

Finance Committee
**Scrutiny of Welsh Government
Second Supplementary Budget
2016-2017**

March 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



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



Mark Reckless AM
UKIP Wales
South Wales East



David Rees AM
Welsh Labour
Aberavon



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Recommendations

Recommendation 1. Whilst the Committee acknowledges that this is a Supplementary Budget and that the Well-being of Future Generations Act was enacted less than a year ago, it believes there is little evidence of the Act being implemented. The Committee recommends the Welsh Government should review its approach to implementing the WFG Act to ensure that its principles are embedded within the decision making culture of the Welsh Government. In future the Committee would expect to see compelling evidence of the Act being implemented. Page 12

Recommendation 2. The Committee recommends the Welsh Government commit to providing an annual report on the invest to save fund, which should include details on amounts loaned, repaid and repayment schedules. Page 12

Recommendation 3. The Committee recommends that further work is undertaken by the Welsh Government to address the lack of transparency over funding allocated within the Health, Well-being and Sport portfolio. Page 17

Recommendation 4. The Committee recommends that the Welsh Government review whether there are structural factors, which are not currently considered in health board allocations, that impact on health boards' ability able to deliver services within their resource allocations. The Welsh Government should implement any changes to funding allocations as required..... Page 17

Recommendation 5. The Committee recommends that the Welsh Government work with health boards and social care providers to ensure health boards are strategically planning for and limiting the impact of seasonal spikes in demand, such as the winter months..... Page 17

Recommendation 6. The Committee recommends that the Welsh Government provide a breakdown of how costs in this Supplementary Budget relate to UK and Welsh Government policy decisions in relation to student loans and how changes may have impacted on costs of the policy going forward..... Page 20

Recommendation 7. The Committee believes that there are significant sums requested in the Supplementary Budget, with insufficient description of what these funds are required to fund, in particular the £30.8 million additional funding for the Sectors Action and the £22 million for M4 route development The Committee recommends that future budget documentation provides more transparency. Page 23

Recommendation 8. The Committee recommends the Welsh Government commit to providing a detailed profile of funding provided to Cardiff Airport and details of when outstanding debt is due to be repaid..... Page 23

Overview

1. The Cabinet Secretary for Finance and Local Government (the Cabinet Secretary), Mark Drakeford AM, laid the Second Supplementary Budget for 2016-17¹ on 7 February 2017.
2. The main documentation made available alongside the supplementary budget motion includes an Explanatory Note providing details of:
 - transfers between Departments (known as MEGs or Ministerial portfolios);
 - transfers to/from UK Government;
 - transfers to/from Reserves; and
 - major transfers within Departments.²
3. The Cabinet Secretary laid the First Supplementary Budget for 2016-17 on 21 June 2016.³ The main purpose of the first supplementary budget was a restructure to reflect the Ministerial portfolio changes of the new Welsh Government following the Assembly election in May 2016. The first supplementary budget 2016-17 included a higher level of reserves than is usually the case: £270 million revenue reserves; £177 million capital reserves; and there were also £172 million non-cash revenue reserves. These were available to be allocated during the financial year through supplementary budgets.
4. This second supplementary budget proposes a number of changes to the first Supplementary Budget for 2016-17, sets out a number of allocations from reserves, details transfers between Ministerial portfolios and includes revised Annually Managed Expenditure (AME) forecasts.
5. This supplementary budget proposes no changes to funding for the Assembly Commission, Public Service Ombudsman, Auditor General for Wales, or additional direct charges to the Welsh Consolidated Fund.

UK Government consequentials and transfers

6. In this supplementary budget there are minor increases to the Welsh Government's budget from consequentials resulting from increased UK Government spending and other transfers. These total £12.8 million Revenue, £150 million non-cash revenue and £5 million Capital.

Reserves and the Budget Exchange System

7. As part of the agreement between the devolved administrations and the UK Government, the Welsh Government is able to carry forward underspends, up to an agreed cap. The agreed cap is 0.6% of the Resource DEL budget and 1.5% of the Capital DEL budget.
8. The Welsh Government have asked to take an extra £160 million capital forward to support the steel industry. The supplementary budget documentation states that for 2016-17, this means that the Budget Exchange System cap will be £83.4m for revenue which includes £78.9m cash and £4.5m non-cash, and £184.5m for capital. Once the £160 million is taken off, the capital carry-forward is higher than in previous years.

