

Agenda – Finance Committee

Meeting Venue: Hybrid – Committee room 4 Ty Hywel and video conference via Zoom	For further information contact: Owain Roberts Committee Clerk 0300 200 6388 SeneddFinance@senedd.wales
Meeting date: 1 May 2024	
Meeting time: 09.30	

Registration

(09.00–09.15)

Private Pre-meeting

(09.15–09.30)

1 Introductions, apologies, substitutions and declarations of interest

(09.30)

2 Paper(s) to note

(09.30)

2.1 PTN 1– Letter from the Cabinet Secretary for Finance, Constitution & Cabinet Office: Welsh Tax Acts etc. (Power to Modify) Act 2022 – 19 April 2024

(Pages 1 – 2)

2.2 PTN 2 – Letter from the Counsel General: Update on the recommendations made in the Finance Committee's report on the Financial implications of the Senedd Cymru (Members and Elections) Bill – 23 April 2024

(Pages 3 – 5)

2.3 PTN 3 – Letter from the Cabinet Secretary for Finance, Constitution & Cabinet Office regarding two analytical reports which use income tax data to explore migration – 24 April 2024

(Page 6)



2.4 PTN 4 – Letter from the Cabinet Secretary for Finance, Constitution & Cabinet Office: Response to recommendations made in the Finance Committee's report on the Second Supplementary Budget 2023–24 – 25 April 2024

(Pages 7 – 18)

3 Fiscal Intergovernmental Relations: Evidence session 3

(09.30–10.30)

(Pages 19 – 33)

Professor Nicola McEwen, Director of the Centre for Public Policy at the University of Glasgow

Professor Michael Kenny, Director at Bennett Institute for Public Policy, University of Cambridge

Supporting documents:

Senedd Research Brief

Break

(10.30–10.40)

4 Fiscal Intergovernmental Relations: Evidence session 4

(10.40–11.30)

(Pages 34 – 51)

Dr Paul Anderson, Senior Lecturer in Politics at Liverpool John Moores University

Supporting documents:

FIN(6)–10–24 P1 – Dr Paul Anderson: Consultation response

Senedd Research Brief

5 Motion under Standing Order 17.42 (ix) to resolve to exclude the public from the remainder of this meeting

(11.30)

6 Fiscal Intergovernmental Relations: Consideration of evidence

(11.30–11.40)

7 Review into the operations, processes and investigations carried out by the Public Services Ombudsman for Wales: Terms of Reference

(11.40–12.10)

(Pages 52 – 73)

Supporting documents:

FIN(6)–10–24 P2 – Scoping paper

FIN(6)–10–24 P3 – PSOW draft terms of reference / candidate list

8 Update on the Wales Audit Office Board Membership

(12.10–12.25)

(Pages 74 – 89)

Supporting documents:

FIN(6)–10–24 P4 – Cover paper

FIN(6)–10–24 P5 – Terms and conditions of Non-Executive Board Members

Rebecca Evans AS/MS
Ysgrifennydd y Cabinet dros Gyllid, y Cyfansoddiad
a Swyddfa'r Cabinet
Cabinet Secretary for Finance, Constitution & Cabinet Office



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref

Chair of the Finance Committee and
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19 April 2024

Dear Sarah and Peredur

Thank you for the joint letter in response to my letters to the Chairs of your respective Senedd Committees.

I would like to clarify any potential misunderstanding of my proposed meeting. I have not yet reached the stage where I am able to make proposals as to the future architecture for making changes to the Welsh Tax Acts. Prior to commencing work on the proposals, my intention was for my officials to meet with you to gain insights and early thinking, including discussing proposals you may have, understanding your views on essential parts of any future architecture, and how the proposals may operate. This is because I intend for you to be involved from the start in this process to ensure that your proposals can be included early in the planning stage.

The Chancellor's budget on 6 March provided an example of the types of external events that the power provided in the Welsh Tax Acts etc. (Power to Modify) Act 2022 was specifically aimed. The Chancellor announced that the stamp duty land tax (SDLT) transfers involving multiple dwellings relief would, subject to Parliament's approval, be repealed with effect from 1 June 2024. The Provisional Collection of Taxes Act 1968 resolutions passed after the Chancellors speech included the abolition of the relief as well as related transitional rules. Due to the commonality of the rules in SDLT and our own land transaction tax (LTT) relief for acquisitions involving multiple dwellings, there will be block

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grant adjustments and a reduction in our resources resulting from the Chancellor's announcements.

I had planned to launch a consultation seeking views on proposals to amend the relief for acquisitions involving multiple dwellings as part of the final budget on 5 March. However, given the Chancellor's statement was to occur the following day, I chose to wait to see if any announcements impacted my plans. You will not be surprised to hear that the UK government chose not to share their plans with me or my officials prior to the Chancellor's announcement. As you will know, I launched a consultation on 8 April on the abolition of the LTT relief for acquisitions involving multiple dwellings and some other matters. The abolition of the SDLT transfers involving multiple dwellings relief provides a timely example of the issues that can arise because of external events that we will need to ensure the future architecture can address.

