

# **Scrutiny of Welsh Government First Supplementary Budget 2023- 24**

July 2023

## 1. Introduction

**1.** On 13 June 2023, the Minister for Finance and Local Government (the Minister) laid the Welsh Government First Supplementary Budget 2023-24 (the supplementary budget);<sup>1</sup> an accompanying Explanatory Note<sup>2</sup> and Main Expenditure Group (MEG) allocations.<sup>3</sup> The Committee took evidence from the Minister at its meeting on 21 June 2023.<sup>4</sup>

**2.** This supplementary budget reflects budgetary changes since the Final Budget for 2023-24 was laid on 28 February 2023<sup>5</sup> and approved by the Senedd on 7 March 2023.<sup>6</sup> It also includes requested adjustments to the budgets for the Senedd Commission and the Public Services Ombudsman for Wales, as considered by the Committee on 24 May 2023.<sup>7</sup>

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<sup>1</sup> Welsh Government, [1<sup>st</sup> Supplementary Budget 2023-24](#)

<sup>2</sup> Welsh Government, [1<sup>st</sup> Supplementary Budget 2023-24: Explanatory Note](#)

<sup>3</sup> Welsh Government, [1<sup>st</sup> Supplementary Budget 2023-24: Main expenditure group allocations](#)

<sup>4</sup> Finance Committee, [RoP](#), 21 June 2023

<sup>5</sup> Welsh Government, [Final Budget 2023-24](#)

<sup>6</sup> Plenary, [RoP](#), 7 March 2023

<sup>7</sup> Finance Committee, [Minutes](#), 24 May 2023

## 2. Overview

3. The explanatory note<sup>8</sup> shows an increase in revenue plus capital (excluding Annually Managed Expenditure or 'AME') allocated to Welsh Government departments of £585.3 million (2.5 per cent), from £23.0 billion to £23.6 billion, compared to the Final Budget for 2023-24.

### Main Changes

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4. The changes in the supplementary budget, which are summarised in Table 1 below, fall into three categories:

- changes required for the implementation of the new accounting standard for leases (IFRS 16);
- other allocations; and
- MEG to MEG transfers.

5. The explanatory note also includes transfers within Ministerial portfolios.<sup>9</sup>

6. There are few significant new allocations, in terms of amount of cash allocated in this supplementary budget, with most adjustments relating to IFRS 16, which was not included in the Draft<sup>10</sup> or Final<sup>11</sup> Budgets for 2023-24. IFRS 16 effectively brings the majority of leases onto the balance sheet and is considered further later in this chapter.

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<sup>8</sup> Welsh Government, [1<sup>st</sup> Supplementary Budget 2023-24: Explanatory Note](#)

<sup>9</sup> Welsh Government, [1<sup>st</sup> Supplementary Budget 2023-24: Explanatory Note](#), page 18

<sup>10</sup> Welsh Government, [Draft Budget 2023-24](#)









<sup>11</sup> Welsh Government, [Final Budget 2023-24](#)

Table 1: First Supplementary Budget 2023-24: Summary (£'000)<sup>12</sup>

Main Expenditure Group (MEG)	2023-24						
	Resource			Fiscal			TOTAL
Resource and Capital (Excluding AME)	Fiscal	Non Fiscal	Resource Total	General	Financial Transaction	Capital Total	
Health and Social Services	10,129,185	303,359	10,432,544	478,048	-	478,048	10,910,592
Finance and Local Government	4,900,216	545	4,900,761	278,904	-	78,904	5,179,665
Education and the Welsh Language	1,816,743	491,837	2,308,580	357,300	14,886	372,186	2,680,766
Climate Change	899,605	292,575	1,192,180	1,978,471	108,770	2,087,241	3,279,421
Economy	440,129	17,234	457,363	81,811	-2,553	79,258	536,621
Rural Affairs	376,667	10,817	387,484	60,200	-	60,200	447,684
Social Justice	139,237	255	139,492	17,000	-6	16,994	156,486
Central Services and Administration	331,449	18,604	350,053	12,397	-	12,397	362,450
<b>Total Resource and Capital (Excluding AME)</b>	<b>19,033,231</b>	<b>1,135,226</b>	<b>20,168,457</b>	<b>3,264,131</b>	<b>121,097</b>	<b>3,385,228</b>	<b>23,553,685</b>

