

Scrutiny of Welsh Government First Supplementary Budget 2021- 22

July 2021



The Welsh Parliament is the democratically elected body that represents the interests of Wales and its people. Commonly known as the Senedd, it makes laws for Wales, agrees Welsh taxes and holds the Welsh Government to account.

An electronic copy of this document can be found on the Senedd website:
www.senedd.wales/SeneddFinance

Copies of this document can also be obtained in accessible formats including Braille, large print, audio or hard copy from:

**Finance Committee
Welsh Parliament
Cardiff Bay
CF99 1SN**

Tel: **0300 200 6565**
Email: **SeneddFinance@senedd.wales**
Twitter: **@SeneddFinance**

© **Senedd Commission Copyright 2021**

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading or derogatory context. The material must be acknowledged as copyright of the Senedd Commission and the title of the document specified.

Scrutiny of Welsh Government First Supplementary Budget 2021-22

July 2021



About the Committee

The committee was established on 23 June 2021.
Its remit can be found at www.senedd.wales/SeneddFinance.

Current Committee membership:



Committee Chair:
Peredur Owen Griffiths MS
Plaid Cymru



Peter Fox MS
Welsh Conservatives



Mike Hedges MS
Welsh Labour



Rhianon Passmore MS
Welsh Labour

The following Member was also a member of the Committee during this inquiry.



Alun Davies MS
Welsh Labour

Contents

Recommendations	5
1. Introduction	7
2. Allocations made	8
3. Prioritisation	10
4. Previous Finance Committee concerns regarding fair funding	13
5. Economic recovery	15
6. Transport	20
7. Public Services	23

Recommendations

- Recommendation 1.** The Committee recommends that the Welsh Government provides more detail in future supplementary budgets on how new allocations have been prioritised.....12
- Recommendation 2.** The Committee recommends that the Welsh Government continues to press the UK Government to improve transparency in funding calculations and for more effective inter-governmental mechanisms and governance structures than those currently in place and provides the Committee with an update on the outcome of these discussions.14
- Recommendation 3.** The Committee notes the significant capital stimulus linked allocations included in the Final Budget 2021-22. The Committee recommends the Welsh Government provide updated on the progress and outcomes of the allocations as the year progresses.19
- Recommendation 4.** The Committee recommends that the Welsh Government provides an initial evaluation of its grant funding for May and June, including the level of allocations to businesses, the level of funding unspent, and reasons why there was an underspend (particularly where this relates to eligibility criteria).19
- Recommendation 5.** The Committee recommends that the Welsh Government provide information about the financial impact of its decision to write off part of its loan to Cardiff Airport given that it is required to pay back 80 per cent of the total financial transactions capital funding allocated by HM Treasury.....21
- Recommendation 6.** The Committee recommends that information on the reprioritisation of road schemes is clearly and transparently presented in future Draft Budgets.....22
- Recommendation 7.** The Committee recommends that the Welsh Government clarifies the purpose of the £100 million allocation for the NHS and provides further information, including how the funding will be used, its intended outcomes and how the Welsh Government will monitor and report the impact it ends up having on NHS waiting lists.....27
- Recommendation 8.** The Committee recommends that the Welsh Government provides an update on any further allocations to the Health and Social Services MEG as and when that information is available, together with information about its intended outcomes.27

Recommendation 9. While acknowledging that they may not be mutually exclusive, the Committee recommends that, for transparency purposes, the Welsh Government makes clear the intended purpose of any additional funding for NHS bodies and whether they are provided to support recovery or service transformation/redesign.27

Recommendation 10. The Committee recommends that the Welsh Government provides an update on the monitoring and effectiveness of the Local Government Hardship Fund, including amount allocated to local authorities and further detail on the additional £26 million for social care.....28

Recommendation 11. The Committee recommends that the Welsh Government provides an update on discussions with the Welsh Local Government Association in relation to teachers' pay and the broader issue of ensuring allocations to education are in line with the financial year rather than the academic year.....28

1. Introduction

1. On 23 June 2021, the Minister for Finance and Local Government (the Minister) published the **First Supplementary Budget for 2021-22**.
2. The Finance Committee (the Committee) took evidence from the Minister at its meeting on **2 July 2021**.

