

# Scrutiny of the Second Supplementary Budget 2023-24

March 2024

## 1. Introduction

- 1.** On 20 February 2024, the Minister for Finance and Local Government (the Minister) laid the Second Supplementary Budget 2023-24 motion (the Supplementary Budget),<sup>1</sup> and an accompanying Explanatory Note.<sup>2</sup> Revised main expenditure group allocations were also published alongside these documents.<sup>3</sup>
- 2.** The Committee took evidence from the Minister at its meeting on 29 February 2024.<sup>4</sup>
- 3.** This Supplementary Budget reflects budgetary changes since the First Supplementary Budget 2022-23, laid on 13 June 2023.<sup>5</sup> It also includes changes highlighted in the Financial Update, issued by the Minister on 17 October 2023,<sup>6</sup> along with other amendments.
- 4.** The Supplementary Budget sets out allocations from reserves, transfers between Welsh Government portfolios and includes revised Annually Managed Expenditure (AME) forecasts. It also includes revisions to forecasts of devolved taxes, Block Grant Adjustments, funds drawn from the Wales Reserve, and proposed borrowing.
- 5.** The Supplementary Budget also includes adjustments to the budgets for the Public Services Ombudsman for Wales and Audit Wales, as considered by the Committee on 18 January 2024.<sup>7</sup> The Senedd Commission did not submit a supplementary budget on this occasion.

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

<sup>2</sup> [Welsh Government Second Supplementary Budget 2023-24 Explanatory Note](#)

<sup>3</sup> [Welsh Government Second Supplementary Budget 2023-24 Main Expenditure Group Allocations](#)

<sup>4</sup> [Finance Committee, RoP, 29 February 2024](#)

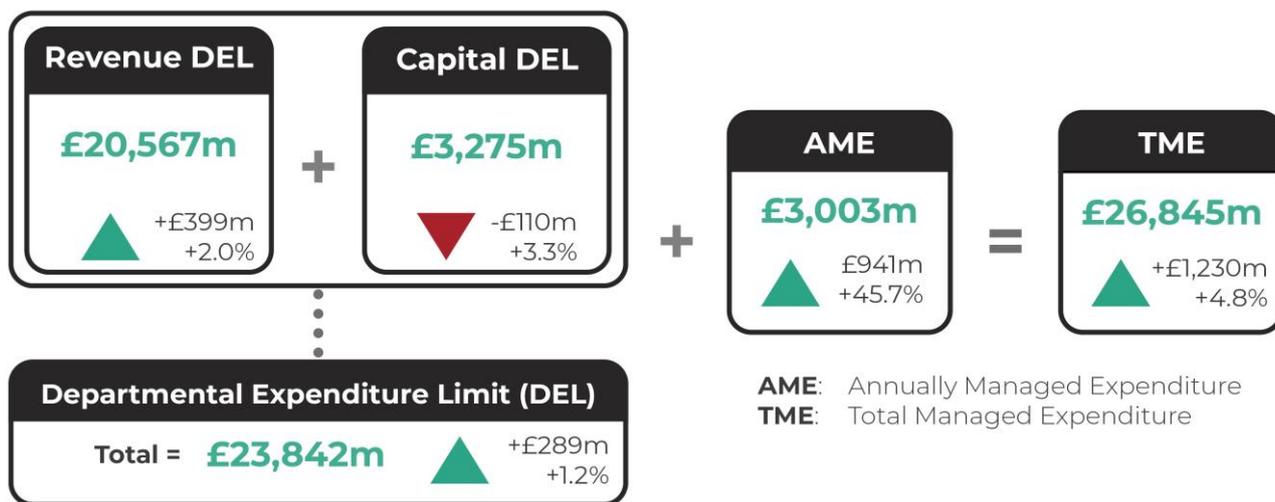
<sup>5</sup> [Welsh Government First Supplementary Budget 2023-24](#)

<sup>6</sup> [Welsh Government, Update on 2023-2024 financial position: summary of main changes, 17 October 2023](#)

<sup>7</sup> [Finance Committee, Agenda, 18 January 2024](#)

## 2. Overview

7. The Supplementary Budget<sup>8</sup> shows an increase in revenue plus capital (excluding AME) allocated to Welsh Government departments of £288.8 million (1.2 per cent), from £23.6 billion to £23.8 billion. The changes, which are summarised below by Main Expenditure Group (MEG) or department.



