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Llywodraeth Cymru
Welsh Government

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Simon Thomas AM,
Chair, Finance Committee,
The National Assembly for Wales,
Cardiff Bay,
Cardiff
CF99 1NA

30 September 2017

Dear Simon,

The Welsh Government's Consolidated Annual Accounts for 2016-17 have now been audited and published on 6 September 2017. In line with my commitment to good practice and transparency I am now able to provide the Finance Committee with a written report on the 2016-17 final outturn for the Welsh Government set against spending plans approved in the Second Supplementary Budget 2016-17.

The final Ambit outturn for 2016-17 is £13.8 billion against the Welsh Government Budget of £14.1 billion. This represents a 2.2% variance against the approved budget.

The report and supporting annexes provide: a summary of expenditure by portfolio within Treasury control totals; variations compared to the budget; an explanation of significant variances; and details of amounts to be carried forward into the current year under HM Treasury's 'Budget Exchange' mechanism.

I'm happy to make officials available for discussion of the detail of the report if that would be helpful.

Best wishes,

Mark

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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.



Llywodraeth Cymru
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Report on Outturn 2016-17

A report from the Cabinet Secretary for Finance and Local Government to the Finance Committee on the audited outturn of the Welsh Government 2016-17 set against the planned expenditure contained in the Second Supplementary Budget 2016-17.

1. Introduction

1.1 This report has been produced in accordance with the protocol endorsed by the National Assembly for Wales on 21 March 2012 regarding changes to the Budget motion and their impact on the in-year Budget cycle.

1.2 As part of the protocol the Welsh Government agreed:

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 outturn. 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.

1.3 This commitment was reaffirmed in the revised protocol approved by the National Assembly on 21st June 2017.

1.4 This report addresses that commitment for the financial year 2016-17.

1.5 The Second Supplementary Budget for 2016-17, was approved by the National Assembly on 7 March 2017. The final outturn follows publication of the Welsh Government's Consolidated Annual Accounts on 6 September 2017. See the attached internet link:

<http://gov.wales/about/civilservice/how-we-work/facts-figures/ourfinance/welsh-government-consolidated-accounts/welsh-government-annual-accounts-2016-2017/?lang=en>

1.6 The outturn is reported on the basis of the Welsh Government budget structure in force at that time.

2. Main Expenditure Group Outturn 2016-17

- 2.1** The Consolidated Accounts of the Welsh Government were laid before the Assembly on 31 August 2017. These audited accounts contain a Summary of Resource Outturn against the control totals approved in the Second Supplementary Budget motion of 2016-17 (the 'Ambit').
- 2.2** This report provides details of outturn against the controls operated and enforced by HM Treasury. These administrative budgets are detailed in the documentation and tables which supported the Second Supplementary Budget.

Departmental Expenditure Limit (DEL) Outturn

- 2.3** The Welsh Government's audited DEL outturn is £14,707 million. This is an underspend against the budget, as agreed in the Second Supplementary Budget, of £83 million.
- 2.4** This outturn includes underspends of £9.1 million against the Fiscal Resource budget (near cash revenue) and £0.7 million on the Capital budget. This represents an underspend of 0.07% against Fiscal Resource and 0.05% Capital.
- 2.5** The Non Fiscal Resource budget (non cash) is underspent by £73.6 million. It is important to note that the Non Fiscal Resource budget is ring-fenced and covers accounting adjustments such as depreciation (see below). Therefore, it could not have been re-directed to Welsh Government spending programmes.
- 2.6** As in previous years, all overspends and any underspends of greater than 1% of portfolio DEL budgets (Main Expenditure Groups or MEGs) and

above a de-minimis level of £0.5 million are explained below. A breakdown of the outturn by MEG is provided in Annex 1.

Fiscal Resource (Revenue)

- 2.7** MEG level expenditure in this budget classification was again extremely close to budget. Very small underspends were reported in six of the seven MEGs with only one budget exceeding a 1% variance when measured against the Second Supplementary Budget. This provides some assurance that spending within the Welsh Government revenue budget of £13 billion has been maximised.
- 2.8** There was a revenue overspend of £5 million in the Economy and Infrastructure MEG. An additional payment for work carried out on the Public Sector Broadband Aggregation project was made in order to maximise spend in the current year and release budgetary pressure in future years. This overspend is offset by underspends in other MEGs.
- 2.9** The Health, Well-being and Sport revenue underspend was £7.2 million. This included a total deficit posted by the NHS bodies in Wales of £147.7 million. The deficit was accommodated through improvements in the NHS position and underspends on Welsh Government central health and social services budgets within the MEG.
- 2.10** The Local Government revenue budget reported an underspend of £2.3 million. Included within this amount is: £0.9 million on Transformation and Legislation following the adoption of a new approach to the transformation of local government; £0.6 million in relation to Community Support Officers with cost estimates prepared at the start of the year being slightly higher than actual results; and, £0.2 million against Health Inspectorate Wales in relation to peer reviewer fees and associated travel and subsistence costs. There were also a number of smaller underspends that make up the remaining balance.

