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Eich cyf/Your ref
Ein cyf/Our ref RE/22/2019

Llyr Gruffydd AM
Chair, Finance Committee
The National Assembly for Wales
Cardiff Bay
Cardiff
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Llywodraeth Cymru
Welsh Government

29 October 2019

Dear Llyr,

The Welsh Government's audited Consolidated Annual Accounts for 2018-19 were published on 27 August 2019. In line with my commitment to good practice and transparency I am now able to provide the Finance Committee with a written report on the 2018-19 final outturn for the Welsh Government set against spending plans approved in the Second Supplementary Budget 2018-19.

The final Ambit outturn for 2018-19 is £16.8 billion against the Welsh Government Budget of £17.1 billion. This represents a 1.1% variance against the approved budget.

The report and supporting annexes provide a summary of expenditure by portfolio within Treasury control totals, variations compared to the budget, an explanation of significant variances and details of amounts to be carried forward in the Wales Reserve.

I am happy to make the Finance Director and his staff available for discussion of the detail of the report if that would be helpful.

Yours sincerely,

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.



Llywodraeth Cymru
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Report on Outturn 2018-19

A report from the Minister for Finance and Trefnydd to the Finance Committee on the audited outturn of the Welsh Government 2018-19 set against the planned expenditure contained in the Second Supplementary Budget 2018-19.

1. Introduction

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 2018-19.

1.5 The Second Supplementary Budget for 2018-19, was approved by the National Assembly on 6 March 2019. The final outturn follows publication of the Welsh Government's Consolidated Annual Accounts on 27 August 2019. See the attached internet link:

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

1.6 The outturn is reported on the basis of the Welsh Government budget structure in force at the year end and reported in the accounts.

2. Main Expenditure Group¹ Outturn 2018-19

- 2.1** The Consolidated Accounts of the Welsh Government were laid before the Assembly on 27 August 2019. The audited accounts contain a Summary of Resource Outturn against the control totals approved in the Second Supplementary Budget motion of 2018-19.
- 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 £0.5m). A breakdown of the outturn by MEG is provided in Annex 1.

Departmental Expenditure Limit (DEL)² Outturn

- 2.4** The Welsh Government's audited DEL outturn for 2018-19 was £16,318m. This is an underspend against the budget, as agreed in the Second Supplementary Budget, of £86.8m.
- 2.5** This outturn includes an underspend of £11.7m against the Fiscal Resource budget (revenue) and an underspend of £20.7m on the Capital budget. This represents an underspend of less than 0.1% against Fiscal Resource and 1% Capital.

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

² 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 (split between General Capital and Capital Financial Transactions) control totals.

Fiscal Resource (Revenue) DEL Outturn

- 2.6** 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, which is explained below.
- 2.7** The Central Services and Administration MEG revenue underspend was £8.8m. There are three main elements to this underspend: a £3.7m underspend on Welsh Government staff costs which was mainly due to lower than anticipated applications for the voluntary exit scheme; a £4.3m underspend on EU transition due to recruitment delays; and £1m on Invest to Save due to fewer suitable investment opportunities.

Capital DEL Outturn

- 2.8** The Capital DEL underspend for 2018-19 was £20.7m. Within the underspend, four MEGs underspent by more than 1% with one MEG overspending, albeit by £0.5m (or less than 0.1%). The variances are explained below.
- 2.9** The small overspend (£0.5m) was within the Housing and Local Government MEG. Within this figure there were overspends reported against the National Parks budget of £1m, Waste Management and Improvement of £0.6m and Independent Living budget of £0.2m. These were offset by an underspend of £1.2m against the Community Facilities budget.
- 2.10** The largest capital underspend was £5.3m in the Education portfolio. The underspend is on science and innovation budgets which transferred in from the Economy and Transport MEG where the expenditure remained. As a result there is a corresponding overspend reported within the Economy and Transport reported position.

2.11 The Economy and Transport MEG reported an underspend of £4.8m. The position includes expenditure where the budgets were moved, following the transfer of ministerial responsibilities, to the Education and International Relations and Welsh Language MEGs where corresponding underspends are reported. The main elements of the underspend are against business support budgets (£11.7m), sustainable travel (£4.9m) and road safety (£2.9m). These are offset by a £14.3m overspend on motorway and trunk roads related budgets.

