



# Implications of AS and EFO for Wales and the Welsh Govt

**Presenter: David Phillips**

Drawing on analysis by himself and Carl Emmerson (IFS),  
Xiaowei Xu (IFS), Ben Zaranko (IFS) and Guto Ifan (Cardiff Uni)

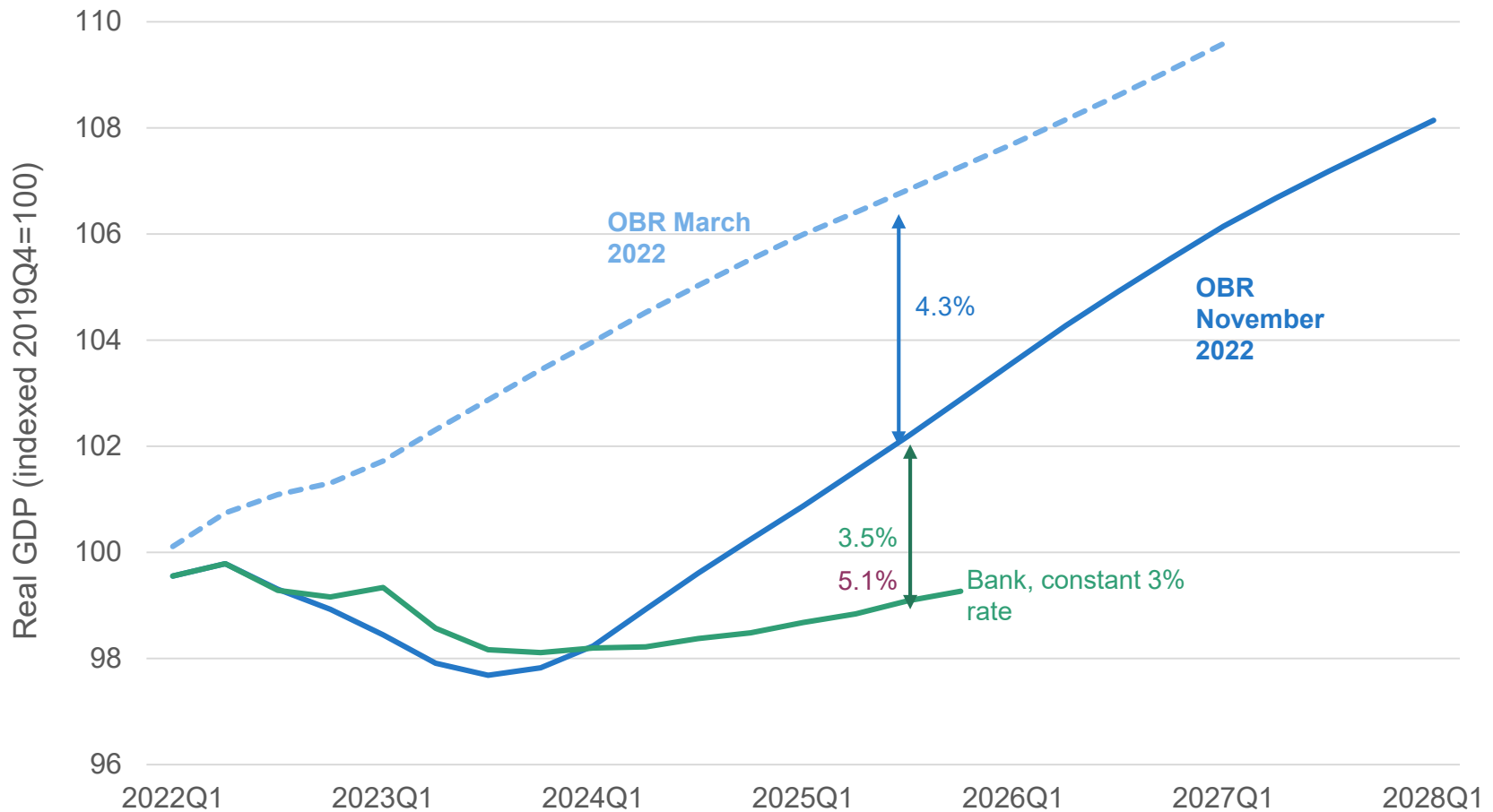
28 November 2022

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# The OBR's growth forecast is much less gloomy than the Bank's

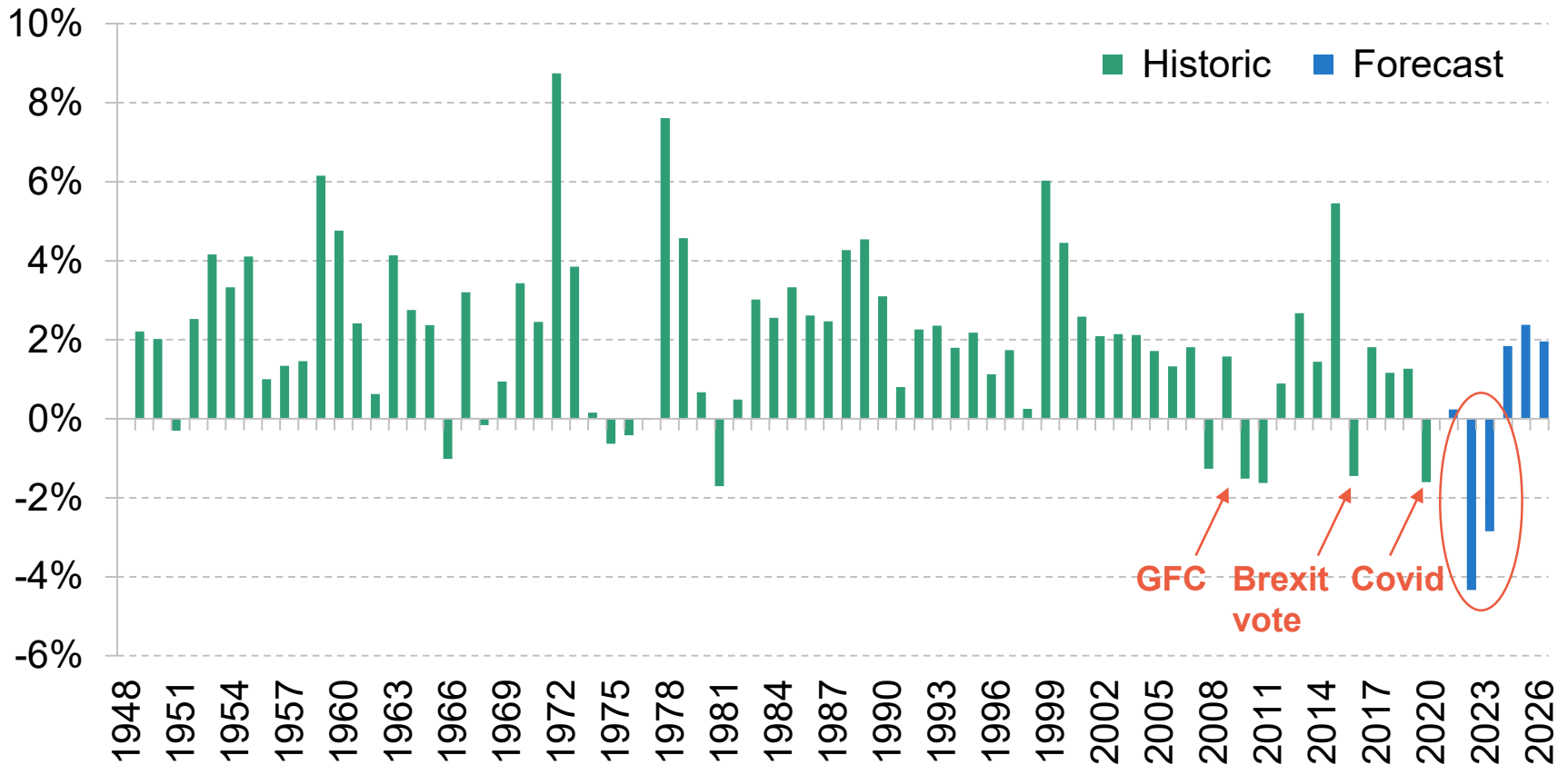


Sources: OBR and Bank of England, Monetary Policy Report (November 2022)

