

National Assembly for Wales
Finance Committee

**Scrutiny of Welsh Government
Supplementary Budget motion
2012-13**

February 2013



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

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A list of witnesses and oral and written evidence of relevance to this report is available at:
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1. Overview

1. The Minister for Finance and Leader of the House, Jane Hutt AM, published the Welsh Government's second Supplementary Budget 2012-13 on 5 February 2013.
2. The Finance Minister appeared before the Finance Committee¹ on 20 February 2013.
3. On March 5 the National Assembly will debate whether or not to approve the changes made in the Supplementary Budget Motion.
4. In line with the format adopted in our 2013-14 draft budget scrutiny, this report is structured around the four principles of financial scrutiny: affordability; prioritisation; value for money and budget process.
5. This second Supplementary Budget is the third part of our year-round financial scrutiny, which began with the Draft Budget in Autumn 2011. The Committee looks forward to scrutinising the outturn report on the 2012-13 budget later this year.

Summary

6. This supplementary budget – the second for 2012-13 – fulfils three main purposes:
 - makes allocations from central reserves;
 - reflects transfers within and between Welsh Government departmental budgets; and
 - makes adjustments to account for transfers with the UK Government, transfers between revenue and capital and carry forward of funding.
7. The net impact of these movements is an overall increase of £123.6 million additional total DEL in the Welsh block, as compared with the first supplementary budget.
8. The changes proposed in the supplementary budget allocate an additional £121 million total DEL to Welsh Government portfolios, in

¹ National Assembly for Wales, Standing Orders of the National Assembly for Wales, December 2012, SO 19.

comparison with the first supplementary budget, made possible by the transfers detailed above.

9. Although the supplementary budget allocates additional funds, the motion itself, which the Assembly is asked to authorise, requests a reduction of £44.4 million in the amount to be paid out of the Welsh Consolidated Fund to the Welsh Ministers. This is due to other sources of income being higher than originally forecast, and thus less being required from the Consolidated Fund.

10. This supplementary budget also shows a number of movements on reserves. The net effect of these movements is that, in comparison to the first supplementary budget 2012-13, revenue reserves have reduced by £41.9 million while capital reserves have increased by £44.6 million.

11. Following these movements, the fiscal revenue reserve is £61.7 million, the non fiscal reserve is £46.4 million, and the capital reserve is £50 million. This is the remaining unallocated reserve to deal with any pressures prior to the end of the 2012-13 financial year.

12. The Welsh Government intends to carry forward £109 million (£59 million fiscal revenue and £50 million capital) into 2013-14 from the 2012-13 financial year, as well as any further remaining reserves at the year end.

Other bodies

13. This supplementary budget makes no amendments to the budgets of the National Assembly for Wales, nor the Wales Audit Office. There is a technical adjustment on the estimates of the Public Service Ombudsman for Wales – this is covered in Chapter 5 on budget processes.

NB: All figures used in this report are in absolute terms. As figures refer to the current financial year, no adjustments have been made for inflation.

2. Affordability

Explaining the reduced request from the Consolidated Fund

14. While the supplementary budget allocates additional funds, the motion which goes before the Assembly, and on which AMs vote, requests a reduction of £44.4m from the Welsh Consolidated Fund.

15. In scrutiny the Minister noted that this reduction was to offset money received from the UK Government in relation to National Insurance Contributions and Non-Domestic Rates, which was greater than originally estimated, which lie outside the Welsh Block.

16. In a letter to the Committee, clarifying this matter, the Finance Minister wrote:

“HM Treasury bears the risk on the volatility of income from National Insurance contributions and Business Rates and when the income from these is lower than forecast, the Block Grant makes up the difference. On this occasion, the opposite was true, and so the cash grant from the Secretary of State has decreased accordingly.”²

NHS funding

17. Finance Committee has previously expressed concern about the way Local Health Boards are funded. In our report on the Supplementary Budget 2011-12, a year ago we noted:

“Looking across the financial reports of a range of Local Health Boards’ management board meetings, we are concerned that significant financial risks remain, with a range of Local Health Boards appearing to be at risk of potential deficits.”³

18. Despite a further injection of additional money, those concerns remain today.

19. In our draft budget report (November 2012) we promised to return to the issue of “the adequacy of NHS resources” during this supplementary budget for 2012-13.

