

# Dyfodol Cyllidol Cymru

## Wales' Fiscal Future

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**Cynhadledd Plaid Cymru, Llandudno**  
Plaid Cymru Conference, Llandudno

22/10/2022

**GUTO IFAN & CIAN SIÔN**

Dadansoddi Cyllid Cymru, Canolfan Llywodraethiant Cymru, Prifysgol Caerdydd  
Wales Fiscal Analysis, Wales Governance Centre, Cardiff University

# Cynnwys

## Contents

- Pa mor fawr yw'r "bwlch cyllidol"?
- Beth yw'r rhagolwg ar gyfer cau'r "bwlch cyllidol" fel gwlad annibynnol?
- Beth yw'r heriau o barhau yn yr undeb fel rhan o'r Deyrnas Gyfunol?
- How big is the "fiscal gap"?
- What are the prospects for "closing the gap" as an independent country?
- What are the challenges posed by continued union with the UK?

# Sefyllfa cyllidol presennol Cymru

## Wales' current fiscal position

- Yn 2019-20, roedd gwariant 'er budd' Cymru tua **£43.9 biliwn**, yn cynnwys:
  - Gwariant Llywodraeth Cymru a llywodraethau lleol
  - Gwariant Llywodraeth y DG yng Nghymru (e.e. budd-daliadau, pensiynau)
  - Siâr (poblogaeth) o wariant canolog (e.e. Amddiffyn, taliadau dyled)
- Amcangyfrifir refeniw llywodraethol o tua **£29.5 biliwn**
  - Cyfuniad o amcangyfrifon yn seiliedig ar ddata gweinyddol ac arolygon – rhywfaint o ansicrwydd am nifer o drethi
- In 2019-20, spending 'for' Wales was £43.9 billion, including:
  - Spending by Welsh Government and local governments
  - Spending by UK government in Wales (e.g. social security, pensions)
  - A (population) share of central spending (e.g. Defence, debt interest payments)
- Government revenues raised in Wales were estimated at £29.5 billion
  - Combination of estimates based on administrative data and surveys – some uncertainty around a number of taxes

# Sefyllfa cyllidol presennol Cymru

## Wales' current fiscal position

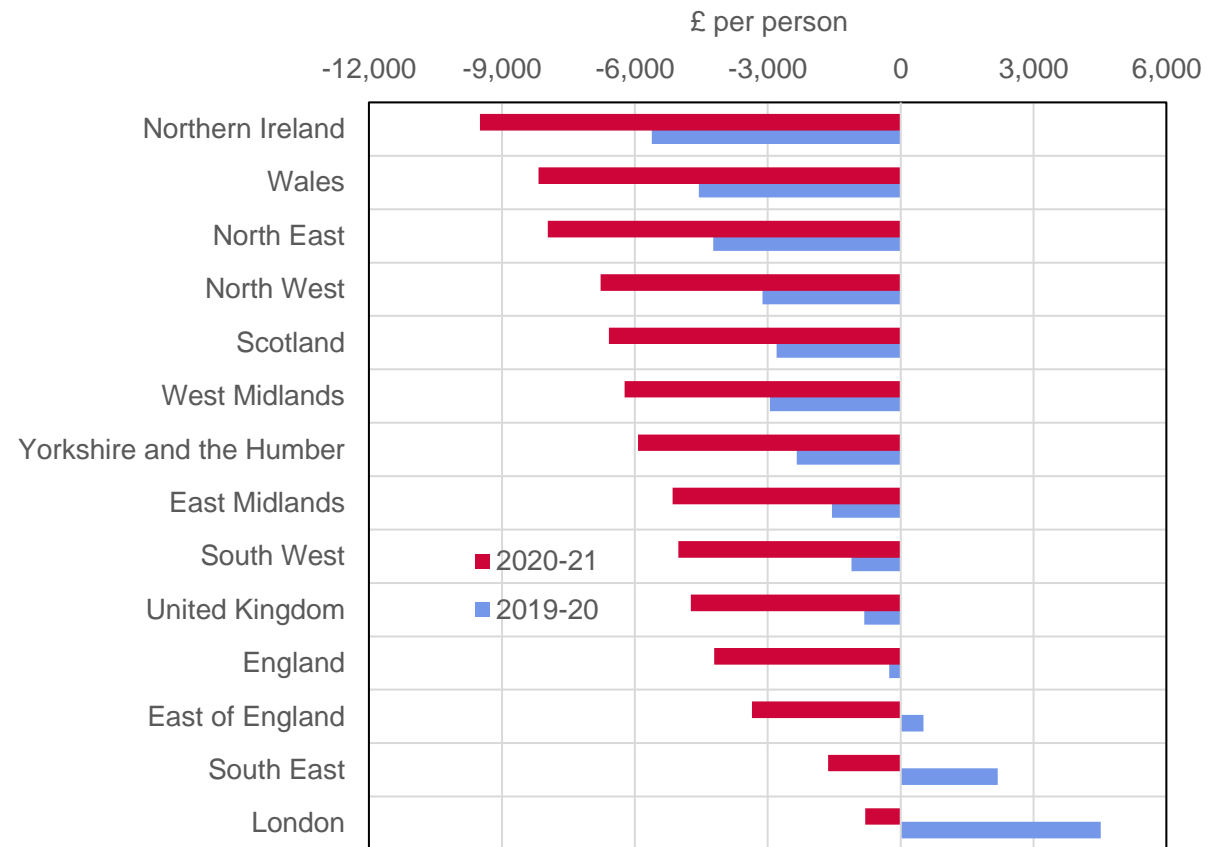
- Amcangyfrif y Swyddfa Ystadegau Gwladol (2022) – diffyg cyllidol Cymru o **£14.4 biliwn**
  - £3,730 y person
  - Cyfateb i tua 18% o incwm cenedlaethol Cymru
- Office for National Statistics' (2022) estimate of Wales' fiscal deficit at £14.4 billion
  - £3,730 per person
  - Equivalent to around 18% of Wales' GDP
- Yn 2021-21, cafodd Covid-19 effaith enfawr ar gyllid cyhoeddus y DG
  - Tyfodd gwariant i £54.6 biliwn
  - Cwmpodd refeniw i £28.7 biliwn
- In 2020-21, massive impact of Covid-19 on UK public finances:
  - Spending grew to £54.6 billion
  - Revenues fell slightly to £28.7 billion

# Sefyllfa cyllidol presennol Cymru

## Wales' current fiscal position

- Roedd gan pob gwlad a rhanbarth y DG ddiffyg cyllidol yn 2020-21
- Sefyllfa cyllidol cymharol yn adlewyrchu anghydraddoldebau rhanbarthol enfawr
- Every UK country and region had an estimated net fiscal deficit in 2020-21
- Relative fiscal positions reflect internationally high levels of regional inequality

### Fiscal deficit by UK country and region, 2019-20 and 2020-21

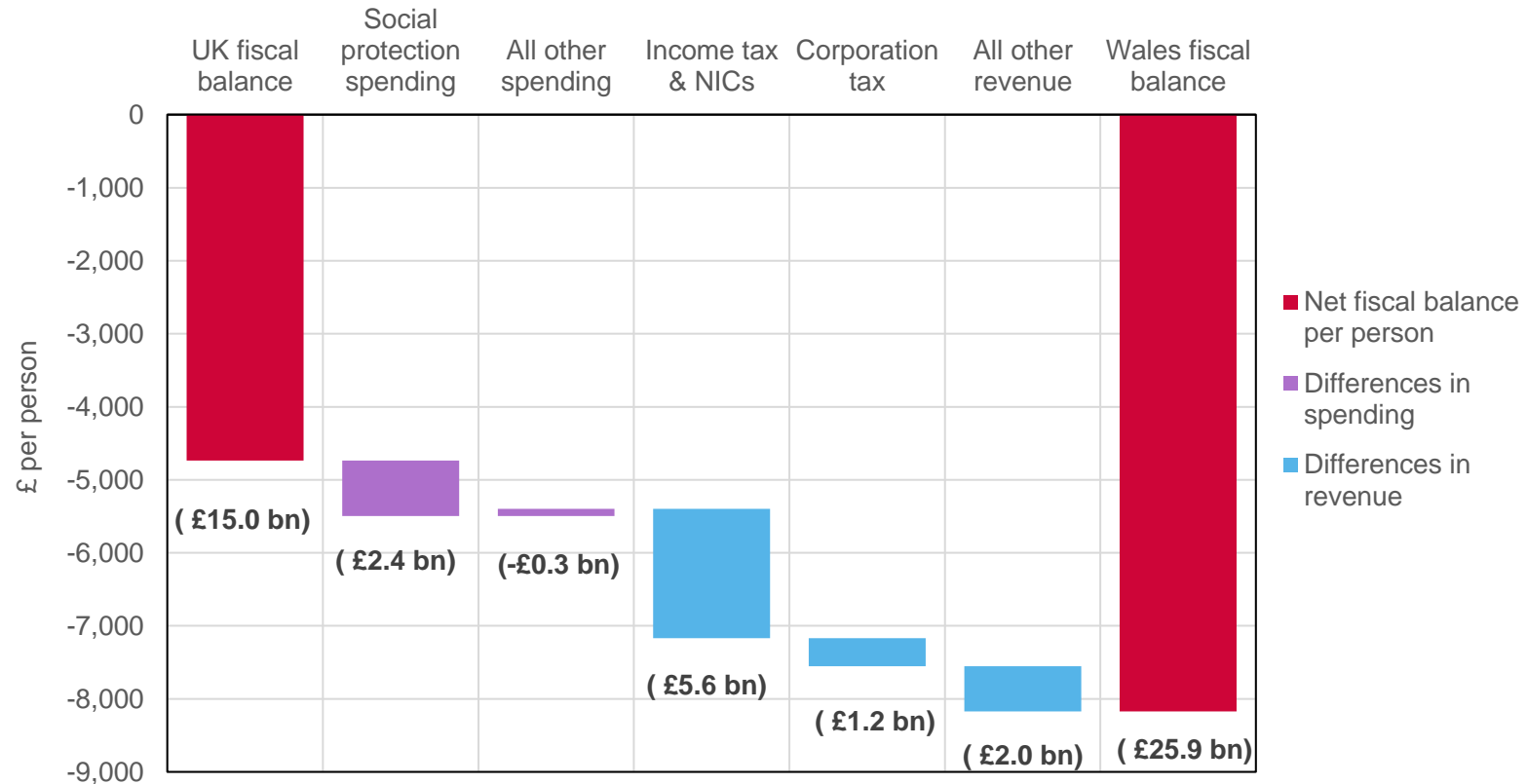


# Sefyllfa cyllidol presennol Cymru

## Wales' current fiscal position

- Prif rheswm tu ôl y diffyg yn 2020-21 oedd benthyca' ar draws y DG
- Refeniw y pen is yn gyfrifol am rhan helaeth y gwahaniaeth rhwng sefyllfa cyllidol Cymru a chyfartaledd y DG
- Main contribution to Wales' fiscal deficit in 2020-21 was overall UK position
- Lower revenues account for four-fifths of the difference in overall notional deficit

