

Finance Committee

Meeting Venue:
Committee Room 2 – Senedd

Meeting date:
4 July 2012

Meeting time:
08:45

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



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Agenda

Private briefing (8:45 – 9:00)

1. Introductions, apologies and substitutions (9:00 – 9:05)

2. Welsh Government Supplementary Budget 2012–2013 (Summer 2012) (9:05 – 10:00) (Pages 1 – 89)

FIN(4) 11–12 – Paper 1 – Supplementary Budget 2012–2013 – Explanatory note
FIN(4) 11–12 – Paper 2 – Supplementary Budget 2012–2013 – Motion

Jane Hutt, Minister for Finance
Jeff Andrews, Specialist policy Adviser
Margaret Davies, Head of Budget Policy
Matthew Denham–Jones, Head of Budgetary Control and Reporting

3. Papers to note (Pages 90 – 131)

FIN(4) 11–12 – Paper 3 – Consultation on new Scottish borrowing powers
FIN(4) 11–12 – Paper 4 – Correspondence from Scottish CIPFA Directors of Finance – Devolved Funding: Borrowing Powers and Innovative Approaches to Capital Funding
FIN(4) 11–12 – Paper 5 – Correspondence from The Minister for Health and Social Services – Supplementary Budget 2011–2012 (Spring 2012)

Minutes of meeting on 20 June 2012.

4. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

Items 5 and 6.

5. Welsh Government Supplementary Budget 2012–2013 (Summer 2012) – Consideration of evidence (10:00 – 10:30)

6. Welsh Government Draft Budget 2013–2014 – Options for appointing an expert adviser (10:30 – 11:00) (Pages 132 – 143)



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Supplementary Budget 2012-2013

Explanatory Note



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1. Introduction

- 1.1** The Welsh Government today tabled the First Supplementary Budget for 2012-13 in accordance with Standing Order 20. This Supplementary Budget proposes a number of changes to the Final Budget for 2012-13 as approved by the Assembly on 6 December 2011.
- 1.2** This Supplementary Budget mainly reflects adjustments to budgets which are in line with previous announcements made by the Welsh Government. This includes allocations from Reserves, including in respect of the Centrally Retained Capital Fund. In May, the Welsh Government published the Wales Infrastructure Investment Plan for Growth and Jobs which set out its high level investment priorities. This Supplementary Budget makes adjustments for the capital investment package that was announced in May in line with these priorities. It also reflects reprioritisations within portfolios and a small number of transfers between MEGs. Adjustments have also been made to the Wales DEL Budget to reflect transfers and consequential received in the UK Government's Autumn Statement and March 2012 Budget.
- 1.3** Changes proposed in this Supplementary Budget are summarised in the following tables with further details available in the later Departmental chapters. The Departmental chapters detail all individual changes above a £250k threshold.
- 1.4** This document supports the detailed Action Tables available on the Welsh Government's website.

Changes to Budget Structures

- 1.5** The structure of the Local Government and Communities MEG has been revised as part of this Supplementary Budget to align budgets more closely with the priorities of the National Transport Plan. Annex 2 provides a reconciliation between the old and new structures. These changes provide greater clarity about the purpose of the budgets.
- 1.6** There are also a small number of changes to the budget structures within the Business, Enterprise, Technology and Science MEG. Details of these changes are provided in the Departmental chapter.
- 1.7** This Supplementary Budget also provides for the restructuring of the budget for substance misuse in line with recent Ministerial portfolio changes.

Table 1.1 – Allocation of the Wales DEL – Supplementary Budget

MAIN EXPENDITURE GROUPS (MEGs)	£000s		
	Budget ¹ 2012-13	Changes	Revised Budget 2012-13
Departmental Expenditure Limits (DEL)			
Health, Social Services and Children	6,287,226	56,014	6,343,240
Local Government and Communities	5,104,513	-8,874	5,095,639
Business, Enterprise, Technology and Science	272,326	2,900	275,226
Education and Skills	1,836,753	18,069	1,854,822
Environment and Sustainable Development	326,812	13,710	340,522
Housing, Regeneration and Heritage	572,840	19,808	592,648
Central Services and Administration	349,919	12,964	362,883
Total Allocated to Welsh Government Departments	14,750,389	114,591	14,864,980
Resource	97,266	-15,361	81,905
Reserves	68,137	0	68,137
Capital Reserves	49,521	-44,099	5,422
Assembly Commission	47,227	0	47,227
Auditor General for Wales	4,740	0	4,740
Public Services Ombudsman for Wales	4,034	0	4,034
Direct Charges to the Welsh Consolidated Fund	642	0	642
Total Expenditure within the Wales DEL Budget	15,021,956	55,131	15,077,087

¹ Budget figures as per Final Budget Motion approved December 2011.

Table 1.2 – Changes to the Welsh Government Resource DEL

MAIN EXPENDITURE GROUPS (MEGs)	£000s			£000s		
	Fiscal Resource			Non-Fiscal Resource		
	Budget ² 2012-13	Changes	Revised Budget 2012-12	Budget ² 2012-13	Changes	Revised Budget 2012-13
Health, Social Services and Children	5,876,623	34,904	5,911,527	170,000	0	170,000
Local Government and Communities	4,733,774	-16,584	4,717,190	109,098	0	109,098
Business, Enterprise, Technology and Science	181,319	-6,000	175,319	1,551	0	1,551
Education and Skills	1,577,979	1,119	1,579,098	97,431	0	97,431
Environment and Sustainable Development	262,085	-30	262,055	3,098	0	3,098
Housing, Regeneration and Heritage	274,605	48	274,653	3,677	0	3,677
Central Services and Administration	305,455	12,964	318,419	16,000	0	16,000
Total Allocation to Welsh Government Departments	13,211,840	26,421	13,238,261	400,855	0	400,855

² Budget figures as per Final Budget Motion approved December 2011.

Table 1.3 – Changes to the Welsh Government Capital DEL

MAIN EXPENDITURE GROUPS (MEGs)	£000s		
	Budget ³ 2012-13	Changes	Revised Budget 2012-13
Health, Social Services and Children	240,603	21,110	261,713
Local Government and Communities	261,641	7,710	269,351
Business, Enterprise, Technology and Science	89,456	8,900	98,356
Education and Skills	161,343	16,950	178,293
Environment and Sustainable Development	61,629	13,740	75,369
Housing, Regeneration and Heritage	294,558	19,760	314,318
Central Services and Administration	28,464	0	28,464
Total Allocation to Welsh Government Departments	1,137,694	88,170	1,225,864

³ Budget figures as per Final Budget Motion approved December 2011.

Table 1.4 – Welsh Government AME Budget

MAIN EXPENDITURE GROUPS (MEGs)	£000s		
	Budget ⁴ 2012-13	Changes	Revised Budget 2012-13
Health, Social Services and Children	181,780	19,930	201,710
Local Government and Communities	64,314	-12,929	51,385
Business, Enterprise, Technology and Science	41,402	0	41,402
Education and Skills	150,525	27,784	178,309
Environment and Sustainable Development	0	0	0
Housing, Regeneration and Heritage	-58,510	-7,000	-65,510
Central Services and Administration	-1,837	-5	-1,842
Total Welsh Government AME Budget	377,674	27,780	405,454

⁴ Budget figures as per Final Budget Motion approved December 2011.

2. Key Changes in the Supplementary Budget ⁵

The changes are summarised below:

2.1 Adjustments to resource and capital baselines:

Fiscal Resource DEL

- The Fiscal Resource DEL baseline increases by £11.1m which comprises:
 - a net transfer out of £0.9m to UK Government Departments, comprising a transfer in of £1.0m from the Department for Environment, Food and Rural Affairs (DEFRA) in respect of the Animal Movements Licensing System and a transfer out of £1.9m to the Department for Business, Innovation and Skills (BIS) in respect of Pan Government Digital Mapping; and
 - an increase of £12m from consequentials received in the UK Government's Autumn Statement in November 2011.

Capital DEL

- The Capital DEL baseline increases by £44.1m, which comprises:
 - an increase of £38.7m from consequentials received in the UK Government's Autumn Statement in November 2011; and
 - an increase of £5.4m from a consequential received in the UK Government's March 2012 Budget.

Budget Exchange System

2.2 In the Second Supplementary Budget for 2011-12, the Welsh Government announced its intention to carry forward nearly £33.2m of Fiscal Resource DEL under the Budget Exchange System. Of this, £28.2m was allocated in the Final Budget 2012-13. A further £4.8m is being allocated as part of this Supplementary Budget, further details are provided at chapter 3.

⁵ Figures in this chapter have been rounded to one decimal place.

2.3 Details of the exact amount to be carried forward from 2011-12 will be confirmed once the Welsh Government's Annual Accounts for 2011-12 have been finalised. Adjustments to our baseline to reflect the final amount carried forward will be made later in the year through the UK Supplementary Estimate process. As such, this Supplementary Budget does not reflect any adjustment to the Welsh Block in respect of the Budget Exchange System.

2.4 Amounts transferred to Reserves by Welsh Government Departments:

Fiscal Resource DEL

- £1.9m from Central Services and Administration in respect of a transfer to the UK Department for BIS in relation to Pan Government Digital Mapping.

3. Allocations from Reserves⁶

3.1 This Supplementary Budget makes a number of allocations from Reserves, many of which are in line with previous announcements made by the Welsh Government.

3.2 The key allocations to Welsh Government Departments are summarised below:

Fiscal Resource DEL

- £12.2m non-recurrent funding is being allocated to the Health, Social Services and Children MEG for orthopaedic services as part of the £65m package announced in March 2011;
- £10m is being allocated to the Central Services and Administration MEG in respect of Round Six Invest to Save projects announced earlier this month;
- as part of the £33.2m earmarked for specific purposes under the Budget Exchange System, £4.8m is being allocated to the Local Government and Communities MEG in respect of:
 - £0.8m to support provision of Free Advice Services; and
 - £4m as part of the Local Government Borrowing initiative.
- £1m is being allocated to the Business, Enterprise, Technology and Science MEG in respect of the UK Government transfer from DEFRA for the Animal Movements Licensing System; and
- £0.4m to the Education and Skills MEG in relation to an adjustment for the Pupil Deprivation Grant.

⁶ Figures in this chapter have been rounded to one decimal place.

Capital DEL

Centrally Retained Capital (CRC) Fund

3.3 The Supplementary Budget provides a total of £8.3m to CRC Phase 1 projects as announced in March 2011 and £35.9m to CRC Phase 2 projects as announced in November 2011:

- **Health, Social Services and Children**

A total of £8.6m has been allocated to Phase 2 projects comprising:

- £2.7m in respect of the Wrexham Ambulance Resource Centre; and
- £5.9m for the development of services at Cardiff Royal Infirmary.

- **Local Government and Communities**

A total of £3.9m has been allocated to Phase 1 projects, comprising:

- £1.9m for the A470 Maes yr Helmau to Cross Foxes improvement; and
- £2m for the A470 Gelligemlyn.

A total of £6.3m has been allocated to Phase 2 projects, comprising:

- £4m for Welsh National Traffic Data System;
- £0.4m for the M4 Junction 32 Coryton Improvement Scheme; and
- £1.9m for road salt storage.

- **Business, Enterprise, Technology and Science**

£2.9m Phase 1 funding has been allocated for the provision of on line services for rural payments in Wales.

- **Education and Skills**

A total of £9m has been allocated to Phase 2 projects comprising:

- £2m for the 'Gateway to the Valleys' project which will establish a new school in Tondy and rationalise the provision of secondary education in the area; and
- £7m for the rationalisation of the secondary school estate in Carmarthenshire.

- **Environment and Sustainable Development**

£2m of Phase 2 funding has been allocated for flood and coastal erosion management projects, to reduce the risks to vulnerable homes and businesses in the Colwyn Bay and Borth regions of North and West Wales.

- **Housing, Regeneration and Heritage**

£1.5m of Phase 1 funding has been allocated for the redevelopment of the Merthyr Tydfil Old Town Hall.

£10m of Phase 2 funding has been allocated to the following projects:

- £5m for the 'Houses into Homes' initiative to bring empty properties back into use; and
- £5m for the West Rhyl housing redevelopment project.

Additional Capital Investment

3.4 In May, the Welsh Government published the Wales Infrastructure Investment Plan for Growth and Jobs which sets out its high level investment priorities. Alongside this, and following discussions with the Welsh Liberal Democrats as part of the 2012-13 Budget Agreement, the Welsh Government announced a £44m capital investment package in line with the investment framework:

- **Health, Social Services and Children**

A total of £6.8m has been allocated to the following projects:

- £2.5m in respect of the Ysbyty Glan Clwyd redevelopment; and

- £4.3m in respect of the Llandough Hospital Acute Mental Health Unit.

- **Local Government and Communities**

A total of £3.2m has been allocated to the following projects:

- £0.5m towards premises for 'One Stop Shops' which provide support, advice and information for victims of domestic abuse;
- £1.5m for the M4 junction 33-34 hard shoulder running; and
- £1.2m for the M4 junction 49 (Pont Abraham) signalisation.

- **Business, Enterprise, Technology and Science**

A total of £6m has been allocated to the following projects:

- £2.5m to the Welsh Economic Growth Fund for the short term fast track fund for businesses providing immediate access to capital funding for investment; and
- £3.5m for Deeside Enterprise Zone. This is a major capital flood mitigation scheme to facilitate the development of the 'Northern Gateway' in Deeside which is critical to attracting new investments to the Enterprise Zone.

- **Education and Skills**

A total of £8m has been allocated to the following projects:

- £5m for the acceleration of transitional projects for 21st Century Schools; and
- £3m for the Cardiff City Centre Post 16 Campus.

- **Environment and Sustainable Development**

A total of £9m has been allocated to the following projects:

- £3m for NEST, the Welsh Government's fuel poverty scheme;
- £2m for the new scheme to run alongside our energy efficiency scheme, ARBED Phase 2; and
- £4m for flood and coastal risk management schemes in Colwyn Bay, Talgarth, Gilfach Kerry and Borth.

- **Housing, Regeneration and Heritage**

A total of £11m has been allocated to the following projects:

- £6m for the Welsh Housing Partnership Phase 2; and
- £5m for the 'Houses into Homes' initiative to bring empty properties back into use.

4. Health, Social Services and Children

Overall Budget Changes

- 4.1** There has been a net increase in the Health, Social Services and Children's DEL of £56,014k, comprising an increase in resource of £34,904k and an increase in capital of £21,110k.

AME

- 4.2** The AME budget has increased by £19,930k to reflect the latest forecasts for provisions and impairments in the NHS.

Resource Changes

- 4.3** There is a transfer of £12,200k non-recurrent funding from Reserves to the 'Delivery of Core NHS Services' Action to reduce waiting times for orthopaedic services. This is part of the £65 million package announced in March 2011.
- 4.4** The net impact of transfers with other MEGs is an increase of £22,704k, which comprises the following adjustments above £250k:

Support Education and Training of NHS Workforce Action

- £2,051k has been transferred to the 'Higher Education' Action in the Education and Skills MEG to cover payments to Cardiff University to support medical and dental training.

Support Mental Health Policies and Legislation Action

- A total transfer out of £2,688k comprising:
 - £1,970k to the 'Tribunals' Action in the Central Services and Administration MEG in respect of Mental Health Review Tribunals; and
 - £718k to the 'Funding Support for Local Government' Action in the Local Government and Communities MEG in respect of the Revenue

Support Grant. The transfer is required to support compliance with primary legislation in relation to the Mental Health Act 2007 and Deprivation of Liberty Safeguards.

Deliver the Substance Misuse Strategy Implementation Plan Action

- £27,475k in respect of the transfer in of the 'Substance Misuse' Action from the Local Government and Communities MEG to reflect a change in Ministerial portfolios.

4.5 There have also been a number of transfers within the MEG, the net impact of which is neutral. The effect of these transfers on individual Actions is shown below:

Delivery of Core NHS Services Action

- A net transfer out of £11,153k comprising the following transfers above £250k:
 - £31,452k to the 'Delivery of Targeted NHS Services' Action in respect of Shared Services;
 - £13,066k from the 'Delivery of Targeted NHS Services' Action in respect of Primary Care Contracts;
 - £6,000k from the 'Delivery of Targeted NHS Services' Action in respect of funding for hospital and community health services; and
 - £1,074k from the 'Promote Health Improvement & Healthy Working' Action in respect of Diabetic Capacity Grant.

Delivery of Targeted NHS Services Action

- A net transfer in of £12,417k comprising the following transfers above £250k:
 - £31,452k from the 'Delivery of Core NHS Services' Action in respect of Shared Services;
 - £13,066k to the 'Delivery of Core NHS Services' Action in respect of Primary Care Contracts; and

- £6,000k to the 'Delivery of Core NHS Services' Action in respect of funding for hospital and community health services.

Support Mental Health Policies and Legislation Action

- A total transfer out of £190k with no transfers above £250k.

Sponsorship of Public Health Bodies Action

- A total transfer in of £8,939k comprising:
 - £629k from the 'Children's Social Services' Action in respect of New Born Bloodspot Screening; and
 - £8,310k from the 'Promote Health Improvement & Healthy Working' Action in respect of funding for Public Health Wales.

Promote Health Improvement & Healthy Working Action

- A total transfer out of £9,384k comprising:
 - £8,310k to the 'Sponsorship of Public Health Bodies' Action in respect of funding for Public Health Wales; and
 - £1,074k to the 'Delivery of Core NHS Services' Action in respect of Diabetic Capacity Grant.

Children's Social Services Action

- A transfer out of £629k to the 'Sponsorship of Public Health Bodies' Action in respect of New Born Bloodspot Screening.

Capital Changes

4.6 There has been a total transfer from Reserves of £15,420k comprising:

NHS Delivery Action

- A total transfer in of £15,420k including:
 - £8,620k of Centrally Retained Capital Funding for the following:
 - £2,720k in respect of Wrexham Ambulance Resource Centre; and
 - £5,900k for the development of services at Cardiff Royal Infirmary.

- £6,800k as part of the capital investment package to promote growth and jobs announced in May, comprising:
 - o £2,500k in respect of the Ysbyty Glan Clwyd redevelopment; and
 - o £4,300k in respect of the Llandough Hospital Acute Mental Health Unit.

4.7 There has also been a transfer of £5,690k into the 'Deliver the Substance Misuse Strategy Implementation Plan' Action from the 'Substance Misuse' Action in the Local Government and Communities MEG to reflect a change in Ministerial portfolios.

Table 4.1 – Health, Social Services and Children SPA Allocations

DEL	£000s					
	2012-13 Resource			2012-13 Capital		
	Budget ⁷	Changes	Revised Budget	Budget ⁷	Changes	Revised Budget
NHS Delivery	5,491,962	13,464	5,505,426	230,279	15,420	245,699
Health Central Budgets	205,374	22,546	227,920	0	5,690	5,690
Public Health and Prevention	157,548	-477	157,071	5,039	0	5,039
Social Services	182,104	-629	181,475	5,285	0	5,285
CAFCASS Cymru	9,635	0	9,635	0	0	0
Total DEL	6,046,623	34,904	6,081,527	240,603	21,110	261,713
AME						
NHS Impairments	181,780	19,930	201,710	0	0	0
Total Managed Expenditure (TME)	6,228,403	54,834	6,283,237	240,603	21,110	261,713

⁷ Budget figures as per Final Budget Motion approved December 2011.

5. Local Government and Communities

Overall Budget Changes

5.1 There has been a net decrease in Local Government and Communities DEL of £8,874k, comprising a decrease in resource of £16,584k and an increase in capital of £7,710k.

AME

5.2 The AME budget has decreased by £12,929k to reflect latest forecasts in respect of the improvement and maintenance of the trunk road network.

Resource Changes

- 5.3** There has been a total transfer from Reserves of £4,754k, comprising:
- £754k into the 'Third Sector' Action to support provision of Free Advice Services; and
 - £4,000k into the 'Sustainable Travel' Action as part of the Local Government Borrowing Initiative.
- 5.4** The net impact of transfers with other MEGs is a decrease of £21,338k, which comprises the following adjustments above £250k:

Funding Support for Local Government Action

- A net decrease of £845k comprising the following transfers:
 - £1,595k to the 'Geographical Information' Action contained within the Central Services and Administration MEG to support the pan-Wales Geographic Information Services; and
 - £718k from the 'Support Mental Health Policies and Legislation' Action contained within the Health, Social Services and Children MEG into the Revenue Support Grant. The transfer is required to support compliance with primary legislation in relation to the Mental Health Act 2007 and Deprivation of Liberty Safeguards.

Substance Misuse Action

- £27,475k in respect of the transfer out of the 'Substance Misuse' Action to the Health, Social Services and Children MEG to reflect a change in Ministerial portfolios.

Sustainable Travel Action

- £7,000k has been transferred to the 'Sustainable Travel' Action in the Local Government and Communities MEG as part of a budget transfer between the Business, Enterprise, Technology and Science MEG and the Local Government and Communities MEG agreed following the last Supplementary Budget of 2011-12.

