

Jane Hutt AC / AM  
Y Gweinidog Cyllid  
Minister for Finance



Llywodraeth Cymru  
Welsh Government

Ein cyf/ Our ref SF/JH/3453/13

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

6 November 2013

*Dear Jocelyn,*

Following my appearance at Finance Committee on 23 October, I agreed to provide clarification on issues relating to innovative finance and financial transactions. In addition to this, you wrote to me on 31 October to request additional information relating to Invest-to-Save and the Council Tax Reduction Scheme. This letter addresses all of the points raised.

Firstly, we discussed the overall level of debt in relation to innovative financing projects and I agreed to provide further detail on the specific amounts. The table below sets out the latest estimates of the sums borrowed in the innovative finance initiatives the Welsh Government has supported since 2011. In each case, the debt is incurred by a third party (e.g. local authorities, Registered Social Landlords or private sector bodies) rather than the Welsh Government.

Scheme	Sum borrowed (£ms) <sup>1</sup>
Local Government Borrowing Initiative – Highway Improvements	170
Local Government Borrowing Initiative – 21 <sup>st</sup> Century Schools	170
Housing Finance Grant	130
Ely Bridge Development Company	106
Welsh Housing Partnership	82
A465 / Sections 5 and 6	300
<b>Total</b>	<b>958</b>

<sup>1</sup> All figures are estimates. The actual amount borrowed may vary in some cases reflecting outturn costs and interest rates at the time of borrowing.

I also agreed to provide further information on the non-dividend investment vehicle being used for the dualling of the A465.

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Non-dividend investment delivers additional benefits from infrastructure investment for the public sector through greater partnership with the private sector, improved management arrangements and better value borrowing from capital markets or institutional investors. These benefits include appointing a Public Sector Director to the non-dividend vehicle's Board to represent the public interest.

Non-dividend investment addresses the concern in relation to traditional PFI agreements that private sector returns – through refinancing gains, or the selling on of equity on secondary markets – were considered excessive. In the non-dividend model, uncapped returns on equity are impossible by virtue of the fact that there is no dividend-bearing equity – the model is wholly debt-financed. As for refinancing gains or other 'surplus' profits, the introduction of a hard profit cap or gain-share mechanism ensures surpluses are returned to the public sector.

Non-dividend investment also seeks to reduce the cost of privately-funded investment in infrastructure by removing "soft services" from the scope of contracts, and through the standardisation of contracts. It retains the real strengths of partnership working with the private sector, namely incentivising performance through the establishment of incentives and penalties linked to the efficient allocation of risk.

In relation to the A465 project, the Welsh Government is currently examining the scope for maximising the benefits of non-dividend investment while retaining the benefits of the traditional Early Contractor Involvement (ECI) approach to transport infrastructure procurement. This combined approach has the potential to reduce procurement costs, while optimising design and delivery processes. We are currently completing this analysis before progressing to the next stage in the procurement process.

With regard to the arrangements for the repayment of financial transactions, I would be happy to write to the Committee in due course, when the information becomes available.

Turning to the points you raise in your letter of 31 October in relation to Invest-to-Save, the Committee has recognised previously the steps I have taken to help increase the level of transparency concerning the resourcing of the Invest-to-Save Fund. In the Draft Budget 2013-14, I introduced two specific Invest-to-Save Actions within the Central Services and Administration MEG, in order to more clearly show the source of budget funding. By providing this level of detail, the Committee is now able to see clearly the new resource allocated from Reserves and the funding available from the repayment of existing investments, attributed to main areas of expenditure such as Local Health Boards and Local Authorities. I have continued this approach in the Draft Budget 2014-15. This new approach ensures that detailed Invest-to-Save budget information is available at the start of the financial year. In terms of actual Invest-to-Save expenditure, this level of detail will also be published in the Welsh Government's accounts, commencing with the Whole of Government Accounts 2013-14.

In addition to the new approach above, I shall continue to publish the annual Investing-to-Save report alongside the Draft Budget. The report lists projects in receipt of support, provides investment values and includes an Invest-to-Save budget table. In the context of the next annual Investing-to-Save Report, I will consider any scope to provide further financial information.

Your letter also indicated that the Committee would like to receive details of the evidence base for decisions made regarding the level of support for the Council Tax Reduction Scheme.

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It has been necessary to work within the timescales of the Budget and Local Government Settlement to ensure Local Authorities have sufficient time for their own budget setting preparations. Council Tax Reduction Scheme (CTRS) expenditure and caseload figures have been monitored on a monthly basis since the introduction of the new scheme, which has enabled us to estimate the expected annual expenditure in 2013-14. This was used to inform decisions on the level of support to be provided in 2014-15.

Monitoring has shown that whilst caseloads have remained static since the introduction of CTRS, and in some areas have declined, expenditure has risen. This is a consequence of local decisions about council tax rises.

In the Summer, we discussed sharing the costs of funding the shortfall with Local Government, so that vulnerable communities could be protected from any reduction in support, despite the shortfall in funding transferred from the UK Government. The funding arrangement, which is now in the Provisional Local Government Settlement, reflects the shared ownership of CTRS, which was developed in collaboration with Local Government and which provides support to claimants in meeting their locally determined council tax liability

Matching the level of funding provided last year means the Welsh Government will provide the majority of the funding required to operate CTRS.

The Committee will be aware that since I gave evidence, the Minister for Local Government and Government Business has issued a Written Statement on 4 November to provide an update on the arrangements for the Council Tax Reduction Schemes in 2014 / 15.

I hope this response is helpful.

*Best wishes,*

*Jane*

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