I therefore ask that we make arrangements for this initial presentation and meeting as I am very eager to hear what proposals Members from the two Committees may have as to what might provide the appropriate future architecture.

Yours sincerely,

A handwritten signature in black ink that reads "Rebecca Evans". The signature is written in a cursive, flowing style.

Rebecca Evans AS/MS

Ysgrifennydd y Cabinet dros Gyllid, y Cyfansoddiad a Swyddfa'r Cabinet
Cabinet Secretary for Finance, Constitution & Cabinet Office

Mick Antoniw AS/MS
Y Cwnsler Cyffredinol
Counsel General



Peredur Owen Griffiths MS
Chair
Finance Committee

Llywodraeth Cymru
Welsh Government

23 April 2024

Dear Peredur

Senedd Cymru (Members and Elections) Bill

Further to my letters of 21 February and 4 March regarding the Welsh Government's response to the Finance Committee's recommendations on the financial implications of the Senedd Cymru (Members and Elections) Bill, I am writing to provide an updated position ahead of Stage 3 proceedings.

In accordance with Standing Order 26.28, I have today laid before the Senedd a revised Explanatory Memorandum which takes account of amendments made to the Bill at Stage 2. The Explanatory Memorandum also includes a revised Regulatory Impact Assessment, which responds to a number of the committee recommendations at Stage 1.

My officials have continued to work closely with the Senedd Commission on the Committee's recommendations and the updated positions are included in the table attached to this letter.

I am copying this letter to the Llywydd.

Yours sincerely,

A handwritten signature in blue ink, reading 'Mick Antoniw', with a horizontal line underneath the name.

Mick Antoniw AS/MS
Y Cwnsler Cyffredinol
Counsel General

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Recommendation	Update
<p>Recommendation 4. The Committee recommends that the Minister, in consultation with the Senedd Commission, undertakes further modelling of Commission staff costs to include the minimum and maximum pay scales to provide a range of costs, and for this information to be included in a revised Regulatory Impact Assessment..... Page 28</p>	<p>Senedd Commission officials have provided revised Commission staff costs including the minimum and maximum pay scales which are included with the revised Explanatory Memorandum/Regulatory Impact Assessment (EM/RIA) ahead of Stage 3 proceedings.</p>
<p>Recommendation 7. The Committee recommends that the Minister, in consultation with the Senedd Commission, undertakes a review of the current configuration of Members’ offices in Tŷ Hywel, to include: • an assessment and cost-benefit analysis on the use of open-plan working; • and an assessment of the energy use. Page 29</p>	<p>A separate response to this recommendation has been sent from the Llywydd.</p>
<p>Recommendation 8. In light of the new electoral system which may result in uplifts to Members’ travel, residential accommodation and staff costs, the Committee recommends that the Minister, in consultation with the Senedd Commission, reassesses these costs and provides a range rather than using the average costs of current Members, and for this information to be included in a revised Regulatory Impact Assessment. Page 29</p>	<p>From discussions my officials have had with Senedd Commission officials, I understand that an exercise was undertaken to identify a credible methodology to estimate such costs in a way which addressed the recommendation. However, it was established that at this time costs could not be determined with any degree of accuracy. There are a number of variables which would need to be considered and for which there is currently insufficient information available (for example how Members would operate in a multi-member constituency, no equivalent constituency sizes to use to extrapolate claims etc).</p> <p>The Independent Remuneration Board will undertake work to develop the Determination in advance of the Seventh Senedd, it is not appropriate for us to pre-empt this work.</p>
<p>Recommendation 9. The Committee recommends that the Minister, in consultation with the Senedd Commission, updates the cost estimates relating to Members in the Regulatory Impact Assessment:</p> <ul style="list-style-type: none"> • using the financial information from the latest available Determination on Members’ Pay and Allowances; and • includes the additional salary to leaders of a political group (not in the government) for each 	<p>Senedd Commission officials have provided revised costs on Members’ Pay and Allowances which have been included with the revised EM/RIA ahead of Stage 3 Proceedings.</p> <p>Costs for the additional salary to political group leaders have been included in the revised EM/RIA ahead of Stage 3 proceedings.</p>

<p>Member in their group (up to the maximum allowed for in the Determination). Page 29</p>	
<p>Recommendation 10. The Committee recommends that the Minister, in consultation with the Senedd Commission, undertakes further work to assess the impact that different demographics of newly elected Members will have on the Members' Pension Scheme. Page 29</p>	<p>Senedd Commission officials have confirmed to my officials that the Pensions Board plans to commission a report from the Government Actuary's Department ("GAD") on the impact on the pension fund of Senedd Reform and that the Pensions Board will be content to share, in confidence, the resultant GAD report with the Finance Committee.</p>
<p>Recommendation 11. The Committee recommends that the Minister, in consultation with the Senedd Commission, provides further clarity on the schedule of work that will be undertaken on the Senedd and Tŷ Hywel estates, should the Bill not be agreed. Page 29</p>	<p>A separate response to this recommendation has been sent from the Llywydd.</p>
<p>Recommendation 14. The Committee recommends that the Minister undertakes further work to understand the level of volatility in membership from one Senedd to the next and associated cost implications, including the impact on the Members' Pension Scheme, in light of the move to a four-year election cycle.</p>	<p>As per response to recommendation 10.</p>

Agenda Item 2.3

Rebecca Evans AS/MS
Ysgrifennydd y Cabinet dros Gyllid, y Cyfansoddiad
a Swyddfa'r Cabinet
Cabinet Secretary for Finance, Constitution & Cabinet Office



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: RE/124/2024

Peredur Owen Griffiths MS
Chair of Finance Committee

24 April 2024

Dear Peredur,

I am pleased to inform you that HMRC have published two analytical reports which use income tax data to explore migration.

