

Funding reform: joint statement of progress

Introduction

The UK Government and Welsh Government have jointly agreed the next steps following inter-governmental talks on funding reform. These cover devolved funding, borrowing powers and wider reform.

Devolved funding

The Welsh Government strongly believes that there is no case for further convergence in Welsh relative funding. The UK Government recognises that there has been convergence in Welsh relative funding since the start of devolution, and that this is a significant concern in Wales.

Both Governments accept that, on the basis of present UK Government spending plans, there is unlikely to be further convergence over the current budgetary planning horizon. A small amount of divergence is likely to occur over the remainder of this spending review period, but the overall trend of convergence is very likely to reassert itself once spending starts to increase.

In future, in advance of each spending review there will be a joint review of the pattern of convergence by the two Governments. If convergence is forecast to occur over the course of the spending review period, both Governments will then enter into discussions on options to address the issue, based on a shared understanding of all the evidence available at that time.

Both Governments commit to negotiating to achieve a sustainable arrangement for Welsh devolved funding and the UK public finances, that each can accept as being fair and affordable.

The Welsh Government believes that a mutually acceptable outcome to those discussions is an essential precondition for any significant devolution of taxes and the UK Government will only implement such changes with the consent of the National Assembly for Wales.

Borrowing powers

In principle, the UK Government accepts the case for the Welsh Government to have access to borrowing powers in order to finance infrastructure projects, subject to an appropriate independent stream of revenue being in place to support it.

Decisions on the devolution of taxes – which could provide an appropriate revenue stream – will be made after the Silk Commission reports.

It has been agreed that the UK Government and Welsh Government should continue to explore the options for financing specific infrastructure projects, including the case for early access to borrowing powers in anticipation of a future independent revenue stream.

Both Governments agree that any borrowing powers should operate within the UK Government's responsibility for delivering its fiscal mandate.

Wider reform

The Silk Commission is currently considering the case for devolving additional fiscal powers to Wales, including the options for the devolution of certain tax-varying powers.

Both Governments commit to giving the Commission's proposals serious consideration, with a view to agreeing jointly a package of reforms that delivers fair and accountable funding for Wales and that commands a broad consensus.