

**National Assembly for Wales**  
Finance Committee

Scrutiny of Supplementary Budget  
motion 2011–2012 (Summer 2011)

July 2011



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## **Finance Committee**

The Finance Committee's functions include that it is to:

- consider and report on any report or other document laid before the Assembly by Welsh Ministers or the Commission containing proposals for the use of resources;
- consider and report on any other matter relating to or affecting expenditure out of the Welsh Consolidated Fund.

A reference to the use of resources is a reference to their expenditure, consumption or reduction in value and includes expenditure payable out of the Welsh Consolidated Fund and any other expenditure met out of taxes, charges and other sources of revenue.

## **Powers**

The Committee was established on 22 June 2011. Its powers are set out in the National Assembly for Wales's Standing Orders, particularly SO 16. These are available at [www.assemblywales.org](http://www.assemblywales.org)

## **Committee Membership**



**Jocelyn Davies (Chair)**  
South Wales East  
Plaid Cymru



**Peter Black**  
South Wales West  
Welsh Liberal Democrats



**Christine Chapman**  
Cynon Valley  
Welsh Labour



**Mike Hedges**  
Swansea East  
Welsh Labour



**Ann Jones**  
Vale of Clwyd  
Welsh Labour



**Julie Morgan**  
Cardiff North  
Welsh Labour



**Nick Ramsay**  
Monmouth  
Welsh Conservative  
Party



**Ieuan Wyn Jones**  
Anglesey  
Plaid Cymru

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## **Chair's foreword**

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I am pleased to publish this first report of the Finance Committee of the Fourth Assembly of the National Assembly for Wales. The Committee is indebted to the efforts of its predecessor in the Third Assembly, and I look forward to continuing its good work.

In the current financial climate, it is more critical than ever that the Welsh Government is held to account of its budgetary allocations and plans. I would therefore like to begin this report by welcoming the open and transparent approach with which the Welsh Government has sought to facilitate our scrutiny of its first supplementary budget for the 2011-2012 financial year.

One of the key concerns arising from our scrutiny related not so much to the supplementary budget itself, but to the Budget Exchange System- a recently introduced mechanism by the UK Government which requires the Welsh Government to declare in November any planned underspends, in order to carry them over into the next financial year. The Committee was concerned that this mechanism effectively puts an onus on the Welsh Government to spend any remaining reserves that it has not declared as a planned underspend. This risks depleting the Welsh Government's reserves so that it is less able to respond to unanticipated events in the latter end of the financial year, and puts pressure to spend public money even when there is not a robust business case for such.

The tight economic and fiscal pressures put an even greater onus on Government to utilise public money efficiently and effectively. The Finance Committee therefore supports the Welsh Government having dialogue with the UK Government towards enabling greater flexibility in the application of the Budget Exchange System.

Finally, I would like to thank all the members of the Finance Committee for their insights and input throughout this short inquiry.

## The Committee's Recommendations

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The Committee's recommendations to the Welsh Government are listed below, in the order that they appear in this report. Please refer to the relevant pages of the report to see the supporting evidence and conclusions:

**Recommendation 1.** We recommend that the Welsh Government continues to take steps to improve the transparency and presentation of information associated with the budget process, in future years, such as through the steps detailed in this report. (Page 14)

**Recommendation 2.** We recommend that the Welsh Government continues to have dialogue with the UK Government towards enabling greater flexibility in the application of the Budget Exchange System. In particular, we consider that it should be possible for underspends to be identified and declared as 'planned' by a much later deadline in the financial year than November. (Page 17)

# **Introduction**

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## **Who are we?**

1. The Finance Committee is a cross party committee of the National Assembly for Wales, made up of Members from all 4 political parties represented at the Assembly.
2. The Committee is not part of the Welsh Government. Rather, the Committee is responsible for reporting on proposals laid before the Assembly by Welsh Ministers relating to the use of resources. The committee can also consider and report on any other matter related to, or affecting, expenditure out of the Welsh Consolidated Fund.

