

# Scrutiny of Welsh Government Second Supplementary Budget 2018-2019

February 2019



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## 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.

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### Committee Chair:



**Llyr Gruffydd AM**

Plaid Cymru  
North Wales

### Current Committee membership:



**Rhun ap Iorwerth AM**

Plaid Cymru  
Ynys Môn



**Alun Davies AM**

Welsh Labour  
Blaenau Gwent



**Neil Hamilton AM**

UKIP Wales  
Mid and West Wales



**Mike Hedges AM**

Welsh Labour  
Swansea East



**Rhianon Passmore AM**

Welsh Labour  
Islwyn



**Nick Ramsay AM**

Welsh Conservatives  
Monmouth

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## Recommendations and conclusions

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## Overview

1. The Minister for Finance and Trefnydd (the Minister) laid the Second Supplementary Budget 2018-19 on 5 February 2019. This Supplementary Budget proposes a number of changes to the First Supplementary Budget and includes an additional £809.1 million for departments. This Supplementary Budget was accompanied by an Explanatory Note and tables showing the main expenditure group (MEG) allocations. It also sets out a number of allocations from the reserves and includes revised Annually Managed Expenditure (AME) forecasts.
2. The departmental portfolios have been restated to reflect the election of the current First Minister and the establishment of the new Cabinet.
3. The First Supplementary Budget 2018-19 was scrutinised by the Finance Committee (the Committee) on 27 June 2018. The Committee did not make any recommendations as a result of that scrutiny, but came to seven conclusions, one of which reiterated the value in undertaking scrutiny of that supplementary budget.

## Changes to Revenue baseline

4. Fiscal Resource (revenue cash) finance has increased by a net amount of £64.6 million to £13.3 billion. This includes:
  - **£98.1 million increase** relating to UK Government consequential funding (including: £47.3 million due to the NHS pay settlement; £20.6 million due to the UK's exit from the EU; and £8.7 million relating to Teacher's pay).
  - **£30 million increase** from HM Treasury relating to increase in personal injury claims liability as a result of changes to the discount rate.
  - **£20.3 million net decrease** from transfers with other government departments (including: £24.8 million to the Department for Transport relating to the new rail franchise access charge adjustment; and £3.4 million increase from the Ministry of Justice in respect of "Offender Learning" at HMP Berwyn).
  - **£43.2 million net decrease** relating to four "budget switches" in Welsh Government DEL (including: £48 million due to reclassification of research and development as capital from revenue; increase of £24.8 million capital to revenue relating to the access charge adjustment; £12

million resource to capital switch relating to the health service; and £8 million revenue to capital to “manage the end year position”).

- **£5.4 million increase** relating to the Immigration Health Surcharge (consisting of £4.4 million from the Home Office and £1.1 million from HM Treasury).
- **£5.3 million decrease** relating to revisions in the Block Grant Adjustment.

**5.** The non-cash (non-fiscal) revenue baseline has increased by £240 million. This relates to the impact of raising the student loan repayment threshold and comes from HM Treasury.

### Changes to Capital baseline

**6.** General Capital has increased by £104 million to £1.7 billion, including:

- £57.2 million in UK Government consequentials;
- £43.2 million net increase in budget switches;
- £3.5 million net increase due from transfers with other government departments (including £2.1 million from the Department for Business, Energy and Industrial Strategy in respect of Energy Efficiency).

**7.** £50 million is planned to be drawn down from the Wales Reserve for general capital expenditure.

# 1. Strategy and planning

## Changes to Annually Managed Expenditure

**8.** Annually Managed Expenditure (AME) budgets reflect the latest HM Treasury forecasts, adjustments made since the first supplementary budget include:

- £53 million increase for impairments and provisions for the NHS in Wales;
- £2 million decrease relating to fire service pensions;
- £3 million increase relating to the pensions provisions for Careers Wales;
- £6.1 million decrease relating to impairments for the roads network;
- £12.3 million net increase for Student Loans.

## Budget prioritisation

**9.** 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 those goals.

**10.** In Autumn 2017, the Welsh Government published its national strategy, Prosperity for All. This has four elements; Prosperous and Secure, United and Connected, Healthy and Active, and Ambitious and Learning. The documentation around the budget 2019-20 focused its narrative around the four key themes and six priority areas identified in Prosperity for All. The Second Supplementary Budget does not follow this format.

**11.** Following scrutiny of the draft budget 2019-20, the Committee recommended that the Welsh Government continues to demonstrate how it is embedding the WFG Act in decision making, as well as emphasising that the Strategic Integrated Impact Assessment (SIIA) should clearly demonstrate how the principles of the WFG Act are being applied. The Welsh Government accepted the first of the recommendations and accepted in principle the second recommendation.