2.12 The International Relations and Welsh Language MEG reported a capital underspend of £4.1m which primarily relates to funding for creative industries (£4.6m) which has slipped. This is offset by an overspend on the National Museum for Wales capital budget.

2.13 The main variances within the Environment, Energy and Rural Affairs underspend of £2.1m are reported against the Rural Development Plan, where there was a £2.8m underspend, and on Climate Change and Sustainability programmes where spend was £1.2m more than anticipated. This overspend was driven by higher demand for the Green Growth Wales programme.

2.14 The main reason for the £3.7m capital underspend reported against the Central Services and Administration MEG is a fall in demand for Gypsy and Traveller communities' refurbishment grants (£4m).

Non Fiscal Resource (ring-fenced revenue) DEL Outturn

2.15 The Non Fiscal Resource budget was underspent by £54.4m. It is important to note that the Non Fiscal Resource budget is ring-fenced and cannot be re-directed to Welsh Government spending programmes. These budgets cover accounting adjustments such as depreciation, adjustment to provisions and provision for write-off of student loans.

2.16 Of this underspend 99% relates to the provision for write off of student loans within the Education MEG. The underspend on student loans arose because the budget included sufficient contingency to safeguard against the potential impact of IFRS 9³ and continued impact of the increase in repayment threshold.

Annually Managed Expenditure (AME) Outturn

2.17 A large proportion of the variance reported in the annual accounts relates to underspends against AME budgets.

2.18 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.

2.19 The Health and Social Services AME budget was £83.2m underspent which represents 46% of the total AME underspend. The main explanation for the surplus on the AME budget relates to the change in the Welsh Risk Pool provision for medical negligence and personal injury claims in NHS Wales. The provision required at year end was lower than initially expected. This was because of a decrease in case numbers during the year and also as a result of the change to the accounting treatment for discounting expected future lump sum elements within the provision. The change was implemented by HM Treasury in December 2018.

³ IFRS 9 is an International Financial Reporting Standard (IFRS) published by the International Accounting Standards Board (IASB). It addresses the accounting for financial instruments which covers student loans.

- 2.20** The Housing and Local Government MEG AME budget underspent by £28.2m. The variance was due to fair value accounting adjustments made in respect of Help to Buy scheme properties following the adoption of IFRS 9.
- 2.21** The AME variance of £16.4m within the Economy and Transport MEG resulted from lower impairment levels than anticipated on investment properties and a reduced requirement for provisions against future liabilities, specifically provisions against future pensions liabilities of sponsored bodies.
- 2.22** An underspend of £42m was reported against the Education AME budget which relates to the student loans issues and repayments budgets. Student loans are demand led and difficult to forecast. Loan issues and repayments in the year were less than anticipated.
- 2.23** There was a £3m AME underspend against the International Relations and Welsh Language MEG. This relates to the underspends on the budgets covering pension liabilities of the National Library of Wales and the National Museum & Galleries of Wales.
- 2.24** The underspend of £2.4m reported 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 each year since the transfer it has not been utilised.
- 2.25** The Central Services and Administration MEG reported an underspend of £5.7m. As in previous years 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

- 3.1** A separate Wales Reserve exists to help manage fluctuations in tax revenue and also provides limited ability to carry underspends between years. The Wales Reserve is restricted to a total value of £350m. The amount that can be drawn down each year from the Wales Reserve is limited to £125m Fiscal Resource and £50m Capital. We were permitted by HM Treasury to carry £90m of Capital Financial Transactions into 2019-20 in addition to the normal limits.
- 3.2** In the Second Supplementary Budget 2018-19, the Welsh Government reported unallocated Fiscal Resource DEL of £35.4m and Capital DEL of £11m. These amounts were unused and so have been added to the Wales Reserve.
- 3.3** The Welsh Government received a late budget transfer from the Department for Environment Food and Rural Affairs of £0.6m fiscal resource budget and £0.4m general capital that was too late to be included in the Second Supplementary Budget which has been added to the Wales Reserve.
- 3.4** A borrowing requirement of £76m was also set in the Second Supplementary Budget. The borrowing was further reduced by £11m in the last quarter of the year. The reduction to borrowing is reflected as a movement within the Wales Reserve.
- 3.5** Capital funding of £50m was drawn from the Wales reserve into unallocated capital DEL in the Second Supplementary Budget. The drawdown is also reflected as a movement within the Wales Reserve.
- 3.6** The Fiscal Resource and Capital DEL underspends documented in this report above have been added to the Wales Reserve.