² Letter to the Finance Committee: see Annex A.

³ National Assembly for Wales, Finance Committee, Scrutiny of Supplementary Budget motion 2011-12 (Spring 2012) p17

20. In December 2012, the Minister for Health, Social Services and Children made a statement announcing an additional £82million to the NHS from the health budget.⁴

21. When questioned on this by the Finance Committee, the Finance Minister explained that the £82m was made up of:

contingency reserves in the Health budget	£28.6m
capital to revenue transfer within Health budget	£35.0m
repayment of brokerage.	£18.4m

22. In her additional note to the Committee,⁵ explaining the £18.4m repayment of brokerage the Minister added:

“As I confirmed to the Committee earlier this week, Aneurin Bevan, Cwm Taf and Powys Health Boards have been notified that the combined funding of £12.4m they received in 2011-12 is repayable in full in 2012-13. Cardiff and Vale University Health Board has also been notified that £6m of the £12m provided in 2011-12 is repayable in 2012-13 with the balance of £6m due to be repaid in 2013-14. These repayments do not show on the face of the budget...In each case the revenue resource limits of each Health Board, which sit within the Delivery of Core NHS services Action, have been adjusted to reflect repayments. There is no overall impact on the Action.”

23. The Minister talks of ‘repayments’, yet, as brokerage involves drawing forward their own funding from future years; the Committee remain unclear as to how this is being repaid. In this regard, the Committee understood that brokerage was to be ‘repaid’ by making a corresponding reduction to their revenue resource limit at the beginning of the 2012-13 financial year, and therefore remain unclear as to how this £18.4 million in ‘repayments’ can be available for distribution at this point in the year, unless the resource limits have been subsequently increased.

24. Despite our increasing familiarity with the complexity of health board finance there remains an unreal element to all scrutiny of this

⁴ Welsh Government, Lesley Griffiths, (Minister for Health, Social Services and Children), [NHS Mid Year Review](#), Cabinet (Written) Statement, 5 December 2012.[accessed 11 February 2013]

⁵ Letter to the Finance Committee: See Annex A.

area – whether in Finance Committee, Health Committee, or in the recent Public Accounts Committee work on NHS Finances.⁶ Ministers continue to say they expect LHBs to break even – while yet again in 2012-13 offering additional money when it becomes clear LHBs will not.

It would appear that the current ‘brokerage’ arrangements have introduced flexibility for LHBs at the expense of clarity for anyone wishing to understand the situation. We recommend that the Minister provides the Committee with a clear explanation of how the brokerage arrangements are operating in practice, a clear breakdown of where this additional £82 million is being allocated from, the current position of the contingency fund within the health portfolio and details of how much each health board will receive, or have their limits adjusted, as a result of this additional funding.

We recommend that the Welsh Government’s review of NHS financing should proceed with urgency and that any new system of NHS financing should result in a transparent system, allowing the movement of resource to be clearly followed, and which gives LHBs the flexibility they clearly need, while ensuring that Boards are properly accountable for delivering their financial obligations.

25. Aside from the lack of clarity as to the source of this additional funding, it has been suggested that at least two of the health boards may still fail to break even at the end of the 2012-13 financial year, despite the additional allocations in December 2012.⁷

26. Asked whether this additional money would be enough, the Health Minister said:

“As you know, and as the Minister has said on frequent occasions, she is in close contact with the health boards and her officials work closely with their finance teams to ensure that they achieve financial break-even. They are monitoring financial performance carefully. Also, she has made it clear that

⁶ National Assembly for Wales, Public Accounts Committee, Health Finances, February 2013

⁷ Wales Online, Health [Minister threatens to remove senior managers if health boards need bailouts](#), 6 February 2012.[accessed 11 February 2013]

there is flexibility, which has been used and could be made available again next year.”⁸

“My main point is that the Government has committed to reviewing the NHS’s finance regime. It is looking at those options for taking forward additional financial flexibilities in the short and medium term.”⁹

We reiterate the recommendation of the public Accounts Committee¹⁰ that brokerage should be made available as an interim measure, but we recommend that the Minister provide details of exactly how the brokerage arrangements will operate if they are required at the end of the 2012-13 financial year, and whether, at this point, any health boards have requested such flexibilities to break even in 2012-13.

