Committee's comments on specific areas and programmes within your portfolio are outlined below.

1. School Reserves

Levels of reserves

The School Funding (Wales) Regulations 2010 introduced new powers to enable local authorities to intervene when school surpluses reach certain levels, which are £50,000 or more in a primary school and £100,000 or more in a secondary school or special school.



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The Committee noted that you were shocked at the level of reserves being held across schools in Wales, which you confirmed was in excess of £64m. You acknowledged that holding reserves is appropriate in particular circumstances, but said you will work with local authorities to ensure they take a more proactive approach in managing those reserves.

The Committee is keen to ensure that school budgets are used to best effect and welcomes your commitment to work with local authorities on this matter. Further, can you provide details on how many schools are exceeding the reserve levels set out in the regulations? Given your concerns, the Committee believes you should consider reviewing the regulations, to satisfy yourself that the limits for reserves are appropriate.

2. Childcare offer

The Committee noted a capital budget increase from 2018-19 of £20 million annually to provide infrastructure to meet the Welsh Government's commitment to offer thirty hours of free childcare for working parents of 3 and 4 year olds for 48 weeks per year.

In his statement in Plenary on Tuesday 8 November the Cabinet Secretary for Children said that part of the childcare offer will be met by the Foundation Phase during term time. In response to a question, you told the Committee that you are confident that your budget would be sufficient to deliver the foundation phase elements of this programme. The Committee will continue to keep this under review as the programme is developed.

3. Schools Challenge Cymru

The Committee notes that you have decided to discontinue the Schools Challenge Cymru programme.

In evidence to this Committee last year, your predecessor was clear that international evidence suggests that sustainable system level reform requires a minimum of at least five years. Schools were therefore "very much at the early stages of their improvement journey".

The Committee notes that an evaluation of the programme has been ongoing. The results of phase 1 of that evaluation have been published. However, phase 2 of the evaluation, which will focus on outcomes and is arguably the most important element of evaluation in terms of gauging impact, is yet to be completed. It is unclear why the decision to end this programme was made before the completion of the final phase of the evaluation.



The Committee is extremely concerned that ending Schools Challenge Cymru now may mean that the full impact of the programme and the full value of the investment may not be realised. Could you provide details of the evidence on which you based your decision to end the School Challenge Cymru.

You told the Committee that the programme was “time limited” and funded by central reserves. However, the Committee was concerned at your confirmation that the money is being returned to the reserves and not being put to alternative use within the Education MEG. The Welsh Government took the decision in January 2014 to use a Barnett consequential to “continue to drive up educational standards”. If you have decided that Schools Challenge Cymru is not the best use of the money, then why not use the money on another means of investing in school standards?

The fact that £15 million is being returned from the Education MEG to the central reserves calls into question how much of the separate £20 million for schools standards is actually net additional funding.

4. Pupil Deprivation Grant

The Committee recognises that the Pupil Deprivation Grant (PDG) is a key Welsh Government intervention aimed at helping raise standards in schools.

We note your assertion that the PDG has helped to raise attainment levels for eFSM pupils for the second successive year. However, as has been noted in previous years, it is difficult to attribute specific outcomes to the PDG as it is one of a number of interventions in this policy area. Furthermore, the attainment gap between eFSM pupils and their peers was already narrowing before the PDG was introduced.

We remain concerned that Welsh Government cannot fully assess the value for money of this programme and, consequently, is unable to ensure that eligible pupils are getting the best outcomes from the significant funding allocated to the programme. We therefore welcome the evaluation of the PDG being undertaken both by Estyn, and by the independent Raising Attainment Advocate. We hope that this can help clarify the extent of the impact of this important programme and its value for money.

The Committee has become increasingly concerned that there is a lack of clarity in schools about how the PDG should be used. We welcome your commitment to issue new guidance to ensure that the PDG is spent in the most effective way.



Early Years Provision

Given that early intervention and prevention are such prominent aspects of the Welsh Government's programme for Government, the Committee believes you should consider exploring the potential impact of "front loading" the PDG, so that more money is available to early years pupils, rather than older pupils. You told the Committee you would of course welcome more money for the Early Years PDG but the question is how to reach an optimum balance for using the existing resources for the PDG.

