



The shape of pain to come: scenarios for the Welsh Government budget to 2025-26

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Introduction

- IFS funded by Wales PS 2025 to look at how the Welsh Government's budget may change over the next 12 years
 - Compare to changes made since 2010-11
 - And put in the context of demand and cost pressures
- The size of the Welsh Budget after 2015-16 is uncertain
 - i.e. we cannot accurately predict what the budget will be
 - Depends on economy, public finances and UK government decisions
- Set out plausible range of scenarios for how much the Welsh Government will have to spend
- Explore the financial trade-offs that will be faced when setting budgets for different spending areas

The rest of my presentation...

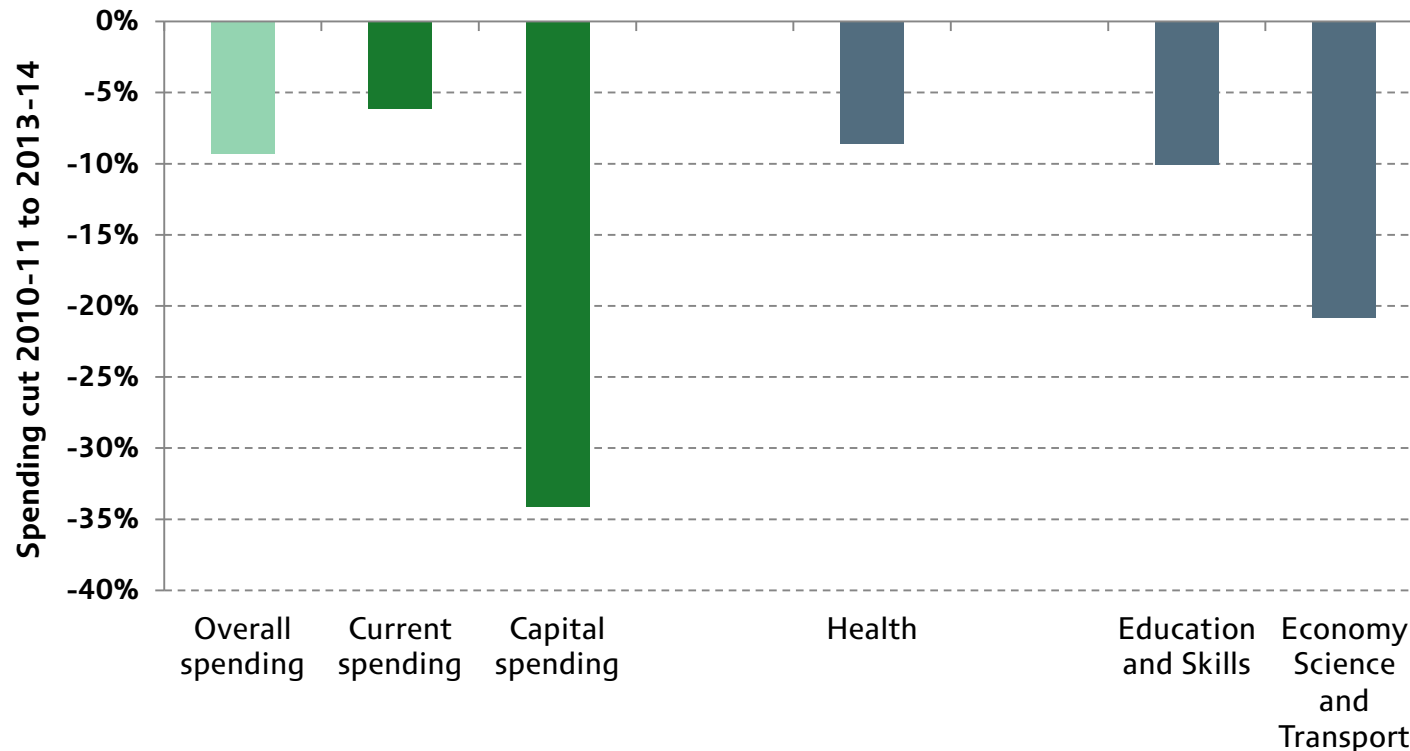
- The cuts made so far by the Welsh Government
- Scenarios for the Welsh Government's budget (the 'block grant')
 - Between now and 2017-18
 - Between now and 2025-26
- The trade-offs facing the Welsh Government when setting budgets for different service areas
 - Between now and 2017-18
 - Between now and 2025-26
- Concluding remarks

The UK's fiscal situation

- The financial crisis and associated recession blew a £134 billion long-term hole in the UK's public finances
- UK Government responded with plans for significant increases in taxes and reductions in spending
 - Designed to eliminate this increase in borrowing by 2017-18
 - Most planned tax rises and investment cuts already happened
 - Most cuts in day-to-day public service spending still to come
- Nascent economic recovery does not mean these cuts can be abandoned or scaled back
 - The plans set out were based on the economy recovering
- Pressure on public finances in longer term from demographic change

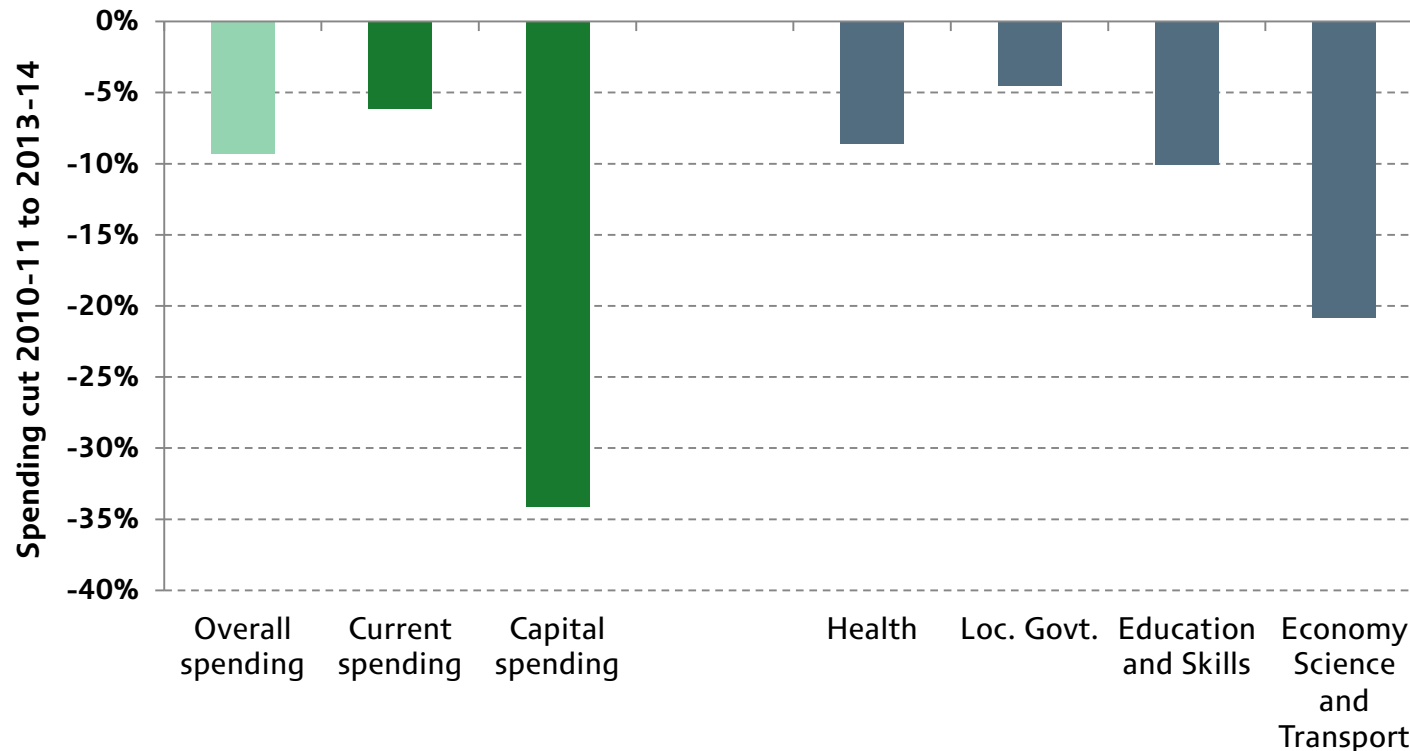
The cuts so far in Wales (I)

