

Witness Statement of: Dr Andrew Goodall

No. of Statement: M2B-WT-01/

Exhibits: 442

Date of Statement: 22 September 2023

UK COVID INQUIRY

**Witness statement of Dr Andrew Goodall, Permanent Secretary, Welsh
Government**

I, DR ANDREW GOODALL, WILL SAY AS FOLLOWS:

1. I give this statement in response to the request made to the Welsh Government on 7 October 2022 (M2B-WG-01) and the Welsh Treasury, (an administrative part of the Welsh Government), on 28 October 2022, (M2B-WT-01), pursuant to Rule 9 of the Inquiry Rules 2006 ("the Request").
2. More specifically, this part of the statement responds to the request made for evidence of the funding arrangements that applied to the Welsh Government both in the ordinary course of business and in the extraordinary circumstances created by the pandemic. Finance and financial governance are integrated within the Welsh Government, spanning a number of administrative units. Whilst this statement responds to the request for evidence of the role and operation of the Welsh Treasury, a directorate within the Welsh Government, both generally and specifically in the context of the pandemic. It also includes information about other relevant functions within the Welsh Government. It describes how the Welsh Government responded to the financial pressures that it was under. I have previously provided 6 statements to the Inquiry to respond to requests made of the Welsh Government; 3 in relation to Module 1 and 3 others in relation to Module 2B. Each of those statements reflect, to a greater or lesser degree, my professional experience in the Welsh Government. Some

of those statements were provided in my capacity as someone intimately involved with, and with oversight over, specific functional parts of our infrastructure (such as my statements on the Health and Social Services Group's and NHS Wales' response to the pandemic). Other statements, provide a more factual account of aspects of the Welsh Government's functions, powers, structures and processes with which I was not so closely involved between January 2020 and my appointment to the role of Permanent Secretary in September 2021, which I took up on 1 November 2021 (such as the parts of this statement which relate to the funding arrangements that applied to the Welsh Government both in the ordinary course of business and in the extraordinary circumstances created by the pandemic in that period prior to my appointment as Permanent Secretary). This statement is intended to provide an overview, and given the limited time available, is not based on full examination of the many thousands of documents that are relevant to the work of the Welsh Treasury and other parts of the organisation, throughout the period in question.

3. The material that I have exhibited in this section is not intended to provide a complete picture, rather this material is produced to illustrate key features of our financial arrangements and some of the challenges that arose within those arrangements during the pandemic. I have sought to provide sufficient information to enable the Inquiry to return with specific requests for more detailed evidence and documentation in due course.
4. The Welsh Treasury is a directorate within our Economy, Treasury and Constitution Group led by Andrew Slade. Within this Group, the Welsh Treasury is led by a director, Andrew Jeffreys. Andrew Jeffreys has furnished information to support the completion of this statement. Although I should add that Peter Ryland, Chief Executive of the Welsh European Funding Office (WEFO), contributed to the information contained in paragraphs 42 to 46, Jonathan Price, the Welsh Government's Chief Economist, contributed to the information contained in paragraphs 13 and 14 and Judith Cole, Deputy Director, Local Government Finance contributed to the section on local government finance. Peter Ryland is not an official within the Welsh Treasury.

WEFO is a separate administrative directorate within the Economy, Treasury and Constitution Group and Judith Cole is within the Covid Recovery and Local Government Group. However, Jonathan Price is a senior official in the Welsh Treasury and heads its Economic Advice Division.

5. Andrew Jeffreys has held his position since 2014. Since April 2022 he has reported to Andrew Slade, Director General of the Economy, Treasury and Constitution Group however, prior to that, and for the majority of the period being considered, he reported to Dame Shan Morgan, Permanent Secretary, until September 2021 and thereafter (until April 2022) reporting to me. Throughout the entire period being considered, Ministerial responsibility for the Welsh Treasury rested with Rebecca Evans MS as Minister for Finance & Trefnydd/Minister for Finance and Local Government. The Special Advisers most closely involved in finance matters during the period in question, were Alex Bevan and Gareth Williams.
6. The Welsh Treasury has around 70 staff with the Director being supported by four Deputy Director led Divisions, namely, Budget and Government Business; Tax Strategy and Inter-Governmental Relations; Economic Advice; and Infrastructure Strategy and Assurance.
7. The main responsibilities of the Welsh Treasury are; the allocation of the Welsh Government budget; advice on financial implications of Government policies; programmes and projects; investment strategy; planning and assurance; tax strategy and policy; liaison with HM Treasury and other Devolved Governments on fiscal matters and the provision advice and briefing on these matters (including economic matters), to Ministers. During the pandemic, the Welsh Treasury team was also responsible for overseeing and providing assurance in connection with the internal budgetary adjustments that were necessary because of the Welsh Government's policy response to the pandemic.
8. For clarity, I would like to explain that the Welsh Treasury did not take decisions about allocation of funding in conjunction with the Welsh Government. These decisions were taken by Ministers (either individually, severally or collectively

in Cabinet) taking account of guidance and advice provided by the Welsh Treasury, and where appropriate, other directorates of the Welsh Government. Funding allocation decisions by other Ministers in Welsh Government where Welsh Treasury were not involved in the process are not considered in this statement. Where the Welsh Treasury provided guidance, it was contained in Ministerial Advice submissions or Cabinet papers.

9. The First Minister established on 23 March 2020 a small group whose purpose was to oversee and coordinate the Welsh Government's overall fiscal response to the crisis. Very quickly this group became known as the Star Chamber. The Star Chamber was chaired by Rebecca Evans who was the Minister for Finance and Trefnydd. In essence, the Star Chamber assessed proposals for allocation of resources to tackle the impact of the pandemic and acted in an advisory capacity to the Minister in relation to the deployment of available resources held centrally to address the challenges of the Covid-19 crisis. Ultimately after considering and testing the advice received in these meetings, the Minister took the decisions as the Star Chamber itself did not take the spending decisions and in some cases other portfolio Ministers would also be required to take a decision about how the funding was to be deployed. The business of the 'Star Chamber' meetings and its successor meeting, the Minister for Finance & Trefnydd (MFT) Officials' Advisory Group were documented. A combined chronology of Star Chamber Meeting and MFT Officials' Advisory Group meetings is exhibited at AGM2BWT01/01. The records themselves are attached to this statement at:

Exhibit Reference	PI URN	Exhibit Reference	PI URN
AGM2BWT01/01	INQ000338708	AGM2BWT01/51	INQ000338577
AGM2BWT01/02	INQ000320792	AGM2BWT01/52	INQ000338578
AGM2BWT01/03	INQ000320779	AGM2BWT01/53	INQ000338579
AGM2BWT01/04	INQ000320780	AGM2BWT01/54	INQ000336749

AGM2BWT01/05	INQ000320781	AGM2BWT01/55	INQ000336750
AGM2BWT01/06	INQ000320793	AGM2BWT01/56	INQ000336952
AGM2BWT01/07	INQ000320794	AGM2BWT01/57	INQ000336784
AGM2BWT01/08	INQ000320795	AGM2BWT01/58	INQ000336785
AGM2BWT01/09	INQ000320791	AGM2BWT01/59	INQ000338480
AGM2BWT01/10	INQ000320796	AGM2BWT01/60	INQ000338509
AGM2BWT01/11	INQ000338379	AGM2BWT01/61	INQ000338492
AGM2BWT01/12	INQ000338525	AGM2BWT01/62	INQ000338515
AGM2BWT01/13	INQ000336426	AGM2BWT01/63	INQ000336885
AGM2BWT01/14	INQ000338406	AGM2BWT01/64	INQ000338371
AGM2BWT01/15	INQ000299240	AGM2BWT01/65	INQ000338481
AGM2BWT01/16	INQ000299241	AGM2BWT01/66	INQ000338526
AGM2BWT01/17	INQ000299242	AGM2BWT01/67	INQ000338504
AGM2BWT01/18	INQ000299243	AGM2BWT01/68	INQ000336917
AGM2BWT01/19	INQ000338568	AGM2BWT01/69	INQ000338587
AGM2BWT01/20	INQ000338304	AGM2BWT01/70	INQ000336918
AGM2BWT01/21	INQ000338570	AGM2BWT01/71	INQ000338527
AGM2BWT01/22	INQ000338339	AGM2BWT01/72	INQ000338518
AGM2BWT01/23	INQ000338377	AGM2BWT01/73	INQ000338510

AGM2BWT01/24	INQ000338378	AGM2BWT01/74	INQ000338589
AGM2BWT01/25	INQ000336526	AGM2BWT01/75	INQ000235750
AGM2BWT01/26	INQ000338490	AGM2BWT01/76	INQ000338511
AGM2BWT01/27	INQ000338494	AGM2BWT01/77	INQ000338373
AGM2BWT01/28	INQ000338497	AGM2BWT01/78	INQ000338590
AGM2BWT01/29	INQ000336633	AGM2BWT01/79	INQ000337171
AGM2BWT01/30	INQ000338482	AGM2BWT01/80	INQ000337170
AGM2BWT01/31	INQ000338372	AGM2BWT01/81	INQ000337169
AGM2BWT01/32	INQ000336618	AGM2BWT01/82	INQ000337168
AGM2BWT01/33	INQ000336619	AGM2BWT01/83	INQ000337201
AGM2BWT01/34	INQ000336620	AGM2BWT01/84	INQ000338498
AGM2BWT01/35	INQ000336621	AGM2BWT01/85	INQ000338499
AGM2BWT01/36	INQ000336622	AGM2BWT01/86	INQ000338591
AGM2BWT01/37	INQ000336636	AGM2BWT01/87	INQ000337258
AGM2BWT01/38	INQ000338524	AGM2BWT01/88	INQ000337273
AGM2BWT01/39	INQ000338571	AGM2BWT01/89	INQ000338407
AGM2BWT01/40	INQ000338528	AGM2BWT01/90	INQ000338405
AGM2BWT01/41	INQ000338495	AGM2BWT01/91	INQ000337452
AGM2BWT01/42	INQ000336653	AGM2BWT01/92	INQ000338500
AGM2BWT01/43	INQ000338573	AGM2BWT01/93	INQ000350699

