



The Committees of the National Assembly for Wales:

A call for information – Welsh Government draft budget proposals for 2019-20

A Submission by:

The Chartered Institute of Public Finance and Accountancy

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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1. Executive Summary

- 1.1 Significant features in the budget for 2019-20 include the implementation of new tax powers in Wales and; the continuing pressures of real terms reduced resources and increased demands on public services.
- 1.2 As a percentage of total day to day spending resources available, an increasing percentage is being spent on Health and Social Services, while spending on other services is standing still or decreasing to accommodate this. Long-term, there is a point at which this position is likely to become unsustainable.
- 1.3 While the Welsh Government have negotiated an effective floor in block grant funding from Westminster, the long-term outlook for potential reductions to the level of UK public sector net debt does not look positive. Should the current austerity policies remain long-term this will likely put pressure on future resources available to UK devolved governments under Barnett funding arrangements.
- 1.4 CIPFA observes two issues with the budget that will have an impact on effective scrutiny of outcomes:
 - Firstly, there is a disconnect between resources presented and compiled on a functional basis by main expenditure groups and what resources are delivering planned outcomes.
 - Secondly, the short-term nature of the budget and planning process does not support the delivery of outcomes and preventative policies that take a longer timeframe to achieve.
- 1.5 CIPFA supports the consideration of a broader approach to budget scrutiny that incorporates a continuous cycle of scrutiny, an output and outcome focus and a longer-term outlook.
- 1.6 In support of these measures, CIPFA believes that there needs to be development of finance skills to foster closer collaboration and sharing of skills and expertise across government.
- 1.7 Where possible, transaction processing and historical finance reporting should be centralised and automated to maximise efficiency. Thus leaving operational finance professionals to focus on business partnering, improved planning and decision support.

2. Background and context

- 2.1 The 2019-20 budget year stands out compared to previous years due the implementation of Income Tax powers enabled through the Wales Act 2014. As a result of these increased powers over income tax, total revenue resources raised locally in Wales will rise from 2% from devolved taxes and

6% from non-domestic rates (NDR) in 2018-19 to 15%¹ from devolved taxes and 6% from NDR in 2019-20.

- 2.2 A second significant factor contributing to the context of the budget for 2019-20 is the continuing pressures on public spending in Wales and the continued reduction to available resources to support public services. The Welsh Government itself acknowledges² that the 2019-20 budget is estimated to be 5% lower in real terms than in 2010-11.
- 2.3 CIPFA's own analysis of the 2019-20 budget suggests that there is a real terms spending reduction between 2017-18³ and the budget proposals for 2019-20. Taking a conservative discount factor of 2%⁴ this analysis shows a real terms reduction of 4.5% in Departmental Expenditure Limits for resource spending across the main expenditure groups. Further, our analysis shows that spending on Health and Social Services is becoming an increasing percentage of total resource spending.
- 2.4 While this is understandable in response to the demographic pressures in health and social care. It inevitably leads to greater reductions in other expenditure groups such as education, down from 13.9% of resource spending in 2017-18 to 11.6% in 2019-20. This raises the questions of how long can that trend can continue and; what action or policy changes are required to address these long-term spending trends. See figure 1 below.

Figure 1 - % of Resource Spending by Main Expenditure Group

Main Expenditure Groups - % of total resource spending	2019-20	2018-19	2017-18
Health and Social Services	53.8	52.7	51.0
Local Government and Public Services	26.2	26.8	25.8
Economy and Transport	4.5	4.7	5.1
Education	11.6	11.8	13.9
Energy, Planning and Rural Affairs	1.7	1.8	2.0
Central Services and Administration	2.1	2.2	2.3
Total	100.0	100.0	100.0

- 2.5 A third factor to consider is the Office of Budget Responsibilities recent report on the long-term sustainability of public finances.⁵ This report paints a stark picture of the long-term position on public sector net debt if current policies continue. This is a key measure underpinning the current

¹ A combination of 2% from Land transaction tax and landfill disposals tax and 13% from new powers over income tax rates. Source: Welsh Government – breakdown of Welsh Government Funding 2019-19 final budget, Dec 18

² Welsh Government: Final Budget 2018-2019, December 2017 – para 2.3

³ Note: changes to the Main Expenditure Groups was undertaken between 2016-27 and 2017-18, therefore direct comparison has only been made over the last three years budgets

⁴ Bank of England Inflation Report, August 2018 shows inflation has been running above target (2%) from mid-2017 and is not expected to go below target until late 2020.

⁵ Office of Budget Responsibility – Fiscal Sustainability Report, July 2018

government fiscal policies in relation to reducing spending and addressing the current spending deficit in order to reduce the overall debt position long-term.

- 2.6 The report is focused on UK national public finances, but some core findings are relevant to the Welsh public services and future of funding derived from the block grant from the UK Government. These findings include forecasts that:
- Health spending rises from 7.6 per cent of GDP in 2022-23 to 13.8 per cent in 2067-68. Largely due to a combination of demographic changes and cost pressures in the sector.
 - State pension costs increase from 5.0 per cent of GDP in 2022-23 to 6.9 per cent in 2067-68. Impacted by aging population and the triple lock raises average awards relative to whole economy earnings.
 - Similarly, adult social care costs rise from 1.3 per cent of GDP in 2022-23 to 1.9 per cent in 2067-68.
- 2.7 If the current UK government policies of balancing current spend to income levels were to continue, the OBR report would suggest further pressures on UK government funding to the Devolved Governments through the Barnett Formula funding mechanism. However, the agreement of a funding floor⁶ in the formula through the completion of the Welsh Governments Fiscal Framework should act to mitigate the potential impact from this if it remains in place long-term.

