
GOVERNMENT EXPENDITURE AND REVENUE WALES 2016

April 2016

Contact details:

Wales Governance Centre at Cardiff University
Pierhead Building
Cardiff Bay
CF99 1NA

wgc@cardiff.ac.uk

<http://sites.cardiff.ac.uk/wgc/>

About us

The Wales Governance Centre is a research centre that forms part of Cardiff University's School of Law and Politics undertaking innovative research into all aspects of the law, politics, government and political economy of Wales, as well the wider UK and European contexts of territorial governance. A key objective of the Centre is to facilitate and encourage informed public debate of key developments in Welsh governance not only through its research, but also through events and postgraduate teaching.

THIS REPORT WAS PRODUCED BY A RESEARCH GROUP CONSISTING OF:

ED GARETH POOLE

Lecturer in Politics and International Relations, Wales Governance Centre at Cardiff University

GUTO IFAN

Research Assistant, Wales Governance Centre at Cardiff University

RICHARD WYN JONES

Professor of Welsh Politics and Director of the Wales Governance Centre at Cardiff University

The authors wish to thank those who provided advice and guidance in the making of this report. Any errors remain our own. Feedback from readers is welcomed; any comments can be emailed to wgc@cardiff.ac.uk

Contents

EXECUTIVE SUMMARY	4
INTRODUCTION	7
1. ESTIMATED FISCAL BALANCES FOR WALES	12
2. PUBLIC SECTOR REVENUE IN WALES	25
3. DEVOLUTION OF REVENUES TO WALES	35
4. PUBLIC SECTOR EXPENDITURE FOR WALES	47
ANNEXES	65
A Revenue Methodology	65
B Expenditure Methodology	69
C Estimates of Welsh GDP	73

Executive Summary

Government Expenditure and Revenue Wales 2016 is an inaugural report presenting a comprehensive multi-year analysis of Wales' public sector spending, public sector revenues and the nation's overall net fiscal balance. Using detailed methodologies to estimate the composition and the trends of public finances in Wales, it is designed to enhance public understanding of Wales' fiscal position and contribute to the continuing debate over Wales' fiscal and economic future.

Wales' Revenue and Expenditure

Table 1 provides headline estimates of total public sector revenue in Wales as well as total public sector expenditure for Wales, from 2010-11 to 2014-15.

TABLE 1: Revenue and Expenditure: Wales 2010-11 to 2014-15					
	2010-11	2011-12	2012-13	2013-14	2014-15
CURRENT REVENUE					
Total (£ million)	20,771	21,604	21,939	22,524	23,321
Per person (to closest £100)	6,800	7,100	7,100	7,300	7,500
Per person (UK = 100)	74.6	75.1	75.5	74.9	75.2
As a share of UK total (%)	3.6%	3.6%	3.6%	3.6%	3.6%
As a share of estimated GDP (%)	38.4%	38.2%	37.6%	37.2%	37.9%
TOTAL EXPENDITURE					
Total (£ million)	36,577	37,233	37,277	37,345	38,016
Per person (to closest £100)	12,000	12,200	12,100	12,100	12,300
Per person (UK = 100)	106.3	108.7	107.0	106.9	107.7
As a share of UK total (%)	5.2%	5.3%	5.2%	5.1%	5.2%
As a share of estimated GDP (%)	67.6%	65.9%	63.9%	61.6%	61.8%

Total public sector revenue in Wales is estimated at £23.3 billion in 2014-15, around 3.6% of total UK revenues of £648.8 billion. Revenues per head in Wales were around £7,500 in 2014-15, significantly less than the average UK figure of approximately £10,000. Revenues as share of estimated GDP were 37.9%, compared with 35.4% across the UK.

VAT was the largest source of revenue in Wales (raising £5.2 billion), followed by Income Tax (£4.6 billion) and National Insurance Contributions (£4.0 billion). The composition of revenues in Wales is markedly different from the UK as a whole. Large direct taxes (e.g. Income Tax and Corporation Tax) make up less of a share of total Welsh revenue, while a greater share is raised through indirect taxes (e.g. VAT and excise duties).

Revenues have grown by £2.6 billion, or 12.3%, since 2010-11, slightly behind growth in UK revenues during the same period (13.0%). The main components of this growth were the increase in VAT revenues and local authority revenue. Income Tax revenues in Wales actually fell during this time period, and were 2.6% below their 2010-11 level in 2014-15. These trends reflect population divergences between Wales and England and the effects of UK government policy during this time period, particularly the raising of the standard rate of VAT and the rapid increases in the Income Tax personal allowance.

Total managed expenditure for Wales is estimated at £38.0 billion in 2014-15, around 5.2% of total UK expenditure of £737.1 billion. Expenditure per person was approximately £12,300, around £900 (or 7.7%) above the UK level. Total expenditure for Wales was equivalent to 61.8% of estimated GDP in 2014-15, compared with 40.2% across the UK.

Social protection (including social security payments, pensions and other expenditure) is by far the largest expenditure programme for Wales, accounting for 37.4% of total expenditure for Wales, followed by health (17.0%) and education (10.8%).

Total expenditure for Wales grew by 3.9% in nominal terms since 2010-11. This was very slow growth compared with the preceding decade.

Approximately 53% of total expenditure for Wales was by the Welsh Government or local government in Wales, with the remainder spent by UK Government departments. In line with devolved responsibilities, the largest components of devolved spending were health and education expenditure, while most of the reserved expenditure for Wales was on social protection.

Wales' overall fiscal balances

Table 2 provides estimates of key fiscal aggregates for assessing the strength of public finances in Wales in recent years. The balance between Welsh revenues and expenditures – or Wales' net fiscal balance – is influenced by a range of economic factors, including the various policy decisions of the UK and Welsh governments and the relative performance of the Welsh economy over time.

While indicative of the strength of Welsh public sector revenues compared with expenditures and connected with Wales' relative economic performance, net fiscal balance does not constitute a measure of the regional transfer from other parts of the UK. This is because the UK as a whole was also in deficit during the analysed time period, and therefore borrowing funded some of the overall UK expenditure. Moreover, large inter-regional transfers are not unusual internationally. Economic shocks and common economic policies will impact regions and nations in asymmetric ways, triggering various stabilising forces.

TABLE 2: Current Budget and Net Fiscal Balance: Wales and UK 2010-11 to 2014-15					
	2010-11	2011-12	2012-13	2013-14	2014-15
WALES					
Current Budget Balance					
£ million	-13,851	-14,087	-13,481	-13,435	-13,184
% of estimated GDP	-25.6%	-24.9%	-23.1%	-22.2%	-21.4%
Net Fiscal Balance					
£ million	-15,806	-15,628	-15,338	-14,820	-14,696
% of estimated GDP	-29.2%	-27.7%	-26.3%	-24.5%	-23.9%
UK					
Current Budget Balance					
% of GDP	-6.0%	-5.1%	-5.1%	-4.2%	-3.3%
Net Fiscal Balance					
% of GDP	-8.6%	-7.0%	-7.1%	-5.7%	-4.9%

Wales' net fiscal balance in 2014-15 was a deficit of £14.7 billion. This deficit has reduced from £15.8 billion in 2010-11. The current budget balance measures the difference between current revenues and current expenditure (excluding net investment). This current balance for Wales is estimated at £13.2 billion

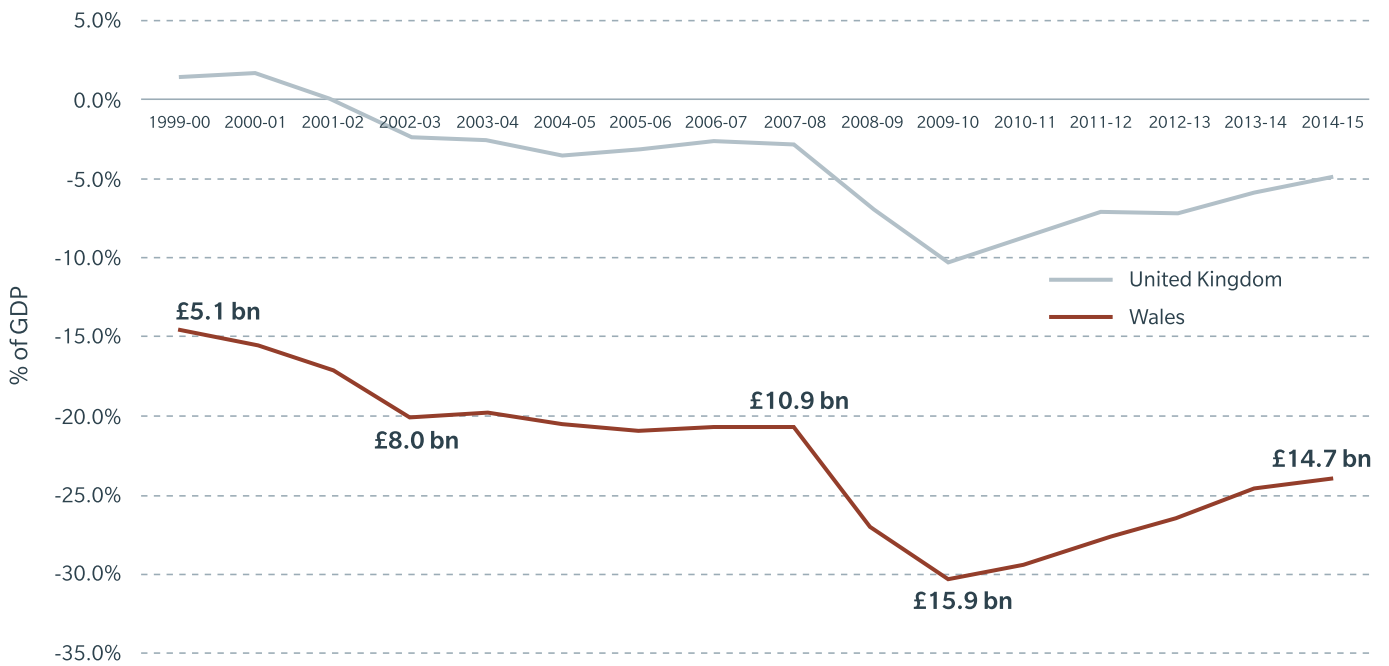
in 2014-15, down from the £14.1 billion deficit recorded in 2011-12. The improvement in Wales’ fiscal aggregates since 2010-11 was caused by much slower growth in expenditure compared with revenue, as outlined in the previous section.

Wales’ net fiscal deficit as a share of estimated GDP in 2014-15 was 23.9%, down from an estimated 29.2% in 2010-11. The UK net fiscal deficit as a share of GDP also improved during this period, from 8.6% in 2010-11 to 4.9% in 2014-15.

Longer term trends

Figure 1 presents a longer time-series of Wales’ net fiscal balance, from 1999-00 onwards. Difficulties in compiling consistent data (especially for government expenditures) mean that these data should be treated with particular caution.

FIGURE 1: Net Fiscal Balance: Wales and UK 1999-00 to 2014-15



In 1999-00, the estimated net fiscal balance for Wales was a deficit of £5.1 billion, or 14.5% of estimated GDP, but grew to £8.0 billion (20.1% of GDP) by 2002-03. As was the case across the UK as a whole, the onset of the financial crisis in 2007-08 severely worsened Wales’ fiscal aggregates. Declining revenues, increasing expenditure (particularly on social protection) and contracting GDP meant that the net fiscal deficit reached a peak of £15.9 billion in 2009-10, equivalent to 30.3% of estimated GDP.

