

Scrutiny of Welsh Government Second Supplementary Budget 2019-2020

February 2020



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Scrutiny of Welsh Government Second Supplementary Budget 2019-2020

February 2020



About the Committee

The Committee was established on 22 June 2016. Its remit can be found at:
www.assembly.wales/SeneddFinance

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Plaid Cymru

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Contents

Recommendations and Conclusions	5
1. The Second Supplementary Budget	7
2. Overall funding	9
3. Prioritisation	15
4. Directly funded bodies.....	22

Recommendations and Conclusions

Recommendation 1. The Committee recommends that details are made available to the Committee as soon as possible after the UK Budget detailing the impact of changes at the UK level on the Welsh Budget, specifically in relation to the 2019-20 Budget.Page 14

Recommendation 2. The Committee recognises the issues detailed by the Minister in relation to the late notification by the UK Government of financial transactions allocations following the UK Supplementary Estimates and recommends the Welsh Government continues to seek an increase in the annual carry forward of financial transactions capital to reflect both the more complex nature of projects which use this funding and uncertainties that frequent late in-year changes by the UK Government add to planning and administering the allocation of this funding.Page 14

Recommendation 3. The Committee recommends that updates are provided on the Welsh Government's discussions with the UK Government following the HS2 announcement and whether this will result in consequential funding for Wales.Page 14

Recommendation 4. The Committee recommends that the Welsh Government provides additional detail in the outturn report to identify the detailed end of year position, including significant allocations that are made following this Supplementary Budget..... Page 21

Recommendation 5. The Committee recommends that the Welsh Government discusses the long term affordability of the students loan policy with the UK Government and reports back to the Committee..... Page 21

Recommendation 6. The Committee recommends that the Auditor General and Wales Audit Office provides an update as to how early delivery of fee earning work will impact on future fee income, including what implications this may have on the baseline for fee income going forward and any implications on its future work plan and resourcing arrangements.Page 23

Conclusion 1. The Committee supports the Minister in her efforts to ensure that the impact of UK decisions are transparent, applied consistently and accompanied by appropriate funding, and firmly believes that clarity is needed around UK Government decisions and how the statement of Funding policy is applied.....Page 14

Conclusion 2. The Committee is content with the variation to the budgets for the Assembly Commission and the Auditor General for Wales and the Wales Audit Office..... Page 23

1. The Second Supplementary Budget

1. The Supplementary Budget Motion (the Supplementary Budget) was laid on 4 February 2020, and was accompanied by an Explanatory Note. The Minister for Finance and Trefnydd (the Minister) gave evidence to the Committee on this Supplementary Budget on 12 February 2020.