# Real household disposable income set to fall by 7% over 2 years



## Year-on-year change in real household disposable income (per capita)

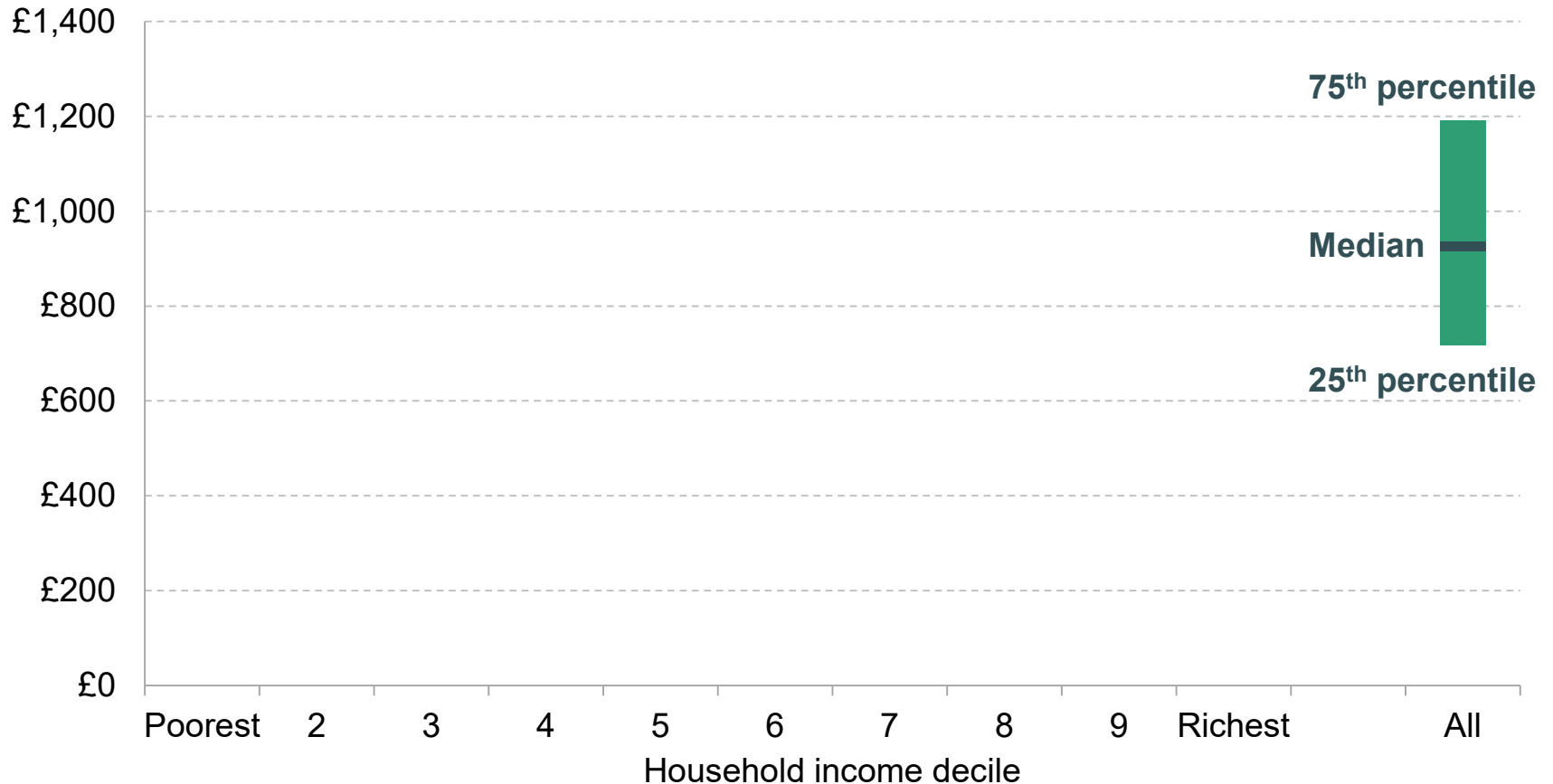


Source: IFS calculations based on ONS UK Economic Accounts (historical RHDl and population statistics), OBR EFO November 2022 (forecast per-capita RHDl)

Notes: Years refer to financial years  
AS 2022 and Wales

# But big variation in bills depending on energy usage

## Increase in energy bills from today to 2023–24



Source: IFS calculations using price cap forecasts from Cornwall Insights, energy spending data from 2019 Living Costs and Food Survey.  
Notes: 2023 Q4 forecast used for the energy price cap in Q1 2024 (for which forecasts are not yet available). Energy bills in 2022–23 capped at £2,500 and discounted by £400.

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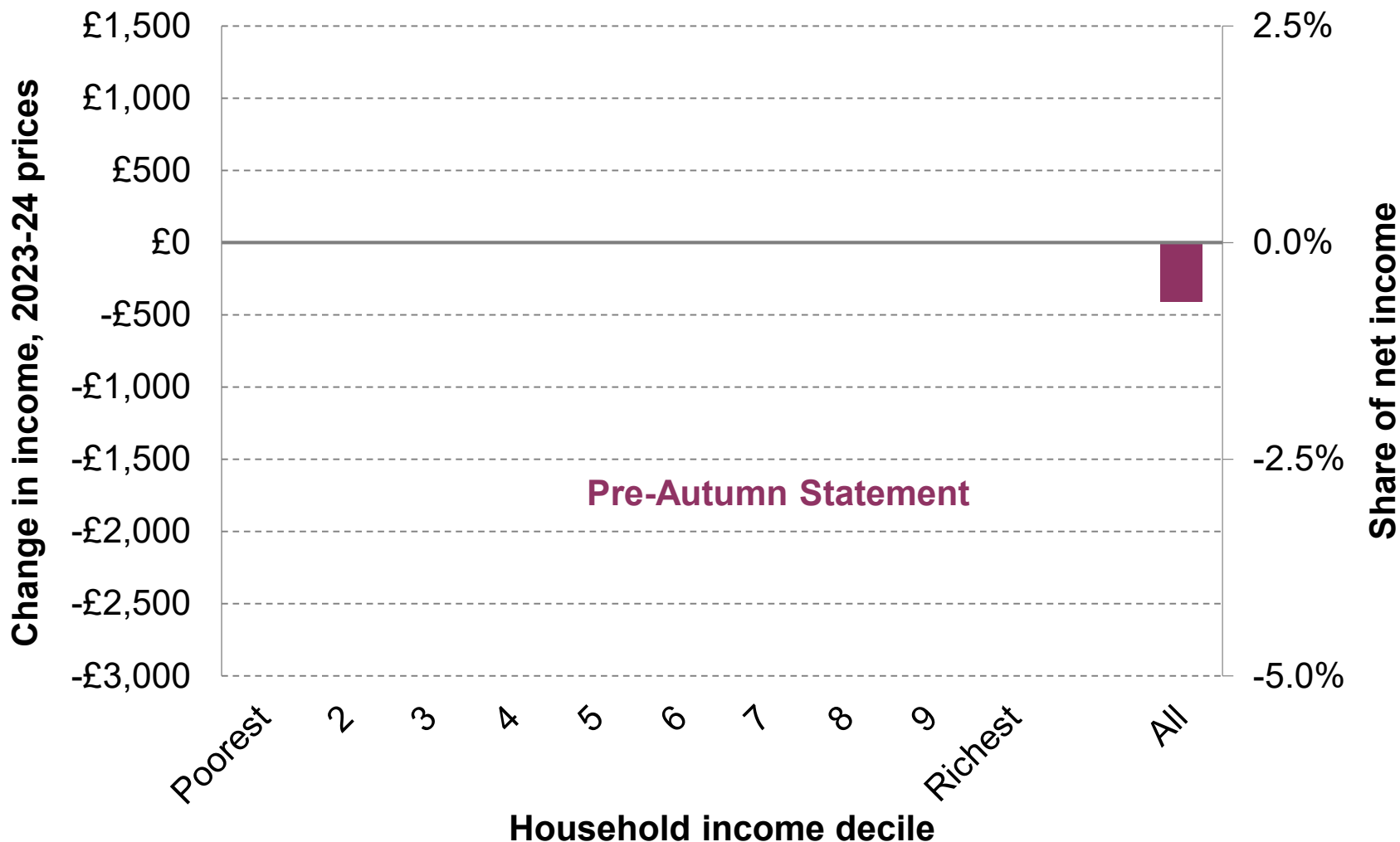
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# Distributional analysis 2027–28

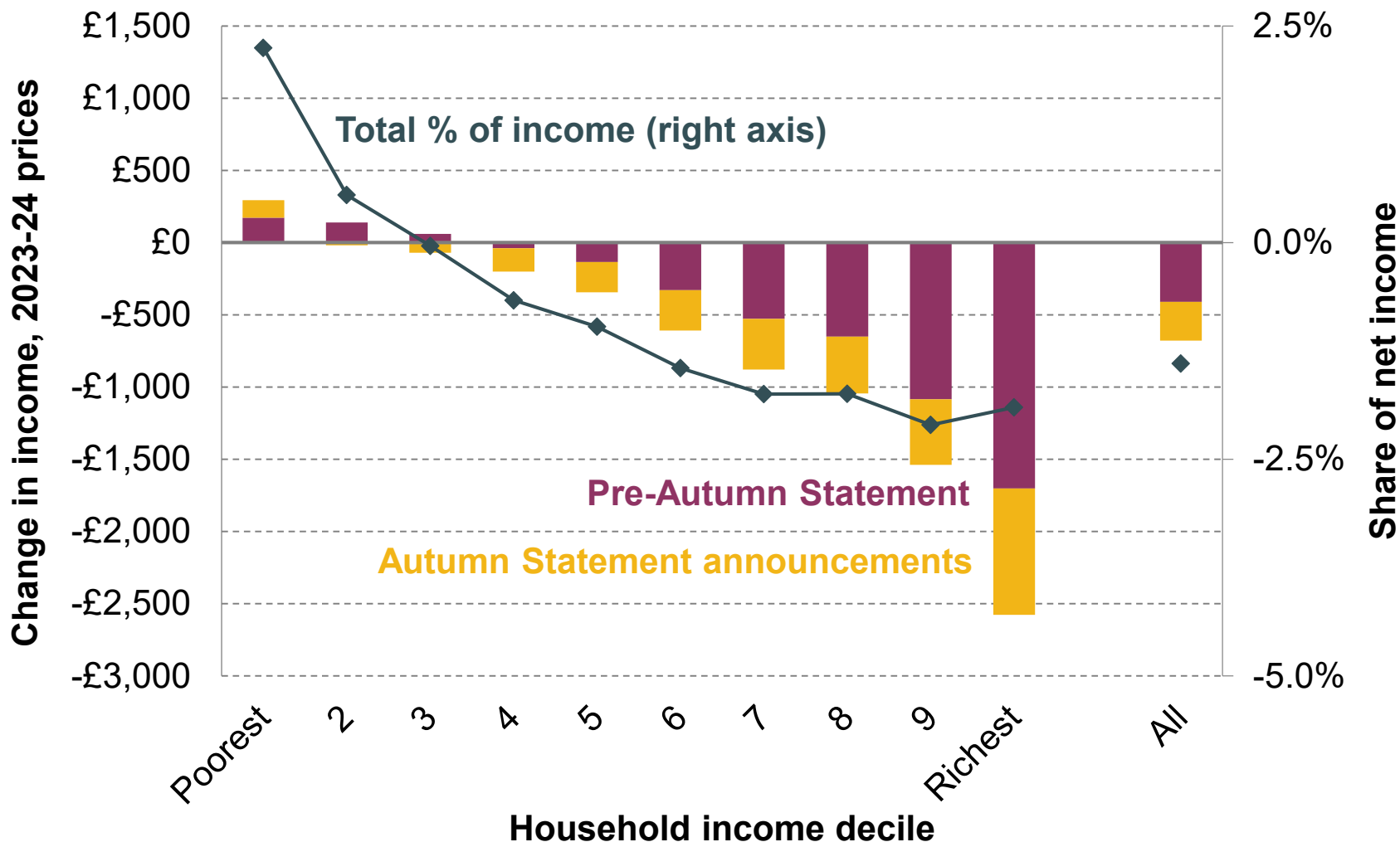
Long-run income change from tax and benefit measures implemented since Nov 2021



