

Finance Committee
**Scrutiny of the Welsh Government
First Supplementary Budget
2016-17**

July 2016



National Assembly for Wales
Finance Committee

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Finance Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Tel: **0300 200 6565**
Email: **SeneddFinance@assembly.wales**
Twitter: **@SeneddFinance**

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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 (Chair)
Plaid Cymru
Mid and West Wales



Mike Hedges
Welsh Labour
Swansea East



Steffan Lewis
Plaid Cymru
South Wales East



Eluned Morgan
Welsh Labour
Mid and West Wales



Nick Ramsay
Welsh Conservative
Monmouth



Mark Reckless
United Kingdom Independence
Party (UKIP)
South Wales East



David Rees
Welsh Labour
Aberavon

The following Members were also members of the committee during this inquiry:



Jeremy Miles
Welsh Labour
Neath



Adam Price
Plaid Cymru
Carmarthen East and Dinefwr

The following Member attended as a substitute member during the course of this inquiry:



Neil Hamilton
United Kingdom Independence
Party (UKIP)
Mid and West Wales

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Recommendations

Recommendation 1. The Committee recommends the Welsh Government continue to take up opportunities to minimise costs of elections to the taxpayer. (Page 11)

Recommendation 2. The Committee recommends that in future the Welsh Government publishes greater evidence setting out the rationale behind budget allocations such as the business rate relief scheme, including details of the anticipated economic impact. This will assist Assembly Members and the people of Wales to scrutinise programmes in terms of their success and the value for money they offer. (Page 12)

Recommendation 3. The Committee recommends that the Cabinet Secretary presents information to ensure that it is possible to track allocations to departments and major projects over the course of this Assembly term. This should include enabling comparisons to be made when the portfolios of Cabinet Secretaries change. (Page 13)

Recommendation 4. The Committee recommends that the Cabinet Secretary keeps the Committee informed of discussions with the UK Treasury on any decisions that may result in changes to the Welsh Government’s budget in the coming months. (Page 13)

Overview

1. The Cabinet Secretary for Finance and Local Government (Cabinet Secretary) Mark Drakeford AM laid the First Supplementary Budget for 2016-17¹ on 21 June 2016. 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 (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. The supplementary budget amends the Final Budget 2016-17,⁵ that was approved by the Fourth Assembly on 8 March 2016.
4. The supplementary budget sets out how the Welsh Government plans to spend over £16 billion in 2016-17. Of this, £14.5 billion has been allocated to Welsh Government Departments (known as departmental expenditure limit DEL). Figure 1 shows the allocations to departments.
5. Of the remaining £1.5 billion, around £1 billion relates to forecast business rates receipts that will be redistributed amongst local authorities and £0.5 billion is other Annually Managed Expenditure (known as AME).
6. In addition, £0.6 billion funding is retained as a central reserve for allocation later in the financial year.
7. The Cabinet Secretary appeared before the Finance Committee (the Committee) on 28 June 2016. The following report details the Committee’s conclusions and recommendations based on the evidence received.

