

Rebecca Evans AS/MS
Ysgrifennydd y Cabinet dros Gyllid, y Cyfansoddiad
a Swyddfa'r Cabinet
Cabinet Secretary for Finance, Constitution & Cabinet Office



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our MA-RE-5012-24

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

25 April 2024

Dear Peredur

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

I attach a written response to the recommendations made which I hope you find useful.

Yours sincerely,

A handwritten signature in black ink that reads "Rebecca Evans".

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Ysgrifennydd y Cabinet dros Gyllid, y Cyfansoddiad a Swyddfa'r Cabinet
Cabinet Secretary for Finance, Constitution & Cabinet Office

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 SECOND SUPPLEMENTARY BUDGET 2023-24

APRIL 2024

Recommendation 1

The Committee recommends that the Minister calls for maximum flexibility within the Fiscal Framework to enable the Welsh Government the ability to:

- carry forward funding from one financial year to the next, particularly when changes to consequential funding are made in the UK Supplementary Estimates; and**
- increase annual draw down limits on the Wales Reserve in 2023-24 and future years.**

Response: Accept

Welsh Government Ministers continue to make representations to the UK Government for additional fiscal flexibilities through the appropriate channels, including the Finance: Inter-ministerial Standing Committee (F:ISC) and through bilateral meetings and correspondence with the Chief Secretary to the Treasury and the Chancellor of the Exchequer.

The fiscal levers currently available to the Welsh Government limit our ability to respond quickly to emerging needs, leaving us dependent on decisions made by the UK Government, which fail to recognise the impact on our budgets and the scrutiny provided by the Senedd. The current UK financial arrangements do not offer the predictability and funding certainty required to support our budget planning and that of our partner organisations.

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.

The final report of the Independent Commission on the Constitutional Future of Wales noted that the budget restrictions applied by HM Treasury undermine the Welsh Government's ability to manage its budget and plan for the long term. The report argues that the financial flexibilities that we continue to seek from HM Treasury are reasonable, and that it should either accept them or explain its reasoning.

On 27 February, all parties in the Senedd jointly tabled a motion and voted unanimously for the UK Government to provide Wales with additional fiscal flexibilities.

In 2024-25 the Welsh Government's borrowing and reserve limits will be worth almost a quarter (23%) less in real terms than when they were introduced in 2018-19. Welsh Government Ministers have repeatedly made the case for Welsh Government borrowing and reserve limits to be indexed to inflation and for the limits on its Reserve draw-down to be abolished. These flexibilities were provided to the Scottish Government last August and are equally applicable to Wales.

In addition, the increase in the level of capital borrowing flexibility offered by the UK Government to Northern Ireland to support the restoration of the Executive starkly contrasts with the absence of increase to our borrowing limits.

Our general capital budget in 2024-25 is worth up to 8% less in real terms than when it was set at the time of the 2021 Spending Review. There must be fairness and consistency applied in the operation of the UK funding arrangements across all parts of the UK.

On top of the increases to borrowing and draw-down limits, the Cabinet Secretary for Finance, Constitution and Cabinet, along with the other devolved Finance Ministers, continues to make the case for the UK Government to establish a principle that funding confirmed at UK Supplementary Estimates can be managed across financial years, in addition to any carry forward permitted under reserve arrangements. This would formalise previous arrangements and provide devolved governments with a greater degree of certainty to plan effective public services.

Devolved governments have been permitted to carry forward funding at UK Supplementary Estimates that differs by more than 10% from the initial estimates provided in January. Whilst any agreement which provides support to manage the risk of uncertainty is welcome, this mechanism is insufficient when material changes are notified as late as January in a financial year. This year, the combined resource changes represented more than half the total value of the Wales Reserve.

At the latest meeting of the F:ISC on 14 March, the Cabinet Secretary for Finance, Constitution and Cabinet (formerly the Minister for Finance and Local Government) secured agreement from the Chief Secretary for HM Treasury and devolved government officials to work together to bring forward further proposals on how the UK Supplementary Estimates process can be improved in future years.

The Finance Committee's continued support on this issue is welcomed.

Recommendation 2

The Committee recommends that the Minister provides further information regarding the rationale for and impact of the Treasury's decision not to allow the switch in funding from revenue to capital has had on the Welsh Government's in-year financial position.

Response: Accept

HM Treasury did not agree to our request to switch capital to revenue beyond those that resulted from Barnett adjustments from switches agreed for UK Government Departments, and it is only due to other changes that the impact of the switch being rejected has been mitigated.

We reviewed our capital programmes as part of the in-year savings exercise when we asked the UK Government to switch some of our capital budget to revenue.

When the Chief Secretary to the Treasury rejected that request, we reviewed our capital position and, in the short timeframe available, made some capital allocations which could be delivered by the end of the year.

In our second supplementary budget we anticipated carrying forward around £70m of capital in the Wales Reserve to utilise in future years.

