

Scrutiny of the Welsh Government's First Supplementary Budget 2020-21

June 2020



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Scrutiny of the Welsh Government's First Supplementary Budget 2020-21

June 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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Contents

Recommendations	5
1. Overview.....	8
2. Financing.....	11
3. Prioritisation	16
4. Financial powers and reserves.....	20
6. Allocations.....	23
7. Climate Emergency	32
8. EU transition period.....	34
9. Directly funded bodies.....	35

Recommendations

Recommendation 1. The Committee recommends that the Welsh Government continues to monitor and explore whether consequentialia received through the Barnett formula are reflective of the needs of Wales, particularly in light of COVID-19.....Page 14

Recommendation 2. Should consequentialia not adequately reflect the needs of Wales in light of COVID-19 the Committee recommends that the Welsh Government confirm with UK Government alternative funding options as a matter of urgency.....Page 15

Recommendation 3. The Committee recommends that the Welsh Government insists that the UK Government provides as much information as promptly as possible, on any UK Government announcement that affects Wales, its residents and/or the businesses that operate here.....Page 15

Recommendation 4. The Committee recommends that an update is provided on the role of the Counsel General and how the Counsel General's work on COVID-19 recovery dovetails with the Minister's planning for the rest of this financial year and 2021-22.....Page 19

Recommendation 5. The Committee would welcome details of the discussions undertaken with public sector organisations facing significant reductions in income this year, and recommends that the Committee is provided with details of how the Welsh Government has worked with these organisations to mitigate the impact of the reductions.....Page 19

Recommendation 6. The Committee agrees with the Minister's view on needing flexibility regarding increasing annual limits relating to Welsh Government borrowing and reserves. The Committee recommends that the Welsh Government provides an update to the Committee on its discussions with HM Treasury regarding flexibilities in borrowing and reserves.....Page 21

Recommendation 7. The Committee recommends that an update is provided on the Welsh Government's discussions with HM Treasury regarding the ability to switch capital to revenue when discussions have been finalised.....Page 22

Recommendation 8. The Committee recommends that the basis on which funding is reallocated from capital to revenue projects should be clear, and accompanied by the relevant impact assessments.....Page 22

Recommendation 9. When providing information on the projects that have been delayed/deferred in order to switch capital to revenue, the Committee recommends that the Welsh Government provides details on the workstreams and the value of funding being released.Page 22

Recommendation 10. The Committee recommends that the Welsh Government provides further information about the actual and projected additional costs for local health boards as a result of COVID-19 measures and the allocations to be made to them as a result of the increase in funding reflected in the Supplementary Budget.Page 30

Recommendation 11. The Committee recommends that, once the estimates have been derived, the Welsh Government provides information in respect of the costs of decommissioning all field hospitals.....Page 30

Recommendation 12. The Committee agrees that additional funding is required to support the Welsh Government's 'Test Trace Protect' Strategy and recommends that additional information is provided in respect of the strategy. This should include information about 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.....Page 30

Recommendation 13. The Committee recommends that the Welsh Government accelerates work to support local economies. Town centres will be impacted longer term by changes in retail habits, and the Committee is keen to understand how this work will be refocussed to take into account current circumstances.Page 30

Recommendation 14. Once discussions with local government and HM Treasury have concluded the Committee recommends that the Welsh Government provide the Committee with a full breakdown of the additional funding for flooding and how it intends to allocate that funding.Page 31

Recommendation 15. The Committee recommends that the Welsh Government provide further information as to how funding is being reprioritised to focus on a green recovery from COVID-19.....Page 33

Recommendation 16. The Committee recommends that the Welsh Government provide information on how much additional funding will be given and how it will be allocated to support local authorities in embedding positive transport changes.Page 33

Recommendation 17. The Committee recommends that the Welsh Government is more explicit in terms of planning scenarios that are being considered for the end of the EU transition period and the associated funding that is needed. Page 34

Conclusion 1. The Committee is content with the variation to the budgets for the Senedd Commission and the Public Services Ombudsman for Wales. Page 36

Overview

- 1.** The Minister for Finance and Trefnydd (the Minister) laid the **First Supplementary Budget 2019-20** on 27 May 2020 (updated 28 May 2020). The Committee took evidence from the Minister on **4 June 2020**.
- 2.** This Supplementary Budget allocates an additional £2.46bn to departments. Increasing Welsh Government expenditure from £19.9bn at the Final Budget 2020-21 to £22.0bn, an increase of 10.7 per cent. It sets out allocations from reserves, transfers between Welsh Government portfolios, transfers with UK Government Departments 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 from the National Loan Fund.
- 3.** The following graphic shows allocations to departments following this Supplementary Budget.
- 4.** Introducing this Supplementary Budget, the Minister detailed that the Welsh Government had undertaken a rapid review to address the immediate impact of the COVID-19 pandemic “particularly in terms of providing support to our public services to ensure that they were equipped to both respond to the direct and indirect harms of the coronavirus crisis”¹. The Minister explained:

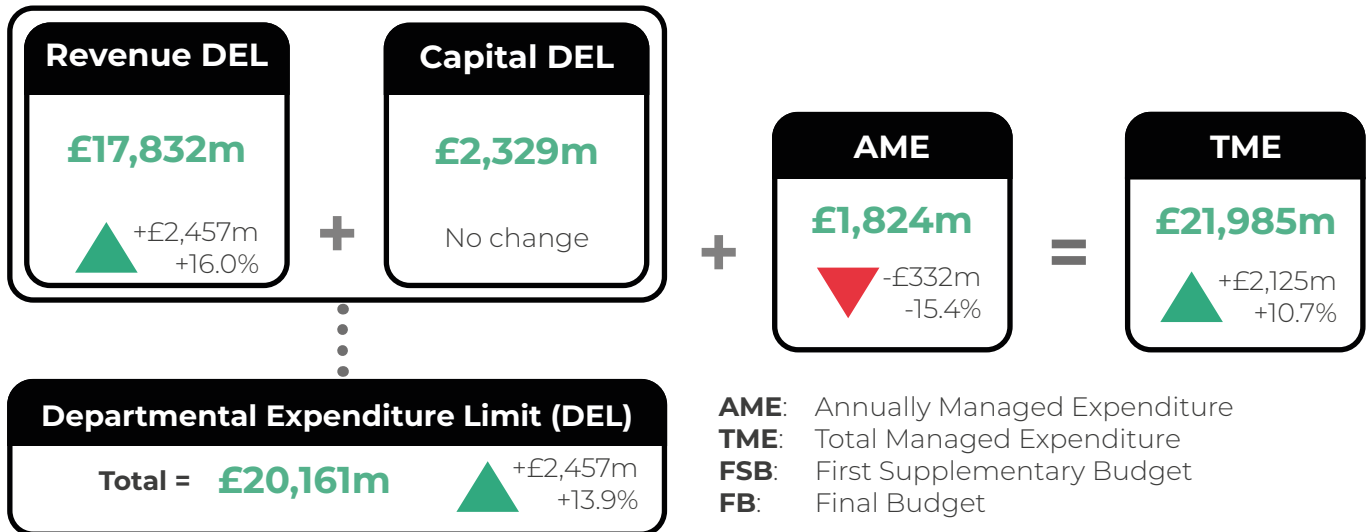
“I met with every Minister and Deputy Minister to interrogate their budgets, asking questions about what within their budget really is a legal commitment that we have to stick to, or statutory commitment; what in their budget is something that is really life-and-limb kind of stuff; and then also what within their budget is an absolute top Government priority. And beyond that, then, we explored what could be released to support the COVID-19 reserve.”²

¹ Finance Committee, Record of Proceedings, 4 June 2020, Paragraph 9















² Finance Committee, Record of Proceedings, 4 June 2020, Paragraph 8

Welsh Government First Supplementary Budget 2020-21

Headline figures from the First Supplementary Budget (FSB), showing cash movements from the Final Budget (FB) 2020-21



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 FB to FSB
 Health and Social Services	£9,222m	+£481m 5.5% 
 Housing and Local Government*	£5,233m	+£527m 11.2% 
 Economy and Transport	£2,789m	+£1266m 83.1% 
 Education	£1,738m	-£47m -2.6% 
 Environment, Energy and Rural Affairs	£570m	+£222m 63.9% 
 Central Services and Administration	£407m	+£23m 5.9% 
 International Relations and the Welsh Language	£202m	-£15m -7.1% 

*Excludes £1bn non-domestic rates income.



- 5.** The Minister detailed three priorities in responding to COVID-19:
 - 1.** Supporting public services;
 - 2.** Helping the most disadvantaged people in society;
 - 3.** Protecting the viability of the economy³

- 6.** The Minister acknowledged that decisions are being made at pace, but offered assurances that essential safeguards are being maintained through daily meetings to look at plans and offer an “extra layer of robustness”.⁴

³ Finance Committee, Record of Proceedings, 4 June 2020, Paragraph 9 - 11

⁴ Finance Committee, Record of Proceedings, 4 June 2020, Paragraph 13

Financing

7. The Explanatory Note accompanying this Supplementary Budget details that Welsh Government fiscal resource has increased by £2.3bn. The majority of this increase (£1.9bn) is from consequentials associated with policy decisions taken by the UK Government to respond to COVID-19.

8. Additionally, there are £122.8m of non-COVID-19 related consequentials from the March 2020 UK budget, as well as £19.2m of adjustments made by HM Treasury in respect of consequentials from 2019-20 (which were deferred until 2020-21) and £4.6m as a result of other UK Government Departments' claims on reserves.

9. Other sources of increased finance include:

- £231.1m from HM Treasury in respect of direct payments funding for farm subsidies
- £29.5m from HM Treasury as a result of a recalculation and reduction in the block grant adjustment
- £19.2m from the Home Office in respect of the Immigration Health Surcharge
- £391,000 from HM Treasury in respect of Financial Advice Services

10. There is also a transfer out of £100,000 in respect of funding the Office for Budget Responsibility (OBR) for work undertaken on devolved tax forecasts. Whilst changes have been made to devolved tax revenues, following OBR forecasts published at the time of the UK Budget, there has been a net reduction of £27m.

11. The Explanatory Note details that £256m has been identified and returned to reserves as a result of an exercise to re-allocate and repurpose existing budgets to respond to the crisis. In addition, and following proposals by the European Commission to provide flexibility in application of the European Social Fund (ESF) and European Regional Development Fund (ERDF), the Welsh Government is working on the assumption that up to £245m could be released and repurposed from EU funding.

12. General capital has increased by £145.5m, including a decrease of £100m as a result of adjustments made by HM Treasury in respect of consequential changes in 2019-20, which were deferred until 2020-21. Consequentials totalling £245.5m include:

- £218.4m as a result of the UK Budget (March 2020)
- £27.1m received at Main Estimates

13. Financial Transactions Capital has increased by £3.7m due to consequentials from the UK Government's March 2020 budget.