How funding has changed since Final Budget 2021-22

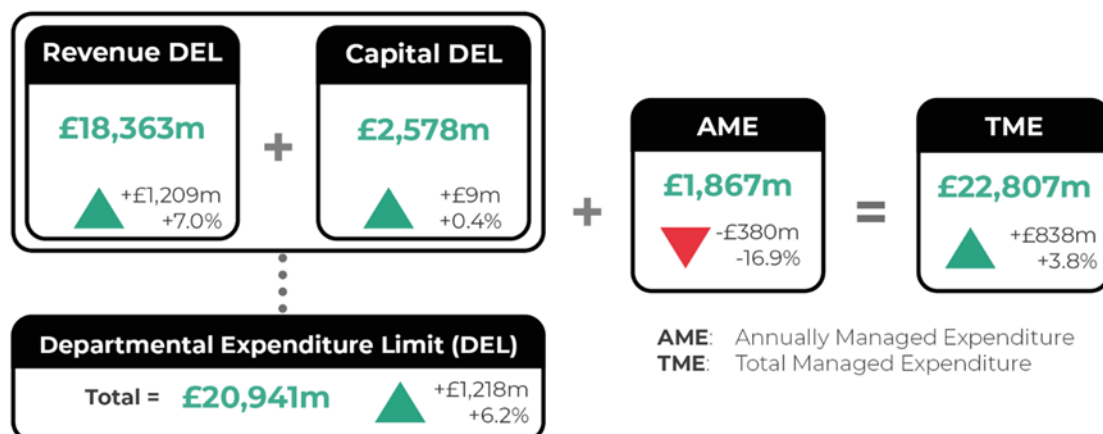
3. Since the **Final Budget**, there has been a UK Budget and UK Main Estimates resulting in a net increase in fiscal resource of £1.388 billion.
4. The Office for Budget Responsibility (OBR) forecasts provided a June 2021 update of **Welsh tax forecasts** resulting in increases of Land Transaction Tax (LTT), £49.2 million and Landfill Disposal Tax (LDT), £1.6 million. The amount of non-domestic rates (NDR) income expected has reduced by £375.9 million, reflecting the Welsh Government rates relief decision. In line with the **Fiscal Framework**, income tax resource remains at £2.064 billion, the forecast at December 2020 (the latest OBR forecast has risen to £2.113 billion).¹
5. Non-fiscal, or non-cash, resource has increased by £830 million, mainly in respect of Student Loan Barnett consequentials.²
6. General Capital funding increases by £69.7 million, £41.3 million of this in respect of funding for City and Growth deals, £16 million is re-profiled from 2020-21, and the remainder are net consequentials / transfers from the UK Government.
7. Financial Transactions Capital increases by £9.6 million.
8. Annex 1 of the Supplementary Budget **Explanatory Note** shows reconciliation of new Ministerial portfolios compared to the Final Budget 2021-22.

¹ **First Supplementary Budget 2021-22, Explanatory Note, June 2021, page 14**

² **First Supplementary Budget 2021-22, Explanatory Note, June 2021, page 14**

2. Allocations made

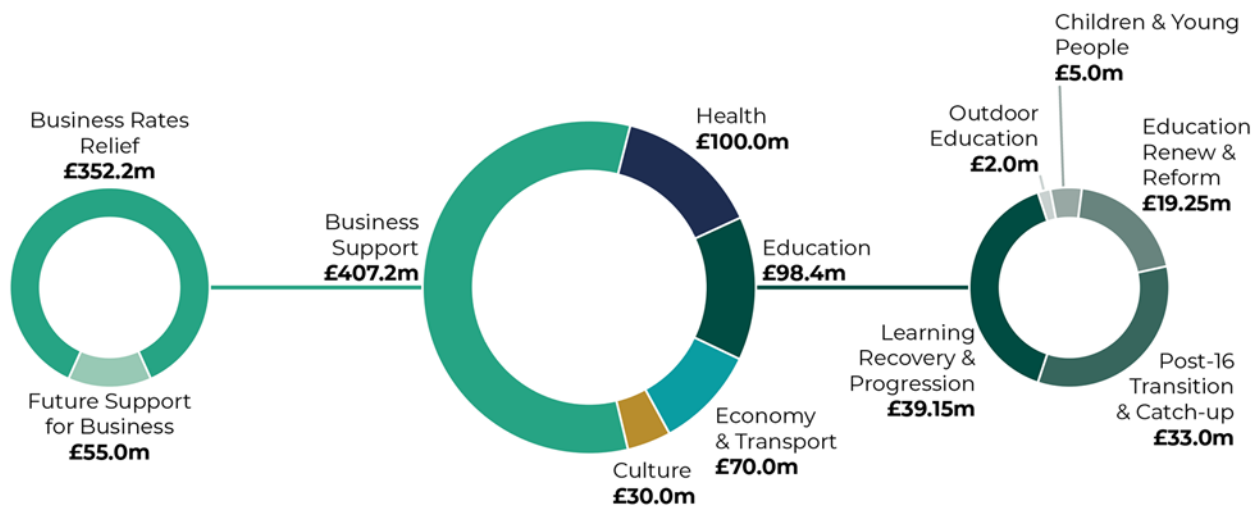
9. The Supplementary Budget shows an increase in Revenue plus Capital allocated to Welsh Government departments of £1.2 billion (6.2 per cent), from £19.7 billion to £20.9 billion.



	Total revenue and capital allocation*	Change FB to FSB
Health and Social Services	£9,744m	£128m 1.3%
Finance and Local Government*	£4,728m	£352m 8.0%
Climate Change	£2,633m	£126m 5.0%
Education and the Welsh Language**	£2,438m	£519m 27.0%
Economy	£596m	£91m 17.9%
Rural Affairs	£356m	£0m 0.0% No Change
Central Services and Administration	£322m	£1m 0.3%
Social Justice	£124m	£2m 1.3%

10. The picture above shows changes in the Welsh Government's First Supplementary Budget 21-22 compared to the Final Budget 21-22.