5.5 There have also been a number of transfers within the MEG, the net impact of which is neutral. Below is a breakdown of specific transfers above £250k:

Communities First Action

- £250k from the 'Financial Inclusion' Action in relation to the Post Office Development Fund to further support the diversification of Post Offices following the evaluation of the Post Office Diversification Fund.

Financial Inclusion Action

- A total transfer out of £900k comprising:
 - £250k to the 'Communities First' Action in relation to the Post Office Development Fund to further support the diversification of Post Offices following the evaluation of the Post Office Diversification Fund; and
 - £650k to the 'Third Sector' Action in relation to the support to Credit Unions to fund the increase in project costs related to the additional business support arrangements for Welsh Credit Unions.

Third Sector Action

- £650k from the 'Financial Inclusion' Action in relation to the support to Credit Unions to fund the increase in project costs related to the additional business support arrangements for Welsh Credit Unions.

5.6 £1,675k has been transferred within the MEG, the net impact of which is neutral, from the 'Driving Better Collaboration' Action to the Supporting Collaboration and Reform Action (formerly 'Supporting Simpler and More Effective Services' Action) as part of the realignment of Budgets.

Capital Changes

5.7 There has been a total transfer from Reserves of £13,400k comprising:

Motorway and Trunk Roads Network Operations Action

- A total transfer in of £9,000k including:
 - £6,300k of Centrally Retained Capital funding for the following:
 - £4,000k for Welsh National Traffic Data System;
 - £400k for M4 J32: Coryton Improvement Scheme; and
 - £1,900k for Road Salt Storage.
 - £2,700k as part of the capital investment package announced in May, comprising:
 - £1,500k for the M4 junction 33-34 hard shoulder running; and
 - £1,200k for the M4 junction 49 (Pont Abraham) signalisation.

Road and Rail Schemes Action

- £3,900k of Centrally Retained Capital funding comprising:
 - £1,900k for the A470 Maes yr Helmau to Cross Foxes Improvement; and
 - £2,000k for the A470 Gelligemlyn.

Domestic Abuse Action

- £500k for the 'Domestic Abuse' Action towards premises for 'One Stop Shops' which provide support, advice and information for victims of domestic abuse as part of the capital investment package announced in May.

5.8 £5,690k has been transferred from the 'Substance Misuse' Action to the 'Deliver the Substance Misuse Strategy Implementation Plan' Action contained within the Health, Social Services and Children MEG to reflect a change in Ministerial portfolios.

Changes to budget structure

5.9 There has been a re-structuring of budgets within the Transport portfolio to align better with the priorities of the National Transport Plan and to improve the transparency of the information provided. Annex 2 provides a reconciliation between the new and old structures.

Table 5.1 – Local Government and Communities SPA Allocations

DEL	£000s					
	2012-13 Resource			2012-13 Capital		
	Budget ⁸	Changes	Revised Budget	Budget ⁸	Changes	Revised Budget
Local Government Funding	4,240,114	-845	4,239,269	20,000	0	20,000
Supporting Communities and People	53,227	736	53,963	14,774	0	14,774
Safer Communities	44,026	-27,475	16,551	8,529	-5,190	3,339
Improving Services, Collaboration and Democracy	41,896	0	41,896	0	0	0
Care and Social Services Inspectorate	15,190	0	15,190	0	0	0
Healthcare Inspectorate Wales	2,722	0	2,722	0	0	0
Estyn	12,968	0	12,968	315	0	315
Motorway and Trunk Road Network Operations	168,951	0	168,951	46,366	9,000	55,366
Rail and Air Services	173,971	0	173,971	0	0	0
Road and Rail Investment	0	0	0	92,794	3,900	96,694
Sustainable Travel	84,091	11,000	95,091	43,826	0	43,826
Improve and Maintain Local Roads Infrastructure	0	0	0	28,137	0	28,137
Improve Road Safety	5,716	0	5,716	6,900	0	6,900
Total DEL	4,842,872	-16,584	4,826,288	261,641	7,710	269,351
AME						
Local Government Funding	20,717	0	20,717	0	0	0
Improve Domestic Connectivity (Regional and National)	43,597	-12,929	30,668	0	0	0
Total Managed Expenditure (TME)	4,907,186	-29,513	4,877,673	261,641	7,710	269,351

⁸ Budget figures as per Final Budget Motion approved December 2011.

6. Business, Enterprise, Technology and Science

Overall Budget Changes

- 6.1** There has been a net increase in Business, Enterprise, Technology and Science DEL of £2,900k, comprising a decrease in resource of £6,000k and an increase in capital of £8,900k.

AME

- 6.2** There are no changes to the AME allocation.

Resource Changes

- 6.3** A transfer in of £1,000k from DEFRA to 'Meeting the needs of Rural Communities and Rural Proofing WAG' Action, for supplementary funding to local authorities to deliver animal health and welfare enforcement priorities and maintain the Animal Movements Licensing System.
- 6.4** £7,000k has been transferred to the 'Sustainable Travel' Action in the Local Government and Communities MEG as part of a budget transfer between the Business, Enterprise, Technology and Science MEG and the Local Government and Communities MEG agreed after the last Supplementary Budget of 2011-12.
- 6.5** There have also been a number of transfers within the MEG, the net impact of which is neutral. These have been made to support the delivery of the sector strategy and central strategy programmes:

Sectors Action

- A net transfer in of £13,896k comprising:
 - £5,000k from the 'Developing and Marketing the Welsh Food and Drink' Action to support the delivery of the new Food and Farming Sector;

- £7,626k from the 'Increase Visitor Demand and Conversion' Action to support the delivery of the new Tourism Sector;
- £4,136k from the 'Developing the Visitor Experience' Action to support the delivery of the new Tourism Sector;
- £2,005k from the 'Regional Funding' Action to release funding in support of the nine Sectors; and
- £4,871k to the 'Innovation' Action to align the Academia for Business programme and related activity to the Science and Innovation agenda. The 'Encouraging Innovation' SPA has been renamed 'Science and Innovation' Action.

Innovation Action (Formerly 'Encouraging Innovation')

- £4,871k from the 'Sectors' Action to align the Academia for Business programme and related activity to the Science and Innovation agenda.

Regional Funding Action

- £2,005k to the 'Sectors' Action to release funding in support of the nine Sectors.

Major Events Action

- £961k from the 'Increase Visitor Demand and Conversion' Action to align budgets with Major Events related activity.

Corporate Programmes Action

- £468k from the 'Strategy Programmes' Action to support the delivery of the central strategy programmes.

Strategy Programmes Action

- £468k to the 'Corporate Programmes' Action to support the delivery of the central strategy programmes.

Developing and Marketing Welsh Food and Drink Sector Action

- £5,000k to the 'Sectors' Action to support the delivery of the new Food and Farming Sector.

Increase Visitor Demand and Conversion Action

- A total transfer out of £8,587k comprising:
 - £7,626k to the 'Sectors' Action to support the delivery of the new Tourism Sector; and
 - £961k to the 'Major Events' Action to align budgets with Major Events related activity.

Developing the Visitor Experience Action

- £4,136k to the 'Sectors' Action to support the delivery of the new Tourism Sector.

6.6 The following SPAs and associated Actions have been moved in their entirety to the 'Strategy and Corporate Programmes' SPA:

- £4,802k from the 'Finance Wales' SPA and Action to align the central management and administration of Finance Wales PLC which is a wholly owned subsidiary of the Welsh Government; and
- £2,796k from the 'Marketing' SPA and Action to reflect that it supports central Business, Enterprise, Technology and Science initiatives and is managed in line with strategy and corporate delivery.

Capital Changes

6.7 There has been a total transfer from Reserves of £8,900k comprising:

Sectors Action

- A total transfer in of £6,000k as part of the capital investment package announced in May, comprising:
 - £2,500k to the Wales Economic Growth Fund for the short term, fast track fund for businesses providing immediate access to capital funding for investment; and

- £3,500k for Deeside Enterprise Zone – a major capital flood mitigation scheme to facilitate the development of the 'Northern Gateway' in Deeside, which is critical to attract new investments to the Enterprise Zone.

Delivering the Programmes within the Rural Development Plan Action

- £2,900k of Centrally Retained Capital Funding for the provision of on line services for Rural Payments in Wales.

6.8 There have also been a number of transfers within the MEG, the net impact of which is neutral. These have been made to support the delivery of the sector strategy and central strategy programmes.

Sectors Action

- A net transfer in of £2,840k comprising:
 - £750k to the 'Innovation' Action to align the Academia for Business programme and related activity to the Science and Innovation agenda. The 'Encouraging Innovation' SPA has been renamed 'Science and Innovation' Action;
 - £995k from the 'Regional Funding' Action to release funding in support of the nine sectors; and
 - £2,595k from the 'Developing the Visitor Experience' Action to support the delivery of the new Tourism Sector.

Innovation Action (Formerly 'Encouraging Innovation')

- A transfer in of £750k from the 'Sectors' Action to align the Academia for Business and related activity to the Science and Innovation agenda.

Regional Funding Action

- £995k to the 'Sectors' Action to release funding in support of the nine sectors.

Developing the Visitor Experience Action

- £2,595k to the 'Sectors' Action to support the delivery of the new Tourism Sector.

6.9 The 'Finance Wales' SPA and Action of £1,500k has been moved in its entirety to the 'Strategy and Corporate Programmes' SPA to align the central management and administration of Finance Wales PLC, which is a wholly owned subsidiary of the Welsh Government.

Table 6.1 – Business, Enterprise, Technology and Science SPA Allocations

DEL	£000s					
	2012-13 Resource			2012-13 Capital		
	Budget ⁹	Changes	Revised Budget	Budget ⁹	Changes	Revised Budget
Sectors and Business	43,826	6,896	50,722	59,992	8,840	68,832
Science and Innovation	5,785	4,871	10,656	357	750	1,107
Regional Funding	2,005	-2,005	0	995	-995	0
Finance Wales	4,802	-4,802	0	1,500	-1,500	0
Major Events	3,870	961	4,831	0	0	0
Marketing	2,796	-2,796	0	0	0	0
Infrastructure	22,415	0	22,415	11,031	0	11,031
Strategy and Corporate Programmes	4,880	7,598	12,478	417	1,500	1,917
WEFO	1,522	0	1,522	0	0	0
Rural Affairs	78,246	-4,000	74,246	12,569	2,900	15,469
Tourism	12,723	-12,723	0	2,595	-2,595	0
Total DEL	182,870	-6,000	176,870	89,456	8,900	98,356
AME						
Infrastructure	41,402	0	41,402	0	0	0
Total Managed Expenditure (TME)	224,272	-6,000	218,272	89,456	8,900	98,356

⁹ Budget figures as per Final Budget Motion approved December 2011.

7. Education and Skills

Overall Budget Changes

7.1 There has been a net increase in Education and Skills DEL of £18,069k, comprising an increase in resource of £1,119k and an increase in capital of £16,950k.

AME

7.2 The AME budget has increased by £27,784k, representing an increase in capital of £16,924k and an increase in resource of £10,860k, to reflect latest forecasts in respect of Student Loans.

Resource Changes

7.3 There is a transfer from Reserves of £393k into the 'Pupil Deprivation Grant' Action in relation to an adjustment for the Pupil Deprivation Grant.

7.4 The net impact of transfers with other MEGs is an increase of £726k, which comprises the following adjustments:

Higher Education Action

- £2,051k from the 'Support Education and Training of NHS Workforce' Action in the Health, Social Services and Children MEG to cover payments to Cardiff University to support medical and dental training.

Welsh Language Action

- £1,325k to the Central Services and Administration MEG to meet the salary and associated costs of staff that transferred into the Welsh Government on 1 April 2012 following the abolition of the Welsh Language Board, comprising the following adjustment over £250k:
 - £1,273k to the 'Staff Costs' Action.

7.5 There have also been a number of transfers within the MEG, the net impact of which is neutral. Below is a breakdown of specific transfers above £250k:

Curriculum Action

- £693k to the 'Delivery Support' Action for the International Education Programme in respect of CILT, the National Centre for Languages.

Qualifications Action

- £4,700k to the 'Post-16 Education' Action for Work Based Learning Welsh Baccalaureate delivery.

Post-16 Education Action

- A net transfer in of £4,630k comprising the following transfer above £250k:
 - £4,700k from the 'Qualifications' Action for Work Based Learning Welsh Baccalaureate delivery.

Welsh in Education Action

- £4,035k from the 'Welsh Language' Action for Mudiad Meithrin, National Day Nurseries Association and Athrawon Bro grants now being managed by the Welsh in Education Unit.

Welsh Language Action

- A total transfer out of £4,089k comprising the following transfer above £250k:
 - £4,035k to the 'Welsh in Education' Action for Mudiad Meithrin, National Day Nurseries Association and Athrawon Bro grants now being managed by the Welsh in Education Unit.

Delivery Support Action

- A total transfer in of £1,043k comprising the following transfer above £250k:
 - £693k from the 'Curriculum' Action for the International Education Programme in respect of CILT, the National Centre for Languages.

Capital Changes

7.6 A total transfer from Reserves of £16,950k into the 'Estate and IT Provision' Action comprising:

- £8,950k of Centrally Retained Capital Funding, which includes the following:
 - £1,950k for 'Gateway to the Valleys' project which will establish a new school in Tondu and rationalise the provision of secondary education in the area; and
 - £7,000k for the rationalisation of the secondary school estate in Carmarthenshire.
- £8,000k as part of the capital investment package announced in May, comprising:
 - £5,000k for the acceleration of transitional projects for 21st Century Schools; and
 - £3,000k for the Cardiff City Centre Post 16 Campus.

Table 7.1 – Education and Skills SPA Allocations

DEL	£000s					
	2012-13 Resource			2012-13 Capital		
	Budget ¹⁰	Changes	Revised Budget	Budget ¹⁰	Changes	Revised Budget
Education and Training Standards	1,165,476	1,485	1,166,961	161,243	17,050	178,293
Skilled Workforce	89,669	-20	89,649	0	0	0
Economic and Social Wellbeing and Reducing Inequality	390,762	-10	390,752	0	0	0
Welsh Language	26,355	-1,379	24,976	100	-100	0
Delivery Support	3,148	1,043	4,191	0	0	0
Total DEL	1,675,410	1,119	1,676,529	161,343	16,950	178,293
AME						
Economic and Social Wellbeing and Reducing Inequality	-99,893	10,860	-89,033	250,418	16,924	267,342
Total Managed Expenditure (TME)	1,575,517	11,979	1,587,496	411,761	33,874	445,635

¹⁰ Budget figures as per Final Budget Motion approved December 2011.

8. Environment and Sustainable Development

Overall Budget Changes

8.1 There has been a net increase in the Environment and Sustainable Development DEL of £13,710k, comprising a decrease in resource of £30K and an increase in capital of £13,740k.

Resource Changes

8.2 There has been a transfer to the Local Government and Communities MEG, however this does not comprise any adjustments above £250k.

8.3 There have been a number of transfers within the MEG, the net impact of which is neutral. It includes the following transfer above £250k:

- A transfer out of £735k from the 'Deliver Nature Conservation and Marine Policies' Action to the 'Promote Protected Landscapes and Countryside Access' Action in order to fund changes to the way that the Sustainable Development Fund is provided and administered by the National Park Authorities.

Capital Changes

8.4 There has been a total transfer from Reserves of £11,000k, comprising:

Develop and Implement Flood and Coastal Risk, Water and Sewage Policy and Legislation Action

- A total transfer in of £6,000k including:
 - £2,000k of Centrally Retained Capital funding to reduce the risks to vulnerable homes and businesses in the Colwyn Bay and Borth regions of North & West Wales; and
 - £4,000k as part of the capital investment package announced in May for Flood and Coastal risk management schemes in Colwyn Bay, Talgarth, Gilfach Kerry and Borth.

Develop and Implement Climate Change, Emission Prevention and Fuel Poverty Policy, Communications, Legislation and Regulation Action

- A total transfer in of £5,000k as part of the capital investment package announced in May, comprising:
 - £3,000k for NEST, the Welsh Government's fuel poverty scheme; and,
 - £2,000k for the new scheme to run alongside our energy efficiency scheme, *ARBED* Phase 2.

8.5 There has been a transfer of £2,740k into the 'Develop and Implement Climate Change, Emission Prevention, and Fuel Poverty Policy, Communications, Legislation and Regulation' Action from the Housing, Regeneration and Heritage MEG as a contribution to the match funding for *ARBED* Phase 2, the Welsh Government's Strategic Energy Performance Investment programme. This transfer comprises of;

- £270k from the 'Achieve Quality Housing' Action;
- £1,100k from the 'Increase the Supply and Choice of Housing' Action; and
- £1,370k from the 'Implementation of Strategic Regeneration Areas' Action.

8.6 There has been a transfer within the MEG of £1,000k, the net impact of which is neutral, from the 'Develop and Implement Flood and Coastal Risk, Water and Sewage Policy and Legislation' Action to the 'Sponsor and Manage Delivery Bodies' Action to fund the development of the Single Environment Body Infrastructure.

Table 8.1 – Environment and Sustainable Development SPA Allocations

DEL	£000s					
	2012-13 Resource			2012-13 Capital		
	Budget ¹¹	Changes	Revised Budget	Budget ¹¹	Changes	Revised Budget
Climate Change and Sustainability	115,885	-30	115,855	57,196	12,740	69,936
Environment	80,887	0	80,887	4,600	1,000	5,600
Planning	7,403	0	7,403	0	0	0
Protecting and Improving Animal Health and Welfare	39,454	0	39,454	0	0	0
Evidence Base	354	0	354	38	0	38
Forestry	21,200	0	21,200	-205	0	-205
Total DEL	265,183	-30	265,153	61,629	13,740	75,369
Total Managed Expenditure (TME)	265,183	-30	265,153	61,629	13,740	75,369

¹¹ Budget figures as per Final Budget Motion approved December 2011.

9. Housing, Regeneration and Heritage

Overall Budget Changes

9.1 There has been a net increase in the Housing, Regeneration and Heritage DEL of £19,808k, comprising an increase in resource of £48k and an increase in capital of £19,760k.

AME

9.2 The AME budget decreased by £7,000k to reflect the latest forecasts in respect of Housing Revenue Account Subsidy repayments to the Treasury.

Resource Changes

9.3 There has been a transfer from the Local Government and Communities MEG. This does not comprise any adjustments above £250k.

9.4 £300k has been transferred within the MEG, the net impact of which is neutral, from the 'Foster Usage and Lifelong Learning through Library Services' Action to the 'Strategic Leadership for museum, archive and library services' Action, for funding for the People's Collection.

Capital Changes

9.5 There has been a total transfer from Reserves of £22,500k comprising:

Increase the Supply and Choice of Housing Action

- A total transfer in of £16,000k, comprising:
 - £5,000k of Centrally Retained Capital for the 'Houses into Homes' initiative to bring empty properties back into use.

- £11,000k as part of the capital investment package announced in May, comprising:
 - o £6,000k for the Welsh Housing Partnership Phase 2; and
 - o £5,000k for the 'Houses into Homes' initiative to bring empty properties back into use.

Implementation of Strategic Regeneration Areas Action

- A total transfer in of £6,500k from Centrally Retained Capital, including:
 - £5,000k for the West Rhyl housing redevelopment project; and
 - £1,500k for the redevelopment of the Merthyr Tydfil Old Town Hall.

9.6 £2,740k has been transferred to the 'Develop and implement climate change, emission prevention, and fuel poverty policy, communications, legislation and regulation' Action in the Environment and Sustainable Development MEG for ARBED Phase 2, the Welsh Government's Strategic Energy Performance Investment Programme, from the following Actions:

- £270k from the 'Achieve Quality Housing' Action;
- £1,100k from the 'Increase the Supply and Choice of Housing' Action; and
- £1,370k from the 'Implementation of Strategic Regeneration Areas' Action.

9.7 £1,000k has been transferred within the MEG, the net impact of which is neutral, from the 'Foster Usage and Lifelong Learning through Museum Services' Action to the 'Increase the Supply and Choice of Housing' Action, to deliver additional new housing units.

Table 9.1 – Housing, Regeneration and Heritage SPA Allocations

DEL	£000s					
	2012-13 Resource			2012-13 Capital		
	Budget ¹²	Changes	Revised Budget	Budget ¹²	Changes	Revised Budget
Housing	151,147	0	151,147	231,970	15,630	247,600
Regeneration	14,336	48	14,384	51,477	5,130	56,607
Support and sustain a strong arts sector via the Arts Council and others	34,802	0	34,802	455	0	455
Museums, Archives and Libraries	37,436	0	37,436	4,973	-1,000	3,973
Delivery of effective sports and physical activity programmes	24,923	0	24,923	345	0	345
Media and Publishing	3,980	0	3,980	25	0	25
Conserve, protect, sustain and promote access to the historic environment	11,658	0	11,658	5,313	0	5,313
Total DEL	278,282	48	278,330	294,558	19,760	314,318
AME						
Museums, Archives and Libraries	2,490	0	2,490	0	0	0
Housing	-61,000	-7,000	-68,000	0	0	0
Total Managed Expenditure (TME)	219,772	-6,952	212,820	294,558	19,760	314,318

¹² Budget figures as per Final Budget Motion approved December 2011.