## **What is a supplementary budget?**

3. Section 125 of the *Government of Wales Act 2006* provides that there must be at least one budget motion (the annual budget motion) moved in relation to each financial year.
4. However, section 126 of the Act also provides for supplementary budget motions. A supplementary budget motion can be moved at any time before, during or after the financial year to which it relates (i.e. any time after the annual budget motion has been passed). The main purpose of a supplementary budget is to request authorisation for in-year changes to the annual budget motion, such as:

- variations to the amount of resources to be made available for specific purposes and services (ambits);<sup>1</sup>
- to specify new ambitions and allocate resources to those, or to move resource between ambitions;
- variations to amounts of income that can be retained; and
- changes to the amount of cash that can be drawn from the Welsh Consolidated Fund.

## **Why did we scrutinise this supplementary budget?**

5. Standing Order 20.33 states that:

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<sup>1</sup> **Ambits** – descriptions of the specific purposes for which the Welsh Ministers are authorised by the National Assembly to spend resources. Ambit descriptions and resource limits are shown in the annual budget motion. Ambits generally correspond to main expenditure groups (MEGs) and Ministerial portfolios.

"A supplementary budget motion tabled under Standing Order 27.21 may not be moved until either:

- (i) the responsible Committee has reported on the motion; or
- (ii) if the responsible Committee has not reported on the motion, three weeks have elapsed after it has been tabled."

6. The Welsh Government laid this Supplementary Budget Motion on Tuesday 21 June 2011. The deadline for us to report on it was therefore Tuesday 12 July 2011.

7. Jane Hutt AM, the Minister for Finance and Leader of the House answered questions on the Supplementary Budget at our meeting on 29 June. The Minister was accompanied by officials: Andrew Jeffreys, Head of Strategic Budgeting, and Jeff Andrews, Specialist Policy Adviser.

8. In answering questions on the supplementary budget, the Minister emphasised how much she did:

"value the role of the Finance Committee in scrutinising our budget proposals... It is a very important part of the process. As the Minister for Finance, I want to support scrutiny and to be as transparent as possible and as open as I can be about our budget considerations."<sup>2</sup>

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<sup>2</sup> Record of Proceedings (RoP), National Assembly for Wales, Finance Committee, 29 June 2011, Para 5

## **Key changes proposed in the Welsh Government's supplementary budget**

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9. The Minister for Business and Budget told us that the supplementary budget reflected changes since the Final Budget for 2011-12. She also indicated that there would be a second supplementary budget in the financial year.

10. We consider that this supplementary budget fulfils three main purposes, in that it:

- aligns the 2011-12 budget with the new Ministerial portfolios;
- makes allocations from reserves, approved since the Final Budget motion was passed; and
- adjusts the baselines to account for transfers from the UK Government as a result of UK Budget 2011

### **Alignment with Ministerial Portfolios**

11. In presenting evidence to the Committee, the Minister also observed that the:

“The main purpose of the supplementary budget is to align the 2011-12 budget structures with changes to the Welsh Government ministerial portfolios announced by the First Minister in May.

It is worth noting that these changes are entirely structural. There has been no impact on the total resources allocated overall to Welsh Government departments, as set out in the final budget... However, they enable us to be strategic in the delivery of our programme of Government.”<sup>3</sup>

12. The explanatory note accompanying the supplementary budget explained that:

“The changes to Ministerial portfolios entail changes to budget structures at a number of levels, including at MEG, Spending Programme Area (SPA) and Action level. In terms of the changes at MEG level, where MEGs are largely unaltered by changes,

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<sup>3</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 5-6

they have been renamed, as necessary, to reflect Ministerial portfolios – for example Children, Education, Lifelong Learning and Skills becomes Education and Skills. Where there have been more fundamental structural changes, for example to responsibilities for Economy and Transport, a MEG in the old structure has been designated as the core of the new MEG. This MEG has been renamed and the necessary budget transfers have been made to it.”<sup>4</sup>

13. The Minister for Finance also advised us that:

“two MEGs have been disbanded. One is rural affairs, and the other is public services and performance. However, those budgets have been transferred to the relevant portfolios, in line with the transfer of functions. Again, they have been sorted and matched according to their new portfolios.”<sup>5</sup>

14. However, the Minister emphasised that these structural changes were “purely mechanistic”<sup>6</sup> and that even where actions had been split between Ministerial portfolios, there would be:

“no impact on ongoing programmes and actions as a result of that split... programmes continue as planned.”<sup>7</sup>

### **Allocations to Welsh Government Departments from Reserves**

15. The Welsh Government Explanatory Note to the June 2011 supplementary budget 2011-2012 detailed that:

“There are a small number of allocations from Reserves agreed since the Final Budget that are reflected in the Supplementary Budget. These are:

- £21.5m is allocated to Health, Social Services and Children for orthopaedic services;
- £5m to Education and Skills for Adapt, the Career Transition Single Point of Contact Service;

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<sup>4</sup> Welsh Government, [Supplementary Budget 2011-2012 Explanatory Note](#), June 2011 [accessed 27 June 2011]

<sup>5</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 12

<sup>6</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 11

<sup>7</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 14-15

- £150k to Housing, Regeneration and Heritage for the National Botanic Garden of Wales;
- £8.8m for the costs of the Assembly elections;
- £18.4m to Environment and Sustainable Development for funding in respect of animal health and welfare; and
- £200k to Central Services and Administration for running costs associated with the devolution of animal health and welfare.”<sup>8</sup>

### **Adjustments to Resource and Capital Baselines**

16. The Welsh Government Explanatory Note to the June 2011 supplementary budget 2011-2012 detailed that:

“The fiscal resource DEL baseline has increased by £23.5m which comprises:

- a transfer in of £18.6m from DEFRA for funding in respect of animal health and welfare.
- an increase of £4.9m for consequentials received in the UK Government’s March Budget.”<sup>9</sup>

17. We noted that during the Third Assembly the Minister for Rural Affairs stated on 14 March 2011,<sup>10</sup> that there would be a transfer of £21m from DEFRA for funding in respect of animal health and welfare. We therefore asked the Minister why there was a difference of £2.4 million between the originally quoted £21 million, and the £18.6 million shown in this supplementary budget.

18. We were therefore pleased that the Minister clarified that:

“The total financial package that Elin [Jones, then Minister for Rural Affairs] announced in March was worth just over £21 million in this financial year. That total package includes some funding that, since that time, has been netted off in the budget process between the Welsh Government and DEFRA. That includes funding that has been transferred back to DEFRA in

<sup>8</sup> Para 2.7, Welsh Government, Supplementary Budget 2011-2012: Explanatory note, June 2011.

<sup>9</sup> Para 2.8, Welsh Government, Supplementary Budget 2011-2012: Explanatory note, June 2011.

<sup>10</sup> Welsh Government, Minister for Rural Affairs, [Devolution of animal health and welfare budgets from DEFRA](#), Written Cabinet Statement.

respect of services that are run on an England and Wales basis, such as the funding for the British cattle movement service. So, the increase in this year's baseline is net of this amount, which takes us to the £18.6 million that appears in the supplementary budget. So, the total financial package over the four years does not change. The agreement that we came to, and which was announced by the former Minister, stands. It is just this netting off that has resulted in the figure changing to £18.6 million.”<sup>11</sup>

19. The Welsh Government Explanatory Note to the June 2011 supplementary budget 2011-2012 also detailed that:

“The capital baseline has increased by £19.4m which comprises an increase of £19.4m for consequentials received in the UK Government’s March Budget.”<sup>12</sup>

20. We were pleased that the Minister committed to provide us with a breakdown of these consequentials, and the policy decisions in the UK budget from which they resulted, including the projected revenue and capital Barnett consequentials for future years.

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<sup>11</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 36

<sup>12</sup> Para 2.9, Welsh Government, Supplementary Budget 2011-2012: Explanatory note, June 2011.

## **Our observations on the supplementary budget**

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21. In considering the Welsh Government's supplementary budget, we noted a number of concerns both within- and in association to- the budget.

### **Transparency and presentation**

22. In presenting the supplementary budget, the Minister emphasised to us that significant effort had been undertaken to enable transparency, and "facilitate scrutiny."<sup>13</sup>

23. We considered that there was much to welcome in the presentation of the supplementary budget, particularly the explanatory notes provided to improve the budget's transparency and to aid scrutiny.