¹ <http://www.assembly.wales/laid%20documents/gen-ld10676/gen-ld10676-e.pdf>

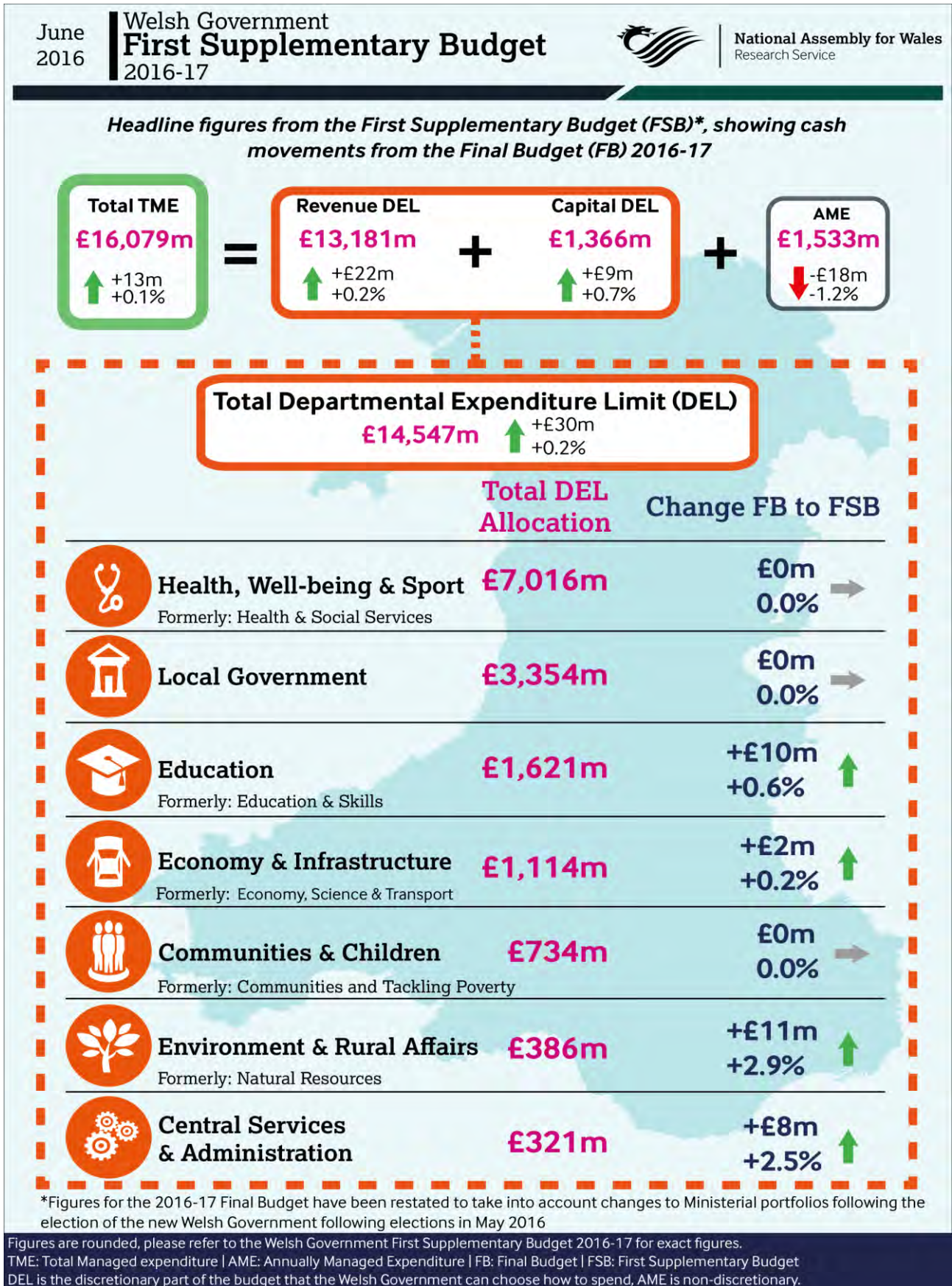
² <http://gov.wales/docs/caecd/publications/160621-note-en.pdf>

³ <http://www.legislation.gov.uk/ukpga/2006/32/contents>

⁴ <http://www.assembly.wales/en/bus-home/Pages/bus-assembly-guidance.aspx>

⁵ <http://www.assembly.wales/laid%20documents/gen-ld10600/gen-ld10600-e.pdf>

Figure 1



Consideration of the First Supplementary Budget 2016-17

Background

8. The main purpose of the supplementary budget was a restructure to reflect the Ministerial portfolio changes of the new Welsh Government following the May 2016 National Assembly for Wales's election. Additionally, a small number of allocations were made from reserves to reflect allocations made by the previous Welsh Government that were not in the final budget. These allocations total £21.5 million in revenue and just under £9 million capital.

9. The revenue allocations include:

- £10 million to the Education main expenditure group (MEG) for the Higher Education Funding Council for Wales (HEFCW). Of this, £5 million will be allocated to support part-time study at universities and the remaining £5 million will fund research.
- £7.7 million to the Central Services and Administration MEG to cover the costs of the elections to the National Assembly for Wales held in May 2016;
- £2.3 million to the Environment and Rural Affairs MEG for flood defences; and
- £1.5 million for the business rates relief scheme announced for the Port Talbot Waterfront Enterprise Zone.