¹ Welsh Government, [Second Supplementary Budget Motion 2016-17](#)

² Welsh Government, [Second Supplementary Budget 2016-17, Explanatory Note](#)

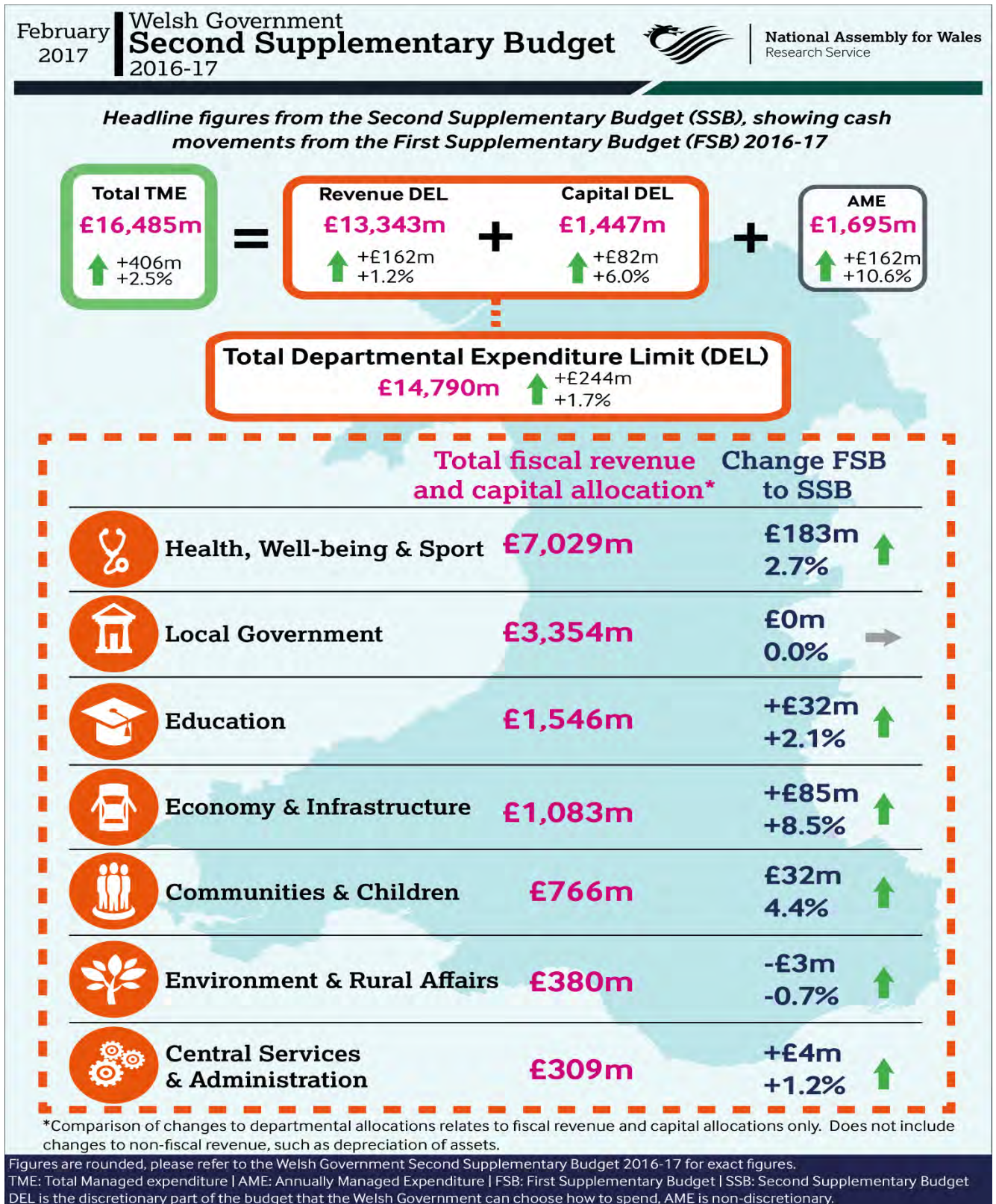
³ Welsh Government, [First Supplementary Budget 2016-17](#)

Overall budget allocations

9. Changes in overall budget allocations, and in allocation of fiscal revenue and capital expenditure between different Welsh Government departments between the previous supplementary budget and this one, are summarised in figure 1.

10. The Cabinet Secretary appeared before the Finance Committee (the Committee) on 16 February 2017. This report details the Committee's conclusions based on the evidence received.

Figure 1



Consideration of the Second Supplementary Budget 2016-17

- 11.** The main revenue allocations in this supplementary budget are:
- £75.9 million to address forecast overspends by Local Health Boards;
 - £50 million to mitigate winter pressures in the NHS;
 - £27 million to fund a shortfall in income from the Pharmaceutical Price Regulation Scheme;
 - £16 million to meet the Programme for Government commitment to establish a New Treatments Fund;
 - £20 million has been allocated to the Higher Education Funding Council for Wales to address financial demands from the recommendations of the Diamond Review;
 - £8.5 million to establish Transport Wales to design and let the rail and South Wales Metro franchises.
- 12.** The main capital allocations are:
- £47 million to support trunk road projects (including £22 million for M4 Route Development);
 - £33.4 million capital grants and loans to deliver economic development priorities;
 - £30 million to support the Programme for Government commitment to build an additional 20,000 affordable homes.

