

Simon Thomas AM
Chair of Finance Committee
National Assembly for Wales
Tŷ Hywel
Cardiff Bay
CF99 1NA

14 December 2017

Dear Simon

I am writing to bring to the Committee's attention the Commission's proposed change to its approved 2017–18 budget through the Supplementary budget process. The Commission is proposing to

- increase the Annually Managed Expenditure (AME) budget by £0.700million

The AME Budget

The Commission's AME budget is for the non-cash accounting adjustment in respect of the future financial liability of the Assembly Members' Pension Scheme and is an accounting adjustment rather than a cash requirement.

The actual value of AME cannot be calculated until after 31 March 2018. The Commission therefore seeks a professional estimate of the year end value during the financial year. Actuarial advice received indicates that the liability could increase to £1.744million¹ which exceeds the budget. Therefore, the Commission proposes to increase the AME Budget by £0.700million. This will not impact on service delivery as this budget is managed independently of the Resource Budget.

¹ Annex 1 provides further information on the estimate provided by the actuary.

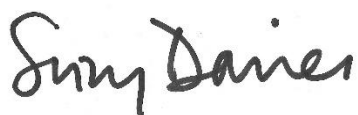


The effect on the overall Commission budget for 2017-18 will be as shown in the table below:

	Approved Budget £m	Proposed Supplementary Budget £m	Proposed Revised Budget £m
Resource Budget	52.545	0	52.545
AME Budget	1.200	0.700	1.900
	53.745	0.700	54.445

In accordance with Standing Order 20.32 the Commission will be laying an explanatory memorandum in January. A copy of this document is attached for your convenience. If you need further information, please let me know.

Yours sincerely



Suzy Davies

cc Manon Antoniazzi, Nia Morgan

Croesewir gohebiaeth yn Gymraeg neu Saesneg / We welcome correspondence in Welsh or English



Annex 1

Table 1

Calculation of Pension Finance Cost	2017-18	2016-17
Current service cost	£2.03m	£1.47m
+ interest cost	+ £1.335m	+ £1.37m
- interest on scheme assets	- £0.901m	- £1.040m
- employer contributions	- £0.720m	- £0.720m
Pension finance cost	£1.744m	£1.078m
PUCM Rate used	44%	32.1%
Discount Rate (net of CPI)	0.3%	1.3%

The increase in the current service cost is the main factor in the overall increase in the Pension finance cost.

The current service cost is calculated by applying the Projected Unit Credit Method (PUCM) standard contribution rate to the total payroll over the period.

This rate represents the present value of benefits accruing to active members over the year. This PUCM rate is influenced by the discount rate (net of CPI) at the start of the year.

The financial assumptions were proposed by the Government Actuary's Department (GAD) on 6 April 2017. The discount rate is required to be the current rate of return on corporate bonds AA-rated or higher of equivalent currency and term to the scheme liabilities.

At 31 March 2017, the annualised yield on the high quality corporate bonds (e.g. AA-rated) of appropriate currency and term was 2.65% a year. The actuary has noted that a CPI inflation of 2.35% a year has been used.



Principal financial assumptions as at 31 March 2017

Assumption	31 March 2017 % a year	31 March 2016 % a year
Rate of return (discount rate)	2.65%	3.55%
Rate of return in excess of:		
Pension increases (CPI)	0.30%	1.30%

The discount rate net of CPI as at 31 March 2017, which is used to calculate the 2017–18 current service cost was 0.3%, which had reduced significantly from the equivalent rate at 31 March 2016, which was 1.3% . A decrease in the net discount rate leads to an increase in the PUCM rate and the current service cost, (because, to obtain a certain level of benefits in future, when the discount rate is lower, a higher cost is required today).

