

Autumn Statement: implications for Wales

Welsh Local Government Association Budget Seminar

18/11/2022

GUTO IFAN

Canolfan Llywodraethiant Cymru, Prifysgol Caerdydd
Wales Governance Centre, Cardiff University

Contents

- Economic and fiscal outlook
- Implications for the Welsh Budget
- Implications for households and the cost-of-living crisis

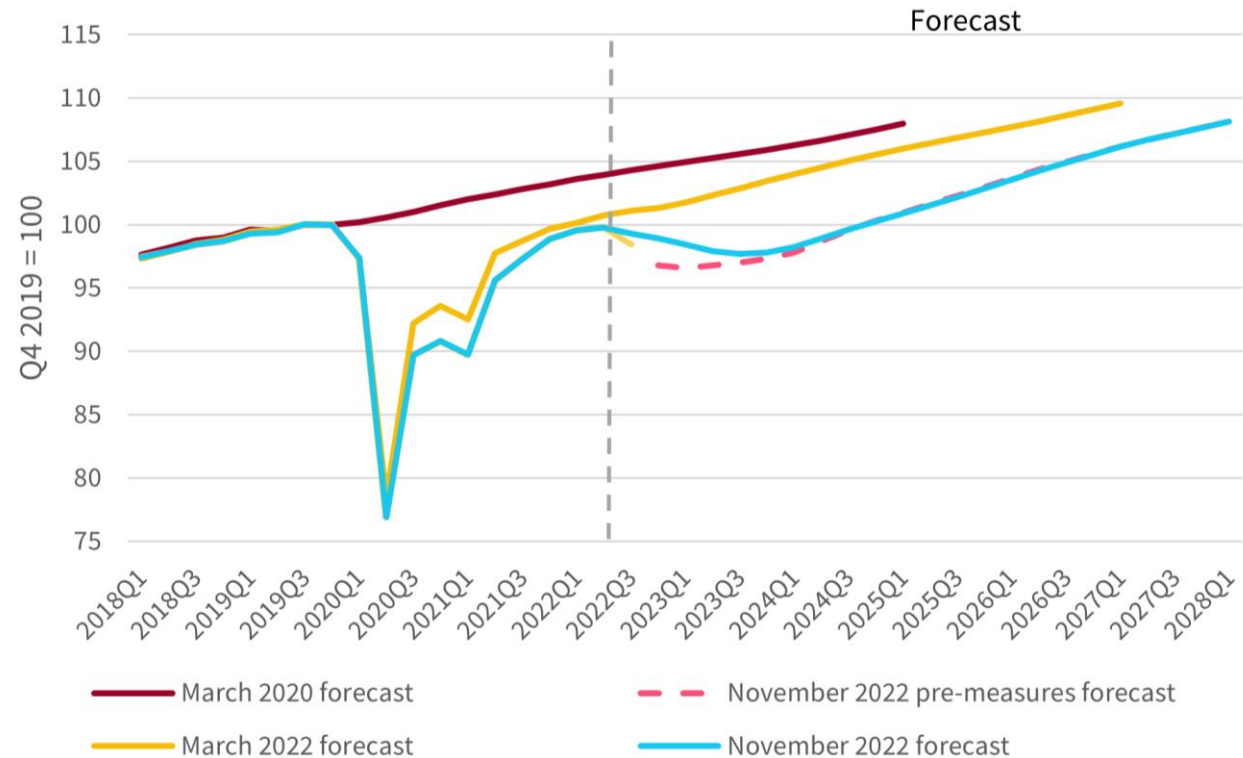
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Economic outlook

- Office for Budget Responsibility too optimistic back in March?
- Squeeze on real incomes, rise in interest rates, and fall in house prices – tipping the economy into recession
- Unemployment rises by 505,000 from 3.5 per cent to 4.9 per cent
- GDP returns to growth in 2024 and output recovers pre-pandemic level in the fourth quarter of that year

Real GDP, Q4 2019 = 100

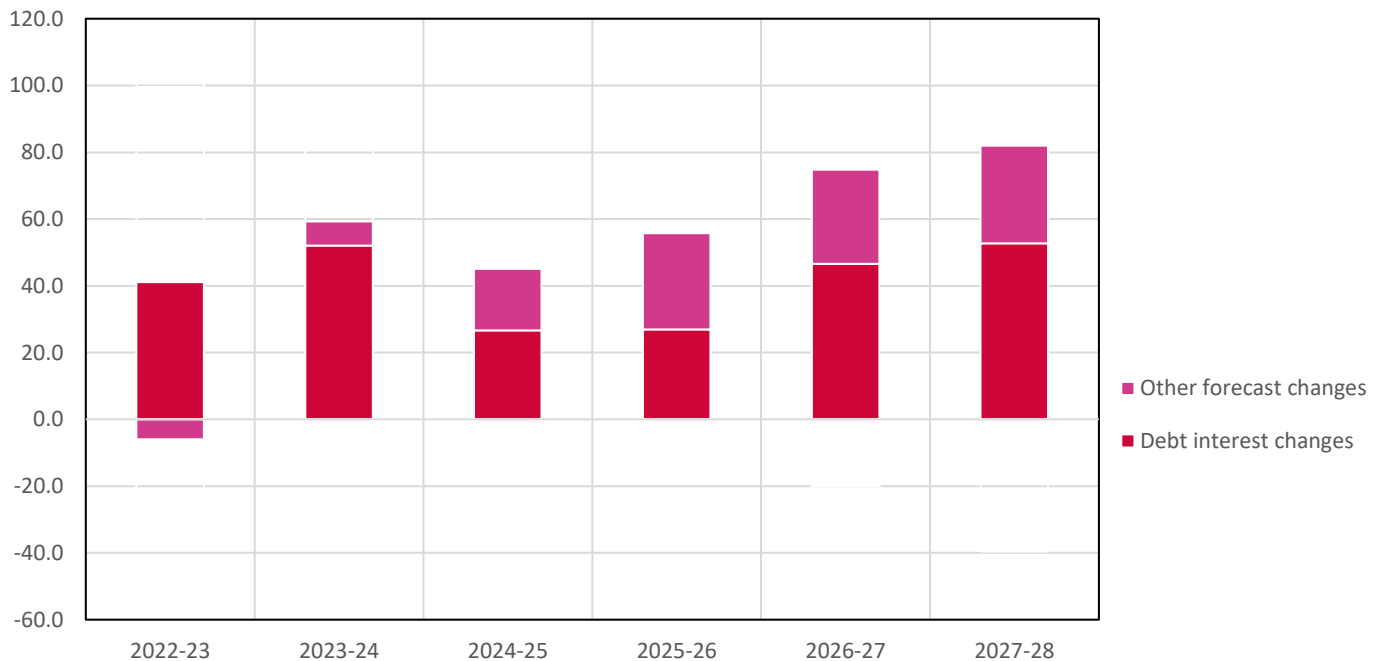


Source: OBR (2022) Economic and Fiscal Outlook November 2022

Fiscal outlook

- Underlying forecast revisions raised borrowing by an average of £54.0 billion a year – three-quarters of this is due to higher debt interest spending

