

Llyr Gruffydd MS

Chair – Senedd Finance Committee
Senedd Cymru
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Den Llyr.

Financial Response to COVID-19

Thank you for inviting me to appear before the Senedd Finance Committee on 13 July. I trust that the Committee found the session as interesting and as useful as I did. Your letter of 22 July raised some additional questions on the UK government's financial response to COVID-19, as well as a number of other fiscal areas.

COVID-19 is now clearly the most significant immediate source of fiscal risk facing the UK. The action the UK government has taken in response to the COVID-19 pandemic was necessary to protect public health, support household incomes, and to minimise permanent damage to the economy.

The work of the last ten years in bringing borrowing and debt back under control meant that the UK was well-equipped to respond to the challenges posed by COVID-19. While the scale of the long-term fiscal impact will depend to a large extent on the nature of the economic recovery, it is clear the pandemic will lead to a higher level of debt in the medium-term. However, as borrowing costs continue to be very low, the costs of servicing this debt are affordable and sustainable. The UK government is committed to fiscal sustainability and ensuring the long-term health of the public finances. The UK government will set out further details on its plans for a sustainable and balanced medium-term fiscal policy at the next Budget, alongside an updated Office for Budget Responsibility (OBR) forecast.

Turning to sub-national arrangements, UK government borrowing is on behalf of the whole of the UK and the Welsh Government receives a share of this additional funding through the Barnett formula. The UK government has committed that the Welsh

government will receive at least £4.0bn of additional resource funding in 2020-21 on top of the position set out at the Spring Budget.

The Welsh Government also has powers to borrow on top of the share of funding it receives from UK government borrowing. In their 2019 Fiscal Risks Report, the OBR highlighted that devolution of greater revenue-raising, expenditure, and borrowing powers to the devolved administrations could present a risk to the public finances if a devolved administration were to become unable to fund essential services while servicing their debts. The principal mechanisms for mitigating this risk are the fiscal frameworks agreed with the Welsh (and Scottish) governments, which underpin their respective tax, spend and borrowing powers. These frameworks include limits on the total borrowing permitted by the devolved administrations as well as annual limits on such borrowing.

In relation to local authorities in Wales, their borrowing is managed within the Prudential Code. Under the Code, each local authority must set a borrowing limit for itself in accordance with a set of principles. This takes into account the revenue streams available to the local authority to repay the debt.

In relation to the relaxation of lockdown restrictions, throughout the COVID-19 pandemic the UK government has worked in lock-step with the devolved administrations to keep the whole of the UK safe. All governments have worked and continue to work closely together to ensure a coordinated approach remains across the United Kingdom. The UK government is absolutely committed to our UK-wide approach, even though this may travel at slightly different speeds in different parts of the UK. We have said we will do whatever it takes to respond to the unique circumstances we face and this applies to Wales just as it does for the rest of the UK.

The UK Shared Prosperity Fund remains one of the UK government's top priorities and regular discussions are taking place at the highest level to ensure that the Fund delivers on two key counts – levelling up across the UK and strengthening the Union. I will shortly be having a trilateral meeting with the Counsel General Jeremy Miles, alongside Simon Clarke MP – the Minister for Regional Growth and Local Government –, to update him on our latest approach to the Shared Prosperity Fund and discuss what the role of the Welsh Government will be in this.

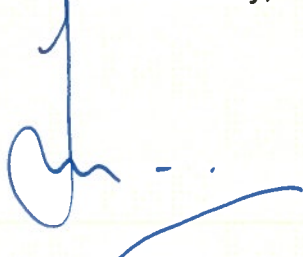
We also recognise the need to give reassurance to audiences in Wales about the future of local growth funding. We know that the Shared Prosperity Fund has immense significance – both politically and financially – to people in Wales and we are aware

that businesses and institutions need certainty so that they can plan for the years ahead. The current Comprehensive Spending Review is a key milestone in this work, and many of the questions that people have asked about the Shared Prosperity Fund will be answered in the light of this process.

As I have previously said to the External Affairs and Additional Legislation Committee, we are looking at the Shared Prosperity Fund in the context of our post-COVID-19 recovery, and as such our ambitions for rebuilding the economy and bringing people out of deprivation are now far greater. We will be maximising the benefits of being able to create a new, domestic fund for regional growth which better targets the needs of our citizens. I view the Shared Prosperity Fund as an opportunity to deliver large sums of money to the places that need it the most, and I want to ensure that this money delivers on the values and goals shared by both the UK government and the Welsh Government.

Thank you for the invitation to give evidence to the Committee as part of your separate inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework. We, the UK government, will be in touch separately about this in the coming weeks.

Yours sincerely,



Rt Hon Simon Hart MP
Secretary of State for Wales
Ysgrifennydd Gwladol Cymru