Notes: Assumes rise in employer NICs is borne by employees.  
AS 2022 and Wales

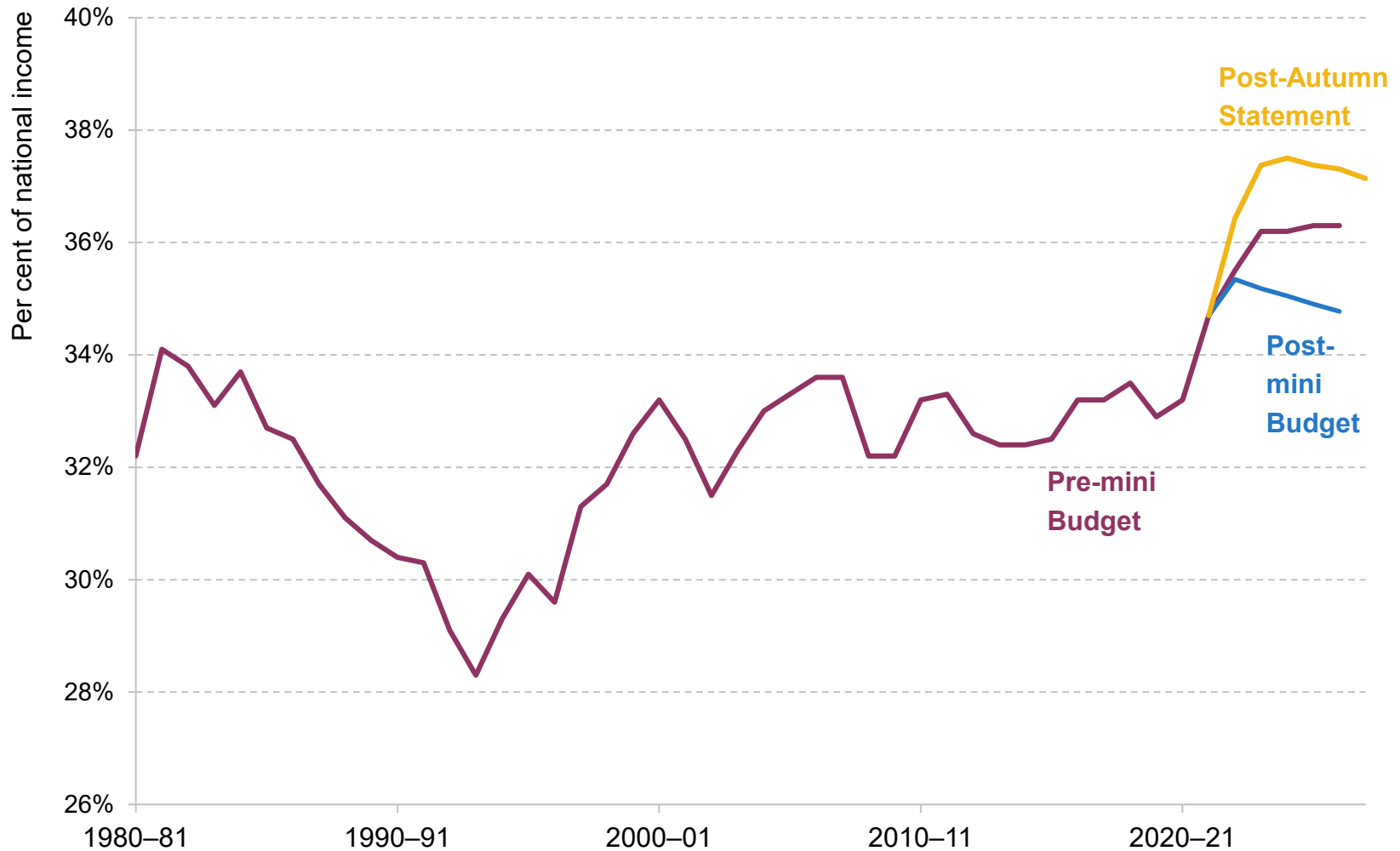
# Distributional analysis 2027–28

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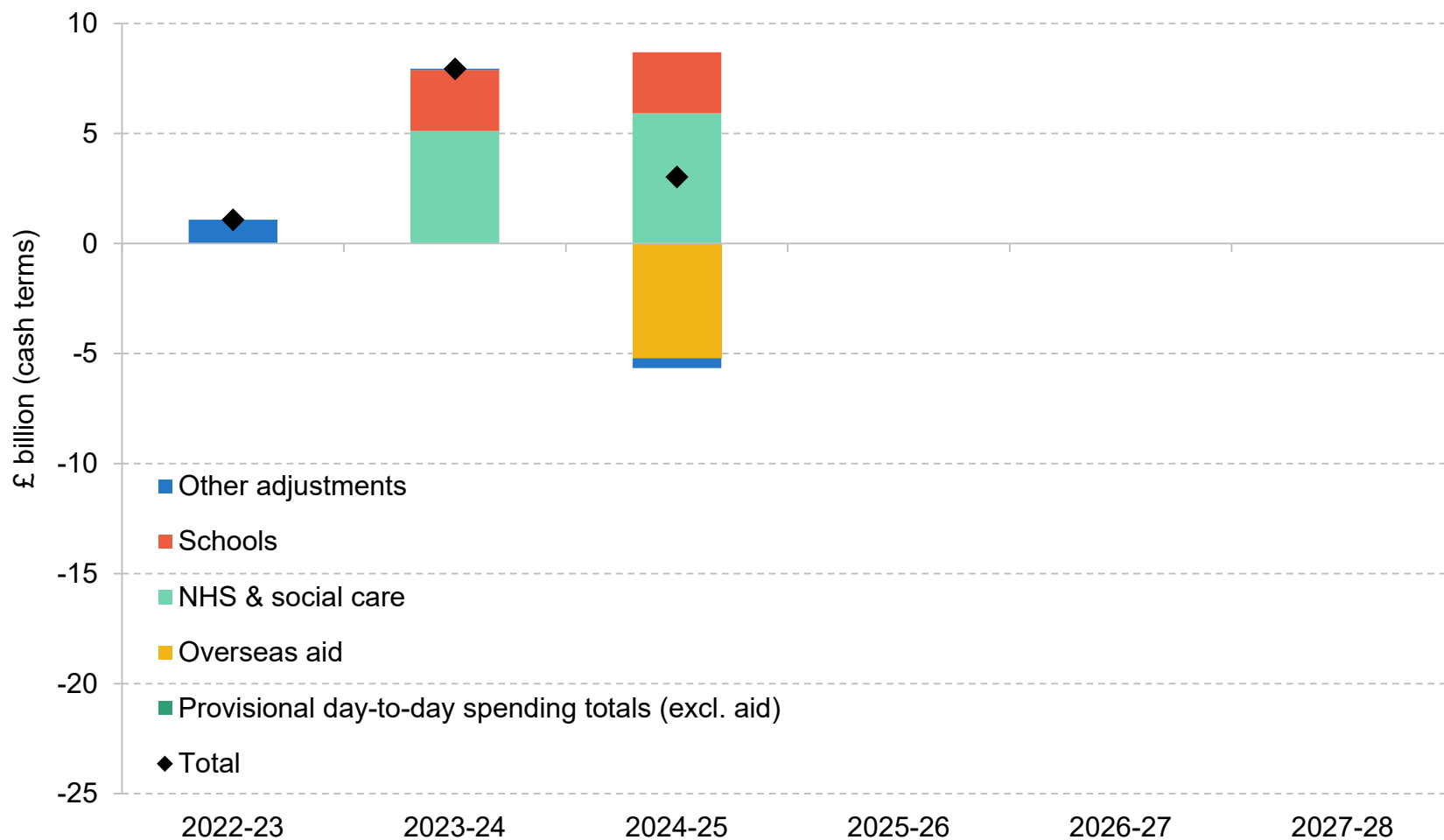
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AS 2022 and Wales