Public sector net borrowing: changes since March 2022

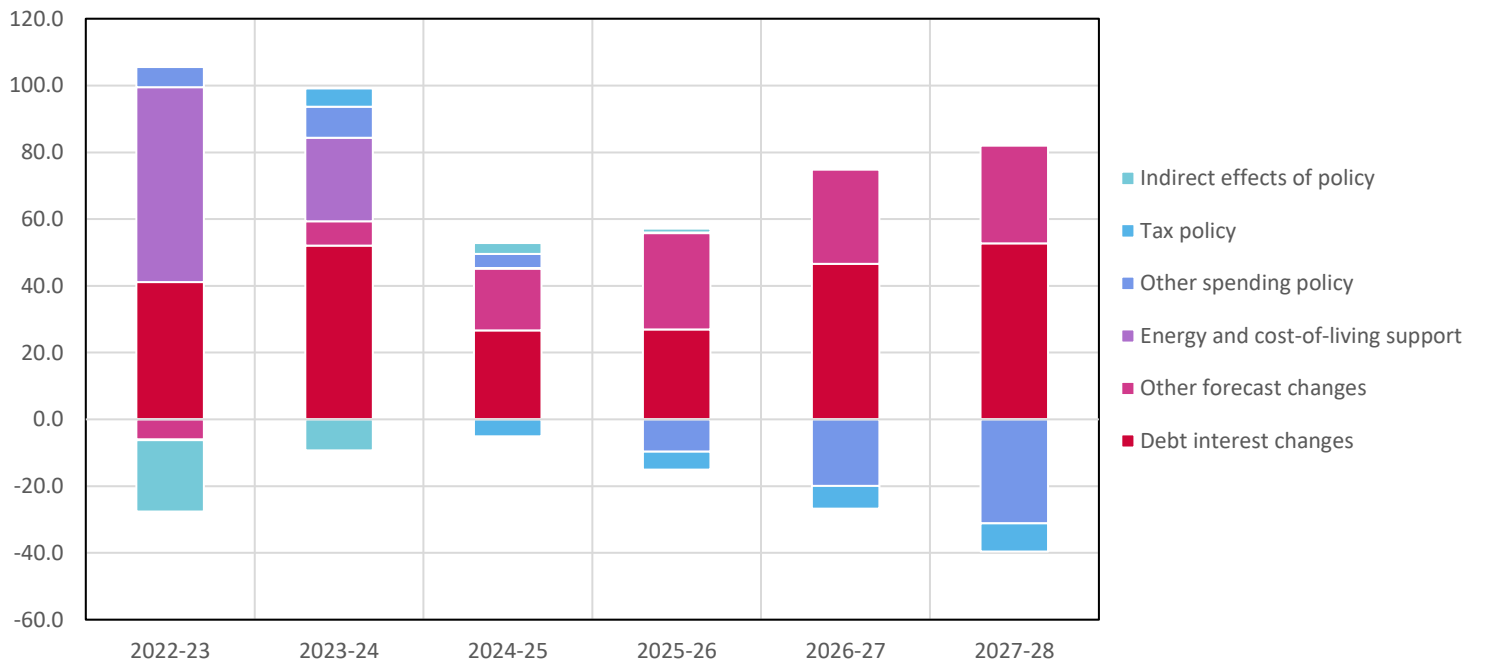


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- Energy price guarantee raises borrowing in 2022-23 and 2023-24
- Tax policies and spending cuts lower borrowing by an average of £36.9 billion a year in the final three years of the forecast

