

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



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref : SF/JH/0717/13

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

21 February 2013

Dear Jocelyn

When I gave evidence to the Finance Committee earlier this week on the Second Supplementary Budget for 2012-13, I agreed to provide further information on a number of issues that were raised. These points are reflected in your letter of 20 February.

Firstly, you sought clarification on the request in the Supplementary Budget Motion for a reduction in the amount to be paid from the Consolidated Fund, due to other sources of income being higher than originally forecast. You specifically asked for a breakdown of these sources and the forecast amounts.

The cash requested for release from the Welsh Consolidated Fund is reduced by £44m compared to the First Supplementary Budget Motion. This reduction is despite the increase to the Wales DEL baseline and is due to the increase in two specific sources of income which support the expenditure of the Welsh Government. As I outlined during the Committee session, our expenditure from the Welsh Consolidated Fund is supported by income from National Insurance contributions and Business Rates, as well as the Block Grant. HM Treasury bears the risk on the volatility of income from National Insurance contributions and Business Rates and when the income from these is lower than forecast, the Block Grant makes up the difference. On this occasion, the opposite was true, and so the cash grant from the Secretary of State has decreased accordingly.

With regards the actual changes, I said that I would inform you of the figures. Firstly, the estimate of contributions to be received from the National Insurance Fund has increased by £55m to £942m. Secondly, our estimate of National Non Domestic Rates collected by Welsh Local Authorities has increased by £59m to £1,003m. As I highlighted to the Committee earlier this week, these adjustments reflect changes to

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the levels of funding we receive from each funding source and do not affect our overall spending power.

Turning to your request for clarification on the funds allocated in this financial year to the NewBuy Cymru (Mortgage Guarantee Scheme) and the Welsh Housing Bond.

In relation to the NewBuy Cymru scheme, we have allocated £0.05m capital in 2012-13 to support implementation of the scheme. We discussed the financial implications of the scheme and I offered to provide clarification of the budgetary and accounting treatment. In terms of the future funding arrangements, we would be required to score a provision in non-fiscal AME for the total anticipated cost of defaults in the year the scheme starts, expected to be 2013-14. Based on current estimates, it is likely that any losses would be minimal but should any actual defaults occur, we would be required to score a provision in Capital DEL in the years that they occur.

As regards the housing bond, the detailed proposal for the scheme has been developed and we expect the scheme to commence early in the new financial year. In terms of funding in future years, the Final Budget 2013-14 as approved by the Assembly in December, provides £4m revenue (£2m from within the Housing, Regeneration and Heritage MEG and £2m from within the Central Services and Administration MEG) in each year of 2013-14 and 2014-15. This funding will enable an overall investment in additional new affordable housing of over £140m over the next two years and will deliver over 1000 new homes across Wales.

You also requested further information on the transfer of capital funding from Invest-to-Save repayments and the impact on revenue funding. As the Committee will know, Invest-to-Save funding is provided in both revenue and capital forms and therefore subsequent repayments mirror this investment pattern. Given that repayments from existing investments provide the majority of the funding for re-investment, our future investment types would be largely dictated to by previous investments rather than investment need unless we sought to establish measures to address this.

In the current year, the approved portfolio of projects required more revenue and less capital than had been received in repayments. We have used flexibility elsewhere in the Central Services and Administration MEG to ensure the Invest-to-Save budget reflects the investment need. The capital has been redirected to other purposes – in this case, IT software licences. In return, the Invest-to-Save fund has received an additional amount of revenue.

This transfer of capital funding does not mean that the Invest-to-Save Fund has been reduced. Overall, I have increased the total of value of the fund in 2012-13 by £0.5m since the June Supplementary Budget 2012-13. This increase is reflected in the transfer of £1,365k to the Invest-to-Save Fund Revenue Action from the General Administration Action, which includes £0.8m to offset the capital reduction of the same amount and £0.5m in additional funding to meet new Invest-to-Save project investment needs.

These transfers have enabled us to ensure that the balance between capital and revenue funding matches investment needs and demonstrates again my continued

commitment to the Invest-to-Save principle. For further clarity, the enclosed table at Annex 1 provides the profile of Invest-to-Save commitments and repayments in 2012-13.

Finally, you requested further clarification on the £18.4m repayment from Local Health Boards as a result of the brokerage scheme announced by the Minister for Health and Social Services last year.

As I confirmed to the Committee earlier this week, Aneurin Bevan, Cwm Taf and Powys Health Boards have been notified that the combined funding of £12.4m they received in 2011-12 is repayable in full in 2012-13. Cardiff and Vale University Health Board has also been notified that £6m of the £12m provided in 2011-12 is repayable in 2012-13, with the balance of £6m due to be repaid in 2013-14. These repayments do not show on the face of the budget. The Action Tables provided as part of the Second Supplementary Budget 2012-13 show the net impact of budgetary adjustments. In each case, the revenue resource limits of each Health Board, which sit within the Delivery of Core NHS Services Action, have been adjusted to reflect repayments. There is no overall impact on the Action.

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

Raf Wisher,

Jane

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