

**Pwyllgor Cyfrifon Cyhoeddus
Public Accounts Committee**

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

24 September 2013

Dear Jocelyn,

Welsh Government draft budget 2014/15

I am formally writing in response to your recent consultation on the Welsh Government's draft budget for 2014/15. The Public Accounts Committee has not historically had input into the National Assembly for Wales' process for scrutinising the draft budget. Instead, the Committee has retrospectively evaluated the value for money achieved by the Welsh Government in delivering its policies, at a later stage of the financial cycle.

However, I note and welcome the recent emphasis that the Finance Committee has placed on scrutinising value for money as part of the draft budget scrutiny process, examining what the Welsh Government intends to be achieved with the resources allocated.

I am conscious that such analysis may benefit from information on what has historically been achieved with allocated resources. I have therefore summarised a number of issues arising from the work of the Public Accounts Committee over the past 12 months, which may contribute to scrutiny of the draft budget. I have also included reference to certain issues that have been raised with me in my role as PAC Chair through correspondence and which may merit further consideration as part of budget scrutiny.

I hope the information detailed in this correspondence is of assistance to the Finance Committee, either in its own scrutiny of the 2014/15 budget, or in its role of co-ordinating other Committees' scrutiny the budget.

Overarching issues

Grants Management

The Public Accounts Committee's interim report on Grants Management in Wales highlighted that there are a range of potential funding mechanisms for delivering Ministerial objectives through third party organisations. These include:

- grants which organisations are assumed to be 'entitled' to (i.e. without need for bids);
- competitive grants (i.e. with need for bids);
- conditional grants;
- grants with limited conditions;
- collaborative commissioning;
- competitive tendering;
- loans; and
- other investment forms.

The Public Accounts Committee's interim and final reports on Grants Management commented that some of these funding mechanisms would be more/less appropriate in different situations. In response, the Welsh Government has stated that it has now reviewed every grant, to establish whether that funding mechanism was most appropriate way of delivering Ministerial objectives. It also stated that any new grants will be "reviewed to ensure that the processes are... the most effective means of delivering Ministerial objectives."

The Committee may wish to verify that Welsh Government Ministers are able to state why any finances designated towards grants are being allocated to that form of funding mechanism, rather than an alternative.

In responding to the Committee's final report on Grants Management, the Welsh Government stated that it traditionally used umbrella bodies to distribute funding to smaller third sector organisations, to reduce administration costs. However, the Welsh Government accepted that this mechanism involved risks (for example, a reduced level of due diligence being undertaken by the umbrella body). It stated that where

the Government used an umbrella body in future the rationale for using it would be clearly documented.

The Committee may wish to verify that Welsh Government Ministers are able to state why any umbrella body is being used to distribute funding.

Investment to improve Grants Management

In responding to the Public Accounts Committee's final report on Grants Management, the Welsh Government stated that its 'Grants Centre of Excellence' would publicise its role as a single point of contact for advice on applications for funding. The Public Accounts Committee notes that this increased visibility is likely to increase the number of external queries to the Grants Centre of Excellence Team, which the Auditor General for Wales has described as "already stretched."

The Committee may wish to verify whether appropriate funding is in place for The Grants Centre of Excellence to function effectively as a single point of advice for external parties.

In responding to the Public Accounts Committee's interim and final reports on Grants Management, the Welsh Government has outlined its plans to introduce a Central Grant Management IT system, going live by March 2015.

The Committee may wish to verify that appropriate funding is in place to enable a Central Grants Management IT system to 'go live' by March 2015.

Ministerial oversight of financial delegations

In its inquiry into the 'Welsh Government's acquisition and action to dispose of the former River Lodge Hotel, Llangollen' the Public Accounts Committee took evidence from former Welsh Government Ministers. Both Ministers indicated that they were not aware of all the financial delegations that had been set up before their time in office.

In responding to the Public Accounts Committee's report, the Welsh Government has stated that:

"Each Director General is responsible for agreeing a set of arrangements with their Minister(s) for making decisions

relating to the work of their directorate and its expenditure... We will review our procedures immediately for briefing new Ministers to ensure that they are made aware of the arrangements agreed between the previous Minister and responsible Director General.”

The Committee may wish to clarify whether Ministers are confident that they are fully aware of (and actively determined) the 2014/15 financial delegations of their departments.

