

# Public spending in Wales

**The End of Austerity and Beginning of Brexit:  
What are the implications for Wales?**

Wales Centre for Public Policy Event

Caerdydd / Cardiff

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**Guto Ifan**

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# Contents

- Day-to-day public spending on public services
- Capital budget
- The outlook for future Welsh budgets

# Uncertainty surrounding the 2020-21 Budget

- Size of the Welsh budget determined by:
  - UK Government spending decisions (via Barnett formula)
  - OBR forecasts of devolved taxes
  - Block Grant Adjustments, determined by forecasts of growth in equivalent UK government taxes
- Spending Round 2019 spending pledges
- UK Budget set for 11 March (initially scheduled for 6 November 2019)
- Welsh Government Final Budget 2020-21 and final local government settlement for 2020-21 on 25 February.

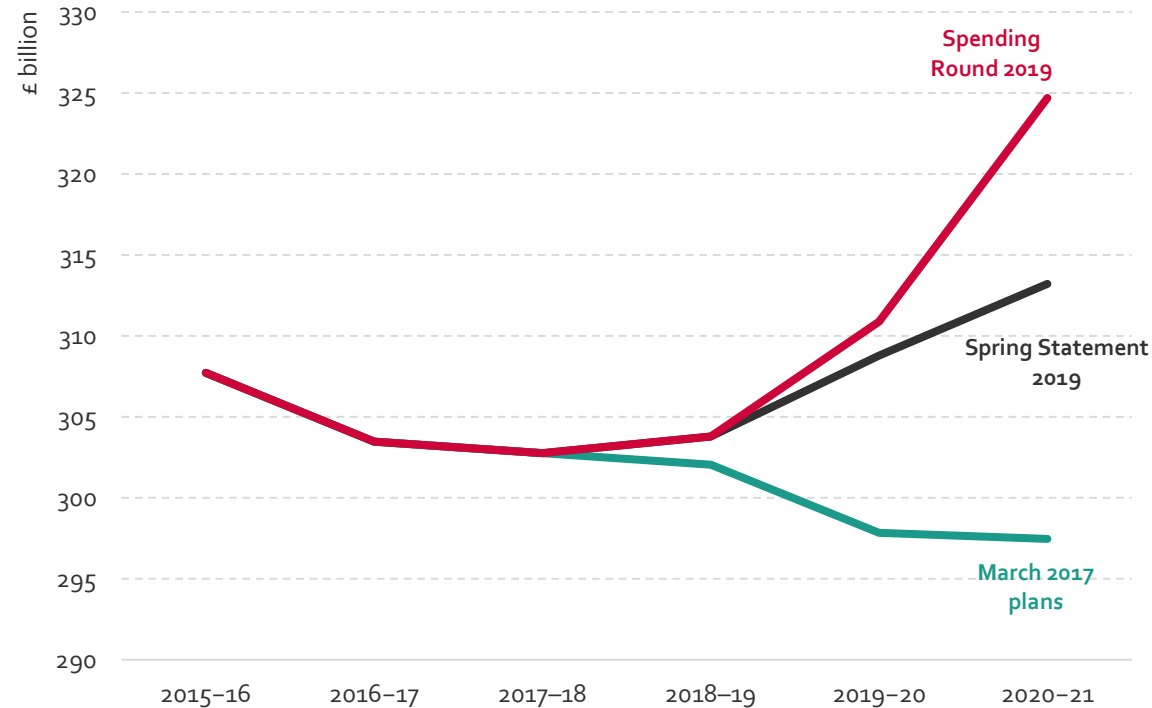
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- Recent years have seen a significant loosening of the UK government's fiscal policy and fiscal rules, allowing significant increases in planned spending on public services.

# Departmental day-to-day spending by UK government



Ffynhonnell/Source: Institute for Fiscal Studies (2019) Keeping perspective

\* Wedi ei addasi i gyfri am newidiadau mewn cyfraniadau pensiwn sector cyhoeddus a newidiadau eraill.

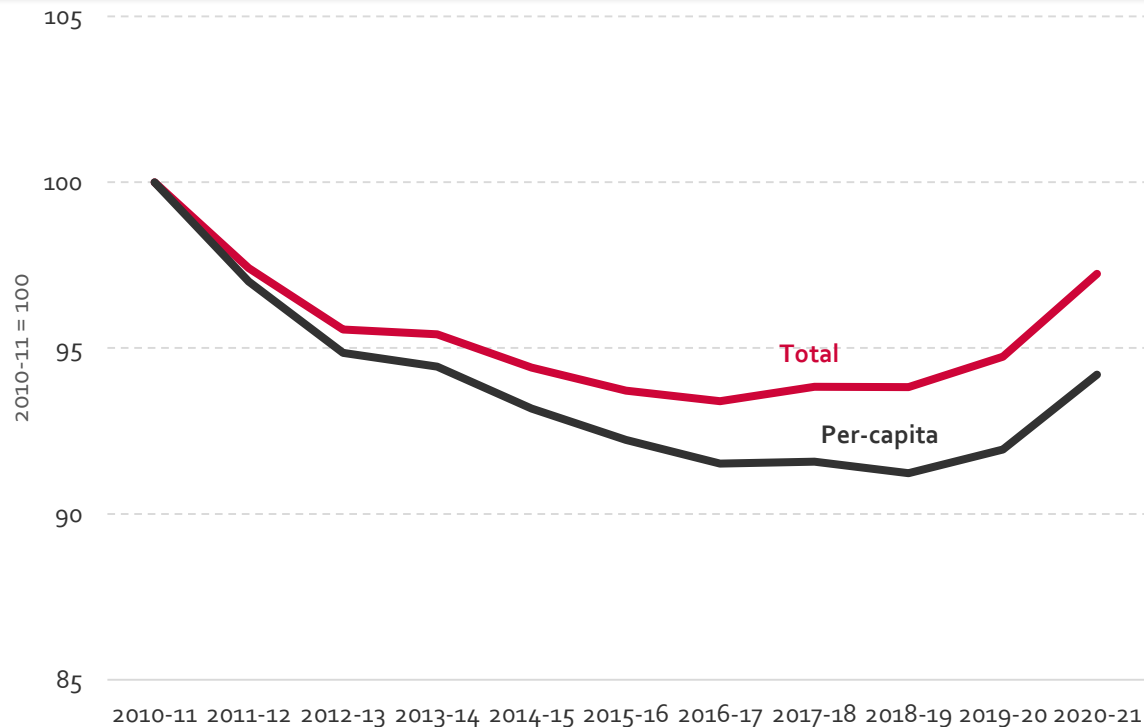
\* Adjusted to strip out effect of changes to Public Service pension contributions and other classification changes.

# Welsh Government day-to-day spending on public services

- Two key UK government decisions:
  - NHS funding in England (October 2018 Budget)
  - Schools funding in England (September 2019 Spending Round)
- Wales RDEL increasing by 1.0% in 2019-20 and 2.3% in 2020-21.

- Despite recent increases to the Welsh block grant next year, day-to-day spending on public services will remain below 2010-11 levels in real terms.
- Especially after accounting for population growth.