Council Tax Support

27. The supplementary budget notes the intention to carry forward £19m into 2013-14 for Council Tax Support. The Minister for Local Government and Communities has previously stated¹¹ that the full cost would require an extra £22m.

28. In response to the Committee’s questions about the discrepancy, the Finance Minister said:

“The additional £22 million covers the 10% cut in the funding for 2013-14. That was calculated by the UK Government, based on estimates of expenditure for this financial year of 2012-13. It was also based on Office for Budget Responsibility assumptions on economic forecasts. To clarify how this was calculated, £21 million came from central reserves to provide council tax support to local authorities over the next two years. We are carrying forward £19 million to 2013-14 through the budget exchange system. We are allocating £2 million in this financial year of 2012-13 to help local authorities with their transitional costs of preparing for the change. The remaining

⁸ National Assembly for Wales, Finance Committee, RoP, 20 February 2013

⁹ National Assembly for Wales, Finance Committee, RoP, 20 February 2013

¹⁰ National Assembly for Wales, PAC, Health Finances, Recommendation 7, p38

¹¹ Welsh Government, Carl Sargeant, (Minister for Local Government and Communities), [Council Tax Support](#), Cabinet Written Statement, 17 January 2013.[

£1 million is to be found from the local government and communities MEG as part of its routine budget management.”¹²

29. When asked what happens beyond 2013-14, she added:

“We are committed to working with Members and local government to review the regulations. We have to bring forward a new set of regulations in line with the sunset clause that was agreed by all parties. There is uncertainty about the impact of welfare reform changes over the next year, which provides us with an opportunity, working closely with local government, to look at how we can develop affordable arrangements from 2014-15 onwards.”¹³

“Local authorities have had that £2 million, which they have welcomed, to help them to prepare for the changes. This is one way in which we are mitigating the impact of some very severe cuts coming through from 1 April.”¹⁴

30. In our work on the draft budget we highlighted this as an area that would need further attention. We are pleased to see the Welsh Government acknowledging that more work will be needed to deliver a sustainable long-term arrangement for Council Tax Support in Wales.

We recommend that the Welsh Government work closely with local authorities to ensure that Council Tax support remains affordable, and that the Minister keep the Committee informed as to how it is decided to make provision for this in future years.

¹² National Assembly for Wales, Finance Committee, RoP, 20 February 2013

¹³ National Assembly for Wales, Finance Committee, RoP, 20 February 2013

¹⁴ National Assembly for Wales, Finance Committee, RoP, 20 February 2013

3. Prioritisation

Budget Exchange System

31. Under the Budget Exchange System, the UK Treasury allows the Welsh Government to carry unspent money – up to an agreed limit – from one financial year forward into the next year. This is a useful facility, which reduces the pressure to spend money in March just to avoid losing it.

32. This supplementary provides for the carry forward of £93.1 million from 2011-12 into 2012-13. As shown in the outturn report for 2011-12,¹⁵ the reserves remaining following the second supplementary budget 2011-12 were: £56.8 million fiscal revenue DEL. Of this £28.2 million was allocated in the Final Budget 2012-13 and a further £4.8 million was allocated in the first supplementary budget 2012-13 (however, as at July 2012, the baseline adjustments to reflect this had not been made). In addition to this there were underspends meaning the total available for carry over into 2012-13 was around £93 million. Thus, the supplementary budget makes these baseline adjustments to account for the entire £93 million as a result of carry forward.