Delivering savings across the wider public sector

The Public Accounts Committee recently received an oral update on the implementation of recommendations arising from its April 2012 report on ‘A Picture of Public Services.’ The Public Accounts Committee was disappointed to learn during this briefing that the Welsh Government does not appear to be taking assertive action to prompt public bodies (including smaller bodies such as community councils) to make greater use of reserves, in enabling a strategic transformation of their services, including greater use of collaboration.

The Committee may wish to ascertain:

- **whether the Welsh Government took account of public bodies’ reserves in determining the 2014/15 budget; and**
- **what action it is taking to prompt public bodies to make effective use of reserves (in order to enable strategic transformation of services).**

The Auditor General’s February 2013 report on ‘The Procurement and Management of Consultancy Services’ identifies a number of specific areas where financial savings could potentially be made through greater collaboration between public sector bodies.¹

The Committee may wish to ascertain what actions the Welsh Government is undertaking to consistently deliver savings across the wider public sector as a whole, in order to maximise the value for money of the 14/15 budget.

¹ The Procurement and Management of Consultancy Services, Wales Audit Office, Figure 6 - Potential areas of collaboration for consultancy services

Health

Sustainable savings

The Auditor General's July 2012 report on Health Finances in Wales commented that:

“If the annual pressures on the NHS in 2011-12 are in the order of £250 million a year, as set out in the National Finance Agreement and budget narrative, it will need to reduce costs by around £1 billion between 2010-11 and 2014-15.”²

The Committee may wish to clarify the level of savings that will need to be achieved by Health Organisations in 2014-15.

In its February 2013 Health Finances Report, the Public Accounts Committee welcomed the Welsh Government's consideration of forthcoming legislative opportunities to address the inflexibility of Health Board finances across financial years. However, it also stated that it remained imperative that Health Services were accountable for their financial management:

“it would be counter-productive if a three year cycle of financial management simply resulted in an even greater pressure point at the end of that cycle.”³

Consequently the Public Accounts Committee recommended that the Welsh Government should put a focus on Health Organisations achieving sustainable savings throughout the year, rather than non-recurring savings towards the end of each financial year. The Welsh Government accepted this recommendation.

The Committee may wish to clarify estimated savings to be achieved by Health Organisations in 2014-15 will be sustainable or non-recurring.

The Committee may also wish to clarify whether the forthcoming National Health Service Finance (Wales) Bill will be accompanied by robust mechanisms for monitoring health finances, emphasising a focus on long-term savings, and clear rules for prompt and

² Wales Audit Office, Health Finances, Para 3.5

³ Public Accounts Committee, Health Finances in Wales.

rigorous intervention where NHS organisations are failing to meet expectations.

In responding to the Public Accounts Committee's report on Health Finances, the Welsh Government notably acknowledged that its formula for funding different Health Boards had not been updated for some time. Instead it stated that:

“This will be a substantial project that will take some time to fully develop, review and finalise. Accordingly the first stage of implementation is likely to be 2015/16 at the earliest.”⁴

In the absence of an up-to-date resource allocation formula, the Committee may wish to clarify what rationale the Welsh Government will use to allocate funding to different Health Organisations in 2014/15.

Budget processes within Health Boards

The Wales Audit Office and Healthcare Inspectorate Wales joint report on Governance Arrangements at Betsi Cadwaladr University Health Board detailed that in the 2012/13 financial year, a number of budget holders had only signed off their budgets with caveats. During its investigation into the issues raised by the report, the Public Accounts Committee learnt that these 'caveats' had occurred again in the 2013/14 financial year.⁵

The Committee may wish to establish whether the Welsh Government, in determining the 2014/15 Health Budget, has had any dialogue with directors of finance at all Welsh Health Boards to ensure that the failures evident within the budget planning processes at the Betsi Cadwaladr University Health Board will not be replicated elsewhere.

⁴ Welsh Government, Response to the Recommendations of the National Assembly for Wales Public Accounts Committee Report on Health Finances in Wales.