The Well-being of Future Generations (Wales) Act 2015

13. The Well-being of Future Generations (Wales) Act 2015⁴ (the WFG Act) came into force on 1 April 2016. It aims to improve the social, economic, environmental and cultural well-being of Wales by placing a duty on public bodies to think in a more sustainable and long-term way, and is designed to ensure that actions meet the needs of the present, without compromising the ability of future generations to meet their own needs.

14. The WFG Act puts in place seven well-being goals that public bodies must work to achieve and take into consideration across all their decision-making, and five ways of working to achieve the goals.

15. Following scrutiny of the Draft Budget 2017-18, the Committee recommended that:

“...the Government should show greater detail of how the Well-Being of Future Generations Act and the five ways of working have influenced both individual budget allocations and the budget as a whole in future years.”⁵

16. The Explanatory Note that accompanies the Supplementary Budget is relatively concise. There is no mention of the WFG Act, the five ways of working or how this Act has influenced the

⁴ [The Well-being of Future Generations \(Wales\) Act 2015](#)

⁵ National Assembly for Wales, Finance Committees, [Scrutiny of the Welsh Government Draft Budget 2017-18](#), November 2016

prioritisation process within the Welsh Government in making allocations in this Supplementary Budget.⁶

Invest to save

17. The Supplementary Budget includes a number of additional allocations from the invest to save fund, such as £3.4 million for Natural Resources Wales, as well as repayments to the fund.

Evidence from the Cabinet Secretary

18. In response to a questioning as to how a decision was made to manage the competing demands for additional funding between departments, the Cabinet Secretary said:

“even with a supplementary budget that is essentially about in-year management, the business of trying to align resource with priorities is still a relatively complex business...

I think the major way in which I’ve approached it is to try to look at the main needs that different portfolios have, and to try to match those needs with the sorts of expenditures that we have available to us.”⁷

19. With regard to the WFG Act and how the Act has influenced decision making within the supplementary budget the Cabinet Secretary said:

“if you think of the seven goals of the Act, I think you’ll see a series of examples here where the ambition to create a more prosperous Wales is reflected in these allocations—£10 million for the A465, for example; an integral part of our attempt to bring economic prosperity to those parts of Wales—to create a healthier Wales, where there’s £16 million in this supplementary budget for the new treatment fund, so that it could begin in the very first year of the Assembly, and a resilient Wales—we know that one of the things that we face is energy resilience, and you’ll find in this budget an investment, through the invest-to-save budget, in a solar farm project in Monmouthshire. That is part of our attempt to make sure that we are energy-resilient for the future.

In the five ways of working, the first of the five ways of working is that we should be trying to make decisions for the long term. There’s £35 million in AME cover here in the health budget to meet a reassessment of the long-term liability for payments to Welsh citizens infected with contaminated blood in the 1970s and 1980s; the good news being that people are living longer than maybe originally expected with those conditions. We have to provide long-term cover for our ability to go on supporting those people into the future.

There’s collaboration, as one of the five ways of working, at the opposite end of the scale, in budget terms, from £35 million—there’s £300,000 going out of the health budget into the communities budget to support the work of Disability Wales. That’s a recognition, by the Cabinet Secretary for health of the work that Disability Wales does in the health and social care field. So, as I say, the big

⁶ Welsh Government, Second Supplementary Budget 2016-17, **Explanatory Note**

⁷ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraphs 6-7

strategic decisions and alignments happen in the budget as a whole, but we have, nevertheless, used the lens of the well-being of future generations Act to look at the allocations that you will see in the supplementary budget as well.”⁸

Committee view

20. The Committee notes the Cabinet Secretary’s explanation as to how competing demands and priorities have been balanced when making allocations in this Supplementary Budget.

21. In relation to the WFG Act, the Committee is disappointed with the lack of evidence in the Supplementary Budget in relation to how the WFG Act has influenced decision making in relation to allocations. When asked about this the Cabinet Secretary provided a number of answers but the Committee felt that the examples given coincidentally met some of the requirements of the WFG Act as opposed to the objectives of that Act being an active consideration when deciding on allocations.

22. The Committee does not believe that the Welsh Government is leading the way in taking forward the requirements of the WFG Act and will be inviting the Future Generations Commissioner to attend a Committee session during the summer term.

Recommendation 1. Whilst the Committee acknowledges that this is a Supplementary Budget and that the Well-being of Future Generations Act was enacted less than a year ago, it believes there is little evidence of the Act being implemented. The Committee recommends the Welsh Government should review its approach to implementing the WFG Act to ensure that its principles are embedded within the decision making culture of the Welsh Government. In future the Committee would expect to see compelling evidence of the Act being implemented.

Recommendation 2. The Committee recommends the Welsh Government commit to providing an annual report on the invest to save fund, which should include details on amounts loaned, repaid and repayment schedules.