14. The Non-Domestic Rates (NDR) budget has been reduced by £332m to counter balance the additional £332m Departmental Expenditure Limits (DEL) funding provided to the Main Expenditure Group (MEG). The Explanatory Note details that this allocation was made "in response to the expected reduction of NDR revenues to local government as a result of COVID-19".⁵

15. On 21 May 2020, the Minister discussed with the Committee how well the Welsh Government was communicating with the UK Government (and other devolved administrations). The Minister explained that:

"...throughout the crisis, Welsh Government officials have been in very close contact with the UK Government, sometimes on an hourly basis, but certainly on a daily basis since the beginning of the crisis, and that's been a really, really useful mechanism for sharing information and, on occasion, getting advance notice of announcements that the UK Government intends to make."⁶

16. However, the Minister went on to explain:

"I think it's fair to say that we don't always get advance notice of those allocations that the UK Government intends to make and any subsequent consequential funding that might flow to Wales as a result of that..."⁷

17. In that session the Minister also discussed how well the mechanisms for financing were working during the crisis, in particular the Barnett formula. The Minister stated:

"I think that it's important to recognise that there are particular challenges in different parts of the UK, so in terms of population, we have some specific vulnerabilities relating to the fact that we have a relatively larger share of older people in the population, and, of course,

⁵ Welsh Government, Supplementary Budget 2020-2021 Explanatory Note, May 2020

⁶ Finance Committee, Record of Proceedings, 21 May 2020, Paragraph 6

⁷ Finance Committee, Record of Proceedings, 21 May 2020, Paragraph 6

we have a relatively larger share of poor health and poverty. But on the other hand, population density is generally lower in Wales, we have fewer larger cities and we have lower levels of use of public transport. All of those things, in one way or another, have been linked to the coronavirus outbreak, so how those will transpire and balance out remains to be seen, I think.”⁸

18. The Minister went on to say that Wales’ economy had particular vulnerabilities in terms of tourism but that the sector had benefited from Welsh and UK Government support.⁹

19. The Chancellor of the Exchequer’s announced on 24 March 2020 that the Comprehensive Spending Review (CSR) would be “delayed from July to enable the government to remain focused on responding to the public health and economic emergency”¹⁰. The Minister detailed that there was no certainty over the timing of the CSR, but hoped it would take place later this year.¹¹

20. The Minister was asked if a deviation across the UK in exiting lockdown could result in issues with a lack of consequential coming to support the Welsh Government, the Minister explained:

“I think we’re still very much at an early stage in the pandemic and how the situation in Wales differs from that across the border, I think will obviously be seen in due course. But, you know, we’ve had a more cautious approach to moving from lockdown as compared to England. We’re asking ourselves what that means for us in Wales in terms of the economic impact, but, equally, what does a faster move out of lockdown in England mean from a public health perspective? So, you get economic costs; you also have health and public health costs, which inevitably have a knock-on effect on NHS funding as well. So, I think that there are so many different sides to this.”¹²

21. The Minister expanded on arrangements should there be another COVID-19 spike:

“...we don’t yet know what path the pandemic might take, which is why it’s so important that we’re able to respond in an agile way and have

⁸ Finance Committee, Record of Proceedings, 21 May 2020, Paragraph 31

⁹ Finance Committee, Record of Proceedings, 21 May 2020, Paragraph 32

¹⁰ UK Government, [Comprehensive Spending Review 2020 representations: guidance](#)

¹¹ Finance Committee, Record of Proceedings, 4 June 2020, Paragraph 142

¹² Finance Committee, Record of Proceedings, 4 June 2020, Paragraph 145

those flexibilities from the UK Government. Because we want to make the most of the resources that we have rather than relying on consequential funding that may or may not come. So, we need several things, really; we need all those flexibilities that I've talked about before, but also a more open discussion, I think, with colleagues in the UK Government about their planned spending, so that we can factor that into our plans, as well. But, I think, inevitably there will need to be additional funding for health, for things such as the test, trace, protect scheme, even if there's not a second or third peak."¹³

Committee view

22. The Committee notes that characteristics of the population in Wales, such as the higher proportion who are elderly; and the number of jobs in tourism and hospitality services may mean the impact of COVID-19 is greater in Wales than in other UK countries. Whilst the exact impacts of these population characteristics are unknown, the Committee notes that this has the potential to increase costs in dealing with the pandemic in Wales.

23. The Committee is encouraged to hear that the Minister feels that communication between UK and Welsh Government officials is good, but also notes that this is not necessarily consistently the case and is disappointed that this is not replicated at Ministerial level. The Committee believes it is important that the Welsh Government is informed of key announcements that impact Welsh people and businesses, such as changes to the Job Retention Scheme, in a timely way that enables the Welsh Government to plan complimentary policies more efficiently and effectively.

24. The Committee has concerns that the COVID-19 response has highlighted systemic issues where inter-governmental crisis co-ordination appears to be inefficient or inadequate, particularly in terms of communication and financing. The Committee intends to explore this further with the Secretary of State and in the Committee's upcoming inquiry looking at the operation of the fiscal framework.

Recommendation 1. The Committee recommends that the Welsh Government continues to monitor and explore whether consequentials received through the Barnett formula are reflective of the needs of Wales, particularly in light of COVID-19.

¹³ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 100

Recommendation 2. Should consequentials not adequately reflect the needs of Wales in light of COVID-19 the Committee recommends that the Welsh Government confirm with UK Government alternative funding options as a matter of urgency.

Recommendation 3. The Committee recommends that the Welsh Government insists that the UK Government provides as much information as promptly as possible, on any UK Government announcement that affects Wales, its residents and/or the businesses that operate here.

Prioritisation

Repurposing budgets

25. The Explanatory Note details that Ministers have taken action to reallocate funding, or repurpose within their existing budgets, to respond to the COVID-19 pandemic. As a result, £256m has been returned to the central reserve.

26. The Explanatory Note highlights that the Welsh Government has sought to identify where funding cannot be used for its intended purposes and could be deferred to a later date. This includes:

- £114m within Health and Social Services,
- £50m within Economy and Transport,
- £46.6m within Education,
- £24m from Environment, Energy and Rural Affairs,
- £15.4m from International Relations and the Welsh Language,
- £5m within Housing and Local Government,
- £1.4m from Central Services and Administration.