Wales’ future fiscal framework

Wales’ current fiscal framework means that the level of public expenditure by the Welsh and local government in Wales is mostly unconnected to the amount of revenues collected in Wales. Recent developments mean that several revenue sources will soon be devolved, and will contribute directly to devolved expenditure. The revenues that have been or will soon be devolved collectively raised £4.2 billion in 2014-15, around 18.1% of total current revenue in Wales. This was equivalent to around 21.0% of estimated devolved expenditure. Compared with non-devolved taxes such as VAT, revenues from soon-to-be devolved taxes have been relatively stagnant in recent years, primarily because of the fall in the estimated revenues from the Welsh rates of Income Tax.

The net effect of tax devolution will ultimately be determined by how the current financing system, particularly the Welsh block grant from HM Treasury, will be adjusted after devolution. The risks and opportunities that the Welsh budget is facing for the first time as a result of fiscal devolution represent a major course change in Wales’ devolution journey.

Introduction

Government Expenditure and Revenue Wales 2016

Government Expenditure and Revenue Wales (GERW) 2016 is an inaugural report presenting a comprehensive multi-year analysis of Wales' public sector spending, revenues and the nation's overall net fiscal balance. Using detailed methodologies to estimate the composition and trends of public finances in Wales, this publication is designed to enhance public understanding of Wales' fiscal position and contribute to the continuing debate over Wales' fiscal and economic future.

In contrast to the annual fiscal balance reports published and disseminated in the two other devolved countries (*Government Expenditure and Revenue Scotland [GERS]* and the *Northern Ireland Net Fiscal Balance Report*), there has historically been only a small amount of disaggregated public spending, taxation and other economic data pertaining to Wales.

Only on infrequent occasions has research attempted to close this gap (for a more comprehensive history, see Williams 1998 or Crawley 2015).¹ The first attempt to calculate a comprehensive estimate of total public revenues and expenditures in Wales, *The Social Accounts for the Welsh Economy*, was published in Aberystwyth by Professor Ted Nevin in a series of four economic studies between 1956 and 1966.² The fourth report, *The Structure of the Welsh Economy (1966)*³ presented an input-output economic model and an extended version of Welsh revenue accounts from 1948-1962, finding a surplus in the accounts during this period. Later, the short-lived Welsh Council commissioned an independent study of Welsh income and expenditure accounts by the Economics Research Unit at Bangor, published by C.R. Tomkins in 1971, and again found that public revenues exceeded expenditures in 1968.⁴

The first analysis of general government expenditure and revenue for Scotland was published by the Scottish Office in 1992.⁵ The resulting series of reports, *Government Expenditure and Revenue Scotland (GERS)*, has adapted and introduced improved methodologies over its 25-year history and is now published annually by the Scottish Government. The first such central government analyses for Wales, *Government Expenditure and Revenue: Wales 1993-94* and *1994-95*, were published by the Welsh Office in 1996 and 1997; but unlike GERS, this series was discontinued by the incoming UK government in 1997 and therefore did not have the opportunity to undergo gradual revision and improvements in its methodology.

Since the establishment of devolution, there has been a glaring absence of official government publications that quantify Welsh public expenditures and revenues in order to provide an estimate of Wales' overall net fiscal balance. Instead, two government commissions have attempted to meet this need. In its final report, the Holtham Commission estimated that 2007-08 total identifiable expenditure in Wales was approximately £25 billion, exceeding Welsh tax receipts by £6 billion.⁶ By 2012, the Silk Commission found that while spending which identifiably benefits Wales had risen to £30 billion, tax receipts had fallen, growing the Welsh fiscal deficit to £18 billion in 2009-10.⁷ The stark difference between these two fiscal balance estimates means that a more granular, multiyear and frequent calculation process is urgently needed. Except for recent experimental HMRC data on tax receipts disaggregated on a four nation basis, there currently exists no annual publication to collate, analyse and disseminate public finance data to enhance public knowledge of Wales' ongoing fiscal position.

1 Williams, P (1998) *Cyfres y Cynulliad 3: The Welsh Budget*. Talybont: Y Lolfa; Crawley, A (2015). *Economic Data and Modelling for Wales in a Changing Union*. FSB Round Table Seminar Series Number 3: Federation of Small Businesses Wales

2 Nevin, E. (1956) *The Social Accounts of the Welsh Economy 1948-1952*, Welsh Economic Studies 1, University of Wales Press

3 Nevin, E, Roe A. R and Round, J. I. (1966) *The Structure of the Welsh Economy*, Welsh Economic Studies 4, University of Wales Press

4 Tomkins, C.R. (1971) *Income and Expenditure Accounts for Wales 1965-1968*. Welsh Council

5 Goudie, A. (2002). GERS and fiscal autonomy. *Scottish Affairs*, 41(1), 56-85

6 Holtham Commission (2010). *Independent Commission on Funding & Finance for Wales, Final report: Fairness and accountability: a new funding settlement for Wales*. p.41

7 Commission on Devolution in Wales (November 2012). *Empowerment and Responsibility: Financial Powers to Strengthen Wales*. p.27

The current absence of such a publication is especially serious given that fiscal devolution constitutes the next major phase of Welsh devolution. The Wales Act 2014 devolves taxation and borrowing powers to Wales for the first time, and subsequent to the November 2015 Spending Review, Income Tax powers are set to be devolved to Wales without the requirement of an affirmative vote in a referendum. The ongoing public debate on tax devolution is currently hampered by the absence of data on Wales' finances and how they might fare under a system of greater fiscal autonomy.

This absence has already been noted on a number of occasions. For example, the Silk Commission's recommendation 22(c) argued that *"Figures on the amount of tax collected in Wales should be produced. Such figures should also include estimates of the Welsh fiscal balance"*; and recommendation 23(e) that *"more information should be made available on the current scrutiny and accountability of public spending in Wales"*. In March 2015, the Finance Committee of the National Assembly found that *"There is a firm requirement for improved financial data and medium term information on the economic outlook for Wales and the impact of Welsh Government policies. The move towards greater fiscal devolution and the introduction of borrowing powers means that more informative, timely, robust, independent and objective information will be needed to support the production and scrutiny of future budgets."*⁸ Public interest organisations in Wales have also argued for the need for such data. For example, the Federation of Small Businesses Wales (FSB) have long engaged in advocacy to make the case for improved fiscal data to model the impact of proposed tax policy changes and to better measure Wales' economic progress.⁹

Given the next phase of tax devolution for Wales, there is a longstanding and urgent need for information that will help improve public awareness of Wales' relative financial position. This report is an attempt to address this need. We aim to provide key information on Welsh public finances to interested parties in order to promote a wider debate on public finances in Wales.

Aims and objectives

Public finance in Wales will undergo significant change in coming years, with substantial devolution of own-sourced taxes to the Welsh Government and National Assembly. These developments will be in stark contrast with current arrangements for public finance in Wales. The UK has retained a highly centralised revenue structure, with tax policy standardly applied across the UK and a high percentage of tax revenues collected and pooled centrally. Trends in expenditure for Wales have also been highly linked to UK-wide expenditure, both in terms of non-devolved expenditure for Wales (spending by Whitehall departments), and devolved expenditure by Welsh and local government. Although policy-makers in Wales have had the freedom to allocate funds according to different policy priorities, they have had limited influence on changing the overall level of devolved expenditure. Fiscal devolution will, within limits, allow for more divergence in expenditure and revenue patterns in Wales and the UK. As argued by the Silk Commission (2012) which recommended fiscal devolution to Wales, the powers are intended to bring increased financial accountability and empowerment.

Unlike some countries, the UK does not produce intra-UK fiscal accounts. In the absence of such reports, the other devolved administrations of the UK have long-established publications that provide respective estimated sets of public sector fiscal accounts, namely Government Expenditure and Revenue Scotland (GERS) and the Northern Ireland Net Fiscal Balance Report. Government Expenditure and Revenue Wales aims to replicate these publications to provide a comprehensive overview of public sector finances for Wales, including an estimate of Wales' net fiscal balance over time.

For each year analysed, this report will address the following questions:

- How much public sector revenue is raised in Wales? (Chapter 2)
- How much of that revenue will be devolved to Wales in the future? (Chapter 3)
- What is the cost of providing the full range of public services that benefits Wales? (Chapter 4)
- To what extent do the revenues raised cover the costs of these public services? (Chapter 1)

⁸ National Assembly for Wales Finance Committee (March 2015). *Best Practice Budget Process Part 2 - Planning and Implementing New Budget Procedures*. p.33

⁹ See for example, FSB Wales (21 May 2014), *Written Evidence to the National Assembly Finance Committee Best Practice Budget Process*. Available at: <http://www.senedd.assembly.wales/documents/s27755/FIN4%20-%20BPBP05%20Federation%20of%20Small%20Businesses.pdf>

Our Approach

There is no formally agreed set of accounting concepts and definitions for the formulation of country or regional fiscal accounts in the UK. Several key elements of data necessary for constructing such accounts are also unavailable at a disaggregated level. This report therefore follows the framework established by the GERS publication for Scotland which is certified as a National Statistics document in the UK. Where data for Wales is unavailable, the report uses UK level data and various apportioning methodologies to produce appropriate estimates. The accounts are estimated for Wales on the basis of the national accounting standards adopted by the UK Government, namely the European System of Accounts 2010 (ESA10).

Our approach to both the revenue and expenditure sides of the public sector fiscal accounts follows established principles in the methodology adopted for the Scotland and Northern Ireland fiscal reports and is outlined below. More information can be found in the annexes of this report, and a comprehensive methodology is provided in the extended online annexes.

Revenue - the 'who pays' principle

Public sector revenue in Wales is estimated for taxes where a financial burden is imposed on residents and enterprises in Wales. The estimation is therefore based on an assessment according to the 'who pays' principle.

The vast majority of public sector revenue in the UK is collected centrally. Under current Treasury accounting procedures, exactly specified revenue collections for each country and region of the UK are not available. As with existing reports elsewhere in the UK, Government Expenditure and Revenue Wales (GERW) therefore estimates Welsh public sector revenue by considering each revenue stream separately. The general approach is to take UK level data and apportion revenues to Wales using available data and various methodologies.

Expenditure – the 'who benefits' principle

Although Welsh Government and local government spending is relatively straightforward to allocate to Wales' total public spending, how a share of public expenditures that benefit Wales as well as other parts of the UK should be allocated to Wales is fraught with challenge. Following GERS and the Northern Ireland Net Fiscal Balance Report, GERW estimates public sector expenditures for Wales on the basis of an assessment according to what GERS refers to as the 'who benefits' principle. Public sector expenditure is deemed to be for Wales if the benefit of the service or transfer derived from the expenditure is thought to accrue to residents of Wales.

Other methods of allocating public sector expenditure across the regions of the UK are possible and would yield different estimates to those in this report. Notably, estimates of expenditures made for a region will differ from estimates of expenditure in a region – that is, apportionment of spending according to where the expenditure actually took place.

While these two different approaches yield similar results in most cases (social protection payments or health expenditure, for example), there is greater difference in allocations for public sector spending that has broader (often UK-wide) impact. For example, the 'in' approach would attempt to locate UK defence expenditure to where the expenditure actually takes place. Alternatively, as in this report, the 'who benefits' approach apportions defence expenditure across the UK, as it is deemed that all UK residents benefit from the defence service provided.