**12.** The Minister was asked how Prosperity for All and the WFG Act informed allocations. The Minister said:

“The supplementary budget aligns our spending very much to ‘Prosperity for All’ and our programme for government. And, in making decisions that relate to spend, officials, at every point in the process, will look at it through the lens of the future generations Act, for example, to ensure that we are delivering value for money in that respect.”<sup>1</sup>

**13.** The Minister explained that the Welsh Government has worked with the Future Generations Commissioner, and continued:

“We do think about the long term, and we can demonstrate that we do that through work with people and communities, taking a preventative approach to try and stop problems happening in the first place, and also taking a much more joined-up, cross-Government and cross-public sector approach to the budget.”<sup>2</sup>

**14.** In terms of specific examples as to how allocations reflected the Welsh Governments approach to future generations, the Minister said:

“Some specific examples of that, which you’ll find in the second supplementary budget, would be our additional investment of £3.7 million for minority ethnic, Gypsy/Roma/Traveller learners, for example, together with funding of £4 million for free school meals, which supports our ambitions to ensure that all children have the best possible start in life. You’ll have seen allocations made within the health department, for example, clearly, again, also aligned with these goals. And £4 million for further work on the public sector broadband aggregation, which will improve digital connectivity within communities as well. So, all very much focused on delivering the aspirations of the future generations Act, whilst also consulting with the commissioner in the way that we work.”<sup>3</sup>

**15.** The Minister confirmed that “all... decisions... are done within the context of the future generations Act explicitly”.<sup>4</sup>

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<sup>1</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 8

<sup>2</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 34

<sup>3</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 34

<sup>4</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 35

16. The Minister said that the approach to the WFG Act is an “evolutionary process”<sup>5</sup> and there was “more work to do”<sup>6</sup>.

17. In terms of the level of detail contained in the supplementary budget, the Minister believed that the budget was transparent:

“As I said earlier on, many of the decisions that are put before people in the second supplementary budget have been made by Ministers in-year and have been scrutinised in the Chamber. A number of these things, for example, I announced in the draft budget. The opportunity was there to discuss those and debate those in the Chamber.”<sup>7</sup>

## Reserves/Unallocated funds and carry forward

18. Unallocated resource/capital at the Second Supplementary budget are shown in Table 1 and compared to reserves at the second supplementary budget 2017-18:

Reserve / unallocated fund	£ million	
	Second Supplementary Budget 2017-18	Second Supplementary Budget 2018-19
Fiscal resource	145.0	35.4
Non-fiscal resource	118.0	146.2
General capital	38.0	0.7
Financial transactions capital	151.8	10.3

Table 1: Reserves / unallocated funds at second supplementary budget<sup>8</sup>

19. When asked why these funds are so much lower this year than last year, the Minister explained:

“... the reason why reserves are different this year from last year is because, in the previous financial year, we were looking to set up the Wales reserve, which we have now, in terms of the multi-annual reserve, which was a new tool for us at that point. So, that’s why reserves were so much higher at that point in order to transfer money to that to try and maintain the maximum reserve that we could.”<sup>9</sup>

<sup>5</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 39

<sup>6</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 41

<sup>7</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 45

<sup>8</sup> Source: [Second Supplementary Budget 2017-18](#) and [Second Supplementary Budget 2018-19](#)

<sup>9</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 88

**20.** The Minister confirmed that she was comfortable with the level of reserves.<sup>10</sup>

### Committee view

**21.** The Committee recognises that achieving the ambitions of the WFG Act is an ongoing and long term process. However, it is disappointing that there is little evidence as to how the WFG Act is being considered at the heart of all Welsh Government decisions.

**22.** The WFG Act has now been in place for three years, as such the Committee believes it is no longer acceptable for the Welsh Government to cite the longer term nature of the legislation as a reason why the legislation is not being fully considered in funding and spending decisions.

**23.** The Committee is disappointed that the Welsh Government believes in-year announcements of activities included the supplementary budget are an adequate replacement for a comprehensive narrative of the budget in the round. Whilst the Committee accepts that it may not be appropriate to include the level of detail in a supplementary budget as included in the draft or final budgets, but the supplementary budget should demonstrate the Welsh Government's overall strategic planning of its finances. This includes evidencing why the priorities included in the supplementary budget have been funded and how these funding decisions meet the objectives of Prosperity for All.