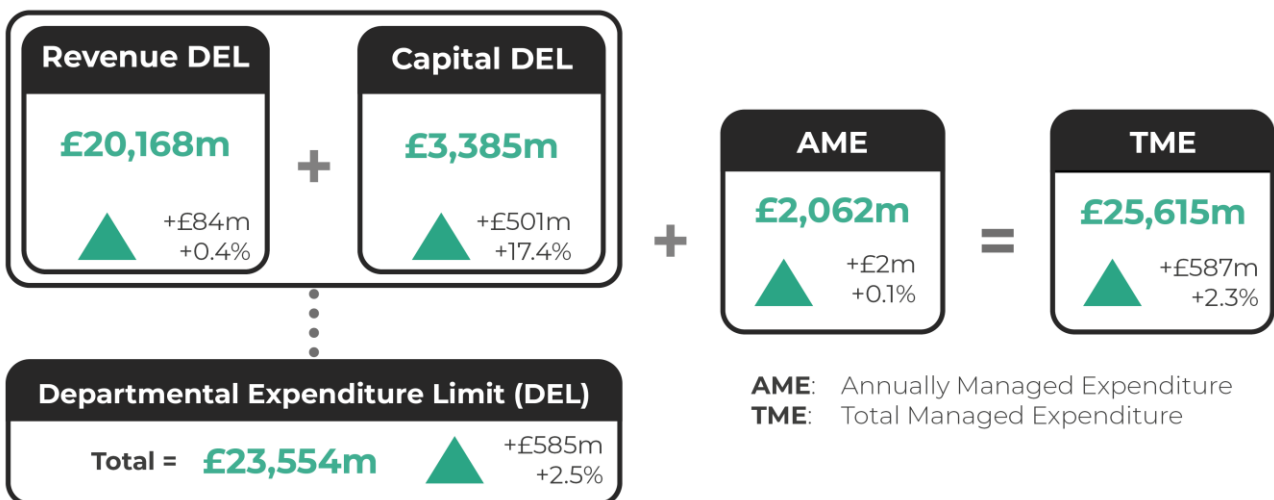
<sup>12</sup> Welsh Government, 1<sup>st</sup> Supplementary Budget 2023-24: Explanatory Note.

**Changes between the Departmental Expenditure Limits in the First Supplementary Budget 2023-24, from the Final Budget 2023-24**

	Total revenue and capital allocation	Change Final Budget (restated) to First Supplementary Budget	
 Health and Social Services	£10,911m	£149m 1.4%	▲
 Finance and Local Government*	£5,180m	£55m 1.1%	▲
 Climate Change	£3,279m	£347m 11.9%	▲
 Education and the Welsh Language**	£2,681m	£39m 1.5%	▲
 Economy	£537m	-£9m -1.7%	▼
 Rural Affairs	£448m	-£1m -0.2%	▼
 Central Services and Administration	£362m	£3m 0.8%	▲
 Social Justice	£156m	£3m 1.8%	▲

\*Excludes around £0.9 billion non-domestic rates income.

\*\*Includes allocation of £488 million of non-fiscal revenue due to student loans.



**7.** Since the Final Budget 2023-24<sup>13</sup> was approved, there has been a UK Budget and Main Estimates resulting in a net increase in fiscal resource baseline for the Welsh Government of £27.7 million. This comprises of:

- an additional £99.9 million from Barnett consequentials and other UK Departmental net transfers;
- £28.0 million drawdown from the Wales Reserve; and
- a reduction of £100.1 million due to IFRS 16.

**8.** There are no changes to tax revenue forecasts for Welsh Rates of Income Tax (WRIT), Land Transaction Tax, Landfill Disposals Tax and non-domestic rates as, according to the explanatory note, “forecasts continue to reflect those published at the time of the Final Budget”.<sup>14</sup>

**9.** The amount to repay principal borrowing has reduced by £2.2 million.<sup>15</sup> Planned capital borrowing remains at £150 million, the maximum annual limit within the Fiscal Framework.<sup>16</sup>

**10.** Other changes in the supplementary budget include:

- increases to the non-fiscal, or non-cash, resource, of £220.8 million, as a result of Barnett consequentials in the Main Estimates in May 2023 of £115.9 million and a further increase of £104.8 million due to the implementation of IFRS 16;
- excluding the £436 million in respect of the implementation of IFRS 16, there is a net addition of £103.2 million in General Capital funding from other UK consequentials and transfers, the largest being a non-Barnett transfer of £58.0 million in respect of funding for City and Growth Deals;
- a decrease in the Financial Transactions Capital baseline by £3 million due to negative consequentials from the UK Main Estimates in May 2023; and

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<sup>13</sup> Welsh Government, [Final Budget 2023-24](#).