As part of that consideration, you may wish to reflect on whether it would be appropriate for eligibility for the higher rate of PDG to be extended down a school year, so that pupils in reception year attracted the full PDG allocation.

Reception class is arguably the first year in which targeted interventions can make the most tangible impact, given this is when children generally begin attending school on a full-time basis. The Committee would be grateful for more detail about the rationale for paying the Early Years £600 rate for Reception age children (first year of Infants, age 4 at start of year) rather than the higher school-age £1,150 rate? This is particularly relevant given your emphasis on early intervention.

Availability of PDG to Armed Forces Children

The Committee believes that the PDG should be targeted at all disadvantaged groups, and one group that has been recently highlighted is the children of Armed Forces personnel. Given the often disrupted nature of their education, some of these children can find themselves disadvantaged in their learning.

In response to a question, you confirmed that you would explore whether the PDG could be extended to Armed Forces children. The Committee would be grateful if you would report back to the Committee in due course on this matter.

Looked After Children

You told the Committee that the PDG funding for looked after children and adopted children is allocated to Regional Education Consortia, and they use their experience and understanding of the needs of local schools to make best use of the funding. You confirmed that you regularly challenge Consortia on their use of the funding.

However, the Committee remains concerned that it is difficult to assess whether funding allocated to looked after children and adopted children is actually reaching those in need. It is also difficult to monitor the impact of the funding.



The Committee looks forward to seeing the results from your evaluation for looked after children, which you confirmed would be published in the New Year.

The Committee would also be interested in how you are assessing the impact of extending the use of the PDG to adopted children, particularly since the allocations to regional consortia have not been increased to account for the numbers of adopted children.

5. School Standards

The Committee notes the inclusion in the budget of an additional £20 million in 2017-18 (as part of the £100 million pledge over five years) for raising school standards. You told the Committee that your intention was to focus this spending on four main areas:

- £3.5m in building capacity in education leadership;
- £2m as part of the curriculum and assessment strand;
- £10m under pedagogy for the development of the workforce;
- £4m in developing the school-to-school working.

You confirmed that it was your intention to work with the OECD to look at these four areas, to ensure that you were taking the right approach. You told us that you were expecting early feedback from the OECD on this, and that formal feedback would follow at a later date. The Committee would welcome sight of the OECD's feedback when it is available.

The Committee understands why you have focussed the additional £20 million funding on four specific areas, but urges you to keep this under review, and to refocus funding where necessary in future years.

School budgets

In the Fourth Assembly, the Welsh Government had a policy of protecting school budgets so that they received a change that was 1 percentage point above the change in the overall Welsh block grant. This was met through a combination of funding in the RSG for local authorities to pass on the protection and specific budgets supporting learners within the Education MEG. According to the Welsh Government's figures, this resulted in an additional £106 million for schools between 2010-11 and 2015-16.

The Committee notes that you have decided not to protect individual school budgets in the same way during the Fifth Assembly. Instead, you have allocated £100m for school improvements over the five years of this Assembly.



The Committee would be grateful if you would explain your rationale for this decision. Did you consider continuing with the approach taken in the Fourth Assembly?

6. Infant Class Sizes

Reducing Infant class sizes is listed as one of the top 10 education commitments for Welsh Government. The Committee notes the allocation of £1 million from the 'School Improvement Grant' BEL for piloting work. This does, however, appear to be at the expense of a £1 million reduction in the Education Improvement Grant issued to local authorities and regional consortia. The Committee would be grateful for clarity on this.

In terms of the policy, you told the Committee that Welsh Government officials are scoping out implementation, focusing initially on schools with high eFSM rates and an improvement/support category of red or amber who have classes containing 29 or more pupils. You have also said that you will not set budget allocations for the policy until the scoping work has been completed.

We note your intention to make an announcement in January about how this policy will work over the life of the Fifth Assembly. However, before that announcement could you provide an early indication of how the £1 million will be spent on the pilot for the programme, including: how many schools are included within your target criteria; whether you will be piloting alternative models of delivering the provision; how you will assess the outcomes of the pilots; and how you will assess the effectiveness of the pilots.

7. Higher Education (HE) and Further Education (FE)

The Committee notes that £30 million has been allocated for Higher and Further Education, but that of that £5 million of this has been allocated to Further Education.