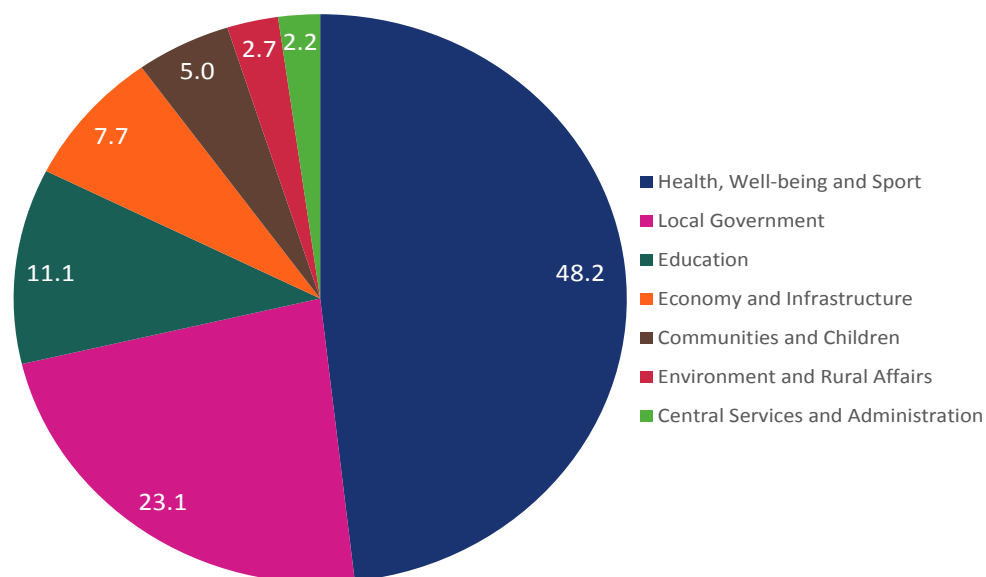
10. The capital allocations include:

- Three allocations to the Environment and Rural Affairs MEG, including £5 million to flood and coastal risk management schemes across Wales, £2.5 million for the Brecon and Monmouthshire Canal and £985,000 for the Tal-y-bont flood alleviation scheme.
- £500,000 to the Economy and Infrastructure MEG for drainage improvements on the A55.

11. The pie chart at figure 2 shows total DEL allocations by department. It can be seen that the Health, Well-being and Sport MEG has been allocated almost half of total DEL in 2016-17.

Figure 2

2016-17 First Supplementary Budget
Percentage allocation of DEL by MEG



Committee view

12. Overall, the Committee was content with the proposals in the supplementary budget and noted the main purpose of the supplementary budget was a restructure to reflect the Ministerial portfolio changes of the new Welsh Government.

Higher Education Funding Council for Wales

13. One of the issues explored in detail during the Fourth Assembly's Finance Committee's scrutiny of the Draft Budget 2016-17 was the proposed reductions to the Higher Education action.

14. 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, is no longer implemented.

15. The Final Budget documentation also committed to providing a further £10 million funding to the HEFCW budget in this supplementary budget, £5 million for part-time study provision and £5 million for research. These allocations have now been made in the supplementary budget.

16. The Cabinet Secretary confirmed that the £10 million allocated to HEFCW budget would be allocated as set out in the Final Budget with £5 million for part-time study provision and £5 million for research.⁶

17. He said the reason the allocation was included in the supplementary budget as opposed to the final budget was due to the Welsh Government's late budget timetable last year as a result of the UK

⁶ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 30, 28 June 2016

Government's comprehensive spending review. He said "this particular issue emerged between the draft and the final budget".⁷

Committee view

18. The Committee was pleased to see that the commitment made at the time of the Final Budget had been reflected in the HEFCW remit letter for 2016-17, and also in this supplementary budget.

Student loans

19. The main changes in AME expenditure in the supplementary budget related to student loans. These show that there has been an increase of £8.2 million in revenue and a decrease of £35.5 million in capital allocated to reflect the latest student loans forecasts.