# Day-to-day spending by the Welsh Government



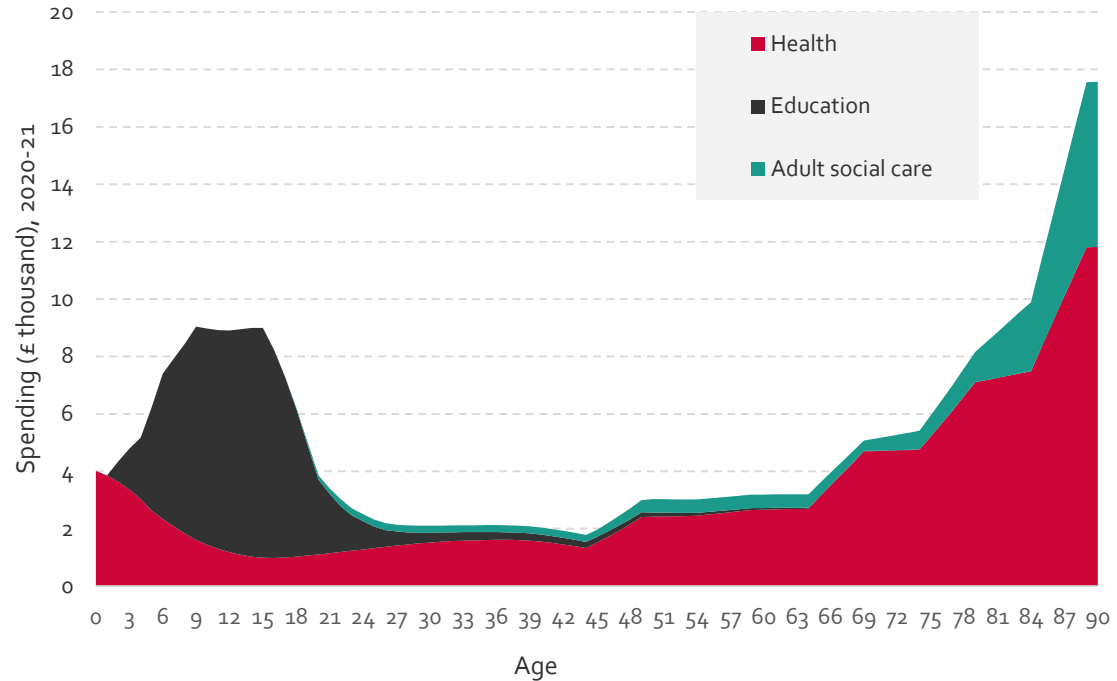
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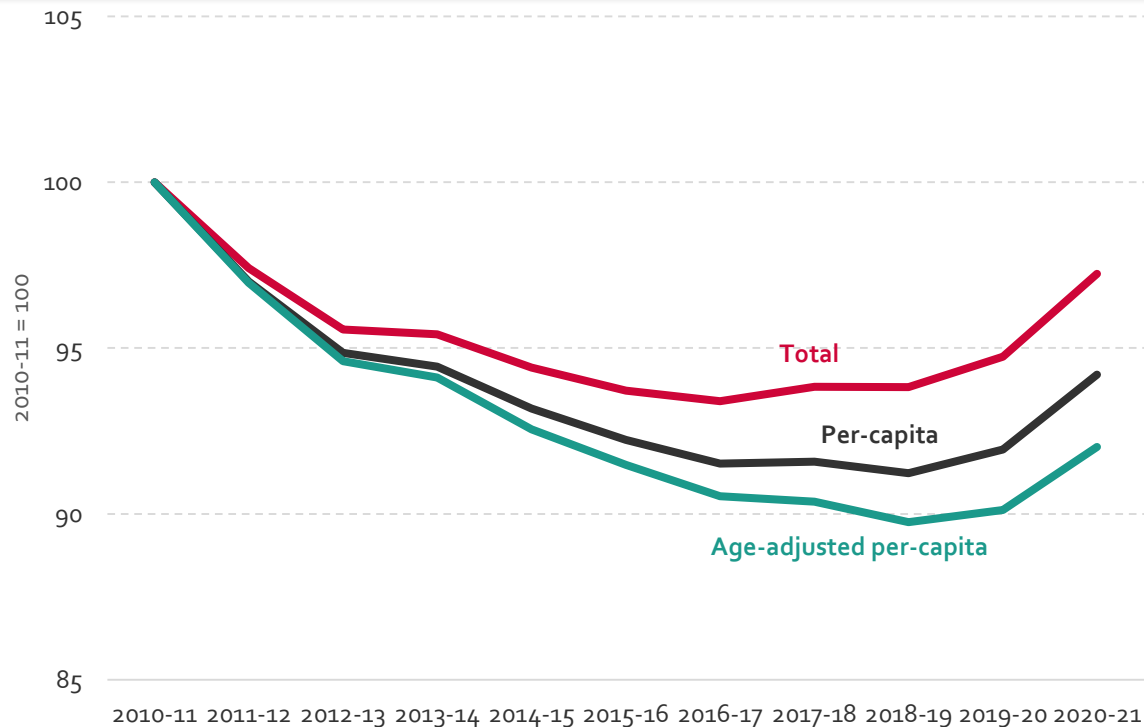
- Costs for health, education and adult social care for individuals varies significantly by age

# Accounting for demographic change



- 'Age-adjusted per-capita' measure accounts for demographic changes in Wales over time, accounting changing costs for health, education and adult social services.

# Day-to-day spending by the Welsh Government



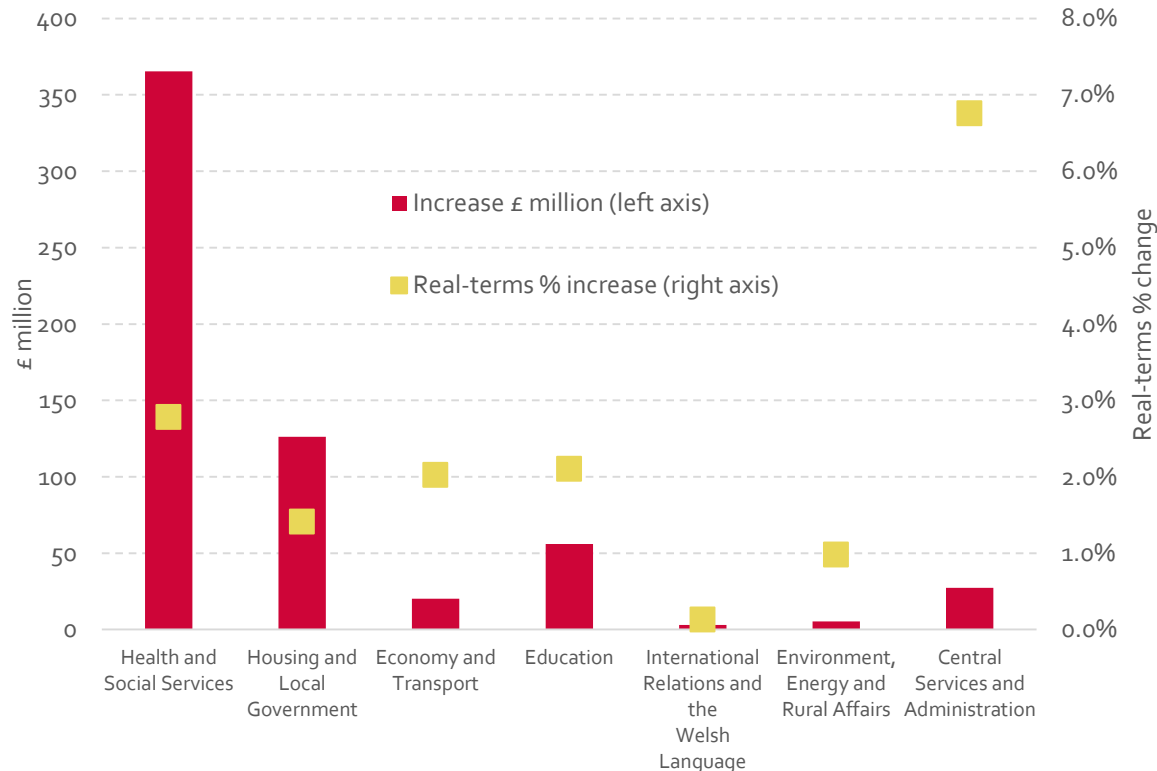
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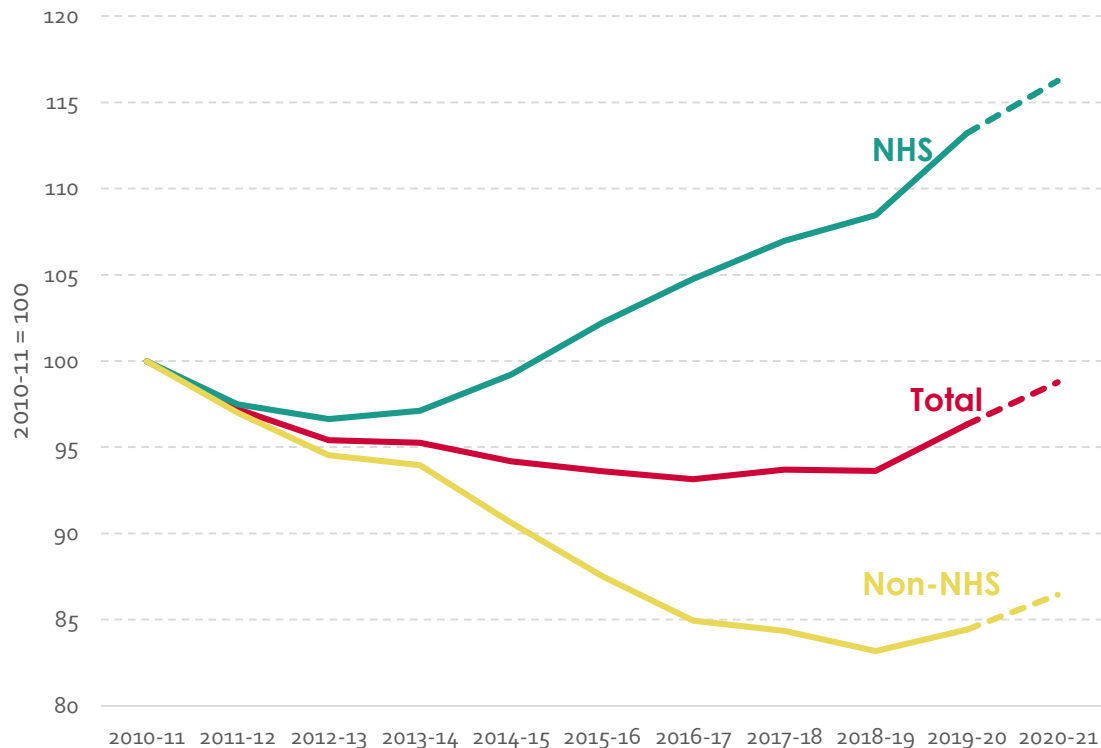
# Day-to-day spending by the Welsh Government

- All Main Expenditure Groups (MEGs) will see an increase in spending from 2019-20 plans to 2020-21.



