

Finance Committee

Meeting Venue:
Committee Room 2 – Senedd

Meeting date:
27 September 2012

Meeting time:
14:00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

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Agenda

- 1. Introductions, apologies and substitutions (14:00 – 14:05)**
- 2. Review of recommendations made by the Committee for the Welsh Government's draft budget 2012–2013 (14:05 – 14:20)** (Pages 1 – 4)
FIN(4) 13–12 – Paper 1
- 3. Papers to note** (Pages 5 – 16)
- 4. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**
Items 5 to 7.
- 5. Consideration of draft report on the Effectiveness of European Structural Funding in Wales (14:20 – 15:05)** (Pages 17 – 90)
- 6. Consideration of changes to 2011–2012 budgets – Outturn report (15:05 – 15:15)** (Pages 91 – 99)
- 7. Forward Work Programme – Autumn 2012 (15:15 – 15:45)** (Pages 100 – 103)

Finance Committee – FIN(4) 13–12 – Paper 1

Review of recommendations made by the Committee for the Welsh Government's draft budget 2012–2013

The following paper looks at last year’s Welsh Government Draft Budget Scrutiny recommendations, and what has happened since. It is intended to refresh memories ahead of this year’s process.

Members are invited to comment if there are issues they feel require further attention.

Recommendation	What’s happened since
<p>1. We recommend that the Welsh Government continues to work towards ensuring that the intended outcomes of public expenditure – and mechanisms for monitoring such – are consistently identified and published in a timely way that enables effective scrutiny of the sufficiency and value for money of the Welsh Government’s budgetary proposals. (Page 21)</p>	<p>The Welsh Government response stated that progress would be reported through the Programme for Government, which was published earlier this year. It details progress against commitments in the Programme for Government. The WG is working to more closely align its spending with these commitments.</p>
<p>2. We recommend that in presenting future draft budgets, the Welsh Government provides detail of year-on-year proposed budgetary changes (using the figures from the previous financial year’s most recent budget as a baseline). (Page 28)</p>	<p>See 3 (below).</p>
<p>3. We recommend that in presenting future draft budgets, the Welsh Government seeks to make all relevant and requested information on proposed budgetary allocations (including detail of proposed budgetary allocations within departments, such as BELs) available to National Assembly for Wales Committees, providing a sufficient level of detail for scrutiny in</p>	<p>Final budget figures were presented as requested. Government agreed in response to work with committee on improving transparency. A series of constructive meetings has taken place between officials, and we are hopeful that Assembly officials will spend a couple of days</p>

<p>a consistent and co-ordinated manner, at the time of the draft budget's publication, or as close to it as reasonably possible. (Page 28)</p>	<p>with WG officials in October learning more about their process.</p>
<p>4. We recommend that the Minister for Finance responds to the concerns of the Committees of the National Assembly for Wales, and takes on board the views of stakeholders, in order to improve the timeliness and level of detail published in the draft budget proposals, to enable more effective scrutiny of the budget proposals in relation to specific areas. (Page 28)</p>	<p>See 3.</p>
<p>5. We recommend that the Welsh Government works expeditiously towards developing a strategic approach towards the utilisation of its capital resources, providing quarterly reports to the Finance Committee on its progress. We recommend that this should provide clarity on which elements of the Welsh Government's planned capital expenditure, and how it will be administered and monitored, are included within the National Infrastructure Plan, to enable scrutiny of such. (Page 35)</p>	<p>Government believes it is doing this (and innovating as in rec 6) through the Wales Infrastructure Investment Plan.</p>
<p>6. We recommend that the Welsh Government continues to explore all avenues for increasing and maximising capital funding opportunities and maximising the benefits for Wales. We anticipate this would include a robust analysis of both the short and long-term consequences for Wales of such mechanisms for increasing capital funding. We anticipate the Welsh Government would also provide us with quarterly reports on the matters raised in these recommendations. (Page 36)</p>	<p>See above. Quarterly reports not implemented, but the Minister said she'd be happy to provide updates as appropriate.</p>

