

**National Assembly for Wales**  
Finance Committee

## Scrutiny of Supplementary Budget motion 2013-14

March 2014



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: **<http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?IId=5722>**

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## Finance Committee

The Committee was established on 22 June 2011. The Finance Committee's role is to carry out the functions set out in Standing Order 19. This includes consideration of the use of resources by the Assembly Commission or Welsh Ministers, and in particular reporting during the annual budget round. The Committee may also consider any other matter relating to expenditure from the Welsh Consolidated Fund.

### Current Committee membership



**Jocelyn Davies (Chair)**  
Plaid Cymru  
South Wales East



**Peter Black**  
Welsh Liberal Democrats  
South Wales West



**Christine Chapman**  
Welsh Labour  
Cynon Valley



**Paul Davies**  
Welsh Conservatives  
Preseli Pembrokeshire



**Mike Hedges**  
Welsh Labour  
Swansea East



**Alun Ffred Jones**  
Plaid Cymru  
Arfon



**Ann Jones**  
Welsh Labour  
Vale of Clwyd



**Julie Morgan**  
Welsh Labour  
Cardiff North

Sandy Mewies attended the meeting on 19 February 2014 as a substitute for Ann Jones.



**Sandy Mewies**  
Welsh Labour  
Delyn

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## The Committee's Conclusions and Recommendations

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**Conclusion:** The Committee notes the supplementary budget for the Assembly Commission. (Page 8)

**Conclusion:** The Committee considered the Explanatory Memorandum from the Auditor General for Wales and are content with the proposed variance in the budget. (Page 9)

**Conclusion:** The Committee is pleased to note that the Supplementary Budget shows a clear prioritisation of funding towards Health. With regards to the allocation of £150 million funding package to meet demands and pressures arising from the Francis Review the Committee intends to return to the issue of funding the Francis Review at a later date. The Committee noted that £16.4 million of this figure relates to anticipated costs of new Immunisation programmes, Kalydeco drug funding and voluntary early retirement packages. (Page 11)

**Conclusion:** The Committee was concerned that LHBs currently estimate a combined overspend of almost £77 million and that a further £50 million reserve was needed to mitigate for this. The Committee noted the Ministers view that monthly estimates of overspending are reducing and she was confident they would fall to a level at or below £50 million by the year end. The Committee is concerned that this reserve could reduce the incentive for Local Health Boards to achieve a break even position at year end. (Page 12)

**Recommendation 1:** The Committee recommends the Minister provide written details of the arrangements for paying back financial transactions funding to the Treasury when an agreement is reached. (Page 13)

**Conclusion:** The Committee notes that reserves are currently below the cap, with the exception of non-fiscal resource. (Page 14)

**Recommendation 2:** The Committee is concerned that the Discretionary Assistance Fund is costing over £2 million, in administration costs for Northgate Public Services. The Committee recommends that further work is undertaken to monitor and review how the fund is administered, whether administration costs are proportionate and why initial uptake for the scheme was slow

considering the scheme effectively replaced a scheme that was already in existence. (Page 16)

**Recommendation 3:** The Committee supports the Minister's aim to improve the link between allocations and outcomes and would recommend that the Welsh Government takes the opportunity of including information in terms of resource input as well as outputs and outcomes in the next Programme For Government annual report. (Page 18)

**Conclusion:** The Committee notes the Minister has committed to prioritising bids for further funding in terms of how the bids link to preventative spend. The Committee agrees with this approach, and would like to see more evidence in future budgets on how preventative spending is prioritised and how and when benefits will be realised. However, the Committee did not agree that the £50 million contingency in Health could be viewed as preventative spending. (Page 19)

**Recommendation 4:** The Committee notes the allocation from and repayments to the *Invest-to-Save* fund, and is content with this. However, the Committee recommends that the Minister commit to producing an annual report which details the money being transferred from and repayments to *Invest-to-Save*. The report should identify the actual and projected savings to be made from the *Invest-to-Save* projects. (Page 22)

**Conclusion:** The Committee is keen to see a further move towards outcome based budgeting and continuing improvement in the level of transparency within the budget ensuring that the most appropriate and transparent information is made available for public scrutiny. (Page 23)



# 1. Overview

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1. The Minister for Finance (Jane Hutt AM) laid the second Supplementary Budget Motion 2013-14 on 11 February 2014. This was accompanied by an explanatory note and tables showing the main expenditure group (“MEG”) allocations. This supplementary budget amends the first Supplementary Budget 2013-14 from June 2013.
2. The Finance Minister (“the Minister”) appeared before the Finance Committee (“the Committee”) on 19 February 2014.<sup>1</sup>
3. On 11 March 2014 the National Assembly for Wales will debate whether or not to approve the changes made in the Supplementary Budget Motion.
4. This report is structured around the four principles of financial scrutiny:
  - Affordability - In other words, to look at the big picture of total revenue and expenditure, and whether these are appropriately balanced;
  - Prioritisation - In other words, whether the division of allocations between different sectors/programmes is justifiable and coherent;
  - Value for money - Essentially, are public bodies spending their allocations well – economy, efficiency and effectiveness (i.e.) outcomes; and
  - Budget processes - are they effective and accessible and whether there is integration between corporate and service planning and performance and financial management.