When questioned about why the allocation appeared to be relatively low for FE, you told the Committee that you were taking a coherent approach to improve the whole education system. You also wanted to ensure a coherent flow from statutory education to Post 16 learning, and between HE and FE. You also talked about HE and FE learning having no borders.

You confirmed that you will be including within the Annual Remit Letter you will be issuing to the Higher Education Funding Council for Wales (HEFCW) for 2017-18 direction that HE and FE must enhance their relationship, with the ability of the learner to move between HE and FE.



Could you expand on this and how you expect HEFCW to reflect this in the way they allocate the funding? Could you outline your vision for how HE and FE will work together to deliver a more coherent learning experience, and how this might impact on their budgets in future years?

Diamond review

The Committee has recently written to you to outline a number of outstanding areas relating to the review that need more clarity. The Committee will continue to keep this matter under review.

Adult Part-time Learning

The Committee remains concerned about the adequacy of funding for adult Part Time learning. The reductions in funding for FE over recent years have had an impact on the sector that should not be underestimated.

In your paper to the Committee you state that “due to the protection of this budget line, no further reductions are expected to be imposed on part time learning”. However, you acknowledge that following the significant reductions in 2014/15 and 2015/16, part-time provision was significantly affected.

You said you are confident that funding for part-time learning is adequate, but the Committee is concerned that the sector was so severely impacted by previous budget reductions that a significant intervention will be required to restore provision to previous levels. Do you have a vision for the future delivery of part time learning and how will this be monitored?

In previous years, the Welsh Government has asked the FE sector to prioritise and protect provision for 16-19 year old learners. The Committee is keen to understand how the FE sector will continue to do this and impose no further reductions on adult and/or part time learning.

8. Welsh for Adults

The Committee welcomes the additional £5 million for Welsh for Adults provision. In your paper to the Committee you also state that decisions on how the money is used will also be informed by the priorities of the new Welsh Language Strategy, on which the Welsh Government finished consulting on 1 November 2016. You told the Committee that you would be meeting with the sector to help ensure the best use of the additional funding.

The Welsh Government has emphasised the critical role of expanding Welsh-medium education in meeting its vision of a million Welsh speakers by 2050. Although you could not give details on the new Welsh Language Strategy, you



confirmed that you were working to ensure Welsh in Education Strategic Plans (WESPs) are clear and ambitious, and that you would work with local authorities on their new plans.

The Committee would be grateful if you would provide an update in due course on the development of the Welsh Language Strategy and how Welsh Government is supporting local authorities' implementation of their Welsh in Education Strategic Plans.

9. Capital Funding

The Committee notes that the BEL which funds 21st Century Schools is affected by the Welsh Government's calculation of a revised baseline. £32 million has been taken out from the Supplementary Budget 2016-17 level for one-off allocations for FE projects which are presumably considered to be untypical of the annual level of expenditure. £43 million, which funded local authorities' general capital works, has been moved to the Local Government MEG (Revenue Support Grant) as party of a move to demonstrate the un-hypothecated nature of this funding.

Therefore, if the £43 million which has transferred out of the budget is disregarded, the capital budget has either remained the same, compared to the revised baseline, or has reduced by £32 million, if compared with the 2016-17 level.

Can you provide a further explanation of the accounting methodology for the removal of £32 million 21st Century Schools funding for the purposes of calculating the revised baseline? Can you also confirm that the movement of the £43 million general funding to the Local Government MEG is merely presentational and that local authorities' budgets will not be adversely affected?

I am copying this letter to the Chair of the Finance Committee to inform its overarching scrutiny of the Draft Budget.

Yours sincerely



Lynne Neagle AC / AM
Cadeirydd / Chair

cc. Chair of Finance Committee



Cynulliad Cenedlaethol Cymru

Y Pwyllgor Iechyd, Gofal Cymdeithasol a Chwaraeon

National Assembly for Wales

Health, Social Care and Sport Committee

Vaughan Gething AM

Cabinet Secretary for Health, Well-being and Sport

Rebecca Evans AM

Minister for Social Services and Public Health

17 November 2016

Welsh Government Draft Budget 2017-18

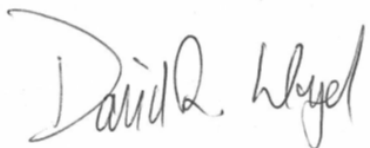
Dear Cabinet Secretary and Minister

Thank you for attending the Committee's meeting on 3 November 2016 to discuss the Welsh Government's draft budget for 2017-18.