The first publication is an analysis of the longitudinal dataset which was commissioned by the Welsh and Scottish Governments. It was jointly funded by the Welsh, Scottish and UK Governments. The dataset covers the location and incomes of UK taxpayers over a 12-year period and allows for detailed analysis of the movement of taxpayers and income within the UK.

The analysis finds that both Wales and Scotland saw a gradual increase in net in-migration of taxpayers from the rest of the UK from 2016-17 onwards, with a larger uptick in 2020-21 and 2021-22 – possibly in response to the COVID pandemic.

The second publication, 'Exploring impacts of 2018-19 Scottish Income Tax changes on intra-UK migration and labour force participation' uses econometric analysis to estimate responses to the 2018-19 Scottish Income Tax changes. Specifically, it estimates migration between Scotland and other parts of the UK, and whether people entered or left the labour market. The analysis suggests that net migration to Scotland for individuals earning above the Higher Rate threshold would have been higher in the absence of Scottish Income Tax changes.

I welcome these additions to the evidence base. The analysis will help to improve the methodology used to calculate the impact of changes in Welsh Rates of Income Tax (WRIT) and published in the WRIT Ready Reckoner alongside our draft Budget. The development of this evidence base also provides important information to help guide future tax policy decisions.

Yours sincerely,

Rebecca Evans AS/MS
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FIN(6)-10-24 PTN 4

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Peredur Owen Griffiths MS
Chair, Finance Committee
Senedd Cymru
Cardiff Bay
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25 April 2024

Dear Peredur

Thank you for your Committee's scrutiny of the Second Supplementary Budget 2023-24 and the report that followed.

I attach a written response to the recommendations made which I hope you find useful.

Yours sincerely,

Rebecca Evans AS/MS

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Cabinet Secretary for Finance, Constitution & Cabinet Office

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WELSH GOVERNMENT RESPONSE TO RECOMMENDATIONS FROM THE FINANCE COMMITTEE REPORT:

SCRUTINY OF WELSH GOVERNMENT SECOND SUPPLEMENTARY BUDGET 2023-24

APRIL 2024

Recommendation 1

The Committee recommends that the Minister calls for maximum flexibility within the Fiscal Framework to enable the Welsh Government the ability to:

- carry forward funding from one financial year to the next, particularly when changes to consequential funding are made in the UK Supplementary Estimates; and
- increase annual draw down limits on the Wales Reserve in 2023-24 and future years.

Response: Accept

Welsh Government Ministers continue to make representations to the UK Government for additional fiscal flexibilities through the appropriate channels, including the Finance: Inter-ministerial Standing Committee (F:ISC) and through bilateral meetings and correspondence with the Chief Secretary to the Treasury and the Chancellor of the Exchequer.

The fiscal levers currently available to the Welsh Government limit our ability to respond quickly to emerging needs, leaving us dependent on decisions made by the UK Government, which fail to recognise the impact on our budgets and the scrutiny provided by the Senedd. The current UK financial arrangements do not offer the predictability and funding certainty required to support our budget planning and that of our partner organisations.

The Institute for Fiscal Studies (IFS) has previously highlighted the case for enhanced reserve powers in Wales and for drawdown limits to be increased, if not abolished. It is the view of the IFS that the existing limits on the total amount that can be held in reserves should, at the very least, be indexed in some way to account for growth in devolved spending and tax revenues.

The final report of the Independent Commission on the Constitutional Future of Wales noted that the budget restrictions applied by HM Treasury undermine the Welsh Government's ability to manage its budget and plan for the long term. The report argues that the financial flexibilities that we continue to seek from HM Treasury are reasonable, and that it should either accept them or explain its reasoning.

On 27 February, all parties in the Senedd jointly tabled a motion and voted unanimously for the UK Government to provide Wales with additional fiscal flexibilities.

In 2024-25 the Welsh Government's borrowing and reserve limits will be worth almost a quarter (23%) less in real terms than when they were introduced in 2018-19. Welsh Government Ministers have repeatedly made the case for Welsh Government borrowing and reserve limits to be indexed to inflation and for the limits on its Reserve draw-down to be abolished. These flexibilities were provided to the Scottish Government last August and are equally applicable to Wales.

In addition, the increase in the level of capital borrowing flexibility offered by the UK Government to Northern Ireland to support the restoration of the Executive starkly contrasts with the absence of increase to our borrowing limits.

Our general capital budget in 2024-25 is worth up to 8% less in real terms than when it was set at the time of the 2021 Spending Review. There must be fairness and consistency applied in the operation of the UK funding arrangements across all parts of the UK.

