

Jane Hutt AC / AM  
Y Gweinidog Cyllid a Busnes y Llywodraeth  
Minister for Finance and Government Business



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Llywodraeth Cymru  
Welsh Government

The Rt Hon George Osborne MP  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

3 November 2015

Dear George,

I thought it would be helpful to set out the Welsh Government's position on a number of issues in advance of the forthcoming Spending Review.

We have seen unprecedented cuts to public expenditure over the last five years. Over this period, the Welsh Government's budget has reduced by 8% in real terms. This equates to £1.3 billion pounds less to spend every year on promoting economic growth and providing vital public services for the people of Wales.

We would urge you to reconsider the UK Government's plans for further, cuts in public expenditure. Much needed investment in infrastructure, maintaining and developing economic capacity and productivity is essential to achieve a balanced recovery.

A key component of the Welsh Government's approach to supporting sustained economic growth during these difficult financial times has been concerted action to boost infrastructure investment, in line with the priorities set out in the Wales Infrastructure Investment Plan (WIIP). This is despite cuts in our capital budget of nearly a third in real terms. We welcomed the steps taken to increase capital spending power above planned levels as set out in the 2010 Spending Review, albeit with the restrictions associated with greater use of financial transactions capital.

In order to manage a further period of difficult financial settlements, it is essential that we have the maximum flexibilities available to us. It would be beneficial if you enhanced the resources available for infrastructure investment in the Spending Review in the form of traditional capital but not at the cost of further revenue reductions which would impact on public services.

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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.

In line with our call for greater financial flexibilities, there are a number of important measures that could be taken forward in the Spending Review:

- removing the restrictions on carry forward placed on us under the budget exchange system, enabling us to provide a smoother capital profile;
- allowing greater scope to switch between capital and revenue budgets; and
- enabling drawing forward of capital budgets, including borrowing, across the period of the Spending Review.

I have highlighted in previous correspondence investment opportunities where there is scope for joint action between the UK and Welsh Governments. The Metro System in South East Wales forms an integral part of our vision for the economic development of the Cardiff Capital Region. The Metro will act as an important driver of economic growth and increased productivity, acting as an important link between communities in South Wales and supporting the wider economy by enhancing connectivity across Wales into the rest of the UK and Europe.

The First Minister wrote to you recently about the benefits a successful City Deal for the Capital Region would bring to both Governments. We welcome the positive messages you have given in previous Budgets about working towards a City Deal for Wales and I hope we can build on this further in the Spending Review, including potentially the scope for other areas to benefit.

Another project which will benefit UK Infrastructure goals is the Swansea Bay Tidal Lagoon. This is one of our WIIP pipeline projects and has the potential to bring significant economic and environmental benefits. I hope, therefore, that, subject to due diligence, there will be a speedy resolution to the on-going discussions to ensure this ambitious project is realised and brings significant benefits, to Wales and the whole of the UK.

Turning to recent announcements in the Summer Budget and in relation to the treatment of Non-Domestic Rates in England, there remain a wide range of issues that have implications on the future funding of the Welsh Government that are unresolved, and which are of shared concern to the Finance Ministers from Scotland and Northern Ireland, as indicated in our letter of 27<sup>th</sup> October to the Chief Secretary to the Treasury. It has been the mutually beneficial practice to hold a Quadrilateral before the Spending Review and we believe this should be arranged. This would also be an opportunity to discuss how the Statement of Funding Policy is updated to reflect the new fiscal arrangements for each of the devolved administrations.

I am copying this letter to the First Minister, the Chief Secretary to the Treasury, the Secretary of State for Wales, the Scottish Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy, and Northern Ireland's Minister of Finance and Personnel.

Yours sincerely,



**Jane Hutt AC / AM**

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