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Y Gweinidog Cyllid  
Minister for Finance



Llywodraeth Cymru  
Welsh Government

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Jocelyn Davies AM  
Chair, Finance Committee  
Welsh Government  
Cardiff Bay  
Cardiff  
CF991NA

3 / October 2013

Dear Jocelyn,

Thank you for your letter of 4 October 2013 in respect of my 2012-13 outturn report.

I am very happy to provide clarification on the issues that you raised, taking each in turn:

1. Under our budgetary procedures as laid out in the Government of Wales Act 2006 any excess income received by Welsh Ministers (above that approved in the Budget Motion) is payable to the Welsh Consolidated Fund (WCF). In 2012-13 our receipts for the year exceeded the total approved in the Second Supplementary Budget Motion by £30.9 million. The largest element of these excess receipts related to EU grant claims.

As there is currently no specific enactment expressly forbidding the repayment of European income to the WCF, the excess funds had to be accounted for as a balance owed to the WCF. This scores as a cash funding creditor and we intend to adjust our 2013-14 cash limit accordingly.

This issue has been raised in the Management Letter from the Wales Audit Office following the audit of the 2012-13 accounts. The Welsh Government has responded to this as follows:

- Officials will review whether there is a better way to classify and financially manage European income within the confines of the current legislation. As for the recovery of the funds, although there is no DEL impact (surrendering of funds represents a cash adjustment only) action will be needed at the second

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supplementary budgetary motion stage to ensure the cash is made available for 2013-14.

- In addition, WEFO are already taking action to prevent this re-occurring in future. This involves greater monitoring of claims and earlier forecasting by the business areas to ensure that WEFO have a clear picture of outturn well in advance of the year end.
2. The purpose of the Summary of Resources note is to highlight the flow of cash from the Welsh Consolidated Fund (WCF) to the Welsh Government. The note includes the initial supply authorisation from the WCF plus an additional line relating to the additional cash drawing authorised under Section 128 of GOWA 2006 in relation to the purchase of Cardiff International Airport. Although the purchase proceeded as planned, the costs were met from existing cash balances.
  3. The savings resulted from a combination of improved contract prices, reduced spending activity, increased income and re-prioritised spending against the: digital mapping, research, Value Wales, Public Service Management Wales, and election costs budgets.
  4. The fiscal resource DEL savings of £3.6 million in 2012-13, in the Health, Social Services and Children MEG, were made up of a number of outturn variances which offset each other. There were a number of areas within the MEG that are demand led and were difficult to predict and many of these had an outturn position at less than originally expected. Savings were achieved from more efficient delivery of programmes and a number of work areas experienced delays, with commitments slipping into 2013-14. These will have all contributed to the final savings figure.

As an example of some of these, the following under spends were reported at year end:

- £1.2 million on the Service Level Agreement with the National Leadership and Innovation Agency for Healthcare (NLIAH). This organisation, which is funded from the NHS Workforce and Organisational Development Budget, carried a number of staff vacancies all year and also subsequently experienced some slippage in some non business-critical programmes.
  - £1 million on the funding of the Medical & Dental Postgraduate Deanery. This was down to a number of high value staff vacancies throughout the year and some other running cost efficiencies being delivered in year.
  - £1.7 million on the budgets of the National Institute for Social Care and Health Research (NISCHR). This amount accrued as a result of a lower than expected final contribution from Wales to UK funded research programmes, an underspend on a demand led budget supporting treatment costs in NHS research programmes and the unexpected return of some grant funding allocated in the previous financial year.
5. The non fiscal resource DEL (sometimes referred to as 'non-cash') covers budgetary items such as depreciation of fixed assets, impairments following valuations and the charge for the annual write-off of student loans.

The small BETS overspend on non fiscal resource resulted from increased depreciation charges in relation to ICT infrastructure network assets, based on a

revised valuation of those assets at the end of the year, the impact of which could not be anticipated in-year.

The other MEGs all returned underspends on non fiscal resources. The most significant of which were:

- Health, Social Services and Children (£25.1 million): the underspend was largely attributable to the impact of the District Valuer's quinquennial valuation of the NHS Wales estate;
- Education and Skills (£18.6 million): the underspend was related to the write off of student loans issued in the year, which is calculated by a statistical model that takes into account a number of variable economic factors; and
- Local Government and Communities (£7.2 million): the underspend reported was a result of the final roads network valuation which is provided annually by independent valuers.

6. The Welsh Government invites local authorities to apply for Gypsy and Travellers Sites Capital Grant funding annually. This includes applications for the development of new sites and the refurbishment of existing local authority owned sites. Each application is judged on its merits against set criteria by a panel that includes an official from the Welsh Government's Estates Department.

For 2012-13, Powys Council submitted an application for funding towards a new Gypsy and Traveller site with ten pitches in Brecon. The proposed new site would be the first Gypsy and Traveller site to be built in Wales since 1997. The Welsh Government awarded Powys Council £1.75 million over two years from the Welsh Government's Gypsy and Traveller Capital Grants budget, of which £1 million was to be funded from the 2012-13 budget.

Following the compulsory purchase of the land, there were three objectors against the plans for the proposed new site which resulted in a public enquiry. Due to the delay caused by the enquiry, Powys were unable to proceed and spend their £1 million allocation in 2012-13. The Welsh Government sought to re-allocate this funding to other local authorities to enable them to carry out refurbishment projects at authorised Gypsy and Traveller sites in Wales but due to the short timescales it was unable to spend around £0.4 million of this funding.

Following the public enquiry in Powys the Planning Inspector concluded "there is a compelling case in the public interest for confirmation of the [compulsory purchase] order" and that the compulsory purchase order be confirmed without modification. As no subsequent appeal has been made, Powys Council are proceeding with the acquisition of the site. The Welsh Government is now providing the full £1.75 million funding for this site in 2013-14.

7. HM Treasury have strict rules on how much departments and devolved administrations are allowed to carry forward in reserves under the Budget Exchange Mechanism. Furthermore the reserve is in a sense ring-fenced for these specific budgetary items. The limit for non fiscal resource DEL is 0.6% of the total budget.

The reserve is set to cover a worst case scenario on large items which are hard to control and involve a degree of uncertainty in the estimates, for example the annual roads valuation, and so carrying headroom in this reserve is quite normal.

The current year balance on the non fiscal resource reserve stands at £84.4 million. Based on these current estimates a further £84 million carried forward would not be necessary.

8. The reserves for the current year are set out in the June Supplementary Budget. The carried forward balances totalling £45.8 million have been added to the relevant reserves for use in the current year.

As part of the announcement I made on 8 October, alongside the publication of the Welsh Government 2014-15 Draft Budget, I set out plans to increase the Health budget by £570 million, £150 million of which will be allocated from the fiscal resource reserve in the current year. This will provide the Welsh NHS with the resources it needs to respond to the challenges being faced by health services across the UK and wider, stemming from the Francis review into patient safety and to support sustainable improvement.

I also announced a £170 million investment in housing which includes £34.5 million in the current year for Help to Buy Cymru, a new shared equity scheme which will assist people to purchase new build homes.

I am providing financing of £82 million for economic development, which includes £27.5 million in the current year for access to finance for SMEs, support for business growth, stimulating exports and safeguarding Welsh jobs.

These important investments are financed from capital reserves. The remaining reserves for 2013-14 will be utilised to manage unforeseen pressures.

I would be happy to discuss any of these matters if appropriate and look forward to continuing our work in respect of the current financial year.

Best wishes,



**Jane Hutt AC / AM**

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