**24.** The Committee notes that at the second supplementary budget 2018-19 the total unallocated funds are £192.5 million, this compares to £452.8 million held at the same point in 2017-18. The Minister confirmed that she felt the level of reserve was adequate. However, the Committee believes that the budget could be more transparent in the way it presents unallocated resources and the Wales reserve to ensure as full a picture of finances is provided as possible.

**Recommendation 1.** The Committee recommends that the Welsh Government provides a comprehensive objective setting plan as to how it intends to deliver the requirements of the Well-being of Future Generations (Wales) Act 2015, in terms of budgeting, by the end of this Assembly.

**Recommendation 2.** The Committee recommends that the Welsh Government reviews the content of its future supplementary budget information with a view to aligning its narrative more closely with draft and final budgets.

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<sup>10</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 90

**Recommendation 3.** The Committee recommends that the Welsh Government includes information on the overall level of the Wales reserve in all its budget narratives.

## 2. Health and Social Care

### Changes in this supplementary budget

**25.** Changes to resources in Health and Social Services include a net increase of £74.1 million in cash resource and £1.5 million in non-fiscal resource. General capital is due to increase by £66.7 million. Within the MEG, £100.6 million has transferred from the Education and Training BEL, and £3.9 million from the Core NHS Allocations BEL to set up the new “Health Education and Improvement Wales” body.

### Winter pressures

**26.** In October 2018, the Welsh Government announced an additional £5 million to help relieve winter pressures. This is part of the new £15 million annual funding announced in July 2018. The then Cabinet Secretary for Health and Social Services noted:

“When I announced the £15m funding and Task and Finish Group back in July I wanted us to have a firmer central hand in place to ensure the right services are delivered in the right place, at the right time to secure more sustainable services for the future. The money I’ve announced today is that ambition in action and I hope the money allocated today to help increase critical care capacity will make a real difference this winter.”<sup>11</sup>

**27.** This supplementary budget allocates £4 million to the Sustainable Social Services BEL to fund Winter pressures. A further £16 million for Winter pressures was also announced in late October, the Cabinet Secretary for Health and Social Services stated:

“I have made the decision to allocate this funding earlier than in previous years to ensure local health and care teams are as prepared as they can be for the winter to come.”<sup>12</sup>

**28.** An announcement was made in January 2019, highlighting performance over the festive period. The announcement stated that the period had been less

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<sup>11</sup> Welsh Government, News release, £5 million to help relieve pressure on critical care this winter, 17 October 2018

<sup>12</sup> Welsh Government, News release, £20million to support Welsh NHS and partners this winter, 25 October 2018



pressured than last year, busier than five years ago and that ambulance calls in December had been relatively high.

**29.** The Minister was asked about the additional funding for winter pressures and confirmed that this was funding from within the health MEG. The accompanying official said:

“There was £4 million that came from—in this supplementary budget, for social services winter pressures, which I think added to an allocation made within that MEG of £10 million, to bring it to £14 million overall. There was no additional funding specifically for winter pressures in this budget from central reserves.”<sup>13</sup>

**30.** The Minister said that winter pressures are different each year and “...it’s entirely appropriate for the Health Minister to maintain some kind of flexibility, in order to be able to respond in an agile way to those particular pressures, year on year”.<sup>14</sup>

## Financial duties on Health Boards

**31.** NHS bodies in Wales are required (by the National Health Service Finance (Wales) Act 2014) to “break even” over a three-year rolling period. The aggregate position for all Local Health Boards (LHBs) for the three-year period to 2016-17 was a net overspend of £253 million, for the three-year period to 2017-18 the overspend had increased to £365 million.

**32.** In June 2018, the Cabinet Secretary for Health and Social Services published “A Healthier Wales: our Plan for Health and Social Care”, which set out the Welsh Government’s long term plan in response to recommendations set out in “The Parliamentary Review of Health and Social Care Final Report – A Revolution from Within: Transforming Health and Care in Wales”.

**33.** Table 2 below, sets out the forecast outturn for 2018-19 at Month 9, December 2018. LHBs report an aggregate anticipated deficit of £90.4 million.