<sup>14</sup> Welsh Government, [1<sup>st</sup> Supplementary Budget 2023-24: Explanatory Note](#), page 13

<sup>15</sup> Welsh Government, [1<sup>st</sup> Supplementary Budget 2023-24: Explanatory Note](#), page 13

<sup>16</sup> Welsh Government, [1<sup>st</sup> Supplementary Budget 2023-24: Explanatory Note](#), page 13

- a small increase of £1.7 million revenue and £456,000 capital in relation to AME, both within Health and Social Services MEG.<sup>17</sup>

## Funding Transparency and Timeliness

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**11.** When asked about the Welsh Government’s engagement with the Treasury, the Minister told the Committee that “there is an acceptable level of transparency in terms of the changes that are made within and between UK Government departments”.<sup>18</sup> The Minister’s official added that:

*“I think it's fair to say that the level of transparency that we've had from the Treasury over recent years has certainly increased. We do get quite a lot of detail of each of the movements that are going on that then drive the changes to our budget.”<sup>19</sup>*

**12.** However the Minister felt that the timing of funding announcements by the Treasury proved challenging for the Welsh Government, particularly when such information was not shared until late in the financial year, “because trying to plan that expenditure is obviously quite difficult to do in a short space of time”.<sup>20</sup>

**13.** The recent NHS pay award in England was used by the Minister as a “perfect example” of this given that “the UK Government went about those negotiations and agreements ... without knowing itself how it was going to fund them”.<sup>21</sup>

**14.** The Minister outlined the impact this would have on the Welsh Government’s approach to managing its budget:

*“it means that we're almost budgeting in the dark, because it could be a significant consequential coming towards us. But, equally, they might be able to find it from existing underspends across Government, so we really do need some clarity and transparency on that, just to help us manage our own budgets.”<sup>22</sup>*

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<sup>17</sup> Welsh Government, 1st Supplementary Budget 2023-24: Explanatory Note, page 13

<sup>18</sup> Finance Committee, RoP, 21 June, paragraphs 58-59

<sup>19</sup> Finance Committee, RoP, 21 June, paragraphs 62-64

<sup>20</sup> Finance Committee, RoP, 21 June, paragraph 35

<sup>21</sup> Finance Committee, RoP, 21 June, paragraph 59

<sup>22</sup> Finance Committee, RoP, 21 June 2023, paragraphs 16-17

**15.** The Minister added that confirmation of the UK Government's spending plans in this area "will really help in terms of having that clarity as to what our choices are ... for the rest of the year".<sup>23</sup>

### Reserves

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**16.** The supplementary budget states that the following reserves are currently held:

- Fiscal resource: £60.1 million (an increase of £47.1 million since the Final Budget); and
- Non-fiscal resource: £662.0 million (an increase of £119.4 million since the Final Budget).<sup>24</sup>

**17.** In response to the Committee's recommendation for updates on funding in the Wales Reserve,<sup>25</sup> the Welsh Government has provided a table in the explanatory note<sup>26</sup> to show these changes.

**18.** £28 million is drawn down from the Wales Reserve in this supplementary budget, this is in addition to the plans included in the Final Budget 2023-24<sup>27</sup> to drawdown £38 million in revenue. However, the funding available in the Wales Reserve will be dependent on how much of the budgeted £175 million (revenue and capital) was drawn down in 2022-23 and the final balance at year end.

**19.** When asked about the drawdown figures from the Wales Reserve for 2022-23, the Minister stated that:

*"We are still awaiting the final outturn position, so as soon as we have that we'll be able to fully update committee."*<sup>28</sup>

**20.** The Minister's official confirmed that the Welsh Government could not provide additional information at this stage, explaining that:

*"It's ... because we have to incorporate the outturns of our arm's-length bodies as well. There are some large arm's-length bodies that we've only recently received the information in*

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<sup>23</sup> Finance Committee, RoP, 21 June 2023, paragraph 38

<sup>24</sup> Welsh Government, [1st Supplementary Budget 2023-24: Explanatory Note](#), table 6.2

<sup>25</sup> Finance Committee, [Scrutiny of the Welsh Government Second Supplementary Budget 2022-23](#), March 2023, Recommendation 1

<sup>26</sup> Welsh Government, [1st Supplementary Budget 2023-24: Explanatory Note](#), table 6.2

<sup>27</sup> Welsh Government, [Final Budget 2023-24](#)

<sup>28</sup> Finance Committee, RoP, 21 June 2023, paragraph 44



*from—so, the Development Bank of Wales, Transport for Wales, Natural Resources Wales—there are quite significant amounts in that. They've only recently come in, so we're working through those at the moment. So, once we've done that then we'll be in a position to confirm at least what our provisional outturn is.”<sup>29</sup>*

## Intergovernmental Relations

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**21.** The explanatory notes states that as an “exception for 2023-24 only”<sup>30</sup> the Treasury has waived drawdown limits to the maximum available in the Wales Reserve.

