

Scrutiny of Welsh Government Second Supplementary Budget 2017-2018

March 2018



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Scrutiny of Welsh Government Second Supplementary Budget 2017-2018

March 2018



About the Committee

The Committee was established on 22 June 2016 to carry out the functions of the responsible committee set out in Standing Orders 18.10, 18.11, 19 and 20 of the National Assembly for Wales.

Under Standing Orders 19 and 20, the committee's responsibilities include considering any report or document laid before the Assembly concerning the use of resources, or expenditure from the Welsh Consolidated Fund. This includes undertaking budget scrutiny of the bodies directly funded from the Welsh Consolidated Fund.

Under Standing Orders 18.10 and 18.11, the committee's responsibilities include oversight of the governance of the Wales Audit Office, as set out in the Public Audit (Wales) Act 2013.

The committee also considers any proposals for, and the progress of the devolution of fiscal powers to Wales as part of its responsibilities.

The committee may also scrutinise legislation introduced to the Assembly.

Committee Chair:



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Current Committee membership:



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1. Background

1. The Second Supplementary Budget 2017-18 was laid by the Welsh Government on 6 February 2018. Documents published alongside the Supplementary Budget motion includes an Explanatory Note which provides details of:

- transfers between Departments, or Ministerial portfolios, and major transfers within Departments;
- transfers to/from UK Government;
- transfers to/from Reserves; and
- breakdowns within Departments.

1.1. Second Supplementary Budget 2017-18 overview

Overview of allocations

2. There are significant changes in this Supplementary Budget, including a number of allocations from reserves, switches between revenue and capital, and transfers between portfolios. It includes adjustments to the Welsh block to reflect transfers and **consequentials** received in the UK Government's Autumn Budget 2017, and also includes changes in Annually Managed Expenditure (AME) forecasts in line with updates provided to HM Treasury.

3. The revenue cash baseline has increased by £86.4m and the revenue non-cash baseline has increased by £313.3m. The traditional capital baseline has increased by £156.5m and financial transactions capital by £202.4m.

Borrowing

4. The planned borrowing of £20 m originally included in the Welsh Government budget, provisionally planned for the M4, is removed in this Supplementary Budget as sufficient funds are available within the general capital budget.

Changes to baselines

5. There are £7m revenue and £7.9m capital transfers between Ministerial portfolios, set out in Chapter 4 of the Explanatory Note. Around half of this relates to Invest-to-Save projects. Other changes include:

- £2m capital from Local Government and Public Services (LGPS) to Education in respect of transfers for Flying Start;
- £2m capital from LGPS to Economy and Transport regarding an EU Match funding project for “Tourism Attractor Destinations”;
- £727,000 capital from LGPS to Health and Social Services for Regional Partnership Boards (all capital funding); and
- £850,000 revenue from LGPS to Health and Social Services to promote the well-being of children by investing in training and mentoring support for non-teaching staff in primary schools.

Main allocations

- 6.** The major additional funding allocated in this budget from reserves is:
- £146m Revenue and £41m Capital for Health and Social Services including, £50m NHS performance; £35m winter pressures and deficits; £30m Personal injury claims discount rate; £26m shortfall in Pharmaceutical Price Regulation Scheme; £3.8m immigration health surcharge; and £41.2m capital for the All Wales Capital Programme.
 - £3.7m Revenue and £134.8m Capital for Local Government and Public Services including, £4.1m Coastal Communities Fund revenue; £49.8m affordable homes; £40m Stalled sites fund; £30m road refurbishment; £10m Help to Buy Scheme; and £5m town centre regeneration scheme.
 - £16.7m Revenue and £51.6m Capital for Economy and Transport including, £7.9m Transport for Wales, £4m Public sector broadband aggregation, £3.6m Champions League – all revenue; £27.8m M4 project; £13m Neptune 6; £8.7m Steel industry; and £2.1m broadband extension programme – all capital.
 - £3.1m fiscal Revenue and £300m non-fiscal Revenue and £41.7m capital for Education, including, £300m non-fiscal revenue in relation to Student Loans stock and Resource Accounting and Budgeting charges. £30m for C21st Schools, £6.2m for Diamond Report recommendations delivery and £5.7m Support for Higher education sector – capital.
 - £3m revenue for Energy efficiency scheme.
 - £20m revenue for Central Services and Administration, including, £4m Welsh Revenue Authority running costs; £3.8m for EU structural funds

match funding; £2.1m devolved taxes; and £2m voluntary exit scheme costs.

Links with the Well-Being of Future Generations Act and the Programme for Government

7. The **Well-being of Future Generations (Wales) Act 2015** (the WFG Act) came into force on 1 April 2016. The WFG Act puts in place seven well-being goals that public bodies must work to achieve and take into consideration across all their decision-making, and five ways of working to achieve the goals.

8. The Welsh Government's Programme for Government, **Taking Wales Forward**, was published in September 2016, and sets out the priorities of the Welsh Government. It sets out how the Welsh Government will achieve its aims of a stronger, fairer economy, improved and reformed public services, and a united, connected, and sustainable Wales.

9. In autumn 2017, the Welsh Government also published its national strategy, **Prosperity for All**. This has four elements, Prosperous and Secure, United and Connected, Healthy and Active, and Ambitious and Learning.