# Tax as a share of national income is forecast to increase above 37%





# Short-term spending increase



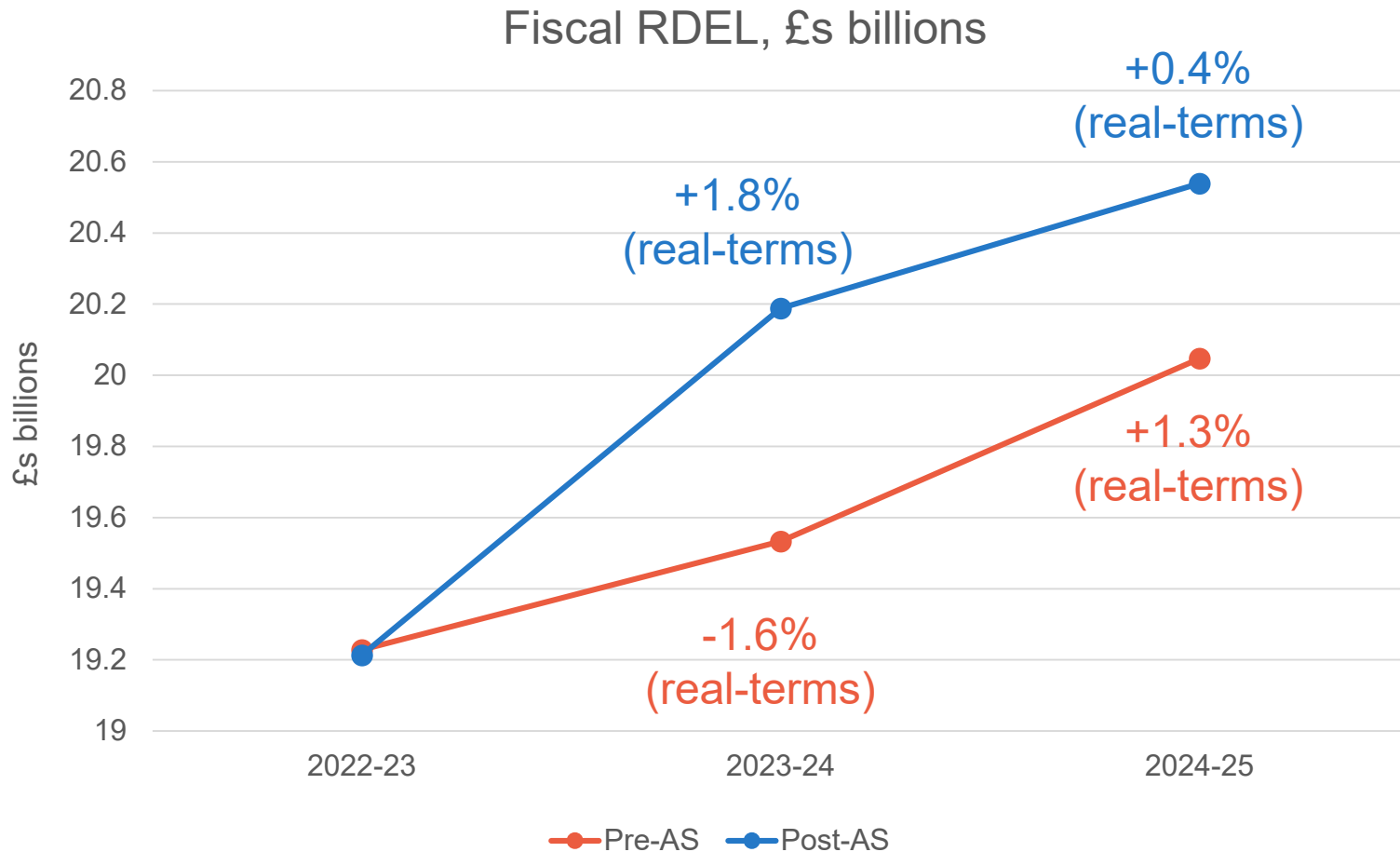
Note: Overseas aid figures for 2025-26, 2026-27 and 2027-28 represent the estimated saving from maintaining ODA spending at 0.5% of GNI, rather than returning to 0.7% of GNI, as was implicit in pre-Autumn Statement plans. Source: Author's calculations using HM Treasury, Autumn Statement 2022, and OBR November 2022 EFO.

# WF funding outlook to 2024-25

Fiscal RDEL, £s billions



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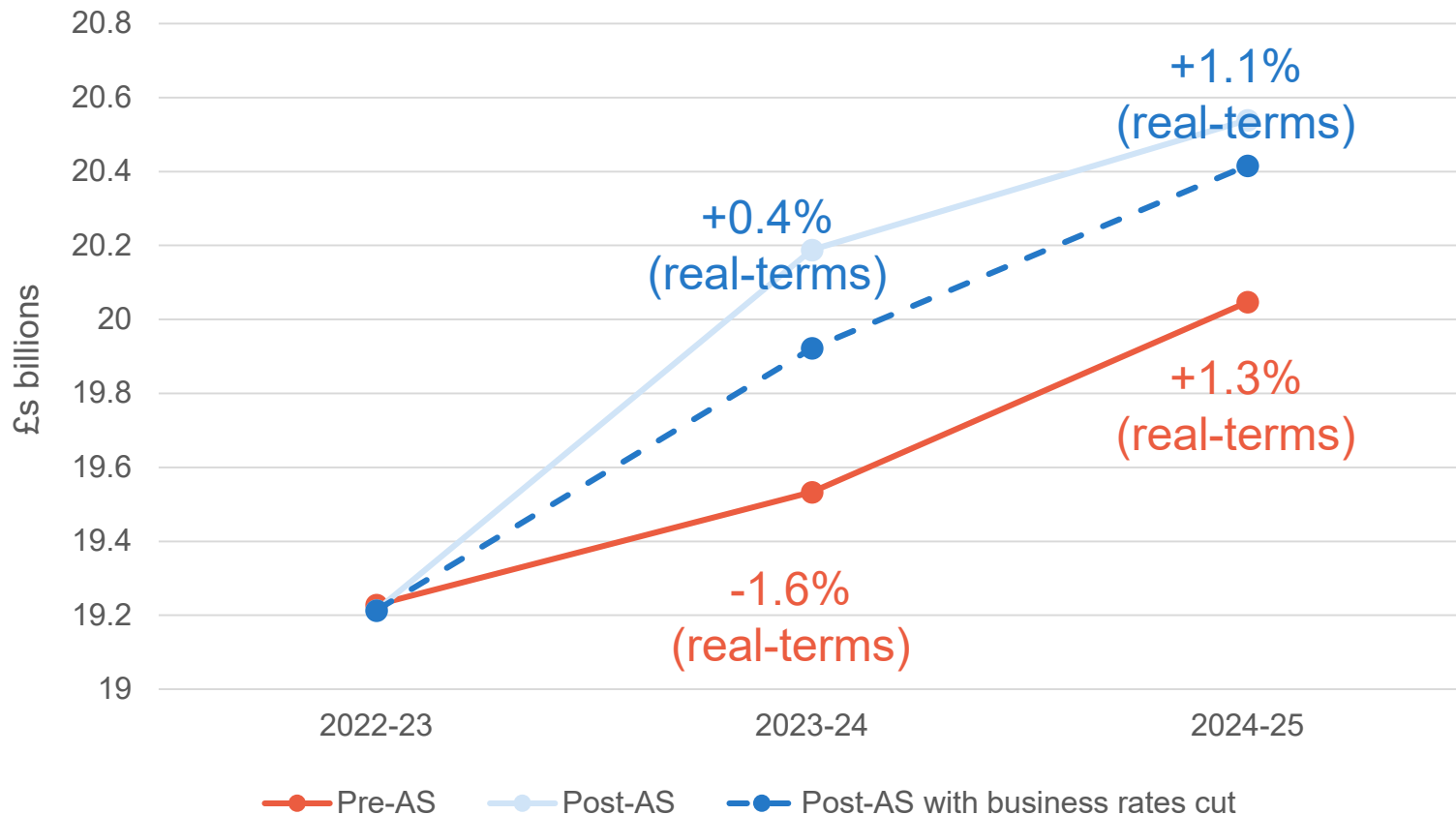
# Explaining the change in funding



- Very modest net impact from changes in OBR's tax forecasts
- Barnett provides £0.65 billion in 2023-24, and £0.5 billion in 2024-25
  - Mostly additional funding for English schools, NHS and social care
  - £50m for Household Support Fund in 2023-24
  - £0.26 billion and £0.12 billion in 2023-24 and 2024-25 for business rates relief and below-inflation increase in multiplier

# WF funding outlook to 2024-25

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# Explaining the change in funding