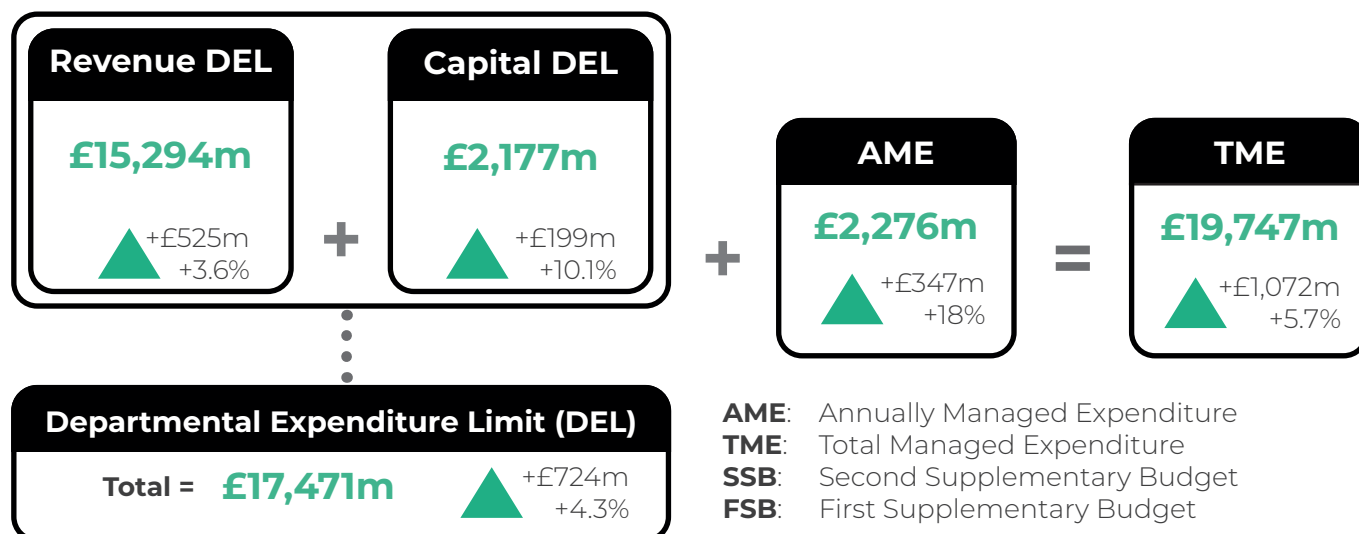
2. This Supplementary Budget reflects budgetary changes since the First Supplementary Budget 2019-20. It sets out allocations from reserves, transfers between Welsh Government portfolios and includes revised Annually Managed Expenditure (AME) forecasts. It also includes revisions to forecasts of devolved taxes, Block Grant Adjustments, funds drawn from the Wales Reserve, and proposed borrowing from the National Loan Fund. The Supplementary Budget allocates an additional £1,071.6 million to departments, increasing Welsh Government expenditure from £18.7 billion at the First Supplementary Budget 2019-20 to £19.7 billion, an increase of 5.7 per cent.

3. Figure 1 below contains headline figures from this Supplementary Budget, showing cash movement from the First Supplementary Budget 2019-20.¹

¹ Welsh Government, Second Supplementary Budget 2019-20 and Assembly Research Services calculations

Welsh Government Second Supplementary Budget 2019-20

Headline figures from the Second Supplementary Budget (SSB), showing cash movements from the First Supplementary Budget (FSB) 2019-20



DEL is the discretionary part of the budget that the Welsh Government chooses how to spend.
AME is the non-discretionary part of the budget.

Total revenue and capital allocation

Change FSB to SSB

	Total revenue and capital allocation	Change FSB to SSB
Health and Social Services	£8,477m	+£103m 1.2%
Housing and Local Government*	£4,621m	+£99m 2.2%
Education	£2,133m	+£404m 23.4%
Economy and Transport	£1,376m	+£85m 6.6%
Environment, Energy and Rural Affairs	£296m	-£3m -1.0%
Central Services and Administration	£384m	+£29m 8.0%
International Relations and the Welsh Language	£184m	+£8m 4.4%

*Excludes £1bn non-domestic rates income.



2. Overall funding

4. The amount of funding available to the Welsh Government is due to increase by £604.6 million (3.1 per cent), compared to the 2019-20 First Supplementary Budget. This includes a net increase in revenue funding of £565.8 million (3.5 per cent) and a net increase in capital funding of £38.8 million (1.3 per cent). Total Welsh Financing stands at £20.0 billion.

5. Changes to Main Expenditure Groups (MEGs) are set out in the table below.²

Main Expenditure Group	2019-20 First Supplementary Budget	2019-20 Second Supplementary Budget	Change First Supplementary Budget to Second Supplementary Budget		Real terms change	
	£000	£000	£000	per cent	£000	per cent
Health and Social Services	8,495,236	8,816,174	320,938	3.8	320,938	3.8
Housing and Local Government	5,607,571	5,714,297	106,726	1.9	106,726	1.9
Economy and Transport	1,353,374	1,451,267	97,893	7.2	97,893	7.2
Education	2,379,562	2,892,257	512,695	21.5	512,695	21.5
International Relations and the Welsh Language	179,767	187,497	7,730	4.3	7,730	4.3
Environment, Energy and Rural Affairs	300,840	297,904	-2,936	-1.0	-2,936	-1.0
Central Services and Administration	358,913	387,446	28,533	7.9	28,533	7.9
Total Welsh Government TME Allocations	18,675,263	19,746,842	1,071,579	5.7	1,071,579	5.7