10. During scrutiny of the Draft Budget 2018-19, the Cabinet Secretary for Finance (the Cabinet Secretary) was asked how the budget links with the Programme for Government, he said:

“‘Prosperity for All’, which is the latest emanation of the Programme for Government, identifies five priority areas, and those priority areas helped shape the budget. They were part of our budget discussions. ... So, the priority areas, from the programme for government and through ‘Prosperity for All’, every one of them is aligned with the budget and every one of them has investments to try and allow us to do more.”¹

11. In scrutiny of the Second Supplementary Budget 2016-17, the Cabinet Secretary stated that:

“Inevitably, a supplementary budget is focused on dealing with in-year pressures and in-year opportunities and the big strategic alignments of budgets with the requirements of the Act are to be found in the main budget planning round. However, knowing that this committee would

¹ **Finance Committee, Record of Proceedings, 5 October 2017, paragraph 424**

be interested in the way that the lens of the future generations Act can make a difference, even at the supplementary budget stage, we've discussed internally the allocations through the lens of the Act, where we've been able to do so."²

12. Following scrutiny of the Draft Budget 2017-18, the Finance Committee recommended that "the [Welsh] Government should show greater detail of how the Well-Being of Future Generations Act and the five ways of working have influenced both individual budget allocations and the budget as a whole in future years".³

13. The Cabinet Secretary was asked how the additional resource and capital funding made in the supplementary budget have been informed by Prosperity for Wales, Taking Wales Forward and the WFG Act. The Cabinet Secretary said:

"It's a matter of fine-tuning and managing existing commitments, by and large. As you say, Chair, it is complex because there are four or five different sorts of transactions being reported through the supplementary budget. There are transfers within main expenditure groups, there are transfers between MEGs, there are allocations from reserves, there are changes to the departmental expenditure limit as a result of allocations through UK budgets, and then there's the latest annually managed expenditure forecasts agreed with the Treasury, which we report here. So, there is a lot going on, particularly in the second supplementary budget, and that's how you get to some of the figures that you mentioned in your question. So, by and large, the decisions that you see here are decisions that were made many months ago. They are made by the portfolio Ministers. They are reported to the Assembly by those portfolio Ministers. They will have had questions asked of them in committee and sometimes in Plenary as well.

There are some new commitments, however. And that is where, I think, it is easier for me to explain the way in which larger considerations—'Prosperity for All' and the well-being of future generations Act—have an impact on the supplementary budget that you see. I can mention maybe three of them very briefly to you. You will see that there is £30

² **Finance Committee, Record of Proceedings, 2 February 2017, paragraph 16**

³ **Finance Committee report, Scrutiny of the Welsh Government Draft Budget 2017-18, November 2016, Recommendation 5**

million in conventional capital here for road refurbishment at local authorities. The well-being of future generations Act says that we should aim for a more resilient Wales and the five ways of working say that prevention is one of the ways that we should try and achieve that. The case made to me by local authorities was that for the lack of sufficient capital to keep roads up to scratch, they ended up paying out money in revenue for claims against them when things went wrong. If we were able to provide them with an injection of conventional capital, they would be able to prevent that sort of spending in the future and they would be able to make the road infrastructure more resilient. So, I felt that that ticked lots of the boxes required by the Act and I was happy to agree to it.

There is £30 million, you will have seen, for Welsh-medium education capital. What that is allowing the education Secretary to do is create a stream of capital investment beyond this year. So, she's drawn forward into this year capital expenditure plans in the Welsh-medium sector and that will free up money for her over the next few years to create a new Welsh-medium investment strand in her budget. Given that we have an ambitious target for a million Welsh speakers by 2050, and we know that if we're ever going to reach that then being able to do more in Welsh-medium education is a key way of achieving that, and given that we have a well-being of future generations goal over cultural vibrancy and Welsh-language vibrancy as well, then I think you can see the Act at work there.

And you'll have seen that there's significant investment in housing, including some new investment in housing in this budget. There again, looking to the long-term future of Wales—a healthier Wales brought about through collaboration as the five ways of working would suggest, and housing, particularly, relies on collaboration between the local authority, central Government, housing associations and private house builders. It's a genuinely collaborative effort, if we're to get to the 20,000 affordable homes and other ambitions that we have in housing over this Assembly term. So, where there are new allocations being made, the question of the Act and the alignment with other priorities is

always part of the decision-making process and I think you can see that in this budget.”⁴

Committee view

14. The Committee notes that the Explanatory Note which accompanies the Supplementary Budget is relatively concise. There is no mention of the Prosperity for All, Programme for Government or the WFG Act, or how these have influenced the prioritisation process within the Welsh Government in making allocations in this Supplementary Budget.

15. The Committee recognises the Cabinet Secretary’s view that the Supplementary Budget is a technical process giving feedback on decisions that have been made through the year and questions will have been raised on these decisions in Committees or Plenary.

Conclusion 1. The Committee would welcome more detail around how significant new allocations within the supplementary budget have been prioritised and how investment decisions have been challenged by Prosperity for All, Programme for Government or the Well-being of Future Generations Act.

Conclusion 2. The Committee concludes that to enable more transparent scrutiny of such decisions, more explicit financial details need to be made available in terms of how commitments are funded, for example, whether commitments are funded from reserves or underspends in other areas, when such announcements are made.

⁴ Finance Committee, Draft Record of Proceedings, 14 February 2018, paragraphs 7-10

2. Reserves and Carry Forward

16. Reserves shown in the Second Supplementary budget are:

- Fiscal resource £145m;
- Non-fiscal resource £118m;
- General capital £38m;
- Financial transactions capital £152m.

17. The Wales Reserve is capped at £350m. There are no limits on paying into the reserve. Annual drawdowns are limited to £125m for resource, or revenue, and £50m for capital. The Explanatory Note states:

“Non-fiscal resource is specifically ring-fenced for non-cash items such as depreciation and is limited in its use. The usual flexibilities to effectively manage the fiscal resource and capital finances are not generally required for non-fiscal expenditure.”⁵

18. The announcement of repayable financial transactions capital following the UK Government’s Autumn Budget 2017 was considered during the Draft Budget 2018-19 scrutiny. At that time the Cabinet Secretary highlighted the difficulty in finding projects that would deliver optimum impact and value for money at short notice.