### Disaggregating Wales' fiscal balance compared to the UK average, 2020-21

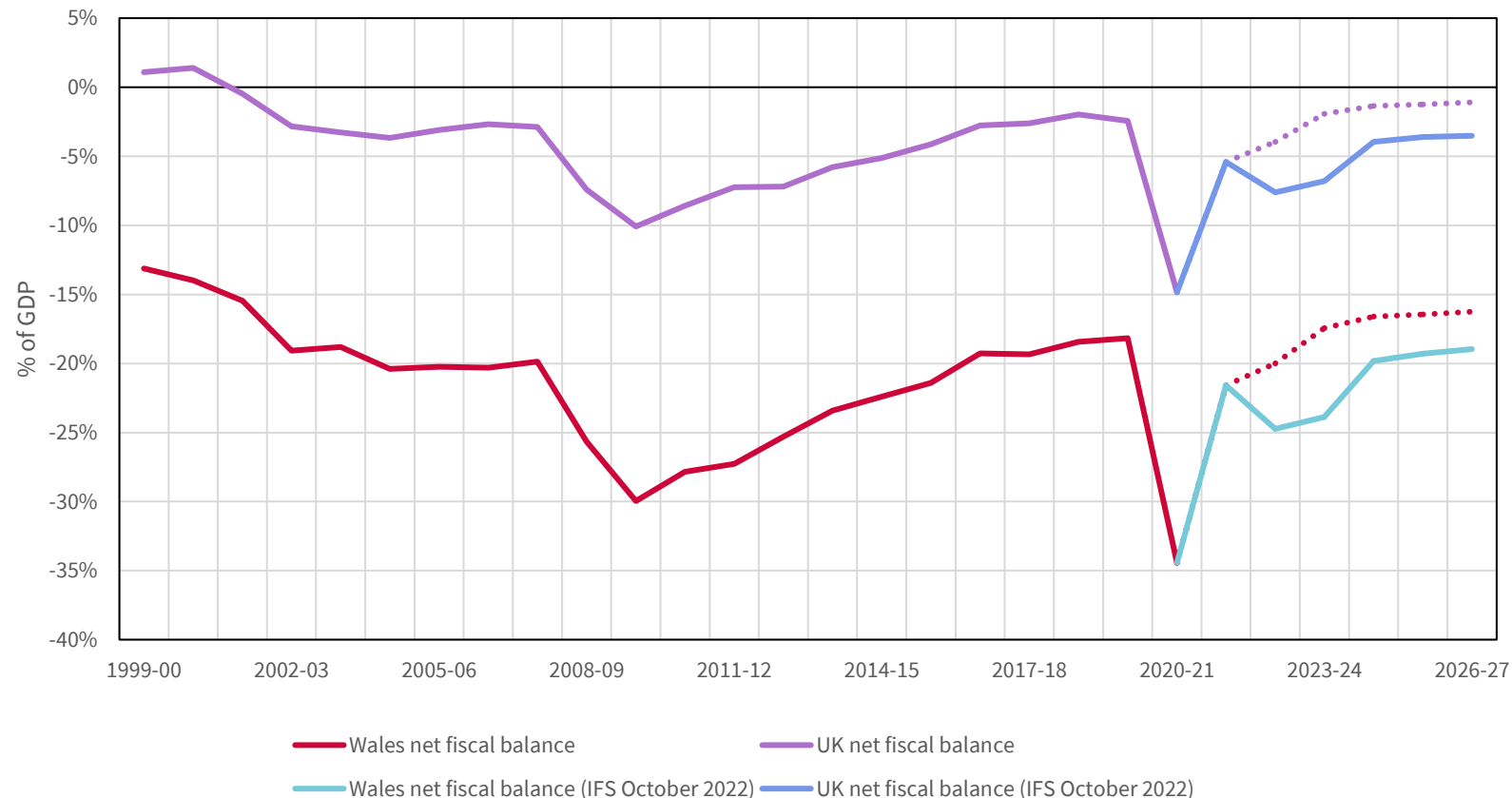


# Sefyllfa cyllidol presennol Cymru

## Wales' current fiscal position

- Ffigwr 2020-21 yn mynd i leihau...
- Rhagolygon mis Mawrth yn dangos y diffyg yn cwmpo'n bellach at 2026-27 – ond gwariant ar ynni a toriadau treth (?) yn newid y rhagolwg
- 2020-21 figure will fall...
- Forecasts from March suggested deficit to fall further to 2026-27 – but energy spending and tax cuts (?) have changed the outlook

### Wales and UK fiscal balance, 1999-00 to 2026-27 (as share of GDP)



Source: ONS (2022) Country and Regional Public Sector Finances; ONS (2022) 2020-based principal population projections and authors' calculations; OBR (2022) Economic and Fiscal Outlook March 2022; IFS (2022) Greent Budget 2022.

# Sefyllfa cyllidol presennol Cymru

## Wales' current fiscal position

### Pam fod hyn yn bwysig?

- Trosglwyddiadau cyllidol yn cael effaith ar lefelau incwm

### Why is this important?

- Fiscal transfers have an effect on income levels

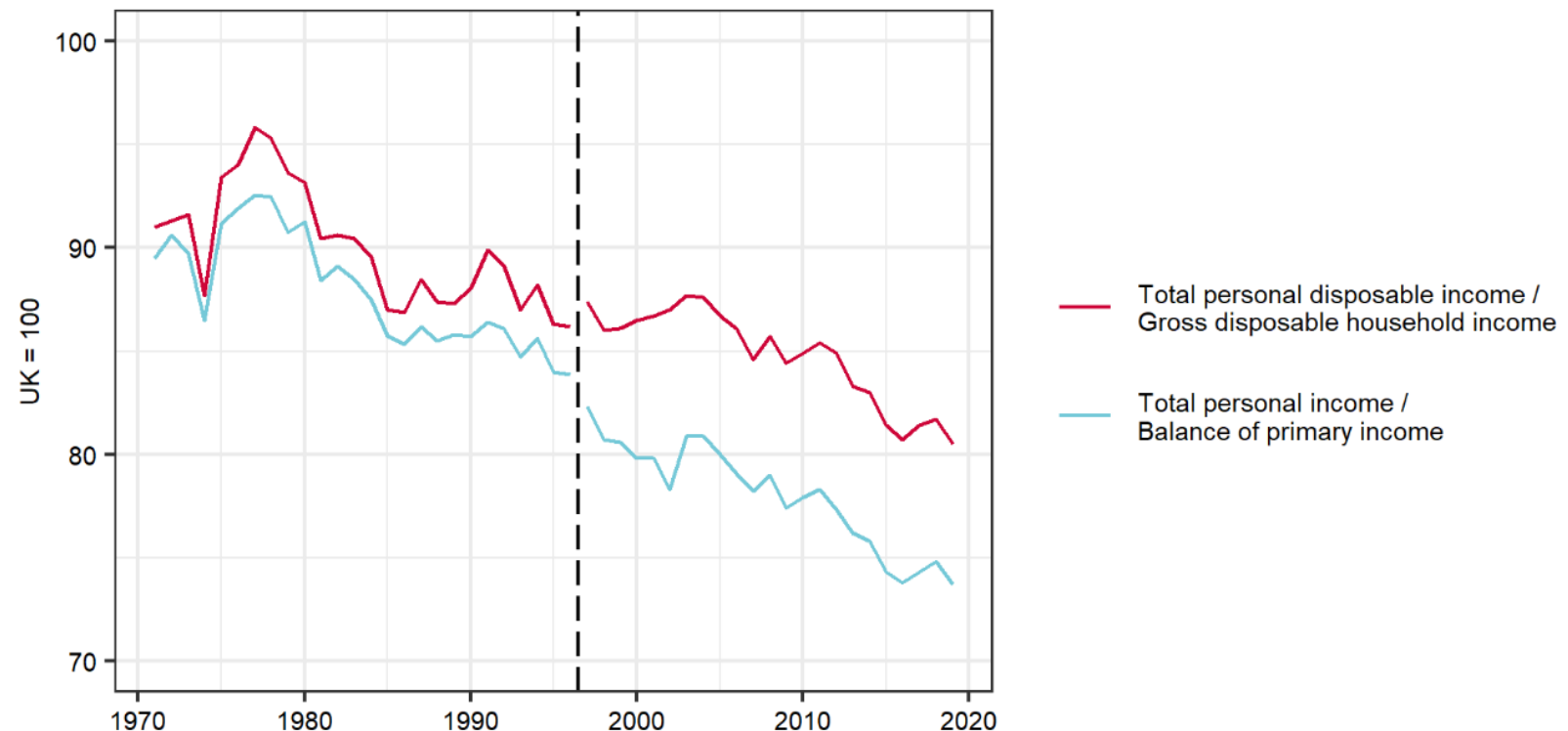


# Sefyllfa cyllidol presennol Cymru

## Wales' current fiscal position

- Incwm 'cynradd' fesul person tua 74% o gyfartaledd y DG. Ar ôl trosglwyddiadau a trethi uniongyrchol, incwm gwario = 81%
- Ond heb stopio gostyngiad hirdymor cymharol ers y 1980au
- Primary incomes per person around 74% of UK average. After direct taxes and transfers, disposable income around 81% of UK level
- But fiscal transfers have not arrested long-term relative decline since 1980s

### Relative levels of disposable household incomes in Wales, 1971 to 2019 (UK=100)



Source: ONS (2019 and previous) Personal disposable income (1971 to 1996), gross disposable household income (1997 onwards); and authors' calculations

# Sefyllfa cyllidol presennol Cymru

## Wales' current fiscal position

### Pam fod hyn yn bwysig?

- Trosglwyddiadau cyllidol yn cael effaith ar lefelau incwm
- Trosglwyddiadau yn effeithio ar fantolen masnach Cymru...
  - Ifan, Siôn a Wincott (2022): -£13.3 biliwn yn 2019
  - Jones (2022): -£13.7 biliwn yn 2019
- Dadleuon am ddyfodol economaidd a chyllidol Cymru
  - Fel rhan o'r Deyrnas Gyfunol
  - Fel gwlad annibynnol

### Why is this important?

- Fiscal transfers have an effect on income levels
- Transfers have an effect on Wales' trade balance...
  - Ifan, Siôn and Wincott (2022): -£13.3 billion in 2019
  - Jones (2022): -£13.7 billion in 2019
- Debates about Wales' economic and fiscal future
  - As part of the UK
  - As an independent country