The current process whereby the Welsh Government is allocated switches based on a Barnett share of Whitehall switches is not fit for purpose and does not take account of its specific needs.

We are pleased to have on record the support of the Conservative benches for us to have the ability to undertake Capital to Resource switches.

Whilst the Cabinet Secretary for Finance, Constitution and Cabinet has set out the impact of HM Treasury's decision, ultimately it is for HM Treasury to set out its rationale.

Recommendation 3

The Committee recommends that the Minister lays an additional supplementary budget motion before the Senedd when making significant in-year changes to the Welsh Government's spending plans.

Response: Reject

The Budget Protocol agreed by the Finance Committee and the Welsh Government sets out the commitment to publish two supplementary budgets each year.

Supplementary budgets are not just about spending plans, but the level of resources received. They are the formal mechanism to agree the Government's spending plans and regularise the financing of spending through funding received from the UK

Government and devolved taxes. Only when all of that information is available is it appropriate to bring forward a supplementary budget.

Consideration is given to the timing of each supplementary budget to ensure it reflects changes to budgets as a result of decisions made by the Welsh Government, and also to capture changes that arise as a result of decisions by the UK Government.

For that reason, we attempt to align the timing of our supplementary budgets to the UK Government Main and Supplementary Estimates to allow the Senedd to scrutinise both the level of resources as well as proposals for their deployment.

The first supplementary budget of a financial year is normally published following the conclusion of the UK Government's Main Estimate; this may also confirm changes arising from the UK Government's Spring Statement in March which were notified at too late a stage to include in the Welsh Government's Final Budget.

The second supplementary budget is normally published following the conclusion of the UK Government's Supplementary Estimate. Because this supplementary budget is the last opportunity during the financial year to regularise changes because of UK Government decisions, the timing is critical to ensure spending proposals approved by the Senedd include those changes. The UK Supplementary Estimate is usually concluded in early February.

Allocative decisions, either from the Welsh Government reserve or reprioritised within MEGs to address emerging pressures, can be made in advance of a supplementary budget and regularised in a forthcoming supplementary budget.

An additional supplementary budget was brought forward during the first year of the Covid pandemic in light of the exceptional additional funds announced by the UK Government in the middle of that year.

Recommendation 4

The Committee recommends that the Minister attends a formal scrutiny session as soon as possible after the details in the event of any significant in-year changes being made to the Welsh Government's budget.

Response: Accept

The Cabinet Secretary for Finance, Constitution and Cabinet continues to welcome the scrutiny of the Finance Committee and supports engagement in the budget process.

This includes scrutiny of significant in year changes such as the in-year budget review exercise undertaken over the summer months of 2023.

Recommendation 5

The Committee recommends that the Minister explores publishing forecast outturn information at regular intervals within the year, to include an analysis of expenditure within each MEG and how these allocations are delivering against planned outcomes, in order to provide the upmost transparency for the Senedd and the Welsh public.

Response: Accept in Principle

We already outline substantive information throughout the financial year through our Draft, Final and Supplementary Budget publications. We report the monitoring and delivery of outcomes through the Programme for Government report. In addition, throughout the year we publish a range of information through our website on the monitoring and outcomes of policy areas. We are happy to consider improvements through our work on the Budget Improvement Plan, recognising that such changes must be proportionate and should also be considered through any changes to the Budget Protocol.

Recommendation 6

The Committee recommends that the Minister provides details of the progress that Local Health Boards are making in meeting target control totals before the outturn position in the summer, and explains how the Welsh Government is monitoring progress to avoid the need for additional allocations in this area in future years.

Response: Accept

All but three NHS organisations are currently forecast to achieve the targets set for them in November, including the 10% reductions in deficits requested.

Unfortunately, three Boards have been unable to hit their target control totals, however the Cabinet Secretary for Health and Social Care partially offset those deficits by finding increased savings within her budget portfolios.

The combined deficit of the NHS, at Month 11, was forecast as £71.5m above the target control totals set by the Minister.

The Cabinet Secretary for Health and Social Care and her officials have continued to work with NHS organisations to seek improvement in their positions both in this financial year and going forward.

There is an established escalation framework for NHS organisations and the Minister made an oral statement setting out the position on the 23rd of January.

Although the overall level of escalation reflects wider considerations in addition to the financial position, it is worth noting that the three Health Boards that are forecasting to fall short of their target control totals are all in higher levels of escalation.

Betsi Cadwaladr UHB is in Special Measures; the Minister placed Hywel Dda, as a whole, into Targeted Intervention in January; and Aneurin Bevan was escalated to Targeted Intervention specifically for Finance and Planning.

Health Boards submitted their Integrated Medium Term Plans (IMTPs) by the end of March, these are being reviewed and financial plans for 24-25 are being scrutinised.

Recommendation 7

The Committee recommends that the Minister provides further information on the impact that decreases in funding for mental health policies through the Supplementary Budget will have on mental health services.