Allocating spending according to the 'who benefits' principle is not without its challenges. In a 1998 critique of the original Welsh Office *Government Expenditure and Revenue: Wales* report, Professor Phil Williams argued persuasively that the share of actual Ministry of Defence spending in Wales was significantly lower than Wales' share of the UK population that formed the basis of the *for* Wales spending allocation.¹⁰ Although UK expenditure to the region or nation in which the expenditure actually takes place would be of real interest, detailed and exact estimates of spending in Wales by every UK government department and agency are simply not available. Consequently, in order to provide an estimate of the full range of public services consumed for the benefit of Wales and for the purposes of consistency with

10 Williams, P (1998). *Cyfrs y Cynulliad 3: The Welsh Budget*. Talybont: Y Lolfa Cyf.

comparable publications, this report uses, wherever possible, the *for Wales* methodology of apportioning public sector expenditure. Notably, this may mean that some of the expenditure allocated *for the benefit of Wales* and included in total expenditure in this report may actually have been spent outside of Wales. Such expenditure will have different effects to expenditure made inside Wales; namely, it will not lead to local economic multiplier effects and will not directly increase the tax revenues collected in Wales.

Understanding Wales' Net Fiscal Balance and Regional Transfers in the UK

The balance between Welsh revenues and expenditures – or Wales' *net fiscal balance* – is influenced by a range of economic factors, including the various policy decisions of the UK and Welsh governments and the relative performance of the Welsh economy over time. Public sector revenues and expenditures are highly related to Wales' demographics and relative economic performance; for example, lower income and expenditure levels are associated with lower tax revenues, and vice versa. The net result of these various factors will determine Wales' net fiscal balance.

Large inter-regional transfers are not unusual internationally. Economic shocks and common economic policies will impact regions in asymmetric ways, and will trigger various stabilising forces. In single currency areas, the absence of exchange rate adjustments requires other mechanisms to bring about regional stabilisation.¹¹ In economic and political unions, fiscal transfers will often meet this requirement.

In some countries, there is an explicit system of fiscal equalisation between regions. A good example of this is the system of redistribution between German Länder (states), developed in the aftermath of the Second World War.¹² Fiscal equalisation between countries and regions in the UK however will be largely implicit and automatic, due to the centralisation of UK public finances. The redistributive effect of transfer payments (e.g. higher levels of social protection expenditure) and the progressivity of direct taxes (e.g. income tax) means that the lower levels of economic activity in Wales are somewhat offset by transfers from elsewhere in the UK. The magnitude of the regional transfer to Wales is crudely reflected in the different trends in Gross Value Added (GVA) per head and Gross Disposable Household Income (GDHI) per head in Wales. Whereas Welsh GVA per head is 72.5% of the UK average, Welsh GDHI per head is significantly higher, at 87.9% of the UK average.

It is important to note that the net fiscal balance reported in Chapter 1 does not constitute a direct measure of 'regional transfer' from other parts of the UK. This is because the UK as a whole was also in deficit during the analysed time period, and therefore borrowing funded some of the overall UK expenditure.

Overview of this Report

The remainder of the report is structured as follows:

CHAPTER 1: Estimated Fiscal Balances for Wales

This chapter presents a summary of Wales' public sector balances for the years 2010-11 to 2014-15 using estimates of public sector revenue in Wales and public sector expenditure for Wales. Key fiscal aggregates to assess the strength of public finances in Wales (the current budget balance and net fiscal balance) are presented and analysed. Also provided is a longer time-series of Wales' estimated net fiscal balance from 1999-00.

CHAPTER 2: Public Sector Revenue in Wales

This chapter provides detailed estimates, analysis and discussion of public sector revenue in Wales. Detailed disaggregated estimates of individual revenue streams for the years 2010-11 to 2014-15 are presented. The composition and trends in current revenue are explored. A longer estimated time-series from 1999-00 onwards is also provided.

11 See Mundell, R. (1961) A Theory of Optimal Currency Areas, *American Economic Review*, 51 (4): 657-65.

12 Zimmerman, H. (1989) Fiscal Equalization between States in West Germany, *Government and Policy*, 7: 385-93.

CHAPTER 3: Devolution of Revenues to Wales

This chapter analyses in greater detail the taxes that are to be devolved to Wales in coming years, with estimates of recent trends in these revenues. Consideration is given to the drivers of recent trends in these individual revenues. The chapter also presents an illustrative estimate of Wales' future fiscal framework, showing the share of total revenues that will be devolved and the share of devolved expenditure that will be financed by devolved taxation.

CHAPTER 4: Public Sector Expenditure for Wales

Chapter 4 provides an estimate of public sector expenditure for Wales, from 2010-11 to 2014-15. The composition of public expenditure by policy function and by current and capital spending is presented and analysed. Estimates are also presented of the expenditure by Welsh Government and local government in Wales, against expenditure by UK Government departments. A longer estimated time-series of expenditure is also provided.

ANNEX A: Revenue Methodology

This annex describes the methodology behind the estimates of public sector revenue in Wales presented in this report.

ANNEX B: Expenditure Methodology

This annex describes the methodology behind the estimates of public sector expenditure for Wales presented in this report.

ANNEX C: Estimates of Welsh GDP

As public finance statistics are often presented as a share of GDP, it was deemed appropriate in this report to provide an approximate estimate of Welsh GDP. This annex describes the methodology underpinning these approximations.

1

Estimated Fiscal Balances for Wales

Introduction

This chapter presents a summary of Wales' estimated public sector balances for the years 2010-11 to 2014-15, using estimates of public sector revenue in Wales and public sector expenditure for Wales.

Headline estimates of current and capital expenditure for Wales, alongside key elements of public sector revenue in Wales are provided. These form key fiscal aggregates for assessing the strength of public finances in Wales. Recent trends in Wales' current budget balance and net fiscal balance are analysed.

Also shown is a longer time series estimate of Wales' net fiscal balance from the start of devolution in 1999-00.

Key findings:

- Wales' current budget balance in 2014-15 was a deficit of £13.2 billion, down from the £14.1 billion deficit recorded in 2011-12.
- Wales' net fiscal balance in 2014-15 was a deficit of £14.7 billion. This deficit has reduced from £15.8 billion in 2010-11.
- The improvement in Wales' fiscal aggregates since 2010-11 was caused by total expenditure for Wales growing only by £1.4 billion, or 3.9% in nominal terms, which was only one third of the growth rate in current revenue (12.3%).
- Wales' net fiscal deficit as a share of estimated GDP in 2014-15 was 23.9%, down from an estimated 29.2% in 2010-11. The UK net fiscal deficit as a share of GDP also improved during this period, from 8.6% in 2010-11 to 4.9% in 2014-15.
- In 1999-00, the estimated net fiscal balance for Wales was a deficit of £5.1 billion, or 14.5% of estimated GDP, but grew to £8.0 billion (20.1% of GDP) by 2002-03.
- As across the UK as a whole, the onset of the financial crisis in 2007-08 severely worsened Wales' fiscal aggregates. Declining revenues, increasing expenditure (particularly on social protection) and contracting GDP meant that the net fiscal deficit reached a peak of £15.9 billion in 2009-10, equivalent to 30.3% of estimated GDP.

Definition of key fiscal aggregates presented

The key measures presented in this report replicate those provided in *Government Expenditure and Revenue Scotland*, a National Statistics publication.

Current revenue presented in this report is the sum of all revenue raised by the entire public sector in Wales, of which the main component is tax revenues. Detail on the composition of current revenues in Wales can be found in chapters 2 and 3.

Public sector current expenditure for Wales is the sum of current expenditure by central government, local government and public corporations for Wales. Current expenditure relates to spending on goods and services that are 'consumed' in the year of purchase. This includes most direct expenditure on public

sector pay and service provision. Public sector capital expenditure on the other hand relates to spending that adds to fixed assets, for example, expenditure on new construction or the net acquisition of land. Public sector capital expenditure less capital consumption is referred to as net investment. Further detail on these components can be found in chapter 4.

The **current budget balance for Wales** is the difference between its current revenue and current expenditure, including depreciation. This measures the extent to which current Welsh taxpayers meet the cost of paying for the public services they consume in the current year. Excluded from this is capital investment by the public sector. The current budget balance is often seen as an indicator of intergenerational fairness and of the sustainability of current policies.

Wales' net fiscal balance measures the difference between total public sector expenditure (including capital expenditure) and public sector revenue. At the UK level this gap will be reflected by public sector borrowing (or saving). In Wales however, this gap reflects its place in the overall fiscal position of the UK public sector.

Current Budget Balance and Net Fiscal Balance for Wales

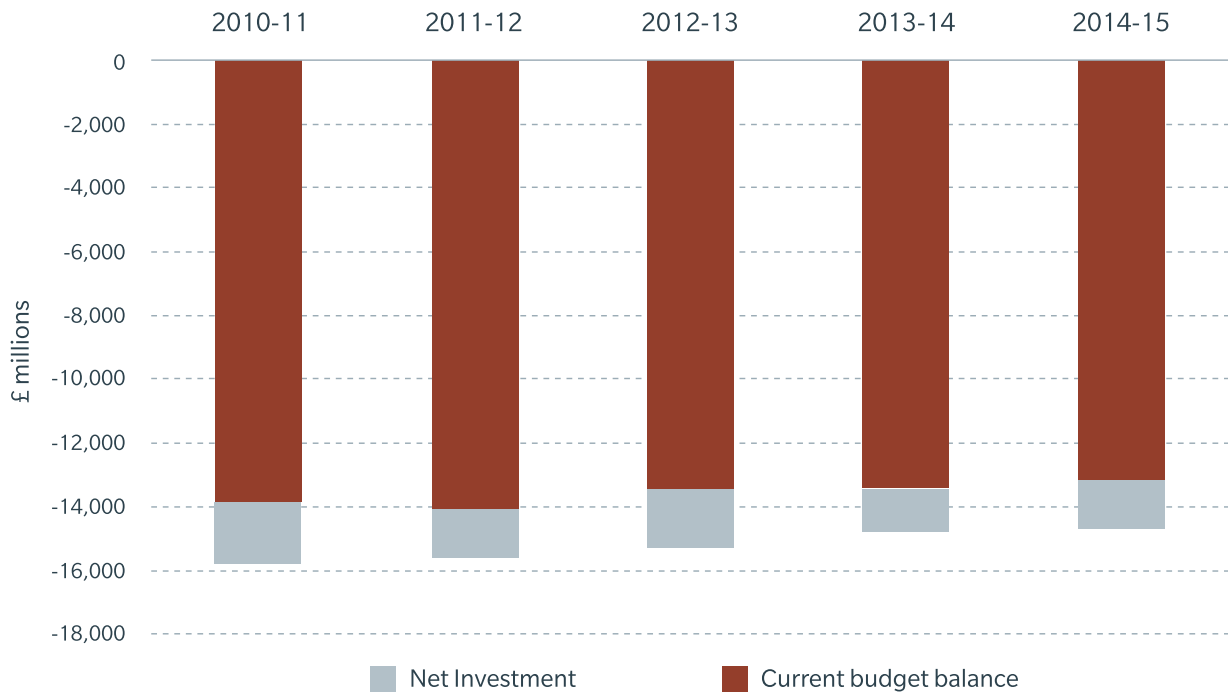
Table 1.1 presents estimates of key fiscal measures, for the years 2010-11 to 2014-15.