20. On this issue, the Cabinet Secretary said the money that is provided to support student loans is "inherently volatile" and that there are a number of factors behind the changes which are not due to changes in government policy.⁸ He explained that:

"student numbers go up and down; the money you hand out is balanced by the money you're getting back in through repayments and repayments go up and down; and, this year in particular, for the first time, there is the first year of a revised system of part-time loans for students, which, additionally, makes the system volatile."⁹

21. The Cabinet Secretary explained that the revised system for part-time loans for students is one driver that is due to a change in government policy.¹⁰

Election costs

22. The supplementary budget details an allocation of £7.7 million to the Central Services and Administration MEG to cover the costs of the elections to the National Assembly for Wales held on 5 May 2016. This allocation covers the administrative costs associated with the elections. Following the previous Assembly elections held in 2011, a similar allocation was made in the first supplementary budget held after the election.

23. The Committee raised concerns that the allocation of £7.7 million to cover the cost of the elections were still an estimate. The Cabinet Secretary said that of that £7.7 million, £4 million was a fixed cost that the Royal Mail charge for the distributing election literature.¹¹

24. The Cabinet Secretary went on to say that the remaining £3.7 million is made available to returning officers for running elections in their localities. He said this figure was derived by looking at the previous election costs of 2011 and then adjusted due to inflation.¹²

25. He pointed out that the Police and Crime Commissioner elections took place on the same day as the 2016 Assembly elections which made a "significant difference". He said the £7.7 million was

⁷ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 31, 28 June 2016

⁸ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 39, 28 June 2016

⁹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 39, 28 June 2016

¹⁰ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 44, 28 June 2016

¹¹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 49, 28 June 2016

¹² National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 49, 28 June 2016

less than the election cost of 2011 as a result of some cost sharing with the Home Office, which is responsible for the Police and Crime Commissioner elections.¹³

26. When questioned as to why the cost was not included in the final budget, the Cabinet Secretary said:

“It is easier to be accurate when you’re estimating the costs of something that has happened, rather than when you’re trying to do it prospectively.”¹⁴

27. He confirmed that once the final cost was known it would be included in a second supplementary budget, which he anticipated would be in February 2017.¹⁵

Committee view

28. The Committee was pleased to hear that cost sharing with the Home Office had contributed to the allocation made for the Assembly elections held in May 2016 being lower than that for the previous election held in 2011. We support keeping these costs as low as possible, while ensuring that staff working to support the running of elections are paid at a suitable level.

Recommendation 1. The Committee recommends the Welsh Government continue to take up opportunities to minimise costs of elections to the taxpayer.

Port Talbot Waterfront Enterprise Zone

29. The supplementary budget allocates £1.5 million to the business rates relief scheme at Port Talbot Waterfront Enterprise Zone.¹⁶ The scheme is open to small and medium-sized businesses, and priority will be given to start-ups and businesses who are increasing their permanent full-time workforce.

30. The Cabinet Secretary said following the job losses announcement by Tata Steel in January 2016, the then Minister for the Economy Edwina Hart AM, introduced a number of measures and that the business rate relief scheme was part of the wider measures to make the position of existing businesses within the zone more secure and more likely to be able to expand and to attract other businesses to the area.¹⁷

31. The Cabinet Secretary said he was “confident” that the £1.5 million would make a difference.¹⁸ He said the business rates relief scheme was introduced based on:

“the history of successful interventions elsewhere, in other enterprise zones, where there was evidence that a relief scheme of this sort did assist existing local businesses to deal with the circumstances they now found themselves in, to be in a better position to expand, and to take on workers where labour was available, but, also, in making the area additionally attractive to other businesses to locate.”¹⁹

¹³ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 50, 28 June 2016

¹⁴ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 55, 28 June 2016

¹⁵ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 55, 28 June 2016

¹⁶ <https://businesswales.gov.wales/enterprisezones/business-rates-scheme>

¹⁷ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 9, 28 June 2016

¹⁸ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 16, 28 June 2016

¹⁹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 16, 28 June 2016

Committee view

32. The Committee notes the allocation in the budget to the Port Talbot Waterfront Enterprise Zone. However, the Committee would like to know more about the evidence underpinning such decisions. We welcome the Cabinet Secretary's commitment to providing what information the Welsh Government has on cost per job created and safeguarded for these schemes.