Public sector net borrowing: changes since March 2022

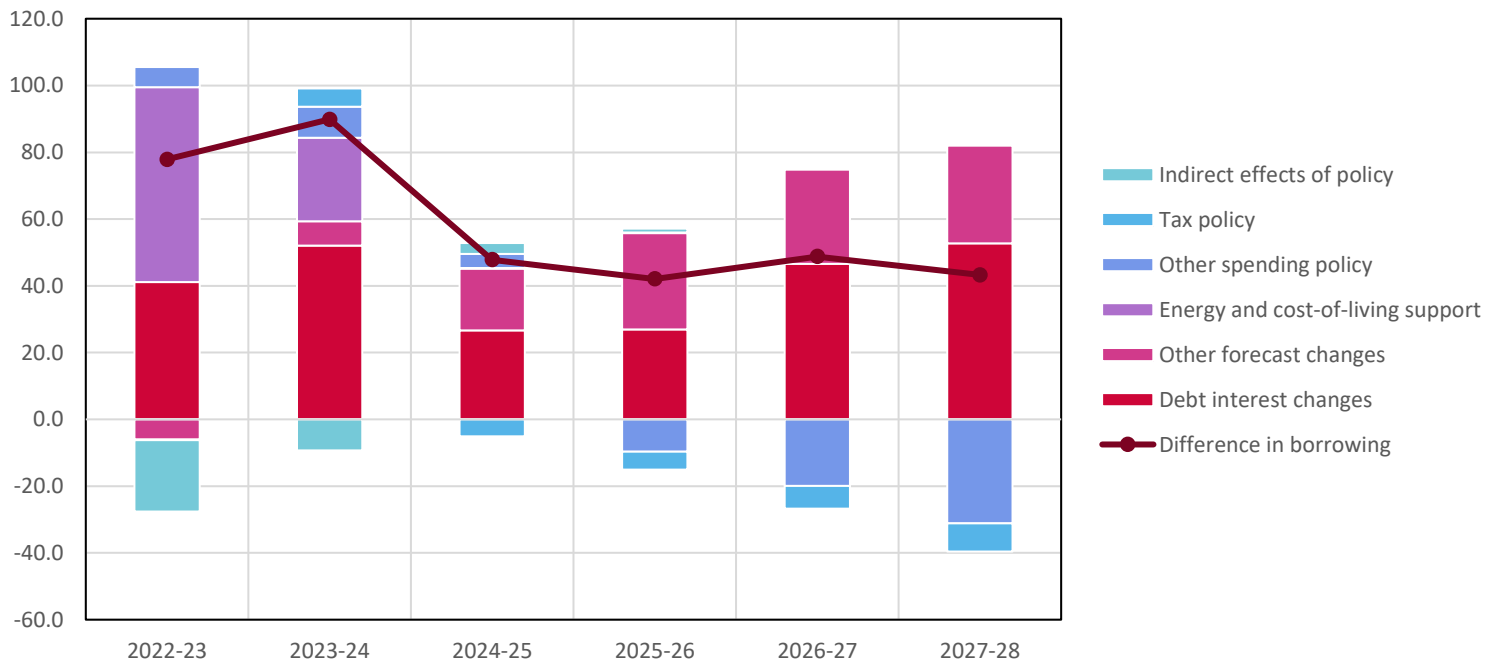


Source: OBR (2022) Economic and Fiscal Outlook November 2022

Fiscal outlook

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- Tax policies and spending cuts lower borrowing by an average of £36.9 billion a year in the final three years of the forecast
- Two new fiscal targets
 - Underlying debt falling as a share of GDP in 2027-28
 - PSNB not exceeding 3 per cent of GDP in that same year

Public sector net borrowing: changes since March 2022



Source: OBR (2022) Economic and Fiscal Outlook November 2022

Overview of Autumn Statement

- Higher taxes on the better off in 2023-24 and some additional departmental spending, and without the need to impose lower-than-inflationary uplifts to benefits
- Fiscal consolidation kicks in in subsequent years – combination of tax and spending restraint
- Implied 1% per year real terms increases to departmental spending after 2024-25 will feel like austerity for some areas of spending
- Balance between fiscal prudence and economic support?
 - Despite household support measures in 2023-24, not enough to avoid large falls in disposable incomes.
 - Only just meet his new target to get debt falling as a percentage of GDP within five years

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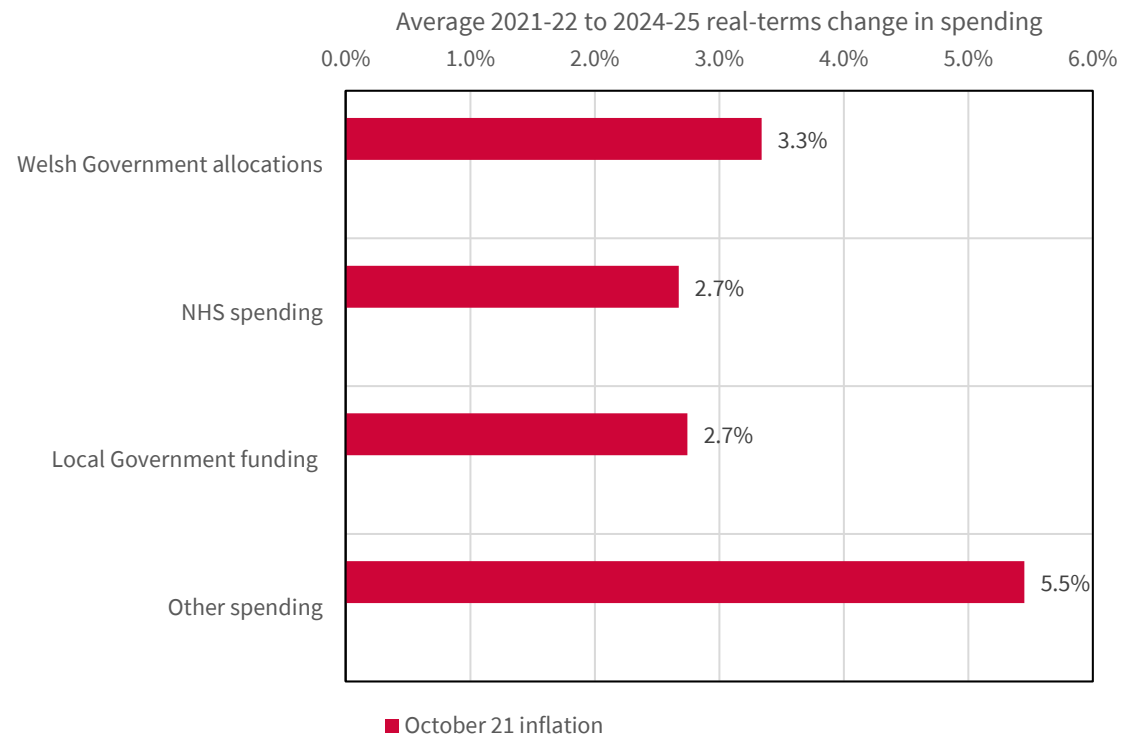
Implications for the Welsh Budget

- Inflation squeezing the Welsh Budget
- Some additional funding for the NHS, social care and schools in England over the next two years, largely funded by recycling £5 billion earmarked for overseas aid spending – consequential for the Welsh Government
- Some impact from new Devolved Tax forecasts – slight worsening of the outlook
- Beyond the end of the spending review period, public service spending growing less quickly than previously planned (about £21.5 billion of fiscal tightening)
- Capital spending cut in real terms after 2025 (£14.8 billion of tightening)

Welsh Government spending plans to 2024-25

- Final Budget plans published on 3 March
- Using October 2021 inflation forecasts, implied **3.3%** average real-terms growth over three years

Welsh Government Final Budget plans – average annual real terms change in day-to-day spending from 2021-22 to 2024-25