<sup>8</sup> Welsh Government Second Supplementary Budget 2023-24

|   | Total revenue and capital allocation | Change from 1st Supplementary Budget to 2nd Supplementary Budget  |
|---|--------------------------------------|---|
|  <b>Health and Social Services</b>           | <b>£11,577m</b>                      | <b>£667m</b><br>6.1%     |
|  <b>Finance and Local Government*</b>        | <b>£5,161m</b>                       | <b>-£19m</b><br>-0.4%    |
|  <b>Climate Change</b>                       | <b>£3,376m</b>                       | <b>£96m</b><br>2.9%      |
|  <b>Education and the Welsh Language**</b>   | <b>£2,341m</b>                       | <b>-£340m</b><br>-12.7%  |
|  <b>Economy</b>                              | <b>£477m</b>                         | <b>-£60m</b><br>-11.1%   |
|  <b>Rural Affairs</b>                        | <b>£407m</b>                         | <b>-£40m</b><br>-9.0%    |
|  <b>Central Services and Administration</b> | <b>£346m</b>                         | <b>-£17m</b><br>-4.6%   |
|  <b>Social Justice</b>                     | <b>£158m</b>                         | <b>£1m</b><br>0.9%     |

8. The main changes to the funding available includes a total net increase in the Welsh Government's budget of £664.1 million in fiscal resource. This includes an increase of £490.3 million from the UK Government, comprising of £363.6 million in Barnett consequentials; £132.7 million from the UK Autumn Statement 2023 and £230.9 million from UK Government's Supplementary Estimates.

9. An additional net increase of £173.8 million comes from the Welsh Government's own funds, which includes:

- drawdown from the Wales Reserve of £199.1 million;
- switch from general capital of £18.6 million; and
- a decrease of £43.9 million, due to carry forward of funding into £2024-25 outside of the Wales Reserve.

10. There is no change to devolved tax income or principal borrowing repayments.

**11.** In summarising the main aims of the Supplementary Budget, the Minister told Members that:

*“... the key announcement is the one that relates to the NHS and the additional funding to make sure that the MEG comes in on budget. And I suppose that's what I want to achieve by the whole supplementary budget in the sense of bringing the budget ... where it needs to be, making sure ... that we have some reserve now to take into next year and we can be in a better position than anticipated moving into the next year as well.”<sup>9</sup>*

**12.** In terms of consequential funding received from the UK Government, the Minister stated that “this year’s supplementary estimate process has been particularly volatile”.<sup>10</sup> She added that the earlier figures provided by Treasury as planning assumptions “had increased significantly” but that “things were moving around a lot”.<sup>11</sup>

**13.** The Minister’s official reiterated that the Welsh Government had “a very late understanding” of their spending position, adding that, although the additional money was welcome, the significant variance from what had been provided initially was “extremely unhelpful in terms of planning purposes and what we were trying to achieve within the supplementary budget.”<sup>12</sup>

**14.** According to the Minister, these uncertainties were exacerbated by the Treasury declining the Welsh Government’s request to switch up to £200 million from capital to revenue.<sup>13</sup>

**15.** Because of these factors, the Minister explained that “The uncertainty of what might have been coming forward in the UK Government's supplementary estimates obviously meant that we took a cautious approach”<sup>14</sup>. She added that:

*“... had we known that the size of the consequential funding, coming very late at supplementary estimates, was going to be of the order it was, then we could have taken different decisions in year. Also, had we known that the UK Government wasn't*

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<sup>9</sup> Finance Committee, RoP, 29 February 2024, paragraph 137

<sup>10</sup> Finance Committee, RoP, 29 February 2024, paragraph 48

<sup>11</sup> Finance Committee, RoP, 29 February 2024, paragraph 48

<sup>12</sup> Finance Committee, RoP, 29 February 2024, paragraph 50

<sup>13</sup> Finance Committee, RoP, 29 February 2024, paragraphs 12

<sup>14</sup> Finance Committee, RoP, 29 February 2024, paragraph 12

*going to agree to the request to switch capital to revenue, then, potentially, we would have not made changes at that point to our capital plans. So, I think that the kind of certainty that we have at the year end, if we'd had even just some of that at that point during the summer when we were undertaking the reprioritisation work, we could have made, and would have made, I think, different choices.”<sup>15</sup>*

**16.** However, the Minister told the Committee that the Treasury had afforded the Welsh Government some flexibility in recognition of the last minute changes to its funding allocations:

*“... the Treasury allowed us to carry that £43 million into next year because there was so much variance happening very late in the year. So, it has been helpful in the sense of recognising the volatility there”.<sup>16</sup>*

**17.** The Minister also confirmed that the Welsh Government was “able to carry forward some funding over and above, or outside of the Wales reserve into next year, so, that does mean that we are able to have a modest reserve available to us”,<sup>17</sup> adding:

*“... that was part of the negotiation we did with the Chief Secretary to the Treasury, so, it's not a routine thing, but it was something that we did because it was so late in the year to get our supplementary budget figures and they were moving around quite dramatically as we moved to the end of the financial year as well.”<sup>18</sup>*

**18.** Despite these developments, the Minister also indicated that more could be done to improve current arrangements, suggesting that “anything that comes through late in the financial year” should be allowed to be carried over to the next year.<sup>19</sup>

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<sup>15</sup> Finance Committee, RoP, 29 February 2024, paragraph 14

<sup>16</sup> Finance Committee, RoP, 29 February 2024, paragraph 49

<sup>17</sup> Finance Committee, RoP, 29 February 2024, paragraph 40

<sup>18</sup> Finance Committee, RoP, 29 February 2024, paragraph 40

<sup>19</sup> Finance Committee, RoP, 29 February 2024, paragraph 57

## Impact of inflation, costs and wage pressures

**19.** The Supplementary Budget confirms in-year allocations announced by the Minister through her Financial Update on 17 October 2023<sup>20</sup>. At the time, the Minister stated that these changes were required “to address the impact of our budget being worth around £900 million less than when it was set in 2021”.<sup>21</sup>

