



Llywodraeth Cymru  
Welsh Government

# Welsh Government

## Report on Outturn 2017-18

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A report from the Cabinet Secretary for Finance to the Finance Committee on the audited outturn of the Welsh Government 2017-18 set against the planned expenditure contained in the Second Supplementary Budget 2017-18.

## 1. Introduction

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**1.1** This report has been produced in accordance with the protocol endorsed by the National Assembly for Wales on 21 March 2012 regarding changes to the Budget motion and their impact on the in-year Budget cycle.

**1.2** As part of the protocol the Welsh Government agreed:

*In line with the Welsh Government's commitment to working openly and transparently, the Welsh Government will provide a written report to the [Finance] Committee on final outturn. The report would include a comparison with the spending plans set out in the last Supplementary Budget of the year and an explanation of significant variations.*

**1.3** This commitment was reaffirmed in the revised protocol approved by the National Assembly for Wales on 21st June 2017.

**1.4** This report addresses that commitment for the financial year 2017-18.

**1.5** The Second Supplementary Budget for 2017-18, was approved by the National Assembly on 6 March 2018. The final outturn follows publication of the Welsh Government's Consolidated Annual Accounts on 9 November 2018. See the attached internet link:

<https://beta.gov.wales/welsh-government-consolidated-annual-accounts-2017-2018>

**1.6** The outturn is reported on the basis of the Welsh Government budget structure in force at that time.

## 2. Main Expenditure Group<sup>1</sup> Outturn 2017-18

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- 2.1** The Consolidated Accounts of the Welsh Government were laid before the Assembly on 1 October 2018. The audited accounts contain a Summary of Resource Outturn against the control totals approved in the Second Supplementary Budget motion of 2017-18.
- 2.2** This report provides details of final outturn against the lower level controls operated and enforced by HM Treasury. These administrative budgets are reported in the documentation and tables which supported the Second Supplementary Budget.
- 2.3** The report also provides explanations for all overspends plus any underspends of greater than 1% of MEG level budgets in each of the control totals (subject to a de-minimis level of £0.5 million). A breakdown of the outturn by MEG is provided in Annex 1.

### Departmental Expenditure Limit (DEL)<sup>2</sup> Outturn

- 2.4** The Welsh Government's audited DEL outturn for 2017-18 was £15,758 million. This is an underspend against the budget, as agreed in the Second Supplementary Budget, of £104.7 million.
- 2.5** This outturn includes an underspend of £27 million against the Fiscal Resource budget (revenue) and an overspend of £45.6 million on the Capital budget. This represents an underspend of 0.2% against Fiscal Resource and an overspend of 2.6% Capital.

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<sup>1</sup> Main Expenditure Group or MEG is a high level budget representing a ministerial portfolio or central administration.

<sup>2</sup> Departmental Expenditure Limit: a control total set by HM Treasury in a spending review which is further split into Fiscal Resource (revenue), Non Fiscal Resource (ring-fenced revenue) and Capital control totals.

**2.6** The Non Fiscal Resource budget was underspent by £123.4 million. It is important to note that the Non Fiscal Resource budget is ring-fenced and covers accounting adjustments such as depreciation and write-off of student loans provisions. The funding could not have been re-directed to Welsh Government spending programmes.

### **Fiscal Resource (Revenue) DEL Outturn**

**2.7** Expenditure in this budget classification at MEG level was again extremely close to budget. Very small underspends were reported in five of the six MEGs with only one budget exceeding a 1% variance when measured against the Second Supplementary Budget. This provides some assurance that spending within the Welsh Government revenue budget of £13.3 billion was maximised.

**2.8** The Health and Social Services MEG revenue underspend was £16 million. Of this, £10.6m relates to an underspend on optical and pharmaceutical budgets which are held centrally in the MEG rather than part of the cash limited allocation to NHS bodies. These budgets are demand led and, therefore, difficult to forecast. There was also slippage of £5.4m on childcare revenue budgets. The total deficit posted by the NHS bodies in Wales was £167 million. This deficit was accommodated through underspends on Welsh Government centrally held budgets within the Health and Social Services MEG.

**2.9** A variance of 3.5% was reported against the Central Services and Administration MEG which equates to an underspend of £10.5 million. The largest element of the underspend related to Invest to Save revenue schemes where there were fewer good investment opportunities in 2017-18. Staff costs savings of £2.2m were generated in the year to bring budgets into line with reduced future year budgets. Other underspends included: £1.8m of savings associated with depreciation of the Welsh Government estate; £1.2m slippage on planned Wales European Funding

Office IT projects; and £2m savings against the information and support services budget. There are other small variances making up the remainder of the variance.