⁵ Public Accounts Committee, Governance Arrangements at Betsi Cadwaladr University Health Board, Para 88-92

Children and Education

Educational Achievement of Looked After Children and Young People

The Auditor General's August 2012 report on 'The educational achievement of looked after children and young people' concluded that:

- the educational attainment of looked after children and young people is improving slowly; but
- there is too much variation in attainment, inconsistent support and a lack of clearly defined outcomes against which progress can be assessed.

During an oral briefing on the report, a Wales Audit Office official said that

"in Scotland, a single point of knowledge and research in expertise had been developed in what they call the Centre of Excellence for Looked After Children in Scotland... the committee may wish to discuss with the Welsh Government and partners whether they would support such a development."⁶

The Committee may wish to clarify what consideration the Welsh Government has given to funding arrangements that could support further, and more consistent, improvement in the educational attainment of Looked After Children. This could include funding to establish a focal point for expertise and research related to Looked After Children in Wales.

Capital Investment in Schools

An aim of the Welsh Government in 2003 was that all schools in Wales should be fit for purpose by 2010. In a recent oral update to the Public Accounts Committee, the Director General of Education and Skills stated that the Welsh Government had assessed schools into four categories, and that he was confident that:

⁶ RoP, Public Accounts Committee, 24 September 2013, Para 10

“within five years, we will have renovated, adapted or rebuilt all the schools that are in band D, which is the clearly not-fit-for-purpose category.”⁷

He also told the Committee that there were only “about 20 schools” in band D. When asked whether the Welsh Government now had an estimate for making all schools in Wales fit for purpose, he stated that he would be “loath to give a definitive target.”⁸

The Committee may wish to establish what effect the 2014/15 budget will have on the Welsh Government’s timescales for the development of ‘fit for purpose’ schools in Wales.

The Committee may wish to establish how the budget for the 21st Century Schools programme is being prioritised, and whether the Welsh Government is confident that existing projects will proceed as planned.

⁷ National Assembly for Wales Record of Proceedings (RoP), Public Accounts Committee, 6 June 2013, Para 271

⁸ RoP, Public Accounts Committee, 6 June 2013, Para 390

Housing

The Welsh Government's Director General of Sustainable Futures recently provided an oral update on the implementation of the Public Accounts Committee's recommendations on 'The delivery of the Welsh Housing Quality Standards' (WHQS). He stated that there are no longer definitive plans to randomly sample landlords' compliance with the WHQS. Instead, he explained that before deciding to enable any independent random sampling, the Welsh Government would first:

“assess to what extent landlords themselves have made or are making achievements against the WHQS subject to independent verification. So, in other words, how much they are looking at independent validation of the work that they are doing.”⁹

The Public Accounts Committee was concerned that landlords who have private doubts about their achievement against the WHQS are less likely to seek independent verification of their properties than landlords who are confident about their properties. As such, independent verification commissioned by landlords will not necessarily give a reliable picture on achievement of the WHQS in Wales as a whole.

The Committee may wish to ascertain:

- **what funding will be used to support Landlords in making progress to deliver the Welsh Housing Quality Standards; and**
- **whether the Welsh Government has robust mechanisms for determining the effectiveness of such spend (given that there are no definitive plans for independently verifying landlords' reported compliance with the WHQS).**

⁹ RoP, Public Accounts Committee, 25 June 2013, Para 11

Adult Learning

A recent letter of correspondence to the Public Accounts Committee expressed concern that there was insufficient scrutiny of the delivery of objectives by Welsh for Adults Programme, to establish it was achieving value for money. In drawing attention to this issue, I note that the Enterprise and Learning Committee published a report on 'The teaching and acquisition of Welsh as a second language' in September 2010, which included consideration of Welsh Language Training provision for post-16s and adult learners.

The Committee may want to ensure that appropriate budget scrutiny is given to the Welsh for Adults Programme, to ensure there are robust mechanisms for achieving objectives/delivering value for money.

Anglesey to Cardiff Air Link

The Wales Audit Office is developing a briefing paper value for money issues associated with the Anglesey to Cardiff Air Link, which could facilitate a potential Public Accounts Committee inquiry into the costs of this subsidy. I note that the Enterprise and Business Committee has previously considered issues related to the Air Link in its inquiry on 'International connectivity through Welsh ports and airports.'

The Committee may want to examine whether funding for the Anglesey/Cardiff air link represents value for money.

Yours sincerely



Darren Millar AM
Chair
Public Accounts Committee