

Scrutiny of Welsh Government Second Supplementary Budget 2020-21

November 2020



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Scrutiny of Welsh Government Second Supplementary Budget 2020-21

November 2020



About the Committee

The Committee was established on 22 June 2016. Its remit can be found at:
www.senedd.wales/SeneddFinance

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Plaid Cymru

Current Committee membership:



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Independent

*Mark Reckless was elected to the Finance Committee as a member of the Brexit Party until 16.10.2020. He was then elected to the Finance Committee on 4.11.2020 as an Independent Member.

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1. The Second Supplementary Budget

1. On 6 October 2020, the Minister for Finance and Trefnydd (the Minister) announced that she intended to bring forward a Supplementary Budget. In Plenary, the Minister described the purpose of the Interim Supplementary Budget as:

“...an opportunity for us to tie up the funding that we’ve already spent on our COVID response, in order, then, for the supplementary budget, which I would normally table in February, to concentrate more on the reconstruction effort.”¹

2. The Second Supplementary Budget 2020-21 (the Supplementary Budget) covers a four-month period since the First Supplementary Budget. It does not reflect the changes in Cabinet Ministerial portfolio responsibilities made on 13 October 2020.

3. The Supplementary Budget allocates over £1.5 billion. It also sets out over £1.0 billion of additional unallocated funding. The Explanatory Note accompanying the supplementary budget details that this increases the total budget for 2020-21 to £24.9 billion.

4. The Minister gave evidence to the Finance Committee (the Committee) on this Supplementary Budget on Monday 2 November 2020.

5. The Minister explained that she had brought forward this supplementary budget due to the “absolutely exceptional circumstances of the coronavirus pandemic”² The Minister said that the Supplementary Budget;

“...pulls together many of the announcements that have been made since I published the first supplementary budget ... to ensure that the Senedd is fully up to date and content with the funding decisions that have been made”³

6. The Minister also explained the practical side of the Supplementary Budget, authorising spending plans and enabling cash to be drawn from the Welsh Consolidated Fund (WCF).⁴

¹ Plenary, Record of Proceedings, 6 October 2020, paragraph 272

² Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 113

³ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 114

⁴ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 114

7. The Minister also outlined that the Welsh Government was “the only part of the UK” to have published a supplementary budget in this way.⁵

Allocations

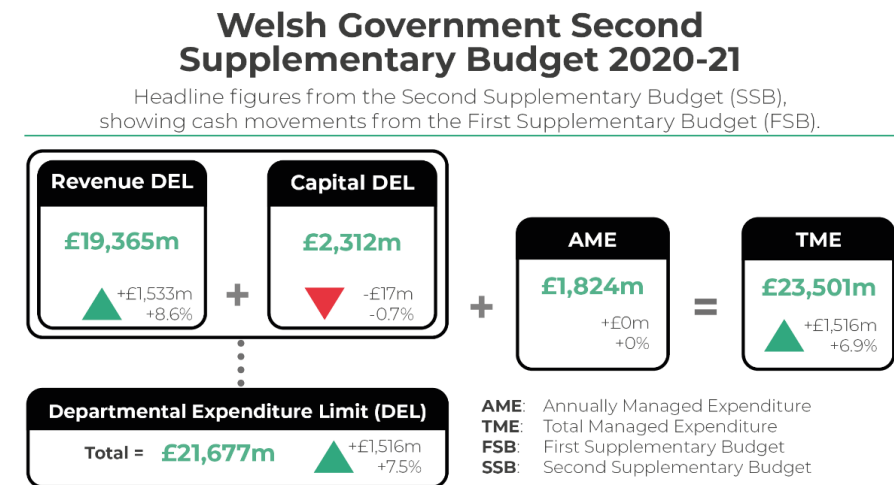
8. The Minister explained in Plenary that the Welsh Government had, at that point, allocated “almost £4 billion in response to the impact of the pandemic”.⁶ The Supplementary Budget allocates an additional £1.5 billion to departments (Main Expenditure Groups or ‘MEGs’) on top of that allocated in the First Supplementary Budget 2020-21 an increase of 6.9 per cent.

9. Compared to the Final Budget 2020-21, total allocations to Welsh Government departments increase from £19.9 billion to £23.5 billion, an increase of 18.3 per cent. Figure 1 contains headline figures from this Supplementary Budget, showing cash movement from the First Supplementary Budget 2020-21.















⁵ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 114

⁶ Plenary, Record of Proceedings, 6 October 2020, paragraph 250

Figure 1: Welsh Government Second Supplementary Budget 2020-21 - Overview⁷



DEL is the discretionary part of the budget that the Welsh Government chooses how to spend.
 AME is the non-discretionary part of the budget.

| | Total revenue and capital allocation* | Change FSB to SSB |
|---|---------------------------------------|---|
|  Health and Social Services | £10,124m | +£901m 9.8%  |
|  Housing and Local Government* | £5,582m | +£349m 6.7%  |
|  Economy and Transport | £2,920m | +£131m 4.7%  |
|  Education | £1,817m | +£78m 4.5%  |
|  Environment, Energy and Rural Affairs | £559m | -£11m -1.9%  |
|  Central Services and Administration | £411m | +£5m 1.1%  |
|  International Relations and the Welsh Language | £265m | +£63m 31.4%  |

*Excludes £0.8bn non-domestic rates income.



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Figures are rounded, please refer to the Welsh Government Supplementary Budget 2020-21 for exact figures.

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⁷ Welsh Government, Second Supplementary Budget 2020-21 and Senedd Research Services calculations

⁸ Please note: Figures in the infographic for MEGs exclude AME and therefore may not reconcile with other figures used within this report.

10. There are a number of movements in capital allocations, including increases of £33 million and £30 million to the Health and Social Services and Housing and Local Government MEGs respectively. These are offset by reductions in other areas, including Economy and Transport capital allocations, which have reduced by £68.2 million.

11. The Explanatory Note details that unallocated resource has increasing by over £1 billion. This is mainly revenue funding but includes an additional £22.3 million capital funding and £668,000 Financial Transactions Capital. Total Welsh Government reserves following this Supplementary Budget stand at £1.6 billion.

