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Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref MA/RE/4213/20

Llyr Gruffydd MS,
Chair Finance Committee,
Senedd Cymru,
Cardiff Bay,
Cardiff
CF99 1NA

19 January 2021

Dear Llyr,

Thank you for your Committee's scrutiny of the Second Supplementary Budget 2020-21 and the report that followed.

I attach a written response to the recommendations made, together with a restatement annex of the Second Supplementary Budget reflecting the ministerial changes announced on 8th October.

I hope you find these useful.

Yours sincerely,

Rebecca Evans AS/MS
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Minister for Finance and Trefnydd

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

WELSH GOVERNMENT RESPONSE TO RECOMMENDATIONS FROM THE FINANCE COMMITTEE REPORT:

SCRUTINY OF WELSH GOVERNMENT SECOND SUPPLEMENTARY BUDGET 2020-21

Recommendation 1

The Committee recommends that the Welsh Government considers how it can provide up-to-date information on its spending commitments in regard of the pandemic, as well as providing transparency on the finance it has available and the consequential it is receiving.

Response: Accept

We welcome the Committee's acknowledgement of the steps the Welsh Government has taken this year to provide as much transparency as possible with regard to the fiscal implications of the pandemic on the Welsh Government's Budget, including the transparency afforded to the Senedd in bringing forward the additional Supplementary Budget.

The challenges in terms of reconciling the UK Government guarantee funding against specific spending decisions in England was highlighted by the Minister for Finance and Trefnydd in the evidence session on the Spending Review on 16 December. Since then, the Minister has written to the Finance Committee confirming arrangements to bring forward a third supplementary budget in the new year which will provide a full account of the funding the Welsh Government has available and spending commitments since the second supplementary budget was published.

Recommendation 2

The Committee recommends that the Welsh Government provides a breakdown of the costs of decommissioning field hospitals, including where funding for that activity falls within announcements accounted for in either the First or Second Supplementary Budget 2020-21.

Response: Accept

Funding of £166m was announced as part of the First Supplementary Budget to open field hospitals across Wales and included costs relating to the decommissioning of the Dragon Heart Field Hospital. Following a reduction in the likely revenue requirements linked to the field hospitals, the £166m was reduced to £141m in the Second Supplementary Budget and includes costs relating to decommissioning and consequential losses of all field hospitals across Wales.

The table below provides the current estimates for decommissioning costs from the Health Boards. There are no decommissioning costs for Aneurin Bevan or Powys Health Boards.

	Decommissioning costs £m
Swansea Bay	3.906
Betsi Cadwaladr	7.928
Cardiff & Vale	9.963
Cwm Taf Morgannwg	0.395
Hywel Dda	4.338
	<u>26.530</u>

Recommendation 3

The Committee recommends that the Welsh Government provides a breakdown of the £1.3 billion provided to NHS organisations for COVID-19 and publishes a breakdown of the detailed costs associated with the stabilisation package.

Response: Accept

The £1.3 billion allocated to the Health and Social Services MEG in the First and Second Supplementary Budgets has enabled Welsh Government to stabilise the financial positions of NHS organisations as they have responded to the impact of Covid-19. The funding has been used to support both local and national plans, including the establishment of the field hospital network, provision of PPE to the health and social care sectors, testing and contact tracing, and use of the independent sector to provide additional hospital capacity.

As at the end of November, £938.7 million had been allocated to individual NHS organisations, including hosted bodies, as follows:

	Covid-19 allocations to 30th November
	£000
Aneurin Bevan UHB	97,992
Betsi Cadwaladr UHB	116,534
Cardiff and Vale UHB	109,231
Cwm Taf Morgannwg UHB	77,102
Hywel Dda UHB	69,919
Powys	20,279
Swansea Bay UHB	96,803
Public Health Wales NHS Trust	18,136
Velindre NHS Trust	4,328
Welsh Ambulance Services NHS Trust	2,143
Welsh Health Specialised Services Cttee	26,071
NHS Wales Shared Services Partnership	299,856
NHS Wales Informatics Service	310
Total to 30th November	938,705

These amounts represent a combination of full year allocations to organisations for their local plans and funding allocated on an actuals basis as incurred for centrally funded costs. The funding for NHS Wales Shared Services Partnership includes £275 million for PPE for health and social care. A detailed breakdown of the final allocations will be provided at the end of the financial year.

