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Welsh Assembly Government

Our ref: SF/EH/498/02

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21 May 2002

Dear Ron

I promised to write to you in response to the written questions you tabled about changes to the Barnett Formula and the cash effects of the changes. Each of your questions refers to the 1998 position and 2000. The first time the list of comparable sub-programmes and comparability percentages was published was in the First Edition of the Statement of Funding Policy. This issued in March 1999 and it is this list that I have used to compare with the list in the Second Edition of the Statement of Funding Policy published in July 2000.

Trade and Industry (WAQs 17862 and 17863)

The comparability percentage for Trade and Industry in March 1999 was set as 27%. You are correct in pointing out that this percentage reduced to 19.5% in the 2000 Spending Review. The reasons for this reduction in the comparability formula fall into two categories:

- Expenditure on four major programmes within DTI which were 100% comparable ceased, these areas were Sectoral support, capital spending on departmental administration, enterprise and job growth and the fossil fuel levy; and
- A number of new programmes were brought on line by the DTI, which were not comparable to Wales. These programmes for the most part involve the nuclear industry, scientific and technological research and communications; areas over which Wales has no functional responsibility.

It is inevitable that under the Barnett arrangements, a reduction in comparability will result in less cash being made available to the Assembly. If the consequential of 27% was applied to the 2000 Spending Review then the Barnett consequentials could have been £10 million higher over the three-year period covered by the review.



BUDDSODDWR MEWN POBL
INVESTOR IN PEOPLE

Agriculture (WAQs 17864 and 17865)

The Statement of Funding Rules published by the Treasury in 1999 provided no comparability percentages for domestic agriculture. Instead, Wales received a direct population percentage of the increases allocated to the Ministry for Agriculture, Fisheries and Food. As a result of these arrangements, Wales received £2.4 million in 1999-2000, £3.1 million for 2000-2001 and £2.8 million for 2001-2002. This policy changed in 2000, where Wales attracted a comparability percentage for domestic agriculture of 84.3%. The main reason for the movement of agriculture into the Barnett arrangements being devolution. Under devolution, consequentials would be allocated to the newly devolved administrations via Barnett formula process. As with all consequentials, it is nevertheless for the Welsh Assembly Government to decide on the exact allocation of any additional funds accruing to the Assembly's Departmental Expenditure Limit (DEL) provision.

Under the revised arrangements the Assembly received Barnett consequentials of £9.8 million for 2001-02, £13.2 million for 2002-03 and £14.3 million for 2003-04 as a direct result of increases to domestic agriculture spending in England. In addition, as part of the SR2000 settlement, the Assembly received a further £4 million in 2001-2002, £5 million in 2002-2003 and £6 million in 2003-2004 for modulation match funds – of which £3m/£3m/£4m was additional to the Barnett formula consequentials.

DETR (WAQs 17866 and 17867)

The main change to DETR comparabilities between 1998 and 2000 was the separation of the DETR non-local government comparability into the two separate comparabilities of DETR Transport and DETR Housing and other Environmental Services. The respective comparability percentages are shown below:

1999 Published Comparability percentages		2000 Published Comparability percentages	
DETR non-local government	% 70	DETR Transport DETR Housing and other Environmental Services	% 67.1 94.9

The split of the non-local government comparability was requested by the Assembly in order to provide greater transparency.

If the 70% comparability factor had been applied to the SR2000 increases then the Assembly would have lost £1.04 million in 2001-02, £13.8 million in 2002-03 and £19.398 million in 2003-04.

I have placed a copy of this letter in the Members library.

