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Llywodraeth Cymru  
Welsh Government

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

22<sup>nd</sup> September 2015

*Dear Jocelyn,*

The Welsh Government's Consolidated Annual Accounts for 2014-15 have now been audited and published on 21 September 2015. 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 2014-15 final outturn for the Welsh Government set against spending plans approved in the Second Supplementary Budget 2014-15.

The final Ambit outturn for 2014-15 is £13.7 billion against the Welsh Government Budget of £13.9 billion. This represents a 1.5% 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 into the current year under HM Treasury's 'Budget Exchange' mechanism.

I would be happy to discuss the report if you feel that it would be beneficial.

*Best wishes,*  
*Jane*

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# **Welsh Government**

## **Report on Outturn 2014-15**

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A report from the Minister for Finance and Government Business to the Finance Committee on the audited outturn of the Welsh Government 2014-15 set against the planned expenditure contained in the Second Supplementary Budget 2014-15.

## 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 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 2014-15.

**1.4** The Second Supplementary Budget for 2014-15, was approved by the National Assembly on 10 March 2015. The final outturn follows publication of the Welsh Government's Consolidated Annual Accounts on 21 September 2015. See the attached internet link:

<http://gov.wales/about/civilservice/how-we-work/facts-figures/ourfinance/welsh-government-consolidated-accounts/welsh-government-annual-accounts-2014-2015/?lang=en>

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

## 2. Main Expenditure Group Outturn 2014-15

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**2.1** The Consolidated Accounts of the Welsh Government were laid before the Assembly on 10 August 2015. These audited accounts contain a Summary of Resource Outturn against the control totals approved in the Second Supplementary Budget motion of 2014-15 (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://gov.wales/funding/budget/2nd-supplementary-budget-2014-2015/?lang=en>

### Departmental Expenditure Limit (DEL) Outturn

**2.3** The Welsh Government's audited DEL outturn is £15,642 million. This is an underspend against the budget as agreed in the Second Supplementary Budget of £30 million.

**2.4** Included in the results is an underspend of £8.3 million against the Fiscal Resource budget (near cash revenue). There is also an underspend of £1.4 million on the Capital budget. The outturn represents an underspend of 0.06% against Fiscal Resource and 0.09% Capital. The Non Fiscal Resource budget (non cash) is underspent by £20.3 million. It is important to note that the underspend on the Non Fiscal Resource budget is ring-fenced and covers accounting adjustments (see below). It could not have been re-directed to Welsh Government spending programmes.

**2.5** As in previous years, underspends of greater than 1% of departmental DEL and above a de-minimis level of £0.5 million are explained below.

There are no overspends to report on. A breakdown of the outturn by MEG is provided in Annex 1.

### **Fiscal Resource (Revenue)**

**2.6** Departmental performance in this budget classification was extremely good. Very small underspends were reported in every MEG with no MEG exceeding a 0.3% variance when measured against the Second Supplementary budget. This proves that spending within the Welsh Government revenue budget of £13.7 billion has been maximised.

### **Capital**

**2.7** Performance was also very good against the Welsh Government capital budget of £1.4 billion with underspends of less than £0.5 million reported on all MEGs.

### **Non Fiscal Resource (revenue non cash)**

**2.8** The majority of the £30 million underspend against the Welsh Government DEL relates to non cash budgets with all MEGs underspending in this classification. Non cash budgets are ring-fenced and provided for accounting estimates such as depreciation and provisions adjustments. An explanation of those underspent by 1% or more is provided in the following paragraphs.

**2.9** The Health and Social Services (HSS) non cash budget reported an underspend of £6.6 million. The budget primarily funds the depreciation charges arising on the NHS estate so forecasts are sensitive to fluctuations in capital schemes progression, valuations and timing of capital additions and disposals. Slippages of major scheme completions were a factor.

**2.10** The underspend of £2.3 million within the Economy, Science and Transport (EST) MEG largely related to a lower than anticipated level of capital maintenance expenditure on ancient monuments within Cadw.

**2.11** An underspend of £9.7 million was reported by Education and Skills. This budget covers the estimated annual charge for the write-off of student loans. The calculated charge is generated by a statistical model developed by the UK Department for Business, Innovation and Skills. 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.

**2.12** The Welsh Government's Central Services and Administration MEG underspent by £1.2 million on non cash. This underspend derives from depreciation charges associated with the Welsh Government estate. The estate is subject to an independent five yearly valuation and it is difficult to forecast the outcome.

### **Annually Managed Expenditure (AME) Outturn**

**2.13** 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 them. 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. The main variances are explained below.

**2.14** The HSS AME budget was £94.5 million underspent. The first element of the underspend is £74.2 million on impairments in the value of NHS assets. Of this, £51.6 million was as a result of a revised technical accounting treatment agreed with Wales Audit Office. The remaining £22.6 million underspend related partly to variations between interim and final District Valuer valuations, and partly to scheme timing slippages for asset completions and disposals now expected in 2015-16.

