



Dadansoddi  
Cyllid Cymru

Wales Fiscal  
Analysis

# Funding the 'firebreak' and beyond

Covid-19, the Welsh budget and supporting  
the Welsh economy



# Preface

## Declaration of funding

Wales Fiscal Analysis is hosted by the Wales Governance Centre and the School of Law and Politics at Cardiff University, and funded through a partnership between Cardiff University, the Welsh Government, the Welsh Local Government Association and Solace Wales. The programme continues the work of Wales Public Services 2025 hosted by Cardiff Business School, up to August 2018.

## About us

Wales Fiscal Analysis (WFA) is a research body within Cardiff University's Wales Governance Centre that undertakes authoritative and independent research into the public finances, taxation and public expenditures of Wales.

The WFA programme adds public value by commenting on the implications of fiscal events such as UK and Welsh budgets, monitoring and reporting on government expenditure and tax revenues in Wales, and publishing academic research and policy papers that investigate matters of importance to Welsh public finance, including the impact of Brexit on the Welsh budget and local services, options for tax policy, and the economics and future sustainability of health and social care services in Wales.

Working with partners in Scotland, Northern Ireland, the UK and other European countries, we also contribute to the wider UK and international debate on the fiscal dimension of devolution and decentralisation of government.

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# Executive Summary

On 19 October First Minister Mark Drakeford announced a two-week, 'firebreak' lockdown in Wales. This briefing considers the immediate economic impact, and the extent of economic support from both Welsh and UK governments. We estimate around 224,000 employees in Wales work in sectors partially or entirely shut down due to the new firebreak lockdown. This figure represents 16% of the Welsh workforce.

## Welsh Government support

- The UK Government has provided a Covid-19 funding guarantee of £4.4 billion to the Welsh Government budget – a consequential based on the estimated additional spending which will occur in England this year. Including reprioritised funding from within its own budget, the Welsh Government currently has over £5 billion to allocate to its Covid-19 fiscal response in 2020-21.
- In supplementary budgets from the Welsh Government, the largest allocations have been made to support businesses, with around £1.6 billion of allocated grants and reliefs. From this allocated funding, the Welsh Government has made £300 million of grants available for businesses aimed to mitigate the effect of the firebreak lockdown.
- In the recently published Second Supplementary Budget for 2020-21, the Welsh Government had almost £1.2 billion of unallocated resource spending. This may allow the Welsh Government to provide further financial support for businesses and workers through this (and future) periods of economic restrictions. However, the unallocated spending also reflects the huge uncertainties surrounding budget planning this year, amplified by inflexible budgetary arrangements over current borrowing and the use of reserves.
- Given a lack of clarity on spending in England, it is not possible to determine where Welsh Government spending decisions have diverged significantly from England. The unallocated funding may be partly explained by the Test, Trace, Protect programme costing less than the consequentials stemming from the UK government's equivalent in England.

## UK Government support

- We estimate around 100,000 employees in Wales were still on the Coronavirus Job Retention Scheme (CJRS) at the start of October (both fully and partially furloughed). Some workers affected by the firebreak may have been ineligible for the scheme over the first week of the firebreak lockdown.
- Following the lockdown announcement in England, the CJRS has been extended to December, with the UK Government providing 80% of employees' usual pay.
- Recently announced UK Government business support in England will likely trigger further consequential funding for the Welsh Government, though their open-ended nature will further increase uncertainty around the Welsh budget. It is unlikely the Welsh Government will be able to make similar demand-led commitments to businesses, given budgetary arrangements.
- To date, there is no evidence of relatively greater levels of UK Government Covid-19 spending in Wales. The short-term costs of the firebreak lockdown will have mitigated the need for more costly and longer-lasting restrictions (as now seen in England). Over coming months, the UK Government's economic support policies should accommodate devolved governments' decision-making, and not only the restrictions in place in England.

# Funding the ‘firebreak’ and beyond

3 November 2020

## Introduction

On 19 October First Minister Mark Drakeford announced a two-week, ‘fire-break’ lockdown in Wales.