- The UK government has cut the block grant it provides to the Welsh Government
 - Welsh Government then decides what to allocate to different services



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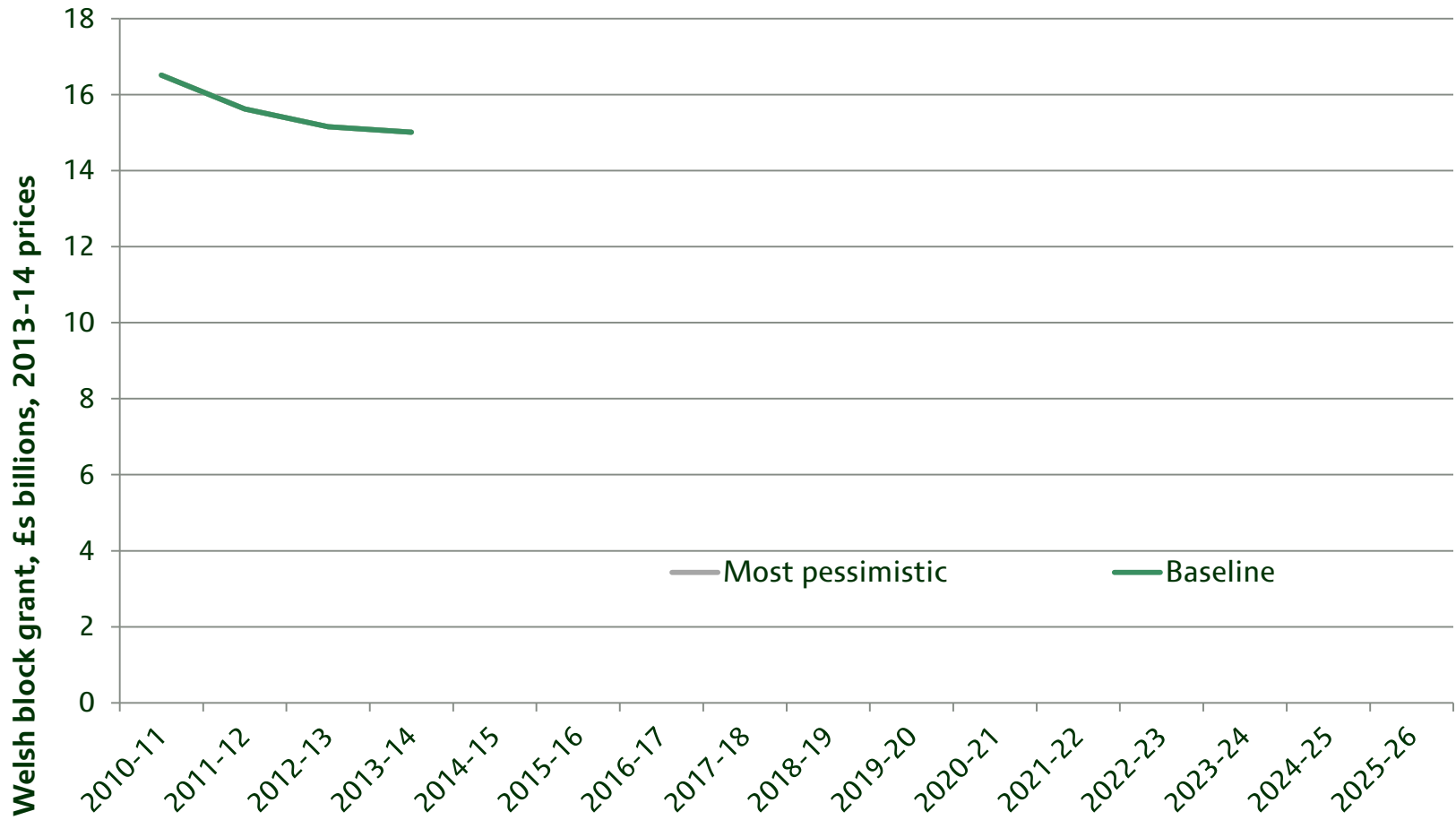
The cuts so far in Wales (II)

- This pattern differs substantially from England and Scotland
 - Health spending has been protected in these countries
 - Local government spending been cut relatively more
- Overall cuts have been larger in Wales than in Scotland
 - At least in part because of differences in the way business rates are treated by the Barnett formula
 - The way Barnett formula Wales looks more consistent

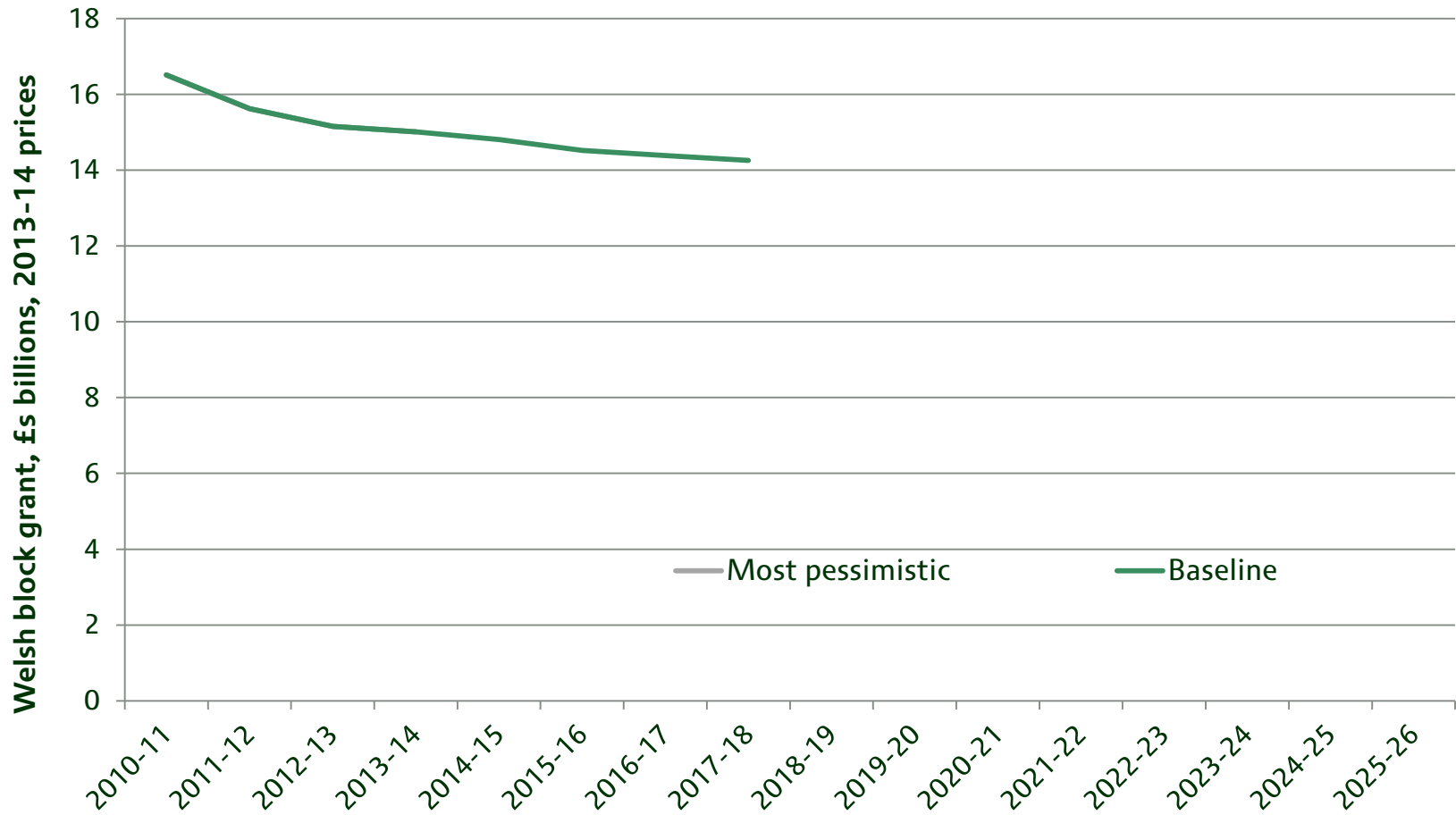
Looking to the future: the Welsh block grant

