

WELSH GOVERNMENT RESPONSE TO RECOMMENDATIONS FROM THE FINANCE COMMITTEE REPORT:

SCRUTINY OF WELSH GOVERNMENT FIRST SUPPLEMENTARY BUDGET 2020-21

JUNE 2020

Recommendation 1

The Committee recommends that the Welsh Government continues to monitor and explore whether consequentials received through the Barnett formula are reflective of the needs of Wales, particularly in light of COVID-19.

Response: Accept

The Welsh Government's long term aim is for a needs based funding system that operates consistently across the UK. Since the Fiscal Framework Agreement in 2016, the Barnett formula does at least include a needs-based element for Wales. The additional 5% that the Welsh Government receives on top of its population share of new allocations has resulted in £130m of extra funding in relation to the measures introduced to deal with the coronavirus pandemic. While the Barnett formula is far from ideal, it has delivered significant additional resources to deal with the crisis in a timely fashion.

In the current situation, our focus is on ensuring we receive the correct funding in relation to the many and frequent announcements from the UK Government. We are pressing the UK Government for clarity over the level of funding available to the Welsh Government this year, to enable effective budget management and the prompt allocation of resources to support the economy and public services in Wales.

The Welsh Government is monitoring the cost pressures arising from COVID-19 closely. If elements arise which cannot be managed within the current framework, we will make the case for separate arrangements to the UK Government. The additional flexibilities referred to in Recommendation 6 are also relevant in this context.

Recommendation 2

Should consequentials not adequately reflect the needs of Wales in light of COVID-19 the Committee recommends that the Welsh Government confirm with UK Government alternative funding options as a matter of urgency.

Response: Accept

As noted in response to Recommendation 1, the Welsh Government is carefully monitoring the cost pressures this year. It has introduced a range of innovative measures at pace in response to the pandemic, repurposing existing funding and utilising additional resources.

The budgetary situation is dynamic, with both cost pressures and funding levels shifting rapidly over time. If the existing arrangements are not sufficient to deal effectively with the impacts of COVID-19, the Welsh Government will make the case for alternative options. Along with the other devolved administrations, we are already pressing the UK Government for additional flexibilities this year to help manage the budgetary impact of COVID-19.

Recommendation 3

The Committee recommends that the Welsh Government insists that the UK Government provides as much information as promptly as possible, on any UK Government announcement that affects Wales, its residents and/or the businesses that operate here.

Response: Accept

We have consistently called on the UK Government for early and meaningful engagement on spending measures and policy changes that will impact on devolved responsibilities before they are made. It is important that these arrangements are formalised and put in place to meet the challenges and opportunities presented by EU Exit and the wider economic and social uncertainties resulting from COVID-19. This approach aligns with wider developments, supported by all UK Governments to establish effective inter-governmental machinery.

Recommendation 4

The Committee recommends that an update is provided on the role of the Counsel General and how the Counsel General's work on COVID-19 recovery dovetails with the Minister's planning for the rest of this financial year and 2021-22.

Response: Accept

The Minister for Finance and Trefnydd and Counsel General issued a joint statement on 14 July on *Stabilisation and Reconstruction in the Wake of the Coronavirus Pandemic* which provided an update on how the work on COVID-19 recovery is aligned with our 2021-22 budget preparations.

This outlined-how we intend to prioritise and innovate as we prepare for 2021-22, with the way forward defined by two phases. An initial phase where we stabilise our economy and our public services, followed by an intense effort to reconstruct our society on a new basis. We have already started to work towards reconstruction, developing a strategy which will run alongside the budget process. A further update on our progress will be provided in the autumn.

Recommendation 5

The Committee would welcome details of the discussions undertaken with public sector organisations facing significant reductions in income this year, and recommends that the Committee is provided with details of how the Welsh Government has worked with these organisations to mitigate the impact of the reductions.

Response: Accept

The Welsh Government has, and continues, to extensively engage with public sector organisations during the COVID-19 pandemic. Frequent discussions take place at both Ministerial and official level to keep fully updated of the impact of the pandemic on those organisations, including the financial impacts.

The impacts across the sector vary and Ministers have met with many of the organisations within their remit, working closely to understand the specific needs and the most effective way of mitigating the financial impacts.

Early into the crisis, it was recognised that some public sector organisations rely on income generated from commercial sources to finance their operating costs and these commercial activities would no longer operate as a result of COVID-19. Guidance was provided on how the Job Retention Scheme would apply. Where necessary, this has allowed those organisations to furlough staff who, otherwise, were at risk of redundancy.

Clearly, Welsh local authorities have suffered a loss of income and we have worked closely with them and the WLGA throughout the pandemic to understand and support local government in Wales. We allocated £78m to local government in the first supplementary budget for this purpose. We also recognise that a number of our sponsored bodies will have lost income due to the pandemic. Ministers meet regularly with these bodies to discuss the overall financial impact of COVID-19. We have made a number of allocations in respect of the various pressures faced by these bodies and the sectors they support.