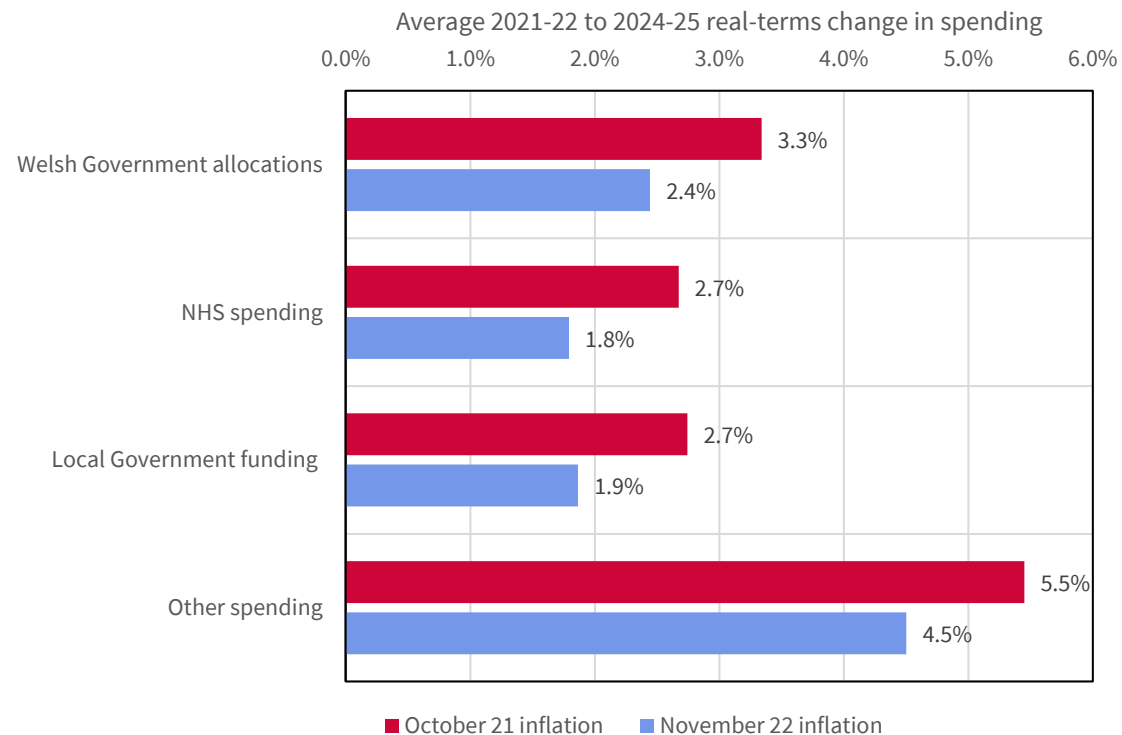


Source: OBR (2022) Economic and Fiscal Outlook March 2022; Welsh Government (2022) Final Budget 2022-23; and authors' calculations. • Notes: Total day-to-day spending allocations refers to fiscal resource allocations and redistributed non-domestic rate revenues

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- Using October 2021 inflation forecasts, implied **3.3%** average real-terms growth over three years
- Higher inflation (as measured by GDP deflator) suggests that falls to **2.4%** in real terms
 - Doesn't properly capture some pressures facing public services

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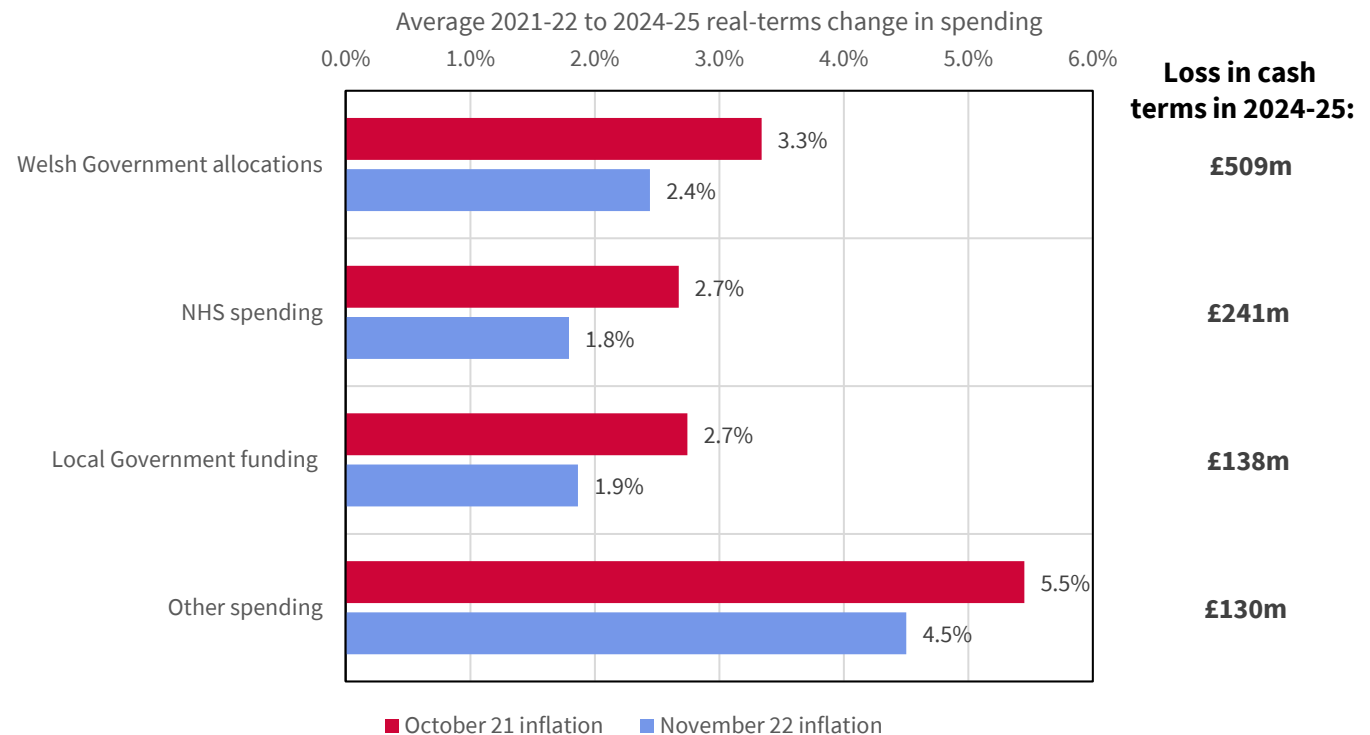


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- Higher inflation (as measured by GDP deflator) suggests that falls to **2.4%** in real terms
 - Doesn't properly capture some pressures facing public services
 - **Using CPI inflation implies 0.5% growth in real terms**
 - Implies a £1.5 billion loss in 2024-25
 - OBR: somewhere between the two

Welsh Government Final Budget plans – average annual real terms change in day-to-day spending from 2021-22 to 2024-25



Source: OBR (2022) Economic and Fiscal Outlook March 2022; Welsh Government (2022) Final Budget 2022-23; and authors' calculations. • Notes: Total day-to-day spending allocations refers to fiscal resource allocations and redistributed non-domestic rate revenues

Additional consequentials

- “£1.2 billion for the Welsh Government over 2023-24 and 2024-25”
- Breakdown not available (and slight discrepancy in the Autumn Statement documents), but based on policy costings document (rough estimate only!)