On top of the increases to borrowing and draw-down limits, the Cabinet Secretary for Finance, Constitution and Cabinet, along with the other devolved Finance Ministers, continues to make the case for the UK Government to establish a principle that funding confirmed at UK Supplementary Estimates can be managed across financial years, in addition to any carry forward permitted under reserve arrangements. This would formalise previous arrangements and provide devolved governments with a greater degree of certainty to plan effective public services.

Devolved governments have been permitted to carry forward funding at UK Supplementary Estimates that differs by more than 10% from the initial estimates provided in January. Whilst any agreement which provides support to manage the risk of uncertainty is welcome, this mechanism is insufficient when material changes are notified as late as January in a financial year. This year, the combined resource changes represented more than half the total value of the Wales Reserve.

At the latest meeting of the F:ISC on 14 March, the Cabinet Secretary for Finance, Constitution and Cabinet (formerly the Minister for Finance and Local Government) secured agreement from the Chief Secretary for HM Treasury and devolved government officials to work together to bring forward further proposals on how the UK Supplementary Estimates process can be improved in future years.

The Finance Committee's continued support on this issue is welcomed.

Recommendation 2

The Committee recommends that the Minister provides further information regarding the rationale for and impact of the Treasury's decision not to allow the switch in funding from revenue to capital has had on the Welsh Government's in-year financial position.

Response: Accept

HM Treasury did not agree to our request to switch capital to revenue beyond those that resulted from Barnett adjustments from switches agreed for UK Government Departments, and it is only due to other changes that the impact of the switch being rejected has been mitigated.

We reviewed our capital programmes as part of the in-year savings exercise when we asked the UK Government to switch some of our capital budget to revenue.

When the Chief Secretary to the Treasury rejected that request, we reviewed our capital position and, in the short timeframe available, made some capital allocations which could be delivered by the end of the year.

In our second supplementary budget we anticipated carrying forward around £70m of capital in the Wales Reserve to utilise in future years.

The current process whereby the Welsh Government is allocated switches based on a Barnett share of Whitehall switches is not fit for purpose and does not take account of its specific needs.

We are pleased to have on record the support of the Conservative benches for us to have the ability to undertake Capital to Resource switches.

Whilst the Cabinet Secretary for Finance, Constitution and Cabinet has set out the impact of HM Treasury's decision, ultimately it is for HM Treasury to set out its rationale.

Recommendation 3

The Committee recommends that the Minister lays an additional supplementary budget motion before the Senedd when making significant in-year changes to the Welsh Government's spending plans.

Response: Reject

The Budget Protocol agreed by the Finance Committee and the Welsh Government sets out the commitment to publish two supplementary budgets each year.

Supplementary budgets are not just about spending plans, but the level of resources received. They are the formal mechanism to agree the Government's spending plans and regularise the financing of spending through funding received from the UK

Government and devolved taxes. Only when all of that information is available is it appropriate to bring forward a supplementary budget.

Consideration is given to the timing of each supplementary budget to ensure it reflects changes to budgets as a result of decisions made by the Welsh Government, and also to capture changes that arise as a result of decisions by the UK Government.

For that reason, we attempt to align the timing of our supplementary budgets to the UK Government Main and Supplementary Estimates to allow the Senedd to scrutinise both the level of resources as well as proposals for their deployment.

The first supplementary budget of a financial year is normally published following the conclusion of the UK Government's Main Estimate; this may also confirm changes arising from the UK Government's Spring Statement in March which were notified at too late a stage to include in the Welsh Government's Final Budget.

The second supplementary budget is normally published following the conclusion of the UK Government's Supplementary Estimate. Because this supplementary budget is the last opportunity during the financial year to regularise changes because of UK Government decisions, the timing is critical to ensure spending proposals approved by the Senedd include those changes. The UK Supplementary Estimate is usually concluded in early February.

Allocative decisions, either from the Welsh Government reserve or reprioritised within MEGs to address emerging pressures, can be made in advance of a supplementary budget and regularised in a forthcoming supplementary budget.

An additional supplementary budget was brought forward during the first year of the Covid pandemic in light of the exceptional additional funds announced by the UK Government in the middle of that year.

Recommendation 4

The Committee recommends that the Minister attends a formal scrutiny session as soon as possible after the details in the event of any significant in-year changes being made to the Welsh Government's budget.

Response: Accept

The Cabinet Secretary for Finance, Constitution and Cabinet continues to welcome the scrutiny of the Finance Committee and supports engagement in the budget process.

This includes scrutiny of significant in year changes such as the in-year budget review exercise undertaken over the summer months of 2023.

Recommendation 5

The Committee recommends that the Minister explores publishing forecast outturn information at regular intervals within the year, to include an analysis of expenditure within each MEG and how these allocations are delivering against planned outcomes, in order to provide the upmost transparency for the Senedd and the Welsh public.

