UK Government
Llywodraeth y DU

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

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Our ref: 255SOS 20

Llyr Gruffydd MS
Chair of the Welsh Parliament Finance Committee
Email: SeneddFinance@senedd.wales

5th December 2020

Dear Llyr,

UK Government's Spending Review

Thank you for your letter of 27 November regarding the Spending review.

In relation to the Agricultural sector, the UK Government has provided certainty on future funding for agriculture in two ways. First, the Withdrawal Agreement states that the UK will continue to participate in all EU programmes financed by the Multiannual Financial Framework 2014-2020 until their closure. This ensures that there is continued access to EU funding for several rural programmes, including CAP Pillar 2, EMFF and ERDF until their completion. The UK Government stands by its commitment to guarantee to fund the tail of CAP Pillar 2 commitments that fall outside of the scope of the Withdrawal Agreement.

Second, we stood on a clear manifesto commitment to guarantee the current annual budget to farmers in every year of this Parliament. The quantification of the manifesto commitment sets the overall annual envelope at £337m for Wales.

Our manifesto commitment is being achieved through a combination of Exchequer funding and EU funding that will continue to be accessed for CAP Pillar 2 under the terms of the Withdrawal Agreement until those funds are exhausted. The amount of remaining EU funding varies across the four nations but HM Treasury have adopted a consistent approach, topping up EU receipts with Exchequer funding to the level of the manifesto commitment. This ensures that the commitment to guarantee the current annual budget is met in each nation.

In relation to the Shared Prosperity Fund, the UK Government will provide £220 million in 2021-22 to help local areas prepare for the introduction of the multi-year UK Shared Prosperity Fund. This funding will be additional to the significant tail-off of EU Structural Funds which will continue to flow into Wales next year. We anticipate that, all told, this will result in a significant increase in investment for Wales next year compared to its average yearly receipts from the previous seven years of Structural Funds.

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In terms of delivery, we intend to work closely with both the Welsh Government and local communities to ensure that investment is effective in supporting people and businesses in Wales. That said, we remain in the midst of a global pandemic and the UK Government has a responsibility to people, businesses and communities in all four nations of the Union. It is therefore only right that we should be making decisions on strategic investment across the UK. We will be setting out further details on the UK Shared Prosperity Fund in a UK-wide investment framework which will be published in the Spring.

In relation to comparability factors for transport, the comparability factors are a representation of the extent to which departmental spending is in a reserved or devolved area. The decrease in the comparability factor in relation to transport is because of two main reasons. First, as a proportion of the Department for Transport's overall spending, the total amount of spending on programmes that the department has competency over in England and Wales has increased.

Since Spending review 2015, expenditure for heavy rail infrastructure, including HS2 has increased. All heavy rail infrastructure programmes in Wales are funded by the Department for Transport, unless other agreements exist. Due to the operation of the Barnett formula at Spending Review 2015, the Welsh Government has received substantial capital Barnett consequentials generated by HS2. As a result, the Welsh Government has around £170m in its 2020-21 capital budget related to HS2, which it will continue to receive every year in its capital baseline.

Second, since Spending Review 2015, Network Rail has been reclassified as a Central Government Body, and therefore is included as part of the Department for Transport. An agreement was reached between the Welsh Government and UK Government to devolve the core valley lines, with the line transferred on March 2020. This was under a fiscally neutral arrangement until 2023-24. Network Rail retains responsibility for the wider rail network in Wales, consequently it is right that the comparability factor for Network Rail remains at 0%.

Therefore, the change in comparability factor is not a result of any change in policy, but a reflection of the current spending of the Department for Transport, in line with the normal calculation of comparability factors.

In relation to capital consequentials for Wales, the consequentials generated by the Barnett formula are based on changes to UKG budgets, as set out in the revised Statement of Funding Policy and apply for both increases and decreases in funding.

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The Spending Review confirms an additional £1.3bn to the Welsh Government through the Barnett formula in 2021-22. The Welsh Government can choose to allocate this additional funding on capital investment if it wishes, this is on top of UK-wide capital spending that will benefit all four nations. The Welsh Government can also borrow for capital purposes to a cumulative maximum of £1bn.

Yours Sincerely

Simon

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Secretary of State for Wales
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