11. There are £706 million allocations from "COVID-19 reserve" as shown below.



Images: Financial Scrutiny Unit, Senedd Research

12. Reserves held in the Supplementary Budget comprise:

- Fiscal resource £1,265 million
- Non-fiscal resource £554 million
- General capital £114 million
- Financial transactions capital £68 million

13. The UK Government agreed that the Welsh Government could take forward around £650 million funding on top of the agreed limits within the Fiscal Framework, as this funding was provided towards the end of the financial year.³

14. Planned capital borrowing remains at £150 million, the maximum annual limit within the Fiscal Framework.

³ [UK Government: press release Further £650 million funding boost for Covid-19 response in Wales](#)

3. Prioritisation

15. The Minister said that this Supplementary Budget focuses on the Welsh Government's response to the pandemic but it was also an opportunity to "restates the budgets of the Welsh Government in line with the new ministerial portfolios". She said it was "fairly technical" moving back "to being more in step with the previous ways in which we did supplementary budgets, before what was an extraordinary year last year."⁴

16. In January 2021, the Minister described to the Finance Committee of the Fifth Senedd how budgetary decision making had changed during the pandemic. Ministers had been meeting more frequently to discuss issues as they arose and there was a more centralised approach to budgeting, with the Minister making "individual specific allocations to particular schemes and projects and priorities" rather than general uplifts to departments.⁵

17. The Minister confirmed that the same approach for identifying priorities has been taken to this Supplementary Budget by:

*"...setting up a group whereby I take a view, across Government, at the allocations that are sought by colleagues, and then make determinations and allocations as a result of those representations and bids that I receive from colleagues."*⁶

18. The Minister said she intended to balance her own Ministerial responsibility for local government with her central role of finance Minister by keeping the "two roles separate", adding:

*"I think it does mean that it is really incumbent on me to be absolutely straight with local government, because I can't promise them something that I can't deliver, which is really important."*⁷

19. In response to reforming or reconsidering the way in which local taxation is raised, the Minister said there is a commitment within the new **Programme for Government**, to make taxation fairer. She continued:

⁴ RoP, Finance Committee, paragraph 10, 2 July 2021

⁵ RoP, Finance Committee Fifth Senedd, paragraph 111, 8 January 2021

⁶ RoP, Finance Committee, paragraph 10, 2 July 2021

⁷ RoP, Finance Committee, paragraph 15, 2 July 2021

“Back in February, I published a report called 'Reforming Local Government Finance in Wales: Summary of Findings', which looked back at all of the work that we commissioned over the last Senedd term, looking at different ways to be more progressive in the way in which we deal with local taxation....it's my intention to continue to consider that report, to have some further discussions, to listen to the views of colleagues, and then, ideally, to come to a determination on the way forward in terms of the future of local taxation fairly shortly, so we can start making some progress on that important agenda.”⁸

20. Since the Final Budget, the UK Budget and Main Estimates have resulted in changes in funding consequential for the Welsh Government. The Supplementary Budget shows over £1.2 billion unallocated fiscal resource in reserves.⁹

21. The Minister confirmed the Welsh Government is “holding significant unallocated resource at the moment”. However, she said “that's not unusual” and that the Chancellor of the Exchequer and other finance ministers across the world are also holding significant funding, to provide flexibility in terms of responding to the pandemic.¹⁰

22. The Minister continued:

“So, it's important that we have that element of flexibility, but that said, I have been undertaking a piece of work with colleagues, as I've mentioned, looking at their requirements to continue to respond to the pandemic, but also to deliver on that recovery work. And it will be my intention to make some significant allocations very shortly as we get all of those returns in—take that chance to look right across the piece to see what is needed across Government to respond to the needs across Welsh life, and then to make allocations as a result of that.”¹¹

Committee view

23. Allocations in this Supplementary Budget are mainly based on the Welsh Government's continued response to the pandemic. The Committee notes the Minister's view that this Supplementary Budget is a technical exercise that restates the budgets of the

⁸ RoP, Finance Committee, paragraph 14, 2 July 2021

⁹ [First Supplementary Budget 2021-22, Explanatory Note, June 2021, page 25](#)

¹⁰ RoP, Finance Committee, paragraph 16, 2 July 2021

¹¹ RoP, Finance Committee, paragraph 16, 2 July 2021

Welsh Government in line with the new ministerial portfolios. The Committee welcomes the changes and considers that this will aid financial scrutiny.

24. The Committee notes that during 2020-21 there were three supplementary budgets brought forward by the Welsh Government as a result of responding to the pandemic. Whilst the Minister said this is a technical supplementary budget moving “back in step” with previous ways of budgeting, the three supplementary budgets from 2021-22 provided detailed information and the Committee believes this level of transparency should be maintained.

