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Llywodraeth Cymru
Welsh Government

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Llyr Gruffydd AM,
Chair Finance Committee,
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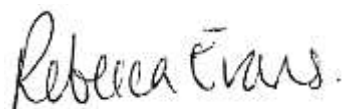
19 August 2019

Dear Llyr,

Thank you for your Committee's scrutiny of the First Supplementary Budget 2019-20 and the report that followed.

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

Yours sincerely,



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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 CONCLUSIONS FROM THE FINANCE COMMITTEE REPORT:

SCRUTINY OF WELSH GOVERNMENT FIRST SUPPLEMENTARY BUDGET 2019-20

AUGUST 2019

Recommendation 1

The Committee recommends that the Welsh Government provides information on the review it intends to conduct of its impact assessment tool. Those details should be provided before the draft budget 2020-21 is laid

Response: Accept

The integrated impact assessment tool was launched, as a pilot, in July 2018, and there was a commitment at that time to hold a review. We are currently in the process of defining the parameters for that review and we will be testing the tool's effectiveness and areas for improvement. Officials met with the Future Generation Commissioner's Advisory Panel in May and have committed to continue engagement with that group during the review process. As part of the review we will engage with stakeholders involved in the initial development of the tool, as well as undertake structured user research. We have committed to completing the review work by December 2019.

Recommendation 2

The Committee repeats its previous recommendation, and again recommends that the Welsh Government reviews the content of its future supplementary budget information with a view to aligning its narrative more closely with draft and final budgets.

Response: Accept

We have accepted the Committee's recommendation previously on the information that we provide as part of the supplementary budget process and we continue to keep our budget documentation under review.

Documentation supporting the draft and final budget planning process has a different focus as those proposals lay out the Welsh Government's priorities and allocations for each portfolio for at least the next financial year. Supplementary budgets are inherently different and we are pleased the Committee acknowledged that fact and the need for supporting documentation to be proportionate.

In reviewing the information to be provided to support Supplementary Budgets in future we will seek to balance proportionality with further explanation of significant allocations proposed within them.

Recommendation 3

The Committee recommends that the Welsh Government provides further information on the Well-being of Future Generations journey tracker/checker that was referred to during scrutiny of the draft budget, including what milestones will be included

Response: Accept

We have previously acknowledged that embedding the principles and objectives of the Well-being of Future Generations Act in our budget planning is an evolutionary process. Reflecting on previous feedback and evidence during the budget scrutiny, we took a number of measures in last year's budget to highlight better how our activities are contributing towards our 12 well-being objectives, as well as featuring a series of case studies to demonstrate how we are embedding the Well-being of Future Generations Act into the budget process and prioritising Prosperity for All.

As the Minister for Finance and Trefnydd said in her evidence to the Committee, we are working closely with the Future Generation Commissioner and her office to develop the journey checker which we hope will be a useful tool to help us monitor progress on this journey. Future details on the journey checker will be published alongside future budgets.

Recommendation 4

The Committee recommends that the Welsh Government pursues all avenues available to it to resolve the issue of funding for public sector pensions and provides the Committee with further information as and when it becomes available.

Response: Accept

As set out in the Minister for Finance and Trefnydd's Written Statement in June, the Welsh Government wrote jointly with the other Devolved Administrations to the Chief Secretary to the Treasury expressing deep concerns that the proposed funding does not meet the full costs associated with the self-imposed changes by the UK government. This is unacceptable and undermines the Statement of Funding Policy and the principles for allocating funding within the UK. The former Chief Secretary to Treasury responded reiterating the UK Government's position that the SCAPE discount rate change was not a policy decision and that the Statement of Funding Policy supports the provision of funding through the Barnett Formula.

The Minister for Finance and Trefnydd has raised this important issue with the new Chief Secretary to the Treasury and, together with the other devolved administrations, is seeking an early meeting of the Finance Ministers' Quadrilateral in order to seek a resolution to the situation. We welcome the Committee's intention to write to the Chief Secretary to the Treasury regarding its approach to funding pension changes in Wales and the Statement of Funding Policy.

Recommendations 5 & 6

The Committee recommends that the Welsh Government provides additional details on how the £85 million capital funding will address the challenges posed by Brexit.

The Committee recommends that, should the Welsh Government allocate additional funding for a further stimulus package, details are included of the risks that the funding is designed to mitigate.

Response: Accept

The Cabinet Sub-Committee on European Transition provide strategic direction to the Welsh Government's work aimed at securing the best outcome for the people of Wales on issues arising from the EU referendum outcome. This includes an approach to making Brexit economic interventions to maximise the resilience of Wales' economy in the context of a no deal EU exit.

Evidence suggests that effective infrastructure investment can stimulate demand in the economy in the short to medium term, while also improving the supply side of the economy in the longer term and improving social and environmental outcomes.

