

Finance Committee Paper: Proposal to Amend the Welsh Government's Budget Motion
FIN(4)-03-11 (Paper 1)

Issue

1. I am proposing to amend the Welsh Government's Budget motion for this year's Budget and would welcome the Committee's views on my proposal.

Background

2. The current budget motion has been in use since the Government of Wales Act in 2006. The format of the budget motion, on which the Assembly votes, currently sets individual budget control totals for each Major Expenditure Group (MEG). If the Government were to breach any one of these control totals then the Government's accounts would be qualified because the expenditure would be deemed irregular and the expenditure could also be unlawful.
3. It is important that we have control totals against which we can monitor expenditure – both for internal monitoring purposes and in the interests of external transparency. I believe that that monitoring should continue to be done at Ministerial portfolio level. However, I have had some concerns about unintended consequences of the current budget model because it can work against effective financial management at the Welsh Government level. A fear of breaching the legally binding ambits has on occasion resulted in under spends being declared late in the financial year, with limited opportunity to redirect them. The Supplementary Budget process takes around 2 months to complete meaning that there is currently an early deadline for amending our spending plans in any given financial year. With reducing budgets and limitations on carry forward of underspends under the new Budget Exchange Mechanism, it is more important than ever that we maximise the effective spend of public resources.
4. A secondary concern has been that the fear of breaching ambits has led to a pressure for small budgets to be grouped to avoid breaches. This can result in MEGs made up of a combination of smaller budgets, with a reduction in transparency and accountability.

Proposed Changes

5. The current budget process was broadly based on that operating in Scotland. Since then, the Scottish Government has introduced changes which give them greater budget flexibility. The Scottish Finance Bill continues to set individual Ministerial ambits. However there is an over riding clause which creates the flexibility that if any individual portfolio budget were to overspend, it would not result in an

ambit breach if the overspend was covered by total resources – ie as long as total expenditure is contained within resources voted to the Scottish Government, there is no ambit breach. Although the change means that the Scottish Government has the flexibility to move resources between budgets without Parliament's approval, the Scottish Government has made the commitment that the Parliament will continue to have the same level of information and involvement as in the past. The Government continues to lay two Budget Revisions a year – the Scottish equivalent of the Supplementary Budget.

6. Having looked into the revisions adopted in Scotland, I believe that they would go a long way to resolve the issues I have set out above. We have the legal powers to adopt a similar approach in Wales. However, I believe that it is key that the Finance Committee is supportive of the change. I would welcome your views on the proposed changes.

Benefits of the Proposed Changes

7. The key advantage of this change would be to increase transparency and accountability. It would allow budgets to be more clearly structured on a functional basis, rather than on a basis that minimises the risk of an ambit breach.
8. The change would also allow us increased flexibility to maximise the Welsh Government's spend in line with its priorities. As you know, I am committed to working openly and transparently and providing as much support as possible to the work of the Finance Committee. I therefore want to make it very clear that it is not my intention that the proposed change would reduce the information available to this Committee.
9. It is my intention, that despite any changes, I would continue to provide the same information to the Assembly and the Committee as I currently do. In practice there will be no change to the handling of the budget. The annual budget motion would proceed as normal. Proposals for changes in-year would not require a Supplementary budget, but in practice I would continue to lay two Supplementary Budgets a year and continue to provide at least the level of information about budgets that I currently do.
10. I see Supplementary Budgets as essential in managing additional allocations from Reserves and a statement of how we align budgets to our strategic priorities. As such, the Finance Committee's scrutiny will continue to be vital and will not be changed by these proposals. These proposals would simply allow increased flexibility at the end of the financial year and I intend to report to the Committee on any variation between spending plans set out in the last Supplementary Budget of the year and the final out turn, along with an explanation of the variation.

Next Steps

11. I have attached to this paper an example of what the revised budget motion would like under these proposals (Annex A). I would welcome your thoughts on these proposals. It is then my intention when I publish the budget package for our draft Budget proposals to include a budget motion on the revised basis. This will give you an opportunity in your report on the draft Budget proposals to include consideration of these proposals. I will then reflect on your comments, before laying the final budget motion. In the meantime, I would appreciate your thoughts on these proposals.

**Jane Hutt AM,
Minister for Finance and Leader of the House**