25. A significant level of unallocated fiscal resource of over £1.2 billion is being held by the Welsh Government in reserves. The Committee understands that there is a need for flexibility to deal with the response to the pandemic and that the Minister does intend to make some significant allocations shortly following discussion with Ministers. However, it seems that this Supplementary Budget is almost entirely retrospective, therefore the Committee has little information on future allocations. The Minister should provide sufficient information, to allow the Committee to effectively scrutinise decision making and the allocation process.

26. The Committee notes the commitment to reforming taxation within the Programme for Government and that work is already being undertaken by the Minister. The Committee will be keeping a watching brief on how this work progresses over this Senedd.

Recommendation 1. The Committee recommends that the Welsh Government provides more detail in future supplementary budgets on how new allocations have been prioritised.

4. Previous Finance Committee concerns regarding fair funding

27. The previous Finance Committee **shared** the Minister's concerns regarding the lack of clarity at times as to how and when significant policy decisions made by the UK Government, which had a funding impact on Wales, were being communicated. While the provision of a funding guarantee helped in part, it was felt that issues continued throughout the financial year.¹²

28. The previous Finance Committee **wrote** to the Secretary of State for Wales requesting that funding announcements should clarify whether any funding provided to Wales is "new money", and not funding which has already been previously detailed or announced. The Committee also highlighted the importance of transparency in funding calculations, in line with the UK Government's guidance on **Block Grant Transparency: June 2021**.

29. The Minister confirmed that the funding guarantee was "really helpful" in providing some certainty for devolved administrations to allow them to plan. However, she said that "uncertainties remain" over how the UK Government communicates policies that lead to consequential and that "we already find ourselves, this early on in the financial year, without a clear picture".¹³

30. The Minister provided the recent UK Government's announcement in respect of education as an example of the uncertainty the Welsh Government faces, she stated:

"...we haven't been able to determine whether that's new money, whether it's repurposed funding, whether it's reannouncing previously-announced funding, and as such, we're unable to get a clear picture as to what our, if anything, Barnett consequential would be as a result of that announcement, and that's just one example."¹⁴

31. The Minister confirmed that she and her counterparts in Scotland and Northern Ireland have requested a meeting with the Chancellor to discuss this issue of funding

¹² **Finance Committee Report: Scrutiny of the Welsh Government's Draft Budget 2021-22 February 2021**

¹³ RoP, Finance Committee, paragraph 18, 2 July 2021

¹⁴ RoP, Finance Committee, paragraph 18, 2 July 2021

announcements. She said the "finance Ministers' quadrilateral in July, would also provide another opportunity to talk about these issues."¹⁵

Committee view

32. The Committee is very concerned to hear that significant issues persist regarding how the UK Government communicates policies that result in positive, or negative, funding consequential for Wales. The Committee notes that the Minister, along with other UK Finance Ministers, has requested a meeting with the Chancellor to discuss this issue. The Committee needs to have a clear understanding of Welsh Government available funding in order to carry out effective scrutiny of its decision-making.

33. The Committee is concerned that communication and scrutiny of fiscal arrangements with the UK Government are not fit for purpose. The previous Finance Committee's **legacy report** suggested closer working with other devolved administrations and the Welsh Affairs Committee to collectively apply pressure on the UK Government to provide clarity on funding decisions. The Committee has **written** to its counterparts to pursue this further.

Recommendation 2. The Committee recommends that the Welsh Government continues to press the UK Government to improve transparency in funding calculations and for more effective inter-governmental mechanisms and governance structures than those currently in place and provides the Committee with an update on the outcome of these discussions.

¹⁵ RoP, Finance Committee, paragraph 21, 2 July 2021

5. Economic recovery

34. As has been the case throughout the pandemic, the Welsh Government allocates significant funding to economic support. Around £2.2 billion of the Welsh Government's £5.3 billion **additional COVID-19 related revenue spending last year** went on activities relating to the economy and business rates relief.

Reconstruction

35. The Final Budget 2021-22 also included a £224.5 million **capital stimulus package**, putting funding to a variety of projects including £100 million for Social Housing programmes. This was not included in the Draft Budget scrutinised by the previous Finance Committee. The package built on a £320 million reconstruction package announced at the **Third Supplementary Budget** in 2020-21.

36. The Minister outlined the scope and objectives of the £224.5 million capital stimulus package, stating:

"That stimulus package built on the £320 million package that we announced within the financial year last year, but the additional funding to which you've referred, the £224.5 million, is a mixture of £188.5 million general capital and £36 million financial transactions capital. I'll just run through very, very quickly the kind of inventions that it is supporting. So, £147 million for our housing-related investments—that includes additional funding for the social housing grant, funding for the optimised retrofit programme, building on the £200 million already in the draft budget—£20 million for active travel—again, that builds on the £20 million that we put into the draft budget—£30 million for our twenty-first century schools and colleges programme—again, building on the £40 million in the draft budget.....So, a wide range of interventions that sought to kick start our recovery through the capital interventions"¹⁶

Retail, leisure and hospitality business rates relief

37. The largest fiscal allocation in the Supplementary Budget is £352.2 million to extend the **retail, leisure and hospitality business rates relief** for the whole of 2021-22. The

¹⁶ RoP, Finance Committee, paragraph 25, 2 July 2021

relief means businesses and charities that are eligible and have a rateable value of under £500,000 will pay no business rates this year.