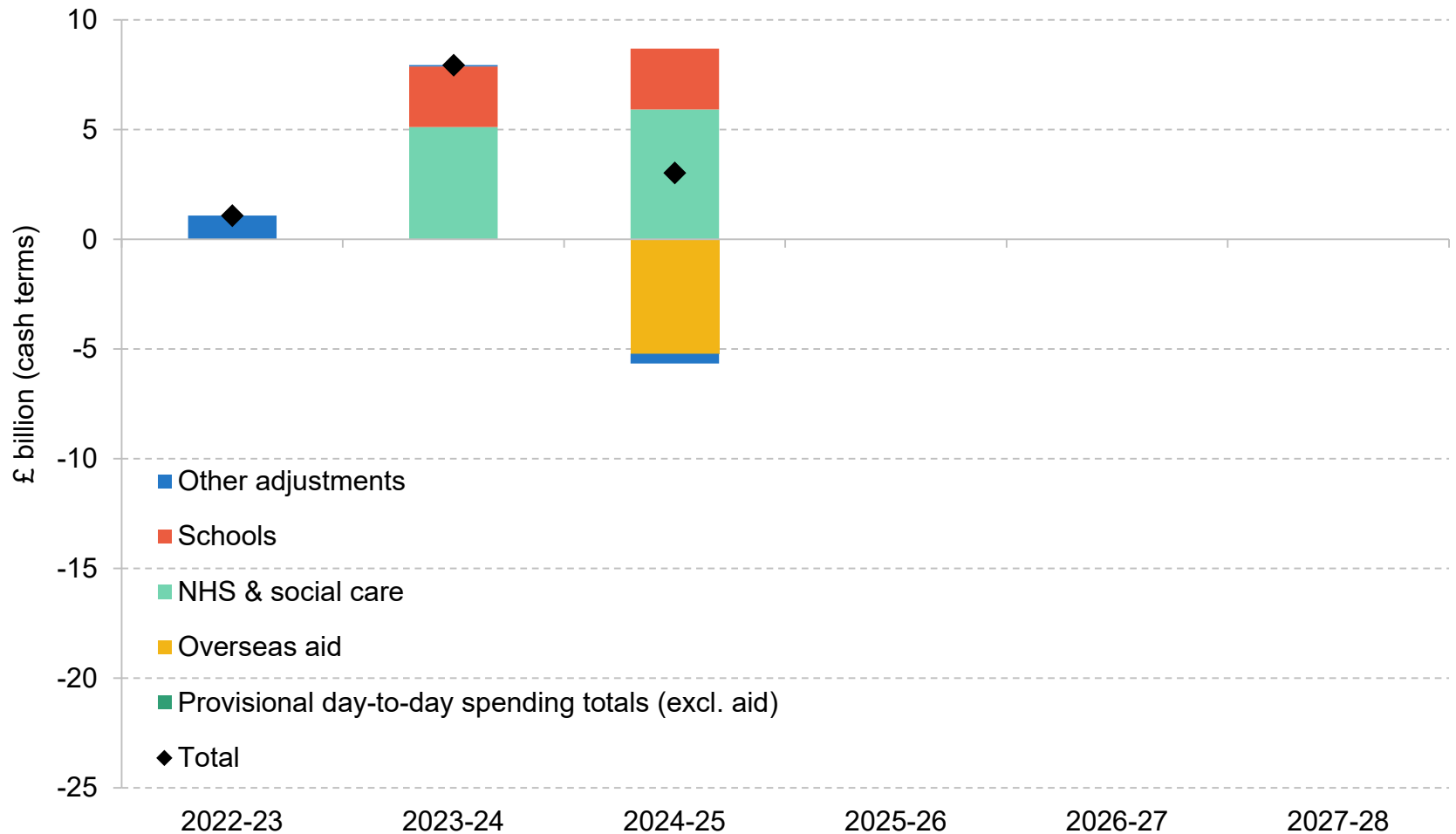
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  - £50m for Household Support Fund in 2023-24
  - £0.26 billion and £0.12 billion in 2023-24 and 2024-25 for business rates relief and below-inflation increase in multiplier
- A challenge in following England in business rates...
  - UK govt froze the multiplier but this wasn't a freeze in business rates
  - Business rates revaluation and average values in England increased by 7%, so freezing multiplier actually means 7% increase in average bill
  - Average values in Wales increased by 1%, so freezing multiplier means just a 1% increase in average bill
  - So more costly for Wales to freeze the multiplier!

# Trade-offs over next 2 years



- If health increase by same real-terms % as indicatively set out in Draft 2022-23 budget (0.8% and 0.3% real terms over next 2 years)
  - Other budgets could increase 0.1% and 1.9% in 2023-24 and 2024-25
- If health increase by 1.8% and 2.1% as in England
  - Other budgets *cut* 0.8% and up 0.2% In 2023-24 and 2024-25
- If health increase by 3% real-terms per year
  - Other budgets *cut* 2.1% and 0.8% In 2023-24 and 2024-25

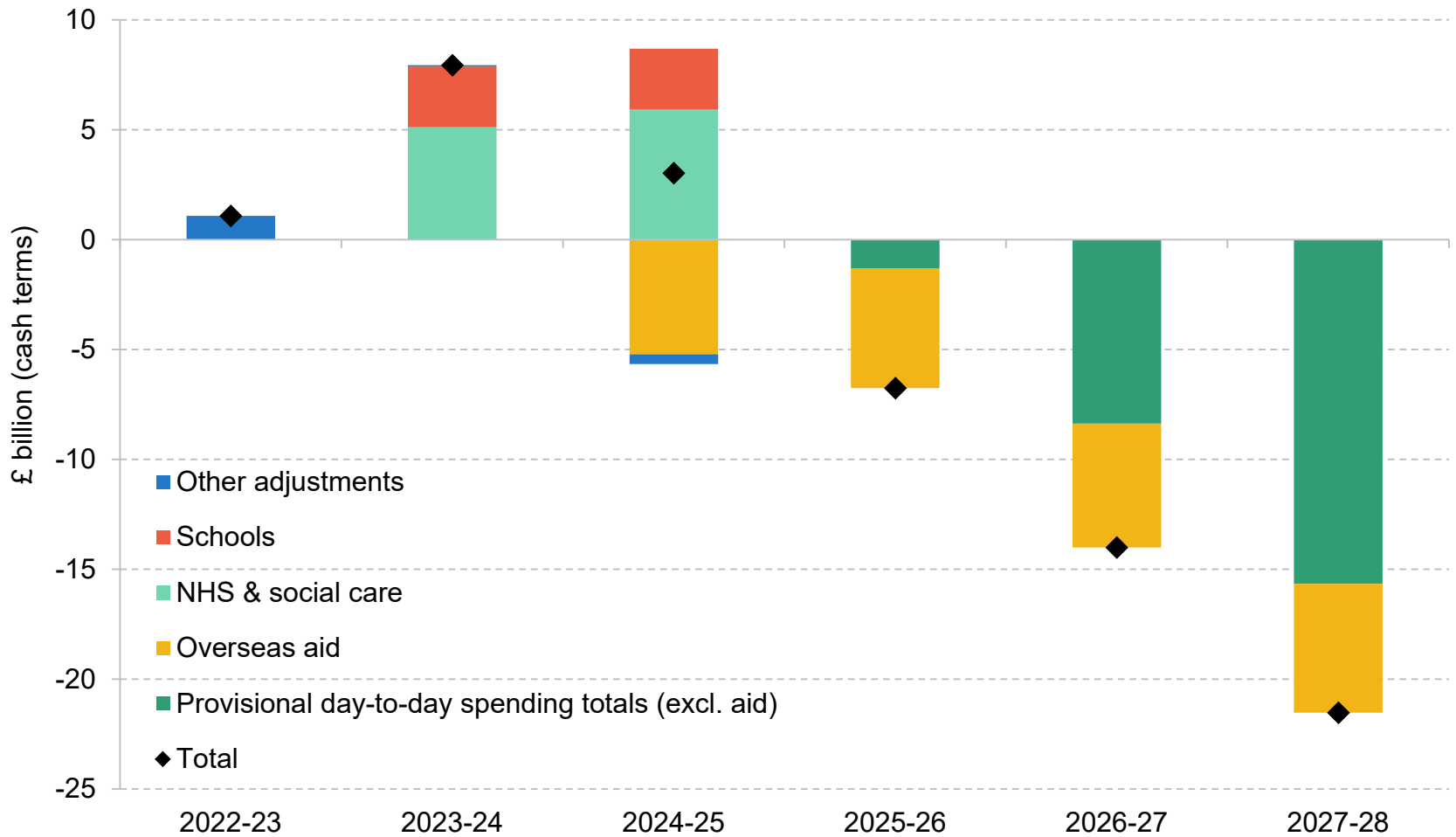
# Longer-term spending squeeze



Note: Overseas aid figures for 2025-26, 2026-27 and 2027-28 represent the estimated saving from maintaining ODA spending at 0.5% of GNI, rather than returning to 0.7% of GNI, as was implicit in pre-Autumn Statement plans. Source: Author's calculations using HM Treasury, Autumn Statement 2022, and OBR November 2022 EFO.



