

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref MA-RE-1954-23

Peredur Owen Griffiths MS
Chair, Finance Committee
Senedd Cymru
Cardiff Bay
CF99 1NA

11 August 2023

Dear Peredur,

Thank you for your Committee's scrutiny of the First Supplementary Budget 2023-24 and the report that followed.

I attach a written response to recommendations one to six which I hope you find useful.

Yours sincerely,

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Correspondence.Rebecca.Evans@gov.wales
Gohebiaeth.Rebecca.Evans@llyw.cymru

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 FIRST SUPPLEMENTARY BUDGET 2023-24

AUGUST 2023

Recommendation 1

The Committee recommends that the Minister provides information in the next supplementary budget to show the impact of pay awards on the Welsh Government's funding position, and to confirm whether such areas will need to be funded through existing budgets or through reserves.

Response: Accept

The Welsh Government believes all public sector workers should be fairly rewarded for the important work they do. Unfortunately, our financial settlement falls far short of what is needed to meet the very significant challenges faced by our public services and workers across Wales.

At this stage, without further funding from the UK Government, any costs of pay deals in Wales would need to be met from existing budgets which are already under considerable pressure as we seek to support public services in Wales.

As is the case for all Welsh Government budgets, the Second Supplementary Budget 2023-24 will provide information on all changes to existing budgets and the utilisation of the Wales Reserve, and this will include any allocations to support pay awards.

Recommendation 2

The Committee recommends that the Minister continues to press the Treasury for earlier and better engagement with the Welsh Government regarding

significant funding announcements, with the aim of providing greater clarity in terms of the Welsh Government's funding position earlier in the year.

Response: Accept

We have raised with successive Chief Secretaries to the Treasury the need for greater clarity and more timely information on the implications of UK Government funding announcements for the Welsh Government Budget alongside additional budgetary flexibilities to assist with managing this uncertainty.

Together with the other devolved Finance Ministers, the Minister for Finance and Local Government has raised this at the Finance: Inter-ministerial Standing Committee (F:ISC) and has led discussions on improving the UK Supplementary Estimates process to support effective budget planning by the devolved governments.

There is currently a lack of clarity about the implications for Wales in regard to the UK Government's public sector pay awards. Whitehall departments have been asked to absorb the costs of recent awards within their existing budgets. We will not know until UK Supplementary Estimates later this year if that has been the case, and how this impacts our funding position.

The NHS Pay award in England is expected to be partly met from new funding from HM Treasury. The scale of the financial implications for the devolved governments could be significant. The Chief Secretary to the Treasury (CST) has so far been unable to provide clarification or indicate what we should assume for planning purposes in terms of consequential funding. The Minister for Finance and Local Government wrote to raise her concerns with the CST in April, and again with the Deputy First Minister for Scotland in June.

At the F:ISC on 22 June, the Minister secured agreement from the CST that he will provide an indication of the consequential funding by September.

The delay in clarity has impacts for our own spending choices and the Minister has pressed the CST for a solution similar to the Covid Guarantee so that when the UK

Government is making large sums of money available outside of fiscal events, the devolved governments have some degree of certainty about the funding available ahead of the overall UK Departmental positions being finalised at UK Supplementary Estimates.

The support of the Finance Committee in continuing to raise these issues with the UK Government is welcomed.

Recommendation 3

The Committee recommends that the Minister provides further details in future supplementary budgets regarding the consequential funding the Welsh Government receives, and this should include:

- **how soon the Welsh Government receives information regarding calculations;**
- **a view on the transparency of funding in contentious areas, such as transport and rail funding; and**
- **how the Welsh Government challenges funding decisions.**

Response: Accept

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 of proportionality.

Details of changes to our budget are published as part of each Welsh Government budget event. Where practical, further information will be provided in respect of transfers from other government departments and how these have been calculated.

When additional funding is allocated by HM Treasury outside of a fiscal event the level of consequential funding is not always immediately clear. This is because in many cases HM Treasury expects Whitehall departments to fund the activity from within existing budgets. Normally, the impact on the Welsh Government funding settlement is only confirmed at the UK Supplementary Estimate, late in the financial year once all UK Departmental positions are understood in order to finalise the devolved

governments' positions, this can only be fully confirmed at the end of the process, and needs to take account of negative, as well as positive, consequential.

The UK Government publish full details of all consequential funding in the Block Grant Transparency Report. The latest version was published in July 2023 and can be found at: [Block Grant Transparency: July 2023 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/block-grant-transparency-july-2023)

The UK Government should provide more transparency of its funding decisions, particularly in relation to transport. In respect of rail, there are two distinct issues: the impact of schemes, like HS2, on comparability; and decisions by UK Government about England and Wales rail infrastructure investment.