19. During scrutiny of the Supplementary Budget the Cabinet Secretary highlighted these difficulties again, he said:

“...deploying financial transaction capital in Wales has not been easy; there is no great appetite out there for it.”⁶

20. The Cabinet Secretary was asked for an update on discussions with HM Treasury in relation to carrying forward the £90m financial transactions funding announced in the UK Government’s Autumn Budget 2017. The Cabinet Secretary said he had spoken with the Chief Secretary to the Treasury and had suggested:

⁵ **Welsh Government, Explanatory Note: Second Supplementary Budget 2017-18, Page 30**

⁶ **Finance Committee, Draft Record of Proceedings, 14 February 2018, paragraph 13**

“that the money would be used better if we were allowed to carry it forward into future years. She [The Chief Secretary to the Treasury] explained—and I've got to have some sympathy with her—that her job is to manage the whole of the UK's finances and that if we are asking for a carry-forward deal for Wales, she knows the Scottish Government is likely to be asking the same ... So, while she was not unsympathetic to the case—I'd have to say that; she recognised what we were saying—she said to me that she couldn't give me an answer there and then, because she would have to manage the bigger picture of all of this. So, officials remain in dialogue with the Treasury. We are—. I'm trying to find the right word. 'Hopeful' is probably at the stronger end of it, but we continue to work with the Treasury.”⁷

Committee View

21. The UK Government's Autumn Budget 2017 included £90m additional transactions funding for 2017-18. While this funding is welcomed, the Committee reiterates the concerns raised in its report on the **Scrutiny of the Welsh Government Draft Budget 2018-19** regarding the issues associated with the repayable financial transactions capital. The Committee also believes that restrictions around the use of this funding limits the Welsh Government's ability to achieve best value for money in allocating these funds. The Committee agrees with the Cabinet Secretary, that it is unreasonable to expect the Welsh Government to find suitable projects for all of this funding before the end of the financial year, and supports his attempt to gain flexibility in carrying forward a significant portion of this funding into 2018-19.

22. The Committee welcomes the Welsh Government's progress in allocating £64.2m new transactions funding in this Supplementary Budget, on top of £152.2m previously allocated in 2017-18.

Conclusion 3. The Committee acknowledges the constraints of financial transactions funding but urges the Cabinet Secretary to continue to explore all avenues to utilise the available funding, within the UK Treasury rules, whether that is for new schemes, such as the Wales Stalled Sites Fund, or, for example, if future payments of existing schemes receiving general capital funding make use of available financial transactions funding.

⁷ **Finance Committee, Draft Record of Proceedings, 14 February 2018, paragraph 14**

3. Health and Social Care

Changes in the Second Supplementary Budget 2017-18

23. The Explanatory Note highlights the following additional allocations in the Health and Social Services portfolio:

- £50m continual improvements of health boards including referral to treatment, diagnostic and therapy waiting times.
- £10m winter pressures, which is part of £35.2m package of additional funding to manage service pressures in the NHS and to cover unplanned deficits in Betsi Cadwaladr and Hywel Dda University Health Boards.
- £26m for the estimated shortfall of income from the Pharmaceutical Price Regulation Scheme.
- Capital: £41.2m to support the All Wales Capital Programme.

NHS funding

24. The annual accounts for 2016-17 of National Health Service (NHS) bodies in Wales were the first to report performance against the first statutory financial duty introduced by the **National Health Service Finance (Wales) Act 2014**.

25. The aggregate position for all Local Health Boards (LHBs) for the three-year period to 2016-17 was a net overspend of £253m. The reported position against the revenue spending limit for each LHB is shown in the map:

26. Table 1 sets out the latest publicly available forecast outturn for the financial year 2017-18, together with the actual outturn at December 2017 (Month 9). The LHBs report an aggregate deficit to December 2017 of almost £135m, with an estimate for the full year 2017-18 of over £170m. This compares with the actual deficit for 2016-17 of £147.8m (and a cumulative net deficit over the year years to 31 March 2017 of almost £253m).