The immediate economic impact may be severe. However, if these measures to suppress the virus are successful, the net effect on the Welsh economy, and the public finances, could be positive. One of the economic lessons of the spring was that acting early and effectively can avoid harsher and longer-lasting restrictions in the future and pave the way for a quicker recovery. The longer lockdown period announced on 31 October by the UK Government provides an illustration of this lesson.

Another key lesson was that such public health measures need to be complemented by comprehensive government support for workers and businesses.

This briefing assesses the Welsh Government’s ability to provide substantial support for the Welsh economy during this (and future) periods of restrictions, as well as the consequences of the latest economic support policies announced by the UK Government.

## The immediate economic impact of the firebreak lockdown

The Welsh Government’s new restrictive measures came into force from the 23 October and will last until 9 November. We estimate that around 224,000 employees in Wales work in sectors partially or entirely shut down due to the new firebreak lockdown. This figure represents 16% of the Welsh workforce.<sup>1</sup>

As shown in **Figure 1**, those working in ‘hotels and restaurants’ will be most affected. 72% of employees performing ‘other service activities’ – including creative, arts and entertainment activities, as well as cultural and sports activities – will also be directly affected by the lockdown. All inessential retail businesses are required to close meaning an estimated 36% of employees working in the ‘wholesale and retail’ sector will be affected by the regulations, in addition to 22% of those in transport and communication roles.

It is worth pointing out workers in sectors such as health, education and public administration – who make up a large share of the Welsh workforce - will largely continue their work either at their usual place of work or from home.

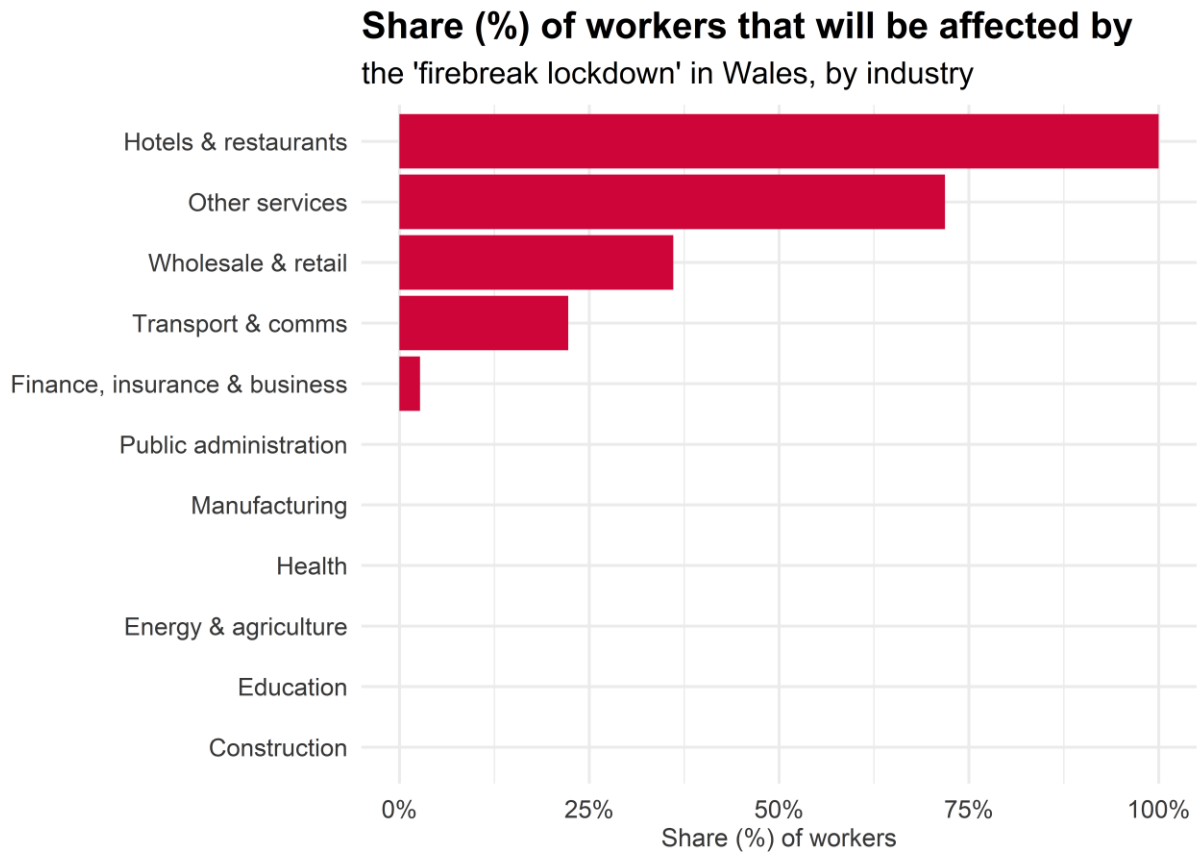
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<sup>1</sup> <https://www.coronavirusandtheeconomy.com/question/how-will-welsh-workforce-be-affected-firebreak-lockdown>