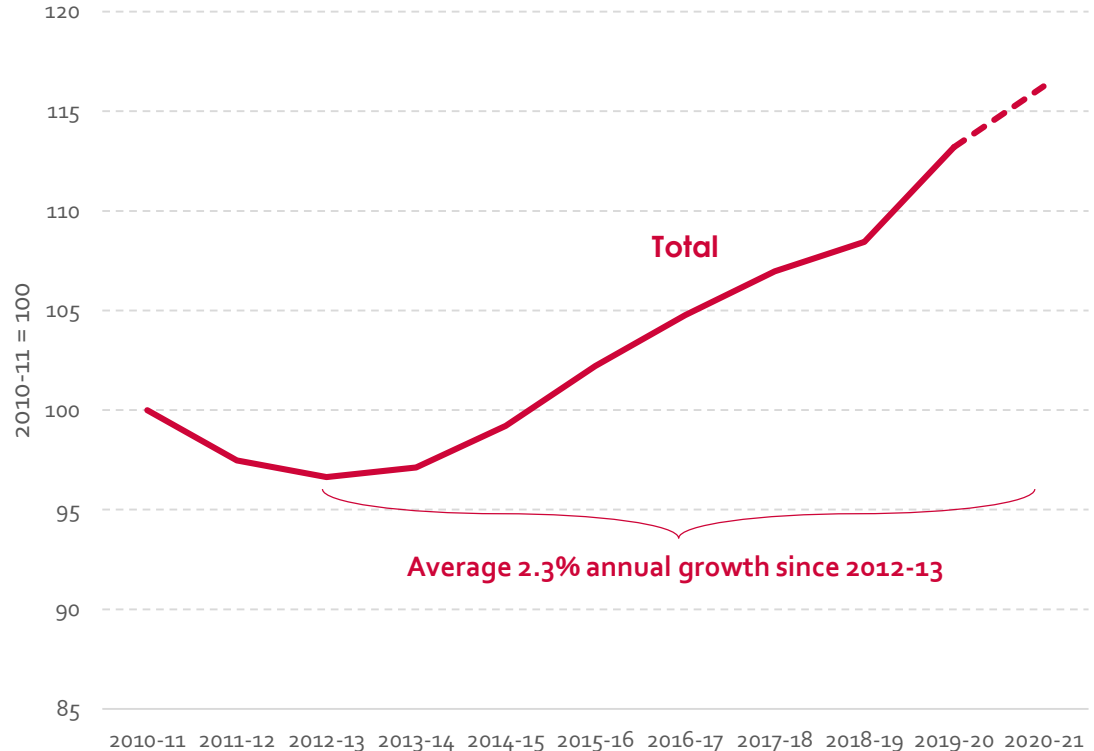
# Day-to-day spending by the Welsh Government

- 2020-21 Draft Budget grows NHS spending by 2.7% in real terms, though share of budget remains similar to 2019-20.
- No fall in non-NHS spending in 2020-21, but remains well below 2010-11 levels in real terms.



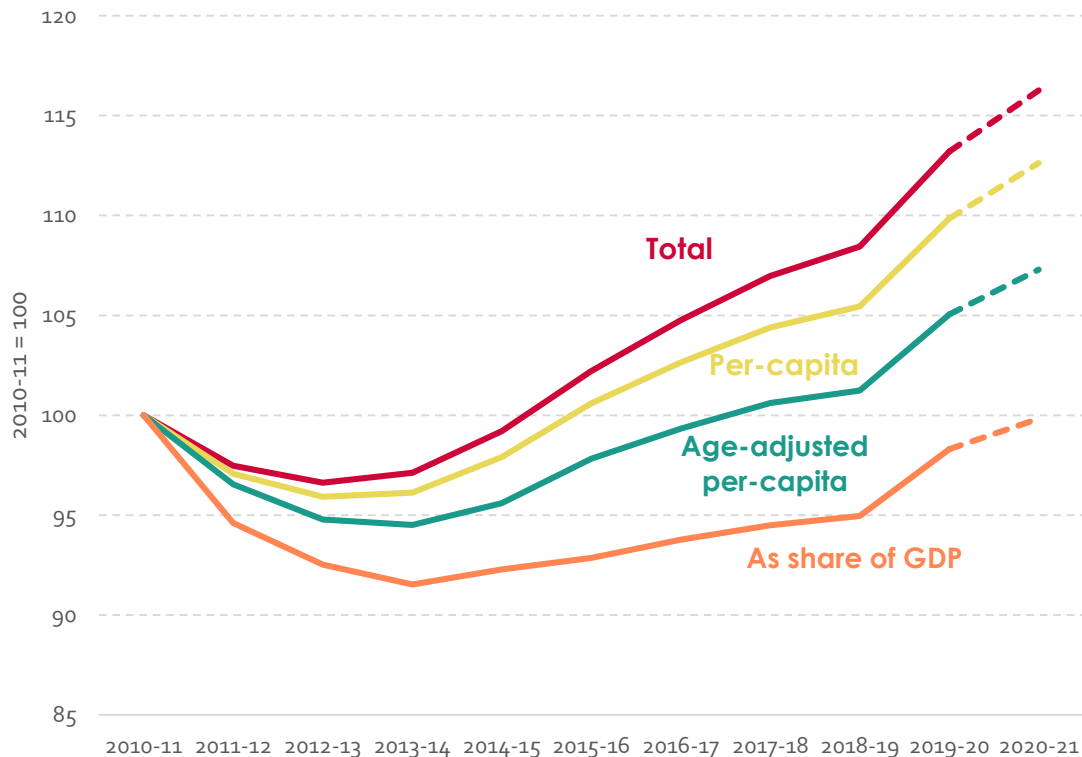
- Despite real-terms cuts over the first years of austerity, NHS spending approximately 16% higher than 2010-11 in real terms.
- Slow growth in historical context e.g. almost 6% a year from 1999-00 to 2009-10.

# Day-to-day spending on the NHS



# Day-to-day spending on the NHS

- All but 7% of the increase will have gone towards meeting costs associated with a growing and ageing population.
- As a share of GDP, back to 2010-11 levels.

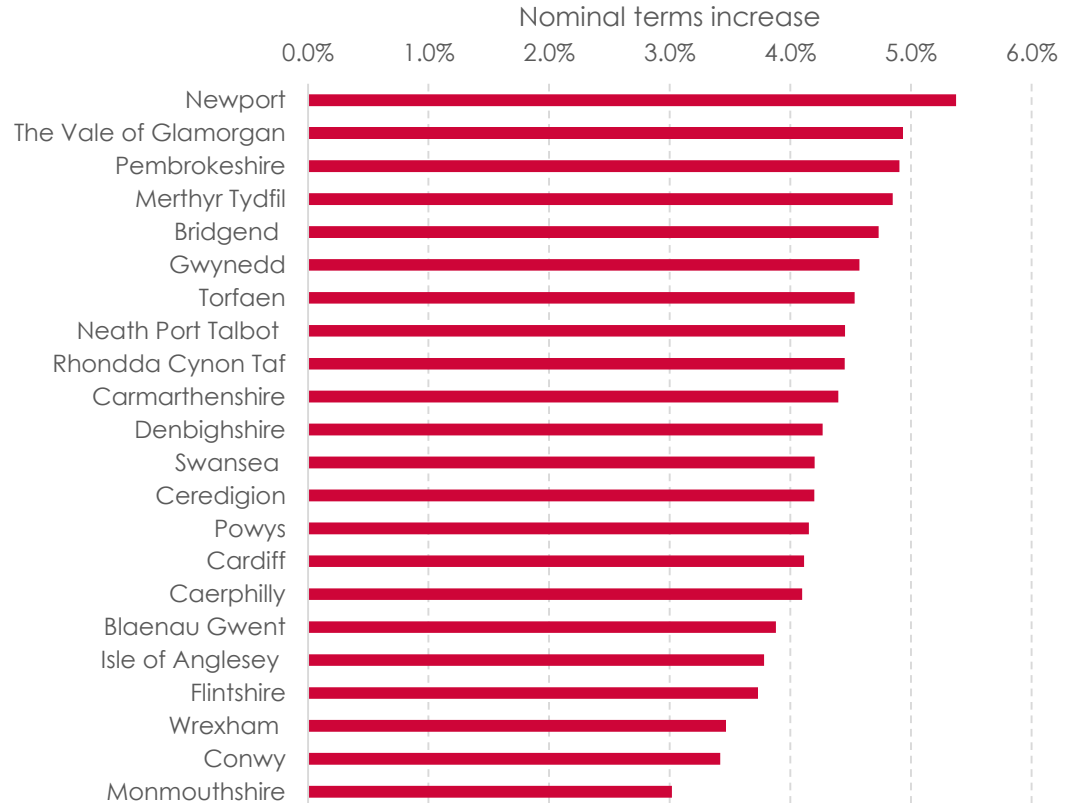


## Goblygiadau i Awdurdodau Lleol Implications for Local Authorities

- Local Government Settlement includes an additional £184 million in Aggregate External Finance (RSG & NDR) in 2020-21, a **2.4% real terms increase**
- Increases range from 3.0% for Monmouthshire to 5.4% for Newport (1.2% to 3.5% in real terms).

