

## **Welsh Government Budget 2017-18 and beyond**

### **Purpose**

1. The purpose of this paper is to provide an overview of the outlook for the Welsh Government's budgets over the next few years and how this has shaped the 2017-18 Draft Budget to be published on 18 October.

### **Financial Context**

2. The 2015 Spending Review set the Welsh Government's revenue budget for the period 2016-17 to 2019-20, with capital budget for a further year until 2020-21. While the settlement represented a mix of negative and positive Barnett consequential, the overall net impact on the Welsh budget was a further reduction in real terms until the end of the decade.
3. In the March Budget, the UK Government revised the spending plans it had announced in the Spending Review. This resulted in some small cash increases to the Welsh Budget over the next four years but did not alter the trajectory for further real term cuts to the Welsh budget for this term. In 2019-20, the overall Welsh budget will be 9% lower in real terms than in 2010-11. This equates to nearly £1.5bn less in real terms to spend on public services in 2019-20 than was available in 2010-11.
4. While the March Budget set the financial envelope for the next four years, it also brought the prospect of additional cuts to the Welsh Budget. The UK Government announced plans to find a further £3.5bn of departmental savings in 2019-20 but did not announce how these cuts will be implemented, or what the implications will be for the Welsh settlement. If these cuts go ahead, they could result in the Welsh Government's budget being reduced by an additional £150m in 2019-20.
5. The Institute of Fiscal Studies recently commented that "Wales is looking at an extraordinary eleven or more years of retrenchment in public service spending...". The Office for Budget Responsibility has identified a number of pressures likely to impact negatively on the UK's public finances over the longer term. These include a growing dependent population which contributes to higher expenditure on pensions, social care and health.
6. Until the UK Government's Autumn Statement is published on 23 November, there have been few signals about the UK Government's intentions for fiscal and monetary policy. The Chancellor has been clear that austerity has not ended and that achieving a budget surplus is still an objective, but likely to be at a slower pace than set out in the March 2016 UK Budget. The Chancellor has sought to dampen expectations that the Autumn Statement will contain significant additional infrastructure spending.

## **Implications of the EU referendum**

7. Wales currently benefits from £650m per year of EU funds, which support economic, social and rural development. The First Minister has welcomed the Chancellor's recent confirmation that the Treasury will provide a full lifetime guarantee for all structural and investment projects approved before the UK leaves the EU.
8. EU funds are an important source of investment for Wales and we will continue to make the most of every penny we receive from Europe. We will also make a strong and positive case for Wales to get its fair share of funding after the UK exits the EU, as promised in the referendum campaign.
9. For the long term, the consequences of the EU referendum decision will recast our relationship with the European Union. We will continue to work to determine more certainty about the future of important EU funding streams.
10. I chair the European Advisory Group which provides advice to the Welsh Government on the challenges and opportunities arising from the UK's withdrawal from the EU. It will also consider how Wales can continue to work positively with Europe.
11. The Advisory Group brings together people with experience and a detailed understanding of European issues, including Members of the European Parliament, business leaders and representatives from universities, colleges, trade unions, agriculture, public services and the third sector.

## **2017-18 Welsh Budget – key considerations**

12. The Welsh Government's five year plan Taking Wales Forward published last month sets out how we will deliver more and better jobs through a stronger, fairer economy; improve and reform public services and build a united, connected and sustainable Wales.
13. Taking Wales Forward has been central to our Budget preparations and how we can best align our Budget to support our priorities over the short and longer-term against a backdrop of financial uncertainty. A key consideration has been how we can provide stability for our core services and make tangible progress in Taking Wales Forward.
14. Given the economic uncertainties we face following the EU referendum, it is more important than ever that we maintain our strong record of investing in our economic and social infrastructure as a lever to economic growth. We want a Wales that is prosperous and secure. We have already announced a number to deliver more and better jobs through a stronger, fairer economy.

15. The Wales Business Fund means Welsh SMEs can collectively access up to £136m of financial support over the next seven years, ensuring they are well placed to develop their home markets and compete internationally. This will be complemented by the establishment of the Development Bank for Wales.
16. In September I announced that we are extending our Small Business Rates Relief Scheme for 2017-18, with a new permanent scheme coming into force from 2018, and are considering how this relief is delivered to best support small businesses in the longer term.
17. The Cardiff Capital Region City Deal is a £1.2bn investment fund delivered over 20 years, which brings together ten local authorities and includes investment from the Welsh Government and the UK Government. The Deal is expected to deliver up to 25,000 new jobs and bring in an additional £4 billion of private sector investment. We are working towards a deal for the Swansea Bay City Region, extending from Pembrokeshire to Neath Port Talbot and a growth deal for North Wales to help strengthen its economy.
18. Taking Wales Forward also sets out our capital priorities of integrated transport solutions, such as the South Wales metro and M4 relief road, together with continuing our plans to deliver more world-class school buildings and securing an additional 20,000 affordable homes.
19. Our traditional capital spend, supplemented by financial transaction funding is also boosted by a pipeline of innovative finance schemes providing additional investment in economic and social infrastructure. These include dualling of the A465, a specialist cancer centre at Velindre and progressing the 21<sup>st</sup> century schools programme.
20. The Welsh Government has made a commitment to establish the National Infrastructure Commission for Wales to provide independent and expert advice on a better informed longer term strategy of investment in infrastructure over a 5 to 30 year period.

### **Points for discussion**

21. The meeting gives the opportunity for the group to comment on the Welsh Government spending priorities for 2017-18. We would also welcome your consideration of how we can work together to meet the challenges that lie ahead in delivery of a strong Welsh economy and positive outcomes for the people of Wales, in the current financial climate and following the exit from the EU.