



Llywodraeth Cymru
Welsh Government

Our ref: RE/ 149/20

Rt. Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

6 March 2020

Dear Rishi,

Please accept my warm congratulations on your appointment as Chancellor of the Exchequer. I hope we can continue to build on the constructive discussions we had in your previous role.

As you prepare to set out your first Budget, which will be the first to deliver the UK Government's programme to unite and level up the UK, I thought it would be useful to set out our priorities for Wales ahead of the Budget.

Fiscal and Economic Policy

While the labour market in Wales continues to perform strongly in historic terms, this must be seen in the context of a lost decade, over which productivity and real wages have barely risen. This is certainly unprecedented in modern times, and probably since the industrial revolution.

The approach the UK Government is taking to negotiations with the EU risks creating a further self-inflicted wound. All credible evidence suggests that creating unnecessary new trade frictions with our largest trading partner will damage economic growth and real incomes to an extent that cannot possibly be offset by new trade deals with other countries.

Research by the Bank of England has also demonstrated that business uncertainty about future trading relationships with the EU has constrained business investment, compounding the pre-existing slowdown in productivity growth.

The economy in Wales is deeply embedded in the wider UK economy through supply chains and other interdependencies, so naturally this adverse context impacts on

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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.

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Wales. Indeed, Wales is more exposed to trade risks, since we export even more intensively to the EU than does the UK as a whole - and are dependent on sectors, including aerospace, automotive, and agriculture, which rely on low-friction trade with the EU. On top of all of this, there is of course now also the grave economic risk associated with Coronavirus.

The UK government should respond to this uncertainty and to lacklustre growth by taking advantage of historically low interest rates, ending austerity and pursuing an expansionary fiscal policy, focused on helping those most at risk, particularly people who are on low incomes or otherwise disadvantaged. This means a sustained investment in public services and a reversal of regressive welfare reforms and cuts.

As part of this, the UK Government must review its approach to ensure fairer taxation. The UK Government cannot pursue tax cuts for the most wealthy, when the impacts of a decade of austerity are being felt so deeply. While borrowing clearly has a role to play when interest rates are low, there should also be an acceptance of the need for more progressive taxation to support the kind of investment that benefits the economy across the whole of the UK.

Addressing regional inequality

If the UK Government is serious about addressing regional inequality across the UK then this will require significant investment in Wales, including in non-devolved areas such as research and development and rail.

On research and development, we would welcome the UK Government's commitment to support the all Wales Artificial Intelligence (AI) Hwb proposal which brings together industry and academic expertise from across Wales in data science and AI, to accelerate an ARPA-style innovation pipeline in support of the fourth industrial revolution. We are also keen to develop Wales as a centre for nuclear research, development and innovation and are pursuing additional opportunities in regards to Medical Radioisotopes and Research Reactor (MRRR) with a view to Wales becoming a world leader in this area.

Following the UK Government's recent decision to proceed with HS2, the First Minister of Wales wrote to the Prime Minister on 11 February calling on the UK Government to tackle the historic under investment in Wales' rail infrastructure and make good on its previous commitment, made alongside the decision to cancel electrification to Swansea in 2017, to develop a comparable rail infrastructure enhancement programme.

Looking ahead, the full devolution of rail infrastructure powers and a fair funding settlement - as was set out in our evidence to the Williams Review - is the only rational long-term solution to achieve our shared integrated public transport network ambitions.

Responding to the Climate Change Emergency

The Welsh Government is committed to delivering the reduction in greenhouse gas emissions required to make our contribution to a net zero target for the UK. The scale and pace of change required is greater than any other planned economic transition in modern times and it requires collective action. We are coordinating activity to help other areas of the economy to make a decisive shift away from fossil fuels, involving academia, industry and the third sector.

The UK Government must use the Budget to deploy the levers it has if we are to achieve our collective ambitions to meet the challenge of the climate emergency. This includes decisive support into research and development for industrial decarbonisation and further

investment in the energy system, to enable further low cost renewable energy deployment, and decarbonisation of heat and transport.

It will also be important to ensure the transition to low carbon is funded in a progressive way. For example, the allocation of costs to fund new generation and improve/maintain energy networks are currently allocated to fuel bills. We need to carefully consider where costs of further investment fall, particularly in relation to driving down the cost of storage, flexibility and smart networks, to minimise the impact on citizens and businesses.

I welcome the Secretary of State for Wales' recent comments that the transformational potential of a Swansea Bay tidal lagoon is still under discussion; this will be an important consideration as we seek to generate low carbon electricity. I urge you to take steps to bring this project to fruition as part of your ambitious infrastructure investment plans.

