

E-mail Message

From: [REDACTED] WALES OFFICE OFFICIAL  
 To: [REDACTED] WALES OFFICE OFFICIAL  
 Cc:  
 Sent: 02/09/2008 at 11:36  
 Received: 02/09/2008 at 11:36  
 Subject: FW: Housing package

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Attachments: Final Housing Package Core Script (v10)11.doc

For info

WALES OFFICE OFFICIAL

-----Original Message-----

From: [REDACTED] HMT OFFICIAL  
 Sent: 02 September 2008 12:30  
 To: [REDACTED] piers.bisson [REDACTED]  
 [REDACTED]  
 Cc: [REDACTED]  
 Subject: Housing package

DFPN1 OFFICIALS  
 WAG OFFICIALS  
 SCOTTISH GOVERNMENT OFFICIALS  
 SCOTLAND OFFICE OFFICIALS  
 NORTHERN IRELAND OFFICE OFFICIALS  
 WALES OFFICE OFFICIALS  
 HMT OFFICIALS

<>  
Dear all

I attach details of the housing package which the Government has announced today.

In reserved areas the measures will apply UK wide. In devolved areas it will be for the devolved administrations to decide their own policies as usual. There is no additional funding taking the CSR period as a whole, so no Barnett consequential. There has been some reprofiling of CLG spending over the CSR period with a decrease in year 3. We would be prepared to consider a case for Barnett reprofiling if justified. We will need to consider in the next SR any implications for baselines for the next SR period. Michael Daly will wish to note that there has been no net additional spending for mortgage interest relief so we would not expect to provide NIE with additional funding if they choose to adopt a similar measure.

Mark

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[REDACTED]

**From:** [REDACTED] HMT OFFICIAL  
**Sent:** 22 April 2009 13:30  
**To:** [REDACTED] Cogbill, Alan; [REDACTED] Jones, Glynne;  
andrew.jeffreys [REDACTED]  
[REDACTED] piers.bisson [REDACTED] WALES OFFICE OFFICIALS  
[REDACTED] WAG OFFICIALS  
[REDACTED] HMT OFFICIALS  
**Cc:** [REDACTED]  
**Subject:** 2009 Budget  
**Attachments:** budw.doc; PDF Budget 2009 in Wales.pdf; DA Consequentials - Wales.xls; PDF Wales PN.pdf



budw.doc (81 KB) PDF Budget 2009 in DA Consequentials PDF Wales PN.pdf  
Wales.pdf (... - Wales.xls ... (109 KB)

<<budw.doc>> <<PDF Budget 2009 in Wales.pdf>> <<DA Consequentials - Wales.xls>> <<PDF Wales PN.pdf>>  
Dear all

Please see attached Wales Budget pack.

[REDACTED] HMT OFFICIAL

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# HM TREASURY

1 Horse Guards Road London SW1A 2HQ

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Tel:  
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[REDACTED] WAG OFFICIAL  
Welsh Assembly Government

[www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

22 April 2009

Dear [REDACTED] WAG OFFICIAL

## 2009 Budget consequentials

I am writing to inform you about the Barnett consequentials of the 2009 Budget for the Welsh Assembly Government.

There is a DEL reduction of £216 million in 2010-2011 reflecting the Barnett consequentials of changing UK departments' budgets in regard to higher efficiency savings, as announced in the PBR. No reductions in service delivery are expected as a result of these changes. Details are attached.

There is a DEL increase of £60 million as a consequence of increased spending on the employment, housing and green energy packages. Details are attached.

In addition there are some spending increases which are reserved and UK wide such as the increased provision made available to support industrial activism, employment and renewable energy which are expected to benefit Wales.