<p>7. We recommend that a full equality impact assessment is carried out for all proposed allocations within the Welsh Government's final budget. We anticipate this would be accompanied by an assessment of the budget's impact on the development of the Welsh Language. (Page 45)</p>	<p>The Draft budget narrative stated that where plans had changed <i>significantly</i>, they had been impact assessed for equality. Definitions of significance can differ. Welsh Government's response said it had 'Placed the equality assessment at the centre of our budget processes'. It also notes it was the first UK administration to undertake a comprehensive Equality Impact Assessment. WG believes its Welsh language questionnaire, integrated in to the policy-making process, and Language Scheme covers this adequately.</p>
<p>8. We recommend that a full Sustainability Impact Assessment is carried out for all proposed allocations within the Welsh Government's final budget. (Page 45)</p>	<p>WG says consideration of SD has been mainstreamed in to all aspects of the budget planning process.</p>
<p>9. We recommend that the Welsh Government engages in dialogue with Local Health Boards to ensure that their service plans are finalised and made publically available as soon as possible, and that the Minister then reports on whether the funding available to Local Health Boards will be sufficient to deliver such plans (Page 55)</p>	<p>From WG response: "There is no reason to believe that the additional funding we are providing to the NHS in the Draft Budget will be insufficient for them to deliver their service plans."</p>
<p>10. We recommend that the Welsh Government clarifies the role of its delivery unit in ensuring the delivery of the outcomes intended to be enabled by the draft budget. We anticipate this would include clarity of the role of the delivery unit in both monitoring the delivery of outcomes, and enabling appropriate action to be taken where outcomes are in danger of not being realised. (Page 60)</p>	<p>WG response says that the role is clear, as set out in the FM's statement of 13 July 2011. (hyperlink to the statement, in case you're reading a printout) While the statement clarifies the monitoring role, it is less clear on how it turns around a programme where outcomes are in danger of not being realised.</p>

Agenda Item 3

Finance Committee

Meeting Venue: **Committee Room 2 – Senedd**

Meeting date: **Wednesday, 18 July 2012**

Meeting time: **09:15 – 11:30**

This meeting can be viewed on Senedd TV at:

http://www.senedd.tv/archiveplayer.jsf?v=en_700000_18_07_2012&t=0&l=en

Cynulliad
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National
Assembly for
Wales



Concise Minutes:

Assembly Members:

Jocelyn Davies (Chair)
Peter Black
Christine Chapman
Paul Davies
Mike Hedges
Julie Morgan
Ieuan Wyn Jones

Witnesses:

Alison Standfast, Deputy Director of Procurement, Value Wales
Paul Griffiths, Value Wales
Paul Silk, Commission on Devolution in Wales
Dyfrig John, Commission on Devolution in Wales
Prof. Noel Lloyd, Commission on Devolution in Wales
Ed Sherriff, Commission on Devolution in Wales

Committee Staff:

Gareth Price (Clerk)
Daniel Collier (Deputy Clerk)
Martin Jennings (Researcher)
Eleanor Roy (Researcher)
Ben Stokes (Researcher)

1. Introductions, apologies and substitutions

1.1 The Chair welcomed Members and members of the public to the meeting.

1.2 Apologies had been received from Ann Jones.

2. Effectiveness of European Structural Funding in Wales – Evidence from Value Wales

2.1 The Chair welcomed Alison Standfast, Deputy Director (Procurement) Value Wales; and Paul Griffiths, Strategic Procurement Executive, Value Wales.

2.2 Owing to technical problems, the Committee agreed to suspend the evidence session and write to Value Wales with questions which were not reached by the Committee.

3. Papers to note

3.1 The Committee noted the paper on the financial implications of the Public Audit (Wales) Bill.

3.2 The Committee ratified the minutes of the meeting on 4 July 2012.

Under Standing Order 17.47, the Chair suspended proceedings. The Committee agreed a motion to exclude the public from the remainder of the meeting under Standing Order 17.42

4. Update on the work of the Commission on Devolution in Wales

4.1 The Chair welcomed Paul Silk, Chair, Commission on Devolution in Wales; Professor Noel Lloyd, Former Vice-Chancellor, Aberystwyth University; Dyfrig John, Chairman of Principality Building Society; and Ed Sherriff, Economic Advisor to the private meeting.

4.2 The Committee received an update on the work of the Commission on Devolution in Wales.

5. Response to consultation on new Scottish borrowing powers

5.1 The Committee agreed its response to the consultation on new Scottish borrowing powers, which would be sent to HM Treasury shortly.

6. Handling of Welsh Government Draft Budget 2013–2014

6.1 The Committee discussed its approach to scrutinising the Welsh Government draft budget 2013–2014.

Transcript

Response from the Welsh Government to the Finance Committee report: Borrowing Powers and Innovative Approaches to Capital Funding.