### **Capital DEL Outturn**

**2.10** In order to maximise the Welsh Government's carry forward within the newly created Wales reserve (see paragraph 3.2 below), a limited number of capital schemes were funded late in the financial year and after the Second Supplementary Budget. This meant that the overall outturn on Capital was more than budgeted. This decision was taken to mitigate potential loss of funds brought forward by the Welsh Government in the current year.

**2.11** As a result of that decision overspend of £39.5 million was reported against the Economy and Transport MEG. This involved the establishment of funds within the Development Bank of Wales.

**2.12** A further planned overspend of £9 million was reported against the Health and Social Services MEG. It was agreed that a limited number of priority schemes proposed by NHS organisations could be funded.

**2.13** The Central Services and Administration MEG capital budget was £1.8 million underspent. The underspend is against the Invest to Save fund budget. Fewer good investment opportunities were identified in 2017-18.

### **Non Fiscal Resource (ring-fenced revenue) DEL Outturn**

**2.14** The majority of the Welsh Government DEL underspend relates to these non cash budgets (£123.4 million). Non Fiscal Resource budgets are ring-fenced and provided for accounting estimates such as depreciation and adjustment to provisions, such as write-off of student loan charges. An explanation of those underspent by 1% or more is provided below.

- 2.15** The Health and Social Services non cash budget reported an underspend of £6.2 million. The budget primarily funds the depreciation charges arising on the NHS estate. Forecasts are sensitive to: fluctuations in progression of existing capital schemes; annual valuations; and timing of capital additions and disposals.
- 2.16** The underspend of £34.1 million within the Economy and Transport MEG largely related to a reduced depreciation requirement following the annual condition survey on the motorways and trunk Roads network. The roads network represents the largest Welsh Government asset.
- 2.17** An underspend of £78.8 million was reported against the Education budget. This budget covers the estimated charge for the annual write-off of student loans. The calculated charge is generated by a statistical model developed by the UK government. The charge is applied to the value of the student loan book. The modelling is complex and takes many social and economic factors into account and as such is difficult to forecast accurately.
- 2.18** Energy, Planning and Rural Affairs MEG was underspent by £2.3 million. The underspend relates to depreciation budgets on assets under construction that were brought into use after the year end.
- 2.19** The Welsh Government's Central Services and Administration MEG underspent by £1.8 million. This underspend is a result of less than anticipated depreciation charges associated with the Welsh Government estate.

## Annually Managed Expenditure (AME) Outturn

**2.20** HM Treasury recognise the volatility and demand led basis of certain programmes and the resultant difficulty in estimating costs over a period of time. As a result these programme budgets are managed on an annual basis and funding cover is generally provided by HM Treasury. The majority of our AME budgets cover non cash charges and examples include asset impairments, increases in provisions, student loans issued and repaid and pension valuations of sponsored bodies. The Welsh Government is unable to recycle underspends against AME programmes. The main variances are explained below.

**2.21** The Health and Social Services AME budget was £9 million underspent. The majority of the underspend £7.7 million is associated with impairment in value of assets within the NHS estate. The remainder relates to movements on NHS provisions.

**2.22** The AME variance of £41.7 million within the Economy and Transport MEG arose mainly from a reduced requirement for provisions and charges against significant projects.

**2.23** An underspend of £46.8 million was reported on the Education AME budget. The student loans budgets were underspent by £29 million. Student loans are demand led and difficult to forecast. Loan issues and repayments in the year were less than anticipated. The remainder of the underspend of £17.8 million is due to the year end movement in the Careers Wales pension provision. The movement is based on an actuarial valuation from the pension scheme providers.

**2.24** The underspend of £2.4 million against the Energy, Planning & Rural Affairs MEG relates to potential pension liabilities arising from the transfer of staff from the Environment Agency Wales to Natural Resources Wales

on 1 April 2013. Whilst the budget has been included in the five years since the transfer it has not been utilised.

**2.25** The Central Services and Administration MEG reported an underspend of £5.4 million. The majority of this variance is in relation to provisions for early retirements and other pension charges of Welsh Government staff. The pension charge represents the difference between benefits accrued during the year and financial contributions made into the fund, the latter being very difficult to forecast.