# Implications for Local Authorities

- By contrast, for 2018-19 and 2019-20, floor funding was provided to limit individual authority funding decreases to 0.5% and 0.3% respectively.



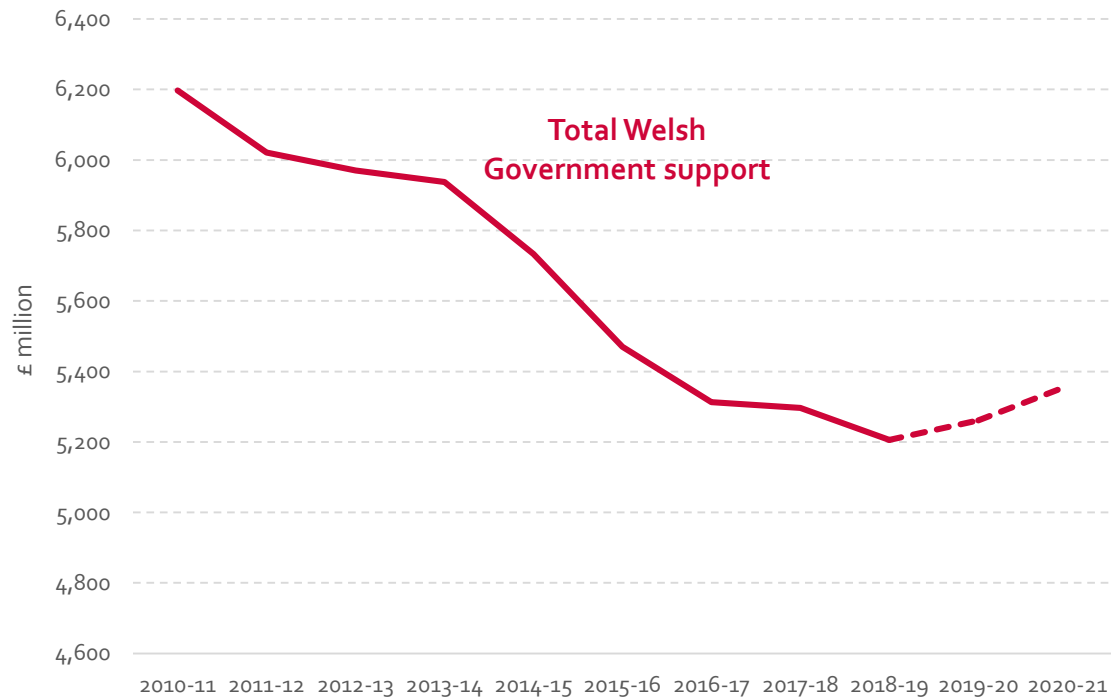
# Implications for Local Authorities

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- Increases range from 3.0% for Monmouthshire to 5.4% for Newport (1.2% to 3.5% in real terms).
- Including specific grants, total support for local authorities will increase by **1.8% in real terms**

# Implications for Local Authorities

- The value of Welsh government funding to Welsh local authorities fell by almost a £1 billion from 2010-11 to 2018-19, but will recover slightly over 2019-20 and 2020-21.
- Total support will remain 13.5% lower than 2010-11 levels in real terms...

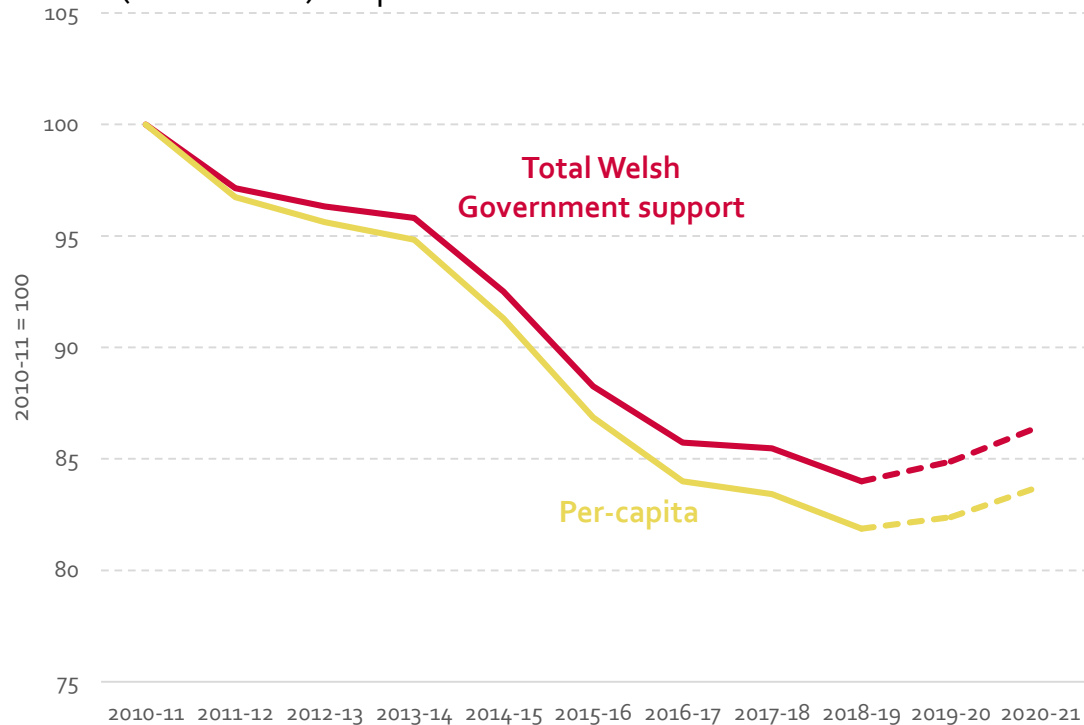
Total Welsh Government support provided through Aggregate External Finance (RSG + NDR) & Specific Grants



# Implications for Local Authorities

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- Total support will remain 13.5% lower than 2010-11 levels in real terms...
- ... or 16.2% on a per-capita terms.

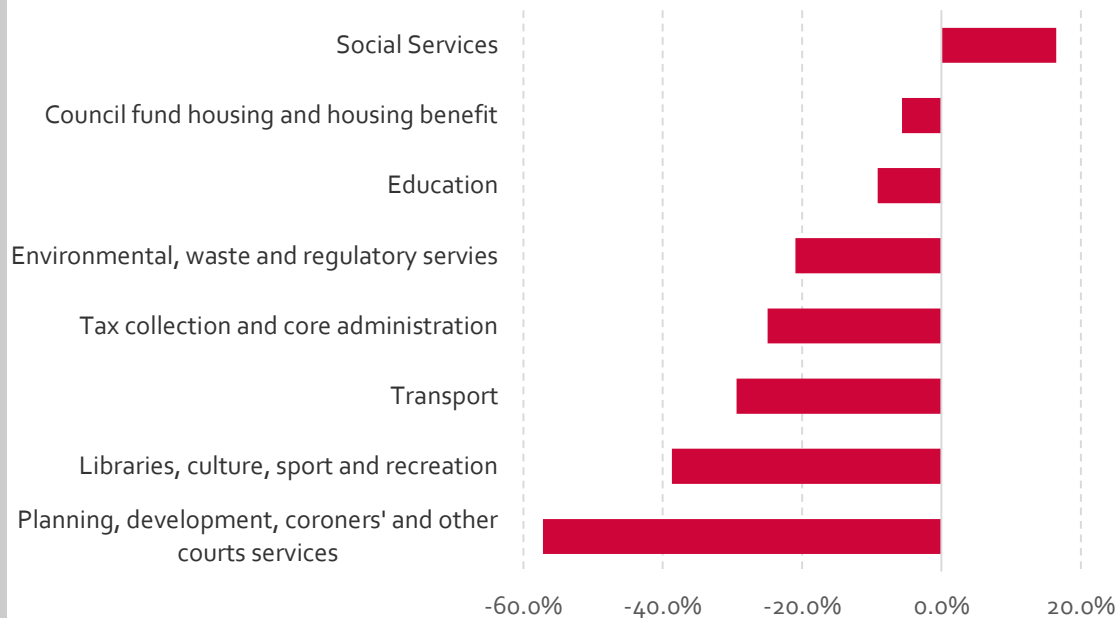
Total Welsh Government support provided through Aggregate External Finance (RSG + NDR) & Specific Grants



# Implications for Local Authorities

- Local authorities have prioritised social services and – to a lesser extent – education.
- Demand and cost pressures associated with children and families' social services have been one of the main drivers behind increased social services spending.