2.11 A variance in excess of 1% was reported against the Central Services and Administration MEG. A variance of £4.1 million was reported which is due in the main to an underspend against the Invest to Save fund budget. Consideration will be given to deploying the underspend for the intended purpose in future years.

Capital

2.12 Performance against the Welsh Government capital budget of £1.4 billion was close to budgeted with underspends of less than £0.3 million reported by all MEGs.

Non Fiscal Resource (revenue non cash)

2.13 The majority of the Welsh Government DEL underspend relates to non cash budgets (£73.6 million). Non cash budgets are ring-fenced and provided for accounting estimates such as depreciation and adjustment to provisions. An explanation of those underspent by 1% or more is provided below.

2.14 The Health, Well-being and Sport non cash budget reported an underspend of £4.6 million. The budget primarily funds the depreciation charges arising on the NHS estate so forecasts are sensitive to fluctuations in progression of capital schemes, annual valuations and timing of capital additions and disposals.

2.15 The underspend of £37.7 million within the Economy and Infrastructure MEG largely related to depreciation charges arising from changes to the methodology used for the annual roads valuation. The roads network represents the largest Welsh Government asset.

2.16 An underspend of £27.6 million was reported against the Education budget. This budget covers the estimated charge for the annual write-off of student loans. The calculated charge is generated by a statistical model developed by the UK government. The charge is applied to the value of the student loan book. The modelling is complex and takes many social and economic factors into account and as such is difficult to forecast accurately.

2.17 The Welsh Government's Central Services and Administration MEG underspent by £4.6 million on the related non cash budget. This underspend is a result of less than anticipated depreciation charges associated with the Welsh Government estate.

Annually Managed Expenditure (AME) Outturn

2.18 HM Treasury recognise the volatility and demand led basis of certain programmes and the resultant difficulty in estimating costs over a period of time. As a result these programme budgets are managed on an annual basis and funding cover is generally provided by HM Treasury. The majority of our AME budgets cover non cash charges and examples include asset impairments, increases in provisions, student loans issued and repaid and pension valuations of sponsored bodies. The Welsh Government is unable to recycle underspends against AME programmes. The main variances are explained below.

2.19 The Health, Well-being and Sport (HWS) AME budget was £8.2 million overspent. The first element of the overspend is a £15 million overspend covering movements on provisions. The Welsh Risk Pool provision movement was £15.8 million above budget. This was due to the then Lord Chancellor revising the personal injury discount rate in the final quarter of the year, affecting all clinical negligence claim settlements. The rate represented a significant change, from 2.5% to minus 0.75%. The remaining £13.6 million provision overspend relates to additional

structured settlements arising and quantum estimate revisions. A £14.4 million underspend across other Health provisions offset this overspend.

2.20 The second element of the HWS variance is a £6.4 million underspend on impairments in the value of NHS assets. These are due to differences between forecast and final valuations or scheme timing changes.

2.21 The AME variance of £39.6 million within the Economy and Infrastructure MEG arose as a result of impairment levels lower than budgeted, as well as the write back of significant provisions from previous years.

2.22 An underspend of £17.2 million was reported on the Education AME budget. This mainly related to the student loans budgets £23.6 million which are demand led and difficult to forecast. Loan issues and repayments in the year were less than anticipated. This was offset by an overspend of £6.4 million due to the year end movement in the Careers Wales pension provision. The movement is based on an actuarial valuation from the pension scheme providers.

2.23 The underspend of £2.4 million against the Environment & Rural Affairs MEG relates to potential pension liabilities arising from the transfer of staff from the Environment Agency Wales to Natural Resources Wales on 1 April 2013. Active members and those eligible to be active members of the Environment Agency Pension Fund (EAPF) retained the right to continue in the EAPF when they transferred. From April 2013 the pension liability transferred to Natural Resources Wales and a budget has been included since then to cover any future deficit in the scheme. Whilst the budget has been included in the four years since the transfer it has not been utilised.