27. There has also been over £110m reprioritised within MEGs.

Reduction in funding

28. The Minister discussed reductions in funding to certain bodies, specifically the Higher Education Funding Council for Wales (HEFCW) and Natural Resources Wales (NRW). The Minister explained that

“HEFCW and NRW do face significant challenges, but you’ll see in the supplementary budget that those particular areas where they were cut were cut due to specific streams of work not being able to be taken forward”.¹⁴

29. Specifically, referring to NRW the Minister’s official added:

¹⁴ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 28

“... our understanding is that the reduction is a reflection of the impact on programme delivery because of the restrictions, and the requirements around working from home. So, it's not a reduction to activity that could be undertaken at this point in time. And so programmes such as the flood protection programmes are being protected within that envelope.”¹⁵

30. The Committee went on to discuss the impact that loss of income might have on bodies such as NRW when combined with reductions in funding. While the Minister noted that loss of income had been discussed for other sectors, the Minister advised that she was yet to have conversations with the Minister for Environment, Energy and Rural Affairs regarding such concerns.¹⁶

Recovery from COVID-19

31. The First Minister has appointed the Counsel General and Minister for European Transition to lead the Welsh Government's work around recovery from the COVID-19 pandemic. The Counsel General will:

“...oversee the coordination of the work inside the Welsh Government to respond to the crisis and draw in expertise and experience from outside Government itself to ensure our preparations for future recovery are creative and comprehensive.”¹⁷

32. During the Committee's session on the Welsh Government's financial response to the COVID-19 pandemic on 21 May 2020, the Minister noted that she was working with the Counsel General and that she considered work around recovery from the pandemic and the Welsh Government budget as “parallel”. The Minister went on to say:

“...the choices and the opportunities that we will have moving out of lockdown and through to the recovery will very much depend on the financial choices that we make now. And the difficult decisions that we will have to make in terms of allocating funding in the immediate term to respond to the crisis, but then also those choices that we will need to make—I'm thinking here of the economic resilience fund, for

¹⁵ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 31

¹⁶ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 33

¹⁷ Welsh Government, Written Statement: Written Statement: COVID-19 – Preparing for Recovery, 22 April 2020

example—more strategically about where we invest in future and what kinds of areas we invest in.”¹⁸

33. The Explanatory Note details that the Welsh Government is seeking to ensure that the positive impacts emerging from the pandemic are captured, such as new models of service delivery and positive environmental impacts. The Explanatory Note states:

“This includes more sustainable ways of working and travelling, flexibilities for using IT in businesses, services and education, a stronger emphasis on voluntary and community action and the positive impacts on biodiversity and air quality.”¹⁹

34. The Minister previously told the Committee that the Welsh Government was part of a well-being economy network and is working with New Zealand, Scotland, Iceland and Finland. This group is exploring how best to “come to a recovery that meets all of our aspirations...a green recovery, a socially responsible recovery”.²⁰

35. The Minister acknowledged that the recovery from COVID-19 would be considered “into the next financial year and probably further beyond that”²¹ and recognised that there needed to be adequate funding to support recovery plans.

36. The Minister said that the Welsh Government’s approach to recovery from COVID-19 is being discussed with the Counsel General to ensure that current funding decisions do not result in limited choices later “in the sense of creating the recovery that focuses on particular sectors that are at particular risk and which will find things more difficult for longer.”²²

Committee view

37. The Committee recognises that the Welsh Government has had to make swift decisions in terms of priorities and options to release funding in order to respond to the current pandemic. This Supplementary Budget has provided additional information highlighting areas where funding has been reprioritised and this detail is very welcome. Additionally, the Minister provided the Committee

¹⁸ Finance Committee, Record of Proceedings, 21 May 2020, paragraph 10

¹⁹ Welsh Government, Supplementary Budget 2020-2021 Explanatory Note, May 2020

²⁰ Finance Committee, Record of Proceedings, 21 May 2020, paragraph 94

²¹ Finance Committee, Record of Proceedings, 4 June 2020, Paragraph 43

²² Finance Committee, Record of Proceedings, 4 June 2020, Paragraph 41

with details of the assurances undertaken within the Welsh Government when budgetary decisions are made.

38. The Committee notes that a number of public bodies will see reductions in the amount of income they will be able to raise this year. Some organisations, such as NRW, have also seen reductions in funding in this Supplementary Budget. The Committee recognises that difficult choices have been made by the Welsh Government in reprioritising funding. However, the Committee expects that ongoing dialogue is undertaken with these organisations so that the overall financing organisations have available informs any assessments regarding any further funding allocated from or to COVID-19 reserve.

39. The Committee welcomes the detail provided by the Minister on her interactions with the decision making of other Ministers. The Committee would appreciate more information on how the Minister's role will interact with the Counsel General, in terms of impact assessing and overseeing funding allocations for the wider impact of proposed policies to relax lockdown and support businesses, the public sector and individuals.

40. The Committee notes the Welsh Government's membership of the Well-being Network and would welcome more information on this network and its work.

Recommendation 4. The Committee recommends that an update is provided on the role of the Counsel General and how the Counsel General's work on COVID-19 recovery dovetails with the Minister's planning for the rest of this financial year and 2021-22.

Recommendation 5. The Committee would welcome details of the discussions undertaken with public sector organisations facing significant reductions in income this year, and recommends that the Committee is provided with details of how the Welsh Government has worked with these organisations to mitigate the impact of the reductions.

Financial powers and reserves

41. The Supplementary Budget includes the following reserves:

- £148 million fiscal resource;
- £177 million general capital; and
- £50 million financial transactions capital

42. The Minister had previously indicated that the Welsh Government was undertaking an “exercise on capital, looking at what we can be seeking to reprioritise on the capital front or seeking to put forward for that capital revenue switch, should the UK Government agree to it”.²³

43. Providing an update, the Minister explained that each department was looking to bring “forward funding to either a capital reserve or a capital to revenue switch, which was still being negotiated with the [UK] Treasury”.²⁴

44. In considering how much funding could be switched from capital to revenue, the Minister said the Welsh Government would consider increasing borrowing to £150m, although a precise figure on the capital to revenue switch was not available to share.²⁵

45. Expanding on possible funding changes, the Minister said:

“I think there are several potential scenarios. So, one could be that projects might go ahead as planned in a budgetary sense, but actually might be reprofiled over a longer period. So, it could free up money early on, but those projects then would still continue or might continue at a different pace.