**20.** When asked about the Welsh Government’s decision to announce the funding shortfall in August 2023<sup>22</sup> prior to publishing the details of the exercise, the Minister stated that “We could have waited until October, then just revealed the outcome of that work” but that “it was a finely balanced decision, because we knew that people out there in organisations in public services were already feeling the pressure. They could see that there were going to be pressures on the budget”.<sup>23</sup>

**21.** On whether this approach was effective, the Minister acknowledged that:

*“... on the one hand, it did give the reassurance, particularly, I think, to the health service, that we were addressing the issue, but, equally, I know it did cause concern then amongst others, as well. We were just trying to be as transparent as we could be, but it was finely balanced. We could have not said anything and kept it all until October.”<sup>24</sup>*

**22.** When asked to summarise how the Welsh Government had prioritised funding allocations in the Supplementary Budget, the Minister stated that:

*“At the time of the update that I provided in October, we were obviously trying to deal with some significant pressures that were being felt in year ....*

*So, alongside that particular reprioritisation exercise, we also maximised the use of our reserves and planned on using consequential, which we expected to come from the UK Government and requested that switch from capital to revenue*

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<sup>20</sup> [Welsh Government, Update on 2023-2024 financial position: summary of main changes, 17 October 2023](#)

<sup>21</sup> [Plenary, RoP, 17 October 2023, paragraph 122](#)

<sup>22</sup> [Welsh Government, Written Statement: Update about Budget 2023-24, 9 August 2023](#)

<sup>23</sup> Finance Committee, RoP, 29 February 2024, paragraph 16

<sup>24</sup> Finance Committee, RoP, 29 February 2024, paragraph 16

*from the UK Government, and also made a combination of revenue-to-capital savings in our departmental budgets.*<sup>25</sup>

**23.** The Minister confirmed that “since then, we’ve continued to closely monitor the financial position” and that all Welsh Ministers “have to work towards their revised main expenditure group totals”.<sup>26</sup>

**24.** The Minister assured Members that “We’ve got a very robust monthly monitoring process in place” which “involves working across Government to understand the position”.<sup>27</sup>

**25.** The Minister’s official provided further details regarding this process, telling the Committee that:

*“... it's a well-established, robust monitoring process that we have. It happens every month, we get revised forecasts in from across the entire organisation, both from a systematic point of view, so the figures turn up through our system, what's been loaded as far as forecasts are concerned, and then we get a report from each MEG which is signed off by each either deputy director of finance or director of finances at that area.*

*That gives us an opportunity to look into those numbers and challenge wherever necessary to ensure the robustness of what is being provided. And then, all of that gets consolidated into a monthly report which is then provided to senior officials within Welsh Government.”*<sup>28</sup>

**26.** The Minister added that:

*“... I report monthly to Cabinet. It's usually in the form of a paper to note but my officials might speak to it if it feels it needs a bit more explanation. And that then offers Cabinet the opportunity to see where we are in year.”*<sup>29</sup>

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<sup>25</sup> Finance Committee, RoP, 29 February 2024, paragraphs 8-9

<sup>26</sup> Finance Committee, RoP, 29 February 2024, paragraph 9

<sup>27</sup> Finance Committee, RoP, 29 February 2024, paragraph 10

<sup>28</sup> Finance Committee, RoP, 29 February 2024, paragraphs 19 and 20

<sup>29</sup> Finance Committee, RoP, 29 February 2024, paragraph 21

**27.** The Minister felt that this approach “was important, especially when budgets are really stretched, that everybody has that kind of transparent view of where the pressures are across Government”.<sup>30</sup>

### Committee View

**28.** The Committee welcomes the additional funding provided to the Welsh Government following publication of the latest UK Supplementary Estimates. However, the Committee remains concerned that changes to the Welsh Government’s funding position are made late in the year and the impact this has on the Welsh Government’s ability to plan and manage its budget. In particular, the Committee is concerned with the acute issues faced by the Minister this year, where levels of funding resulting from the UK Supplementary Estimates were particularly uncertain and volatile. In these circumstances, the Committee recognises that it is difficult for the Minister to take anything other than a cautious approach.

**29.** The Committee is particularly pleased to learn that the Treasury has allowed the Minister to take forward a proportion of the funding received into the next financial year, in recognition of how late this additional funding was announced. In addition, the Committee notes that the Treasury’s decision to waive drawdown limits on the Wales Reserve for 2023-24 has been beneficial to the Welsh Government in managing their available budget and believe these annual limits should not be reimposed in future years. The Committee considers these flexibilities to be essential to the Welsh Government’s fiscal levers given that the real terms value of these powers have been severely hampered by the current economic context, and calls for them to be formalised rather than agreed on a case-by-case and ad hoc basis.

**30.** The Committee was disappointed that the Minister’s request for funding to be switched from revenue to capital budgets was declined by the Treasury, despite local authorities in Wales having the power to do so. This is a worrying development given that it formed a key part of the Welsh Government’s in-year reprioritising exercise, and we ask the Minister to provide further details to explain the reasons given and the practical impact of the Treasury’s decisions on the Welsh Government’s budgetary plans.