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# Cyllido Cymru annibynnol

## Fiscal prospects of an independent Wales

- Amhosib dweud yn union beth fyddai sefyllfa cyllidol Cymru annibynnol
  - Ansicrwydd am lwybr polisi cyllidol y DG
  - Byddai'n ddibynnol ar drafodaethau a pholisïau Llywodraeth Cymru annibynnol
  - Ddibynnol ar rhagolwg economaidd Cymru
- Ffigyrau'r ONS fel man cychwyn yn unig
- Doyle (2022) yn dadlau byddai'r bwlch cyllidol llawer yn llai na  $\approx$ £14 billion
- Impossible to know what the fiscal situation of an independent Wales would be
  - Uncertainty on UK government fiscal policy
  - Would be subject to the outcome of negotiations and the policies of an independent Welsh Government
  - Dependent on the Welsh economic outlook
- ONS figures a starting point only
- Doyle (2022) argues the fiscal deficit would be a lot lower than  $\approx$ £14 billion

# Cyllido Cymru annibynnol

## Fiscal prospects of an independent Wales



Dadansoddi  
Cyllid Cymru  
Wales Fiscal  
Analysis

### Deficit in independent Wales would be 'fraction' of UK estimates, Dublin City University study finds

30th September



'Fantasy economics' is peddled by those opposed to indy (Image: PA)

By **Steph Brawn**  
Multimedia Political Journalist  
@BrawnJourno

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### 'Game changing' figures a major boost to case for Wales independence, says Plaid

30 Sep 2022 5 minute read



Analysis conducted by Professor John Doyle of Dublin's City University have been heralded as a "game changer" in the Welsh independence debate by Plaid Cymru Leader Adam Price MS.

New research published by Plaid Cymru and undertaken by a leading academic shows that an independent Wales's fiscal gap would be a fraction of the figure previously reported.



### Welsh independence: Does new research support the idea?

30 September

Wetsh Parliament election 2021



GETTY IMAGES

An independent Wales could negotiate a much smaller gap in its public finances than previous estimates suggest, according to new research.



### New report proves Wales can afford independence says Plaid Cymru

Plaid Cymru commissioned an Irish economist to look into the finances of an independent Wales

By **Martin Shipton** Political editor-at-large  
08:58 30 SEP 2022 | UPDATED 11:34 30 SEP 2022

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The Welsh flag at Carreg Cennen

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# Sefyllfa cyllidol cychwynnol

## Inherited Fiscal Position

- **Pencadlysoedd cwmnioedd?**
  - Siâr GDP (3.5%) yn hytrach na methodoleg HMRC (2.5%) – siâr Cymru o elw cwmnioedd ychydig yn llai na hyn (3.1%)
- **Tax 'HQ' effect**
  - Uses GDP share (3.5%) instead of HMRC methodology (2.5%) – Welsh share of profits slightly lower than this (3.1%)

### Adjustments to fiscal gap (Doyle 2022), 2019-20 figures



Source: ONS (2022) Country and Regional Public Sector Finances; HM Treasury (2021) Country and Regional Analysis; ONS (2022) Regional gross domestic product: all ITL regions; authors' calculations.

# Sefyllfa cyllidol cychwynnol

## Inherited Fiscal Position

### • Gwariant tu allan y DG

- £1.2 biliwn o wariant yn 2019-20
- Rhan mawr yn daliadau i'r UE (£350m)
- Doyle (2022) yn awgrymu £600m o arbedion
- £225m o wariant pensiynau tramor
- *Dewis polisi* i dorri gwariant Cymorth Tramor (£430m)

### • Outside the UK expenditure

- £1.2 billion in 2019-20
- Large part payments to EU
- Doyle (2022) suggests £600m of savings
- £225m of foreign pensions spending
- *Policy decision* to cut Foreign Aid spending (£430m)

## Adjustments to fiscal gap (Doyle 2022), 2019-20 figures



Source: ONS (2022) Country and Regional Public Sector Finances; HM Treasury (2021) Country and Regional Analysis; ONS (2022) Regional gross domestic product: all ITL regions; authors' calculations.

# Sefyllfa cyllidol cychwynnol

## Inherited Fiscal Position

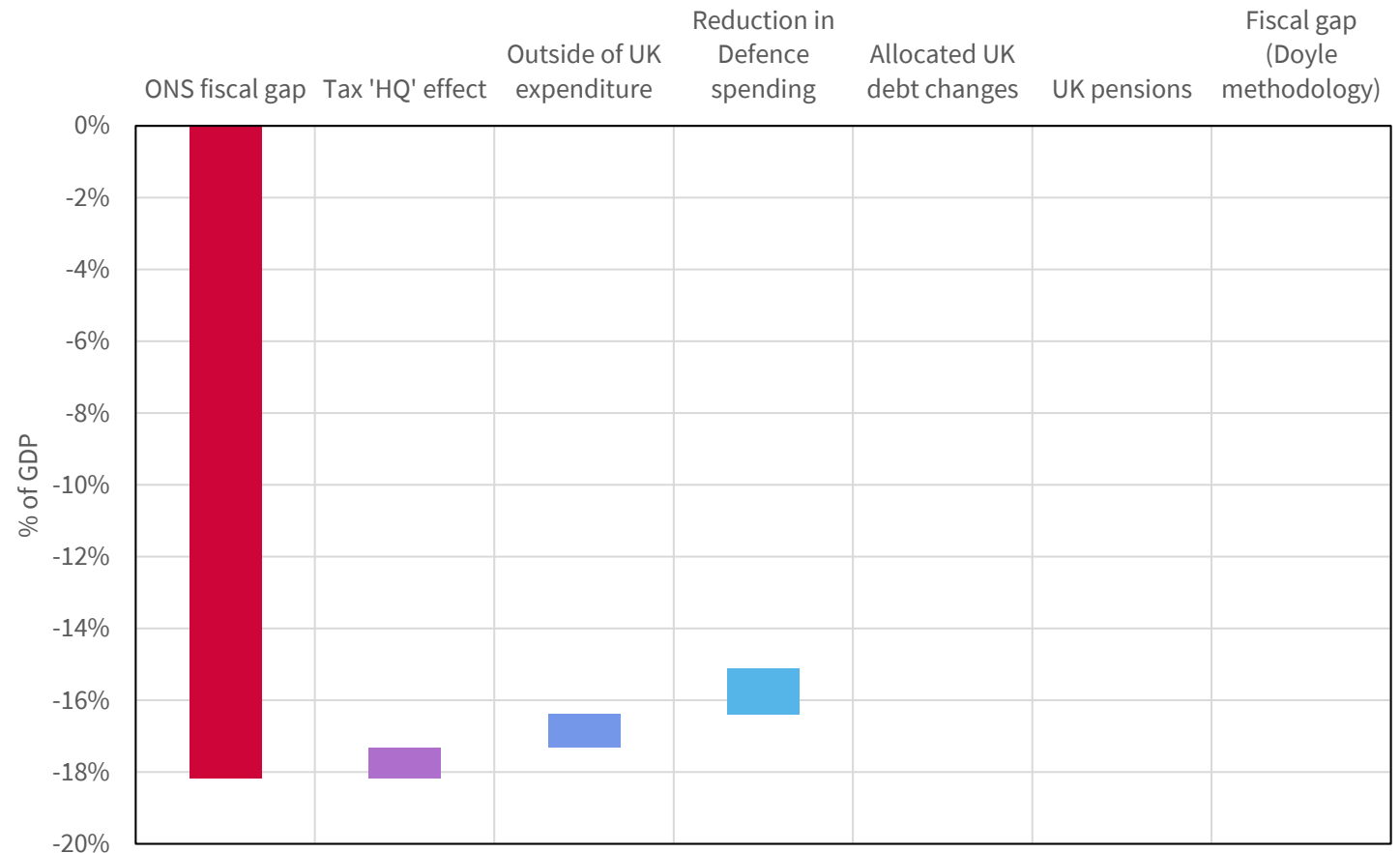
### • Gwariant amddiffyn

- Torri gwariant i gyfartaledd gwledydd y UE fel siâr o GDP (1.3%)
- Arbed £1.0 biliwn
- Gellid gwneud hyn heb amharu ar economi Cymru yn ormodol

### • Defence spending

- Cut spending to EU average as share of GDP (1.3%)
- Saving £1.0 billion
- Could be achieved with little impact on Welsh economy

## Adjustments to fiscal gap (Doyle 2022), 2019-20 figures



Source: ONS (2022) Country and Regional Public Sector Finances; HM Treasury (2021) Country and Regional Analysis; ONS (2022) Regional gross domestic product: all ITL regions; authors' calculations.