The Committee would like to draw your attention to the matters set out in the annexe to this letter, and looks forward to receiving your response, where appropriate, in due course.

A copy of this letter goes to the Chairs of the Finance Committee, to inform its overarching scrutiny of the draft budget, and the Children, Young People and Education Committee, given the areas of common interest between our two committees.

Yours sincerely,



Dr Dai Lloyd AM

Chair, Health, Social Care and Sport Committee



Annexe: commentary on the draft budget

This was the first annual budget scrutiny session of the new Assembly and the discussions we had, although fairly wide ranging, were also quite high level. As such, we consider the session to represent the baseline for the next five years, and there are many issues that we will want to return to in more detail.

We also wish to highlight that, over the course of this Assembly, we are keen to focus our attentions on both outputs and outcomes, and how these demonstrate value for money. As such, we will be keen to get a detailed picture from you both of the financial choices you make and the outcomes you expect to receive as a result.

1. Additional allocation for NHS Services

Compared to the revised baselines for 2016–17, the total resource allocation for Health, Well-being and Sport has increased by £279.290 million. For capital allocation, there has been a net increase of £25.498 million.

The largest change in the 2017–18 budget for health and social care is the £240 million additional investment from reserves to support the NHS in Wales, including £20m for mental health services. In your paper, you state that this investment “will ensure the sustainability of the service and help to transform the provision of care” and that it will “enable organisations to continue to meet the ongoing growth in demand and costs of services that have been described in the Nuffield Trust and Health Foundation reports.”

You go on to state that “the investment assumes continued delivery of efficiency savings of at least 1% in real terms each year.” Further, the Welsh Government’s budget narrative states that this additional funding will enable NHS Wales to meet “the costs of pay awards for NHS staff; delivering more care in primary and community care; maintaining investment in new drugs and treatments and ensuring high-quality of care for all”.



As a Committee, we are very conscious of the long-term funding and sustainability pressures facing health and social care services in Wales. The reasons for this are well documented and we won't rehearse them again here. We also recognise the views of many key stakeholders that service transformation is essential to the future of health and social care, and we are very supportive of this. We do, however, feel that that pace of change here needs to be stepped up.

As such, we welcome the additional £240 million investment by the Welsh Government. However, particularly given the widely known financial challenges facing a number of LHBs (discussed later in this letter), we question whether this additional investment will be able to effect real sustainability of services and transformational change, or will simply go into the bottom line.

With this in mind, **we would be grateful if you would set out your own expectations for this additional funding – what specific outcomes you expect to be gained in terms of reform, service improvements and levering service change.**

In relation to targeted interventions, we note your evidence that you will have more to say about this later in the year, “both the work that’s been done and our expectations for each health board”. **We look forward to hearing from you on this matter.**

More generally, we note that some funding streams were made available in 2016–17 but are not identified in the draft budget or in your evidence paper. **Could you clarify the position with regards to these—**

- Older people and mental health services: £30 million allocation in 2016–17;
- Primary care, delivery plans, health technology and mental health: £65 million was made available in 2015–16 and 2016–17. (We note your statement on 20 September 2016 that £42.6 million was made available for 2016–17 to health boards to support the delivery of their primary care workforce plans, £10m of which was allocated for the 64 primary care clusters to invest in their local priorities.)



2. Financial planning and the financial position of LHBs

Specifically in relation to LHBs achieving financial balance, in your evidence, you differentiated between the system as a whole and challenges facing individual health boards. On the latter point, we note the allocation of an additional £68 million revenue to address the forecasted overspends by Betsi Cadwaladr and Hywel Dda University Health Boards in the current financial year. We further note that this money will be retained centrally within the Health, Well-being and Sport MEG to offset the forecast deficits.