AGM2BWT01/44	INQ000338506	AGM2BWT01/94	INQ000338501
AGM2BWT01/45	INQ000338514	AGM2BWT01/95	INQ000338502
AGM2BWT01/46	INQ000338507	AGM2BWT01/96	INQ000350700
AGM2BWT01/47	INQ000338574	AGM2BWT01/97	INQ000338367
AGM2BWT01/48	INQ000338508	AGM2BWT01/98	INQ000350701
AGM2BWT01/49	INQ000336693	AGM2BWT01/99	INQ000350702
AGM2BWT01/50	INQ000338576		

10. There were no specific structures or processes in place or developed for provision of expert and/or scientific advice for decisions on the allocation of funding. Advice to Ministers on allocation of funding for Covid-related interventions was based on consolidated policy and expert guidance from officials across the organisation. For example, Ministers were provided with expert analysis by the Technical Advisory Group (TAG) and its Socioeconomic Harms (SEH) sub-group. I understand that evidence on this point has already been provided by Dr Robert Orford in his statement to the Inquiry reference M2B-TAG-01 and therefore I do not propose to address these matters in this statement.

11. In my statement for M2B-WG-01 I have commented on the integrated nature of the Welsh Government administration, its policy development work and its decision-making processes, please refer to that statement for further detail. In particular, I commented on the preparation of Ministerial Advice submissions (“MAs”) and Cabinet Papers. These documents, that are submitted to Ministers for decisions, comprise consolidated and integrated policy and expert advice from officials across the organisation, including those within the Welsh Treasury. Value for money remained a primary consideration during the pandemic and a key function of the MA was to provide advice and assurance about value for money and risks. During the pandemic, in addition to the MAs,

a risk assessment, a copy of which is exhibited at **AGM2BWT01/100 - INQ000338619** was put in place by our Corporate Governance function and undertaken for pandemic response measures. The Welsh Treasury, in addition to others, input into these documents prior to submission to Ministers; this is a routine feature of our governance arrangements. In order to discharge this role effectively it is necessary to establish and maintain relationships, at all levels, with policy and finance teams across the Welsh Government. These relationships were particularly key during the pandemic when a “Finance Bird-table” meeting was established by the Welsh Treasury team which brought together finance leads from across the organisation to share information and surface financial issues in a timely way to facilitate informed advice being submitted to Ministers in accordance with the mechanisms described above. A chronology of these ‘Finance Birdtable’ meetings with summaries of the key topics discussed is exhibited at **AG/M2BWT01/101 – INQ000338706**. The meeting records and the Finance Bulletin records are exhibited at:

Exhibit Reference	PI URN	Exhibit Reference	PI URN
AGM2BWT01/102	INQ000338657		
AGM2BWT01/103	INQ000338656	AGM2BWT01/151	INQ000338639
AGM2BWT01/104	INQ000338655	AGM2BWT01/152	INQ000336978
AGM2BWT01/105	INQ000336355	AGM2BWT01/153	INQ000338638
AGM2BWT01/106	INQ000336356	AGM2BWT01/154	INQ000337007
AGM2BWT01/107	INQ000336357		
AGM2BWT01/108	INQ000336365		
AGM2BWT01/109	INQ000336382	AGM2BWT01/156	INQ000338374
AGM2BWT01/110	INQ000338522		
AGM2BWT01/111	INQ000338381	AGM2BWT01/158	INQ000338637

AGM2BWT01/112	INQ000338654	AGM2BWT01/159	INQ000337062
AGM2BWT01/113	INQ000336468		
AGM2BWT01/114	INQ000336447	AGM2BWT01/161	INQ000338636
AGM2BWT01/115	INQ000338653		
AGM2BWT01/116	INQ000336482	AGM2BWT01/163	INQ000338622
AGM2BWT01/117	INQ000338652	AGM2BWT01/164	INQ000338635
AGM2BWT01/118	INQ000338503		
		AGM2BWT01/166	INQ000338634
AGM2BWT01/120	INQ000338382		
		AGM2BWT01/168	INQ000337188
AGM2BWT01/122	INQ000338650	AGM2BWT01/169	INQ000338625
AGM2BWT01/124	INQ000338383	AGM2BWT01/171	INQ000337211
AGM2BWT01/125	INQ000336592	AGM2BWT01/172	INQ000337215
AGM2BWT01/126	INQ000338384	AGM2BWT01/173	INQ000338633
AGM2BWT01/127	INQ000336629	AGM2BWT01/174	INQ000338632
		AGM2BWT01/175	INQ000337295
AGM2BWT01/129	INQ000336662		
AGM2BWT01/130	INQ000336663	AGM2BWT01/177	INQ000338631

AGM2BWT01/132	INQ000336656	AGM2BWT01/179	INQ000338630
AGM2BWT01/133	INQ000336667	AGM2BWT01/180	INQ000337333
AGM2BWT01/134	INQ000336681		
		AGM2BWT01/182	INQ000337363
AGM2BWT01/136	INQ000336695	AGM2BWT01/183	INQ000337358
		AGM2BWT01/184	INQ000338629
AGM2BWT01/138	INQ000338649	AGM2BWT01/185	INQ000338404
AGM2BWT01/139	INQ000336711	AGM2BWT01/186	INQ000338628
		AGM2BWT01/187	INQ000338486
AGM2BWT01/141	INQ000338648	AGM2BWT01/188	INQ000338627
		AGM2BWT01/189	INQ000338487
AGM2BWT01/143	INQ000338647	AGM2BWT01/187	INQ000338486
		AGM2BWT01/188	INQ000338627
AGM2BWT01/145	INQ000338642	AGM2BWT01/189	INQ000338487
		AGM2BWT01/190	INQ000338626
AGM2BWT01/147	INQ000336819	AGM2BWT01/191	INQ000337520
AGM2BWT01/148	INQ000338641	AGM2BWT01/192	INQ000338488
AGM2BWT01/149	INQ000338640		

12. The Welsh Treasury therefore contributed advice to pandemic related decisions, such as those taken pursuant to the 21 day review process (which is discussed in my statement for M2B-WG-01) and other decisions relating to

non-pharmaceutical interventions, via the provision of expert financial and economic advice to the various Welsh Government policy teams across the whole organisation, who were responsible for preparing Cabinet Papers and Ministerial Advice submissions in connection with matters falling within their policy remit.

13. Jonathan Price, Chief Economist and Head of the Economic Advice Division of the Welsh Treasury was also the Co-Chair of the Socio- Economic Harms subgroup of the Welsh Government's Technical Advisory Group (TAG). This Group provided expert advice to the TAG which then in turn contributed advice and briefings submitted to Ministers on pandemic related policy interventions. I refer to Exhibit **AGM2BWT01/193– INQ000066144**, which is the Terms of Reference of that subgroup. Economists in the Welsh Treasury contributed to, but did not carry out, economic analysis, modelling, and forecasting concerning the implementation and/or easing of non-pharmaceutical interventions, 'NPI's. These contributions were made mainly via the team providing advice on the imposition of NPIs (which included two economists seconded from the Welsh Treasury) and, through the Chief Economist, to the Socio-Economic Harms (SEH) subgroup of TAG. The work of the SEH did consider impacts on disadvantaged and equality groups. For example, attached at Exhibit **AGM2BWT01/194– INQ000066145**, is a report of the SEH group, "*Socio-Economic Harms and Potential Future Mitigation Measures*" dated 17/11/20. However, it was difficult to judge the direction of the overall impact of restrictions on these groups because of indirect effects: restrictions were expected to reduce the adverse effects of the pandemic, offsetting its direct harms.

14. The scope for more detailed analysis of the impact of specific NPIs was severely restricted by a range of factors, including but not limited to:

- a. the challenges of isolating the effects of restrictions from changes in behaviour that would otherwise have taken place in the face of the pandemic;
- b. the uncertain "transmission" of economic effects (e.g. via supply chains and commuting) so that those ultimately affected would be expected to

differ from those initially impacted (and to differ in ways very difficult to predict);

- c. the lack of data availability for many minority groups due to the sample size of the relevant surveys; and
- d. the extreme time pressures under which analysis had to be undertaken.

15. I also produce here as Exhibit **AG/M2BWT01/195 – INQ000066146** and as Exhibit **AG/M2BWT01/196 – INQ000066147**, the Chief Economist's Annual Reports for 2020 and 2021, which are presented to the Senedd at the same time as the annual budget motion.