10. Central Services and Administration

Overall Budget Changes

10.1 There has been a net increase in the Central Services and Administration DEL of £12,964k, all of which is resource.

AME

10.2 The AME budget has decreased by £5k to reflect latest forecasts in respect of provisions for early retirement.

Resource Changes

10.3 There is a transfer of £10,000k from Reserves into the 'Invest-to-Save' Action to provide funding for round six projects, details of which were announced on 19 June.

10.4 There is a transfer out of £1,926k from the 'Geographic Information' Action to the Department for Business, Innovation and Skills for pan-Wales geographic information services.

10.5 The net impact of transfers with other MEGs is an increase of £4,890k, which comprises the following adjustments above £250k:

Staff Costs Action

- A transfer in of £1,273k from the 'Welsh Language' Action in the Department for Education and Skills MEG to meet the salary and associated costs of staff that transferred into the Welsh Government on 1 April 2012 following the abolition of the Welsh Language Board.

Tribunals Action

- A transfer in of £1,970k from the 'Support Mental Health Policies and Legislation' Action in the Health, Social Services and Children MEG in respect of Mental Health Review Tribunals.

Geographical Information Action

- £1,595k from the 'Geographic Information' Action in the Local Government and Communities MEG for the Local Government contribution towards pan-Wales geographic information services.

Capital Changes

10.6 There have been no changes to the Capital budget.

Table 10.1 – Central Services and Administration SPA Allocations

DEL	£000s					
	2012-13 Resource			2012-13 Capital		
	Budget ¹³	Changes	Revised Budget	Budget ¹³	Changes	Revised Budget
Delegated Running Costs	204,340	1,273	205,613	0	0	0
Central Running Costs	91,377	52	91,429	11,145	0	11,145
Information and Support Services	11,377	11,639	23,016	0	0	0
Central Programmes	14,361	0	14,361	17,319	0	17,319
Total DEL	321,455	12,964	334,419	28,464	0	28,464
AME						
Central Running Costs	-1,837	-5	-1,842	0	0	0
Total Managed Expenditure (TME)	319,618	12,959	332,577	28,464	0	28,464

¹³ Budget figures as per Final Budget Motion approved December 2011.

Annex 1 – Reconciliation between the Welsh Block Budget and Resource Allocations in the Budget Motion

This document supports the Supplementary Budget Motion, which sets out the changes to both the resources that the Welsh Government is proposing to use in 2012-13 and the cash it is seeking authority to draw from the Welsh Consolidated Fund. The tables within this report show budgets on an administrative basis, whereas the figures in the Supplementary Budget Motion are on a resource basis.

The Welsh Government's administrative budget contains a number of items which are scored outside the accounts of the Welsh Government and therefore do not score as part of the Resources required by Welsh Ministers. This Annex reconciles the administrative and resource budgets of each Main Expenditure Group.

Health, Social Services and Children

DEL	£000s
	2012-13
Resource	6,081,527
Capital	261,713
AME	
Resource	201,710
Capital	0
Total Managed Expenditure	6,544,950
Reconciliation to Resources	
Resource Consumption of WGSBs and NHS bodies	-321,457
Supported Borrowing	-4,174
National Insurance Fund Receipts (and collection costs)	-887,398
Resources requested	5,331,921

Local Government and Communities

DEL	£000s
	2012-13
Resource	4,826,288
Capital	269,351
AME	
Resource	51,385
Capital	0
Total Managed Expenditure	5,147,024
Reconciliation to Resources	
Resource Consumption of WGSBs and NHS bodies	-400
Supported Borrowing	-12,001
National Non Domestic Rates payable (and collection costs)	-949,172
PFI	-7,353
Resources requested	4,178,098

Business, Enterprise, Technology and Science

DEL	£000s
	2012-13
Resource	176,870
Capital	98,356
AME	
Resource	41,402
Capital	0
Total Managed Expenditure	316,628
Reconciliation to Resources	
Direct Charges on the Welsh Consolidated Fund	-1,695
Resources requested	314,933

Education and Skills

DEL	£000s
	2012-13
Resource	1,676,529
Capital	178,293
AME	
Resource	-89,033
Capital	267,342
Total Managed Expenditure	2,033,131
Reconciliation to Resources	
Resource Consumption of WGSBs and NHS Bodies	-82
Supported Borrowing	-39,038
Resources requested	1,994,011

Environment and Sustainable Development

DEL	£000s
	2012-13
Resource	265,133
Capital	75,369
AME	
Resource	0
Capital	0
Total Managed Expenditure	340,522
Reconciliation to Resources	
Resource Consumption of WGSBs and NHS Bodies	-3,090
Supported Borrowing	-10,341
Resources requested	327,091

Housing, Regeneration and Heritage

DEL	£000s
	2012-13
Resource	278,330
Capital	314,318
AME	
Resource	-65,510
Capital	0
Total Managed Expenditure	527,138
Reconciliation to Resources	
Resource Consumption of WGSBs and NHS Bodies	-5,758
Supported Borrowing	-41,745
Resources requested	479,635

Central Services and Administration

DEL	£000s
	2012-13
Resource	334,419
Capital	28,464
AME	
Resource	1,842
Capital	0
Total Managed Expenditure	361,041
Reconciliation to Resources	
Direct Charges on the Welsh Consolidated Fund	-97
Resources requested	360,944

Annex 2 – Reconciliation of Transport Budget Structures within Local Government & Communities

MEG

SPA	RESOURCE BUDGET – Departmental Expenditure Limit	£000s			Comments
		2012-13 Baseline Restated	2013-14 Baseline Restated	2014-15 Baseline Restated	
Motorway & Trunk Road Network Operations	Motorway & Trunk Road Operations	60,260	65,521	64,883	1. £20,612k in 2012/13; £20,706k in 2013/14 & 2014/15 reallocated from the Improve & Maintain Trunk Road Network (Domestic Routes) Action. 2. £38,327k in 2012/13; £38,304k in 2013/14 & 2014/15 reallocated from the Improve International Connectivity Action. 3. £1,042k in 2012/13; £6,233k in 2013/14 & £5,591k in 2014/15 reallocated from the Develop Sustainable Travel Action. 4. £279k in 2012/13; £278k in 2013/14 & £282k in 2014/15 reallocated from the Improve Road Safety & Transport's Impact on the Environment Action
		108,691	108,691	108,691	1. £34,781k in 2012/13, 2013/14 & 2014/15 reallocated from the Improve & Maintain Trunk Road Network (Domestic Routes) – Non Cash Action. 2. £73,910k in 2012/13, 2013/14 & 2014/15 reallocated from the Improve International Connectivity Non Cash Action.
Total Motorway & Trunk Road Network Operations		168,951	174,212	173,574	
Rail & Air Services	Rail & Air Services	173,971	173,179	173,179	1. £172,371k in 2012/13; £171,579k in 2013/14 & 2014/15 reallocated from the Improve Public Transport (Rail) Action. 2. £1,600k in all 3 financial years reallocated from the Improve International Connectivity Action.
		173,971	173,179	173,179	
Sustainable Travel	Sustainable Travel	84,091	82,762	84,105	1. £84,091k in 2012/13; £82,762k in 2013/14 & £84,105k in 2014/15 reallocated from the Develop Sustainable Travel Action.
		84,091	82,762	84,105	
Improve Road Safety	Improve Road Safety	5,716	4,717	4,713	£5,716k in 2012/13; £4,717k in 2013/14 & £4,713k in 2014/15 reallocated from the Improve Road Safety & Transport's Impact on the Environment Action.
		5,716	4,717	4,713	
Total Improve Road Safety		5,716	4,717	4,713	
Total Revenue – Transport Budgets		432,729	434,870	435,571	

CAPITAL BUDGET - Departmental Expenditure Limit		£000s			Comments
SPA	ACTION	2012-13 Baseline Restated	2013-14 Baseline Restated	2014-15 Baseline Restated	
Motorway & Trunk Road Network Operations	Motorway & Trunk Road Network Operations	46,366	38,151	43,204	1. £21,072k in 2012/13; £21,119k in 2013/14 & £23,227k in 2014/15 reallocated from the Improve & Maintain Trunk Road Network (Domestic Routes) Action. 2. £19,989k in 2012/13; £15,949k in 2013/14 & £18,894k in 2014/15 reallocated from the Improve International Connectivity Action. 3. £4,222k in 2012/13 reallocated from the Improve Local Roads Infrastructure Action. 4. £1,083k in all 3 financial years reallocated Improve Road Safety & Transport's Impact on the Environment Action.
	Total Motorway & Trunk Road Network Operations	46,366	38,151	43,204	
Road & Rail Investment	Road & Rail Schemes	92,794	93,991	91,046	1. £12,954k in 2012/13 reallocated to the Improve & Maintain Trunk Road Network (Domestic Routes) Action. 2. £47,142k in 2012/13; £27,426k in 2013/14 & 2014/15 reallocated from the Improve Public Transport (Rail) Action. 3. £32,698k in 2012/13; £66,565k in 2013/14 & £63,620k in 2014/15 reallocated from the Improve International Connectivity Action.
	Total Road & Rail Investment	92,794	93,991	91,046	
Sustainable Travel	Sustainable Travel	43,826	41,640	39,532	1. £29,171k in 2012/13; £27,257k in 2013/14 & 2014/15 reallocated from Develop Sustainable Transport Action. 2. £11,071k in 2012/13; £8,312k in 2013/14 & 2014/15 reallocated from the Improve & Maintain Local Roads Infrastructure Action. 3. £3,584k in 2012/13; £6,071k in 2013/14 & £3,963k in 2014/15 reallocated from the Improve & Maintain Trunk Road Network (Domestic Routes) Action.
	Total Sustainable Travel	43,826	41,640	39,532	
Improve & Maintain Local Roads Infrastructure	Improve & Maintain Local Roads Infrastructure	12,805	0	0	£12,805k in 2012/13 only reallocated from the Improve & Maintain Local Roads Infrastructure Action.
	General capital Funding - Roads	15,332	13,667	13,667	£15,332k in 2012/13; £13,667k in 2013/14 & £13,667k in 2014/15 reallocated from the Improve Integrated Transport (Local) SPA.
	Total Improve & Maintain Local Roads Infrastructure	28,137	13,667	13,667	
Improve Road Safety	Improve Road Safety	6,900	6,900	6,900	£6,900k in all 3 financial years reallocated from the Improve Road Safety & Transport's Impact on the Environment Action.
	Total Improve Road Safety	6,900	6,900	6,900	
	Total Capital - Transport Budgets	218,023	194,349	194,349	

Annex 3 – Recurrent Allocations from Reserves

MEG	Action	Resource/ Capital	Description	£000s		
				2012-13	2013-14	2014-15
Health and Social Services	NHS Delivery Action	Capital	CRC Project Phase 2 – Development of Services at Cardiff Royal Infirmary	5,900	2,000	0
	Sustainable Travel	Resource	Local Government Borrowing Initiative	4,000	8,000	12,000
Local Government and Communities	Improve and Maintain Trunk Road Network (Domestic Routes)	Capital	CRC Project Phase 1 - A470 Maes yr Helmau to Cross Foxes Improvement	1,900	1,900	0
			CRC Project Phase 1 – A470 Gelligemlyn	2,000	2,000	0
	Motorway and Trunk Roads Network Operations'	Capital	CRC Project Phase 2 – Welsh National Traffic Data System	4,000	3,000	0
			CRC Project Phase 2 – M4 J32: Coryton Improvement Scheme	400	1,700	0
Business, Enterprise, Technology and Science	Meeting the Needs of Rural Communities and Rural Proofing WG Actions Delivering the programmes within the Rural Development Plan	Resource	CRC Project Phase 2 – Welsh National Winter Maintenance Resilience: Strategic Road Salt Storage	1,900	700	0
		Resource	From DEFRA (UK Gov) – Animal Movement Licensing System	1,000	800	600
Education and Skills	Estate and IT Provision	Capital	CRC Project Phase 1 – Rural Online Payments	2,900	2,700	0
		Capital	CRC Project Phase 2 - Bridgend – Gateway to the Valleys	1,950	2,100	0
Housing, Regeneration and Heritage	Implementation of Strategic Regeneration Areas	Capital	CRC Project Phase 2 – Dinefwr: Carmarthen 14-19 Learning Partnership	7,000	7,000	0
		Capital	CRC Project Phase 1 – Merthyr Tydfil Old Town Hall	1,500	1,500	0
Central Services and Administration	Geographic Information Invest to Save	Resource	CRC Project Phase 2 – West Rhyl Housing Project	5,000	5,000	0
		Resource	Department for Business, Innovation and Skills (UK Gov): Pan Government Digital Mapping	-1,926	-1,786	-1,662
		Resource	Invest to Save	10,000	2,000	8,000

Annex 4 – Glossary

Action	<p>Within each Spending Programme Area (SPA), budgets are allocated to a number of sub-programmes known as Actions. Tables showing budgets at Action level are available at:</p> <p>www.wales.gov.uk/budget</p>
Ambits	<p>Descriptions of the specific purposes for which Welsh Ministers are authorised by the National Assembly for Wales to spend resources. Ambit Descriptions and resource limits are contained within the Annual Budget Motion. Ambits correspond to MEGs.</p>
Annually Managed Expenditure (AME)	<p>Expenditure which cannot reasonably be subject to firm, multi-year limits in the same way as DEL and is therefore reviewed twice a year as part of the HM Treasury's Budget and Pre-Budget Report processes. AME typically consists of programmes which are large, volatile or demand-led; for example the issue of student loans.</p>
Budget Exchange System	<p>The system under which the Welsh Government is able to carry forward underspends, up to an agreed cap. The agreed cap is 0.6% of our Resource DEL budget and 1.5% of our Capital DEL budget.</p>
Budget Motion	<p>The means by which the National Assembly for Wales authorises Welsh Ministers to spend resources up to a specific level for specified purposes and to draw cash up to a specific limit from the Welsh Consolidated Fund.</p>
Capital	<p>Expenditure that in the main results in a physical asset, for example a new building. The Welsh Government DEL and AME budgets have separate capital and resource limits.</p>
Departmental Expenditure Limit (DEL)	<p>The multi-year budget limit for the Welsh Government set by the HM Treasury. DEL is planned and controlled on a three year basis in Spending Reviews.</p>
Depreciation	<p>The drop in value of an asset due to wear and tear, age and obsolescence. Under resource budgeting, depreciation is part of the Welsh Government's DEL but is a non-fiscal resource DEL item.</p>

Direct Charges on the Welsh Consolidated Fund	Expenditure which is legally required to be charged directly to the Welsh Consolidated Fund and therefore does not score against the budgets of the Welsh Government or any other body. Direct Charges include the remuneration of the Presiding Officer and Auditor General.
Fiscal Resource DEL (previously known as near-cash)	Accruals measures of transactions that normally turn into cash flows soon, for example, pay, current procurement, resource grants and subsidies.
Main Expenditure Group (MEG)	The Welsh Government DEL is divided into a number of Main Expenditure Groups. There are currently 7 MEGs: Health, Social Services and Children; Local Government and Communities; Business, Enterprise, Technology and Science; Education and Skills; Environment and Sustainable Development; Housing, Regeneration and Heritage; and Central Services and Administration.
Non-Fiscal Resource DEL (previously known as non-cash)	Accruals measures included in budgets to ensure they reflect the full economic cost of activities even though there is not a direct link to cash flows in the relevant period - for example, depreciation and provisions. Non-fiscal resource DEL cannot be used to fund fiscal resource DEL spending.
Receipts	Some areas of Welsh Government activity generate income, for example, through the sale or rental of assets. These are represented in the budget as negative figures.
Resource budgeting	The Welsh Government's budget is set on a resource basis derived from accruals information. Accruals information measures resources as they are consumed rather than when the cash is paid. So, for example, resource budget includes a charge for depreciation, a measure of the consumption or wearing out of capital assets.
Resource (previously known as revenue)	Current expenditure, for example, funding for the pay of public sector workers and to purchase consumable goods and services.
Spending Programme Area (SPA)	Within each MEG, budgets are allocated to Spending Programme Areas according to the kind of services they will deliver.

Spending Review	Every two or three years HM Treasury reviews expenditure for each UK Government Department and sets budgets for the forthcoming three years. Budgets for the devolved administrations are derived from these budgets via the Barnett formula.
Total Managed Expenditure (TME)	The total Departmental Expenditure Limit plus Annually Managed Expenditure.
Welsh Consolidated Fund	The account into which the money voted by the UK Parliament for use by the Welsh Government, the Assembly Commission, the Auditor General, and the Public Services Ombudsman for Wales is paid.
WGSB	Welsh Government Sponsored Body.

Supplementary Budget Motion 2012-13

Laid Before the National Assembly for Wales by the Minister for Finance and Leader of the House

June 2012

Supplementary Budget Motion

The Assembly is asked to agree the following:

“1. This resolution for the year ending 31 March 2013 is made by the National Assembly for Wales (“the Assembly”) pursuant to Section 126 of the Government of Wales Act 2006.

Welsh Assembly Government

2. The Welsh Assembly Government is authorised-

(a) to use resources (not including accruing resources) during the financial year ending 31 March 2013 for the services and purposes specified in Column 1 of Schedule 1, up to a maximum of the corresponding amounts specified in Column 2 of that Schedule;

(b) in addition, to retain income, within the categories of accruing resources specified in Column 1 of each Part of Schedule 2, during the financial year ending 31 March 2013, for use on the services and purposes specified in the corresponding entries in Column 2 of each Part of that Schedule, up to the limit specified for each Part of that Schedule; and

(c) to draw cash out of the Welsh Consolidated Fund for use on the services and purposes specified in Schedule 1, up to the net cash requirement limit specified in Schedule 5.

3. Despite paragraphs 2(a) and (b), the resources which may be used for the services and purposes specified in Column 1 of Schedule 1 (or, as the case may be, in Column 2 of each Part of Schedule 2), may exceed the amount specified in the corresponding entry in Column 2 of Schedule 1 (or, as the case may be, in each Part of Schedule 2) if-

(a) in the case of resources other than accruing resources, the first condition is met, or

(b) in the case of accruing resources, the second condition is met.

4. The first condition is that the total resources (other than accruing resources) used during the financial year ending 31 March 2013 for all services and purposes specified in Column 1 of Schedule 1 does not exceed the total of the sum of the amounts specified in Column 2 of that Schedule.

5. The second condition is that the total accruing resources used during the financial year ending 31 March 2013 for all services and purposes specified in Column 2 of Schedule 2 does not exceed the total of the sum of the amounts specified for each part of that Schedule.

Assembly Commission

6. The Assembly Commission is authorised-

(a) to use resources (not including accruing resources) during the financial year ending 31 March 2013 for the services and purposes specified in Column 1 of Parts 1 and 2 of Schedule 3, up to a maximum of the corresponding amounts specified in Column 2 of Parts 1 and 2 of Schedule 3;

(b) in addition, to retain income, within the categories of accruing resources specified in Column 1 of Part 1 of Schedule 4, during the financial year ending 31 March 2013, for use on the services and purposes specified in the corresponding entries in Column 2 of Part 1 of that Schedule, up to the limit specified for Part 1 of that Schedule; and

(c) to draw cash out of the Welsh Consolidated Fund for use on the services and purposes specified in Column 1 of Part 1 and 2 of Schedule 3, up to the net cash requirement limit specified in Schedule 5.

Public Services Ombudsman for Wales

7. The Public Services Ombudsman for Wales is authorised –

(a) to use resources (not including accruing resources) during the financial year ending 31 March 2013 for the services and purposes specified in Column 1 of Part 3 of Schedule 3, up to a maximum of the corresponding amounts specified in Column 2 of Part 3 of Schedule 3;

(b) in addition, to retain income, within the categories of accruing resources specified in Column 1 of Part 2 of Schedule 4, during the financial year ending 31 March 2013, for use on the services and purposes specified in the corresponding entries in Column 2 of Part 2 of that Schedule, up to the limit specified for Part 2 of that Schedule; and

(c) to draw cash out of the Welsh Consolidated Fund for use on the services and purposes specified in Column 1 of Part 3 of Schedule 3, up to the net cash requirement limit specified in Schedule 5.