- The UK government has confirmed further real-terms reductions in the Welsh block grant for 2014-15 and 2015-16
 - Cuts fall on day-to-day spending
 - Capital spending has been cut much more already
- What happens after then depends upon
 - How much the UK government has to spend in total
 - The decisions the UK government makes about how to allocate that spending between benefits and different departments
 - A lot of uncertainty, especially after 2017-18
- So we look at what the block grant would be under a number of different scenarios

So far...



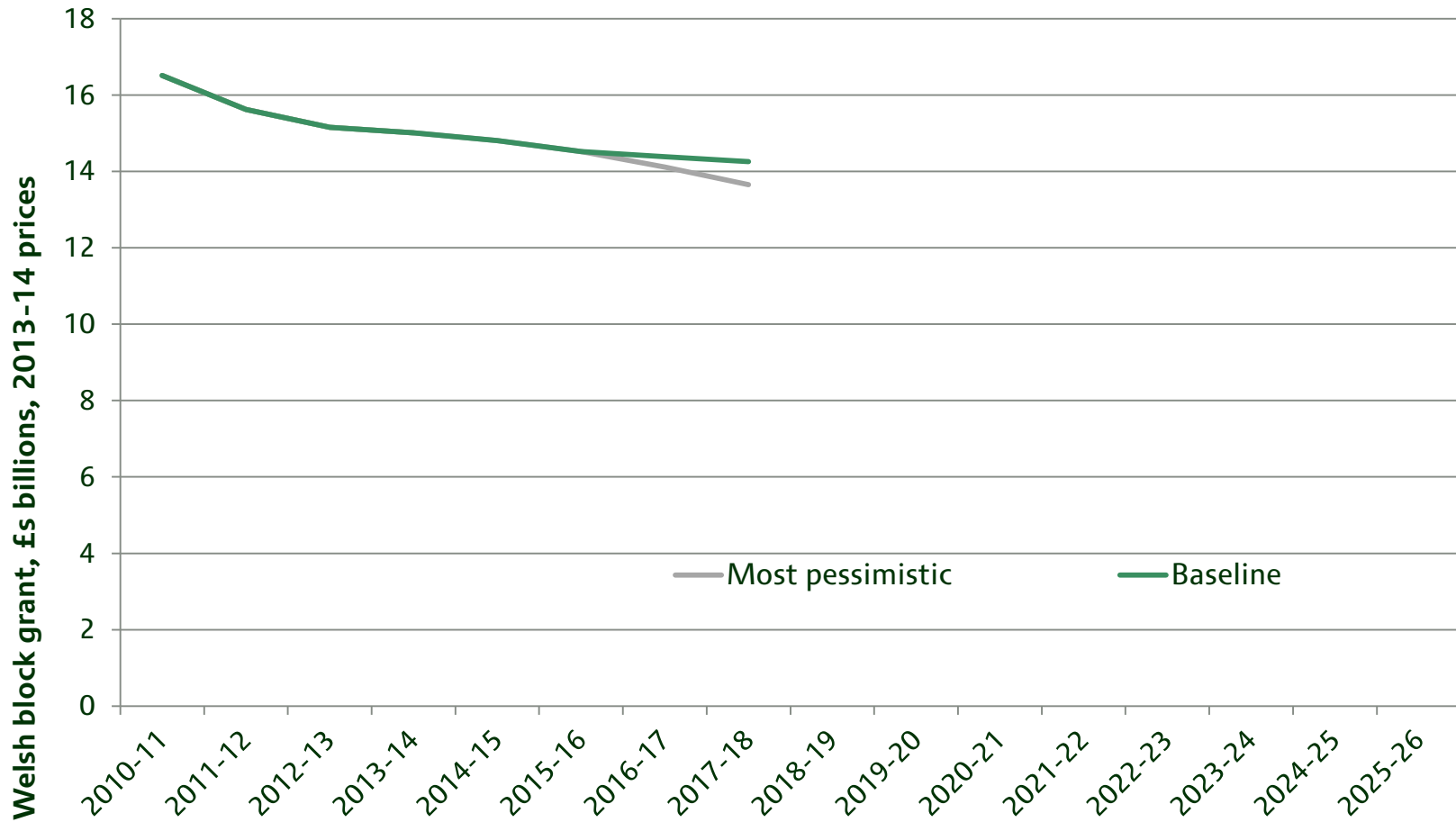
The picture to 2017-18: baseline scenario



The picture to 2017-18: baseline scenario

- Baseline scenario is for real-term cuts of 5% between now and 2017-18
 - This is £800 million
- The cuts between 2010-11 and 2017-18 would total 14%