**22.** When asked how the Welsh Government had secured flexibility in this area, the Minister explained that:

*“I always talk to the Chief Secretary about our need for more flexibility. We had our initial discussion on this particular issue in November 2022, and then I followed that up with a letter in January. And then, through February, the Chief Secretary said that he wanted our officials to work together, because, in the fiscal framework, there's a clause that says that if there's an exceptional circumstance then you can draw more down from the Wales reserve ... So, again, in February, then, the Chief Secretary said that he was content with the case that we'd made within the fiscal framework and that we could draw down the full amount in this year if we needed to.”<sup>31</sup>*

**23.** However, the Minister also confirmed that “We'd have to make a separate case next year”<sup>32</sup> should the Welsh Government wish to continue drawing down the full amount from the Wales Reserve.

**24.** The Minister cautiously added that “a little bit of progress” had been achieved with the Treasury that had led to “incremental movement”<sup>33</sup> on other issues, namely: an agreement to move revenue to capital towards the end of the last financial year; and an early estimate of funding changes expected in the

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<sup>29</sup> Finance Committee, RoP, 21 June 2023, paragraph 45

<sup>30</sup> Welsh Government, [1st Supplementary Budget 2023-24: Explanatory Note](#), page 29

<sup>31</sup> Finance Committee, RoP, 21 June 2023, paragraph 40

<sup>32</sup> Finance Committee, RoP, 21 June 2023, paragraph 42

<sup>33</sup> Finance Committee, RoP, 21 June 2023, paragraph 42

supplementary estimates. However, the Minister stated that further work was needed in this area:

*"I think that the big challenges, really, are the size of the Wales reserve and the amount that we're able to borrow, both annually and in aggregate as well. Those are challenges that continue."<sup>34</sup>*

### Accounting for Leases

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**25.** From 1 April 2022, public sector bodies have been required to comply with IFRS 16 when preparing their financial statements (or accounts).

**26.** According to the explanatory note, implementing IFRS 16 "does not affect existing spending power"<sup>35</sup> and the cost of leases for organisations will be the same. However, it changes how organisations need to account for leases in their financial statements. The impact of the implementation of IFRS 16 on the budgets for Directly Funded Bodies is considered in Chapter 4 of this report.

**27.** The net impact of IFRS 16 shown in this supplementary budget is significant, with the adjustments greater than the corresponding values in the First Supplementary Budget 2022-23<sup>36</sup>, particularly the budget adjustment for capital:

- reduction to revenue (cash) of £100.1 million (First Supplementary Budget 2022-23: £80.2 million);
- increase to revenue (non-cash) of £104.8 million (First Supplementary Budget 2022-23: £83.8 million); and
- increase to capital of £436.0 million (First Supplementary Budget 2022-23: £284.3 million).

**28.** The Minister stated that this is the "big area" of adjustment in the supplementary budget but that "it doesn't change our spending power".<sup>37</sup> The Minister's official confirmed<sup>38</sup> that this change would not have any effect on the Welsh Government's spending position, adding that:

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<sup>34</sup> Finance Committee, RoP, 21 June 2023, paragraphs 31-32

<sup>35</sup> Welsh Government, 1<sup>st</sup> Supplementary Budget 2023-24: Explanatory Note, page 5

<sup>36</sup> Welsh Government, 1<sup>st</sup> Supplementary Budget 2022-23: Explanatory Note, page 6

<sup>37</sup> Finance Committee, RoP, 21 June 2023, paragraph 55

<sup>38</sup> Finance Committee, RoP, 21 June 2023, paragraph 99

*“It is very much a technical change about the way that we show leases through the accounts and, therefore, through the budget where we look at leasing arrangements more as if you are investing in an asset rather than paying for a service.”<sup>39</sup>*

## Committee View

**29.** The Committee is encouraged by comments from the Minister that the levels of transparency between the Treasury and the Welsh Government on funding movements has improved, despite this, we believe that more could be done to ensure continual improvement in this area. The resilience of fiscal structures in the UK is highly dependent on smooth relations between central and devolved governments and the Committee welcomes these positive developments. However, it is clear that some issues persist, particularly in relation to the timeliness of UK Government funding announcements and its impact on the Welsh Government’s ability to manage its budget effectively.

**30.** The Committee regrets that details regarding major funding decisions, such as the way the NHS pay award in England will be funded, are currently unknown. We agree that the Minister is “budgeting in the dark” until the details of such decisions are shared and believe that this lack of clarity is detrimental to the Welsh Government’s budgetary position and makes prudent fiscal management extremely challenging. As a result, we call on the Minister to notify the Committee about the impact of funding decisions relating to pay awards in the next supplementary budget, including details of whether they will be funded by existing funds or through reserves.