TABLE 1.1: Current Budget and Net Fiscal Balance: Wales 2010-11 to 2014-15					
	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
CURRENT BUDGET					
Current revenue	20,771	21,604	21,939	22,524	23,321
Current expenditure	33,079	33,954	33,599	34,089	34,570
Capital consumption	1,543	1,737	1,821	1,870	1,934
Balance on current budget	-13,851	-14,087	-13,481	-13,435	-13,183
CAPITAL BUDGET					
Capital expenditure	3,498	3,279	3,677	3,256	3,446
Capital consumption	-1,543	-1,737	-1,821	-1,870	-1,934
Net investment	1,955	1,542	1,857	1,385	1,512
Net Fiscal Balance (surplus positive, deficit negative)	-15,806	-15,628	-15,338	-14,820	-14,695

As presented in table 1.1, **Wales' current budget balance in 2014-15 was a deficit of £13.2 billion**. This is down from the current deficit of £13.9 billion recorded in 2010-11, and the £14.1 billion recorded in 2011-12. This represents a 6.4% nominal terms decrease in the current deficit from 2011-12. During the five-year period analysed, current revenues grew by £2.6 billion (12.3%), whilst current expenditure and capital consumption together only grew by £1.9 billion (5.4%).

Net investment for Wales (capital expenditure minus capital consumption) was just over £1.5 billion in 2014-15. **This means that the total net fiscal balance for Wales was a deficit of £14.7 billion in 2014-15.** This report estimates that Wales’ net fiscal deficit has reduced somewhat over the five-year period from £15.8 billion in 2010-11, a 7.0% decrease in nominal terms. During this period, total managed expenditure (current and capital expenditure) for Wales grew only by £1.4 billion, or 3.9% in nominal terms, which was only a third of the growth rate of current revenue. The trend in Wales’ net fiscal balance is illustrated in figure 1.1.

FIGURE 1.1: Current Budget and Net Fiscal Balances: Wales, 2010-11 to 2014-15



In order to relate Wales’ net fiscal balance to UK fiscal aggregates and publications elsewhere in the UK, we calculate a series of **Gross Domestic Product (GDP)** estimates for Wales that should be viewed as approximations only. Annex C provides full details on how GDP estimates were constructed.

Table 1.2 presents the estimates of Wales' public sector accounts as a percentage of Wales' estimated GDP.

TABLE 1.2: Current Budget and Net Fiscal Balance as % of GDP: Wales 2010-11 to 2014-15					
	% GDP				
	2010-11	2011-12	2012-13	2013-14	2014-15
CURRENT BUDGET					
Current revenue	38.4%	38.2%	37.6%	37.2%	37.9%
Current expenditure	61.1%	60.1%	57.6%	56.3%	56.2%
Capital consumption	2.9%	3.1%	3.1%	3.1%	3.1%
Balance on current budget	-25.6%	-24.9%	-23.1%	-22.2%	-21.4%
CAPITAL BUDGET					
Capital expenditure	6.5%	5.8%	6.3%	5.4%	5.6%
Capital consumption	-2.9%	-3.1%	-3.1%	-3.1%	-3.1%
Net investment	3.6%	2.7%	3.2%	2.3%	2.5%
Net Fiscal Balance (surplus positive, deficit negative)	-29.2%	-27.7%	-26.3%	-24.5%	-23.9%

As a share of estimated GDP, Wales' current budget deficit was 21.4% in 2014-15. The current deficit as a share of GDP fell in all years analysed, from an estimated 25.6% in 2010-11. The net fiscal deficit for Wales was 23.9% of estimated GDP in 2014-15. This is down from 29.2% of GDP in 2010-11. This reflects the changes to the absolute value of deficits described earlier as well as strong GDP growth between 2010-11 and 2013-14. The smaller reduction in the deficit as a share of GDP in the year to 2014-15 reflects a higher rate of growth in total expenditure, as well as a slower rate of GDP growth.

Table 1.3 provides estimates of the UK's Public Sector Balances during the same time period, prepared on a consistent basis with the estimates for Wales above. The data is taken from the Office of National Statistics (ONS) Public Sector Finances Statistical Bulletin published in January 2016. The current budget deficit as well as the net fiscal deficit for the UK as a whole also fell as a share of GDP during this time period. The current budget deficit stood at 3.3% of GDP in 2014-15, while the net fiscal deficit stood at 4.9% of GDP. The difference between Wales' and the UK's current and net fiscal balances as shares of GDP are illustrated in figures 1.2 and 1.3.

TABLE 1.3: Current and Net Fiscal Balance as % of GDP: UK 1999-00 to 2014-15

	% of GDP				
	2010-11	2011-12	2012-13	2013-14	2014-15
CURRENT BUDGET					
Current revenue	36.4%	36.5%	35.9%	35.6%	35.4%
Current expenditure	40.4%	39.5%	38.9%	37.8%	36.6%
Capital consumption	2.1%	2.1%	2.1%	2.1%	2.0%
BALANCE ON CURRENT BUDGET	-6.0%	-5.1%	-5.1%	-4.2%	-3.3%
CAPITAL BUDGET					
Capital expenditure	4.6%	3.9%	4.1%	3.6%	3.6%
Capital consumption	-2.1%	-2.1%	-2.1%	-2.1%	-2.0%
Net investment	2.5%	1.8%	2.1%	1.5%	1.6%
Net Fiscal Balance (surplus positive, deficit negative)	-8.6%	-7.0%	-7.1%	-5.7%	-4.9%

FIGURE 1.2: Current Budget Balance as % of GDP: Wales and UK, 2010-11 to 2014-15

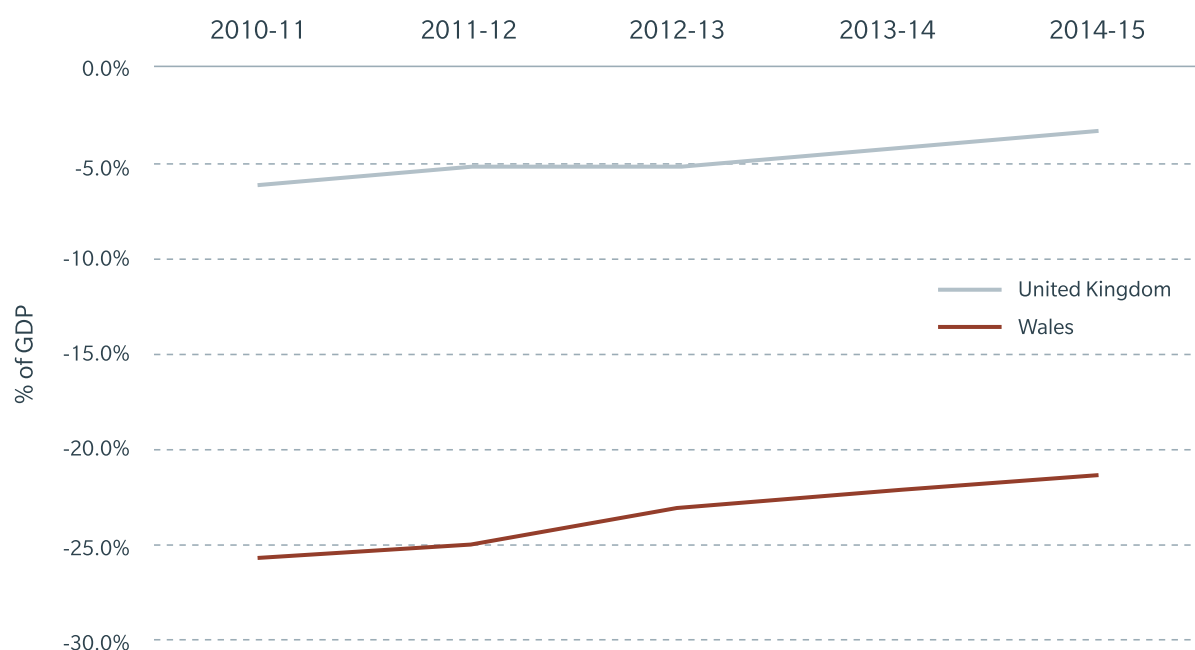


FIGURE 1.3: Net Fiscal Balance as % of GDP: Wales and UK, 2010-11 to 2014-15

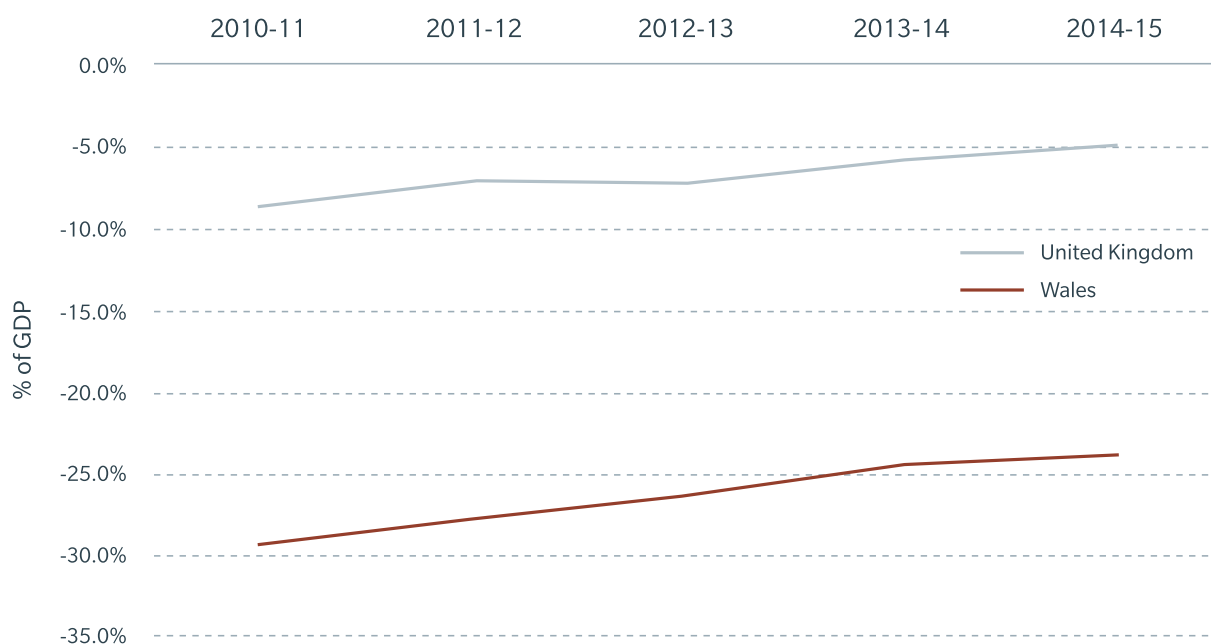


Table 1.4 provides estimates of current revenue and total expenditure, as well as the net fiscal balance, per person for Wales and the UK as a whole.