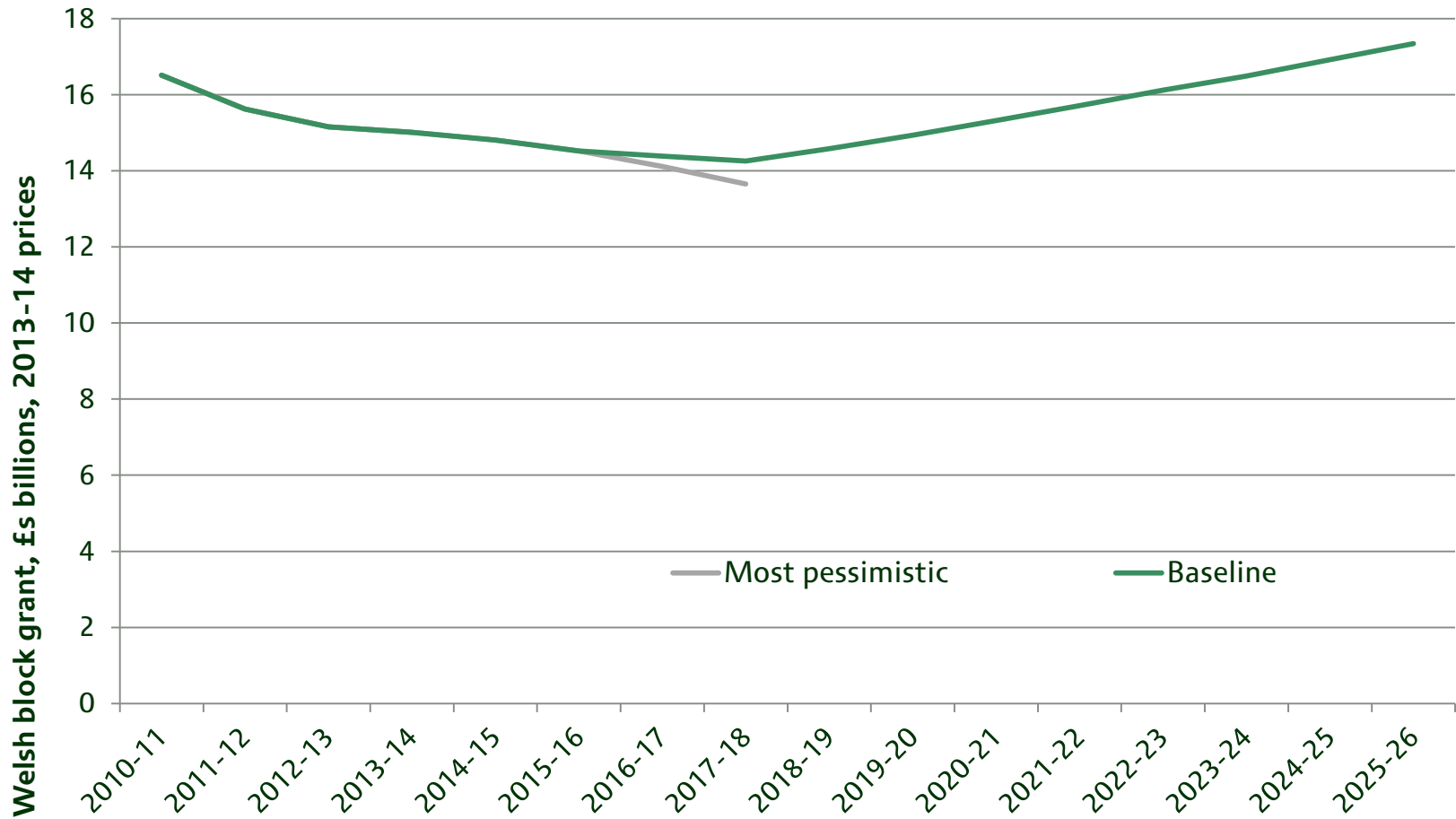
The picture to 2017-18: pessimistic scenario



The picture to 2017-18: pessimistic scenario

- Most pessimistic scenario is for real-term cuts of 9% between now and 2017-18
 - This is £1.4 billion
- The cuts between 2010-11 and 2017-18 would total 17%
- This is not a ‘worst case scenario’ but a plausible ‘pessimistic’ scenario

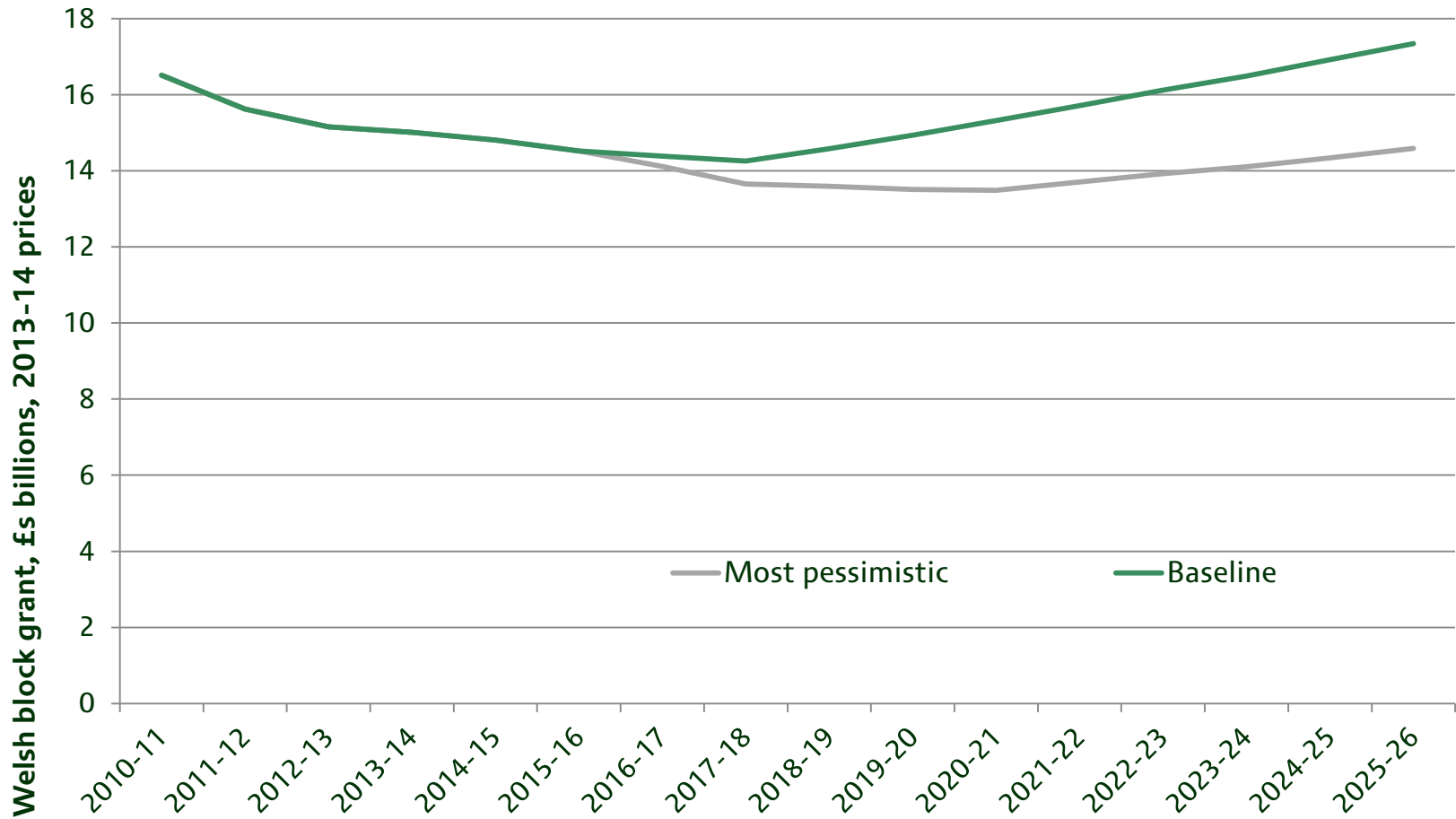
The picture to 2025-26: baseline scenario



The picture to 2025-26: baseline scenario

- Under our baseline scenario, the Welsh block grant would be £17.3 billion in 2025-26
 - 16% higher than today
- 16% might seem a sizeable increase, but
 - Follows on from cuts: only 6% higher than 2010-11
 - Population growth
 - Spending pressures, especially for health, social services and schools
- Tough choices would not end if budgets start growing in 2017-18

