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Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref MA/MDFWL/10888/24

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

2 December 2024

Dear Peredur,

Thank you for your Committee's scrutiny of the First Supplementary Budget 2024-25 and the report that followed.

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

Yours sincerely,

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

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



Response to the recommendations in the Finance Committee's report "Scrutiny of the First Supplementary Budget 2024- 25"

December 2024

On 1 October 2024, the Cabinet Secretary for Finance and Welsh Language (the Cabinet Secretary) laid the Welsh Government's First Supplementary Budget 2024-25 and accompanying documents.

Finance Committee took evidence from the Cabinet Secretary at its meeting on 10 October 2024 and published its report on 21 October. Finance Committee's report contained nine recommendations and three conclusions.

This document is the Welsh Government's response to those nine recommendations.

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Introduction

The Welsh Government tabled the first supplementary budget for 2024-25 in accordance with Standing Order 20. It proposed changes to the Final Budget for 2024-25 as approved by Senedd Cymru ('the Senedd') on 5 March 2024.

A restatement of the 2024-25 Final Budget was published in June 2024. A further restatement of the Final Budget set the baseline for this supplementary budget which realigns the Welsh Government's Main Expenditure Groups to reflect the most recent Cabinet portfolios announced in September.

It regularises allocations to and from reserves, transfers within and between portfolios and includes adjustments to the Wales budget to reflect the impact of UK Government fiscal events.

I thank the members of the Finance Committee for their report on the Welsh Government's First Supplementary Budget 2024-25. I have set out my response to the Report's nine recommendations below.

Recommendation 1

The Committee recommends that the Cabinet Secretary confirms that IFRS16 changes will not impact on the Welsh Government's spending capacity and clarifies whether the scale of the IFRS16 changes included within the supplementary budget will be replicated in subsequent budget.

Response: Accept

The changes to the Welsh Government's first supplementary budget in respect of implementation of the IFRS16 accounting standard for leases reflect estimates of the impact provided to HMT in 2022. A further £12.4m was provided in the UK Autumn Budget to address subsequent movements in the original estimates. This will be allocated in the Welsh Government's second supplementary budget.

IFRS16 was implemented for the public sector from 1 April 2022. The budget reclassification implications of adopting IFRS16 were met by HM Treasury for the current Spending Review period of 2022-23 to 2024-25 as a separate budgetary exercise.

For 2025-26, the impacts of adopting IFRS16 are included within the Welsh Government's budget settlement from the UK Government and no longer ringfenced and this will continue for budget settlements going forward.

Therefore, going forward, there will not be specific allocations for IFRS16 in future supplementary budgets.

Financial Implications – none.

Recommendation 2

The Committee recommends that the Cabinet Secretary:

- provides further clarity on its decisions around funding for the NHS pay award before confirmation was received from the UK Government that this would be recurrent funding;
- explains how this aligns with the Welsh Government's own fiscal rules around affordability,
- provides details of any impact assessments made of how this decision would affect other areas of the Welsh Government's budget, and
- outlines the risks identified in taking such an approach.

Response: Accept

When laying our final budget in March of this year, the previous UK Government had not provided certainty that additional funding for pay agreed for the last financial year and provided to the Department for Health and Social Care (DHSC) was recurrent. We took a risk-based decision that it was impossible for the previous UK Government to fund pay awards in one year and to choose not to fund them in the next year. As a result, we considered it highly likely that additional funding would be made available to DHSC and consequentials would be forthcoming to Wales.

On balance, this was an appropriate planning assumption. In the unlikely event that recurrent costs were not forthcoming they would be considered as part of the established process within Welsh Government to manage in year budgetary pressures.

The UK Government announced additional funding for the DHSC in the UK Spring Budget. The consequential arising from that additional funding is regularised and reflected in this first supplementary budget.

Financial Implications – none.

Recommendation 3

The Committee recommends that the Cabinet Secretary escalates discussions between the Welsh Government and the Treasury on updating the fiscal framework and provides details of when any changes will be implemented and the impact this will have on the Welsh Government's ability to manage its budget.

Response: Accept

The UK Labour Manifesto recognised that the Welsh Fiscal Framework is out of date. The Welsh Government has long argued that resources should be allocated across the UK on the basis of relative need, as set out in Reforming the Union; however, the Welsh Government's priority in the near term is to ensure the current funding arrangements deliver for Wales. Additional budgetary flexibilities and the removal of fiscal constraints would enable greater predictability of Welsh Government funding and support effective budget management for both the Welsh Government and partner organisations, including local authorities.

The Prif Weinidog and I have had a series of collaborative discussions with UK Ministers, during which we pressed for UK Government agreement to update Welsh Government borrowing and reserve limits from 2018-19 to 2024-25 prices, in line with the latest Budget GDP deflators, and to index these to inflation thereafter, with the annual reserve draw-down limit abolished. I will raise these issues further in future bilateral meetings with the Chief Secretary to the Treasury.

I raised the wider issue of late UK Government allocations and end of year budget flexibilities alongside the Finance Ministers from Scotland and Northern Ireland at the Finance: Interministerial Standing Committee (F:ISC) in Belfast on 3 October. This will form a wider programme of work and will be considered as a substantive item at the next F:ISC meeting. I will keep the Finance Committee informed of progress.

Financial Implications – this work will be taken forward within existing resources.

Recommendation 4

The Committee recommends that the Cabinet Secretary provides an update on the Welsh Government's approach to managing its capital budgets as soon as possible after the conclusion of the UK Government's spending review, including an indication of whether the current approach of over allocating capital budgets will remain, and the impact any changes will have other areas in the Welsh Government's budget.