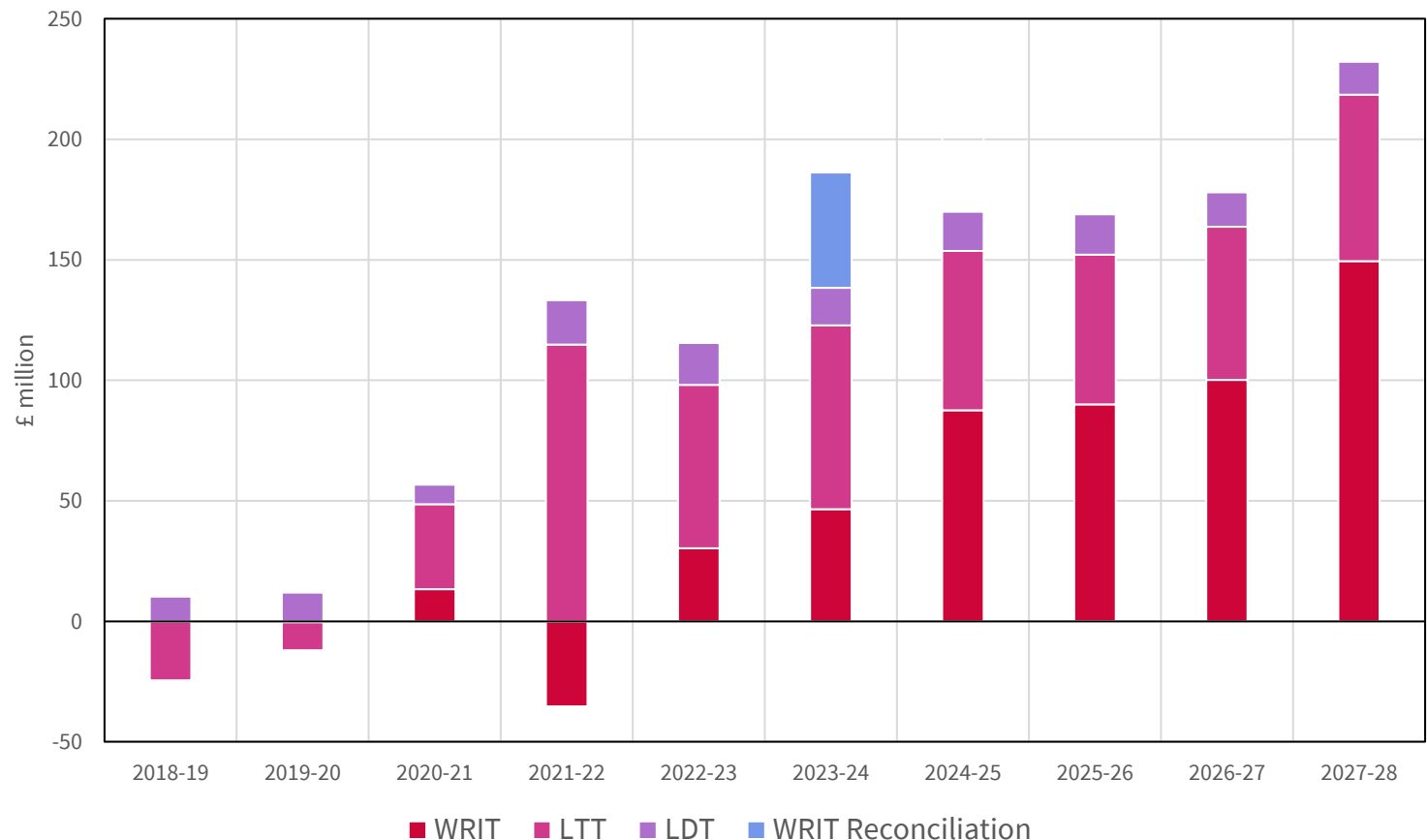
	2023-24 (£m)	2024-25 (£m)
NHS & Social Care	254	294
Schools	137	137
Business rates	266	123
Total	656	554

- Approximately £390m of public services spending consequentials in 2023-24 (£431m in 2024-25)

Updated tax forecasts

- Significant downward revisions for income tax and Land Transaction Tax revenues
- Net effect of tax devolution still positive – *relative growth* important
- Impact on budget for 2023-24 and 2024-25 depends on changes in forecast revenues and changes in Block Grant Adjustments

Net effect of tax devolution, 2018-19 to 2027-28 (nominal terms)



Source: OBR (2022) Economic and Fiscal Outlook November 2022; authors' calculations

Updated tax forecasts

- Significant downward revisions for income tax and Land Transaction Tax revenues
- Net effect of tax devolution still positive – *relative* growth important
- Impact on budget for 2023-24 and 2024-25 depends on changes in forecast revenues and changes in Block Grant Adjustments
- No big upward effect (as we expected back in March)

Effect of forecast revisions on Welsh Government budget, £ million

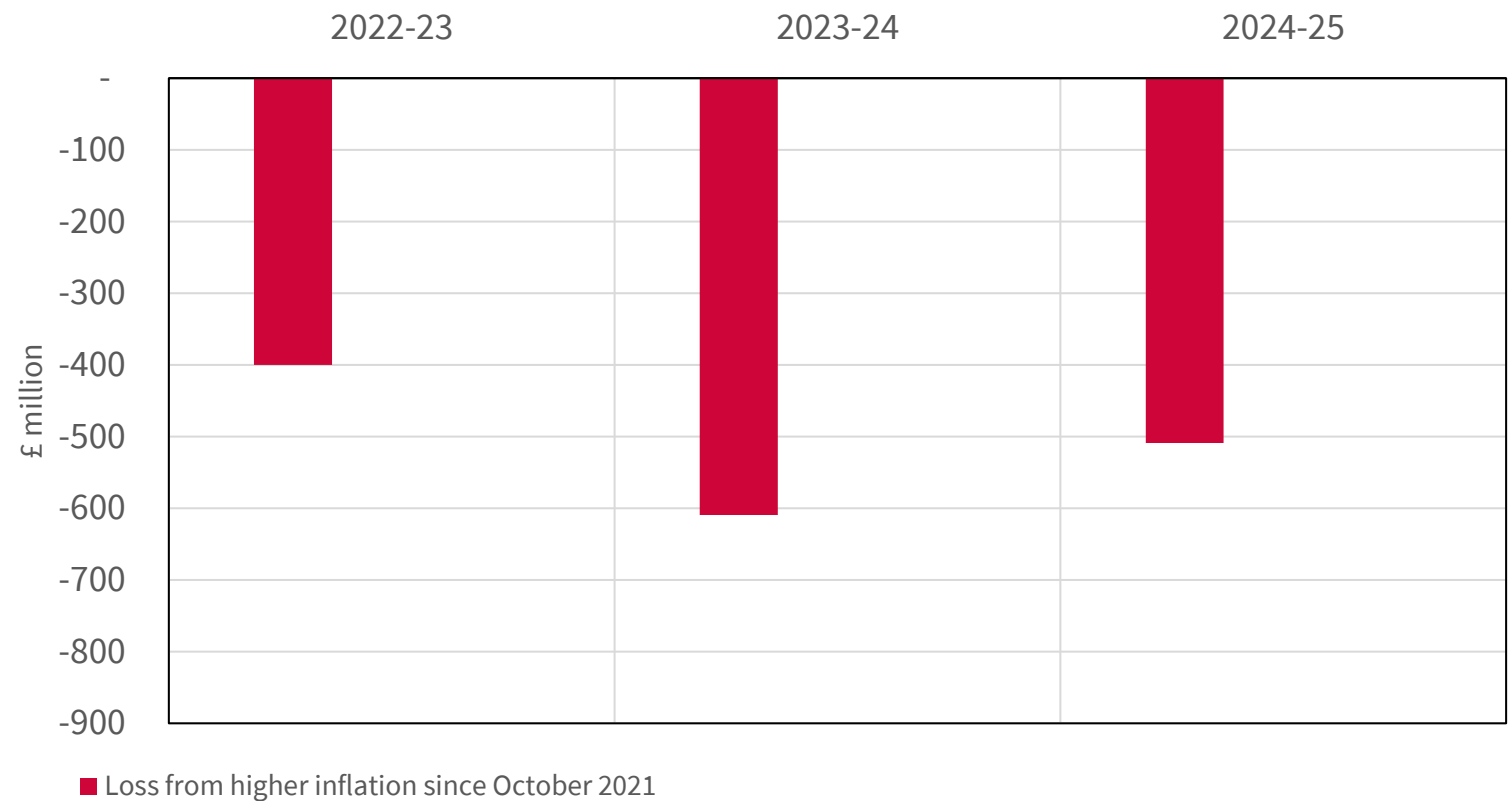
	2022-23	2023-24	2024-25
Welsh Rates of Income Tax	0	-14	0
WRIT reconciliations	0	48	
Land Transaction Tax	-15	-12	-30
Landfill Disposals Tax	4	2	1
Total	-12	23	-29