The £85 million capital stimulus package comprises:

- £50 million for a social housing investment programme;
- £20 million for local authorities;
- £10 million towards the Economy Futures Fund; and
- £5 million for trunk road and motorway carriageway maintenance.

The experience of previous economic slowdowns is that the construction sector is often one of the first to be adversely impacted, and the scale of the impact on the

sector is often proportionately large. House building and renovation is a specific area of construction that is relatively labour intensive, so spending in this area should be effective in supporting employment levels.

It is anticipated that much of the allocation to local authorities will result in construction related activity. Positive effects would also be expected as supply chains are stimulated across Wales

Maintaining business confidence in these challenging times is essential. The aim of the £10 million to the Economy Futures Fund is to provide direct support to businesses against the threats of a no deal Brexit and to secure and maintain them in the UK following exit from the EU. The Minister for Economy and Transport is currently considering funding packages to support a range of projects across all regions in Wales.

The road network plays a critical economic role in connecting business with markets and helping people access jobs both by private vehicle and by bus.

We will take account of the Committee's recommendations in relation to any future Brexit related capital stimulus package. While we will continue to do everything we can to ensure that we are as prepared as possible for leaving the EU without a deal on 31 October, the scope for the Welsh Government to mitigate a no deal Brexit is very limited. The Office for Budget Responsibility and the Bank of England have considered worst case scenarios in which the UK economy enters a deep and protracted recession. In such a case the impact on Wales would probably be even greater than on the UK as a whole.

Recommendation 7

The Committee recommends that the Welsh Government continues to work

with the UK Government to understand funding that might be available in the case of a “no deal Brexit” and that the Committee is kept informed of those discussions.

Response: Accept

We remain deeply concerned that the UK Government has not ruled out leaving the EU without a deal on 31 October. While we will continue to call on the UK Government to make funding available for the necessary interventions in the event of a no deal, there should be no doubt about the catastrophic impact a no deal Brexit will have on Wales.

The Welsh Government has had a range of discussions – at Ministerial and official levels – with the UK Government about funding for interventions that may be needed in the event of a no deal. Examples include potential support for those businesses and farmers whose activities are likely to be most severely impacted by a no deal Brexit, and also for vulnerable households.

On 31 July the UK Government announced an additional £2.1 billion for no deal Brexit preparation. Of the £1.1 billion allocated immediately, Wales will receive a consequential of £24.1m in 2019-20. In addition to the £1.1 billion funding, the UK Government has committed a further £1 billion will be available for all UK Government Departments and the Devolved Administrations to enhance operational preparedness for the UK’s departure from the EU in a no deal scenario. Wales will receive Barnett consequentials of any additional funding provided to UK Government Departments in areas where we face similar circumstances. We can also submit funding bids where we face disproportionate pressures compared to England.

This funding will not come anywhere near to protecting households, business and farmers from the worst effects of a no deal Brexit.

Recommendation 8

The Committee recommends that the Government provides details as to how it intends to plan future budgets in the context of a climate emergency and what specific actions will be implemented to ensure the emergency declaration is reflected in budget planning.

Response: Accept

Our Prosperity for All: A Low Carbon Wales plan published in March contains detailed sector-by-sector emissions profiles and 100 policies and proposals to achieve a low-carbon Wales. We have already started preparing our next plan to meet the second carbon budget for 2021-25.

It is clear we are facing a climate emergency and we must continuously raise our level of ambition, including maximising the impact of our available limited funding on interventions to tackle the climate emergency. For example, the carbon impact of investment proposals is a key consideration in the allocation of capital funding in line with the Wales Infrastructure Investment Plan. It is also why we are focusing our budget preparations across Government on eight priority areas where we can have the greatest impact over the long-term, including decarbonisation.

While we recognise that the way we plan and allocate our resources can have an impact on tackling the climate emergency, we can draw on levers that we have as a Government more widely to help us achieve our ambitions and encourage all public bodies to consider how they can contribute to tackling climate change. We all have a role to play.

Our Environment Act puts in a place a robust governance system. Following advice from our Advisory Body, we have increased our long term pathway to respond to a climate emergency (from 80% to 95% by the end of 2050). The Welsh Government has committed to putting a higher emission reductions target of at least 95% into law,

this means our pathway will change and our delivery plans to achieve our carbon budgets will have to reflect our new legislative pathway. Decarbonisation is a cross cutting responsibility of all Ministers. Our Low Carbon Delivery Plans will continually need to show how all Ministers contribute actions to our carbon budgets. As a result, all Ministers will need to reflect on these actions in the funding decisions they take in setting detailed MEG spending plans.