**31.** The Committee has previously<sup>40</sup> called for improvements in the way that information is shared and communicated between governments on funding calculations. We therefore support the Minister in her efforts to press the Treasury for earlier and better engagement regarding significant funding announcements. This would give more notice of funding consequentials and the dates of significant fiscal events such as UK budgets, autumn and spring statements and spending reviews. This will provide greater certainty to the Welsh Government regarding its funding position which, in turn, may enable the Welsh Government to publish its Draft Budget sooner, enabling greater opportunities for scrutiny by Senedd Committees.

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<sup>39</sup> Finance Committee, RoP, 21 June 2023, paragraph 99

<sup>40</sup> Finance Committee, [Scrutiny of Welsh Government First Supplementary Budget 2021-22](#), July 2021, Recommendation 2

**32.** Despite these difficulties, we believe that the Welsh Government could do more to enhance transparency in terms of the changes made to its funding position, particularly in relation to areas of contention such as how soon the Welsh Government receives information regarding Barnett consequentials, the transparency of associated calculations and how and when information is provided to the public.

**33.** We have previously called on the Minister to provide details of any consequential funding made to Wales by the UK Government following receipt of UK supplementary estimates.<sup>41</sup> We reaffirm that view again and believe that more should be done to explain these changes in order to cast much needed light on an often shadowy and complex process. In particular, we believe that further details should be provided by the Minister summarising the key areas of concern for Wales, such as transport and rail funding, including how the Welsh Government challenges such decisions.

**34.** The Committee welcomes details regarding the balance of the Wales Reserve in this supplementary budget; information which the Committee has called for previously.<sup>42</sup> However, the Committee also notes that the amounts contained within the Wales Reserve are currently not finalised, given that they are dependent on provisional figures for arm's length bodies that will not be known until their outturn positions are submitted later in the financial year.

**35.** Whilst we accept that there are limitations to what the Welsh Government can provide regarding the balance of the Wales Reserve at this stage in the financial year, the Committee believes that a fuller picture could be provided, including confirmation of whether the planned drawdowns from the Wales Reserve have taken place. The Committee therefore asks for additional information on this issue to be included within future supplementary budgets. This is particularly salient given the importance of reserves to the Welsh Government's budgetary position within the current funding context.

**36.** The Committee welcomes improvements in intergovernmental relations on fiscal matters, particularly the Treasury's positive responses to requests from the Welsh Government relating to flexibility within the Fiscal Framework. These include:

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<sup>41</sup> Finance Committee, [Scrutiny of Welsh Government First Supplementary Budget 2022-23](#), 11 July 2022, Recommendation 3

<sup>42</sup> Finance Committee, [Scrutiny of Welsh Government Second Supplementary Budget 2022-23](#), 13 March 2023, Recommendation 1

- waiving limits to drawdown from the Wales Reserve in 2023-24, based on the case put forward by the Minister;
- an agreement to move revenue to capital towards the end of the last financial year; and
- the provisions of an early estimate of funding changes expected in the supplementary estimates.

**37.** These are not insignificant developments. The Committee has made a number of recommendations over recent years to support the Minister's aim to improve intergovernmental relations, particularly regarding the fiscal framework and dispute resolution.<sup>43</sup> We therefore applaud the Minister's efforts, especially as relations between both the Welsh and UK governments have been characterised in recent years by inflexibility and distrust.

**38.** Although we are pleased to see greater flexibility in terms of fiscal arrangements, we believe that the Welsh Government should be afforded such flexibilities each year, as a matter of principle. At the very least the Minister should have discretion to manage reserves and to draw down as much funding as the Welsh Government needs to deal with the acute pressures it is facing, without having to ask Treasury's permission each time.

**39.** The Committee has previously recommended<sup>44</sup> that annual drawdown limits to the Wales Reserve should be removed and that the size of both borrowing limits and the Wales Reserve need to be reviewed and increased by at least an amount in line with inflationary increases, and express the same views again in this report.

**40.** The Committee welcomes the information provided by the Minister and her officials in relation to the funding allocated to support changes in the IFRS 16 Leases accounting standard. The Committee accepts that these are necessary technical adjustments, and notes the assurances provided by the Minister that these changes will not have any effect on the Welsh Government's spending position.

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<sup>43</sup> Finance Committee, [Scrutiny of the Welsh Government Draft Budget 2023-24](#), February 2023, Recommendations 3 and 4

<sup>44</sup> Finance Committee, [Scrutiny of Welsh Government Second Supplementary Budget 2022-23](#), 13 March 2023, Recommendation 3

**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.

**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.

**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.

**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.

**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.

**Conclusion 1.** The Committee welcomes the information provided on the funding allocated to facilitate the new IFRS 16 accounting standards, and is assured that these changes will not have an impact on the Welsh Government's revenue budget or expenditure profile.