⁸ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraphs 16-18

Health, social care and winter pressures

23. The Supplementary Budget includes £180 million fiscal, or cash, revenue, £4 million non-cash revenue and £3 million capital to the Health, Well-being and Sport portfolio. Of the additional fiscal revenue allocations made to departments, 71.5% go to this portfolio. This includes:

- £75.9m to help address forecast overspends by health boards (£68.4m announced in November⁹ and a further £7.5m allocated in January);
- £50m to address winter pressures¹⁰ and to sustain and improve performance during winter period;
- £27m to address the estimated shortfall of income from the Pharmaceutical Price Regulation Scheme;
- £16m to support the launch of the new Treatment Fund;¹¹
- £1m for the air ambulance service.

24. Following scrutiny of the Draft Budget 2017-18, the Committee **recommended** that “the Government provide more supporting information to accompany future draft budgets to demonstrate how the balance of funding is changing between primary care, secondary care, social care, the integration of services, and programmes in general”.¹²

Transparency of the NHS health budget

25. The Committee has previously highlighted the difficulty in scrutinising the Health, Social Care and Sport allocations in the budget.¹³ This supplementary budget sees the £15.7 million for the Support Mental Health Policies and Legislation Action move into the £6.2 billion NHS Core Funding Action as part of mental health funding being part of this budget heading. Paragraph 5.6¹⁴ of the Explanatory Note details a number of relatively minor transfers between actions within the department.

Winter preparedness

26. Funding for winter pressures has been included in second supplementary budgets in recent years; £50 million in 2016-17; £45 million in 2015-16 and £40 million in 2014-15.

27. The Health, Social Care and Sport (HSCS) Committee recently undertook an inquiry into ‘Winter preparedness 2016-17’.¹⁵ Evidence submitted by the Welsh Government to this inquiry set out the ways in which health and social care services have prepared for winter, but acknowledges that the challenges facing health and social care reinforce the need for a whole systems approach and robust joint planning, the evidence noted:

⁹ Welsh Government, [Written Statement - 2016-17 Revenue Allocation to the Health, Wellbeing and Sport portfolio](#), 2 November 2016

¹⁰ Welsh Government, [£50m investment for NHS Wales this winter](#), 3 November 2016

¹¹ Welsh Government, [£80m treatment fund and review of IPFR process](#), 12 July 2016

¹² National Assembly for Wales, Finance Committee, [Scrutiny of the Welsh Government Draft Budget 2017-18](#), November 2016

¹³ National Assembly for Wales, Finance Committee, [Scrutiny of the Welsh Government Draft Budget 2017-18](#), November 2016

¹⁴ Welsh Government, Second Supplementary Budget 2016-17, [Explanatory Note](#)

¹⁵ National Assembly for Wales, Health, Social Care and Sport Committee, [Inquiry into winter preparedness 2016/17](#), December 2016

“In recognition of the significant unscheduled care pressures experienced during winter, the Welsh Government instructed our services to commence planning earlier than ever this year.”¹⁶

28. The HSCS Committee heard evidence which offered mixed views on the level of preparedness. For example:

- The Welsh Ambulance Services NHS Trust (WAST) stated in **evidence to the Committee** that they were in a much stronger position than in previous years;¹⁷
- Similarly, the Association of Directors of Social Services (ADSS) **reported** that social services are very prepared across Wales in relation to the pressures of winter, and indeed the pressures throughout the year.¹⁸

However:

- The Royal College of GPs **stated** that it could not be assumed that GPs would be able to absorb any further increases in workload;¹⁹
- BMA Cymru Wales and the Royal College of Emergency Medicine **reported** that services were stretched and unprepared for the winter, as well as for the year round pressures;²⁰
- The Royal College of Paediatrics and Child Health **reported** that in spite of improvements, services were not quite ready;²¹
- The Welsh NHS Confederation **stated** that LHBs had prepared winter plans, but these recognised there were still risks and challenges, including levels of demand, workforce, finance and capacity in social care;²²
- the ADSS about the effectiveness of joint working in the delivery of front-line services and also about the potentially positive role that **Regional Partnership Boards** (RPBs) could play in developing integrated working.²³

29. The HSCS Committee was concerned that efforts around this time tend to be focused more on ‘firefighting’ than effecting whole-system change - change which might enable different service approaches to be taken to managing unscheduled care pressures. That Committee concluded that the evidence it received suggested that the main focus appeared to be on preparing health services for the winter, with more limited attention paid to social care. It believed that this approach did not adequately recognise the crucial role of the social care sector, both in terms of preventing hospital

¹⁶ National Assembly for Wales, Health, Social Care and Sport Committee, **Letter from the Cabinet Secretary for Health, Well-being and Sport**, HSCS(5)-11-16 Paper 1