TABLE 1.4: Total Current Revenue, Total Expenditure and Net Fiscal Balance per person: Wales and UK 2010-11 to 2014-15

	WALES					UK				
	2010-11	2011-12	2012-13	2013-14	2014-15	2010-11	2011-12	2012-13	2013-14	2014-15
CURRENT REVENUE										
£ per person (rounded to nearest £100)	6,800	7,100	7,100	7,300	7,500	9,100	9,400	9,500	9,800	10,000
UK = 100	74.6	75.1	75.5	74.9	75.2	100	100	100	100	100
TOTAL EXPENDITURE										
£ per person (rounded to nearest £100)	12,000	12,200	12,100	12,100	12,300	11,300	11,200	11,300	11,300	11,400
UK = 100	106.3	108.7	107.0	106.9	107.7	100	100	100	100	100
Net fiscal balance										
£ per person (rounded to nearest £100)	-5,200	-5,100	-5,000	-4,800	-4,800	-2,100	-1,800	-1,900	-1,600	-1,400

Note: Figures may not match exactly because of rounding error.

Estimated current revenue per person in Wales in 2014-15 was around £7,500. This was 75.2% of the level for the UK as a whole, of around £10,000. Meanwhile, total expenditure per person for Wales of around £12,300 was 7.7% above the level for the UK as a whole (of £11,400). This means that the net fiscal deficit per person in Wales was around £4,800, down from £5,200 per person in 2010-11. The slower reduction in the deficit per person in Wales compared with the UK as a whole is influenced by the slower population growth seen in this period (see Chapter 4, box 4.1).

Public Sector Revenue

Table 1.5 provides estimates of current public sector revenue in Wales, broken down by the main categories of revenue for the years 2010-11 to 2014-15.

TABLE 1.5: Total Current Revenues by Main Categories: 2010-11 to 2014-15					
	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
Income tax	4,759	4,608	4,516	4,453	4,634
Corporation tax (onshore)	913	830	874	891	1,000
National Insurance Contributions	3,528	3,640	3,743	3,844	3,950
Value Added Tax	4,171	4,691	4,779	5,005	5,152
Local authority revenue ¹	1,857	1,907	1,976	2,051	2,131
All other revenue	5,543	5,927	6,051	6,280	6,454
TOTAL CURRENT REVENUE	20,771	21,604	21,939	22,524	23,321

1. Includes council tax and non-domestic rates

The five-year period analysed was a period of growth in current revenues in Wales compared with slower growth in current expenditure. The largest contributor to this growth was revenue from Value Added Tax (VAT), which grew by 23.5% during this time period. There was also strong growth in local authority revenue, especially in council tax revenue. Conversely, there was substantially slower growth in estimated revenues from large direct taxes, especially income tax. Income tax revenues actually fell during this period, and were 2.6% below their 2010-11 level in 2014-15. These trends mainly reflect population trends and UK taxation policy during this time period, as well as growth in the underlying tax base.

Further discussion on the composition and trends of current revenue in Wales are provided in chapters 2 and 3. Annex A describes the methodology for estimating current revenue in Wales.

Public Sector Expenditure

Table 1.6 presents estimates of total public sector expenditure for Wales by the largest expenditure policy areas, from 2010-11 to 2014-15.

TABLE 1.6: Total Expenditure for Wales by largest functions, 2010-11 to 2014-15					
	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
Social protection	12,558	13,094	13,636	13,750	14,206
Health	6,190	6,125	6,051	6,186	6,467
Education and training	4,254	4,436	4,162	4,230	4,108
General public services	3,138	3,166	2,922	2,979	2,851
Defence	1,910	1,872	1,755	1,752	1,747
Public order and safety	1,513	1,487	1,464	1,418	1,424
Other functions	7,015	7,052	7,286	7,029	7,212
TOTAL EXPENDITURE	36,577	37,233	37,277	37,345	38,016

Growth in total expenditure for Wales has been relatively slow over the last five years, especially compared with growth in the preceding decade (see below for expenditure trends since 1999-00). Total expenditure for Wales increased from £36.6 billion in 2010-11 to £38.0 billion in 2014-15. This was a nominal increase of 3.9%, compared with growth of 4.1% in total expenditure across the UK. The largest increase in expenditure for Wales by function was for social protection (which includes pensions, social security payments and other expenditure), which grew by 13.1% over this time period. Health expenditure also grew by 4.5% in nominal terms, although this was below the much faster corresponding growth across the UK of 11.9%. There were large decreases in Wales' apportioned expenditure on public sector debt interest payments (included in the General Public Sector services category of table 1.6), as well as a small decrease in expenditure on education and training.

For a more detailed breakdown of expenditure, see Chapter 4. For details on the methodology for estimating public sector expenditure see Annex B.

Longer time-series data

This section presents a longer view of Wales' key fiscal aggregates from the year 1999-00 onwards, which is both the first year of devolution and the earliest year for which much of the data is available.

Difficulty in compiling consistent data (especially on public sector expenditure) means that figures for years before 2010-11 should be treated with particular caution.¹³ Recent changes in reporting, classification and accounting procedures are not reflected in older data. While total expenditure is likely to be reasonably accurate, capital expenditure is likely to be underestimated here while current expenditure is likely to be overestimated in earlier years. This discrepancy means that the reported net fiscal balance estimate is likely to be more accurate and consistent over time than the current budget balance estimates since 1999-2000.

These difficulties aside, these data provide us with an indication of how the strength of public finances in Wales has changed over time.

Table 1.7 presents Wales' current and net fiscal balance from 1999-00 to 2014-15. A comparison with the whole of the UK is also provided, and also illustrated in figures 1.4 and 1.5. The trends in total expenditure and total current revenue are shown in figure 1.6.

¹³ See the methodologies provided in annexes for detail on how the historic data was compiled.

The trend in Wales' net fiscal balance over time is broadly similar to the trend for the UK as a whole. In 1999-00 the net fiscal balance for Wales was a deficit of £5.1 billion or 14.5% of estimated GDP. Total expenditure for Wales grew rapidly in the earlier years of this period, from £18.9 billion in 1999-00 to £29.0 billion in 2005-06. This amounted to an average annual growth rate of 7.4% over this period, with annual growth peaking at 9.4% in 2002-03. Slower growth in revenues in early years meant that the net fiscal deficit reached £8.0 billion in 2002-03, which was 20.1% of estimated GDP.

The deficit remained relatively constant as a share of GDP in subsequent years, until the onset of the financial crisis in 2007-08. Total current revenues in Wales fell from £20.8 billion in 2007-08 to £19.7 billion in 2009-10. Meanwhile, total managed expenditure for Wales increased from £31.7 billion to £35.6 billion during the same time period. The largest increase in expenditure for Wales in these years was for social protection expenditure, as well as an apportioned share of the permanent effects of the UK Government's financial sector interventions during this period (see chapter 4). These trends sharply worsened Wales' net fiscal deficit, which reached its peak of £15.9 billion in 2009-10. The contraction in the economy meant that this deficit was equivalent to 30.3% of estimated GDP. The deficit for the whole of the UK also grew sharply during this period, peaking at 10.2% of GDP in 2009-10.

As described in earlier sections, the deficit on Wales' net fiscal balance has subsequently improved, reflecting much lower levels of expenditure growth and a recovery in current revenues.

TABLE 1.7: Current Budget and Net Fiscal Balance: Wales 1999-00 to 2014-15

£ million																
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
CURRENT BUDGET																
Current revenue	13,832	14,418	14,888	15,293	16,636	17,663	18,789	19,808	20,760	20,277	19,694	20,771	21,604	21,939	22,524	23,321
Current expenditure	17,406	18,520	19,424	21,297	23,245	24,818	26,446	27,563	28,743	30,360	31,834	33,079	33,954	33,599	34,089	34,570
Capital consumption	939	968	1,013	1,118	1,131	1,211	1,286	1,326	1,367	1,428	1,460	1,543	1,737	1,821	1,870	1,934
Balance on current budget	-4,513	-5,071	-5,548	-7,123	-7,741	-8,367	-8,942	-9,081	-9,350	-11,511	-13,600	-13,851	-14,087	-13,481	-13,435	-13,183
CAPITAL BUDGET																
Capital expenditure	1,487	1,526	1,841	1,971	1,831	2,273	2,516	2,781	2,909	3,700	3,719	3,498	3,279	3,677	3,256	3,446
Capital consumption	-939	-968	-1,013	-1,118	-1,131	-1,211	-1,286	-1,326	-1,367	-1,428	-1,460	-1,543	-1,737	-1,821	-1,870	-1,934
Net investment	548	557	829	852	699	1,062	1,231	1,455	1,543	2,273	2,259	1,955	1,542	1,857	1,385	1,512
Net Fiscal Balance (surplus positive, deficit negative)	-5,061	-5,628	-6,377	-7,975	-8,440	-9,429	-10,173	-10,536	-10,893	-13,783	-15,859	-15,806	-15,628	-15,338	-14,820	-14,695
Current Budget and Net Fiscal Balance as % of GDP: Wales and UK 1999-00 to 2014-15																
% of GDP																
WALES																
Balance on Current Budget	-13.0%	-14.0%	-14.9%	-17.9%	-18.1%	-18.2%	-18.4%	-17.8%	-17.8%	-22.5%	-26.0%	-25.6%	-24.9%	-23.1%	-22.2%	-21.4%
Net Fiscal Balance	-14.5%	-15.5%	-17.1%	-20.1%	-19.7%	-20.5%	-20.9%	-20.7%	-20.7%	-27.0%	-30.3%	-29.2%	-27.7%	-26.3%	-24.5%	-23.9%
UK																
Balance on Current Budget	2.1%	2.3%	1.1%	-1.0%	-1.4%	-1.7%	-1.2%	-0.6%	-0.7%	-3.6%	-7.0%	-6.0%	-5.1%	-5.1%	-4.2%	-3.3%
Net Fiscal Balance	1.5%	1.6%	-0.1%	-2.4%	-2.6%	-3.4%	-3.1%	-2.6%	-2.7%	-6.8%	-10.2%	-8.6%	-7.0%	-7.1%	-5.7%	-4.9%