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### 3. Impact of inflation, costs and wage pressures

**41.** Since the Final Budget 2023-24<sup>45</sup> was agreed, the economic climate remains challenging. While forecasts for economic growth have improved slightly, falls in inflation have been slower than expected and recent wage inflation<sup>46</sup> figures have been higher than expected, although below inflation. The Bank of England expects<sup>47</sup> inflation to continue increasing to around 5 per cent the end of 2023. The latest figures for consumer price index measure of inflation, last published on 21 June 2023, stood at 8.7 per cent.<sup>48</sup>

**42.** In terms of pay, growth in employees' average total pay (including bonuses) was 5.8 per cent and growth in regular pay (excluding bonuses) was 6.7 per cent in January to March 2023.<sup>49</sup>

**43.** When asked about the impact of inflationary pressures on the Welsh Government's budgetary plans and how it was reflected in the supplementary budget, the Minister stated that:

*"I suppose the key place where you would see that is in the £28 million that has been drawn down from the Wales reserve and allocated to the education and Welsh language main expenditure group, and that is for the costs of the 2022-23 pay award for teachers in schools and further education for the remainder of the academic year that falls within this financial year ... I suppose that's where you can probably see it most visibly within the first supplementary budget."*

**44.** The Minister told the Committee that the Welsh Government had not made any further changes to its spending plans and that "colleagues across the different MEGs will be looking to manage their spend within the envelope that they have".<sup>50</sup> She added that the current context "does require us to think more creatively about what we deliver".<sup>51</sup>

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<sup>45</sup> Welsh Government, [Final Budget 2023-24](#).

<sup>46</sup> Office of National Statistics, [Average weekly earnings in Great Britain](#), June 2023

<sup>47</sup> Bank of England, [Why is inflation expected to fall quickly during 2023?](#) 11 May 2023

<sup>48</sup> Office of National Statistics, [Consumer price inflation, UK: May 2023](#), 21 June 2023

<sup>49</sup> Office of National Statistics, [Average weekly earnings in Great Britain](#), June 2023

<sup>50</sup> Finance Committee, RoP, 21 June 2023, paragraphs 10-11

<sup>51</sup> Finance Committee, RoP, 21 June 2023, paragraphs 10-11

**45.** In terms of pressures, the Minister stated that “our real concern this year is around revenue”, specifically relating to the NHS and also to public sector pay.<sup>52</sup>

### Impact on Capital Programmes

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**46.** As was the case in the Draft<sup>53</sup> and Final<sup>54</sup> Budgets for 2023-24, the supplementary budget shows that the Welsh Government continues to over-allocate against its capital budgets. Overallocation of general capital is reduced by £37.5 million to £61 million, however the Financial Transactions capital overallocation has increased by £2.2 million to £28.3 million.

**47.** The Minister explained the Welsh Government’s approach to managing its capital budget:

*“... to manage the capital position at the end of the last financial year, we did request that Treasury switch a further £7.6 million from revenue to capital. Now, that’s in addition to the £57.4 million that was switched at the second supplementary budget, so we were able to scrutinise that in a previous session. That did allow us to proceed with the expenditure up to the forecast levels expected, without us needing to take any action to pause or reprogramme any of our capital investment.”<sup>55</sup>*

**48.** The Minister defended her decision to over-programme capital budgets as a way to mitigate such projects being deprioritised or not being delivered:

*“every year ... we see those kinds of situations ... in terms of slippage of projects, [and] in terms of issues with the contractors .... So, those are some of the reasons behind the over-programming on capital, just because we didn’t want to get to the end of the year not having managed to deploy all of the capital funding.”<sup>56</sup>*

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<sup>52</sup> Finance Committee, RoP, 21 June 2023, paragraph 29

<sup>53</sup> Welsh Government, [Draft Budget 2023-24](#)

<sup>54</sup> Welsh Government, [Final Budget 2023-24](#)

<sup>55</sup> Finance Committee, RoP, 21 June 2023, paragraph 20

<sup>56</sup> Finance Committee, RoP, 21 June 2023, paragraph 25



## Committee View

**49.** The Committee recognises the ongoing challenges and pressures caused by high rates of inflation and its impact on the Welsh Government's funding position. We are assured by the Minister's approach and note the actions taken to address such pressures within this supplementary budget, notably the additional £28 million allocated from reserves to cover the costs of the 2022-23 pay award for teachers in school and further education. The Committee also notes that Welsh Ministers will need to manage departmental spending within the envelope allocated to them for 2023-24, and to not expect additional funding during that period.