But at the same time ... every penny that we switch from capital to revenue is money that we're not investing in that work on infrastructure and all other kinds of capital spend, which is so important in terms of the recovery.”²⁶

²³ Finance Committee, Record of Proceedings, 21 May 2020, paragraph 118

²⁴ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 59

²⁵ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 63 and 64

²⁶ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 69 and 70

46. Any capital to revenue changes would be reflected formally in the second supplementary budget, but the Minister committed to providing details when information is available.²⁷

Committee view

47. The Committee welcomes the Welsh Government's efforts to ensure that existing reserves are in place as a contingency for any further peaks of COVID-19 this financial year, or where needs in Wales could require funding different policy directions to elsewhere in the UK.

48. The Committee notes that the Welsh Government is seeking powers to transfer existing capital to revenue. However, the wider impacts of decisions to cancel or defer capital projects must be fully considered and explored before such a decision is taken.

49. The Committee notes that fiscal rules for sub-national governments have been relaxed in countries such as Germany and Spain in response to COVID-19, and agrees that the Welsh Government needs more flexibility, particularly in relation to relaxing annual limits to the Welsh Reserve and also capital borrowing within existing overall limits.

50. The Committee notes the Welsh Government's arguments for increasing its overall £1bn capital borrowing limit "to further support its capital programmes this year if necessary and to aid the economic recovery over the longer term".²⁸

51. The Committee welcomes the Minister's commitment to provide an update on any future capital to revenue switch, prior to the second supplementary budget. The Committee would welcome details of potential capital workstreams that are planned to be switched to revenue and the value of funding released.

Recommendation 6. The Committee agrees with the Minister's view on needing flexibility regarding increasing annual limits relating to Welsh Government borrowing and reserves. The Committee recommends that the Welsh Government provides an update to the Committee on its discussions with HM Treasury regarding flexibilities in borrowing and reserves.

²⁷ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 61

²⁸ [Written evidence from the Welsh Government to the Welsh Affairs Committee inquiry – The Welsh economy and Covid-19, May 2020](#)

Recommendation 7. The Committee recommends that an update is provided on the Welsh Government's discussions with HM Treasury regarding the ability to switch capital to revenue when discussions have been finalised.

Recommendation 8. The Committee recommends that the basis on which funding is reallocated from capital to revenue projects should be clear, and accompanied by the relevant impact assessments.

Recommendation 9. When providing information on the projects that have been delayed/deferred in order to switch capital to revenue, the Committee recommends that the Welsh Government provides details on the workstreams and the value of funding being released.

Allocations

Health and Social Services

52. The Explanatory note states:

“Our first priority has been to ensure our healthcare system is able to cope with the unprecedented strain the pandemic is placing on it. We have provided additional funding to increase our normal capacity and give the NHS the tools it needs.”²⁹

53. The allocations for Health and Social Services reflect:

- £20.9m fiscal resource to the Core NHS Allocations BEL in respect of the Immigration Health Surcharge (reflecting broadly the transfer from the Home Office);
- £574.2m of the £2.461bn fiscal resource in response to COVID-19, of which key allocations include funding for field hospitals (£166m), staffing (£91m), Personal Protective Equipment (PPE) (£100m) and other additional NHS equipment and consumables (£21.3m); and
- £113.9m repurposed within the MEG and returned to the central reserve, including £69m for Core NHS Allocations and £30m for the Childcare Offer for Wales. This represents over 40 per cent of the total for all MEGs, £256.3m.

54. The Minister's official on 21 May 2020 stated:

“... it's pretty clear that the health service is going to need substantial additional funding throughout the year, and that has a big implication for the whole of the Government; it's not just a health system issue.”³⁰

55. The Supplementary Budget includes additional allocations to increase healthcare capacity, including £166m to set up, construct and equip the 19 field hospitals in Wales and £30m to use all six private hospitals in Wales. £91 million has been made available to “maximise the service contribution which can be made by healthcare students and those returning to service...to mitigate against

²⁹ Welsh Government, Supplementary Budget 2020-2021 Explanatory Note, May 2020

³⁰ Finance Committee, Record of Proceedings, 21 May 2020, paragraph 74

the significant number of staff that will be unable to attend work and provide vital support as we rapidly increase our capacity across the NHS"³¹.

56. The Minister noted that, in setting its budget assumptions, the Welsh Government had been "very mindful of that reasonable worst-case scenario"³². The Minister said that ongoing discussions are taking place with the NHS to identify what support is needed to deal with the unprecedented strain being placed on its response to COVID-19, and additional funding is provided in the Supplementary Budget to support the health service.³³

57. The Minister's official provided additional detail on the communications with local health boards, referring to the challenges of restarting normal health service activities and maintaining capacity for any future COVID-19 peak.³⁴ The Minister's official reported that Welsh Government NHS finance staff were working with local health boards in respect of possible scenarios³⁵.