38. The Minister confirmed that the reason the £352.2 million to extend the retail, leisure and hospitality business rates relief was not included in the Draft Budget was due to the timing of the UK Government budget being announced the day after the Welsh Government had published its Final Budget. Although she added:

"...ahead of that budget, we were calling on the UK Government to put that intervention in place. It won't have escaped colleagues' notice that yesterday the full rate relief for businesses in England came to an end, whereas in Wales we have that full rate relief for the whole year, because of the decisions that we took here in Wales to support businesses to that additional extent."¹⁷

Support for business

39. The Supplementary Budget also allocates £55 million **financial support for businesses** that remain affected by COVID-19 restrictions. This funding will help businesses meet ongoing costs in May and June 2021 as they "prepare for re-opening and more normal trading conditions". The Welsh Government has outlined that it is part of a £200 million package of support.

40. The Committee asked how much of that £55 million was allocated, how many businesses applied and how many businesses were unsuccessful in their application. The Minister responded:

"...that particular package was delivered both through Welsh Government and through local authorities, depending on the size of the ask and the nature of the challenge that the business was facing. So, the original May-to-June package only closed on Wednesday for those smaller businesses, and that's the part that is delivered through local authorities. So, the final position there is yet to be concluded. But, from the Welsh Government's side, the larger grants, those were for businesses with turnovers of more than £85,000. We had 4,420 applications across all categories; 76 per cent of those were approved. That's 3,300, at a value of

¹⁷ RoP, Finance Committee, paragraph 27, 2 July 2021

£16.5 million. And we expect up to another £8 million to be approved under the local government scheme.”¹⁸

41. The Minister said the number of applications received was in line with the Welsh Government's expectations but the level of grant requested by those businesses was less than expected. She confirmed that the balance has now been reapplied to the new round of funding, which the Minister for Economy announced¹⁹ to support businesses that continue to be affected by the pandemic through to the end of August.²⁰

42. The Minister went on to outline that the business support funding was within an earmarked £200 million. She went on to say that the Economy Minister is “currently working with his officials to determine what kind of schemes and support businesses will need as we move forward”, suggesting that this may be “more of a space of recovery, rather than the kind of interventions we've had to do through lockdowns and so on”.²¹

43. On 1 July, the Economy Minister issued a statement announcing a further round of the Economic Resilience Fund, covering July and August and targeted at businesses that continue to be affected by Covid-19 restrictions on their operation. He stated:

*“This will be the final package of emergency support for those that are able to trade, unless the pandemic causes us to re-introduce closures or very significant trading restrictions”.*²²

Support for culture

44. An additional £30 million is being made available to **extend the Cultural Recovery Fund**, which **provided** over £60 million to theatres, music venues, heritage sites, events, museums, libraries, freelancers etc in 2020-21. The fund was **due to close** on 20 April (the Freelancer Fund was due to close **1 June**). In Plenary on 8 June 2021, the First Minister **said**:

“On 22 March, we announced a second phase of the cultural recovery fund; an initial £20 million set aside, a further £10 million potentially

¹⁸ RoP, Finance Committee, paragraph 29, 2 July 2021

¹⁹ **Economy Minister confirms further Welsh Government support for businesses impacted by Covid restrictions, 30 June 2021**

²⁰ RoP, Finance Committee, paragraph 30, 2 July 2021

²¹ RoP, Finance Committee, paragraph 32, 2 July 2021

²² **Written Statement: Economic Resilience Fund – July and August 2021, 1 July 2021**

available as necessary. Six hundred applications have been received to date for that next phase, and 50 per cent of them come from the events sector.”²³

45. The Minister said that originally £30 million was allocated to the culture recovery fund and that £20 million of that has already been released. However, she highlighted that there was a “significant degree of demand in that sector, so we've released the further up to £10 million to meet that demand”.²⁴

“The Arts Council of Wales is delivering part of that through their freelancer fund. So, I think that's about £8.8 million, and then further funding has been provided to organisations across the events, heritage, culture, creative and supplier sectors. So, examples would be: in events, the Llangollen International Musical Eisteddfod; in heritage, you've got the Talylyn Railway Company; in culture, the Nantgarw China Works Trust; in creative, you've got Clwb Ifor Bach; and then supplier, PYST Cyfyngedig. So, that just shows the range of organisations that we are supporting through that fund. But, as I say, demand is there, so we've released the additional funding to try and meet it.”²⁵

Committee view

46. The Committee notes the capital stimulus package, a significant funding stream, not included in the Draft Budget 2021-22 and therefore having received little scrutiny. Due to its inclusion at the Final Budget 2021-22, the previous Finance Committee did not have the opportunity to explore whether this funding is intended as a transformational step in recovery and its anticipated impacts.

