

WELSH GOVERNMENT RESPONSE TO RECOMMENDATIONS FROM THE FINANCE COMMITTEE REPORT:

SCRUTINY OF WELSH GOVERNMENT FIRST SUPPLEMENTARY BUDGET 2021-22

AUGUST 2021

Recommendation 1

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

Response: Accept

Allocations are made following cross government consultation and are prioritised to respond to the need to protect our citizens, provide support to our public services, businesses and communities while reflecting our key priorities and taking account of the principles and objectives of the Well-being of Future Generations Act.

Many of the allocations in supplementary budgets regularise budget announcements made by Ministers and, as such, information about these budgetary decisions is available and in the public domain.

We continue to keep our budget documentation under review and in assessing the information to support supplementary budgets continue to strive to strike the right balance to maintain proportionality with further explanation of significant allocations proposed within them.

When considering allocations from the reserves, I work with Cabinet colleagues to identify pressures and, working with a team of officials and special advisers, I am able to examine and make decisions taking an holistic view of the position across Government. I consider factors such as overall affordability, social partnership working, and opportunities for collaborative and joined up interventions to minimise duplication.

I have stressed the importance of robust monitoring arrangements throughout the year to ensure we understand up to date requirements, particularly on demand-led interventions, to ensure that we can manage our financial planning effectively and resources are deployed efficiently.

This approach helps to ensure that any further allocations give the right balance of support and respond to the needs across Welsh life. All further allocations that are announced following this exercise will be regularised in the second supplementary budget later this year.

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.

Response: Accept

I continue to press the UK Government to improve the transparency and governance of the devolved funding arrangements. At a meeting of the UK Finance Ministers on 20 July, I sought commitment to reach agreement on how fiscal issues will be handled through strengthened inter-ministerial engagement as part of the Intergovernmental Relations Review.

I also highlighted to the Chief Secretary to the Treasury the significant implications of the UK Spending Review for Wales, potentially late in this year's budget cycle, and pressed for the proper involvement of the devolved governments to enable planning of our Budgets and to support recovery.

While the UK Government's Block Grant Transparency document, last published in June 2021, presents the total changes arising from spending review settlements at UK department level, we are not provided with any detail of individual UK

programme changes. Between spending reviews, the Barnett formula consequentials from individual UK Government measures are identified, although it can initially be unclear whether these will be funded with new money or through savings or reprioritisation by UK departments. The final decision on funding may not take place until very late in the financial year at UK Supplementary Estimates, although the new programme may have been in operation in England for much of the year.

This makes it difficult to plan effectively given the lack of clarity on the scale of the funding envelope available. A Barnett Guarantee which gives clarity on the minimum additional amount devolved governments can expect to receive in year was provided in 2020-21. The Welsh Government has requested a similar arrangement in 2021-22. As a minimum, it would aid efficient and effective in-year budget management if the UK Government could provide information as early as possible regarding changes to funding. It should also be an established principle for any late changes to our Budget notified at UK Supplementary Estimates to be carried forward outside the normal Wales Reserve limits.

As set out in *Reforming our Union: Shared governance in the UK* (June 2021), the Welsh Government proposes that operation of the devolved resourcing arrangements, including determinations of devolved governments' spending power and borrowing limits, should be the responsibility of a public agency accountable to all four administrations jointly. This would secure the legitimacy of the fiscal framework across the UK.

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.

Response: Accept

Building on the £320m of reconstruction funding announced in 2020-21, the Final Budget 2021-22 allocated £224.5m for a capital stimulus package, providing further support for reconstruction priorities. Within the first supplementary budget of 2021-22, restructured to reflect the changes to ministerial portfolios, the elements of the stimulus package consist of:

- **£185m** within the **Climate Change** portfolio
 - £147m for housing-related investments
 - £20m for Active Travel
 - £8m for local authority flood measures
 - £10m for the Strategic Road Network

- **£30m** within the **Education and Welsh Language** portfolio for the 21st Century Schools and Colleges Programme

- **£5m** within the **Economy** portfolio
 - £3m investment in the Cultural Estate
 - £2m investment in sport

- **£4.5m** within the **Social Justice** portfolio for community facilities.