Auditor General for Wales

8. The Auditor General for Wales is authorised-

(a) to use resources (not including accruing resources) during the financial year ending 31 March 2013 for the services and purposes specified in Column 1 of Part 4 of Schedule 3, up to a maximum of the corresponding amounts specified in Column 2 of Part 4 of Schedule 3;

(b) in addition, to retain income, within the categories of accruing resources specified in Column 1 of Part 3 of Schedule 4, during the financial year ending 31 March 2013, for use on the services and purposes specified in the corresponding

entries in Column 2 of Part 3 of that Schedule, up to the limit specified for Part 3 of that Schedule; and

(c) to draw cash out of the Welsh Consolidated Fund for use on the services and purposes specified in Column 1 of Part 4 of Schedule 3, up to the net cash requirement limit specified in Schedule 5.

Specification of Categories of Accruing Resources

9. The categories of accruing resources listed in Column 1 of each Part of Schedule 2, and in Column 1 of each part of Schedule 4, are specified categories for the purposes of section 120(2)(a) of the Act.”

Summary of Resource and Capital Requirements

Welsh Ministers

Ambit	Resources (£000)	Accruing Resources (£000)
Health and Social Services and Children	5,331,921	917,106
Local Government and Communities	4,178,098	2,000
Business, Enterprise, Technology & Science	314,933	602,949
Education and Skills	1,994,011	88,497
Environment and Sustainable Development	327,091	7,835
Housing, Regeneration and Heritage	479,635	74,330
Central Services and Administration	360,944	8,500
Total Resources Requested and Accrued Income relating to Welsh Ministers	12,986,633	1,701,217

Direct Funded Bodies

Ambit	Resources (£000)	Accruing Resources (£000)
National Assembly for Wales Commission	47,477	250
Public Services Ombudsman for Wales	3,853	6
Auditor General for Wales	4,740	7,271
Total Resources and Accrued Income for Direct Funded Bodies	56,070	7,527

Schedule 1 – Ambits for expenditure incurred by Welsh Ministers

Ambits for expenditure incurred by Welsh Ministers (excluding accruing resources)	
<i>Column 1</i>	<i>Column 2</i>
<i>Services and purposes</i>	<i>Amount £000</i>
<p>Health, Social Services and Children</p> <p>For use by Welsh Ministers to spend on Health, Social Services and Children including promoting or improving economic, social or environmental wellbeing.</p> <p>Revenue and capital funding for Local Health Boards and Welsh NHS Trusts and associated healthcare providers; Public Dividend Capital to NHS Trusts; loans to NHS Trusts; payments for contracted services including dentistry, ophthalmic and pharmaceutical services; general medical services, support for education and training; research and development; mental health services; chronic disease treatment; and measures to combat Inequalities in Health; funding for support for children and their families, including funding for Flying Start, Families First, the Children’s Commissioner for Wales, child poverty strategies, childcare, play, children and young people’s rights, children and families organisations and advocacy; support for local authorities and the voluntary sector for childcare measures, support for community focussed schools;</p> <p>Grants to deliver the Substance Misuse strategy and support for the Food Standards Agency; support for older person’s services and for social services and carers; social services improvement (including the funding of the Association of Directors of Social Services (ADSS) Cymru and Social Care Institute for Excellence (SCIE); for the Care Council for Wales; the National Institute for Health and Clinical Excellence (NICE); the Older People’s Commissioner; and contributions to UK health and social care bodies.</p> <p>Funding for the Children and Family Court Advisory and Support Service (CAFCASS) Cymru; funding for services provided to or on behalf of the Scottish Government, Northern Ireland Executive and Department of Health; services for the improvement of health and the prevention, diagnosis and treatment of illness; and any related expenditure and non cash resource use.</p>	<p>5,331,921</p>

Ambits for expenditure incurred by Welsh Ministers (excluding accruing resources)	
<i>Column 1</i>	<i>Column 2</i>
<i>Services and purposes</i>	<i>Amount £000</i>
<p>Local Government and Communities</p> <p>For use by Welsh Ministers to spend on promoting economic, social and environmental wellbeing in the areas of local government and public service delivery, the regeneration and development of communities, the promotion of social justice and community safety; and the development and maintenance of transport and infrastructure. The funding of local government unitary authorities; police authorities and fire and rescue service authorities through unhypothecated grant funding by means of revenue support grant, national non-domestic rates (NNDR) and general capital funding or discrete revenue and capital grant funding for specific policy purpose relevant to the above areas of activity. The funding and sponsorship of public bodies and non-statutory organisations with functions relating to the audit, regulation and inspection; the promotion and representation; the performance development and change management; the promotion and maintenance of standards and accountability (including appellate functions) in respect of local government. Funding for the programme, staffing and general administrative costs (including leasing costs) of the Care and Social Services Inspectorate and the Healthcare Inspectorate Wales, Sponsorship of Estyn including staff costs and general administrative expenditure together with the cost of capital and depreciation and any related expenditure and non cash resource use. Funding public bodies (including Community Safety Partnerships), Third Sector and other organisations to support the Communities First Programme; community safety and development; development of voluntary organisations and volunteering; financial inclusion; post offices; Criminal Records Bureau checks; work to support the armed forces, veterans and their families; the combating of substance misuse and domestic violence; and the promotion of Youth Justice. Revenue and capital funding for road transport, including construction, operation, maintenance and improvement of trunk roads in Wales; delivery of passenger rail and air services; road safety; regulation of pedestrian crossing and on-street parking; funding and administration of programmes to local authorities and other bodies designed to deliver a range of transport schemes and services including concessionary fares; support for the promotion and development of walking and cycling; and related expenditure and non cash resource use. Matched funding under Priority 4 of the European Social Fund; support for the Valuation Office Agency; and funding to meet the cost of Treasury Solicitor Services.</p>	<p>4,178,098</p>

Ambits for expenditure incurred by Welsh Ministers (excluding accruing resources)	
<i>Column 1</i>	<i>Column 2</i>
<i>Services and purposes</i>	<i>Amount £000</i>
<p>Business, Enterprise, Technology & Science For use by Welsh Ministers on Business, Enterprise, Technology and Science including promoting economic, social or environmental wellbeing. For the provision of funding to assist the establishment, growth, development and sustainability of business and tourism in Wales and any other related expenditure and non cash resource use that provides broader economic benefit to Wales.</p> <p>The administration and delivery of EC structural funded projects.</p> <p>Expenditure relating to Agriculture, Rural Development, Fisheries, Food and Animal Traceability, Woodlands and the Marine environment; and any other related expenditure and non cash resource use.</p> <p>Capital repayments to the National Loans Fund.</p>	<p>314,933</p>

Ambits for expenditure incurred by Welsh Ministers (excluding accruing resources)	
<i>Column 1</i>	<i>Column 2</i>
<i>Services and purposes</i>	<i>Amount £000</i>
<p>Education and Skills</p> <p>For use by Welsh Ministers on Education and Skills to fund: the Foundation Phase; nutritional standards in schools; curriculum and qualification development and regulation; schools performance improvement; the funding of inspections; school based counselling; tackling disaffection; school effectiveness; pupil deprivation grant; capital and revenue funding for IT development in learning; support for improving standards; support for Techniquest; school uniform grant; school governor activities; capital to support the school and post-16 infrastructure; inclusion and additional learning needs; teacher training, development and support; bilingual learning; capital and revenue funding for the Higher Education Funding Council for Wales; support for undergraduate medical education; support for mergers and collaborations in the education sector; revenue provision for post-16 education and training including further education and work based learning; extending entitlement and 14-19 learning pathways; support for the Youth Service; learner and student finance including Student Loans Company costs and Education Maintenance Allowances; careers advice services; improving literacy and numeracy; support for international education initiatives; educational research and evaluation; skills development and workplace learning; offender learning; support for the Welsh Language Commissioner and projects which promote the Welsh Language; promotion of education and skills; associated non cash items and any related expenditure and non cash resource use.</p>	<p>1,994,011</p>

Ambits for expenditure incurred by Welsh Ministers (excluding accruing resources)	
<i>Column 1</i>	<i>Column 2</i>
<i>Services and purposes</i>	<i>Amount £000</i>
<p>Environment and Sustainable Development For use by Welsh Ministers on Environment and Sustainable Development including promoting or improving economic, social or environmental wellbeing; developing proposals for a single environmental body in Wales; provide funding, advice and administrative support for local authorities, agencies and other bodies to promote, facilitate and deliver a range of schemes and services in connection with Environment and Sustainable Development; facilitate, promote and deliver sustainability, climate change and environment quality; support and promote low carbon energy generation; energy efficiency and sustainable management of water resources and improvements in water quality; provide and fund water sewerage services, flood and coastal protection and risk prevention measures; provide funding support and advice relating to climate change, energy efficiency, fuel poverty, water and flood and coastal erosion risk management; provide funding, support and advice relating to waste and sustainability including Aggregates Levy; waste disposal, collection and management, re-cycling schemes, street cleansing and landfill tax credits; manage radioactivity, environmental pollution, environment quality and noise pollution; promoting economic, social and environmental wellbeing for business, people and places in Wales. Planning, including appeals casework, publishing planning documents, and funding for research; transpose and implement UK, European and international legislation and obligations; administration and delivery of EC structural funded projects; provide grant in aid funding, carry out investigations, research, and evaluation; promotion and publicity and services in connection with Environment and Sustainable Development and any related expenditure and non cash resource use; promoting economic, social or environmental wellbeing; conservation; animal and plant health; seeds, pesticides and GM crops; public health; compensation for livestock; animal welfare activities; specialist information and advice and services; disease surveillance activities; information technology development; match funding for European programmes; funding for committees and enquiries into rural and environmental issues; publicity; support for land management and woodland measures; including expenditure under the Rural Development Plan; EU funded woodland grants; capital and revenue expenditure by the Forestry Commission; research and evaluation of Rural Affairs policies and development of the evidence base that informs them; measures to mitigate greenhouse gas emissions from the land based sector; and any related or incidental expenditure including any legal expenditure and non cash resource use.</p>	<p>327,091</p>

Ambits for expenditure incurred by Welsh Ministers (excluding accruing resources)	
<i>Column 1</i>	<i>Column 2</i>
<i>Services and purposes</i>	<i>Amount £000</i>
<p>Housing, Regeneration and Heritage For use by Welsh Ministers on Housing, Regeneration and Heritage including promoting or improving culture and economic, social or environmental wellbeing; provide funding, advice and administrative support for local authorities; agencies and other bodies to promote, facilitate and deliver a range of schemes and services in connection with Housing, Regeneration and Heritage; improve the supply and quality of housing across Wales, including the standard of local authority and social landlord housing, and improve housing-related services; acquisition, leasing, development and maintenance of land and buildings; housing stock transfers, community mutual support and capacity building; social housing; support for physical regeneration including housing renewal areas and licensing houses in multiple occupation; supporting people; preventing and addressing homelessness; providing grants for adaptations and facilities to enable people to remain in their own homes; regulation and inspection of registered social landlords; Regeneration policy and administration of policies and grants including promoting economic, social and environmental wellbeing for business, individuals, communities and places in Wales; transpose and implement UK, European and international legislation and obligations; administration and delivery of EC structural funded projects; carry out investigations, research, and evaluation; promotion, publicity and services; provide financial assistance to support culture, sport, media and publishing; and the historic environment including funding Amgueddfa Cymru – National Museum of Wales; funding to the National Library of Wales; funding for the Arts Council of Wales; funding for the Wales Millennium Centre; funding for the National Botanic Garden of Wales; funding for the Welsh Books Council; funding for the Sports Council for Wales and organisations that promote sport and active lifestyles throughout Wales; funding to support a Community Radio Fund; funding to support the provision of policy directions to Lottery distributors; funding to support non-national museums, archives and libraries and local and national projects which seek to promote and widen access to cultural treasures; conserving, protecting, sustaining and presenting the historic environment of Wales to achieve an accessible well protected historic environment including current expenditure and the associated running costs and staff costs of Cadw and capital expenditure for grants and for the acquisition of capital assets; funding the Royal Commission on Ancient and Historic Monuments of Wales; any expenditure relating to conserving, protecting, sustaining and presenting archaeological remains in</p>	<p>479,635</p>

<p>Wales, ancient monuments in Wales, buildings and places of historical or architectural interest in Wales, and historic wrecks in Wales; any expenditure on arts and crafts relating to Wales, and on cultural activities and projects relating to Wales; and any related expenditure and non cash resource use.</p>	
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Ambits for expenditure incurred by Welsh Ministers (excluding accruing resources)	
<i>Column 1</i>	<i>Column 2</i>
<i>Services and purposes</i>	<i>Amount £000</i>
<p>Central Services and Administration</p> <p>For use by the Welsh Assembly Government on administration expenditure and running costs including: staff pay costs; payments of national insurance; pension contributions; reimbursement of expenses; compensation; staff loans; car hire and leasing; running costs and investment for the civil estate; the leasing, rental and acquisition of premises; general administrative expenditure; expenditure on IT and telecommunications; expenditure on enabling government; other administrative revenue and capital expenditure; public appointments; enabling and promoting open government; supporting research, including statistical research and evaluation; promoting economic, physical social or environmental wellbeing; planning, attending and marketing of corporate internal communications events and ongoing external communication of Government policy and action; funding for inter-governmental relations, including the British Irish Council, and for constitutional development, including costs arising from any referendum; hosting events of national importance; spatial planning; the costs of public inquiries; funding to public sector bodies for achieving efficiency gains; funding Value Wales, Xchange Wales and Public Service Management Wales; payments to support overseas development and links; grants and financial support to other public sector organisations; support to EU funded projects; programme funding for equality and equal opportunities and for improving social inclusion and social justice; and any related expenditure and non cash resource use.</p>	<p>360,944</p>

Schedule 2 – Use of accruing resources by Welsh Ministers

Part 1: Health, Social Services and Children

<i>Column 1</i> <i>Category of accruing resource</i>	<i>Column 2</i> <i>Services and purposes for which income may be retained</i>
<p>Accruing resources include income under the Pharmaceutical Price Regulation Scheme; income in respect of settlement of legal claims; charges for accommodation, goods and services to private and NHS patients, local authorities and others; repayment of Invest to Save funding from Local Health Boards and Welsh NHS Trusts; income from the Scottish Government, Northern Ireland Executive, Department of Health, other government departments and the European Union; income generation schemes; National Insurance Income from HM Revenue and Customs; non-operating income from sale of land, buildings, vehicles, equipment and property and recoveries of VAT.</p>	<p>Services and purposes include expenditure on primary and community health services; the purchase or acquisition of fixed assets by Welsh NHS Trusts, Local Health Boards and associated healthcare providers; supporting the provision and administration of health and social care services.</p>
<p>Overall amount of Income (£000)</p>	<p>917,106</p>

Part 2: Local Government and Communities

<i>Column 1</i>	<i>Column 2</i>
<i>Category of accruing resource</i>	<i>Services and Purposes for which income may be retained</i>
Accruing resources include grant funding from the European Commission; repayment and recovery of grant payments and recoveries of VAT; fees and charges for inspections and regulatory services; provision of training and development events; charges for dental registration; income from staff secondments; repayment of staff loans; rental income on property; transport studies receipts; compensation under commercial and civil settlements and levy of facilitation fees; income from the sale of capital assets.	Services and purposes include running costs, general administration costs and revenue expenditure of Inspectorates and the Valuation Tribunal; the delivery of training interventions for the Welsh Public Service; supporting expenditure on safer communities and regeneration; the payment of grants to local authorities and Third Sector bodies; all European funded projects; and to support all expenditure as identified within the expenditure Ambit.
Overall amount of Income (£000)	2,000

Part 3: Business, Enterprise, Technology & Science

<i>Column 1</i>	<i>Column 2</i>
<i>Category of accruing resource</i>	<i>Services and Purposes for which income may be retained</i>
Accruing resources and funding either direct or indirect from the European Commission; property rental and other associated income; business services charges; project contributions from other public sector and private sector organisations; investment income; grant repayments and repayable business finance; income from the sale of capital assets; levy income for the promotion of Welsh meat; income from fisheries regulation and enforcement activities; income relating to tourism activities; recoveries of VAT.	All European funded projects and to support all expenditure as identified within the expenditure Ambit.
Overall amount of Income (£000)	602,949

Part 4: Education and Skills

<i>Column 1</i>	<i>Column 2</i>
<i>Category of accruing resource</i>	<i>Services and Purposes for which income may be retained</i>
Accruing resources include Post-16 income from European Projects, research & evaluation and business skills development; curriculum and qualifications royalties; recoveries of Student Loans; funding from the Higher Education Research Capital fund; sales of publications and recoveries of VAT.	Services and purposes include supporting European projects, CQFW, programme development, business skills development, research & evaluation current expenditure; to support curriculum and qualifications current expenditure and to support all expenditure as identified within the expenditure Ambit.
Overall amount of income (£000)	88,497

Part 5: Environment and Sustainable Development

<i>Column 1</i>	<i>Column 2</i>
<i>Category of accruing resource</i>	<i>Services and Purposes for which income may be retained</i>
Accruing resources include income from European structural funds; income from the EU for woodlands; income from wind farm projects; income from Pwllperian Farm or the sale of capital assets; recoveries of grants or settlements in respect of grant payments; recoveries of VAT; income from the salvage of carcasses from animals slaughtered for disease control and income from the EU for the eradication of bovine TB; income from the EU relating to TSE and BSE ; EU aid for beekeeping; income from grant recoveries from local authorities, third sector organisations and other public and private sector organisations; income from marine licences; civil penalty fines associated with emission trading schemes; Food and Environmental Protection Act Licences, Dredging Licences, OFWAT income in respect of the Consumer Council for Water, receipts from sales of assets, funding from other central government departments and recoveries of VAT.	Services and purposes include compensation for the removal of diseased livestock; expenditure relating to the eradication of bovine TB; and expenditure on the promotion of Welsh meat; expenditure relating to Pwllperian Farm; expenditure relating to TSE and BSE and related devolved animal health activities; expenditure relating to the bee health programme; expenditure on Countryside Council for Wales current expenditure; the costs of administering the systems for marine licensing, dredging licenses and Food and Environment Protection Act licenses; and grant payments, schemes part supported by other government departments.
Overall amount of Income (£000)	7,835

Part 6: Housing, Regeneration and Heritage

<i>Column 1</i> <i>Category of accruing resource</i>	<i>Column 2</i> <i>Service and Purposes for which income may be retained</i>
<p>Accruing resources include income from repayments of Social Housing Grant; grant recoveries from local authorities, third sector organisations and other public and private sector organisations; Rent Assessment Panel receipts, receipts from the sales of assets, funding from other government departments and recoveries of VAT; Cadw income from admission charges to Cadw sites, sales of souvenirs, publications, (including sales of carrier bags), fees for specialist advisory services and Heritage in Wales membership; other income including income from events, filming, photography at sites, car parking and bequests; funds via European and other funding schemes; Royal Commission income from sales of publications and grants; recoveries of grants or settlements in respect of grant payments; ad-hoc grants from other sources and recoveries of VAT.</p>	<p>Services and purposes include Social Housing expenditure and grant payments and schemes part supported by other government departments; expenditure on Regeneration schemes; Cadw expenditure on archaeology, scheduling monuments, grants for historic buildings and ancient monuments, care and presentation of the monuments in care, and current expenditure/running costs (including staff); all European funded projects; use of proceeds from sales of carrier bags for schemes for charitable purposes; and Royal Commission current expenditure/running costs (including staff).</p>
<p>Overall amount of Income (£000)</p>	<p>74,330</p>

Part 7: Central Services and Administration

<i>Column 1</i> <i>Category of accruing resource</i>	<i>Column 2</i> <i>Services and Purposes for which income may be retained</i>
<p>Accruing resources include income from: staff secondments and fees; repayment of staff loans; the refund of statutory PAYE deductions; recoveries of VAT; the sale of land and buildings; the sub let of properties; the sale of administrative assets; services provided to public sector bodies; administrative income; income from ICT services provided; recovery of costs shared with other public sector bodies; receipts of recoverable grants including Invest-to-Save receipts; and training provider repayments.</p>	<p>Services and purposes include funding of running costs and general administrative expenditure and supporting capital expenditure on the Assembly Government's estate and asset base.</p>
<p>Overall amount of Income (£000)</p>	<p>8,500</p>

Schedule 3 – Expenditure Incurred by Direct Funded Bodies (excluding accruing resources)

Part 1 – National Assembly for Wales Commission

<i>Column 1</i>	<i>Column 2</i>
<i>Services and Purposes</i>	<i>Amount £000</i>
Resources other than accruing resources for use by the National Assembly for Wales Commission on revenue and capital costs associated with the administration and operation of Assembly Services to support the National Assembly for Wales ('the Assembly'); promotion of the Assembly including payments to the Electoral Commission and others; payments in respect of the Commissioner for Standards and Remuneration Board; any other payments relating to functions of the Assembly or functions of the National Assembly for Wales Commission. Resources other than accruing resources for use by the National Assembly for Wales Commission in respect of decisions of the Remuneration Board and expenditure in respect of Assembly Members' Pension provision.	47,477