August 2012

The Welsh Government welcomes this report from the Finance Committee and its recommendations. Overall, the report represents a considered approach to the issues of borrowing and innovative finance, and is a timely contribution to the ongoing debate on these issues.

The funding of capital and infrastructure investment has become particularly challenging for the Welsh Government in an environment of substantially reduced budgets. Borrowing and innovative finance are mechanisms for matching Wales' capital and infrastructure investment needs with funding, in the absence of adequate capital budgets. Work is ongoing in both the pursuit of new borrowing powers and in the development of innovative approaches to funding capital and infrastructure investment.

Borrowing serves a number of purposes and would enable the Welsh Government to undertake functions it is currently prevented from exercising. Large infrastructure projects that are otherwise unaffordable, but which can deliver significant benefits to Wales over the medium term, can be facilitated through borrowing. Borrowing, particularly at the historically low interest rates currently available, can increase the level of this investment at an effective cost and support the economic recovery.

Along with the purely economic rationale for borrowing, there are constitutional issues raised by the lack of a borrowing function for the Welsh Government. The extra flexibility provided would improve the ability of the Welsh Government to manage Welsh resources in line with Welsh priorities. The lack of a borrowing function also places Wales at odds with the other devolved administrations, with Northern Ireland already able to access borrowing and Scotland gaining access to borrowing through the Scotland Act 2012. Wales, being a sub-national government unable to exercise borrowing powers, is also an anomaly from an international perspective.

The Welsh Government has been seeking a fairer funding settlement, including access to borrowing powers, through discussions with the UK Government since the publication of the report from the Independent Commission on Funding and Finance for Wales (also known as the Holtham Report). This report included a number of recommendations on financial reform for Wales, including recommending that Wales be given the ability to access borrowing.

Innovative financial models provide another mechanism for maintaining necessary capital or infrastructure investment with reduced capital funding. Using a revenue commitment to leverage in private sector investment can deliver infrastructure assets, which would be otherwise unaffordable within present capital budgets. Medium to long term revenue commitments of this

kind do have implications for future budgets, so it is important to consider very carefully what the appropriate level of commitment of revenue funding to finance capital or infrastructure investment is at any point in time.

In the past year, a dedicated team has been established to investigate and implement innovative financial solutions where investment needs can not be met within capital budgets.

Detailed Responses to the report's recommendations are set out below:

The Committee recommends that:

1. The Welsh Government should be granted the power to borrow, without negative impact on the Welsh block grant, for the purpose of financing capital spending.

Response: Accept

Capital investments tend to have budgetary impacts over a number of years, and often require large lump sums in the initial stages. Currently, larger capital projects are often deemed unaffordable initially, and undesirable by virtue of budgetary impacts lasting well past the spending review periods. This is the case even for projects with very high benefit cost ratios. Borrowing for the purpose of financing capital spending would provide greater financial certainty over longer time periods. In order for the benefits of such borrowing to be realised it is essential that there is no negative impact on the Welsh block grant, as this would negate the extra resources brought forward via borrowing.

Financial Implications – There will be no impact on overall capital resources as borrowing facilitates a re-profiling of expenditure, increasing capital spending in early years, at a revenue cost over the borrowing period. This revenue cost comes in the form of repayments on the borrowing. There are also resource implications for the Welsh Government of running a borrowing programme. The administration of the borrowing will require expertise and dedicated staff resource. The magnitude of these costs is as yet uncertain, given the existence and form of borrowing are unresolved. These administrative resource issues are pertinent to any recommendations on the Welsh Government progressing new borrowing powers.

The Committee recommends that:

2. Capital borrowing powers for the Welsh Government should, if granted, be put on to a firm legislative footing.

Response: Accept

The Welsh Government has the power to borrow under current legislation, although HM Treasury rules prevent these powers from being used to

practical effect. The Welsh Government does not want the introduction of new legislation to delay the process of making effective use of existing powers. However, placing Welsh Government borrowing powers on a firmer legislative footing could ensure that the Welsh Government will not be unduly restricted in utilising these powers. The Welsh Government does accept that some restrictions on borrowing are appropriate such that it operates within a framework that enables the UK Government to deliver its fiscal mandate.

Financial Implications – None.