## Summary

5. In comparison to the First Supplementary Budget 2013-14<sup>2</sup> it can be seen that:
  - TME allocated to Welsh Government departments is increased by 4.1 per cent, or £643 million.

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<sup>1</sup> RoP, Finance Committee, 19 February 2014

<sup>2</sup> Welsh Government, [Supplementary Budget Motion 2013-14](#), 25 June 2013. [accessed 19 February 2014]

- Overall departmental expenditure limit (“DEL”) is increased by 2.9 per cent, or £443 million.

6. **Note:** 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.

## **Other bodies**

### **Assembly Commission**

7. On 3 February 2014 the Assembly Commission laid a Supplementary Budget Explanatory Memorandum.<sup>3</sup>

8. The Committee considered the proposed changes and noted the increase in the AME by £700,000 and the decrease to the Resource Budget of £700,000.

9. The Assembly Commission provided details setting out how the rebate relates to the past four financial years. The Commission also set out that there would be an annual saving of £0.2 million with regard this rebate which would be reinvested during the next financial year. The increase in AME is also likely to be repeated in 2014-15 and is so would require a supplementary budget to account for this.

### ***Committee view***

**The Committee notes the supplementary budget for the Assembly Commission.**

### **Budget of the Auditor General**

10. Standing Order 20.35 requires the Auditor General for Wales (“AGW”) to provide an explanatory memorandum to the Committee stating why a variation to the budget is required.

11. The AGW submitted an explanatory memorandum to the Committee in November 2013, attached as annex 1, informing the Committee that he intended to seek a variance of £187,000 to his estimate to address changes in the VAT status of the Auditor General’s supplies.

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<sup>3</sup> [www.assemblywales.org/bus-home/bus-business-fourth-assembly-laid-docs.htm](http://www.assemblywales.org/bus-home/bus-business-fourth-assembly-laid-docs.htm)

*Committee view*

**The Committee considered the Explanatory Memorandum from the Auditor General for Wales and are content with the proposed variance in the budget.**

## 2. Affordability

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### Funding local health boards

12. The Committee's report on the Draft Budget 2013-14 raised concerns about the level of allocations made to Local Health Boards ("LHBs") and identified a risk that if funding is inadequate then the need for additional cash for health will draw funding from other portfolios, and undermine the Government's prioritisation. The report stated the Committee's intention to "come back to the issue of the adequacy of NHS resources when we examine the second supplementary budget for 2013-14".<sup>4</sup>

13. The second supplementary budget sets out a net increase in the Health and Social Services DEL of £199.9 million, comprising an increase in revenue of £200.7 million and a decrease in capital of £0.8 million.

14. The majority of the revenue allocations are in relation to:

- £150 million funding package announced by the Minister for Finance in October 2013 to meet demands and pressures arising from the Francis Review. £142.6 million to be funded from reserves and £7.4 million from the Invest-to-Save action;
- £50 million to be held as a contingency within departmental MEG in the event that some LHBs are unable to achieve a breakeven position.

### *Evidence from the Minister*

15. The Committee questioned whether the current estimates of almost £77 million overall LHB deficits in month 10 of this financial year could be reduced to within the £50 million made available as a reserve in this Supplementary Budget.

16. The Minister noted that that the estimated deficits were showing a downward trend, and said:

"We are now into a period where we have had the month 10 figures. There is a very clear message from the Minister [for

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<sup>4</sup> [www.assemblywales.org/bus-home/bus-business-fourth-assembly-laid-docs/cr-ld9091-e.pdf](http://www.assemblywales.org/bus-home/bus-business-fourth-assembly-laid-docs/cr-ld9091-e.pdf)

Health and Social Services] that positive improvements are needed in the time left in this financial year. We have to recognise that there are financial risks, and that is why I have allocated the additional £50 million.”<sup>5</sup>

17. The National Health Service Finance (Wales) Act 2014 received Royal Assent on 27 January 2014. This Act provides a new legal financial duty for LHBs to break even over a rolling three financial years rather than each and every year.

18. The Committee also questioned whether the announcement of the additional £50 million could potentially act as a disincentive for LHBs to strive to breakeven by the end of the financial year and whether this would have any impact on the agreement of three year financial plans of LHBs currently being agreed under the NHS Finance (Wales) Act 2014.