In your view, despite pressures in those two particular health boards, as well as other health boards, the announcements made by the Welsh Government as part of the budget process “should allow us to be in a system where, at the end of the year, we do expect the whole system to balance”. **We are keen to follow up this point with you in due course.**

As regards the three-year planning horizon under the NHS Finance (Wales) Act 2014, we believe this has been a useful tool for LHBs in terms of linking strategic and financial planning. We are, however, concerned that a number of organisations, including ABM and Cardiff and the Vale, are operating on the basis of a one-year IMT plan because you felt unable to approve their three-year plans.

Based on figures as at 31 August, Abertawe Bro Morgannwg and Aneurin Bevan UHBs have projected end of year deficits of £20.1m and £19.1m respectively. This appears to represent a very real challenge to achieving an end-of-year financial balance. **Are you confident that these UHBs can achieve a balanced end of year position in 2016–17 without additional financial support? Do you have concerns about 2017–18 and their long-term financial position?**



3. Financial position of Local Government

The provisional local government settlement 2017–18 has set total local government revenue funding for 2017–18 at £4.107 billion; an increase of £3.8 million on 2016–17.

The Cabinet Secretary for Finance and Local Government has also announced that an additional £25 million is being provided to recognise the importance of strong local social services in the long term success of NHS Wales and of the growing pressures facing social services.

In relation to this additional £25 million, this is un-hypothecated funding for local authorities. We note your evidence that the use of this money by local authorities will be a matter for them and that you do not want to direct their spending “other than (...) on ensuring that we have strong, sustainable social services for the future”. However, **we would like to hear more from you about the monitoring and evaluation measures you have in place to ensure that the additional allocation is used for the purposes you outlined above.**

Social care charging

We note that the local government settlement includes £4.5 million to fund the Welsh Government’s commitment to increase the capital limit for residential care charges from £24, 000 to £30, 000 initially, and then to £50, 000. Further, the settlement also provides £0.3 million to introduce a full disregard of the War Disablement Pension when charging for social care.

In relation to charges for residential care, you stated that research commissioned by you had shown that there are up to 4000 care home residents who currently pay the full cost of their care and that increasing the capital limit from £24,000 to £50,000 “has the potential to benefit around 1000 of these” people. You also stated that your commitment to increase the limit to £30,000 as of April next year would benefit “in the region of 250 people”.



We will be keen to follow up this matter with you at the appropriate future point to hear more about progress against your expected targets. In the meantime, we would be grateful for information from you about your estimates of the annual costs of a £50,000 threshold.

In relation to the war disablement pension disregard, how many people do you anticipate are likely to benefit from that disregard?

4. Prioritisation of spending

Intermediate care fund

We welcome the continuing investment of £50 million in the ICF in 2017–18 and the evidence provided in your paper about bed days saved and hospital admissions avoided as a result of the use of the fund. **Are you able to provide details of the specific outputs and outcomes you expect to be achieved over the course of the next budget period based on the continuing investment in 2017–18?**

We were interested to hear Mr Heaney’s evidence about the arrangements for increasing the evaluation of the fund from this year. He also told us that, at the end of each quarter, you will be writing back to each regional partnership board “with feedback, in response, so we’re able to share intelligence across Wales smarter and quicker, to enable us to be much more effective.”

We are very supportive of any arrangements to better evaluate and share good practice across Wales. **We would be glad to hear from you in due course about the new arrangements for sharing of good practice and how effectively they are working.**

Primary Care

We welcome confirmation from you that the additional investment in primary care in 2015–16 is a recurrent commitment. In terms of outcomes for this investment,



you stated that “over 240 extra people [are] employed within the primary care system now, as a direct result of this investment.”

You were very positive about the effects of this investment on primary care clusters in particular, and the opportunities given to the clusters to determine their own priorities for their areas. You told us that you were “really encouraged about the progress that we see in this area” and that you “expect to see a greater improvement again, in the way that primary care works and delivers even more services”.

With that in mind, can you set out the specific outputs and outcomes that you wish to see achieved for this investment in 2017–18, along with the arrangements in place for monitoring progress?

We were interested to hear details of the national event on primary care, convened by you to discuss the progress made in primary care clusters. Again, we are very supportive of measures to improve the sharing of learning and experience, and **we would be interested to hear from you about any other measures you have in place for this purpose.**

Children

In relation to taking account of the specific needs of children, we note your evidence that “it’s not just financial planning” where this is done, but that it forms part of the “whole integrated planning process”. You emphasised the importance of being able to demonstrate improved outcomes for children across your portfolio and told us that, across the Welsh Government, when decisions are made, account is taken of their impact on children.