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**Figure 1**

Effect of firebreak lockdown on workers by industry



Source: Labour Force Survey (LFS) Q1 2014 to Q4 2019

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As well these sectoral differences, the risk of reductions in hours and earnings, as well as job losses, during the second wave of Covid-19 will vary by occupation. As seen in **Figure 2**, those employed in 'elementary' and 'sales and customer service' occupations are disproportionately affected by the lockdown. On the other hand, 'professionals', associate professionals' and those working in 'administrative and secretarial' roles are less likely to see an interruption to their work and earnings.

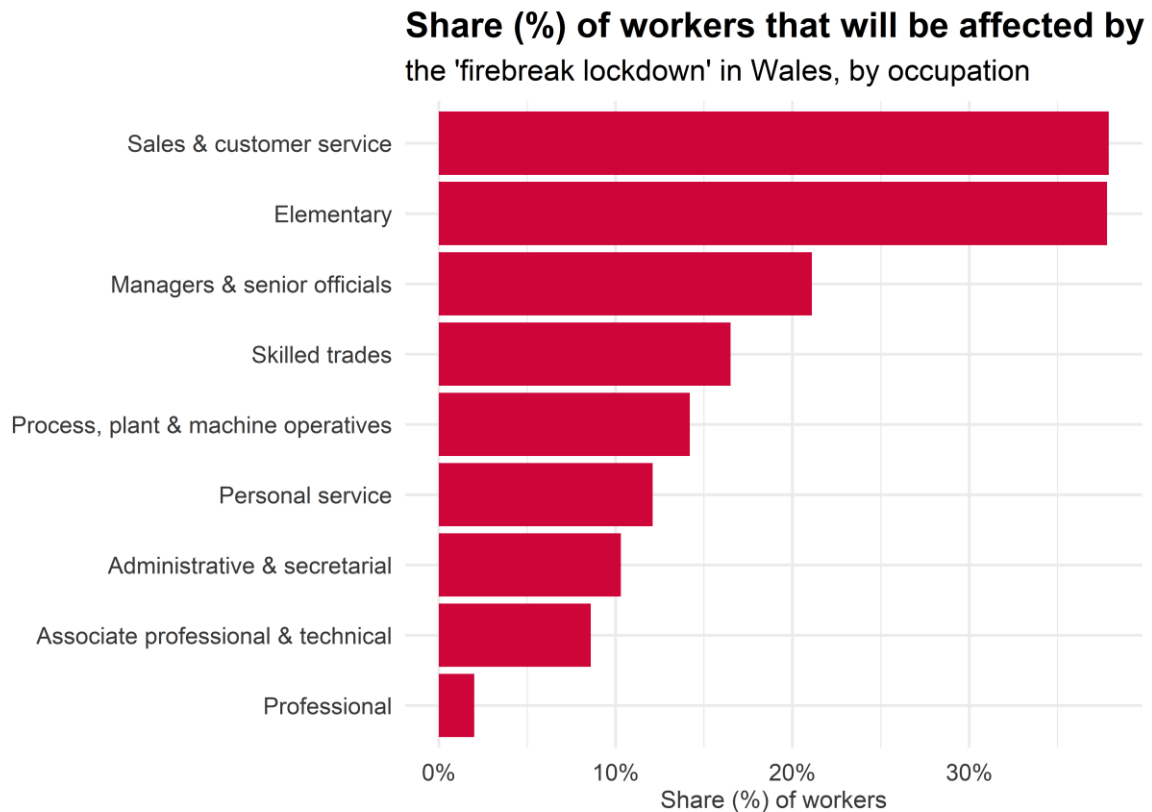
The impact will also vary considerably by age and education levels. As during the first lockdown, younger workers and those working in so-called 'low skilled' industries will be more exposed to loss of employment and earnings during the second wave of Covid-19.

