



Peredur Owen Griffiths MS
Chair of Finance Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

2 August 2021

Dear Peredur,

In order to support the forward financial planning for directly funded bodies, I have previously agreed 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. As was the case this time last year, the future prospects for the Welsh Government's budget are highly uncertain.

The overall deficit in the UK public finances remains at a very high level by historical standards, driven by the impact of the pandemic and the response to it. The Office for Budget Responsibility's (OBR) latest forecast for the UK public finances, published alongside the UK Government's March Budget, puts the deficit in 2021-22 at £234 billion, falling to £107 billion in 2022-23 but still over £70 billion by the middle of the decade. It is however worth noting that the latest monthly information on the public finances suggests that the overall position this financial year might be somewhat better than forecast in March.

The Welsh Government's own plans for 2021-22 have already seen considerable change since the final Budget in early March, as a result of additional COVID-related funding. The first Supplementary Budget, published in June, includes additional funding of over £1bn. It is unclear whether there will be further substantial changes this year.

The UK Government will conduct a spending review later this year to establish expenditure plans beyond the current financial year. In advance of that, we have no firm basis for the Welsh Government's budget for future years. The UK Government's March budget included overall spending figures for future years. With no COVID funding beyond the current year, they suggest that we will see a substantial cash reduction in our budget in 2022-23. The OBR has noted that the UK Government has also cut around £15 billion a year from core departmental spending in the years beyond 2021-22. In this context, it is worth noting that

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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.

HM Treasury has asked UK Government departments to make plans which set out where they might achieve substantial efficiency savings by 2024-25.

We do not know if the March spending totals will form the basis for the forthcoming spending review, but if they do we are likely to see a very tight funding situation, particularly in 2022-23. The Wales Governance Centre has estimated that we may see an increase of just 2% in cash terms next year in core day-to-day funding. In addition to this, the Welsh Government will also have to manage the loss of EU funding.

Turning to prices and pay, the Office for Budget Responsibility's March forecast shows the GDP deflator falling by 1.6% in the current financial year and by 0.1% in 2022-23, before returning to growth of around 2% a year beyond that. UK average earnings are expected to increase by 2.4% in the current financial year and 2.5% next year. It is not clear whether the UK Government will continue its policy to freeze pay across much of the public sector beyond the current year. If so, this will have implications for Welsh Government finances.

With no firm plans beyond 2021-22 at this stage and considerable uncertainties regarding the future path of the pandemic and the pace of economic recovery, there is a very challenging backdrop to the preparations for the Welsh Government's next budget. I will provide the Committee with updated information if it becomes available before the spending review outcome is published.

Yours sincerely,

A handwritten signature in black ink that reads "Rebecca Evans". The signature is written in a cursive style with a period at the end.

Rebecca Evans AS/MS

Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government