Part 2 – Public Services Ombudsman for Wales

<i>Column 1</i>	<i>Column 2</i>
<i>Services and Purposes</i>	<i>Amount £000</i>
Resources other than accruing resources for use by the Public Services Ombudsman for Wales ('the Ombudsman') on revenue and capital costs associated with the administration of the Ombudsman's office; payments to the British and Irish Ombudsman Association; payments to the International Ombudsman Institute and associated non cash items.	3,853

Part 3 – Auditor General for Wales

<i>Column 1</i>	<i>Column 2</i>
<i>Services and Purposes</i>	<i>Amount £000</i>
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.	4,740

Schedule 4 – Use of accrued resources by Direct Funded Bodies

Part 1 – National Assembly for Wales Commission

<i>Column 1</i>	<i>Column 2</i>
<i>Category of accruing resource</i>	<i>Services and purposes for which income may be retained</i>
Accruing resources for retention pursuant to section 120(2) of the Government of Wales Act 2006 and use by the National Assembly for Wales Commission from the disposal of fixed assets and other capital income; rental income; gifts; grant support; recharges; income from commercial sales and other services provided to the public or others	For use on the purchase or acquisition of fixed assets and for use on administrative costs of the Assembly.
Overall amount of Income (£000)	250

Part 2 – Public Services Ombudsman for Wales

<i>Column 1</i>	<i>Column 2</i>
<i>Category of accruing resource</i>	<i>Services and purposes for which income may be retained</i>
Income from commercial sales and other services provided to the public or others.	For use on related services and the administration of the Ombudsman service.
Overall amount of Income (£000)	6

Part 3 – Auditor General for Wales

<i>Column 1</i> <i>Category of accruing resource</i>	<i>Column 2</i> <i>Services and purposes for which income may be retained</i>
<p>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, professional and technical services; recoveries of costs of seconded staff; repayments of staff loans; recoveries of car leasing payments; and interest received on working balance fees.</p>	<p>For use by the Auditor General on related services and the administration of the Wales Audit Office.</p>
<p>Overall amount of income (£000)</p>	<p>7,271</p>

Schedule 5: Resource to Cash Reconciliation 2012-13 (£000)

Table 1: Resource to cash Reconciliation for 2012-13 included in the November Annual Budget Motion (£000)

	Welsh Ministers	Assembly Commission	Public Services Ombudsman	Auditor General for Wales
Net Resource Requirement	12,453,960	46,815	3,839	4,724
Net Capital Requirement	394,008	662	14	16
Adjustments:				
Capital Charges	-99,313	-3,900	-97	-10
Impairments	-100,922	0	0	0
Movements in Provisions	-34,186	-500	-50	0
Profit/Loss on sale of assets	0	0	0	0
Movements in stocks	0	0	0	0
Movements in debtors/creditors	0	500	25	10
Use of Provisions	0	250	231	0
Other	0	0	0	0
Net Cash Requirement for issue from the Welsh Consolidated Fund	12,613,547	43,827	3,962	4,740

Table 2: Changes to the Resource to cash Reconciliation included in this Supplementary Budget Motion (£000)

	Welsh Ministers	Assembly Commission	Public Services Ombudsman	Auditor General for Wales
Net Resource Requirement	89,422	0	0	0
Net Capital Requirement	49,243	0	0	0
Adjustments:				
Capital Charges	0	0	0	0
Impairments	1,938	0	0	0
Movements in Provisions	-15,627	0	0	0
Profit/Loss on sale of assets	0	0	0	0
Movements in stocks	0	0	0	0
Movements in debtors/creditors	0	0	0	0
Use of Provisions	0	0	0	0
Other	0	0	0	0
Net Cash Requirement for issue from the Welsh Consolidated Fund	124,976	0	0	0

Table 3: Resource to cash Reconciliation included in this Supplementary Budget Motion (£000)

	Welsh Ministers	Assembly Commission	Public Services Ombudsman	Auditor General for Wales
Net Resource Requirement	12,543,382	46,815	3,839	4,724
Net Capital Requirement	443,251	662	14	16
Adjustments:				
Capital Charges	-99,313	-3,900	-97	-10
Impairments	-98,984	0	0	0
Movements in Provisions	-49,813	-500	-50	0
Profit/Loss on sale of assets	0	0	0	0
Movements in stocks	0	0	0	0
Movements in debtors/creditors	0	500	25	10
Use of Provisions	0	250	231	0
Other	0	0	0	0
Net Cash Requirement for issue from the Welsh Consolidated Fund	12,738,523	43,827	3,962	4,740

Notes:

1. This table content and format complies with Section 125(1) (c) and 126(2) of the Government of Wales Act 2006 (“the Act”) which states that for the purposes of authorising the motion there shall be a statement authorising ‘the amount which may be paid out of the Welsh Consolidated Fund in the financial year to the relevant persons, or for use pursuant to a relevant enactment, for the purposes so specified’. Payments made out of the Welsh Consolidated Fund are made in cash; therefore this table shows the relevant cash requirements in support of the resources requested in support of Schedules 1 to 4 which state the relevant purposes for which resources may be used.
2. This table content and format also complies with Standing Order 20.28(v), which states that the budget motion must include reconciliation between the resources to be authorised under section 125(1) (a) and (b) of the Act and the amounts to be authorised for payment out of the Welsh Consolidated Fund under section 125(c) of the Act.
3. These tables are presented under S126 of the Act and SO20.31 showing variations to the resources allocated in the Annual Budget Motion and the amounts to be paid out of the Welsh Consolidated Fund.

Schedule 6: Reconciliation of resources requested in the budget motion to resources made available by the Treasury for the Welsh Block for 2012-13

Table 1: Reconciliation of Resources Requested in the November 2011 Annual Budget Motion to the resources made available by the Treasury for Wales (£000)

	2012-13 (£000)				
	Revenue DEL	Capital DEL	Revenue AME	Capital AME	Total
<i>Resources Requested in the Budget Motion:</i>					
- Welsh Ministers	12,476,353	143,590	-22,393	250,418	12,847,968
- Assembly Commission	46,565	662	250	0	47,477
- Ombudsman	4,020	14	-181	0	3,853
- Auditor General	4,724	16	0	0	4,740
Total Resources Requested in the Supplementary Budget Motion	12,531,662	144,282	-22,324	250,418	12,904,038
<i>Adjustments:</i>					
(i) Resource Consumption of AGSBs and LHBs	176,971	0	149,649	0	326,620
(ii) Grants	-886,805	886,805	0	0	0
(iii) Supported Borrowing	0	107,299	0	0	107,299
(iv) Other	1,844,384	0	0	0	1,844,384
Total Adjustments in the Supplementary Budget Motion	1,134,550	994,104	149,649	0	2,278,303
- Direct Charges on the Welsh Consolidated Fund	2,434	0	0	0	2,434
- Wales Office	6,052	724	0	0	6,776
- Unallocated Reserve	165,403	49,521	0	0	214,924
Total Managed Expenditure (Block)	13,840,101	1,188,631	127,325	250,418	15,406,475

Table 2: Changes to the Reconciliation of Resources Requested in the November 2011 Annual Budget Motion to the resources made available by the Treasury for Wales (£000)

	2012-13 (£000)				
	Revenue DEL	Capital DEL	Revenue AME	Capital AME	Total
<i>Resources Requested in the Budget Motion:</i>					
- Welsh Ministers	82,864	32,319	6,558	16,924	138,665
- Assembly Commission	0	0	0	0	0
- Ombudsman	0	0	0	0	0
- Auditor General	0	0	0	0	0
Total Resources Requested in the Supplementary Budget Motion	82,864	32,319	6,558	16,924	138,665
<i>Adjustments:</i>					
(i) Resource Consumption of AGSBs and LHBs	-131	0	4,298	0	4,167
(ii) Grants	-55,851	55,851	0	0	0
(iii) Supported Borrowing	0	0	0	0	0
(iv) Other	-461	0	0	0	-461
Total Adjustments in the Supplementary Budget Motion	-56,443	55,851	4,298	0	3,706
- Direct Charges on the Welsh Consolidated Fund	0	0	0	0	0
- Wales Office	0	0	0	0	0
- Unallocated Reserve	-15,361	-44,099	0	0	-59,460
Total Managed Expenditure (Block)	11,060	44,071	10,856	16,924	82,911

Table 3: Reconciliation of Resources Requested in this Supplementary Budget

	2012-13 (£000)				
	Revenue DEL	Capital DEL	Revenue AME	Capital AME	Total
<i>Resources Requested in the Budget Motion:</i>					
- Welsh Ministers	12,559,217	175,909	-15,835	267,342	12,986,633
- Assembly Commission	46,565	662	250	000	47,477
- Ombudsman	4,020	14	-181		3,853
- Auditor General	4,724	16	0		4,740
Total Resources Requested in the Supplementary Budget Motion	12,614,526	176,601	-15,766	267,342	13,042,703
<i>Adjustments:</i>					
(i) Resource Consumption of AGSBs and LHBs	176,840	0	153,947	0	330,787
(ii) Grants	-942,656	942,656	0	0	0
(iii) Supported Borrowing	0	107,299	0	0	107,299
(iv) Other	1,843,923	0	0	0	1,843,923
Total Adjustments in the Supplementary Budget Motion	1,078,107	1,049,955	153,947	0	2,282,009
- Direct Charges on the Welsh Consolidated Fund	2,434	0	0	0	2,434
- Wales Office	6,052	724	0	0	6,776
- Unallocated Reserve	150,042	5,422	0	0	155,464
Total Managed Expenditure (Block)	13,851,161	1,232,702	138,181	267,342	15,489,386

Notes:

1. The total resource requirement for the Welsh Assembly Government is equivalent to the total of the allocations included in the Ambits of Schedule 1.
2. Standing Order 20.28(ii) states that the annual budget motion should include the resources agreed by the Treasury for the Welsh block budget for the financial year covered by the motion. Schedule 6 satisfies this requirement.
3. Standing Order 20.28(iii) states that the annual budget motion must include a reconciliation between the resources allocated to the Welsh block budget by the Treasury and the resources to be authorised for use in the budget motion. Schedule 6 satisfies this requirement.

4. The schedules above show variations authorised for the financial year under S126 of the Act and SO20.31.
5. Direct charges on the Welsh Consolidated Fund are:

Item	2012-13 £000
Payments to the National Loans Fund	1,695
Salaries and related pension costs of the Presiding Officer and the Deputy Presiding Officer	239
Salaries and related pension costs of the Ombudsman	187
Salaries and related pension costs of the Auditor General	190
Salaries and related pension costs of the Commissioner for Standards	26
National Non Domestic Rates Income	-944,000
National Non Domestic Rates Payable	944,000
Election Costs	97
Total	2,434

Schedule 7: Reconciliation of cash inflows to the Welsh Consolidated Fund to the cash issues to be requested in the budget motion (£000)

	Previous Provision 2012-13	Changes	Revised Provision 2012-13
Estimated net amounts payable to Welsh Ministers:			
Grant payable by the Secretary of State to the Welsh Consolidated Fund under Section 118 (1)	12,815,297	65,516	12,880,813
Payments from Other Government Departments	886,953	-461	886,492
Payments from other sources	1,762,827	-4,102	1,758,725
Estimated amounts payable to Welsh Ministers	15,465,077	60,953	15,526,030
Less amounts authorised to be retained by Welsh Ministers	-1,705,780	4,563	-1,701,217
Less amounts retained in the Welsh Consolidated Fund	-944,000	0	-944,000
Amounts available for distribution from the Welsh Consolidated Fund	12,815,297	65,516	12,880,813
Distributed as follows:			
- Welsh Ministers	12,613,547	124,976	12,738,523
- Assembly Commission	43,827	0	43,827
- Ombudsman	3,962	0	3,962
- Auditor General	4,740	0	4,740
Cash Released from the Welsh Consolidated Fund in the Motion	12,666,076	124,976	12,791,052
<i>Plus:</i>			
Direct Charges on the Welsh Consolidated Fund	2,434	0	2,434
Unallocated Funds	146,787	-59,460	87,327
Total Estimated Payments	12,815,297	65,516	12,880,813

Notes:

1. Section 125(3) of the Act states that the annual budget motion must be accompanied by a written statement made by Ministers showing:
 - i. the total amount of the payments which they estimate will be made for the financial year under Section 118(1);
 - ii. the total amount of the payments which they estimate will be made to the Welsh Ministers, the First Minister or the Counsel General for the financial year by Ministers of the Crown and government departments; and
 - iii. the total amount of payments which they estimate will be made to the Welsh Ministers, the First Minister or the Counsel General for the financial year otherwise than by a Minister of the Crown or government department.
2. The schedule above shows variations in these amounts as required under SO20.31.

Jane Hutt AC / AM
Y Gweinidog Cyllid ac Arweinydd y Tŷ
Minister for Finance and Leader of the House



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref: SF/JH/2322/12

Jocelyn Davies AM,
Chair, Finance Committee,
The National Assembly for Wales,
Cardiff Bay,
Cardiff
CF99 1NA

9 July 2012

Dear Jocelyn,

When I gave evidence to the Finance Committee last week on the First Supplementary Budget for 2012-13, I agreed to provide further information on a number of issues that were raised.

You asked for clarification on the £1 million transfer within the Environment and Sustainable Development MEG from the 'Develop and Implement Flood and investment Flood and Coastal Risk, Water and Sewage Policy and Legislation' Action to the 'Sponsor and Manage Delivery Bodies' Action.

As the Committee is aware, the Single Environment Body for Wales will replace the Environment Agency Wales, the Countryside Council for Wales and the Forestry Commission. A formal programme to manage the transition from the current position to a point where a new body is vested is underway. As part of this work, an ICT implementation project has been established to enable the new body to operate effectively from the date it is vested. Work is taking place to determine the scope and consider options for the development and definition of the ICT implementation, as well as specific advice and support in developing the implementation strategy for key ICT activities. These activities include developing networks and business applications solutions such as HR, payroll and finance systems. The £1 million transfer is being used to support the development of this infrastructure.

Turning to your request for further information on the Round Six Invest to Save projects, I attach a schedule at Annex A providing details of the repayment and investment schedule for the projects I announced last month. In addition, I am also providing a list at Annex B of project approvals from December 2011 to June 2012, with details of the associated benefits.

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1NA

English Enquiry Line 0845 010 3300
Llinell Ymholiadau Cymraeg 045 010 4400
Correspondence: Jane.Hutt@wales.gsi.gov.uk
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Wedi'i argraffu ar bapur wedi'i ailgylchu (100%)

In terms of the forthcoming Invest to Save evaluation, the interim evaluation, details of which are published on our website, recommended commissioning an evaluation of actual project outcomes when projects had had sufficient time to bed in. It suggested undertaking this in 12-18 months time i.e. between early and mid 2013. I have accepted this recommendation and the planning of that work will get underway later this year. I will publish the findings of the evaluation when it is completed.

Finally, you asked for confirmation as to when the Committee will receive a year-end report detailing variations between actual spend and the last supplementary budget of the year. I can confirm that I will write to you with this report no later than the week commencing 13 August.

I hope this information will clarify any outstanding issues and aid you in your scrutiny of the First Supplementary Budget 2012-13.

*Best wishes,
Jane*

Jane Hutt AC / AM

Y Gweinidog Cyllid ac Arweinydd y Tŷ
Minister for Finance and Leader of the House

Annex A

Invest-to-Save Fund: Round VI investments & repayments⁽¹⁾

Project	2012-13 £'000	2013-14 £'000	2014-15 £'000	2015-16 £'000	Total £'000
Hywel Dda Health Board, Community Virtual Ward	2,270	440			2,710
Cardiff & Vale UHB, "The Wyn Campaign"	2,400	(500)	(900)	(1,310)	(2,710)
Aneurin Bevan HB, E-rostering	240	800		(3,200)	3,200
Aneurin Bevan HB, Medicines Management	440				(3,200)
Cwm Taf: Integrated Whole System Intermediate Care Model	500	(120)	(120)		240
NHS Wales Shared Services Partnership, All-Wales contract for provision of Mental Health/ Learning Disabilities	300		(440)		(240)
Voluntary Early Release Scheme (VERS) for NHS Wales	4,300	1080	(200)	(1,380)	440
Investments	10,450	2,320			(440)
Repayments		(920)	(5,960)	(5,890)	1,580
					(1,580)
					300
					(300)
					4,300
					(4,300)
					12,770
					(12,770)

(1) Repayment profiles are currently being finalised and therefore may vary slightly from the indicative profiles shown above. However, all investments will have been repaid by close 2015-16

Annex B

Invest-to-Save Fund: Project approvals from December 2011 and June 2012

Project Title	Outline	Benefits	Contact
Single environment body for Wales	The bringing together of the Environment Agency Wales (EAW), the Countryside Council for Wales (CCW) and Forestry Commission Wales (FCW) into one organisation.	Achieved through the sharing of resources and assets, primarily within back-office functions such as HR, finance and I.T. Estimated savings projected at £158 million over a ten year period - of which £128 million are cash releasing.	Jon Westlake Tel: 029 2082 5879 E-mail: Jon.westlake@wales.GSI.GOV.UK
Workplace Transformation: Blaenau Gwent County Borough Council.	Anvil Court, Abertillery will be re-fitted to allow an increase in the number of staff currently accommodated there from 215 to 350. Agile working arrangements and better space management will be deployed. The project will facilitate the co-location of the authority's Education and Leisure Directorates and include provision to house some Aneurin Bevan Health Board staff.	Wider associated business benefits. Capital receipts arising from the sale of surplus assets. Payback is over two years. Forecast annual recurrent efficiency savings of £175k arising from reduced running costs.	Vanessa Waddon Tel: 01495 355523 E-mail: Vanessa.waddon@blaenau-gwent.gov.uk
E-Rostering: Hywel Dda University Health Board	Hywel Dda UHB Roll-out programme for e-rostering, time and attendance systems across the Health Board.	Wider associated business benefits are projected including freeing up staff time. Payback is over two years. Forecast efficiency savings on medical non-core pay of £200k in 2012-13 and £300k by 2013 arising from the reduced need for some bank, agency and locum cover.	Lisa Gostling Tel: 01267 239700 E-mail: lisa.gostling@wales.nhs.uk
E-rostering: Aneurin Bevan Health Board	The project will expedite E-Rostering for all staff groups. Productivity and efficiency will be increased from the consultant contract and by reducing: <ul style="list-style-type: none"> • Variable pay spend; • Inequalities in rostering practises • Payroll function by 4 WTE • Sickness absence 	Improved clinical governance by having staff with the correct skills at the correct time delivering care in most cost effective way and a reduction in back office payroll functions and errors in over payments associated with time sheets. Forecast efficiency savings of £1.4m from 2016 and total project efficiency savings of £2.9m by 2016.	Julie Rowles Tel: 01633 623473 E-mail: Julie.Rowles@wales.nhs.uk

Project Title	Outline	Benefits	Contact
National Voluntary Early Release Scheme (VERS) for NHS Wales	Programme covering six Health Boards and the NHS Ambulance Trust will assist the NHS in delivering its 5-year vision, including seeking an efficiency gain of some 5% per year. The proposal specifically helps to fund the release of staff and therefore create the scope for a wider transformation programme and flexibility in shaping services through different skill mixes etc.	<p>Round 5 Full year annual efficiency savings of £14.4 million are projected by 2013-14, with payback being made in full during that year.</p> <p>Round 6 Full year annual efficiency savings of £8.6million are projected by 2014-15, with full payback being made in that year.</p>	<p>Steve Elliot</p> <p>Tel: 029 20823245 E-mail: steve.elliott@wales.gsi.gov.uk</p>
Cwm Taf: Integrated Whole System Intermediate Care Model	Introduce an Integrated Whole System Intermediate Care Model. The multi-disciplinary/agency model is aimed at supporting individuals in the community who are at risk of admission to hospital or who are starting to fail at home.	High quality care delivered in the most appropriate environment to meet the needs of the patient leading to a reduction in hospital admissions/length of stay/readmissions/bed days. Annual efficiency saving of £1.8m from 2016 with total cash efficiency savings of £2.4m by 2016.	<p>Rebecca Luffman</p> <p>Tel: 01443 744857 E-mail: Rebecca.Luffman@wales.nhs.uk</p>
Aneurin Bevan: Medicines Management	A twin track approach which aims to develop acute ward based prescribing advisers who will focus on driving more cost effective prescribing practice in hospitals, to align with historical roles in primary care which have proven to generate significant beneficial change in cost effective prescribing practice.	Additional dietician roles in the community will aim to achieve sustainable changes in nutritional care in the community, by the prescribing of oral nutritional supplements. Improved nutritional benefits to patients, reducing the risk of malnutrition by promoting a 'food first' approach, resulting in less reliance on prescribed oral nutrition supplements, thus lowering prescribing costs. Annual financial savings of £0.76m from 2015 and total efficiency savings of £0.6m by 2014	<p>Rob Holcombe</p> <p>Tel: 07815 187 972 E-mail: robert.holcombe@wales.nhs.uk</p>

Agenda Item 3

Finance Committee

Meeting Venue: **Committee Room 2 – Senedd**

Meeting date: **Wednesday, 20 June 2012**

Meeting time: **09:30 – 11:00**

This meeting can be viewed on Senedd TV at:

http://www.senedd.tv/archiveplayer.jsf?v=en_300000_20_06_2012&t=0&l=en

Cynulliad
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National
Assembly for
Wales



Concise Minutes:

Assembly Members:

Jocelyn Davies (Chair)
Peter Black
Christine Chapman
Paul Davies
Mike Hedges
Ann Jones
Julie Morgan
Ieuan Wyn Jones

Witnesses:

Angela Scott, CIPFA

Committee Staff:

Helen Finlayson (Clerk)
Daniel Collier (Deputy Clerk)
Martin Jennings (Researcher)
Eleanor Roy (Researcher)
Tom Jackson (Clerk)
Joanest Jackson (Legal Advisor)

1. Introductions, apologies and substitutions

1.1 The Chair welcomed Members and members of the public to the meeting.

2. Papers to note

2.1 The Committee noted the correspondence on its inquiry into Borrowing Powers and Innovative Approaches to Capital Funding.

