

National Assembly for Wales
Finance Committee

Report on GEN-LD8406 – Supplementary
Budget Motion 2010–11 (08 February 2011)

March 2011



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Finance Committee

The Finance Committee's remit is to ensure that proper scrutiny is given to the budget and expenditure of the Welsh Government, the Assembly Commission, the Ombudsman, the Children's Commissioner, the Older People's Commissioner and various Welsh Government Sponsored Bodies and NHS Bodies.

The Committee has, in broad terms, three main functions:

- to consider and report on Assembly budget proposals;
- to consider and, where it sees fit, report on the financial information presented in support of Assembly Measures;
- to consider any other matter relating to, or affecting, expenditure by the Government or out of the Welsh Consolidated Fund.

Powers

The Committee was established on 26 June 2007. Its powers are set out in the National Assembly for Wales's Standing Order 14. These are available at www.assemblywales.org

Committee Membership



Angela Burns (Chair)
Carmarthen West and South
Pembrokeshire
Welsh Conservative Party



Lorraine Barrett
Cardiff and South Penarth
Labour



Peter Black
South Wales West
Welsh Liberal Democrats



Andrew Davies
Swansea West
Labour



Chris Franks
South Wales Central
Plaid Cymru



Brian Gibbons
Aberavon
Labour



Ann Jones
Vale of Clwyd
Labour



Nick Ramsay
Monmouth
Welsh Conservative
Party



Janet Ryder
North Wales
Plaid Cymru

The following Member attended meetings of the Finance Committee as a substitute during the period of this report:



Alun Davies
Mid and West Wales
Labour

Background

1. Standing Order 27 states:

27.23 A supplementary budget motion tabled under Standing Order 27.21 may not be moved until either:

(i) the Finance Committee has reported on the motion; or

(ii) if the Finance Committee has not reported on the motion, three weeks have elapsed after it has been tabled.

27.24 The Finance Committee's report may recommend changes to the amounts proposed in the supplementary budget motion provided that the net effect of those variations would not increase or decrease the aggregate amounts of resources or cash proposed in the supplementary budget motion.

2. The Welsh Assembly Government laid this Supplementary Budget Motion on Tuesday 8 February 2011. The deadline for the Finance Committee reporting on it is therefore Tuesday 1 March 2011.

3. Jane Hutt, AM, the Minister for Business and Budget presented the supplementary budget to the Finance Committee, and answered questions on it, at its meeting on 14 February. The Minister was accompanied by officials: Andrew Jeffreys, Head of Strategic Budgeting, and Matthew Denham-Jones, Head of Budgetary Control and Reporting.

4. The Finance Committee also received in support of sections of the Supplementary Budget outside the Welsh Government's control: on 29 January 2011¹ from the Public Service Ombudsman for Wales and on 31 January 2011² from the Chief Executive and Clerk of the Assembly.

¹ Finance Committee, FIN(3)-04-11(p6), *Public Services Ombudsman Wales Supplementary Budget 2010-11*, 14 February 2011

² Finance Committee, FIN(3)-04-11(p2), *Assembly Commission Supplementary Budget 2010-11*, 14 February 2011

Changes proposed in the supplementary budget motion

6. The explanatory note to the supplementary budget says that it is mainly administrative in nature and reflects reprioritisations within portfolios and a number of budget transfers between portfolios. It implements the Welsh Assembly Government's decision to take the full £162.5m budget reductions imposed by the UK Government in June 2010 within 2010-11. It also sets out a number of additional allocations from reserves which, in turn, have been augmented by the drawdown of resources from stocks of end year flexibility. The allocations include amounts provided from the Strategic Capital Investment Fund.

7. The Supplementary Budget Motion includes a transfer of £1.6m from the Assembly Commission revenue Departmental Expenditure Limit (DEL) to its capital DEL. It also includes a small adjustment of £21,000 in respect of the Public Service Ombudsman for Wales. Neither of these results in any net change in expenditure.

Observations

8. The Finance Committee noted that the supplementary budget allocates an additional £298m in DEL to the Welsh Assembly Government Departments and the Explanatory Note states that the changes are mainly administrative in nature. The supplementary budget also implements the Welsh Assembly Government's decision to bear the full £113.5m revenue reductions this year. The Draft Budget 2011-12 previously assumed that only 50 per cent of the savings would be found in 2010-11. Finding the full amount of revenue savings this year means that an additional £56.8m will be available in 2011-12.

9. The Finance Committee noted that the supplementary budget included drawing down £227m from end year flexibility. The Minister for Business and Budget stated that, after this supplementary budget, the remaining end year flexibility stocks would be £385m made up of £1m capital, £163m near-cash revenue and £221m non-cash revenue. **The Finance Committee recommend that the Welsh Assembly Government should inform the Assembly on levels of end year flexibility lost after the end of the 2010-11 financial year.**

10. The Minister for Business and Budget confirmed that the £385m remaining end year flexibility stock would no longer be available to the Welsh Assembly Government, if the proposed abolition of end year flexibility at the end of the current financial year goes ahead. The Minister is continuing to pursue correspondence with the Chief Secretary to the Treasury and plans to write jointly to the Chancellor of the Exchequer, with the appropriate Ministers of the other devolved administrations, calling for the reversal of the decision to write off end year flexibility stocks.