Financing

12. The resources available to the Welsh Government are increasing by £2.5 billion. The overall fiscal resource baseline is increasing by £2.7 billion, including:

- £918.1 million in respect of COVID-19 spending announcements in England;
- £12.5 million in respect of the Summer Economic Update;
- £1.2 billion in respect of the guarantee from the UK Government announced on 23 July 2020;
- £400 million in respect of the further guarantee from the UK Government announced on 9 October 2020;
- £127.7 million relating to an estimated revision in the Block Grant Adjustment for Stamp Duty Land Tax.⁹

13. Revenues from Land Transaction Tax (LTT) are estimated to fall by £122.2 million due to the ~~temporary change to the rates and threshold of LTT~~ and revisions to the central COVID-19 scenario published by the Office for Budget Responsibility (OBR).

14. The general capital baseline has increased by £5.6 million and Financial Transactions Capital is due to increase by £668,000 as a result of UK Government consequentials.

⁹ Welsh Government, Second Supplementary Budget 2020-2021, Explanatory Note, October 2020

UK Government consequential

15. Responding to the £1.2 billion guarantee from the UK Government in July 2020, the Minister stated that £675 million of the funding related to personal protective equipment (PPE) and winter pressures funding that had already been announced. The Minister continued:

“...let’s be clear, only a proportion of this is genuinely new money. It’s a far cry from what Wales will need to reverse the long-term damage caused by the pandemic.”¹⁰

16. In Plenary on 6 October 2020, the Minister said that there “remains uncertainty” about the level of funding the Welsh Government will receive this year, noting that there had been a number of announcements relating to England since July 2020 where implications for Wales were unclear. The Minister went on to say:

“We rightly expect our fair share of new funding announcements by the UK Government, but we have currently no way of judging whether or not we’re receiving it.”¹¹

17. Referring to the ‘guarantee’ of funding for Wales, the Minister explained that it lacked transparency as to what the funding allocated to Wales relates to in terms of UK Government spend, but she was expecting details shortly regarding additional funding coming to Wales as a result of the UK Government one month lockdown.¹²

18. The Minister explained that, whilst the guarantee was welcomed, it creates additional issues in that “whenever an announcement is made after the guarantee is issued, then the question is asked: ‘Is that included within the guarantee or is that on top of the guarantee?’”¹³

19. The Minister recognised that the Treasury has “tried to help us by providing a bit more certainty”¹⁴ and it was acknowledged that the guarantee has enabled the Welsh Government to provide more certainty to health boards and local authorities. The Minister added that whilst the guarantee “is better than waiting

¹⁰ Welsh Government: Finance Minister responds to UK Government funding announcement, 24 July 2020

¹¹ Record of Proceedings, 6 October 2020, paragraph 255

¹² Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 142

¹³ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 195

¹⁴ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 195

for individual announcements from the UK Government ... there's still some improvements to make." However, the Minister considered that the guarantee was a "better problem".¹⁵

20. Addressing the Committee's previous area of concern around engagement with the UK Government¹⁶, the Minister stated that this has improved and that Finance Ministers' quadrilaterals have been more frequent.¹⁷

21. When asked whether the Welsh Government has the funding it needs to respond to COVID-19, the Minister said it was "very hard to put an actual figure" on what was required, but the Welsh Government could use additional funding from the UK Government for both the immediate crisis and the recovery.¹⁸

Committee view

22. The Committee notes that this Supplementary Budget is unusual in terms of its timings, however, the Committee welcomes the transparency afforded to the Senedd in bringing forward this additional Supplementary Budget.

23. The Committee notes the significant sums being deployed by the Welsh Government. The publication of an additional Supplementary Budget supports understanding of the finance available to the Welsh Government and how that funding it being used. However, the Committee is also keen for the Welsh Government to provide as much real time information on its expenditure and the finance available to it. The Committee welcomes the funding guarantee provided by the UK Government, however, the Committee recognises that there is still a lack of clarity around consequential when the UK Government makes new announcements. Specifically, whether these are in addition to, or within, the UK Government's guarantee. The Minister said further information is expected on this in regard of the most recent announcements, particularly in light of the England lockdown and the Committee would welcome an update on this when information is provided. The Committee notes the view that the current situation is a "better problem".

¹⁵ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 199

¹⁶ Finance Committee, Scrutiny of the Welsh Government's First Supplementary Budget 2020-21, June 2020

¹⁷ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 191

¹⁸ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 117 & 118

24. Transparency of funding announcements has previously been raised by the Committee.^{19 20} Whilst noting the issues highlighted by the Welsh Government in identifying potential consequential within UK Government announcements, the Committee would also request that the Welsh Government is explicitly clear when it makes funding announcements, whether that funding is “new” or relates to previously announced funding.

25. The Committee welcomes the approach taken with UK Government’s guarantee and recognises that this is a step forward, albeit one that poses its own problems. The Minister was not able to provide any substantial detail as to how much funding the Welsh Government believes is needed to deal with both the pandemic and the recovery. Whilst recognising that this is a difficult situation, it is disappointing that the Minister is not able to provide more detail on the estimated amounts needed to respond to the pandemic, and believes it would be beneficial if the Welsh Government was able to provide a strong, clear message as to the support it believes is needed.

26. The Committee is reassured that the frequency of Finance Ministers’ quadrilaterals has improved, but it’s clear that engagement between both the Welsh and UK Governments could improve further.

Conclusion 1. The Committee welcomes the transparency afforded to the Senedd in bringing forward this additional Supplementary Budget, and believes the approach of additional supplementary budgets in extraordinary years should continue.

Recommendation 1. The Committee recommends that the Welsh Government considers how it can provide up-to-date information on its spending commitments in regard of the pandemic, as well as providing transparency on the finance it has available and the consequential it is receiving.