Whilst we welcome your statements, particularly the emphasis on delivering outcomes for children, we believe there is a need for a more formalised process to better reflect the legislative commitment made by the Welsh Government in the Rights of the Child Measure. As such, **we ask that consideration is given to undertaking a children’s rights impact assessment as part of the budget process.**



Sport and physical activity

We note your evidence that the majority of the Welsh Government's work on sport is delivered through Sport Wales which, as a result, receives a "vast amount" of the sport budget. You stated that you will agree Sport Wales' budget allocation after you have received and considered the chair's review.

Once this process has been completed, **we would be interested to hear from you with details of the budget allocations; the outcomes you expect to be delivered for the investment; and the timeframe for the realisation of these outcomes.** Further, I would be grateful if you would confirm that you will publish the chair's review.

We also recognise that promoting health and well-being is a role that runs across the whole range of Welsh Government departments, and that **the broader promotion of public health is an issue we will want to return to.**

Mental health services

You confirmed that the ring-fence for 2017-18 "should be £20 million plus, representing a bit over 10 per cent of total health board allocation." This is a slight reduction on previous years in terms of percentages and total spend identified against mental health, although we note your evidence that the ring-fenced amount is a minimum, protected sum rather than a maximum. **It would, nevertheless, be useful to have a confirmatory statement from you that, in your opinion, sufficient funds have been allocated in this area.**

We had a brief discussion of the arrangements in place to monitor specific delivery of children's provision by primary care, and we note your evidence that between April 2015 and June 2016, around 2,200 young people came through the primary care gateway. **Dr Goodall offered to provide us with an update of these figures to September, and we would be grateful to receive this information.**



More generally, you told us that you were confident there was enough money in the budget to support those children who do not come within the CAMHS criteria but who require greater support than that available via primary care mental health services. You said that the challenge was to ensure that the money was well used, and you confirmed that this was an area of Ministerial commitment as well as a commitment for the service. Whilst we welcome your statement, **this remains an area of concern for us, and is one that we will want to follow up with you in the future. We do, however, believe there is a role for regional partnership boards to drive the integration agenda in this area so that children and young people with needs that do not fit the CAMHS criteria do not fall through the gaps in the system.**

CAMHS

We welcome the Welsh Government's commitment to make additional annual funding of £7.6 million in this area recurrent, as well as the further increase of £318,000 of recurrent funding¹ for support workers working with young people experiencing the most severe mental ill-health.

As regards meeting CAMHS waiting times targets, we welcome the commitment you made during our evidence session that “[you] expect each health board area to be compliant within the course of the next calendar year for the new 28 then 26-week targets.” **We will wish to follow up this matter with you at the appropriate time.**

5. Capital investment

The draft budget includes £245 million capital allocations for 2017–18, which you state in your paper is an increase of over £30 million against the recurrent funding baseline.

¹ Cabinet Secretary for Communities and Children, evidence to CYPE Committee



We agree with you that the availability of capital funding is a key lever in terms of service transformation across the sector, and we know that there are a number of ambitious projects underway requiring significant capital investment, not least the Specialist Critical Care Centre at Llanfrechfa.

Capital investment is a complex area and we are keen to get a better understanding of your plans here. **You offered to provide us with an update as to how you see the capital picture moving forward, and we would be grateful to receive this. You also offered a session to discuss capital spend in more detail. Again, we would like to take you up on this, and will be in touch separately to arrange.**

6. Impact of the EU referendum

We discussed briefly the implications for the health service of the UK's decision to leave the EU, and what account you had taken of this in your financial planning. You acknowledged that this was a challenge facing all the governments in the UK, but that you were unable to do much detailed planning at this time.

Clearly, there is a period of uncertainty ahead, not just for the health and social care sector and not just in Wales. Nevertheless, there is a need to be confident that work is underway in the Welsh Government to plan for any number of future possibilities, particularly in relation to the key areas of staffing, research, regulation and funding. **We would be grateful for further reassurance from you on this matter.**



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