19. The Minister believed that LHBs were currently on track to have three year budget plans approved by the start of the next financial year. She said:

“In terms of the three-year financial plans, it is my understanding that they had to be before the Minister [for Health and Social Services] and the health department before the end of January, so, obviously, those plans are being looked at very carefully now. We are on track, I understand, to approve those three-year plans at the start of the new financial year, and, quite clearly, these are issues for the Minister for Health and Social Services, but there is planning guidance from the new Act, which does mean that we are into a new regime in terms of the financial management of the health service.”<sup>6</sup>

### *Committees view*

**The Committee is pleased to note that the Supplementary Budget shows a clear prioritisation of funding towards Health. With regards to the allocation of £150 million funding package to meet demands and pressures arising from the Francis Review the Committee intends to return to the issue of funding the Francis Review at a later date. The Committee noted that £16.4 million of**

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<sup>5</sup> ROP, 19 February 2014, paragraph 9

<sup>6</sup> ROP, 19 February 2014, paragraph 32

**this figure relates to anticipated costs of new Immunisation programmes, Kalydeco drug funding and voluntary early retirement packages.**

**The Committee was concerned that LHBs currently estimate a combined overspend of almost £77 million and that a further £50 million reserve was needed to mitigate for this. The Committee noted the Ministers view that monthly estimates of overspending are reducing and she was confident they would fall to a level at or below £50 million by the year end. The Committee is concerned that this reserve could reduce the incentive for Local Health Boards to achieve a break even position at year end.**

### **Welsh Government Borrowing**

20. The supplementary budget includes a number of allocations in relation to financial transactions from the UK Treasury. The Committee notes that financial transactions are not traditional capital grants and can only be used for loans and equity purposes, whilst a proportion of the funding also has to be repaid to the Exchequer.

### ***Evidence from the Minister***

21. The Committee discussed with the Minister the variety and range of borrowing currently utilised by the Welsh Government, from innovative funding, financial transactions and the borrowing powers being devolved as part of the Wales Bill, as well as levels of borrowing by other public sector bodies in Wales.

22. The Minister reassured the Committee existing borrowing using innovative financing and financial transactions funding from the HM Treasury would not count against any Welsh Government borrowing limits set out in a future Wales Bill. She said:

“No, they will not, because all of our use of innovative finance and financial transactions do not count, in fact, as capital borrowing, so it would not impact on the limit. Of course, we do not yet have the powers to borrow, so we are doing what we can with our powers but it does not count, fortunately, against the £500 million.”<sup>7</sup>

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<sup>7</sup> ROP, 19 February 2014, paragraph 68

23. The Minister confirmed that as yet repayment terms for the financial transactions funding had not been formerly agreed and are still subject to negotiation. The Minister committed to feeding back any decisions made at the next quadrilateral meeting, she said:

“...at the last finance quadrilateral meeting that we had, which was in November, all Ministers for Finance across the devolved administrations were pressing for more flexibility, in terms of the financial transactions. We did secure from that discussion with the Chief Secretary to the Treasury enhanced end-of-year flexibility arrangements for financial transactions for this financial year and the next financial year. Now, what we are working on are the repayment terms on those because, yes, it has given us more flexibility in terms of spend in the next two financial years, but the repayment terms are still to be confirmed. That is something I hope we will conclude at the next quadrilateral meeting. I will want to then feed that back to the Assembly.”<sup>8</sup>

### ***Committee view***

**The Committee recommends the Minister provide written details of the arrangements for paying back financial transactions funding to the Treasury when an agreement is reached.**

### **Reserves and the Budget Exchange System**

24. The supplementary budget documentation sets out funding that can be brought forward under the Budget Exchange System and the current level of Welsh Government reserves.

### ***Evidence from the Minister***

25. Regarding the level of fiscal reserves the Minister said:

“I am confident that we have the right level of fiscal reserves at present. It is comparable with each of the last three years, in terms of the reserve. You are absolutely right on why we need that. I have been looking at this every month to see what we can reallocate. That is why we were able to announce not just

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<sup>8</sup> ROP, 19 February 2014, paragraph 62

the £50 million for health but also the £5 million for social housing, in the supplementary budget.”<sup>9</sup>

### *Committee view*

**The Committee notes that reserves are currently below the cap, with the exception of non-fiscal resource.**

### **Welfare reform**

26. Consideration of welfare reform and related issues was referred to in the Committee’s report on Draft Budget 2013-14.