FIGURE 1.4: Current Budget Balance as % of GDP: UK and Wales, 1999-00 to 2014-15

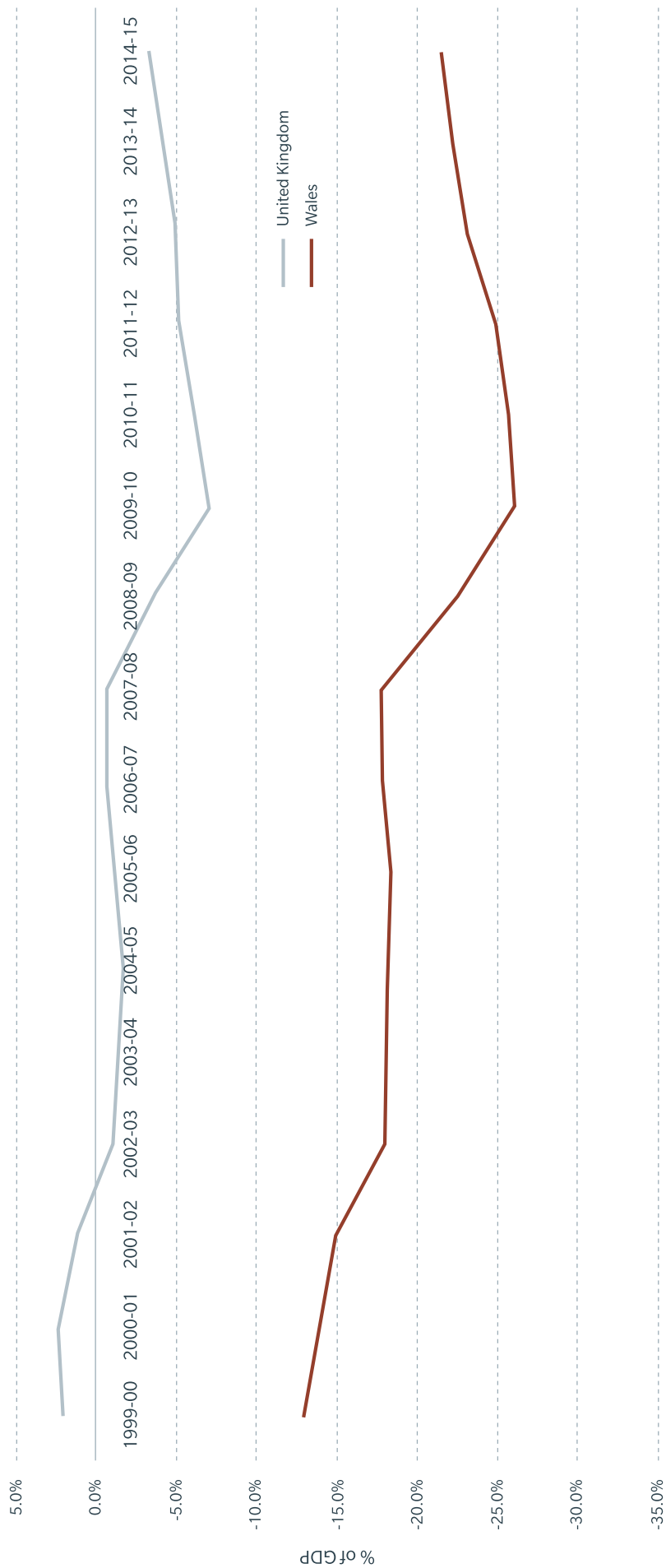


FIGURE 1.5: Net Fiscal Balance as % of GDP: UK and Wales, 1999-00 to 2014-15

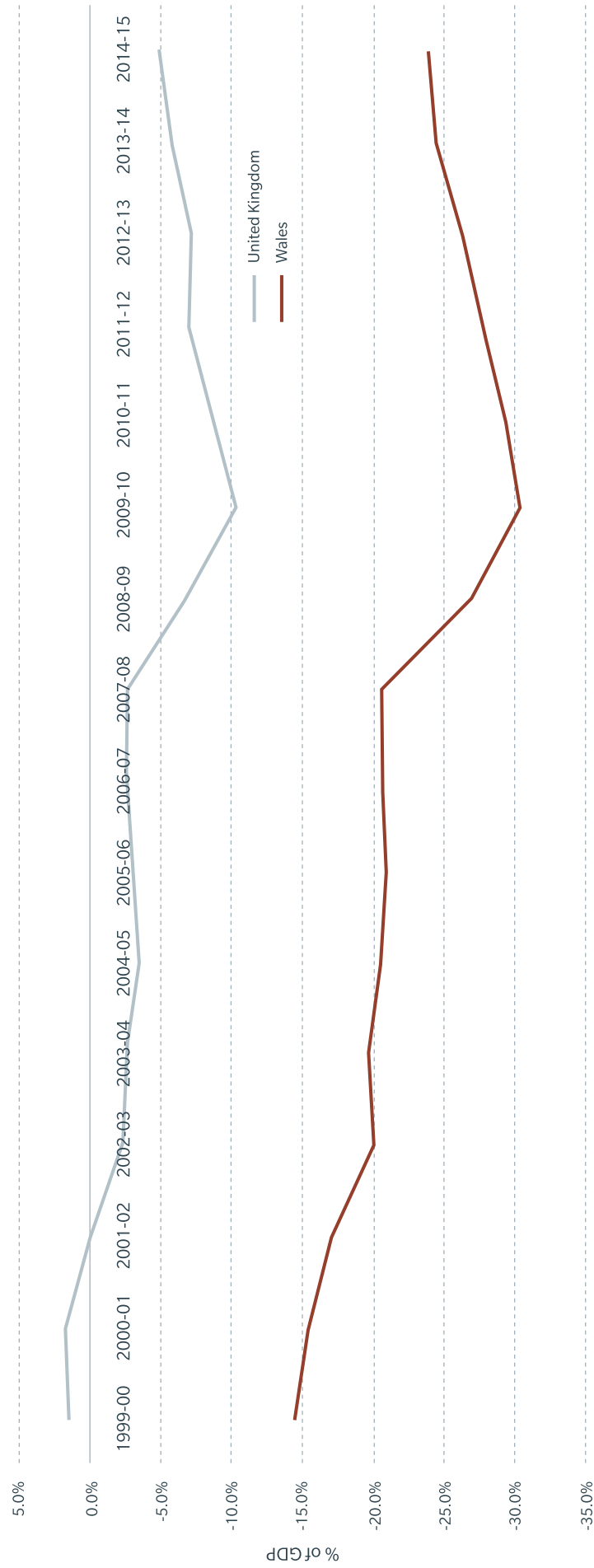
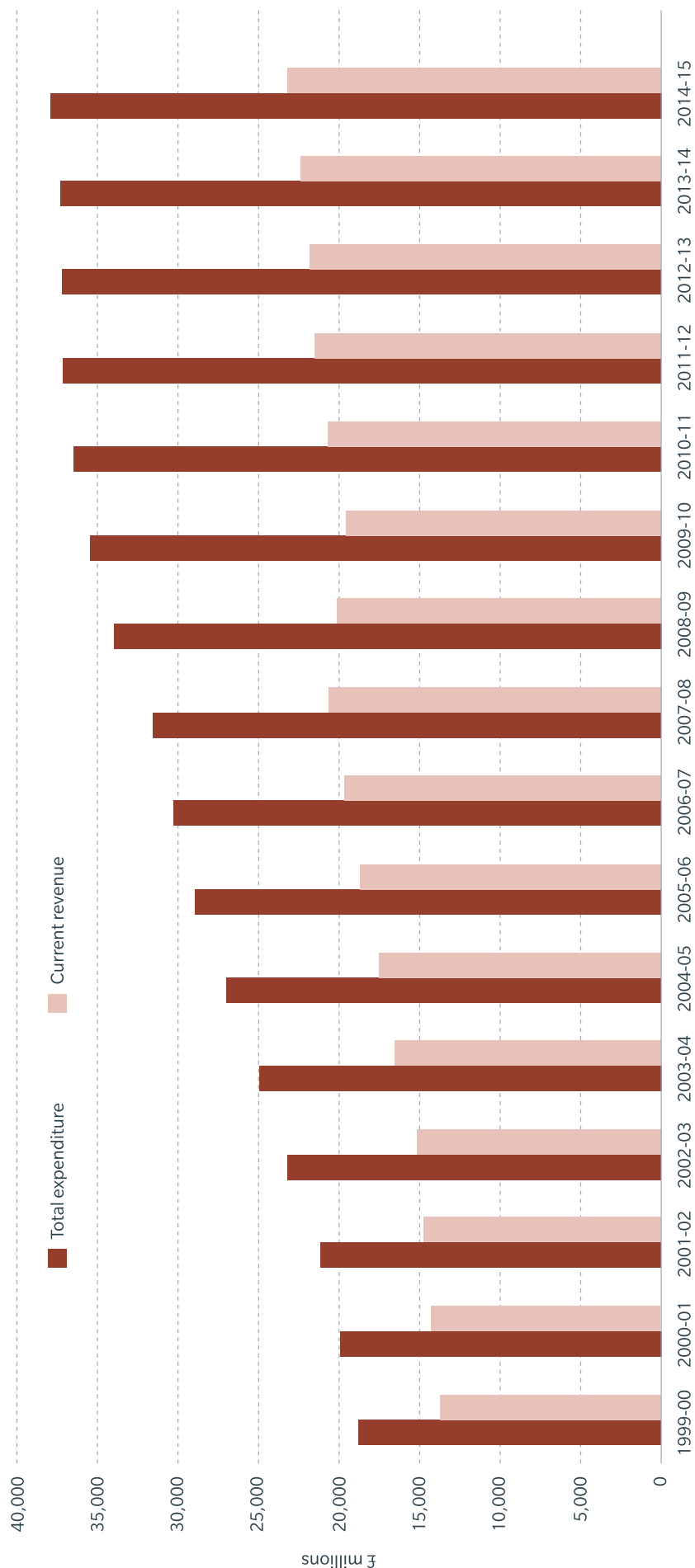


FIGURE 1.6: Total Expenditure and Current Revenue: Wales, 1999-00 to 2014-15



2

Public Sector Revenue in Wales

Introduction

This chapter provides detailed estimates of public sector revenue in Wales. Current public sector revenue, as defined in the UK National Accounts, is the sum of all revenue raised in a particular year by the entire public sector. The main component of this is tax revenues. The amount of tax revenues collected in Wales will depend on the performance of the tax base (for example, on incomes and profits), as well as tax policy, which is mostly determined at the UK level. As the composition of the Welsh tax base is significantly different from the UK average, tax policy set uniformly across the UK will have different effects on revenues in Wales than across the UK. This is reflected in the composition of total revenues and the trends analysed in this chapter.

The majority of public sector revenue payable by Welsh residents and enterprises is collected at the UK level. For most revenue sources it is not possible to exactly identify separately the proportion receivable from Wales. This report therefore uses a number of different methodologies to apportion revenue to Wales. These methodologies are discussed in Annex A.

Key findings:

- Total public sector revenue in Wales is estimated at £23.3 billion in 2014-15, around 3.6% of total UK revenues of £648.0 billion.
- Revenues per head in Wales were around £7,500, significantly less than the average UK figure of around £10,000.
- Revenues as a share of estimated GDP was 37.9%, compared with 35.4% across the UK.
- VAT was the single largest source of public sector revenue (raising £5.2 billion), followed by Income Tax (£4.6 billion) and National Insurance Contributions (£4.0 billion).
- The composition of revenues in Wales is different from the UK as a whole. Large direct taxes (e.g. Income Tax and Corporation Tax) comprise a smaller share of Welsh revenue, whilst a greater share is raised through indirect taxes (e.g. VAT and excise duties).
- Revenues have grown by £2.6 billion, or 12.3%, since 2010-11, slightly below growth in UK revenues during the same period (13.0%).
- The main components of this growth were the increase in VAT revenues and local authority revenue (particularly council tax).
- Income Tax revenue in Wales has fallen in Wales since 2010-11, reflecting the disproportionate impact of UK Government tax policy in Wales and diverging population trends.

Composition of Current Revenues in Wales, 2014-15

Table 2.1 presents estimated public sector revenue in Wales and the UK for 2014-15. Also highlighted is the estimated share of total revenue that each component represents, as well as how much of the UK total is raised in Wales.

Current public sector revenue in Wales is estimated at £23.3 billion in 2014-15. This equated to 3.6% of total UK current revenues of £648.0 billion. This share is below Wales' population share (4.8%), but is greater than its share of UK GVA (3.4%).

