



Finance Committee

Scrutiny of Welsh Government First Supplementary Budget 2017-2018

July 2017



National Assembly for Wales
Finance Committee

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To carry out the functions of the responsible committee set out in Standing Order 19; the functions of the responsible committee set out in Standing Orders 18.10 and 18.11; and consider any other matter relating to the Welsh Consolidated Fund.

Current Committee membership:



Simon Thomas AM (Chair)
Plaid Cymru
Mid and West Wales



Neil Hamilton AM
UKIP Wales
Mid and West Wales



Mike Hedges AM
Welsh Labour
Swansea East



Steffan Lewis AM
Plaid Cymru
South Wales East



Eluned Morgan AM
Welsh Labour
Mid and West Wales



Nick Ramsay AM
Welsh Conservative
Monmouth



David Rees AM
Welsh Labour
Aberavon



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Conclusions and Recommendations

Conclusion 1. Whilst the changes in this supplementary budget are not significant, the Committee agrees with the Cabinet Secretary that bringing forward a supplementary budget is an appropriate mechanism at this stage and wishes that this procedure continues to be used.Page 7

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01. Overview

1. The Cabinet Secretary for Finance and Local Government (Cabinet Secretary) Mark Drakeford AM laid the First Supplementary Budget for 2017-18¹ on 27 June 2017. This was accompanied by an Explanatory Note² and tables showing the main expenditure group (MEG) allocations.

2. The budget process in Wales is set out in Part 5 of the Government of Wales Act 2006³ and in the Standing Orders⁴ of the National Assembly for Wales (the Assembly). The stages of the process are:

- Draft budget proposals: set out the Welsh Government’s spending plans and allows for scrutiny and amendment by the Assembly;
- Annual budget motion: seeks the Assembly’s formal authorisation for the use of resources during the financial year, based on the Final Budget; and
- Supplementary budget motions: seeks authorisation for in-year changes to the annual budget motion. There are typically two supplementary budgets per financial year, one in June and one in February.

3. This supplementary budget amends the Final Budget 2017-18 and is mainly administrative. It includes a small 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 Budget 2017, and also includes changes in Annually Managed Expenditure (AME) forecasts in line with updates provided to HM Treasury.

4. The revenue cash baseline has increased by £78.5 million, including £71.3 million in consequentials received from the UK Government Budget 2017, a transfer of £7.2 million from the Home Office regarding the Immigration Health Surcharge, and a transfer of £27,000 from the Department for Culture, Media and Sport for funding for the Lloyd George Museum in Gwynedd. The non-cash revenue baseline has not changed.

5. The capital baseline has increased by £11.9 million, as a result of consequentials received from the UK Government Budget 2017.

6. There have also been two switches within the Economy and Infrastructure MEG that have impacted on reserves, a switch of £12.4 million from financial transactions capital to general capital, and a switch of £0.6 million from fiscal revenue to capital.

7. The main revenue allocations in this supplementary budget are £20 million for social care funding;⁵ £20 million for the Cardiff Capital Region City Deal; and £750,000 for provision of wi-fi on trains and stations.

8. There is one capital allocation in this supplementary budget of £1.6 million for the provision of wi-fi on trains and stations.

¹ [Welsh Government, First Supplementary Budget 2017-18, June 2017](#)

² [Welsh Government, Explanatory Note, First Supplementary Budget 2017-18, June 2017](#)

³ [Government of Wales Act 2006](#)

⁴ [National Assembly for Wales, Standing Orders of the National Assembly for Wales](#)

⁵ [Welsh Government, Written Statement - Update: Social Care Funding 2017-18, 17 May 2017](#)

9. The Cabinet Secretary appeared before the Finance Committee (the Committee) on **5 July 2017**. The following report details the Committee’s conclusions and recommendations based on the evidence received.

10. In explaining his reasons for bring forward this supplementary budget the Cabinet Secretary said:

“... this first supplementary budget is at the most modest end of supplementary budgets, with a relatively small number of matters to report within it. I did have a discussion with officials as to whether or not a supplementary budget at this point in the cycle was the most sensible way of proceeding, given the modest nature of the changes that it reports. But in the end I thought it was better to use the machinery we have and to report it in a way that would allow it to be scrutinised and taken through the Assembly, rather than simply, for example, reporting it in a letter to you.”⁶

Committee view

Conclusion 1. Whilst the changes in this supplementary budget are not significant, the Committee agrees with the Cabinet Secretary that bringing forward a supplementary budget is an appropriate mechanism at this stage and wishes that this procedure continues to be used.

