



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Llyr Gruffydd MS
Chair of Welsh Parliament Finance Committee
Welsh Parliament, Cardiff
CF99 1SN

23 February 2021

Dear Llyr,

SPENDING REVIEW 2020 AND THE FISCAL FRAMEWORK

1. Thank you for your letter on 8 January about funding announcements at the recent spending review. I am also grateful that you have shared your published report following the Committee's inquiry into the implementation of the Wales Act 2014 and operation of the Welsh Government's fiscal framework.

2. The 2020 Spending Review (SR20) will deliver jobs and infrastructure in Wales. In addition to providing the Welsh Government with £1.3 billion of additional funding through the Barnett formula, Wales will benefit from the UK Government's £100 billion UK-wide capital investment that will create jobs and grow the economy.

SR20 funding arrangements relating to EU Exit

3. SR20 allocated £240 million to the Welsh Government for farm support. This settlement ensures that, together with remaining receipts under the EU Common Agricultural Policy, farm support in Wales for 2021-22 is the same as in 2019. This delivers on the UK Government's manifesto commitment to guarantee the current annual budget to farmers in every year of the Parliament. It is for the Welsh Government to determine how to allocate this funding to farmers, land managers and the rural economy.

4. The Welsh Government will also continue to receive funding from EU structural funds, which for 2021-22 will be more than the average over 2014-20. On top of this we are providing additional funding in 2021-22 to support our communities to pilot programmes and new approaches – we will work closely with the Welsh Government on how best to use this to prepare for the introduction of the UK Shared Prosperity Fund (UKSPF). The UKSPF will help to level up and create opportunity across the UK in places



most in need. It will operate UK-wide, using the new financial assistance powers in the UK Internal Market Act, and we will ramp up funding to at least match previous EU structural funds reaching around £1.5 billion a year across the UK.

Department for Transport (DfT) Barnett comparability factor at SR20

5. There are two key points here. First, in relation to HS2, DfT's responsibility for heavy rail infrastructure in England and Wales is set out in legislation. DfT is therefore funded for this responsibility rather than the Welsh Government. However, as the Welsh Government acknowledge, as the comparability factors used at Spending Review 2015 (SR15) were based on 2015-16 spending plans, much of the £755m of capital Barnett funding generated by DfT spending over the SR15 period related to the increasing investment in HS2. As a result, around £170m of the Welsh Government's underlying annual block grant funding can be attributed to HS2. The Welsh Government is able to spend this funding while Wales simultaneously continues to benefit from direct UK government investment in the railway network.

6. Second, Network Rail has been reclassified as a central government body within DfT so is now included as part of the DfT comparability factor. This is in line with the normal calculation of comparability factors. Related to this, the transfer of responsibility for the Core Valley Lines was at the Welsh Government's request and was agreed on the basis it was fiscally neutral, with the funding arrangements for Control Period 6 (until 2023-24) confirmed in January 2020. Network Rail retains responsibility for the wider rail network in Wales so the comparability factor for Network Rail remains at 0%.

Welsh Government funding and flexibilities

7. As the Committee will be aware, I have been providing an upfront guarantee of additional resource funding to the Welsh Government for 2020-21. I agreed this £5.2 billion funding guarantee in response to the Welsh Government's request for certainty to help them plan their own support arrangements in Wales.

8. For 2021-22, the Spending Review confirmed an additional £1.3 billion of Barnett consequentials for the Welsh Government, including £770 million in relation to Covid-



19. This brings Barnett-based funding provided to the Welsh Government to £16.6 billion in 2021-22, which equates to around £123 per head for every £100 per head the UK Government spends in England on matters devolved in Wales. This is substantially above the £115 per head that we agreed with the Welsh Government was fair for Wales.

9. I can confirm the Welsh Government can also carry forward into 2021-22 any additional UK Government Barnett-based funding provided at Supplementary Estimates 2020-21 above the £5.2 billion resource funding guarantee or on top of their existing capital block grant, as well as any repayments of business rates relief that they receive.

10. It is for the Welsh Government to determine how to make full use of this carry forward flexibility and how to allocate funding to deliver on devolved responsibilities. In particular, the Welsh Government can spend as much of their funding on capital as they want, in addition to annual capital borrowing of £150 million.

Funding transparency

11. I have worked closely with all three devolved administrations this year, including calls every week or so when the pandemic hit back in the spring. Officials have had even more frequent engagement. A full breakdown of 2021-22 funding was provided at SR20 and we will confirm all Barnett consequential at Supplementary Estimates 2020-21 later this month. We will also publish the next iteration of Block Grant Transparency later this year, which will again include a full and detailed breakdown of funding.

12. I am copying the Minister for Finance and Trefnydd, and the Secretary of State for Wales into this letter.

Best wishes,

A handwritten signature in black ink that reads 'Steve Barclay'.

RT HON STEVE BARCLAY MP