16. As Director of the Welsh Treasury, Andrew Jeffreys was a member of the Permanent Secretary's Group Senior Management Team (PSG SMT) throughout the pandemic. PSG SMT meetings were informal 'keeping in touch' sessions of the directors who reported directly to the Permanent Secretary. The meetings focussed on management, staffing and resourcing issues. These meetings did not have formal agendas or papers. A key relationship within that group was with the Finance Directorate, led by Gawain Evans. Gawain Evans is the Welsh Government's Director of Finance and during the period reported to Dame Shan Morgan until September 2021 and thereafter to me. His Directorate, amongst other things, had responsibility for in year financial management, the production of the accounts and governance. Andrew Jeffreys and Gawain Evans were members of ExCo and the Board (referred to in my statement for M2B-WG-01) and provided regular (generally oral) reports to both about finance matters throughout the pandemic.

17. The Welsh Treasury Senior Management Team "WTSMT" held a weekly team meeting in the period Jan 2020 to the end July of 2021. Within the Welsh Treasury, senior management meetings are informal. Their purpose is to share information about what has happened during the preceding week, what's coming up, and to discuss organisational management matters (e.g. responding to internal commissions or HR policy changes). They are not a policy-making or decision forum. Meeting notes are taken but only to share information with the wider Welsh Treasury team. Meeting notes are taken by

volunteers and change every meeting. Note-takers are encouraged to use their own voice and style to capture and communicate what they have heard. In the period Jan 2020 to end July 2021, there was one hour-long WTSMT meeting each week, which covered the purpose set out above. When the lockdown began, these weekly meetings were supplemented with daily, informal meetings to keep each other up to date on what we were all doing. These meetings were not minuted. From September 2021, WTSMT arrangements changed to three meetings a week, each with a specific purpose. The new approach is set out below:

- Wednesdays – 55 minutes on department management and organisational development issues
- Fridays – 45 minutes – look back/the week ahead; and
- Mondays – 15 minutes start of the week rapid look ahead to the week and consider issues for FM Questions.

From this point onwards, notes were only made of Friday meetings for the purpose of information sharing within the Welsh Treasury. A chronology of these Friday meetings with summaries of the key topics discussed is exhibited at AGM2BWT01/197. The meeting records themselves are exhibited at **AG/M2BWT01/198 to AG/M2BWT01/301-INQ000336231 to INQ000338171.**

Exhibit Reference	PI URN	Exhibit Reference	PI URN
AGM2BWT01/198	INQ000336231	AGM2BWT01/250	INQ000337552
AGM2BWT01/199	INQ000336233	AGM2BWT01/251	INQ000337574
AGM2BWT01/200	INQ000336235	AGM2BWT01/252	INQ000337597
AGM2BWT01/201	INQ000336242	AGM2BWT01/253	INQ000337627
AGM2BWT01/202	INQ000336247	AGM2BWT01/254	INQ000337629
AGM2BWT01/203	INQ000336254	AGM2BWT01/255	INQ000337637

AGM2BWT01/204	INQ000336260	AGM2BWT01/256	INQ000337639
AGM2BWT01/205	INQ000336272	AGM2BWT01/257	INQ000337641
AGM2BWT01/206	INQ000336286	AGM2BWT01/258	INQ000337646
AGM2BWT01/207	INQ000336337	AGM2BWT01/259	INQ000337689
AGM2BWT01/208	INQ000336359	AGM2BWT01/260	INQ000337694
AGM2BWT01/209	INQ000336394	AGM2BWT01/261	INQ000337703
AGM2BWT01/210	INQ000336410	AGM2BWT01/262	INQ000337712
AGM2BWT01/211	INQ000336464	AGM2BWT01/263	INQ000337735
AGM2BWT01/212	INQ000336500	AGM2BWT01/264	INQ000337745
AGM2BWT01/213	INQ000336540	AGM2BWT01/265	INQ000337770
AGM2BWT01/214	INQ000336584	AGM2BWT01/266	INQ000337783
AGM2BWT01/215	INQ000336615	AGM2BWT01/267	INQ000337784
AGM2BWT01/216	INQ000336638	AGM2BWT01/268	INQ000337791
AGM2BWT01/217	INQ000336664	AGM2BWT01/269	INQ000337794
AGM2BWT01/218	INQ000336682	AGM2BWT01/270	INQ000337803
AGM2BWT01/219	INQ000336698	AGM2BWT01/271	INQ000337805
AGM2BWT01/220	INQ000336724	AGM2BWT01/272	INQ000337822
AGM2BWT01/221	INQ000336764	AGM2BWT01/273	INQ000337831
AGM2BWT01/222	INQ000336839	AGM2BWT01/274	INQ000337846
AGM2BWT01/223	INQ000336887	AGM2BWT01/275	INQ000337857

AGM2BWT01/224	INQ000349757	AGM2BWT01/276	INQ000337865
AGM2BWT01/225	INQ000336994	AGM2BWT01/277	INQ000337870
AGM2BWT01/226	INQ000337029	AGM2BWT01/278	INQ000337884
AGM2BWT01/227	INQ000337054	AGM2BWT01/279	INQ000337896
AGM2BWT01/228	INQ000337069	AGM2BWT01/280	INQ000337901
AGM2BWT01/229	INQ000337103	AGM2BWT01/281	INQ000337917
AGM2BWT01/230	INQ000337128	AGM2BWT01/282	INQ000337953
AGM2BWT01/231	INQ000337151	AGM2BWT01/283	INQ000337967
AGM2BWT01/232	INQ000337199	AGM2BWT01/284	INQ000337972
AGM2BWT01/233	INQ000337209	AGM2BWT01/285	INQ000338011
AGM2BWT01/234	INQ000337241	AGM2BWT01/286	INQ000338021
AGM2BWT01/235	INQ000337251		
AGM2BWT01/236	INQ000337269	AGM2BWT01/288	INQ000338030
AGM2BWT01/237	INQ000337287	AGM2BWT01/289	INQ000338033
AGM2BWT01/238	INQ000337313	AGM2BWT01/290	INQ000338035
AGM2BWT01/239	INQ000337330	AGM2BWT01/291	INQ000338051
AGM2BWT01/240	INQ000337350	AGM2BWT01/292	INQ000338061
AGM2BWT01/241	INQ000337372	AGM2BWT01/293	INQ000338063
AGM2BWT01/242	INQ000337389	AGM2BWT01/294	INQ000338100
AGM2BWT01/243	INQ000337399	AGM2BWT01/295	INQ000338102

AGM2BWT01/244	INQ000337453	AGM2BWT01/296	INQ000338108
AGM2BWT01/245	INQ000337474	AGM2BWT01/297	INQ000338146
AGM2BWT01/246	INQ000337506	AGM2BWT01/298	INQ000338156
AGM2BWT01/247	INQ000337513	AGM2BWT01/299	INQ000338158
AGM2BWT01/248	INQ000337527	AGM2BWT01/300	INQ000338169
AGM2BWT01/249	INQ000337537	AGM2BWT01/301	INQ000338171

18. Engagement at the level of the Senedd generally occurred between the Minister for Finance and the Chair of the Finance Committee. Finance Committee scrutiny was generally exercised via the budget and supplementary budget process, which is described below. The Minister and officials frequently provided oral evidence during the pandemic as part of budget scrutiny.

19. Welsh Treasury officials were involved in meetings with ministers and senior civil servants throughout the relevant period. These formal meetings were minuted, for example, meetings of the “Star Chamber” and its successor meeting, the Minister for Finance & Trefnydd (MFT) MFT Officials’ Advisory Group (as I mentioned above at paragraph 9). I refer to the combined chronology of Star Chamber and MFT Officials’ Advisory Group which is attached to this statement at **AGM2BWT01/01 – INQ000338708** and to the copies of the records of those meetings at **AGM2BWT01/02 - INQ000320792 to AGM2BWT01/099 - INQ000350702.**

20. Bilateral, trilateral and quadrilateral meetings involving HM Treasury and members of other Devolved Governments were also minuted. Agendas for the Star Chamber were generally agreed by relevant officials (normally the day before the meeting) and agendas for the bilateral, trilateral and quadrilateral meetings were agreed in advance by the respective governments. Welsh Government Cabinet meeting agendas were agreed in advance by the First Minister and Cabinet Secretariat and all Cabinet meetings were minuted. The

Minister for Finance was briefed in advance of all formal meetings either in writing or orally. Notes of Star Chamber meetings were agreed with the Minister for Finance. Minutes of the bilateral, trilateral and quadrilateral meetings were not generally formally agreed with the other governments post meeting. There was many informal (and unminuted) meetings and discussions within the Welsh Treasury involving officials and Ministers during the relevant period. However, no significant decisions were taken during those unminuted meetings. All significant decision making was recorded in accordance with the Welsh Government's governance requirements. The decisions and the basis of the decision were recorded in Ministerial Advice submissions, Cabinet Papers and minutes in accordance with the principles of good governance. Welsh Treasury communication occurred via official business platforms only, for example, via Welsh Government email accounts and via Microsoft Teams. The Welsh Treasury had no informal or private communication about significant decision making. A Welsh Treasury Team Leaders' "WhatsApp" group was established on 17 March 2020 but messages were only exchanged on that group between 2 April 2020 and 16 April 2020 and none of the messages were business related.

21. Further governance structures and processes are provided through the Accounting Officer and Additional Accounting Officers structure. The Corporate Governance Centre of Excellence, which is part of the Finance Directorate led by Gawain Evans, supports and advises the Principal Accounting Officer (PAO) and Additional Accounting Officers (AAOs), as well as accounting officers for Welsh Government Sponsored Bodies (WGSBs), in carrying out their responsibilities.
22. Until September 2021 Dame Shan Morgan was the PAO and I replaced her in this role when I became Permanent Secretary to the Welsh Government. Under Section 133(2) of GOWA 2006, Permanent Secretaries can appoint AAOs. AAOs were in place to support Dame Shan and I have appointed AAOs following my appointment as Permanent Secretary.

