

Jane Hutt AC / AM
Y Gweinidog Cyllid
Minister for Finance



Llywodraeth Cymru
Welsh Government

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

5 August 2014

Dear Jocelyn,

As in previous years and in line with my commitment to good practice and transparency I have produced a written report to the Finance Committee on 2013-14 final outturn against spending plans which is attached.

The Welsh Government's Consolidated Annual Accounts for 2012-13 were published on 5 August 2014 and so the figures provided in the report are audited.

The final Ambit outturn for 2013-14 is £13,929.6 million, an underspend against the Welsh Government Budget of £85.2 million which represents a 0.6% variance.

The report and supporting annexes provide a summary of expenditure by portfolio, variations compared to the budget, an explanation of significant variances and details the Welsh Government underspends which will be carried forward into the current year under 'Budget Exchange'.

Best wishes,

A handwritten signature in black ink that reads "Jane".

Jane Hutt AC / AM
Y Gweinidog Cyllid
Minister for Finance

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 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 report addresses that commitment for the financial year 2013-14.

1.4 The Second Supplementary Budget for 2013-14, was approved by the National Assembly on 11 March 2014. The final outturn follows publication of the Welsh Government's Consolidated Annual Accounts on 5 August 2014. See the attached internet link:

<http://wales.gov.uk/about/civilservice/how-we-work/facts-figures/ourfinance/welsh-government-consolidated-accounts/welsh-government-annual-accounts-2013-2014/?lang=en>

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

2. Main Expenditure Group Outturn 2013-14

- 2.1** The Consolidated Accounts of the Welsh Government were laid before the Assembly on 30 July 2014. These audited accounts contain a Summary of Resource Outturn against the control totals approved in the Second Supplementary Budget motion of 2013-14 (the 'Ambit').
- 2.2** This report provides details of outturn against the controls operated and enforced by HM Treasury. These administrative budgets are detailed in the documentation and tables which supported the Second Supplementary Budget (<http://wales.gov.uk/funding/budget/2nd-supplementary-budget-2013-2014/?lang=en>).

Departmental Expenditure Limit (DEL) Outturn

- 2.3** The Welsh Government's audited DEL outturn is £15,733.4 million. This is an underspend against the budget as agreed in the Second Supplementary Budget of £32.4 million.
- 2.4** Included in the results is an underspend of £13.4 million against the Fiscal Resource budget (near cash revenue). There is also an underspend of £8.8 million on the Capital budget. The outturn represents an underspend of 0.1% against Fiscal Resource and 0.7% Capital. The Non Fiscal Resource budget (non cash) is underspent by £10.2 million.
- 2.5** Underspends of greater than 1% of departmental DEL and above a de-minimis level of £0.5 million and *any* overspends are explained below. A breakdown of the outturn by MEG is provided in Annex 1.

Fiscal Resource

- 2.6** There were underspends on all MEGs the most significant of which was on the Communities and Tackling Poverty MEG.

2.7 The underspend on the Communities and Tackling Poverty MEG was a combination of claw-backs from prior year grant certification work, project delays due to complexity of establishment and operation of new schemes, recruitment issues across the public and third sector due, primarily, to concerns over continuity of posts and some optimistic expenditure forecasts from some delivery bodies. Lessons have been learnt from the issues arising and an action plan has been put into action to mitigate events recurring in 2014-15 and future years.

Capital

2.8 All MEGs reported underspends. The most significant of which were in respect of the Communities and Tackling Poverty and Natural Resources and Food MEGs.

2.9 There was an underspend of £1.2 million reported against the Communities and Tackling Poverty MEG. There were a number of large and complex Flying Start settings which encountered planning and construction problems towards the year end, leading to slippage in development and completion of the schemes.

2.10 The underspend on the Natural Resources and Food MEG of £5.6 million includes £5 million agreed in principle to be carried forward to 2014-15 through the budget exchange mechanism. The funding is in respect of Local Authority capital flood works which suffered slippages due to the severe weather storms last Winter.

Non Fiscal Resource

2.11 There were underspends on all MEGs apart from Education and Skills which overspent.

- 2.12** The underspend on the Health and Social Services MEG was £20.5 million. The budget covers depreciation charged against assets held by NHS bodies. These charges are dependent on asset valuations which can fluctuate from year to year as a result of economic factors. As a result they are difficult to forecast. The NHS Estate Valuation of 2012/13 resulted in a favourable outturn in 2013-14 financial year.
- 2.13** The underspend on the Economy, Science and Transport MEG of £12.3 million relates primarily to depreciation charges for the motorway and trunk road network (there is a small element in respect of infrastructure assets). The depreciation charge is dependent upon the results of an annual road condition survey and the value of Welsh Government capital maintenance investment. The budget allocation is set at a predicted level based on historic trend although the charges will vary year on year following the results of the independent assessment of the network condition.
- 2.14** The Education and Skills MEG reported an overspend of £25.6 million, which reflects the final statement on student loans submitted by SLC on 14 April. The overspend is due to identification of an error in the student finance model ('HERO') which was identified following a comprehensive year end check. The correction increased the annual 'write off' charge which was not previously forecast.
- 2.15** The £1.2 million variance on Housing and Regeneration non-cash relates mainly to a credit of £1 million reflecting an increase in the carrying value of the Welsh Government's investment in the Regeneration Investment Fund for Wales (RIFW). This was an adjustment carried out after the year end based on the RIFW final audited accounts. As the amount of the adjustment could not be foreseen prior to this time, no budgetary provision was made for it in the Second Supplementary budget 2013-14.