¹⁷ National Assembly for Wales, Health, Social Care and Sport Committee, Record of Proceedings, 29 September 2016, paragraph 3

¹⁸ National Assembly for Wales, Health, Social Care and Sport Committee, Record of Proceedings, 29 September 2016, paragraph 313

¹⁹ National Assembly for Wales, Health, Social Care and Sport Committee, Record of Proceedings, 29 September 2016, paragraph 114

²⁰ National Assembly for Wales, Health, Social Care and Sport Committee, Record of Proceedings, 5 October 2016, paragraphs 6, 8 and 11

²¹ National Assembly for Wales, Health, Social Care and Sport Committee, Record of Proceedings, 29 September 2016, paragraph 228

²² National Assembly for Wales, Health, Social Care and Sport Committee, Record of Proceedings, 5 October 2016, paragraphs 98 and 99

²³ National Assembly for Wales, Health, Social Care and Sport Committee, Record of Proceedings, 29 September 2016, paragraph 342

admissions over the winter period, particularly for older people, and in enabling those in hospital to move on at the appropriate point.²⁴

Evidence from the Cabinet Secretary

30. When asked about the decision to allocate additional funding to cover overspending by two specific the health boards, the Cabinet Secretary wished to clarify that the money was not going directly to the health boards but to the relevant MEG²⁵. To clarify the position Cabinet Secretary said:

“the accounts of the health boards will show that they have not lived within the means made available to them at the start of the year, but that that will be covered by the MEG itself, so that the MEG itself will live within its means.”²⁶

31. The Cabinet Secretary said he was working with the Cabinet Secretary for Health, Well-being and Sport to establish whether there were issues behind the overspends which were out of the hands of the health boards involved, giving an example of how this had been addressed by Powys Teaching Health Board.²⁷

32. The Cabinet Secretary was asked how the Welsh Government was considering the issue of health board overspends in light of the National Health Service Finance (Wales) Act, he said:

“...the Government is committed to meeting the Nuffield funding gap ... the follow-up report to the Nuffield report that was published earlier this year says broadly that the health service itself has to make efficiency gains, and there will be a gap that Government has to cover, which is around £200 million a year. As a Government, we are committed to providing that additional funding and we’ll aim to do that throughout this Assembly term. It is then for health boards themselves to try and deliver their side of that bargain, which, to a large extent, we know that they have... we continue ... to say to the UK Government that they need to use the opportunity of the March budget to invest in health and social care across the United Kingdom, because the pressures in the system are very real and are not being matched by the spending decisions that are made at UK level.”²⁸

33. The Cabinet Secretary was asked to clarify whether, in addition to the £50 million allocated for winter pressures, the additional money for health boards is also due to winter pressures, he clarified:

“What the £50 million for winter pressures will allow the health service to do this year is what the Welsh health service managed to do last year, which is: despite the real pressures that are there in emergency care, the health service in Wales last year reduced waiting times for elective care at 26 and 36 weeks, and reduced waiting times in relation to diagnostics, ... And that’s what that winter pressure money has allowed the health service to do. It’s allowed the health service to manage the very, very difficult emergency pressures that come through the door in the winter period, while going on reducing elective waiting

²⁴ Health, Social Care and Sport Committee, Inquiry into winter preparedness 2016/17, paragraph 4

²⁵ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 25

²⁶ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 38

²⁷ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 54

²⁸ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 101

times and diagnostic waiting times. I don't have those figures in front of me, but I would be surprised if you would find that replicated in many other places in the United Kingdom.”²⁹

34. The Committee asked why, if winter pressures occur each year and are predictable, this wasn't provided for in the funding allocated to health boards. The Cabinet Secretary said that the additional funding “doesn't mean that health boards don't plan for the pressures they know they will face”,³⁰ and more money is not given permanently to health boards as this would not support the Welsh Government's efforts to align budgets with need.³¹

Committee View

35. Due to a lack of detail accompanying the Supplementary Budget, the Committee is unable to fully understand the purpose of the changes within the Health, Well-being and Sport allocations. The Committee previously recommended that:

“the Government provide more supporting information to accompany future draft budgets to demonstrate how the balance of funding is changing between primary care, secondary care, social care, the integration of services, and programmes in general.”³²

36. The Committee is disappointed that the documentation accompanying the Supplementary Budget does not seem to reflect its previous recommendation.

37. The Committee notes the additional funding allocated to Health, Well-being and Sport and that additional funding is being allocated to the department and not directly to health boards to fund estimated overspends.

38. The Committee notes the additional funding being allocated for winter pressures, but remains concerned that these seasonal variations are not being planned for in the three year planning process. The Committee is also concerned that additional funding is being provided at the Second Supplementary Budget stage to enable health boards to fund projected overspends.

39. The Committee welcomes the Cabinet Secretary's commitment to investigate whether there are structural issues behind the overspending at some health boards. The Committee is concerned that, should the Welsh Government continue to bail out health boards who overspend, there is no incentive for these health boards to implement stronger spending control to ensure they remain within budget.