Real terms percentage change in net current service expenditure, by local authority spending area between 2009-10 and 2018-19



# Cynnwys / Contents

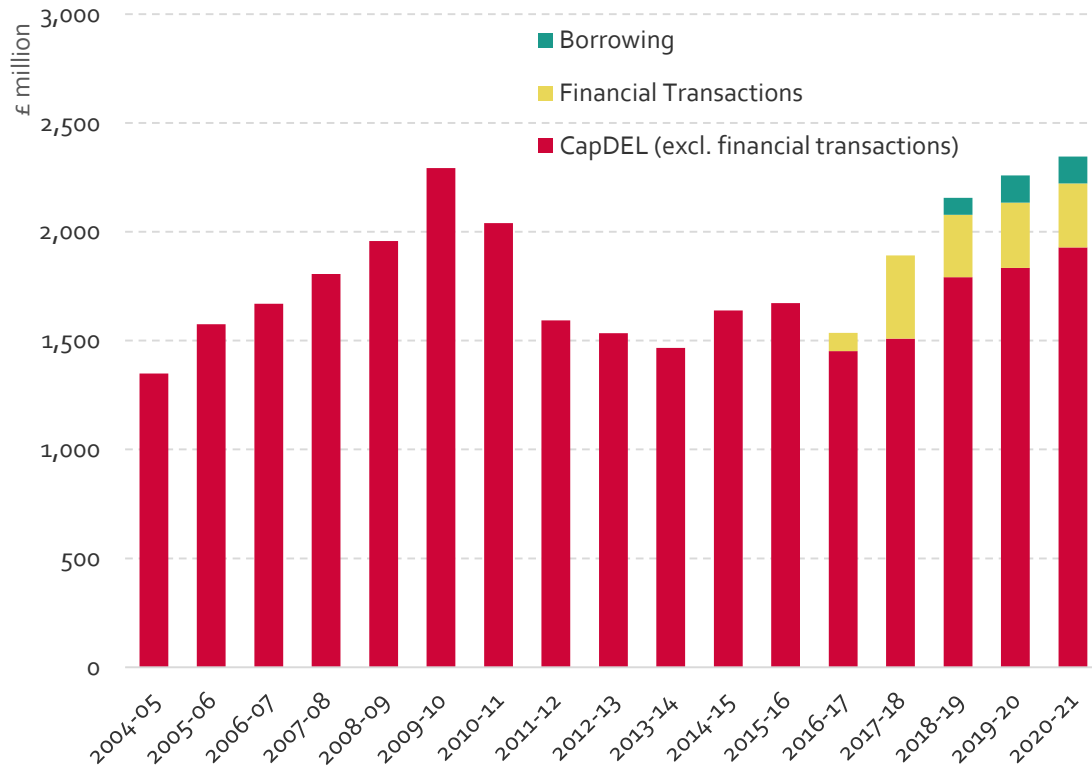
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# Budget for capital spending

- The Welsh Government's capital budget will increase by 2.4% this year (£18 million additional from Spending Round 2019)
- On top of existing plans for 2020-21, the Welsh Government allocated an additional £545 million for capital spending in the Draft Budget
- £145 million for decarbonisation and biodiversity projects

# Budget for capital spending

- 13% of the Welsh Government's capital budget is made up of ring-fenced and repayable 'financial transactions'
- The Welsh Government will again borrow £125 million for capital spending in 2020-21.
- £100 million unallocated general capital spending for 2019-20 and £37 million in 2020-21.



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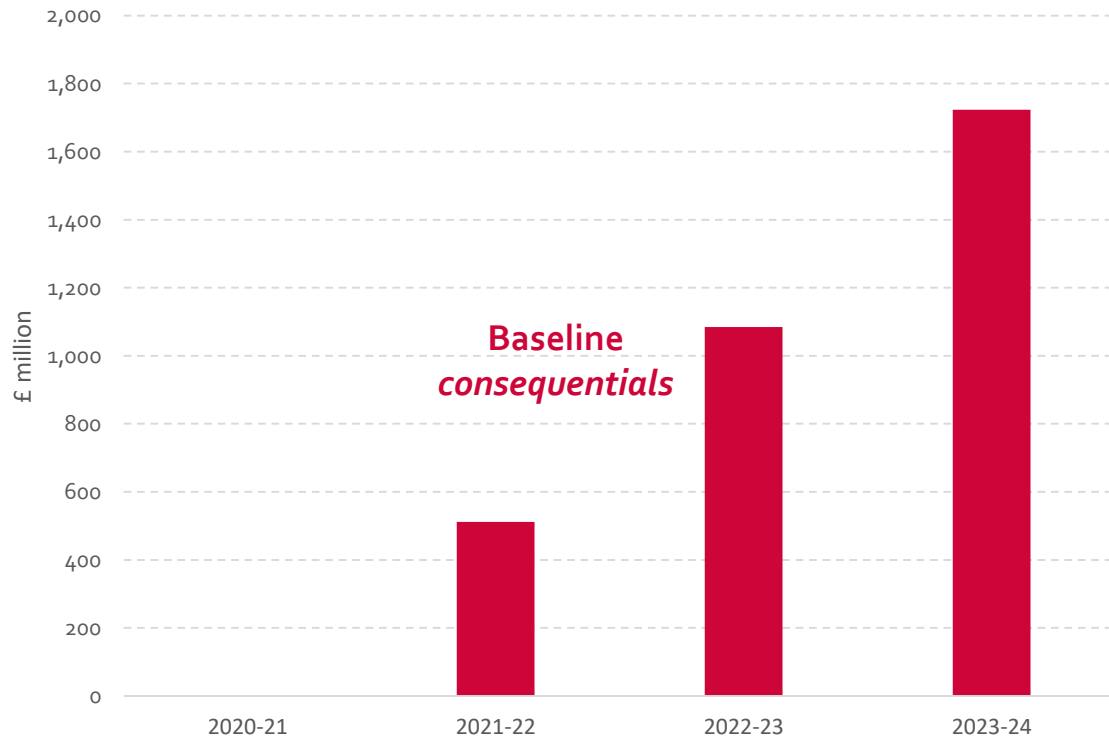
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# Outlook for day-to-day spending

- Baseline scenario:
  - Day-to-day spending increased in real terms to cover multi-year settlements for NHS and schools in England, leaving other departmental budgets flat in real terms

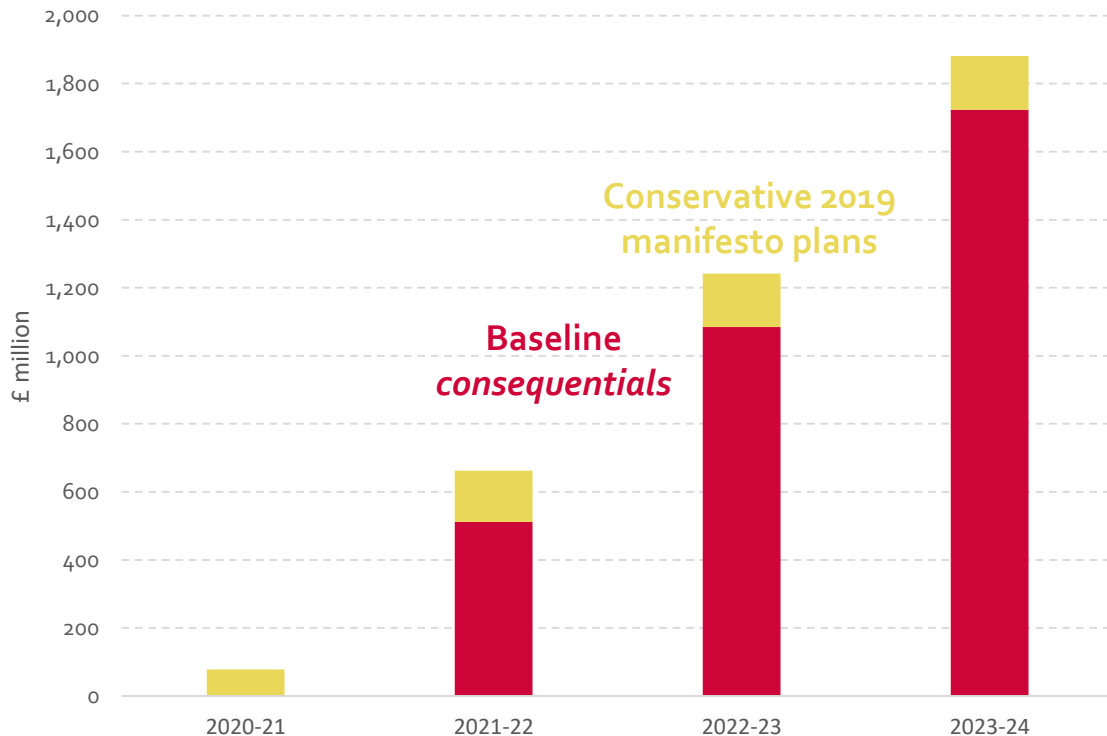
Nominal terms *consequentials* for the Welsh budget for day-to-day spending