The Committee recommends that:

3. If borrowing powers were granted to the Welsh Government, a control framework should be negotiated between the Welsh government and HM Treasury which provided the Welsh Government with maximum flexibility to use borrowing effectively to respond to investment needs. The negotiated framework should be reflected in the *Statement of Funding Policy*.

Response: Accept

4. In order to maximise flexibility for the Welsh Government if it were granted borrowing powers, and respect HM Treasury's fiscal and macroeconomic responsibilities, a protocol should be negotiated between the Welsh Government and HM Treasury to enable a national borrowing limit to be agreed, if required by economic circumstances.

Response: Accept

For borrowing powers to be used effectively there must be responsiveness to investment needs. However, some controls on borrowing are appropriate to ensure that they operate within a framework that enables the UK Government to deliver its fiscal mandate. A protocol reflecting these needs could be included in the *Statement of Funding Policy*.

A borrowing limit is one constraint that can ensure the sustainability of borrowing. The form that such a limit might take should be considered jointly by the Welsh and UK Governments. A prudential framework, which allows the level of borrowing undertaken to reflect the capacity of the Welsh Government to hold and finance debt, could be an efficient mechanism. In practice, however, the Welsh Government acknowledges that the precedent of a nominal cap, as in Scotland, is likely to be followed should the Welsh Government be granted new borrowing powers. If that is the case, it is essential that the cap should be set at a level that provides sufficient headroom to establish an effective ongoing borrowing programme.

Financial Implications – None immediately. However, see the provision in response to recommendation 1 for potential future impacts.

The Committee recommends that:

5. If the Welsh Government were granted borrowing powers, proposals for upper limits for its borrowing requirements, demonstrating affordability, sustainability and prudence, should be presented to the Assembly within the budget motion.

Response: Accept in Principle

The Welsh Government accepts that borrowing should be affordable, sustainable and prudent, and that the Assembly should be able to exercise its oversight and scrutiny roles in relation to borrowing as it does with other financial activities of the Welsh Government through the budget process and other mechanisms. However, the most appropriate mechanism for actually achieving these objectives cannot yet be determined given that neither the principle of Welsh Government borrowing nor its framework have yet been established.

Financial Implications – None.

The Committee recommends that:

6. If borrowing powers were granted to the Welsh Government, a protocol should be negotiated with HM Treasury to ensure that the Welsh Government would be notified sufficiently early of any proposed or planned movements in National Loan Fund or Public Works Loan Board rates.

Response: Accept

Given the long term nature of capital investments, any movement in interest rates can have long lasting effects. For planning, business case, and assurance purposes, it is important that the most accurate estimate of costs is available. Borrowing decisions should be made on the basis of value for money assessments which take account of interest rates currently available in the market. There could be a risk of market distortion from a pre-announced change in rates, through the timing of borrowers' investment decisions. However, the Welsh Government will seek an open and transparent relationship with the National Loan Fund and Public Works Loan Board, including financial elements of the relationship such as interest rates.

Financial Implications – None.

The Committee recommends that:

7. Any legislation which granted borrowing powers to the Welsh Government should make provision for HM Treasury Ministers to grant the Welsh Government the power to issue bonds.

Response: Accept

The Welsh Government should be able to exercise borrowing powers on the basis of value for money assessments regardless of the instrument being used to borrow. Based on past experience, the most cost-effective source of borrowed funds is likely to be the National Loan Fund or Public Works Loan Board. There are likely to be high fixed costs to issuing bonds. Specialist experience and dedicated resource would be required to run a program of bond issuance. However, the relative cost of different borrowing instruments can vary over time. For example, in October 2010, the Public Works Loan Board rate increased to 100 basis points above a benchmark gilt rate. In March 2012, a 'certainty rate' was introduced which reduced the rate by 20 basis points in certain circumstances. Given such fluctuations it is possible that at some point bond issuance may become the most cost effective debt instrument, and therefore should not be ruled out.

Financial Implications- The specialist resource required to manage a bond issuance programme is not currently available within the Welsh Government and would be an additional cost of a bond issuance programme.

The Committee recommends that:

8. The Silk Commission should consider whether the devolution of tax varying powers is a pre-requisite for the granting of borrowing powers to the Welsh Government, or whether the focus should be on whether borrowing is affordable, prudent and sustainable, regardless of tax varying powers.

Response: Accept in Principle

The Silk Commission is currently considering the devolution of new fiscal powers to Wales. The Welsh Government's view is that tax devolution should not be a pre-requisite for the use of borrowing powers. We look forward to considering the Silk Commission's proposals in this area in due course.