47. The Committee notes that the largest fiscal allocation in the Supplementary Budget is £352.2 million to extend the retail, leisure and hospitality business rates relief. The Committee welcomes that the full rate relief for businesses in Wales will apply for the remainder of the year, unlike in England.

48. The Minister said that this allocation was not included in the Draft Budget 2020-21 due to the timing of the UK Government Budget. However, at the time of publishing the

²³ RoP, Plenary, paragraph 80, 8 June 2021

²⁴ RoP, Finance Committee Fifth Senedd, paragraph 38, 2 July 2021

²⁵ RoP, Finance Committee, paragraph 39, 2 July 2021

Draft Budget, the Welsh Government had funding in unallocated reserves. As such it is feasible this funding could have been considered for inclusion in the Draft Budget 2020-21, providing additional certainty to Welsh Business in advance of the UK Government's announcement.

49. The Committee notes the grant scheme included in the Supplementary Budget is part of £200 million that has been earmarked in this area. The Committee would welcome further detail on the outcomes of grant funds outlined in the Supplementary Budget, including how much has been allocated to businesses, the balance of funding remaining and further information on the expectations of the new funding announced for July and August by the Minister for Economy. The Committee is also keen to understand how the remaining £200 million will be used and how its deployment will differ to previous approaches to business support during lockdowns and shift toward a focus on supporting recovery.

50. The Committee also notes the support for the culture sector outlined in this Supplementary Budget, which demonstrates the demand for support in that sector.

Recommendation 3. The Committee notes the significant capital stimulus linked allocations included in the Final Budget 2021-22. The Committee recommends the Welsh Government provide updated on the progress and outcomes of the allocations as the year progresses.

Recommendation 4. The Committee recommends that the Welsh Government provides an initial evaluation of its grant funding for May and June, including the level of allocations to businesses, the level of funding unspent, and reasons why there was an underspend (particularly where this relates to eligibility criteria).

6. Transport

Roads

51. On 22 June, the Deputy Minister for Climate Change provided a statement on the 'Roads review'. He noted:

"To hit the 2050 target, the Climate Change Committee has told us we need to cut emissions in the next decade by 63 per cent, and by 2040 they need to fall by 89 per cent....To achieve these targets we need a shift away from spending money on projects that encourage more people to drive, and invest in real alternatives that give people a meaningful choice."²⁶

52. The Minister said that officials are in the final stages of establishing the roads review panel, that will include the UK's leading experts on transport and on climate change "which will then provide advice as to how we can shift that spending towards better maintaining existing roads, rather than building new ones".²⁷

53. The Minister said the Deputy Minister had made it clear that it would not extend to road schemes that are underway and she did not expect it to have a big impact on this financial year.²⁸

Air

54. In March 2021, the previous Welsh Government announced a financial support package "against a five year plan for the rescue and restructure" of Cardiff International Airport (the Airport).

55. The package included a grant of up to £42.6 million aimed at enabling the Airport to "restructure its operations, and secure its long term viability". This would be provided over four years, with £16 million awarded in the first year (2021-22). This support is included in the Supplementary Budget, comprising £11 million revenue and £5 million capital.

²⁶ RoP, Plenary, paragraphs 246 – 247, 22 June 2021

²⁷ RoP, Finance Committee, paragraph 45, 2 July 2021

²⁸ RoP, Finance Committee, paragraph 45, 2 July 2021

56. The Minister confirmed that she did not have any “immediate concern” that Cardiff Airport will require greater financial support than set out in the latest financial package agreed by the Welsh Government.²⁹ She continued:

“That said, there are big challenges for airports across the globe at the moment, but our funding for Cardiff Airport, importantly, was tied to its recovery plan, and that recovery plan has been scrutinised by Welsh Government, by Holdco, by two independent consultancy firms, and there'll be reports provided that show the progress against the plan for recovery that has been put in place, and that plan's also been benchmarked against global, EU and UK passenger predictions, alongside third-party advice from the consultancy firms. So, we think we have a robust system in place to support the recovery plan for the airport.”³⁰

57. The Welsh Government also wrote off £42.6 million of the loan it had given Cardiff Airport, leaving it to repay £26.3 million by 2045 and reduced the value of its investment in the Airport to £15 million (from £61.3 million).

58. The Minister said that the previous Minister for the Economy and Transport had shown in a statement that the write-off was the most cost-effective way of supporting the airport at that point.³¹

Committee view

59. The Committee understands the Welsh Government used financial transactions capital (FTC) funding for some of the loan it provided to Cardiff Airport. Since it is required to pay back 80 per cent of the total FTC allocated by HM Treasury, the Committee would welcome information about the financial impact of the Welsh Government's decision to write off some of the loan it provided to the Airport.

60. The Committee notes the establishment of a road review panel and will be keen to see how the reprioritisation of road schemes and budget allocations transpire when the Draft Budget 2022-23 is published.

