

Rebecca Evans AS/MS
Ysgrifennydd y Cabinet dros Gyllid, y Cyfansoddiad
a Swyddfa'r Cabinet
Cabinet Secretary for Finance, Constitution & Cabinet Office



Llywodraeth Cymru
Welsh Government

Peredur Owen Griffiths MS
Chair of Finance Committee
Welsh Parliament
Cardiff Bay
CF99 1NA

2 August 2024

Dear Peredur

Thank you for your letter. I have provided some information below outlining the Welsh Government's position regarding the questions that the Committee did not reach during the session.

What has been your engagement with the Treasury on previous Spending Reviews and what input would you like to have moving forward?

We had limited engagement from the previous UK Government on Spending Reviews. They were operated mainly as a UK Government exercise, where our settlement was, in effect, a by-product.

Spending Reviews take place over a number of months, across several work streams and, while there is usually an attempt by HM Treasury to involve Welsh Government officials, in previous years this has not been consistently followed up with regular engagement or a genuine collaborative approach. We have previously been asked to provide information to inform the workstreams but with little opportunity for discussion or to input our thinking. There has been very little discussion at Ministerial level and we have not usually been informed of the conclusions of the Spending Review until the Chancellor has made their Statement.

I have written to both the new Chief Secretary to the Treasury (CST) and the Chancellor of the Exchequer, and had a constructive meeting with the CST, during which we discussed the re-setting of relations between our two governments and the need for close engagement on any Spending Review. Furthermore, the last time there was a Spending Review the Finance: Interministerial Standing Committee did not exist, so I am interested to explore how that forum could be used to facilitate discussion on key issues of shared interest.

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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.

Do you think engaging with the UK Government during development of the Statement of Funding Policy would be an effective approach to addressing project categorisation issues?

The Welsh Government, and the other devolved governments, are consulted when the UK Treasury updates the Statement of Funding Policy as part of the Spending Review process, however it remains a UK Government document.

The Welsh Government does engage with these consultations, but ultimately the decisions about categorisation in the Barnett formula are currently made by the UK Government.

What engagement have you had with the Treasury regarding a review of the Welsh fiscal framework and what is the rationale for the Treasury not updating the fiscal framework in line with the Scottish fiscal framework to enable greater budget flexibility?

The UK Labour Manifesto recognises that “the Welsh Fiscal Framework is out of date”. My immediate focus is on updating our flexibilities in line with those changes seen in Scotland a year ago. We have been calling for similar improvements for some time, as our borrowing and reserve limits are worth 23% – around a quarter – less this year than when they were introduced in 2018-19. These limits should immediately be increased, in the same way they have been for Scotland since last August, without the need for a review of the Welsh fiscal framework. It is a specific and minor adjustment that would make the framework agreement more sustainable for budget management purposes.

I have already spoken to the CST about the budget flexibilities afforded to the Welsh Government being insufficient to manage our in-year financial position, to support economic growth and to enable delivery of high-quality public services in Wales. The result of the UK general election provides a unique opportunity to re-set relations and begin a new era of partnership, working together with the UK Government to deliver a shared vision for the outcomes we want to see for Wales, where it uses its reserved levers as well as providing enablers through ensuring we have the right budgetary tools.

I made repeated representations to the previous UK Government for additional fiscal flexibilities through the appropriate channels, including the F:ISC and through bilateral meetings and correspondence with successive CSTs and Chancellors of the Exchequer. At the last F:ISC meeting [14 March] I secured a commitment for officials to re-visit work to develop proposals for improving in-year funding processes including consideration of capital to resource switches, to be discussed during a future F:ISC meeting. This is something I will raise with the new UK Government.

The IGR review noted that disputes raised in relation to the Welsh and Scottish Governments’ fiscal frameworks will continue to be managed through the arrangements set out in the fiscal framework agreements. What are the key differences between the dispute resolution mechanisms for the fiscal framework and other fiscal matters and could you elaborate on the strengths and weaknesses of each?

The Fiscal Framework dispute arrangements only relate to the implementation or operation of the Fiscal Framework. Any dispute raised using the Fiscal Framework process will firstly be considered by officials, initially at working level and then by Joint Exchequer Committee (JEC). Where officials are unable to reach agreement, disputes will be considered by ministers at JEC. The fiscal framework dispute arrangements potentially provide a streamlined resolution process in this area.

The IGR dispute process covers disagreements on any fiscal or economic matter. Similarly to the Fiscal Framework process, any dispute will be considered in the first instance by officials, before being escalated to a ministerial level if officials are unable to reach agreement. If no solution is reached between ministers, the matter will be referred to the IGR Secretariat to be considered by the Prime Minister and Heads of Devolved Governments in the Council. This process is set out in the Terms of Reference for the Council.

The IGR dispute process removes some of the former barriers to raising disputes and requires independent chairing and secretariat arrangements, which were not previously part of dispute arrangements. They include a presumption of independent input, through either advice or mediation, and increased transparency to aid legislatures' scrutiny and stakeholder engagement.

Similarly, the Fiscal Framework dispute process also incorporates the ability to include views from independent bodies, which is an important innovation. However, neither process has been properly tested.

The aim in the first instance is dispute avoidance through constructive engagement. The first stage in raising a dispute requires us to demonstrate that all steps have been taken to exhaust pragmatic resolution.

Yours sincerely,

A handwritten signature in black ink that reads "Rebecca Evans". The signature is written in a cursive, flowing style.

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