Each Cabinet Minister is responsible for delivering the priorities within their portfolios and will be subject to scrutiny by the relevant scrutiny committees of the Senedd throughout the year. As is normal practice, I will report to the Finance Committee at year end on the financial outturn position for 2021-22.

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).

Response: Accept

I set out details regarding the business support made available and the reasons why applications were not approved in my letter to the Finance Committee on 19th July. Since then, the grant funding made available for business support in May and June was:

- **Welsh Government delivered element with business turnover >£85k**
 - 3,000 grants made @ £14m (still a small number of live offers)
- **Local Authority Delivery for business < £85k**
 - 3,116 grants made @ £8.2m.

Underspends arising from this period have been reapplied to support the latest Welsh Government and Local Authority packages for July and August which are still live. We will continue to adopt this approach to manage the variances between commitment and spend.

In respect of the Welsh Government, we anticipate there will be 1,200 offers @ £6m (with 856 @ £4.3m paid out to date), and for the Local Authority package it is predicted that there will be 1,500 offers @ £4.5m.

The level of applications is as planned and expected due to businesses now back to more normal trading conditions.

The total expected outturn is **£32m - £37m (including contingency of £5m)** with budget and delivery still live. The Scheme is demand led and the budget position is being managed against future delivery as planned.

We have engaged Economic Intelligence Wales (EIW) to conduct evaluation and impact assessment via a longitudinal approach. The Economic Recovery Fund will

be subject to Post Completion Monitoring – a new dedicated team has been established and work has begun, aligned to the 12 month window since the first intervention.

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.

Response: Accept

Individual investments are managed within the overall Welsh Government Financial Transactions portfolio and repayment schedules. In line with the UK Government's Financial Transactions policy, 80% of the total funding is due to be repaid to HM Treasury in line with an agreed repayment profile.

Within any investment portfolio it is to be expected that some investments will be more risky than others. All investments are monitored to minimise risks and to ensure they can be managed across the investment portfolio if they arise. When considering the decision to write off the loan, a judgement is taken on all of the options and the potential commitments to any organisation in respect of managing their financial difficulty.

In the case of the airport, in balancing the Value for Money case in writing off the loan, it was recognised that doing nothing would see the airport stop trading, job losses and impact of losing this critical piece of infrastructure for generations to come. This includes recognition of the 5,200 indirect jobs supported by the airport and from the firms in the wider supply chain and the wider case to support the aviation sector at this time. It is also recognised that Cardiff International Airport Limited (CIAL) is a vital gateway to Wales for business, tourists and general travellers providing strong international connectivity to and from Wales.

This decision therefore maximises the likelihood of recovery of the Welsh Government investment and delivers the lowest lifetime cost option, providing the best way forward for the Welsh Ministers as sole shareholders of the airport from a commercial perspective. In line with management of the wider FT portfolio, this decision was taken on the basis this will not have a detrimental impact on Welsh Government's budgetary position as the repayment of the loan to HMT can be managed within the repayment profile.

This decision was therefore taken on the basis this best protects the value of the public investment in the airport, minimising detrimental economic impacts and ensuring that it is sustainable into the future.

Recommendation 6

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

Response: Accept

We will consider how best to clearly and transparently outline funding related to reprioritisation of road schemes as part of our 2022-23 Draft Budget Preparations, recognising it will be for the Minister for Climate Change as the Minister with responsibility for this funding area to outline further details as part of wider scrutiny of our budget plans.

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.

Response: Accept

The use of the £100 million and its intended outcomes were set out in the Minister for Health and Social Services' [announcement](#) on 20th May. Welsh Government will monitor use of the funding through monthly financial returns and through monthly waiting list statistics.

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.