33. At Final Budget 2013-14,¹⁶ it was stated that £20 million will be carried forward from 2012-13 to each of the 2013-14 and 2014-15 financial years, to replace the allocation from reserves in relation to apprenticeships. The narrative accompanying this supplementary states that in addition to this £40 million, it is also intended to carry forward £19 million revenue from 2012-13 into 2013-14 in relation to council tax support,¹⁷ and £50 million capital in support of the Wales Infrastructure Investment Plan. This would mean a total carry forward of £109 million (£59 million fiscal revenue and £50 million capital) into 2013-14. Following this supplementary budget, the reserves remaining are £61.7 million fiscal revenue, £46.4 million non fiscal revenue and £50 million capital.

¹⁵ Welsh Government, [Outturn Report 2011-12](#), August 2012 .[accessed 11 February 2013]

¹⁶ Welsh Government, [Final Budget 2013-14 Narrative](#), 27 November 2012 (page 5 and Table 4.1 page 8) .[accessed 11 February 2013]

¹⁷ As detailed in Welsh Government, Carl Sargeant, (Minister for Local Government and Communities), [Council Tax Support](#), Cabinet Written Statement, 17 January 2013 [accessed 11 February 2013]

34. Ordinarily, there is a 1.5% cap on the amount of capital that can be carried forward. However, HM Treasury has indicated it will permit £50m in capital DEL to be carried forward from the 2012-13 financial year into 2013-14 – more than double the usual cap. This supplementary budget, although it cannot action this, states the intention to do so in subsequent budgets.

35. The Minister told the Committee:

“I wrote to and raised with the Chief Secretary to the Treasury that we felt that it was important to have as much flexibility as possible and that we intended to transfer nearly £114 million from revenue to capital. This was about safeguarding vital projects and the need for flexibility. He agreed that we could carry over an additional £50 million of capital DEL.”¹⁸

We note the Minister’s success in negotiating additional flexibility in terms of carrying over money from one year to the next, and the intention to safeguard future projects. We have previously recommended greater flexibility, and would wish to see this become the new norm, not just a one-off permission from HM Treasury.

We note that the decision to carry forward capital into future years addresses the Committee’s earlier concern regarding the low level of capital reserves for 2013-14,¹⁹ and may provide safeguards for future projects. However, we recommend that caution is exercised in such decisions, as this potentially represents a lost opportunity to stimulate growth and jobs in the current financial year.

Anti-viral flu drugs

36. The supplementary budget shows an agreement with HM Treasury relating to the write off of £7m of anti-virals from a stockpile worth £27.9m. During her evidence, the Minister confirmed that some of these drugs – bought as part of a UK framework of preparations for coping with an outbreak – were now approaching their sell-by date. She said:

¹⁸ National Assembly for Wales, Finance Committee, RoP, 20 February 2013

¹⁹ National Assembly for Wales, Finance Committee, [Scrutiny of Welsh Government Draft Budget Motion 2013-14](#), p16, para29

“This goes back to the former health Minister’s decision back in 2011 that Wales should be part of the UK framework for pandemic flu preparations. That framework took a precautionary approach to stockpiling antiviral drugs. In fact, pandemic influenza is still at a very high level in terms of national risk assessment. So, we agreed to keep a stockpile in Wales as part of that framework. It is important to give a bit of detail; as of 1 April last year, the value of antiviral drugs stock held by the Welsh Government was £27.9 million—£7 million worth of that was for Tamiflu, but that has an expiry date and that date is the end of March of this year. So that has to be written out of the resource accounts and stock disposed of. Again, this is all part of the UK Government framework, so a budgetary treatment is agreed with the Treasury for flu stock.”²⁰

While the Committee appreciates that the decision to join the UK framework and stockpile anti-viral drugs was that of a previous Government, we would like to be informed of the position of the remaining stocks and what may happen to these in the future.

Housing initiatives

37. During the first Supplementary Budget 2012-13, the Minister revealed that the NewBuy Cymru (Mortgage Guarantee Scheme) and Housing Bond as they were still in development.

38. In her written response²¹ to the Committee’s questions on this, the Minister revealed that just £50,000 had been allocated to NewBuy Cymru in 2012-13, with more anticipated in 2013-14. Housing Bond is still in development and allocations of £4m for 2013-14 and 2014-15 had been agreed in December’s final budget.