¹⁹ Finance Committee Chair to the Secretary of State, [Covid-19 Support for Wales](#), 24 September 2020

²⁰ Finance Committee Chair to the Minister for Finance and Trefnydd, [Covid-19 Support for Wales](#), 24 September 2020

2. Health and Social Services

27. The Welsh Government's First Supplementary Budget 2020-21 increased the allocations to the Health and Social Services MEG by £481.2 million compared to the Final Budget.

28. In this Supplementary Budget allocations to the Health and Social Services MEG increase to £10.3 billion, by £901.5 million (9.5 per cent) compared to the First Supplementary Budget. Of this £901.5 million, £800 million has been identified for a 'stabilisation package' for NHS organisations, designed to:

“...prepare for the anticipated challenges that winter will bring – responding to a potential second wave of the virus, alongside normal winter pressures - whilst continuing to further increase access to essential services.”²¹

29. The announcement, in August 2020, reported that it ‘takes the total amount of Welsh Government Covid-19 support for NHS organisations to more than £1.3 bn’ and the ‘stabilisation package’ would be used for PPE and the flu campaign.

30. The Minister was asked to provide additional detail on the aims of the stabilisation package:

“In terms of what the funding will do, it will support the organisations in a range of ways. For example, we’re working actively with the health service to better understand the requirements for PPE. That’s really important work that is going on at the moment, and we need to ensure that we have a reliable supply of PPE for primary care providers, as well as those in hospitals and social services and so on. So, that’s an ongoing piece of work at the moment to better understand what might need to be allocated there. We’re allocating £371 million to health boards to help them develop their winter plans, including additional capacity, and we’ve also set aside £30 million to support the transformation of the urgent and emergency health and care system. And in addition I’ve mentioned the cost of PPE, but, of course, we’ve allocated over £11 million for further investment in rolling out the flu vaccine programme, which will be the largest programme that we’ve ever rolled out in relation to that as well.”²²

²¹ Welsh Government, Supplementary Budget 2020-2021, Explanatory Note, October 2020

²² Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 138 & 139

31. The Minister went on to say:

“In terms of the specific funding, as the picture becomes clearer, in terms of the discussions that we’re having with the health boards, I’d be happy to ask the health Minister to provide a more detailed breakdown as we do come to a conclusion on those discussions about PPE and so on.”²³

Local Health Boards’ Financial Position

32. The Committee noted that, in their papers to Board meetings in September 2020, local health boards in Wales had reported an aggregate forecast deficit of almost £450.0 million for 2020-21.

33. The Minister told the Committee:

“In terms of the health boards, the Welsh Government confirmed funding arrangements for the NHS organisations for the remainder of the year in the quarter 3 and 4 operating framework, and that was published on 24 September. So, as a consequence, the only deficits now being forecast by NHS organisations are being reported by Betsi Cadwaladr, Hywel Dda and Swansea Bay health boards, and they’re in relation to their pre-COVID planned positions.”²⁴

34. The official accompanying the Minister later added:

“...the funding allocated to health boards is kind of in line with what their forecast spend is for this year. Who knows what’s coming up over the next few months, but as far as we’re able to, we’re covering the costs that they’re expecting to incur.”²⁵

Test, Trace, Protect

35. The First Supplementary Budget set aside £57.0 million for the Welsh Government’s ‘Test Trace Protect’ (TTP) strategy. The Minister told the Committee the allocation was a “start-off cost” and related to “several aspects of that test, trace and protect project”²⁶. The Director General, Education and Public Services

²³ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 138 & 139

²⁴ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 144

²⁵ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 155

²⁶ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 118

Group has said that the £57.0 million was for the 'test element of Test, Trace and Protect'.²⁷

36. In its report on the First Supplementary Budget, the Committee agreed that additional funding was required to support the Welsh Government's TTP Strategy and recommended that additional information was provided in respect of the strategy. Recommendation 12 of the Committee's report asked that information be provided detailing what the funding will deliver and the key performance indicators against which the effectiveness of related expenditure will be measured, both in terms of the capital required to establish the programme and its running costs over the coming months.

37. The Welsh Government's response confirmed that £45.0 million has been made available to health boards and local authorities to cover the cost of the contact tracing operation. The response also set out information about the Key Performance Indicators for testing and contact tracing.

38. Providing additional detail on the TTP Strategy, the Minister believed the system, whilst being under a lot of pressure, had been successful, and detailed:

"...in the previous supplementary budget there was £57 million attached to the test element of that, but what we have now in this second supplementary budget is £45 million available in this financial year to health boards and local authorities to cover the workforce costs of the tracing element of it. And in terms of what we expect for that, it's sufficient to support a total contact tracing workforce of up to 1,800 people, with capacity to investigate over 1,000 new positive cases every day. So, that's what we expect as a result of that, and I think that we can all recognise that, to date, it's performed very well."²⁸

39. The Minister stated that £1 million had been set aside for from the local authority hardship fund for 'protect', and further assistance would be provided if needed.²⁹ The hardship fund is covered further in chapter 3.

²⁷ Tracey Burke, letter to the Public Accounts Committee, 14 July 2020

²⁸ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 159

²⁹ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 160

The Dragon's Heart Hospital

40. The Welsh Government announcement about the 'stabilisation package' stated that the funding will also 'help to provide health boards with sufficient capacity', including through field hospitals, if needed.

41. The Supplementary Budget makes available £33.0 million for a new Cardiff and Vale COVID-19 facility, announced on 14 September 2020. This follows the decommissioning of the Dragon's Heart Hospital at the Principality Stadium. The Supplementary Budget states that £25.0 million has been switched from revenue to capital to support this.

42. In its report on the First Supplementary Budget, the Committee recommended that, once the estimates have been derived, the Welsh Government should provide information in respect of the costs of decommissioning all field hospitals (recommendation 11).