Response: Accept

Details of further allocations to the Health and Social Services MEG will be made available in due course when they are agreed as part of our in-year allocation process.

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.

Response: Accept

Welsh Government will confirm the purpose of any further allocation of funding to the NHS. Decisions on the allocation of funding for longer term service transformation will primarily be considered as part of the budget planning process and confirmed in the draft budget due to be published on 20th December.

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.

Response: Accept

The Local Government Hardship Fund has supported the additional costs and loss of income faced by local authorities resulting from the impact of the Covid 19 pandemic. A number of specific support schemes administered through local authorities are also included.

Authorities claim in arrears for costs on a monthly basis and for loss of income on a quarterly basis. Claims are assessed against agreed principles by a panel including local government finance officials, specific policy leads where necessary, an internal independent member and external independent members who have previously held S151 (Chief Finance Officer) positions. Additional information to support items within the claims is requested where necessary.

Regular updates on spend against budget are also shared with the Chief Finance Officers of the 22 Local Authorities. The scheme to date has proved effective in supporting authorities with the additional costs of the pandemic on local authority core services and the pressures on both lost income and lost opportunities to make planned savings. No authorities have reported financial difficulties during the period of the pandemic, nor have services had to be cut in order to meet the costs of the additional requirements of the restrictions applied during the pandemic.

Local Authorities have been supported through the fund to respond to some impacts of the pandemic on specific groups. In particular, the fund has supported the delivery of free school meals during periods of school physical closure as well as during the school holidays. In 2020-2021 as part of Wales' efforts to reduce the spread of infection, we have funded more than 19,000 self-isolation payments to those who would have otherwise experienced financial hardship and provided for

enhanced sick pay for eligible people. The fund has also supported enhanced support for homelessness services.

Table 1 below gives the support given to date for 2020-21 (there remains £10m on hold where further information has been requested).

Table 1

Service area / scheme	£
Adult Social Services	144,080,154
Central services	23,322,838
Childrens social services	16,326,828
Council fund housing services	31,265,618
Cultural and related services	1,322,056
Education	40,674,620
Environmental and Regulatory	26,247,146
Transport & Highways	2,526,273
Planning, development and court	606,545
Free school meals	48,796,063
WG Self-isolation scheme	6,179,380
WG SSP Enhancement Scheme	2,422,732
Flooding	2,595,668
Testing in care homes	1,809,222
Planned savings not achieved by LAs	25,000,000
Digital transformation	25,000,000
Total	398,175,143
Loss of income	190,479,248
Grant total	588,654,391

Table 2 gives a breakdown of claims received to date in 2021-22:

Table 2

Period	£
April costs	14,748,371
May costs	19,039,304
June costs	20,981,516
Quarter 1 loss of income*	24,674,194
Total	79,443,385

*Still awaiting one return for a medium sized council

Ministers have agreed additional funding of £26m for the continuation of the adult social care component of the Local Government Hardship Fund to the end of the year in order to support the adult social care sector in its vital response to the coronavirus pandemic. This will be formalised in the next supplementary budget. Discussions are ongoing with stakeholder groups about the terms of this funding.

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.

Response: Accept

The Welsh Local Government Association (WLGA) were consulted on the uprating of teachers' pay via a formal written consultation issued on 11 June, though no formal response was received. However, WLGA members have outlined their concerns directly to the Minister for Finance and Local Government and the Minister for Education and Welsh Language in meetings and WLGA also referred to their concerns on the affordability of the rise in writing to the Minister for Finance and Local Government of 28 June. Final details of the pay award will be published alongside the Teachers Pay Order 2021.

The annual process for deciding teachers' pay and conditions was established in February 2019 and is a combined approach relying on advice and research provided by Teachers' Pay and Conditions Partnership Forum (PPF) (comprising unions, employers and officials) and independent expertise from the Independent Welsh Pay Review Body (IWPRB).

Timing of the annual process is discussed within the PPF in line with accepted social partnership approach. WLGA are active members of the PPF and will be involved in such discussions.

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