2.16 The underspend on Central Services and Administration of £1.6 million arose principally because an impairment charge in respect of ex-Welsh Development Agency properties. The charge of £1 million was budgeted to fall within the MEG but correctly sat within the Economy, Science and Transport MEG.

Annually Managed Expenditure (AME) Outturn

2.17 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. Examples include asset impairments, student loans issued and repaid, housing revenue account subsidy and pension valuations of sponsored bodies. The Welsh Government are unable to recycle underspends against AME programmes.

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

3. Budget Exchange System

3.1 In the Second Supplementary Budget for 2013-14, the Welsh Government reported Fiscal Resource DEL reserves of £50.8 million and Capital DEL reserves of £7.8 million. We also planned to carry forward both these reserves and any underspends up to the agreed caps under Budget Exchange. The caps are set at 0.6% of Resource DEL and 1.5% of Capital DEL (although financial transactions within the Capital DEL have a cap of 20% in 2013-14).

3.2 Table 1 illustrates the final reserves position. The balances to be carried forward for the Welsh Government will be £64.2 million Fiscal Resource, £18.5 million Non-Fiscal Resource and £16.5 million Capital which are within the Treasury limits.

Table 1 Carry forward resulting from Welsh Government outturn

	Fiscal Resource £000	Non Fiscal Resource £000	Capital £000
Reserves as per Second Supplementary Budget 2013-14	50,771	51,088	7,750
2013-14 Underspends	13,446	10,221	8,763
Balance to be carried forward to 2014-15	64,217	18,460¹	16,513
<i>Treasury Budget Exchange Limits</i>	<i>82,677</i>	<i>4,919</i>	<i>34,880²</i>

3.3 The balance to be carried forward will be affected by the outturns of the other bodies funded from the Welsh DEL i.e. the National Assembly for Wales Ombudsman, the Public Services Ombudsman for Wales and the

¹ In the event that the limit for Fiscal Resource DEL carry forward is not fully utilised the balance can be used to carry additional Non Fiscal Resource DEL forward up to the overall cap on the Fiscal Resource DEL.

² The capital limit is made up of £18.8m traditional and £16.1m financial transactions.

Auditor General for Wales. The figures will be revised if necessary following the publication of their audited accounts.

- 3.4** The adjustments to our baseline to reflect the final amount carried forward outlined above will be made later in the financial year through the UK Supplementary Estimate process and will feature in the Second Supplementary Budget for 2014-15.
- 3.5** Allocations were made in the First Supplementary Budget of 2014-15 of £29.5 million from the Fiscal Resource reserve and £18 million from the capital reserve.

Annex 1 – DEL Outturn 2013-14

Main Expenditure Group	Supplementary Budget			Outturn			Underspends / Overspends (-)		
	Fiscal Resource £000	Non Fiscal Resource £000	Capital £000	Fiscal Resource £000	Non Fiscal Resource £000	Capital £000	Fiscal Resource £000	Non Fiscal Resource £000	Capital £000
Health & Social Services	5,973,197	168,100	240,821	5,972,576	147,554	240,784	621	20,546	37
Local Government	4,705,014	150	22,920	4,704,852	140	22,757	162	10	163
Communities & Tackling Poverty	175,891	0	27,200	169,714	0	26,045	6,177	0	1,155
Economy, Science & Transport	414,288	128,491	360,626	410,283	116,204	359,681	4,005	12,287	945
Education & Skills	1,531,426	436,931	202,134	1,531,341	462,560	202,058	85	-25,629	76
Natural Resources & Food	295,850	8,826	102,316	294,321	8,715	96,682	1,529	111	5,634
Housing & Regeneration	172,593	0	331,725	172,459	-1182	331,500	134	1,182	225
Culture & Sport	121,341	3,677	15,084	121,247	3,562	14,939	94	115	145
Central Services & Administration	285,120	18,500	23,642	284,481	16,901	23,259	639	1,599	383
TOTAL	13,674,720	764,675	1,326,468	13,661,274	754,454	1,317,705	13,446	10,221	8,763

Annex 2 – AME Outturn 2013-14

Main Expenditure Group	Supplementary Budget			Outturn			Underspends / Overspends (-)		
	Fiscal Resource £000	Non Fiscal Resource £000	Capital £000	Fiscal Resource £000	Non Fiscal Resource £000	Capital £000	Fiscal Resource £000	Non Fiscal Resource £000	Capital £000
Health & Social Services	0	159,336	0	-79,344	200,192	0	79,344	-40,856	0
Local Government	18,507	0	0	18,507	0	0	0	0	0
Economy, Science & Transport	0	47,362	0	0	17,698	0	0	29,664	0
Education & Skills	0	-98,456	340,323	0	-84,560	305,838	0	-13,896	34,485
Natural Resources & Food	0	3,600	0	0	0	0	0	3,600	0
Housing & Regeneration	-73,000	0	0	-72,790	0	0	-210	0	0
Culture & Sport	0	2,740	0	0	0	0	0	2,740	0
Central Services & Administration	0	1,473	0	-1,010	0	0	1,010	1,473	0
TOTAL	-54,493	116,055	340,323	-134,637	133,330	305,838	80,144	-17,275	34,485