43. In its response, the Welsh Government reported that work was continuing on the level of decommissioning costs and estimates are being developed by NHS bodies in conjunction with site owners and contractors. It said:

"Updated estimates will be available by September 2020. However, a more detailed understanding of the final outturn costs of decommissioning will be dependent on the timescales for occupation, taking into account the condition of the properties at the time of handback and the exact scope of works required to reinstate to the previous standards."³⁰

44. In respect of decommissioning field hospitals, the Minister confirmed that these costs would be met from £166 million allocated for field hospitals in the First Supplementary Budget. However, in evidence provided during the scrutiny of the First Supplementary Budget, it was said that the decommissioning of the Dragon's Heart hospital (Principality stadium) was covered by the £166 million but, "other field hospitals haven't been part of that envelope as yet".³¹

Committee view

45. The Committee recognises that significant additional funding is being invested in the health MEG and welcomes confirmation that the Welsh

³⁰ Welsh Government response: Finance Committee report, Scrutiny of Welsh Government First Supplementary Budget 2020-21, June 2020

³¹ Finance Committee, Record of Proceeding 4 June 2020, paragraph 112

Government has agreed funding arrangements for the local health boards for 2020-21. However, it would be useful and also aid transparency if a breakdown of the £1.3 billion that the Welsh Government has allocated for NHS organisations for COVID-19 is provided. This should include a more detailed breakdown of the £800 million allocated for a 'stabilisation package', as well as information about what it is intended to achieve. The Minister agreed to ask the Minister for Health and Social Services to provide additional information on this package and the Committee looks forward to receiving this information.

46. The Committee recognises that funding has been provided to support the TTP strategy, and the Minister's view that the strategy is performing well. However, there is limited detail provided on the protect element of the strategy and the Committee would hope to see this addressed in the next supplementary budget.

47. The Committee would welcome additional information on the decommissioning funding for field hospitals, in order to clarify whether the £166 million provided in the First Supplementary Budget covers decommissioning of all field hospitals or just the Dragon's Heart hospital.

Recommendation 2. The Committee recommends that the Welsh Government provides a breakdown of the costs of decommissioning field hospitals, including where funding for that activity falls within announcements accounted for in either the First or Second Supplementary Budget 2020-21.

Recommendation 3. The Committee recommends that the Welsh Government provides a breakdown of the £1.3 billion provided to NHS organisations for COVID-19 and publishes a breakdown of the detailed costs associated with the stabilisation package.

Recommendation 4. The Committee recommends that the third supplementary budget provides further detail on any subsequent funding for Track, Trace and Protect, particularly the protect element of the strategy.

3. Local Government

48. Allocations to the Housing and Local Government MEG are due to increase to £6.4 billion, an increase of £348.9 million.

49. On 17 August 2020, the Minister for Housing and Local Government announced additional funding of £264 million for local authorities. This funding is due to be administered through the Local Government Emergency Financial Assistance Fund (also referred to as the Local Authority Hardship Fund) and is on top of previous funding made available, including £188.5 million allocated in the First Supplementary Budget.

50. In total the allocations to the Local Authority Hardship Fund are increasing by £306.6 million in the Budget, in addition to the £264 million this includes:

- £27.4 million for the adult social care sector, comprising £22.7 million for adult social care providers and £4.6 million to 'reflect the actual costs' arising in addition to the £40 million support identified in the First Supplementary Budget.
- £15 million to support the 'general element' of the fund.

51. The funding for the Local Government MEG also includes other funding, such as £2.9 million to reflect the impact of COVID-19 on council tax reduction scheme applications and council tax revenue during the first quarter of 2020-21.

52. On 6 October 2020, the Minister for Housing and Local Government provided more detail on the funding that has been provided (including that detailed at the First Supplementary Budget):

"We've made available nearly £500 million of additional funding to local government through the local authority hardship fund. That includes £292 million to provide general financial support for local authorities to help them meet the additional cost burden that they're facing as a result of the coronavirus pandemic; £78 million to replace the loss of income that local authorities are experiencing as a result of the pandemic—many operate services such as catering, car parks, leisure centres, cultural services and so on, which have been hard hit, so that's to help them with that loss of income; £62 million to support the provision of social care services, because we know the additional pressure that they're facing as a result, again, of the pandemic; £38 million for free school meals; and £10 million additional funding to

support homeless people with a particular aim of ensuring that nobody is sleeping rough during the pandemic.”³²

53. There are also other allocations to local government, outside of the fund, including £9.5 million of revenue and £30 million of capital within the £50 million Phase 2 Homelessness Plan.

54. The Minister detailed that the £264.2 million has been allocated to ongoing support for local authorities and it “covers additional costs, loss of income and the general financial position of local authorities, but what it doesn’t do is cover the cost for council tax collection rates or the council tax reduction scheme.”³³

55. Expanding on support to local authorities, the Minister said additional funding had been provided to local authorities in respect of council tax rates.³⁴ The Minister continued:

“The funding has boosted the overall support to local authorities now to £0.5 billion, and that works on a claims basis. So, it’s monthly for additional costs and quarterly for loss of income. I know officials are working very closely with the WLGA and local authorities themselves to understand the additional financial pressures that they’re facing.”³⁵

56. The Minister also discussed the impact the pandemic may have on non-domestic rates:

“...in terms of the tax base issues, one area of particular concern to us is around non-domestic rates and the impact that COVID has had on non-domestic rates both this year, but also potential impacts in future years as well. So, there’s a quite in-depth piece of work going on with local government to better understand the impacts of COVID on the non-domestic rates tax base, let alone, of course, the impact that Brexit might also have on that as well. So, as I say, that piece of work is currently ongoing.”³⁶

³² Plenary, Record of Proceedings, 6 October 2020, paragraph 286

³³ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 172

³⁴ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 172

³⁵ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 173

³⁶ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 252

Financial Sustainability of Local Government

57. Following the announcement of additional funding for the Local Authority Hardship Fund in August 2020, the WLGA suggested that the additional allocations were a “significant contribution”. The WLGA noted that it would be meeting with the Minister and the Minister for Housing and Local Government, through the Finance Sub-Group, to discuss the funding and process for claiming this funding.