**50.** The Committee recognises the constraints placed on the Welsh Government's capital budget and accepts that delays in terms of delivering projects and priorities is difficult to avoid in the current climate. We also welcome the Minister's decision to continue to over-programme capital budgets as a way to mitigate projects being deprioritised or not being delivered at all.

**51.** The Committee has previously called on the Minister to provide greater details on how its capital programme will be affected by constrained budgets and inflationary pressures.<sup>57</sup> Given the expected persistent high inflation and interest rates this financial year, such details are essential to accurately measure the impact of inflation on the affordability and sustainability of the Welsh Government's capital plans.

**52.** The Committee therefore asks the Minister to provide quarterly updates to explain the impact of inflationary pressures on planned projects, targets and outcomes expected from Welsh Government capital investment. We also expect this information to be clearly outlined and summarised in the Second Supplementary Budget due towards the end of this financial year.

**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.

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<sup>57</sup> Finance Committee, [Scrutiny of the Welsh Government Draft Budget 2023-24](#), February 2023, Recommendation 9

## 4. Directly Funded Bodies (DFBs)

**53.** The Supplementary Budget motion proposes a variation to the budgets of two of the bodies directly funded from the Welsh Consolidated Fund (WCF). The Committee considered the requests from the Senedd Commission (the Commission) and the Public Services Ombudsman for Wales (PSOW) at its meeting on 24 May 2023. No request was made on this occasion by Audit Wales.

### Senedd Commission

#### Background

**54.** The Committee considered the Senedd Commission's 2023-24 draft budget proposals on 5 October 2022<sup>58</sup>, and laid its report on 21 October<sup>59</sup>. The budget was scheduled to be considered by the Senedd on Wednesday 16 November, however, this was postponed until 23 November as a result of the UK Government's Autumn Statement being issued on 17 November 2022<sup>60</sup>.

**55.** Shortly after the Autumn Statement was announced, the Commissioner wrote to the Committee on 21 November stating that the proposed 4.1 per cent increase for the 2023-24 budget "may require revision to reflect the additional pressures now likely to be felt across the wider public sector in Wales".<sup>61</sup>

**56.** The Commission's budget of £61.9 million was approved on 23 November 2022.<sup>62</sup> During the debate the Commissioner made a further commitment that the Commission would undertake an in-year review "to find savings and accelerate efficiencies".<sup>63</sup>

**57.** The Commission submitted a First Supplementary Budget for 2023-24 and proposes a reduction of £435,000, which reduces the total budget to a 3.39 per cent increase compared to 2022-23.<sup>64</sup>

**58.** The Commission's budget review exercise has identified the following reductions:

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<sup>58</sup> Finance Committee, RoP, 5 October 2023

<sup>59</sup> Finance Committee, Scrutiny of the Senedd Commission Draft Budget 2023-24

<sup>60</sup> UK Government, Autumn Statement 2022

<sup>61</sup> Letter from the Commissioner for Budget and Governance, 21 November 2022

<sup>62</sup> Plenary, Wednesday 23 November 2022

<sup>63</sup> Plenary, RoP, 23 November 2023, paragraph 168

<sup>64</sup> Senedd Commission, Supplementary Budget 2023-24: Explanatory Memorandum, 24 May 2023

- a reduction in the ICT costs budget of £0.107 million;
- a reduction in the Accommodation and Facilities budget of £0.208 million; and
- a reduction in the Project Fund of £0.120 million.

**59.** The Commission is therefore proposing a Supplementary Budget for a total Budget of £67.208 million, a decrease of £435,000 from the approved 2023-24 Budget. The net cash requirement will be £61.536 million.

## Public Services Ombudsman for Wales

**60.** The Public Services Ombudsman for Wales (PSOW) Estimate 2023-24 of £5.6 million, was approved by the Senedd through the annual budget motion on 7 March 2023.<sup>65</sup>

**61.** The PSOW's First Supplementary Budget<sup>66</sup> requests:

- "A sum of £74k to cover the additional costs, above the 3% per cent allowed for in the budget, associated with the 'full and final pay offer' made by the National Employers for local government services in February 2023.
- Since the offered award has been rejected, a further sum of £139k as a pay contingency to meet the cost of a pay award up to 7.9%. (If the pay award is lower, the relevant part of this £139,000 will not be drawn down or will be returned unspent at the year-end.)"

**62.** The PSOW states the "most likely settlement is currently considered to be in the range 7.9% (in line with local government budget settlements in Wales)". However, trade unions are seeking a pay award of (Office of Budget Responsibility estimate for 2023) RPI plus 2 per cent, which makes their claim 12.7 per cent. The mid-point between the claim and the current offer is 8.7 per cent.