Recommendation 5. The Committee recommends that the Welsh Government provide information about the financial impact of its decision to write off part of its loan to Cardiff

²⁹ RoP, Finance Committee, paragraph 47, 2 July 2021

³⁰ RoP, Finance Committee, paragraph 47, 2 July 2021

³¹ RoP, Finance Committee, paragraph 50, 2 July 2021

Airport given that it is required to pay back 80 per cent of the total financial transactions capital funding allocated by HM Treasury.

Recommendation 6. The Committee recommends that information on the reprioritisation of road schemes is clearly and transparently presented in future Draft Budgets.

7. Public Services

Health and Social Care

61. During 2020-21, additional funding was made available to NHS bodies by the Welsh Government to deal with the pandemic. With those NHS bodies spending an additional net £1.1 billion due to COVID-19.³²

62. The **Draft Budget for 2021-22** allocated £9.1 billion for the Health and Social Services Main Expenditure Group (MEG) (excluding Annually Managed Expenditure (AME)). This was **£439 million or 5.1 per cent more than in the Final Budget 2019-20**.

63. Resource allocations to the Health and Social Services MEG are due to increase by a net £128.3 million (or 1.4 per cent) compared with the restated Final Budget for 2021-22 (a net increase to £9.4 billion). No changes are proposed for the overall allocations for capital and AME, which remain as per the restated Final Budget for 2021-22.

64. The Minister for Health and Social Services told Plenary on 21 June 2021:

"...cases of coronavirus are, unfortunately, rising in Wales. We are once again facing a serious situation and we are at the beginning of a third wave of the pandemic."³³

65. When asked how the Supplementary Budget reflected this, the Minister said:

"The supplementary budget identifies the £100 million that was also put in place to support the recovery of the NHS. So, we feel that there is good support there, both in terms of being able to respond to a third wave, and also to start that recovery work that is so important."³⁴

66. The Minister subsequently highlighted that the £100 million had been allocated to support the recovery of the NHS rather than the response to the pandemic. She said:

"Local plans have been put in place by the NHS organisations in order to deliver on that, and to use that £100 million. Ways in which they are

³² **Audit Wales. COVID-19 response drives big rise in NHS spending as four health boards breach financial duties again. Jun 2021.**

³³ RoP, Plenary, paragraph 105, 21 June 2021

³⁴ RoP, Finance Committee, paragraph 54, 2 July 2021

approaching that are through identifying additional resources from external providers, either to provide services within the health board or in other facilities to increase the treatment capacity, because we want to start making some progress on those waiting lists, which I know we share concerns about. We're also exploring currently with the NHS what additional requirements might be needed to support planned care delivery for the future. So, this is more about considering whether we should have shared centres for diagnostics or treatment that are separate from the current hospital sites. So, that kind of work is also under way at the moment.”³⁵

67. The Minister said she would “definitely envisage” making further health allocations.³⁶ She expected the resources to be requested for health and social services to be “significant, because they have big ambitions for recovery”³⁷.

Local Government

68. The **Final Budget 2021-22** included £206.6 million to support local government for the first six months of 2021-22 through the **Local Government Hardship Fund**. That funding was not included in the **Draft Budget 2021-22** and therefore not scrutinised by the previous Finance Committee. It **builds** on over £660 million of additional allocations to Local Government in 2020-21.

69. While the Supplementary Budget does not change the amount allocated for these purposes, the Minister suggested in Plenary on 23 June that further funding could be allocated to the hardship fund “should it be needed”.³⁸

70. The Minister confirmed that in addition to the funding for the local government hardship fund for the first six months of 2021-22, announced at the Final Budget, she has agreed an additional £26 million through the hardship fund particularly for social care.³⁹

71. The Minister said the local government hardship fund is expected to deliver two elements:

³⁵ RoP, Finance Committee, paragraph 56, 2 July 2021

³⁶ RoP, Finance Committee, paragraph 58, 2 July 2021

³⁷ RoP, Finance Committee, paragraph 58, 2 July 2021

³⁸ RoP, Plenary, paragraph 22, 23 June 2021

³⁹ RoP, Finance Committee, paragraph 64, 2 July 2021

"... the first providing local authorities with funding for the extra costs that they've incurred as a result of the pandemic, and for the things that we have been asking them to do. Adult social care is obviously one big part of that. Homelessness provision is another; the additional funding that has provided the rooms for people to be taken out of rough-sleeping has been particularly important and successful through that part of the scheme."⁴⁰

72. The Minister explained that the hardship fund had provided funding for free school meals, self-isolation payments, an enhancement for social care workers' sick pay, funded testing and visitor pods in care homes amongst other interventions.⁴¹

73. In addition, she said the hardship fund had also supported the loss of income that local authorities have faced. She added:

"Based on last year, it's about two thirds that goes towards the costs incurred and about a third towards the money that they've lost—the loss of income. So, we probably might expect it to be similar this time, although some services are opening up again."⁴²

Education

74. The Education and the Welsh Language MEG has received **an increase of £519 million** in total revenue and capital departmental expenditure limits (DEL) which is a 27 per cent increase on spending plans outlined in Welsh Government's restated 2021-22 Final Budget.