58. On 6 October 2020, Audit Wales published an analysis of the ‘Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic’ Audit Wales notes:

“In the first six months of this year, Welsh councils have reported financial costs of around £325 million due to the pandemic (£160 million loss of income and £165 million additional expenditure). Welsh Government has made nearly £500 million of additional funding available to councils through the local government hardship fund as well as making some other funding available...”³⁷

59. The Minister said that overall support to local authorities has been “boosted” to £0.5 billion and that “officials are working very closely with the WLGA and local authorities themselves to understand the additional financial pressures that they’re facing.”³⁸

Committee view

60. The Supplementary Budget allocates over £300 million more to the Local Authority Hardship Fund. The Committee welcomes the additional funding provided to local authorities, and is pleased that the Welsh Government appears to be engaging well with local authorities. However, the presentation of this funding in Supplementary Budgets could have been more transparent, as it is clear that the Local Authority Hardship Fund serves a number of varied purposes.

61. The Committee notes that much of the funding to local authorities is provided on a claims basis. It would be helpful to have a comprehensive breakdown of the funding being provided and how those amounts have been determined. In addition, it would be useful if Supplementary Budgets or another Welsh Government publication demonstrate how much funding has been

³⁷ Audit Wales: Can Wales cope with the financial impact of the pandemic on local government? 6 October 2020

³⁸ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 173

claimed by local authorities and the anticipated periods that this funding will cover.

Recommendation 5. The Committee recommends that the Welsh Government provides a breakdown of the funding claimed by each local authority against the funding the Welsh Government has made available, in the next supplementary budget.

4. Economy and Business

62. Allocations to the Economy and Transport MEG are due to increase by £130.5 million. This MEG was one of the key areas to receive increased funding under the First Supplementary Budget, with an increase of £1.3 billion, almost doubling the allocation set in the Final Budget 2020-21, and associated mainly with support for businesses.

Transport

63. The majority of the increase in funding is a £113.0 million increase to ensure train services continue to operate on the Wales and Borders network for key workers and others that rely on train travel. A further £94.7 million has been allocated to support bus services.

64. Increases are partially offset by a £68.2 million reduction in capital and £36.7 million has been switched from revenue to the General Capital reserve to facilitate a capital to revenue switch to support bus services.

65. On 20 October 2020, the Deputy Minister for Economy and Transport made a statement regarding the funding for buses, noting that it would be 'difficult to maintain' support for bus services at the level that has been seen so far this year. He went on to say that the legislative framework remains a barrier to achieving a joined up transport system but that it was no longer possible to bring forward legislation to change this during this Senedd.

66. On 22 October 2020, the Welsh Government announced that it would take the rail franchise under public control.

67. The Minister provided additional detail on the funding for transport

"In terms of rail, the funding is in line with the emergency measures agreement, where Welsh Government's taken on cost risk from the rail services delivery partner, KeolisAmey, which of course is trading as Transport for Wales Rail Services. That support is effectively Welsh Government meeting the cost of operations, less any income streams being realised. And, of course, income streams have been decimated as a result of the pandemic. And then for bus support, the funding's available to all operators of scheduled bus services in Wales, and that's allocated through local authorities, based on local need and local

requirements. For example, they'll take into account the need for school bus services and so on.”³⁹

68. The Minister said that work was being undertaken to ensure “support models that are fit for purpose and sustainable moving forward”, but believed that financial support for public transport services will be “very significant in the years ahead”.⁴⁰

Transfers from the Economic Resilience Fund

69. £39.7 million has been transferred from the Economic Resilience Fund (ERF), allocated in the First Supplementary Budget, to fund various activities providing advice and support to anyone over 16 years old in terms of work and education including:

- £8.5 million to the Education MEG for various schemes including the Personal Learning Account Programme;
- £500,000 to the Health and Social Services MEG for Work Support and Out of Work services; and
- £30.7 million within the Economy and Transport MEG.

70. The Minister detailed that funding reallocated from the economic resilience fund was “specifically focused on measures that support the stabilisation of the employment market and supporting Wales to tackle the rise in unemployment and deepening economic inequality”. The Minister stated that “the funding there was very much in line with what we’re trying to achieve through the economic resilience fund, but it pulled together a different kind of package to tackle the issues from a different angle.”⁴¹

Committee view

71. The Committee accepts the Minister’s explanation of the transfer of funding reallocated from the Economic Resilience Fund. It is clear that the fund remains a key component of the Welsh Government’s response to the pandemic and the Committee will continue to take an interest in the funding available.

72. The Committee acknowledges that the pandemic has had a significant impact on public transport and recognises that support is being provided to

³⁹ Finance Committee, Draft Record of Proceedings, 2 November 2020, Paragraph 183

⁴⁰ Finance Committee, Draft Record of Proceedings, 2 November 2020, Paragraph 185

⁴¹ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 187

operators. The Minister said that work was being undertaken on long term sustainable support models for the sector, recognising that support would need to be provided longer term to operators. It is clear that the pandemic is likely to have an impact on public transport for some time, and the long term support available to the sector is of interest to the Committee. The Committee is particularly interested in this considering the Welsh Government's announcement in regard of rail in October 2020.

73. The Committee recognises that support for bus operators is being provided through local authorities. It also notes the Minister's comments regarding the longer term support for operators and that support was likely to be "very significant in the years ahead". Considering this, the Committee would welcome further details on what proportion of operators have accessed the funding and, in due course, an update on the longer term support model and indication of how much funding the Welsh Government may need to deploy in this area.

Recommendation 6. In relation to financial support for transport providers, the Committee recommends that additional information is published detailing the level of funding that transport providers have accessed to date, as well as any further information on the Welsh Government's expectations for further funding in this area in 2020-21.