Recommendation 6

The Committee agrees with the Minister's view on needing flexibility regarding increasing annual limits relating to Welsh Government borrowing and reserves. The Committee recommends that the Welsh Government provides an update to the Committee on its discussions with HM Treasury regarding flexibilities in borrowing and reserves.

Recommendation 7

The Committee recommends that an update is provided on the Welsh Government's discussions with HM Treasury regarding the ability to switch capital to revenue when discussions have been finalised.

Response: Accept

Discussions are ongoing with the UK Government regarding additional budgetary flexibilities. We will write to the Committee with an update on the outcomes of those discussions when they conclude.

Recommendation 8

The Committee recommends that the basis on which funding is reallocated from capital to revenue projects should be clear, and accompanied by the relevant impact assessments.

Response: Accept

The consideration of which capital budgets could be released to support a switch to revenue if needed is being undertaken by Ministers. As part of this consideration, an assessment of the potential impacts will be undertaken. Whilst the initial approach is to identify slippage that has occurred as a result of the pandemic, we have been clear that identifying these budgets will necessarily require difficult choices that may impact on our ability to deliver on our capital plans. In doing so, we are seeking to protect as far as possible those budgets which are necessary to deliver either existing contractual commitments or to protect our citizens, and those budgets which support this Government's key priorities.

Recommendation 9

When providing information on the projects that have been delayed/deferred in order to switch capital to revenue, the Committee recommends that the Welsh Government provides details on the workstreams and the value of funding being released.

Response: Accept

The work to identify potential capital budgets for release to support a switch from capital to revenue is currently ongoing, and no decisions have yet been taken as to which projects may need to be delayed or deferred. Once any decisions have been

taken, the Minister for Finance and Trefnydd will write to the Committee, setting out the detail and value of any funding released.

Recommendation 10

The Committee recommends that the Welsh Government provides further information about the actual and projected additional costs for local health boards as a result of COVID-19 measures and the allocations to be made to them as a result of the increase in funding reflected in the Supplementary Budget.

Response: Accept

£573m has been allocated to the Health and Social Services MEG in this budget to support the COVID-19 response. This includes over £113m that the Minister for Health and Social Services was able to repurpose within his MEG to direct towards the immediate COVID-19 response.

More than £490m is being directed to supporting Health Boards and Trusts. Allocations include funding for personal protective equipment, field hospitals, additional staffing, testing and additional medical equipment and consumables. £288m has been allocated to NHS organisations during June with the remaining funding due to be allocated when costs have been confirmed.

Throughout the early part of the pandemic we were able to ensure that funding approvals were made swiftly and cash support for the NHS response was in place at the right time. NHS organisations are now submitting regular monthly monitoring information which is identifying the cost impact of COVID-19 both through the early months of the year and forecasts for the rest of 2020-21.

Recommendation 11

The Committee recommends that, once the estimates have been derived, the Welsh Government provides information in respect of the costs of decommissioning all field hospitals.

Response: Accept

Work is continuing on the level of decommissioning costs as estimates are being developed by NHS bodies in conjunction with site owners and contractors. Updated estimates will be available by September 2020. However, a more detailed understanding of the final outturn costs of decommissioning will be dependent on the timescales for occupation, taking into account the condition of the properties at the time of handback and the exact scope of works required to reinstate to the previous standards.

Recommendation 12

The Committee agrees that additional funding is required to support the Welsh Government's 'Test Trace Protect' Strategy and recommends that additional information is provided in respect of the strategy. This should include information about what the funding will deliver and the key performance indicators against which the effectiveness of related expenditure will be measured, both in terms of the capital required to establish the programme and its running costs over the coming months.

Response: Accept

The key aims of the Test, Trace, Protect (TTP) [strategy](#) published on the 14th May are to:

- Identify those who have symptoms consistent with COVID-19, enabling them to be tested while isolating from wider family, friends and their community;
- Trace those individuals who have been in close contact with the person who has tested positive on any occasion during a period beginning up to two days before they started experiencing symptoms, and requiring them to take precautions and self-isolate (for 14 days);
- Provide advice and guidance, particularly where the individual who has tested positive or their contacts are vulnerable or at greater risk; and
- Ensure that when an individual tests negative and the symptoms are not due to coronavirus, individuals and their contacts can get back to their normal routines as soon as possible.

The current speed of research enables us to continually improve and refine our response in keeping with the core tenets of the strategy. Funding distributed to health boards, local authorities and Public Health Wales enables these organisations to deliver against these key aims.