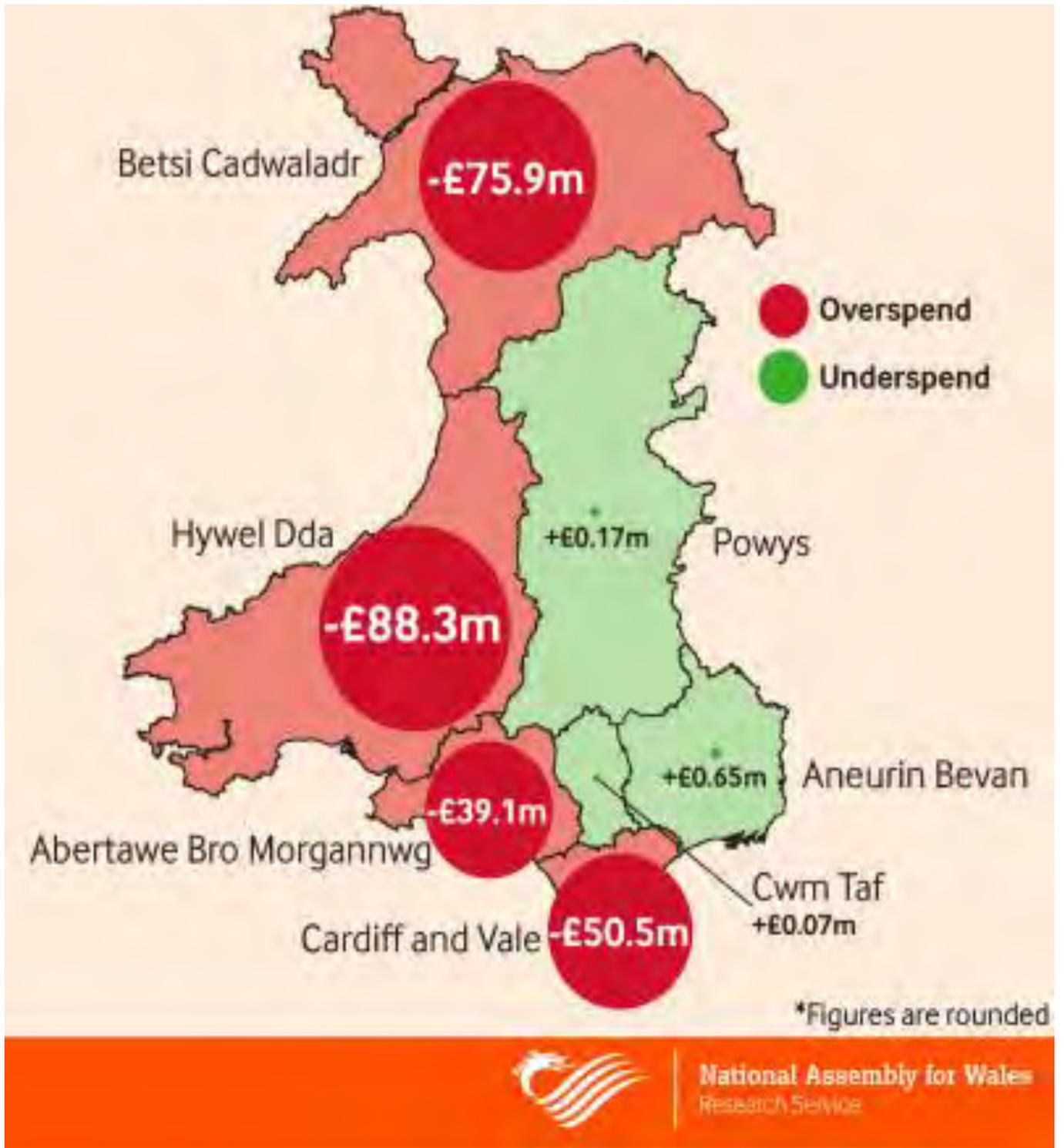


Table 1, Latest end of year forecasts for LHBs 2017-18

	Note	Annual Plan, 2017-18	Outturn to date, 2017-18	
		(Over)/under- spend £'m	Position at:	(Over)/under- spend £'m
ABMU		(36.000)	Month 9	(26.003)
Aneurin Bevan		1.283	Month 9	0.676
Betsi Cadwaladr	a	(36.000)	Month 9	(32.800)
Cardiff & Vale	b	(30.900)	Month 9	(22.177)
Cwm Taf		0.000	Month 9	(0.641)
Hywel Dda		(69.600)	Month 9	(52.792)
Powys		0.000	Month 9	(0.797)
Net under/(overspend), £'million		(171.217)		(134.534)

Sources: Research Service calculations from Month 9 Financial performance reports

Note 'a' the Month 9 report states that this does not include £26m confirmed cash support from the Welsh Government.

Note 'b' The Health Board notes that it has prepared the Finance Report "against the 2017/18 planned deficit of £30.9m".

27. During the Committee's scrutiny of the First Supplementary Budget 2017-18, the Cabinet Secretary said:

"... there's no automatic assumption that money provided will be repaid. It's a case-by-case decision that the Cabinet Secretary has to make. Then that does become part of the dialogue that I have with him as to whether or not there is money that he's then able to retain and reuse, or whether it's money that comes back to the centre."⁸

28. As part of performance management monitoring, NHS organisations have different oversight arrangements. A Welsh Government statement on **1 February 2018** confirmed that Betsi Cadwaladr University Health Board is still under the special measures arrangements and outlined additional actions being undertaken, three organisations (Abertawe Bro Morgannwg, Cardiff and Vale and Hywel Dda) are still within the targeted intervention category. Six out of the 10 organisations remain in routine monitoring.

⁸ Finance Committee, Record of Proceedings, 5 July 2017, paragraph 22

29. When asked what discussions had taken place with the Cabinet Secretary for Health and Social Services to ensure that health boards would be able to continue to deliver services, the Cabinet Secretary said he was “confident that the health budget will live within its means”.⁹

30. The Cabinet Secretary continued to clarify that the deficits being reported by two LHBs “inevitably poses a challenge for the health MEG”.¹⁰

31. The Cabinet Secretary was asked how capital investment will deliver efficiencies, he said:

“...a great deal of capital investment in the health service is inevitably to do with service continuation, because equipment wears out and needs to be replaced. You're always looking to hope that it can be replaced in a way that is more efficient in revenue terms—that it will do more and last longer and be able to do more than the previous generation of machinery did. But a huge amount of what goes on in the health service is just keeping the show on the road. If you're using single-use instruments in surgery, for example, every time the surgery is over, the instrument is thrown away and has to be replaced with another one...

But when there are new investments being made—to answer your original question—there are two key tests that I look at with Cabinet colleagues. I always say to them that I will give greater priority to capital investments that lead to revenue savings, because revenue is under such pressure, eight years into austerity, that if you can say to me, as a Cabinet Secretary, if I have some capital here, it will allow me to run that service more cheaply in revenue terms in the future, then, I will always be listening carefully to that case.