Recommendation 4

The Committee recommends that the third supplementary budget provides further detail on any subsequent funding for Track, Trace and Protect, particularly the protect element of the strategy.

Response: Accept

£1m has been allocated for local authorities to deliver Protect activities such as help with shopping, pharmacy delivery, befriending and support around financial advice and guidance. Local authorities can also use the budget to deliver additional support for individuals around temporary accommodation, substance misuse, mental health and wellbeing and revised care packages. Officials are developing a monthly monitoring report with local authority Protect leads with the first report due shortly.

In addition the £32m Self-Isolation Support Scheme launched on 16 November which offers a £500 payment to people who have been asked to self-isolate through the Test, Trace, Protect programme. The scheme was extended on 14 December to include parents and carers of children who have been asked to self-isolate.

Recommendation 5

The Committee recommends that the Welsh Government provides a breakdown of the funding claimed by each local authority against the funding the Welsh Government has made available, in the next supplementary budget.

Response: Accept

We will publish a breakdown of payments by service area and local authority from the Local Government Hardship Fund, for additional costs and loss of income, on the Welsh Government website before the next supplementary budget.

Recommendation 6

In relation to financial support for transport providers, the Committee recommends that additional information is published detailing the level of funding that transport providers have accessed to date, as well as any further information on the Welsh Government's expectations for further funding in this area in 2020-21.

Response: Accept

Following the end of the third quarter of the current financial year, the Welsh Government, through Local Authorities and Transport for Wales, will be undertaking a reconciliation of funding accessed by transport operators and will do so again following the end of the financial year. This information will be published by local authority as it becomes available.

Recommendation 7

The Committee recommends that the Minister for Finance and Trefnydd continues to strongly argue the case, in conjunction with other devolved administrations, for the relaxation of the annual borrowing limits and drawdown from the Wales reserve.

Response: Accept

We welcome the Committee's continued support with regard to this important issue. Ahead of the Spending Review, the Minister for Finance and Trefnydd, together with the Finance Ministers in Scotland and Northern Ireland, called on the UK Government for three main budget flexibilities, including the ability to carry forward more in the Wales Reserve at the end of the financial year. The Spending Review was silent on these issues.

The fiscal framework sets out the budgetary tools to enable the Welsh Government to manage its finances in as effective a manner as possible and over multiple years. However, the scale of the changes we have seen to the Welsh Government's budget this year and the uncertainties we face are unprecedented. The Minister for Finance and Trefnydd has written again to the Chief Secretary to the Treasury seeking agreement to providing additional flexibilities in respect of managing the resources to respond to the pandemic. We will write to the Committee with an update on the outcomes of those discussions.

Recommendation 8

The Committee recommends that the Welsh Government provides further information on how its reserves have been 'earmarked', at a minimum, in terms of what has been allocated to the COVID-19 reserve and what is available for the end of the EU transition period.

Response: Accept

The Second Supplementary Budget 2020-21 set out at Table 2.2, the Welsh Government's unallocated DEL position at the point of publication. The aggregate unallocated DEL consists of fiscal resource, non-fiscal resource, general capital and financial transactions.

The fiscal resource DEL comprises both the funding that makes up the COVID-19 reserve and the normal reserve that is held for contingency purposes as we move through the financial year. At the time of publishing the Second Supplementary Budget, the unallocated fiscal resource DEL held £923.7m for purposes relating to COVID-19 and £227.7m for other contingencies.

Since then, almost £600m has been allocated from the COVID-19 reserve on a range of measures, including £450m to support businesses under alert level three and four restrictions.

With regard to the end of the EU transition period, we continue to assess the financial implications, and pursue measures to mitigate the impact. Our £50m European Union Transition Fund, announced at the start of 2018, has helped Wales' businesses, public services and most vulnerable people face the end of the transition period with as little disruption as possible. This fund has, for instance, been utilised to support the social care sector, tackle food insecurity, and build up business resilience; areas which have also all been affected by the pandemic. Any further allocations we make this year will be funded through the available unallocated DEL.