Yours sincerely

[REDACTED] HMT OFFICIAL



INVESTOR IN PEOPLE



## WALES HEADLINES

**The Government is working with the devolved administrations to promote economic prosperity for all** in difficult world economic conditions. Measures announced in the Budget benefiting Wales include:

- **Maintaining macroeconomic stability:** The Budget details term measures to support those most affected by the downturn in Wales; measures to prepare the economy of Wales for the upturn; and ensure sustainability of the public finances.
- **Financial stability:** the Budget confirms the measures announced in recent months to support stability in the financial system. These measures will provide financial stability in all countries of the UK
- **Supporting Business:** the Budget announces measures to: reform the corporate tax system enhancing UK competitiveness; a business package to support cash flow, investment and skills; a package of measures to support the economic recovery of the UK's oil and gas reserves; a package of simplification measures; and support for industrial activism.
- **Helping people:** the Budget announces a further employment package, building on the steps taken at PBR, to respond to rising unemployment; an additional £100 a year to the Child Trust Funds accounts of disabled children; additional provision for the Social Fund; a package to help pensioners who receive income from savings and have been affected by lower interest rates; an additional payment alongside the Winter Fuel Payment; a further housing package.
- **Improving public services:** the Budget announces increased provision of £60 million for the Welsh Assembly Government as a consequence of increased spending for UK departments; and confirms the PBR announcement that the Barnett formula is being applied to the £5 billion efficiency savings in 2010-2011.
- **Building a low carbon economy:** the Budget announces measures to prepare for a green recovery and fuel duty changes to support the move to a low carbon economy.

<b>New Measure</b>	<b>Impact in Wales</b>
<b>Supporting Business</b>	
Increase to enhanced capital allowance rate to 40% for one year	All regions where businesses invest in plant and machinery will be able to benefit from the temporary first year capital allowance of 40% for 2009/10
To further help the cash flow position of viable businesses that have become loss-making, trading loss carry-back for business will be extended from one to three years, for up to £50,000 of losses, and now covers losses made in 08/09 and 09/10. This temporary enhancement is estimated to help 140,000 businesses over 2 years.	In Wales it is estimated it will help 5,600 businesses
Businesses will be able to spread payment of this year's inflation up-rating to business rates over three years.	Business rates are devolved. The Welsh Assembly Government has introduced similar arrangements.
Building Britain's Future: New Industry, New Jobs, published by the Government in April 2009, identifies the way that Government action can support the UK's economic renewal and future growth, for example by building on the UK's strengths in manufacturing, services and the science base. In support of this, to ensure the UK is in a stronger position to take advantage of opportunities as the global economy returns to growth, the Government will establish a £750 million Strategic Investment fund to support advanced industrial projects of strategic importance.	This policy will help to support industries in all regions including Wales.
<b>PBR Deliverables</b>	
<b>Supporting Business</b>	
At the Pre-Budget Report, the Chancellor announced the creation of a new HMRC Business Payment Support Service. This allows businesses in temporary financial difficulties to spread their tax payments over a timetable they can afford.	Over 4,540 agreements have so far been reached with businesses in Wales to allow them more time to pay their tax bills.
Enterprise Finance Guarantee Scheme (Small Business Finance Scheme) to support up to £1.3bn of bank lending to smaller SMEs. <sup>1</sup>	In Wales, nearly £8m of eligible applications from around 90 firms that have been granted are being processed or assessed.
Temporary increase in the threshold at which an empty property becomes liable for business rates. For financial year 2009/10 empty properties with a rateable value of less than £15,000 will be exempt from business rates.	Relief applicable to owners of empty properties with rateable values below £15,000.
<b>New Measures</b>	
<b>Helping People</b>	
The Government is announcing that from October 2009, all 18-24 year olds who have been claiming Jobseeker's Allowance for 12 months will be guaranteed 6 months of meaningful activity, either a job, a work placement or work-related skills training.	In February 2009, there were over 26,900 people aged 18-24 claiming Jobseeker's Allowance in Wales.

<sup>1</sup> Figures represent the position on the 9<sup>th</sup> April 2009. Up to 10 working days is allowed for recording dates after the banks have checked for eligibility. Therefore totals for current and previous two weeks will change in later reports.