5. Funding Flexibility

74. Following its scrutiny of the First Supplementary Budget, the Committee made a number of recommendations (1, 2, 3, 6 and 7) relating to the finances of the Welsh Government, including that it:

- Monitor and explore whether consequentials received through the Barnett formula are reflective of the needs of Wales and if so confirm alternative funding options with the UK Government;
- Insist on more prompt information on UK Government announcements that impact on Welsh residents and/or businesses; and
- Updates the Committee on discussions regarding increased flexibilities in borrowing and reserves and also their request to switch capital to revenue funding.⁴²

75. In response to the £1.2 billion guarantee provided by the UK Government in July 2020, the Minister outlined that the Treasury had not agreed to the Welsh Government's request to access a greater share of the Welsh Reserve this year. The Minister went on to note that this was a:

“...missed opportunity for the Treasury to give us the much-needed budget flexibilities, which will allow us to manage some of the coronavirus pressures by ourselves, within our own budgets.”⁴³

76. During her statement (6 October 2020), the Minister called for three main new flexibilities:

“(1) the ability, if we need it, to overspend this year, up to a limit that we can agree with the UK Government;

(2) the ability to carry forward more in the Wales reserve at the end of the financial year; and

⁴² Finance Committee: Scrutiny of the Welsh Government's First Supplementary Budget 2020-21, June 2020

⁴³ Welsh Government: Finance Minister responds to UK Government funding announcement, 24 July 2020

(3) enhanced access to the resources in the Wales reserve in 2021-22 for both revenue and capital.”⁴⁴

77. When asked how the Welsh Government is using its own fiscal levers to respond to COVID-19, the Minister said:

“I would say that there are several tools that we have. One, of course, is tax-raising powers, but others are those that relate to the management of Welsh Government budgets and resources. So, the tools that we would like to be able to use better are our Wales reserve, for example. We’ve been increasing the Wales reserve in order to allow us to draw down additional funding when it’s needed, but, of course, the rules that surround that mean that we can’t draw down as much, perhaps, as we would want to. Equally, other tools that we have would be around borrowing, and, again, we’re limited in how much we are able to borrow.”⁴⁵

78. Specifically in relation to taxation, the Minister believed that it was not an appropriate time to raise taxes during a recession, particularly as a 1p income tax increase in Wales would “only raise £200 million ... a small contribution” to the resource needed to respond to coronavirus.⁴⁶

79. Updating the Committee on discussions with the Chief Secretary to the Treasury, the Minister confirmed that requests for increased flexibility around access to the Wales reserve had been declined. The justification given for this decision was that the UK Government has now guaranteed additional funding.⁴⁷

80. Regarding access to the Wales reserve, the Minister believed that flexibility was still needed:

“I think it’s really important that we retain larger flexibility to draw down more if we need to, but also potentially to carry more over into the next financial year, because clearly we don’t know where we’re going to be in the spring, and managing the budget is quite difficult in the sense that you’re planning for a wide range of scenarios, and I think that it would help us a great deal if we were able to plan on that basis, with the confidence that we could carry more over to next year without

⁴⁴ Record of Proceedings, 6 October 2020, paragraph 256

⁴⁵ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 122

⁴⁶ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 123

⁴⁷ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 126

having to find ourselves in a position that nobody wants to be in in terms of returning money to the Treasury.”⁴⁸

81. The Minister went on to say that there was still a need for greater flexibility which would:

“...help us a great deal in terms of managing our budget, because we have to land our budget on a tiny, tiny postage stamp every year, and that in itself is a feat, but doing it in a year like this, when we don't actually know what's next for the path of the virus, and so on, is particularly difficult. And that's before, of course, we factor Brexit into the situation as well, which puts another level of complexity and uncertainty in there.”⁴⁹

82. The Minister stated that the Welsh Government is no longer pursuing the flexibility to switch capital and revenue, but is now looking for:

- Enhanced access to the reserve for both revenue and capital
- The ability to carry more over in the reserve at the end of the financial year if needed, and
- The ability to draw down more from the Wales reserve than the annual limit this year (should the response to the pandemic require this).⁵⁰

Committee view

83. Following the Committee's previous recommendations, Members are encouraged by the more frequent Finance Ministers' quadrilateral meetings, but there is still room for improvements in terms of transparency, particularly so that the Welsh Government is clear on how funding announcements relate to the funding guarantee commitment.

84. Earlier this year, the Committee supported the Minister's requests for flexibility in its report on the First Supplementary Budget, particularly in relation to relaxing annual limits to the Welsh reserve and borrowing. Given the current circumstances, and the uncertainty regarding the pandemic, the Committee believes it would be prudent for the Welsh Government to have more flexibility in

⁴⁸ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 126

⁴⁹ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 205

⁵⁰ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 207

managing its end of year finances and cannot see the reason for the Treasury declining this in such exceptional circumstances.

85. The Committee notes that the Welsh Government is no longer looking to switch revenue to capital and recognises that the negotiation of the UK Government's guarantee has mitigated the need for this.

86. This year has undoubtedly been an exceptional year in terms of funding announcements and the frequency and magnitude of consequentials available to the Welsh Government. The Committee is therefore surprised that the Treasury would not consider allowing equally exceptional flexibility in managing these funds. Clearly, the pandemic will not adhere to the rules around financial years and the Treasury should be enabling the Welsh Government to be as agile in its response as is required. It is apparent that the lack of long term certainty on funding from the UK Government and the inflexibility around end of year financing mean that the Welsh Government is having to run the risk of either having insufficient funds to deal with worse case scenarios or being unable to carry forward funding that may be unallocated at the end of the financial year.

Recommendation 7. The Committee recommends that the Minister for Finance and Trefnydd continues to strongly argue the case, in conjunction with other devolved administrations, for the relaxation of the annual borrowing limits and drawdown from the Wales reserve.

6. Future funding

Post-COVID pledge

87. On 6 October 2020, the Welsh Government announced a £320 million 'post-covid pledge', published alongside the Welsh Government's 'Covid Reconstruction – Challenges and Priorities' paper.

88. The Minister said that the £320 million was a headline figure and that individual Ministers would be making announcements on matters that sit within their portfolios. The Minister outlined that "we think we're at the top end of that £4 billion guarantee, but we're seeking additional clarity on that from the UK Government".⁵¹

89. The Minister stated that this fund will be a part of the next Supplementary Budget.⁵²

Economic support during the 'firebreak'

90. The announcement of a 'firebreak' (19 October 2020) in Wales included details of support for businesses of 'almost £300 million'. This funding was aimed to 'complement' wage-support schemes available from the UK Government.