For example within the Finance portfolio, procurement plays an important role in helping to reduce CO2 emissions through its supply chains. As well as ensuring its buildings and vehicle fleets are efficient, the Welsh Government (and wider public sector) must also take steps to reduce emissions more widely through its procurement of goods, works and services. Through the Decarbonisation Dashboard developed by Value Wales, the high CO2 emitting categories of spend for Welsh Government (and public sector bodies across Wales) have already been identified as priority areas for carbon reduction. By addressing these areas and adopting low carbon procurement approaches based on circular economy principles, plus ensuring monitoring through strong contract management, there is great scope to reduce emissions through the procurement process. This could be reflected in any training / eLearning available across Ministerial portfolios and would also be supported by any guidance/training/tools which Value Wales develop for the wider public sector.

Consideration is also being given to whether we could include a requirement within grant award letters for Welsh Government and public bodies to demonstrate the action they are taking to implement low carbon requirements. This would also support and complement the Economic Action Plan which requires businesses in Wales to demonstrate what they are doing to support decarbonisation. Such a two-pronged approach on the buy and supply side will ensure the greatest impact.

Recommendation 9

The Committee recommends that the Welsh Government provides it with details of the costs associated with moving from a statutory target of 80 per

cent reduction in emissions by 2050 to a 95 per cent target.

Response: Accept in Principle

The Welsh Government (along with the UK and Scottish Governments) asked the UK Committee on Climate Change (UKCCC) to reassess our long-term emissions targets. The UKCCC concluded that Wales should change its long term emissions target from 80% to 95%.

The exact costs associated with long-term emission targets cannot be given, as the science and evidence is constantly changing and evolving and costs will be dependent upon policy decisions of successive Governments. The precise costs will depend on how low-carbon technologies develop over several decades and the actions of government, business, other social groups and individuals. Broad cost estimates of the scale of action required across the UK can be made.

In reaching its conclusion, the UKCCC made a fresh appraisal of the costs and benefits of emission reduction with the support of a dedicated expert advisory group. In the published advice, the UKCCC estimated the costs of moving to a net zero target for the UK which would mean a 95% target for Wales, are between 1-2% of GDP. This compares to the new cost estimate of the 80% target, which the UKCCC believe will cost less than 1% of GDP. Therefore the UKCCC believes the costs of moving from the 80% target to the 95% target are approximately 1% of GDP.

Ultimately the costs to the Welsh Government and people of Wales will depend on the policies adopted by successive Governments to meet the 95% target. These will be subject to scrutiny to ensure value for money.

Recommendation 10

The Committee recommends that the Welsh Government provides further information as to how it intends to work with local authorities to deliver on its

objectives for funding announced as part of its £85 million capital funding package.

Response: Accept

The Welsh Government has worked with Local Government colleagues through the Capital Finance and Investment Group (CFIG) to determine the best way to deliver the aims of the capital funding package. Options for distribution were discussed by the CFIG in July. Members recommended that the general capital fund formula was the most appropriate distribution method to use in this instance to provide sufficient flexibility for local authorities to respond to the differing needs of local communities in response to Brexit.

Appropriate monitoring arrangements were discussed and it was agreed that local authorities will report to the Welsh Government on how the allocations have been deployed, how they are mitigating the Brexit risks and the intended impact of the spend on the local economy through existing partnership mechanisms such as the CFIG and the Finance Sub-Group. The formal grant letter asked Authorities to consider impacts on biodiversity and the environment in making use of this funding. The Welsh Government would be happy to write to the Committee with further details on the range of activities supported in due course.

Recommendation 11

The Committee recommends that the Welsh Government provide it with details of the funding it intends to provide to the M4 Commission and for the “next steps” identified by the First Minister.

Response: Accept

The budget for the Commission is £5.2m covering time-charge and expenses of Commission members, a technical advice team to support the Commission and the

Special Welsh Government Team. This budget allows for research and studies that may be required by the Commission. £4.2m has been allocated over the next two years to implement the fast-track measures identified by the First Minister.

Recommendation 12

The Committee recommends that the Welsh Government provide it with information on funding priorities within its 2019-20 capital programme in light of the decision to not proceed with the M4 project, particularly in regards of how this has impacted its borrowing strategy.

Response: Accept

The Welsh Government's principle has always been to exhaust the use of the least expensive forms of capital before using other more expensive sources. In line with this, the level of planned borrowing is reviewed each year as part of the annual budget setting process.

For 2019-20 our published plans include £125m of borrowing, the majority of the £150m the Welsh Government is able to borrow each year. As the Minister for Finance and Trefnydd said in Committee, Welsh Government borrowing is not used to fund specific projects but to increase overall spending capability.

We have made clear that we will continue to invest in infrastructure to boost the Welsh economy and support delivery of public services. Not proceeding with the M4 Project does not mean we will invest less – just that we will invest in other projects.

One immediate priority in the face of the continued Brexit uncertainty was providing the much needed fiscal stimulus to protect the Welsh economy and provide confidence to businesses and the construction sector, particularly in the event of a no-deal scenario. That is why we announced a capital stimulus package providing an immediate boost to the Welsh economy.