² Welsh Government, Second Supplementary Budget 2019-20 and Assembly Research Services calculations

Changes to forecasts and block grant adjustments

- 6.** The tax forecasts in the 2019-20 Budget were based on the Welsh Government's own forecasts, with independent validation of the methodology by Bangor University.
- 7.** The financing from the Welsh Rate of Income Tax, in this first transitional year following partial devolution of this tax, remains unchanged at £2,059 million. This Supplementary Budget highlights that forecast revenues for Land Transaction Tax (LTT) have decreased by £30 million and forecast revenues from Landfill Disposals Tax (LDT) have reduced by £5 million, since the First Supplementary Budget. However, since the First Supplementary Budget, there has been an addition of £33.8 million Land Transaction Tax liability regarding purchase of the Core Valley Line. Therefore, there is a net decrease of £1.2 million to forecasts of devolved tax revenues.
- 8.** The revenue increase in the Supplementary Budget includes an increase of £9.3 million due to revisions to the Block Grant adjustment.
- 9.** The Minister was asked whether there were expected to be further block grant adjustments following the anticipated UK Budget in March, the Minister said:

“In terms of the 2019-20 block grant adjustments, they won't be revised again this year, but in terms of providing information back to the Assembly, there will be reconciliation payments that will take place as outturn information becomes available to us, but they will apply to future years' block grant adjustments, in accordance with the methodology in the fiscal framework agreement.”³

Changes to Capital

- 10.** The Supplementary Budget shows a net increase to general capital of £88.8 million (4.8 per cent), but a reduction in financial transactions capital of £16.0 million (-5.3 per cent). The Supplementary Budget explanatory note details that the reduction in finance transactions capital “includes a reduction of £106.023

³ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 44

million as notified by the UK Government in late January, as part of the UK supplementary estimates".⁴

11. The Minister detailed that notification was provided by the UK Treasury "that there would be both positive and negative adjustments for our budget for 2019-20" ⁵ just over a week before the publication of this Supplementary Budget and that the reduction of £106 million in financial transactions capital and £100 million in general capital was a "complete surprise".⁶

12. The Minister explained how the Welsh Government intended to respond to the unexpected reduction:

"...we had asked the UK Treasury for some flexibility to carry over some financial transactions capital into next year, outside of the Wales reserve. Treasury didn't agree to that, but that does mean now that we are able to absorb the financial transactions capital reduction in this year, whilst we've agreed with Treasury the maximum flexibility to take over the reduction in general capital to next year as well as a small uplift in revenue. So, if there is additional funding coming at the March budget for next year, then obviously the first call on that then will be to replace the £100 million."⁷

13. The Minister said this was "just another in a long line of ways in which the statement of funding policy hasn't been respected".⁸ The Minister detailed other areas where she believed the Statement of Funding Policy hadn't been "respected", including public sector pensions, NHS pension rules and additional funding for Northern Ireland.⁹

⁴ Welsh Government, Supplementary Budget 2019-2020, Explanatory Note, February 2020

⁵ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 3

⁶ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 4

⁷ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 15

⁸ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 5

⁹ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 5 and 6

14. The Minister believed there to be a lack of transparency around the UK Government's decisions that made it difficult to understand the detail around those decisions.¹⁰

HS2 consequential funding

15. On 11 February 2020, the UK Government approved the HS2 rail project. The Committee asked whether the Welsh Government expected to receive any consequential funding following this announcement. The Minister said:

“What we would certainly believe was the right thing to happen would be for Welsh Government to get its fair share of those consequentials. So that could potentially be in the region of £5 billion.... we don't have the detail as to what it will mean for us, but as soon as we do have further clarification, through discussion with Treasury and so on, we'll be keen to let the Committee know.”¹¹

Committee view

16. The Finance Committee's report on the Draft Budget 2020-21, recommended that “*an update is provided as soon as possible after the UK Budget detailing any impact of the UK macroeconomic forecasts, particularly any impact on devolved tax revenues and the associated block grant adjustments*”. The Committee reiterates this recommendation and would like an update to be provided on the impact of the UK Budget as soon as possible.

