# WRITTEN STATEMENT

# BY

# THE WELSH GOVERNMENT

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| **TITLE** | **Welsh Government’s response to the UK Government’s plans to conduct a one-year Spending Round** |
| **DATE** | **15 August 2019** |
| **BY** | **Rebecca Evans AM, Minister for Finance and Trefnydd** |

Prior to summer recess I updated the Assembly on the future outlook for public spending in Wales in line with my commitment to share as much information as possible with stakeholders to inform their future planning.

Last week the UK Government confirmed it intends to conduct a ‘fast-tracked’ one-year spending round to complete in September, with a multi-year Spending Review to be carried out in 2020. In essence, this now means setting a one year revenue budget for 2020-21 as capital budgets are already in place for next year. This is despite the UK Government stating previously it would set budgets for three years through a Comprehensive Spending Review to conclude at the Autumn Budget. Once again, this is a clear demonstration of the UK Government failing to provide the stability and certainty public services need.

Despite the challenging backdrop, we have been planning on the basis of the successive commitments made by the UK Government of a full Comprehensive Spending Review this year. In anticipation we would at least be able to provide longer-term financial certainty for our partners and stakeholders, I put in place arrangements with the Assembly before the summer recess to facilitate later publication of our Budget this year than would normally be the case.

I have said I am willing to bring forward our plans and publish the Welsh Government Budget earlier in the event that the UK Government’s timetable makes this possible. However, there remains uncertainty about what a fast-tracked spending round in September means in terms of the UK Government’s plans for the Autumn Budget.

The Institute for Fiscal Studies has queried the timing of the settlement highlighting the Chancellor will be making spending plans before the nature of Brexit is known, before he has updated forecasts for the economy and before he has set tax policy. The Prime Minister has made significant promises to cut taxes, but as highlighted by the Chair of the Office for Budget Responsibility “additional tax cuts or spending increases would push government borrowing and debt up” and there is no “war-chest or pot of money” that would make big spending increases “a free lunch”.

The announcement last week is further evidence of a system which allows the UK Government too much discretion to create the rules and then disregard them when it suits.

The House of Commons Public Accounts Committee (PAC) has expressed concern at the funding uncertainty for devolved administrations. Without a clear rule book, devolved administrations are always at the mercy of manoeuvring at Whitehall. The PAC report found arrangements for funding the devolved administrations are "increasingly complex and there is a lack of transparency about how funding decisions are made." The Treasury's decisions about how to finance the UK government's spending plans "affect the funding allocated to the devolved administrations and their ability to plan and manage their finances."

Our public services are managing incredibly difficult budgets, and had hoped to be in a position to plan over a three-year horizon. Instead, we are faced with unplanned, ad-hoc UK Government fiscal events which will only serve to elevate the level of uncertainty and deliver an unreliable spending envelope. It fails to provide a stable foundation on which we can set spending plans.

I am deeply concerned the UK Government’s failure to deliver a comprehensive, multi-year spending review and its chaotic management of the UK’s exit from the EU with rising costs as a result of the devaluation of the pound, will mean our public services are stretched even further. The UK Government cannot continue to play this reckless game with our public services.

The UK economy shrank in the second quarter of the year and an assessment carried out by the independent Office for Budget Responsibility (OBR) has shown that the economy has underperformed over the three year period since the referendum.  Independent research has indicated that the UK economy is already well over one per cent smaller than it would otherwise have been.  This represents an annual loss of around £300 for each person in Wales.

All the evidence shows that leaving the EU without a deal or transition period will produce a severe economic slowdown in the UK and that a prolonged recession is likely.   In view of Wales’s high level of exports to the EU, we can expect to be hit even harder than the UK as a whole by these immediate effects.

These developments reinforce the need for an urgent meeting of the Finance Ministers’ Quadrilateral, a point I made firmly when I spoke to the Chief Secretary to the Treasury last week.

I have subsequently written to the Chief Secretary setting out our immediate priorities, including in relation to immediate support for a no deal Brexit. The additional funding announced by the UK Government last week to prepare for a no deal Brexit will not come anywhere near to compensating for the catastrophic devastation it will cause to our economy, businesses and communities across Wales. The support that will be required to address even a proportion of the impact of leaving without a deal cannot be delivered within existing budgets. There will be the need for immediate financial support.

It is unacceptable that the UK Government has chosen to make it so difficult for public services to plan. As a Welsh Government we understand the impact such unpredictable behaviour has on our partners and I will work to ensure that we take every possible action to mitigate the impact of this uncertainty. Our response to the forthcoming one year Spending Round and the final timetable for our budget will prioritise delivering as much support and information as possible to help the Welsh public sector manage the pressure caused by this lack of clarity.

I will provide a further update to Assembly Members on the implications of the Spending Round for Wales once further details are available.

This statement is being issued during recess in order to keep Assembly Members informed. Should Assembly Members wish me to make a further statement or to answer questions on this when the Assembly returns I would be more than happy to do so.