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<sup>13</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 64

<sup>14</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 61

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Table 2: Financial Performance Local Health Boards (2018-19)

£ million, (Over)/under-spend			
	Annual Plan, 2018-19	Position at:	Outturn to date, 2018-19
ABMU <sup>15</sup>	(10.0)	Month 9	(13.8)
Aneurin Bevan	0.0	Month 9	(0.6)
Betsi Cadwaladr	(35.0)	Month 8	(26.6)
Cardiff & Vale	(9.9)	Month 9	(7.4)
Cwm Taf	0.0	Month 9	0.0
Hywel Dda	(35.5)	Month 9	(27.2)
Powys	0.0	Month 9	(0.8)
<b>Net under/(overspend)<sup>16</sup></b>	<b>(90.4)</b>		<b>(76.4)</b>

**34.** Last year, responding to questions on overspends in LHBs, the then Cabinet Secretary for Finance stated:

“What I think you will see, I believe, at the end of this year—I remain confident that, at the end of this year, you will find that, in the round, health organisations in Wales have lived within the totals available to them. So, there has not been a further rise in overspending in the health service in that way. Then, the ambition of the health Secretary is, with the extra investment that we are giving him, that that will be on a downward trajectory now, over the next small number of years.”<sup>17</sup>

**35.** On 2 August 2018, £6.8 million of Welsh Government funding was announced for Betsi Cadwaladr University Health Board. This funding was intended to strengthen the Health Board’s delivery of planned and unscheduled care. This Supplementary Budget includes £24 million for Betsi Cadwaladr UHB special measures support.

**36.** The Minister confirmed that the Health MEG has not received any additional funding to support NHS deficits.<sup>18</sup>

**37.** Looking ahead the Minister said:

<sup>15</sup> Paragraph 3.1.1 states The Health Board has reduced its year-end forecast deficit to £10m following the non-recurrent provision of additional WG funding to support service pressures and performance

<sup>16</sup> Source: relevant Health Board monthly reporting

<sup>17</sup> Finance Committee, Record of Proceedings, 14 February 2018, paragraph 78

<sup>18</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 68

“... we are optimistic that the number of organisations in deficit and the level of the overall deficit will be reduced further from what we have seen in this current year. All NHS organisations have submitted their plans for the next financial year, and they are currently being reviewed by officials. There do remain challenges in Besti Cadwaladr and Hywel Dda health boards, as you’ll be very aware, and it was expected that some provision will need to be made in the health and social services budget next year, for continued overspends in these health boards. But officials do work closely with those health boards, and their finance departments, to seek to support them.”<sup>19</sup>

## Committee view

**38.** The Committee recognises that winter pressures may vary from year to year but in the UK these sorts of pressures are largely predictable and effective planning by the Health Minister with LHBs should ensure there is not a requirement for significant in-year funding. Members are concerned that the Health MEG has the potential to act as a reserve in its own right for providing additional health funding.

**39.** The Committee believes that providing LHBs with as complete a picture of their funding as possible, including anticipated Winter Pressures funding, at the start of the financial year is a better and more efficient approach than allocating this funding in-year.

**40.** The Committee notes the Minister’s optimism that the position of LHBs currently in deficit will improve. However, the Committee believes the required action will only be achieved through adequate financial control and monitoring, and the Minister for Finance should have an active role in this due to the level of health funding.

**Recommendation 4.** The Committee recommends that financial planning accounts for predictable spend on Winter Pressures as early as possible in the budgeting process.

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<sup>19</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 69

## 3. Economy and Transport

### Changes in this supplementary budget

**41.** The changes to resource for Economy and Transport are a net increase of £36.1 million in cash resource. Changes to capital for Economy and Transport are a net increase of £71.8 million in general capital and £83.7 million financial transactions.

**42.** Within the MEG, £25 million of capital has transferred into the New Road Construction and Improvement BEL (£16 million from Rail and Investment BEL and £9 million from ICT infrastructure Operations BEL). The Supplementary Budget notes that these amounts will be repatriated in 2019-20.

### Roads funding

**43.** The capital for Economy and Transport includes £27.8 million for the New Road Construction and Improvement BEL relating to the “completion of the statutory process and essential activities such as environmental surveys in respect of the M4”.<sup>20</sup>

**44.** When asked whether a decision on the M4 Relief Road had been made in February 2019, the First Minister said:

“... I have neither seen the report nor seen any of the accompanying advice ... I will make a decision in the best possible way. I will do it in full consideration of all the factors that go into making it, and I will make it in the best way that I can.”<sup>21</sup>

**45.** The Minister was asked about the money allocated for preparatory work on the M4. She said the money was for various activities “to prepare for the potential of a positive decision”.<sup>22</sup> The Minister cited examples where the funds had been committed including ecological survey data, utility diversions, Network Rail interface agreements, NRW costs and support to businesses.<sup>23</sup>

**46.** The Minister was asked about her discussions with the First Minister on the M4 relief road. She confirmed that she had not spoken to the First Minister about

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<sup>20</sup> Welsh Government, Second Supplementary Budget 2018-19 Explanatory Note, paragraph 5.6

<sup>21</sup> Plenary, Record of Proceedings, 5 February 2019, paragraph 25

<sup>22</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 104

<sup>23</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 105-106

the issue since their discussions in December on her Cabinet role<sup>24</sup>, but is having discussions with officials on the proposals<sup>25</sup>.

