

million to HM Treasury. The pandemic and the funding made available for our response made 2020-21 an extraordinary year and the consolidated accounts for that year (exhibited at **RE/024-INQ000066166**) bear out my belief that the Fiscal Framework was not flexible enough and allowed the then Chief Secretary to the Treasury to exercise too much discretion over matters that had direct negative impact on the Welsh Government's ability to exercise devolved functions in respect of which Welsh Ministers (not HM Treasury Ministers) would be ultimately accountable. For example being able to switch revenue to capital, as outlined in paragraph 55 below. Significant funding was provided to the Welsh Government by the UK Government very late in the 2020-21 financial year. The Welsh Government's fiscal departmental expenditure limit increased by £4.6bn (almost 27%) in the supplementary estimates for 2020-21 of which £4.0bn related to Barnett consequentials. This information was confirmed on 2 February 2021 in a letter from the Chief Secretary to the Treasury, **RE/025-INQ000353514** refers. The UK Government published the supplementary estimates on 22 February 2021. To make the most effective use of this funding and secure best value for the taxpayer, we made decisions to maximise expenditure wherever possible, including bringing forward progress on our capital plans.

54. As a devolved government, we operated within the overall Welsh Government budgetary control set by HM Treasury and should have been allowed a reasonable level of flexibility in respect of the individual revenue and capital controls. Our decisions to maximise capital expenditure were made having regard for the rules within HM Treasury's Consolidated Budgeting Guidance (exhibited at **RE/026-INQ000187590**) which states that revenue budgets can be switched to capital – a practice we have utilised in the past to manage the financial position.

55. I wrote to the Chief Secretary on 24 March 2021, exhibited at **RE/027- INQ000626250**, to inform him that our plans for 2020/21, as laid out in our third supplementary budget, included a switch from revenue DEL to capital DEL of £501 million. I did not receive a response to this letter. As things turned out, we were actually able to increase capital investment by more than expected at the time of the 24 March letter, which required a bigger revenue to capital switch. However, following lengthy discussions between Welsh Treasury officials and HM Treasury officials, we were denied the flexibility to switch additional revenue to capital. This is despite being given to understand that the revenue and capital imbalance could be managed after the year-end via an outturn adjustment - a correction to the final figures to reflect the actual, rather than the expected amounts. These discussions formed part of regular discussions between officials with no formal