Historically, income tax has been the single largest source of public sector revenue in Wales. In 2014-15 however, the largest single source was Value Added Tax, which at £5.2 billion accounted for 22.1% of all current revenues. This figure includes VAT refunds however, which are offset as expenditure in National Accounts. In 2014-15, income taxes accounted for just under a fifth of all revenue, raising £4.6 billion. National Insurance contributions from Wales were just under £4.0 billion. Taken together, these three largest revenue sources accounted for nearly 59% of all public sector revenues raised in Wales.

Gross operating surplus (GOS) refers to the operating (or trading) surpluses (or losses) of central government, local government and public corporations. Since central and local government do not generate profit, their GOS will be equal to their capital consumption, or depreciation – a measure of the fixed capital resources used up in the production process. This is treated as revenue in the National Accounts system, but is also balanced by an offsetting item within public expenditure (see accounting adjustment in annex B). For public corporations however (for example Cardiff International Airport Ltd and Cardiff City Transport Services Ltd in Wales), the GOS figure includes their gross trading surplus and various income streams. Total GOS is estimated to be just less than £2.0 billion in Wales, and is the fourth largest revenue source. This represents a higher proportion of total revenue (8.5%) in Wales than across the UK (5.2%).

TABLE 2.1: Current Revenue: Wales, 2014-15

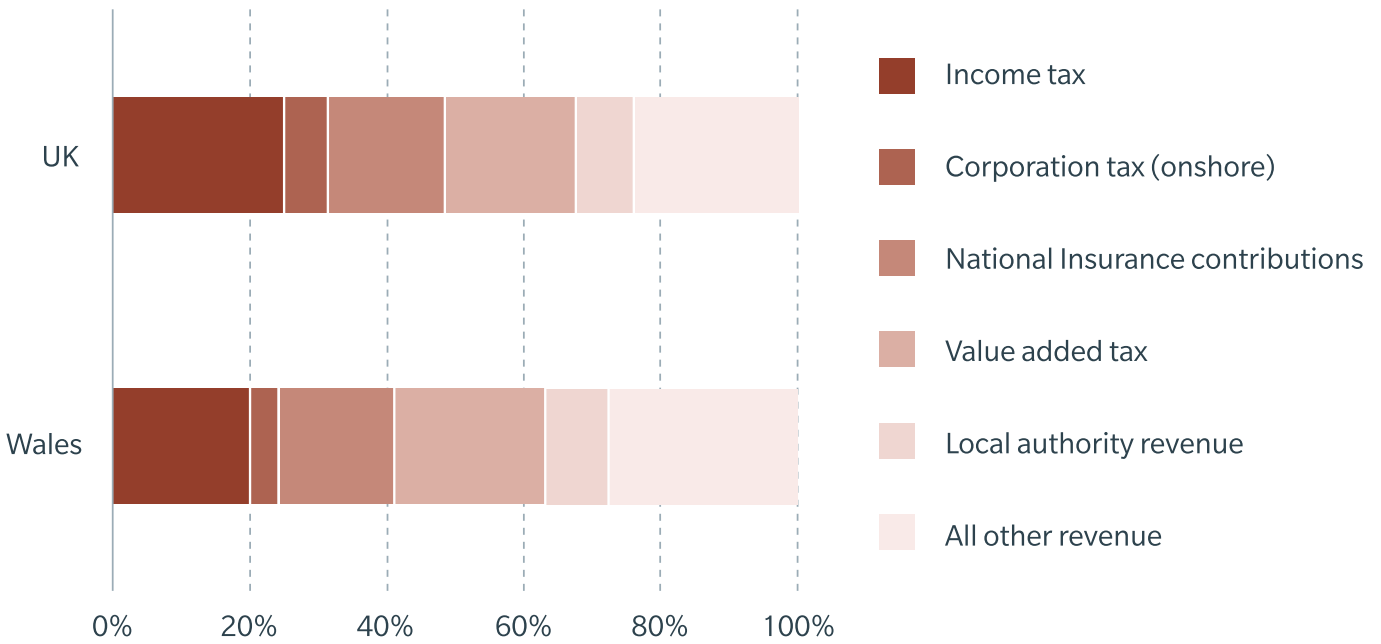
	WALES		UK		Wales as % of UK
	£ million	% of total current revenue	£ million	% of total current revenue	
Income tax	4,634	19.9%	162,342	25.1%	2.9%
Corporation tax (excl North Sea)	1,000	4.3%	39,987	6.2%	2.5%
Capital gains tax	94	0.4%	5,559	0.9%	1.7%
Other taxes on income and wealth	85	0.4%	2,654	0.4%	3.2%
National insurance contributions	3,950	16.9%	110,260	17.1%	3.6%
VAT	5,152	22.1%	124,846	19.3%	4.1%
Fuel duties	1,347	5.8%	27,155	4.2%	5.0%
Stamp duty land tax ¹	169	0.7%	10,736	1.7%	1.6%
Stamp duty on shares	83	0.4%	2,925	0.5%	2.8%
Tobacco duties	412	1.8%	9,251	1.4%	4.5%
Alcohol duties	408	1.7%	10,449	1.6%	3.9%
Betting and gaming and duties	82	0.4%	1,776	0.3%	4.6%
Air passenger duty	10	0.0%	3,205	0.5%	0.3%
Insurance premium tax	127	0.5%	2,973	0.5%	4.3%
Landfill tax	49	0.2%	1,125	0.2%	4.4%
Climate change levy	67	0.3%	1,626	0.3%	4.1%
Aggregates levy	30	0.1%	357	0.1%	8.5%
Inheritance tax	92	0.4%	3,879	0.6%	2.4%
Vehicle excise duty	299	1.3%	5,910	0.9%	5.1%
Non-domestic rates ²	854	3.7%	26,161	4.1%	3.3%
Council tax	1,277	5.5%	28,304	4.4%	4.5%
Other taxes, royalties and adjustments ³	566	2.4%	14,770	2.3%	3.8%
Interest and dividends	366	1.6%	7,322	1.1%	5.0%
Gross operating surplus	1,974	8.5%	37,802	5.9%	5.2%
Rent and other current transfers	196	0.8%	4,390	0.7%	4.5%
Total current revenue (excluding North Sea revenue)	23,321	100.0%	645,764	100.0%	3.6%
North Sea revenue					
Per capita share	108		2,254		4.8%
Geographical share	0		2,254		0.0%
Total current revenue (including North Sea revenue)					
Per capita share	23,428		648,018		3.6%
Geographical share	23,320		648,018		3.6%

1. This figure includes revenue from the Annual Tax on Enveloped Dwellings.

2. This figure excludes non-domestic rates that local authorities pay themselves. See Annex A.

3. This category contains numerous small yielding revenues. The largest of these are estimated revenue from Renewable Energy Obligations and TV licenses. This also contains a small accounting adjustment to align with the January 2016 UK Public Sector Finances Statistical Bulletin. Wales is allocated a population share of this adjustment.

FIGURE 2.1: Main revenues as % of total current (onshore) revenue



As shown in figure 2.1, the composition of revenues differs between Wales and the UK as a whole. Large direct taxes, such as Income Tax, Corporation Tax and National Insurance contributions, make up a greater share of total revenues at the UK level than in Wales. For example, while Income Tax represents 25.1% of total onshore UK revenues, it makes up only 19.9% of revenues in Wales. Conversely, shares of revenue from indirect taxes, like VAT and fuel duties, are higher in Wales. This is to be expected given the lower income levels in Wales; the progressivity of income tax means that lower income levels will be reflected in lower amounts of income tax paid. Indirect taxes like VAT however are paid regardless of income levels, and tend to take up a higher portion of the gross income of lower income households.¹⁴ Whereas the Welsh shares of UK indirect taxes are generally closer to Wales’ share of the UK population, the Welsh shares of UK direct taxes tend to be lower and closer to Wales’ GVA share. A similar story emanates from the composition of local authority revenue – council tax in Wales accounts for 4.5% of UK council tax, whereas the share of UK non-domestic (business) rates collected in Wales is only 3.3%.

Overall, public sector revenue per person is considerably higher across the UK than in Wales. The gap in public revenues per head between Wales and the rest of the UK was around £2,500 in 2014-15, and this figure has grown in recent years (see figure 2.4). However, current revenue as a share of estimated GDP was 37.9% in Wales in 2014-15, compared with 35.4% across the UK.

Recent trends in current revenue in Wales, 2010-11 to 2014-15

Table 2.2 presents the main components of current revenue in Wales, and their recent growth trends, from 2010-11 to 2014-15. The main revenue components are also presented as a share of estimated GDP and as a share of equivalent UK revenues. Table 2.3 provides a detailed breakdown of estimated current revenue in Wales and the UK between 2010-11 and 2014-15.

Current revenue in Wales has grown by £2.6 billion, or 12.3% since 2010-11, only slightly below the growth in UK revenues during the same period (13.0%). This means that the Welsh share of UK revenue has remained broadly the same.

¹⁴ See for example, ONS (2013) The Effects of Taxes and Benefits on Household Income, 2011/12, ONS *Statistical Bulletin*. Available at: http://www.ons.gov.uk/ons/dcp171778_317365.pdf

There are large differences in the growth trends of the key revenue components however. These trends reflect changes in tax policy, largely set by the UK government, as well as changes in the tax base in Wales.

Income tax revenues in Wales fell by around 6.4% from 2010-11 to 2013-14, and were still 2.6% below their 2010-11 level in 2014-15. Wales' share of UK income tax has dropped to under 3% in recent years.¹⁵ As a share of GDP, income tax fell by over 1 percentage point, to 7.5%. Analysis by the Office for Budget Responsibility (OBR) suggests that the main reason for this downward trend has been the asymmetric effects of UK Government policy, particularly the significant increases in the personal allowance. As income tax is set to be partly devolved, and will therefore be of great importance to Wales' fiscal future, these trends are further discussed in chapter 3. Corporation tax revenue also fell significantly in the first years analysed, but has recovered in recent years to be 9% above its 2010-11 value.

The main component of the growth in current revenue in Wales has been the increase in VAT. It has risen by nearly £1 billion, or 23.5%, from 2010-11 to 2014-15. Indeed, it overtook income tax to become the largest source of public sector revenue in Wales in 2011-12. UK-wide VAT also grew rapidly (by 25.4%) during the same period. VAT is now equivalent to 8.4% of Wales' estimated GDP, compared with only 6.8% of UK GDP. This growth coincided with the increase in the standard rate of VAT to 20% in January 2011. The increase in the share of VAT of total revenues (from 20.1% in 2010-11 to 22.1% in 2014-15) might suggest that Wales' tax regime as a whole has become more regressive since 2010-11.

National Insurance contributions from Wales grew by 12.0% from 2010-11 to 2014-15, only slightly behind the UK growth rate. Local authority revenue in Wales grew by 14.8% during this time period, compared with 12.6% growth across the UK. Robust local authority revenue growth is primarily attributable to a 17.7% growth in council tax over this period. This faster growth is in part due to the decision in Wales to permit increases in council tax rates, compared with UK Government policy in England and Scottish Government policy to freeze rates.

¹⁵ The latest available data for the Welsh share of UK income tax is for 2013-14, which is then applied to UK totals for 2014-15. See methodology for further details.