17. Whilst recognising that updated tax forecasts following the UK Government's anticipated March budget will not impact on the 2019-20 block grant adjustment, the Committee welcomes the Welsh Government's intention to provide information to reflect these changes as part of an updated outturn adjustment in their outturn report, with more detail in the Welsh Revenue Authority tax statement.

18. The Committee welcomes the detail provided in the explanatory note on additional financial transactions capital allocations. However, the Committee

¹⁰ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 7

¹¹ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 20 and 31

shares the Minister's concern regarding the negative consequentialities relating to financial transactions allocations following the UK Supplementary Estimates. The Committee is also concerned that the Welsh Government had not been provided with sufficient information to understand all the changes to consequentialities.

19. The Committee agrees with the Minister that the UK Government should allow more flexibility to the Welsh Government in carrying forward financial transactions capital. The Committee recognises that it can take time for capital projects to be identified and commenced and, as this funding is often changed or provided late in the financial year, it forces the Welsh Government to spend or lose funding which may result in sub-optimal value for money.

20. The Committee understands the Minister's frustrations with the UK Government's application of the Statement of Funding Policy. In its report on the Draft Budget 2020-21, the Committee raised concerns that the UK Government is making decisions that have a significant impact on the Welsh Government, such as changes to public sector pensions, without the full amount funding being provided by HM Treasury.

21. The Committee supports the Minister's intention to address issues that have arisen with regard to the Fiscal Framework, and Statement of Funding Policy in particular, to ensure that UK spending decisions are accompanied by appropriate funding.

22. The Committee intends to consider issues around the effectiveness of the Fiscal Framework and the Statement of Funding Policy as part of consideration of the implementation of the Wales Act 2014.

23. Although not specific to this Supplementary Budget, the Committee considers that the position regarding any possible consequentialities from the HS2 scheme should be clarified. The Committee believes the UK Government's previous decision, that Wales should receive consequential funding for the Crossrail project, has set a precedent and that Wales should receive consequential funding for the HS2 project on this basis.

24. The Committee is concerned that potential consequentialities for the HS2 project for Wales could be influenced by how and when funding

announcements are made. The Committee supports the Welsh Government in ensuring Wales receives fair consequential funding relating to future funding for this project.

Recommendation 1. The Committee recommends that details are made available to the Committee as soon as possible after the UK Budget detailing the impact of changes at the UK level on the Welsh Budget, specifically in relation to the 2019-20 Budget.

Recommendation 2. The Committee recognises the issues detailed by the Minister in relation to the late notification by the UK Government of financial transactions allocations following the UK Supplementary Estimates and recommends the Welsh Government continues to seek an increase in the annual carry forward of financial transactions capital to reflect both the more complex nature of projects which use this funding and uncertainties that frequent late in-year changes by the UK Government add to planning and administering the allocation of this funding.

Conclusion 1. The Committee supports the Minister in her efforts to ensure that the impact of UK decisions are transparent, applied consistently and accompanied by appropriate funding, and firmly believes that clarity is needed around UK Government decisions and how the statement of Funding policy is applied.

Recommendation 3. The Committee recommends that updates are provided on the Welsh Government's discussions with the UK Government following the HS2 announcement and whether this will result in consequential funding for Wales.

3. Prioritisation

25. The Supplementary Budget explanatory note refers to the Well-being of Future Generations Act (WFGA) providing “the foundation that guides our budget process” and that spending plans have been shaped by eight cross-cutting priority areas; early years, social care, housing, employability and skills, better mental health, decarbonisation, poverty and biodiversity.¹²

26. The explanatory note states that it has been developed in line with the Budget Improvement Plan “to provide a more comprehensive account of significant allocations made from the reserves”.¹³

Transfers between Ministerial portfolios and allocations from reserves

27. Chapter 4 of the explanatory note sets out £22.9 million fiscal resource transfers of funding between departments, including £177 million to the Central Service and Administration MEG in relation to invest to save, and £3.7 million for early identification and intervention for the prevention of youth homelessness, via education.