Response: Accept in Principle

We already outline substantive information throughout the financial year through our Draft, Final and Supplementary Budget publications. We report the monitoring and delivery of outcomes through the Programme for Government report. In addition, throughout the year we publish a range of information through our website on the monitoring and outcomes of policy areas. We are happy to consider improvements through our work on the Budget Improvement Plan, recognising that such changes must be proportionate and should also be considered through any changes to the Budget Protocol.

Recommendation 6

The Committee recommends that the Minister provides details of the progress that Local Health Boards are making in meeting target control totals before the outturn position in the summer, and explains how the Welsh Government is monitoring progress to avoid the need for additional allocations in this area in future years.

Response: Accept

All but three NHS organisations are currently forecast to achieve the targets set for them in November, including the 10% reductions in deficits requested.

Unfortunately, three Boards have been unable to hit their target control totals, however the Cabinet Secretary for Health and Social Care partially offset those deficits by finding increased savings within her budget portfolios.

The combined deficit of the NHS, at Month 11, was forecast as £71.5m above the target control totals set by the Minister.

The Cabinet Secretary for Health and Social Care and her officials have continued to work with NHS organisations to seek improvement in their positions both in this financial year and going forward.

There is an established escalation framework for NHS organisations and the Minister made an oral statement setting out the position on the 23rd of January.

Although the overall level of escalation reflects wider considerations in addition to the financial position, it is worth noting that the three Health Boards that are forecasting to fall short of their target control totals are all in higher levels of escalation.

Betsi Cadwaladr UHB is in Special Measures; the Minister placed Hywel Dda, as a whole, into Targeted Intervention in January; and Aneurin Bevan was escalated to Targeted Intervention specifically for Finance and Planning.

Health Boards submitted their Integrated Medium Term Plans (IMTPs) by the end of March, these are being reviewed and financial plans for 24-25 are being scrutinised.

Recommendation 7

The Committee recommends that the Minister provides further information on the impact that decreases in funding for mental health policies through the Supplementary Budget will have on mental health services.

Response: Accept

We were facing an extremely challenging financial situation in 2023-24 and we had to take action mid-year in order to ensure we could manage our overall position. There were significant budget savings identified from across Government and we reshaped our budget to support front line public services.

As part of that work significant savings were identified by the Minister for Health and Social Services in her own MEG. This included review of the HSS central budgets which were then redirected to provide further support for front line pressures in the NHS – including in mental health services. There were a number of elements of the centrally held mental health funding that had not been fully committed and they were identified as part of this exercise.

We provided details on the majority of this reduction within our addendum to the Strategic Integrated Impact Assessment for 23/24 which was published in December.

The central mental health funding increased by £25m for 2023-24 and it was deemed likely that there would be delays in implementing plans as well as uncontrollable delays in legislation, therefore budgets could be reduced, and the impacts minimised.

There were some areas of policy work that have been slowed down due to this, but core services in the NHS, including the ring-fenced Mental Health budget were protected and supported by the actions we took in-year.

It is important to recognise that the main Mental Health budget is out in the core NHS funding and is ring fenced. For 2023-24 this is around £774m and it remains the clinical area where we spend the most in the NHS.

Recommendation 8

The Committee recommends that the Minister undertakes an impact assessment to understand the benefits of the subsidies provided within the Supplementary Budget to support the public transport system and shares its findings with the Committee by the time of the First Supplementary Budget 2024-25.

Response: Agree in Principle

An assessment of the benefits of providing this funding has already been undertaken as part of the Strategic Integrated Impact Assessment. A summary of this is provided below.

It has been an exceptionally challenging time for the rail industry across the UK. We took the decision to protect essential rail services by providing £125m to Transport for Wales (TfW) in the supplementary budget, which had been identified in TfW's business plan to operate services and introduce new trains. This was not included in the initial budget in order to work with TfW to reduce the amount required to the minimum levels.

Without the funding TfW would not have been able to maintain the continued operation of all of their rail services and jobs would have been at risk. The funding was required to meet the gap in TfW's revenue budget caused by the impact the Covid pandemic had on the ambitious revenue projections from the original KeolisAmey bid in 2018. Some operational costs have increased as a result of inflationary pressures, many of these costs were known from the outset, but have not been able to be offset as the pandemic resulted in 3 years of no growth in passenger revenue. Income from passenger revenue has now recovered to the level it was at prior to the pandemic and we are working with TfW to build on this to deliver passenger growth needed to reduce future subsidy.

We have invested significantly more funding into rail than under the previous system. The benefits of this approach are new trains across the Wales and Borders area, the £1bn transformation of the Core Valley Lines and additional more frequent services. The significant investments already made into rail across Wales would have been put at risk without the funding provided in the Supplementary budget. The full package of investment will also help to grow demand and therefore increase revenue income significantly over the coming years.

Recommendation 9

The Committee recommends that the Minister provides an update on the impact that reductions in the Central Services and Administration MEG will have on Welsh Government staff numbers.

Response: Accept

As is the case for all Welsh Government budgets, the CSA MEG budget is set within a very challenging fiscal context. To address these challenges, the Welsh Government 2025 (WG2025) programme is the vehicle for change and continuous improvement to the organisation and staff resources that support the delivery of Welsh Government's delivery priorities. To prepare for the wider challenges ahead, WG2025 has been refocused and streamlined and now comprises three workstreams, **ReSize**, **ReSpace** and **ReShape** each charged with designing and implementing changes that will help us continue to deliver for people in Wales in very different financial circumstances.