# Sefyllfa cyllidol cychwynnol

## Inherited Fiscal Position

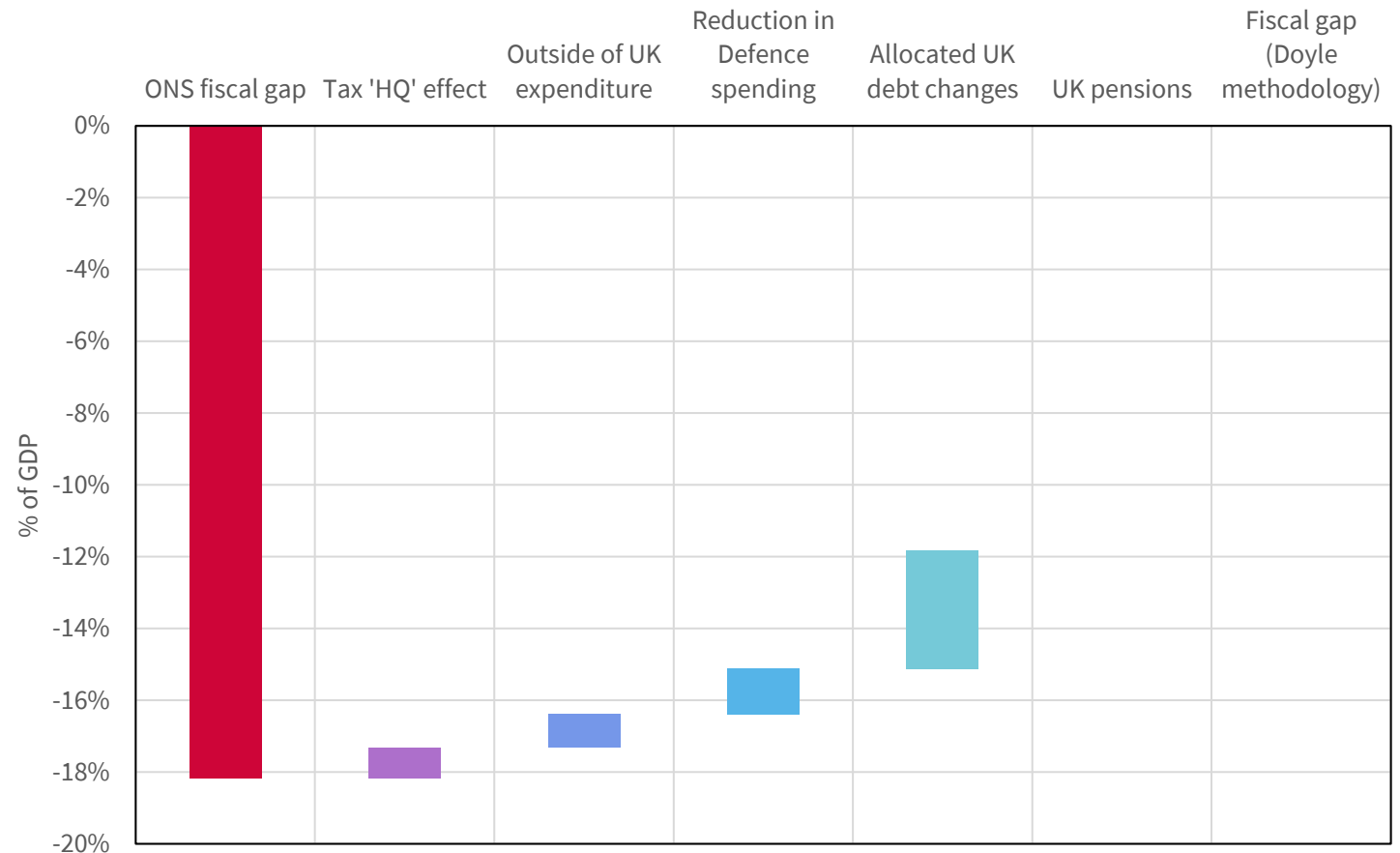
### • Y ddyled gyhoeddus

- Testun trafodaethau ynghylch asedau a rhwymedigaethau a threfniadau ôl-annibyniaeth eraill
- Enghreifftiau'r gorffennol e.e. Gwladwriaeth Rydd Iwerddon
- Seiliedig ar y 'gallu i dalu'?
- Polisi Llywodraeth yr Alban...

### • Public debt

- Would be subject to negotiations around assets and liabilities and other post-independence arrangements
- Past examples e.g. Irish Free State
- Based on 'ability to pay'?
- Scottish Government position...

### Adjustments to fiscal gap (Doyle 2022), 2019-20 figures



Source: ONS (2022) Country and Regional Public Sector Finances; HM Treasury (2021) Country and Regional Analysis; ONS (2022) Regional gross domestic product: all ITL regions; authors' calculations.

# Sefyllfa cyllidol cychwynnol

## Inherited Fiscal Position

### • Pensiynau y DG

- Doyle (2022) yn tybio bydd Llywodraeth y DG yn gyfrifol am holl wariant pensiynau ar y dechrau
- Dim 'cronfa' o arian ar gyfer pensiynau a hawliau cronedig – gall San Steffan newid hawliau hefyd
- Potensial i ddod yn rhan o drafodaethau ehangach – e.e. cytundebau ar gyfer budd-daliadau

### • UK pensions

- Doyle (2022) assumes UK government will be responsible for all pensions spending at the point of independence
- No 'pot' of money for pensions and accrued rights – Westminster could change entitlements
- Potential to become part of wider negotiations e.g. reciprocity agreements for social security

### Adjustments to fiscal gap (Doyle 2022), 2019-20 figures



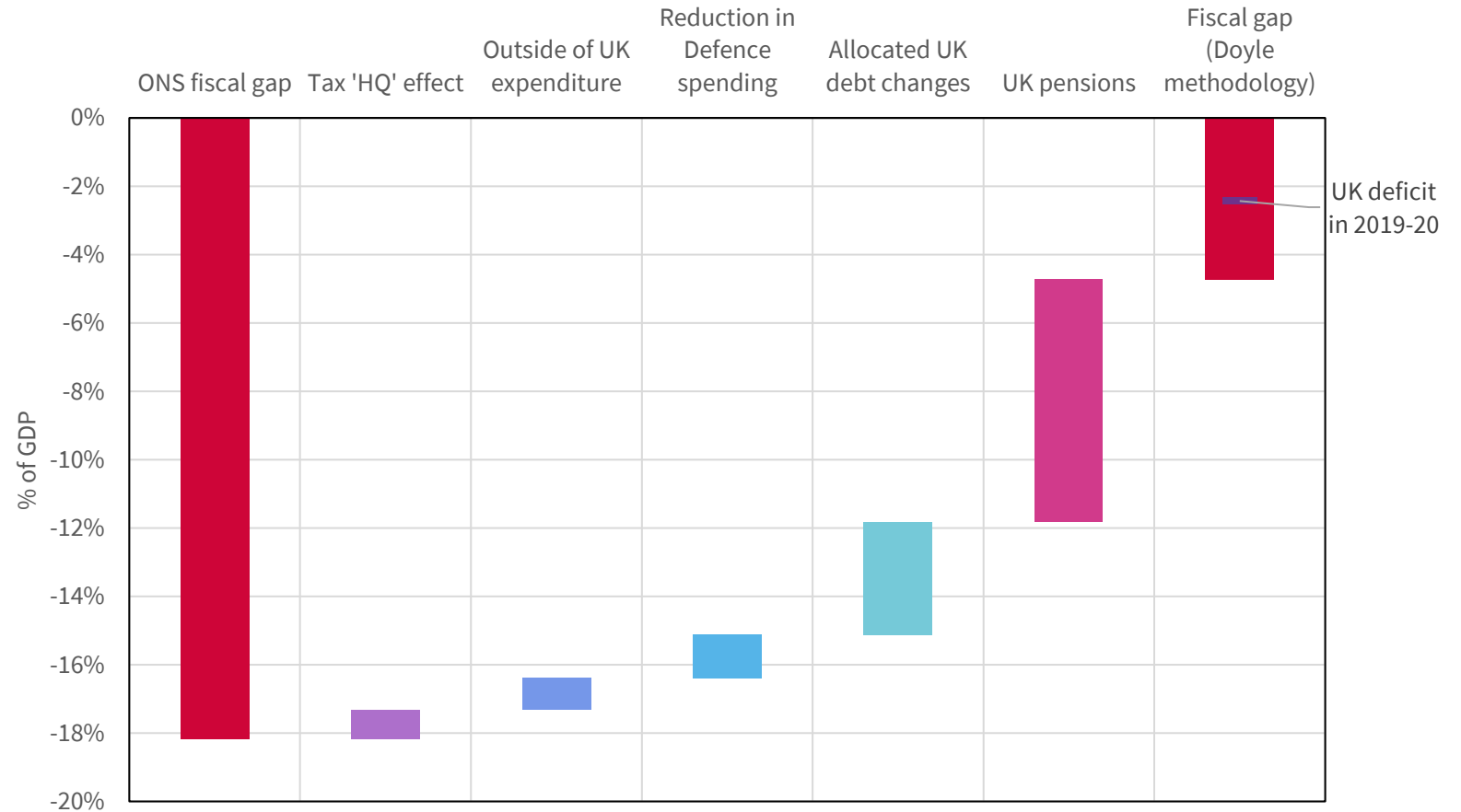
Source: ONS (2022) Country and Regional Public Sector Finances; HM Treasury (2021) Country and Regional Analysis; ONS (2022) Regional gross domestic product: all ITL regions; authors' calculations.

# Sefyllfa cyllidol cychwynnol

## Inherited Fiscal Position

- Felly, gall y sefyllfa cyllidol fod yn wahanol iawn...
- Ond yn ddibynnol ar ganlyniad hynod o ffafriol o drafodaethau gyda Llywodraeth y DG/Lloegr
- So, fiscal situation could be very different...
- But reliant on a very favourable outcome from negotiations with the UK/English Government

### Adjustments to fiscal gap (Doyle 2022), 2019-20 figures



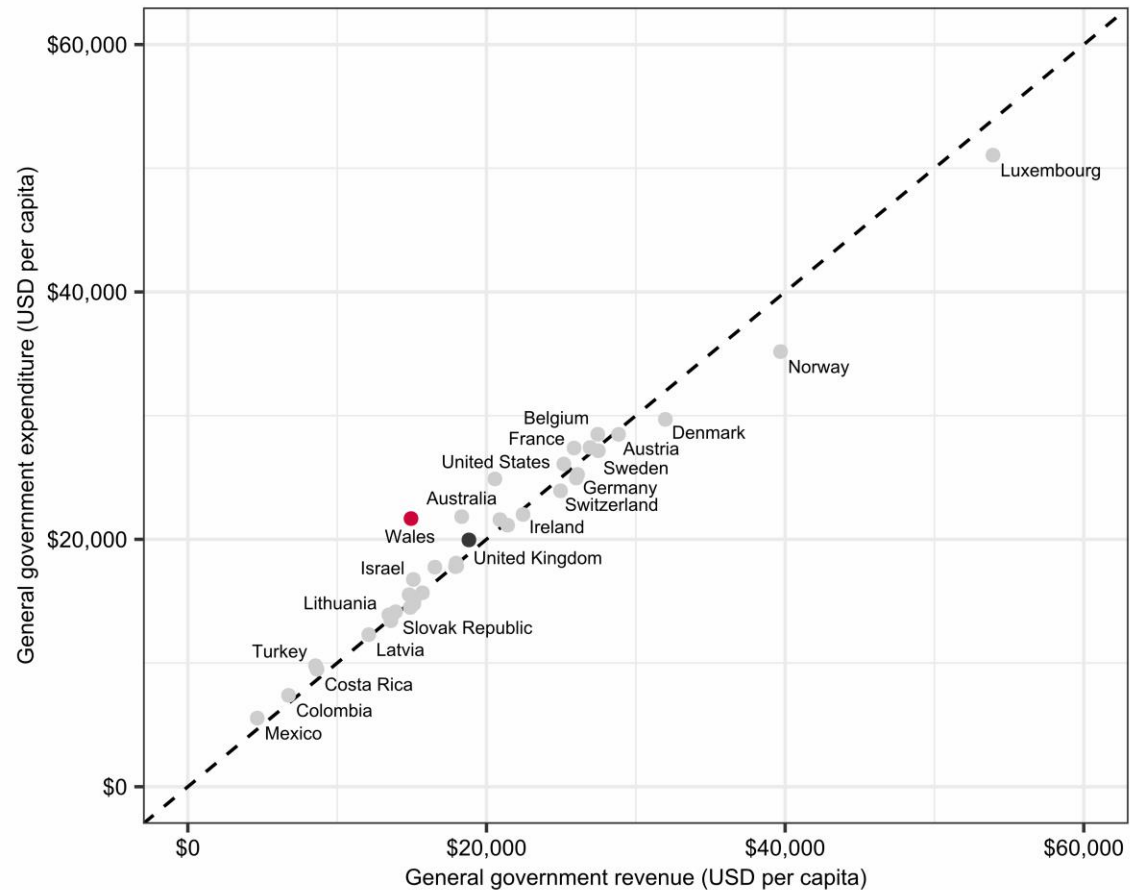
Source: ONS (2022) Country and Regional Public Sector Finances; HM Treasury (2021) Country and Regional Analysis; ONS (2022) Regional gross domestic product: all ITL regions; authors' calculations.