**2.26** Annex 2 to this report provides a summary of outturn against Annually Managed Expenditure (AME) Budgets.



### 3. Carry Forward within the Wales Reserve

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- 3.1** In the Second Supplementary Budget for 2017-18, the Welsh Government reported Fiscal Resource DEL reserves of £145 million and Capital DEL reserves of £189.8 million.
- 3.2** In previous years, these reserves together with any DEL underspends, were carried forward under 'Budget Exchange' up to agreed caps imposed by HM Treasury. From April 2018 the Budget Exchange facility was replaced by the operation of a new 'cash reserve'. From that date, any DEL underspends will be paid into the reserve for use in future years. The new reserve can hold up to £350 million in aggregate. Non Fiscal Resource DEL is not included in the total and any unused budget lapses.
- 3.3** Late in the financial year the UK government provided an additional £90 million in additional repayable capital DEL. We were given dispensation from the Chief Secretary to the Treasury to carry forward this additional funding over and above the limit imposed, taking the total to £440 million.
- 3.4** Table 1 illustrates the final DEL carry forward position and the balance of the Wales Reserve going into the 2018-19 financial year.
- 3.5** As well as the underspends reported by the Welsh Government, the balances to be carried forward take account of the outturns of the other bodies funded from the Welsh DEL i.e. the National Assembly for Wales, the Public Services Ombudsman for Wales and the Wales Audit Office.
- 3.6** Repayable capital DEL is repaid by reduction of our carry forward and in accordance with the repayment profile agreed with HM Treasury. We repaid £0.1m in 2017-18.
- 3.7** The balances to be carried forward for the Wales DEL will be £271 million Fiscal Resource and £144.6 million Capital. The total balance to be

carried within the Wales Reserve at 1 April 2018 is £415.6 million. This is within the revised limit.

**Table 1 Carry forward resulting from Wales DEL outturn 2017-18 and Wales Reserve Balance**

	<b>Fiscal Resource £m</b>	<b>Capital £m</b>	<b>Total £m</b>
Non Domestic Rates balance held in reserve	98.5	-	98.5
Second Supplementary Budget 2017-18 planned reserves	145.0	189.8	334.8
Welsh Government underspends / overspends	27.0	-45.6	-18.6
Other bodies & direct charges outturn	0.5	0.5	1.0
Repayment of repayable capital to HM Treasury	-	-0.1	-0.1
<b>Wales Reserve Balance at 1 April 2018</b>	<b>271.0</b>	<b>144.6</b>	<b>415.6</b>

**3.8** The amount that can be drawn down each year from the Wales Reserve is limited to £125m Fiscal Resource and £50m Capital. Plans to utilise funds from the Wales Reserve in 2018-19 will feature in the Welsh Government's Second Supplementary Budget 2018-19.

**3.9** Allocations to Welsh Government portfolios in the First Supplementary Budget of 2018-19 totalled £15.4 million Fiscal Resource and £166 million Capital.

## Annex 1 – Departmental Expenditure Limit (DEL) Outturn 2017-18

Main Expenditure Group	Supplementary Budget			Outturn			Underspends / Overspends (-)		
	Fiscal Resource	Non Fiscal Resource	Capital	Fiscal Resource	Non Fiscal Resource	Capital	Fiscal Resource	Non Fiscal Resource	Capital
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Health & Social Services	6,996.6	190.0	339.4	6,980.6	183.8	348.4	16.0	6.2	-9.0
Local Government & Public Services	3,628.4	0.4	625.4	3,628.1	0.2	625.3	0.3	0.2	0.1
Economy & Transport	520.1	196.7	545.6	520.1	162.6	585.2	0.0	34.1	-39.6
Education	1,548.3	407.0	145.8	1,548.2	328.2	145.4	0.1	78.8	0.4
Energy, Planning & Rural Affairs	269.4	13.1	104.5	269.3	10.8	103.8	0.1	2.3	0.7
Central Services & Administration	296.7	21.5	14.2	286.2	19.7	12.4	10.5	1.8	1.8
<b>TOTAL</b>	<b>13,259.5</b>	<b>828.7</b>	<b>1,774.9</b>	<b>13,232.5</b>	<b>705.3</b>	<b>1,820.5</b>	<b>27.0</b>	<b>123.4</b>	<b>-45.6</b>

## Annex 2 – Annually Managed Expenditure Outturn 2017-18

Main Expenditure Group	Supp Budget £m	Outturn £m	Under/ Over(-) Spend £m
Health & Social Services	266.9	257.9	9.0
Local Government & Public Services	1,087.1	1,087.1	0
Economy & Transport	51.9	10.2	41.7
Education	433.7	386.9	46.8
Energy, Planning & Rural Affairs	2.4	0	2.4
Central Services & Administration	2.8	-2.6	5.4
<b>TOTAL</b>	<b>1,844.8</b>	<b>1,739.5</b>	<b>105.3</b>