# Outlook for day-to-day spending

- There was only a very limited amount of extra day-to-day spending in the Conservative party manifesto

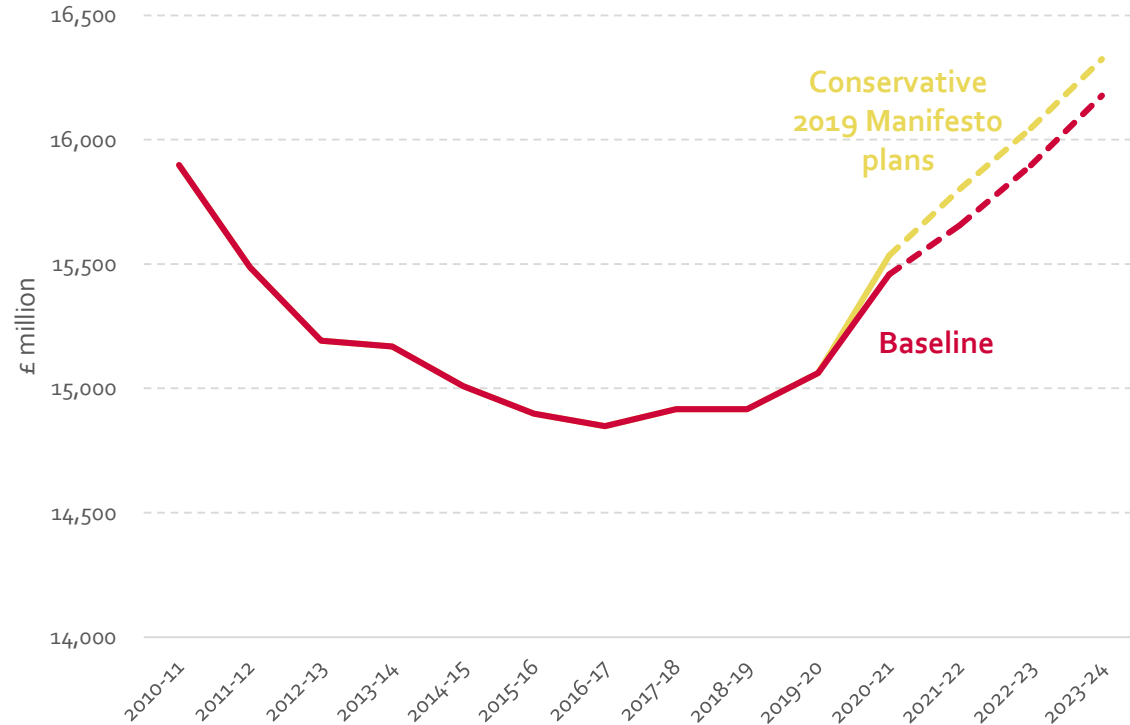
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# Outlook for day-to-day spending

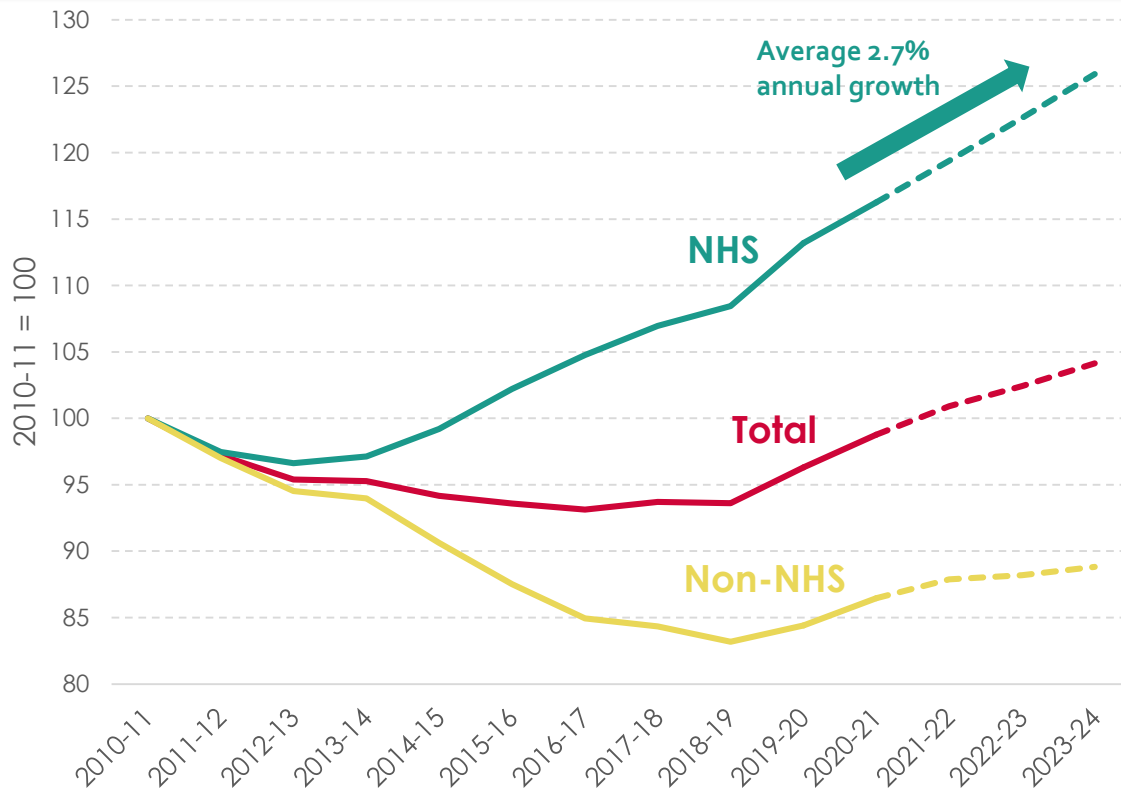
- Budget for day-to-day spending growing above 2010-11 levels in real terms by 2022-23.
- Growth in broadly in line with forecast economic growth - as a share of the Welsh economy, spending will be stay at around 20% of GDP