2.2 The Committee ratified the minutes of the previous meeting.

3. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

Items 4 to 6.

4. Draft report on Devolved Funding: Borrowing Powers and Innovative Approaches to Capital Funding

4.1 The Committee discussed its draft report on Borrowing Powers and Innovative Approaches to Capital Funding.

4.2 The Committee agreed that an amended version would be circulated to Members for comments via email.

5. Options for handling the Welsh Government Draft Budget 2013–2014

5.1 The Committee discussed options for handling the Welsh Government Draft Budget 2013–2014.

6. Potential financial implications of legislation

6.1 The Committee discussed the financial implications of the Food Hygiene Rating (Wales) Bill.

Transcript

Finance Committee

FIN(4)-11-12 - Paper 3

Consultation launched on new Scottish borrowing powers

The Scottish Government could be given the power to issue its own bonds, Chief Secretary to the Treasury, Danny Alexander, will tell the Glasgow Chamber of Commerce today.

A consultation on the proposal was launched today. It will gather views and evidence on the potential benefits and disadvantages of bond issuance by Scottish ministers for both Scotland and the rest of the UK. It will consider value for money for Scottish and UK taxpayers; potential macroeconomic issues; and alternative sources of borrowing.

The Government included a provision in the Scotland Act 2012 which enables it to amend the way in which Scottish ministers can borrow to include bond issuance from 2015-16. The Government committed to consult on whether these powers should be extended to permit bond issuance, as part of a total £2.2 billion borrowing limit.

Danny Alexander, said:

“I’m pleased to launch this consultation in Glasgow today looking at both the benefits and disadvantages of Scottish ministers being able to issue their own bonds. This takes forward the commitments we made in the Scotland Act, which represented the greatest transfer of powers from Westminster for three hundred years.

“I hope that academics, investors and other market participants will respond to this next step in potential further devolution of powers to Scotland.”

Under existing powers, from 2015-16 the Scottish Government is already able to borrow from the UK Government or through a commercial bank loan. Scottish ministers will be able to borrow up to 10 per cent of their capital budget each year to fund additional capital projects, up to the overall £2.2 billion limit.

Notes for Editors

1. The consultation The Scotland Act 2012: a consultation on bond issuance by the Scottish Government will run until 14 September 2012 and can be found in our consultation area under [The Scotland Act 2012: a consultation on bond issuance by the Scottish Government](#).
2. The Calman Commission reported in June 2009 and recommended that Scottish ministers should be given an additional power to borrow to increase capital investment in any one year alongside greater tax raising powers. The Calman Commission recommended that this borrowing should be from the National Loans Fund and that any borrowing should be within the UK’s macro economic framework, therefore the Government should set the overall cap on borrowing.
3. Under the powers of the Scotland Act 2012, from 2015-16 the Scottish Government is able to borrow up to an overall limit of £2.2 billion for capital spending by way of loan from either the National Loans Fund (part of the UK Government) or from commercial banks. Scottish ministers will be able to borrow up to 10 per cent of the Scottish capital budget each year. Departmental Expenditure Limits (DEL) have not yet been set for 2015-16 onwards and the limits on borrowing will be reviewed at every Spending Review to ensure that they are sustainable.
4. The Government laid a Written Ministerial Statement on 21 March 2012 which committed to shortly launch a consultation on the Scottish Government issuing

their own bonds. The Written Ministerial Statement can be found on the [Parliament website \(opens in a new window\)](#).

5. The consultation does not seek views on the issues that would be posed by bond issuance in the case of an independent Scotland.



HM TREASURY

The Scotland Act 2012:

a consultation on bond issuance by
the Scottish Government



HM TREASURY

The Scotland Act 2012:

a consultation on bond issuance by the
Scottish Government



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ISBN 978-1-84532-957-0

PU1271

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1

Introduction

Scope of this consultation

1.1 The aim of this consultation is to gather views and evidence on the costs and benefits, to both Scotland and the rest of the United Kingdom, of granting Scottish Ministers the power to borrow by means of bond issuance for capital expenditure up to the amounts stipulated in the Scotland Act 2012 (£2.2 billion).

1.2 The consultation is not seeking views on any other aspects of the legislation, including on the amounts that Scottish Ministers will be permitted to borrow.

1.3 The consultation is also explicitly **not** seeking views on the issues that would be posed by bond issuance in the case of an independent Scotland. The analysis in this document is focussed on the potential costs, benefits and risks of bond issuance by the Scottish Government as a constituent member of the United Kingdom within the parameters of the Scotland Act 2012. Little can be inferred from this analysis about the likely borrowing costs and set of risks that an independent Scotland would face in its financing activities.

1.4 Such an assessment would be contingent on a very different set of fundamentals and would need to consider a much wider set of factors, for example the system of monetary policy and precise currency arrangements that would be envisaged in an independent Scotland, which are issues on which there are not yet any specific proposals.

1.5 These factors would introduce additional uncertainties and variables for potential investors to consider beyond those that are pertinent to an assessment of bond issuance by Scotland as a constituent member of the United Kingdom.

The Scotland Act 2012

1.6 The Scotland Act 2012 implements the work of the Calman Commission¹, which represented a comprehensive overview of the role of tax devolution to the Scottish Parliament within the overall UK macroeconomic framework. The Scotland Act preserves the benefits of the fiscal and macroeconomic union between Scotland and the rest of the United Kingdom, while creating a direct link between spending in Scotland and the level of taxes raised in Scotland.

1.7 The Scotland Act 2012 and the measures outlined in the Command Paper published alongside the introduction of the Bill, deliver the largest single transfer of fiscal power from Westminster in the history of the United Kingdom. Its powers give the Scottish Parliament greater responsibility for the taxes required to fund their spending decisions and will improve the accountability of the Scottish Parliament to the Scottish people. For the first time, spending decisions made in Scotland will have significant consequences for taxation in Scotland, and vice versa.

1.8 When the Scotland Act 2012 is fully implemented (from April 2016 onwards), the Scottish Parliament will move from raising less than 15 per cent of its own budget to around 30 per cent. The financial proposals consist of:

¹ www.commissiononscottishdevolution.org.uk

- a Scottish rate of income tax to replace part of UK income tax from April 2016;
- full devolution of land tax and landfill tax from April 2015;
- the power to create or devolve other taxes from enactment of the Bill;
- extensive new borrowing powers from April 2015; and
- a Scottish cash reserve to manage volatility in devolved taxes.

1.9 Following implementation, Scottish Ministers will be in control of over £6 billion of tax revenues.

Borrowing

1.10 Becoming responsible for financing a significant proportion of a budget from devolved taxes introduces a level of volatility to the Scottish budget which until now, has been funded in a stable and predictable way via the Block grant set out at every Spending Review. Responsibility for raising a greater proportion of the Scottish budget – together with the risks associated with that responsibility – which was previously managed at a UK level will, over time, be transferred to the Scottish Government.

1.11 The Calman Commission, on which the Scotland Act 2012 is based, recommended that, in order to increase Scotland's financial accountability, the Scottish Government's borrowing powers should be extended.

Current spending

1.12 Under the powers enabled by the Scotland Act 2012 and the associated Command Paper, Scottish Ministers will be able to borrow to finance current spending:

- within year, to provide the Scottish Consolidated Fund with enough balance to ensure cash-flow when taxes are devolved and to manage excessive in-year volatility of receipts;
- across years, to smooth any differences between outturn receipts from devolved taxes and their forecast, up to a total of £500 million total current debt; and
- on an annual basis borrowing will be capped at a level which is sufficient to deal with forecasting errors in normal times: £200 million.

Capital spending

1.13 From April 2015, when Scottish Ministers take control over certain revenue streams, a further dimension of financial accountability will provide for Scottish Ministers to borrow to fund capital projects for the first time. The power will be transferred to Scottish Ministers in phases:

- from 2011-12, Scottish Ministers are able to make pre-payments to fund early work on the Forth Bridge Replacement Crossing;
- from 2015-16 Scottish Ministers can borrow up to 10 per cent of the Scottish capital budget in any year to fund additional capital projects; approximately £230 million in 2014-15; and
- from 2015-16, the overall stock of capital borrowing cannot exceed the limit set out in the Scotland Act 2012 (at present £2.2 billion, with a power provided to raise, but never lower this limit below £2.2 billion).

Controls

1.14 Other things being equal, borrowing by the Scottish Government will increase UK public sector net borrowing (PSNB) and public sector net debt (PSND) or require spending cuts or tax increases elsewhere in the UK. Any change to the borrowing powers of Scottish Ministers therefore has to work for the UK as a whole as well as for Scotland. Setting limits and controls on any new borrowing is critical to ensuring that any borrowing is manageable from within the UK fiscal position, consistent with the continuing reservation of overall macro-economic policy.

1.15 Control of borrowing is central to fiscal credibility. Limits on Scottish Government borrowing form part of the UK's wider framework for fiscal policy and expenditure control. This framework, underpinned by the clear and comprehensive deficit reduction plan set out by the Government, has secured credibility with financial markets. Long-term interest rates in the UK have been at record lows in recent months. Without such a fiscal strategy and framework, Scotland and the rest of the UK could face higher interest rates and borrowing costs, hurting households, businesses and the taxpayer. Fiscal credibility, delivered in part through controls on borrowing, benefits the Scottish economy and the Government has therefore set controls on Scottish Ministers' borrowing.

Limits on amounts borrowed

1.16 Taken together, the limits on the face of the Scotland Act 2012 allow Scottish Ministers to borrow up to a total of £2.7 billion, with a power provided to raise this limit, but never lower it below £2.7 billion. This limit represents the additional burden and risk that the Chancellor of the Exchequer judged was appropriate against the context of his fiscal judgement for the UK economy as a whole. To allow for exceptional circumstances and ensure consistency with the UK's fiscal mandate, the Scotland Act 2012 allows the limits to be revised upward or downward – though never lower than the limits set out in the Scotland Act 2012 – through secondary legislation. The Government has committed to regularly reviewing these borrowing limits ahead of Spending Reviews through the Joint Exchequer Committee.

Sources of borrowing

1.17 The Scotland Act 2012 gives Scottish Ministers access to the source of borrowing as recommended by the Calman Commission: loans from the National Loans Fund (NLF) via the Secretary of State for Scotland for both capital and current expenditure.

1.18 To allow for greater flexibility in respect of capital expenditure, the Scotland Act 2012 also provides for Scottish Ministers to borrow by way of loans from commercial banks, subject to the condition that the Scottish Government's Accounting Officer is satisfied that this represents good value for money for the UK public sector as a whole.

1.19 The Scotland Act 2012 does not make provision for borrowing by Scottish Ministers from commercial sources to be guaranteed by the UK Government. The UK Government could, however, choose to provide such a guarantee at a later stage if it was minded to do so. This consultation will explore further some of the issues surrounding the provision of central government guarantees.

Bond issuance

1.20 In order to ensure that the new system of Scottish borrowing is flexible and sustainable, the Government included a provision in the Scotland Act 2012 which enables it to amend, in future, the way in which Scottish Ministers can borrow to include bond issuance, without the need for further primary legislation.

1.21 The aim of this consultation is to gather views and evidence on the costs and benefits to both Scotland and the rest of the UK of Scottish Ministers being granted the power to issue bonds as part of the borrowing powers provided for in the Scotland Act 2012.

Responding to the consultation

1.22 HM Treasury would like to hear from all interested parties. Respondents should address any of the questions in the consultation document where they feel they can make a contribution, as well as offering any further comments they may have.

Key dates

1.23 This consultation is being launched on 22 June 2012 and will run for twelve weeks. **The deadline for responses is 14 September 2012.**

Contact details

1.24 Responses to the consultation or requests for further information should be directed to:

Tom Dodd
Debt and Reserves Management Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Email: thomas.dodd@hmtreasury.gsi.gov.uk

Additional ways to be involved

1.25 Please indicate whether you are willing to discuss these issues with HM Treasury. HM Treasury will consider meeting interested parties to discuss issues raised during this consultation. The timing, format and venue of these meetings will be informed by expressions of interest received.

After the consultation

1.26 The Government will publish a summary of the responses it receives, including a summary of the views expressed to each question and a summary of those who responded to the consultation.

Disclosure of responses

1.27 Individual responses will not be attributed unless specifically requested.

1.28 If you want the information that you provide to be treated as confidential, please state as such in your response. Under the Freedom of Information Act, there is a statutory Code of Practice to which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances.

1.29 HM Treasury will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Code of Practice on Consultation

1.30 This consultation complies with the Code of Practice on Consultation issued by the Better Regulation Executive in the Department for Business, Innovation and Skills.

1.31 Any comments you might have on this consultation's compliance with the Code of Practice can be directed to HM Treasury's consultation co-ordinator at the following email address: Angela.Carden@hmtreasury.gsi.gov.uk

1.32 Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

2 Sub-sovereign debt issuance – theory and practice

2.1 This chapter looks at what the theory of fiscal decentralisation says about the benefits and risks of sub-sovereign bond issuance.¹ This chapter does not assess the case for the devolution of borrowing powers in general, but focuses in particular on the merits and demerits of bond issuance as a method of borrowing. It examines precedents within the UK of sub-sovereign authorities issuing bonds and looks at the experience of other countries where the use of bonds forms an important part of sub-sovereign government finances. It asks respondents to reflect on the parallels for sub-sovereign bond issuance by the Scottish Government.

Theoretical issues around sub-sovereign debt issuance

2.2 The Government's debt management objective is: 'to minimise, over the long term, the costs of meeting the Government's financing needs, taking into account risk, while ensuring debt management is consistent with the aims of monetary policy.'² In recent years, this objective has been pursued in an institutional environment where the UK Government has had almost sole responsibility for public sector bond issuance.²

2.3 The potential devolution of powers to issue bonds to a sub-sovereign authority like the Scottish Government has implications for the UK's debt management objective, as well as for other aspects of fiscal and economic policy. These implications could be both positive and negative and should be considered in light of existing fiscal devolution arrangements.

Decentralising financing powers

2.4 Devolving some spending powers from the sovereign government to sub-sovereign authorities, while the former retains control over the financing of that expenditure, can create a problem of 'moral hazard': a situation in which there is a tendency to take undue risks because the costs are not borne by the party taking the risk.

2.5 In particular, sub-sovereign authorities may have an incentive to spend excessively in the knowledge that the financing of any overspending will ultimately be shared with other parts of the country. This manifestation of moral hazard in a decentralised government framework can have negative consequences for the country as a whole as the central government could be faced with higher than projected deficits and debt.

2.6 Giving the sub-sovereign authority partial or full responsibility for financing its expenditure can help to alleviate this moral hazard. This could take the form of devolving powers for raising tax revenues and/or giving the sub-sovereign authority the power to borrow money from non-Government sources, which could include private investors through the issuance of bonds.

¹ 'Sovereign' and 'sub-sovereign' are terms often used in the literature on fiscal decentralisation to distinguish between different tiers of government.

² There have been a number of small exceptions to this relating to Local Authorities which are discussed later in this section.

Advantages of sub-sovereign bond issuance

2.7 In theory, issuing bonds can encourage a sub-sovereign authority to be more fiscally responsible. By borrowing from the markets, an authority subjects itself to the scrutiny and discipline of those markets. In the World Bank's view: "The pricing of capital by markets may provide an independent mechanism for fostering political accountability. Markets may signal the poor performance of sub-sovereign governments through increases in interest rates or simply by blocking access".³

2.8 This imposition of external discipline may also incentivise sub-sovereign authorities to increase the transparency of their finances in order to secure lower borrowing costs. This in turn might lead to greater scrutiny from both market and non-market participants in such a way that facilitates better governance.

2.9 By its nature, bond issuance normally entails borrowing over a multi-year period and therefore requires a certain degree of forward financial planning. Bond issuance might therefore help to support improvements in long-term financial decision-making, including around public investment projects.

2.10 Bond issuance also allows the borrower to access a wider pool of lenders than would normally be the case for commercial bank loans, where the pool of possible lenders is necessarily limited. This may lead to a lower cost of finance for the sub-sovereign than would have been the case if they were restricted to borrowing purely by way of commercial bank loan.

Disadvantages of sub-sovereign bond issuance

2.11 The issuance of bonds by a sub-sovereign authority also has a number of potential drawbacks. For instance, academic research suggests that the positive benefits of market discipline for sub-sovereigns are only derived when there exists a credible "no bailout" commitment from the national government.⁴ In practice, such commitments can sometimes be difficult to design and operationalise.

2.12 Sub-sovereign bond issuance can, therefore, create a new moral hazard concern – the expectation by sub-sovereign bond issuers, investors, rating agencies and other market participants that the national government might be prevailed upon to assume the liabilities or debt-servicing obligations of a distressed sub-sovereign borrower.⁵

2.13 Sub-sovereign bond issuance also raises the risk that a loss of market confidence in a sub-sovereign issuer, perhaps prompted by the failure of the sub-sovereign to meet its repayments, leads to a corresponding loss of confidence in the sovereign itself. In some cases this can trigger full-blown fiscal crises and such episodes are not without precedent in an international context (e.g. Brazil in the 1990s, see Box 2.A.).

2.14 Another potential disadvantage relates to the cost of sub-sovereign borrowing compared to the cost faced by the national government. The price of a bond issued by a sub-sovereign authority is likely to compare unfavourably with that of bonds issued by the sovereign – in other words, the yield on a sub-sovereign bond could be expected to be higher than that for an equivalent national bond. As a result, debt interest payments would be higher than if equivalent borrowing was undertaken via national bond issuance and the proceeds transferred to the sub-sovereign authority, implying higher taxes and/or less spending on public services.

³ World Bank "Intergovernmental fiscal relations" <http://www1.worldbank.org/publicsector/decentralization/fiscal.htm>.

⁴ For example, Lane (1993) "Market Discipline," Staff Papers, International Monetary Fund.

⁵ World Bank and International Monetary Fund (2001) "Developing Government bond markets: a handbook".

2.15 The likelihood of a higher yield on sub-sovereign bonds reflects three factors:

- an 'illiquidity' premium – a lack of liquidity compared with comparable national bonds can affect investor willingness to buy non-sovereign bonds;
- a 'structural' premium – a premium that reflects investor uncertainty towards new bond issuance by a sub-sovereign authority which previously lacked this power; and
- a 'credit risk' premium (in the event of a credible commitment by the sovereign government not to guarantee the bonds of the sub-sovereign authority) – reflecting the the risk of a sub-sovereign authority being unable to service the interest or principle on bonds issued.

UK precedents for sub-sovereign bond issuance

2.16 A number of sub-sovereign authorities in the UK have used bonds as a means of financing. These include:

- **Local authorities:** local authorities in England and Scotland have the power to issue bonds, and this form of finance once played an important role in local government budgets.⁶

However, there has been no significant local authority bond issuance since the mid-1990s (aside from the GLA, see below), reflecting the relative expense of doing so (including costs of establishing an independent credit rating and investment banking fees) and the lack of value for money of issuing bonds relative to alternative sources of finance, including borrowing direct from central government via the Public Works Loan Board (PWLB)⁷.

The value of outstanding bonds issued by English local authorities is around £1.2 billion (total long-term debt, the vast majority of which is to the PWLB, was over £54 billion as of March 2011⁸). A significant proportion of outstanding bonds were issued by the Greater London Authority (GLA) in July 2011 to finance the Crossrail project (around £600 million, rated AA+ by S&P).

Bonds issued by local authorities are not guaranteed by the UK central government. However, some market participants do infer some level of central government support by virtue of the fact that the PWLB will not refuse a local authority a loan application that conforms to its lending arrangements, unless it would lead to a breach of its lending limit.