28. Chapter 5 of the explanatory note shows transfers within Ministerial portfolios and Chapter 6 gives details of allocations from reserves by portfolio.

29. There is over £300 million allocated from reserves in this Supplementary Budget. Key allocations from reserves are detailed in the explanatory note and information is provided as to how the decisions link to Welsh Government priorities. Allocations include:

- The Childcare Offer
- Teachers’ Pay Award
- Second capital investment package
- Capital investment for schools and colleges
- Regional deals
- Capital investment in housing
- Invest to Save social investment fund

¹² Welsh Government, Supplementary Budget 2019-2020, Explanatory Note, February 2020

¹³ Welsh Government, Supplementary Budget 2019-2020, Explanatory Note, February 2020

- Improving and investing in transport
- Cardiff Airport
- M4 Corridor project
- Micro business loan fund
- Eu transition fund
- Investment in WRA
- Brexit
- Health and social services
- Winter pressures
- Bovine TB eradication

30. The Minister detailed that the level of reserves allocated in the Supplementary Budget “was part of a strategic approach”.¹⁴

31. The Minister explained that in deciding on allocations, discussions take place with other Ministers, and provided an example of the £6.4 million allocated from reserves to meet additional pressures “in respect of the demand-led pressures related to TB compensation”.¹⁵

32. The draft budget includes transfers out of Flood Risk and Water Management £930,000 revenue and £4.2 million capital. The Minister confirmed that this is not a change in policy or volume of work being undertaken, but reflected a change in profiling of the projects.¹⁶

33. On the 26 February 2019, the Minister wrote to the Committee regarding the Welsh Government’s response to the flooding across Wales. The Minister noted that most costs associated with the Welsh Government’s response would occur in 2020-21, but she stated that this would be funded using existing budgets, however, should additional funding be required in 2019-20 for emergency relief the Government would look to utilise “s128 powers to authorise the use of resources given the public interest in this matter”.¹⁷

¹⁴ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 82

¹⁵ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 77

¹⁶ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 159

¹⁷ Letter from the Minister – [Emergency Funding Relief Scheme](#), 26 February 2019

34. When asked about the level of reserves held within individual portfolios, the Minister's official explained that portfolios hold funding for "contingency and flexibility".¹⁸

Student loans

35. The Supplementary Budget makes considerable in-year changes to AME regarding student loans. The Explanatory Note details:

- the Student Loans Resource Budget Provision Budget Expenditure Line has increased by £352.1 million, including £351.9 million in respect of additional non fiscal requirement to meet increased Resource Accounting and Budgeting and stock charges and the partial cancellation policy in respect of student loans.
- net increase of £54.5 million in the Education AME budget to reflect the latest Student Loans forecasts comprising: an increase in Resource AME of £25.8 million; and an increase in Capital AME of £28.6 million.

36. The Minister's official said the Supplementary Budget shows a large increase in the Education MEG, as a result of a 2017 policy change whereby the repayment threshold for student loans increased from £21,000 to £25,000 a year.¹⁹ The official continued to detail why these increases are seen at the supplementary budget stage each year:

"...there wasn't a revision of that non-fiscal baseline as a result of that policy, which of course has happened in England as well. So, the way that the Treasury has always approached that ... rather than increasing the Department for Education's baseline, of which we would have had a consequential as a result of that—is that they will deal with it as an in-year measure...

So, every supplementary estimate, there's a claim on the UK reserve for the amount the Department for Education requires. Obviously, it's a lot larger than the claim that is put in from Welsh Government. That's why, each year since that policy change, we've seen this quite

¹⁸ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 100

¹⁹ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 219

significant hundreds of millions increase. We'd expect, because that baseline still hasn't changed for plans next year, there to be a similar claim, hopefully—and we haven't had those communications from Treasury as yet—as part of the spending review, and that baseline, which reflects the cost of student loans, being reflected and properly looked at.”²⁰

Brexit

37. Many of the additional, or changes to, allocations are linked to the EU and Brexit. The explanatory note refers to an allocation of £33 million to support businesses in the face of Brexit and also details allocations from reserves to the European Transition Fund of £3.5 million revenue, £2.5 million general capital and £5 million financial transactions capital for projects.