**47.** The UK Government has suggested that it would review the Welsh Government's capital borrowing powers and would consider increasing borrowing limits by £300 million to support development of the M4 relief road.

**48.** When asked about this possible increase in borrowing limits, the Minister said:

“...in terms of the £300 million that the UK Government has referred to, I would say it really is not the role of the UK Government to be stipulating how the Welsh Government spends any of its money, even if it is loan money, for example, or borrowed money. That is because it's for Welsh Government to put proposals to this National Assembly for decision, rather than seeking any kind of input from the UK Government on our spending plans.”<sup>26</sup>

**49.** The Minister confirmed that she would be meeting with the Chief Secretary to the Treasury and, as part of those discussions, the Minister would be discussing borrowing limits.<sup>27</sup>

## Committee view

**50.** The Committee is surprised that discussions have not taken place between the Minister and the First Minister in terms of planning for a possible M4 relief road, especially with the additional funding that this supplementary budget commits. A substantial amount of money is being spent in the preparation phase, and the Committee believes that discussions should be taking place to consider long term financing of the scheme in advance of the decision on whether to proceed.

**51.** Should the relief road go ahead, the financing will clearly be a significant element and will impact on the Welsh Government's borrowing capacity. The Committee agrees that the UK Government should not be able to direct the spending priorities of the Welsh Government, but it is also apparent that borrowing limits may need to be increased should the scheme go ahead. The

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<sup>24</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 113

<sup>25</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 115

<sup>26</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 121

<sup>27</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 122

Committee would welcome an update on discussions with the Chief Secretary to the Treasury after they have taken place.

**Recommendation 5.** The Committee is concerned about the level of funding being committed to a project when so much uncertainty exists and recommends that the Welsh Government provides additional details on the planning for the M4. The Committee would welcome clarity over whether the additional funding would have been needed had a decision been made at the time it was originally intended in December 2018, and how much additional money may need to be committed before a decision is taken.

**Recommendation 6.** The Committee recognises that a decision is yet to take place on whether to proceed with the M4 relief road, but if the intention is to progress the scheme, would recommend that the Minister for Finance and the First Minister commence discussions on a long term financing plan for the M4 relief road.

## 4. Central Services and Administration

**52.** Fiscal resource for the Central Services and Administration MEG will increase by £30.9 million, non-fiscal resource will increase by £3.9 million and an additional £390,000 of financial transactions capital has been allocated to the MEG.

### Voluntary exit scheme

**53.** The increase includes £9.5 million to support reshaping the workforce. The Minister explained that this would be used for a voluntary exit scheme,<sup>28</sup> with the possibility of creating additional posts for Brexit<sup>29</sup>.

**54.** The Minister's official explained that the scheme would be looking to bring new skills into the Welsh Government and, as the scheme is ongoing, there are no figures on savings or actual costs,<sup>30</sup> but the Minister said that savings would be anticipated<sup>31</sup>.

### Invest to save

**55.** The supplementary budget includes a net transfer of £2.4 million to the Central Services and Administration MEG in relation to Invest-to-Save. When asked about the money included for invest to save and how the fund worked, the Minister said good results were being achieved, but more thought was needed as to how results are mainstreamed<sup>32</sup> and become "part of the normal way we do things"<sup>33</sup>.

### Committee view

**56.** The Committee recognise that the Welsh Government is attempting to re-shape the workforce with the voluntary exit scheme, but would expect a scheme of this value to result in some savings to the organisation.

**57.** The Committee is keen to continue to explore the potential of the invest-to-save scheme and will look to consider further reports and information on this matter as and when they are available. In this regard, the Committee would

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<sup>28</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 184

<sup>29</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 187

<sup>30</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 185

<sup>31</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 189

<sup>32</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 200

<sup>33</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 202

welcome any information the Welsh Government may wish to provide on progress of projects and the success of the scheme to date.

**Recommendation 7.** The Committee recommends that the Welsh Government provides an update to the Committee on the outcome of the voluntary exit scheme, which includes how the funding was utilised, how many people exited the organisation, how many Brexit posts were created and what savings were/will be achieved.



## 5. Brexit

**58.** The Supplementary Budget notes UK Consequentials of £20.6 million in relation to “the UK’s exit from the EU”. It also details £6.3 million in transfers from reserves relating to EU transitional funds. £5 million has transferred from International Relations and the Welsh Language to Central Services and Administration in regard of transition costs.