However, as set out in the End of Transition Plan, additional funding from the UK Government is critical for delivering actions within the Plan and we continue to call on the UK Government to make that funding available.

Recommendation 9

The Committee recommends that the Minister for Finance and Trefnydd provides the Committee with an update on its correspondence with the UK Chancellor of the Exchequer regarding its requests in terms of EU matters.

Response: Accept

The Minister for Finance and Trefnydd wrote to the Chancellor on 21st October to outline the Welsh Government's main concerns in regards to EU funding matters ahead of the UK Government's Spending Review.

In this letter, the Minister set out the need for additional funding and flexibilities to mitigate the pressures associated with end of transition and transferred functions including requirements for new border infrastructure and stressed that many of the macro financial levers to mitigate the impacts of the economic uncertainty of leaving the EU without a comprehensive trade deal rest at the UK level.

The Minister further highlighted specific concerns in a number of policy areas, including the delays and lack of clarity on the Shared Prosperity Fund, research, development and innovation, European Territorial Co-operation, education and student mobility, and culture and the creative sector.

The Minister also reiterated concerns made earlier (on 20th October) in a joint letter with the Minister for Environment, Energy and Rural Affairs to the Chief Secretary to the Treasury in regards to the proposed approach to replacement EU funds for agriculture and rural development in Wales.

These points were repeatedly emphasised at Ministerial and official level including in a further letter from the Minister for Finance and Trefnydd to the Chancellor dated 13th November, as part of correspondence setting out the Welsh Government's broader priorities ahead of the UK Government's Spending Review.

In this letter, the Minister explicitly made the point again that it was imperative that there was no further delay in sharing the UK Government's approach to the Shared Prosperity Fund, which must fully respect devolution and meet the UK Government's promises that Wales would not be a penny worse off than it would have been had it remained within the EU.

Recommendation 10

The Committee recommends that the Welsh Government works as a matter of urgency to engage with the UK Government and other devolved governments to obtain and publish details of the Shared Prosperity Fund.

Response: Accept

Since the UK Shared Prosperity Fund was announced over three years ago, the UK Government has not meaningfully engaged at Ministerial or official level with the Welsh Government or other devolved governments on its plans. The £220m funding announced for a UK-wide pilot in 2021-22 in the UK Government's Spending Review represents a significant reduction in funding to Wales and creates uncertainty for a wide range of organisations who are working hard to support businesses, communities and individuals when they need it most due to the combined impact of the Covid-19 pandemic and EU exit.

Our Framework for Regional Investment published on 18 November has been developed in partnership with hundreds of organisations from across all sectors – local government, Higher and Further Education, private and third – in Wales, and has been supported by the work of the OECD and a public consultation. It is therefore vital that the hard work we have undertaken together with our stakeholders over the last two years is not lost and that the Shared Prosperity Fund fully incorporates our work and expertise.

Throughout the process of developing a post-EU regional investment policy, we have been in regular dialogue with our counterparts in other devolved governments and have worked together on common approaches to raise the importance of this issue publicly and politically.

We will continue to engage with other devolved governments and press for meaningful engagement with the UK Government, including in regards to how future funding will be distributed and on the role and involvement of the Welsh Government. The Counsel General and Minister for European Transition has written to the Secretary of State for Wales on 22 December to reiterate these points and press for an urgent meeting with both the Communities and Pensions Secretaries as a matter of priority so that we can progress this well in advance of the publication of the Shared Prosperity Funding framework in the Spring.

Recommendation 11

Notwithstanding the potential issues arising from the spending review, the Committee recommends that the Welsh Government works to provide clarity for stakeholders around budgets beyond one-year, in its draft budget 2021-22.

Response: Accept

It is always our aspiration to provide longer-term budgets for our partners and stakeholders when possible, but a significant factor in setting multi-year budgets is the timeframe of our own budget settlement. Despite the UK Government having originally promised a multi-year settlement, we only received a single-year revenue and capital settlement in the UK Government's Spending Review.