Source: OBR (2022) Economic and Fiscal Outlook November 2022; authors' calculations

Welsh Government spending plans to 2024-25

- Higher inflation wiping £1.5 billion from day-to-day spending plans (2022-23 to 2024-25)

Welsh Government day-to-day spending plans – loss from higher inflation since October 2021 (nominal terms)

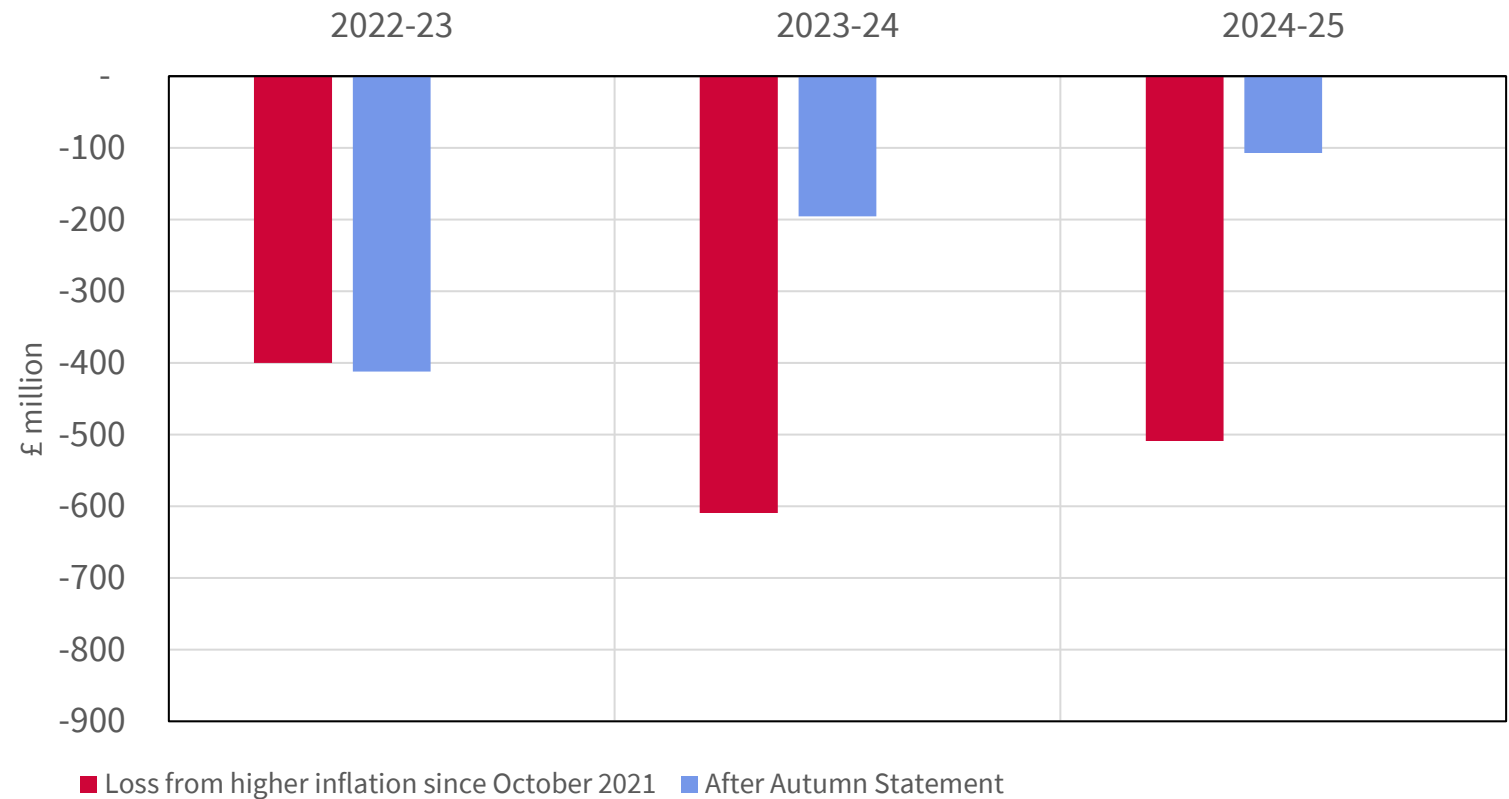


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Welsh Government spending plans to 2024-25

- Higher inflation wiping £1.5 billion from day-to-day spending plans (2022-23 to 2024-25)
- Factor in estimated effect of additional consequentials and effect of updated tax forecast, and assume Welsh Government pass on business rates consequentials to businesses...
- ... still below October 2021 settlement in real terms as measured by GDP deflator
- Offsets about four-fifths of the real-terms hit in 2024-25