Testing

Welsh Government's new testing [strategy](#) sets out why, where and how we will test. Our four testing priorities for the coming weeks and months will be:

1. **Protecting our NHS** to keep our staff and patients safe;
2. **Contact tracing** to prevent the spread of the virus and understand how it spreads from one person to the next;
3. **Protecting vulnerable groups** and those at greatest risk; and
4. **Future delivery** - using new technologies to improve our understanding of the virus.

This strategy builds upon the latest evidence which has been submitted from our Technical Advisory Group and the work of SAGE and its' subgroups. However, we know that data and evidence is still evolving, where questions remain about the virus and our individual immune response. The testing strategy will be iterative and continue to evolve as evidence emerges. These over-arching objectives will be supported by initial measures to review the efficacy of our response.

Testing KPIs

- Number of Antigen Tests completed
- Number of Antibody Tests completed
- Turnaround Times (from point of sample to result)
 - NHS Wales Labs
 - Non-NHS Wales Labs

Testing at scale with rapid turnaround enables action to be taken by individuals and organisations to minimise the risk of spread of the virus. Rapid testing is also crucial for both our economy and businesses, in order to get individuals with symptoms but who do not have COVID-19 back into employment and to identify where there is the

potential to spot any emergent trends or potential outbreaks. Work is continually underway to refine these measures and ensure that data is available and easy to interrogate at a local, regional and national level.

Contact Tracing

Welsh Government has made £45m available this financial year to health boards and local authorities to cover the cost of the contact tracing operation. This is sufficient to support a total workforce of 1,800 with capacity to contact trace some 11,000 new positive test cases per week.

This means we are very well placed to be able to deal with a potentially large second wave of the virus. However, the position will be kept under constant review and expanded if necessary.

There are currently some 700 contact tracers in place – this is more than sufficient to cope with the current low level of people testing positive in Wales - and regional plans are in place to rapidly scale up the workforce if circumstances require it, in particular there will be a keen focus on organisational readiness and Winter planning.

Contact Tracing KPIs

The key to ensuring an effective contact tracing operation, which can successfully help to reduce transmission of the virus, is twofold; (i) speed in all parts of process (from test result turnaround times to rapid identification of close contacts) and (ii) the public's continuing support, buy-in and compliance. Contact tracing KPIs include:

- No of positive cases successfully contacted and providing details of close contacts;
- % of positive cases successfully contacted and providing details of close contacts within 24hrs of entering the system;
- No of close contacts successfully traced and advised to self-isolate;
- % of close contacts successfully traced and advised to self-isolate within 24 hrs of being identified;
- No of close contacts complying with advice to self-isolate; and
- No of close contacts subsequently testing positive for COVID-19

It is well established through international (WHO) and national (SAGE & TAC) evidence that speed of response in the end-to-end process is paramount alongside the compliance of the public to heed advice and abide by the law. Non-compliance rates are by their very nature hard to measure however, due consideration is being undertaken as to improving intelligence within this area. It is important to note that indicative modelling by [SAGE outlines](#) a requirement of 80% success rate for contact tracing and isolation where reproduction rate of the virus or R is at 2.5. This would be an over-arching measure/KPI for contact tracing and TTP.

Protect

The protect projects' primary focus is to encourage compliance of the general public with guidance and legislation. In particular the protect project is focussed around ensuring that any challenges to individuals self-isolating where required are mitigated. This support is currently offered via Local Authorities through use of hardship funds and local measures. The protect project seeks to ensure consistent, clear measuring and continual provision of self-isolation support from Local Authorities to more vulnerable citizens. Compliance rates would provide a useable KPI however note the challenge as listed under contact tracing of establishing this data source.

Recommendation 13

The Committee recommends that the Welsh Government accelerates work to support local economies. Town centres will be impacted longer term by changes in retail habits, and the Committee is keen to understand how this work will be refocussed to take into account current circumstances.

Response: Accept

The Deputy Minister for Economy and Transport launched the £4.5m Foundational Economy Challenge Fund in May 2019. The Fund was allocated across 52 projects which were announced in November 2019 and which must complete by the end of March 2021.

Many of the Challenge Fund projects are place based in nature, focusing on trialing novel approaches aimed at creating stronger and more resilient local economies to provide local people with access to Fair Work.

Some of the Challenge Fund projects specifically focus on reimagining town centres. If successful, these projects will provide invaluable learning which can help town centres adapt to the new way of everyday life as we recover from COVID-19.

Delivery of the Challenge Fund projects have been impacted by COVID-19, with many stalling and falling behind schedule since lockdown occurred. The Welsh Government is providing direct support to stalled projects to enable them to refocus what may be delivered by the end of March. A Community of Practice has been established to assist projects to collaborate and to enable rapid capture and spreading of good practice which can help revitalise local economies.