⁶ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 5 July 2017, paragraph 6

02. Consideration of the supplementary budget

Changes to revenue funding in the Health, Wellbeing and Sport portfolio and Social Care Funding

11. There have been two revenue allocations from reserves to the Health, Well-being and Sport portfolio, £20 million for social care funding and £7.2 million for the Immigration Health Surcharge.

12. The Explanatory Note⁷ to the supplementary budget also highlights that several transfers between actions have taken place within the Health, Well-being and Sport MEG in order to reprioritise funding and to fund specific commitments.

13. In relation to social care funding, the Minister for Social Services and Public Health said in May 2017 that the £20 million allocated to social care will be spent in three ways:

- £9 million will increase funding already made available to manage workforce costs, and promote the stability of the social care market;
- £8 million will support work to prevent children from entering care and improve outcomes for those experiencing care; and
- £3 million will be provided to local authorities to support respite for carers.⁸

14. However, while £20 million has been allocated to social care in this supplementary budget, transfers out of the Social Services Spending Programme Area (SPA) to elsewhere in the MEG mean that the overall increase in the SPA between the final budget and this supplementary budget is actually £18.7 million.

15. In relation to the £20 million being allocated to social care, the Cabinet Secretary said:

“You can see that in the way that Rebecca Evans [Minister for Social Services and Public Health] has decided to use the £20 million—I hope I’m remembering these figures correctly—£9 million of it is going to support the domiciliary care and residential care sector for older people, and to be part of the £10 million that we’d provided as part of the main budget to support wages and other costs in that sector; and £8 million is going to looked-after children, ... quite a bit of that money is to try and make sure that outcomes for people who are in the looked-after system already are better in terms of education outcomes, health outcomes and so on. But a significant part of that money is also to prevent the arrival into the care system of children who could go on being looked after by their own families if sufficient preventative services were available to allow that to happen. And then £3 million is for the carer strategy, and, again, that is essentially preventative in nature. We all know Wales has a higher proportion of informal care than other parts of the United Kingdom. People who are carers tend to be older, and in other parts of the United Kingdom, and our ability to

⁷ Welsh Government, Explanatory Note, First Supplementary Budget 2017-18, June 2017

⁸ Welsh Government, Written Statement - Update: Social Care Funding 2017-18, 17 May 2017

support those people in doing the work that they do is an investment in avoiding the cost that would otherwise fall to formal services.”⁹

Committee view

16. The Committee notes the transfers within the Health, Well-being and Sport MEG, but a lack of detail in the Explanatory Note¹⁰ means it is not possible to understand exactly what the purpose of these changes are. However, the Committee is pleased to note that the additional funding for social services will be distributed to local authorities according to their needs based on the personal social services element of the Local Government Settlement, rather than needs of authorities determined by the overall settlement.

Welsh Government borrowing

17. This supplementary budget highlights that the Welsh Government intends to borrow £20 million, for early access borrowing for the M4, if needed in 2017-18, this amount has not changed since the draft budget. The Cabinet Secretary highlighted that this borrowing would only take place if the costs cannot be covered by conventional capital in the Economy and Infrastructure MEG.

18. In an oral statement on the Circuit of Wales on 27 June 2017, the Cabinet Secretary for Economy and Infrastructure stated that:

“Extensive and detailed due diligence by external experts employed by Welsh Government has shown that due to the way the deal is structured, the current proposal would see the Welsh Government exposed to more than 50% of the risk. This is because the £210m underwriting element would carry a higher risk than other parts of the financing package.

As a result, following discussions with ONS and HM Treasury during the due diligence process, it is assessed that there is a very significant risk that the full £373million debt of the entire Circuit of Wales project would be classified against Welsh Government capital spending.

Over the next three years, this would have the same impact on Welsh Government budgets as if we had already spent the money - and would place a significant limit on our ability to deliver current and future projects to improve Welsh infrastructure, housing, hospitals or schools.

Cabinet therefore today decided that the potential impact on the public finances of the current proposal before them was too great and we are therefore unable to offer the financial guarantee requested on this proposal.”¹¹

19. The Cabinet Secretary noted that the decision made would not have a direct connection on the Welsh Government’s approach to borrowing, but that the Welsh Government’s available capital was insufficient to meet urgent demands for capital investment in Wales. He agreed to provide the Committee with details of how the Welsh Government had worked with the Office for National Statistics, HM Treasury and Eurostat to develop its approach to financing capital investment through the Mutual Investment Model.

⁹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 5 July 2017, paragraph 10

¹⁰ [Welsh Government, Explanatory Note, First Supplementary Budget 2017-18, June 2017](#)

¹¹ [Welsh Government, Oral Statement - Circuit of Wales, 27 June 2017](#)

Committee view

20. The Committee notes the Cabinet Secretary’s clarification that the decision made by the Welsh Government not to finance the Circuit of Wales will have no impact on its approach to borrowing going forward.

