

Rebecca Evans AS/MS

Ysgrifennydd y Cabinet dros Gyllid, y Cyfansoddiad

a Swyddfa'r Cabinet

Cabinet Secretary for Finance, Constitution & Cabinet Office



Llywodraeth Cymru
Welsh Government

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

19 July 2024

Dear Peredur,

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. In addition, I wrote to you following the review of the statement of principles for directly funded bodies on 14 November last year. That letter noted that I would consider whether it is possible to provide additional longer run information looking at different potential future funding scenarios. This letter sets out the available information and refers to spending projections published alongside the draft Budget in December last year.

Firstly, it is worth noting recent information on the UK's public finances. The public sector borrowed £122 billion in 2023-24. This was £6 billion less than it borrowed in 2022-23, but £8 billion more than forecast by the Office for Budget Responsibility (OBR) in March 2024. The OBR [forecast](#) shows borrowing falling to £87 billion in 2024-25 and then a gentler decline over future years. The previous UK Government's fiscal mandate of falling public sector debt as a percentage of GDP by 2028-29 was forecast to be met, but only by a very narrow margin.

Turning to the outlook for the Welsh Government's budget, I should point out that this is a particularly difficult time to provide an assessment. The Welsh Government has no funding settlement beyond the current financial year and the new UK Administration is yet to set out its own fiscal plans. We will know more in the Autumn. However, as the Chancellor of the Exchequer has noted, it is clear we are facing a very difficult fiscal outlook indeed. The Chancellor has asked HM Treasury to produce an assessment of the spending inheritance which will be presented to the UK Parliament before its Summer recess.

The Welsh Government's spending plans for 2024-25 were set out in the [Final Budget](#) in February this year, with the Main Expenditure Group allocations restated in June. It is worth noting that 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 £700m less in real terms than when it was set in the 2021 Spending Review.

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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.

The Draft Budget published in December 2023 was accompanied by the [Chief Economist's Report](#) which included a projection for the Welsh Government resource budget for years beyond 2024-25 in chart 32. This was based on the previous UK Government's spending assumptions for the next few years, as used in the OBR forecasts last November (and which remained the same for the latest OBR forecasts in March this year). These assumptions stipulated that discretionary resource spending would increase by 1% a year in real terms and that capital spending would be broadly cash flat.

Combining the resource assumption with forecasts for the devolved Welsh taxes and population projections implied the Welsh Government resource budget would grow by less than 0.5% a year per person in real terms between 2024-25 and 2028-29. More recent population projections show faster growth, so would suggest even lower spending growth per person using these assumptions. On the capital side, the previous UK Government's assumption of flat cash would translate to a future Welsh Government capital budget falling in real terms. The Chief Economist's Report also included longer term budgetary projections under three different scenarios, these are described on pages 57-58.

Turning to prices and pay, the OBR's March 2024 forecast showed the GDP deflator increasing by 0.8% in the current financial year, 1.3% next year and then 1.7% to 1.9% a year beyond that. The same March forecast shows the Consumer Prices Index (CPI) increasing by 1.6% in 2024-25 and 2025-26, rising to 2.0% by 2028-29. UK average earnings are expected to increase by 3.1% in the current financial year and 1.9% next year.

In summary, we currently have no certainty on the budgetary outlook beyond the current financial year, but recognise the very difficult fiscal situation the new UK Government is facing. The public spending assumptions used by the previous UK Government suggest very tight budgets for the next few years.

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'.

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