91. The support announced at the 'firebreak' included:

- A 'doubling' of the latest round of Economic Resilience Funding (due to increase by £140 million, to be increased by a further £150 million).
- £1,000 for businesses that are eligible for Small Business Rates relief and occupy a property with a rateable value of £12,000 or less.
- Up to £5,000 for retail, hospitality and leisure businesses that are required to close and which occupy a property with a rateable value of between £12,001 and £50,000.
- A discretionary £2,000 top-up grant for businesses closed or materially affected by the firebreak lockdown.

⁵¹ Record of Proceedings, 6 October 2020, paragraph 271

⁵² Record of Proceedings, 6 October 2020, paragraph 272

- A further discretionary £1,000 grant for businesses that were materially affected by local lockdown measures for 21 days or more prior to the start of the firebreak lockdown period.

92. The Welsh Government's announcement included a further £20 million toward business grants, with the confirmation that during the firebreak period the Welsh Government would provide 100 per cent funding for businesses forced to close.

Furlough and the Job Support Scheme

93. The Welsh Government has announced that, in terms of support for employee wages, businesses and individuals will continue to be able to access the schemes available. Until 31 October 2020, this meant the UK Government's furlough scheme (Job Retention Scheme (JRS)) and from the 1 November 2020 this was due to be the new enhanced Job Support Scheme (JSS).

94. The First Minister wrote to the UK Chancellor of the Exchequer (the Chancellor) on 20 October 2020 requesting that the qualifying criteria for the JRS be amended. The First Minister requested the removal of the requirement that employees claiming JRS must have been on furlough for at least three weeks prior to 30 June 2020.⁵³

95. The Minister for Economy and Transport outlined (20 September 2020) that the Welsh Government had requested that the UK Government brings forward JSS, so that businesses would not have to access two schemes. The Minister suggested that the Welsh Government had "offered to make up the difference" between funding under the two schemes. The Minister noted that he did not know how many people might be effected by this issue, noting that relevant data was held by HMRC and was not shared with the Welsh Government.

96. On 5 November 2020, the Chancellor announced a five-month extension of the furlough scheme to the end of March 2021 with employees receiving 80 per cent of their current salary for hours not worked. Similarly, support for millions more workers through the Self-Employment Income Support Scheme will be increased, with the third grant covering November 2020 to January 2021 calculated at 80 per cent of average trading profits, up to a maximum of £7,500.

⁵³ Leader Live: UK Government repeatedly 'turning down' First Minister's solutions for job support, 20 October 2020

EU Transition

97. The Minister has outlined to the Senedd that there was uncertainty around the UK Government's approach to the end of the EU transition period. The Minister noted:

"We continue to press the UK Government for more clarity about how it will deliver on promises that Wales will not be worse off as a result of Brexit and that devolution will be fully respected. Replacement funds will be integral to our recovery, so their delivery must be fully devolved so that we can target them to meet the specific needs of people, communities and businesses in Wales."⁵⁴

98. The Minister went on to discuss the UK Internal Market Bill (the Bill), suggesting that it undermined current efforts and represented a "power grab and race to the bottom"⁵⁵. A UK Government news story following publication of the Bill (9 September 2020) noted that the proposals allowed for the delivery of the UK Shared Prosperity Fund.

99. In September 2018 the Committee published a report on Preparations for Replacing EU Funding for Wales. This report raised about the lack of engagement between the UK Government with the Welsh Government on replacing funding for Wales after Brexit and the lack of information available on how funding would be allocated to devolved administrations.

100. The House of Commons Welsh Affairs Select Committee has published a report on 'Wales and the Shared Prosperity Fund: Priorities for the replacement of EU Structural funding' (2 October 2020). This notes:

"Despite announcing the Shared Prosperity Fund more than three years ago, the Government appears to have made negligible progress in developing its replacement for European Structural and Investment funding."⁵⁶

101. When asked for an update on the Shared Prosperity Fund, the Minister said, "We've had next to no engagement, it's fair to say, in terms of the shared prosperity fund."⁵⁷

⁵⁴ Record of Proceedings, 6 October 2020, paragraph 258

⁵⁵ Record of Proceedings, 6 October 2020, paragraph 259

⁵⁶ Wales and the Shared Prosperity Fund: Priorities for the replacement of EU Structural funding

⁵⁷ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 210

102. Providing an update on preparations for Brexit, the Minister said that, in addition to the £50 million European transition fund:

“...we’ve also recently written to the Chancellor setting out our asks in terms of EU matters. So, for example, we need to have more engagement with the UK Government on the future of European funding, and what happens in terms of the shared prosperity fund and so on—big questions about farm funding—”.⁵⁸

103. When asked what funding was available for the end of the EU transition period, the Minister replied:

“I have earmarked some funding in our normal reserve, so not the COVID reserve, but the regular reserve, in relation to ports and border issues, and I think that will be important as we move through the end of the year as well. ... I think that this is going to be a longer term issue for us as well. But, as I said, I’ve allocated some funding—or earmarked, I should say, some funding—for border issues.”⁵⁹

104. The Minister said that the negative impacts of Brexit would likely be a longer term issue.⁶⁰

Unallocated funding

105. The Minister was asked to provide an update on unallocated funding, she said:

“When I say that £1.6 billion is unallocated, it’s unallocated for the purposes of reflecting the second supplementary budget. But actually, since then, a number of decisions have been taken that impact on our current position. So, for example, of the £1.6 billion unallocated, £924 million is held in the reserve created for the pandemic response, and of that, we have now committed £240 million, including funding for the firebreak, and that relates to some of those announcements relating to support for business.”⁶¹

106. The Minister also confirmed that additional funding was available should there be another firebreak, including £300 million to support businesses if

⁵⁸ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 253

⁵⁹ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 256

⁶⁰ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 265

⁶¹ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 215

needed⁶², and any additional funding will be detailed in the Third Supplementary Budget.⁶³

107. However, discussing the details of how that unallocated funding might be allocated, the Minister said:

“Well, as I say, I’ve earmarked significant amounts of funding for various things, but until I’ve had the discussions with colleagues and until colleagues have signed off funding and so on—. I don’t necessarily want to say too much before having had those discussions with colleagues.”⁶⁴

108. The Minister stated that the Third Supplementary Budget would provide the opportunity to scrutinise decisions around that funding.⁶⁵

Committee view

109. The Welsh Government has announced a post-COVID pledge with associated funding and the Committee welcomes this, along with the detail available around the economic support during the firebreak. The funding associated with the pledge will be detailed in the next supplementary budget, expected in February 2021.

