



Our Ref: Re/105/2024

The Rt Hon Stephen Crabb MP
Chair of Welsh Affairs Committee
House of Commons
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18 March 2024

Dear Stephen,

The Secretary of State for Wales has recently written to the Committee to answer questions on a range of issues in relation to his appearance in front of the Committee on 13 December. I have provided some information below regarding the Welsh Government's position to further assist the Committee in its consideration of the matters raised.

Investment Zones

In 2022, we started engagement with the UK Government on the potential for establishing Investment Zones in Wales. The subsequent negotiations were hindered by changes in the UK Government's approach to Investment Zones between different Prime Ministers and UK Government fiscal events. Despite Investment Zones being a further place-based UK Government initiative, which does not appear to form part of a coherent growth strategy, we have approached the proposals pragmatically, given the potential to align it with our economic mission and innovation strategy in Wales. On this basis, we agreed to support two Investment Zones in Wales using devolved fiscal levers for a five-year period.

The UK Autumn Statement 2023 included an announcement that the programme was to be extended from five to ten years in England. As this change had not been discussed or agreed with Welsh Ministers in advance, we have had to assess the implications of the proposals for Wales. The Minister for Economy announced agreement to the extension on 6 March 2024.

Whilst we share the ambition for the Investment Zones to progress as rapidly as possible to begin making investments, the speed of this development will be dictated by the quality of the proposals.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Finance

Budgetary flexibilities

In his letter, the Secretary of State for Wales overstated the generosity of the Welsh Government's borrowing powers. Our borrowing limits remain unchanged from when they were set in 2016 and, in 2024-25, will be worth almost a quarter (23%) less in real terms than when they were introduced in 2018-19. We have repeatedly called on the UK Government to index our borrowing and overall reserve limits to inflation, and to permanently abolish our reserve draw-down limit. On 27 February, all parties in the Senedd jointly tabled a motion and voted unanimously for the UK Government to provide Wales with these additional flexibilities.

These improvements were made to the Scottish Government's Fiscal Framework last August and should be applied to Wales automatically, without the need for a review of the Wales Fiscal Framework. It is unacceptable that the people of Wales are not able to benefit from these same flexibilities, and there is a clear need for parity with the arrangements in place in Scotland. In addition, the increase to Northern Ireland's annual capital borrowing limit as part of its funding support package starkly contrasts with the absence of an increase to the Welsh Government's budgetary flexibilities.

The changes we have requested are modest and reasonable and have been endorsed by the Institute for Fiscal Studies, the Institute of Welsh Affairs and the Independent Commission on the Constitutional Future of Wales.

Last September, I made our first ever request to HM Treasury for a capital to resource switch of up to £200m, in recognition of the exceptional pressures and unique circumstances that have put unprecedented pressures on our budget. In November, the then Chief Secretary, John Glen, announced a capital to resource switch for Northern Ireland to respond to flooding and alongside that confirmed similar switches for the other devolved governments. As part of this, a £35m switch was provided for the Welsh Government to which was to be offset against changes at UK Supplementary Estimates. This amount is significantly less than that which we requested from UK Government and demonstrates that this process is not fit for purpose and does not take account of our specific needs.

UK Supplementary Estimates process

I have written to you previously regarding our use of borrowing powers and the retrospective impact material late changes from the UK Government have on our investment plans. We maximised our borrowing last year (2022-23) and plan to do the same this year. I have raised the issue of late allocations with successive Chief Secretaries to the Treasury and continue to make the case for earlier clarity from the UK Government on in-year changes to our settlement.

As a result of indications from the UK Government to expect very little additional funding this year, last summer we carried out an extensive re-prioritisation of our budgets, which involved making some unpalatable decisions, with real impacts for public services and jobs. After initially being provided with incorrect information on 7 February, the final figures for our supplementary estimates were confirmed a week later. The scale of the additional funding, while welcome, is not insignificant. At £231m, this represents around two thirds of our reserve capacity and, had we known this funding was to be made available, we would not have had to take so many difficult decisions. In addition, had we not already planned to maximise our draw down from reserves this year, the restrictions on our reserve would have meant us surrendering some of this additional funding back to HM Treasury.

Application of the Barnett formula

I have also written to you on the detail of the Barnett formula. The specific needs-based factor reflects that Wales faces greater demographic, economic and health challenges, with an older and more rural population and therefore requires a higher level of funding in order to deliver the same level of public services.

Engagement with the Secretary of State for Wales

I have only met once with the Secretary of State in a bilateral capacity since he took up post in October 2022, and this was to discuss coal tip safety in the hope that he would support our call for the UK Government to provide a contribution towards this important issue which pre-dates devolution. The only regular engagement I have with UK Government Ministers is with the Chief Secretary to the Treasury, in and around meetings of the quarterly Finance: Interministerial Standing Committee.

Defence

Welsh Government officials are working closely with the Ministry of Defence (MOD) on projects including the Deep-space Advanced Radar Capability (DARC) and Advanced Technology Research Centre (ATRC).

Cawdor Barracks being named as the preferred site for the new DARC, subject to planning, is welcome, and the Welsh Government is keen to maximise the value of this investment in the region, from design through to operational delivery. Welsh Government officials are working with MOD Space Command to capture local opportunities.

We have stressed the importance of engagement at official level through the MOD Devolution desk. MOD Ministers have written to the Welsh Government as milestones have been reached in terms of plans for the DARC capability at Cawdor. There has been less engagement from the MOD in relation to plans for Caerwent.

The ATRC is a project which, from the outset, has been led by Welsh Government officials. In the Autumn Statement 2022, the UK Government announced that it would provide up to £10m of support to work with the Welsh Government to deliver a defence-focused Centre of Excellence Site in Wales. Welsh Government officials are working with HM Treasury and the MOD but have yet to obtain clarity on the route to the funds, drawdown mechanisms and any restrictions as to how and when they are spent. This has added to the delays in project progress to the point officials are reviewing project delivery options.

I would be grateful if you could please consider these points alongside those made by the Secretary of State for Wales in his letter of 16 January 2024.

Yours sincerely,



Rebecca Evans AS/MS

Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government