Given this large and asymmetric immediate impact on the Welsh economy, it will be crucial that government support reaches affected businesses and workers, to avoid an unnecessary increase in unemployment and economic hardship. The following sections assess the support being offered by the Welsh and UK governments in turn.

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**Figure 2**

Effect of firebreak lockdown on workers by industry



Source: Labour Force Survey (LFS) Q1 2014 to Q4 2019

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## Assessing the Welsh Government's fiscal firepower

A day after the lockdown announcement, the Welsh Government published its Second Supplementary Budget for 2020-21. This document updates the budget plans laid out in May and gives a glimpse of the funding available to the Welsh Government to support the Welsh economy this year.

**Figure 3** shows the huge change in funding and spending since the Welsh Government published its Final Budget plans in March, breaking down the sums allocated at the first and second supplementary budgets. Consequentials from the UK Government relating to Covid-19 spending in England now amount to £4.4 billion.

Most of this funding can be linked to specific spending decisions in England. However, since July, the UK Government has announced two 'guarantees' of funding, estimating the additional spending which will occur in England this year, in order to provide some certainty to the Welsh Government over the likely size of its budget.

Including reprioritised funding from within its own budget and repurposed EU funding, this means the Welsh Government has had over £5 billion to allocate to its Covid-19 fiscal response in 2020-21.

As can be seen from **Figure 3**, the largest allocations have been made to support businesses through the Economy and Transport budget. Large additional allocations have also been made to the Health and Social Service budget, including the recent £800 million 'stabilisation package' for the Welsh NHS.<sup>2</sup> Approximately £490 million has been allocated to support local authority budgets for additional costs and loss of income.<sup>3</sup>

**Figure 3**

Changing funding sources from Final Budget 2020-21 and fiscal response (day-to-day spending or RDEL)

<b>Resource funding sources</b>			
	£ million		
	1SB	2SB	Total
UK March 2020 Budget consequentials	123		123
Covid-19 response funding consequentials	1,856	2,531	4,387
Other consequentials and adjustments	43		43
Changes in devolved tax revenues	-27	-122	-149
Changes in Block Grant Adjustment	29	128	157
Repurposed EU funding	245		245
Reprioritised funding from within budget	256		256
<b>Total amount to be allocated</b>	<b>2,526</b>	<b>2,536</b>	<b>5,062</b>
<b>Welsh Government fiscal response</b>			
	£ million		
	1SB	2SB	Total
NDR reliefs	332		332
Health and Social Services	574	868	1,443
Housing and Local Government	200	319	519
Economy and Transport	1,316	199	1,515
Education	0	77	77
International Relations and the Welsh Language	0	64	64
Environment, Energy and Rural Affairs	15	0	15
Central Services and Administration	24	6	30
Other allocations	62	1,003	1,065
of which: increase in fiscal resource reserve	43	1,003	1,046
<b>Total allocations</b>	<b>2,523</b>	<b>2,536</b>	<b>5,059</b>
<b>Unallocated funding</b>	<b>148</b>	<b>1,151</b>	

Source: Welsh Government (2020) Second Supplementary Budget 2020-2021 Explanatory Note and authors' calculations. Allocations in fiscal response are gross of reprioritised funding from each Main Expenditure Group. 1SB refers to allocations made at 1<sup>st</sup> Supplementary Budget; 2SB refers to Second Supplementary Budget allocations. Figures may not add up due to rounding error.