Welsh Government day-to-day spending plans – loss from higher inflation since October 2021 (nominal terms)

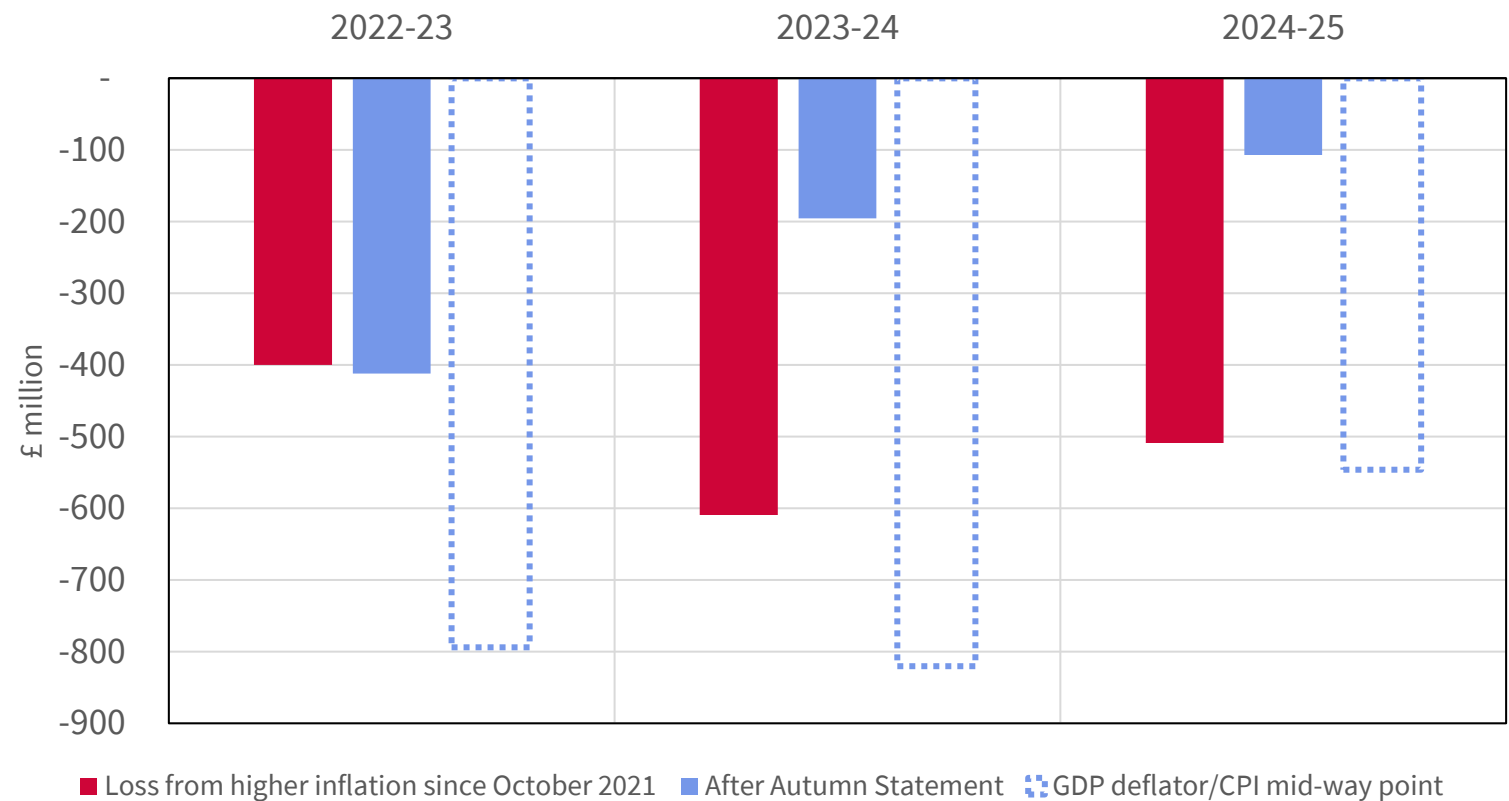


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Welsh Government spending plans to 2024-25

- If we use mid-way point between GDP deflator and CPI inflation...
- ... then real-terms hit since last October much higher
 - ≈**£800m** in 2023-24
 - ≈**£500m** in 2024-25

Welsh Government day-to-day spending plans – loss from higher inflation since October 2021 (nominal terms)



Source: OBR (2022) Economic and Fiscal Outlook November 2022; Welsh Government (2022) Final Budget 2022-23; and authors' calculations. • Notes: Total day-to-day spending allocations refers to fiscal resource allocations and redistributed non-domestic rate revenues

Decisions for the Welsh Government

- Full picture to become clearer - e.g. breakdown of consequentials for next two years; slower growth than expected in 2025-26 and 2026-27 (implications will depend on spending decisions in England)
- More funding in 2023-24 and 2024-25 to allocate to priorities
 - Still able to grow spending in all areas in real-terms to 2024-25 (as measured by GDP deflator)
 - Reduces political pressure to use Welsh Rates of Income Tax?
 - Public sector pay in the context of 7% CPI inflation in 2023
- **Council Tax increases** – expected 5% in England; at least two years before reforms in Wales; WRIT increases more progressive?
- How to support businesses? Funding available for retail, hospitality and leisure sector reliefs (or grants?); transitional relief for revaluation; freezing multiplier in 2023-24