The Government is announcing an additional £1.7 billion for the Department for Work and Pensions, to ensure that Jobcentre Plus capacity is in place to respond to rising unemployment and that employment programmes can continue to provide effective support to those who become unemployed.	In February 2009, 13,200 people moved off Jobseeker's Allowance in Wales
At PBR08, Govt announced that the standard interest rate (SIR) used to calculate Support for Mortgage Interest (SMI) would be maintained at 6.08% for 6 months until June 2009. Bud 09 announces that Govt is maintaining the SIR at 6.08% for a further six months	In August 2008, there were 13,749 SMI claimants in Wales.
An additional payment alongside this year's Winter Fuel Payment, worth £100 for households with someone aged over 80 and £50 for households with someone aged over 60. <sup>2</sup>	480,000 households, of which 120,000 households contain someone aged 80 or over.
Budget announces a package of measures to support pensioners with savings that have been affected by low interest rates including increasing the capital disregard in Pension Credit and pensioner related housing and Council Tax Benefit to £10,000 in November 2009. Of 2.7 million pensioners eligible for pensions credit, around 540,000 will benefit from this measure.	This will benefit eligible pensioners by an average of £202 annually.
Raising the ISA limits for all from 2010 will give adults who have ISAs the opportunity to increase their tax-advantaged savings. 1 in 3 adults currently have an ISA	On average 1 in 3 people aged over 50 have an ISA and will benefit from the opportunity to save more in their ISA. There are 1,086,300 people aged over 50 in Wales.
Increase the child element of Child Tax Credit by £20 above indexation in April 2010	380,000 children benefiting
The Government will contribute an additional £100 every year to the Child Trust Fund accounts of all disabled children, with severely disabled children receiving £200 per year.	In Wales there are around 5,000 children that will benefit
<b>PBR Deliverables</b>	<b>Impact in Wales</b>
<b>Helping People</b>	
From 6 April 2009 the income tax personal allowance for those under 65 will be £6,475, up from £6,035.	1,060,000 of basic rate taxpayers under 65 will benefit in Wales.
An additional £1.3 billion to continue delivering effective support for the unemployed; the establishment of a high-profile National Employment Partnership, to bring together major employers and government to tackle rising unemployment; strengthening Local Employment Partnerships to focus on the short-term unemployed as well as harder to help groups; extension of Rapid Response Service to support smaller redundancies as well.	In the three months to February 2009, over 38,300 people have moved off Jobseeker's Allowance in Wales.
The Saving Gateway will be introduced nationally, with the first accounts available to savers in 2010. The 2008 Pre-Budget Report announced that the Government would make	Potentially of benefit to 459,000 people in Wales.

<sup>2</sup> Data for winter 2006-07 rounded to the nearest 10,000.



a contribution of 50p for each pound saved in the scheme. Eligibility will be passported from qualifying benefits and tax credits. The Government recently announced that those receiving Carer's Allowance would be eligible for the scheme.	
Health in pregnancy grant - £190 for all women after 25th week of pregnancy.	Projected claims from April 09 to April 10 are 35,000 in Wales.
Increase the child element of the Child Tax Credit by £75 above indexation in April 2009.	200,000 families and 380,000 children benefiting in Wales.
Increase Child Benefit from £18.80 to £20pw for the first child, and from £12.55 to £13.20pw for subsequent children - brought forward from April 2009 to January 2009.	360,000 families and 635,000 children are benefiting from the increase in Child Benefit that was made on 5th January 2009 in Wales.
<b>New Measures</b>	<b>Impact in Wales</b>
<b>Improving Public Services</b>	
As announced in PBR, Budget confirms Barnett consequentials of £5 billion efficiency savings in 2010- 2011	£216 million reduction in the Welsh Assembly Government DEL.
Budget announces increased spending for DAs as Barnett consequentials of spending measures for UK departments. For DAs to decide how it is allocated.	Additional £60 million for Wales
<b>PBR Deliverables</b>	<b>Impact in Wales</b>
<b>Improving Public Services</b>	
The PBR announced a timely targeted and temporary fiscal stimulus in 2008-09 and 2009-10. The stimulus is already delivering across the regions.	Bringing forward capital spending is devolved.
£20 billion overall UK PBR fiscal stimulus	Around £1 billion fiscal stimulus in Wales
<b>New Measures</b>	<b>Impact in Wales</b>
<b>Building a low carbon economy</b>	
Budget announces package of environmentally focused measures, including initiatives to improve energy efficiency: extension of the decent homes programme to include insulation; support for projects to improve energy efficiency of schools, hospitals, and other public sector institutions; and low cost loans and advice for businesses.	This is a devolved matter
Budget 2009 announces that in recognition of the importance of providing certainty to bring forward future investment, the Government today announces that it will extend the climate change levy exemption for indirect sales of electricity from combined heat and power to 2023, subject to State aid approval	For Wales this could help bring forward £0.5bn investment and significant employment opportunities. CHP can also act as a catalyst for the economic development of the nearby area by attracting businesses with a heavy demand for heat or steam.
UK sustainable energy projects stand to benefit from up to 4.5bn euro of new capital lending from EIB.  The Government is bringing together the EIB, banks and developers to ensure this new framework lending and other products deliver rapid and sustained investment for UK renewable energy. The Government believes that this initiative can bring forward £1bn worth of consented small and medium sized UK renewables projects to deployment.	Of the 3.8 GW of onshore wind projects currently in the pipeline, which stand to benefit from this finance, Wales has 4%