<sup>2</sup> <https://gov.wales/ministers-announce-800m-stabilisation-package-welsh-nhs>

<sup>3</sup> <https://gov.wales/written-statement-local-government-covid-19-support-remainder-2020-21>



However, the most striking element of the second supplementary budget is the almost £1.2 billion of unallocated resource (day-to-day) spending. This is spending the Welsh Government will be able to allocate at later points in the financial year. From this unallocated funding, announced spending thus far includes a £320 million Covid-19 reconstruction package, details of which are to be announced, as well as up to £32 million for financial support for people on low incomes having to self-isolate.<sup>45</sup>

This substantial amount of unallocated funding reflects the significant uncertainties the Welsh Government faces in planning its budget this year. This uncertainty surrounding pressures on public services this winter and the potential need for further economic support are amplified by the inflexible budgetary arrangements currently in place. The Welsh Government will be unable to borrow to cover overspending in this financial year. Furthermore, it will be restricted from accessing around £107 million of resource funding from the Wales Reserve, since it has already reached its annual draw-down limit.

On the other hand, if the Welsh Government underspends relative to the increase in its budget, it will be restricted in the amount of funding it can carry forward to future years through the Wales Reserve – although there are no annual limits for payments into the reserve, it is capped in aggregated at £350 million.<sup>6</sup> Additional flexibilities will need to be approved by the Treasury (on an ad-hoc basis) towards the end of the year.

Given a lack of information on spending in England, it is difficult to pinpoint how this surplus has arisen (i.e. how the Welsh Government has diverged from the pattern of UK Government Covid-19 spending in England, notwithstanding some UK Government spending which is not yet allocated).

Part of the explanation could relate to the £12 billion now set aside for the UK Government's Test and Trace system.<sup>7</sup> Beyond the elements that apply across the UK, this huge funding allocation would have triggered substantial Barnett consequentials, probably exceeding the £102 million the Welsh Government has allocated so far to its Test, Trace, Protect strategy.<sup>8</sup> This cheaper – and more effective<sup>9</sup> – system in Wales may have provided the Welsh Government with more leeway to support businesses through the firebreak lockdown and beyond.

## Welsh Government support for businesses

Allocations made at the First Supplementary Budget included £623 million for grants of £10,000 for small businesses, as well as £214 million for grants to retail, leisure, and hospitality businesses with a rateable value up to £51,000. In addition, the £400 million was allocated to the Economic Resilience Fund (ERF) to provide grants to businesses. Alongside £100 million of loans support through the Development Bank of Wales, and £332 million in Non-Domestic Rates relief, allocated support for the economy amounts to £1.7 billion.

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<sup>4</sup> <https://gov.wales/multi-million-pound-boost-to-support-post-covid-pledge>

<sup>5</sup> <https://gov.wales/two-schemes-help-people-self-isolate-be-introduced-wales>

<sup>6</sup> Given that the Wales Reserve provisionally held £337 million at the start of 2020-21, the Welsh Government budget could carry forward £138 million to future years.

<sup>7</sup> <https://www.gov.uk/government/news/chancellor-outlines-winter-economy-plan>

<sup>8</sup> This figure includes £57 million allocated to Test, Trace, Protect in the 1<sup>st</sup> Supplementary Budget, and £45 million for the Covid-19 Contact Tracing Workforce allocated in the 2<sup>nd</sup> Supplementary Budget.