**31.** This decision also suggests that, despite the positive steps taken, there is still work to do to convince central government that changes to the Welsh

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<sup>30</sup> Finance Committee, RoP, 29 February 2024, paragraph 23

Government's fiscal powers are needed. The Committee has long called for the Welsh Government to be given the right fiscal tools to be able to maximise its funding position,<sup>31</sup> and such issues were also reflected in a cross-party motion agreed unanimously by the Senedd in Plenary on 27 February 2024.<sup>32</sup> It is therefore highly regrettable that there is still work to do between the UK and Welsh governments in this area.

**32.** The Committee recognises that the impact of inflation was the main driver for the actions taken by the Welsh Government in its Financial Update issued in October 2023. The Committee also understands that the Minister decided that such an exercise was needed in order to respond to additional in-year cost pressures as a matter of urgency, especially as public sector pay awards were higher than previously anticipated.

**33.** However, the Committee believes that improvements could have been made to the way in which the changes were communicated. We note that the announcement of a £900 million funding gap by the Welsh Government in August 2023 may have caused unnecessary concern to stakeholders, especially as it was not clear at that stage whether this was a change in the real terms value of the budget compared to when indicative figures were published in the Autumn Statement, or actual reductions to available funds. Nonetheless, the Committee also recognises that the announcement of additional in-year funding before the scheduled Second Supplementary Budget near the end of the financial year for the NHS did give reassurance to Local Health Boards (LHBs) for their financial planning within a tightening economic context.

**34.** The Committee has recently recommended that the Welsh Government brings forward an additional supplementary budget if conducting a similar exercise in future, both to enhance transparency and to ensure that the Senedd has a final say on such spending decisions.<sup>33</sup> Although the Committee is disappointed that the Minister has rejected such calls,<sup>34</sup> we reiterate our view that the Senedd's supplementary procedure should be used when making significant in-year changes in order to maximise scrutiny and to provide an opportunity for the Senedd to vote on significant changes to the Welsh Government's in-year spending plans. In addition, the Committee expects that

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<sup>31</sup> [Finance Committee, Scrutiny of the Welsh Government Draft Budget 2024-25, February 2024, Recommendation 7](#)

<sup>32</sup> [Plenary, RoP, 27 February 2024, paragraph 436](#)

<sup>33</sup> [Finance Committee, Scrutiny of the Welsh Government Draft Budget 2024-25, February 2024, Recommendation 6](#)

<sup>34</sup> Welsh Government, Finance Committee's Recommendations on the Draft Budget 2024-25, 1 March 2024

the Minister will attend an evidence session in such circumstances, to provide the Senedd with an opportunity to hold such decisions to account.

**35.** The Committee welcomes the steps outlined by the Minister and her officials regarding the processes in place to monitor and forecast portfolio spending across the Welsh Government's MEGs. The Committee recognises that the processes described would suggest that the Minister has the appropriate oversight arrangements to monitor in-year spending across the Welsh Government. The Committee notes with interest the updates provided to the Cabinet on departmental spending against profiles and forecasts, and would like for such information to be made public at regular intervals.

**36.** In its report on the Draft Budget 2024-25, the Committee called for the Minister to explore publishing information at regular intervals to provide an update on how the Welsh Government is progressing against its spending profiles.<sup>35</sup> The Committee continues to believe that the publication of outturn information within the year would provide the upmost transparency and provide greater opportunities for the Senedd to better understand the pressures facing Welsh Government departments and how programmes and spending plans are delivering against outcomes.

**Recommendation 1.** The Committee recommends that the Minister calls for maximum flexibility within the Fiscal Framework to enable the Welsh Government the ability to:

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

**Recommendation 2.** The Committee recommends that the Minister provides further information regarding the rationale for and impact of the Treasury's decision not to allow the switch in funding from revenue to capital has had on the Welsh Government's in-year financial position.

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<sup>35</sup> [Finance Committee, Scrutiny of the Welsh Government Draft Budget 2024-25, February 2024, Recommendation 8](#)

**Recommendation 3.** The Committee recommends that the Minister lays an additional supplementary budget motion before the Senedd when making significant in-year changes to the Welsh Government's spending plans.

**Recommendation 4.** The Committee recommends that the Minister attends a formal scrutiny session as soon as possible after the details in the event of any significant in-year changes being made to the Welsh Government's budget.

**Recommendation 5.** The Committee recommends that the Minister explores publishing forecast outturn information at regular intervals within the year, to include an analysis of expenditure within each MEG and how these allocations are delivering against planned outcomes, in order to provide the upmost transparency for the Senedd and the Welsh public.

