# WRITTEN STATEMENT

# BY

# THE WELSH GOVERNMENT

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| **TITLE** | **Welsh Government response to the Chancellor of the Exchequer’s Summer Economic Update** |
| **DATE** | **8 July 2020** |
| **BY** | **Rebecca Evans MS, Minister for Finance & Trefnydd** |

The Chancellor of the Exchequer today delivered his Summer Economic Update in what are extraordinarily difficult circumstances.

We are in the deepest recession in living memory as a result of the necessity to shut down most non-essential economic activity owing to the coronavirus pandemic. In April, the UK economy was 25% smaller than it was in February.

The plans announced by the Chancellor today are presented in advance of the detail of the Office for Budget Responsibility update to its Coronavirus scenario for the UK in its Fiscal Sustainability Report on 14 July. This will provide an updated view on the prospects for the UK public finances.

There is growing evidence of distress in the labour market as the UK Government implements its plans to taper down and close the Coronavirus Job Retention Scheme (CJRS) and Self Employed Income Support Scheme (SEISS). The Resolution Foundation estimates that one million furloughed workers could lose their jobs.

We have applauded the effectiveness of these schemes. We are disappointed there were no assurances today over whether they will be revived if there are further local lockdowns or a second peak. The announcement of the job retention bonus, though welcome, assumes that we will continue on a smooth path out of the crisis and does not address what will happen if there is a second peak.

The Welsh Government is supportive of an interventionist approach to support businesses, communities and individuals in Wales, as shown by our Economic Resilience Fund. I am encouraged the Chancellor intends to effectively replicate the Welsh Government’s Jobs Growth Wales in his plan for jobs. We will work with the Department of Work and Pensions to make sure this really does deliver for young people in Wales.

The Chancellor’s Jobs Plan alone will not be sufficient to resuscitate the economy and should be supplemented by a comprehensive package of active labour market measures including more ambitious investment in training and skills.

We have consistently urged the UK Government to also use the macro-economic levers at its disposal to deliver welfare and taxation measures which support the most vulnerable and poorest groups in our society, who we know suffer most in recessions.

With rising unemployment, it is essential that the benefits system provides an adequate level of support to vulnerable citizens, who through no fault of their own, lose their jobs. The UK Government must reverse the regressive welfare reform and cuts implemented over the last ten years.

It is disappointing that the Chancellor has chosen not to reduce employers’ National Insurance Contributions (NICs) or increase the employer NICs threshold which would reduce labour costs for employers, encourage job creation as well as job retention and cushion the winding down of the CJRS.

In terms of the changes in England to Stamp Duty land Tax (SDLT), our Land Transaction Tax currently has the highest starting threshold in the UK, benefitting home buyers in Wales over the long-term. We are actively considering what the SDLT changes mean for our tax rates aligned with our plans to reopen the housing market. We will continue to deliver tax policy that is made in Wales that is appropriate for the economic recovery.

While I welcome the UK Government’s decision to reduce the VAT rate on the hospitality sector which has been particularly impacted during these unprecedented times, the UK Government should also put in place sectoral employment protection schemes for sectors which continue to be closed or very substantially impacted by Covid-19 measures such as tourism, aerospace, automotive and steel. The ‘Eat out, Help out’ scheme falls short of the ambitious response which is needed.

I am disappointed the Chancellor had so little to say on funding for public services as they continue to respond to the crisis. Robust health, social care, and local government services will be critical to the recovery and the UK Government needs to commit the additional funding our public services require to deliver what is needed. With interest rates on borrowing remaining low, there is still more that can be done by the UK Government to ramp up and sustain public spending as part of the response to the pandemic and to support the economic recovery.

Without additional funding and the budget flexibilities we have called for our response and recovery from the Covid-19 crisis is being hampered. Too frequently, UK Government funding announcements are presented as new, when in fact no additional funding is generated for the devolved administrations.

We have ambitious, Wales-wide investment plans which we could bring forward if more capital was available and if there was certainty on the amount of revenue we can expect from the UK Government this year.

We need urgent clarity around the funding and budgetary flexibilities to enable us to respond to the crisis in a way which supports the public services and economy in Wales. This includes the UK Government’s plans for the Comprehensive Spending Review and how it intends to ensure a smooth transition as we exit the EU.

A number of the measures announced today, and last week by the Prime Minister, including the Green Homes Grant and a capital building programme for schools, are measures we are already delivering in Wales.

Our Warm Homes Programme targets households in the greatest need and facing fuel poverty. It has benefitted more than 55,000 households with Welsh Government investing more than £327m. We also have an ambitious £2bn programme of investment planned over the next 5 years in our education estate through the 21st Century Schools and Colleges programme. Additional capital funding would allow us to accelerate the delivery of these existing projects.

The Chancellor’s statement today, while including some welcome announcements, simply does not come close to measuring up to the scale of the challenges we face. More extensive and far-reaching action is needed to tackle this crisis head on and to build back better.