- 3.7** As well as underspends reported by the Welsh Government, the outturns of the other bodies funded from the Wales DEL must be included. These relate to the National Assembly for Wales Commission, the Public Services Ombudsman for Wales and the Wales Audit Office.
- 3.8** Devolved taxes were anticipated in the Second Supplementary Budget of £286m. The actual taxes collected amounted to £272.3m. The Wales Reserve has absorbed the shortfall of £13.7m.
- 3.9** Repayable capital financial transactions DEL is returned to HM Treasury by a reduction of the Wales reserve balance in accordance with the repayment profile agreed with HM Treasury. We effectively repaid £2.9m in 2018-19.
- 3.10** Unallocated and unspent Non Fiscal Resource DEL lapses and cannot be carried forward within the Wales Reserve.
- 3.11** Table 1 illustrates the balance of the Wales Reserve going into the 2019-20 financial year.
- 3.12** The balances to be carried forward for the Wales DEL will be £305.5m Fiscal Resource, £8.8m General Capital and £104.3m Capital Financial Transactions. The total balance to be carried within the Wales Reserve at 1 April 2019 is £418.6m. We were effectively granted permission to carry forward up to £440m and so the balance is within the revised limit.
- 3.13** Plans to utilise funds from the Wales Reserve in 2019-20 will feature in future Welsh Government's supplementary budgets.

Table 1 Wales Reserve balance including carry forward resulting from Wales DEL outturn 2018-19

Wales Reserve	Fiscal Resource £m	Capital £m	Capital FTs £m	Total £m
Balance at 1 April 2018	271.0	53.6	91.0	415.6
Unallocated DEL in Second Supplementary Budget 2018-19	35.4	0.7	10.3	46.4
Late transfer from DEFRA	0.6	0.4	-	1.0
Reduction in borrowing requirement	-	-11.0	-	-11.0
Capital drawn from the reserve	-	-50.0	-	-50.0
Welsh Government underspends	11.7	14.8	5.9	32.4
Other bodies underspends	0.5	0.3	-	0.8
Devolved taxes outturn	-13.7	-	-	-13.7
Repayment of repayable capital to HM Treasury	-	-	-2.9	-2.9
Balance at 1 April 2019	305.5	8.8	104.3	418.6

3.14 Allocations to Welsh Government portfolios in the First Supplementary Budget of 2019-20 totalled £265.9m Fiscal Resource and £90.1m Capital.

Annex 1 – Departmental Expenditure Limit (DEL) Outturn 2018-19

Main Expenditure Group	Supplementary Budget			Outturn			Underspends / Overspends (-)		
	Fiscal Resource £m	Non Fiscal Resource £m	Capital £m	Fiscal Resource £m	Non Fiscal Resource £m	Capital £m	Fiscal Resource £m	Non Fiscal Resource £m	Capital £m
Health & Social Services	7,194.6	191.5	434.0	7,193.3	192.0	432.8	1.3	-0.5	1.2
Housing & Local Government	3,748.6	0.2	739.3	3,748.6	0.2	739.8	0	0	-0.5
Economy & Transport	538.3	150.0	588.9	538.0	149.3	584.1	0.3	0.7	4.8
Education	1,399.3	371.1	214.4	1,399.1	317.2	209.1	0.2	53.9	5.3
Environment, Energy & Rural Affairs	181.4	16.0	95.7	181.3	16.1	93.6	0.1	-0.1	2.1
International Relations & Welsh Language	137.1	6.7	26.8	136.1	6.7	22.7	1.0	0	4.1
Central Services & Administration	328.6	19.9	22.3	319.8	19.5	18.6	8.8	0.4	3.7
TOTAL	13,527.9	755.4	2,121.4	13,516.2	701.0	2,100.7	11.7	54.4	20.7

Annex 2 – Annually Managed Expenditure Outturn 2018-19

Main Expenditure Group	Supp Budget £m	Outturn £m	Under/ Over(-) Spend £m
Health & Social Services	170.0	86.8	83.2
Housing & Local Government	1,074.4	1,046.2	28.2
Economy & Transport	32.5	16.1	16.4
Education	564.9	522.9	42.0
Environment, Energy & Rural Affairs	2.4	0	2.4
International Relations & Welsh Language	3.0	0	3.0
Central Services & Administration	2.9	-2.8	5.7
TOTAL	1,850.1	1,669.2	180.9