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Llywodraeth Cymru  
Welsh Government

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Finance Committee and Climate Change, Environment and Infrastructure Committee  
Senedd  
Cardiff Bay  
Cardiff  
CF99 1SN

4 February 2025

Dear Chair,

There is considerable interest in HS2 and how much additional funding would have been available to the Welsh Government if there had been comparability with HS2 in the Barnett formula. In line with our commitment to transparency on this issue, I attach a technical note setting out the underlying calculations behind the Welsh Government's estimates.

As set out in the note, it is estimated that the Welsh Government would have received an additional £431m between 2016-17 and 2025-26 if it had comparability with HS2 in the Barnett formula. This is higher than the previous estimate of £350m because it is now possible to include 2025-26 in the calculations, following the UK Government's October Budget. It is highly likely that the estimate will increase again once settlements are announced for the next few years in the UK Government's Spending review on 11 June this year.

We remain in discussions with the UK Government on the issue of fair rail funding and investment. This will form part of the UK Government's considerations as part of the Spending Review.

Yours sincerely,

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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.

## **Funding implications for the Welsh Government if HS2 was classified as comparable in the Barnett formula**

1. It is possible to calculate the additional funding Welsh Government would have received since 2015 if it had comparability with HS2 in the Barnett formula. (HS2 was not separately identified at the time of the 2010 spending review or 2013 spending round, so there were no Barnett formula comparability issues.)
2. In aggregate the additional funding would have totalled £431m for years up to 2025-26, including changes up to and including the October 2024 Budget. The calculations are shown in the table below. The inclusion of 2025-26 explains the increase from the previous figure of £350m. It is not possible to say with any precision what the figure would be for years beyond 2025-26 but is very likely to increase over time.
3. The additions arise because the Welsh Government would have had a higher comparability factor with the Department for Transport (DfT) at spending reviews, and DfT has generally seen increases to its budget over the period. (The Welsh Government would also have received consequentials from changes outside spending reviews, including individual HS2-related allocations.)
4. The Welsh Government receives additional funding from increases to UK Government spending within Departmental Expenditure Limits (DEL) on programmes that are devolved to Wales. It receives the same change per head of the population, with an additional 5% needs factor.
5. At the time of a UK spending review there is some approximation in this process. The percentage split between devolved and non-devolved spending from a base year is applied. It is calculated by assessing whether each departmental spending programme is devolved or not. The spending in a base year on those programmes which are deemed to be devolved is added up and divided by the department's overall budget.
6. The table shows how different the comparability factor with DfT would have been at each spending review and the impact this would have had on the Welsh Government's Barnett formula consequentials. The difference in the final year of each spending review period is carried forward to future years.
7. The table also includes additional funding the Welsh Government would have received in relation to in-year changes to HS programmes.

## Funding implications if HS2 was classified as comparable in the Barnett formula (£ million)

	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	2025-26	Cumulative total
<b>Capital</b>											
1 DfT baseline	6,050	6,050	6,050	6,050	6,050	18,068	18,764	18,764	18,764	19,949	
2 DfT settlement	6,256	7,639	8,941	11,419	12,406	18,764	20,522	20,943	21,522	21,784	
3 Changes to baseline (2-1)	206	1,589	2,891	5,369	6,356	696	1,758	2,179	2,758	1,835	
4 Population % (including 5% needs factor where relevant)	5.69%	5.69%	5.69%	5.69%	5.69%	5.88%	5.89%	5.89%	5.89%	5.76%	
5 Department for Transport comparability factor	80.9%	80.9%	80.9%	80.9%	80.9%	36.6%	36.6%	36.6%	36.6%	33.5%	
6 Department for Transport comparability factor if HS2 100% comparable	88.7%	88.7%	88.7%	88.7%	88.7%	53.7%	53.7%	53.7%	53.7%	52.3%	
7 Difference in comparability if HS2 100% comparable (6-5)	7.80%	7.80%	7.80%	7.80%	7.80%	17.13%	17.13%	17.13%	17.13%	18.80%	
<b>Difference to funding if HS2 comparable (3*4*7)</b>											
Spending Review 2015	1	7	13	24	28	28	28	28	28	28	
Spending Review 2020						7	7	7	7	7	
Spending Review 2021							18	22	28	28	
Spending Review 2024 phase 1										20	
<b>Capital Total</b>	<b>1</b>	<b>7</b>	<b>13</b>	<b>24</b>	<b>28</b>	<b>35</b>	<b>53</b>	<b>57</b>	<b>63</b>	<b>83</b>	<b>364</b>
<b>Resource</b>											
1 DfT baseline	2,608	2,608	2,608	2,608	2,602	4,155	4,418	4,418	4,418	8,286	
2 DfT settlement	2,022	2,064	2,161	1,765	3,145	4,719	4,739	4,703	3,936	8,194	
3 Changes to baseline (2-1)	-586	-544	-447	-843	543	564	321	285	-482	-92	
4 Population % (including 5% needs factor where relevant)	5.69%	5.69%	5.69%	5.69%	5.89%	5.88%	5.89%	5.89%	5.89%	5.76%	
5 Department for Transport comparability factor	80.9%	80.9%	80.9%	80.9%	80.9%	36.6%	36.6%	36.6%	36.6%	33.5%	
6 Department for Transport comparability factor if HS2 100% comparable	88.7%	88.7%	88.7%	88.7%	88.7%	53.7%	53.7%	53.7%	53.7%	52.3%	
7 Difference in comparability if HS2 100% comparable (6-5)	7.80%	7.80%	7.80%	7.80%	7.80%	17.13%	17.13%	17.13%	17.13%	18.80%	
<b>Difference to funding if HS2 comparable (3*4*7)</b>											
Spending Review 2015	-3	-2	-2	-4	-4	-4	-4	-4	-4	-4	
Spending Review 2019					2	2	2	2	2	2	
Spending Review 2020						6	6	6	6	6	
Spending Review 2021							3	3	-5	-5	
Spending Review 2024 phase 1										-1	
<b>Resource Total</b>	<b>-3</b>	<b>-2</b>	<b>-2</b>	<b>-4</b>	<b>-1</b>	<b>4</b>	<b>8</b>	<b>7</b>	<b>0</b>	<b>-1</b>	<b>6</b>
<b>Consequentials from in-year changes if HS2 comparable</b>				<b>15</b>	<b>-5</b>			<b>52</b>			<b>61</b>
<b>Grand total</b>	<b>-2</b>	<b>5</b>	<b>11</b>	<b>35</b>	<b>22</b>	<b>40</b>	<b>61</b>	<b>116</b>	<b>63</b>	<b>81</b>	<b>431</b>