3. Nature and effectiveness of Scrutiny

- 3.1 CIPFA's main observations on the budget for 2019-20 concern what we will refer to as the disconnect between the functionally based budget and the intended outcomes from the spending of those resources. A further observed factor is the short-term nature of budgets in Wales. In our view both of these factors will contribute to a hampering of effective scrutiny of intended outcomes that support the programme for government and; support the intentions of the Wellbeing of Future Generations Act in Wales.
- 3.2 Currently the budget is organised by the Welsh Governments main expenditure groups. While this reflects the Welsh Governments organisational structure, it supports development of functional and staffing budgets within that structure. This does not necessarily support the understanding of what resources are being directed towards the main outcomes that form those expenditure groups' priorities.
- 3.3 CIPFA supports the view that public bodies should think more long term, work better with people and communities and each other and look to prevent problems and take a more joined-up approach. This is in keeping

⁶ The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework: the Framework sets a needs based funding factor of 115% into Barnett Funding arrangements from 2018-19, December 2016

with the Welsh Governments aims encompassed in the Wellbeing of Future Generations Act.

- 3.4 In support of this CIPFA takes the view that organisations should not only budget on functional lines but also understand and plan for resources that are being directed towards activities in support of service priorities and outcomes. This will require public bodies to consider how they work across organisations silos and share resources both with other public bodies and through participatory budget measures, with communities and third sector organisations.
- 3.5 Planning resources in support of activities underpinning outcomes will provide a basis for measurement of the cost of supporting those activities. Results from that investment of resources, i.e. measures of performance on outcomes can also be made. This measurement of inputs and outcomes will provide an improvement in the understanding of longer-term value for money and support more effective scrutiny of how resources are being applied.
- 3.6 Further, once costs are established, it will allow an assessment of how services are delivered and the costs associated with those activities. This in turn can enable critical review of processes and their associated costs. The aim would be to identify areas for change or investment in order to deliver more efficient and effective processes and further improve outcomes.
- 3.7 Many outcomes and preventative measures by their very nature are only likely to be delivered over the medium to longer-term, for example improvements in lifestyle and personal health or educational attainment. Currently budgets are prepared and agreed on a year by year basis. Evidence⁷ in Scotland suggests that single-year budgets make it more difficult for devolved public services to adopt medium-term priorities and develop plans to address future challenges.
- 3.8 Drawing on the recent budget process review group report in Scotland, CIPFA would support consideration of the reports key recommendations in relation to the budget and scrutiny processes applied in Wales. These recommendations⁸ are:
- A Full Year Approach: a broader process in which committees have the flexibility to incorporate budget scrutiny including public engagement into their work prior to the publication of firm and detailed spending proposals;
 - A continuous cycle: scrutiny should be continuous with an emphasis on developing an understanding of the impact of budgetary decisions over a number of years including budgetary trends;

⁷ Evidence highlighted to the Budget Process Review Group established by the Finance and Constitution Committee and the Scottish Government, final report June 2017

⁸ Budget Process Review Group – Final Report Executive Summary, June 2017

- Output / outcome focused: scrutiny should also be evaluative with an emphasis on what budgets have achieved and aim to achieve over the long term, including scrutiny of equalities outcomes;
 - Fiscal Responsibility: scrutiny should have a long term outlook and focus more on prioritisation, addressing fiscal constraints and the impact of increasing demand for public services; and
 - Interdependent: scrutiny should focus more on the interdependent nature of many of the policies which the budget is seeking to deliver.
- 3.9 CIPFA recognises the budget scrutiny changes introduced for the 2018-19 budget,⁹ resulting in a two stage approach to committee scrutiny. However, the consultation document itself acknowledges the short timeframe between publication of the Welsh Government's outline draft budget proposals on 2 October 2018 and; the detailed budget proposals on 23 October 2018. This leaves very little time for detailed or in-depth scrutiny of proposals.

4. Financial skills and expertise

- 4.1 Development of the systems and processes that support budgeting and planning for outcomes as outlined above is likely to require development of skills and expertise within the Welsh Government finance profession. This focus requires better expertise in areas such as business partnering, data management, analytics and costing.
- 4.2 CIPFA would support development of closer collaboration, sharing of skills and a more co-ordinated development of finance staff across the Welsh Government to develop and support cross collaboration in government. Examples of this are available through the work of the Government Finance Profession and Academy¹⁰ in Central Government in England and its development of centres of expertise.
- 4.3 CIPFA also support that where possible, transaction processing and historical finance reporting should be centralised and automated to maximise efficiency. The focus of operational finance professional can therefore be directed to supporting better planning and decision making in delivery of public services, given the appropriate training, skills development and experience.

⁹ Taken from: the consultation letter - A call for information – Welsh Government draft budget proposals for 2019-20, July 2018

¹⁰ The Government Finance Academy – webpages on learning and development of finance professionals across government: <https://www.gov.uk/guidance/government-finance-academy>