24. We also welcomed the fact that the MEG allocations originally stated in the Final Budget 2011-12 had been clearly restated based on the new MEG structure, reflecting the new Ministerial portfolios

25. However, we consider that there remain areas where the presentation of the supplementary budget could be improved. For example, one of our Members asked the Minister:

"For the sake of transparency, when you take money out of reserves—as you have done with this, which is a different kind of expenditure—and when it is going to be recurring expenditure, would it be possible for you to show in your documentation that it is going to be recurring? For example, the table shows £150,000 for the National Botanic Garden of Wales, so perhaps an 'R' could be placed alongside this figure to show that it is an annual change?"<sup>14</sup>

26. We were pleased that the Minister stated in response that

"That is helpful; we can ensure that that is reflected in an explanatory note."<sup>15</sup>

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<sup>13</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 7

<sup>14</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 43

<sup>15</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 44

27. Similarly we welcomed the Minister's commitment to provide us with a written explanation of the accounting treatment that had led to a reduction of £92.4 million in relation to the provision of student loans, as part of an overall reduction of £4.5 million in annually managed expenditure. We noted that the Minister's assertion that this reduction represented "no diminution of our commitment... no change in policy,"<sup>16</sup> but considered that a written explanation could usefully demonstrate such.

28. Furthermore, while we welcomed the fact that:

"the indicative allocations for 2012-13 and 2013-14 have been restated in this Supplementary Budget based on the new structure."<sup>17</sup>

29. We considered that there would be benefit in also providing these indicative allocations in real terms, in reference to tables 2.5, 2.6 and 2.7 of the Welsh Government's Explanatory Note, taking into account inflation, as well as in cash terms, and were pleased that the Minister committed to provide such.

**We recommend that the Welsh Government continues to take steps to improve the transparency and presentation of information associated with the budget process, in future years, such as through the steps detailed in this report.**

#### **Allocations from revenue reserves**

30. As noted in the previous chapter, the Welsh Government's supplementary budget detailed a significant number of allocations from revenue reserves.

31. Among these allocations, we noted that the £5 million to Education & Skills for the Adapt scheme was in relation to the Welsh Government's Transitional Support Fund.<sup>18</sup> This fund was announced at Final Budget 2011-12, and it was intended to enable the transition to a more efficient and innovative service delivery.

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<sup>16</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 19 and 33

<sup>17</sup> Para 2.6, Welsh Government, Supplementary Budget 2011-2012: Explanatory note, June 2011.

<sup>18</sup> Welsh Government, Jane Hutt (Minister for Business and Budget), [Approach to the Allocation of Funding from Reserves for Transitional Support in 2011-12](#), Written Cabinet Statement, 31 March 2011

32. However, in March 2011, allocations to the Fund were stated to be £14 million in 2011-12, rising to £40 million in each of 2012-13 and 2013-14. We therefore asked the Minister whether it was still her intention to allocate a further £9 million in transitional support during the current financial year.

33. We were pleased that the Minister advised us that she remained:

“committed to allocating the full amount that we earmarked for transitional support in this financial year. Obviously, the cuts are beginning to hit public services in devolved and non-devolved areas, and this Adapt scheme is already responding effectively to re-training needs, supporting people who have been made redundant or taken voluntary severance.”<sup>19</sup>

34. We also noted that £8.8 million had been allocated for the purpose of the National Assembly for Wales elections, on 5 May 2011. As Assembly Elections were clearly “not something that was not foreseen,”<sup>20</sup> we asked why these funds were not originally allocated in the Final Budget, rather than needing to be withdrawn from reserves. However, a Welsh Government official explained that:

“At the time of the draft and final budget last year, discussions were still ongoing with counting officers about exactly what funding would be provided for the elections. So, at that time, we did not have enough certainty about the overall cost to put an amount in. In fact, the £8.8 million is still an estimate of the cost and we will pay on actual costs that will come through later in the year.”<sup>21</sup>

35. We considered it would be particularly valuable for us to be provided with a breakdown of the regional costs of the election, and comparison of such with the referendum and with previous Assembly elections:

“when all regions of Wales counted on the same time, and whether there was a difference this time when the north Wales

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<sup>19</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 60

<sup>20</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 81

<sup>21</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 82

region was forced to be the last again, given that the returning officer was citing cost as his reason for that.”<sup>22</sup>

36. We were pleased that the Minister committed to providing us with such a breakdown when it was possible.

### **Centrally Retained Capital Fund**

37. There were no allocations from capital reserves at this supplementary budget. However, we noted that on 31 March 2011, the Welsh Government issued a statement making provisional allocations from the Centrally Retained Capital Fund.<sup>23</sup> This statement announced £105 million to be allocated from reserves to a number of capital projects in 2011-12. We therefore asked the Minister whether these allocations would follow in a later supplementary budget. The Minister confirmed to us that she would “transfer resources to the appropriate main expenditure groups when I am confident that the final business cases have been approved.”<sup>24</sup> The Minister also indicated that there were “no policy plans to change”<sup>25</sup> the allocations.