The WG2025 programme and governance structure continues to work in close social partnership with trade union partners throughout its implementation. Staff insight groups will also be established to ensure the programme benefits from the ideas and insight of Welsh Government officials at all grades and in all parts of Wales.

The majority of the running costs budget of the Welsh Government is spent on staff and the **ReSize** workstream will help develop a workforce plan that is affordable within budgets. Actions that have already been taken include moving to an external by

exception recruitment process, removing a number of previously agreed external vacancies, and reviewing temporary contracts.

In March a Voluntary Exit Scheme was launched. This is a programme that allows Welsh Government employees to leave their employment voluntarily in return for a severance payment. The exact numbers leaving the organisation via the scheme will depend on workforce planning implications and the grade mix of those applying but it is anticipated this will be in the region of 150 people. However, as with any scheme of this kind it must be appropriately targeted so that the organisation does not lose skills and experience that will be essential for the future.

The **Reshape** workstream is looking at the current operating model and the skills and capability of staffing resources, and making sure that the organisation is concentrated in the right areas or whether resources should be re-aligned to meet priorities. It is considering what might need to change to increase impact and effectiveness, including radical options, and how digital and technology can support that change. Importantly, it will also consider how we can build a sustainable, skilled and supported organisation for the future.

The **ReSpace** workstream is considering options to reduce the Welsh Government estate; make more efficient use of buildings; identify cost savings that can be achieved in the next year while taking a longer-term view on the future of the estate. This work is underpinned by a focus on how to reduce the carbon footprint of the estate and support effective SmartWorking.

Document is Restricted

Agenda Item 4

Cyflwynwyd yr ymateb i ymgynghoriad y [Pwyllgor Cyllid](#) ar [Cysylltiadau Rhynglywodraethol Cyllidol](#).

This response was submitted to the [Finance Committee](#) consultation on [Fiscal Intergovernmental Relations](#).

FIR_01: Ymateb gan: Dr Anderson, Prifysgol John Moores Lerpwl | Response from: Dr Anderson, Liverpool John Moores University



Finance Committee, Senedd Cymru

Call for Evidence: Fiscal Intergovernmental Relations

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1. Intergovernmental relations (IGR) are essential in any multi-level state. They serve various functions, *inter alia*, the management of policy overlaps and interdependencies, policy coordination and dispute resolution. IGR can take different forms: informal/formal bilateral/multilateral, vertical/horizontal and legal/political. In the whole, they tend to take place informally, but formal structures are crucial to facilitate regular interaction.
2. In the UK, little attention was paid to how relations between the UK and devolved governments would develop in the aftermath of devolution in the late 1990s, resulting in relatively weak and under-developed intergovernmental structures. In the 25 years since the inception of the devolved legislatures in Scotland, Wales and Northern Ireland, much has changed. In the intergovernmental arena, the original Joint Ministerial Committee (JMC) structures have been significantly overhauled and replaced by a three tier structure, undergirded by a commitment by all governments across the UK to work constructively in a spirit of mutual respect and trust.
3. Fiscal relations are one of the most important areas vis-à-vis IGR. Not only is this a topic that tends to generate most dispute, but particularly in the UK and the nature of devolved finances, there is significant interdependence between the UK and devolved governments.

Finance Interministerial Standing Committee (F:ISC)

4. The F:ISC is one of the principal forums within the three-tiered IGR structure created in 2022. It sits alongside the Interministerial Standing Committee (IMSC) and deals specifically with 'the impact of economic and finance matters affecting the UK'.
5. Since its establishment, it has met six times (March 2022; June 2022; February 2023; June 2023; September 2023; January 2024) with meetings taking place in Cardiff, Edinburgh and London and chaired by the respective governments in these locations.
6. Notably, there is a 7 month gap between 2022-23 where no meeting took place. This is perhaps explained by the political turmoil the UK Government found itself in during this period. The F:ISC was not unique in this sense; several other IGR forums failed to meet during this period. Disappointingly, despite regular interaction in other forums, the Council, the top-tier forum to bring together the Prime Minister and First Ministers has not met since November 2022, despite its terms of reference requiring one meeting per year.
7. The terms of reference for the F:ISC note that the forum will typically meet once per quarter (though this could be more or less frequent). Beyond the gap noted above, there has been regular meetings. In this regard, the F:ISC can be considered somewhat effective. Regular interaction is a key element to build effective and successful IGR, normalising interaction, enhancing networks and crucially, building and maintaining trust between officials. Further, particularly in the context of fiscal policy, regular interaction should make the people involved much more aware of the interdependencies between governments, underlining the importance of coordination, cooperation and good communication.
8. Like other IGR structures, such as the IMSC and Interministerial groups, a significant strength of the F:ISC is the rotating chairs and locations of meetings. While a fairly small element, this makes intergovernmental interaction less hierarchical (a common criticism of the JMC

structures). In the six meetings that have taken place so far, two have been in Cardiff, two in Edinburgh and two in London.ⁱ Through the Secretariat, any government can submit an agenda item to be discussed at each meeting. This places the governments on a fairly equal footing and ensures an equal stake in building constructive relations and making IGR work.