Welsh Government budget for day-to-day spending, 2019-20 prices



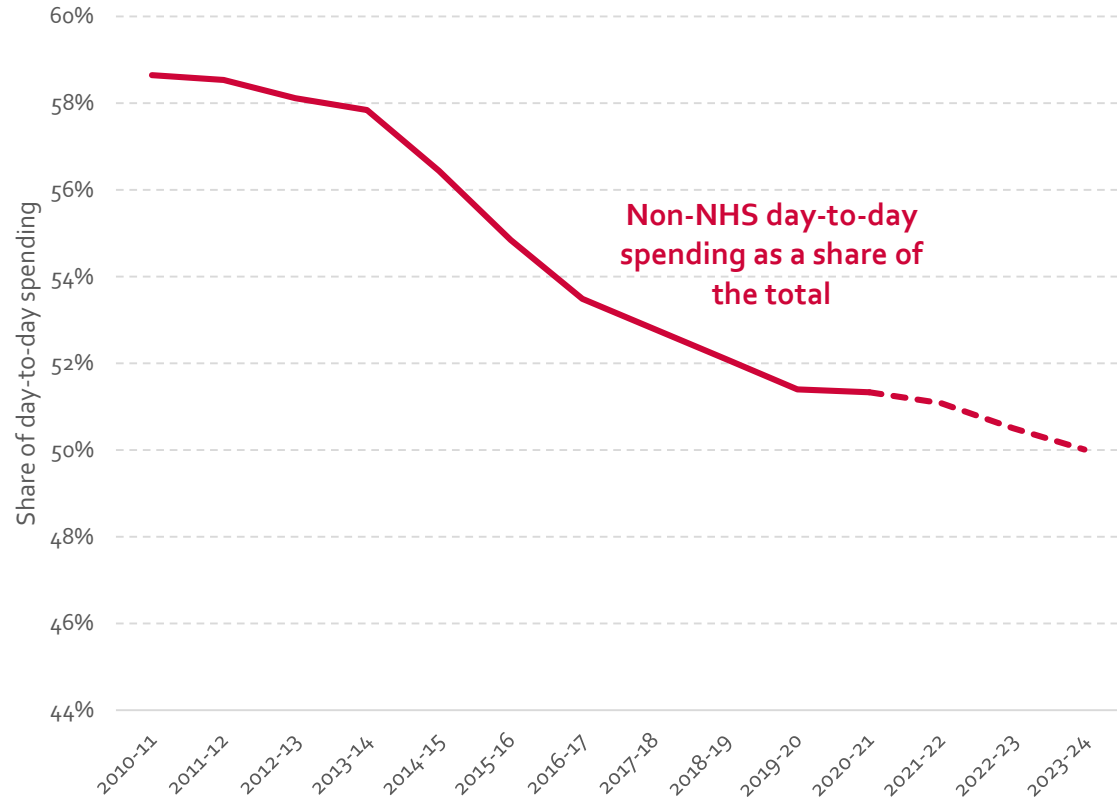
# Outlook for day-to-day spending

- If the Welsh Government grows NHS spending in real terms by 2.7% a year to 2023-24, non-NHS spending increases slightly in real terms.
- The share of the budget going towards non-NHS spending will continue to fall.



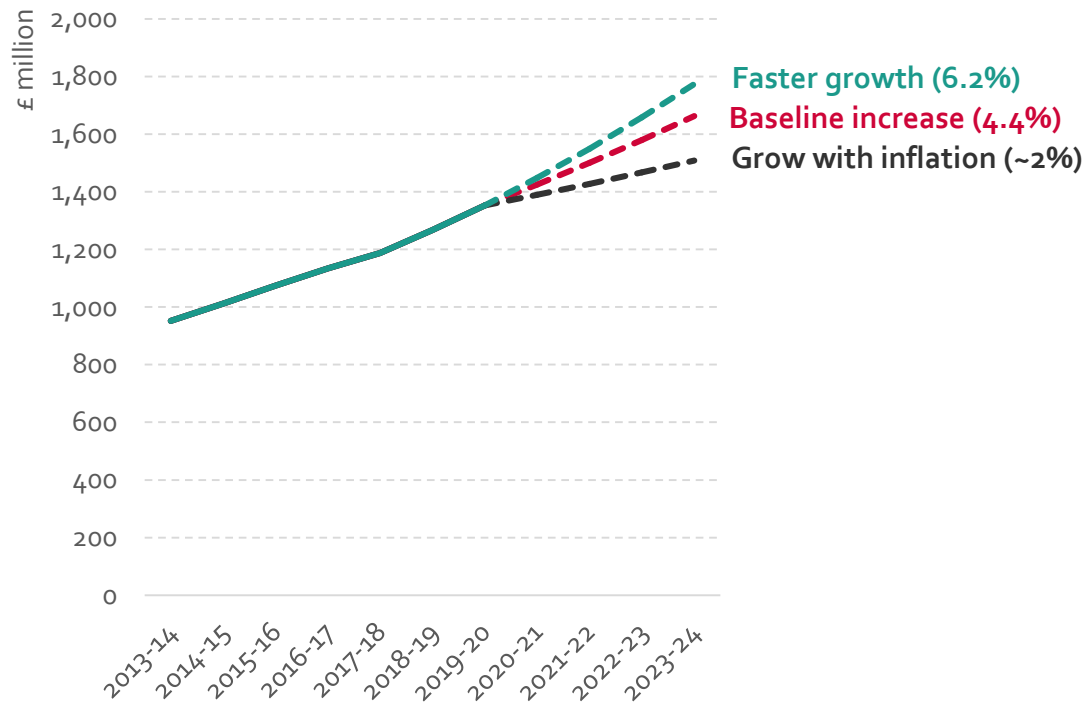
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- In 2023-24, receipts (net of CTRS) are projected to amount to **£1.66bn** in our baseline scenario, **£155m** higher than if Council Tax had risen by inflation alone.

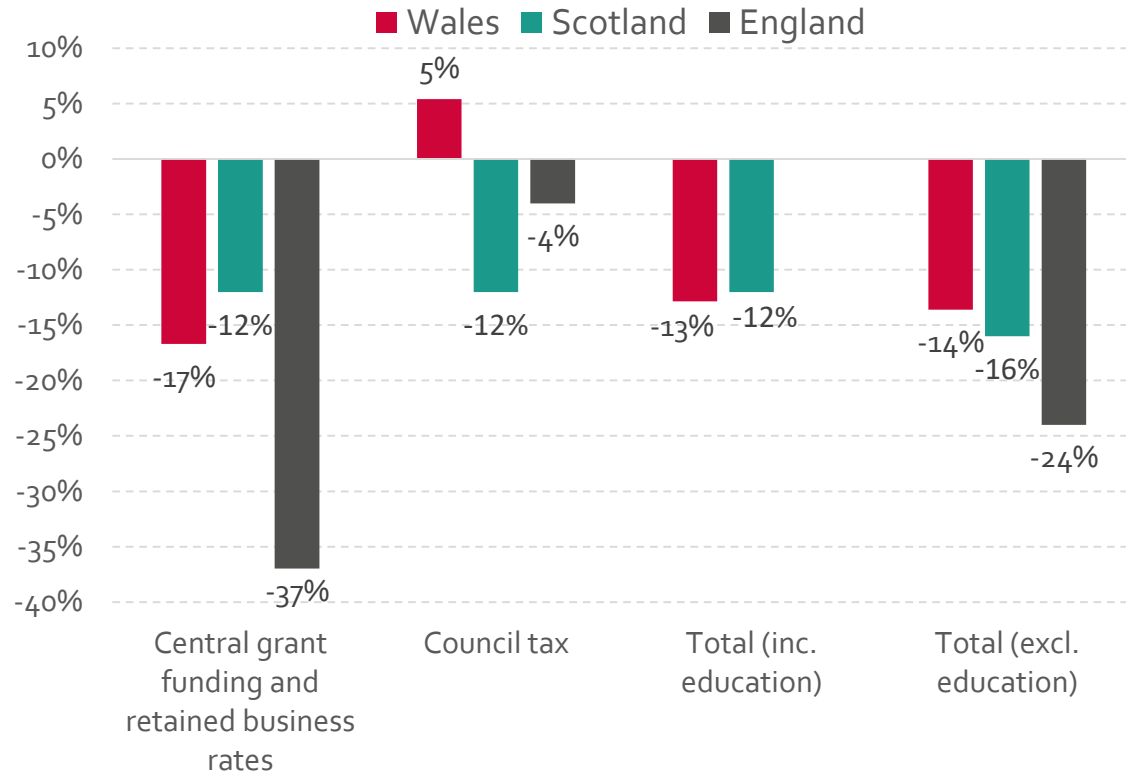
## Projections of Council Tax receipts based on assumptions about future growth in Council Tax levels



These growth rates refer to the average annual increase in the Band D equivalent rate, excluding the police precept. The police precept is assumed to grow in line with its 5-year average in each scenario (4.9%). Total receipts are presented net of the Council Tax Reduction Scheme (CTRS) and the projections are adjusted to account for historical collection rates.

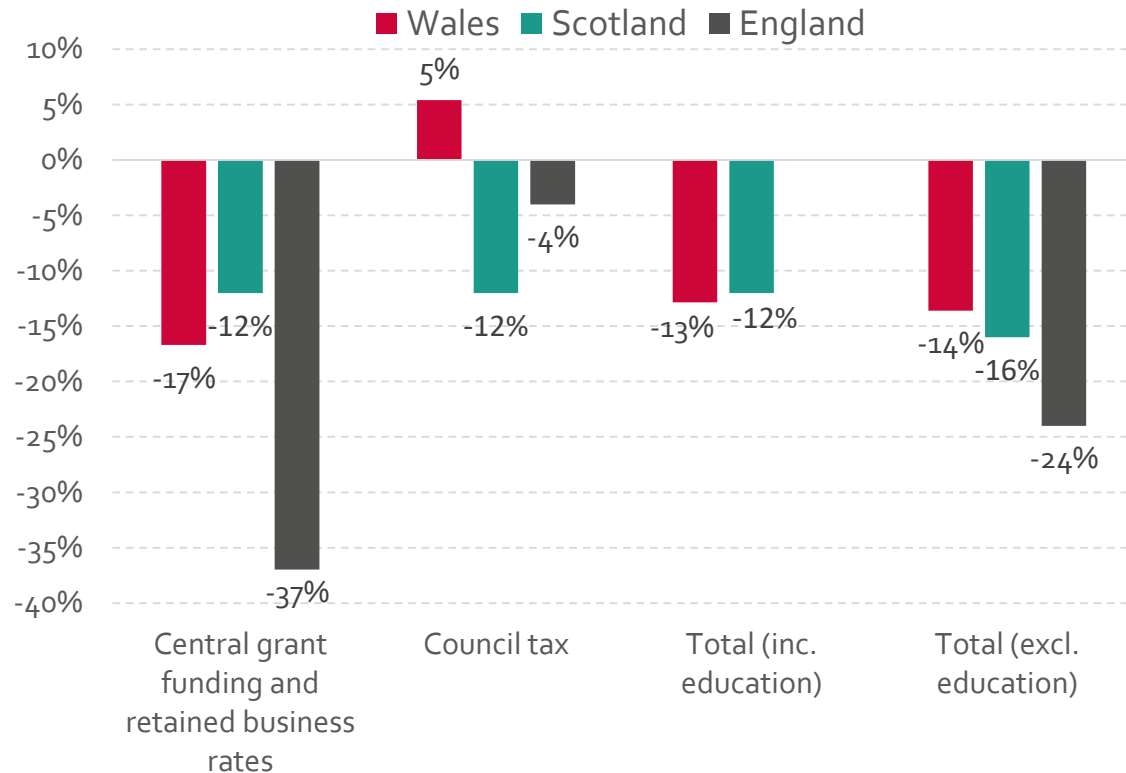
## Changes in local authority gross revenue per person, by source (2009-10 to 2019-20, real terms)