Existing measures	Wales
Number of adults benefiting from an increased to the adult rate of the National Minimum Wage (NMW) to £5.73 as announced in Budget 08.	65,000 people in Wales stand to benefit
New deal for lone parents	96,900 programme participants; 52,540 job outcomes
New deal 18-24	111,880 programme participants, 64,830 job outcomes
New deal 25+	51,270 programme participants, 18,170 job outcomes
New deal 50+	5,480 individuals in jobs
New Deal + Lone Parents	Piloted in Cardiff and Vale. 3,356 participants since pilot launched; 1,1485 job outcomes
In work credit pilots	4,700 lone parents receiving In Work Credit

Key Statistics	Wales	
	Level	Per cent of UK
GVA, 2006 (billions) <sup>3</sup>	44,333	3.55%
Population, 2006 (m) <sup>4</sup>	3.0	4.9
GVA/capita, 2006 <sup>5</sup>	14,877	0.727

VAT Business registrations	Level	Per cent of UK
Business VAT registrations (000's), <sup>6</sup>	6820	3.32

<sup>3</sup> ONS Regional Accounts - <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=14650>

<sup>4</sup> ONS Mid-Year Population Estimates - <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=6303>

<sup>5</sup> ONS Regional Accounts - <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=14650>

<sup>6</sup> ONS (Nomis) - <https://www.nomisweb.co.uk/Default.asp>

# Budget 2009 - Efficiency Savings

	Change (£m)	Wales		Outcome
		Comp	Pop	
Children, Schools and Families	650.0	100.0%	5.84%	37.960
Health	2,300.0	99.3%	5.84%	133.380
Transport	200.0	68.3%	5.84%	7.977
Innovation, Universities and Skills	400.0	79.3%	5.84%	18.524
CLG Communities	100.0	99.6%	5.84%	5.817
CLG Local Government	100.0	100.0%	5.84%	5.840
Home Office	150.0	0.0%	5.84%	0.000
Justice	70.0	0.0%	5.84%	0.000
Law Officers' Departments	15.0	0.0%	5.84%	0.000
Defence	0.0			0.000
Foreign and Commonwealth Office	20.0			0.000
International Development	155.0			0.000
Business, Enterprise and Regulatory Reform	27.0	56.8%	5.84%	0.896
Environment, Food and Rural Affairs	75.0	88.3%	5.84%	3.868
Energy & Climate Change	20.0	33.5%	5.84%	0.391
Culture, Media and Sport	20.0	90.6%	5.84%	1.058
Work and Pensions	0.0	0.8%	5.84%	0.000
Scotland	391.7			0.000
Wales	215.8			0.000
Northern Ireland Executive	122.8			0.000
Northern Ireland Office	17.0			0.000
Chancellor's Departments	5.0	0.8%	5.84%	0.002
Cabinet Office	10.0	7.2%	5.84%	0.042
<b>TOTAL</b>	<b>5,064.2</b>			<b>215.755</b>

N.B: THIS DOCUMENT HAS NOT BEEN REDACTED.

