

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref MA-RE-1070-23

Peredur Owen Griffiths MS
Chair, Finance Committee
Senedd Cymru
Cardiff Bay
CF99 1NA

26 April 2023

Dear Peredur,

Thank you for your Committee's scrutiny of the Second Supplementary Budget 2022-23 and the report that followed.

I attach a written response to the recommendations made which I hope you find useful.

Yours sincerely,

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Correspondence.Rebecca.Evans@gov.wales
Gohebiaeth.Rebecca.Evans@llyw.cymru

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

WELSH GOVERNMENT RESPONSE TO RECOMMENDATIONS FROM THE FINANCE COMMITTEE REPORT:

SCRUTINY OF WELSH GOVERNMENT SECOND SUPPLEMENTARY BUDGET 2022-23

APRIL 2023

Recommendation 1

The Committee recommends that the Welsh Government should provide information about the in-year balance in the Wales Reserve as part of documentation accompanying all future budgetary proposals laid before the Senedd.

Response: Accept

All Welsh Government budgets provide information on utilisation of the Wales Reserve.

Recommendation 2

The Committee recommends that the Minister provides details of any significant last-minute allocations made between now and the end of the financial year as a result of an agreement being reached on public sector pay awards, or for any other reason, and for such information to be provided before the First Supplementary Budget 2023-24 is laid.

Response: Accept

No significant allocations were made following the second supplementary budget. Reserves have been earmarked to support the costs associated with the enhanced NHS pay award offered on 20th April. Further details will be provided when the outcome of trade union members' ballots on this offer are known.

Recommendation 3

The Committee recommends that the Minister continues in her efforts to persuade the UK Government to increase the size of the Wales Reserve and borrowing limits so they are at least in line with inflation, with the aim of providing sufficient flexibility, similar to that afforded to local authorities, to allow prudent

budgetary management from one financial year to the next in order to maximise the funding available to the Welsh Government.

Response: Accept

As set out in our response to the Finance Committee's report on Scrutiny of the Welsh Government Draft Budget 2023-24, the fiscal levers currently available to the Welsh Government limit our ability to respond quickly to emerging needs, leaving us dependent on decisions made by the UK Government and exposed to the impact of the timing of those decisions. The Institute for Fiscal Studies (IFS) has previously highlighted the case for enhanced reserve powers in Wales and for drawdown limits to be increased, if not abolished. It is the view of the IFS that the existing limits on the total amount that can be held in reserves should, at the very least, be indexed in some way to account for growth in devolved spending and tax revenues.

In its Interim Report, the Independent Commission on the Constitutional Future of Wales noted that the most immediate practical financial issue arises from the restrictions applied by HM Treasury to the Welsh Government's management of its budget. It noted that the Welsh Government's ability to borrow for capital investment and to carry over capital spending between financial years, is constrained by limits set in 2016-17; any requests for flexibility are required to be put to HM Treasury on a case-by-case basis, which is time-consuming and resource intensive. It also stated that it is hard to see why these constraints are needed, given that the Welsh Government is accountable to the Public Accounts Committee of the Senedd for its stewardship of public expenditure.

Welsh Government Ministers have long made representations to the UK Government for additional fiscal flexibilities here in Wales and the First Minister raised the specific issue of uprating the limits in the fiscal framework at last autumn's Prime Minister and Heads of Devolved Governments Council meeting. We continue to press the UK Government for additional fiscal flexibilities, through the appropriate channels, including the Finance: Inter-ministerial Standing Committee (F:ISC) and through bilateral meetings with the Chief Secretary to the Treasury.

Recommendation 4

The Committee recommends that the Welsh Government puts controls in place to ensure that its delivery partners receive as much clarity as possible regarding their financial position from one year to the next, given that the impact of any financial implications arising from key pay awards remains unknown.

Response: Accept

The Welsh Government is committed to working in partnership with its delivery partners and uses extensive and various means to ensure delivery partners have clarity in respect of their financial positions. Where appropriate, planning assumptions are provided and updated as necessary.

It is always our aspiration to provide longer-term budgets for our partners and stakeholders when possible, but a significant factor in setting multi-year budgets is the timeframe of our own budget settlement. In 2021, the UK Government provided a multi-year settlement for Wales and we in turn provided this certainty for our stakeholders, providing funding allocations up to 2025.

Details of any changes to our settlements, either positive or negative, are provided at the earliest opportunity to provide as much certainty as possible to our partners and stakeholders. In that spirit, as a Government, we have committed to publishing our Draft Budget within four weeks of the UK Government fiscal event to provide that certainty where possible.

We also recognise that our local authority partners have a statutory requirement to set their budgets before 11th March each year and therefore consider that the Welsh Government's Annual Budget should be agreed prior to 11th March and we continue to engage closely with our local authority partners to ensure we meet this commitment.

Welsh Government believes all public sector workers should be fairly rewarded for the important work they do. Unlike the UK Government, we have had intense discussions and worked in social partnership to find a resolution.

Unfortunately, our financial settlement falls far short of what is needed to meet the very significant challenges faced by our public services and workers across Wales.

We continue to call on the UK Government to invest in public services and public sector staff, and share information with regards to the implications of any pay offer transparently and swiftly to inform budget processes.

Our ability to provide certainty to our partners is limited in the absence of that information and funding, however we continue to engage constructively with our trade union partners on this critical issue.

In respect of NHS pay awards, the Health Board allocation letters for 2023-24, issued in December 2022, specified that the impact of NHS pay awards in 2023-24 would be met separately, once awards were decided.