# Cymru fel gwlad annibynnol

## Wales as an independent country

- Byddai angen creu marchnad ar gyfer benthyca Llywodraeth Cymru annibynnol...
- Byddai annibyniaeth yn gofyn am newidiadau radical i bolisi cyllidol ac economaidd
- Would require the creation of a bond market for the debt of independent Welsh Government...
- Independence would require radical changes to fiscal and economic policy

### International comparisons of Government Expenditure and Revenue, 2018

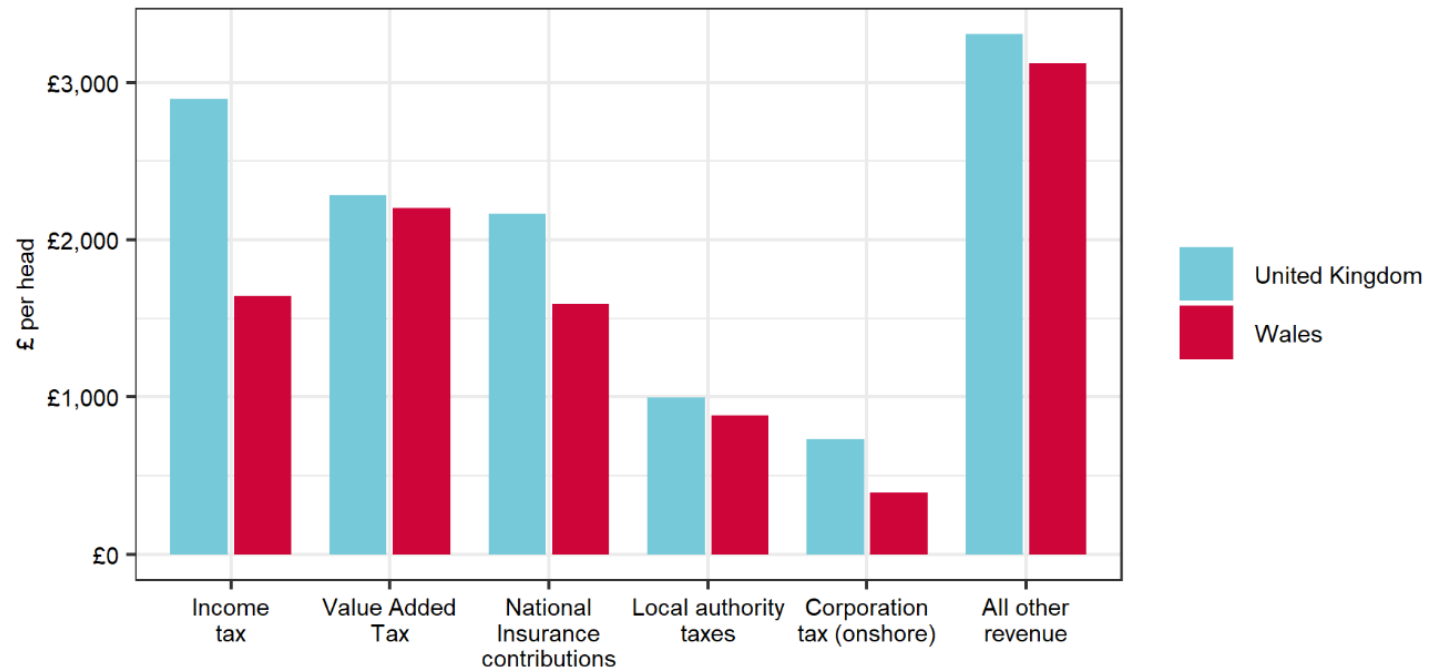


Source: OECD (2019) General Government Revenue & Spending; ONS (2021) Country and Regional Public Sector Finances, Mid-year population estimates; and authors' calculations.

# Cymru fel gwlad annibynnol

## Wales as an independent country

### Public sector revenues by source, 2019-20 (£ per head)



Source: OECD (2019) General Government Revenue & Spending; ONS (2021) Country and Regional Public Sector Finances, Mid-year population estimates; and authors' calculations.

- Gellid cynyddu refeniw treth yn sylweddol wrth addasu polisi treth i sylfaen trethi Cymru
- Gellid cynyddu lefel refeniw-i-GDP i gyfartaledd y UE (39.6% i 46.0%)
- Revenues could be significantly increased by re-aligning tax policy to fit Welsh tax base
- Could increase Wales' tax-to-GDP ratio to EU area average (39.6% to 46.0%)

# Cyllido Cymru annibynnol

## Fiscal prospects of an independent Wales

- Byddai annibyniaeth yn gorfodi newid enfawr i bolisiâu cyllidol ac economaidd i fynd i'r afael a diffygion allanol presennol Cymru
  - Angen **model economaidd newydd**
  - Enghreifftiau o wledydd bychain llwyddiannus eraill
  - Gwlad llawer mwy cyfartal o ran incwm (yn gallu dod â buddiannau economaidd)
  - Cynaladwyedd amgylcheddol
  - Angen buddsoddiadau enfawr yn nyfodol economaidd Cymru – symud i ffwrdd o wariant cyfredol gan aelwydydd
- Cysylltiadau gyda dewis arian cyfredol
- *“Unrhyw beth y gallwn ei wneud, gallwn ei fforddio”* John Maynard Keynes
- Independence would require transformative changes to fiscal and economic policy to address current external deficits
  - Need a **new economic model**
  - Examples of other successful small countries
  - A more equal country in terms of incomes (which can bring economic benefits)
  - Environmental sustainability
  - Need massive investment in Wales’ economic future – moving away from current spending by households
- Links to choice of currency
- *“Anything we can actually do, we can afford.”* John Maynard Keynes

# Cynnwys

## Contents

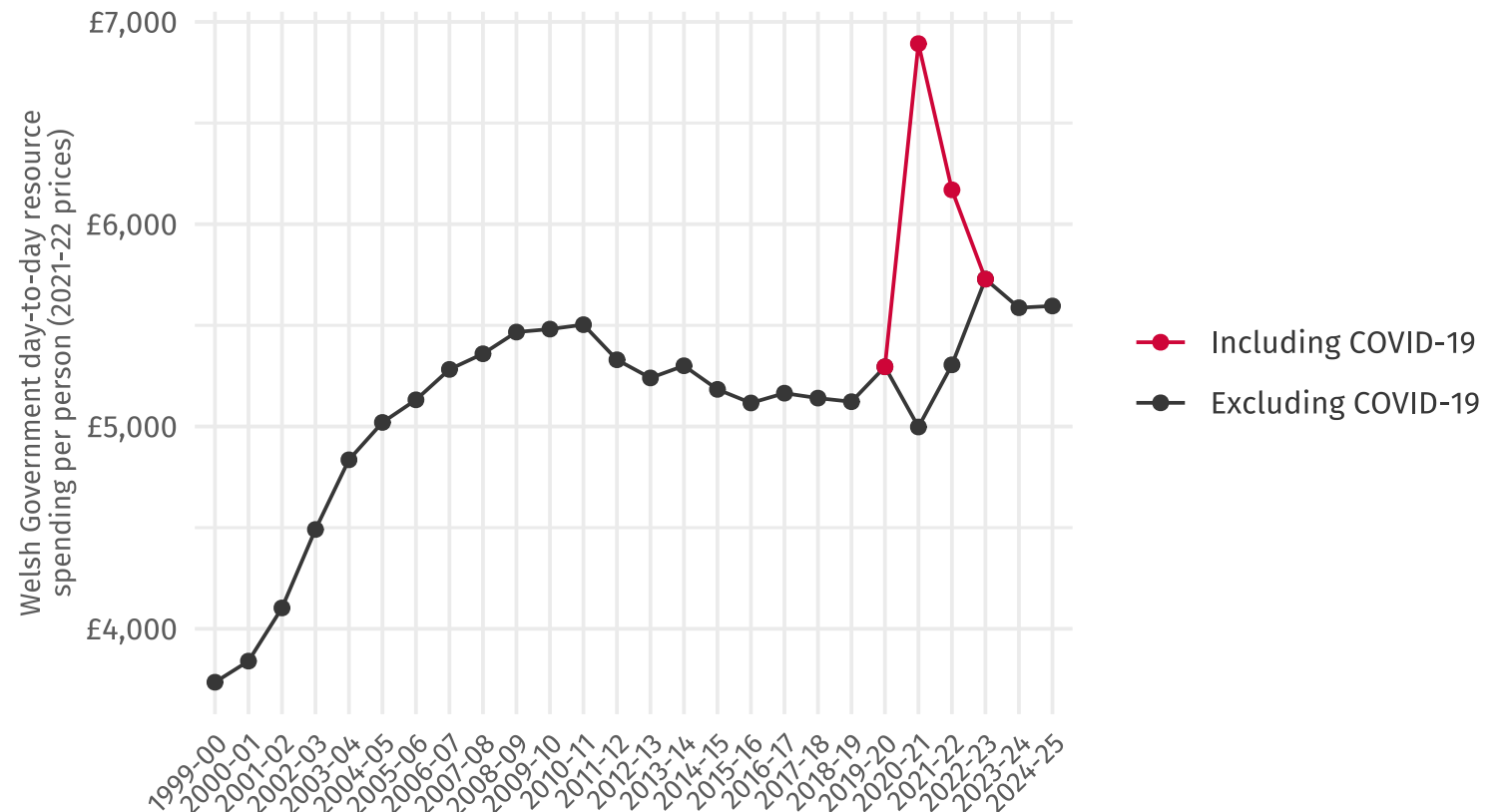
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# Degawd (a mwy?) o lymder

## A decade (and more?) of austerity

- Disgwylir i wariant dydd-i-ddydd Llywodraeth Cymru dyfu o lai na 2% y pen mewn termau real rhwng 2010–11 a 2024–25.
- Welsh Government's day-to-day spending is set to grow by less than 2% per head in real terms between 2010–11 and 2024–25.