# Budget 2009: New Measures

Dept	Measure	Coverage	2009-10 £m	2010-11 £m	Wales	
					2009-10	2010-11
<b><u>Affecting DEL</u></b>						
<b>Industry Package</b>						
BERR	Strategic Industries Fund	UK	400.0	350.0 Capital	0.000	0.000
BERR	Car Scrappage	UK	300.0	0.0 Capital	0.000	0.000
<i>Sub Total</i>					<i>0.000</i>	<i>0.000</i>
<b>Housing Package</b>						
CLG	Short term housing supply	E	335.0	115.0 Capital	19.531	6.705
<i>Sub Total</i>					<i>19.531</i>	<i>6.705</i>
<b>Green Energy Package</b>						
DECC	Energy Efficiency: SME loans	E	67.1	16.8 Capital	3.911	0.978
DECC	Energy Efficiency: Public Sector Loans	E	54.5	0.0 Capital	3.178	0.000
DECC	Low Carbon Support: LCBP	UK	30.0	15.0 Capital	0.000	0.000
DECC	Low Carbon Support: Environmental Transformation Fund	UK	105.0	50.0 Capital	0.000	0.000
DECC	Energy Efficiency: SME loans	E	10.1	8.6 Non-Cash	0.586	0.498
DECC	Energy Efficiency: Public Sector Loans	E	1.0	1.7 Non-Cash	0.055	0.100
CLG	Social Housing: CWI	E	54.5	29.4 Capital	3.178	1.711
CLG	District Heating	E	21.0	0.0 Capital	1.222	0.000
DEFRA	WRAP	E	8.4	0.0 Capital	0.489	0.000
<i>Sub Total</i>					<i>12.619</i>	<i>3.288</i>
<b>Youth Employment Package</b>						
DWP	Youth Employment: LA Jobs	GB	138.7	464.3 Near Cash	0.000	0.000
DWP	Non targeted LA jobs	GB	80.5	269.5 Near Cash	0.000	0.000
DIUS	New Training (13-26 weeks)	E	38.6	38.6 Near Cash	2.249	2.249
DWP	Care First	GB	15.1	50.5 Near Cash	0.000	0.000
DWP	Sectoral Pathways	GB	20.7	69.3 Near Cash	0.000	0.000
DIUS	Sectoral Pathways	E	10.4	34.9 Near Cash	0.607	2.033
DWP	Community Work	GB	16.4	55.1 Near Cash	0.000	0.000
DWP	Enhancing New Deal (pre phase 2)	GB	3.5	11.6 Near Cash	0.000	0.000
DWP	Employment Package: Costs of Job Centre Plus	GB	3.7	12.3 Near Cash	0.000	0.000
DWP	DEL savings (reduced Flexible New Deal volumes)	GB	-23.0	-77.0 Near Cash	0.000	0.000
<i>Sub Total</i>					<i>2.856</i>	<i>4.282</i>
<b>Employment Fund</b>						
DWP	Employment Package: Job Centre Plus - further support	GB	373.0	632.0 Near Cash	0.000	0.000
DWP	Flexible New Deal: volumes	GB	110.0	400.0 Near Cash	0.000	0.000
DWP	Flexible New Deal: Reforming contract structure	GB	40.0	70.0 Near Cash	0.000	0.000
DWP	HB/CTB Administration	GB	48.0	41.0 Near Cash	0.000	0.000
<i>Sub Total</i>					<i>0.000</i>	<i>0.000</i>
<b>Other Measures</b>						
CO	Assistance to areas of Third Sector affected by Icelandic Banking Crisis	E	16.8	0.0 Near Cash	0.978	0.000
DIUS	FE Colleges Capital	E	167.7	0.0 Capital	9.777	0.000
<i>Sub Total</i>					<i>10.755</i>	<i>0.000</i>
<b>TOTAL DEL BUDGET MEASURES</b>					<b>45.761</b>	<b>14.274</b>
<b><u>Affecting AME</u></b>						
No changes affecting Wales						
<b>TOTAL AME BUDGET MEASURES</b>						



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Jim Mather MSP  
Minister for Enterprise, Energy and Tourism  
Scottish Parliament  
Edinburgh  
EH99 1SP

28 March 2010

A handwritten signature in blue ink, appearing to read 'Jim Mather'.