23. As PAO, I have overall responsibility for the governance framework under which the Welsh Government operates and for ensuring that there is a high standard of financial management in the Welsh Government as a whole. I am responsible for the overall organisation, management and staffing of the Welsh Government, as well as its procedures in financial and other matters. I ensure that the Welsh Government operates under a sound system of internal control, including risk management, and that its effectiveness is regularly reviewed.

24. The structures which support the PAO and AAO roles remained in place throughout the period as the Welsh Government and Group level Audit and Risk Assurance Committees continued to meet. In addition, the Senedd's Public Accounts Committee also met and provided scrutiny on corporate governance and decision-making.

25. Dame Shan introduced a number of new measures to provide transparent and focused governance risk management (risk tolerance) and control to support the Welsh Government in its response to Covid-19.

26. An additional governance measure key to the organisation's response was the creation of the ExCovid Committee, a subgroup of ExCo set up by my predecessor Dame Shan. Membership comprised of Director Generals and other senior officials; Non-Executive Board members attended on a rotational basis. ExCovid provided a forum for strategic oversight, co-ordination and assurance at official level. As of December 2021, ExCovid's role and remit were transferred to ExCo.

27. Other measures Dame Shan introduced included:

- a. Writing to all AAOs and Accounting Officers of Public Bodies, on matters of risk appetite in respect of decisions made in response to the pandemic, managing at pace and the importance of putting proportionate safeguards in place, including the need to plan to mitigate risks, consider value for money, maintain adequate records and work with central teams providing advice and guidance.

- b. Writing to all AAOs with expectations of them with regard the possible need to seek a Ministerial Direction.
- c. Meeting with AAOs on a regular basis to discuss any accounting officer related issues.
- d. Issuing additional guidance to all staff on financial management, grants, governance, fraud prevention and procurement during Covid-19.
- e. Ensuring the WT and the Centres of Excellence (for Grants and Corporate Governance) continue to be fully engaged on the preparation of Ministerial Advice (as I note above).

28. Further detail on the additional governance measures is outlined in the Annual Governance Statement contained with the Welsh Government's Consolidated Accounts 2020-21.

Welsh Government Funding Sources

29. The Welsh Government had, at the time of the pandemic, four principal sources of funding available to it:

- a. Funds granted by the UK Government under what is termed as the annual "Block Grant";
- b. Funds raised in Wales by means of taxation and other charges;
- c. Borrowing; and
- d. EU structural funds.

30. The Block Grant is by far the most significant source and is discussed in paragraphs 31 to 34. The Welsh Government's powers to raise revenue by way of taxation are discussed in paragraphs 39 & 40, its borrowing powers in paragraph 41 with EU funding being covered in paragraphs 42 to 46.

The "Block Grant"

31. HM Treasury controls the overall level of public expenditure in the UK each year. A portion of the total funds raised throughout the UK and earmarked for

public expenditure is, after adjustment, allocated to the Welsh Government. This allocation is known as the 'Block Grant' and is by far the largest part of the Welsh Government's annual budget, comprising in excess of 80% of its annual financial resource. Adjustments to the block grant are determined using the Barnett Formula. The formula is used to calculate by how much the block grant will change following certain increases or decreases in funding for functions in England. The formula factors in the population of Wales compared to (usually) England, and the extent to which changes to funding relate to comparable areas within the devolved responsibility of the Welsh Government.

32. I produce the "Statement of Funding Policy" published by HM Treasury. There are two versions of this covering the relevant period, the 2015 version which is produced in November 2020 as exhibit **AGM2BWT01/302 - INQ000066148** and the 2020 version which is produced as Exhibit **AGM2BWT01/303 – INQ000066149**. This sets out in detail how the Barnett Formula operates and the mechanisms for Block Grant adjustments (see Chapter 2 of AGM2BWT01/302 and Chapter 3 & 4 of AG/M2BWT01/131. Chapter 11 of AGM2BWT01/303 also focuses on specific funding policy for Wales and explains the operation of the "Welsh Reserve" which was established under the "Fiscal Framework" which I refer to in more detail below.

33. The Wales Act 2014 provided the legislative foundation for the devolution of new tax raising and borrowing powers to the Senedd and the Welsh Government. The detailed arrangements to support the operation of these new powers were set out in "The Agreement between the Welsh Government and the UK Government on Welsh Government's Fiscal Framework" ("the Fiscal Framework") which was jointly published by both Governments in December 2016. I produce the Fiscal Framework as **AG/M2BWT01/304 – INQ000066150**. Amongst other things, the Fiscal Framework introduced a new "Welsh Reserve" to support budget management and facilitate the carry forward of funding for draw down in future years, where, for instance, there may be an underspend or where tax receipts are higher than expected. However, the annual draw down limit is £125million for resource funding and £50million for capital funding. The facility is permitted to hold a maximum of £350million in aggregate. If the Welsh

Government wishes to carry forward financing outside the parameters of the Welsh Reserve, it is required to seek the approval of the Chief Secretary to the Treasury (“the CST”).

34. In broad summary the application of the Barnett Formula in accordance with the Statement of Funding Policy and the Fiscal Framework can be represented as follows:

Change in UK Departmental Expenditure Limits x Comparability Factor x Wales Population Share x Needs Based Factor = Annual Change in Block Grant.

35. The Comparability Factor is the proportion of spending by a relevant UK Department on functions and responsibilities that are devolved. So, by way of illustration, the factor might be 100% in areas that are fully devolved such as primary and secondary education but might only be around 35% for transport which is only partially devolved.

36. The purpose of the “Needs Based Factor” is to reflect higher requirements for public spending in Wales as a consequence of demographics, socio economic factors and geography. The operation of this element of the formula is explained in paragraphs 21 to 24 of the Fiscal Framework.

37. A particular challenge for the Welsh Treasury associated with the practical operation of the Barnett Formula and the Fiscal Framework is that of attaining certainty. Specifically, being able to determine whether a new funding allocation at the UK level gives rise to a Barnett Consequential. Furthermore, the operation of the formula required that if, later in the financial year, a UK Department with comparable functions, had not spent its funding, there would be a retrospective negative adjustment to the quantum of funds available to the Welsh Government. Therefore, the Welsh Government was in the position of not having the certainty of knowing whether it would be able to retain the value of funds previously allocated to it earlier in the financial year until the completion of the UK Supplementary Estimates that finalise the level of funding for that year. This normally takes place several weeks before financial year end.

38. This uncertainty concerning the funding levels under Barnett, in the context of the massive increase in public spending, and the huge range of new policy interventions that were having to be developed (and costed) at pace, to respond to the pandemic and mitigate its impacts, represented a significant challenge. This is explained in more detail below in connection with the eventual implementation of “Coronavirus Guarantee”.

Taxation

39. The second source of Welsh Government funding are the receipts of devolved taxation. Devolved taxation comprises, an element of Income Tax, Land Transaction Tax (which replaced Stamp Duty Land Tax) and Landfill Disposals Tax (which replaced Landfill Tax). The Welsh Government is also responsible for Non-Domestic Rates (or business rates). When aggregated, these taxes represent roughly 20% of the Welsh Government’s overall annual budget.

40. In the case of Income Tax, the UK Government reduced, by 10p in every £1, the three rates (Basic, Higher and Additional) that are payable by Welsh residents. The Welsh Government then introduced its own rates, currently 10p in every £1 for each of the three rates. This maintains overall parity with UK Income Tax rates. It is now an annual decision within the prerogative of the Welsh Government as to whether it wishes to utilise its powers to vary the rates of Income Tax in Wales within the stated parameters.

Borrowing

41. The Wales Act 2017 (which amended section 122A of the Government of Wales Act 2006), enables the Welsh Government to borrow up to a cumulative maximum of £1 billion for capital expenditure purposes. The annual borrowing limit for capital was increased to £150 million in April 2019. The Welsh Government is also able to borrow, up to a cumulative maximum of £500 million, for purposes other than capital expenditure. The Fiscal Framework sets out the conditions and limits for resource borrowing which is limited to taking action to

mitigate circumstances where tax receipts fall below forecasts and to provide a working balance or meet an in-year excess in expenditure over income within the Welsh Consolidated Fund. No sums were borrowed between 2019-20 and 2021-22. As at May 2022 the accumulated borrowing figure (not including interest) was £70m.

EU Funds under the 2014-2020 Structural Funds Programme

42. The 2014-20 EU Structural Fund Programmes in Wales provided £2.2bn of EU funds for investment over a nine-year period. Programme activity and expenditure will formally come to an end on 31 December 2023.

43. On 19 March 2020, as the pandemic began to impact on operations, the Welsh European Funding Office (WEFO) - which is an administrative directorate of the Welsh Government that acts as a managing and paying agent of the European Commission with regard to EU funding - issued an advice note to all beneficiaries of EU Structural Fund operations, along with a FAQ document which was reviewed and updated throughout the crisis. A Covid-19 panel was set up to provide consistency of approach to beneficiary queries. Alongside this, WEFO officials worked with individual operation leads to look at improved timetables and alternative delivery models to help mitigate the impact of the pandemic.