Financial Implications – None.

The Committee recommends that:

9. The Welsh Government should undertake exploratory discussions with HM Treasury about the possibility of drawing forward future capital budgets where appropriate, particularly in relation to large scale infrastructure projects.

Response: Accept

As an initial step bringing forward future capital budgets is conceptually similar to borrowing, although the mechanism could be different. The Welsh Government agrees that greater flexibility in allocating capital budgets over time would allow closer matching of investment with Welsh needs. The Welsh Government will continue to explore a variety of approaches that will enable the matching of investment needs with the capacity to undertake that investment.

Financial Implications – None. If budgets brought forward were fully offset by reductions in budgets available in future years then this would just be a change in the profile of budgets. The overall level of finance over the whole period would remain the same.

The Committee recommends that:

10. The Welsh Government should be able to switch its departmental expenditure limit budget allocation from resource to capital in year without requiring HM Treasury approval.

Response: Accept

The Welsh Government believes that the UK Government should not place undue restrictions on the ability to switch provision between resource and capital budgets, provided spending remains consistent with the UK Government's fiscal mandate. The HM Treasury *Statement of Funding Policy* provides that the Welsh Government, as well as being free to allocate capital and resource budgets, "may also switch provision from resource DEL to capital DEL". Currently, switches are put to HM Treasury along with other changes made in year for inclusion in the "Supplementary Estimate". While some of these changes require approval, switches from revenue to capital do not.

Financial Implications – None, the overall spending level would remain unchanged.

The Committee recommends that:

11. In its discussions with HM Treasury, the Welsh Government should negotiate modifications to the Budget Exchange System, including the removal on the cap on the level of underspends which can be carried through, with a view to increasing budgetary flexibility.

Response: Accept

The current Budget Exchange System was agreed in July of last year following discussions between Treasury and the three Devolved Administrations. This agreement allows the Welsh Government to carry forward unspent resources from one year to the next up to an agreed cap and provides much greater flexibility than the original proposals that were put forward by the UK Government in March 2011. Welsh Government will continue to make a strong case for Wales to receive a fair funding settlement, including greater flexibility to manage our resources effectively. It is more important than ever that we maximise expenditure in line with our priorities, and to this end the revised Budget Motion provides us with increased flexibility to manage our position especially towards the end of the financial year. Given the ongoing real terms reductions in budgets and the resulting challenge of managing expenditure pressures, in the short term the existing cap on the level of underspends which can be carried forward is not a major issue as the Welsh Government does not anticipate accruing underspends above the level of the cap. However, this type of financial management control is not appropriate for devolved Governments.

Financial Implications – None immediately. However, the ability to carry forward all of any underspend would increase the overall level of funding available to the Welsh Government over time, compared with a situation in which a proportion of underspend was retained by the UK Government.

The Committee recommends that:

12. In light of reductions in its capital budgets, the Welsh Government should consider using revenue financed models, including Non-Profit Distributing models, as an alternative source of financing for capital investment, subject to robust value for money assessments. Account should be taken of the discrediting of the approach to traditional Private Finance Initiative value for money assessment.

Response: Accept

We are currently looking in to a number of models for revenue financing infrastructure investment. This includes Non-Profit Distributing models. We are also investigating the optimal amount of this type of investment and the mix of models to apply. There are already examples of achievements so far. The Local Government Borrowing Initiative, for instance, which has allowed Local Authorities to expand their investment in highways improvements and the Ely Mill Development Company has been established to deliver additional affordable housing. There are also innovative finance solutions being used in the Waste Programme. The innovative finance solutions being pursued will ensure that undesirable features of traditional PFI deals are avoided.

Financial Implications – With the implementation of innovative finance solutions comes a demand on revenue budgets. At present, the demand on revenue from these programs is a very small proportion of the total revenue budget.

The Committee recommends that:

13. The Welsh Government should take account of the outcomes from the business rates review, and lessons which could be learned from Tax Incremental Financing pilots elsewhere in the UK, and consider the merits of undertaking pilot projects in Wales.

Response: Accept

Tax Incremental Financing (TIF) has not been discounted, and is one option in a range of innovative finance solutions. This option is available to be used by Local Authorities in Wales. At the moment there are no examples of TIF being used in Wales, although there is some potential to learn from other parts of the UK. The Business Rates Task and Finish Group also recommend “that the Welsh Government monitor the progress of the implementation of Tax Increment Financing in England and Scotland”. Consideration will be given to whether TIF will provide a robust value for money approach.