“**Conclusion:** We believe it is likely that welfare reform, council tax support and pension auto-enrolment will increase the pressure on the Welsh Government’s budget. We intend to revisit the implications of all three examples again during scrutiny of supplementary budgets and during our in-year and end year financial scrutiny.”<sup>10</sup>

27. In January 2013 the then Minister for Local Government and Communities (Carl Sargeant, AM) committed to provide an additional £22 million to local authorities to implement the change to mitigate against the shortfall in funding to be transferred from the UK Government.<sup>11</sup> £2 million was allocated from revenue reserves for this purpose in the second Supplementary Budget 2012-13 in February 2013.<sup>12</sup> In their report on the second supplementary budget 2012-13 the Committee recommended:

“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.”<sup>13</sup>

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<sup>9</sup> ROP, 19 February 2014, paragraph 86

<sup>10</sup> National Assembly for Wales, Finance Committee, [Scrutiny of the Welsh Government draft budget motion 2013-2014](#) - November 2012 [accessed 25 June 2013]

<sup>11</sup> Welsh Government, Carl sergeant (Minister for Local Government and Communities), [Council Tax Support](#), Written Cabinet Statement, January 2013 [accessed 13 February 2014]

<sup>12</sup> Welsh Government, [Supplementary Budget 2012-13 Explanatory Note](#), February 2013 (page 22) [accessed 13 February 2014]

<sup>13</sup> National Assembly for Wales, Finance Committee, [Scrutiny of Welsh Government Supplementary Budget motion 2012-13](#), February 2013



28. The first supplementary budget, June 2013, allocated a further £19 million from reserves in 2013-14 in support of this. There was also a transfer from the UK of £12.4 million in relation to the abolition of the Discretionary Social Fund which has been allocated to the Communities and Tackling Poverty portfolio.<sup>14</sup> In response to the abolition of the Social Fund, the Welsh Government has established an alternative through the Discretionary Assistance Fund for Wales which was set up in April 2013, which details:

“This cash limited fund will initially run until March 2015. The scheme is being managed, under contract to the Welsh Government, by Northgate Public Services (Northgate) working in partnership with The Family Fund and Wrexham County Borough Council.”<sup>15</sup>

29. The second supplementary budget includes reference to a transfer out of £568k to the Children, Young People and Families Action, arising from the initial phase of the Discretionary Assistance Fund.

30. Also, the Welsh Government specifically highlight the following allocation in terms of mitigating the impact of Welfare Reform:

“A net transfer in of £1,300k to create a Discretionary Housing Payment Scheme to help mitigate the impact of the UK Government’s Welfare Reform changes in Wales, comprising: £400k from the Supporting People Action; £600k from the Regeneration Action; and £300k from the Planning Policy Development, Planning.

### ***Evidence from the Minister***

31. With regards to the discretionary assistance fund, the Minister said

“From constituency work, Members will probably know that there is a slow take-up in terms of people getting to know about the discretionary assistance fund. However, the budget for this financial year is £10.2 million, and the budget for next

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<sup>14</sup> Letter from the First Minister to Chair of the Commission on Devolution in Wales <http://commissionondevolutioninwales.independent.gov.uk/files/2013/07/Welsh-Government-additional.pdf>

<sup>15</sup> Welsh Government, [Discretionary Assistance Fund for Wales](#)

financial year is £10.2 million. As a result of the slow take-up there was an underspend, but the take-up is now at expected levels. You have probably noted that the transfer of savings on administration costs was reallocated to support the children's play duty. That, again, is where we try to manage things within year via an appropriate policy area."<sup>16</sup>

32. Members raised concerns about the administration costs of the fund, the Minister said:

"There is also £2 million for administration on top of the £10.2 million. So, it is £12.2 million. The transfer is £12.2 million. It is £10.2 million for the actual fund and £2 million for administration."<sup>17</sup>

33. When asked whether any review was being undertaken in terms of the administration of the fund the Minister said that it was a matter for the Minister for Housing and Regeneration.<sup>18</sup>

### *Committee view*

**The Committee is concerned that the Discretionary Assistance Fund is costing over £2 million, in administration costs for Northgate Public Services. The Committee recommends that further work is undertaken to monitor and review how the fund is administered, whether administration costs are proportionate and why initial uptake for the scheme was slow considering the scheme effectively replaced a scheme that was already in existence.**

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<sup>16</sup> ROP, 19 February 2014, paragraph 111

<sup>17</sup> ROP, 19 February 2014, paragraph 113

<sup>18</sup> ROP, 19 February 2014, paragraph 119

### 3. Prioritisation

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#### Programme for Government

34. The Welsh Government published their annual report on the Programme for Government (“PfG”) in June 2013.<sup>19</sup> In the Draft Budget 2013-14 an annexe was provided which linked selected actions from the budget to Chapters in the PfG, whilst these did not link to specific commitments, it did provide the first links between the budget and PfG.