Secondly, I always try and put an extra priority against those investments where there is service change being supported as well. So, there's a significant sum of money in here for what we previously called the SCCC, which is a major service change, of course, in the south-east part of Wales. And, the money that you mention in relation to Velindre is, of course, investment in a whole different way of funding that development, but that will create the cancer centre of the future for the greatest concentration of population in Wales. So, both of those are

⁹ Finance Committee, Draft Record of Proceedings, 14 February 2018, paragraph 56

¹⁰ *ibid*

service change cases, and I look to try and align capital against those two criteria, as well as other things we take into account: 'Does it save me money? Does it contribute to change?'"¹¹

Committee view

32. The Committee notes that the Cabinet Secretary is confident that there is sufficient funding within the Health and Social Services portfolio to enable LHBs to continue to deliver services.

33. The Committee welcomes the Cabinet Secretary's assurance that new capital investment is challenged and prioritised towards those investments that are likely to lead to revenue savings or support service change.

34. The Committee remains concerned at the annual levels of both planned and unplanned deficits in health boards and the cumulative overspends since the enactment of the National Health Service Finance (Wales) Act 2014. The Committee reiterates its intention to continue to monitor Welsh Government action and NHS organisations' performance in meeting three-year rolling plans under the National Health Service Finance (Wales) Act 2014.

¹¹ **Finance Committee, Draft Record of Proceedings, 14 February 2018, paragraphs 67-69**

4. Student Loans

35. The major change in the Education portfolio is in relation to student loans. Student loans are demand-led, sensitive to interest rate and other macro-economic factors and therefore difficult to forecast. There is a £300m increase in the non-cash revenue relating to “student loans and the RAB charge”¹². The Explanatory Note simply states “£300m additional allocation in respect of Student Loans”.¹³

36. The Cabinet Secretary was asked to clarify the drivers for this increase. He said:

“..the £300 million in non-cash increase that you see in this budget is not real money—in my terms, anyway. It's not money I could have spent on paying for other things and it's money that has been provided to us by the Treasury to cover the non-cash element of the student loans.”¹⁴

37. The official accompanying the Cabinet Secretary said:

“... this resource accounting and budgeting—or RAB—charge budget that you're referring to increases every year, and the percentage of write-off has historically grown. In terms of—there was also a question about when, almost, this comes to fruition. I think one of the points is that, in making these write-off charges now, we're already predicting—and this goes into Treasury's modelling—that amounts will not be repaid.”¹⁵

Committee view

38. The Committee notes the increase in non-cash revenue relating to student Resource Accounting and Budgeting charge in relation to student loans rose by £300m in this supplementary budget. While this additional non-cash allocation is provided by the HM Treasury to cover student loan debt, and not money that the

¹² The Resource Accounting and Budgeting (RAB) charge, which constitutes the annual cost to the Welsh Government of writing off interest that could be accrued by investing the monies rather than lending to students and the costs of loans not being repaid, comes from the DEL budget (the Student Loans Resource Budget Provision BEL).

¹³ **Welsh Government, Explanatory Note: Second Supplementary Budget 2017-18, paragraph 3.4**

¹⁴ **Finance Committee, Draft Record of Proceedings, 14 February 2018, paragraph 99**

¹⁵ **Finance Committee, Draft Record of Proceedings, 14 February 2018, paragraph 8**

Welsh Government could have spent on other things, the Committee notes with concern that the percentage of the student loan book that is anticipated not to be paid back, and hence written-off, is increasing annually.

5. Brexit

39. The following additional funding is highlighted in the Supplementary Budget Explanatory Note from the UK Government:

- Revenue: increase of £3.8m from HM Treasury in respect of EU Structural Funds; and £2.95m from HM Treasury towards the cost of the UK's exit from the European Union.
- General Capital: An increase of £730,000 from HM Treasury towards the cost of the UK's exit from the European Union.

40. The following specific allocations are highlighted in the Supplementary Budget narrative:

- £1.3m from Education to Economy and Transport in respect of the Work Based Learning Programme. In 2016-17 there was a year-end adjustment to the Work Based Learning Programme providing additional core funding which allowed for the deferral of EU receipts into 2017-18. This was simply a timing issue in relation to EU Structural Funds draw down and had a nil effect overall on the net funding for the programme;
- £2m from LGPS to Economy and Transport in respect of an EU Targeted Match Funding project for 'Tourism Attractor Destinations'; and
- £3.8m in relation to EU Structural Funds (shows as an allocation from reserves).¹⁶

41. The Cabinet Secretary was asked whether the recent consequentials have been allocated, he said:

“The First Minister announced a new fund of £50 million to help us and to help businesses and to help the public sector as well to prepare for the future. Now, at a UK level, in the current financial year, there was £250 million available, and, just last week, we had the money coming to us as a result of that. So, it's about £3 million on the revenue side, and less than £1 million on the capital side in the funding that has come to us in the current financial year.

¹⁶ **Welsh Government, Explanatory Note: Second Supplementary Budget 2017-18, page 28**

Now, the £3 billion that the Chancellor announced in the budget in November—we haven't agreed with the Treasury yet how much of that is going to come to us, but we are confident that we will know before the end of the current financial year how much of that £3 billion is going to come to Wales in the next financial year, and, before the end of the year, how much money is going to come to us in 2019-20.

So, at present, what I've done is just to put the funding that has come in this year into the reserves and carry over that funding to the next year. Because it doesn't make sense to me to make a decision on how to use the money without knowing how much additional funding is going to come as a result of that £3 billion. When we know how much money we have from those two sources, I'm sure—we haven't made the decisions officially, yet—that funding will be available to help us here in Wales to prepare for Brexit as well.”¹⁷

Committee view

42. The Committee notes that the Welsh Government does not currently know the amount of funding coming to Wales in relation to the £3 billion funding announced to prepare for Brexit by the UK Government.