Given the role of devolved policy in achieving any UK target and the role of reserved policy in achieving any target in Wales, I welcomed the previous Exchequer Secretary to the Treasury's commitment to work closely with Devolved Administrations on the HMT Net Zero review. I look forward to further details as to how this commitment will be honoured.

I have also noted with interest the Committee for Climate Change's suggestion of a Carbon Tax and I would like my officials to be engaged in any consideration in respect of this.

Paying for Social Care

The provision of high quality social care is a key priority for the Welsh Government, especially in regards to the increasing demand an ageing population will have on services in the very near future. We have adopted a cross-government approach to addressing and developing a sustainable policy position, which is being overseen by our Inter-Ministerial Group on Paying for Care.

The challenges we are seeking to address are common to all of the UK countries and given the wider levers and interdependencies at a UK level which impact social care provision, developing a shared understanding, and therefore, the potential solutions can only be of benefit to both our governments. I would welcome improved engagement and coordination between HM Treasury and the Welsh Government given our mutual interest in this issue. In particular, it would be useful to discuss the tax and fiscal options so that we can account for this in our policy formation.

EU transition

Replacement EU Funding

We have welcomed the UK Government's commitment that Wales will not be a penny worse off and that the devolution settlement will be respected. I would welcome an unequivocal commitment on this in the Budget.

We continue to work closely and productively with interested parties across Wales to put in place successor arrangements for regional economic development in Wales. On 28 February we published our latest consultation [<https://gov.wales/framework-for-regional-investment-in-wales>] setting out a framework for regional investment developed in extensive collaboration with our stakeholders.

On future funding for agriculture, waiting until the outcome of the Comprehensive Spending Review to provide greater certainty will erode the time for effective planning, with impacts for value for money. In particular, it is imperative you provide confirmation in the Budget

that we will receive the 15% pillar transfer for rural development in 2021-22 following our earlier decision.

Continued participation in EU programmes

I noted that in the UK negotiations mandate published on 27 February the UK Government said it will seek access only to a limited number of EU funds. I was particularly disappointed to see that this does not include the European Territorial Cooperation programme which is so important to all the Devolved Governments, or to Creative Europe which you have acknowledged provides value for money. I would ask that you please confirm in writing that the UK Government has refused our repeated request to enable and provide funding for Devolved Governments to access future EU programmes independently. I would also welcome confirmation in writing that the UK Government will provide full funding replacement for all the EU programmes which we have benefited from in the past but which the UK Government will not be seeking access to in the negotiations over our future relationship with the EU.

A new trading environment

We expect the Budget to be tailored to support a smooth transition as the UK leaves the European Union, including help for businesses and sectors to prepare to transition to a new trading environment. As a result of the requirement for additional checks under the Northern Ireland protocol, new infrastructure will also be necessary at Welsh ports, in particular Holyhead as the second busiest Ro-Ro ferry port in the UK.

Free ports

We remain open to exploring the benefits free ports could bring to Wales. However, establishing free ports without a full understanding of their impacts and without the meaningful involvement of the Welsh Government risks displacing economic activity from Wales, eroding Welsh tax revenues and undermining the devolution settlement. Accordingly, we expect any decisions that might affect the Welsh economy to be made under joint agreement with the Welsh Government, to be supported by a robust evidence base and for Wales to benefit from its fair share of any investment made by the UK Government.

Current Spending Pressures

The recent floods caused by Storm Ciara and Storm Dennis has had an unprecedented and devastating impact on Welsh communities. It is clear that the cost of the response, recovery and repair will run to hundreds, rather than tens of millions, of pounds. This pressure has been exacerbated given the scale of the late reductions to our Budget this financial year and the impact this has on our capital spending power next year. In my call with the Chief Secretary this week, he recognised the disproportionate impact the storms have had on Wales and that we should discuss how the exceptional and unforeseen impact relates to a claim on the reserve.

It is essential that we can effectively plan and respond to Coronavirus. Wales is already committing funding in a number of areas. We do not yet know to what extent Wales will be impacted, but it is likely the impact will go beyond the emergency response of the health service. As well as impacting on day to day services in both the NHS and Social Care there will be wider impacts for communities and businesses which may require a significant fiscal remedial package from the UK Government. Again, given the exceptional circumstances we face, we would expect to receive additional funding from the UK Government to manage the impacts of the outbreak based on need.

I am copying this letter to the Chief Secretary to the Treasury, the Secretary of State for Wales and the First Minister for Wales.

Yours sincerely,

Personal Data

Rebecca Evans AC/AM

Y Gweinidog Cyllid a'r Trefnydd
Minister for Finance and Trefnydd