**59.** Individual allocations relating to EU transition include: £1.4 million for Employability and Skills funding (£750,000 for Airbus & £600,000 for Ford); £132,000 for business resilience; £50,000 for collective capacity building; £1.8 million for red meat benchmarking; various funding streams within Health and Social services totalling £398,000; £435,000 for police partnership resilience; £150,000 for the WLGA; £787,000 for Global 2 funding; £280,000 for export online support; £250,000 for enhanced export services; £100,000 for trade intelligence and non-EU market scoping; £100,000 for import substitution; £96,000 for export health certificates; £90,000 for Welsh fisheries and aquaculture sectors; £150,000 for OECD; £100,000 for a citizens rights project; and £45,000 for “Empowering communities in the context of Brexit. £3.8 million is also included for managing EU structural funds.

**60.** Regarding consequentials due to Brexit funding, the Minister noted:

“...in December 2018, the UK Government informed us that we would have a £30.1 million Barnett consequential as a result of the UK Government’s spend on Brexit. This is £10 million more than we received last year, so we’re currently exploring how best to deploy that. The decision was made with the previous money related to Brexit that, actually, we would be using it for Brexit purposes within our own budget...”<sup>34</sup>

**61.** The Minister said that the Welsh Government is working with stakeholders to identify projects that will support the Brexit transition. The Minister said she would “be making some further announcements now on the EU transition fund in the very near future” and that the current focus is on preparing for a potential “no deal” Brexit.<sup>35</sup>

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<sup>34</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 173

<sup>35</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 171

**62.** The Minister was asked how a “no deal” Brexit would impact on Welsh Government budgets. The Minister said:

“I think the kind of Brexit that we have will clearly have a huge impact on budgets. A ‘no deal’ Brexit has been referred to and described as catastrophic many times, and I know that it will be hugely challenging for Welsh Government. So, certainly, we would be looking to UK Government for significant additional funding in the event of a ‘no deal’ Brexit. The Chancellor has referred to the spring statement as potentially being a major fiscal event – so, code, I suppose, for an emergency budget, depending on the outcome of the Brexit negotiations, again. So, we would expect there to be significant funding from the UK Government in order to help us support our organisations and businesses and so forth through a difficult period.”<sup>36</sup>

**63.** Based on the current uncertainty, the Minister was asked whether there was flexibility built into the Welsh Government’s budget to deal with fiscal demands in the event of a “no deal” Brexit. The Minister said:

“We’ve been careful over a number of years to ensure that we do have the maximum within our reserves and precisely for difficult periods that we find ourselves in. So, there is that, but, clearly, we would expect a greater input from the Treasury were there to be a ‘no deal’ Brexit.”<sup>37</sup>

**64.** The Welsh Government included resourcing of Brexit related matters in the draft budget 2018-19, valued at £5 million over two years. The detailed draft budget for 2019-20 notes:

“The two-year budget agreement with Plaid Cymru allocated £5m for Brexit preparedness, including business support, over two years. This funding will be invested in a Brexit portal, building on the existing information, advice and guidance provided by Business Wales to support businesses to prepare for Brexit. The Welsh Government developed an app to aid our food and drink businesses consider steps that need to be taken ahead of Brexit. We are also expanding our operations overseas to protect existing markets.”

**65.** The House of Lords published a report on the European Investment Bank (EIB) on 5 February 2019. This notes:

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<sup>36</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 175

<sup>37</sup> Finance Committee, Draft Record of Proceedings, 14 February 2019, paragraph 177

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“...the EIB has played a significant role in the UK economy in the last 20 years and particularly over the last decade. This raises the prospect that there could be a financing gap both for infrastructure projects and SMEs once the UK loses access to the EIB after March 2019; indeed, the decline in funding since 2016 suggests that this gap may already be materialising.”<sup>38</sup>

**66.** The Committee discussed Wales’ future relationship with the EIB during its scrutiny of the **First Supplementary Budget**, with the then Cabinet Secretary for Finance noting that the Welsh Government had “always argued for the UK to remain a subscribing partner”.<sup>39</sup>

### Committee view

**67.** The Committee supports the Welsh Government utilising the full consequential relating to Brexit for preparations for leaving the EU. However, the Committee is concerned that uncertainty around the nature of the UK’s exit from the EU at a UK level places significant risk on the Welsh Government’s planning.