43. The Committee supports the Cabinet Secretary's view that the UK Government should fund investment in Wales in relation to non-devolved duties and responsibilities that are under the UK Government's jurisdiction.

¹⁷ **Finance Committee, Draft Record of Proceedings, 14 February 2018, paragraphs 112-114**

6. Directly funded bodies

44. The Supplementary Budget motion also covers allocations to organisations whose budgets are not determined by the Welsh Government.

National Assembly for Wales Commission

45. On 14 December 2017, the National Assembly for Wales Commission (the Commission) notified the Committee of its intention to lay an Explanatory Memorandum requesting a variation to its budget. The Supplementary budget for the Commission proposed an increase to the Annually Managed Expenditure (AME) budget of £700,000.

46. The Committee considered the Supplementary Budget for the Commission at its meeting on 11 January 2018 and agreed in principle to the proposed change to its approved 2017-18 budget.

47. The Commission formally laid the Explanatory Memorandum as required under Standing Order 20.32 on 22 January 2018.¹⁸

Wales Audit Office

48. In accordance with Standing Order 20.35, the Auditor General and the Wales Audit Office (WAO) jointly provided an Explanatory Memorandum to the Committee, setting out proposed adjustments to the approved Estimate for 2017-18.¹⁹

49. The Explanatory Memorandum sought to increase the WAO's requirement for revenue resources by £325,000 for 2017-18 to fund the research and development and programme management associated with its performance audit work in local government.

50. The Committee considered the variation to the budget for the WAO at its meeting on 15 November 2017 and agreed in principle to the proposed change to the approved Estimate for the year ending 31 March 2018.

¹⁸ **Assembly Commission Supplementary Budget 2017–18: Explanatory Memorandum**

¹⁹ **Explanatory Memorandum to the Finance Committee regarding the variation of the estimate of the Wales Audit Office for the year ending 31 March 2018**

The Public Services Ombudsman for Wales

51. On 22 December 2017, the Public Services Ombudsman for Wales (the Ombudsman) provided an Explanatory Memorandum to the Committee, in accordance with Standing Order 20.36(i) (Annex A). The proposed variation related to additional agreed income for a seconded member of staff, which would be used to back-fill the post. This had no net impact on resource or cash.

52. The Committee considered the variation to the budget for the Ombudsman at its meeting on 11 January 2018 and agreed in principle to the proposed change to the approved 2017-18 budget.

Committee view

Conclusion 4. The Committee found it helpful to have early notification of the intention to seek variation to the agreed budgets of the directly funded bodies, and commends this approach.

Assembly Commission
Supplementary Budget 2017-18
Explanatory Memorandum

December 2017



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Assembly Commission
Supplementary Budget 2017-18
Explanatory Memorandum

December 2017



National Assembly for Wales
Assembly Commission

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01. Background

The Commission's **2017-18 Budget** was included in the Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 16 November 2016, following scrutiny by the Assembly's Finance Committee.

The budget motion provided the Commission with £53.745 million of Resource Budget in relation to:

- £36.613 million for Assembly services; and
- £15.532 million for the Remuneration Board's Determination for Assembly Members.

A further £1.2 million was provided for non-cash accounting adjustments in respect of the Assembly Members' Pension Scheme, through the Annually Managed Expenditure budget.

This Explanatory Memorandum is laid in compliance with Standing Order 20.32, in support of changes to be proposed to the Commission's approved budget, via Supplementary Budget Motion.

Explanatory memorandum

The effect of the Commission's supplementary budget will be to increase Annually Managed Expenditure in line with projections.

Annually Managed Expenditure (AME)

The Commission's AME budget is for the non-cash accounting adjustment in respect of the future financial liability of the Assembly Members' Pension Scheme. The purpose of this adjustment is to ensure a true and fair view of the Scheme liability is recorded in the Commission's Statement of Financial Position; it does not reflect the monetary sums paid by the Commission into the Scheme. There is no associated cash requirement and making changes to it has no impact on the Commission Resource budget or service delivery.

The final value cannot be calculated until after 31 March, but estimates are requested from professional advisors during the year. Based on calculations reflecting known changes to the discount rate and other variables, which impact on the estimated liabilities of the scheme, the latest estimate is just under £1.8million.

This increase is as a result of a decrease in the discount rate. The discount rate net of CPI as at 31 March 2017, which is used to calculate the 2017-18 current service cost was 0.3%. This has reduced significantly from the equivalent rate at 31 March 2016, which was 1.3%. A decrease in the net discount rate leads to an increase in the current service cost, a main component of the pension finance cost.

The Commission is therefore proposing a supplementary AME budget of £1.9 million in order that there is sufficient contingency to manage any variation from the estimate in the final year-end figures.

Budget impact

The Supplementary Budget Motion proposes the following:

- an increase to the AME budget of £0.7 million to £1.9 million.

02. Budget Ambit

This supplementary budget submission is laid in compliance with National Assembly Standing Order 20 to assist in the compilation of the Budget Motion required by Section 126 of the Government of Wales Act 2006. This submission seeks to amend the resource and annually managed expenditure requirements of the Assembly Commission for the year ending 31 March 2018.

The Supplementary Budget Motion authorises the net resources to be used for the services and purposes of Members and Assembly Services. The motion includes the maximum income (or accruing resources) that may be retained for use on those services and purposes instead of being paid into the Welsh Consolidated Fund, and the cash amount that will need to be issued from the Welsh Consolidated Fund to meet the anticipated net amounts falling due for payment by the Commission.