The picture to 2025-26: pessimistic scenario



The Welsh block grant: summary

- A lot of uncertainty about the size of the Welsh block grant in future years
 - Especially after 2017-18
- Will depend on UK economy and public finances and UK government decisions
- If further austerity is required after 2017-18, may still not have regained current spending levels by 2025-26
 - Let alone undo the cuts already made
- Even if budget can grow after 2017-18 and is higher than now tough choices will still be required

The trade-offs when setting departmental budgets

- The Welsh Government will have to decide how to allocate its budget between different service areas
 - Where to cut or protect while the budget is falling
 - Where to increase when the budget is rising
- Lots of different choices it could make
- We look at a number of options to illustrate the trade-offs
 - We are not recommending what it should do

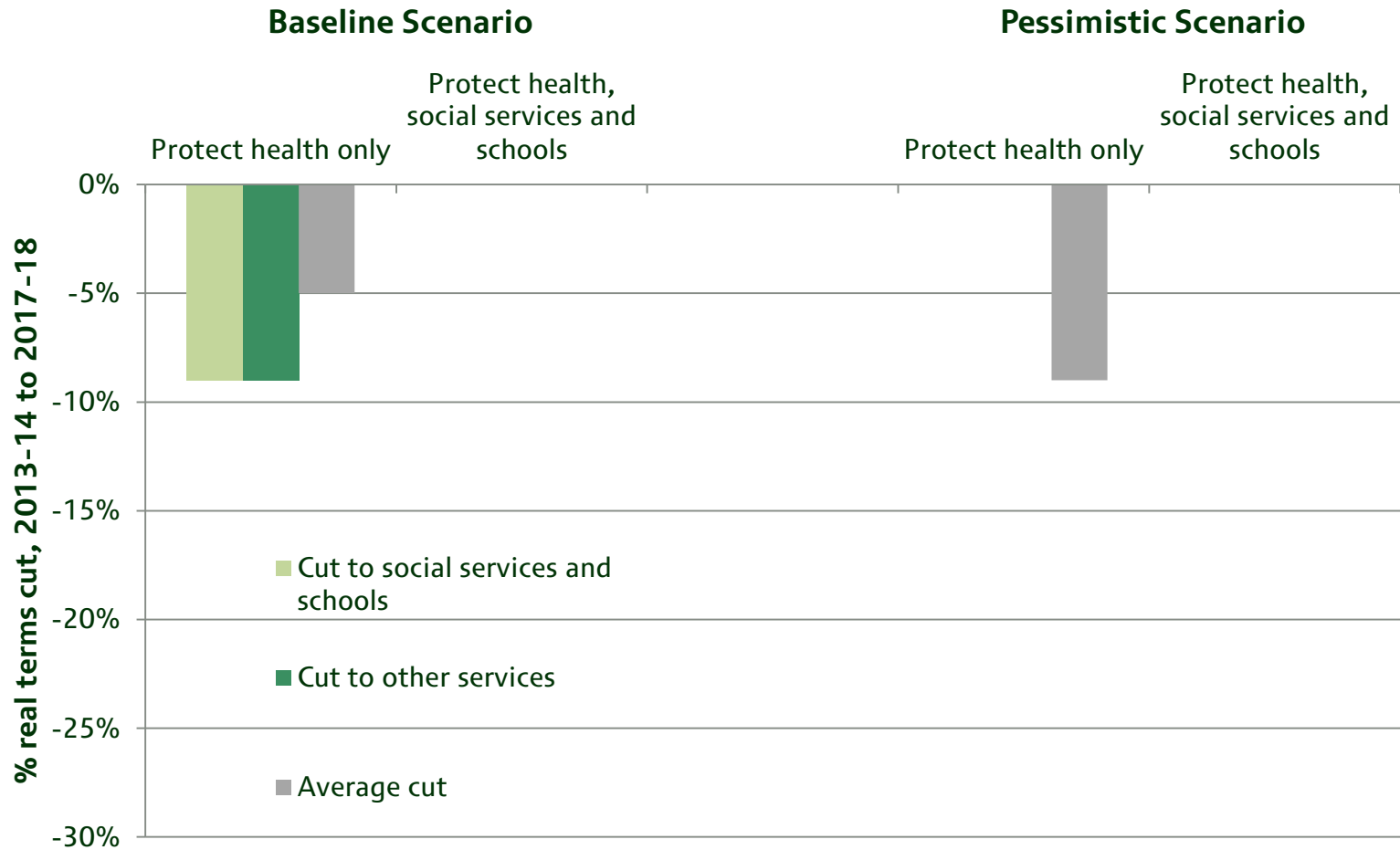
The trade-offs between now and 2017-18

Baseline Scenario

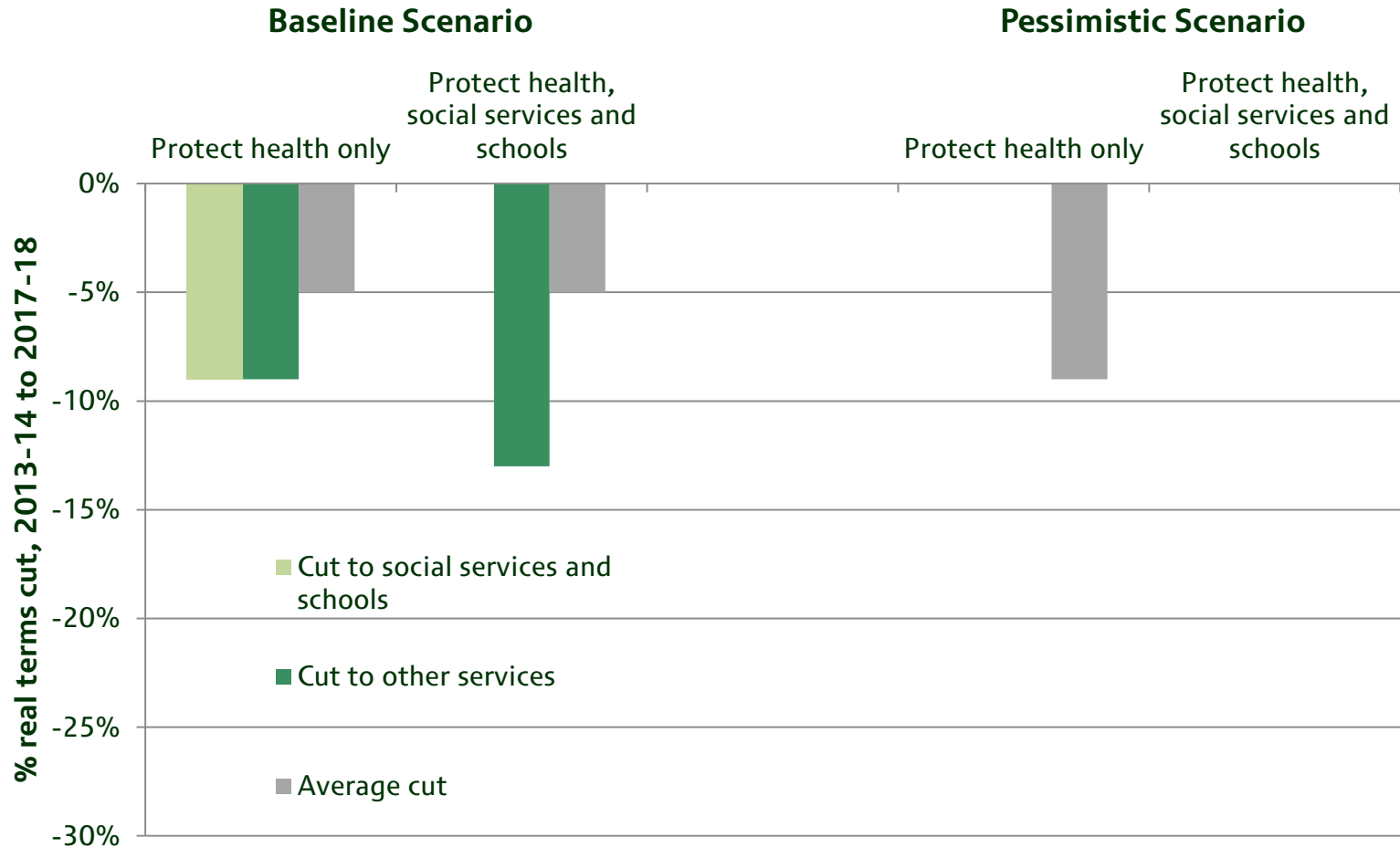
Pessimistic Scenario



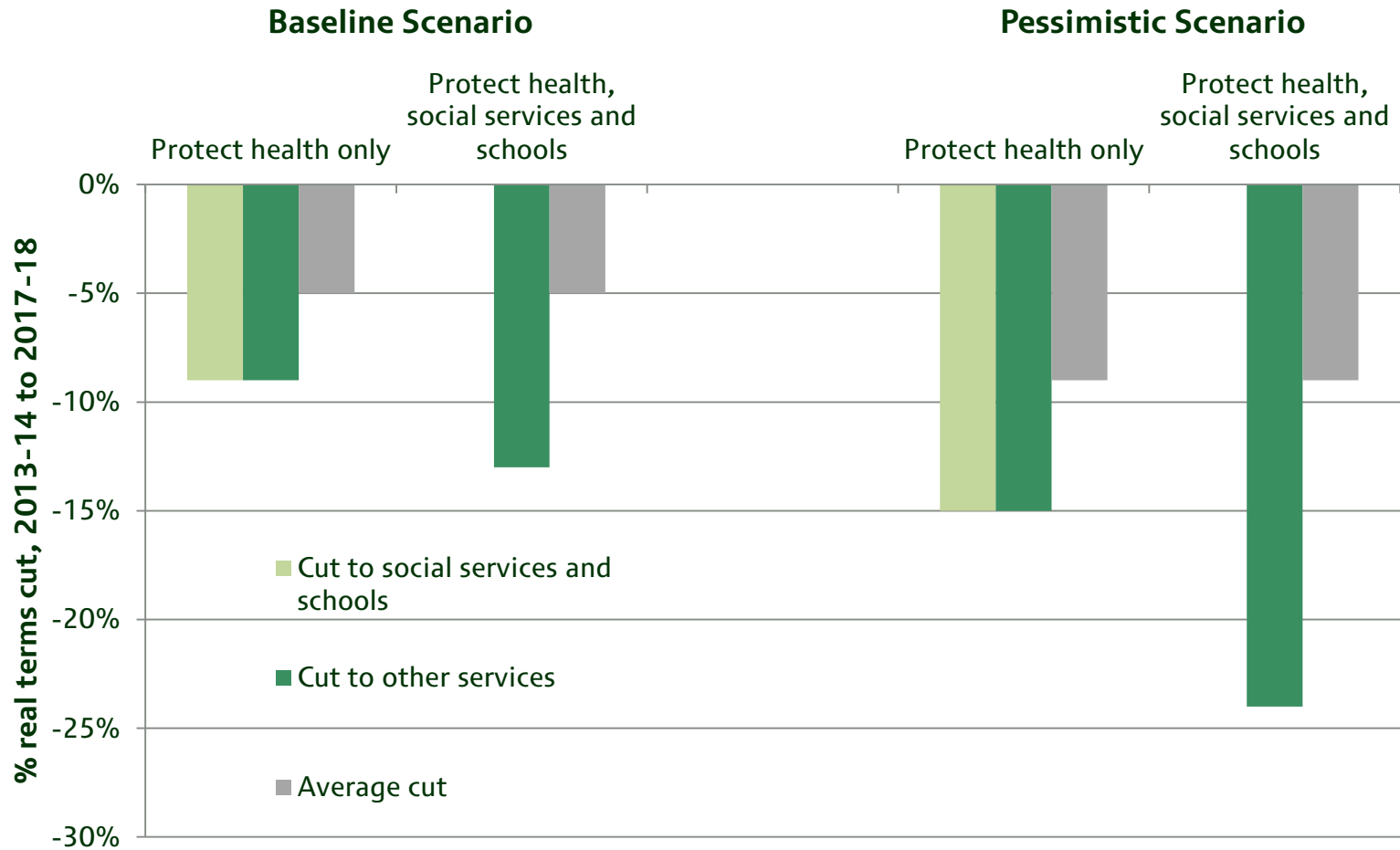
The trade-offs between now and 2017-18



The trade-offs between now and 2017-18



The trade-offs between now and 2017-18



The trade-offs between now and 2017-18

- Clear that the cuts to ‘unprotected spending’ will depend on
 - Overall budget cut
 - How much of spending is ‘protected’
- Some areas like the economy, culture, housing already seen cuts of around 20%