40. The Committee is disappointed that the anticipated rigour of financial planning has not been as robust as intended when NHS Finance (Wales) Act 2014 was scrutinised by its predecessor Committee. The Committee will consider post-legislative scrutiny of the NHS Finances (Wales) Act at the end of the first 3 year period of the Act, when 2016-17 accounts have been audited.

²⁹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 48

³⁰ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 51

³¹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 63

³² National Assembly for Wales, Finance Committee, [Scrutiny of the Welsh Government Draft Budget 2017-18](#), November 2016

Recommendation 3. The Committee recommends that further work is undertaken by the Welsh Government to address the lack of transparency over funding allocated within the Health, Well-being and Sport portfolio.

Recommendation 4. The Committee recommends that the Welsh Government review whether there are structural factors, which are not currently considered in health board allocations, that impact on health boards' ability able to deliver services within their resource allocations. The Welsh Government should implement any changes to funding allocations as required.

Recommendation 5. The Committee recommends that the Welsh Government work with health boards and social care providers to ensure health boards are strategically planning for and limiting the impact of seasonal spikes in demand, such as the winter months.

Education and student loans

41. The Education portfolio has an increase in revenue of £258 million, and a decrease in Capital of £0.2 million.

42. The main additional allocations to cash revenue allocations are:

- £20 million to the Higher Education Action for the Higher Education Funding Council for Wales (HEFCW);
- £4.5 million to the Education Standards Action as part of the £100 million commitment to raise schools standards over the term of the current Assembly;
- £3.5 million to the Post-16 Learner Support Action.

Higher Education Funding Council for Wales

43. The Draft Budget 2016-17 originally announced a reduction in funding of £41.1 million for HEFCW compared to 2015-16 for the higher education sector. The Final Budget 2016-17 reduced this to a £20 million decrease. The planned technical transfer of £21.1 million from HEFCW's budget to the budget line from which the tuition fee grant is now paid, was not implemented at the time. The Final Budget³³ also committed to providing a further £10 million funding to the HEFCW budget in this Supplementary Budget, £5 million for part-time provision and £5 million for research. These allocations were made in the First Supplementary Budget 2016-17.

44. This Supplementary Budget reinstates this intended £21.1 million transfer from the Higher Education Action to the Post-16 Learner Support Action in respect of Tuition Fee Grant to reflect the transfer of administrative responsibilities. This intention was highlighted to the Children, Young People and Education Committee in evidence from the Cabinet Secretary for Education to inform its budget scrutiny:

“I issued a revised remit letter to HEFCW on 17 October, making clear that the latest information from the Student Loans Company suggests expenditure on the TFG will be in excess of original estimates of £257.6m for 2016-17. We will therefore action the transfer of £21.1m from HEFCW to Welsh Government in the 2nd supplementary budget partly to cover the additional expenditure.”³⁴

45. This Supplementary Budget also provides an additional allocation of £20 million for HEFCW, “for a suite of measures to deal with current and future financial pressures relating to the implementation of the Diamond Report recommendations”.³⁵

Student loans

46. There are a number of changes in this Supplementary Budget in relation to the funding of student loans. The Welsh Government uses a complex modelling system to estimate the costs of providing student loans and the present value of the current student loan book. This model is used

³³ Welsh Government, **Final Budget 2016-17**, March 2016

³⁴ National Assembly for Wales, Children, Young People and Education Committee, **Evidence paper on the Draft Budget 2017-18 - Education Main Expenditure Group**, CYPE(5)-10-16 – Paper 1

³⁵ Welsh Government, Second Supplementary Budget 2016-17, **Explanatory Note**

by the UK Government's Department of Business, Innovation and Skills,³⁶ although the assumptions the Welsh Government use contain a number of Wales-specific amendments.

47. There has been a transfer in of £150 million non-fiscal resource funding from HM Treasury in respect of the additional impairment of the student loans brought about by changes to the long term economic assumptions used in the student loans model.

48. These changes have also impacted upon the costs of supporting the Welsh Government's policy in this area. Revenue changes include £3.5 million towards pressures on student finance support costs and £76 million non-cash revenue towards the impairment of student loans due to changes to modelling assumptions mentioned above.

49. The changes in AME in this Supplementary Budget relating to student loans are an increase of £13.1 million in revenue and a decrease of £31.5 million in capital allocated to reflect the latest student loans forecasts.

