



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

Jocelyn Davies AM
Chair – Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff
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2nd February 2016

Dea M. Davies,

INQUIRY INTO FUTURE FUNDING

Thank you for your letter of 9 December on the Finance Committee's inquiry on future funding, following our earlier exchange of letters in the summer.

2. Thank you for your invitation to appear before the Finance Committee. I regret that due to existing diary commitments I will not be able to attend a meeting ahead of the dissolution of the Assembly on 6 April. However, I have set out below the UK Government's position on funding in Wales, which I hope the Committee will find useful.

3. As you are aware, the Chancellor announced at the Spending Review and Autumn Statement in November that a new funding floor has been introduced for Wales, and set for this Parliament. The floor has been set at 115% of comparable spending per head in England. This is within the range identified by the Holtham Commission as being fair to Wales.

4. The introduction of the floor will mean that the Welsh Government will continue to benefit from the Barnett Formula if the relative level of funding they receive is higher than 115% per head. The Welsh Government will now also benefit from the certainty that it won't fall below that level.

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5. The Spending Review and Autumn Statement also announced that the funding floor will be reset at the next Spending Review. This reflects the St David's Agreement last year, which set out that funding arrangements beyond this parliament will need to take full account of the Welsh Government's new powers and responsibilities, given the significant impact that tax devolution will have on its funding. The Welsh Government is due to take on new tax powers for Landfill tax and Stamp Duty Land Tax in 2018. The UK government has also announced that it will remove the requirement for a referendum before Welsh Rates of Income Tax can be introduced. The devolution of these taxes will allow the Welsh government to take on more responsibility for how they raise money as well as how they spend it. My hope is that the next Spending Review will therefore provide a sensible point at which to reset the arrangements.

6. I am copying this letter to the Secretary of State for Wales.

Yours,

A handwritten signature in black ink, appearing to read 'Greg Hands', with a long horizontal line extending to the right.

GREG HANDS

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