## 3. Other Allocations

### Health and Social Services

**38.** The Supplementary Budget<sup>36</sup> includes the following allocations to the Health and Social Services MEG:

- £425 million previously included in the Financial Update in October 2023;<sup>37</sup>
- £95 million for backdated Recovery Payment element of pay offer for Agenda for Change staff;<sup>38</sup>
- £59 million to cover forecast deficits for LHBs, on top of savings within the health portfolio, as not all are targeted to meet target deficits;
- £48 million from the UK Government for the UK Four Nations Fund and £47 million in respect of the Immigration Health Surcharge; and
- £10 million capital to support equipment and digital requests from NHS health boards and trusts.

**39.** In addition, £47 million initially earmarked for research and development revenue funding has been reclassified as capital.

**40.** A number of areas within the MEG have had funding reprioritised to contribute to in-year savings and are transferred to the Core NHS Allocations Budget Expenditure Lines (BEL). These include:

- £26.8 million from Supporting Children Action.
- £16.2 million from Support Mental Health Policies and Legislation Action.
- £16.3 million from Health Education Improvement Wales BEL.
- £9.1 million from Delivery of Targeted NHS Services Action.

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<sup>36</sup> [Welsh Government Second Supplementary Budget 2023-24 Explanatory Note, page 20](#)

<sup>37</sup> [Welsh Government, Update on 2023-2024 financial position: summary of main changes, 17 October 2023](#)

<sup>38</sup> [Welsh Government, Written Statement: NHS Pay award enhancement for 2022/2023 and pay award for 2023/24 Agenda for Change staff, 20 April 2023](#)

**41.** The Minister indicated that one of the key areas in the Supplementary Budget “does relate to work to reduce the deficit reported by the health and social services MEG”.<sup>39</sup>

**42.** In explaining the purpose of these additional allocations, the Minister’s official stated that:

*“... providing that £59 million ensures that the MEG will not overspend, including the outturn of those boards that will not reach their targets. In terms of why they are in that position, that is obviously the conversations that the health Minister will be having with those boards and the governance process that is in place and the accountability process in place, to manage the health boards in that respect.”<sup>40</sup>*

**43.** The Minister also confirmed that “the three organisations currently forecasting that they won’t meet their target control totals are Aneurin Bevan, Hywel Dda and Betsi Cadwaladr university health boards”.<sup>41</sup>

**44.** When asked what the consequences would be for LHBs if they did not achieve their target control totals, the Minister confirmed that:

*“... in allocating the additional funding earlier in the year, the health Minister did make it clear that elements of that allocation would only become recurrent dependent on the progress in achieving the target control totals. So, the funds are included within the 2024-25 LHB allocations, which the Minister has issued. However, for organisations to be able to rely on that funding to be made permanently recurrent, they must be making progress that the Minister has requested, and we would look to see that demonstrated both in their outturn this year and also their plans for the next financial year.”<sup>42</sup>*

**45.** However, the Minister added that “The outturn won’t be available until the summer, officially”<sup>43</sup>.

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<sup>39</sup> Finance Committee, RoP, 29 February 2024, paragraph 11

<sup>40</sup> Finance Committee, RoP, 29 February 2024, paragraphs 67

<sup>41</sup> Finance Committee, RoP, 29 February 2024, paragraphs 68

<sup>42</sup> Finance Committee, RoP, 29 February 2024, paragraphs 74

<sup>43</sup> Finance Committee, RoP, 29 February 2024, paragraphs 76

**46.** When asked to comment on the implications of the planned reductions of £20 million in the resource allocation for mental health policies and legislation in the Supplementary Budget, the Minister told Members that:

*"... the majority of funding for the mental health budget is set out in the core NHS funding, and that is ring-fenced. So, for this year, that spend is around £774 million, and it remains the area where we spend the most money within the NHS, and that hasn't been affected by the reprioritisation work that we did. So, the money which you're referring to is money which is held in a different budget line within the MEG, and, as I understand it, it hasn't resulted in cuts to front-line services, because that money had been allocated to the budget line, but hadn't yet been identified for particular projects, which is why it was available for reprioritisation."*<sup>44</sup>

**47.** The Minister also confirmed that the funding is "available for release due to delays in planned spend, rather than cuts".<sup>45</sup>

### Finance and Local Government

**48.** The Supplementary Budget<sup>46</sup> includes net revenue reduction of £47.7 million, and £58,000 increase in non-cash within the Finance and Local Government MEG.

**49.** In terms of whether the Minister considered allocating funding in the Supplementary Budget to cover cost pressures within core frontline services provided by local authorities, the Minister explained that:

*"I think that the story of the supplementary budget, insofar as it concerns local government, is one of protecting and avoiding reductions rather than additional funding. So, I think that there was nothing more that we could offer, really, in terms of additional funding for local government this year, just protecting it was hard, and I know that there are going to be tough choices across public services as a result of that."*<sup>47</sup>

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<sup>44</sup> Finance Committee, RoP, 29 February 2024, paragraphs 85

<sup>45</sup> Finance Committee, RoP, 29 February 2024, paragraphs 87

<sup>46</sup> [Welsh Government Second Supplementary Budget 2023-24 Explanatory Note, page 20](#)

<sup>47</sup> Finance Committee, RoP, 29 February 2024, paragraphs 98

**50.** When asked if consideration had been given to providing additional funding within the Finance and Local Government MEG to cover pay and pension contributions, particularly within the education sector, the Minister stated that:

*"... in my letters to local authorities, in which I set out the details of the local government settlement for the next financial year, I do state within those letters that we would expect that settlement to cover teachers pay and those other pressures ... I'm usually quite explicit in that that additional funding shouldn't be expected as a result."*<sup>48</sup>

**51.** However, the Minister added that:

*"... there have been points within recent financial years where we have been able to provide additional funding in year, through supplementary budgets ... So, it's something local authorities shouldn't plan on, and shouldn't count on, but when we have been able to do it, we have been able to provide additional funding to recognise those decisions."*<sup>49</sup>

## Climate Change

**52.** The Supplementary Budget<sup>50</sup> includes a net revenue increase in the Climate Change MEG with regard to transport of £91.4 million, or £201.2 million including non-cash. The majority of increases relate to Transport for Wales, with £34 million additional capital funding to support the Core Valleys Line.<sup>51</sup> This is in addition to the additional £125 million provided to Transport for Wales as part of the Financial Update in October 2023, which the Minister confirmed at the time "would meet the pressure".<sup>52</sup>

**53.** When asked how the Welsh Government was monitoring the affordability and sustainability of the additional in-year allocations made to support Transport for Wales, the Minister stated that:

*"... the Deputy Minister for Climate Change has regular structured meetings with Transport for Wales, to maintain that*

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<sup>48</sup> Finance Committee, RoP, 29 February 2024, paragraphs 101

<sup>49</sup> Finance Committee, RoP, 29 February 2024, paragraphs 101

<sup>50</sup> [Welsh Government Second Supplementary Budget 2023-24 Explanatory Note, page 20](#)

<sup>51</sup> [Welsh Government Second Supplementary Budget 2023-24 Explanatory Note, page 5](#)

<sup>52</sup> [Finance Committee, RoP, 15 November 2023, paragraph 85](#)

*appropriate oversight. So, he will meet quarterly with the chair and the CEO to discuss performance and also discuss any future issues ... They also have a monthly joint steering board, and that does provide strategic oversight and accountability, and it allows the Welsh Government's senior officials to hold to account the chair and the CEO of Transport for Wales as an additional accounting officer. And the Transport for Wales performance board takes place on a quarterly basis, and that reviews progress against Transport for Wales's annual business plan, and monitors and challenges progress towards the key performance indicators. And then, Transport for Wales and Welsh Government finance teams meet on a monthly basis, to discuss current year forecasts and also future budget planning as well.”<sup>53</sup>*

### Central Services and Administration

**54.** Resource funding within the Supplementary Budget<sup>54</sup> for the Central Services and Administration MEG reflects a transfer of £16.5 million to reserves, including £8.5 million from the budget for the Welsh Government’s running costs and £7.3 million for its staff costs.

**55.** The Minister confirmed that the reduction in this MEG “relates to a one-off technical accounting exercise, so there's no impact on the administration of the Welsh Government as a result of the exercise”.<sup>55</sup> The Minister’s official added that:

*“... it's following an Audit Wales recommendation where, essentially, costs have been accrued over prior years ... As a result of that, we've been able to release credits back into the system, and that's what has generated those savings this year”.*<sup>56</sup>

**56.** The Minister’s official also confirmed that there is “no practical implications ... in terms of delivery”.<sup>57</sup>

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<sup>53</sup> Finance Committee, RoP, 29 February 2024, paragraph 111

<sup>54</sup> [Welsh Government Second Supplementary Budget 2023-24 Explanatory Note, page 20](#)

<sup>55</sup> Finance Committee, RoP, 29 February 2024, paragraph 117

<sup>56</sup> Finance Committee, RoP, 29 February 2024, paragraph 118

<sup>57</sup> Finance Committee, RoP, 29 February 2024, paragraph 120

## Committee View

**57.** The Committee welcomes the additional funding that is being provided in the Supplementary Budget to support the NHS, given additional funding pressures that have emerged within the year. However, the Committee also notes that additional pressures, particularly around pay, have been experienced by all public sector providers and that, while additional funding has been provided to address this issue in the NHS, funding has not been shared more widely across MEGs to support increases in pay within other areas, such as social care and education.

**58.** The Committee also notes the additional funding provided in the Supplementary Budget which is linked to forecast overspends in LHBs. The Committee is concerned that additional funding to address this issue is necessary given that LHBs received significant allocations in the autumn, and believes this raises questions regarding the sustainability of the health service in the long-term.

**59.** The Committee notes that the Minister expects LHBs to make progress in meeting their target control totals in order for such funding to be made permanently recurrent, and that this will be demonstrated in their outturns for this year and in plans for the next financial year. However, we also note that outturn figures will not be available until the summer.

**60.** The Committee therefore calls on the Minister to work with the Minister for Health and Social Services to provide an update to the Committee as soon as possible on progress that the LHBs are making in relation to this issue, including details of how they will reach their target control totals, to provide assurances that future allocations for this purpose can be avoided.