<sup>9</sup> <https://gov.wales/test-trace-protect-contact-tracing-coronavirus-covid-19>

The Welsh Government have claimed that business support provided in Wales is more generous than elsewhere in the UK.<sup>10</sup> Earlier data from the ONS business survey suggest that a higher share of Welsh businesses (27%) had applied for grant funding compared with businesses in England (15%).

From these budget allocations, the latest data published by the Welsh Government in September suggested that local authorities had processed £771 million in business grants, while phase 1 and 2 of the ERF had awarded £124 million and £58 million to micro businesses and SMEs respectively.<sup>11</sup> Meanwhile, in the Second Supplementary Budget, £39.7 million was reallocated from the ERF to other areas of the budget. This would leave around £244 million from original grant allocations for support for Welsh businesses.

In September, the Welsh Government announced the third phase of its Economic Resilience Fund (ERF), worth £140 million.<sup>12</sup> In recognition of changing circumstances, the Welsh Government has now enhanced this package of support to nearly £300 million.<sup>13</sup>

The move increases support to businesses impacted by local restrictions and the firebreak lockdown, from the initial £60 million to £190 million.

The economic support, which will be delivered through local authorities to eligible businesses, includes:

- Payments of £1,000 for small businesses;
- Up to £5,000 for retail, hospitality and leisure businesses that are required to close (for rateable values of between £12,001 and £50,000);
- Discretionary £2,000 top-up grants for businesses affected by the firebreak lockdown;
- £1,000 grant for businesses materially affected by local lockdown measures for 21 days or more prior to the start of the firebreak lockdown period.

The announcement also increases grants to businesses supporting transitioning to a post-Covid economy from £80 million to £100 million (and dropping some co-investment requirements). This scheme appears to have been fully subscribed shortly after launching.<sup>14</sup>

This £300 million will amount to substantial support for the economy, provided it can reach businesses quickly. To put it in context, at the height of the first lockdown in April and May, the largest UK Government intervention, the Coronavirus Job Retention Scheme (CJRS) was costing around £400 million a month in Wales.

A concern for businesses and employees has been the gap between the start of the firebreak lockdown and the start date for the revamped UK-wide Job Support Scheme (JSS), set for 1 November. Some employees in closed sectors may have been left unsupported if they did not fulfil the eligibility criteria for the (supposed) last week of the CJRS.<sup>15</sup>

The UK Government rejected a Welsh Government request to bring the start date of the JSS forward and for the Welsh Government to bear the cost. As an alternative, the Welsh Government boosted the discretionary element of the ERF by a further £5 million.

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<sup>10</sup> [https://twitter.com/wgmin\\_finance/status/1319340618783612928?s=20](https://twitter.com/wgmin_finance/status/1319340618783612928?s=20)

<sup>11</sup> <https://gov.wales/sites/default/files/statistics-and-research/2020-09/summary-data-about-coronavirus-covid-19-and-the-response-to-it-8-september-2020-423.pdf>

<sup>12</sup> <https://gov.wales/written-statement-economic-resilience-fund-phase-3>

<sup>13</sup> <https://gov.wales/300-million-welsh-businesses>

<sup>14</sup> <https://twitter.com/WelshGovernment/status/1321891682342887427?s=20>

<sup>15</sup> Only employees previously furloughed for three weeks or more would have been eligible.

The Welsh Government will also increase the Discretionary Assistance Fund (DAF) by £5 million, on top of the £11.2 million increase included in the first supplementary budget. The Bevan Foundation has argued some workers seeing their incomes slashed over the next fortnight will not be able to access support from the DAF, and that the fund should be replaced by a rights-based Welsh Emergency Fund.<sup>16</sup>

