

WELSH GOVERNMENT RESPONSE TO CONCLUSIONS FROM THE FINANCE COMMITTEE REPORT:

SCRUTINY OF WELSH GOVERNMENT SECOND SUPPLEMENTARY BUDGET 2019-20

Recommendation 1

The Committee recommends that details are made available to the Committee as soon as possible after the UK Budget detailing the impact of changes at the UK level on the Welsh Budget, specifically in relation to the 2019-20 Budget.

Response: Accept

On the day of the UK Budget on 11 March, the Minister for Finance and Trefnydd issued a written statement providing an update to Members on the immediate implications for Wales. The statement covered the impact of spending announcements via the Barnett formula, and also how the new macroeconomic forecasts affect devolved tax revenues and the associated block grant adjustments. There were no impacts relating to the 2019-20 Budget and, in line with the commitment made at the final budget debate, the Minister for Finance and Trefnydd will be writing to the Committee shortly in relation to 2020-21.

Recommendation 2

The Committee recognises the issues detailed by the Minister in relation to the late notification by the UK Government of financial transactions allocations following the UK Supplementary Estimates and recommends that the Welsh Government continues to seek an increase in the annual carry forward of financial transactions capital to reflect both the more complex nature of projects which use this funding and uncertainties that frequent late in-year changes by

the UK Government add to planning and administering the allocation of this funding.

Response: Accept

The Minister for Finance and Trefnydd has said repeatedly, including to this committee, that the restrictions placed on the use of financial transactions capital constrains the Welsh Government's ability to maximise the full monetary face value and effectiveness of this funding as a part of Capital funding.

The decision of the UK Government to reduce the Welsh Government's financial transactions capital budget late in the financial year has added another element of uncertainty into an already complicated situation. The Minister wrote to the then Chief Secretary to the Treasury on 4 February, setting out her deep concern of the handling and communication of the changes, and at the scale of the impacts for the Welsh Budget so late in the financial year. This point was reiterated in the Minister's pre-budget letter to the Chancellor of the Exchequer of 6 March, making clear the challenges that making late reductions to Welsh Government budgets in this financial year, creates, and the impact this has on capital spending power next year.

As the UK Government's planned Comprehensive Spending Review approaches this summer, the push for greater funding flexibility will continue. This includes increases to the capacity of the Wales reserve and aggregate and annual borrowing limits to ensure that the necessary levers to maximise resources in the way that makes most sense for Wales are available. The wider issue of how best to ensure that Financial Transactions funding is managed to enable Devolved Administrations to deploy this funding effectively is one that will continue to be raised with the UK Government. The Minister has indicated that progress must be made on this issue as a matter of urgency.

Recommendation 3

The Committee recommends that updates are provided on the Welsh Government's discussions with the UK Government following the HS2 announcement and whether this will result in consequential funding for Wales.

Response: Accept

The Welsh Government is concerned about HS2 and how the funding will impact on its budget through the Barnett formula over the next spending review, especially given the negative economic impact that HS2 is expected to have in Wales. The Minister for Finance and Trefnydd will update the Committee in respect of HS2 following the spending review.

The UK Government's commitment to levelling up economic performance across the UK is welcomed. However, unless Wales benefits from increases in funding for rail programmes in England, the part of the UK facing the biggest economic challenges will be denied the opportunity to address them.

The Welsh Government will now be responsible for a substantial element of rail infrastructure in Wales through the Core Valley Lines transfer. It has ambitious plans to develop the South Wales Metro over the next few years. It will be important that a fair share of funding to make this a reality is received, given the expected negative economic impacts of HS2 on Wales.

The other devolved administrations will benefit from increases in funding for rail investment programmes in England through the Barnett formula. Without similar treatment, Wales - the part of the UK facing the biggest economic challenges - will be denied the opportunity to address them.

In the light of these arguments, the Welsh Government will continue to call for Wales to receive its fair share of the additional spending promised by the UK Government on infrastructure generally and HS2 in particular.

Looking ahead, the full devolution of rail infrastructure powers and a fair funding settlement as was set out in evidence to the Williams Review, is the only rational long-term solution to achieve shared integrated public transport network ambitions.

Recommendation 4

The Committee recommends that the Welsh Government provides additional detail in the outturn report to identify the detailed end of year position, including significant allocations that are made following this Supplementary Budget.

Response: Accept

The audited outturn for 2019-20 will be reported against the budget lines published and approved in the Second Supplementary Budget 2019-20. Any significant allocations; underspends or overspends will be detailed in the report.

Recommendation 5

The Committee recommends that the Welsh Government discusses the long term affordability of the student loan policy with the UK Government and reports back to the Committee.

Response: Accept

Student Loans policy is one of the many areas where discussions take place with the UK Government alongside a number of other longer term policy objectives. Where there are changes in policy instigated by either Welsh Government or UK Government with financial implications, this will be reported back to the Committee at the appropriate time.