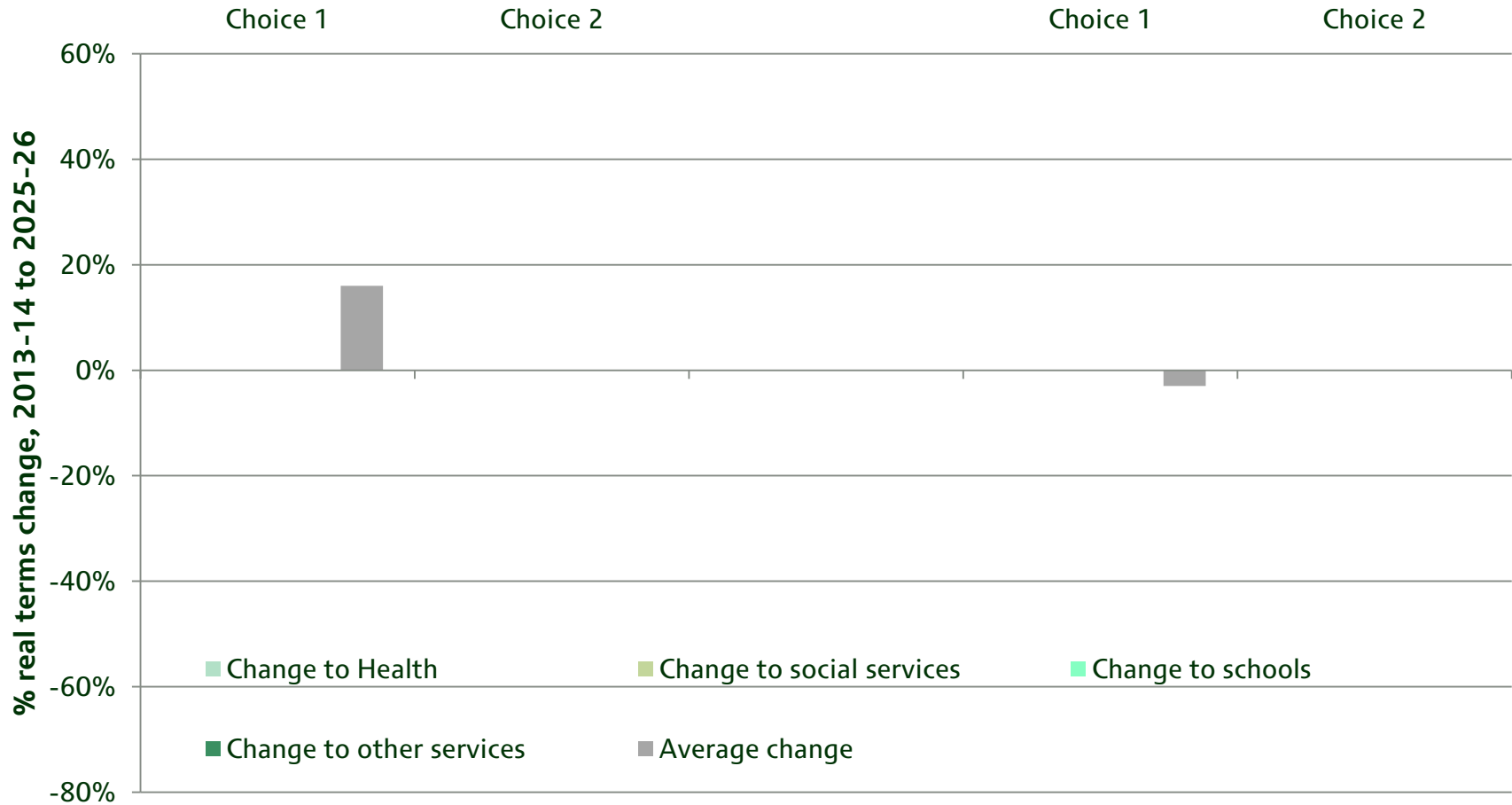
The trade-offs between now and 2025-26

- Will discuss two options here to illustrate the trade-offs
- Choice 1
 - Health is protected from cuts
 - Once budget is growing, same % increase for all budgets
- Choice 2
 - Health, social services and schools protected from cuts
 - After 2017-18, increase spending on health (5% per year), social services (4.5%) and schools (2%)
 - 5% increases per year for health are substantial, but follow cuts and freezes
 - Would mean average growth of 2% per year 2010-11 to 2025-26, which is relatively small by historical standards