**68.** The Committee reiterates its comments following scrutiny of the 2019-20 draft budget, that the budget must be flexible in order to meet a range of eventualities and outcomes of decisions at a UK level:

“The Committee notes the need for the budget to be flexible in relation to preparing for Brexit, but recommends that the first supplementary budget 2019-20 provides, as far as is practicable, a detailed summary of how the final Brexit Agreement has informed the Welsh Government’s in-year spending plans.”<sup>40</sup>

**69.** The Committee supports the Welsh Government’s comments that it would look to the UK Government in the event of a “no deal” scenario to secure any relevant funding and would expect to be kept informed of developments should this scenario transpire.

**Recommendation 8.** The Committee recommends that in future budgets the Welsh Government provides as full a narrative as possible on its activities relating to the UK’s exit from the EU.

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<sup>38</sup> House of Lords, **HL Paper 269**, Brexit: the European Investment Bank, 31 January 2019

<sup>39</sup> Finance Committee, Record of Proceedings, 27 June 2018, paragraph 283

<sup>40</sup> Finance Committee, **Scrutiny of the Welsh Government Draft Budget 2019-2020**, November 2018

## 6. Assembly Commission

**70.** The Assembly Commission wrote to the Committee in December 2018 to advise that there would be a change to its 2018-19 budget through the supplementary budget process. The Committee considered the Supplementary Budget Explanatory Memorandum at its meeting on 9 January 2019. In accordance with Standing Order 20.32, the Assembly Commission subsequently laid the Explanatory Memorandum on 17 January 2019.

**71.** The Explanatory Memorandum included a decrease in AME of £500,000 and a decrease in the Remuneration Board's Determination for AMs of £500,000.

**72.** The change in AME relates to a non-cash adjustment in respect of the future financial liability of the Assembly Member pension scheme and is a technical accounting adjustment.

**73.** The £500,000 reduction relating to the Remuneration Board's Determination is on the basis that the £500,000 will not be utilised in-year. The Assembly Commission notes in its correspondence:

“...while it would certainly be possible to bring forward priority projects in to this financial year in order to utilise £500k, we are mindful of our commitment regarding any underspend against the Remuneration Board Determination in future years. Accordingly, we are adopting the same principle for the unutilised sum identified this year; we will not draw down the £500k and present this supplementary budget to amend the original laid budget.”<sup>41</sup>

### Committee view

**74.** The Committee welcomes the opportunity to consider the Explanatory Memorandum provided by the Assembly Commission prior to it being laid, and before the Supplementary Budget motion is considered by the Committee.

**75.** The Committee welcomes the reduction of £500,000 which is not being utilised to meet the Remuneration Board's Determination. The Committee believes this approach is more transparent.

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<sup>41</sup> Suzy Davies, Assembly Commission Letter and Supplementary Budget 2018-19 Explanatory Memorandum, 18 December 2018

**Conclusion 1.** The Committee notes the information in the Assembly Commission Supplementary Budget 2018-19 Explanatory Memorandum, and welcomes this new, transparent approach to the underspend from the Remuneration Board's Determination.

## 7. Public Services Ombudsman for Wales

**76.** As required by [Standing Order 20.36](#), the Public Services Ombudsman for Wales (PSOW) submitted an [Explanatory Memorandum](#) to the Committee on 3 December 2018.

**77.** The Committee considered the Explanatory Memorandum at its meeting on [9 January 2019](#). The Committee noted that the Explanatory Memorandum identified that funds were being moved between revenue and capital. This included increasing capital funding for ICT hardware and software of £204,000, made up from reductions across a range of categories for revenue funding.

**78.** The Committee noted that there was no detail provided for an increase of £38,000 to “Salaries and related costs”, and subsequently wrote to the PSOW seeking clarity.<sup>42</sup>

**79.** The Ombudsman’s responded stating that, in preparing the Explanatory Memorandum, he had followed advice from Welsh Government officials and the Wales Audit Office (WAO). He also noted that avoiding the need for the Committee to consider smaller, detailed changes in how the budget is expended maintains the independence of the office. However, he did recognise “a clear distinction between the need to maintain this independence, perceived and actual, and my wish to be open and accountable about my use of public money”.<sup>43</sup>

**80.** He went on to explain that the increase in Salaries and related costs of £38,000 related primarily to the appointment of an in-house translator to replace reliance on external translation services and to enhance services in the Welsh language.