#### *Evidence from the Minister*

35. When asked how the programme for government fits in with allocations in the budget and how priorities and progress with regard to the programme have influenced the allocations made in the supplementary budget, particularly in relation to decisions on reprioritising funding towards health the Minister said:

“Although the whole budget is geared and steered by the programme for government, we have sought to align the budget with the committee’s scrutiny, advice and support. We have aligned that more in terms of presenting the budget. Within year, in terms of the supplementary budget, it is very much in the context of in-year financial management pressures and emerging changes and pressures and opportunities. The programme for government has to underpin the decisions we make about financial management in year. We came to the summer with the Francis report and a very clear statement from the Minister for Health and Social Services, the Welsh Government and the First Minister that we had to respond to this effectively and appropriately. It fits well with our programme for government and in the sense that our commitment as a Government is to health. That explains how we have to judge. The supplementary budget has to be about how we manage our budget in year, which includes reallocation. All Ministers know, in terms of the reallocations that they have to make, that they still have to deliver on their programme for government objectives.”<sup>20</sup>

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<sup>19</sup> Welsh Government, [Programme for Government](#) [accessed 13 February 2014]

<sup>20</sup> ROP, 19 February 2014, paragraph 55

### *Committee view*

**The Committee supports the Minister's aim to improve the link between allocations and outcomes and would recommend that the Welsh Government takes the opportunity of including information in terms of resource input as well as outputs and outcomes in the next Programme For Government annual report.**

### **Preventative Spending**

36. The Committee concluded in the report on the Draft Budget 2013-14 that:

**Conclusion:** The evidence we received did not provide assurance that there is a shift in budget emphasis towards preventative spending.

37. The Committee also made prevention a key focus of subsequent scrutiny of the Draft Budget 2014-15.

### *Evidence from the Minister*

38. The Committee discussed with the Minister how preventative spending had been prioritised in terms of making decisions on making in-year allocations. The Minister welcomed the Committee's focus on preventative spend and said the Government is working harder in this area, the Minister gave some examples of work being done in terms of preventative spend, she said:

“I would suggest that increased funding for the NHS is preventative. One part of that is not just about the response to the Francis review, but new pressures, such as immunisation, developing during the year that were not forecasted. We know that health spending can have a very clear preventative impact. I would also say the same for the total housing grant—the £5 million, 60 to 100 new affordable homes, the help in terms of tackling housing need, which we debated last week, and 100 jobs in the construction phase. Therefore, I believe that the decisions that we have made—and we have just mentioned flooding and coastal erosion—and the statement that was made last week by the Minister for Natural Resources and Food, demonstrate that we were well-placed in Wales, fortunately, in terms of the investment that we have already made in flood protection, and protection against coastal erosion. We know,

and everyone with a coastal constituency will know, that much of our flood defence investment—that £240 million, and £50 million of European funding—has made an impact. So, I think that we can say that there is quite clearly a preventative element in our additional allocations.”<sup>21</sup>

*Committee view*

**The Committee notes the Minister has committed to prioritising bids for further funding in terms of how the bids link to preventative spend. The Committee agrees with this approach, and would like to see more evidence in future budgets on how preventative spending is prioritised and how and when benefits will be realised. However, the Committee did not agree that the £50 million contingency in Health could be viewed as preventative spending.**

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<sup>21</sup> ROP, 19 February 2014, paragraph 93

## 4. Value for Money

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### Invest to Save

39. The Committee made a recommendation following their inquiry on 'Invest-to-Save':

“The best invest-to-save projects we looked at showed a clear link between the investment made and savings generated. While it was no doubt important to find additional funding for the creation of Natural Resources Wales, it is not clear to us that this was an invest-to-save project. We recommend that Invest-to-save funds should only be used where there is robust evidence of savings resulting from the investment, not where this is a need for extra funding, which will probably result in savings over time.”<sup>22</sup>

40. In their response to the report, the Welsh Government accepted this recommendation, stating:

“The Invest-to-Save Fund will continue to support a variety of different project proposals and initiatives that lead to improvements in public services. All projects supported need to demonstrate that they will ultimately lead to financial savings and inevitably there will be project differences regarding timing and approach between an investment and subsequent savings; however, all projects still need to generate savings in order to qualify for Invest-to-Save support.”<sup>23</sup>

41. The current supplementary budget makes two transfers of over £250,000 from the *Invest-to-Save* action in the Central Services and Administration portfolio, the majority of these being to the Delivery of Core NHS Services, £12.2 million. The explanatory document provides the following information in relation to this *Invest-to-save* allocation in Health and Social Care MEG:

“£12,224k in from the Invest-to-Save Fund Action within the Central Services and Administration MEG to the Delivery of Core NHS Services Action in respect of Invest-to-Save investments.