### Welsh Government day-to-day resource spending per person (2021–22 prices)



Source: WFA analysis of Welsh Government (2022 and previous) Budget documents. • Notes: Following the methodology of Zaranko (2022), we assume the 'pass-through' from CPI to the GDP deflator between March and August 2022 is the same as was seen between October 2021 and March 2022. These assumptions see the forecast GDP deflator averaging 3.7% per year from 2021-22 to 2024-25.

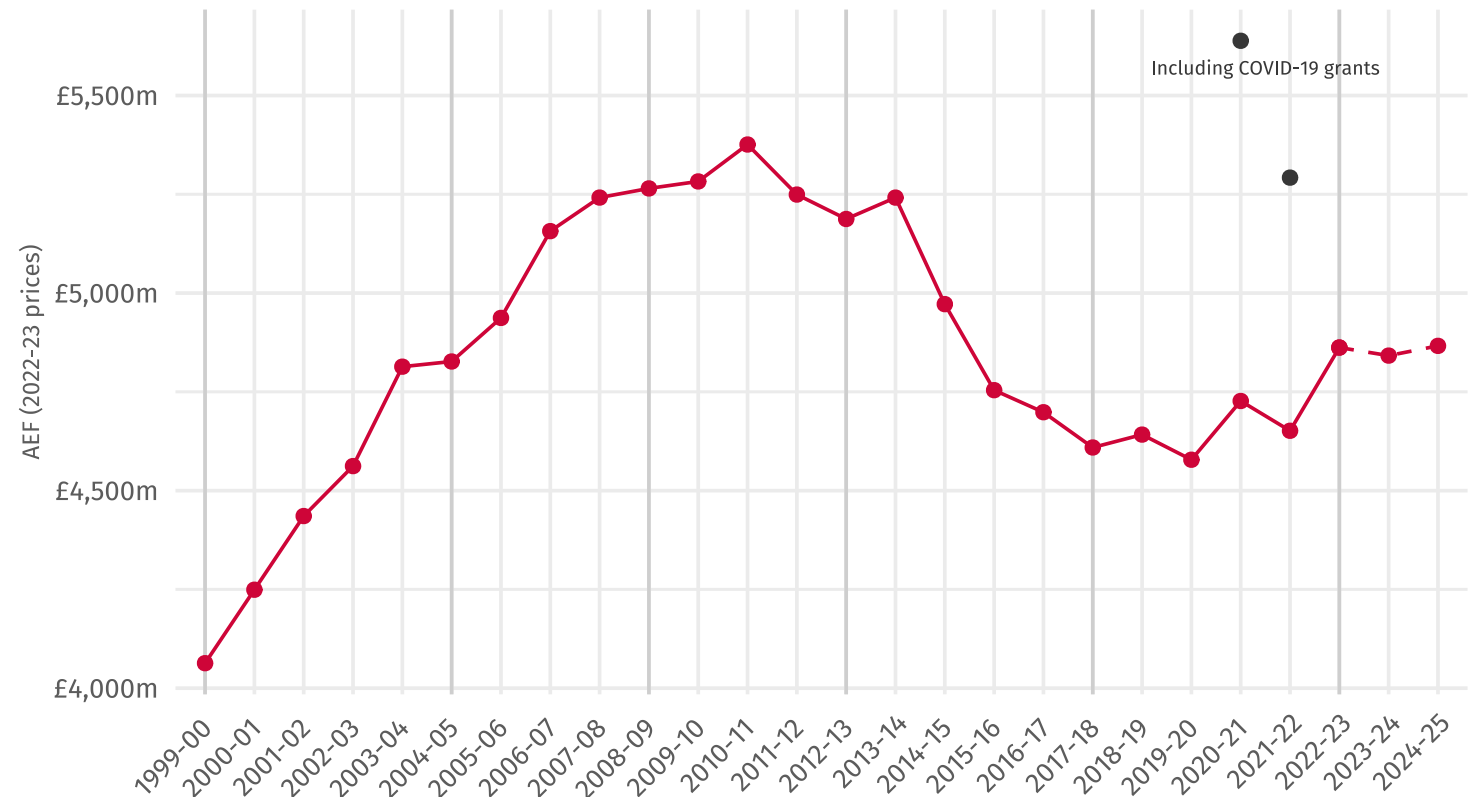


# Degawd (a mwy?) o lymder

## A decade (and more?) of austerity

- Erbyn 2024–25, bydd setiliad refeniw awdurdodau lleol 9.5% yn is mewn termau real na phan oedd ar ei uchaf yn 2010–11.
- By 2024–25, the local government revenue settlement will be 9.5% lower in real terms than at its height in 2010–11.

### Welsh Government funding for local authorities (AEF + specific grants), 2021–22 prices

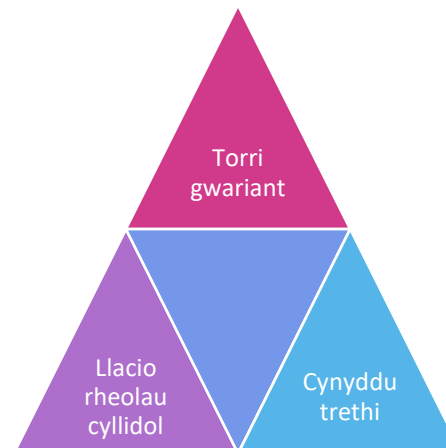


Source: WFA analysis of StatsWales (2021 and previous) Financing of gross revenue expenditure; Welsh Government (2021) Draft Budget and Local Government Settlement 2022–23. • Notes: The CTRS has been added to the RSG in years prior to 2013–14 to ensure consistency with its treatment in subsequent years. A fall in public sector output during 2020–21 temporarily raised the GDP deflator, which suppresses the real terms increase in funding between 2019–20 and 2020–21. Following the methodology of Zaranko (2022), we assume the 'pass-through' from CPI to the GDP deflator between March and August 2022 is the same as was seen between October 2021 and March 2022. These assumptions see the forecast GDP deflator averaging 3.7% per year from 2021-22 to 2024-25

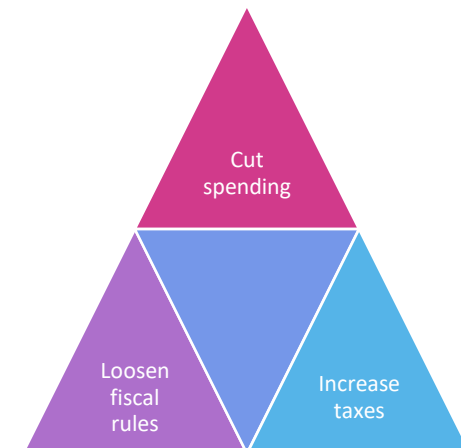
# Degawd (a mwy?) o lymder

## A decade (and more?) of austerity

- Roedd disgwyl i'r OBR adrodd bod bwlch o £60-£70 biliwn yng nghynlluniau Llywodraeth Prydain erbyn 2026–27 er mwyn i'r ddyled genedlaethol syrthio fel % o GDP yn y tymor canolig.
- Disgwylir i'r troeon pedol ers y Gyllideb Fechan leihau'r bwlch hwn i £30-40 biliwn.
- Cyfuniad o doriadau gwariant a chynnydd i gyfraddau trethi ar ei ffordd?
- Effaith ar gyllideb Cymru?



- OBR was expected to report a £60-£70 billion gap in UK government plans by 2026–27 if they intend to have debt falling as a share of national income in the medium term.
- U-Turns since the Mini Budget are expected to reduce this gap to £30-40 billion.
- A combination of tax rises and spending cuts on its way?
- Impact on the Welsh budget?

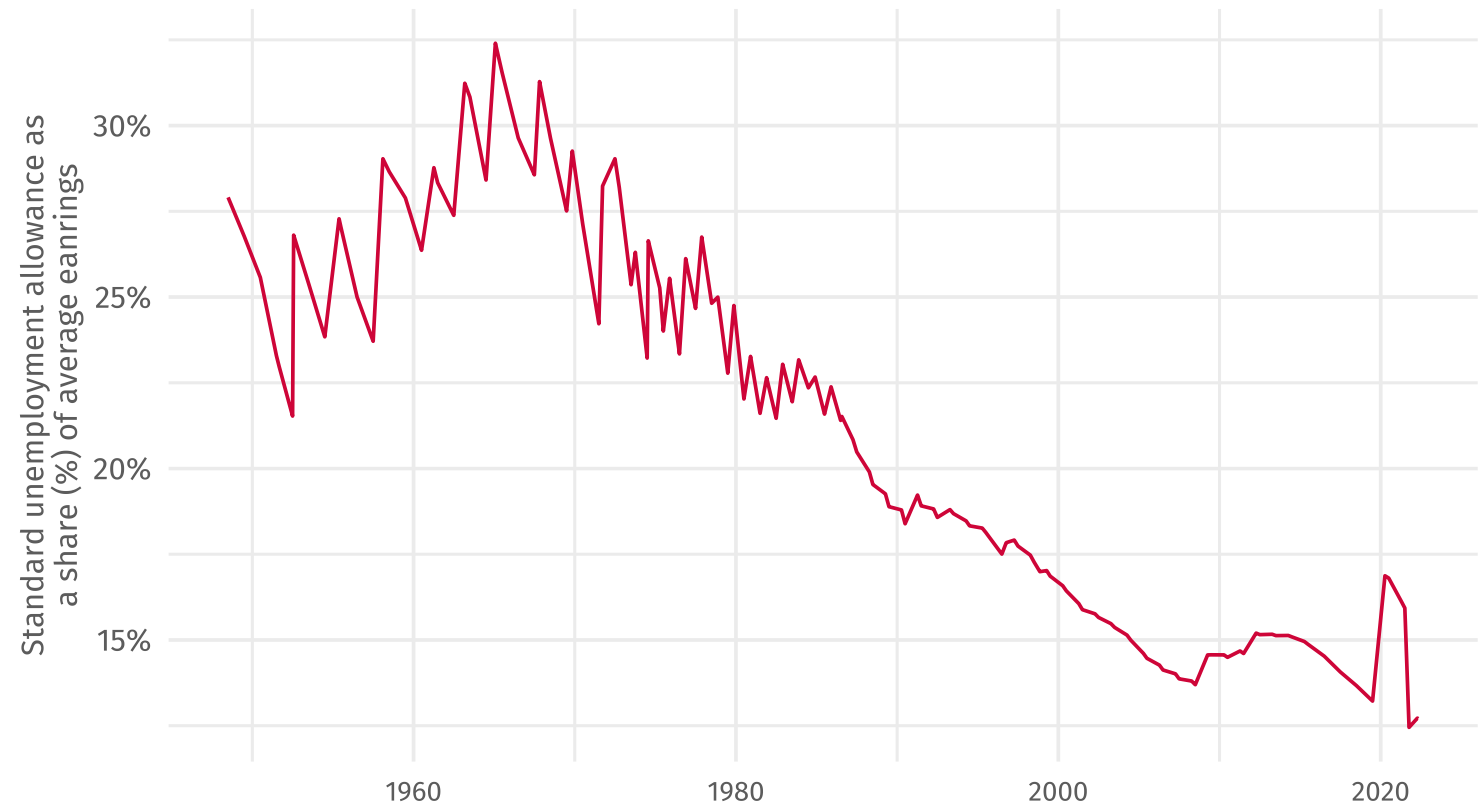


# Y wladwriaeth les yn encilio

## Rolling back the welfare state

- Mae'r lwfans diweithdra bellach ar ei lefel lleiaf hael ers i'r wladwriaeth les gael ei sefydlu yn 1948.
- The standard unemployment allowance is now at its least generous since the founding of the welfare state in 1948.