38. Other key allocations for Brexit related resource pressures includes £19.9 million for contingency planning, negotiating future partnerships, preparing for the exercise of new powers and managing legislation.

39. The Minister expected the impact of Brexit to be felt in 2021-22, after the transition period ends:

“...obviously, things will take some time to feed through, in terms of impacts on the economy and other sectors. And as yet, we don't know what those might be. But it is our expectation—just because of the time lag between events taking place, and impacts on business—that it would be the 2021-22 budget where we would see some of that.”²¹

40. In relation to the £33 million to support businesses, the Minister had previously announced £53 million as part of a Second capital investment package. The Minister detailed that the Development Bank for Wales had subsequently concluded that a £20 million fund to support medium-sized businesses was no longer required at this time:

“Between the submission of the outline bid from the economy Minister in June, and then, in December of last year, the Development

²⁰ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 220&221

²¹ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 84

Bank for Wales undertook some further work on that, and they looked particularly at the Economic Intelligence Wales report on medium-sized firms and Welsh business structure, which was published in November, and they concluded at that stage, then, that there wasn't the need to establish this particular fund, because those businesses would be able to receive sufficient support through other funds, such as the Wales flexible investment fund. But, of course, we'll keep this under review, but that's the reason that that particular fund didn't go ahead."²²

41. The Minister confirmed that no details had been provided by the UK Government on the Shared Prosperity Fund, but that "significant work" was going on within the Welsh Government around how such a scheme would be developed and administered in Wales.²³

42. The Supplementary Budget includes an additional allocation of £3 million for EU Match Funding. The Minister confirmed that all match funding was expected to be utilised.²⁴ However, the Minister raised concerns over the future of match funding:

"We've had repeated reassurances from the UK Government that we wouldn't be a penny worse off in terms of the funding, but that said, one of our key concerns also is how that funding is distributed. So, we believe that, obviously, it should be Welsh Government that administers those funds, and we've set out in one of our Welsh Government publications how we might see the future of regional investment and the European funds, going forward. So, our concerns are partly about ensuring that the UK Government stays true to its pledge about the amount of funding, but then also these arguments that we need to continue to have about how that funding is deployed and by whom in future."²⁵

²² Finance Committee, Record of Proceedings, 12 February 2020, paragraph 124 and 125

²³ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 136

²⁴ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 146

²⁵ Finance Committee, Record of Proceedings, 12 February 2020, paragraph 131

Committee view

43. The Committee notes that as well as the Welsh Government holding capital and revenue reserves, individual departments will hold in-year contingencies. The Committee would like to see more detail provided in the Outturn report in order to ascertain the detailed level end of year position, and to understand changes to allocations that have been made since this Supplementary Budget.

44. Whilst the Supplementary Budget includes transfers out of Flood Risk and Water Management, the Committee notes the Minister's intentions to provide an emergency relief scheme to support those who have been impacted by the flooding in early 2020. The Committee recognises the Minister's actions in providing financial help and would be supportive of an need to utilise s128 powers.

45. This Supplementary Budget includes £352 million increase in non-cash revenue for student loans relating to the Resource Accounting and Budgeting charge. The Committee notes that similar increases were included in Second Supplementary Budgets in both 2017-18 and 2018-19.

46. The Committee recognises the Minister's concern that HM Treasury has not adjusted baselines following the change to the student loan payback threshold. While additional non-cash allocation is provided by HM Treasury to cover student loan debt, the Committee is concerned that the percentage of the student loan book that is anticipated to be written-off is increasing annually and further discussions need to be had with HM Treasury about the affordability of the policy going forward.