44. In March and April 2020, the European Commission (EC) launched the Coronavirus Response Investment Initiative (CRII), two packages of flexibilities aimed at mitigating the impact of the Covid-19 public health emergency. A key feature was the extension to the scope of the European Structural and Investment (ESI) Funds support to include provision of working capital to SME's and research and innovation activity in support of the crisis response. The EC also provided further clarity on the use of the funds to support additional healthcare costs. Additionally, the CRII provided a specific Covid-19 temporary State Aid framework along with measures to vary fund intervention rates, transfers between priorities and flexibility on the timing of approvals. All

intended to enable the immediate mobilisation of European funds for the Covid-19 response.

45. When the national lockdown commenced in March 2020 the European Structural Funds were almost 100% committed with funding continuing to be drawn down, in arrears, from the EC once spent by beneficiaries. WEFO worked with officials across the Welsh Government to identify how EU funds could be deployed in support of the Welsh Government's overall response to the crisis whilst maximising the opportunities offered by the CRII. In April 2020 the Star Chamber and the ESI Programme Monitoring Committee were informed of WEFO's earmarking of EU funds, to support the second wave of the Economic Resilience Fund. Steps were also taken to ensure funds were maximised within existing operations to support the pandemic response. Below is a summary of the overall WEFO contribution:

European Social Fund (ESF)

- A new Priority Axis within the ESF Programme, for 'Containing COVID through Capacity.' £103m ESF was allocated, on a pan-Wales basis, to fund additional medical staff and personal protective equipment costs for the Welsh National Health Service.
- A specific Covid-19 call for proposals under the Wales Council for Voluntary Action Active Inclusion scheme, utilising existing allocation of funds.
- Removal of the co-investment requirement for businesses in receipt of funding for skills activity, supported by £4m additional ESF.
- Supporting the temporary redeployment of project staff to Covid-19 activity where appropriate.

European Regional Development Fund (ERDF)

- An additional £40.1m to the Wales Business Fund for debt provision (particularly for working capital) and equity investments - £32m in West Wales and the Valleys and £8.1m in East Wales.
- An additional £15.5m for business support provision delivered by Business Wales alongside the Wales Business Fund in West Wales and the Valleys.

- An additional £0.779m for support to businesses delivered by Superfast Broadband Business Exploitation.
 - Five Research and development operations worked in collaboration with the NHS/other linked companies to develop products/services to combat COVID-19, representing a total of £0.059m investment.
 - Supporting the temporary redeployment of project staff to Covid-19 activity where appropriate.
46. All additional resource to the Covid-19 response was provided from remaining pockets of unallocated funding and anticipated specific and general decommitment / underspend by operations. Additionally, WEFO undertook a revised risk approach in respect of exchange rates along with an identification of areas that could be pulled back later in the programme period if needed. Since these decisions were made in 2020, beneficiaries have experienced two years of severe pressures on resources, project costs and supply chains and, in the long-term, exchange rates have remained stable across the programme period. Therefore, additional decommitments have not been needed as costs have been contained within programme budgets.

Budget Process and allocation of funds

47. Funds allocated to the Welsh Government by way of the Block Grant and from other sources are available to be utilised by the Welsh Ministers in accordance with their policy priorities and within any area of responsibility where they have statutory functions. Barnett formula generated funds are not conditional on the funds being applied for the same purpose as the funding purpose within the relevant UK Department that gave rise to the consequential.
48. Pursuant to provisions within Part 5 of the Government of Wales Act 2006, the Block Grant is paid initially to the Secretary of State for Wales, who retains the funding needed to run the Wales Office and then makes provision for the balance to be accessed, on demand, by the Welsh Government via the Welsh

Consolidated Fund (essentially the Welsh Government's bank account bank). The Welsh Government must then prepare its draft Budget setting out how it will use the funds.

49. Senedd committees and other interested parties then scrutinise and comment on the draft Budget before it is finalised and approved by a vote of the Senedd in the annual Budget motion. The Budget may be varied "in year" through one or more Supplementary Budget motions which also require Senedd approval. I produce here copies of the Welsh Government's Budgets (and associated Supplementary Budget motions) as Exhibits **AGM2BWT01/305-INQ000066151; AGM2BWT01/306, INQ000066152** and **AGM2BWT01/307 - INQ000066153** for 2019/20; as Exhibits **AGM2BWT01/308-INQ000066154; AGM2BWT01/309 - INQ000066155; AGM2BWT01/310 - INQ000066156** and **AGM2BWT01/311-INQ000066157** for 2020/21; as Exhibits **AGM2BWT01/312-INQ000066158; AGM2BWT01/313 INQ000066159** and **AG/M2BWT01/314 - INQ000066160** for 2021/22 and as Exhibits **AGM2BWT01/315-INQ000066161, AG/M2BWT01/316- INQ000066162** and **AG/M2BWT01/317- INQ000066163** for 2022/23, **AG/M2BWT01/318-INQ000066164** for 2022/23.

50. Budget setting is informed by Comprehensive Spending Reviews undertaken by the UK Government, the last of these took place in 2021. For several years prior to 2021 budget allocations had been set annually, however, for the current budget setting round of 2022/23 onwards, a three-year indicative settlement has been provided.

Accounts & Audit

51. Section 131 to section 136 of the Government of Wales Act makes provision for the preparation and audit of the accounts of the Welsh Government. Accounts must be submitted to the Auditor General for Wales ("the Auditor General"), no later than 30 November in the following financial year.

52. The Auditor General is required to examine and certify the accounts and, no later than 4 months after the accounts are submitted, lay before the Senedd a copy as certified by the Auditor General, together with the Auditor General's report thereon. I produce here copies of the Welsh Government's Consolidated accounts (incorporating the Auditor General's certificate) as Exhibit **AGM2BWT01/319 – INQ000066470** for 2019-20; and as Exhibit **AGM2BWT01/320–INQ000066166** for 2020-21; as Exhibit **AGM2BWT01/321 – INQ000350638** the consolidated accounts for 2021-22.

Funding arrangements with the UK Government in connection with pandemic response measures.

53. Some of the key Covid-19 response measures were operated – and funded – by the UK Government on a UK-wide basis, such as the Self- Employed Income Protection Scheme (SEIPS) and the Coronavirus Job Retention Scheme (JRS). The Welsh Government did not receive funding for these and did not have a delivery role. These schemes were however very relevant to some Welsh Government business support measures which were designed to complement, or fill the gaps in, the UK support schemes. Welsh Government officials liaised closely with UK Government officials on the development of these schemes and monitored their impact in Wales via published statistical analysis. In many cases the UK level intervention was demand led rather than constrained by budget. However, most Covid-19 response measures were in devolved areas and hence, in Wales, funded by the Welsh Government. Due to the arrangements outlined above, funding for Covid-19 response measures in Wales was almost entirely determined through the operation of the Barnett formula.

54. Welsh Government and UK Government officials had informal discussions about the SEIPS and JRS in the initial phases of the pandemic (via Teams) on several occasions, but there was no systematic involvement of Welsh Government officials in the design of either scheme. Welsh Government involvement was mainly in the form of seeking information about how the schemes were to operate, what their scope would be (e.g. would the JRS apply

to the public sector and if so how), how long they would be operating, how they would be adapted as time went on, etc. It would be accurate to characterise the nature of these discussions as mainly about information sharing and implementation as well as lobbying by the Welsh Government for particular outcomes (e.g. for the continuation of the schemes in the Autumn of 2020). Liaison with UK Government regarding SEIPS and JRS was often an agenda item on the regular meetings during the pandemic between Welsh Treasury and HMT. If SEIPS and/or JRS was an item on the agenda, officials in Welsh Treasury would invite Welsh Government Economic Policy Officials. These discussions, including detailed briefings after an announcement of changes to the schemes, were useful to enable design/further development of the Welsh offer for business support.

55. The Welsh Government was strongly of the view that interventions such as the JRS and SEIPS were necessary to mitigate the potential impacts of the Covid pandemic and the response to it on employment and the economy more broadly. It would have been very difficult for the Welsh Government to operate such schemes (or variants of them) itself – even if the UK Government had provided the funding needed – because of the lack of access to the data necessary (which only HMRC have) and lack of delivery capability (these were very large, complex schemes to operate, manage and assure). The Welsh Government developed or adapted its own business support programmes to address delays to the UK Government schemes or to address areas where it was considered there were gaps in provision. In March 2020 the Welsh Government through the Development Bank of Wales launched the Covid-19 Wales Business Loan Scheme (CWBLs) while the UK Government loan scheme was developed, this was available for a period of two weeks until it was superseded by the UK Government's Business Bounce Back Loan scheme.

56. As noted, the UK Government launched the SEIPS and JRS schemes across the UK, and in addition directly funded English Local Authorities to support businesses through the Non-Domestic Rates (NDR) system with the relevant consequential value (a population share of the cost of the English scheme) transferred to the Welsh Government. In Wales it was considered that key

elements of the economy (e.g. businesses that did not pay NDR due to not owning their premises or working from a shared facility) were not eligible or not effectively supported utilising the approach being taken by the UK Government and adjusted the Welsh Economic Resilience Fund (ERF) and Local Authority delivered NDR schemes to address the gaps.

57. The ERF was developed to support additional running costs of businesses beyond the amount that the NDR scheme supported (subject to them being able to demonstrate the business need), and along with the expanded NDR support also included businesses such as self-employed individuals who did not qualify for SEIPS, sole traders and businesses with alternative legal structures such as small amateur sports clubs and charities who did not qualify for UK Government schemes but were significantly impacted by the pandemic.

58. The Welsh Government would have welcomed the opportunity to influence the design and development of the schemes to try to ensure they fully supported the Welsh Government's objectives and reflected the specific circumstances and conditions in Wales. We were not, however, afforded that opportunity.