**61.** The Committee has previously recommended that the allocation of significant funds relating to NHS delivery need to be linked to clear and measurable outcomes.<sup>58</sup> We therefore seek assurances that the Welsh Government is undertaking robust challenge to ensure that value for money is being achieved from the funding provided. This is particularly important given that the provision of additional funding for the NHS reduces the funding available for other areas within the Health and Social Services and other MEGs.

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<sup>58</sup> [Finance Committee, Scrutiny of the Welsh Government Draft Budget 2024-25, February 2024, Recommendation 23](#)

**62.** The Committee notes assurances by the Minister that reductions in the resource allocation for mental health policies and legislation within the Health and Social Services MEG will not result in cuts to frontline services. Nonetheless, it is not clear what the changes made by the Supplementary Budget in this area relates to. In particular, the Committee found it difficult to distinguish between how changes in the funding of mental health services and funding for mental health policy and legislation are reflected in the Welsh Government budget documentation and tables, and calls for further information and transparency in this area.

**63.** The Committee notes that significant additional funding has been provided to Transport for Wales within the Supplementary Budget which is intended to make up for shortfalls in revenue. The Committee heard evidence during the scrutiny of the Draft Budget 2024-25 that rail journeys in Wales are being subsidised by £13 or £14 per journey,<sup>59</sup> and we have previously asked for further information about how allocations are made in this area.<sup>60</sup> However, this remains an area of concern and the Committee calls for more work to be undertaken to understand the benefits of current subsidies to the wider public transport system.

**64.** The Committee notes that the reductions within the Central Services and Administration MEG relates to a one-off technical accounting exercise and that this will not have an impact on the day-to-day running of the Welsh Government. However, given the significant value of this reduction, the Committee would like to understand more about how these changes are effecting the management of resources within the Welsh Government and particularly whether they will have an impact on head count numbers.

**Recommendation 6.** The Committee recommends that the Minister provides details of the progress that Local Health Boards are making in meeting target control totals before the outturn position in the summer, and explains how the Welsh Government is monitoring progress to avoid the need for additional allocations in this area in future years.

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<sup>59</sup> Finance Committee, Scrutiny of the Welsh Government Draft Budget 2024-25, February 2024, Paragraph 269

<sup>60</sup> Finance Committee, Scrutiny of the Welsh Government Draft Budget 2024-25, February 2024, Recommendation 31

**Recommendation 7.** The Committee recommends that the Minister provides further information on the impact that decreases in funding for mental health policies through the Supplementary Budget will have on mental health services.

**Recommendation 8.** The Committee recommends that the Minister undertakes an impact assessment to understand the benefits of the subsidies provided within the Supplementary Budget to support the public transport system and shares its findings with the Committee by the time of the First Supplementary Budget 2024-25.

**Recommendation 9.** The Committee recommends that the Minister provides an update on the impact that reductions in the Central Services and Administration MEG will have on Welsh Government staff numbers.

## 4. Directly Funded Bodies

**65.** The Supplementary Budget motion proposes a variation to the budgets of Audit Wales and the Public Services Ombudsman for Wales. The Committee considered these requests at its meeting on 18 January 2024<sup>61</sup>. The Senedd Commission did not submit a supplementary budget on this occasion.

**66.** The Supplementary Budget motion also proposes a variation to the budget of the Electoral Commission, whose work on devolved Welsh elections and devolved Welsh referendums is paid for from the Welsh Consolidated Fund. However, the responsibility for considering the Electoral Commission's financial estimates is not a matter for the Finance Committee as it falls within the remit of the Llywydd's Committee, who considered this matter on 22 January 2024 and will publish a separate report on its findings.<sup>62</sup>

### Audit Wales

**67.** Audit Wales submitted a supplementary estimate request in June 2023<sup>63</sup> which requested a £94,000 non-cash adjustment in respect of IFRS16 associated with its North Wales office move. This was considered and supported by the Committee at its meeting on 6 July 2023<sup>64</sup>.

**68.** On 20 September 2023<sup>65</sup>, the Committee considered a further supplementary request from Audit Wales<sup>66</sup> for additional funding of £442,000 in order to make a cost of living payment of £1,500 to staff, in line with a similar payment made to its staff by the Welsh Government and its sponsored bodies.

**69.** Following the meeting, the Committee wrote to Audit Wales on 28 September<sup>67</sup> expressing sympathy with the Board's request to seek the additional funding and recognising the difficulties it faced in absorbing this cost within its normal budget. The letter also re-iterated the position of the Welsh Government that bodies should seek to absorb this payment from within existing budgets and that the additional funding request would be subject to a

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<sup>61</sup> [Finance Committee Agenda, 18 January 2024](#)

<sup>62</sup> [Llywydd's Committee Agenda, 24 January 2024](#)

<sup>63</sup> [Audit Wales: Supplementary Budget 2023-24, June 2023](#)

<sup>64</sup> [Finance Committee Agenda, 6 July 2023](#)

<sup>65</sup> [Finance Committee Agenda, 20 September 2023](#)

<sup>66</sup> [Audit Wales: Further Supplementary Budget 2023-24, August 2023](#)

<sup>67</sup> [Letter from the Chair of the Finance Committee to Audit Wales](#)

decision by the whole Senedd when it considers the next Supplementary Budget Motion in March 2024.