In respect of how the Welsh Government challenges funding decisions, in the first instance concerns will be raised through regular engagement at official and Ministerial level. In the event that there is an insufficient resolution from this approach, the next steps are set out in the [Intergovernmental Relations Review](#).

We hope that we can work with the UK Government pragmatically through these inter-governmental relations review arrangements before needing to invoke any formal dispute resolution process.

Recommendation 4

The Committee recommends that the Minister provides as much information as possible regarding the estimated size of the Wales Reserve within future supplementary budgets, including confirmation of whether planned drawdowns have taken place or not.

Response: Accept

All Welsh Government budgets set out where funds are planned to be drawn from the Wales Reserve in respective financial years. In this supplementary budget, we provided further information setting out the latest position in respect of the balance on the Wales Reserve.

Recommendation 5

The Committee recommends that the Minister continues to press the UK Government for maximum flexibility within the Fiscal Framework to enable discretion for the Welsh Government to manage its budgets to deal with the acute pressures it faces, and that this includes removing the annual Wales Reserve drawdown limits and increasing the size of both borrowing limits and the Wales Reserve, at least in line with inflation.

Response: Accept

In January the Minister for Finance and Local Government secured the CST's agreement to increase Welsh Government's draw-down limit for 2023-24, to assist with the management of the current significant funding challenges. While this agreement was welcomed, the Welsh Government wants additional budgetary flexibilities to be in place as a matter of course so that the budget process gives us the predictability and certainty to allow us to utilise our funding in the most effective manner, to deliver the best value for money and maximise outcomes for the people of Wales.

The fiscal levers currently available to us limit our ability to respond quickly to emerging needs, leaving us dependent on decisions made by the UK Government and exposed to the impact of the timing of those decisions. The Institute for Fiscal Studies (IFS) has previously highlighted the case for enhanced reserve powers in Wales and for drawdown limits to be increased, if not abolished. It is the view of the IFS that the existing limits on the total amount that can be held in reserves should, at the very least, be indexed in some way to account for growth in devolved spending and tax revenues.

In its Interim Report, the Independent Commission on the Constitutional Future of Wales noted that the most immediate practical financial issue arises from the restrictions applied by HM Treasury to the Welsh Government's management of its budget. It noted that our ability to borrow for capital investment and to carry over capital spending between financial years, is constrained by limits set in 2016-17; any requests for flexibility are required to be put to HM Treasury on a case-by-case basis, and the

exchange in January referenced above is an example of this, which is time-consuming and resource intensive. It also stated that it is hard to see why these constraints are needed, given that the Welsh Government is accountable to the Senedd's Public Accounts Committee for its stewardship of public expenditure.

Welsh Government Ministers have long made representations to the UK Government for additional fiscal flexibilities here in Wales and the First Minister raised the specific issue of uprating the limits in the fiscal framework at last autumn's Prime Minister and Heads of Devolved Governments Council meeting. We continue to press the UK Government for additional budgetary flexibilities through the appropriate inter-governmental channels.

Recommendation 6

The Committee recommends that the Minister provides quarterly reports to explain the impact of inflationary pressures and interest rate increases on planned capital projects and the targets and outcomes expected from the Welsh Government's planned capital investment.

Response: Accept in Principle

The Minister for Finance and Local Government provided information about the general impact of inflation when publishing the Final Budget 2023-24 on 28 February and more recently provided an update on the prospects for the Welsh Government budget in her letter of 12 July. The Minister will endeavour to provide such updates whenever information is published concerning the Budget, including at Supplementary Budgets.

The Minister has also advised the Committee that at the end of the last financial year we were able to manage the capital position without needing to pause or reprogramme any of our capital investments. Nor have we made any changes to our spending plans this financial year at this point. We continue to over-programme capital budgets, which provides room for manoeuvre should certain projects be deprioritised or not delivered. As a result of consequential received in the Spring Budget and Main Estimates we have been able to reduce our capital over-programming to £61m this financial year,

which is a manageable level given the stage we are at in the annual cycle. We will continue to monitor expenditure and forecasts very closely throughout the year and any changes will be set out in a Supplementary Budget in the normal way.

Welsh Ministers continue to manage their capital spending plans within the budgets allocated during the 2021 Welsh Spending Review. Persistent inflation will clearly have an impact on what can be delivered within our overall spending plans, and portfolio Ministers will need to take decisions concerning the specific targets and outcomes associated with specific investments.