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<sup>22</sup> National Assembly for Wales, Finance Committee, [Invest To Save](#), March 2013 [accessed 13 February 2014]

<sup>23</sup> National Assembly for Wales, Finance Committee, *Welsh Government Response to Invest-to-Save Report*, [Annex A](#), April 2013 [accessed 13 February 2014]

This includes £7,432k announced as part of the £150,000k funding package announced by the Minister for Finance in October 2013 to meet new demands and the recognised service pressures arising from the Francis Review.”<sup>24</sup>

### ***Evidence from the Minister***

42. The Committee asked the Minister about the allocations of £12.2 million to the delivery of core NHS services and how this fitted the ethos of the *invest-to-save* fund in terms of generating savings through improvement. The Minister said the allocation was ‘very much in the ethos of invest to save’, she continued to explain:

“£0.9 million has been allocated for Betsi Cadwaladr LHB, which is for enhanced care home services in north Wales, the benefits of which include an improved experience for patients. That will release recurrent annual net cash efficiency savings of over £900,000. We also have £0.2 million for Hywel Dda LHB for the implementation of digital dictation, with net efficiency savings of £120,000. You will be aware, from when you did your review that we have a voluntary early release scheme in the NHS, which is worth £7.4 million and is part of the package announced last year. That will release significant recurrent savings. We have used the invest-to-save voluntary early release very effectively.”<sup>25</sup>

43. The Minister was asked to further explain the savings relating to early release, she said:

“The NHS voluntary early release is, as it says, a voluntary early release from the health service. All the health boards and the health service have come together on this; it has been very much at the forefront of the efficiency and cash-releasing savings for the health service. If it would be helpful, we can give you information on where those voluntary early release changes have been taking place. They certainly have not been in the front line of the health service; they have been in many administrative posts. It is a minimum of £7.4 million in 2014-

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<sup>24</sup> [www.senedd.assemblywales.org/documents/s24250/FIN4-03-14p2.pdf](http://www.senedd.assemblywales.org/documents/s24250/FIN4-03-14p2.pdf)

<sup>25</sup> ROP, 19 February 2014, paragraph 47

15 and annually thereafter in terms of the actual savings as well. It might be useful if I did a note on this.”<sup>26</sup>

***Committees view***

**The Committee notes the allocation from and repayments to the *Invest-to-Save* fund, and is content with this. However, the Committee recommends that the Minister commit to producing an annual report which details the money being transferred from and repayments to *Invest-to-Save*. The report should identify the actual and projected savings to be made from the *Invest-to-Save* projects.**

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<sup>26</sup> ROP, 19 February 2014, paragraph 52



## 5. Budget Process

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44. The Committee noted a letter from the Auditor General for Wales to the Permanent Secretary, Sir Derek Jones, with regard to the use of the Supplementary Budget as a baseline in the Draft Budget 2014-15. This letter suggested that had the announcement of additional funding with regards to the Francis Review been included in the baseline comparisons the year-on-year change in health funding to 2014-15 would have shown a real terms decrease rather than increase. The Minister said:

“I think that this supplementary budget and its scrutiny are about this financial year and accounting for the extra £150 million and the extra £50 million that I only recently announced in tabling the supplementary budget. Clearly, the impacts on future budgets will be a matter for scrutiny by this committee.”<sup>27</sup>

**The Committee is keen to see a further move towards outcome based budgeting and continuing improvement in the level of transparency within the budget ensuring that the most appropriate and transparent information is made available for public scrutiny.**

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<sup>27</sup> [www.senedd.assemblywales.org/documents/s23544/PAC4-03-14%20ptn1.pdf](http://www.senedd.assemblywales.org/documents/s23544/PAC4-03-14%20ptn1.pdf)



# Explanatory Memorandum to the Responsible Committee Regarding the Variation of the Budget of the Auditor General for the Year Ending 31 March 2014

Submitted to the responsible committee (the Finance Committee) of the National  
Assembly for Wales for consideration under Standing Order 20.35

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## Overview

- 1** For each financial year, I must submit an annual estimate of my income and expenditure to the responsible committee. The responsible committee must examine that estimate and lay it before the National Assembly after making any amendments that it considers appropriate.
- 2** Following examination by the Public Accounts Committee (PAC)<sup>1</sup> of my initial annual estimate for 2013-14 on 23 October 2012, I submitted a revised estimate which was laid before the National Assembly on 22 November 2012. As well as issues relating to VAT this revised estimate excluded, at the request of the PAC, the costs of implementing the Public Audit (Wales) Act 2013. I estimated at that time that those costs would be approximately £250,000.
- 3** I wish to make amendments to this revised estimate and invite the responsible committee to examine and report on this amended budget for the year ending 31 March 2014.