**70.** Subsequently, Audit Wales wrote to the Committee on 6 December 2023<sup>68</sup> stating that it would be withdrawing the request for the additional £442,000 set out in the Supplementary Estimate. The letter sets out that Audit Wales had reduced its dilapidations costs associated with its move from the Cathedral Road office in March 2023 by £400,000. This, along with some smaller in-year savings identified in other budgets, would allow Audit Wales to fund the cost of living payment for staff from within its budget for 2023-24 without the need for a supplementary estimate. However, the original non-cash request made in June 2023, as outlined in paragraph x above, would be retained.

**71.** The letter also confirmed that any unspent cash at year end will be returned to the Welsh Consolidated Fund (WCF) via an administrative adjustment in 2024-25, in line with normal practice.

### Public Services Ombudsman for Wales

**72.** The Public Services Ombudsman for Wales (the PSOW) Supplementary Budget<sup>69</sup> proposes a reduction of £108,000 to be returned to the WCF. This reduction is a result of the pay award being settled at less than the amount included in the PSOW's First Supplementary Budget<sup>70</sup>, as outlined by the PSOW in her letter of 11 December<sup>71</sup>. When the PSOW submitted her First Supplementary Budget, the pay award was uncertain, but it was clear that it would exceed the amount included in her initial Estimate for 2023-24. The Committee agreed the request in the First Supplementary Budget, on the understanding that if the actual pay award was lower, the corresponding amount will not be drawn down or would be returned to the WCF<sup>72</sup>.

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<sup>68</sup> Letter from Audit Wales to the Chair of the Finance Committee

<sup>69</sup> Public Services Ombudsman for Wales, Second Supplementary Budget 2023-24

<sup>70</sup> Public Services Ombudsman for Wales, First Supplementary Budget 2023-24

<sup>71</sup> Letter from the Public Services Ombudsman for Wales to the Chair of the Finance Committee

<sup>72</sup> Finance Committee report: Scrutiny of Welsh Government First Supplementary Budget 2023-24, Conclusion 3.

**73.** On 26 January, the PSOW responded<sup>73</sup> to the Committee's report on the Annual Scrutiny of the Public Services Ombudsman for Wales 2024-25<sup>74</sup> and confirmed:

*"The pay award has been settled and staff were paid the pay award in November. The average increase as a result of the April 2023 local government pay award is around 5.4%."*<sup>75</sup>

**74.** The Ombudsman's letter notes:

*"We will also be submitting supplementary budgets for the current year [2023-24], and for next financial year [2024-25], to reduce our budgets accordingly."*<sup>76</sup>

### Committee view

**75.** The Committee is pleased that Audit Wales has been able to reduce its dilapidations costs associated with its office move and has identified in-year savings, which has allowed it to make the cost of living payment to staff within the envelope for 2023-24, rather than requiring additional funds via a supplementary budget.

**76.** The Committee welcomes the PSOW's Second Supplementary Budget which returns £108,000 to the WCF as a result of the pay award being settled at less than the amount included in the PSOW's First Supplementary Budget. This accords with recommendation 6 in the Committee's report on the Annual Scrutiny of the Public Services Ombudsman for Wales 2024-25<sup>77</sup>. Furthermore, we welcome the PSOW's commitment to our recommendation<sup>78</sup> to submit a supplementary budget to remove the underspend associated with the pay award from the baseline for the 2024-25 Estimate, at the next opportunity.

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<sup>73</sup> [Public Services Ombudsman for Wales: Response to the Finance Committee's report on the Annual Scrutiny of the PSOW 2024-25](#)

<sup>74</sup> [Finance Committee report: Scrutiny of Public Services Ombudsman for Wales Estimate 2024-25](#)

<sup>75</sup> [Public Services Ombudsman for Wales: Response to the Finance Committee's report on the Annual Scrutiny of the PSOW 2024-25](#)

<sup>76</sup> [Letter from the Public Services Ombudsman for Wales to the Chair of the Finance Committee](#)

<sup>77</sup> [Public Services Ombudsman for Wales: Response to the Finance Committee's report on the Annual Scrutiny of the PSOW 2024-25. Recommendation 6](#)

<sup>78</sup> [Public Services Ombudsman for Wales: Response to the Finance Committee's report on the Annual Scrutiny of the PSOW 2024-25. Recommendation 6](#)

**Conclusion 1.** The Committee notes that Audit Wales has withdrawn its request for an additional £442,000 set out in its Supplementary Estimate and is pleased that it has been able to secure a reduction in dilapidation costs, and given due regard to the Committee's Statement of Principles<sup>79</sup> to accrue efficiencies in order to fund the cost of living payment for its staff, without the need for additional funding.

**Conclusion 2.** The Committee is content with the variation to the budgets for the Public Services Ombudsman for Wales and the Wales Audit Office and Auditor General for Wales.

**Conclusion 3.** The Committee welcomes the Public Services Ombudsman for Wales's commitment to submit a supplementary budget to remove the underspend associated with the pay award from the baseline for its Estimate 2024-25.

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<sup>79</sup> [Finance Committee, Statement of Principles](#)