9. In general, the F:ISC seems to be working well with no evidence of disquiet from government ministers. That said, as the committee is well aware, there is an issue around communication on the part of the UK Government as relates to budgets and fiscal announcements. Using the F:ISC as a principal (confidential) forum ahead of key events to discuss upcoming announcements with the devolved governments would seem a sensible solution. The absence of this engagement probably speaks to an undercurrent of mistrust by UK Government departments regarding interaction with the devolved institutions, as well as, a lack of knowledge about how devolution works.
10. A notable weakness of IGR in the UK relates to the lack of intergovernmental political culture found in other decentralised and federal states. Coordination and cooperation between governments tends to be the exception rather than the rule. In this regard, it is often pointed out that personalities and the mindsets of the people involved matter. For IGR to work effectively, there needs to be a willingness by participants to work together in a constructive manner, undergirded by a sense of parity of esteem. The terms of reference for the F:ISC are quite revealing in this regard, specifically the repeated references to the 'devolved administrations' rather than 'devolved governments' which is the case in the rest of the Review. 'Devolved administrations', sometimes abbreviated to 'DAs' is typical Whitehall language that tends to reinforce a hierarchy in UK governance structures with one (UK) Government and the rest mere administrations. This hints, therefore, at the continued dominance of the Treasury over the devolved governments in fiscal IGR. This is unhelpful and undermines the message of cooperation the Review seeks to emphasise. As a colleague and I have argued elsewhere, the experience of countries like Australia, Canada and Spain where IGR 'tend to be used to advance the central government's agenda rather than generating a true spirit of cooperation' show that having central government departments preside over IGR forums is a bad idea.ⁱⁱ

Scrutiny

11. Parliamentary scrutiny of IGR is undoubtedly an important element in holding government to account. In most states, however, parliaments often have a limited role; IGR tend to be executive-dominated. The Review of Intergovernmental Relations offered very little with regard to parliamentary scrutiny, with no reference to concrete measures to facilitate parliamentary oversight. Below I offer a few suggestions on how scrutiny could be enhanced.
12. First, I would encourage committees to conduct inquiries into IGR on a more regular basis. Akin to my point above about regular interaction fostering trust between different governments, more regular IGR evidence gathering sessions by committees would underline the importance of IGR taking place but also reporting these outcomes in a transparent way. In this vein, it would make sense to hold hearings with ministers before/after each F:ISC meeting to discuss in detail the substance of intergovernmental interaction and potential topics to be raised.
13. I would also encourage the committee to invite more people to give evidence on intergovernmental topics. I am well aware that getting ministers to appear at committees is a difficult and onerous task, and an issue shared across the different parliaments.ⁱⁱⁱ I do, however, think it imperative that UK Government ministers engage with parliamentary committees in the devolved legislatures. I am unsure whether there is merit in seeking to

pursue this in terms of a statutory basis, but I think a good start would be some form of agreement between the different governments and parliaments that ministers will find time in their diaries to engage with parliamentary committees in the devolved parliaments.

14. In addition, it might also be worth exploring the possibility of meeting with ministers in private hearings. While it is certainly logical that UK Government ministers should engage with finance committees in the devolved parliaments prior to important fiscal events, such interaction can be easily dismissed on the grounds of confidentiality. This may also be coloured by party politics. Private meetings might allay some of these concerns, but on topics where the subject matter is (politically) sensitive, finding the correct balance between scrutiny and confidentiality is no easy task.
15. Beyond evidence sessions, publications, such as minutes and communiqués published after meetings are an important tool of transparency. In light of the Review, intergovernmental forums have become much better at publishing fairly detailed communiqués. I am pleased to see the Finance Committee receives rather detailed updates from the relevant minister after F:ISC meetings. This is certainly an example of good practice. If possible, it may also be useful for the Committee to seek access to the detailed minutes of these meetings, which do not seem to be publicly available, and as noted above, these could be discussed in a private meeting with the relevant ministers should any queries arise.
16. The horizontal interaction in the form of the Interparliamentary Finance Committee Forum is also an example of good practice. Horizontal relations are rather strong in federal states like Canada and Switzerland, but underexplored in the UK. I would encourage the Committee to continue its engagement with this forum and seek to enhance opportunities for joint work between the various committees in the devolved legislatures. Indeed, there may be merit in pursuing opportunities for the Interparliamentary Finance Committee Forum to also work with committees in the UK Parliament to hold government to account more effectively. Indeed, joint committee hearings could be held with UK Government ministers, freeing up time for such ministers to attend one joint meeting between the various committees rather than several separate meetings.
17. Finally, parliamentary scrutiny of IGR would be enhanced via the establishment of a dedicated committee to examine IGR. I believe other committees would still be able to explore specific areas relevant to their remits, but a dedicated committee would certainly increase scrutiny.