Low discount rate (net of CPI) = higher PUCM rate

High discount rate (net of CPI) = lower PUCM rate

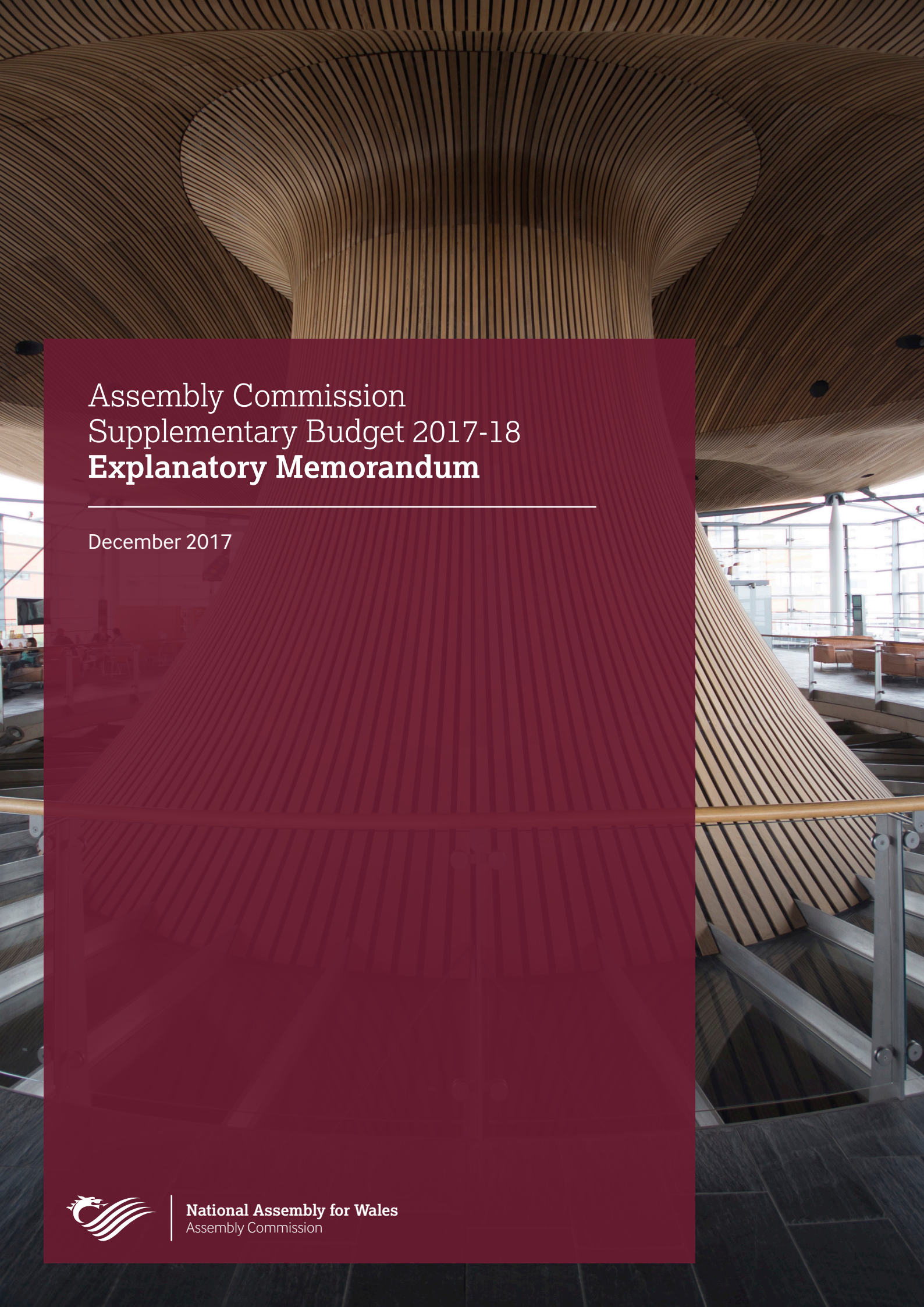
$\text{PUCM Rate} * \text{Total AM payroll for 2017–18} = \text{Current Service Cost 17–18}$

This decrease in the discount rate has resulted in a higher PUCM rate, which is applied to the total AM payroll for 2017–18 to give the current service cost of £2.03m. This is significantly higher than the 2016–17 current service cost of £1.47m.

The overall pension finance cost for 2017–18 is likely to be in the region of £1.744m. The budget of £1.2m was set in November 2016; the discount rate that determines this cost is as at 31 March 2017, it is therefore difficult to estimate this cost with any significant degree of accuracy in November 2016.

The additional amount being requested is a non-cash amount and will be ring fenced for this purpose (AME) only.