Transforming Towns was launched in January 2020 to address the decline in town centres and the reduced demand for high street retail. A £90m budget was announced to support measures to address specific town centre issues, including a £15m fund and expert advice to tackle empty properties, £5.3m to support the introduction of green infrastructure, and the adoption of a 'Town Centre First' principle as Government policy, that would encourage public sector bodies to locate services in town centres.

COVID-19 is likely to have accelerated this decline and urgent work has been undertaken to review existing budgets and consider the refocus of funding to support the reopening of town centres and COVID recovery. More than £5m has been allocated to activities that will support town centre re-openings. Potential interventions could include funding support for the more effective use of outdoor space, greening the urban environment, providing infrastructure to support street markets, facilitating temporary use of empty buildings, and store front adaptations. Any investment will look at the longer term future for our town centres and a greater emphasis on the proactive application of the Town Centre First principle across all sectors. The vision supported is of towns that have "Leisure,

Living and Learning” in harmony with a retail offer that is focussed on smaller geographic areas.

A National Town Centre Action Group has been established, which is chaired by the Deputy Minister for Housing and Regeneration and focussed on actions that will reinvigorate town centres following relaxation of lockdown rules. This is supported by four Regional Groups focussed on the recovery and growth of our town centres.

Research has been commissioned with a leading expert on the Foundational Economy in Wales. The research will play an essential part in informing and supporting the economic and social recovery of town centres in Wales post-COVID and will focus on the liveability and sustainability of town centres. It will also include consideration of the role that anchor institutions play in town centres, and how the public sector can support and encourage employees to live and work in town centres.

The Deputy Minister for Economy and Transport has announced £3.7m to support and enhance the Transforming Towns offer in the Valleys region. The funding will provide additionality to the funding already available through the wider Transforming Towns agenda. It will be specifically targeted at smaller town centres in the Valleys region and will focus on responding to the impact of COVID-19, including considering how to enable communities to work closer to home within town centres and active travel elements.

The Deputy Minister for Economy and Transport also recently announced a new £15.4m fund for local sustainable transport to make it safer and easier for people to get around their towns by providing better active and sustainable travel infrastructure. This will help lock-in those positive increases in active travel that we have seen during COVID for the long-term.

Between 2014 and the end of the current round of funding, **c. £800m** investment in towns across Wales (including levered funding) will have been enabled through Regeneration activities.

Recommendation 14

Once discussions with local government and HM Treasury have concluded the Committee recommends that the Welsh Government provide the Committee with a full breakdown of the additional funding for flooding and how it intends to allocate that funding.

Response: Accept

Despite the pandemic we have continued to work with local authorities to assess the devastating and ongoing impacts of flooding and what support is needed over the longer term. Following completion of these initial necessary assessments the Minister for Finance and Trefnydd wrote to the Chief Secretary to the Treasury on 11 June seeking confirmation that the UK Government will meet its promise to provide funding to meet these longer term costs. Discussions are ongoing and we will write to the Committee with further details once they have concluded.

Recommendation 15

The Committee recommends that the Welsh Government provide further information as to how funding is being reprioritised to focus on a green recovery from COVID-19.

Response: Accept

Through the work being led by the Counsel General we are considering how to focus resources on a green recovery from COVID-19. Early matters being considered as part of this work include how we maximise the use of our natural resources sustainably.

Recommendation 16

The Committee recommends that the Welsh Government provide information on how much additional funding will be given and how it will be allocated to support local authorities in embedding positive transport changes.

Response: Accept

We have provided funding of £15.4m to local authorities to introduce measures to improve the safety and conditions for sustainable and active travel modes in their area in response to the COVID-19 crisis and to achieve sustained changes in travel behaviour in the future. £2m of the funding is being specifically used to implement schemes around schools. The funding will improve conditions for pedestrians and cyclists in both urban and rural areas.

It is our intention to follow up this first tranche and make further funding available where it is needed.

Recommendation 17

The Committee recommends that the Welsh Government is more explicit in terms of planning scenarios that are being considered for the end of the EU transition period and the associated funding that is needed.

Response: Accept

We will publish an updated Chief Economist's Report as part of the publication of the 2021-22 Draft Budget, which will analyse a range of factors, including EU exit, that are likely to impact on the Welsh tax base and the Welsh Government's fiscal prospects.

It also remains the case that in response to the ongoing uncertainty linked to EU exit, we have planned on the basis that we will receive either from the UK Government, or from the EU, the same level of funds which have historically come to Wales from the EU. We continue to press the UK Government for more clarity about how it will deliver on its promises that Wales will not lose a penny of EU funding after the transition period ends, and that the devolution settlement will be fully respected. In the lead up to the Comprehensive Spending Review we expect to undertake more detailed discussions with the UK Government about our expectations in this respect, based on analysis of EU funding previously awarded in Wales, and our best understanding of the likely costs of future participation in EU programmes or domestic replacements.