- **Transport for London:** Transport for London (TfL), which is treated as a local authority for the purposes of financial management under the Local Government Act 2003, sources most of its borrowings from the UK central government. However, it did conduct a £3.3 billion borrowing programme between 2004-05 and 2009-10, including four privately-placed issues in sizes of £100 million and £200 million. TfL bonds do not enjoy an explicit government guarantee and their bonds are rated AA+ by S&P and Fitch, and Aa1 by Moody's.⁹

⁶ Borrowing may not be undertaken in currencies other than sterling (without Treasury consent).

⁷ The Public Works Loan Board (PWLB) is a statutory body operating within the Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies. The PWLB currently makes fixed rate loans at gilt rate + 100bps.

⁸ Department for Communities and Local Government (2011) "Local Government Financial Statistics England No.21 2011", May 2011, Table 5.3b.

⁹ Annex A outlines the ratings systems used by the three main credit rating agencies: Standard & Poors, Moody's and Fitch.

- **Network Rail:** Although a private company, bonds issued by Network Rail benefit from direct and explicit support from the Government in the form of a Financial Indemnity from the Secretary of State for Transport. As such, they can be considered in some sense to represent sub-sovereign debt and provide a useful third point of comparison. As of the end of March 2011, Network Rail had bonds in issue amounting to £24.4 billion, in a variety of maturities and currencies.¹⁰ The explicit UK Government guarantee is reflected in the credit rating of Network Rail bonds which, as of the same date, were rated AAA by Standard and Poor's (stable outlook), Aaa by Moody's and AAA by Fitch.

2.17 Analysis of the GLA, TfL and Network Rail bond issuance provides some insight into the premiums on bonds issued by UK sub-sovereign authorities:

- Of all non-gilt UK bonds, **Network Rail** bonds generally trade at the tightest spread to gilts. However, although Network Rail has held a UK government backed guarantee since 2004, its debt has nevertheless traditionally traded at a premium to gilts due to its bonds being less liquid, not featuring in government bond indices and due to a residual perception of enhanced credit risk. As of end-May 2012, a Network Rail bond maturing in 2030 was trading with a yield of 2.9 per cent, compared to a yield of 2.5 per cent on UK gilts with an equivalent maturity, a spread of 40 basis points;
- As of May 2012, a **TfL** bond maturing in 2031 was trading with a yield of 4.0 per cent, compared to 2.5 per cent for a 20 year gilt, a spread of 150 basis points¹¹; and
- As of May 2012, a **GLA** bond with a maturity of 22 years was trading with a yield of 3.6 per cent, compared to 2.7 per cent for an equivalent maturity gilt, a spread of 90 basis points.

International examples

2.18 Sub-sovereign bonds are issued within a number of countries, some in significant volumes. The largest sub-sovereign bond market is located in the US, with annual issuance of about \$400 billion. In size terms, the US is followed by Germany, Japan, Canada, China, and Spain; together, they accounted for about 85 per cent of \$308 billion of global sub-sovereign bond issuance (excluding the United States) in 2009.¹² Further detail on some of these issuers is provided in Box 2.A.

International evidence on sub-sovereign borrowing premiums

2.19 As stated above, the interest rate charged on sub-sovereign debt is often higher than that payable on bonds issued by the national government. A comparison of yields on sovereign and sub-sovereign debt in different countries provides some indication of how large this premium might be, although it is contingent on a number of factors and will vary over time.

¹⁰ "Network Rail Infrastructure Finance PLC Financial statements", Year ended 31 March 2011.

¹¹ This bond contains a call option. The presence of this call option will increase the yield relative to an identical bond without a call option.

¹² Otaviano Canuto and Lili Liu (2010) "Subnational Debt Finance and the Global Financial Crisis", World Bank, May 2010.

Table 2.A: Yields on sovereign and sub-sovereign debt

Per cent			
	US ¹	Germany ¹	Canada ²
10 year sovereign bond yield	1.6	1.2	1.7
Average yields on 10 year sub-sovereign bonds	1.9	1.6	2.9
Differential (basis points)	30	40	120

Source: Bloomberg and Financial Post

¹ As of 31 May 2012.

² Yield(s) on 11-year Canadian bonds.

2.20 Tax exemptions in the US make meaningful comparisons between US municipal and Federal borrowing costs difficult. The yields on municipal bonds sometimes trade below those on US Treasury securities reflecting in part the exemption for in-State investors of interest earned on most municipal bonds from both federal and state taxes.

2.21 Data from the German Bundesbank indicates the average annual spread of federal state (Länder) bonds to Bunds during 2001-07 was between 8 and 28 basis points, but with substantial variations over time and by Land. 'Jumbo' bonds (bonds issued jointly by several Länder) had an average spread of 15 basis points, less than those of the individual bonds of the participating Länder, which highlights the beneficial effect of increased liquidity and joint liability to the cost of borrowing. Spreads have widened considerably since the financial crisis of 2008, averaging almost half a percentage point throughout 2011 and 2012.

2.22 The average spread between yields on 11-year Canadian Provincial bonds and bonds of similar maturity issued by the Federal Government is currently around 120 basis points. As with the German Länder, spreads have widened in recent years amid increased risk aversion and deteriorating market liquidity.

Sovereign government support and solvency premiums

2.23 As outlined above, it is possible that a sub-sovereign authority issuing bonds may have to pay a premium on its borrowing costs to reflect the perception of a greater risk of default. The size of this credit risk premium will be influenced by whether the sovereign explicitly or implicitly guarantees bonds issued by a sub-sovereign authority, or whether it makes a credible commitment not to bail out the latter should it encounter financing difficulties. A guarantee by the sovereign government means there should in theory be no credit risk premium (albeit at the implicit expense of national taxpayers); a credible no bail-out commitment, the reverse.

2.24 How large might such a premium be? One approach to answering this question is to compare the credit ratings and borrowing costs of sub-sovereign authorities between countries which vary in terms of the likelihood of support from the sovereign government. In such a comparison, the US, where there have been a number of historical episodes where the Federal government has not bailed out state governments experiencing fiscal crises, arguably has a credible Federal no bail-out commitment.¹³

2.25 As such, credit risk premiums can be gauged by comparing credit ratings applied to US states with those given to sub-sovereign authorities in other countries, where an implicit federal guarantee is considered by ratings agencies to be more in evidence. Differences are significant. For example, Rodden (2006) found that a US state with a debt/own-source revenue ratio of 100

¹³ Examples include the fiscal crisis of New York City in 1975, the default on \$2.25 billion in bonds of the Washington Public Power Supply System in 1983, and the bankruptcy of Orange County in 1994 and the District of Columbia in 1995. More recently, in November 2011, Jefferson County, Alabama, filed for the largest municipal bankruptcy in US history, and in October 2011, Pennsylvania's capital, Harrisburg, filed for a municipal bankruptcy.

per cent could expect to be rated AA-. However, an Australian state with a similar debt burden could expect either a AA+ or AAA rating. In the period examined, a similarly situated Spanish region could expect a AA rating.¹⁴

2.26 The same author notes that, by 1996, with only a six-year track record of truly independent borrowing, two of the six Australian states and the capital territory received AAA ratings. In contrast, in the US, despite over 100 years of independent borrowing without a default, only four of the 39 states rated by Standard and Poor's received AAA ratings in that year. A similar comparison was true for Canadian provinces, despite no province defaulting since the depression of the 1930s.

2.27 Rodden argues that the only way to make sense of the variation in credit ratings between US states and Canadian provinces on the one hand, and Australian and Spanish regional governments on the other, is differences in the likelihood of sovereign government support, which in turn is influenced by the transfer-dependence of sub-sovereign governments. Over the period examined, the average level of dependence on federal transfers for the US states and Canadian provinces sampled was around 23 per cent, while the average for Australian states and Spanish regions was roughly twice as high.

2.28 Once the Scotland Act 2012 is implemented in full, the Scottish Government will be responsible for raising around 30 per cent of its own budget and will therefore receive around 70 per cent of its revenues in the form of a grant from the UK Government.

Lessons from international examples of sub-sovereign issuance

2.29 Box 2.A. summarises some international examples of sub-sovereign bond issuance.

2.30 Evidence from international examples suggests that for any given level of expected sovereign support, there are a number of key factors that influence the yield on sub-sovereign debt relative to sovereign debt, including the strength of sub-sovereign institutions, the transparency of sub-sovereign government finances and the taxation of the bonds. As detailed above, in most instances sub-sovereign debt has attracted a higher yield than equivalent sovereign borrowing.

2.31 In a number of cases sub-sovereign bond issuance appears to have yielded some of the benefits touted in the theoretical literature. For instance, the market does appear to exert a form of discipline over sub-sovereign entities in the US and Canada in a way that increases the accountability of sub-national governments. In many cases, sub-sovereign bond issuance also appears not to have had significant negative implications for the sovereign issuer, though it is impossible to disentangle whether there is any adverse impact reflected in the price (and yield) of the sovereign's debt or to know whether those countries would face lower borrowing costs if sub-sovereign bond issuance was not a feature of those countries. The potential risks posed by sub-sovereign bond issuance appear to be greater in instances where controls, reporting and transparency are lacking.

¹⁴ Jonathan Rodden (2006) "Hamilton's paradox: the promise and peril of fiscal federalism", Cambridge University Press.

Box 2.A: International examples of sub-sovereign bond issuance

United States

The US municipal bond market is the largest and most developed sub-sovereign bond market in the world. As of the end of 2011, the US municipal bond market was valued at over \$3 trillion, around a third of the size of the US Treasury market. Around 70 per cent of US municipal marketable debt is owned either directly or indirectly by US households.^a This likely reflects in part the exemption of interest earned on most municipal bonds from both federal and state taxes, which itself largely accounts for the yields on municipal bonds often trading below those on US Treasury securities.

The municipal bond market is overseen by the Municipal Securities Rulemaking Board (MSRB), which has operated under a Congressional mandate since 1975, and which seeks to protect the interests of all participants in the municipal bond market. The main functions of the MSRB are three-fold: (1) the establishment of rules for dealers and municipal advisers; (2) the collection and dissemination of market information; and (3) market leadership, outreach and education.^b More recent legislation has sought to increase further transparency and accountability in the municipal bond market.^c

Germany

German federal states (Länder) were the second largest international issuers of sub-sovereign bonds in 2009, with the sub-sovereign bond market worth around \$1 trillion and representing around 50 per cent of the outstanding debt stock of the Länder.

Länder are not constrained by the central government in their decisions on debt issuance and are assigned credit ratings primarily on the basis of their respective fiscal positions, with no explicit guarantee for their bond issuance from the Federal Government. Previous rulings of the Federal Constitutional Court, however, have been interpreted as implying some form of joint liability, which has served to reduce the perceived credit risk.

While some Länder have concentrated on large public issues or joint issuers with other Länder (so-called 'Jumbo' bonds), in order to reduce liquidity premia, others have relied on comparatively small but frequent issues, often via private placement. Bundesbank analysis during the period 2001-2007 indicates that Länder have mainly issued bonds with a maturity of four to eleven years, with the mean of each Land's bond issuance approximately €120 million, while the median was slightly below €30 million.^d

Canada

Canada is one of the most fiscally decentralised countries in the world, with significant spending, revenue raising and borrowing powers devolved to the 10 Canadian provinces.

Canadian Provincial governments actively issue bonds to fund deficits and provide for public works and social welfare expenditures. As many of these projects are long-term in nature, debt issued in this sector of the market tends to be longer in maturity. Bond issuance in a number of provinces and municipalities is facilitated by dedicated financing authorities, for example the Ontario Financing Authority, which also serve to increase transparency. Actively traded provincial bonds account for about 20 per cent of Canada's total bond market, while active municipal issuance represents about 2 per cent of the market.

Brazil

During the late 1980s Brazil devolved significant borrowing powers to individual states, including the power to issue their own bonds. In 1998, however, a number of Brazilian states got into financial difficulty and declared moratoria on debt repayments. The action of these states served to undermine Brazil's position in international financial markets and the country experienced a marked outflow of capital. The crisis in Brazil is largely attributed to the lack of fiscal controls that were placed on the regions by the federal government and subsequent reforms sought to address this by imposing greater restrictions on borrowing levels and requiring explicit federal authorisation for borrowing by way of bond issuance.

Spain

In Spain, significant fiscal powers are devolved to the regions. A number of Spanish regional governments have issued bonds, though the quantity of issuance has slowed significantly in recent years as market liquidity has deteriorated. The likelihood of sovereign support for the regions is reflected in their credit ratings being in line with that of the Spanish central government.

Recently, however, concerns about the sizeable near-term refinancing requirements of the regions and the current state of the sub-sovereign debt market appear to be weighing negatively on the market's perception of credit risk attached to the debt of the central government.^e Moody's, the credit rating agency, recently proposed joint issuance of national and regional debt by a central agency to improve market access for the autonomous regions and lower interest rates, which would be positive for the country's credit rating. But for this to work Moody's said Spain would need to increase its controls over regional borrowing.^f

^a Federal Reserve "Flow of Funds Accounts of the United States", September 2011.

^b Municipal Securities Rulemaking Board (MSRB), <http://www.msrb.org/>

^c US Department of the Treasury

^d Alexander Schulz and Guntram B. Wolff. (2008) "The German sub-sovereign government bond market: evolution, yields and liquidity" Discussion paper. Series 1: Economic Studies No 06/2008.

^e Financial Times, 16 April 2012, "Madrid threatens to intervene in regions".

^f http://economia.elpais.com/economia/2012/04/02/actualidad/1333395449_137351.html

Box 2.B: Questions on the relevance of theoretical and international experiences of sub-sovereign bond issuance for Scotland.

- 1 What does the theory of fiscal decentralisation tell us about the merits and demerits of Scottish bond issuance, including, and beyond, the issues covered in this chapter?
- 2 What insights do UK precedents for sub-sovereign bond issuance provide for Scotland?
- 3 What are the implications of central governments providing, or not providing, explicit guarantees for the borrowing of a sub-sovereign?
- 4 How relevant to Scotland's situation are the interest rate premia that are observed in countries that issue sub-sovereign bonds?

3 Potential implications for Scotland

3.1 This chapter looks at the scale of potential benefits, costs and risks to Scotland, as a constituent part of the United Kingdom, of the Scottish Government being granted the power to issue bonds upon the implementation of the Scotland Act 2012. As set out in Chapter 1, this consultation is explicitly **not** seeking views on the issues that would be posed by bond issuance in the case of an independent Scotland, where a different set of considerations would apply.

3.2 This chapter examines, and invites feedback from respondents, on:

- the potential advantages and drawbacks of bond issuance for Scotland;
- value-for-money issues, including factors that may influence the cost of borrowing via Scottish bond issuances relative to UK gilts, and how the use of bonds compares with the other forms of borrowing available to Scottish Ministers;
- the potential demand for Scottish bonds from wholesale and retail sources;
- practical issues involved in the Scottish Government issuing bonds; and
- alternative sources of borrowing.

3.3 The Scotland Act 2012 gives Scottish Ministers the power to borrow for, capital purposes, up to 10 per cent of the Scottish Government's CDEL budget a year (in 2013-14 this would represent £220 million) up to a total stock of debt of £2.2 billion. These limits reflect the additional burden and risk that the UK Government has judged to be appropriate against the context of its fiscal judgement for the UK economy as a whole at this time.

Potential benefits of bond issuance by Scottish Ministers

3.4 Chapter 2 looked at the theoretical benefits and costs of sub-sovereign debt issuance. Potential benefits included the reduction in one form of 'moral hazard' by giving sub-sovereign authorities which previously only exercised spending powers some responsibility for financing.

3.5 An advantage specific to bond issuance was identified, namely the market discipline the use of bonds may impose on a fiscal authority. The discipline imposed by the market might encourage Scottish Ministers to use their borrowing powers prudently and productively, which may lead to better policy outcomes than would have been the case were Scotland limited to borrowing from the central government or by way of a commercial bank loan (unlike bonds, bank loans are not readily tradeable and therefore there is no visible market "price" which signals the market's judgement on the borrower to third parties).

3.6 A further potential benefit is that bond issuance could create incentives for the Scottish Government to increase the transparency of its finances in such a way that would allow for greater scrutiny from both market participants and the wider public. Enhanced transparency could improve the quality of debate around the financial decision-making of the Scottish Government and help to support its political accountability.

3.7 Bond issuance and the associated repayment schedule would also need to be planned some way in advance. This might help to support forward planning which could act to improve long-term financial decision-making, including around capital investment projects.

Potential disadvantages of bond issuance by Scottish Ministers

3.8 Two key potential drawbacks for the sub-sovereign issuer were also identified. One related to the likely premium that a sub-sovereign borrower would pay relative to the cost of borrowing faced by the national government, which has been explored above. The second drawback was that the power to borrow using bonds may create a new form of moral hazard, where the sub-sovereign authority borrows excessively in the expectation that it will be bailed out by the sovereign government.

3.9 How applicable might these benefits and drawbacks be to Scotland? In theory, the pressure applied by capital markets to pursue responsible fiscal policies could be an advantage of bond issuance. But, to the extent that the markets would potentially see Scottish bonds as being implicitly backed by the UK Government, this discipline could be illusory.

3.10 In practice though, the risk of moral hazard in Scotland's case is largely mitigated by the limits on borrowing set out in the Scotland Act 2012 and could potentially be mitigated further were the UK Government able to make a credible 'no bailout' commitment.

Value for money

3.11 If Scottish Ministers choose to use the borrowing powers set out in the Scotland Act 2012, one important consideration will be to minimise the cost of borrowing to the Scottish Government, and hence the Scottish taxpayer. Therefore, the likely borrowing costs payable on Scottish bonds and how these compare with the alternative sources of borrowing as set out in the Scotland Act 2012 and its Command Paper are important considerations in judging the merits of Scottish bond issuance.

3.12 The cost of bonds issued by the Scottish Government will be influenced by the demand for those bonds. Such demand could come from two sources: wholesale and retail.

Potential wholesale demand

3.13 UK precedents of sub-sovereign debt issuance point towards the wholesale sector, including pension funds and investment funds, as being as the key source of demand for any bonds issued by the Scottish Government. As with any commercial investment decision, the overriding criterion for potential wholesale investors in Scottish bonds would be that the combination of risk and return suited their requirements. Therefore, it is likely that the demand from wholesale sources would be price sensitive.

3.14 Another factor influencing wholesale demand for Scottish bonds would be the extent to which those bonds met the requirements for inclusion in fixed-income indices. Many bond investors seek to track the performance of a large portfolio of bonds, so automatically purchase bonds included in the relevant indices.¹ Whether a particular bond is included in these indices depends upon meeting certain criteria. For example, criteria for inclusion in the FTSE bond index include the minimum issuance size of a bond being at least £100 million, the bond having a current market quotation, and a bond issue generally only being included if there are prices available from more than one market maker.² It is not clear whether a Scottish Government bond issue would meet the criteria for inclusion in bond indices from the outset.

3.15 A final factor relevant to potential wholesale demand is the existence of, and potential competition from, other sub-sovereign bonds issued within the UK. To the extent that there is perceived to be a discrete market for sub-sovereign bonds, Scottish bonds may have to compete

¹ Both iBoxx and the FTSE Global Bond Index series are examples of bond indices.

² See FTSE (2006) 'Ground Rules for the Management of the FTSE Global Bond Index Series'.

for wholesale investors with bonds issued by Transport for London and Network Rail, and any future bond issuance by UK Local Authorities.

Potential retail demand

3.16 Retail investors provide a second potential source of demand for Scottish government bonds. The retail sector represents a significant source of demand for sovereign and sub-sovereign debt in some other countries, in particular the US and Italy. To date, however, retail investment has represented a very small proportion of the overall demand for UK gilts. Data published by the Office for National Statistics shows UK-resident households held around £24 billion of gilts at end-December 2011, just under two per cent of total holdings. However, these holdings have been accrued over many decades and have fallen steadily from their peak of just over £50 billion in 1998, indicating that UK residents have not provided a significant source of demand for gilts in recent years.

3.17 The extent to which any such retail demand for Scottish Government bonds may materialise will likely depend on a number of factors including the characteristics of the bonds (e.g. maturity and coupon structure), the extent of the operational provisions to facilitate transactions, and the yield relative to the interest rates available on alternative investment products, including UK gilts and National Savings and Investments products, which are guaranteed by the UK government, and savings products provided by commercial banks and building societies.

Factors likely to affect Scottish borrowing costs

3.18 International evidence and the more limited evidence from past sub-sovereign bond issuance in the UK presented in Chapter 2, suggests that bonds issued by the Scottish Government would likely pay a higher interest rate than UK gilts.

3.19 Drawing on the analysis presented in Chapter 2, three factors in particular are likely to influence the yield, or cost, premium that investors might demand to hold Scottish Government bonds, relative to UK gilts. These are:

- a. the ability of market participants to buy and sell Scottish bonds without causing a significant movement in the price of those bonds ('liquidity risk');
- b. the extent to which investors will require a yield premium for holding Scottish bonds to compensate for their lack of a track record in bond issuance (what was termed 'structural risk' in Chapter 2); and
- c. the risk that the Scottish Government will find itself unable to service interest payments or repay the principal on bonds issued ('credit risk').