Response: Accept

Late notification by the previous UK Government of changes to our capital budget has made it difficult to efficiently and effectively manage our capital within the annual constraints of the financial year. One of the reasons for introducing capital overprogramming was to ensure we use the capital available most effectively.

This policy has allowed us to proceed with expenditure up to the forecast levels expected without needing to take any active decisions to pause or reprogramme our capital investment.

We are reviewing the overprogramming policy for the next Spending Review and budget because we recognise that the levels of additional capital have reduced significantly in the last spending review period. Our capital settlement in the Autumn Budget will inform this.

I will update the Committee following the review.

Financial Implications – this work will be accommodated within existing budgets.

Recommendation 5

The Committee recommends that the Cabinet Secretary takes steps to ensure that future supplementary budgets are accompanied by a narrative and headline figures which clearly explain the changes in the Welsh Government's budget that are associated with Welsh Government policy decisions.

Response: Accept

We continue to keep our budget documentation under review and aim to strike the right balance with the level of detail provided to support the changes within supplementary budgets.

Changes in supplementary budgets generally comprise of allocations relating to the regularisation of budget announcements made by the Welsh Government and, as such, information about these budgetary decisions will be publicly available.

Where there are significant technical changes, such as the impact of IFRS16, these are set out in the Explanatory Note that is part of the budget documentation published alongside the supplementary budget tables.

Financial Implications – none.

Recommendation 6

The Committee recommends that that, when significant non cash adjustments are made to student loans in the future, the Welsh Government provides more detail to explain how valuations have changed and more description within the supplementary budget documentation to avoid any misunderstanding for members of the public, who may interpret the changes as impacting on available departmental revenue funding.

Response: Accept

We recognise the importance of transparency and clarity in the information that we provide to support supplementary budgets whilst having regard to the fact that supplementary budgets are by their nature technical exercises and any accompanying information should be proportionate in nature and scale.

Where it is useful and practical to do so, we will look to include further information on the background to any further significant non-cash adjustments relating to student loans. We will continue to use the Explanatory Note to set out information on any key allocations and significant changes to supplementary budgets.

Financial Implications – none.

Recommendation 7

The Committee recommends that the Cabinet Secretary provides details of the Welsh Government's plans for assessing additional winter pressures funding for NHS bodies this year and the potential impact this will have on other areas within the Welsh Government's budget for the remainder of 2024- 25.

Response: Accept

Planning for the winter is a standard part of financial planning within the NHS. When budgets are provided to MEGs at the beginning of the year, the pressures faced during the winter are expected to be managed within that settlement.

Financial planning for the usual NHS Wales winter pressures form part of the normal planning process through the submission of Integrated Medium Term Plans or Annual Plans at the start of the year. NHS organisations, local authorities and their partners work through Regional Partnership Boards, pan-cluster planning groups and clusters to identify joint actions for the 2024-25 winter season.

The Cabinet Secretary for Health and Social Care, provided a statement in September updating the Senedd about how the National Health Service and social care services are preparing for winter.

Financial Implications – none.

Recommendation 8

The Committee recommends that the Cabinet Secretary provides an update on discussions held with the UK Government on funding arrangements relating to the core Valleys lines.

Response: Accept

Detailed engagement took place with the UK Government, involving the Office for Road and Rail, earlier this year to reach agreement on Operations, Maintenance and Renewals funding for the Core Valley Lines.

This resulted in an increase in the Welsh Government block grant of £39m through an additional £18.7m resource and £20.3m capital in 2024-25 which was allocated at UK Main Estimates.

At the UK Autumn Budget on 30 October, the UK Government confirmed this funding was baselined in our settlement for 2025-26 and future years.

Discussions with the UK Government regarding funding for enhancements to the Core Valley Lines are on-going and will form part of the second phase of the UK Spending Review which will conclude in the late spring.

Financial Implications – none.

Recommendation 9

The Committee recommends that that further information is provided on the impact of transfers from the Bus Support, Local Transport Priorities, and the Sustainable and Active Travel Budget Expenditure Lines to the Transport for Wales Budget Expenditure Line and whether these have an impact on the delivery of the associated policy areas.

Response: Accept

In order to mitigate ongoing cost pressures on the Core Valleys Lines, the reallocation of around £40m of funding across transport budgets was necessary at the start of the financial year. The majority of this funding (£26m) came from the bus capital budget which includes the purchase of new zero-emission buses to support decarbonisation of the transport network. The primary implication of doing so is that this programme will begin later and will need to accelerate more quickly in future years later. We do not anticipate any consequences for the bus franchising programme.

For active travel funding, the £3m change represented less than 5% of the total allocation and this reduction will not have a significant impact on this programme.

For Local Transport Priorities, the reduction in funding (£5m) was lower than we had first planned following the announcement of the plan for changes to the implementation of 20mph. This has created additional costs for Local Authorities and an additional £5m was allocated to support changes. Despite this additional allocation, we recognise that these approaches are not without consequences, particularly as Corporate Joint Committees are currently preparing their regional transport plans, and we are progressing a grants modernisation programme to support the devolution of decision-making and funding.

However, these reallocations reflect the realities of delivering a complex, transformational infrastructure programme within a relatively small and constrained budget and we are grateful for our collaboration with delivery partners, particularly in local government, for their ongoing flexibility and support as we deliver our shared priorities.

Financial Implications – none.