- The fall in revenue per person for Welsh LAs since 2009-10 has been around 10 percentage points smaller than faced by English councils.



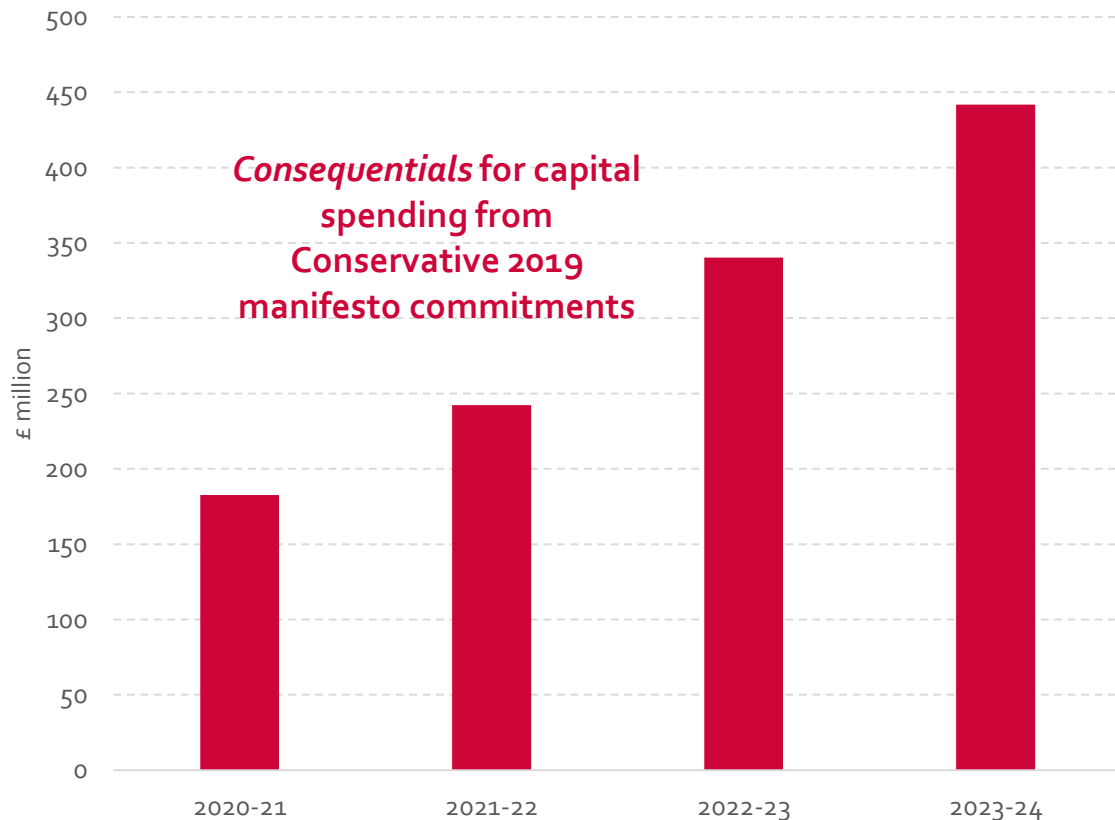
- The fall in revenue per person for Welsh LAs since 2009-10 has been around 10 percentage points smaller than faced by English councils.
- This was largely due to increasing Council Tax revenue and a slower growing population

## Changes in local authority gross revenue per person, by source (2009-10 to 2019-20, real terms)



# Outlook for capital budget

- Conservative manifesto outlined over £8 billion of additional capital spending by 2023-24 – which would result in approximately £450 million of *consequentials* for the Welsh capital budget

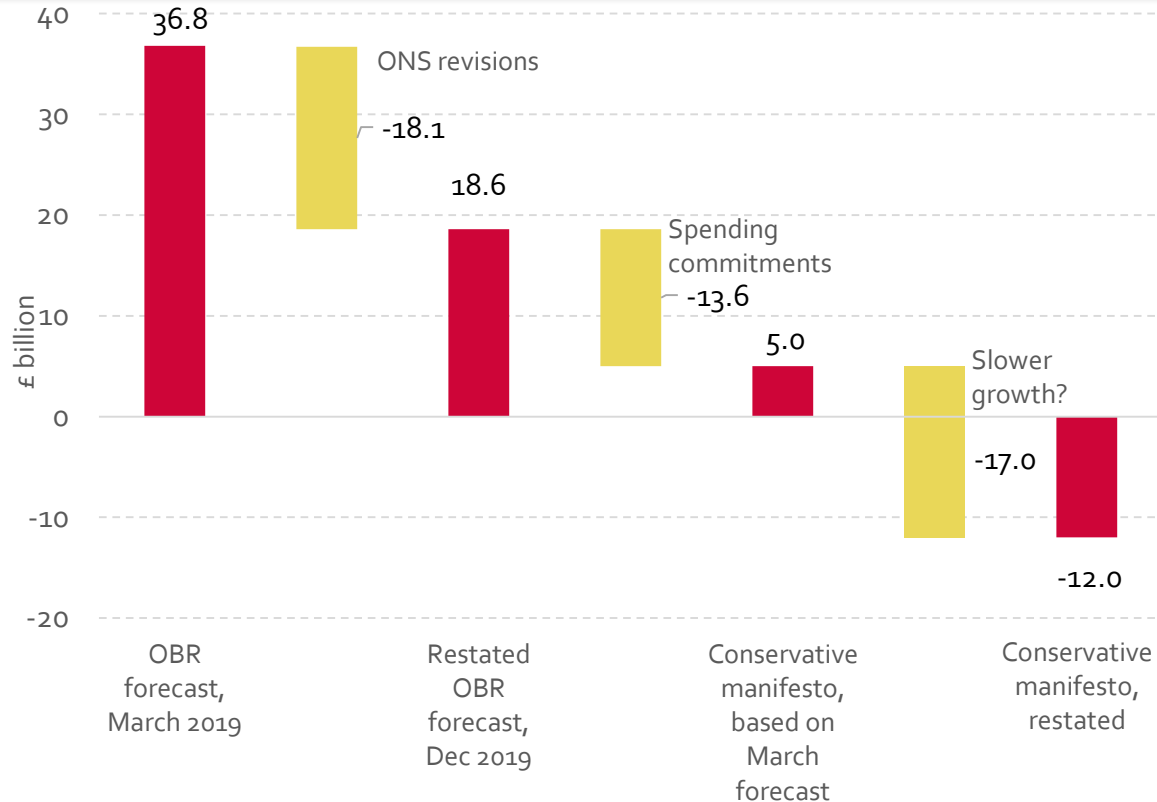


# Uncertainty in the outlook ...

- New fiscal rules creating room for big increase in capital spending
- Likely worsening picture for the public finances this year

# Projected current budget surplus for 2022-23

- "We can't run an overdraft for ever on our day-to-day spending" Sajid Javid, November 2019
- Likely worsening picture for the public finances this year...
  - ONS revisions
  - Spending commitments already made
  - Slower growth



# Uncertainty in the outlook ...

- New fiscal rules creating room for big increase in capital spending
- Likely worsening picture for the public finances this year
- 'Triple-tax lock' manifesto pledge could limit day-to-day spending growth
- Big issues for the 2021 party manifestos to consider ...

# Public spending in Wales

## The End of Austerity and Beginning of Brexit: What are the implications for Wales?

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**Guto Ifan**

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