

Rt Hon Steve Barclay MP
Chief Secretary to the Treasury

8 January 2021

Dear Chief Secretary to the Treasury

Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework; and Comprehensive Spending Review

I wrote to you on [23 September 2020](#) to express the Committee's regret that you declined our invitation to provide evidence to our [inquiry into the implementation of the Wales Act 2014 and the operation of the Fiscal Framework](#).

Whilst the Committee appreciated the time pressure on the UK Government last autumn given the fiscal event, our inquiry is also time critical to ensure we report and debate the issue prior to the Senedd's dissolution. It is very disappointing that you have declined our subsequent invite for you to attend a meeting in February/March 2021. Whilst this session would have been following publication of our report, it would still enable us to reflect on your evidence during the Plenary debate.

The Wales Act 2014 was a fundamental piece of legislation in the devolution settlement and the role of the Welsh Government in delivering successfully is intrinsically linked with the UK Government. Given your responsibility for treasury interests in devolution to Wales, we feel that the value of the scrutiny process has been undermined by your lack of engagement.

Comprehensive Spending Review

Following the Chancellor of the Exchequer's delivery of the UK Government's Spending Review on 25 November 2020, we [wrote](#) to the Secretary of State for Wales to request an urgent update on the impact of the spending review in Wales. We received a response from the Secretary of State on [5 December 2020](#).

Given the significance of the funding announcements to Wales, we held an evidence session with the Welsh Government Minister for Finance on [16 December 2020](#). The Committee still has a number of concerns and we would be grateful for your views on the following:



Senedd Cymru
Bae Caerdydd, Caerdydd, CF99 1SN

 SeneddCyllid@senedd.cymru

 0300 200 6565

Welsh Parliament
Cardiff Bay, Cardiff, CF99 1SN

 SeneddFinance@senedd.wales

 0300 200 6565

Agricultural sector shortfall –The Welsh Government states that the Chancellor’s proposed replacement for the EU Common Agricultural Policy funding appears to leave Welsh farmers and rural communities £137 million short of the expected funding in 2021-22. This includes £42 million pillar 1 transfer funding that the Welsh Government was expecting to receive in 2021-22. The Minister said she has raised this with you and you have agreed to write to her with a decision on whether the Welsh Government can recoup the £42 million funding from the Treasury. The Minister has agreed to share this information with the Committee. However, the Committee does not agree that the £95 million funding available under the 2014-2020 Rural Development payments should be netted off from the 2021-22 funding being made available by the UK Government to fulfil the funding commitment.

Shared Prosperity Fund –The Spending Review identifies £220 million of additional funding to help local areas prepare over 2021-22 for the introduction of the Fund, we are under the assumption that this is to support the piloting of new programmes and approaches. The Minister provided an illustrative figure of £12 million if Wales was to receive a Barnett share of the £220 million. The Minister stated:

“there's no suggestion or guarantee that we would have a Barnett share of it, and all of this, again, goes into the discussions as to the impact of the internal market Bill, what the programme will look like, whether it's something the Secretary of State will be involved in, something that the Welsh Government is carved out of.”

Whilst acknowledging the £220 million is to support the pilot scheme, Wales currently receives £375 million from the European Structural and Investment Programmes, so there appears to be a significant shortfall. We seek a commitment as to when funding to match this programme will be announced and reassurance from you that the UK Government’s pledge that Wales will not “be a penny worse off” after Brexit still stands.

Capital consequential for Wales – The change in the Statement of Funding Policy’s comparability factor in relation to combining Network Rail and Transport formulae leading to transport spending comparability reducing from 80.9% (transport only) to 36.6%, mainly as a result of the treatment of HS2 funding. The Minister said that there should be:

“comparability with rail infrastructure programmes, particularly in the light of the transfer of the core Valleys lines, and also, the fact that in the aggregate, HS2 provides no benefit to Wales; in fact, UK Government's own analysis suggests it could come at a cost to Wales of £150 million a year, and most of that will be felt in south-west Wales, when areas beyond Bridgend, Swansea and so on become less attractive to investors. So, all of these issues provide us with cause to believe that it's just inappropriate, really, to reduce the factor to 36.6 per cent.”



Capital figures

The Minister detailed a £60 million increase in general capital alongside a reduction of £191 million in financial transaction capital – a year on year reduction of 5%. The March 2020 Budget showed an increase in UK general capital of 19% between 2020-2021 – The Minister stated this should have resulted in an additional £400 million for Wales.

Furthermore the Minister referred to the comparability with the Department for Transport mentioned above, the Minister stated the change to the transport comparability factor results in a significantly reduced capital consequential to the block grant.

Process for challenging decisions

We are concerned about the mechanism used by the UK Government to make funding decisions and the Welsh Government's means of challenging such decisions. The Minister said that the level of engagement at a ministerial level between the Treasury and the Welsh Government in terms of the spending review had been "very poor".

The Minister told the Committee that there has not been any improvement in terms of transparency of funding allocations taken by the UK Government and that there were real difficulties in terms of reconciling the guarantee funding with the allocations in England. We heard that the Welsh Government received a very broad picture of the allocations rather than detailed information allowing it to understand the consequentials Wales should receive.

This is very disappointing given that we recently wrote to the Secretary of State for Wales as part of our work on the financial response to Covid-19 to ask him for transparency in any future funding announcements to Wales. We have also previously recommended in our report on the Welsh Government's First Supplementary Budget 2020-21 that the Welsh Government insists that the UK Government provides as much information as promptly as possible, on any UK Government announcement that affects Wales, its residents and/or the businesses that operate here [Recommendation 3].

We understand that the Welsh Government's route to challenge a decision taken by the UK Government is via the Joint Ministerial Committee. The Minister believes this is not a satisfactory process because the UK Government "essentially, becomes the judge and jury on the issue". We understand that the Welsh Government has set out its ambitions to have a more independent arbitrator of these disagreements and we hope that the UK Government will be open to such discussions.

Multi-year settlements / End-of-year flexibility

While we understand the difficulties of setting multi-year settlements in the current circumstances, we are disappointed that for the past three years, the Welsh Government has had to produce a draft budget with only a one year revenue settlement. We are also disappointed that this year, some departments in England, such as health and education, have received multi-year settlements and we would urge you to ensure that multi-year settlements are available for the devolved governments next year.



In addition, given the uncertainty regarding the pandemic, the Committee believes it would be prudent for the Welsh Government to have more flexibility in managing its end-of-year finances and would welcome your view on this change particularly given the current exceptional circumstances.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Llyr', is centered within a light yellow rectangular box.

Llyr Gruffydd MS / AS

Cadeirydd / Chair

Cc: Rebecca Evans MS, Minister for Finance and Trefnydd
The Rt Hon Simon Hart MP, Secretary of State for Wales