The amended 2017-18 Budget for the Assembly Commission, addressing the revised requirements, is set out in Table 1 below.

Table 1

**Revised
£000**

Resources other than accruing resources for use by the National Assembly for Wales Commission on resource and capital costs associated with the administration and operation of Assembly Services to support the National Assembly for Wales ('the Assembly'); promotion of the Assembly including payments to the Electoral Commission and others; payments in respect of the Commissioner for Standards and Remuneration Board; any other payments relating to functions of the Assembly or functions of the National Assembly for Wales Commission. Resources other than accruing resources for use by the National Assembly for Wales Commission in respect of decisions of the Remuneration Board and expenditure in respect of Assembly Members' Pension provision.	54,445
Accruing resources for retention pursuant to section 120(2) of the Government of Wales Act 2006 and use by the National Assembly for Wales Commission: from the disposal of fixed assets and other capital income for use on the purchase or acquisition of fixed assets; or rental income; gifts; grant support; recharges and income from commercial sales and other services provided to the public or others for use on administrative costs of the Assembly.	300
Amount to be issued from the Welsh Consolidated Fund to meet the anticipated amounts falling due for payment in the year in respect of the above services and purposes less expected retainable receipts and recoverable VAT.	50,245

Table 2 below reconciles the net resource requirement to the cash drawing requirement from the Welsh Consolidated Fund.

Table 2 Cash requirement	£000
	2017-18 Revised
Members' Revenue Requirement	15,532
Commission Revenue Requirement	36,513
Capital Requirement	500
Assembly Members' Pension Provision (AME)	1,900
<i>Adjustments:</i>	
Depreciation (Non cash)	(2,600)
Movements in provisions	(1,900)
Movement in debtors and creditors	300
Net cash requirement for issue from the Welsh Consolidated Fund	50,245

Public Services Ombudsman for Wales (PSOW)

2nd Supplementary Budget 2017-18

Explanatory Memorandum to the Chair of the Finance Committee

Background

The PSOW's 2017-18 budget was included in the Annual Budget Motion required under Standing Order 20.26 and laid on 20th December 2016. Changes were made to the budget in the 1st Supplementary Budget that was laid on 27th June 2017. The following proposed change to that budget is set out below:

Income

Additional income has been agreed in respect of a seconded member of staff and will be used to backfill the post. There is no net impact on resource or cash.

2 nd Supplementary Budget 2017-18	Resource	Cash
	£000s	£000s
Salaries and related costs	15	15
Income	-15	-15
Net resource/cash requirement	-	-

Public Services Ombudsman for Wales

Supplementary Budget 2017/18	2nd Suppl Budget 2017/18	1st Suppl Budget 2017/18	Change
	£'000	£'000	
Capital DEL	25	25	0
Fiscal Revenue DEL			
Salaries and related costs	2,965	2,950	15
LGPS related costs	0	0	0
	2,965	2,950	15
Premises	416	416	0
Computer systems and support	191	191	0
Office costs	130	130	0
Advisory and legal fees	294	294	0
Communications	78	78	0
Training and recruitment	30	30	0
Travel and subsistence	31	31	0
Audit fee	20	20	0
Sub total	4,155	4,140	15
Income	-32	-17	-15
Total Fiscal Revenue DEL	4,123	4,123	0
Non cash DEL			
Depreciation	80	80	0
Revenue DEL (B+C)	4,203	4,203	0
Total DEL (A+B+C)	4,228	4,228	0
Annually Managed Expenditure (AME)			
Movement on LGPS	0	0	0
Provisions movement	20	20	0
Total AME	20	20	0
Total Managed Expenditure			
A+B+C+D	4,248	4,248	0
Resources Required	4,248	4,248	0
Depreciation	-80	-80	0
Change in Provisions	-20	-20	0
Utilisation of Provisions - LGPS	0	0	0
Utilisation of Provisions - legal costs	42	42	0
Other movements in Working Capital	20	20	0
Net Cash Requirement	4,210	4,210	0

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Explanatory memorandum



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Explanatory memorandum to the Finance Committee regarding the variation of the estimate of the Wales Audit Office for the year ending 31 March 2018

Submitted to the Finance Committee of the National
Assembly for Wales for consideration under Standing
Order 20.35.

Isobel Garner
Chair, Wales Audit Office

Huw Vaughan Thomas
Auditor General for Wales

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Overview

- 1 For each financial year, the Wales Audit Office must submit an annual estimate of its income and expenditure to the Finance Committee of the National Assembly. The responsible committee must examine that estimate and lay it before the National Assembly after making any amendments that it considers appropriate.
- 2 The Estimate for the Wales Audit Office for 2017-18 was included in the Welsh Government Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 10 January 2017 following scrutiny by the Finance Committee.
- 3 Further to evidence provided to the Finance Committee on 3 November 2016, the Wales Audit Office now seeks to amend the approved Estimate for the year ending 31 March 2018.