Financial Implications – None. Under a successful TIF programme, the increased business rates from the investment cover the unitary charge needed to fund the investment.

The Committee recommends that:

14. The Welsh Government should consider whether its departments have the right mix and standard of the skills and capabilities required to develop, design and make use of innovative finance models and undertake borrowing, if it were granted the powers to do so.

Response: Accept

Having sufficient capacity and capability in appropriate areas will be vital to driving the success of innovative finance projects. There is now a dedicated team undertaking work on innovative finance, supported by an external expert advisor. Also the development potential and experience gained from the implementation of the Waste Programme and other innovative finance initiatives is a valuable resource.

Financial Implications – Increasing capacity and capability in these areas will need to be achieved within existing resources.

The Committee recommends that:

15. Taking account of lessons which could be learned from the establishment of a centre of expertise in Scotland, the Welsh Government should consider putting in place arrangements to ensure that the whole Welsh public sector has access to a central source of expertise which complements existing capability and capacity. It would be essential that the costs of these arrangements did not outweigh the benefits.

Response: Accept

The Welsh Government is currently considering the extent to which these functions should be centralised, and as part of this, investigating ways to further develop the relevant expertise. The potential costs and benefits of establishing a centre of expertise in addition to existing capacity form part of this investigation. Consideration is also being given to the circumstances which will affect these costs and benefits.

Financial implications – The establishment of a centre of expertise would only proceed if the savings and efficiencies driven by the establishment were expected to exceed the running costs. However, specifically the consideration of lessons to be learned from Scotland has no financial implications.

The Committee recommends that:

16. The Welsh Government should commission an independent assessment of the quality of asset management across the public sector in Wales, with a specific focus on reviewing the systems in place to ensure investment needs are robustly challenged. Subject to the findings of such an assessment, the Welsh Government should consider lessons which could be learned from Scotland on the role of an independent body to challenge the assessment of investment need by public bodies.

Response: For further Consideration

Whilst the Welsh Government agrees with the Committee that quality asset management is essential it believes that an independent review is not appropriate at this time. The annual State of the Estate Report provides an assessment of the performance of the administrative estate against key benchmark indicators and the Property Division within the Welsh Government has made significant progress in strategic asset management, implementing a number of initiatives to improve the efficiency of public sector asset management across Wales. The Welsh Government Location Strategy Programme is already delivering savings while work continues with the public sector organisations in Wales to improve co-ordination and collaboration in Asset Management, which is being led by the Public Service Leadership Group.

Financial Implications – There would be a cost incurred were an independent body commissioned. At present, there are Departmental Running Costs being incurred as the Welsh Government is devoting resource to the assessment and improvement of asset management across the public sector.

17. The Welsh Government should consider lessons which could be learned from Scotland on the role of an independent body to co-ordinate asset management planning and decision making across multi-agency boundaries.

Response: Accept

The National Assets Working Group is working with public service partners to identify and address common themes, issues and trends and build responses to them. For instance, a Land Transfer Protocol has been established, along with an All Wales Public Sector Land and Property Database. Lessons from this experience can be considered alongside information on the experience in Scotland.

Financial Implications – Were an independent body to undertake this work on an ongoing basis, the running costs would be carried forward. At present, there are Departmental Running Costs being incurred as the Welsh Government is devoting resource to improving the co-ordination of asset management across the public sector.

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

Document is Restricted

Agenda Item 6

Jane Hutt AC / AM
Y Gweinidog Cyllid ac Arweinydd y Ty
Minister for Finance and Leader of the House



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref SF/JH/2670/12

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

8 August 2012

Dear Jocelyn,

When I last attended the Finance Committee I outlined my intention to provide a report on 2011-12 outturn as soon as was practical following the publication of the Welsh Government's Consolidated accounts.

In line with that commitment, I am enclosing a written report on outturn for 2011-12 which provides a summary of departmental expenditure alongside details of amounts carried forward under the Budget Exchange System.

I have been pleased with progress we have made in recent years towards providing greater transparency around Budget information and hope that we can continue to work together on this developing agenda.

I hope you will find this report useful and should you find it helpful I am happy for us to return to the matter following recess.