## The Chancellor's updated Plan for Jobs

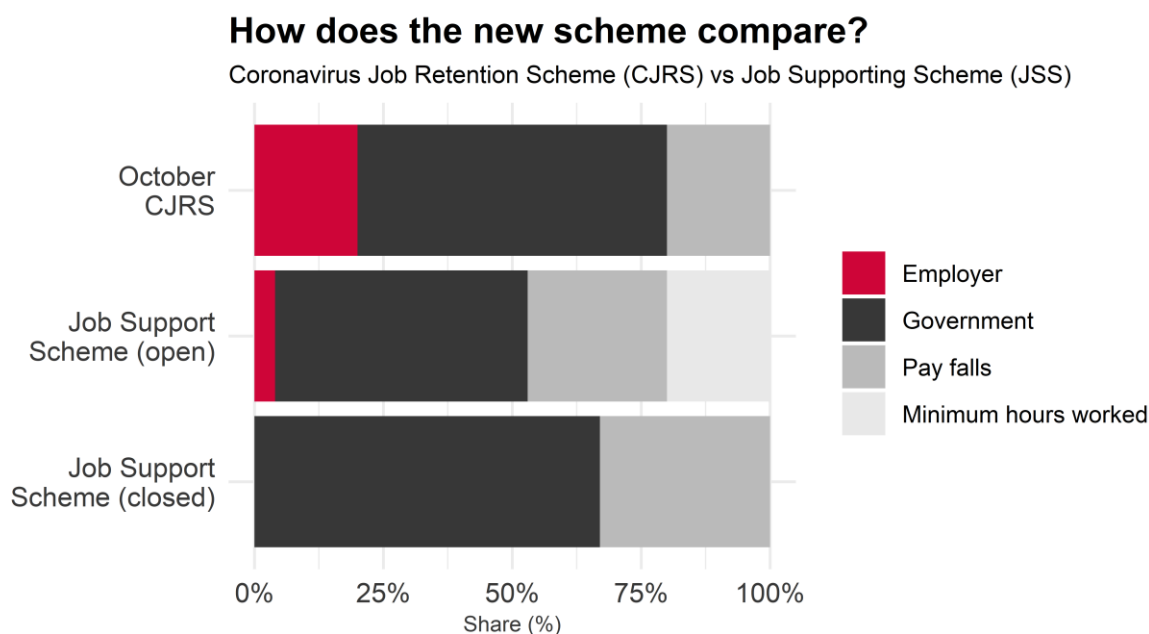
Although Welsh Government support for the Welsh economy this year has been unprecedented, the bulk of economic support provided to businesses and workers will have come through UK-wide initiatives, through the reserved tax and benefit system.

Through the course of the UK Government's furlough scheme (CJRS), over 400,000 employments have been furloughed in Wales. The latest data from HMRC showed 130,400 employments still furloughed by the end of August – with 86,600 being fully furloughed and 43,900 being partially furloughed. Using data from the ONS' Business Impact of Covid-19 Survey, we estimate that there were still approximately 100,000 employees on the furlough scheme at the start of October, as the share of earnings paid by the UK Government under the scheme fell to 60%.

Days after the firebreak lockdown announcement in Wales, and with the CJRS set to close by November, the UK Chancellor updated his Winter Economic Plan laid out in September. The changes essentially created two new forms of job support to replace the CJRS from the start of November, showed in **Figure 4**.

**Figure 4**

UK Government schemes for employees earning below £2,500 a month



<sup>16</sup> <https://www.bevanfoundation.org/commentary/why-we-need-a-welsh-emergency-fund/>

Businesses legally required to close as a result of coronavirus restrictions (set by one of the four governments) would be eligible for the 'Job Support Scheme (closed)', with the UK Government fund two thirds of employee's usual pay. The Job Support Scheme (Open) would be available for businesses suffering reduced demand from Covid-19 but are not required to close. Employees will need to work at least 20% of their previous hours, and the UK Government will fund 62% of non-worked hours (with employers paying 5% of non-worked hours). This reformed scheme addressed a key flaw of the originally proposed JSS, in that it now encourages employers to cut hours rather than jobs.

However, with the announcement of a lockdown in England – the day before the JSS was set to come in - the UK Chancellor decided to extend the CJRS furlough scheme until December.<sup>17</sup> Furthermore, for November, the UK government will pay 80% of employees' usual pay (up from 60% under October's CJSS) and will be open to all employees regardless of sector, restrictions or whether they had previously been furloughed. The JSS system outlined above may now be applied from December onwards.

