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Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: SF/JH/1026/15

Jocelyn Davies AM
Chair, Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

30th March 2015

Dear Jocelyn,

**FINANCE COMMITTEE'S REPORT: SCRUTINY OF THE WELSH GOVERNMENT
SECOND SUPPLEMENTARY BUDGET FOR 2014-15**

Thank you for the Finance Committee's report on the Welsh Government Second Supplementary Budget for 2014-15.

I enclose a note at Annex A, which responds to the recommendations contained within the Committee's report on that budget.

Best wishes,

Jane Hutt AC / AM
Y Gweinidog Cyllid a Busnes y Llywodraeth
Minister for Finance and Government Business

Annex A - Response to Recommendations in Finance Committee Report

Reprioritisations and In Year Reductions

Recommendation 1. The Committee remains unsure as to the reasons behind the relative contributions of the other six MEGs to the additional funding allocated to the Health and Social Services MEG, particularly the reasons why some MEGs contributed more than others. The Committee recommends that the Minister clarify this decision-making process.

As I outlined to the Committee, we worked across Government with the help of all Cabinet Ministers to identify what funds could be provided by other portfolios to the Health and Social Services MEG to address the funding gap identified by the Nuffield Trust report.

The position in each MEG during a financial year will inevitably vary dependent on the various risks and opportunities in each Ministerial portfolio and also the degree to which funds are already committed. For those reasons it is not always appropriate that each MEG make a simple percentage based contribution to such pressures. That is why our approach to dealing with this issue collectively, across Government, was so important.

In meeting each Minister during the year to determine their ability to contribute to the pressures we faced and the amount our reserves could add we were able to announce the additional £200 million funding alongside the Draft Budget.

Recommendation 2. The Committee is concerned that additional funding has been allocated to NHS organisations to help alleviate financial pressures, but not to local government and the third sector in respect of recent court judgements in the social care sector. The Committee recommends that the Minister undertake work to assess the potential implications of additional costs facing these sectors. We also recommend that the Minister consider providing assistance to local government and the third sector to help mitigate these additional costs.

As part of our work in setting and managing our budgets I meet regularly Ministers to discuss various issues within their portfolios. Each Minister will also regularly review pressures in their own budgets, with this issue being no different. Unfortunately it is not always possible, or appropriate, to provide central support in recognition of every potential issue.

Our commissioning guidance for Local Authorities, published in 2010, requires Local Authorities to have an understanding of the costs of directly provided and contracted care services and to act in a way to promote service sustainability. Any additional costs relating to these judgements would first be identified by Local Authorities through that process.

As a Government we continue to recognise the importance of social services to the health service and in our Budget for 2015-16 we invested an additional £10m in recognition of these pressures.

Reserves and the Budget Exchange System

Recommendation 3. The Committee welcomes the additional flexibility granted to the Welsh Government regarding carrying forward financial transactions funding, and recommends that the Minister continues with her efforts to obtain more flexibility in terms of the budget exchange system.

The Welsh Government has pressed, and will continue to, for further flexibility in our budgetary arrangements within the overarching Public Expenditure Framework.

The Budget Exchange system is one element of this overarching framework and one where we welcome the Committee's support. We will continue to work to gain further flexibility from the Treasury.