110. The extension to the UK furlough scheme was announced after the Committee took evidence from the Minister on this Supplementary Budget. Members were concerned at the time that the same level of support may not be available in Wales, should the Welsh Government decide to impose lockdown restrictions at different times to England. The Committee hopes that the information being sought by the Minister regarding funding consequential that may link to the current lockdown in England is provided promptly and with sufficient clarity.

111. The pandemic is unpredictable and the Committee supports contingency funding being available to respond to further lockdowns or firebreaks, however, there is a lack of clarity of what the £1.6 billion unallocated resources will be used for. The Committee recognises that priorities might change and that the Welsh Government may receive further funding from the UK Government, and discussions will be ongoing within the Welsh Government on the priorities for the rest of this financial year. However, given the Minister’s comments regarding

⁶² Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 220

⁶³ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 228

⁶⁴ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 222

⁶⁵ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 228

transparency around UK Government guarantees, the Welsh Government has an opportunity to lead by example, providing as much information on any funding earmarked within the COVID-19 reserve to the Senedd and stakeholders.

112. Whilst recognising the impact of COVID-19 in changing priorities, the Committee remains concerned that there is limited engagement with the UK Government on the EU transition, specifically in relation to the Shared Prosperity Fund and the EU transition fund. The Minister has written to the Chancellor regarding the latter and Members would welcome an update on this. The Committee would also welcome any further information on funding Welsh Government is earmarking for the end of the EU transition period and the kinds of support it may consider making available.

Recommendation 8. The Committee recommends that the Welsh Government provides further information on how its reserves have been 'earmarked', at a minimum, in terms of what has been allocated to the COVID-19 reserve and what is available for the end of the EU transition period.

Recommendation 9. The Committee recommends that the Minister for Finance and Trefnydd provides the Committee with an update on its correspondence with the UK Chancellor of the Exchequer regarding its requests in terms of EU matters..

Recommendation 10. The Committee recommends that the Welsh Government works as a matter of urgency to engage with the UK Government and other devolved governments to obtain and publish details of the Shared Prosperity Fund.

7. Budget 2021-22

113. In Plenary on 6 October 2020, the Minister noted the Chancellor's decision to cancel the UK autumn budget, the uncertainty around the UK comprehensive spending review and the lack of information on replacement EU funding making the Welsh Government's "task harder".

114. The Minister announced that a Draft Budget for 2021-22 would be published on 8 December 2020 and a Final Budget on 2 March 2021. However, she noted:

"...this timetable is heavily dependent on when we receive details of our settlement for future years and the conclusion of the [UK] spending review..."⁶⁶

115. On 21 October 2020, the UK Government announced that it would be looking to conclude a one-year spending review toward the end of November 2020. The UK Government provided its reasoning for only considering a one-year review, noting:

"While the government would have liked to outline plans for the rest of this Parliament, the right thing today is to focus entirely on the response to Covid-19 and supporting jobs - that's what the public would expect."⁶⁷

116. The official accompanying the Minister explained that the uncertainty on next year's funding "exacerbates the challenges" of planning for the remainder of this year and next year.⁶⁸

117. The Minister also confirmed that the one-year spending review means there is no long term certainty of funding for stakeholders, and this does not compare well with the situation in England where "the UK Government has said that it plans to give health and schools and, obviously, on the capital side, infrastructure investments a kind of longer profile for spend."⁶⁹

118. Following the announcement from the UK Government on the one-year spending review, the Minister provided a revised timetable on 29 October 2020

⁶⁶ Record of Proceedings, 6 October 2020, paragraph 257

⁶⁷ UK Government: Spending Review to conclude late November, 21 October 2020

⁶⁸ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 128

⁶⁹ Finance Committee, Draft Record of Proceedings, 2 November 2020, paragraph 210

confirming that the Welsh Government intends to publish its draft Budget on 21 December.⁷⁰

Committee view

119. It is clear that the late spending review and the one year settlement will pose problems for the Welsh Government, in terms of; planning the 2021-22 budget; its own long term planning; and, to the certainty it is able to provide to other organisations on their long term funding. The knock on effect of delays to the budget setting process also create a problem in terms of the Senedd's ability to scrutinise the draft budget, which will likely contain significant decisions around the pandemic and future funding/spending. This is clearly disappointing and the prospect of reduced scrutiny on such an important draft budget is concerning.

120. The Committee believes that a lack of certainty from the UK Government is problematic for long term planning in 'normal times', but when dealing with a global pandemic and Brexit the lack of certainty has the potential to cause significant issues. The problem this poses for the Welsh Government is one issue, however, the problem for stakeholders and those organisations funded by the Welsh Government that are delivering services crucial to the response to the pandemic is particularly worrying. The Welsh Government should use all information available to it to attempt to deliver as longer term funding strategy for the bodies it funds where possible.

Conclusion 2. The Committee is disappointed at the proposed late publication of the draft Budget 2021-22. This means time for scrutiny will be limited, and this is particularly disappointing considering this is the final budget of this Senedd term and will cover the impact of the pandemic and the EU transition.

Conclusion 3. The Committee is concerned those organisations funded by the Welsh Government, and which are delivering services crucial to the response to the pandemic, will only be given a short term indication of funding at the draft Budget 2021-22. The Committee considers that the Welsh Government should use all information available in order to provide long term certainty.

Recommendation 11. Notwithstanding the potential issues arising from the spending review, the Committee recommends that the Welsh Government works to provide clarity for stakeholders around budgets beyond one-year, in its draft budget 2021-22.

⁷⁰ Minister for Finance and Trefnydd, letter, 29 October 2020