We recommend that the Minister keep the Committee informed as to the progress and outcomes of these innovative financing mechanisms, particularly in relation to the provision for these within the budget process.

²⁰ Letter to the Finance Committee: See Annex A

²¹ Letter to the Finance Committee: See Annex A

Invest to Save

39. The supplementary budget appears to transfer capital from the Invest to Save Fund²² to pay for the purchase of software licenses. In her letter²³ to the Committee the Minister explained that in the current year, approved projects required more revenue, and less capital, than had been received in repayments. Therefore, the unused capital was redirected to other purposes within the Central services and Administration portfolio (such as the software licences), whilst the revenue was topped up with transfers, also from elsewhere within the portfolio.

40. We note the appropriate use of flexibility in available resource within the portfolio to ensure that the demands on this Fund can be met. Finance Committee has undertaken an inquiry in to the Invest to Save Scheme and will be reporting shortly.

²² Invest-to-save funding is an interest free loan from the Welsh Government to public sector organisations where spending is repaid from the savings it generates. Money repaid from earlier funding rounds is now being recycled to fund new bids.

²³ Letter to the Finance Committee: See Annex A

4. Value for Money

Small Business Rate Relief Scheme

41. The Welsh Government has previously announced that it intends to extend the current Small Business Rate Relief Scheme in to 2013-14. Had it not, there would have been a potential revenue consequential of £16.7m coming to the Welsh Block in 2013-14, as a result of the Autumn Statement 2012. However, the Minister told the Committee that by participating in the UK scheme, the net effect will be a £6m revenue reduction in the Welsh Block for 2013-14.

42. Taken together, these figures imply that the total cost, in lost revenue consequentials, of continuing with the Small Business Rate Relief Scheme is £22.7m. Committee would welcome evidence that shows whether this potential cost provides value for money.

We recommend that the Welsh Government produces a paper analysing the impact on the Welsh economy of the present Small Business Rate Relief Scheme. The paper should also include consideration of whether there are alternative investments that could generate an even greater benefit to the Welsh economy.

5. Budget Process

Public Service Ombudsman

43. The Public Service Ombudsman has written to the committee to clarify that the £30,000 AME adjustment in his estimates which appears in the budget motion is due to revised forecasts in relation to pension provisions. His letter to the Finance Committee can be seen at Annex B

Clear Line of Sight

44. The supplementary budget shows a £1.7m transfer to the Department for the Environment, Food and Rural Affairs (DEFRA) in relation to the Clear Line of Sight project, which aims to simplify government finance.

45. To date the Welsh Government has not implemented the final stages of the project, involving the incorporation of sponsored and other designated bodies, in their budgeting and accounting processes.

46. In her evidence to the committee the Minister said:

“The UK Government implemented the final stages of these reforms, but we reserved the right for us to agree our appropriate budgeting and accounting regime in Wales. So, we needed to see what the effectiveness of the alignment project would be and its impact on UK departments. I was going to say anyway that, on issues like this, I am happy to progress with further discussions with the committee, if you feel that we can improve on our budget transparency”²⁴

47. In our draft budget report we noted the great strides that have been made in terms of transparency of financial reporting, and we remain committed to working with the Minister and her officials to secure further improvements in future.

We recommend that the Minister provide the Committee with a note detailing progress made and on-going work in relation to the incorporation of sponsored and designated bodies into the budgeting and accounting framework.

²⁴ National Assembly for Wales, Finance Committee, RoP, 20 February 2013

Annex A

<http://www.senedd.assemblywales.org/documents/s14699/Correspondence%20from%20Minister%20for%20Finance%20-%20Supplementary%20Budget.pdf>

<http://www.senedd.assemblywales.org/documents/s14700/Correspondence%20from%20Minister%20for%20Finance%20-%20Supplementary%20Budget%20-%20Annex.pdf>

Annex B

<http://www.senedd.assemblywales.org/documents/s14701/Correspondence%20from%20Public%20Service%20Ombudsman%20-%20Supplementary%20Budget.pdf>