- 2.15** The second element of the HSS underspend is £19.8 million covering movements on provisions. The Welsh Risk Pool provision movement was £9.6 million below budget. The budget is based upon the most likely trend analysis of claims in the pool during the year. Actual out-turn reflects variations in the valuation, timing or probability of individual claims within the pool, which can individually be material in value. A further £10 million underspend arose in respect of potential new provisions anticipated relating to legal matters. As at 31 March 2015 it was established that provisions were not required in respect of these matters.
- 2.16** The Local Government AME underspend was £45 million. On HM Treasury's advice, officials requested budget cover of £45 million as part of the second Supplementary Budget to cover an on-going legal case. The case concerns a historical pension lump sum calculation error stemming back to 2004, before responsibility for fire service pensions was devolved to Wales. However, this litigation case had not progressed sufficiently to warrant providing for a liability in the accounts.
- 2.17** The AME variance of £9.6 million within the EST MEG arose as a result of provisions not being required in respect of potential loan guarantee arrangements and funding set aside for museum and library pension deficits not being required.
- 2.18** An underspend of £21.4 million was reported on the Education and Skills AME budget. This mainly related to the student loans budgets which are demand led and difficult to forecast. Loan issues and repayments in the year were less than anticipated.
- 2.19** The underspend of £2.9 million on the Natural Resources MEG relates to pension liabilities arising from the transfer of staff from the Environment Agency Wales to Natural Resources Wales on 1 April 2013. Active members and those eligible to be active members of the Environment

Agency Pension Fund (EAPF) retained the right to continue in the EAPF when they transferred. From April 2013 the pension liability transferred to Natural Resources Wales and we required a budget to cover any future deficit in the scheme. Whilst the budget has been included in the two years since the transfer it has not been utilised.

**2.20** The Central Services and Administration MEG reported an underspend of £33.1 million. The majority of this variance related to the inclusion of a budget included in the Second Supplementary Budget for exchange rate losses on funding for future EU projects receivable in Euros. However, it was not possible to calculate a value for the potential loss due to the range of variables (future exchange rates, final claims to be received from projects etc.), the number of possible outcomes for each variable, and the unknown probability of the factors that affect these variables.

**2.21** 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 2014-15, the Welsh Government reported Fiscal Resource DEL reserves of £60.3 million and Capital DEL reserves of £1.9 million. We planned to carry forward both these reserves along with 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 had a cap of 10% in 2014-15).

**3.2** Table 1 illustrates the final reserves position. The balances to be carried forward for the Wales DEL will be £69.3 million Fiscal Resource, £13.6 million Non-Fiscal Resource and £3.3 million Capital which are within the Treasury limits.

**Table 1 Carry forward resulting from Welsh Government outturn**

	<b>Fiscal Resource £m</b>	<b>Non Fiscal Resource £m</b>	<b>Capital £m</b>
Reserves as per Second Supplementary Budget 2014-15	60.3	54.3	1.9
2014-15 Welsh Government underspends	8.3	20.3	1.4
2014-15 Assembly Commission underspend	0.1	-	-
2014-15 Public Services Ombudsman for Wales underspend	0.2	-	-
2014-15 Auditor General for Wales underspend	0.4	-	-
<b>Balance to be carried forward to 2015-16</b>	<b>69.3</b>	<b>13.6<sup>1</sup></b>	<b>3.3</b>
<i>Treasury Budget Exchange Limits</i>	<i>82.9</i>	<i>3.1</i>	<i>32.7<sup>2</sup></i>

<sup>1</sup> 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.

<sup>2</sup> The capital limit is made up of £20.7m traditional and £12m financial transactions.

- 3.3** 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 Ombudsman, the Public Services Ombudsman for Wales and the Auditor General for Wales.
- 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 Welsh Government's Second Supplementary Budget 2015-16.
- 3.5** Allocations from the Fiscal Resource reserve of £109.5 million were made in the First Supplementary Budget of 2015-16.

## Annex 1 – Departmental Expenditure Limit (DEL) Outturn 2014-15

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	6,178.8	166.9	315.6	6,174.4	160.2	315.2	4.4	6.7	0.4
Local Government	4,570.1	0.2	22.4	4,568.7	-	22.2	1.4	0.2	0.2
Communities & Tackling Poverty	347.0	0.5	393.4	346.9	0.3	393.4	0.1	0.2	-
Economy, Science & Transport	518.9	155.0	459.8	518.1	152.7	459.5	0.8	2.3	0.3
Education & Skills	1,500.9	116.6	153.8	1,500.5	106.9	153.8	0.4	9.7	-
Natural Resources	295.6	9.7	133.0	295.2	9.7	132.8	0.4	-	0.2
Central Services & Administration	295.4	16.0	22.6	294.6	14.8	22.3	0.8	1.2	0.3
<b>TOTAL</b>	<b>13,706.7</b>	<b>464.9</b>	<b>1,500.6</b>	<b>13,698.4</b>	<b>444.6</b>	<b>1,499.2</b>	<b>8.3</b>	<b>20.3</b>	<b>1.4</b>

## Annex 2 – Annually Managed Expenditure Outturn 2014-15

Main Expenditure Group	Supp Budget £m	Outturn £m	Under/ Over(-) Spend £m
Health & Social Services	188.7	94.2	94.5
Local Government	66.8	21.8	45.0
Communities & Tackling Poverty	-72.6	-72.6	-
Economy, Science & Transport	66.9	57.3	9.6
Education & Skills	309.5	288.1	21.4
Natural Resources	2.9	-	2.9
Central Services & Administration	32.3	-0.8	33.1
<b>TOTAL</b>	<b>594.5</b>	<b>388.0</b>	<b>206.5</b>