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



Llywodraeth Cymru
Welsh Government

Llŷr Gruffydd MS
Chair of Finance Committee
Welsh Parliament

11 August 2020

Dear Llŷr,

In order to support the forward financial planning for directly funded bodies, I agreed last year to write at this time of year setting out various factors to inform future budget planning, including the Government's best assessment of the level of funding available in future years.

The fiscal and budgetary outlook is particularly uncertain at the moment. The Office for Budget Responsibility's latest central scenario for the UK public finances, published in its Fiscal Sustainability Report in July, puts the deficit in 2020-21 at £372 billion (including the impact of the announcements in the Chancellor's Summer Economic Update). This compares to its forecast in March of £55 billion. The deficit is now expected to remain above £100 billion until the middle of the decade.

Turning to our own plans, since finalising the budget for the current year, the Welsh Government has received an additional £4 billion to finance its response to the coronavirus pandemic. That does not necessarily represent the final position for 2020-21, with the budget still subject to further, possibly substantial, changes later in the year. The scale of these changes and the overall impact of the pandemic on the UK public finances makes it very difficult to provide an overall assessment of funding for future years.

The UK Government is planning to publish the outcome of its Comprehensive Spending Review (CSR) in the autumn, covering 2021-22 to 2023-24 for resource spending and 2021-22 to 2024-25 for capital spending. In advance of that, we will not have any firm plans on which to base the Welsh Government's budget for future years.

The Chancellor of the Exchequer did not set out an overall spending envelope when he launched the CSR on 21 July, due to unprecedented uncertainty. This suggests that the plans set out in the March Budget no longer provide a reliable guide for the future course of public spending in the UK. Given the very substantial increases in our block grant this year, it is highly likely that we will see a reduction in 2021-22. The scale of that reduction will depend on the future course of the pandemic and the UK Government's fiscal policy response to it.

There are also major uncertainties around the impact of the devolved and local taxes on the Welsh Government Budget over the next few years. There are likely to be substantial and

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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.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

sustained reductions to revenues in the current year and beyond. The fiscal framework provides protection from UK wide economic shocks which will offset some of these reductions. However, it is too early to say whether the current economic situation will have a bigger or smaller relative impact on revenues in Wales than elsewhere.

Turning to prices and pay, the Office for Budget Responsibility's central scenario in its Fiscal Sustainability Report shows the GDP deflator increasing by 2.6% in the current financial year and just 0.1% in 2021-22, before returning to around 2% a year beyond that. UK average earnings in that scenario fall by 0.1% in the current financial year with growth recovering to 4.2% next year. Although public sector pay is devolved, it is still worth noting the Chancellor's comments alongside the launch of the CSR about exercising restraint in future public sector awards, taking into account the wider economic situation. This may have implications for UK Government departmental budgets and therefore impact on our block grant. UK Government departments have also been asked to identify savings in their preparations for the CSR.

This is a very challenging time to be planning budgets for future years. I will provide the Committee with updated information if it becomes available before the CSR is published. Whatever the outcome of the CSR, our focus continues to be on stabilising our economy and public services and working towards reconstruction in the wake of the coronavirus pandemic.

Yours sincerely,

A handwritten signature in black ink that reads "Rebecca Evans". The signature is written in a cursive style with a large initial 'R' and a trailing flourish.

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