The UK Government has published longer-term resource and capital plans for certain programmes, including for the NHS and education. However, these are exclusive to England and do not provide a reliable guide for future funding in Wales, as movements in other programmes not covered by these plans could have a material effect on our overall expenditure limits.

This therefore impacts on the Welsh Government's ability to provide longer-term certainty for the many services and organisations we fund particularly given the fiscal context we are facing. The Chief Economist's report published alongside the Welsh Government's draft budget 2021-22 on 21 December highlights the very great uncertainty we face at the moment, due to the evolving nature of the Covid-19 pandemic and the lack of clarity over the transition path to a new relationship with our key trading partners in the European Union. This is highlighted by the range of scenarios produced by the Office for Budget Responsibility for GDP and unemployment. The report does however show projections of the Welsh Government budget over the next few years which is available to support forward financial planning.

Plans for 2020-21 as at 2nd Supplementary Budget, October 2020										
£000s										
MAIN EXPENDITURE GROUPS (MEGs)	Resource			Capital			AME			TOTAL MEG ALLOCATION
	Fiscal	Non Fiscal	Resource Total	General	Financial Transactions	Capital Total	Resource	Capital	AME Total	
Health and Social Services	9,526,060	190,000	9,716,060	407,488	-	407,488	217,667	-	217,667	10,341,215
Local Government and Public Services	4,815,823	240	4,816,063	615,085	150,505	765,590	828,255	-	828,255	6,409,908
Economy and Transport	2,004,931	192,400	2,197,331	637,315	85,260	722,575	29,525	-	29,525	2,949,431
Education	1,490,143	107,154	1,597,297	219,450	(195)	219,255	(123,801)	863,631	739,830	2,556,382
International Relations and the Welsh Language	207,788	8,882	216,670	32,767	15,746	48,513	3,013	-	3,013	268,196
Energy, Planning and Rural Affairs	417,240	21,675	438,915	118,192	2,000	120,192	2,400	-	2,400	561,507
Central Services and Administration	366,907	16,000	382,907	27,446	1,000	28,446	2,999	-	2,999	414,352
TOTAL ALLOCATIONS TO WELSH GOVERNMENT MEGs	18,828,892	536,351	19,365,243	2,057,743	254,316	2,312,059	960,058	863,631	1,823,689	23,500,991

Plans for 2020-21 as at 2nd Supplementary Budget, Restated December 2020										
£000s										
MAIN EXPENDITURE GROUPS (MEGs)	Resource			Capital			AME			TOTAL MEG ALLOCATION
	Fiscal	Non Fiscal	Resource Total	General	Financial Transactions	Capital Total	Resource	Capital	AME Total	
Health and Social Services	9,413,209	190,000	9,603,209	402,416	-	402,416	217,667	-	217,667	10,223,292
Housing and Local Government	4,767,165	240	4,767,405	588,685	150,505	739,190	828,255	-	828,255	6,334,850
Economy and Transport	2,008,085	192,400	2,200,485	637,315	85,260	722,575	29,525	-	29,525	2,952,585
Education	1,490,143	107,154	1,597,297	219,450	(195)	219,255	(123,801)	863,631	739,830	2,556,382
Mental Health, Wellbeing and the Welsh Language	309,637	8,882	318,519	37,339	15,746	53,085	3,013	-	3,013	374,617
Environment, Energy and Rural Affairs	465,898	21,675	487,573	144,592	2,000	146,592	2,400	-	2,400	636,565
Central Services and Administration	374,755	16,000	390,755	27,946	1,000	28,946	2,999	-	2,999	422,700
TOTAL ALLOCATIONS TO WELSH GOVERNMENT MEGs	18,828,892	536,351	19,365,243	2,057,743	254,316	2,312,059	960,058	863,631	1,823,689	23,500,991

[illegible]

2020-21 2nd SUPPLEMENTARY BUDGET RESTATEMENT FOLLOWING CHANGES IN MINISTERIAL RESPONSIBILITIES

Note: Unless annotated the movements listed below reflect the transfer of BELs between MEGs