### Standard unemployment allowance as a share (%) of average UK earnings, 1948 to 2022



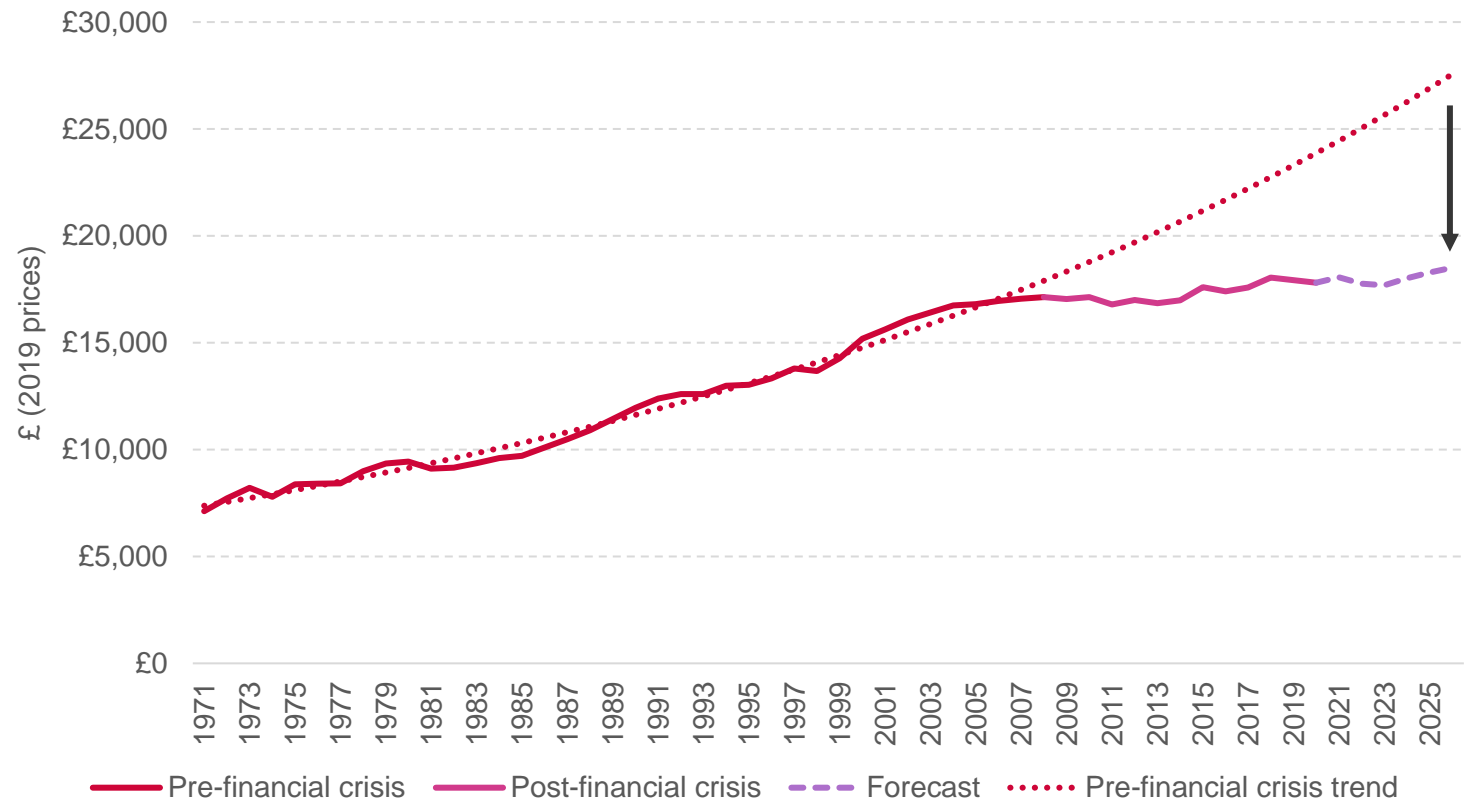
Source: WFA analysis of BoE (2017) A millennium of macroeconomic data for the UK; ONS (2022) Average Weekly Earnings; IFS (2022) Fiscal facts. • Notes: Standard unemployment allowance refers to the weekly rate for an individual aged 25 and over.

# Y wasgfa faith ar safonau byw

## The long squeeze on living standards

- Erbyn 2026, bydd incwm gwario aelwydydd Cymru £9,000 yn is (prisiau 2019) na phetai'r patrwm cyn yr argyfwng ariannol wedi parhau.
- By 2026, projected disposable incomes of Welsh households will be £9,000 (2019 prices) lower than had the pre-financial crisis trend been sustained.

### Estimated real disposable household income per person in Wales, 1971 to 2026



Source: WFA analysis of ONS (2022) Real Households' & NPISH disposable income at chained volume measures; ONS (2022) GDHI per head of population at current basic prices; OBR (March 2022) Economic and fiscal outlook.

# Cymharu incwm ar draws Ewrop

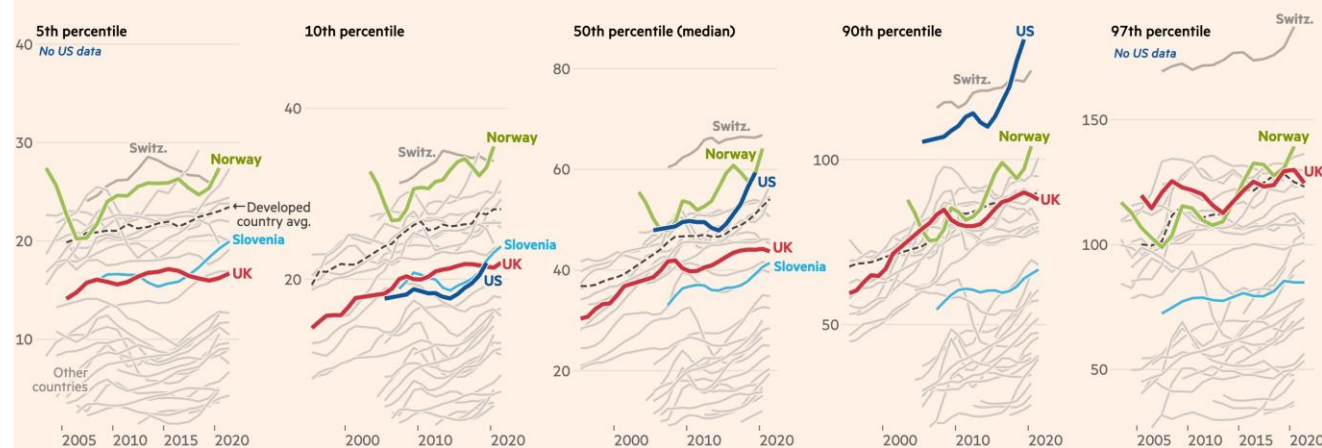
## Comparing incomes across Europe

“Mae Prydain a'r UDA yn gymdeithasau tlawd gydag ychydig o bobl cefnog tu hwnt”  
 “Britain and the US are poor societies with some very rich people”

*Financial Times - September 16<sup>th</sup>, 2022*

In **Norway**, people right across the income distribution have high living standards.  
 In the **UK** and **US**, the rich fare well but the poorest rank low vs other countries

Disposable household income\* (\$'000, constant 2020 PPPs), by position on income distribution

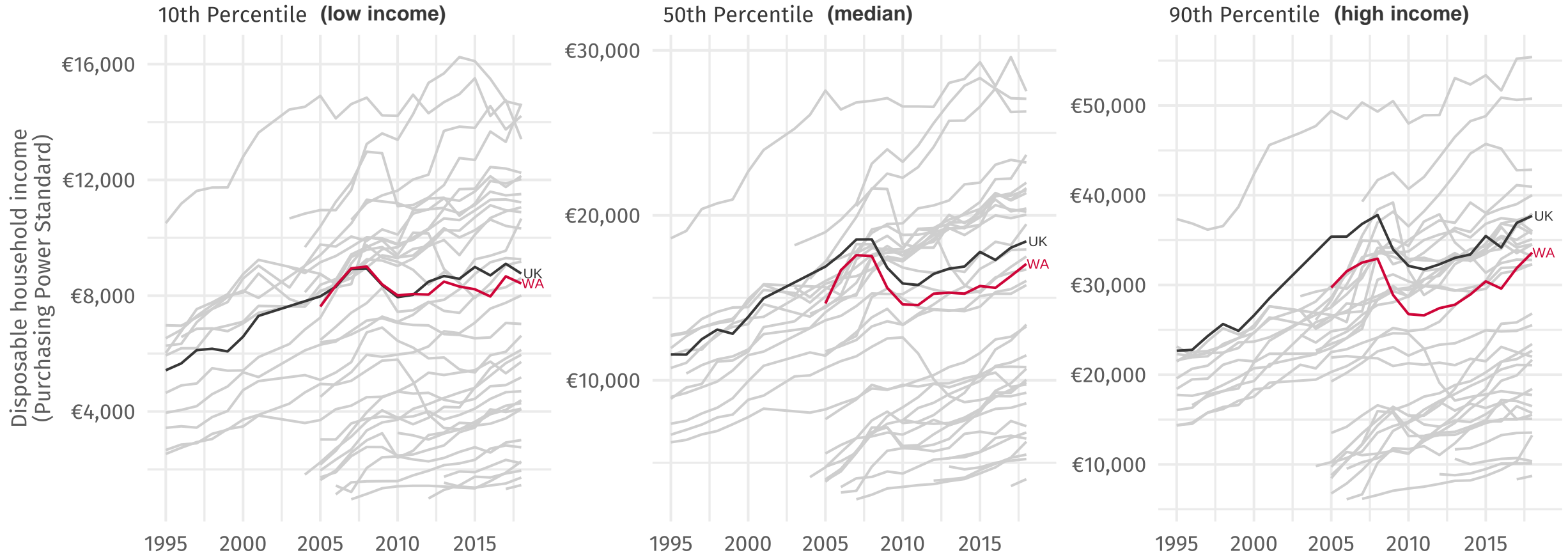


Sources: FT analysis of data from Eurostat EU-SILC survey, OECD and UK Family Resources Survey  
 \*Household incomes equalised using modified OECD scale to be representative of a two-adult household  
 FT graphic: John Burn-Murdoch / @burnmurdoch  
 © FT