The trade-offs between now and 2025-26

Baseline Scenario

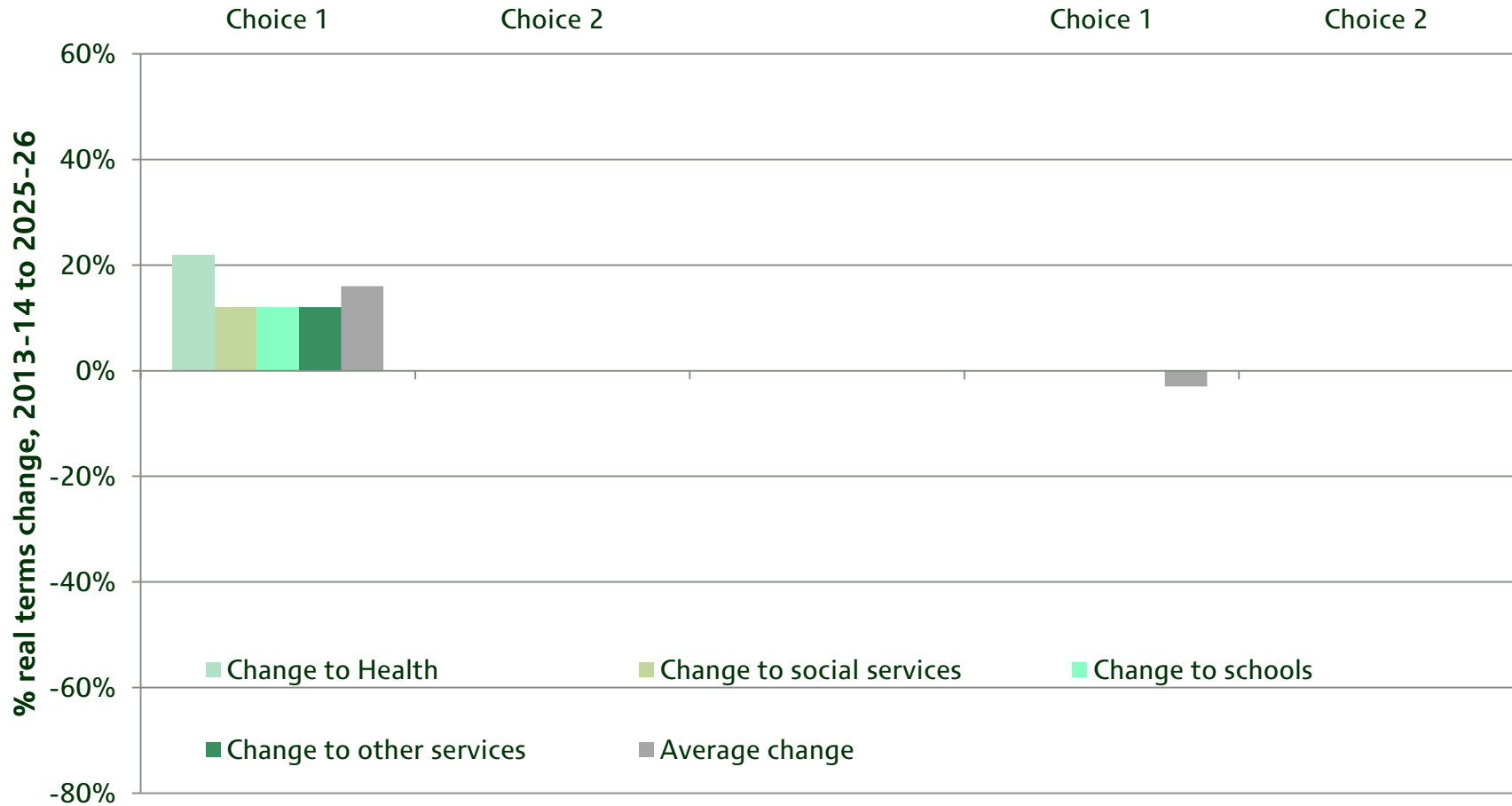
Pessimistic Scenario



The trade-offs between now and 2025-26

Baseline Scenario

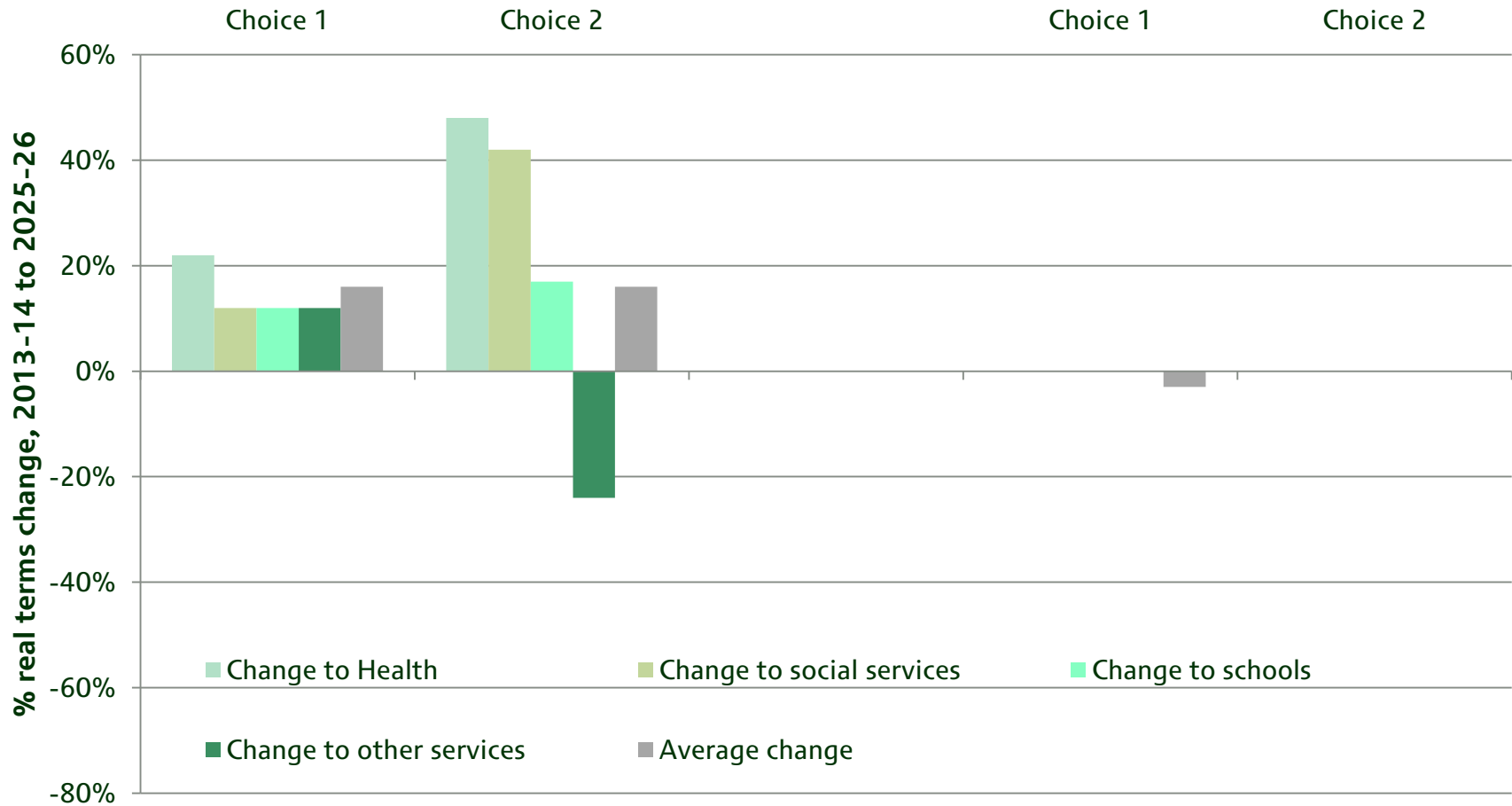
Pessimistic Scenario



The trade-offs between now and 2025-26

Baseline Scenario

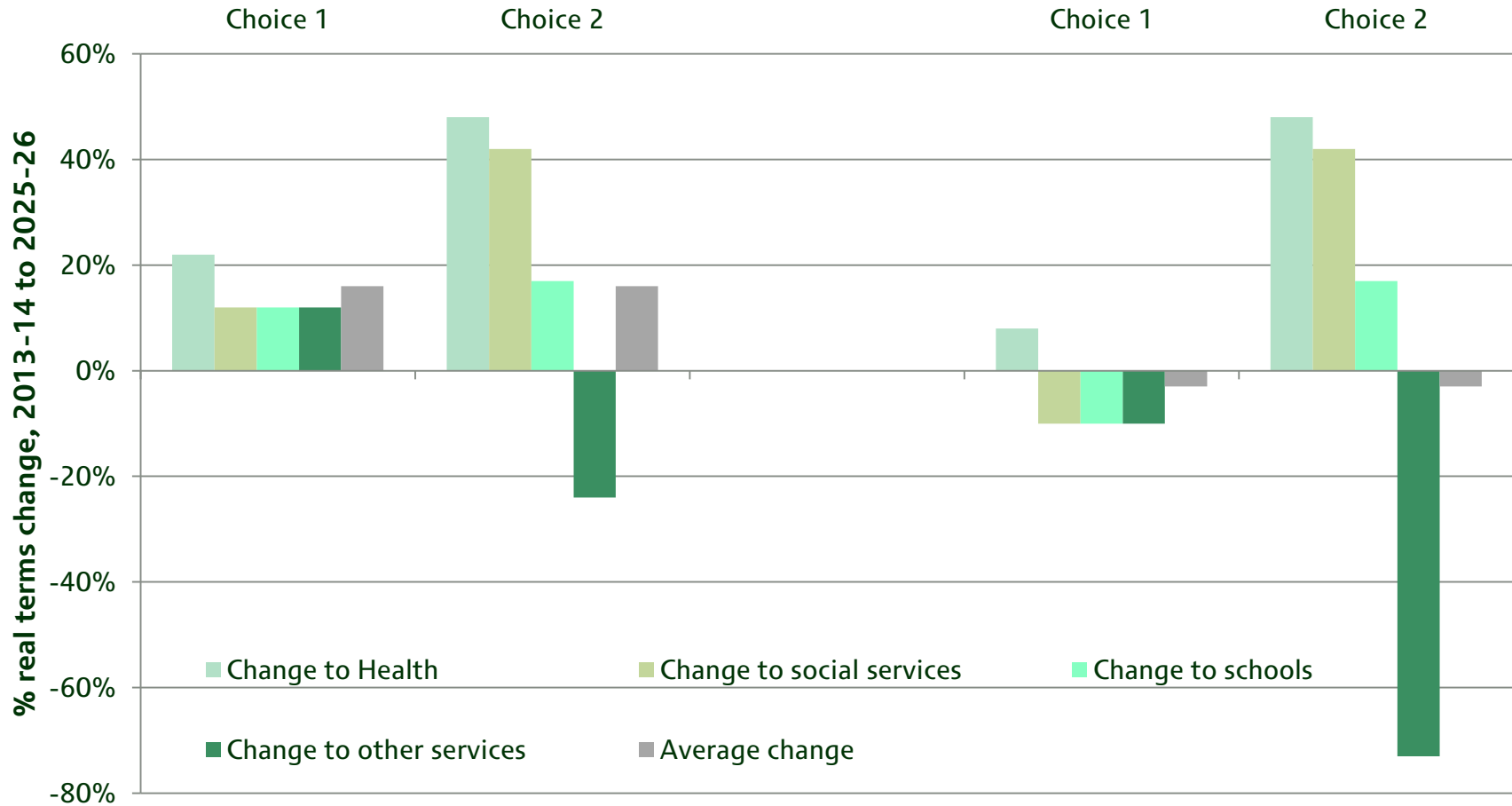
Pessimistic Scenario



The trade-offs between now and 2025-26

Baseline Scenario

Pessimistic Scenario



The trade-offs between now and 2025-26

- Increasing spending on health, social services and schools to ‘undo’ earlier cuts and cope with rising costs/demands would put significant pressure on other services
 - Budgets for other services could be substantially below today
 - And still falling
- In our pessimistic scenario, trade-offs are difficult to comprehend
 - Substantial increases for health, social services and education would be implausible in this case

Concluding remarks

- Tough choices will not end in 2017-18 even if the Welsh Government's budget can start to grow again
 - Rising demand/costs for healthcare, social care and schools
 - Spending other areas may still face cuts even after 2017-18
- In our most pessimistic scenarios the trade-offs between different services are difficult to comprehend
- Difficult choices will have to be made
 - What services to prioritise
 - And what services to cut back
- But focus on reducing demand and cost pressures is also needed
 - Challenges over next 12 years and beyond need to be planned for now