58. Providing further detail on the funding for health staff, the Minister stated that current projections were that additional staffing may cost £96m for the first six months (rather than the allocated £91m) and the funding provided for costs relating to employing students, NHS return workers, bank and agency workers and overtime costs.³⁶

59. The Minister stated that NHS staffing costs beyond the initial six months, and the requirement to maintain higher staffing levels, would need to be discussed with the Minister for Health and Social Services.³⁷

60. The Minister confirmed that the £91m also includes the staffing costs of the field hospitals.³⁸ The Minister reported that the Minister for Health and Social Services provided evidence to the Health, Social Care and Sport Committee "setting out that he thinks that we need to keep this provision [the field hospitals] in place to ensure that it's there should we require it for a second or third peak later on in the year".³⁹

³¹ Welsh Government, Supplementary Budget 2020-2021 Explanatory Note, May 2020

³² Finance Committee, Record of Proceedings, 4 June 2020, paragraph 93

³³ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 93

³⁴ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 96

³⁵ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 96

³⁶ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 102

³⁷ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 104

³⁸ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 106

³⁹ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 107

61. Referring to the field hospitals, the Minister indicated that “decommissioning for the Principality hospital is included in the funding that we see in this first supplementary budget”, but decommissioning costs of other field hospitals are not included in this supplementary budget and that officials were working on the related costs.⁴⁰

62. In relation to the £57m included in the Supplementary Budget to support the Welsh Government's ‘Test Trace Protect’ Strategy (the Strategy) the Minister stated that this funding was not solely for the procurement of tests but rather other aspects of the Strategy. The Minister said:

“It’s my belief that further funding will absolutely be required for this, because £57 million is, basically, the start-off cost to start this particular project, which could be—well, it will be huge and significant over time.”⁴¹

63. The Minister noted that, while it was uncertain, the Welsh Government could potentially receive additional resources from the UK Government as a result of related funding decisions at the UK Department of Health and Social Care.⁴²

Local Authorities

64. The Welsh Local Government Association (WLGA) has indicated that local authorities face extra costs of £33 million per month in loss of income and increased demand due to the coronavirus crisis.

65. In evidence to the Health, Social Care and Sport Committee, the WLGA outlined that local authorities face a £173m deficit.⁴³

66. The Explanatory Note details that £188.5m has been made available through the Local Authority Hardship Fund. This includes £78m to support local government for the loss of income as a result of COVID-19⁴⁴. The Minister said this funding was:

“...determined through discussion with local authorities in terms of them demonstrating the income they would lose but then netting off what they think that they might be able to make up later in the year.

⁴⁰ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 109

⁴¹ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 118

⁴² Finance Committee, Record of Proceedings, 4 June 2020, paragraph 119

⁴³ Health Social Care and Sport Committee, Record of Proceedings, 21 May 2020, paragraph 73

⁴⁴ Welsh Government, Supplementary Budget 2020-2021 Explanatory Note, May 2020

And that funding will be drawn down from the pot, so it's not an allocation that we hand out to local authorities; local authorities draw it down when they're able to demonstrate the income lost."⁴⁵

67. When questioned on how funding would be allocated to communities most hard hit by the COVID-19 pandemic the Minister explained that the Welsh Government is attempting to ensure that funding is based on need.⁴⁶

68. The Welsh Government also brought forward May and June settlement payments to local authorities to support cash flow.⁴⁷ Amounting to an advance of £526m. The Minister described that the remaining nine months' settlement funding has been "reprofiled over the remainder of the year".⁴⁸

69. The Minister noted that local government will be important partners in the recovery from COVID-19 – particularly as "local government can borrow in a way that Welsh Government simply can't".⁴⁹

Economy and Business

70. The Explanatory Note cites evidence from the OBR and Bank of England that the pandemic will result in immediate reduction in economic activity "unprecedented in living memory". It goes on to say:

"The effects of the pandemic are impacting on all parts of the Welsh economy. Latest data shows one fifth of businesses had temporarily closed by early-May. An Office for National Statistics snap survey estimates that 66% of businesses in Wales have experienced a fall in turnover. This is the highest share of all UK nations. 80% of businesses in Wales have also applied for the UK Government Coronavirus Job Retention Scheme."⁵⁰

71. The Explanatory Note states that the Welsh Government has deployed £1.7bn (including £100m capital) of measures to support the economy, equivalent to 2.7 per cent of Welsh Gross Value Added (GVA) in 2019-20. This includes:

⁴⁵ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 124

⁴⁶ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 126

⁴⁷ Plenary, Record of Proceedings, 29 April 2020, paragraph 288

⁴⁸ Finance Committee, 4 June 2020, paragraph 13

⁴⁹ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 154

⁵⁰ Welsh Government, Supplementary Budget 2020-2021 Explanatory Note, May 2020

- The £500m Economic Resilience Fund (ERF)
- More than £1bn (distributed by local government) in non-domestic rates relief and grants to businesses in the retail, leisure and hospitality sectors.

72. The Minister commented on work the Welsh Government was already undertaking in certain areas, noting that:

“So, this, I think, makes it even more incumbent on us to accelerate the work that we were doing in terms of the foundational economy and in terms of refocusing our work in terms of town centres—so, the town centre first policy, for example, in terms of where we site Welsh Government and other public sector services in future to increase the footfall and so on.”⁵¹

73. Commenting on the ERF, the Minister noted:

“...in terms of the economic resilience fund, there were two parts to it. There was the £100 million Development Bank of Wales loan funding and then also the £400 million grant funding. So, the loan funding has already approved over 1,300 loans, totalling over £100 million, and that's been able to safeguard 15,000 jobs, which is really, really positive, and bearing in mind there's nothing—this is over and above what has been provided by the UK Government. But then in terms of the grant element of the economic resilience fund, it saw over 9,500 claims submitted in just over a week...”⁵²

74. The Minister went on to describe that plans were being made for the next round of funding:

“... we've had some discussions this morning between myself, Ken Skates and the Counsel General, talking about exactly that, in terms of where we focus the current funding or the next round of funding, and then how we make sure that the decisions we take now don't mean that our choices are limited later, in the sense of creating the recovery that focuses on particular sectors that are at particular risk and which

⁵¹ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 126

⁵² Finance Committee, Record of Proceedings, 21 May 2020, paragraph 109

will find things more difficult for longer. But then also that green recovery, which we've spoken about as well."⁵³

75. The Minister said a formal evaluation of the first phase of ERF is being undertaken.⁵⁴

76. The Welsh Government has also offered business rates relief to retail, leisure and hospitality businesses with a rateable value of under £500,000. In May 2020, the Committee asked the Minister about the eligibility criteria. The Minister explained:

"... there will be some supermarkets that are under the £0.5 million mark that are doing very well indeed, but the point is we were responding in a crisis situation and needing to work very quickly to put in place a package of support for business. On the whole, the tourism sector, hospitality sector, retail sector have been hit very badly, but there are several businesses that are doing very well indeed as a result of being able to continue to operate."⁵⁵

77. The Minister explained that the system was a result of the Welsh Government wanting to balance "being able to do something very quickly to support a large number of businesses", but went on to say "but, inevitably, when something is that blunt, the difficulties will be there".⁵⁶

Flooding

78. When scrutinising the Second Supplementary Budget 2019-20, the Committee considered the Welsh Government's response to the flooding experienced across Wales in the early part of 2020 and concluded:

"Whilst the Supplementary Budget includes transfers out of Flood Risk and Water Management, the Committee notes the Minister's intentions to provide an emergency relief scheme to support those who have been impacted by the flooding in early 2020. The Committee recognises the Minister's actions in providing financial help and would be supportive of an need to utilise s128 powers."⁵⁷

⁵³ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 41

⁵⁴ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 143

⁵⁵ Finance Committee, Record of Proceedings, 21 May 2020, paragraph 104

⁵⁶ Finance Committee, Record of Proceedings, 21 May 2020, paragraph 105

⁵⁷ Finance Committee, Scrutiny of Welsh Government Second Supplementary Budget 2019-2020, February 2020

79. The Committee asked whether any reprioritisation in light of COVID-19 had impacted on allocations for flooding, the Minister said:

“Flooding allocations, I definitely see as life-and-limb allocations, but alongside that, of course, we have the ongoing discussions with the Treasury regarding the floods that we had earlier on this year. So, we’re finally coming to a figure now with local authorities and a profile over a number of years in terms of the additional funding that will be required from Treasury because they’ve previously given that commitment to providing that funding. So, as I say, we’re almost at the stage now where we have nailed down exactly what the quantum is and the period of time over which it’s needed, and I will be addressing this again with the Chief Secretary shortly to hold them to that promise.”⁵⁸

Committee view

80. The Committee appreciates the speed at which the Welsh Government has responded in allocating additional funding to support health and social care services. However, it would welcome further information in respect of the changes in funding for core NHS services, particularly the allocations to local health boards.

81. The Committee recognises that the situation with COVID-19 is unresolved and that future demands on the health service are unknown. The Minister demonstrated that the Welsh Government is in regular discussion with local health boards through its established monitoring and reporting mechanisms. The Committee welcomes this and the confirmation that Welsh Government officials are working with local health boards in respect of scenario planning for the range of potential additional costs.

82. The Committee welcomes the conversations taking place between the Welsh Government and local government bodies. The Committee recognises that local government has been key in ensuring that certain policies and strategies are implemented.

83. The Minister told the Committee that she expected Local Government to be important partners in the COVID-19 recovery as they can borrow in a way the Welsh Government cannot. The Committee is interested in how the Welsh Government envisages local government bodies will continue to use their

⁵⁸ Finance Committee, Record of Proceedings, 4 June 2020, Paragraph 82

borrowing powers and reserves. In particular, how the Welsh Government is factoring this into future funding for local authorities.

84. The Committee notes the approach that the Welsh Government has taken to providing support to businesses, particularly in terms of business rates, and the balance it has attempted to strike between providing support quickly and to a large number of businesses.

85. The Committee notes the steps being taken to support the economy so far amid the pandemic, but believes it will be vital to provide additional support as part of the COVID-19 recovery and would urge the Welsh Government to work with local authorities and relevant stakeholders to ensure adequate support is provided.

86. The Committee was interested to hear that a formal evaluation of the first phase of the ERF was under way, although hadn't yet reported. The Committee will be keen to see the results of this review and how it is used to inform the future strategies of the Welsh Government in this area.

Recommendation 10. The Committee recommends that the Welsh Government provides further information about the actual and projected additional costs for local health boards as a result of COVID-19 measures and the allocations to be made to them as a result of the increase in funding reflected in the Supplementary Budget.

Recommendation 11. The Committee recommends that, once the estimates have been derived, the Welsh Government provides information in respect of the costs of decommissioning all field hospitals.

Recommendation 12. The Committee agrees that additional funding is required to support the Welsh Government's 'Test Trace Protect' Strategy and recommends that additional information is provided in respect of the strategy. This should include information about 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.

Recommendation 13. The Committee recommends that the Welsh Government accelerates work to support local economies. Town centres will be impacted longer term by changes in retail habits, and the Committee is keen to understand how this work will be refocussed to take into account current circumstances.

Recommendation 14. Once discussions with local government and HM Treasury have concluded the Committee recommends that the Welsh Government provide the Committee with a full breakdown of the additional funding for flooding and how it intends to allocate that funding.

Climate Emergency

87. On 29 April 2019, the Minister for Environment, Energy and Rural Affairs declared a 'Climate Emergency' in Wales.⁵⁹

88. A key Welsh Government priority during the setting of the 2020-21 budget was climate change and policies aimed to address the declaration of a climate emergency. The draft Budget 2020-21 narrative stated that the Welsh Government is providing a "new package of more than £140m of capital funding to support our ambitions for decarbonisation and to protect our wonderful environment".⁶⁰

89. This Supplementary Budget details the Welsh Government's intentions to capture positive environmental impacts emerging from the pandemic, including:

"...more sustainable ways of working and travelling, flexibilities for using IT in businesses, services and education, a stronger emphasis on voluntary and community action and the positive impacts on biodiversity and air quality."⁶¹

90. Whilst some funding for climate and environmental activities has been reprioritised, the Supplementary Budget notes that a number of the reductions in the Environment, Energy and Rural Affairs portfolio relate to event costs that are now not happening, or where activity could be managed with reduced funding, and "it is therefore not intended that these reductions will impact on the delivery of our response to the climate emergency".⁶²