11. The position in terms of carrying forward underspends in future years is, as yet, unclear. In 2010-11 Welsh Assembly Government officials were required to notify the Treasury of planned underspends by the end of January, two months before the end of the financial year. Officials told the Finance Committee that there has been a very clear message from the Treasury that any remaining underspend will not be carried forward into the next year. **The Finance Committee has written to the Chief Secretary of the Treasury requesting that he provide greater clarity to the Welsh Government as a matter of**

urgency on the new arrangements for transferring funds from one year to the next, to enable prudent financial planning for the coming financial year.

12. In relation to reserves for 2010-11, the supplementary budget proposed reducing revenue near cash reserves from £161.9m to zero, and capital reserves from £27.8m to zero. The revenue non cash reserve increased from zero to £0.2m. The Minister for Business and Budget told the Finance Committee that the Welsh Government intends to spend as much of this year's budget as possible.

13. The Finance Committee would expect the Welsh Assembly Government to continue to spend its budget by the end of the financial year through prudent financial management. However, the unpredictability around the timing of capital projects and associated spend makes it particularly difficult for devolved administrations to spend their entire budget in year. **The Finance Committee urges the Welsh Assembly Government to press for early clarification of how the new procedure will be implemented. The new regime must recognise that some form of underspend will be inevitable.**

14. Therefore, the Finance Committee does not agree that the devolved administrations should be treated as though they are UK Government departments in terms of future arrangements on the carry forward of underspends between financial years.

15. The largest element of the additional allocations in the supplementary budget is an increase of £147.7m for Health and Social Services. This includes a £110m allocation intended to support non-recurrent pressures on NHS organisations. The Minister for Business and Budget stated this allocation was as a result of pressures that the health service faced, exacerbated by the severe weather, and can be allocated across the board from NHS delivery purposes at the front line to recognising the impact on delayed transfers of care and emergency services.

16. The Finance Committee noted that the supplementary budget included an allocation from Economy and Transport to capital reserves of £10m, this related to a repayment of £97m which was allocated from reserves to the Economy and Transport portfolio in relation to the borrowings of Finance Wales which were taken on balance sheet in the Supplementary Budget 2009-10, February 2010. The Minister for

Business and Budget told the Finance Committee that whole of this £97m is due to be repaid to reserves by March 2017.

17. The supplementary budget details a total switch of £5.9m from revenue to capital: £1.2m in Environment, Sustainability and Housing; £0.7m in Heritage; and £4m in Central Services and Administration. The Minister for Business and Budget told the Finance Committee that some of this was due to the reclassification of expenditure, and that £2.5m of the Central Services and Administration figure related to furniture and accommodation. **The Finance Committee has asked the Minister to provide further details of the £2.5m transfer from revenue to capital within Central Service and Administration.**

18. Of the £162.5m budget reductions imposed by the UK Government in June 2010, capital savings of £49m have been provided by drawing from capital end year flexibility. In relation to the £113.5m revenue savings, the reductions have been made from all portfolio areas, excluding Health and Social Services, with an additional £71.5m near-cash drawdown from end year flexibility and just over £15m from revenue reserves. The supplementary budget details an addition to revenue reserves of £6.4m from the Rural Affairs portfolio in respect of wind farm income and a reduced expenditure on the bovine TB eradication programme. **The Finance Committee has requested a note from the Minister for Rural Affairs for clarification of where the reduction in allocations have been identified and achieved, in light of previous evidence to the Rural Development Sub-committee that TB eradication programme has consistently overspent in previous years.**

19. The supplementary budget allocates £70.1m to Strategic Capital Investment Framework projects in the Heritage and Economy and Transport portfolios. The narrative accompanying the supplementary budget explains that £37m has been allocated to rail enhancement Strategic Capital Investment Framework projects, but that these projects have been deferred until future years due to unavoidable delays. However, the funding for these projects has now been allocated to the Economy and Transport Department for use on other projects and has been divided up amongst a number of the capital actions which relate mainly to road maintenance and improvements. It is stated that the rail projects for which this funding was intended will be financed from within the Economy and Transport Department's capital allocations in future years. **The Finance Committee was**

concerned that this differed from the previous practice whereby, if projects did not go ahead, Strategic Capital Investment Framework funds would be retained centrally for reallocation against Strategic Capital Investment Framework criteria.

20. The Minister for Business and Budget agreed to let the Finance Committee have details of the amounts within the £37m reallocated from Strategic Capital Investment Framework rail enhancement going to projects that have either overspent or have slipped in the programme and also the amount going to new projects.

21. The Committee has sought an update from the Minister from Business and Budget with regard to the Welsh provisions in the Constitutional Reform and Governance Act 2010, how these are likely to impact on the budget process and presentation in future years and when they are likely to commence.

Conclusions

22. The Finance Committee notes the changes proposed in the Supplementary Budget motion and the Welsh Government's explanations of the reasons for them. The Finance Committee is concerned about the potential removal of accumulated end year flexibility stocks and that a clearly defined system is not in place to replace this scheme. The new regime must recognise that some form of underspend will be inevitable.

23. The Finance Committee has asked for further information in relation to some aspects of the budget, but does not recommend any changes to the amounts proposed in the Supplementary Budget Motion.

Angela Burns, AM
Chair, Finance Committee