Assembly Commission Supplementary Budget 2017-18 **Explanatory Memorandum**

December 2017



National Assembly for Wales
Assembly Commission

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Assembly Commission Supplementary Budget 2017-18 **Explanatory Memorandum**

December 2017



National Assembly for Wales
Assembly Commission

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01. Background

The Commission's **2017-18 Budget** was included in the Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 16 November 2016, following scrutiny by the Assembly's Finance Committee.

The budget motion provided the Commission with £53.745 million of Resource Budget in relation to:

- £36.613 million for Assembly services; and
- £15.532 million for the Remuneration Board's Determination for Assembly Members.

A further £1.2 million was provided for non-cash accounting adjustments in respect of the Assembly Members' Pension Scheme, through the Annually Managed Expenditure budget.

This Explanatory Memorandum is laid in compliance with Standing Order 20.32, in support of changes to be proposed to the Commission's approved budget, via Supplementary Budget Motion.

Explanatory memorandum

The effect of the Commission's supplementary budget will be to increase Annually Managed Expenditure in line with projections.

Annually Managed Expenditure (AME)

The Commission's AME budget is for the non-cash accounting adjustment in respect of the future financial liability of the Assembly Members' Pension Scheme. The purpose of this adjustment is to ensure a true and fair view of the Scheme liability is recorded in the Commission's Statement of Financial Position; it does not reflect the monetary sums paid by the Commission into the Scheme. There is no associated cash requirement and making changes to it has no impact on the Commission Resource budget or service delivery.

The final value cannot be calculated until after 31 March, but estimates are requested from professional advisors during the year. Based on calculations reflecting known changes to the discount rate and other variables, which impact on the estimated liabilities of the scheme, the latest estimate is just under £1.8million.

This increase is as a result of a decrease in the discount rate. The discount rate net of CPI as at 31 March 2017, which is used to calculate the 2017-18 current service cost was 0.3%. This has reduced significantly from the equivalent rate at 31 March 2016, which was 1.3%. A decrease in the net discount rate leads to an increase in the current service cost, a main component of the pension finance cost.

The Commission is therefore proposing a supplementary AME budget of £1.9 million in order that there is sufficient contingency to manage any variation from the estimate in the final year-end figures.

Budget impact

The Supplementary Budget Motion proposes the following:

- an increase to the AME budget of £0.7 million to £1.9 million.

02. Budget Ambit

This supplementary budget submission is laid in compliance with National Assembly Standing Order 20 to assist in the compilation of the Budget Motion required by Section 126 of the Government of Wales Act 2006. This submission seeks to amend the resource and annually managed expenditure requirements of the Assembly Commission for the year ending 31 March 2018.

The Supplementary Budget Motion authorises the net resources to be used for the services and purposes of Members and Assembly Services. The motion includes the maximum income (or accruing resources) that may be retained for use on those services and purposes instead of being paid into the Welsh Consolidated Fund, and the cash amount that will need to be issued from the Welsh Consolidated Fund to meet the anticipated net amounts falling due for payment by the Commission.

The amended 2017-18 Budget for the Assembly Commission, addressing the revised requirements, is set out in Table 1 below.

Table 1

**Revised
£000**

Resources other than accruing resources for use by the National Assembly for Wales Commission on resource 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.	54,445
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 for use on the purchase or acquisition of fixed assets; or rental income; gifts; grant support; recharges and income from commercial sales and other services provided to the public or others for use on administrative costs of the Assembly.	300
Amount to be issued from the Welsh Consolidated Fund to meet the anticipated amounts falling due for payment in the year in respect of the above services and purposes less expected retainable receipts and recoverable VAT.	50,245

Table 2 below reconciles the net resource requirement to the cash drawing requirement from the Welsh Consolidated Fund.

Table 2 Cash requirement	£000
	2017-18 Revised
Members' Revenue Requirement	15,532
Commission Revenue Requirement	36,513
Capital Requirement	500
Assembly Members' Pension Provision (AME)	1,900
<i>Adjustments:</i>	
Depreciation (Non cash)	(2,600)
Movements in provisions	(1,900)
Movement in debtors and creditors	300
Net cash requirement for issue from the Welsh Consolidated Fund	50,245