59. The discussions with UKG about JRS and SEIPS referred to above allowed the opportunity to seek clarification on issues and suggest adjustments, but the general direction and application of the schemes was set by the UK Government independent of these discussions. It would have been helpful to have had more of an input on the way the schemes worked which would have given us more flexibility to support business and the Welsh Governments response to the pandemic. For example, if we wished to add restrictions at any time over a specific sector in Wales, we would not have been able to back that up with a JRS for that sector thus reducing the scope for the Welsh Government to tailor restrictions to specific circumstances in Wales without unacceptable economic impacts.

60. It would also have been helpful to have had more notice ahead of announcement of changes to JRS and/or SEIPS. Because of lack of notice, there was always a lag from the HMT announcements to re-aligning Welsh

Government business support as there was an intense period of activity to understand the HMT position, to undertake rigorous checks and balances to ensure no duplication of policy intent and to communicate changes to our partner organisations (such as local authorities). Overnight, Economy Policy officials had to become experts in UKG policy as Welsh businesses wanted to better understand the UK Schemes, being part of the policy development of both schemes would have helped with this engagement but may have also enabled a more rounded response across the UK. I have exhibited at **AGM2BWT01/322 – INQ000338621** a briefing note about the Covid 19 Job Support scheme, as an example of where not all our questions were resolved following the initial HMT announcement. The meeting referred to in this briefing paper was a regular meeting with Ministers in the former BEIS. A further example is in October 2020 when UKG lowered the intervention level of SEIPS and at the same time Wales enacted the fire break, the UKG policy did not flex to meet Welsh needs.

61. The UK Government's operation of the above schemes did however have a material impact on certain decisions that the Welsh Government was considering in connection with imposing or easing NPIs. In particular, the imposition of a "fire break" in Wales in October 2020 and a response to the Omicron wave in December 2021. In both instances, Welsh Ministers were considering imposing more stringent NPIs, including business closures, but felt constrained by uncertainties over the UK Government's economic interventions, (in October 2020 because the UK Government had been planning to cut back the JRS and in December 2021 because JRS had finished and there were no plans to restart it). Ultimately the decisions taken by the UK Government in connection with these UK schemes were based on their assessment of what interventions were required, in particular with regard to what NPIs were being implemented in England.

62. Funding for Covid-19 response interventions in devolved areas was provided from a combination of consequential funding from England-only interventions, reprioritisation from other areas of the Welsh Government budget and some re-allocation of European funding. An initial level of funding that could be made

available from re-prioritisation was established at the start of the pandemic response and revisited throughout the year as the position evolved. Budgets for interventions in Wales were set by Ministers with the level of spend determined by the actual need to spend.

63. The scale of additional funding allocated in-year in response to the pandemic (i.e. subsequent to the Welsh Government Departmental Expenditure limit (DEL) for the year being set by HM Treasury and the budget being approved by the Senedd), was exceptional, at approximately £5bn in 2020/21 and at approximately £3bn in 2021/22. I produce as Exhibit **AGM2BWT01/323 – INQ00066167**, a spreadsheet that provides details of these in year allocations for both financial years. This exceptional level of funding enabled the Welsh Government to manage its response which was further supported by the furlough scheme and vaccination purchasing for example.

64. Early, informal discussions were held between HM Treasury and the Devolved Governments about whether the normal funding arrangements would be effective for the likely circumstances of the pandemic or whether different arrangements, where funding was provided on the basis of need to spend, would be preferable. It was agreed to start with the normal arrangements and keep these under review as things progressed.

65. The Welsh Treasury had discussions with HMT at official and Ministerial level across a range of forums (Ministerial Quadrilaterals, Ministerial bilaterals, HMT/DG daily calls and meetings on specific issues relating to business support. For example, there were meetings held with HMT and the Devolved Governments to discuss the Coronavirus Job Retention Scheme on 8 April 2020 and 18 May 2020. There was a meeting to discuss self-isolation payment proposals on 21 September 2020 and these meeting records are attached at Exhibit **AGM2BWT01/324- - INQ000336399**, Exhibit **AGM2BWT01/325 - INQ000336583** and Exhibit **AGM2BWT01/326 - INQ000337102**. The purpose of these meetings was predominantly information sharing and an opportunity for the devolved governments to try and seek to inform and influence UK

Government ahead of UK Government taking decisions which would have implications for the Devolved Governments.

66. Official level meetings were, at periods in the early months of the pandemic, taking place on an almost daily basis. These discussions were necessary to share information on the funding pressures and the interventions that were in development at UK level in order for us to understand the extent to which these would generate a Barnett consequential which in turn would provide more certainty as to the level resource available to support the necessary policy interventions in Wales. I produce here as Exhibit **AGM2BWT01/327 – INQ000066168**, a chronology of official level meetings with HM Treasury during the relevant period. I reflect that our very early planning assumptions were for a shorter-lived duration of control measures and response and some decision-making reflected the need to provide public and system reassurance.

67. The level of engagement also increased significantly at Ministerial level. Normally Finance Ministers' "Quadrilateral" meetings (involving the Finance Ministers of the Devolved Governments and the CST), were infrequent, possibly occurring only once a year, however between March and December 2020 several Quadrilaterals took place. There were also bilateral meetings between the Welsh Government Minister for Finance and the CST, and "trilateral" meetings involving the Finance Ministers from the three Devolved Governments. A chronology of the Quadrilateral meetings between March & December 2020 is produced as Exhibit **AG/M2BWT01/328–INQ000066169**. A chronology of bilateral meetings is produced as Exhibit **AGM2BWT01/329- INQ000066170** and a chronology of the trilateral meetings is produced as Exhibit **AGM2BWT01/330 – INQ000066171**. Given what was substantially a common funding system for the Devolved Governments, there were also regular informal meetings between Welsh Treasury officials and their counterparts from Scotland and Northern Ireland on issues of mutual interest.

68. As previously mentioned, a particular difficulty for the Welsh Government, in being able to develop its pandemic interventions, was attaining funding certainty under the existing Barnett arrangement. A lack of budgetary flexibility

under the prevailing HM Treasury framework also created difficulties, The following are examples of the “flexibilities” sought from HM Treasury to address this during the early months of the pandemic:

- a. Having full access to the resources in the Wales Reserve in the current year, if required;
- b. The ability to carry forward, at the end of the year, more than the overall £350m limit on the Reserve due to the uncertainties about the impact of the crisis on existing programmes, the costs of new programmes, and the level of new funding from the UK Government;
- c. The ability to switch funding from capital to revenue budgets, and the option to deploy revenue borrowing, to provide further useful flexibilities and aid budget management;
- d. An increase in the annual capital borrowing limit (currently £150m) and the aggregate ceiling (currently £1bn) to enable the Welsh Government to further support its capital programmes, if necessary, and to aid the economic recovery over the longer term.
- e. More flexible repayment terms for Financial Transactions capital.

69. I produce here as Exhibit **AG/M2BWT01/331 – INQ000066172**, a letter from the Minister for Finance to the Chancellor of the Exchequer dated 3 July 2020 which made the case for such flexibilities to be granted. HM Treasury were not minded to grant these flexibilities but, in July 2020, agreed, following representations from the Devolved Governments, what was termed the “Coronavirus Guarantee” (“the Guarantee”) which sought to remedy the inherent uncertainty that arose under the Barnett formula and Fiscal Framework as I have outlined above. I produce here as Exhibit **AGM2BWT01/332- INQ000066173**, a meeting note recording the outcome of discussions on this issue between HM Treasury and Welsh Treasury officials on 23 July 2020, and as Exhibit **AG/M2BWT01/333– INQ000066174**, a note of a Ministerial Quadrilateral meeting on the issue that took place 24 July 2020. I also produce as Exhibit **AG/M2BWT01/334, INQ000066175** a statement from the Minister of Finance responding to the announcement made by the HM

Treasury, on the agreement of the guarantee, that had been made the previous day.

70. The Guarantee provided advance confirmation, of the level of additional funding that Devolved Governments would receive by way of consequentials from Covid-19 response interventions in England. Its effect was that Barnett consequential funding would be retained by the Welsh Government come what may and would not be recouped by the UK Government in the event of the funding (giving rise to the consequential) being unspent by the relevant UK Department at financial year end. It therefore provided a forward commitment to a minimum level of additional funding in 2020/21, and additional scope to carry forward funding provided very late in the financial year in response to representations by the Devolved Governments.

71. Given its limited fiscal powers, the Welsh Government did not have scope to significantly increase the level of funding for Covid-19 response beyond that 'enabled' by consequentials from the UK Government funding for England-only interventions in devolved areas. In theory, the Welsh Ministers could have increased Welsh taxes, in particular the Welsh Rates of Income Tax, to provide additional funding. However, in practice this was not a viable option due to the severe negative economic impact of Covid-19. Increasing taxes in such extremely difficult economic circumstances would have risked further exacerbating the damage to the economy and raised only limited amounts of additional revenue. In fact, the only changes in devolved taxes made during the pandemic were to reduce taxes in the form of additional reliefs from Non-Domestic Rates for small businesses and sectors most impacted by non-pharmaceutical interventions, reductions in Land Transaction Tax to stimulate the housing market and special 'time to pay' arrangements for some payers of Landfill Disposals Tax.

Process by which funds were provided and spending authorised.