Recommendation 2. The Committee recommends that in future the Welsh Government publishes greater evidence setting out the rationale behind budget allocations such as the business rate relief scheme, including details of the anticipated economic impact. This will assist Assembly Members and the people of Wales to scrutinise programmes in terms of their success and the value for money they offer.

Budget presentation and Barnett consequentials

33. The Finance Committee of the Fourth Assembly experienced difficulties in tracking and making comparisons of changes to departmental allocations due to frequent transfers and changes in responsibilities between Welsh Government departments.

34. The Cabinet Secretary said the main purpose of the supplementary budget was to make sure there was a "definitive statement" of the alignment between Cabinet Secretary and ministerial responsibilities and "where budgets lie".²⁰

35. The Cabinet Secretary confirmed that he was content to follow protocols that had been previously agreed, including the budget protocol agreed between the previous Finance Committee and the previous Finance Minister. He said that understanding where ministerial responsibilities alter and budget have to be re-aligned can be difficult. Therefore, in this supplementary Budget he had ensured that the information provided in the explanatory notes were set out in tables that demonstrated how money had been allocated compared to in the previous budget. He said he would try to continue providing information in this way.²¹

36. In relation to Barnett consequentials, the previous Finance Minister, Jane Hutt AM provided the Committee with details of individual Barnett consequentials resulting from changes in UK Government departmental spending at the time when draft, final or supplementary budgets are published. The Cabinet Secretary confirmed that he would continue with this practice.²²

Committee view

37. The Committee was pleased to hear the Cabinet Secretary's assurance that he was content to follow the budget protocol agreed with the previous Finance Committee.

38. The Committee welcomes the Cabinet Secretary's commitment to transparency in providing budgetary information and details of Barnett consequentials, before or, at the same time as supplementary, draft and final budgets are published. The tables in the explanatory note for this supplementary budget were useful in explaining the changes that have taken place due to the reorganisation of Ministerial portfolios. While recognising that these changes make comparisons of spend on programmes or departments over time more difficult, we believe that their availability is important in terms of transparency.

²⁰ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 64, 28 June 2016

²¹ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 65, 28 June 2016

²² National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 67, 28 June 2016

Recommendation 3. The Committee recommends that the Cabinet Secretary presents information to ensure that it is possible to track allocations to departments and major projects over the course of this Assembly term. This should include enabling comparisons to be made when the portfolios of Cabinet Secretaries change.

Welsh Government reserves and future budgetary challenges

39. The Committee questioned the Cabinet Secretary on the reserves held in the supplementary budget, which were higher than usual with £270 million in fiscal revenue reserves and £177 million capital reserves. There are also £172 million non-fiscal revenue reserves.

40. The Cabinet Secretary considered these to be a “reasonable level at this point, this early in the financial year”. He said the essential purpose of reserves is to make sure the Welsh Government is able to deal with unexpected events over the year as “we face a very uncertain future as far as our budgets are concerned”.²³

41. He continued:

“We have £3.5 billion of unallocated cuts from the last Chancellor’s budget. This time last year...the Welsh Government had to cope with £50 million-worth of in-year revenue reductions from the Westminster Government, and we were able to deal with those by covering them from reserves, rather than requiring spending cuts to be made. If the £3.5 billion were all to land in Barnett-comparable areas, that would be £150 million taken out of the Welsh Government budget.”²⁴

42. The Cabinet Secretary made reference to the Chancellor of the Exchequer’s comments that the autumn budget would contain both tax rises and further spending cuts. The Cabinet Secretary said the need for a reserve “is there for us to be able to mitigate some of those decisions and their impact on Welsh public services”.²⁵

Committee view

Recommendation 4. The Committee recommends that the Cabinet Secretary keeps the Committee informed of discussions with the UK Treasury on any decisions that may result in changes to the Welsh Government’s budget in the coming months.

²³ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 71, 28 June 2016

²⁴ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 71, 28 June 2016

²⁵ National Assembly for Wales, Finance Committee, Draft Record of Proceedings, paragraph 71, 28 June 2016

Witnesses

The following witnesses provided oral evidence to the Committee on the date noted below. A transcript of the oral evidence session can be viewed in full at:

<http://www.senedd.assembly.wales/mgIssueHistoryHome.aspx?IId=15047>

Tuesday, 28 June 2016

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