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Llywodraeth Cymru  
Welsh Government

Peredur Owen Griffiths MS  
Chair of Finance Committee  
Senedd Cymru/ Welsh Parliament  
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28 September 2022

Dear Peredur,

In preparation for our session on the Draft Budget 2023-24 later this week, I thought it might be helpful to set out the current position and highlight the significant challenges we face in undertaking our Budget preparations.

As you are aware, in setting a multi-year Budget last year, the Welsh Government wanted to offer certainty for our stakeholders and partners, delivering a Budget for a fairer, greener Wales. I outlined at the start of the summer that our Budget was already worth at least £600m less in real terms than originally expected. This situation has now worsened further.

The Chancellor's refusal to let the Office for Budget Responsibility provide an economic forecast ahead of last week's fiscal statement is completely irresponsible. In the absence of OBR forecasts, based on work by the Institute for Fiscal Studies and new independent forecasts published by HM Treasury, the value of the Welsh Government's budget over the current 3-year settlement is up to £4bn less in real terms than was expected when that settlement was reached. The Chancellor's statement failed entirely to acknowledge these pressures.

Alongside the long legacy of austerity, the UK leaving the EU, the pandemic and our ongoing efforts to tackle the climate and nature emergency, we have seen the impacts of the humanitarian crisis in Ukraine and the associated impacts on inflation. The fiscal measures the Chancellor introduced as part of his statement last week comprised tax cuts that disproportionately benefitted the rich; they fail to address inflationary and other pressures on public sector budgets and do not provide the capital stimulus needed to boost economic growth. We believe this is the most challenging fiscal context we have faced since devolution.

The Welsh Government's Chief Economist will join the Committee prior to our session on Thursday 29<sup>th</sup> September to provide an overview of how the economic and fiscal conditions

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

are impacting on the Welsh Government, and our partners, in the public and third sectors. He will also reflect on the outlook for the forthcoming period considering the UK Government's most recent announcements.

The UK Government's announcement of an Energy Price Guarantee suggests inflation may stay close to the current rate of 9.9% in the months ahead rather than increasing to 15% - 20% as had been expected absent the guarantee. However, even at around 10%, inflation will likely remain much higher than the growth in earnings. Households are already cutting back on spending substantially and you will be aware that the Bank of England has recently assessed that the UK may already be in a recession.

Whilst the Prime Minister's energy announcement will alleviate some of the anticipated additional pressures on households, this initiative fails to target support at those that need it most. Furthermore, the tax changes set out in the Chancellor's fiscal statement are highly regressive, with the benefits concentrated on the most affluent people.

The sterling exchange rate, already substantially depreciated this year, has weakened further since the new UK Government took office and has been under particular pressure since the Chancellor's fiscal statement. In addition, market interest rates have been rising, partly in anticipation of further moves by the Bank of England to increase the base rate.

The weaker exchange rate, coupled with higher interest rates on UK Government debt, indicates that international investors are increasingly nervous about UK economic prospects and sceptical about the UK Government's economic strategy.

The outlook is clouded in uncertainty and while the economic slowdown may prove to be not as deep or lengthy as would have been the case had the energy price guarantee not been put in place, it is still expected to be highly damaging to incomes and employment. Increases in interest rates now appear likely to add to challenges faced by households and businesses.

On the timing of the Welsh Government's Draft Budget, the UK Government has confirmed it will publish a Medium Term Fiscal Plan on 23<sup>rd</sup> November alongside an updated OBR forecast. There will be a UK Budget in the Spring with a further OBR forecast. The UK Government also confirmed it is not intending to make changes to the settlements confirmed at Spending Review 2021. Given this context, I am continuing to undertake preparations for our Draft Budget 2023-24 based on the spending review funding from the UK Government. We should recognise, however, a future UK Budget in the spring impacts our Final Budget should the UK Government choose to make further changes between our draft and final Budget.

There are risks linked to changes in the National Insurance levy which could result in reductions to our settlement. We have also seen the UK Government change its stated intentions and while there is a commitment not to reopen the Spending Review, we cannot preclude substantive changes to our settlement.

I have raised these concerns with the HMT and will continue to do so. On these grounds, I am not suggesting a change to the publication date of our Draft Budget with publication set for 13<sup>th</sup> December 2022. As ever, it is important there is a balance between us having sufficient time to undertake our preparations against providing stability for our partners and sufficient time for scrutiny. Given the significant challenge ahead of us, I would welcome further discussion on this during our session.

Ahead of the UK fiscal statement, I wrote to the new Chancellor and Chief Secretary to the Treasury, alongside the other Devolved Government Finance Ministers, to urgently press the UK Government to make available the additional funding necessary to respond to the circumstances we face, and to provide early information and clarity regarding UK Government fiscal decisions, which will have implications for our Budget. Sadly, these calls have not yet been answered.

By setting out this context, I hope to aid constructive and open dialogue towards building a shared understanding of the challenges facing Wales as we prepare for the next Budget round when we meet later this week. I would welcome the Committee's reflections and insights on how collectively we can better prepare for the Draft Budget 2023-24 against such a challenging backdrop.

I would welcome the Committee's support in working together to call for the UK Government to both provide the necessary funding and to respect the role of devolved Parliaments in being able to effectively undertake their own budgetary processes. I look forward to discussing this with you further when we meet on the 29th.

Yours sincerely,

A handwritten signature in black ink that reads "Rebecca Evans". The signature is written in a cursive, flowing style.

**Rebecca Evans AS/MS**  
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**Minister for Finance and Local Government**