72. Additional funding was formally provided from the UK Government via a Supplementary Estimate. There would usually be prior communication of each additional fund allocation, in advance of the formal Supplementary Estimate,

via a range of mechanisms, for instance, a UK Government press notice or a spreadsheet submitted by HM Treasury. Funding was then formally allocated to coronavirus response interventions in Wales via the Supplementary Budgets approved by the Senedd in July 2020, November 2020 and March 2021.

Role in decision making on funding level and effectiveness of arrangements

73. The Welsh Government was not involved in the decision making surrounding the level of funding that would be provided by the UK Government. Funds were allocated to the Welsh Government in accordance with the mechanical operation of the Barnett formula following decisions of the UK Government to make additional funding available in England.

74. Early on in the pandemic, there were lots of problems with clarifying what level of funding the Welsh Government would be receiving as result of England-only Covid-19 response interventions. The size of the Welsh Government budget meant that Ministers were able to proceed with some measures despite this uncertainty as a result of being prepared to reallocate funding from other areas if needed. Notwithstanding these constraints, Ministers took early decisions to provide funding to the NHS, local government and businesses. The relationships which pre-existed the pandemic enabled the Welsh Government to take its own distinctive approach to deploying funding with urgency, for example though the way it developed its business support grants rapidly and provided funding to public services. However, notwithstanding this situation, the lack of budget clarity was an obstacle to planning and implementing response interventions in Wales and caused significant friction with HM Treasury in the early stages. The Coronavirus Guarantee was helpful in minimising some of the early friction. However, the lack of budgetary flexibility continued to be a challenge as the Welsh Government was always trying to ensure that it did not underspend or overspend its Departmental Expenditure Limit (DEL) by more than the Wales Reserve limit.

75. In some areas, the Barnett formula could be said to have disadvantaged Wales, for instance, where the actual need to spend on an equivalent intervention was

in excess of the consequential. In other areas, the opposite could be argued, for instance, where the actual need to spend was less than the consequential.

76. Ultimately, the Welsh Government carried forward a significant amount of funding allocated by the UK Government for the Covid-19 response in 2020/21 into 2021/22. This was because a large amount of consequential funding was allocated very late in the financial year, after the point at which we could make plans to spend it. Therefore, the CST agreed that it could be carried forward to 2021/22 above and beyond the normal Wales Reserve limit. The sums were £498m resource (DEL), £137m capital (DEL) and £26m Financial Transaction Capital. I produce as Exhibit **AGM2BWT01/335 – INQ000066176** a letter from the Minister for Finance to the CST dated 18/02/21, which confirmed the sums to be carried forward.

Star Chamber

77. The Welsh Government Cabinet is the central decision-making body of the Welsh Government. It is a collective forum for Ministers to decide significant issues and to keep colleagues informed of important matters. The Cabinet reconciles Ministers' individual responsibilities with their collective responsibility. Its business consists, in the main, of matters which significantly engage the collective responsibility of the Welsh Government, either because they raise significant issues of policy or because they are of critical importance to the public.

78. Not all decisions are made in Cabinet. The Ministerial Advice process provides a channel for Ministers to make decisions relevant to their portfolio which do not require a Cabinet collective discussion or decision. A Ministerial Advice document is a document submitted to relevant Ministers for the purpose of providing them with information advice and options, to enable them to make a Ministerial decision. Further detail about the Ministerial Advice procedure can be found in my statement for M2B-WG-01.

79. It was recognised that the response to the pandemic would place unprecedented pressure on the Welsh Government budget for 2020-21 due to

the sheer volume of significant finance related decisions that would need to be taken by Ministers, and the challenge of assessing and prioritising these to maximise the impact of available resources. Strategic oversight of all major funding decisions was therefore required. Accordingly, a group that soon came to be known as “The Star Chamber” was established by the First Minister in March 2020. The group was, as set out above, chaired by Rebecca Evans. The group was also supported at Ministerial level by Jeremy Miles MS, the then Counsel General and then, later on, by Eluned Morgan MS who was then the Minister for International Relations and the Welsh Language. Alongside Welsh Treasury officials and officials from the Finance Directorate, two special advisers also attended, namely Alex Bevan and Gareth Williams and a former Senior Civil Servant and the former Chief Executive of the Welsh European Funding Office, Damien O’Brien, also joined to provide independent challenge and assurance. I produce as Exhibit **AG/M2BWT01/336 – INQ000066177** Star Chamber’s “Terms of Reference”. I also produce as Exhibit **AG/M2BWT01/337 – INQ000066178** an “agenda log” showing the meetings of the group between March and October 2020 and also showing details of the particular policy proposals and interventions that were being considered for funding at each meeting during this period.

80. Star Chamber focused initially on finding savings from within existing Welsh Government budgets to fund pandemic response measures. It met frequently during the early part of the pandemic (sometimes four or five times a week). Officials met several times a day to plan agendas for forthcoming meetings and to manage the pipeline of advice and decisions that needed to be taken. Notes from the Star Chamber were shared with the Cabinet on a weekly basis. Over the course of its existence the Star Chamber, in its advisory capacity, considered, tested and assessed over 100 policy interventions with significant funding implications. It was a crucial part of the Welsh Government’s governance and financial assurance apparatus during the first 6 or 7 months of pandemic and played a vital role in enabling the organisation to respond to the unprecedented financial challenges that it was facing. Even though the Star Chamber was evaluating funding proposals and offering advice and recommendations, formal decision making on specific measures was still

generally exercised via the MA process. Decisions on overall Welsh Government funding were made by Cabinet via decisions taken on budgets that were then presented to the Senedd for approval.

81. Star Chamber was disbanded in October 2020 as the volume of decision-making reduced, but was succeeded by an officials group which was less formal but provided a similar function for the next six months or so. Pandemic response measures continued to be formally decided by the MA process. As mentioned above, the Welsh Treasury team also operating what was termed a “Finance Birdtable” with officials meeting to share information on pandemic finance related matters. Meetings were frequent during the early part of the pandemic (two or three days a week), and have continued to the present day, albeit on a less frequent basis. A “Finance Dashboard” was established by the Welsh Treasury team very early on in the pandemic to keep track of funding available for response measures as well as recording the funding already provided. The “Dashboard” was updated regularly and shared with Ministers.

82. More generally in the context of financial management within the Welsh Government, I would also draw the Inquiry’s attention to the publication “Managing Welsh Public Money” (January 2016) which I produce as Exhibit **AGM2BWT01/338-INQ000066179**. This Welsh Government publication comprehensively sets out the principles of financial management and governance that are to be applied in respect of resources falling within the boundary of the Welsh Government’s consolidated accounts.

83. I produce as Exhibit **AG/M2BWT01/339 -INQ000066180**, a short report prepared by the Welsh Treasury team which reflects on their collective experiences of dealing with a number of issues in the context of the pandemic including engagement with HM Treasury and supporting specific policy interventions. The report seeks to record some key learning points as result of these experiences.

84. In March 2023, the Public Accounts and Public Administration Committee, “PAPAC”, published its report on “Scrutiny of Accounts Welsh Government

2020-21” a copy of which is exhibited at AGM2BWT01/340 – INQ000350703. The report contained conclusions and recommendations regarding the Welsh Government administered COVID -19 Business Support Schemes and identified that £155.5 million was either not drawn down or paid back to HM Treasury. In particular, the PAPAC concluded at para 180 of the report that *“that significant funding was lost to Wales as a result of the Welsh Government’s underspend in 2020-21, which could have been utilised to fund essential public services.”*

85. I am unable to agree that the conclusions of the PAPAC on this point are completely correct. In 2020-21, the Welsh Government received an additional £5,685m from the UK Government because of Barnett consequential arising from additional funding provided to UK Government Departments for its response to the Covid-19 pandemic. The UK Government allowed the Welsh Government to carry forward £485m of this funding to use the following financial year. This carry forward was in addition to the Welsh Government’s normal mechanism for carrying forward underspends between financial years i.e., the Wales Reserve in which up to £350m can be carried forward. The Welsh Government spent £5,264m on its response to the Covid-19 pandemic in 2020-21. This was £64m more than the Barnett consequential received and retained for use in 2020-21.

86. The PAPAC’s reference to funds returned to the UK Government relates to the financial outturn of the entire Welsh Government budget. At the end of 2020-21, the Welsh Government reported an underspend against its revenue budget of £357.9m and an overspend against its capital budget of £149.1m – a net underspend of £208.8m. Underspends can be carried forward for use in future years using the Wales Reserve up to a maximum of £350m. Despite understanding that the revenue and capital balance could be managed after the year-end via an outturn adjustment, the Chief Secretary to the Treasury denied the Welsh Government’s request to utilise the revenue underspend to offset the capital overspend. The higher revenue underspend resulted in an excess of funds which could not be carried forward using the Wales Reserve to the value of £155.5m (subsequently revised to £153.3m). Had the switch

from revenue to capital been allowed, it would have offset the capital expenditure incurred. However, instead, the excess underspend was, in effect, clawed back by the UK Government and not made available for use by the Welsh Government in future financial years.

87. The Welsh Government always seeks to maximise expenditure on programmes and services that deliver for Welsh people. However, in this case, the UK Government's decision to reclaim funding, provided very late in the financial year, from the Welsh Government after dismissing reasonable requests for flexibility to adjust between our revenue and capital funds, or to carry forward funding to allow us to support future needs, prevented our ability to secure best value for the taxpayer here in Wales.