Evidence from the Cabinet Secretary

50. The Cabinet Secretary was asked for clarity the purpose of the £20 million being allocated to HEFCW, he said:

“The £20 million is there to support a review of estate rationalisation, and that's always with a view to squeezing out revenue by better use of the estate; to pursue the Welsh Government's agenda in the development of higher level apprenticeships; to do more in fostering links between universities and industry through some incubator facilities; and then to allow HEFCW a small strategic development fund to reshape some sector capability, again, in an effort to make the sector sustainable and able to live within its means in the future.”³⁷

51. With regards to the changes in forecasts for revenue and AME allocations in relation to student loans, the Cabinet Secretary explained:

“What happens every year is that the Office for Budget Responsibility produces new forecasts for assumptions that underpin the student loan book. We then have to respond to those assumptions and recast all the figures, and the figures, particularly the annually managed expenditure figures that you see, are a result of the way that OBR forecasts feed into the student funding model.”³⁸

52. The official accompanying the Cabinet Secretary continued:

“...both the annually managed expenditure and the non-fiscal resource are driven by the variables in the model. So, the annually managed expenditure is actually the money that we pay out for student loans and the money that we recover. Annually managed expenditure, by its nature, is accepted by Treasury to be very, very difficult to forecast. So, where there are changes to the model in the year, we're actually able to go back to Treasury and ask for increases or

³⁶ Department for Business, Innovation & Skills, **Student loan repayment model**

³⁷ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 107

³⁸ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 111

reductions in the budget to cover any changes in that AME cover for student loans.

The non-fiscal resource is actually to do with the valuation of the loan book. It's an asset on the books of the Welsh Government and, as such, we have to account for it through the annual accounts. Again, changes in some of the assumptions and discount rates within the model will drive changes to the valuation of the student loan book, again either up or down. We do our best to forecast some of these changes in assumptions, but in some cases we do get some information through quite late, and that will mean that we obviously change the forecast, and therefore we look to change the budget to align with that. I guess it's another volatile area, this, but because it's not actually physical cash that we pay out or receive, it's actually managed through the non-cash element of the budget.”³⁹

Committee view

53. The Committee explored the proposed reductions to the Higher Education Action during its scrutiny of the Draft Budget 2016-17, and recommended:

“The Committee recommends the allocations to Higher Education are revisited in light of the evidence received by Finance Committee and the concerns raised by the relevant policy committees.”⁴⁰

54. The Committee welcomed the commitment by the Cabinet Secretary to provide more detail in relation to the impact to the changes to the value of the student loan book. The Committee would find it helpful to understand how costs in the Supplementary Budget relate to UK and Welsh Government policy decisions in this area and how changes may have impacted on costs of the policy going forward.

Recommendation 6. The Committee recommends that the Welsh Government provide a breakdown of how costs in this Supplementary Budget relate to UK and Welsh Government policy decisions in relation to student loans and how changes may have impacted on costs of the policy going forward.

Conclusion 1. The Finance Committee in the Fourth Assembly undertook an inquiry into Higher Education Funding. The Committee believes, following the Diamond Review, that this area warrants further scrutiny, and will be writing to the Children, Young People and Education Committee to establish if they intend to undertake any further work in this area.

³⁹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 112-113

⁴⁰ National Assembly for Wales, Finance Committee, Scrutiny of Welsh Government Draft Budget 2016-2017, February 2016

Economy and Infrastructure

55. The overall figures in this Supplementary Budget are skewed by significant changes to non-cash, or non-fiscal, allocations, in particular, an adjustment (reduction) to previous years' depreciation of £407 million, following a change to the Road Valuation Model.

Revenue

56. Excluding non-cash changes, revenue allocations have increased by £38.7 million and capital by £46.5 million. This includes:

- £8.5 million to the Road, Rail, Air and Sea Services and Investment Action in support of Transport for Wales running costs;
- £5 million maintenance costs to the Motorway and Trunk Road Operations Action;
- £4.5 million to the Sectors Action (£4m training support for Tata Steel; and £0.5m economic development priorities and the support of sustainable jobs and growth); and
- £0.2 million Strategic Leadership for Museum, Archive & Library Services Action in respect of World War 1 commemorations.

57. There has been a net transfer of £23 million from capital to revenue switch to support the reclassification of maintenance costs under the latest Trunk Road Maintenance Manual. There have been other movement to and from other departments to reflect changes in Ministerial responsibilities.

Capital

58. The net £46.5 million increase is made up of a net increase from reserves of £66 million; £3.5 million transfers in from other departments and the £23 million capital to revenue switch. These include:

- £14.6 million from the Finance Wales Action in respect of loan repayments on borrowings;
- £30.8 million to the Sectors Action in respect of economic development priorities and the support of sustainable jobs and growth, including £6.1m loan funding towards the delivery of a new International Convention Centre Wales;
- £15 million for the Eastern Bay Link Road;
- £10 million for the A465 Section 2 Gilwern to Brynmawr;
- £22 million towards the M4 route development scheme;
- £2.6 million for strategic investment to support priorities within the National Transport Finance Plan; and
- £200,000 to the Strategic Leadership for Museum, Archive and Library Services Action in respect of World War 1 commemorations.