75. A significant proportion of this increase is due to the **£387 million allocation** in non-fiscal revenue due to student loans, which is ring-fenced and cannot be used by the Welsh Government to fund its spending plans.

Teachers' Pay

76. In a letter to Leaders of Councils in Wales regarding the **Provisional Local Government Revenue and Capital Settlements for 2021-22**, the then Minister for

⁴⁰ RoP, Finance Committee, paragraph 67, 2 July 2021

⁴¹ RoP, Finance Committee, paragraph 68, 2 July 2021

⁴² RoP, Finance Committee, paragraph 69, 2 July 2021

Housing and Local Government **said** the implications of pay awards in 2021-22 would need to be accommodated within local government budgets.

77. The Welsh Local Government Association (WLGA) **told** the previous Finance Committee "whatever the outcome of any pay award is will have a significant impact on our budgets". The pay cost for teachers and those staff on National Joint Council terms was £3.8 billion, with every 1 per cent increase therefore estimated to cost £38 million.⁴³

78. The Minister said that the previous Minister for Housing and Local Government had written to local authorities with their settlement last year, and set out that it "was a good settlement and that they would be expected to include pay in that, and that is what Jeremy Miles has repeated."⁴⁴ She continued:

"That said, they've been making strong representations to the Welsh Government about seeking additional support to help them with that cost after what's been a really difficult year for them. I've received a letter from the leader of the WLGA seeking a meeting to discuss it further and I'm happy to have that conversation."⁴⁵

79. The Minister highlighted that the Welsh Government often finds itself in the position where it is:

"...providing additional funding to local government because of the way in which the academic year differs from the financial year and the challenges that they face. I want to find a more sustainable way forward for this as well. So, there will be two conversations: what do we do this year, where can we find an agreement with them, but then how can we find a way to avoid this situation becoming something that occurs every single year."⁴⁶

Committee view

80. The Committee notes the allocation of an additional £100 million to support the recovery of the NHS. However, the Minister suggested this funding would also support NHS organisations to respond to a third wave. The Committee would welcome clarification

⁴³ RoP, Finance Committee Fifth Senedd, paragraph 165, 13 January 2021

⁴⁴ RoP, Finance Committee, paragraph 70, 2 July 2021

⁴⁵ RoP, Finance Committee, paragraph 71, 2 July 2021

⁴⁶ RoP, Finance Committee, paragraph 71, 2 July 2021

of the purpose of the funding, as well as further information on the local plans prepared by the individual NHS organisations against which the funding has been allocated. This should include how the funding will be used, its intended outcomes and how the Welsh Government will monitor and report the impact it ends up having on NHS waiting lists.

81. The Committee appreciates the uncertainty of the situation but notes that the Minister intends to make further allocations to the health budget. The Committee would welcome an update on the financial implications of further funding to health when it is available, together with information about its intended outcomes.

82. The Committee notes that the Welsh Government is discussing with NHS bodies the support they may require for future service delivery. While acknowledging that these may not be mutually exclusive, the Committee believes it is important the Welsh Government makes clear the intended purpose of additional funding provided to the NHS, such as whether this is provided to support recovery or drive service redesign/transformation.

83. The Committee welcomes the financial support that has been made available to local authorities through the local government hardship fund. The Committee notes that the Minister will be committing an additional £26 million for social care through the hardship fund. The Committee would welcome an update from the Minister on the monitoring of use and effectiveness of the fund, including further detail on the additional £26 million.

84. The Committee is pleased to hear that the Minister is willing to engage in further discussions with the WLGA regarding teachers' pay. The Committee notes the broader issues faced by the Welsh Government in relation to how education allocations are funded on an academic year basis rather than a financial year.

Recommendation 7. The Committee recommends that the Welsh Government clarifies the purpose of the £100 million allocation for the NHS and provides further information, including how the funding will be used, its intended outcomes and how the Welsh Government will monitor and report the impact it ends up having on NHS waiting lists.

Recommendation 8. The Committee recommends that the Welsh Government provides an update on any further allocations to the Health and Social Services MEG as and when that information is available, together with information about its intended outcomes.

Recommendation 9. While acknowledging that they may not be mutually exclusive, the Committee recommends that, for transparency purposes, the Welsh Government makes clear the intended purpose of any additional funding for NHS bodies and whether they are provided to support recovery or service transformation/redesign.

Recommendation 10. The Committee recommends that the Welsh Government provides an update on the monitoring and effectiveness of the Local Government Hardship Fund, including amount allocated to local authorities and further detail on the additional £26 million for social care.

Recommendation 11. The Committee recommends that the Welsh Government provides an update on discussions with the Welsh Local Government Association in relation to teachers' pay and the broader issue of ensuring allocations to education are in line with the financial year rather than the academic year.