



Llywodraeth Cymru
Welsh Government

WRITTEN STATEMENT BY THE WELSH GOVERNMENT

TITLE **The UK Government Spending Review and Autumn Budget 2021**

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The Chancellor of the Exchequer has today published the outcome of the UK Government's Spending Review alongside the Autumn Budget.

In his statement, the Chancellor set out the UK Government's spending plans for the next three years to the end of 2024-25. The Spending Review comes at a critical moment on the eve of the COP26 Summit and set against a challenging economic backdrop in extraordinary times. It comes as we continue to navigate the implications of EU exit, manage the ongoing impacts of Covid-19 and as families and businesses in Wales face price and cost of living increases.

The Office for Budget Responsibility (OBR) is now more optimistic about economic prospects than it was at the time of the Budget in March. Output or GDP is expected to increase by 6.5% this year rather than 4.0%. The OBR judges that less permanent or scarring damage will be inflicted on the economy as a result of the pandemic than previously expected. Nonetheless, the likely damage, estimated to be 2.0% of GDP is substantial, and will almost certainly be disproportionately borne by the less well off in society.

Once the pandemic bounce in growth is behind us, the outlook for the economy and living standards is mediocre. Productivity growth is expected to average only 1.2% over the next 5 years. Next year, household income after taking inflation into account is set to increase by only 0.3%. Over the next 5 years, real household income growth is expected to average approximately 1.0%, again much lower than the long term trend of more than 2.0%. The Chancellor's Budget has not provided enough support to mitigate the impact for Welsh families.

The Chancellor confirmed an extra £314m revenue and £111m capital funding for the Welsh Government's budget to be used in the remaining five months of this financial year but refused to reinstate the Covid Guarantee denying us certainty over our funding position.

Looking ahead, overall the Welsh Government's resource funding is lower in cash terms in each year of the Spending Review period than in the current year. In part that is due to high levels of COVID funding this year, however increases after 2022-23 are also very small. Between 2022-23 and 2024-25 the Welsh Government's resource funding increases by less than half a per cent in real terms. Overall capital funding falls in cash terms in each year of the Spending Review period and is 11 per cent lower in 2024-25 than in the current year. The Welsh Government's budget in 2024-25 will be nearly £3bn lower than if it had increased in line with the economy since 2010-11.

The small uplift in funding the UK Government is providing simply doesn't meet the scale of the challenge we are facing to tackle the looming cost-of-living crisis and invest in recovery for public services, communities and families in Wales. While the Chancellor talked about an 'age of optimism', vital funding for the priorities highlighted by the Welsh Government as critical to Wales and centred on the climate emergency have been side-lined. This Budget needed to provide the detail on how UK Government's public spending plans will help tackle the climate and nature emergencies. Disappointingly on the eve of COP26, the Chancellor chose instead to cut taxes on fossil fuel and failed to support electrification of Welsh railways or provide the much needed plan to help the steel industry deliver its share of Net Zero targets.

It is indefensible that the UK Government has refused to work with us and provide funding to support the long-term remediation and repurposing of coal tips in Wales. These tips are a legacy of the UK's industrial past. The need for work to address this impact of disruptive climate change was unknown, and provision was not made when Wales' funding arrangements were agreed in 1999. The UK Government had an opportunity to show it is would stand behind the communities whose efforts created huge wealth for the UK, instead it has chosen to turn its back on them.

The Chancellor gives with one hand while taking with the other. Despite his announcement of support for training and skills, this Spending Review confirms Wales is losing £375m of regional annual funding essential to supporting apprenticeships, skills and businesses. The Chancellor's announcement of £120m through the Levelling Up Funds, represents only 7% of the total funding compared to Wales previously receiving 24% of eligible EU Structural funds. It falls well short of the full replacement we were promised to tackle inequality. Wales' farmers and rural communities will lose out on at least £106m of replacement EU funding over the Spending Review period, on top of the £137m not provided for by the UK Government this financial year.

We remain fundamentally opposed to the arbitrary use of the financial assistance powers in the UK Internal Market Act to deliver funding in devolved areas. Devolution is about decisions being taken by those elected by people in Wales, close to the communities they serve who best understand their needs and circumstances, accountable to the Senedd for their decisions. It is extremely disappointing to see that UK Government has decided to press on regardless with these divisive and inefficient policies.

The lift in restrictions on public sector pay provides some limited relief for our public sector workers who have faced huge challenges in the past 19 months and have worked incredibly

hard to keep vital services going. However when the cut to Universal Credit, the effect of inflation and the higher National Insurance Contributions are taken into account, many public sector workers will be no better off and in real terms are considerably poorer than they were a decade ago. We will be exploring with local government and trade unions in Wales how to make progress on our longstanding commitment to improve fairness in pay arrangements.

HS2 is expected to have a negative impact of £150m per year on the Welsh economy. To enable us to deliver Net Zero, we need to move quickly to full electrification of the rail line to Swansea and the North Wales main line, to ensure we can reach the ambitious targets both we and the UK Government have signed up to. The lack of any new major UK Government funded projects in the Spending Review allied to the very tight capital budget settlement the Welsh Government now has over the next few years, only reinforces the message that today's announcement doesn't match the scale of the challenge ahead – to get to Net Zero and build a post-Covid economy.

Our focus as a Welsh Government remains on bringing forward our plans for an investment led recovery based on the needs of the people of Wales. We will publish the Welsh Government Budget on 20 December and will seek to deliver the fairest possible settlement for Welsh public services to secure a more prosperous, greener and just Wales.

Delivering public services will continue to be one of the key priorities in our upcoming budget. The *Health and Social Care in Wales COVID-19: Looking Forward* document brings together the whole system approach we are adopting for Health and Social Care to demonstrate a clear direction for rebuilding key services.

We will continue to deliver our Programme for Government to address the impact of the pandemic on children and young people, build 20,000 low-carbon homes for social rent, and deliver the Youth Guarantee. We will also be publishing our new Wales infrastructure and Investment Strategy, which includes interventions to deliver Net Zero.

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