21. The Committee is interested in following how any similar external decisions to reclassify, for example: debt guarantees; housing association debt; or future innovative investment models as capital spend, may impact on prioritisation of capital spending and borrowing plans going forward. As part of Draft Budget scrutiny going forward, the Committee will examine the overall level of capital borrowing and debt including the estimated amounts owing in principal and interest, and the period over which the amounts must be repaid.

Economy and Infrastructure

22. The Economy and Infrastructure MEG has seen additional allocations of £750,000 revenue and £1.6 million capital for wi-fi provision on trains and stations. A decision report published in May 2016¹² shows that this will be on Arriva Trains Wales services, and the busiest stations will be prioritised.

23. It has also seen a transfer of £18.8 million from the Education MEG to reflect that responsibility for Careers Wales has moved from the Minister for Lifelong Learning and the Welsh Language to the Minister for Skills and Science.

24. There have also been two switches within the MEG that have impacted on reserves, a switch of £12.4 million from financial transactions capital to general capital, and a switch of £0.6 million from fiscal revenue to capital.

25. In scrutiny of the Second Supplementary Budget 2016-17 in February 2017, the Cabinet Secretary for Finance and Local Government commented that, in relation to the steel industry:

“On capital reserves, the position is slightly different in this budget, because you will remember that we had anticipated providing a significant amount of help to Tata during this financial year when the crisis in the steel industry broke at the very beginning of the calendar year 2016. Now, in the event, that money has not been drawn down in the current year, and we have an agreement with the Treasury—which has been a constructive discussion with them, let me say; I’ve been critical of them a moment ago, but we had a constructive discussion with the Treasury about allowing us to carry forward a much higher level of capital carry-forward into next year than would normally be the case. That is specifically in order to allow us to continue to provide help to the steel industry, which will now be drawn down next year rather than this year.”¹³

26. In relation to the provision of wi-fi on trains the Cabinet Secretary said:

“I wish, as Finance Minister that the way that the current franchise was structured placed greater obligations on companies to invest their own profits in improving the services that they provide. But they have a contract, it is

¹² Welsh Government, [Decision report: Provision of free Wi-Fi on Arriva Trains Wales trains and stations, 12 May 2017](#)

¹³ National Assembly for Wales, Finance Committee, Record of Proceedings, 16 February 2017, paragraph 24

structured in a particular way, and if there's no obligation on them to invest in particular things then, sometimes, the public purse has to decide whether or not something is of a sufficient priority that we would step in and provide it. You know, it's a modest investment in the overall scheme of Welsh Government's budget..."¹⁴

Committee view

27. The Committee notes the provision for wi-fi on trains and at stations, and supports this important investment. It agrees with respondents to the Economy, Infrastructure and Skills Committee's work in this area¹⁵ that wi-fi connectivity is one of the priorities for trains under the new franchise. However, the Committee is disappointed that this sort of infrastructure improvement is not the responsibility of Arriva Trains under the current franchise. The franchise should include provision to ensure that a portion of profits are reinvested into service improvements, rather than this sort of improvement being funded by the Welsh Government.

Recommendation 1. The Committee recommends that, in developing the new rail franchise, the Welsh Government ensures that contracts for improving services are drafted tightly to place responsibility on the company to fund improvements such as wi-fi.

NHS Funding

28. The annual accounts for 2016-17 of National Health Service (NHS) bodies in Wales are the first to report performance against the first statutory financial duty introduced by the National Health Service Finance (Wales) Act 2014 (the NHS Finance Act). This changed the requirement for Local Health Boards (LHBs) in Wales from being required to break even in each financial year to being required to do this over three-year rolling periods.