*Best wishes,
Jane*

Jane Hutt AC / AM
Y Gweinidog Cyllid ac Arweinydd y Ty
Minister for Finance and Leader of the House

1. Introduction

- 1.1 The Second Supplementary Budget for 2011-12, was approved by the National Assembly on 6 March 2012, on an amended basis to move to a single legal expenditure limit for the Welsh Government, rather than individual legal limits for each MEG.
- 1.2 On 21 March 2012 the National Assembly for Wales endorsed the protocol on changes to the Budget motion and their impact on the in-year Budget cycle as agreed between the Welsh Government and the Committee with responsibility for the functions specified in Standing Order 19.
- 1.3 As part of the Welsh Government commitment to working openly the protocol it was agreed that:

In line with the Welsh Government's commitment to working openly and transparently, the Welsh Government will provide a written report to the Committee on final out turn. The report would include a comparison with the spending plans set out in the last Supplementary Budget of the year and an explanation of significant variations.

- 1.4 This brief report provides the final outturn position in line with this agreement.

2. Changes to 2011-12 Budgets

Changes agreed after the Second Supplementary Budget for 2011-12

- 2.1 Following the approval of the Second Supplementary Budget on 6 March 2011 only one budget transfer was agreed and made between Main Expenditure Groups (MEGs).
- 2.2 To utilise potential underspends in Local Government and Communities a capital transfer of £7m was agreed between the Local Government and Communities MEG and Business, Enterprise, Technology and Science MEG for 2011-12¹.
- 2.3 Savings and underspends identified on a number of Actions within the Local Government and Communities MEG were transferred to the Sectors Action within the Business, Enterprise, Technology and Science MEG. The £7m capital transferred supported the creation of the Life Sciences Fund. The changes are summarised in the table below.

Table 2.1 – Changes agreed after the last Supplementary Budget

SPA	ACTION	£000s		
		2012-13 Capital		
		Supplementary Budget	Changes	Revised Budget
Local Government and Communities				
Improve International Connectivity	Improve International Connectivity	48,212	-5,000	43,212
Supporting Communities and People	Community Development	14,980	-2,000	12,980
Business, Enterprise, Technology and Science				
Sectors & Business	Sectors	15,879	7,000	22,879

1. A total of £7m revenue funding was transferred from the Business, Enterprise, Technology and Science MEG to the Local Government and Communities MEG in the First Supplementary Budget for 2012-13

3. Main Expenditure Group Outturn 2011-12

3.1 The Consolidated Accounts of the Welsh Government were laid before the Assembly on 26 July 2012. These audited accounts contain a Summary of Resource Outturn against the control totals approved in the Second Supplementary Budget motion of 2011-12.

3.2 This report provides details of outturn against the controls operated by HM Treasury. These administrative budgets are detailed in the documentation and tables which supported the Second Supplementary Budget.

DEL Outturn

3.3 The outturn against the budgets within the Welsh Government's Departmental Expenditure Limit (DEL) is set out by MEG at Annex 1.

3.4 Annex 1 shows underspends of £8.3m Fiscal RDEL and £10.2m Capital DEL against departmental budgets as agreed in the Second Supplementary Budget. This outturn represents an underspend of 0.06% against Fiscal RDEL and 0.73% Capital DEL. Variations greater than 1% of departmental DEL are detailed below.

Fiscal Resource

3.5 The variance of £5.8m within Central Services & Administration resulted from by lower than expected costs relating to the elections to the National Assembly and a number of underspends in other programmes designed to contribute to longer term savings targets. Although the Election Costs are charged directly to the Welsh Consolidated Fund, for administrative purposes they form part of the Central Services & Administration MEG. The underspend against Election Costs was £3.6m.

Capital

3.6 A Capital underspend of £6.5m underspend recorded against Health Social Services and Children MEG amounts to 2.1% of the allocated budget. The under spend has arisen in 2011/12 as a consequence of timing differences in the scoring of expenditure associated with the delivery of a range of NHS Trust capital schemes. The variances against Local Government and Communities and Business, Enterprise, Technology and Science relate to the decision to transfer £7m between the departments following the Second Supplementary Budget.

Non Fiscal Resource

3.7 A number of departments recorded variances against non cash budgets. These result in the main from variations on the depreciation and impairments charged against assets held by each department. These charges are heavily dependent on asset valuation which can be subject to both changes in methodology and market variations.