HEALTH AND SOCIAL SERVICES (H&SS)											£000s
Plans for 2020-21 as at 2nd Supplementary Budget, October 2020		Resource			Capital			AME			TOTAL
		Fiscal	Non Fiscal	Resource Total	General	Financial Transactions	Capital Total	Resource	Capital	AME Total	
		9,526,060	190,000	9,716,060	407,488	-	407,488	217,667	-	217,667	
Transferred Out:	To:										
Mental Health	MHW&WL	(3,029)	-	(3,029)	-	-	-	-	-	-	(3,029)
Substance Misuse Action Plan Fund	MHW&WL	(30,075)	-	(30,075)	(5,072)	-	(5,072)	-	-	-	(35,147)
Food Standards Agency	MHW&WL	(3,737)	-	(3,737)	-	-	-	-	-	-	(3,737)
Research and Development	MHW&WL	(42,075)	-	(42,075)	-	-	-	-	-	-	(42,075)
Health Improvement and Healthy Working ^{Note 1}	MHW&WL	(7,189)	-	(7,189)	-	-	-	-	-	-	(7,189)
Other Direct NHS Allocations ^{Note 2}	MHW&WL	(16,053)	-	(16,053)	-	-	-	-	-	-	(16,053)
A Healthier Wales ^{Note 3}	MHW&WL	(10,000)	-	(10,000)	-	-	-	-	-	-	(10,000)
Older People Carers & People with Disabilities ^{Note 4}	MHW&WL	(693)	-	(693)	-	-	-	-	-	-	(693)
Restated 2nd Supplementary Budget, December 2020		9,413,209	190,000	9,603,209	402,416	-	402,416	217,667	-	217,667	10,223,292

- NOTES
- 1 This BEL has transferred to the MHW&WL MEG but £9,697k has remained in the H&SS MEG in the new 'Health Promotion' BEL
 - 2 This BEL remains in the H&SS MEG but £16,053k has transferred out to the Mental Health BEL within the MHW&WL MEG
 - 3 This BEL remains in the H&SS MEG but £10,000k has transferred out to the Substance Misuse Action Plan Fund BEL within the MHW&WL MEG
 - 4 This BEL remains in the H&SS MEG but £693k has transferred out to the Mental Health BEL within the MHW&WL MEG

HOUSING AND LOCAL GOVERNMENT (H&LG)										£000s	
Plans for 2020-21 as at 2nd Supplementary Budget, October 2020		Resource			Capital			AME			TOTAL
		Fiscal	Non Fiscal	Resource Total	General	Financial Transactions	Capital Total	Resource	Capital	AME Total	
		4,815,823	240	4,816,063	615,085	150,505	765,590	828,255	-	828,255	
Transferred Out:	To:										
Resource Efficiency and Circular Economy	EE&RA	(38,692)	-	(38,692)	(17,500)	-	(17,500)	-	-	-	(56,192)
Landscape & Outdoor Recreation	EE&RA	(9,966)	-	(9,966)	(8,900)	-	(8,900)	-	-	-	(18,866)
Restated 2nd Supplementary Budget, December 2020		4,767,165	240	4,767,405	588,685	150,505	739,190	828,255	-	828,255	6,334,850

ECONOMY AND TRANSPORT (E&T)											£000s
Plans for 2020-21 as at 2nd Supplementary Budget, October 2020		Resource			Capital			AME			TOTAL
		Fiscal	Non Fiscal	Resource Total	General	Financial Transactions	Capital Total	Resource	Capital	AME Total	
		2,004,931	192,400	2,197,331	637,315	85,260	722,575	29,525	-	29,525	
Transferred In: Export, Trade and Inward Investment	From: MHW&WL	3,154	-	3,154	-	-	-	-	-	-	3,154
Restated 2nd Supplementary Budget, December 2020		2,008,085	192,400	2,200,485	637,315	85,260	722,575	29,525	-	29,525	2,952,585

EDUCATION (Educ) - No Change											
		Resource			Capital			AME			TOTAL
		Fiscal	Non Fiscal	Resource Total	General	Financial Transactions	Capital Total	Resource	Capital	AME Total	
		1,490,143	107,154	1,597,297	219,450	(195)	219,255	(123,801)	863,631	739,830	
Restated 2nd Supplementary Budget, December 2020		1,490,143	107,154	1,597,297	219,450	(195)	219,255	(123,801)	863,631	739,830	2,556,382