#### DORMANT ACCOUNTS SCHEME

Thank you for your letter to Ian Pearson dated 24 February. I am responding as Treasury Minister responsible for dormant accounts policy and apologise for the delay in doing so.

I am pleased to hear that you are making good progress towards launching a Dormant Account scheme in Scotland. I was pleased that we could also report good progress on the scheme at PBR. We continue to be confident that the Co-Operative Financial Services (CFS) will submit their application to the FSA to establish and operate the Reclaim Fund. If work continues as planned, the CFS believes that it will be able to establish the Reclaim Fund later this year. The timing of the flow of money to the Big Lottery Fund (BIG) thereafter will depend on the operations of the Reclaim Fund. The Reclaim Fund will be responsible for managing the dormant account funds, supporting customer reclaim and passing on surplus funds to BIG. We expect there to be further clarity on what this might mean in terms of likely flow of funds later in the year.

In my response to Alun Ffred Jones, I clarified my understanding of what was agreed with regard to apportionment of funds. Prior to and during the passage of the Bill, the Government made clear its intention to use the Barnett formula to apportion funds between the four countries. Barnett was favoured (rather than the formula used by BIG for lottery purposes) because the scheme was designed in a manner which allowed key spending decisions to be devolved. And it follows that an established method of determining devolved spending should be used. As you note, we agreed to draft the Bill (now Section 17 of the Act) in a way which requires the Secretary of State to consult the devolved administrations and others before making the Order, setting out the apportionment of funding. This approach was taken, in response to concerns raised by devolved ministers at the time, to ensure flexibility to enable changes to apportionment where the Secretary of State judges it appropriate.

The Secretary of State for Children, Schools and Families will be responsible for taking the relevant decisions under the Act. It is for him to set out the timing and manner of the consultation which he intends to carry out to enable him to make the Order.

In terms of the Government's policy on devolved spending more broadly, the Government currently has no plans to change the Barnett formula.

I am copying this letter to Ed Balls, Angela E Smith, Peter Hain, Jim Murphy, Shaun Woodward, John Swinney and Sammy Wilson.

Kind Regards  
Sarah

SARAH MCCARTHY-FRY MP

## **Assessment of the Holtham Commission's proposal to adjust the Barnett formula in Wales to prevent further convergence**

This paper by the Treasury was commissioned by the Cabinet Office at a meeting of CO, HMT, WO, SO and NIO officials on 12 August in the light of representations to the Prime Minister by Peter Hain and Rhodri Morgan to consider the Holtham Commission's proposal to adjust the Barnett formula in Wales to prevent further convergence of public spending in Wales towards the England level of spending per head.

### **What is the Holtham Commission recommendation?**

The interim Holtham Commission report was published in July 2009. It is a report to the Welsh Assembly Government not to the UK Government. It focussed on the Barnett formula and related funding issues. The final report will address tax and borrowing issues.

Holtham made a number of recommendations. On the Barnett formula he recommended that in the medium term the funding arrangements for Wales should be based on relative needs. In the meantime he recommended that no further decline in relative funding per head should occur in Wales until a new funding system is in place. This could be achieved in a straightforward way simply by multiplying any positive increments allocated to Wales by 114 per cent.

### **How operationally would the Holtham recommendation work?**

Holtham sets out the new Welsh Barnett formula in box 6.1 of his report:

Change to Welsh block grant = change to equivalent English programme x comparability factor x Welsh to English population ratio x 114%.

This is the same as the existing formula except for the last factor in the formula.

### **What is Holtham's rationale for this adjustment?**

Holtham argues that the WAG objectively needs at least 14 per cent higher spending per head than England. He derives this figure from his assessment of what WAG would have got if it were funded by the UK Government like an English region. He also argues that currently Wales receives 13 per cent higher funding than England in devolved functions. Furthermore he argues that the Barnett formula has a convergence property which means that spending per head in Wales will fall over time relative to England. This is because the Barnett formula provides the same absolute or cash increase per head to all four countries but existing spending per head is higher in Scotland, Wales and Northern Ireland so in % terms the Barnett increase is less than in England, implying a gradual process of convergence.

So Holtham argues that we should put a floor under Welsh spending to stop it falling below 14% above England spending per head.