Recommendation 5

The Committee recommends that:

- **measures are taken by the Welsh Government to ensure that each Local Health Board in Wales does not exceed its funding over the rolling three-year periods, as required by the National Health Service Finance (Wales) Act 2014; and**
- **where Local Health Boards are overspending in a single year, these should be funded from within the existing health and social services departmental budget.**

Response: Accept in principle

The National Health Service Finance (Wales) Act 2014 includes the responsibility for each Local Health Board to breakeven over a three-year accounting period and prepare plans to do so. The Minister for Health and Social Services and her officials regularly monitor performance against this duty and take escalation measures where necessary. Performance against this responsibility is reported as part of the audited accounts of each body.

Welsh Government's expectation is that wherever possible all MEGs meet any financial pressures arising in year, in the first instance, from within their existing budgets. Where this

is not possible, or where other revisions are made to budgets, we will publish changes in line with our agreed process for supplementary budgets.

Recommendation 6

The Committee recommends that the Welsh Government continues to ensure that local authorities have sufficient resources to enable them to provide support to those fleeing the war in Ukraine, irrespective of changes to funding from UK Government and also that consistent support is provided across Welsh local authorities.

Response: Accept in principle

Recognising the challenges that local authorities are facing, the Welsh Government's decisions in the Final Budget looked to target as much support as possible to health and local government to support pressures on frontline services and maintain effective public service delivery. The 2023-24 settlement sees an increase of £227m to the indicative allocations for 2023-24 published in the 2022-23 Final Budget and multi-year spending review, providing additional revenue funding for critical and valued local services such as prioritising schools and social care. This should ensure that local authorities have sufficient resources to meet their statutory obligations.

The UK Government has provided an integration tariff in respect of all individuals fleeing Ukraine through the humanitarian scheme for the first year of their arrival. Prior to January 2023 this was £10,500 per person, reducing to £5,900 per person from January 2023. Education tariffs have also been payable in the first year of arrival for young people aged 2-18. The UK Government has not paid an integration tariff or an education tariff for arrivals through the family route. There is no integration tariff or education tariff available from the UK Government for the second year of arrivals. This is out of kilter with other UK Government resettlement schemes where funding is generally made available in years two and three.

Education tariffs are passported directly to local authorities where young people are registered for school. Integration tariffs paid in respect of arrivals through the individual route are also paid directly to local authorities based on the area of residence of those individuals. Where individuals arrive through the super sponsor scheme; a proportion of the integration tariff is retained by Welsh Government to reflect the portion of time these individuals are

housed in welcome centres or other initial accommodation. This funding is used to partly offset the costs we incur in food, accommodation and to provide wrap around support funding to local authorities. When individuals move on from initial accommodation; the pro rata portion of the integration tariff is made available to local authorities based on the area of residence of the Ukrainian arrival.

Based on our current arrangements, all local authorities are able to claim their share of the tariffs retrospectively based on the number of Ukrainian guests in their localities. This offers a consistent basis of support that is equitable and reflects the different number of guests in different locations. Going forward we will continue to ensure a consistent approach is applied to all local authorities and that all are able to access support on the same basis.

In the absence of year 2 integration and education tariffs we are unable to make the same level of funding available to local authorities from our own resources which will sadly not stretch this far.

Whilst the UK Government has reduced the funding available to local authorities to levels far below what can be mitigated, we are determined to support councils to help everyone who needs a home in Wales. We remain committed to supporting our Ukrainian guests and will continue to meet the costs of initial accommodation for arrivals through the super sponsor route as well as costs associated with their wrap around care. This support will be met from the £40m budget available in 2023-24. We also have some funding set aside that will offer support to local authorities, although this will be on a reduced level to that currently available through the UK Government tariffs. In summary, our 2023-24 funding package includes:

- initial accommodation and wrap around services to new and existing arrivals under Welsh Government's super sponsor scheme.
- an uplift in the thank you payment to all hosts from £350 to £500 a month during their first year of hosting. The UK Government has recently announced that it will be increasing the second year thank you payment to £500 from April 2023.
- additional funding for local authorities to enable them to support Ukrainian guests to move on to longer term accommodation.
- a discretionary fund to support local authorities with specific, localised challenges.

Our goal is that this funding should provide a consistent service provision across all local authorities, tailored where necessary to local circumstances (eg use of the discretionary fund). However, this does not prevent local authorities making more generous provision for Ukrainians out of their own budgets should they so choose.

Recommendation 7

The Committee recommends that the Minister continues in her efforts to ensure that sufficient levels of funding is provided by the UK Government to support the humanitarian response resulting from the war in Ukraine.

Response: Accept

We have continually raised the issue of funding to support the humanitarian response resulting from the war in Ukraine with the UK Government, at bilateral meetings with successive Chief Secretaries to the Treasury, through the F:ISC, and in correspondence with the Chancellor of the Exchequer.

Over the course of the past year, we have pressed both the Chancellor and the Chief Secretary for parity with other resettlement schemes, for greater certainty around future funding and for higher and continuing tariff payments, as well as pressing the UK Government to take other steps to help with hosting, re-housing, including increasing Local Housing Allowance.

We also pressed for clarity on the UK Government Homelessness Prevention Fund to understand the quantum and caveats for Wales, and wrote jointly with Councillor Andrew Morgan, leader of the Welsh Local Government Association, to the Rt Hon Michael Gove MP Secretary of State for Levelling Up, Communities and Housing and Minister for Intergovernmental Relations and Felicity Buchan MP Parliamentary Under Secretary of State on this matter. We are expecting a response imminently.