MENTAL HEALTH, WELLBEING AND THE WELSH LANGUAGE (MHW&WL)											£000s
Plans for 2020-21 as at 2nd Supplementary Budget, October 2020		Resource			Capital			AME			TOTAL
		Fiscal	Non Fiscal	Resource Total	General	Financial Transactions	Capital Total	Resource	Capital	AME Total	
		207,788	8,882	216,670	32,767	15,746	48,513	3,013	-	3,013	
Transferred In:	From:										
Mental Health	H&SS	3,029	-	3,029	-	-	-	-	-	-	3,029
Mental Health ^{Note 1}	H&SS	16,053	-	16,053	-	-	-	-	-	-	16,053
Mental Health ^{Note 2}	H&SS	693	-	693	-	-	-	-	-	-	693
Substance Misuse Action Plan Fund	H&SS	30,075	-	30,075	5,072	-	5,072	-	-	-	35,147
Substance Misuse Action Plan Fund ^{Note 3}	H&SS	10,000	-	10,000	-	-	-	-	-	-	10,000
Food Standards Agency	H&SS	3,737	-	3,737	-	-	-	-	-	-	3,737
Research and Development	H&SS	42,075	-	42,075	-	-	-	-	-	-	42,075
Health Improvement and Healthy Working ^{Note 4}	H&SS	7,189	-	7,189	-	-	-	-	-	-	7,189
Transferred Out:	To:										
Export, Trade and Inward Investment	E&T	(3,154)	-	(3,154)	-	-	-	-	-	-	(3,154)
International Development	CS&A	(860)	-	(860)	(500)	-	(500)	-	-	-	(1,360)
International Relations	CS&A	(6,988)	-	(6,988)	-	-	-	-	-	-	(6,988)
Restated 2nd Supplementary Budget, December 2020		309,637	8,882	318,519	37,339	15,746	53,085	3,013	-	3,013	374,617

- NOTES
- 1 This budget has transferred from the Other Direct NHS Allocations BEL which remains in the H&SS MEG
 - 2 This budget has transferred from the Older People Carers & People with Disabilities BEL which remains in the H&SS MEG
 - 3 This budget has transferred from the Healthier Wales BEL which remains in the H&SS MEG

- 4 This BEL has transferred in from the H&SS MEG but £9,697k has remained in the H&SS MEG in the new 'Health Promotion' BEL

ENVIRONMENT, ENERGY AND RURAL AFFAIRS (EE&RA)											£000s
Plans for 2020-21 as at 2nd Supplementary Budget, October 2020		Resource			Capital			AME			TOTAL
		Fiscal	Non Fiscal	Resource Total	General	Financial Transactions	Capital Total	Resource	Capital	AME Total	
		417,240	21,675	438,915	118,192	2,000	120,192	2,400	-	2,400	
Transferred In:											
Resource Efficiency and Circular Economy	From: H&LG	38,692	-	38,692	17,500	-	17,500	-	-	-	56,192
Landscape & Outdoor Recreation	H&LG	9,966	-	9,966	8,900	-	8,900	-	-	-	18,866
Restated 2nd Supplementary Budget, December 2020		465,898	21,675	487,573	144,592	2,000	146,592	2,400	-	2,400	636,565

CENTRAL SERVICES AND ADMINISTRATION (CS&A)											£000s
Plans for 2020-21 as at 2nd Supplementary Budget, October 2020		Resource			Capital			AME			TOTAL
		Fiscal	Non Fiscal	Resource Total	General	Financial Transactions	Capital Total	Resource	Capital	AME Total	
		366,907	16,000	382,907	27,446	1,000	28,446	2,999	-	2,999	
Transferred In:											
International Development	From: MHW&WL	860	-	860	500	-	500	-	-	-	1,360
International Relations	MHW&WL	6,988	-	6,988	-	-	-	-	-	-	6,988
Restated 2nd Supplementary Budget, December 2020		374,755	16,000	390,755	27,946	1,000	28,946	2,999	-	2,999	422,700