[REDACTED]



The latest PESA numbers show no convergence in recent years: identifiable spending per head in Wales relative to England (England =100)

2004-05	2005-06	2006-07	2007-08	2008-09
114	114	115	114	114

Furthermore we do not expect any significant convergence in the foreseeable future given that convergence is related to the growth in public spending and the Budget forecast does not imply substantial growth.

#### Is there a case for saying that Wales is underfunded?

Our view is that Wales does well under the Barnett formula:

- Welsh identifiable spending per head is 14 per cent higher than in England in 2008-09, higher than every English region other than London; it is higher than the north east, the poorest English region and generally considered to be somewhat similar to Wales, whose spending per head is only 10 per cent higher than the England average
- There has been no change in this figure since 2004-05
- The Welsh Assembly Government's budget has more than doubled since devolution
- In the CSR the average annual real growth rate of the WAG budget was 2.4 per cent compared to the UK average of 2.1 per cent; Scotland and Northern Ireland were below the UK average
- The last interdepartmental country needs assessment in 1979 concluded that Wales needed 9 per cent higher spending than England ie lower than the current spending differential between England and Wales
- Prior to the introduction of the Barnett formula, spending per head in Wales in 1977-78 was the same as in England.

#### Would Wales always be better off under the Holtham formula compared to the Barnett formula?

If the above formula were applied, Wales would be better off than under the Barnett formula provided comparable UK departments' public spending is rising in nominal terms. If it were falling, Wales would be better off under the Barnett formula.

### Would the Holtham change be repercussive?

The Holtham change represents a fundamental change to the Barnett formula, which would no longer produce the same increase per head in Wales as in England but a needs weighted increase. This would open up the debate about replacing the Barnett formula by a needs weighted formula.

Furthermore other countries and regions would also no doubt argue for a floor to be placed under their spending per head relative to the UK average.

### Did the House of Lords report on the Barnett formula argue that Wales is underfunded?

It argued that Scotland is overfunded but it did not argue that Wales is underfunded.

### Will the implementation of the Calman report disadvantage Wales relative to Scotland?

It is not clear yet either how the Government will implement Calman or what the implications for Wales will be. However Calman did not seek additional funding for the Scottish Executive but rather that SE should become more financially accountable for what it spends. Holtham has not yet reported on tax devolution in the Welsh context.

## Response to queries raised by the devolved administrations on CSR devolved administration baselines

At his bilaterals in early September with the devolved finance ministers, the Chief Secretary outlined the basis of the CSR baselines for the devolved administrations circulated earlier by Treasury officials and offered that Treasury officials should brief the devolved administrations' officials on the details.

A meeting took place in the Treasury on 19 September at which Treasury officials agreed to provide further information on a number of queries set out below.

### Have other adjustments been made to the Department of Health capital DEL in the SR04 period beyond the £2 billion reduction announced in the 2007 Budget?

There have been no other adjustments to the DH capital DEL that need to be taken into account in the baselines calculations. The only other changes to DH's capital DEL were minor increases from the Invest to Save budget (the devolved administrations receive Barnett consequentials on all comparable Invest to Save Budget increases); and resource to capital switches, which do not attract Barnett consequentials.

### What explains the adjustments to the Department of Health RDEL baseline?

The 2006 Budget report set out adjustments to DH RDEL in paragraph C74. These adjustments included classification changes, which moved payments to the NHS Trusts to cover the depreciation costs from outside budgets into the Department of Health's resource DEL, bringing the treatment of Trust depreciation further into line with the budgeting treatment of depreciation for central government and obviating the need for its inclusion in the accounting adjustment.

The devolved administrations' officials have agreed to consider whether there may be a case for a similar movement of payments for the devolved administrations. This would be treated as a classification change.

Adjustments at Budget 2006 also include reprofiling of the DH's resource budget over the 2004 Spending Review period agreed with DH, partly to reflect the forecast return to surplus in the NHS. The net effect of these changes was to adjust DH RDEL for 2007-08 from £87.3bn to £87.1bn. Budget 07 adjusted DH RDEL from £87.1bn to £87.6bn, accounted by further classification and reprofiling changes agreed with DH. No changes were made to the Devolved Administrations budgets over this period.

