

National Assembly for Wales
Finance Committee

Scrutiny of Supplementary Budget motion 2013-14

July 2013



Cynulliad
Cenedlaethol
Cymru

National
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Wales

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1. Introduction

1. The Minister for Finance (Jane Hutt AM) laid the first Supplementary Budget Motion 2013-14¹ on 25 June 2013. This was accompanied by an explanatory note² and tables showing the main expenditure group (MEG)³ allocations.⁴ This supplementary budget amends the Final Budget 2013-14,⁵ approved by the National Assembly in December 2012.
2. The Minister gave evidence to the Finance Committee on Thursday 4 July 2013.
3. In line with previous budgets, this report is structured around the four principles of financial scrutiny.
 - **Affordability** - the big picture of total revenue and expenditure, and whether these are appropriately balanced;
 - **Prioritisation** - whether the division of allocations between different sectors/programmes is justifiable and coherent;
 - **Value for money** - 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.
4. This first supplementary budget of the year details a number of significant changes in departments as a result of the cabinet reshuffle earlier this year. As usual, it also sets out allocations from reserves, transfers between Welsh Government departments, transfers with the

¹ Welsh Government, [Supplementary Budget Motion 2013-14](#), 25 June 2013.
[accessed 28 June 2013]

² Welsh Government, [Supplementary Budget 2013-14 Explanatory Note](#), 25 June 2013 [accessed 28 June 2013]

³ **Main expenditure group (MEG)** - the Welsh Government's budget is broken down into several levels of detail for monitoring and control purposes. Main expenditure groups (MEG) are at the highest level of this detail and correspond to Ministerial portfolios or ambitions. Below MEG level, expenditure is identified by **spending programme areas (SPAs)** and, within these, **actions**.

⁴ Welsh Government, [Supplementary Budget 2013-14 Expenditure Allocation Tables](#), 25 June 2013 [accessed 28 June 2013]

⁵ Welsh Government, [Final Budget 2013-14](#), November 2012 [accessed 25 June 2013]

UK Government and revisions to annually managed expenditure forecasts

5. The figures shown within this paper are concerned only with in-year changes for the current financial year, and therefore are shown in cash terms; no adjustments have been made for inflation.

The Supplementary Budget at-a-glance

6. The supplementary budget motion requests the Assembly to authorise an additional £247.4 million cash to be drawn from the Welsh Consolidated Fund by the Welsh Ministers in the 2013-14 financial year.⁶

⁶ Welsh Government, Supplementary Budget Motion 2013-14, 25 June 2013 (Schedule 5 Table 2). Note that the figures presented in the motion are on a resource basis, whereas the figures presented in the MEG tables, explanatory note and this briefing are on an administrative basis. Therefore, this £247.4 million figure does not match the figures presented in the published explanatory note or allocation tables. The administrative budget includes items which score outside government accounts, and so are not included in the resources required by the Welsh Government.

2. Affordability

Programme for government

7. In her evidence, the Minister emphasised that the Programme for Government (PfG) is now steering how allocations are made during the budget cycle. She also said that the government's legislative programme is at the heart of the PfG.

8. We welcome the Minister's intention to improve the links between the PfG and the budget, and look forward to seeing further integration in the Draft Budget 2014-15 when it is published in the Autumn.

Cost of legislation

9. During Draft Budget scrutiny last year we put a great emphasis on legislation being properly costed. In her evidence, the Minister indicated that this was something she was also keen to promote.

“Clearly, our legislative programme is key to delivering our programme for government. As you can imagine, in Cabinet and as Minister for Finance, my scrutiny of the costings of proposed legislation, and then the work that has to be done at official level to support Ministers who are bringing forward legislation, has to be robust...It has to be robust in terms of our budget, and then, of course, in terms of the impacts on others who are delivering on that legislation. So, it does add to the challenge—there is no question about that—but there is the commitment that we have to deliver on our legislative programme. Again, it is all about priorities, is it not? However, the costing of our legislation is absolutely critical. This is something that we are learning the lessons on, are we not?”⁷

10. Given the importance the Minister places on this area, we look forward to seeing a clearer demonstration of impacts of legislation in the Draft Budget for 2014-15.

Financial Planning

11. We questioned how the Welsh Government was preparing for real terms reductions in its future revenue budgets, as set out in recent

⁷ Record of Proceedings (RoP), National Assembly for Wales, Finance Committee, 4 July 2013, Para 13

announcements from the UK Government. This was an issue of concern around the original draft budget.

12. The Minister stressed the difficulties that lie ahead for the Welsh Government:

“This is the great challenge we face. Particularly in developing the next draft budget and managing in year pressures. Difficult decisions lay ahead as a result of these [UK Government] cuts. Our budget is for growth and jobs, and supporting vulnerable people and communities.”⁸

13. While we note the Minister’s awareness of the issues, we still have not seen strong evidence of forward planning in response to this issue. We will return to this in our future financial scrutiny.