2.24 The Central Services and Administration MEG reported an underspend of £5.9 million. The majority of this variance is in relation to provisions for early retirements and other pension charges of Welsh Government staff. The pension charge represents the difference between benefits accrued

during the year and financial contributions made into the fund, the latter being very difficult to forecast.

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

3. Budget Exchange and Carry Forward

- 3.1** In the Second Supplementary Budget for 2016-17, the Welsh Government reported Fiscal Resource DEL reserves of £69.6 million and Capital DEL reserves of £185.7 million. We planned to carry forward both these reserves along with any underspends up to the agreed caps imposed by HM Treasury under 'Budget Exchange'. The caps are set at 0.6% of the Wales Resource DEL, 1.5% of Capital DEL and 15% of Capital Financial Transactions DEL.
- 3.2** During 2016-17, we were given dispensation from the Chief Secretary to the Treasury to carry forward £9 million Fiscal Resource DEL, £60 million Capital DEL and £100 million Capital Financial Transactions DEL over and above the limits imposed. This was to allow for any future support required due to the uncertainty over the future of the steel industry in Wales following announcements made by Tata Steel.
- 3.3** Table 1 illustrates the final reserves position. The balances to be carried forward for the Wales DEL will be £79.2 million Fiscal Resource, £13.2 million Non-Fiscal Resource and £186 million Capital which are within the revised Treasury limits.

Table 1 Carry forward resulting from Wales DEL outturn

	Fiscal Resource £m	Non Fiscal Resource £m	Capital £m
Reserves as per Second Supplementary Budget 2016-17	69.6	430.0	185.7
2016-17 Welsh Government underspends	9.1		0.7
2016-17 Other Bodies & Direct Charges outturn	0.5	0.4	-0.4
Balance to be carried forward to 2017-18	79.2	13.2¹	186.0
<i>Treasury Budget Exchange Limits</i>	<i>87.9</i>	<i>4.5</i>	<i>210.5²</i>

3.4 As well as the underspends reported by the Welsh Government, the balances to be carried forward take account of the outturns of the other bodies funded from the Welsh DEL i.e. the National Assembly for Wales, the Public Services Ombudsman for Wales and the Wales Audit Office.

3.5 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 Welsh Government's Second Supplementary Budget 2017-18.

3.6 Allocations from the Fiscal Resource reserve of £47.4 million and Capital reserve of £2.2 million were made in the First Supplementary Budget of 2017-18.

3.7 From April 2018 the Budget Exchange facility will be replaced by the operation of a new 'Cash Reserve'. From that date DEL underspends will be paid into the reserve for use in future years. The new reserve can hold up to £350 million in aggregate.

¹ 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 the Resource DEL.

² The capital limit is made up of £81.6m traditional and £128.9m financial transactions.

Annex 1 – Departmental Expenditure Limit (DEL) Outturn 2016-17

Main Expenditure Group	Supplementary Budget			Outturn			Underspends / Overspends (-)		
	Fiscal Resource	Non Fiscal Resource	Capital	Fiscal Resource	Non Fiscal Resource	Capital	Fiscal Resource	Non Fiscal Resource	Capital
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Health, Well-being & Sport	6,752.0	174.8	276.8	6,744.8	170.2	276.5	7.2	4.6	0.3
Local Government	3,333.3	0.4	20.3	3,331.0	0.2	20.3	2.3	0.2	0
Communities & Children	362.5	0	403.5	362.4	0	403.4	0.1	0	0.1
Economy & Infrastructure	635.6	-212.0	447.8	640.6	-249.7	447.8	-5.0	37.7	0
Education	1,370.4	333.0	175.6	1,370.1	305.4	175.5	0.3	27.6	0.1
Environment & Rural Affairs	277.5	11.8	102.2	277.4	11.8	102.0	0.1	0	0.2
Central Services & Administration	287.5	16.0	21.2	283.4	12.5	21.2	4.1	3.5	0
TOTAL	13,018.8	324.0	1,447.4	13,009.7	250.4	1,446.7	9.1	73.6	0.7

Annex 2 – Annually Managed Expenditure Outturn 2016-17

Main Expenditure Group	Supp Budget £m	Outturn £m	Under/ Over(-) Spend £m
Health, Well-being & Sport	265.6	273.8	-8.2
Local Government	977.0	977.0	0
Communities & Children	33.1	33.1	0
Economy & Infrastructure	26.4	-13.2	39.6
Education	387.6	370.4	17.2
Environment & Rural Affairs	2.4	0	2.4
Central Services & Administration	2.6	-3.3	5.9
TOTAL	1,694.7	1,637.8	56.9