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<sup>1</sup> The PAC was the relevant committee under the Government of Wales Act 2006 and Assembly standing orders at the time.

# Purpose of this explanatory memorandum

## Introduction

- 4 I wish to amend both my revenue resource request, and my associated equivalent net cash requirement, of £5,224,000 for 2013-14 by £187,000 to £5,411,000.
- 5 I also wish to amend my estimate of accruing resources for 2013-14 from £7,944,000 to £8,164,000. This latter change does not result in an increased demand for resources from the Welsh Consolidated Fund (the Consolidated Fund).

## Revenue resource requirement

- 6 I am seeking to increase my revenue resource request as explained in [paragraphs 7 to 12](#).

### Change in VAT status of Auditor General's supplies

- 7 In my previous estimates and annual reports and accounts published since the creation of the Wales Audit Office in 2005, I have highlighted a potential liability associated with a possible change in my VAT status. Following professional advice, my 2011-12 accounts included a provision of £2.4 million relating to an expected historical VAT liability.
- 8 In December 2012, I received confirmation from HMRC that it was not seeking to raise an assessment for such a liability, thereby avoiding a £2.4 million call on the Consolidated Fund.

- 9 However, HMRC also ruled that I should change my approach to charging VAT from 1 April 2013. The effect of this ruling is that I can no longer charge VAT on audit fees for statutory work at local government and NHS bodies. As a consequence, I am now unable to recover a significant amount of VAT which I have been able to recover previously, giving rise to an increase of £600,000 in my annual cost base.
- 10 The PAC's report on my 2013-14 estimate noted that should this increase in my cost base occur, I would need to take a view on what balance could be recovered from fees and what balance would need to be funded from the Consolidated Fund. [Paragraph 33](#) of that report<sup>2</sup> stated that the committee expected to have further dialogue with me once a resolution had been reached by HMRC and the position was clearer.
- 11 As the HMRC ruling came after I had set my audit fees for 2013-14, it was too late to adjust audit fees to fund the cost increase in this financial year and I therefore need to request additional funding from the Consolidated Fund.
- 12 In order to minimise my call on the Consolidated Fund, however, I am proposing to fund the local government element (£413,000) of this £600,000 cost increase in 2013-14 from reserves I have built up from local government since 2005. As I explain in my estimate for 2014-15, I will be unable to retain these reserves after 31 March 2014.

<sup>2</sup> Paragraph 33, PAC's Report on the estimate of the income and expenses of the office of the Auditor General for Wales, for the year ending 31 March 2014, November 2012

In using reserves in this way, I am reducing my need to seek funding from the Consolidated Fund for additional VAT costs in 2013-14 from £600,000 to £187,000.

- 13** The Wales Audit Office and I will set out in our 2014-15 joint estimate our approach to funding this additional cost pressure in the longer term.

**Costs of implementing the Public Audit (Wales) Act 2013**

- 14** As I explain in my overview to this supplementary estimate, in my original estimate for 2013-14 I projected that the costs of implementing the requirements of the Public Audit (Wales) Act 2013 would be £250,000. However, as the legislation was still being developed at that time, I agreed with the PAC to exclude that sum from my annual estimate and to seek funding for such implementation costs through a supplementary estimate once the requirements were better known.

- 15** My current estimate of the additional costs of implementing the Act is £127,000. These costs relate to:

- a** additional remuneration and training costs for the new Wales Audit Office non-executives in the period to 31 March 2014;
- b** additional staff costs in developing new policies, procedures and governance arrangements for the new Wales Audit Office; and
- c** external professional and legal advice on the requirements and practical implementation of the new legislation.

- 16** The most significant reason for the reduction between my initial estimate of £250,000, and my current estimate of £127,000, arises from removal of the 'broadly in line' provisions for staff terms and conditions from the final act. This change has eliminated the need for a significant amount of professional advice and work that would otherwise have been necessary to implement that requirement.

- 17** Although the cost of implementing the new legislation represents an additional cost pressure not included in my 2013-14 budget, I now anticipate that we will be undertaking additional unbudgeted work in 2013-14 leading to an increase in my forecast income position for the year. I therefore consider that these additional implementation costs can be met from within my overall revised 2013-14 budget, thus avoiding an additional call on the Consolidated Fund.

**Additional revenue resource requirement**

- 18** I am therefore seeking additional revenue resources through this supplementary estimate, as follows:

	£'000
Additional VAT costs	187
<b>Total additional costs</b>	<b>187</b>

**Net cash requirement**

- 19** I am also seeking an increase of £187,000 in my net cash requirement in respect of the additional costs outlined above.