Welfare Reform – devolution of Council Tax and abolition of Social Fund (Affordability)

14. In our report on the Welsh Government’s Draft Budget 2013-14 we highlighted devolution of council tax as an area that would need to be revisited during our in-year scrutiny.⁹

15. In January 2013 the then Minister for Local Government and Communities (Carl Sergeant AM) committed to provide £22 million to local authorities to implement to mitigate against the shortfall in funding to be transferred from the UK Government to cover changes in council tax support, expected to be around 10%.¹⁰ Some £2 million was allocated from revenue reserves for this purpose in the second Supplementary Budget 2012-13 in February 2013.¹¹ In our 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

⁸ Record of Proceedings (RoP), National Assembly for Wales, Finance Committee, 4 July 2013,

⁹ National Assembly for Wales, Finance Committee, [Scrutiny of the Welsh Government draft budget motion 2013-2014](#) - November 2012 [accessed 25 June 2013]

¹⁰ Welsh Government, Carl sergeant (Minister for Local Government and Communities), [Council Tax Support](#), Written Cabinet Statement, January 2013 [accessed 28 June 2013]

¹¹ Welsh Government, [Supplementary Budget 2012-13 Explanatory Note](#), February 2013 (page 22) [accessed 28 June 2013]

as to how it is decided to make provision for this in future years.”¹²

16. The current supplementary budget allocates a further £19 million from reserves in 2013-14 in support of this. The Finance Minister said that discussions about future years were on-going.

17. In addition there has also been a transfer of £222 million from the UK Government in relation to the devolution of council tax. The whole sum has been allocated to the local government portfolio.

18. We asked the Minister whether this transfer was in line with the expected funding shortfall of around 10%, she explained that this predicted shortfall, and therefore the additional funding provided by the Welsh Government in relation to council tax support, was based on forecast levels of demand, and therefore it will not be known whether they were accurate until the end of the financial year. The Minister did note that the £222 million transfer was £8 million higher than expected, but stressed that the funding required to provide 100 per cent support in future years was still unknown and under discussion with local government. She stated that the Minister for Local Government would be making a statement in due course on the level of funding to be provided to local government in relation to council tax support in 2014-15.

19. Finance Committee will return to this issue in our scrutiny of Draft Budget 2014-15 in the Autumn.

Discretionary Social Fund

20. There is 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. From 1 April 2013, In response to the abolition of the Social Fund, the Welsh Government has set up a national scheme called the Discretionary Assistance Fund. This cash limited fund will initially run until March 2015.¹³

21. The Minister clarified that the £12.4 million transfer from the UK Government was based on actual levels of expenditure on the

¹² National Assembly for Wales, Finance Committee, [Scrutiny of Welsh Government Supplementary Budget motion 2012-13](#), February 2013 [accessed 28 June 2013]

¹³ Welsh Government, [Discretionary Assistance Fund for Wales](#) [accessed 28 June 2013]

Discretionary Social Fund in Wales in the 2012-13 financial year. The Minister agreed to provide the Committee with further information on the total costs of the Discretionary Assistance Fund. We may wish to return to this matter once that additional information is available.

Housing Revenue Account Subsidy System

22. The Minister issued a joint statement with the Minister for Housing and Regeneration, Carl Sargeant, on 25 June, in relation to the Housing Revenue Account (HRA). This set out that the Chief Secretary to the Treasury has agreed that the 11 local authorities that still retain council housing stock in Wales can exit the HRA Subsidy system. The statement says:

“There are two elements to the agreement. The first part will involve local authorities buying themselves out of the existing subsidy system through a one off lump sum and local authorities will take on new debt to fund the settlement. These reforms will generate a total of £33 million in savings to the 11 stock retention local authorities each year.

“The second element, which is a condition of the agreement, will involve the imposition of a housing related borrowing cap. We have managed to negotiate the level of the debt cap which will allow local authorities to continue to invest in their housing stock in line with their current housing business plan commitments. Local authorities will have more to spend on bringing their homes up to the Wales Housing Quality Standard which will bring real and tangible benefits to their tenants.

“We will issue a further update on timescales once agreed with the Treasury and we will continue to work closely with local authorities and the Welsh Local Government Association on implementation.”¹⁴

23. Under questioning, the Minister indicated that details of how the 11 local authorities might buy themselves out were at an early stage. She said that the exact terms of the buy-out would depend on interest rates at the time the deal was agreed.