88. As a devolved government, we operated within the overall DEL budgetary control set by HM Treasury and should have been allowed a reasonable level of flexibility, particularly in this exceptional period, in respect of the individual revenue and capital controls. Our decisions to maximise capital expenditure – to offset the revenue underspend arising because we were not able to use some of the money allocated late in the financial year – were made having regard for the rules within HM Treasury's Consolidated Budgeting Guidance that revenue budgets can be switched to capital – a practice we have utilised in the past to manage the financial position.

89. The situation should be seen in the wider UK context. For example:

- i. the total revenue underspend (excluding depreciation) in 2020-21 by all UK government departments was £29bn;
- ii. the UK Department for Health and Social Care alone underspent by over 10%, returning £20bn to the Treasury;
- iii. overall, UK departments returned almost 7% of their funding to the Treasury that year;
- iv. in Wales, the figure returned represented only 1% of our available resources;
- v. a Barnett share of the funding returned to Treasury by UK departments would have been well in excess of £1bn, rather than

the much lower £155m (which would have been zero had the revenue to capital switch been agreed).

90. The Welsh Government has a long record of being amongst the best UK departments and devolved governments in terms of utilising our budget. This remained the case in 2020-21. The MFLG is working with the Chief Secretary to the Treasury to try to ensure the situation relating to the 2020-21 financial year does not occur again.

91. The MFLG published the 2020/21 outturn report in August 2022 which I have exhibited at **AGM2BWT01/341-INQ000338620** along with an accompanying letter to the Chair of the Senedd Finance Committee. The MFLG also provided a written statement on this issue on 29 March this year, which sets out the facts.

Financial support for Local Authorities during the pandemic

92. These support arrangements were led, not by the Welsh Treasury, but by the Local Government Finance and Workforce Partnership Division within in the Covid Recovery and Local Government Group, led by Reg Kilpatrick.

93. Throughout the relevant period, the Welsh Government team liaised with all 22 principal local authorities at both elected and officer level.

94. Prior to and during the pandemic, financial matters affecting local authorities were discussed formally at Minister/ elected local authority leader level through the Finance Sub-group (FSG). This is a subgroup of the Partnership Council. More information about the Partnership Council can be found in my statement for M2B-WG-01. I produce here as Exhibit **AGM2BWT01/342– INQ000066181** a chronology of the FSG meetings during the relevant period. The meeting records and papers associated with each meeting are exhibited at AGM2BWT01/343 to AGM2BWT01/444- INQ000338479 to INQ000338775.

Exhibit Reference	PI URN	Exhibit Reference	PI URN

AGM2BWT01/343	INQ000338749	AGM2BWT01/394	INQ000338519
AGM2BWT01/344	INQ000338747	AGM2BWT01/395	INQ000338489
AGM2BWT01/345	INQ000338743	AGM2BWT01/396	INQ000227915
AGM2BWT01/346	INQ000338744	AGM2BWT01/397	INQ000338779
AGM2BWT01/347	INQ000338745	AGM2BWT01/398	INQ000338780
AGM2BWT01/348	INQ000338742	AGM2BWT01/399	INQ000338375
AGM2BWT01/349	INQ000338746	AGM2BWT01/400	INQ000338512
AGM2BWT01/350	INQ000338748	AGM2BWT01/401	INQ000338781
AGM2BWT01/351	INQ000349152	AGM2BWT01/402	INQ000338782
AGM2BWT01/352	INQ000338754	AGM2BWT01/403	INQ000338783
AGM2BWT01/353	INQ000338778	AGM2BWT01/404	INQ000338784
AGM2BWT01/354	INQ000338777	AGM2BWT01/405	INQ000338785
AGM2BWT01/355	INQ000338755	AGM2BWT01/406	INQ000338788
AGM2BWT01/356	INQ000338750	AGM2BWT01/407	INQ000338513
AGM2BWT01/357	INQ000338751	AGM2BWT01/408	INQ000338789
AGM2BWT01/358	INQ000338752	AGM2BWT01/409	INQ000338791
AGM2BWT01/359	INQ000338753	AGM2BWT01/410	INQ000338790
AGM2BWT01/360	INQ000338756	AGM2BWT01/411	INQ000338787
AGM2BWT01/361	INQ000338757	AGM2BWT01/412	INQ000338792
AGM2BWT01/362	INQ000338758	AGM2BWT01/413	INQ000338793

AGM2BWT01/363	INQ000338759	AGM2BWT01/414	INQ000338794
AGM2BWT01/364	INQ000338761	AGM2BWT01/415	INQ000227456
AGM2BWT01/365	INQ000338760	AGM2BWT01/416	INQ000338795
AGM2BWT01/366	INQ000338776	AGM2BWT01/417	INQ000338804
AGM2BWT01/367	INQ000066182	AGM2BWT01/418	INQ000338796
AGM2BWT01/368	INQ000338762	AGM2BWT01/419	INQ000338564
AGM2BWT01/369	INQ000338763		
AGM2BWT01/370	INQ000338764	AGM2BWT01/421	INQ000338797
AGM2BWT01/371	INQ000338563	AGM2BWT01/422	INQ000338798
AGM2BWT01/372	INQ000338765	AGM2BWT01/423	INQ000338799
AGM2BWT01/373	INQ000338766	AGM2BWT01/424	INQ000338800
AGM2BWT01/374	INQ000338767	AGM2BWT01/425	INQ000338807
AGM2BWT01/375	INQ000338768	AGM2BWT01/426	INQ000338809
AGM2BWT01/376	INQ000338769	AGM2BWT01/427	INQ000227987
AGM2BWT01/377	INQ000338770	AGM2BWT01/428	INQ000350665
AGM2BWT01/378	INQ000227467	AGM2BWT01/429	INQ000338803
AGM2BWT01/379	INQ000338771		
AGM2BWT01/380	INQ000338772	AGM2BWT01/431	INQ000338806
AGM2BWT01/381	INQ000338786	AGM2BWT01/432	INQ000338774
AGM2BWT01/382	INQ000337089	AGM2BWT01/433	INQ000338808

AGM2BWT01/383	INQ000337090	AGM2BWT01/434	INQ000338805
AGM2BWT01/384	INQ000337098		
AGM2BWT01/385	INQ000337091	AGM2BWT01/436	INQ000338801
AGM2BWT01/386	INQ000337092		
AGM2BWT01/387	INQ000337097		
AGM2BWT01/388	INQ000337094		
AGM2BWT01/389	INQ000337095		
AGM2BWT01/390	INQ000337093	AGM2BWT01/441	INQ000338802
AGM2BWT01/391	INQ000337096	AGM2BWT01/442	INQ000350664
AGM2BWT01/392	INQ000338523	AGM2BWT01/443	INQ000227473
AGM2BWT01/393	INQ000338810	AGM2BWT01/444	INQ000338775

These meetings were generally chaired by the Minister for Housing and Local Government, Julie James MS and attended by the Minister for Finance and the Deputy Minister for Housing and Local Government.

95. At officer level financial matters were discussed through officials' attendance at the Society of Welsh Treasurers Executive (SWT Exec) meetings which occurred monthly and at the SWT "Full" meetings which were held 3-4 times a year. SWT is the network of the 22 Local Authority Finance Directors. The Executive comprises a smaller number of Finance Directors (the membership of which is nominated through SWT with an annual change of chair/deputy). The minutes of SWT meetings are held by the Welsh Local Government Association.

96. From March 2020, engagement via the FSG was supplemented by regular meetings between Ministers and local authority Leaders which covered any

issues of concern including finance. From this period official level engagement through SWT Executive and SWT Full increased markedly including daily calls with SWT Exec for some parts of the period and weekly (virtual) meetings of the full SWT. Meeting frequency was later reduced responding to the changing nature of the pandemic. Through this mechanism Welsh local government was able to raise its concerns about the financial impact of the pandemic and accompanying restrictions on both the costs of local authority services and the impact on local authority other income including council tax. These concerns were also raised specifically through FSG and an example of this is revealed by the April 2020 minutes which are produced as Exhibit **AGM2BWT01/367 INQ000066182**.

97. As a result of this engagement Ministers took an early decision to front load payment of the annual settlement to local authorities so that there were no cash flow pressures. Ministers were advised that funding should be provided to local authorities and that this should be based upon actual impacts not through a formula allocation.

98. Ministers also agreed that additional funding for local government should largely be routed through the single Local Authority Covid Hardship Grant to avoid the administrative overheads of having multiple funding streams covering each impacted area. This was initiated following the submission of ministerial advice under reference MA/JJ/1027/20 which is produced as Exhibit **AGM2BWT01/446, INQ000066183**

99. Also produced, to demonstrate the nature and operation of the Hardship Grant, are Exhibits **AGM2BWT01/447, INQ000066184** – this being “Terms for Recovery of Costs Incurred as result of Covid-19”, dated 26/03/2020; **AGM2BWT01/448, INQ000066185**, being a document carrying the title “Loss of Income Principles” (undated); **AGM2BWT01/449–INQ000066186**, being “Local Government Single Emergency Hardship Funding – Terms for the recovery of costs as a result of Covid-19”, dated November 2020 and **AGM2BWT01/450, INQ000066187** being “Local Government Hardship Fund Additional Cost Claims – Principles and Guidance 2021-22. I am advised that

the operation of the scheme was adjusted on several occasions over the course of the relevant period and the documents exhibited above reflect the terms and principles at various points during this time.

Statement of Truth

I believe that the facts stated in this witness statement are true. I understand that proceedings may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief of its truth.

Personal Data

Signed:

Dated: 22/09/2023