The UK Government has also announced a package of business grant support in England, directed through English local authorities, with grants of up to £3,000 a month for businesses required to close. In addition, £1.1 billion is being given to English Local Authorities to support businesses. Although this will not apply in Wales, the Welsh budget should receive a population-based share of the additional spending in England, which according to HM Treasury, means the Welsh Government could establish similar schemes.

However, the UK Government has not published the estimated costs of these new commitments. The amounts given to businesses over the course of this financial year will depend on the public health restrictions in place in England until March, essentially making the commitments open-ended and demand led.

It is therefore difficult to determine what level of consequentials might flow to the Welsh budget as a result, and the extent to which consequentials will exceed the £4.4 billion 'guaranteed' by the Treasury in September. A similar problem emerges with the new funding agreement with Transport for London, which will result in differing amounts of consequentials depending on its passenger numbers.<sup>18</sup> For the Welsh Government, this makes budgetary planning even more difficult.

Given the unallocated spending in the supplementary budget, and the likelihood of future periods of economic restrictions, it is likely further economic support will be forthcoming from the Welsh Government. However, it will not be able to make the same open-ended, 'whatever-it-takes' type commitments seen in England.

The latest announcements for England and the ever-changing UK Government economic support highlights the asymmetry in funding uncertainty. The UK Government should either be much more flexible in their funding to devolved governments this year, essentially providing funding on a demand-led basis as in England, or provide the devolved governments with the budget management tools and borrowing powers to allow them to do so themselves.

## Devolution, public health and the economy

Since the announcement of the 'firebreak' lockdown, questions have been raised about the apparent lack of financial accountability behind the devolved governments' decisions to introduce tougher economic

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<sup>17</sup> <https://www.gov.uk/government/news/furlough-scheme-extended-and-further-economic-support-announced>

<sup>18</sup> <https://www.gov.uk/government/news/government-bailout-to-keep-london-transport-running>

restrictions.<sup>19</sup> A Financial Times editorial accused the devolved governments of introducing lockdowns and 'presenting London with the bill'.<sup>20</sup> A report by the Institute for Government suggested greater coordination between governments, because the greater cost to the Treasury of business closures will not be considered in devolved decision making.<sup>21</sup>

However, a substantial portion of the support for businesses during this and future periods of restrictions will be coming from the Welsh Government budget – funded by population-linked consequentials from UK Government spending in England. Welsh businesses have only been able to access UK Government schemes available across the UK.

It is worth noting there is no evidence that divergences in public health guidance thus far has led to relatively more spending per person by the UK Government in Wales compared to spending per person in England. For example, the take-up rate of the CJRS in Wales has remained below that of England throughout the crisis. There is no indication that unemployment has risen faster in Wales. On some alternative indicators, the recovery in the number of job advertisements and people's mobility and visits to restaurants, pubs and cafes was faster in Wales following the initial lockdown.

Although the firebreak lockdown will have increased demands on the UK Government CJRS, the immediate additional costs of lockdown should not be considered in isolation from the longer-term impact on the virus, the need for future restrictions and their associated costs. Earlier action by the Welsh Government will have mitigated the need for more costly and longer-lasting restrictions, as evidenced by the English lockdown which will last for at least a month. The UK Government should bear this in mind over coming months and ensure its economic support policies accommodate devolved governments' decision-making, and not only the belated restrictions put in place in England.

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<sup>19</sup> Some saw the move as an example of English taxpayers bankrolling Wales while the Welsh Government '[set fire to the money](#)' and that 'Scotland and Wales [should pay for their own lockdowns](#)'.

<sup>20</sup> <https://www.ft.com/content/bc97f377-9c1b-4dad-b305-cbcaf2454da0>

<sup>21</sup> <https://www.instituteforgovernment.org.uk/sites/default/files/publications/coordination-divergence-devolution-coronavirus.pdf>



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