¹⁴ Welsh government, Jane Hutt (Minister for Finance) and Carl Sargeant (Minister for Housing and Regeneration), [Reform of the Housing Revenue Account Subsidy System](#), Written Cabinet Statement, 25 June 2013 [accessed 28 June 2013]

24. Committee notes that this ability to opt out of the HRA Subsidy System is a welcome development. However, we are concerned that finding the money up front to buy out of the scheme may prove challenging for local authorities in the short term, as this will likely require them to borrow the cost of the buy out.

We recommend the Welsh Government holds urgent talks with the 11 stock retention local authorities to ensure that initial cost of the opt-out can be met without damaging their ability to meet their obligations to tenants and without them taking on unmanageable levels of borrowing to fund the buy-out.

3. Prioritisation

Capital Consequentialists

25. As a result of the Autumn Statement 2012 and Budget 2013 the Welsh Government will see a reduction in revenue of £31.2 million and an increase in capital of £155.5 million (of which £68.1 million is earmarked for financial transactions).

26. In a letter to the Committee dated 25 June 2013, the Minister states that this earmarked capital funding has,

“...significant restrictions attached. Financial transactions can only be used for loans and equity and a proportion of the funding will have to be repaid to the Exchequer’. She goes on to state that ‘work is underway to consider how we can best utilise the funding for financial transactions and I hope to make further announcements on this in the Draft Budget 2014-15.”¹⁵

27. The Minister explained that that money used for financial transactions can only be used to fund third party loans or the acquisition of equity and must be repaid.

“The Chief Secretary to the Treasury has stated explicitly that it does not form part of our capital baseline and it must be repaid. We have not yet had formal confirmation of what proportion of the funding will need to be repaid overall, but just to give you some examples on this, the initial allocation the first time this came through in this way with this ring fence was in the budget for 2012, and then in the autumn statement later on in the year. The requirement for that initial allocation is that 60% of the money is repaid to the Exchequer by 2019-20. That gives us a bit of time, but it is important that we are clear about what that means in terms of loans and arrangements that we have made, or indeed if there are losses. We have not heard yet when we will need to repay the allocations made in the 2013 budget.”¹⁶

¹⁵ Letter to Chair of Finance Committee from Minister for Finance (Jane Hutt), 25 June 2013 [LINK]

¹⁶ Record of Proceedings (RoP), National Assembly for Wales, Finance Committee, 4 July 2013, para 23

28. Finance Committee was concerned to hear that significant chunks of money coming to Wales were subject to restrictions. The absence of hard and fast rules, and timings for repayment, adds a further level of complexity. However, in our questioning it became clear that the Welsh Government's plans to use this allocation were not fully formed either. The Minister indicated that housing would feature strongly in plans. However, with repayment required on such a short timeframe, we were concerned that housing investments (which traditionally have a much longer lead time) may not yield returns within the repayment deadline.

We recommend that the Welsh Government gives urgent thought to how it can best use this money to ensure the greatest impact on the Welsh economy. We also support the Welsh Government in its negotiations with the Treasury to ensure that any restrictions on future capital allocations are minimised, and that clear deadlines are attached to any allocations which require repayment.

Budget Exchange System and Cardiff International Airport

29. At the time of the second Supplementary Budget 2012-13 the Minister stated her intention to carry forward into 2013-14:

- £59 million revenue DEL (£40 million allocated to apprenticeships in Final Budget 2013-14, and £19 million allocated via this supplementary budget in support of council tax: and
- £50 million capital DEL in support of the Wales Infrastructure Investment Plan (WIIP).

30. At the time we noted that while carrying forward the extra £50m safeguarded future projects, we were concerned that this money was not being spent to stimulate growth and jobs in the current year.¹⁷

31. The current supplementary budget sets out that the Welsh Government has purchased the shareholding of Cardiff International Airport Limited, at £51.8 million, which utilised the remaining £50 million capital reserves for 2012-13. The Welsh Ministers authorised the use of these additional resources at the tail end of the financial year 2012-13 under Section 128 of the *Government of Wales Act 2006*,

¹⁷ National Assembly for Wales, Finance Committee, [Scrutiny of Welsh Government Supplementary Budget motion 2012-13](#), February 2013 [accessed 28 June 2013]

which deals with contingencies. It was the first time Section 128 had been used. A report setting out the detail of this was laid before the Assembly on 3 April.¹⁸

32. The upshot of this decision is that the £50 million capital intended to be carried forward into 2013-14 in support of WIIP is now no longer available.