## Summary

20 I provide in [Table 1](#) a summary of the revenue resources I am requesting through this supplementary estimate and of the consequent impact on my net cash requirement.

**Table 1 - Summary of revenue resource and cash requests**

	Revenue resource request £'000	Net cash requirement £'000
Revised estimate	5,224	5,224
Additional request	187	187
Amended estimate	5,411	5,411

## Accruing resources

21 My original 2013-14 estimate included a figure for accruing resources of £7,944,000. Accruing resources are broadly the income received by the Auditor General for NHS, central government and local government grants work that the National Assembly is asked to authorise by Budget Motion for use on delivering those services rather than it being paid into the Consolidated Fund. I now estimate that more work will be undertaken in these areas in 2013-14 than I originally estimated and have increased that estimate by £220,000 to £8,164,000 in [Table 2](#) of [Appendix 1](#). My costs will also increase by a corresponding amount in order to deliver this work.



## Appendix 1 - Summary of the 2013-14 budget requirements for inclusion in the Welsh Ministers' Supplementary Budget Motion under section 126 of the Government of Wales Act 2006

Under section 126 of the Government of Wales Act 2006 ('the 2006 Act'), Ministers may move a Supplementary Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the Consolidated Fund for certain relevant persons, including the Auditor General.

In respect of the services and purposes of the Auditor General in the year ending 31 March 2014, the Budget Motion will authorise:

- the amount of resources to be used by the Auditor General;
- the amount of resources accruing to the Auditor General which may be retained by him (rather than paid into the Consolidated Fund); and
- the amount which may be paid out of the Consolidated Fund to the Auditor General.

These requirements, which due to the variability of income streams can only be estimates, are summarised in [Table 2](#) below.

**Table 2 - Summary of the estimated 2013-14 budget requirements**

	£'000
Resources other than accruing resources for use by the Auditor General on the discharge of the statutory functions of the Auditor General and local government appointed auditors, and on the administration of the Wales Audit Office <sup>1</sup> :	
• Revenue	5,411
• Capital	20
Accruing resources from fees and charges for audit and related services (excluding for local government audit, assessment and inspection work); other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences, provision of administrative and professional and technical services; recoveries of costs of seconded staff; repayments of staff loans; recoveries of car leasing payments; and interest received on working balances for use by the Auditor General on related services and the administration of the Wales Audit Office <sup>2</sup> .	8,164
Net cash requirement from the Consolidated Fund to meet the net amounts falling due for payment in the year by the Auditor General <sup>3</sup> .	5,431

### Notes

- 1 This is the net revenue and capital expenditure in resource terms that the National Assembly will be requested to authorise by Budget Motion under section 126(3)(a) of the 2006 Act.
- 2 This is the income accruing to the Auditor General (other than that arising from local government activities) that the National Assembly will be asked to authorise by Budget Motion under section 126(3)(b) for use on related services rather than being paid into the Consolidated Fund.
- 3 This is the cash needed from the Consolidated Fund to meet the Auditor General's estimated net payments (payments less receipts) falling due in the year for authorisation by the National Assembly by Budget Motion under section 126(3)(c) of the 2006 Act.

Table 3 provides a reconciliation of the Auditor General's total resource request with his net cash requirement for the year ended 31 March 2014.

**Table 3 - Reconciliation of resource requirement to cash drawing requirement from the Consolidated Fund**

	£'000
Net request for resources – revenue and capital	5,431
Adjustments	0
Net cash requirement	5,431

In addition to the amounts shown in Table 2, the Auditor General accrues resources from local government activities under part 1 and section 33 of the Local Government Act 1999, part 2 of the Public Audit (Wales) Act 2004 and part 1 of the Local Government (Wales) Measure 2009, which he is permitted to retain for use in connection with the exercise of functions under those statutory provisions. During 2013-14, these are estimated to amount to £9.490 million. Under paragraph 9(3) of Schedule 8 to the 2006 Act, the Auditor General is authorised to retain such income rather than paying it into the Consolidated Fund. As in previous years, it does not therefore form part of the amount to be authorised by Budget Motion under section 126 of the 2006 Act, but is included for information.

## **Annex 2 - Witnesses**

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The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at

[www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?IId=1243](http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?IId=1243).

*Wednesday 19 February 2014*

Jane Hutt AM

Minister for Finance

## Annex 3 - List of written evidence

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The following people and organisations provided written evidence to the Committee. All written evidence can be viewed in full at

[www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?lId=5931](http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?lId=5931)

### *Organisation*

Jane Hutt, Minister for Finance

### *Reference*

[FIN\(4\)-03-14 Paper 1](#)

[FIN\(4\)-03-14 Paper 2](#)