**63.** The PSOW states that, if the pay award is above 7.9 per cent, she will attempt to contain this within the revised budget but a further supplementary budget may be necessary.

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<sup>65</sup> Plenary, RoP, 7 March 2023

<sup>66</sup> PSOW, First Supplementary Budget 2023-24

**64.** In the First Supplementary Budget request, the PSOW suggests her original budget included £130,000 for the 3 per cent pay award. However, the PSOW's Estimate for 2023-24 stated:

*“pressures of £162k (estimated 3% pay award from April 2023), offset by a reduction in National Insurance Contributions (-£38k). We will make efficiencies to cover the cost of staff salary increments within existing resources (-£14k)”.*<sup>67</sup>

**65.** The total additional budget requested is £213,000, which would bring the total cash requirement to £5.85 million and total resources to £5.96 million.

### Committee view

**66.** The Committee welcomes the Senedd Commission's in-year budget review that has realised savings of £435,000, and notes that this will be returned to the Welsh Consolidated Fund through the First Supplementary Budget 2023-24.

**67.** The Committee notes the funds requested by the PSOW of £213,000 for pay awards. This comprises of £74,000 to cover additional staff costs relating to the pay award from April 2023 and a contingency of £139,000 as the pay award has yet to be agreed by trade unions. The contingency of £139,000 is based on the PSOW's "most likely settlement" of 7.9 per cent, in line with the local government budget settlements in Wales. We note the PSOW's commitment that if the agreed pay award is lower than 7.9 per cent, she will return any unused funding at the year-end.

**68.** However, if the pay award is lower than the 7.9 per cent, the Committee expects the PSOW to return any underspend through the next available supplementary budget motion rather than waiting until year-end. In addition, if there is an underspend, this amount should not be included in the baseline for next year's Estimate.

**69.** The Committee is mindful that the pay award could fall between the PSOW's "most likely settlement" of 7.9 per cent, and the higher trade unions claim of 12.7 per cent. It is therefore possible, as the PSOW acknowledges, that further funding will be required to meet the costs of the final pay award. The Committee notes the PSOW's view that if the pay award is above 7.9 per cent she

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<sup>67</sup> [Public Services Ombudsman for Wales, Estimate 2023-24 \(Revised\), October 2023, page 14](#)

will attempt to contain this within the revised budget but she has suggested that a further supplementary budget may be necessary.

**70.** We appreciate that the PSOW has no control over the pay settlements, which will be agreed by the National Joint Council (NJC). We have also previously heard from the PSOW that nearly 80 per cent of her costs relate to staff. As a result, we would expect to see every effort made to contain any pay award above 7.9 per cent within her revised budget in the first instance.

**71.** The Committee has concerns over the presentation of the pay awards in the PSOW's Estimate 2023-24. In the First Supplementary Budget request £130,000 was earmarked to cover the 3 per cent April 2023 pay award. However, the Estimate 2023-24 included a higher figure of £162,000 for the 3 per cent pay award, against which the PSOW set, in addition, the reduction in National Insurance Contributions (£38,000) and efficiencies so that the cost of salary increments would be met from existing resources (£14,000). We believe that, where there are constituent elements to the change in funding requested for a budget line, these should be itemised or broken down to aid transparency and supporting evidence should be provided, in line with the Committee's Statement of Principles.<sup>68</sup>

**Conclusion 2.** The Committee welcomes the variation to the budget for the Senedd Commission outlined in its First Supplementary Budget for 2023-24.

**Recommendation 7.** The Committee recommends that, should the agreed pay settlement for the Public Services Ombudsman for Wales's staff be above 7.9 per cent, that the PSOW should look for in-year efficiencies and savings before submitting a further supplementary budget request.

**Recommendation 8.** The Committee recommends that where there are constituent elements to the change in funding requested for a budget line by the Directly Funded Bodies, these should be itemised or broken down to aid transparency and supporting evidence should be provided, in line with the Statement of Principles.

**Recommendation 9.** Should there be an underspend from the £139,000 contingency in the First Supplementary Budget requested by the Public Services Ombudsman for Wales (PSOW) for pay awards, the Committee expects the PSOW to:

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<sup>68</sup> Finance Committee, Statement of Principles

- return any unused funding to the Welsh Consolidated Fund through the next available supplementary budget motion; and
- remove this underspend from the baseline for the Estimate 2024-25.

**Conclusion 3.** Subject to recommendations 7, 8 and 9, the Committee is content with the variation to the budget for the Public Services Ombudsman for Wales.