38. We considered it entirely appropriate that public resources were not transferred until robust and justifiable business cases were made for such. We also asked the Minister if she could provide us with an indicative timescale for the consideration of such business cases.

### **Budget Exchange System**

39. Following the Treasury’s withdrawal of the ‘end year flexibility’ previously available to the Welsh Government, the UK Budget 2011 introduced the Budget Exchange as a replacement.<sup>26</sup> This stated that:

“Budget Exchange will allow departments to surrender an underspend in advance of the end of the financial year in return for a corresponding increase in their budget in the following year, subject to a prudent limit.”<sup>27</sup>

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<sup>22</sup> RoP, National Assembly for Wales, Finance Committee, 28 June 2011, Para 89

<sup>23</sup> 3<sup>rd</sup> Assembly Welsh Government, First Minister (Carwyn Jones), Deputy First Minister (Ieuan Wyn Jones) and Minister for Business and Budget (Jane Hutt), [Capital spending Plans 2011-12](#), Written Cabinet Statement, 15 March 2011

<sup>24</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 63

<sup>25</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 76

<sup>26</sup> HM Treasury, [Budget 2011](#), March 2011 page 49

<sup>27</sup> ibid

40. The Minister confirmed that under this budget mechanism, devolved administrations:

“would have the ability to carry forward planned underspends from one year to the next. However, those planned underspends would need to be agreed in late November or early December to be finalised in the January supplementary process. We are concerned about this because it is still early in the financial year, although we are more than half way through, and it is difficult to anticipate those underspends at that stage.”<sup>28</sup>

41. During his appearance before the Third Assembly’s Finance Committee, the Chief Secretary to the Treasury suggested that the Welsh Government would not be treated as if it were a UK Government department, and that additional flexibilities would be extended to the devolved administrations.<sup>29</sup>

42. The Minister confirmed that the Chief Secretary to the Treasury “has said that he is willing to discuss these with us and be flexible.”<sup>30</sup> A Welsh Government official also clarified that devolved administrations, unlike Whitehall Departments, were not subject to a cap on the amount of money that could be carried forward.

43. We remain concerned that the current Budget Exchange System puts pressure on the Welsh Government to use up reserve funds, rather than retaining them to safeguard against unexpected risks in the financial year. While it is reasonable to expect the Welsh Government to predict the majority of its expenditure, we consider that certain areas of public expenditure- such as health- can be volatile, and that greater flexibility to retain underspends should be pursued. In particular, we concur with the Minister’s assessment that requiring underspends to be declared in November is too early in the financial year, and that it should be possible for the Welsh Government to make such a determination by a later deadline in the financial year.

**We recommend that the Welsh Government continues to have dialogue with the UK Government towards enabling greater flexibility in the application of the Budget Exchange System. In**

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<sup>28</sup> RoP, National Assembly for Wales, Finance Committee, 29 June 2011, Para 68

<sup>29</sup> RoP, National Assembly for Wales, Third Assembly Finance Committee, 22 November 2010, Para 65-83

<sup>30</sup> RoP, National Assembly for Wales, Finance Committee, 28 June 2011, Para 68

**particular, we consider that it should be possible for underspends to be identified and declared as ‘planned’ by a much later deadline in the financial year than November.**

## **Witnesses**

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The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at  
<http://www.senedd.assemblywales.org/mgCommitteeDetails.aspx?ID=229>

*29 June 2011*

|                 |  |
|-----------------|--|
| Jane Hutt AM    | Minister for Finance   |
| Andrew Jeffreys | Head of Strategic Budgeting: Strategic Planning, Finance & Performance, Welsh Government |
| Jeff Andrews    | Specialist Adviser: Strategic Planning, Finance & Performance, Welsh Government          |

## **List of written evidence**

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The following people and organisations provided written evidence to the Committee. All written evidence can be viewed in full at <http://www.senedd.assemblywales.org/mgCommitteeDetails.aspx?ID=229>

| <i>Organisation</i>                    | <i>Reference</i> |
|--|------------------|
| Minister for Finance, Welsh Government | FIN(4) 01-11p1   |
| Minister for Finance, Welsh Government | FIN(4) 01-11p2   |