Liquidity risk

3.20 The liquidity of Scottish issuance is likely to be relatively poor, particularly in comparison with UK gilts. The relatively small size of Scottish issuance compared with UK gilts would impact on the yield that the Scottish Government would pay, as investors would wish to be compensated for a product that is harder to trade due to the relatively small number of bonds issued and potentially limited number of participants trading those bonds.

3.21 Liquidity would also be influenced by factors in addition to the size of any Scottish bond market. These would include the maturity of bonds issued (bonds with a shorter maturity are likely to be more liquid), the similarity and exchangeability of Scottish bonds with other bonds, and the existence, or otherwise, of specialised dealers in Scottish bonds (akin to Gilt-edged Market Makers for UK public debt).

3.22 As set out above, the borrowing limits which form part of the UK's fiscal framework have economic benefits for all of the UK, including Scotland. However, even in a hypothetical case where Scottish Ministers were unconstrained in their borrowing, it is highly unlikely that a market in Scottish Government bonds would be able to rival the liquidity of the UK gilt market, which is one of the deepest and most liquid capital markets in the world.

Structural risk

3.23 Characteristics of Scottish bonds, including their initially novel nature, may also impact on yields. Investors may be more cautious about investing in a new product, at least initially. In some cases, regulatory requirements or investment mandates may constrain them to only invest in securities with a long and stable history.

3.24 Moreover, to the extent that there may be ongoing uncertainty over Scotland's constitutional future may deter investors. The extent to which this uncertainty could inhibit demand for Scottish bonds is difficult to judge.

Credit risk

3.25 The perceived credit risk of Scottish bonds will reflect a number of factors, including the scope for the Scottish Government to raise revenue through taxes, the fiscal credibility of the Scottish Government, and any implicit or explicit guarantee of Scottish bonds by the UK Exchequer.

3.26 Although the Scotland Act 2012 will devolve significant revenue raising powers to Scottish Ministers, following the implementation of the Scotland Act 2012, the Scottish Government will still derive around 70 per cent of its revenue from the block grant provided by the UK Government. This would suggest that the size of any credit risk premium on Scottish borrowing costs could be relatively small, even if the UK Government committed not to guarantee Scottish bonds. This 'saving' to the Scottish Government would effectively represent a subsidy to Scottish taxpayers from taxpayers in the rest of the UK.

Practical issues in setting up Scottish bond issuance

3.27 The issuance of bonds by Scottish Ministers would require setting up the appropriate infrastructure. This would include the engagement of specialist advisors, seeking independent ratings, marketing, conducting the sale process (e.g. if this is chosen to be a syndicated sale, the engagement of lead managers and management of the sale) and analysis of the investor base. The costs involved in such a programme would raise the overall cost of borrowing by way of bond issuance compared to borrowing from other sources.

3.28 The magnitude of these costs is uncertain and would depend on the form and method of bond issuance opted for, but they are likely to be non-negligible.

Alternative sources of borrowing for the Scottish government

3.29 In assessing value for money, the cost of borrowing by way of bond issuance needs to be compared with the cost of alternative forms of borrowing. Under the powers granted to them in the Scotland Act 2012, Scottish Ministers will have the ability to borrow by means of a loan from the National Loans Fund (NLF) (essentially a loan from the UK central government at a preferential rate of interest) and borrowing by way of a loan from a commercial bank.

National Loans Fund

3.30 The NLF is a fund of the UK central government which provides loans to statutory public bodies. The funds to finance such lending are raised primarily through the issuance of gilts by the UK government. The interest cost of borrowing from the NLF is, for most borrowers, based

on the equivalent gilt yield curve for that period plus a small margin to cover administrative costs.³ On average, current rates of borrowing from the NLF are, depending on the term of loan, around 20 basis points above the equivalent gilt rate.⁴ A spread to the sovereign borrowing cost of this order would compare very favourably with comparable international and UK examples of sub-sovereign bond issuance outlined in Chapter 2. Moreover, it is the case in many countries where sub-sovereign bond issuance is a feature that low-cost, direct, on-lending by the central government is not an option available to sub-national entities.

3.31 For those public sector entities permitted to borrow from the NLF, NLF loans normally represent the cheapest form of finance available given the small spread to gilts and the fact that the UK Government can, generally, borrow more cheaply than any other agent in the economy.

Commercial bank loan

3.32 Scottish Ministers will also have the option of borrowing by means of a loan from a commercial bank. Relative to a loan from the NLF this is highly unlikely to represent value for money as the UK Government's cost of funds is substantially below those of commercial banks, and a large proportion of this cost saving would be passed through to the Scottish Government if they were to borrow from the NLF.

3.33 However, bond issuance would offer Scotland a number of benefits over borrowing by way of a commercial bank loan. Bonds are generally available at longer maturities and require less collateral than bank loans, for example. The pool of potential lenders is also smaller for bank loans than tends to be the case for bonds.

3.34 However, borrowing by way of loan requires less infrastructure and incurs fewer sunk costs than bond issuance and can prove cost effective at smaller levels of borrowing.

3.35 The cost differential between commercial bank loans and bonds issued by the Scottish Government would likely depend on the terms of the loan, the quantity of borrowing and what security, if any, was attached.

Box 3.A: Questions on the potential implications for Scotland

- 5 What are the key risks and benefits to Scotland of bond issuance by Scottish Ministers?
- 6 What is the potential source, scale and depth of demand for Scottish bonds?
- 7 What would be the size of any yield premium that potential investors would require to invest in Scottish bonds (as a spread to the yield on UK gilts)?

³ Section 5 of the National Loans Act 1968 requires interest charges on loans from the NLF to be sufficient to cover the cost to the government of borrowing, on the same terms and for the same period, of the sums to be advanced.

⁴ NLF interest rates are determined by the UK Debt Management Office (DMO) and updated on a daily basis and can be found on their website http://www.dmo.gov.uk/index.aspx?page=PWLB/NLF_Rates

4 Potential implications for the UK as a whole

4.1 This chapter asks respondents to consider the scale of potential benefits, costs and risks to the UK as a whole of the Scottish Government, as a constituent member of the United Kingdom, gaining and using the power to issue bonds for capital expenditure, as part of the suite of powers Scottish Ministers will control following the implementation of the Scotland Act 2012.

Direct impact on the public finances of the UK as a whole

4.2 Borrowing by the Scottish Government will impact directly on the UK's fiscal aggregates. For example, debt incurred by the Scottish Government will add to UK public sector net debt, and interest paid on that debt would score in UK public sector net borrowing. This would be the case irrespective of whether the Scottish Government borrowed via bond issuance, from the National Loans Fund, or from commercial sources.

4.3 Reflecting the impact on UK fiscal aggregates, limits must be set at a level appropriate to the wider macroeconomic and fiscal context. The current UK fiscal context is one of a sustained spending consolidation over a multi-year period, driven by the need to restore the public finances to a sustainable position in response to an unprecedented fiscal challenge. Over a longer-term period, sensible limits on deficits and debt will continue to be important, to maintain a sustainable fiscal position and to prepare for long-term fiscal pressures arising from trends such as an ageing population.

4.4 Within the constraints placed by the UK fiscal framework, limits on Scottish capital borrowing must be set to avoid requiring excessive offsetting spending reductions elsewhere in the UK. The limits reflect the UK Government's judgement on the appropriate balance between the advantages of funding additional capital projects and the need for protecting the UK's public finances. The Government has committed to regularly reviewing these borrowing limits ahead of Spending Reviews through the Joint Exchequer Committee.

Potential indirect consequences for the UK as a whole – both positive and negative

4.5 As well as a direct fiscal impact which is common to all forms of borrowing, the issuance of bonds by the Scottish Government could have indirect consequences for the UK as a whole, both positive and negative, which are particular to bonds as a method of borrowing.

4.6 The previous chapter outlined a number of potential benefits to Scotland of issuing its own bonds. Many of these advantages could also benefit the UK more widely. For example, it would be advantageous to the UK as a whole for the Scottish Government to feel more direct accountability through the market for their borrowing if that led to better policy outcomes, more effective long-term planning or enhanced transparency.

4.7 There would also be a set of potential risks to the UK as a whole from a programme of Scottish bond issuance. These risks and their potential impact is arguably different to those posed by the alternative forms of borrowing provided for in the Scotland Act 2012. These risks may, for example, include:

- the issuance of Scottish bonds could **fragment the UK public debt market**, to the disadvantage of all issuers. There are benefits to all members of the UK from the economies of scale from having a single centralised issuer of sterling sovereign debt and a fragmented issuance programme will weaken this position. The impact of this risk would likely be small at the levels of issuance currently envisaged;
- potential implications for UK gilts and other UK sub-sovereign debt in the event, for example, of a **loss of confidence in Scottish** bonds or a default by the Scottish Government. This risk would likely depend upon the extent to which investors viewed Scottish bonds as being analogous to UK gilts. Such a risk would only likely be significant at levels of issuance that are greater than those currently envisaged;
- though the interest payments on bonds issued by Scottish ministers would be met from the block grant, to the extent that such bonds would attract a higher yield than UK gilts, borrowing by means of bond issuance would lead to a higher overall UK public sector debt interest bill that would represent **a deadweight cost to taxpayers**; and
- the **longer term economic and fiscal consequences of a premium on Scottish borrowing costs relative to UK gilts**. Higher interest costs imply either lower public spending or higher taxes in Scotland than would otherwise be the case. Over time, both could have potentially adverse consequences for economic growth and the fiscal strength of both Scotland and the rest of the UK. At low levels of bond issuance, this cost will likely be very small, but will likely rise in line with the scale of issuance.

4.8 The size of these risks is evidently dependent on the size of bond issuance in question. At the levels of borrowing stipulated in the Scotland Act 2012 it is likely that many of the risks outlined above will be relatively insignificant. For instance, the fragmentation of the gilt market or the risk to UK gilts from a loss of confidence in Scottish bonds are unlikely to be considerable at the levels of borrowing currently envisaged. However, these risks could be expected to increase in line with the quantity of Scottish bonds issued, for instance if the borrowing limits were to be increased in future Spending Reviews.

4.9 It is also not clear that the UK as a whole is exposed, in a significant sense, to the risks above as a result of bond issuance to date by other sub-sovereign entities (e.g. Local Authorities). That said, bond issuance by other UK sub-sovereigns is limited and Scotland's status as a country within the UK could potentially mean that the read across to the UK gilt market is greater than it might be in other cases.

Box 4.A: Questions on the potential implications for the UK

- 8 How significant are the potential benefits and risks of bond issuance by Scottish Ministers to the rest of the UK, including to the UK gilt market?
- 9 Are there any other issues and risks that could impact on the rest of the UK in giving Scottish Ministers the power to issue bonds? If so, how might any such risks be managed?

5

List of questions

Box 5.A: Summary of questions contained in the consultation

- 1 What does the theory of fiscal decentralisation tell us about the merits and demerits of Scottish bond issuance, including, and beyond, the issues covered in this document?
- 2 What insights do UK precedents for sub-sovereign bond issuance provide for Scotland?
- 3 What are the implications of central governments providing, or not providing, explicit guarantees for the borrowing of a sub-sovereign?
- 4 How relevant to Scotland's situation are the interest rate premia that are observed in countries that issue sub-sovereign bonds?
- 5 What are the key risks and benefits to Scotland of bond issuance by Scottish Ministers?
- 6 What is the potential source, scale and depth of demand for Scottish bonds?
- 7 What would be the size of any yield premium that potential investors would require to invest in Scottish bonds (as a spread to the yield on UK gilts)?
- 8 How significant are the potential benefits and risks of bond issuance by Scottish Ministers to the rest of the UK, including to the UK gilt market?
- 9 Are there any other issues and risks that could impact on the rest of the UK in giving Scottish Ministers the power to issue bonds? If so, how might any such risks be managed?

A

Credit rating comparisons across agencies

Table A.1: Credit rating comparisons across agencies

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	High speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial risks
Caa2	CCC		Extremely speculative
Caa3	CCC-		In default with little prospect for recovery
Ca	CC		
	C		
C	D	DDD	In default

Source: Moody's, S&P and Fitch

B

Glossary of key financial market terms

Table B.1: Glossary of key financial market terms

Basis point	One hundredth of one per cent (i.e. 0.01 per cent).
Bond	A debt security in which the authorised issuer owes the holder a debt and, depending on the terms of the bond, is obliged to pay interest (the coupon) at regular intervals (e.g. semi-annual) and/or to repay the principal at a later date, termed maturity.
Capital outflow	The withdrawal of assets from a country by foreign and domestic investors, in extreme cases, likely to reflect political or economic instability.
Credit rating	A measure of the creditworthiness of an issuer (e.g. corporation or government) of specific types of debt produced and assigned by credit rating agencies.
Deadweight cost	An economically inefficient and unnecessary loss of value.
Deficit	An economic condition in which expenditure (or outflows) exceeds income (or inflows). A prolonged state of deficit may give rise to concerns about sustainability.
Fixed-income indices	A composite listing of bonds or fixed income instruments and a value reflecting the composite value of its components, which can be used by portfolio managers to represent the aggregate characteristics of the underlying securities.
Gilt	A bond issued by the UK government.
Liquidity	The ease with which investors can transact in their desired quantity and at their desired time in a particular market or instrument.
Maturity	The amount of time before the investor's principal (the upfront investment) is repaid.
Premium	An additional debt interest cost reflecting the market's pricing of the yield (see below) on a bond.
Spread	The difference in the yield (see below) on two bonds reflecting the market's different pricing of each bond according to divergence in factors such as credit risk and the expected future path of interest rates (e.g. the difference between yields on UK government bonds and German government bonds).
Yield	The income return on an investment, usually expressed annually as a percentage of the value of the initial investment.
Yield curve	A graph depicting the relationship between yields and maturities of bonds issued by a particular entity (e.g. the UK government bond yield curve).
Wholesale market	The market in which institutional investors buy and sell securities as distinguished from the retail market in which individuals transact.
Source: HM Treasury	

HM Treasury contacts

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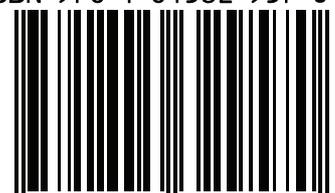
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ISBN 978-1-84532-957-0



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Finance Committee
FIN(4)-11-12 Paper 4

14 June 2012

Joycelyn Davies
Chair of Finance Committee
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Dear Ms Davies,

— Many thanks for your letter dated the 24 May regarding the recent evidence on prudential borrowing which was provided to the Finance Committee by the Scottish CIPFA Directors of Finance. Please accept my apologies in the delay in replying to your letter however it has been particularly difficult to receive clarity from Councils around the wider use of securitisation as a funding mechanism, largely because this is not a common approach which is currently used by Councils in Scotland. Given the pressures on public resources, Councils are having to look at alternative funding mechanisms to support wider infrastructure investment, and there now appears to be an increasing interest in exploring alternative funding mechanisms, including the wider use of securitisation.

Whilst it is difficult to directly answer your specific questions around securitisation, I thought that it would be helpful to highlight to the Committee that in Scotland we have recently established a Strategic Infrastructure Group. This is a joint group that reports politically to both Scottish Government Ministers and COSLA elected members. The overarching purpose of this Group is to take a holistic and strategic view of capital investment and infrastructure and ensures that there is a cohesive approach to maximising capital investment to be delivered by, or in partnership with local government. This group has only recently been established; however one of the immediate areas of focus for the group will be to consider potential and alternative financing models that can be used to support the wider infrastructure investment, and this is likely to include the use of securitisation as a potential funding mechanism.

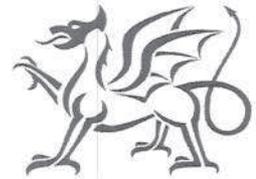
I hope that this information is of interest to you, and many thanks for allowing the Directors of Finance section to present evidence to the Committee.

Yours sincerely

Sarah Fortune
Policy Manager - Finance

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Lesley Griffiths AC / AM
Y Gweinidog Iechyd a Gwasanaethau Cymdeithasol
Minister for Health and Social Services



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref: LG/1791/12

Jocelyn Davies AM
Chair, Finance Committee
The National Assembly for Wales

26

June 2012

Dear Jocelyn,

The Minister for Finance and Leader of the House wrote to you on 5th March in response to the Finance Committee's report on the scrutiny of the Spring 2012 Supplementary Budget. In her response, the Minister indicated I would write separately to you to provide further details in respect of the Committee's recommendations relating to the funding package for Hywel Dda LHB. This letter provides that further detail.

Firstly, in response to the Committee's second recommendation, I would like to state with absolute clarity the funding package agreed for Hywel Dda LHB is not dependent on the ongoing consultation on the LHB's service plan, or indeed its outcome. The funding package is to give the LHB the financial stability it needs in the medium term while it develops and implements plans for its services with the support of its staff and the population it serves. It is for the LHB, and not the Welsh Government, to determine the configuration of health services required to meet the needs of its population, and to ensure those services can be delivered within the available funding.

I turn now to the evidence base underpinning the decision to make this funding package available to Hywel Dda LHB.

In 2009-10 and 2010-11, the Welsh Government provided additional non-recurring funding to Hywel Dda LHB of £11 million in each year to ensure it met its financial targets. In 2010-11, the LHB received an additional non-recurrent allocation of £32.1 million. This was its share of the total additional funding of £160 million funded from Welsh Government central reserves and underspends on central Health budgets issued to the NHS to address financial pressures. In total, Hywel Dda LHB received £43.1 million additional non-recurrent funding in 2010-11.

I have referred to the particular service challenges facing Hywel Dda LHB on a number of occasions, including in the evidence I and my officials gave to the Health and Social Care Committee scrutiny of the Draft Budget. The Health Board faces particular challenges in providing rural healthcare services. In particular, it has problems recruiting to posts in its district general hospitals. Its expenditure on locum doctors exceeds the total spent on locums for the rest of Wales. At the same time, the Board is working with its staff and local population to develop a picture of how services may be improved and made sustainable and safe in the future.

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As a consequence of the challenges it faces, at the beginning of the 2011-12 financial year, Hywel Dda estimated it would need to save £82 million to avoid overspending. This equated to 12% of its total budget and was significantly in excess of a maximum savings target that can be delivered with any degree of confidence by an LHB of about 5% in any one year.

It was for these reasons we determined Hywel Dda LHB needed to be treated differently to other Health Boards, with the transitional financial support we have now outlined.

In September 2011, a meeting was held between the LHB Chief Executive and my senior officials to discuss and understand two key issues. These were the service changes being planned by the Health Board which would be subject to consultation and the transitional financial support the Board needed in 2011-12 and the following financial years to provide stability while the service changes were consulted on and implemented. At the meeting, the Health Board indicated they would need a package of support of just under £100 million over the four year period 2011-12 to 2014-15, including £39 million in the 2011-12 financial year.

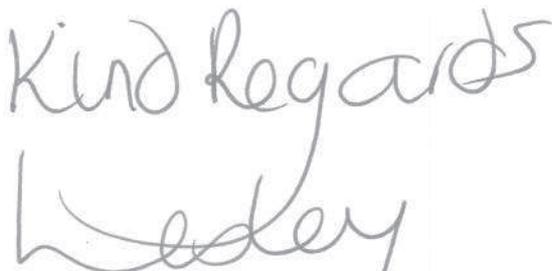
In the Final Budget for 2012-13 to 2014-15 and the Spring 2012 Supplementary Budget for 2011-12, the total package of transitional support for Hywel Dda was confirmed as £80 million, totalling £30 million in 2011-12, £20 million in 2012-13 and 2013-14, and £10 million in 2014-15. The gap between this amount and the funding requested by Hywel Dda in September 2011 has been bridged through Hywel Dda's share of the additional funding I allocated to all Health Boards in October 2011, which will equate to £12 million over four years and further savings planned by the Health Board.

My officials closely monitor the LHBs progress in implementing the savings necessary to stay within budget, including this transitional funding. The LHB has recently re-submitted its financial plan for 2012-13 and this is being reviewed and risk-assessed by officials. I am determined to ensure all LHBs operate on a sound financial basis and within their available funding.

With regard to the Committee's third recommendation that the Welsh Government holds LHB senior management to account for their financial management, I believe the Written Statement I issued on the 2nd May demonstrates this recommendation has been delivered.

With regard to the Committee's fourth recommendation, asking for a full breakdown of additional financial support provided to Local Health Boards during 2011-12, my officials will provide this following completion of the LHB statutory accounts for 2011-12, and in line with the agreement to provide a year-end report on the overall Welsh Government budget.

I am copying this letter to the Minister for Finance and Leader of the House.



Lesley Griffiths AC/AM

Y Gweinidog Iechyd a Gwasanaethau Cymdeithasol
Minister for Health and Social Services

By virtue of paragraph(s) vi of Standing Order 17.42

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