# Longer-term spending squeeze



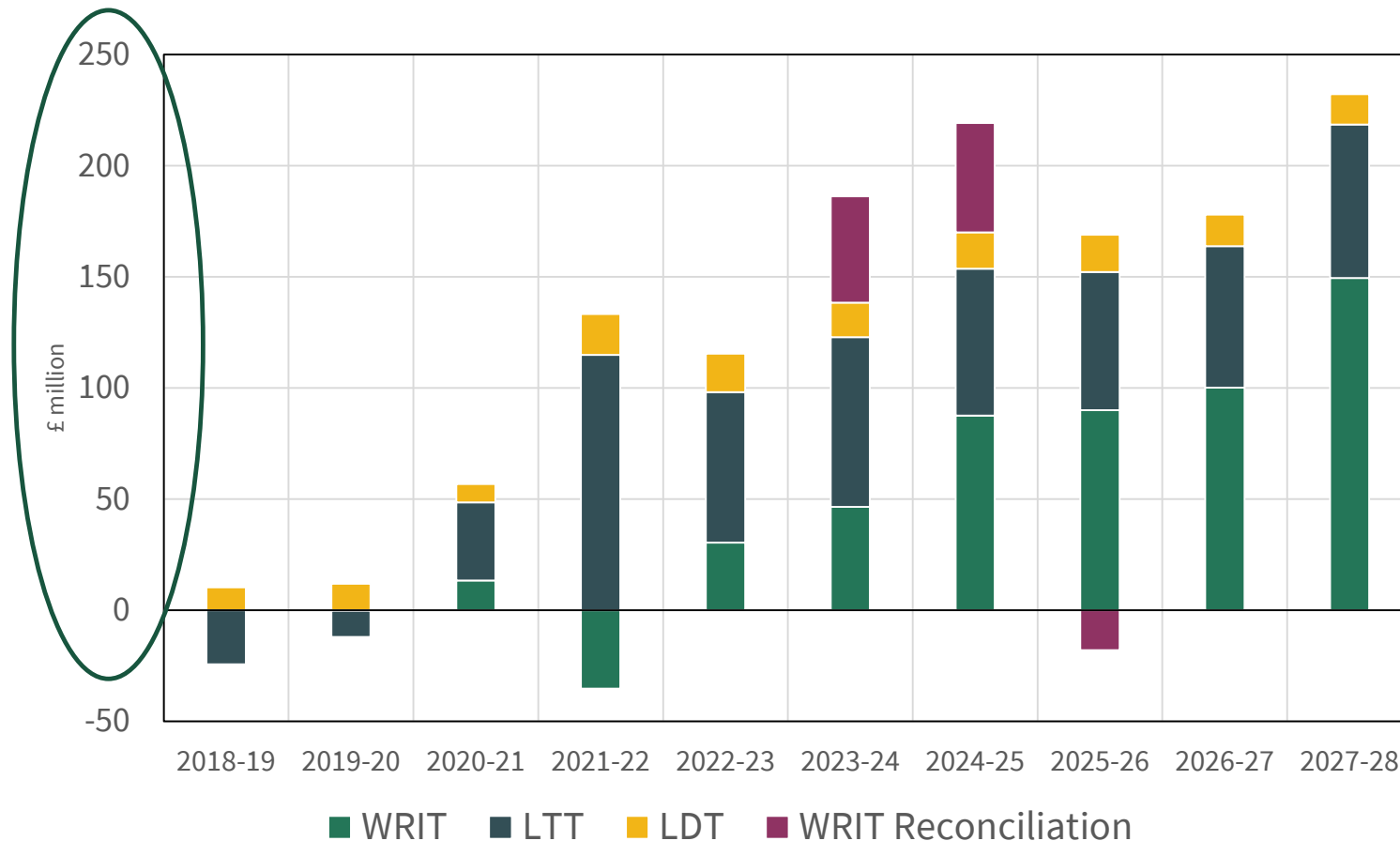
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# Further tough trade-offs

- Implications for Welsh Govt funding unclear – depends on allocation between services by UK government.
- Under reasonable assumptions funding increase by an average of 0.9% a year in real-terms between 2024-25 and 2027-28
- If increase health spending by 3.1% a year in line with OBR assumptions for England, all other spending would have to be cut by 1.5% a year in real-terms.
- Increase in health would have to be held down to 1.7% to avoid cuts elsewhere, on average

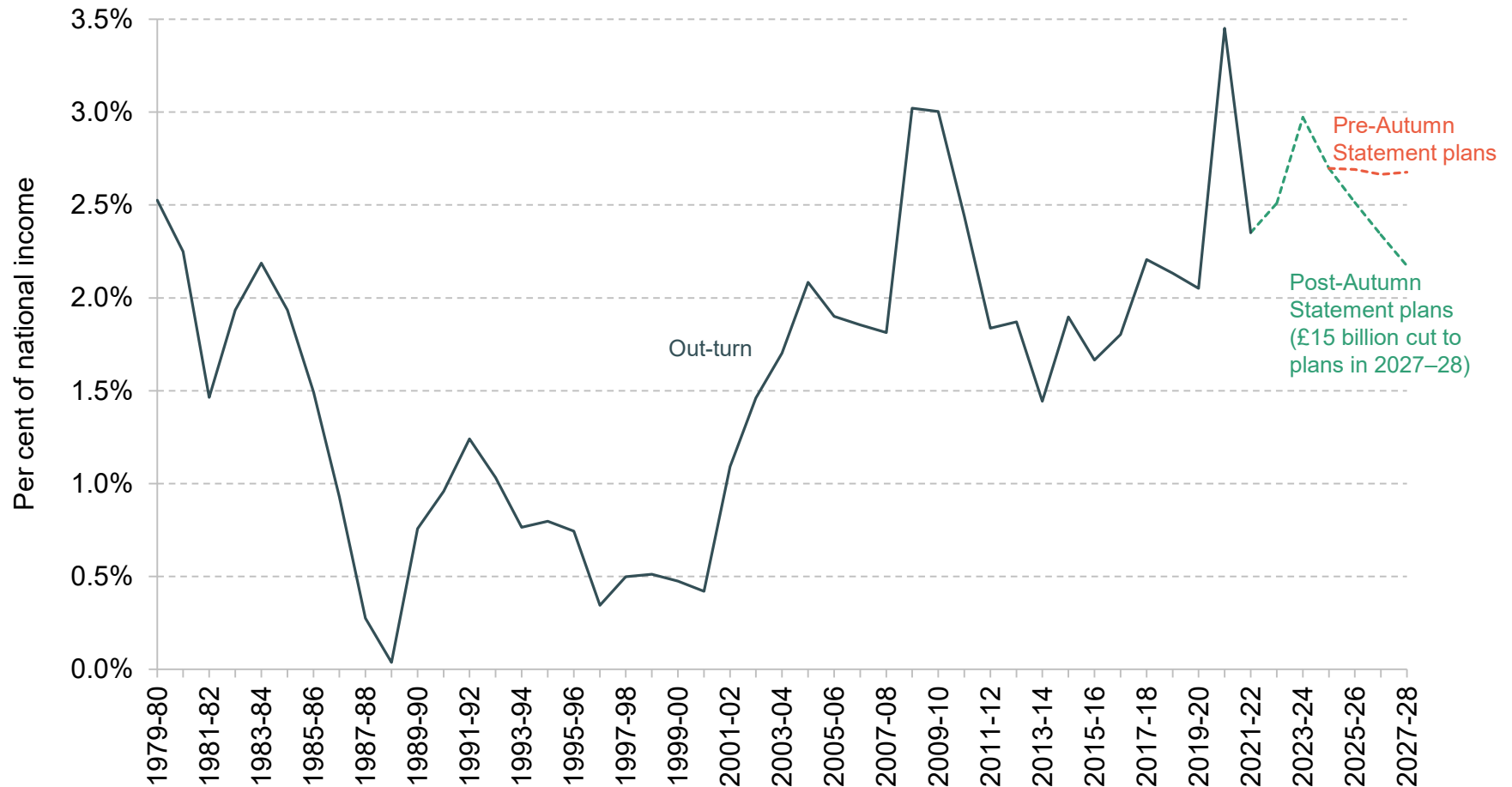
# Net tax positive but downgraded

## Net effect of tax devolution on the Welsh Budget, 2019-20 to 2026-27 November 2022 Forecasts



# The outlook for capital spending

## Public Sector Net Investment as a per cent of national income



Source: Author's calculations using HM Treasury, Autumn Statement 2022, and OBR October 2021 and November 2022 EFO.