# Cymharu incwm ar draws Ewrop

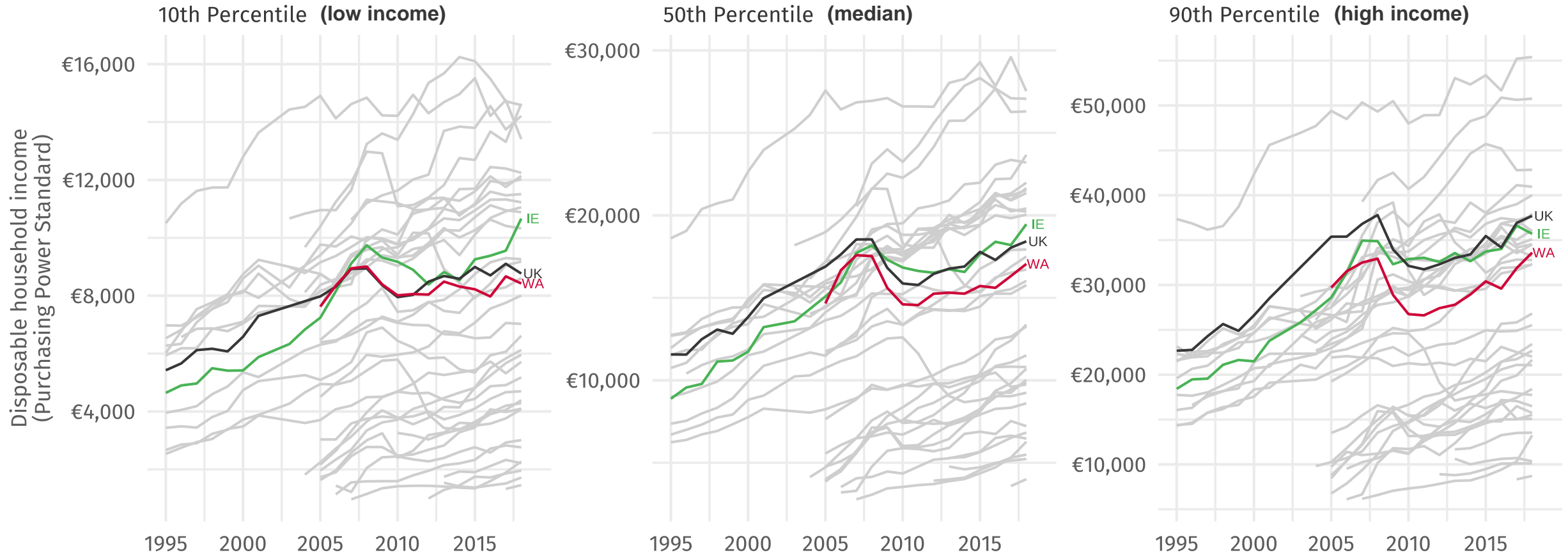
## Comparing incomes across Europe



Source: WFA analysis of EUROSTAT (2018 and previous) EU-SILC and ECHP Surveys; ONS (2019 and previous) Family and Resources Survey; UKMOD (A3.23+). • Notes: Disposable household income is equalised using the modified OECD scale to be representative of a two-person household. The Purchasing Power Standard is an artificial reference currency unit used to account for differences in purchasing power across countries.

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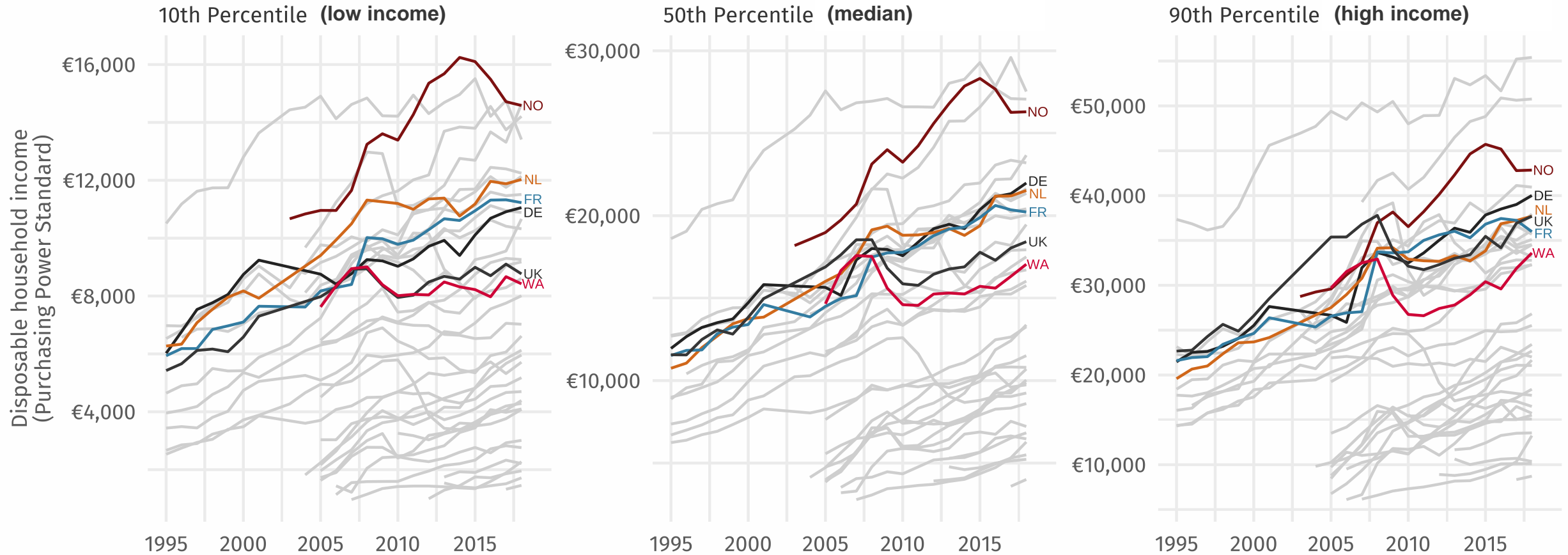
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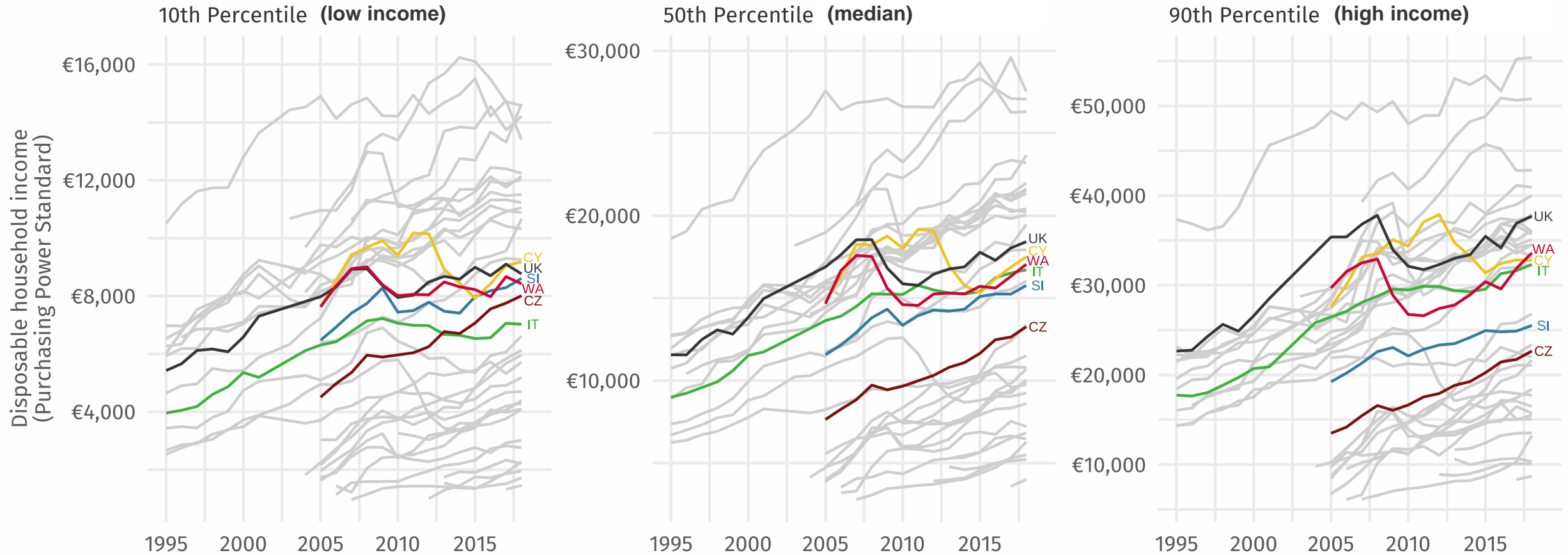


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# Annibyniaeth: yr heriau a'r cyfleoedd

## Independence: the challenges & opportunities

- Angen newidiadau pellgyrhaeddol i bolisiau trethi a gwariant o'r cychwyn cyntaf ar ôl annibyniaeth.
- Angen lleihau defnydd o nwyddau a gwasanaethau wedi eu mewnfario.
- Ond dydy trosglwyddiadau cyllidol y DG ddim yn talu am wladwriaeth les gynhwysfawr, gwasanaethau cyhoeddus cynaliadwy na sicrhau twf mewn safonau byw bellach.
- Gallai llywodraeth sy'n fodlon blaenoriaethu'r pethau hyn sicrhau Cymru fwy cynaliadwy, Cymru decach – ac o bosib, ymhen amser – Cymru fwy cefnog hefyd.
- Big changes to tax and spending policies would be required from day one post-independence.
- Would require reduced consumption of imported goods and services.
- But UK fiscal transfers no longer deliver a comprehensive and enabling welfare state, sustainable public services, or guarantee growth in living standards.
- A government intent on prioritizing these things might be able to deliver a more sustainable, equitable and – perhaps eventually – a more prosperous Wales.

# Dyfodol Cyllidol Cymru

## Wales' Fiscal Future

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**Cynhadledd Plaid Cymru, Llandudno**  
Plaid Cymru Conference, Llandudno

22/10/2022

**GUTO IFAN & CIAN SIÔN**

Dadansoddi Cyllid Cymru, Canolfan Llywodraethiant Cymru, Prifysgol Caerdydd  
Wales Fiscal Analysis, Wales Governance Centre, Cardiff University