

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government



Llywodraeth Cymru
Welsh Government

Our Ref: RE-242-2023

Peredur Owen Griffiths MS
Chair of Finance Committee
Welsh Parliament
Cardiff Bay
CF99 1NA

12 July 2023

Dear Peredur,

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

Looking first at the overall UK fiscal situation, the Office for Budget Responsibility's (OBR's) [latest forecast](#) in March put the UK fiscal deficit at £132bn in 2023-24 and £85bn in 2024-25. Its assessment shows the UK Government meeting its fiscal mandate of falling public sector debt as a percentage of GDP by 2027-28, but only by a narrow margin. The deficit in the first two months of the current financial year is running £2bn ahead of the OBR's profile and public sector net debt has just exceeded 100% of GDP for the first time in 62 years.

The Welsh Government's spending plans for 2023-24 were set out in the [Final Budget](#) in February this year. These were updated in the recent [First Supplementary Budget](#) which included a drawdown from reserves to support local authorities with the costs of the 2022-23 pay award for teachers that fall in the 2023-24 financial year and ensuring pay parity for Further Education institutions.

The Welsh Government's Final Budget in February included indicative plans for 2024-25 alongside the 2023-24 allocations. This helps provide a clearer picture of short-term budgetary prospects and also demonstrates how tight the short-term fiscal position is.

As it stands, total fiscal resource Main Expenditure Group allocations in the Departmental Expenditure Limit in 2024-25 are just 1.4% higher in cash terms than in 2023-24, and capital allocations are actually down a little year-on-year in cash terms. There are very low margins in unallocated reserves and the capital plans include overprogramming of around £100m.

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Correspondence.Rebecca.Evans@gov.wales
Gohebiaeth.Rebecca.Evans@llyw.cymru

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.

We will have new forecasts for the devolved taxes in the Autumn. Despite the recent positive news on the [2021-22 revenue outturn for the Welsh rates of income tax](#), there is no guarantee that these will make the overall fiscal position any easier.

The Chancellor of the Exchequer recently announced a productivity review in which he stated that the pressures on the public sector finances would not be solved through higher taxes or borrowing. Instead, the review will identify how pressures can be met through efficiencies in government departments. In that context, the potential for significant additional funding for 2024-25 in the UK Government's Autumn Statement seems very limited. In addition, interest rate expectations are now higher than at the time of the OBR's March forecast, further eroding the Chancellor's headroom.

Turning to prices and pay, the OBR's March forecast shows the GDP deflator increasing by 2.5% in the current financial year, 1.6% next year and then 1% to 2% a year beyond that. The same March forecast shows the Consumer Prices Index (CPI) with a bigger increase of 4.1% in 2023-24. The CPI inflation rate is currently running higher than expected and in the latest Bank of England assessment it is expected to still be above 5% in the 4th quarter of 2023. It seems likely that the GDP deflator will also exceed the March forecast, increasing pressure on Budgets. UK average earnings are expected to increase by 4.1% in the current financial year and 1.7% next year.

The Welsh Government's settlement has not kept pace with the inflation shock over the last few years. Despite some recent increases, the settlement this year is still worth up to £900m less in real terms than when it was set in the 2021 Spending Review.

In summary, our plans for this year and indicative plans for 2024-25 represent a very tight budgetary situation. The prospects for further allocations from the UK Government seem very limited and ongoing price rises are causing mounting pressures on all the public services funded by the Welsh Government's budget.

Yours sincerely,



Rebecca Evans AS/MS

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