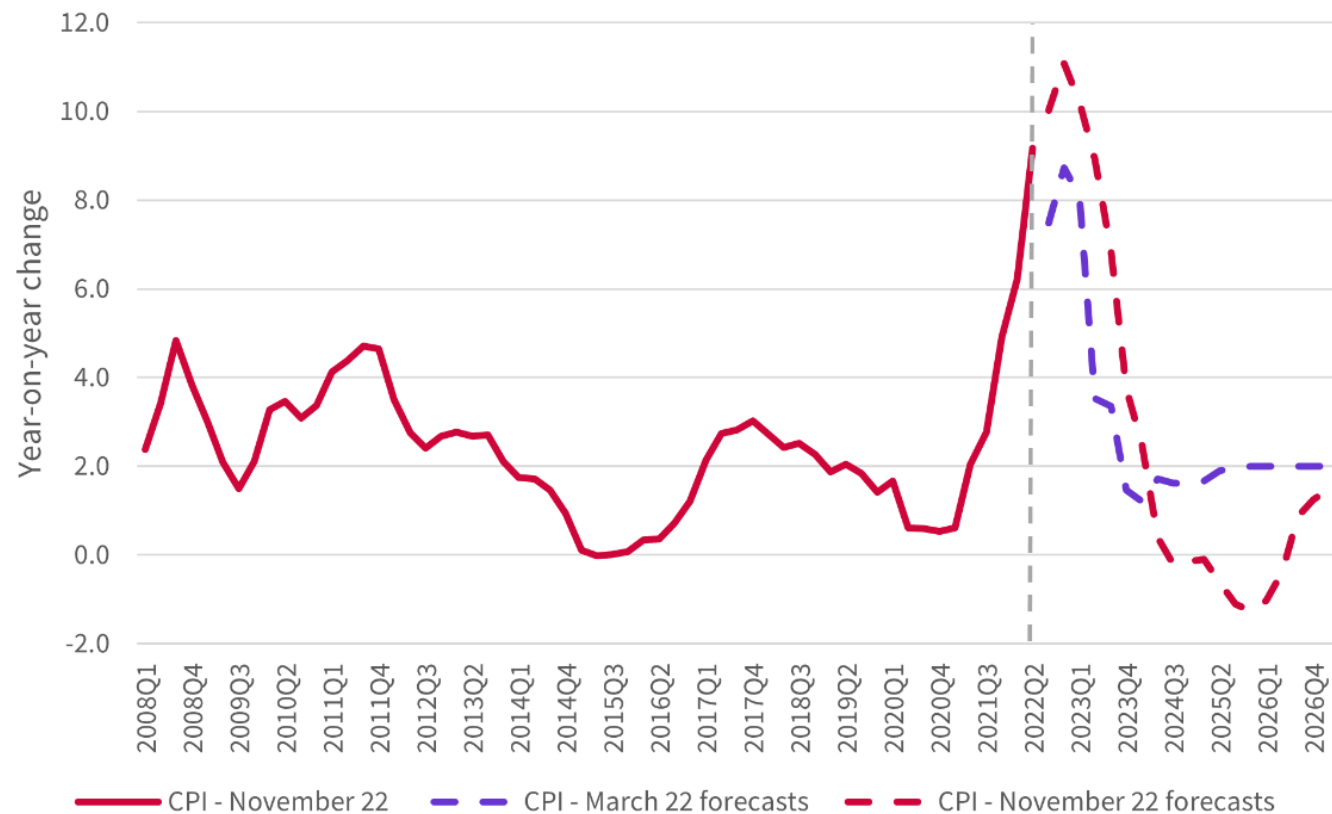
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CPI inflation forecasts

- Consumer Price Index (CPI) rose by 11.1% in the 12 months to October 2022 – gas and electricity prices made the largest contribution to the change
- Lowest income households facing inflation rates of over 16%
- Inflation falling into deflation in 2024-25 – maybe market expectations of BoE rate hikes too high?

CPI inflation



Source: OBR (2022) Economic and Fiscal Outlook November 2022

Announcements

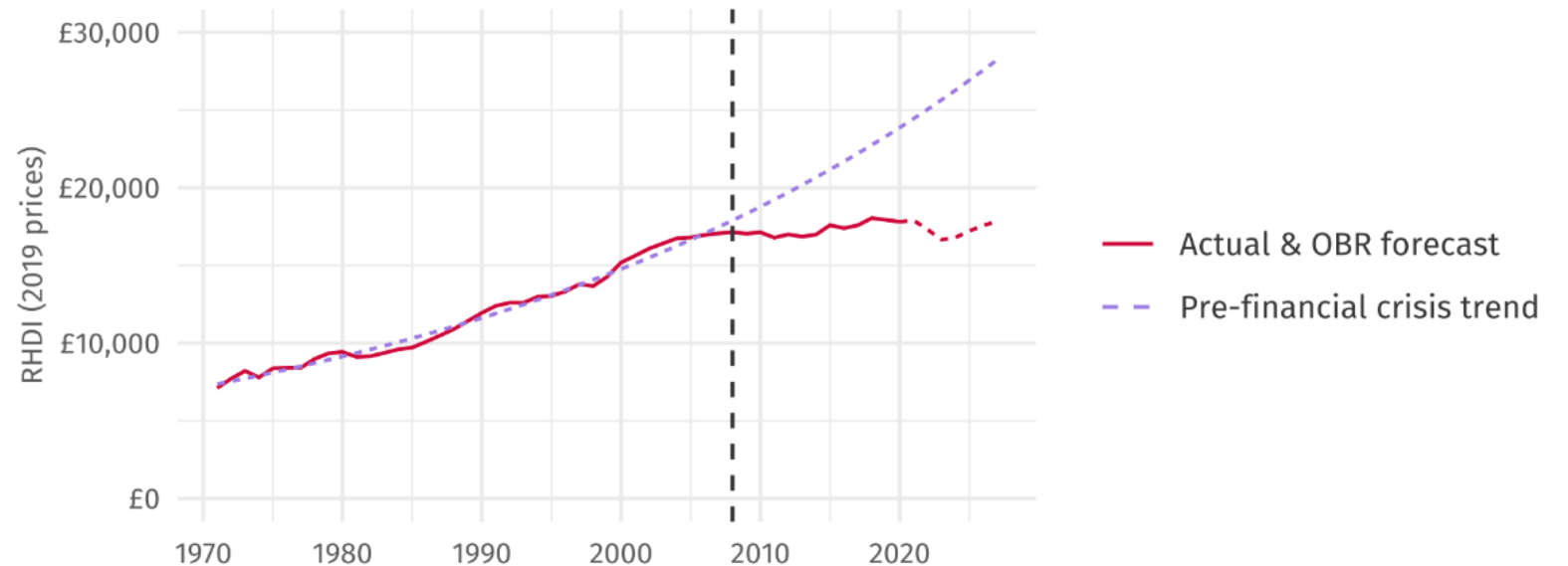
- Benefits, pension credit and the benefit cap to be updated by inflation, and a recommitment to the triple lock
- The Energy Price Guarantee
 - Typical annual bill increases from £2,500 to £3,000 (most households still paying three times as much on energy as they did three years ago)
 - One-off payment (£900) to households on means-tested benefits in 2023-24
 - One-off payment to pensioner households (£300)
 - One-off Disability Cost of Living Payment (£150)
- Doesn't avoid the biggest annual drop in living standards on record

Cost-of-living crisis in context

- Disposable income drop by 7% over the next two years – driven by “terms-of-trade shock”
- But in the context of long-running squeeze in living standards
- By 2027, Welsh incomes will be £10,300 lower than if pre-financial crisis trend had been sustained

Two lost decades

Estimated real disposable household income per person in Wales



Source: WFA analysis of ONS (2022) UK Economic Accounts and OBR (November 2022) Economic and Fiscal Outlook.

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