91. The Minister reiterated the Welsh Government's commitment to climate change:

"The First Minister's been quite clear that his work that he particularly is passionate about on decarbonisation and biodiversity are very much priorities ... clearly the climate change agenda is absolutely critical, as are the opportunities, I think, that we have for that green recovery, and I know this is something that Jeremy Miles is really putting some strong focus on in his round-table discussions and the work that he's doing in

⁵⁹ Written statement: [Welsh Government declares Climate Emergency](#)

⁶⁰ Welsh Government, [Draft Budget 2020-21 narrative, 16 December 2019](#)

⁶¹ Welsh Government, Supplementary Budget 2020-2021 Explanatory Note, May 2020

⁶² Welsh Government, Supplementary Budget 2020-2021 Explanatory Note, May 2020

terms of exploring opportunities for the kind of recovery that we want.”⁶³

92. Whilst the active travel budget lines remain constant in the Supplementary Budget, in May 2020 the Welsh Government announced that it had invited local authorities “to put forward expressions of interest to introduce temporary measures to improve the safety and conditions for sustainable and active travel modes in their area”⁶⁴. The Minister explained that expressions of interest had been received from all local authorities, with over 200 proposals submitted, but “the expectation is that those would be met from existing transport capital budgets”.⁶⁵

Committee view

93. The Committee is pleased that the Welsh Government is committed to alleviating climate change. The Committee heard from the Minister that the economic recovery from COVID-19 needs to be sustainable, with a focus on a green recovery, and ensuring that climate change policies and projects will retain a high priority when capital funding projects are reprioritised.

94. The Committee recognises that the current pandemic provides an opportunity to change the way people travel and welcomes the Welsh Government’s engagement with local authorities to implement changes. However, to demonstrate a real commitment to embedding positive changes and supporting a modal shift away from car use, the Committee believes that additional funding may need to be provided to support local authorities and public transport providers.

Recommendation 15. The Committee recommends that the Welsh Government provide further information as to how funding is being reprioritised to focus on a green recovery from COVID-19.

Recommendation 16. The Committee recommends that the Welsh Government provide information on how much additional funding will be given and how it will be allocated to support local authorities in embedding positive transport changes.

⁶³ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 79

⁶⁴ Written Statement: [Funding for local sustainable transport measures in response to Covid 19](#)

⁶⁵ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 87

EU transition period

95. The Committee questioned how the Supplementary Budget provides flexibility to support businesses as the date for the end of the EU transition period approaches. The Minister recognised the potential economic challenges leading up to the end of the transition period, and noted that the Welsh Government had in-year contingency funding held back until there is further clarity.⁶⁶

Committee view

96. The Committee recognises that responding to COVID-19 has necessitated an urgent and substantive response and notes that the Minister has referred to contingency funding being held to respond to the expiry of the EU transition period.

97. The Committee notes that there is considerable uncertainty regarding the position after the end of the EU transition period and, therefore, the Welsh Government will have to plan for a number of possible scenarios. The Committee believes that the Welsh Government needs to be more explicit in terms of what scenarios it is planning for and what funding needs are associated with these scenarios. The UK Government has an important role to ensure that the Welsh Government has sufficient resource through the Shared Prosperity Fund.

98. The Committee is concerned that the COVID-19 pandemic severely restricts the Welsh Government's staff and financial resources available to prepare for the end of the EU-transition period, and its ability to support agriculture, businesses and citizens with potential changes.

Recommendation 17. The Committee recommends that the Welsh Government is more explicit in terms of planning scenarios that are being considered for the end of the EU transition period and the associated funding that is needed.

⁶⁶ Finance Committee, Record of Proceedings, 4 June 2020, paragraph 157

Directly funded bodies

99. The Supplementary Budget motion proposes a variation to the budgets of two bodies directly funded from the Welsh Consolidated Fund (WCF). The Committee considered these requests at its meeting on [21 May 2020](#).

100. The 2020-21 budgets for the Senedd Commission and the Public Services Ombudsman for Wales (PSOW) adopted a new Accounting Standard, International Financial Reporting Standard (IFRS) 16, for the 2020-21 financial year. IFRS 16 requires all leases to be accounted for on a consistent basis and applies to public sector bodies required to prepare their accounts in compliance with the Financial Reporting Manual (commonly known as the FReM).⁶⁷

101. In anticipation of IFRS 16 coming into effect in April 2020, the 2020-21 budgets for the Senedd Commission and PSOW contained two budget proposals, including and excluding the effects of IFRS 16. However, the agreed budgets for both organisations, as included in the [final budget 2020-21](#), included the effects of IFRS 16.

102. As a result of the UK Treasury's decision to defer the implementation of IFRS 16 until April 2021, both the Senedd Commission and the PSOW have submitted supplementary budgets to reverse the impact of IFRS 16 adjustments for this financial year.

Senedd Commission

103. The [Senedd Commission's supplementary budget for 2020-21](#) seeks to decrease its resource budget by £1.836 million. The revised budget figure is the same as the figure in the 'pre-IFRS 16' column set out in the [Senedd Commission's budget 2020-21](#).

Public Services Ombudsman for Wales

104. The [PSOW's supplementary budget for 2020-21](#) reduces its resource budget by £16,000, reverting to the 'before IFRS 16 accounting' figure included in the [PSOW's draft Estimate 2020-21](#).

⁶⁷ [Government Financial Reporting Manual: 2020-21](#)

Committee view

105. The Committee notes the accounting adjustments requested in the supplementary budget requests of the Senedd Commission and PSOW, following the UK Treasury's decision to defer the implementation of IFRS 16 until 1 April 2021.

Conclusion 1. The Committee is content with the variation to the budgets for the Senedd Commission and the Public Services Ombudsman for Wales.