Purpose of this Explanatory Memorandum

Introduction

- 4 The budget motion authorised the Wales Audit Office to retain £15.154 million of accruing resources, generated through fees charged to audited bodies and a grant from Welsh Government, and supplied a further £6.906 million of other resources in support of our expenditure plans for the year. Together, this £22.060 million is used to fund the costs of the Wales Audit Office in delivering its duties under the Public Audit (Wales) Act 2013.
- 5 The Estimate for 2017-18 was predicated on the receipt of £460,000 Wales Programme for Improvement (WPI) grant from the Welsh Government to part fund the research and development and programme management associated with our performance audit work in Local Government. Paragraph 25 of our Estimate raised the potential that if this grant was reduced or removed we would need to return to Finance Committee to replace this funding. Given that during 2017-18 it became apparent that the Welsh Government proposals for the use of the grant are at odds with the Auditor General's independence, as set out in section 8(1) of the Public Audit (Wales) Act 2013, we have mutually agreed with Welsh Government that they will no longer provide us with this grant.
- 6 However, we do still need to undertake the research and development work for the Auditor General's all-Wales performance audit work, including the development of audit methods, risk assessment tools and benchmarking of performance information across Wales. Without replacing at least part of the Welsh Government's funding, we will be unable to sufficiently resource the Auditor General's programme. The grant also funded the preparation of summary national reports, but the Auditor General will no longer produce those. Having reassessed resourcing needs for the current year in light of the discussions with the Welsh Government and adjusting the quantum of work undertaken, we now seek an increase in resource from the Welsh Consolidated Fund of £325,000 for 2017-18.
- 7 In the absence of additional funding from the Welsh Consolidated Fund, we would need to pass on the costs to our audited bodies which will necessitate a revision to the Fee Scheme 2017-18, approved by Finance Committee in February 2017, and result in unplanned increases to fee charges for the current year.
- 8 Our Estimate for 2018-19 includes £280,000 to fund this work from the Welsh Consolidated Fund for future years.
- 9 We continue to have regular dialogue with the Welsh Government which may lead to specific pieces of commissioned work by agreement, but there is currently no certainty around that. Should it arise we would resource it through securing additional contractor capacity.

- 10 This Explanatory Memorandum sets out the adjustments required to the Wales Audit Office Estimate for 2017-18.

Adjustments to revenue and capital budgets

- 11 As explained above, the Wales Audit Office is seeking to increase its requirement for revenue resources by £325,000 for 2017-18 to fund the research and development and programme management associated with our performance audit work in Local Government. Further detail is provided in [Appendix 1](#).

Table 1 – The budget changes required are set out in Table 1.

	Approved Estimate 2017-18 £'000	Supplementary Estimate 2017-18 £'000	Revised Estimate 2017-18 £'000
Revenue resource	6,526	325	6,851
Capital resource	380	-	380
Accruing resources	15,154	(460)	14,694
Total expenditure	22,060	-	21,925

Net cash requirement

Table 2 – The changes to our net cash requirement are set out in Table 2.

	Approved Estimate 2017-18 £'000	Supplementary Estimate 2017-18 £'000	Revised Estimate 2017-18 £'000
Net request for resources – revenue and capital	6,906	325	7,231
Non-cash adjustment - depreciation and accruals	(200)	-	(200)
Net cash requirement from the WCF	6,706	325	7,031

Summary

12 **Table 3** provides a summary of the revised capital and revenue resources and net cash requirement on approval of this supplementary estimate.

Table 3 – Summary of resource and cash requests

	Resource request £'000	Net cash requirement £'000
Revenue resource	6,851	6,651
Capital resource	380	380
Total	7,231	7,031

Appendix 1

Wales Audit Office Income and Expenses 2017-18 (revised)

Budget Heading	Year to 31 March 2018 (Revised) £'000	Year to 31 March 2018 (Estimate) £'000
Expenses		
Staff costs	15,411	15,411
Contractor staff	735	870
Travel and subsistence	1,299	1,299
Private sector firms (including VAT)	874	874
Accommodation	938	938
ICT	399	399
Balance of irrecoverable VAT	390	390
Wales Audit Office Governance Arrangements	300	300
External training	255	255
Legal and professional fees	201	201
Translation of documents	145	145
Other costs	598	598
EXPENSES TOTAL	21,545	21,680
Income		
Audit fees	13,288	13,288
Grant certification fees	1,406	1,406
WPI grant from the Welsh Government	0	460
INCOME TOTAL	14,694	15,154
Total revenue budget to be funded by WCF	6,851	6,526

Appendix 2

Summary of the 2017-18 budget requirements for inclusion in the Welsh Ministers' Supplementary Budget Motion under section 126 of the Government of Wales Act 2006

Under section 126 of the Government of Wales Act 2006 ('the 2006 Act'), Ministers may move a Supplementary Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the Consolidated Fund for certain relevant persons, including the Wales Audit Office.

In respect of the services and purposes of the Wales Audit Office in the year ending

31 March 2018, the Budget Motion will authorise:

- the amount of resources to be used by the Wales Audit Office;
- the amount of resources accruing to the Wales Audit Office which may be retained (rather than paid into the Consolidated Fund); and
- the amount which may be paid out of the Consolidated Fund to the Wales Audit Office.

These requirements, which due to the variability of income streams can only be estimates, are summarised in [Table 1](#) below.

Table 1 – Summary of the estimated 2017-18 budget requirements

	£'000
Resources other than accruing resources for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office, the Auditor General and local government appointed auditors, and on the administration of the Wales Audit Office:	
• Revenue	6,851
• Capital	380
Accruing resources from fees and charges for audit and related services (excluding for local government audit, assessment and inspection work); other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences, provision of administrative and professional and technical services; recoveries of costs of seconded staff; repayments of staff loans; recoveries of car leasing payments; and interest received on working balances for use by the Wales Audit Office on related services and the administration of the Wales Audit Office.	14,694
Net cash requirement from the Consolidated Fund to meet the net amounts falling due for payment in the year by the Wales Audit Office.	7,031

Table 2 provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2018.

Table 2 – Reconciliation of resource requirement to cash drawing requirement from the Consolidated Fund

	£'000
Net request for resources – revenue and capital	7,231
Net working capital adjustments	(200)
Net cash requirement	7,031

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