Response: Accept

We were facing an extremely challenging financial situation in 2023-24 and we had to take action mid-year in order to ensure we could manage our overall position. There were significant budget savings identified from across Government and we reshaped our budget to support front line public services.

As part of that work significant savings were identified by the Minister for Health and Social Services in her own MEG. This included review of the HSS central budgets which were then redirected to provide further support for front line pressures in the NHS – including in mental health services. There were a number of elements of the centrally held mental health funding that had not been fully committed and they were identified as part of this exercise.

We provided details on the majority of this reduction within our addendum to the Strategic Integrated Impact Assessment for 23/24 which was published in December.

The central mental health funding increased by £25m for 2023-24 and it was deemed likely that there would be delays in implementing plans as well as uncontrollable delays in legislation, therefore budgets could be reduced, and the impacts minimised.

There were some areas of policy work that have been slowed down due to this, but core services in the NHS, including the ring-fenced Mental Health budget were protected and supported by the actions we took in-year.

It is important to recognise that the main Mental Health budget is out in the core NHS funding and is ring fenced. For 2023-24 this is around £774m and it remains the clinical area where we spend the most in the NHS.

Recommendation 8

The Committee recommends that the Minister undertakes an impact assessment to understand the benefits of the subsidies provided within the Supplementary Budget to support the public transport system and shares its findings with the Committee by the time of the First Supplementary Budget 2024-25.

Response: Agree in Principle

An assessment of the benefits of providing this funding has already been undertaken as part of the Strategic Integrated Impact Assessment. A summary of this is provided below.

It has been an exceptionally challenging time for the rail industry across the UK. We took the decision to protect essential rail services by providing £125m to Transport for Wales (TfW) in the supplementary budget, which had been identified in TfW's business plan to operate services and introduce new trains. This was not included in the initial budget in order to work with TfW to reduce the amount required to the minimum levels.

Without the funding TfW would not have been able to maintain the continued operation of all of their rail services and jobs would have been at risk. The funding was required to meet the gap in TfW's revenue budget caused by the impact the Covid pandemic had on the ambitious revenue projections from the original KeolisAmey bid in 2018. Some operational costs have increased as a result of inflationary pressures, many of these costs were known from the outset, but have not been able to be offset as the pandemic resulted in 3 years of no growth in passenger revenue. Income from passenger revenue has now recovered to the level it was at prior to the pandemic and we are working with TfW to build on this to deliver passenger growth needed to reduce future subsidy.

We have invested significantly more funding into rail than under the previous system. The benefits of this approach are new trains across the Wales and Borders area, the £1bn transformation of the Core Valley Lines and additional more frequent services. The significant investments already made into rail across Wales would have been put at risk without the funding provided in the Supplementary budget. The full package of investment will also help to grow demand and therefore increase revenue income significantly over the coming years.

Recommendation 9

The Committee recommends that the Minister provides an update on the impact that reductions in the Central Services and Administration MEG will have on Welsh Government staff numbers.

Response: Accept

As is the case for all Welsh Government budgets, the CSA MEG budget is set within a very challenging fiscal context. To address these challenges, the Welsh Government 2025 (WG2025) programme is the vehicle for change and continuous improvement to the organisation and staff resources that support the delivery of Welsh Government's delivery priorities. To prepare for the wider challenges ahead, WG2025 has been refocused and streamlined and now comprises three workstreams, **ReSize**, **ReSpace** and **ReShape** each charged with designing and implementing changes that will help us continue to deliver for people in Wales in very different financial circumstances.

The WG2025 programme and governance structure continues to work in close social partnership with trade union partners throughout its implementation. Staff insight groups will also be established to ensure the programme benefits from the ideas and insight of Welsh Government officials at all grades and in all parts of Wales.

The majority of the running costs budget of the Welsh Government is spent on staff and the **ReSize** workstream will help develop a workforce plan that is affordable within budgets. Actions that have already been taken include moving to an external by

exception recruitment process, removing a number of previously agreed external vacancies, and reviewing temporary contracts.

In March a Voluntary Exit Scheme was launched. This is a programme that allows Welsh Government employees to leave their employment voluntarily in return for a severance payment. The exact numbers leaving the organisation via the scheme will depend on workforce planning implications and the grade mix of those applying but it is anticipated this will be in the region of 150 people. However, as with any scheme of this kind it must be appropriately targeted so that the organisation does not lose skills and experience that will be essential for the future.

The **Reshape** workstream is looking at the current operating model and the skills and capability of staffing resources, and making sure that the organisation is concentrated in the right areas or whether resources should be re-aligned to meet priorities. It is considering what might need to change to increase impact and effectiveness, including radical options, and how digital and technology can support that change. Importantly, it will also consider how we can build a sustainable, skilled and supported organisation for the future.

The **ReSpace** workstream is considering options to reduce the Welsh Government estate; make more efficient use of buildings; identify cost savings that can be achieved in the next year while taking a longer-term view on the future of the estate. This work is underpinned by a focus on how to reduce the carbon footprint of the estate and support effective SmartWorking.