Dispute Resolution

18. The reform of the dispute resolution procedure in the Review of Intergovernmental Relations was a welcome development. It addressed previous criticism of the JMC structures whereby the UK Government served as both judge and jury in addressing disputes, even in cases where it was party to a dispute. This is no longer the case, and the dispute resolution mechanism is more formalised, managed by the Secretariat.
19. Notably, the F:ISC has its own dispute procedure. While this follows much of the same process as other disputes, grounds for raising a dispute in the F:ISC are more restricted. The Forum's terms of reference state 'all parties acknowledge that policy decisions on funding are strictly reserved to Treasury ministers, with engagement with the devolved administrations as appropriate. As outlined in the Statement of Funding Policy, funding disputes may only be raised where there is reason to believe a principle of the Statement of Funding Policy may have been breached.'. In essence, and much like previous JMC structures, the UK Government/Treasury remains the dominant partner.
20. The limited grounds for raising a dispute hint at the overbearing role the Treasury has in fiscal IGR. To ensure more collegial and cooperative IGR this will require greater effort on the part

of the Treasury to meaningfully engage with the devolved governments prior to, for example, changes to the Statement of Funding Policy.

21. To date, only the Northern Irish Executive has raised a dispute with the Treasury. There has been no published outcome and it was reported in the House of Lords in January 2024 that in light of the Executive being in abeyance the dispute was 'on pause'.^{iv} Now the Executive is back up and running, more details on this are likely to be forthcoming.
22. The new procedure is certainly an improvement on the previous structure, but hitherto it remains untested. Whether the new mechanism is 'fit for purpose' remains to be seen.

Final Remarks

23. The reform to IGR structures since January 2022 are certainly a significant move forward in enhancing the effectiveness of intergovernmental interaction in the UK. Sensibly, the new structures are less hierarchical and the commitment to more regular interaction is a welcome development to facilitate more constructive intergovernmental engagement.
24. One of the main challenges to more meaningful IGR in the UK relates to political culture. Despite 25 years of devolution, very little has changed in Westminster and Whitehall where a unitary attitude often prevails (evident in recent years in the repeated disregard for the Sewel Convention and muscular unionism strategy). A political culture, predicated on important principles and values such as, mutual respect, partnership, recognition and trust is often lacking.
25. The Review set out agreed principles by the governments across the UK. While the UK is not a federation, what it requires is a more federal political culture in which IGR are based on parity of esteem and meetings/negotiations are conducted in a spirit of cooperation and compromise. Institutions, structures, and processes matter, but so too does willingness to want to make them work.
26. There are evident issues around communication on the part of the UK Treasury vis-à-vis fiscal announcements. This is, in part, informed by the unitary political culture that characterises Whitehall engagement with the devolved institutions. I think it sensible for the committee to explore the extent to which the F:ISC can facilitate and enhance communication prior to fiscal events.
27. Finally, as I noted earlier, there is merit in strengthening horizontal cooperation among the various devolved parliaments. Interparliamentary Relations (IPR) can serve as an important avenue to further enhance relations between the different constituent units of a state. Further, in using IPR as a tool of scrutiny, the transparency of IGR can be enhanced. This is certainly an area in the UK that deserves much more attention, particularly given the executive dominated nature of IGR. In the absence of a territorially representative second chamber, which in many federal systems serves as an intergovernmental chamber, the various committees in the respective legislatures in Westminster, Holyrood, Cardiff and Belfast should play a more active role in scrutinising IGR. Enhancing IPR and building further links between committees and the legislatures would be a welcome development, facilitating opportunities for knowledge exchange, the sharing of best practice and giving voice to parliamentary issues.

ⁱ The first meeting in March 2022 was chaired by the UK Government, though I am unsure if it took place in London or online.

ⁱⁱ Paul Anderson and Johanna Schnabel. 2022. 'Review of intergovernmental relations: the new interministerial structures are a step in the right direction', *LSE British Politics and Policy*.

<https://blogs.lse.ac.uk/politicsandpolicy/intergovernmental-relations-review/>

ⁱⁱⁱ See, <https://committees.parliament.uk/publications/34108/documents/187687/default/>

^{iv} Baroness Penn, Intergovernmental Relations within the United Kingdom. HL Deb, Vol. 835, Col, 563.

[https://hansard.parliament.uk/Lords/2024-01-18/debates/EC6CEB7C-0864-4233-A71C-](https://hansard.parliament.uk/Lords/2024-01-18/debates/EC6CEB7C-0864-4233-A71C-4B85E0D730C6/IntergovernmentalRelationsWithinTheUnitedKingdom?highlight=dispute%20pause#contribution-1A7D1AA4-2D82-4126-A559-50FFFE35B02F)

[4B85E0D730C6/IntergovernmentalRelationsWithinTheUnitedKingdom?highlight=dispute%20pause#contribution-1A7D1AA4-2D82-4126-A559-50FFFE35B02F](https://hansard.parliament.uk/Lords/2024-01-18/debates/EC6CEB7C-0864-4233-A71C-4B85E0D730C6/IntergovernmentalRelationsWithinTheUnitedKingdom?highlight=dispute%20pause#contribution-1A7D1AA4-2D82-4126-A559-50FFFE35B02F)

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Agenda Item 7

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