What explains the local government DEL reduction and have there been other changes to LG DEL in the SR04 period?

Paragraph C.75 of the 2007 Budget report announced that the local government DEL was being updated to a level consistent with the latest outturn spending. In more detail, the £106 million reduction in the LG capital DEL baseline was in respect of the capital element of Local Public Service Agreement reward grant in 2007-08, reflecting the fact that while we funded reward at 100% achievement of targets this was in reality lower. Given that this capital is ring-fenced to support this programme only, the underspend on the programme was surrendered by DCLG. There have been no other changes to LG capital DEL.

Have transfers between departments in respect of the funding of the England RSG settlement been baselined and if so does this impact on the devolved administrations' baselines?

The transfers from departments' DEL to the LG DEL are being baselined. However transfers in provision do not change aggregate provision and therefore do not require adjustments to the DAs' baselines. But the Treasury uses the 2007-08 UK departmental baselines in calculating comparability factors for the CSR and therefore the transfers are reflected in the CSR comparability factors. This treatment is consistent with the Statement of Funding Policy (paragraph 3.13).

When were the devolved administrations informed about time limited items?

The figures already circulated indicate that most of the items relate to Budget and PBR additions provided to the devolved administrations, which are normally funded from the Reserve and not baselined.

How will the Treasury present the baselines and growth rates in the CSR?

The CSR baselines are used as the base figures to which changes in provision in the CSR are added. Average annual real growth rates are calculated with respect to the 2007-08 baseline. However in presenting the CSR settlement for the devolved administrations there will be no disaggregation of the DEL block totals by programme (health etc) because these allocations are for the devolved administrations to make.

## Extract from email between HMT and Wales Office officials

From: [HMT OFFICIAL]  
Sent: 23 March 2009 12:53  
To: [SCOTLAND OFFICE OFFICIALS]; [NORTHERN IRELAND OFFICE OFFICIAL];  
[WALES OFFICE OFFICIAL]  
Cc: [HMT OFFICIALS] Gallagher, Jim  
Subject: Barnett Formula Select Committee written and oral evidence

Dear all

I attach HMT's written and oral evidence to the House of Lords Barnett committee. I am also reattaching the briefing for your S of S's we sent earlier.

The Committee were particularly interested in whether Ministers think it is Government policy that spending in Scotland, Wales and NI should converge downwards relative to England over time. This is covered in the attached brief but a fuller Q and A is set out below:

Q. Do Ministers think it is Government policy that spending in Scotland, Wales and NI should converge downwards relative to England over time? If so why do you think spending is too high in the DAs? If not why do you support the Barnett formula which has a convergence property? Why have we not seen much convergence in practice?

A. The Barnett formula provides the four countries of the UK with a population based share of comparable spending changes ie the same absolute change per head in comparable spending. Because existing spending per head is higher in Scotland, Wales and NI than England, the % change is smaller for the DAs. This is sometimes called Barnett convergence or the Barnett squeeze. However several points need to be noted. There is no preset convergence path built into the Barnett formula (indeed if spending is reduced there is Barnett divergence as the % reduction is less). In practice the rate of convergence depends on several things such as the rate of growth of public spending and changes in population relativities. In practice spending has more than doubled in Scotland, Wales and NI since devolution - hardly a squeeze. In addition there are no calls from the DAs themselves to scrap the Barnett formula, while from an English perspective the Barnett formula ensures that the DAs do not get a disproportionately large increase in spending.

[HMT OFFICIAL]



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Rt Hon the Lord Richard QC  
Select Committee on The Barnett Formula,  
House of Lords,  
London,  
SW1A 0PW

10<sup>th</sup> March 2009

**BARNETT FORMULA**

Thank you for your letter of 24<sup>th</sup> February setting out a number of specific questions on the Barnett Formula. I am attaching the Treasury's response to these with this letter.

2. I hope that these answers, combined with the written evidence that the Treasury has already submitted and the oral evidence session that officials will be attending on 11<sup>th</sup> March, will be useful to the Committee's enquiry.

3. I will write to you shortly regarding your separate request about the needs assessment.

**YVETTE COOPER**