59. On 8 February the Welsh Government announced it “had invested £2.8m to help create 90 new steel jobs in Wales and safeguard a further 477”.⁴¹

60. There are also transfers from the Sectors Action of £7 million “in respect of activities relating to Cardiff Airport” and £3 million from the Legacy SIF action to the Sustainable Travel action “to meet the demands of project delivery”.⁴²

61. The 2016-17 Draft Budget included £7 million financial transactions, or loan, funding to Cardiff Airport, as highlighted in evidence provided to the Enterprise and Business Committee on 14 January 2016:

“Additional capital is also provided to Cardiff International Airport which will help grow inward investment through access to markets, employment, education and services. This is the remaining £7m of the £10m package previously announced for Cardiff International Airport route development.”⁴³

62. The Wales Audit Office report, *Welsh Government Acquisition and Ownership of Cardiff Airport*,⁴⁴ highlighted a previous agreement in November 2013 for a £10 million loan to fund improvements to the terminal, which has been repaid, and an approval in principle in November 2014 for a £13 million loan to fund route development.

Evidence from the Cabinet Secretary

63. In response to a request from the Committee to clarify how the additional £22 million towards the M4 route development scheme would be used this financial year, the Cabinet Secretary said:

“...the money that’s set aside in this year, Chair, is largely around the public local inquiry, the project team that was established to support that work, stakeholder liaison, technical review of objections, preparation of proof of evidence, administration of the PLI, expert witness provision, a higher level of objections than was originally anticipated—so, provision has had to be made to cover the additional work that’s involved in responding to those—ground investigation work, value engineering, and a relatively small sum set aside for land acquisition where owners of land are able to demonstrate that their land is blighted as a result of the potential M4.”⁴⁵

64. The Cabinet Secretary was asked whether the £7 million transfer from Sectors Action to Road, Rail, Air and Seas Services and Investment Action in respect of “activities relating to Cardiff Airport” related to a repayable loan and what this allocation is aimed at. The Cabinet Secretary clarified that the funding was a repayable loan, to target three main areas; infrastructure, investment and the passenger experience.⁴⁶

⁴¹ Welsh Government, *Welsh Government investment in steel creates and safeguards 550 jobs*, 8 February 2017

⁴² Welsh Government, Second Supplementary Budget 2016-17, *Explanatory Note*

⁴³ National Assembly for Wales, Enterprise and Business Committee, *Memorandum on the Economy, Science and Transport (EST) Draft Budget Proposals for 2016/17*, January 2016

⁴⁴ The Wales Audit Office, *Welsh Government Acquisition and Ownership of Cardiff Airport*, January 2016

⁴⁵ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 137

⁴⁶ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 147 & 151

65. The Cabinet Secretary was asked to clarify the total loan financing provided to Cardiff airport. The Cabinet Secretary said £23 million was the current balance of Welsh Government investment in the airport and “all repayments are agreed on normal commercial terms for each loan to the airport.”⁴⁷

66. In response to questioning on the changes to the Road Valuation Model and whether the £407 million non-cash reduction would have any impact on Welsh Government budgets going forward, the Cabinet Secretary said:

“This is £407 million that we had previously allocated because of the anticipated depreciation in the road network, where the model now says that we overprovided that. So, it’s not extra money we’re having to provide. It’s actually non-cash coming back. Now, non-cash coming back is not money you can use.”

Committee view

67. The Committee believes that the documentation accompanying the Supplementary Budget could have provided more transparency around some of the allocations, such as the £30.8 million increase in the Sectors Action and the funding provided for the M4 route development. The Committee is surprised by the requirement for £22 million capital to fund the M4 route development, and that this funding is primarily for a public inquiry.

68. The Committee notes the additional capital loan funding for Cardiff Airport and would appreciate clarity on the level of outstanding debt and when this is to be repaid.

69. The Committee notes that the Supplementary Budget includes a significant £407 million reduction in non-cash provision for depreciation for previous years, following a change to the Road Valuation Model, which is a UK based model.

Recommendation 7. The Committee believes that there are significant sums requested in the Supplementary Budget, with insufficient description of what these funds are required to fund, in particular the £30.8 million additional funding for the Sectors Action and the £22 million for M4 route development. The Committee recommends that future budget documentation provides more transparency.

Recommendation 8. The Committee recommends the Welsh Government commit to providing a detailed profile of funding provided to Cardiff Airport and details of when outstanding debt is due to be repaid.

⁴⁷ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, 16 February 2017, paragraph 155

Annex A – List of oral evidence session

The following witnesses provided oral evidence to the Committee on the date noted below.
Transcripts of all oral evidence sessions can be viewed on the Committee’s website.

Date	Name and Organisation
19 October 2016	Mark Drakeford AM, Cabinet Secretary for Finance and Local Government Gawain Evans, Director of Finance, Welsh Government Matthew Denham-Jones, Deputy Director Financial Controls, Welsh Government