**81.** When providing evidence on his Estimate 2019-20, the Ombudsman was asked about the expected increase in staff costs. The Ombudsman’s Financial Accountant told the Committee that some services, such as Welsh language translation, had been brought in-house, therefore the cost would now be incurred as staff rather than other costs.<sup>44</sup>

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<sup>42</sup> [Letter from the Chair of the Finance Committee to the Public Services Ombudsman for Wales](#), 14 January 2019

<sup>43</sup> [Letter from the Public Services Ombudsman for Wales to the Chair of the Finance Committee](#), 17 January 2019

<sup>44</sup> Finance Committee, Record of Proceedings, 11 October 2018, paragraph 173-177

## Committee view

**82.** Whilst recognising the need for the PSOW's office to remain independent, the Committee also recognises that as the Accounting Officer, the Ombudsman is the person who the National Assembly calls to account for the stewardship of resources; he is accountable for the use of public money.

**83.** The Finance Committee, by virtue of Standing order 20.36(ii), is required to consider and lay the Explanatory Memorandum before the Assembly. Should an Explanatory Memorandum be provided to the Committee, it is reasonable for the Committee to require details of all the changes included in the document, to ensure openness and transparency at all stages of the process.

**84.** Given the nature of the change (moving from other costs to staff cost), as well as the Committee's comments about the increase in staff costs and its recommendations about presenting future Estimates set out in its [report on the Estimate 2019-20](#), the Committee would have expected commentary in the Explanatory Memorandum to explain all movements of resource.

**Conclusion 2.** The Committee is content with the Explanatory Memorandum provided to the Committee but would hope that, in preparing future Estimates and supplementary budgets, the Ombudsman will reflect on the Finance Committee's recommendations about how his budget should be presented and what information is provided in support of his requests.

# Annex



## Public Services Ombudsman for Wales

### 2<sup>nd</sup> Supplementary Budget 2018-19

#### Explanatory Memorandum to the Chair of the Finance Committee

## Background

The Public Services Ombudsman for Wales 2018-19 budget was included in the Annual Budget Motion required under Standing Order 20.26, laid on 19<sup>th</sup> December 2017 and amended at the first Supplementary Budget in April 2018. Movement of funds between revenue and capital are requested as follows:

## Capital

### Hardware

The need for investment in an IT infrastructure upgrade, including servers and back up / recovery solutions, has previously been highlighted to Finance Committee. This investment will manage the risks associated with PSOW nearing current server capacity and the lack of an efficient and quick full IT recovery solution.

### Software

Major enhancement to PSOW's case management system will be implemented by March 2019 that improve functionality and reporting.

No additional funding is requested but resource and cash virements from Revenue to Capital DEL.

2 <sup>nd</sup> Supplementary Budget 2018-19	Resource	Cash
	£000s	£000s
Capital DEL	204	204
Revenue DEL	-204	-204
<b>Net resource/cash requirement</b>	<b>-</b>	<b>-</b>



## Public Services Ombudsman for Wales

Supplementary Budget 2018/19	1 <sup>st</sup> Supplementary Budget 2018/19	2 <sup>nd</sup> Supplementary Budget 2018/19	Change
	£'000	£'000	
<b>Capital DEL</b>	25	229	204
<b>Fiscal Revenue DEL</b>			
Salaries and related costs	3,152	3,190	38
Premises	435	375	-60
Computer systems and support	225	160	-65
Office costs	130	110	-20
Advisory and legal fees	300	248	-52
Communications	70	40	-30
Training and recruitment	55	40	-15
Travel and subsistence	40	40	0
Audit fee	20	20	0
<b>Sub total</b>	<b>4,427</b>	<b>4,223</b>	<b>-204</b>
Income	-62	-62	0
<b>Total Fiscal Revenue DEL</b>	<b>4,365</b>	<b>4,161</b>	<b>-204</b>
<b>Non-cash DEL</b>			
Depreciation	70	70	0
<b>Revenue DEL (B+C)</b>	<b>4,435</b>	<b>4,231</b>	<b>-204</b>
<b>Total DEL (A+B+C)</b>	<b>4,460</b>	<b>4,460</b>	<b>0</b>
<b>Annually Managed Expenditure (AME)</b>			
Movement on LGPS	0	0	0
Provisions movement	20	20	0
<b>Total AME</b>	<b>20</b>	<b>20</b>	<b>0</b>
<b>Total Managed Expenditure</b>			
A+B+C+D	<b>4,480</b>	<b>4,480</b>	<b>0</b>
<b>Resources Required</b>	<b>4,480</b>	<b>4,480</b>	<b>0</b>
Depreciation	-70	-70	0
Change in Provisions	-20	-20	0
Other movements in Working Capital	20	20	0
<b>Net Cash Requirement</b>	<b>4,410</b>	<b>4,410</b>	<b>0</b>