AME Outturn

3.8 Annex 2 to this report provides a summary of outturn against Annually Managed Expenditure (AME) Budgets.

3.9 These budgets are managed on an annual basis as HM Treasury recognise the volatility and demand led basis of these programmes. The Welsh Government are unable to recycle underspends against AME programmes.

4. Budget Exchange System

- 4.1 In the Second Supplementary Budget for 2011-12, the Welsh Government detailed £56.8m reserves of Fiscal Resource DEL. We also signalled the intention to carry forward both these reserves and any underspends up to the agreed caps under Budget Exchange. These caps are set at 0.6% of Resource DEL and 1.5% of Capital DEL
- 4.2 In line with this both the reserves from 2011/12 and the underspends detailed below are carried forward within the Treasury limits.

Table 4.1 Carry forward resulting from Welsh Government outturn

	Fiscal Resource (£000)	Non Fiscal Resource (£000)	Capital (£000)
Reserves as per Second Supplementary Budget 2011-12	56,806	-	-
2011-12 Underspends	8,331	29,536	10,160
Balance to be carried forward to 2012-13	65,137	17,367²	10,160
<i>Treasury Budget Exchange Limits</i>	<i>79,795</i>	<i>2,709</i>	<i>20,947</i>

- 4.3 The adjustments to our baseline to reflect the final amount carried forward outlined above will be made later in the financial year through the UK Supplementary Estimate process and will feature in the Second Supplementary Budget for 2012-13.
- 4.4 Of the amounts planned to be carried forward, £28.2m was allocated in the Final Budget 2012-13 and a further £5m in the First Supplementary Budget for 2012-13.

2. In the event that the limit for Fiscal Resource DEL carry forward is not fully utilised the balance can be used to carry additional Non Fiscal Resource DEL forward up to the overall cap on Resource DEL

Annex 1 – DEL Outturn 2011-12

Main Expenditure Group	Supplementary Budget			Outturn			Underspends / Overspends (-)		
	Fiscal Resource £000s	Non Fiscal Resource £000s	Capital £000s	Fiscal Resource £000s	Non Fiscal Resource £000s	Capital £000s	Fiscal Resource £000s	Non Fiscal Resource £000s	Capital £000s
Health, Social Services & Children	5,886,009	170,000	311,623	5,885,517	159,680	305,077	492	10,320	6,546
Local Government and Communities	4,734,640	125,757	287,477	4,733,667	122,142	277,173	973	3,615	10,304
Business, Enterprise, Technology and Science	177,395	3,850	118,733	177,302	3,216	125,711	93	634	- 6,978
Education & Skills	1,534,409	123,731	205,033	1,534,007	109,663	205,032	402	14,068	1
Environment Sustainable Development	260,849	1,477	73,811	260,407	1,566	73,799	442	-89	12
Housing, Regeneration & Heritage	279,414	4,432	361,049	279,367	4,102	360,987	47	330	62
Central Services & Administration	317,728	22,200	37,420	311,846	21,542	37,207	5,882	658	213
TOTAL	13,190,444	451,447	1,395,146	13,182,113	421,911	1,384,986	8,331	29,536	10,160

Annex 2 – AME Outturn 2011-12

Main Expenditure Group	Supplementary Budget						Outturn			Variance		
	Fiscal Resource £000s	Non Fiscal Resource £000s	Capital £000s	Fiscal Resource £000s	Non Fiscal Resource £000s	Capital £000s	Fiscal Resource £000s	Non Fiscal Resource £000s	Capital £000s	Fiscal Resource £000s	Non Fiscal Resource £000s	Capital £000s
Health, Social Services & Children	-	279,786	-	-	209,975	-	-	-	69,811	-	-	-
Local Government and Communities	14,382	45,227	-	14,382	39,957	-	-	-	5,270	-	-	-
Business, Enterprise, Technology and Science	-	41,402	-	-	6,962	-	-	-	34,440	-	-	-
Education & Skills	-	-113,645	233,043	-	-119,828	244,329	-	-	6,183	-	-	-11,286
Housing, Regeneration & Heritage	-72,000	2,265	-	-74,005	-	-	2,005	-	2,265	-	-	-
Central Services & Administration	-	-2,347	-	-	-9,240	-	-	-	6,893	-	-	-
TOTAL	-57,618	252,688	233,043	-59,623	127,826	244,329	2,005	124,862	124,862	2,005	124,862	-11,286

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

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