33. Questioned as to whether this meant there was now a £50m hole in next year's WIIP, the Minister suggested not.

“We had the facility, as a result of the extension of our flexibilities and the budget exchange mechanism for the £50 million, to purchase the airport. We had the resources to purchase the airport, but, as I said in response to Paul, we are also, through careful management, able to make allocations to other strategic priorities. An agile and, I would say, confident Government should be in that position to make such decisions. We certainly did make that decision at the end of March. However, it is important that we draw attention to the section 128 mechanism that we used under the Government of Wales Act 2006 to lay that report as a result of the purchase. That is in the public domain.”¹⁹

34. Asked whether all projects under final consideration as at 25 March would be proceeding, the Minister said “Yes”.

“I can assure you that it was not the case that something else did not progress because we made that decision for the airport.”²⁰

35. While we accept the Minister’s assurance that all planned projects will proceed, we are concerned that there is £50m less available in the 2013-14 financial year than had been planned. This must have an impact on in-year investment decisions.

¹⁸ National Assembly for Wales, [GEN-LD9288 - Report Under Section 128\(7\) Government of Wales Act 2006 Acquisition of Cardiff Airport](#), 3 April 2013 [accessed 28 June 2013]

¹⁹ Record of Proceedings (RoP), National Assembly for Wales, Finance Committee, 4 July 2013, para 52

²⁰ Record of Proceedings (RoP), National Assembly for Wales, Finance Committee, 4 July 2013, para 55

36. The committee questioned why the Section 128 mechanism had been used, rather than bringing forward a supplementary budget motion, which would have required a vote in plenary for approval.

“I believe that openness and transparency have been delivered, particularly in relation to the section 128 report. To account for the way in which this happened, in response to your question, we laid that report on the use of the section 128 mechanism on 3 April of this year, which is required under the Government of Wales Act 2006. That report outlines the circumstances surrounding the purchase and the reasons for the use of that mechanism, which is important in terms of openness and transparency. We used that mechanism for reasons of urgency, in that it was not practical to move a budget motion to authorise the payment. That is why we used the section 128 mechanism.”²¹

“It was not practical to have a budget motion at that particular time to authorise this payment, because of the urgency of making the decision.”²²

37. Despite the Minister’s talk of ‘end-year complications’ and ‘practicality’, the Committee remains unclear exactly why Section 128 was used in preference to an additional Supplementary Budget. While Section 128 requires that a report be laid, there would have been much greater awareness among members (and the Welsh public) had there been a debate and vote in the Siambra on a Supplementary Budget to retrospectively authorise the spending.

We note that uses of Section 128 are likely to be rare, and its use is limited by the Government of Wales Act. However, we believe more could be done to increase transparency when it is used. We recommend that any future uses of Section 128 are reported directly to Finance Committee with an expectation that the committee will retrospectively scrutinise both the how and why of its use.

²¹ Record of Proceedings (RoP), National Assembly for Wales, Finance Committee, 4 July 2013, para 59

²² Record of Proceedings (RoP), National Assembly for Wales, Finance Committee, 4 July 2013, para 65

4. Value for Money

Invest-to-Save and Natural Resources Wales

38. In our report on the Welsh Government Invest-to-Save scheme we made the following recommendation:

“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.”²³

39. 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.”²⁴

40. Nonetheless, the current supplementary budget makes two transfers under *Invest-to-Save* to Natural Resources Wales. These transfers are:

- £3.75 million to support reconfiguration of the workforce (staff severance) in Natural Resources Wales, following the merger of the environment organisations; and

²³ National Assembly for Wales, Finance Committee, [Invest To Save](#), March 2013 [accessed 28 June 2013]

²⁴ National Assembly for Wales, Finance Committee, *Welsh Government Response to Invest-to-Save Report*, [Annex A](#), April 2013 [accessed 28 June 2013]

- £0.5 million to support integration of the systems and support transitional costs for Natural Resources Wales.²⁵

41. The Minister confirmed:

“The approach that we are taking is forecasting a saving of at least £4 million. Obviously, we feel that Natural Resources Wales does provide significant opportunities to realise efficiencies and improve delivery, but in terms of the ways in which we are trying to support that, particularly through the £3.8 million invest-to-save transformation programme, at this point in time, the forecast is that we will save at least £4 million.”²⁶

Finance Committee has been very supportive of the Invest-to-Save Scheme and believes it to be an example to other governments around the UK and beyond. However, we are disappointed to see that it appears to be being used as a ready cash fund to meet costs associated with the Natural Resources Wales merger. While these payments may generate savings in the long term, we do not believe they are within the spirit of the scheme. We repeat our earlier recommendation that Invest-to-save funding 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.

²⁵ Welsh Government, [Supplementary Budget 2013-14 Explanatory Note](#), 25 June 2013 (pages 33 and 42) [accessed 28 June 2013]

²⁶ Record of Proceedings (RoP), National Assembly for Wales, Finance Committee, 4 July 2013, para 76

5. Budget process

42. We are grateful to the Welsh Government for their attempts to ensure the major shift between portfolios, which resulted from the cabinet reshuffle, is presented as transparently as possible.