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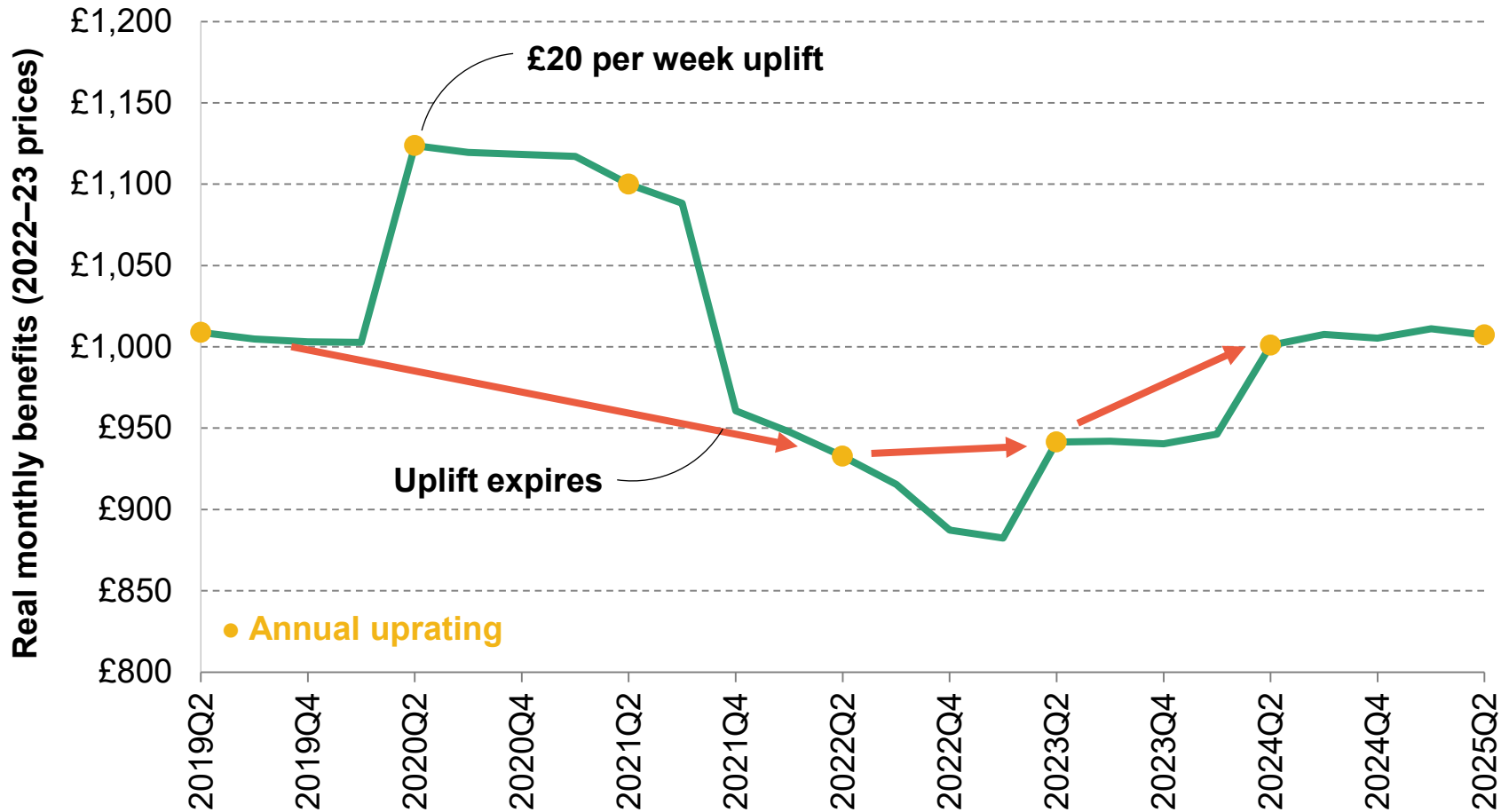


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# Additional slides

# Real benefit levels will not return to pre-pandemic levels until April 2024

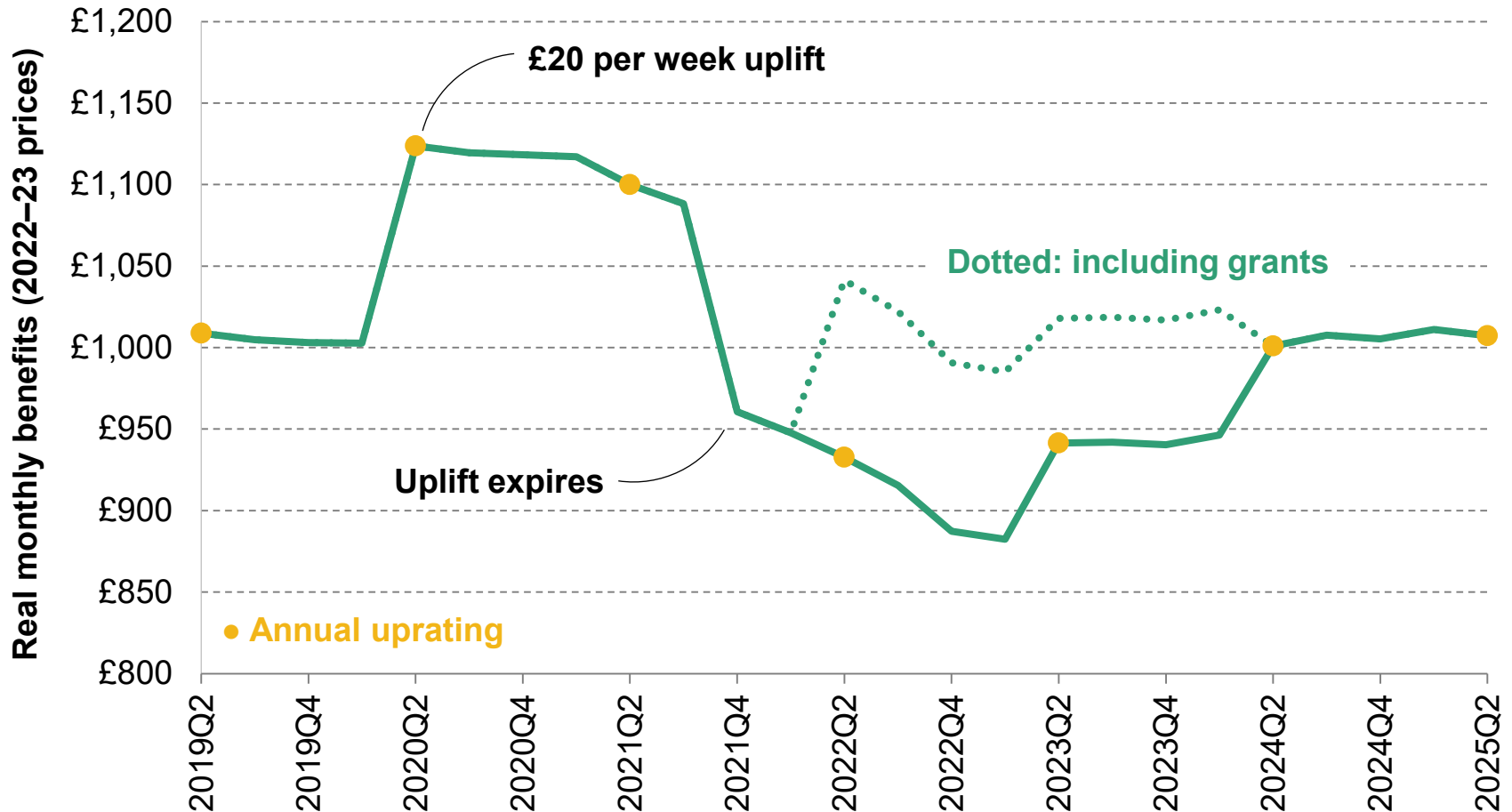
## Average real entitlement excl. housing element for out-of-work claimants



Notes: Deflated using CPIH.

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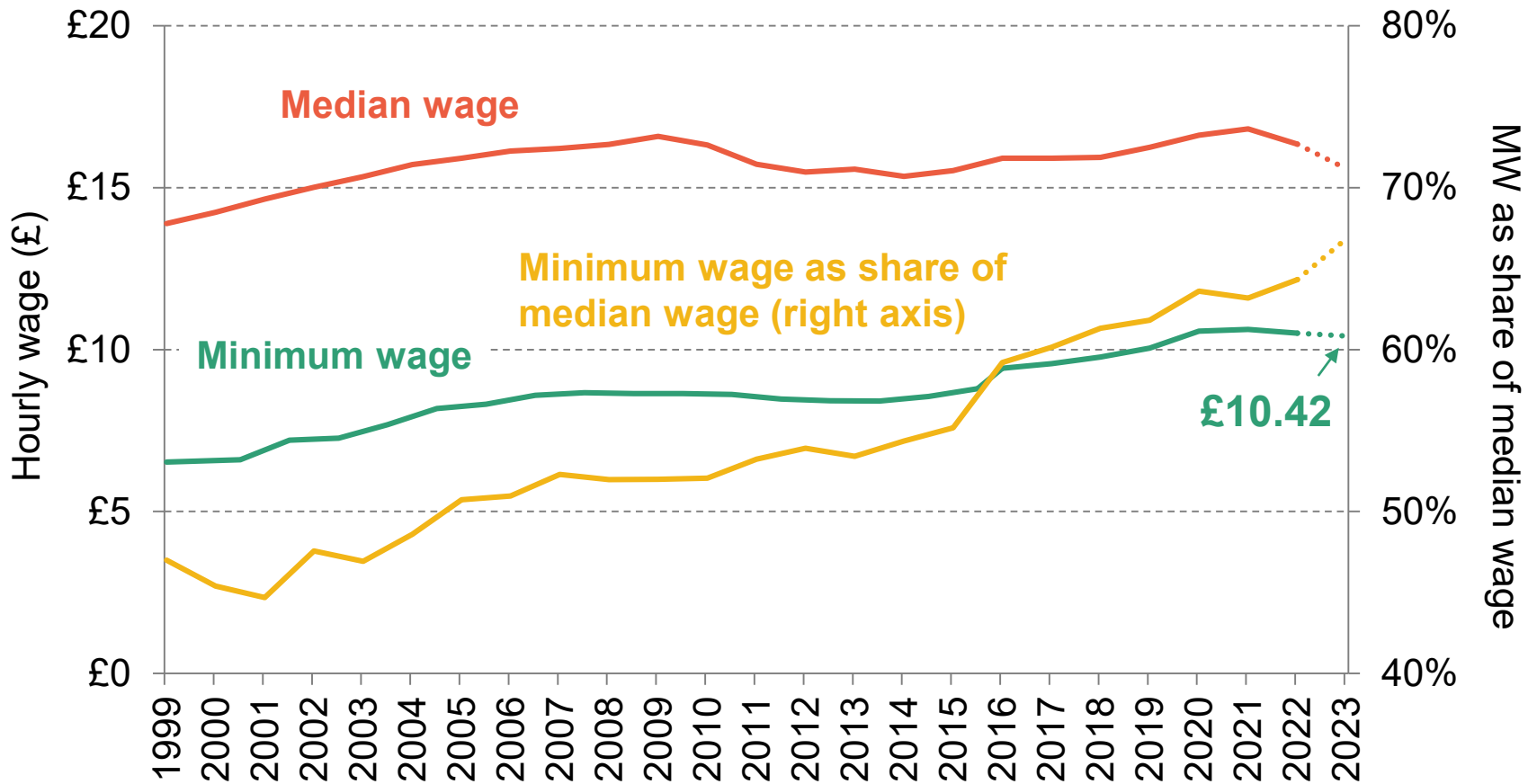


Notes: Deflated using CPIH.