47. The Committee is pleased that the Minister expects to be able to access Wales' full entitlement of EU funding and that, despite the absence of details or agreement of a Shared Prosperity Fund, the Welsh Government is progressing how it would develop and administer such a scheme. The Committee notes its recommendation 4 from the Committee's 2018 report on [Preparations for replacing EU funding for Wales:](#)

"The Committee recommends the Welsh Government negotiates with the UK Government to ensure the Welsh Government is responsible for the administration and management of the UK Shared

Prosperity Fund in Wales.” (Recommendation 4: Finance Committee report, Preparations for replacing EU funding for Wales, September 2018)²⁶

Recommendation 4. The Committee recommends that the Welsh Government provides additional detail in the outturn report to identify the detailed end of year position, including significant allocations that are made following this Supplementary Budget.

Recommendation 5. The Committee recommends that the Welsh Government discusses the long term affordability of the students loan policy with the UK Government and reports back to the Committee.

²⁶ Finance Committee report, Preparations for replacing EU funding for Wales, September 2018

4. Directly funded bodies

48. The Supplementary Budget motion proposes a variation to the budgets of two bodies directly funded from the Welsh Consolidated Fund (WCF). The Committee considered these requests at its meeting on 6 February 2020.

Assembly Commission

49. The Assembly Commission's supplementary budget seeks to increase its AME budget by £0.150 million in respect of the future financial liability of the Assembly Members' Pension Scheme. The Explanatory Memorandum states:

“The purpose of this adjustment is to ensure a true and fair view of the Scheme liability is recorded in the balance sheet of the Commission; 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.”²⁷

50. The Assembly Commission's supplementary budget also proposes a decrease in the Remuneration Board's Determination budget of £0.500 million. The Explanatory Memorandum explains that, based on current projections, not all of the funds budgeted for support staff salaries and other allowances are likely to be called upon.²⁸

Auditor General for Wales and the Wales Audit Office

51. The proposed variation to the budget of the Auditor General for Wales and the Wales Audit Office (WAO) relates to an increase in the amount of fee earning work being delivered in the current financial year, beyond the levels anticipated in the WAO's approved Estimate 2019-20. It estimates an additional £300,000 of accruing resources.

52. The Explanatory Memorandum states that, as the change relates to the timing of income delivery and not to the timing of fees billed to audited bodies,

²⁷ Assembly Commission, Supplementary Budget 2019-20, Explanatory Memorandum, 2.2

²⁸ Assembly Commission, Supplementary Budget 2019-20, Explanatory Memorandum, 2.3

there will be no change to the WAO's net cash requirement. The WAO indicates that it plans to use the additional resources to invest in workforce planning via its voluntary exit scheme. The WAO will review the impact of this earlier delivery in reassessing its income base for 2020-21.²⁹

53. On 26 February 2020, the Minister wrote to the Committee detailing that an administrative error had been included in the Supplementary Budget Motion, relating to the accruing resources of the WAO. The Minister indicated her intention to amend the motion, detailing correct amount of accruing resources for the WAO.³⁰

Committee view

54. The Committee welcomes the returning of funds to the WCF by the Commission, in relation to the determination underspend.

55. The Committee acknowledges the WAO's delivery of additional income in this financial year and notes its intentions to invest the additional resource in workforce planning via a voluntary exit scheme. However, the Committee would welcome an update on the implications this will have on fee income in the next financial year.

56. The Committee notes the Minister's letter detailing the error in the Supplementary Budget Motion. As the Committee has considered the Explanatory Note from the WAO, which included the correct accruing resource, the Committee is content with the approach proposed to rectify the error.

Conclusion 2. The Committee is content with the variation to the budgets for the Assembly Commission and the Auditor General for Wales and the Wales Audit Office.

Recommendation 6. The Committee recommends that the Auditor General and Wales Audit Office provides an update as to how early delivery of fee earning work will impact on future fee income, including what implications this

²⁹ Auditor General for Wales and Wales Audit Office, Supplementary Budget 2019-20, Explanatory Memorandum.

³⁰ Letter from the Minister – Amendment to the Budget motion, 26 February 2020

may have on the baseline for fee income going forward and any implications on its future work plan and resourcing arrangements.