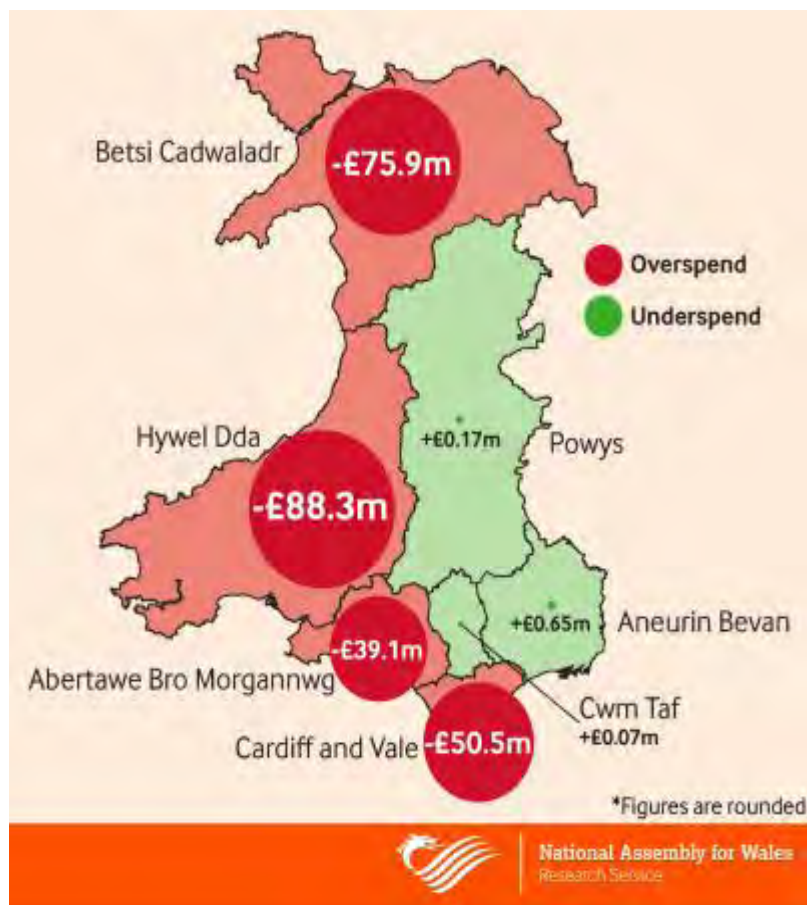
29. The NHS Finance Act envisaged that this change in requirement would give LHBs in Wales the flexibility needed to enable more long-term service, financial and workforce planning, as well as helping to ensure the sustainable transformation of healthcare services.¹⁶

30. The aggregate position for all LHBs for the three-year period to 2016-17 was a net overspend of £253 million. The reported position against the revenue spending limit for each LHB is shown below:

¹⁴ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 5 July 2017, paragraph 89

¹⁵ National Assembly for Wales, Economy, Infrastructure and Skills Committee, *On the right track? The Rail Franchise and South Wales Metro*, paragraph 179

¹⁶ National Health Service Finance (Wales) Bill, Explanatory Memorandum, September 2013



31. In a written statement on 9 June 2017, the Cabinet Secretary for Health, Well-being and Sport, Vaughan Gething AM, set out how the Welsh Government had responded to the financial performance concerns in the four LHBs that reported an overspend in the three-year period 2014-15 to 2016-17. This included monitoring of their financial performance and undertaking financial governance reviews. The Cabinet Secretary for Health, Well-being and Sport noted that:

“These reviews have recently concluded, and we will be considering the lessons to be learned and follow-up action required early in this financial year... Additional cash support has continued to be provided when required to all Boards in deficit to enable them to meet their normal cash commitments including payroll expenditure. This cash assistance is repayable in future financial years when appropriate and improved plans are developed and approved under the Act to enable the repayment of deficits.”¹⁷

32. Early forecasts from four LHBs suggest that they anticipate overspending in 2017-18, with **Hywel Dda** anticipating overspending by £59 million, **Abertawe Bro Morgannwg** expecting to overspend of £36 million, **Betsi Cadwaladr** anticipating overspending by £26 million and **Aneurin Bevan** expecting to overspend by £15 million. Forecasts for other LHBs will be published when they hold their Board meetings in July 2017.

33. In relation to funding of LHBs the Cabinet Secretary said:

“This Government is committed to filling the Nuffield gap, as it’s called, in every year of this Assembly term. That’s why there’s a £240 million uplift in the

¹⁷ Welsh Government. Written Statement – NHS Financial Performance 2016-17, 9 June 2017

health budget for 2017-18. The management of that is for the Cabinet Secretary with that responsibility. I know that he has held a significant sum of that £240 million back for him to manage the demands that are there in the health service. I know, because he gave evidence to the Health, Social Care and Sport Committee last week ... I think he said to that committee that where Betsi Cadwaladr University Local Health Board is concerned, the special measures are having the effect of stabilising the overspend. So, that board was previously reporting and getting them under control with the new team there. But in Hywel Dda Local Health Board, he has set in motion a zero-based budgeting exercise, which is due to report later in the summer. And, Chair, this is part of the conversation we had when I was last in front of this committee on that matter, where I said to you that I thought that the Health Secretary was interested in trying to identify whether there are costs that are beyond the control of the health board.”¹⁸

34. The Cabinet Secretary also highlighted the role of the NHS Finance (Wales) Act in shedding light on financial, workforce and service planning, stating that:

“It has allowed the majority of health bodies in Wales to be able to plan their budgets on a better basis. Previously we had the annual rush to try and find ways of spending money as the end of the year came. In places like Cwm Taf and Aneurin Bevan, and in the Welsh ambulance trust, for example, I think you can very clearly see that the ability to plan over a three-year horizon has allowed them to make better decisions and to live within their means. And it has had the effect, as you have seen, of probably exposing those parts of the health service where either that planning capacity has not been sufficient or where, as may be in the case of Hywel Dda, it exposes the fact that there are factors at play that would defeat even the best planning to be able to accommodate.”¹⁹

35. In relation to the repayment of funds by LHBs 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. I meet monthly with the Cabinet Secretary for health, as I used to meet, as the Minister for health, with the previous finance Minister. Given the proportion of the overall budget that that MEG has at its disposal, his ability to manage that has a material impact on my ability to manage the Welsh Government’s budget in the round.”²⁰

Committee view

36. The Committee notes that for some LHBs the Welsh Government is still providing additional cash support to enable LHBs to meet their financial demands and that repayment of these

¹⁸ National Assembly for Wales, Finance Committee, Draft Record of Proceeding, 5 July 2017, paragraph 17

¹⁹ National Assembly for Wales, Finance Committee, Draft Record of Proceeding, 5 July 2017, paragraph 30

²⁰ National Assembly for Wales, Finance Committee, Draft Record of Proceeding, 5 July 2017, paragraph 22

overspends is yet to be agreed. The Committee recognises the importance of following up on the impact that the NHS Finance Act has had, in terms of identifying improvements to financial, service and workforce planning, future sustainability of services and work to address whether the allocations between LHBs accurately reflects needs. The Committee notes that the Public Accounts Committee is currently considering the implementation of the NHS Finance Act in light of the Auditor General for Wales report²¹ on the subject, and the Chair will liaise with the relevant policy Committee to ensure that this issue is considered as part of draft budget scrutiny.

²¹ Wales Audit Office, Implementation of the NHS Finances (Wales) Act 2014, July 2017

03. Variation to the budget for the Public Services Ombudsman for Wales

37. On 7 June 2017 the Public Services Ombudsman for Wales (PSOW) provided an explanatory memorandum to the Committee, as required under Standing Order 20.36,²² explaining the changes in his budget.

38. The explanatory memorandum provided details relating to:

- Pension deficit funding;
- Legal costs; and
- Income.

39. A copy of the explanatory memorandum is available at Annex A.

Committee view

40. The Committee is content with the proposed variation to the budget for the Public Services Ombudsman for Wales.

²² [National Assembly for Wales, Standing Orders of the National Assembly for Wales](#)

Public Services Ombudsman for Wales (PSOW)

1st Supplementary Budget 2017-18

Note to the Chair of the Finance Committee

Pension Deficit Funding

The approved budget for 2017-18 included £292k to cover the long standing deficit in the Cardiff and Vale Pension Scheme. Following a tri-annual review and discussions with the scheme actuary and pensions manager it was agreed that the PSOW element of the scheme is no longer in deficit. The cash funding of £292k is no longer required and is returned via this supplementary budget.

Legal Costs

A provision of £42k has been made in the 2016/17 Annual Report and Accounts in relation to a current and ongoing legal case. There is no cash funding contained within the 2017/18 budget to cover the costs of this case.

Income

Additional income of £16k has been agreed with the Ombudsman Association in respect of seconded staff. There is nil net effect on resource and cash.

Summary

Net cash funding of £250k to be returned to the Welsh Consolidated Fund with nil effect on resource.

Revised budget for 2017-18

Public Services Ombudsman for Wales

	Revised Budget 2017/18	Original Budget 2017/18	Change
Supplementary Budget 2017/18			
	£'000	£'000	
Capital DEL	25	25	0
Fiscal Revenue DEL			
Salaries and related costs	2,950	2,934	16
LGPS related costs	0	292	-292
	2,950	3,226	-276
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	4,140	4,416	-276
Income	-17	-1	-16
Total Fiscal Revenue DEL	4,123	4,415	-292
Non cash DEL			
Depreciation	80	80	0
Revenue DEL (B+C)	4,203	4,495	-292
Total DEL (A+B+C)	4,228	4,520	-292
Annually Managed Expenditure (AME)			
Movement on LGPS	0	-292	292
Provisions movement	20	20	0
Total AME	20	-272	292
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	292	-292
Utilisation of Provisions - legal costs	42	0	42
Other movements in Working Capital	20	20	0
Net Cash Requirement	4,210	4,460	-250