# Median wages stagnant for 20 years, but minimum wage continues to rise

## Real median and minimum wage over time

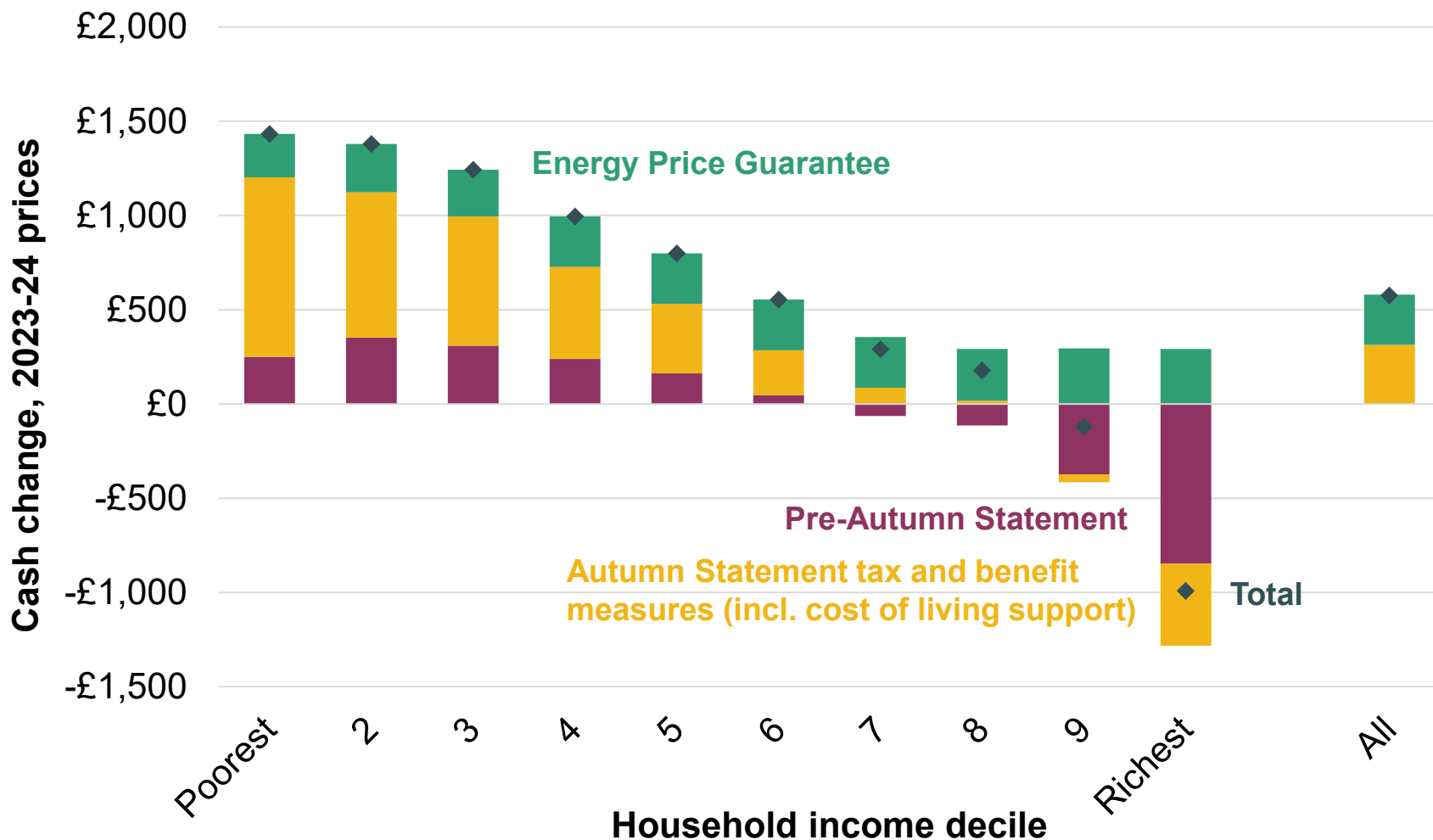


Source: ASHE Table 1, LPC, OBR EFO forecasts

Notes: 2023 Q2 prices. Assumes rise in median wage 2022 Q2-2023 Q3 is same as for mean wage.  
AS 2022 and Wales

# Distributional analysis 2023–24

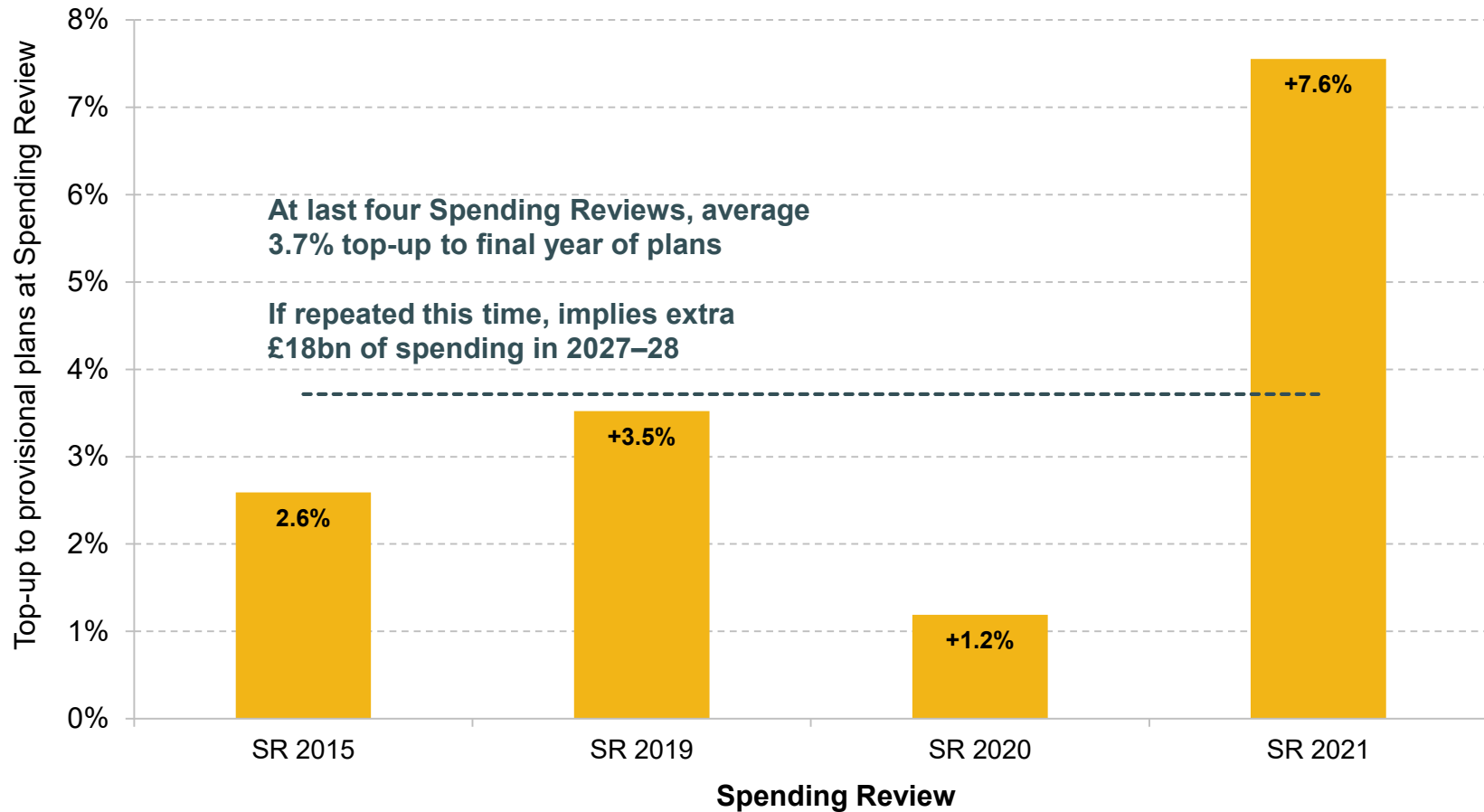
Cash change in 2023–24 from tax and policy measures implemented since Nov 2021



Notes: Assumes rise in employer NICs is borne by employees.

# Such a top-up would be in line with recent historical experience

Change to plans for final year of Spending Review period, relative to provisional totals



Note: Figures represent the percentage change between the pre- and post-Spending Review totals for Public Sector Current Expenditure in Resource DEL (PSCE in RDEL), as defined by the OBR, with the exception of SR 2019, which is calculated with respect to the change in Resource DEL excluding depreciation.

# Net tax positive but downgraded

Net effect of tax devolution on the Welsh Budget, 2019-20 to 2026-27  
March 2022 Forecasts

