

## **Council for Economic Renewal**

### **Budget Projections for Wales**

#### **Purpose**

1. To provide an update to the Council for Economic Renewal (CER) on the projected budgetary position for Wales which is the basis for the forthcoming Welsh Government Draft Budget.

#### **Action**

2. The CER is asked to note the content of the Paper.

#### **Background**

3. The UK Government's Spending Review in 2010 set the Welsh Government's budget for the period 2011-12 to 2014-15 and represented the most difficult settlement for Wales since devolution.
4. Since then, the UK Government has repeatedly revisited budget allocations and since the Assembly approved the Final Budget 2013-14 last autumn, the UK Government has reduced our Budget twice.
5. In total, the Welsh Government's Budget for 2014-15 is now £81m lower than our published plans and in real terms, by the end of the current Spending Review period, the total DEL budget will be £1.4bn lower in real terms than in 2010-11.

#### **Implications of the Spending Round 2013**

6. On 26 June, the UK Government announced the outcome of its Spending Round which set the Welsh Government budget for 2015-16 for the first time. As a result of that announcement, our Resource DEL (excluding depreciation) is set at £13.6bn and Capital DEL set at £1.46bn (of which £179m is financial transactions<sup>1</sup>). The total Welsh Government budget in 2015-16 is therefore £15.1bn.
7. This means that in 2015-16 the Welsh budget will be £280m (2%) lower in real terms than it was in 2014-15.
8. The overall impact of these decisions means that by 2015-16, the Welsh budget will be £1.68bn lower in real terms than it was in 2010-11.

---

<sup>1</sup> Financial transactions are not traditional capital grants. Financial transactions can only be used for loans and equity purposes and a proportion of the funding will have to be repaid to the Exchequer.

## Council for Economic Renewal

9. The table below provides a comparison between the Welsh Budget in 2014-15 and 2015-16.

### Comparison of Welsh Budget between 2014-15 and 2015-16

	2014-15	2015-16	Change in 2015-16	
			£ million	Per cent
Resource DEL	13,690	13,635	-54	-0.4%
Non-fiscal Resource DEL <sup>1</sup>	506	627	120	23.7%
Capital DEL	1,431	1,461	30	2.1%
<b>Total DEL (excluding non-fiscal resource items)</b>	<b>15,121</b>	<b>15,096</b>	<b>-25</b>	<b>-0.2%</b>
<u>Real terms (2012-13 prices)</u>				
Resource DEL	13,133	12,849	-284	-2.2%
Capital DEL	1,373	1,376	4	0.3%
<b>Total DEL (excluding non-fiscal resource items)</b>	<b>14,505</b>	<b>14,225</b>	<b>-280</b>	<b>-1.9%</b>

<sup>1</sup>Ring-fenced depreciation and student loans.

### Future Outlook

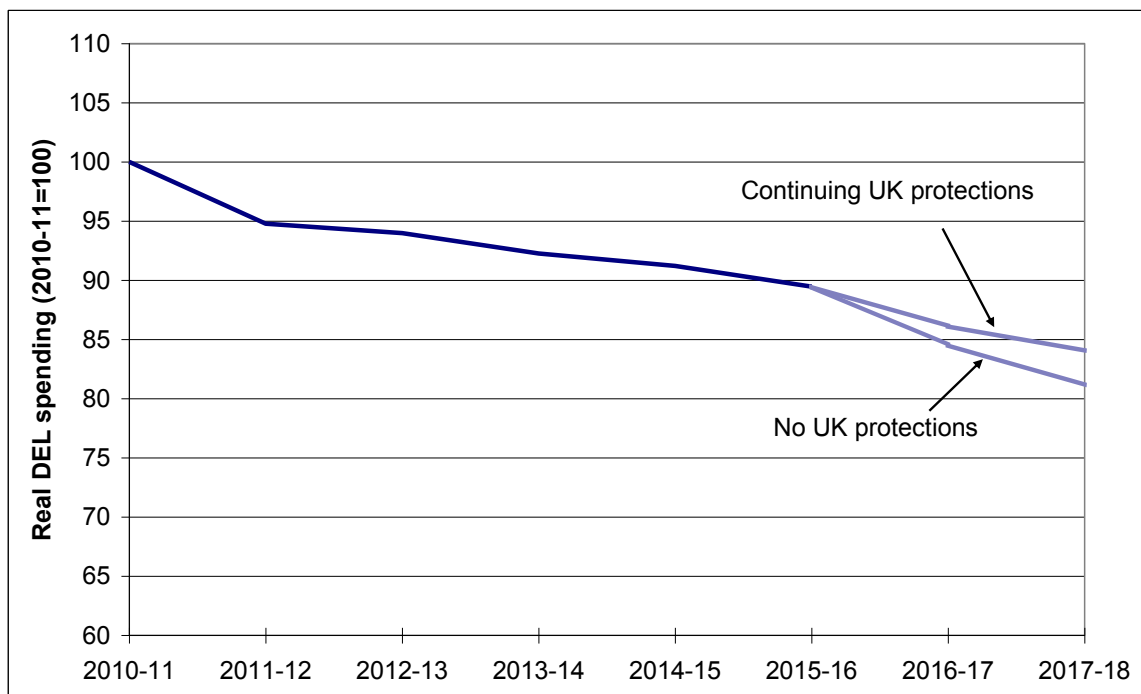
10. Assuming the Barnett formula is not reformed, the size of the Welsh Government's budget will continue to be directly determined by the UK Government's policy decisions on the overall level of public spending and allocation of that spending between devolved and non-devolved areas. The UK Government's decisions on the overall level of spending are of course themselves dependent on its decisions on taxation and borrowing.
11. Making forecasts of the fiscal position of the UK Government is exceptionally challenging, not least because of the uncertainty about the performance of the wider economy, which drives both tax revenues and large areas of welfare spending. However, the UK Government has provided a broad envelope for likely spending over the financial years 2016-17 and 2017-18 and from these we can consider plausible scenarios for public spending.
12. The following Chart illustrates the UK Government's planned funding provision for the Welsh Government in real terms. The exact allocation for the years 2016-17 and 2017-18 will depend on future UK Government decisions on the distribution of changes to spending between devolved and non-devolved areas. Two scenarios are presented in the chart, one assuming that current UK "protections" (e.g. to the health budget) continue,

## Council for Economic Renewal

and one assuming that they are abandoned, and spending reductions applied on a common basis across all UK departments. The latter option *may* be closer to the eventual outcome, since by 2015-16, unprotected departments will have experienced an exceptionally severe squeeze.

13. The chart shows the proportionate change in the Welsh Government's budget in real terms<sup>2</sup>. The implication is that by 2017-18, the Welsh budget could be almost 20% lower in real terms than it was in 2010-11.

### Welsh Government Budget Projections (Real Terms)



14. Where the fiscal environment is expected to remain challenging over the long term, spending on public services in ways which both deliver improvements in outcomes while also reducing the long-run cost of service delivery will be a top priority.

### Recommendations

15. The Council is asked to note the content of the Paper.

**Welsh Government  
September 2013**

---

<sup>2</sup> The GDP deflator is used.