TABLE 2.2: Current revenue % of GDP: Wales and UK, 2010-11 to 2014-15

	2010-11	2011-12	2012-13	2013-14	2014-15
WALES					
Total Current Revenue (£ million)	20,771	21,604	21,939	22,524	23,321
Income tax	4,759	4,608	4,516	4,453	4,634
Corporation tax (onshore)	913	830	874	891	1,000
National Insurance contributions	3,528	3,640	3,743	3,844	3,950
Value Added Tax	4,171	4,691	4,779	5,005	5,152
Local authority revenue	1,857	1,907	1,976	2,051	2,131
All other revenue	5,543	5,927	6,051	6,280	6,453
As a share of GDP	38.4%	38.2%	37.6%	37.2%	37.9%
Income tax	8.8%	8.2%	7.7%	7.3%	7.5%
Corporation tax (onshore)	1.7%	1.5%	1.5%	1.5%	1.6%
National Insurance contributions	6.5%	6.4%	6.4%	6.3%	6.4%
Value Added Tax	7.7%	8.3%	8.2%	8.3%	8.4%
Local authority revenue	3.4%	3.4%	3.4%	3.4%	3.5%
All other revenue	10.2%	10.5%	10.4%	10.4%	10.5%
Recent growth trends (2010-11 = 100)	100	104.0	105.6	108.4	112.3
Income tax	100	96.8	94.9	93.6	97.4
Corporation tax (onshore)	100	90.9	95.7	97.6	109.4
National Insurance contributions	100	103.2	106.1	109.0	112.0
Value Added Tax	100	112.5	114.6	120.0	123.5
Local authority revenue	100	102.7	106.4	110.5	114.8
All other revenue	100	106.9	109.2	113.3	116.4
As a share of UK revenues	3.62%	3.64%	3.64%	3.60%	3.60%
Income tax	3.1%	3.0%	3.0%	2.9%	2.9%
Corporation tax (onshore)	2.6%	2.5%	2.5%	2.5%	2.5%
National Insurance contributions	3.6%	3.6%	3.6%	3.6%	3.6%
Value Added Tax	4.2%	4.2%	4.2%	4.2%	4.1%
Local authority revenue	3.8%	3.8%	3.8%	3.8%	3.9%
All other revenue	4.0%	4.1%	4.1%	4.1%	4.1%
UK					
Total Current Revenue	573,234	594,224	602,514	625,617	648,018
As a share of GDP	36.4%	36.5%	35.9%	35.6%	35.4%
Recent growth trends (2010-11 = 100)	100	103.7	105.1	109.1	113.0

TABLE 2.3: Current Revenue: Wales 1999-00 to 2014-15

	£ million													
	WALES							UNITED KINGDOM						
	2010-11	2011-12	2012-13	2013-14	2014-15	2010-11	2011-12	2012-13	2013-14	2014-15				
Income tax	4,759	4,608	4,516	4,453	4,634	152,167	151,262	150,713	156,009	162,342				
Corporation tax (excl North Sea)	913	830	874	891	1,000	35,134	33,207	34,958	35,651	39,987				
Capital gains tax	59	76	68	67	94	3,590	4,336	3,926	3,907	5,559				
Other taxes on income and wealth	137	94	105	131	85	6,050	2,901	3,121	4,119	2,654				
National insurance contributions	3,528	3,640	3,743	3,844	3,950	97,747	101,597	104,483	107,306	110,260				
VAT	4,171	4,691	4,779	5,005	5,152	99,523	112,067	114,465	120,215	124,846				
Fuel duties	1,347	1,321	1,315	1,335	1,347	27,256	26,798	26,571	26,881	27,155				
Stamp duty land tax	115	125	105	145	169	5,961	6,125	6,906	9,272	10,736				
Stamp duty on shares	101	90	67	88	83	2,970	2,794	2,233	3,108	2,925				
Tobacco duties	361	383	424	426	412	9,305	9,878	9,590	9,556	9,251				
Alcohol duties	375	527	351	369	408	9,434	10,180	10,139	10,308	10,449				
Betting and gaming and duties	49	57	60	76	82	1,069	1,221	1,228	1,645	1,776				
Air passenger duty	10	9	8	10	10	2,183	2,637	2,818	3,003	3,205				
Insurance premium tax	103	123	130	129	127	2,509	3,002	3,033	3,018	2,973				
Landfill tax	48	45	49	52	49	1,094	1,075	1,116	1,179	1,125				
Climate change levy	34	34	33	51	67	660	678	663	1,200	1,626				
Aggregates levy	27	23	21	25	30	294	283	261	294	357				
Inheritance tax	75	69	69	85	92	2,722	2,955	3,150	3,541	3,879				
Vehicle excise duty	293	301	305	309	299	5,789	5,930	6,003	6,121	5,910				
Non-domestic rates	772	782	817	839	854	22,664	23,934	25,031	25,756	26,161				
Council tax	1,085	1,125	1,158	1,212	1,277	25,706	25,925	26,285	27,533	28,304				
Other taxes, royalties and adjustments	427	473	526	552	566	9,425	11,540	12,449	13,528	14,770				
Interest and dividends	289	315	320	343	366	5,847	6,350	6,440	6,882	7,322				
Gross operating surplus	1,634	1,803	1,933	1,942	1,974	34,232	35,087	37,082	37,490	37,802				
Rent and other current transfers	58	59	161	147	196	1,501	1,505	3,635	3,331	4,390				
Total current revenue (excluding North Sea revenue)	20,771	21,604	21,939	22,524	23,321	564,832	583,267	596,299	620,853	645,764				
Total current revenue (including North Sea revenue)														
Per capita share	21,180	22,135	22,239	22,753	23,428	573,234	594,224	602,514	625,617	648,018				
Geographical share	20,771	21,604	21,939	22,524	23,320	573,234	594,224	602,514	625,617	648,018				

TABLE 2.4: Current Revenue Per Person: Wales and UK 2010-11 to 2013-14

	2010-11	2011-12	2012-13	2013-14	2014-15
WALES					
£ per person (to nearest £100)	6,800	7,100	7,100	7,300	7,500
UK = 100	74.6	75.1	75.5	74.9	75.2
UK (£ per person - to nearest £100)					
Excluding North Sea revenue	9,000	9,200	9,400	9,700	10,000
Including North Sea revenue	9,100	9,400	9,500	9,800	10,000
Difference (Wales minus UK)					
Excluding North Sea revenue	-2,200	-2,100	-2,300	-2,400	-2,500
Including North Sea revenue	-2,300	-2,300	-2,400	-2,500	-2,500

Table 2.4 presents revenues per person in Wales and the UK from 2010-11 to 2014-15. Revenue per person in Wales was 75% of the UK level in 2014-15.

Estimated revenues per person in Wales have grown by over £700 since 2010-11. The growth rate in per person revenues in Wales since 2010-11 (10.8%) was greater than the growth rate of total per person revenues across the UK (9.8%). However, given its higher initial value, revenues per person across the UK have grown by around £200 more in absolute terms. This means that the difference between revenues per person in Wales and revenues per person across the UK has grown from £2,300 in 2010-11 to £2,500 in 2014-15.

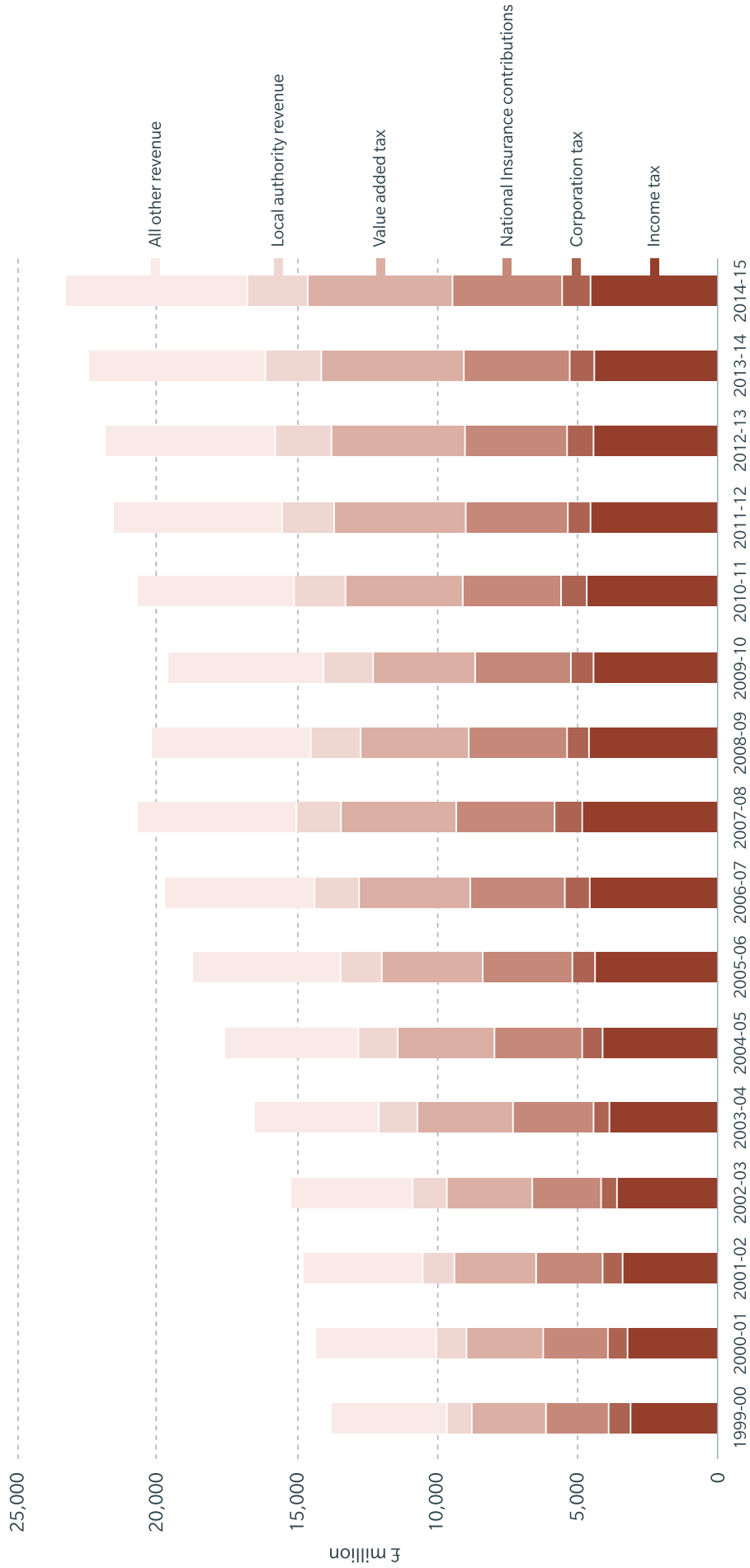
Longer term trends in current revenues, 1999-00 to 2014-15

Figure 2.2 depicts a longer time series of current revenue, by main component, from 1999-00 to 2014-15. The data series can be downloaded online.

Current public sector revenue in Wales has grown by 68.6% in nominal terms since 1999-00, compared with 76.5% across the UK. Population growth in Wales, particularly since 2004, has been considerably slower than across the UK (see box 4.1 on page 52). Taking differences in population growth into account, revenues per person have grown by approximately 60% since 1999-00 both in Wales and across the UK. Current revenue in Wales as a share of estimated GDP during this period has fluctuated between 37.2% and 40.0%. The Welsh share of all UK revenues peaked at 3.81% in 2003-04, before gradually declining towards its current share of 3.60%.

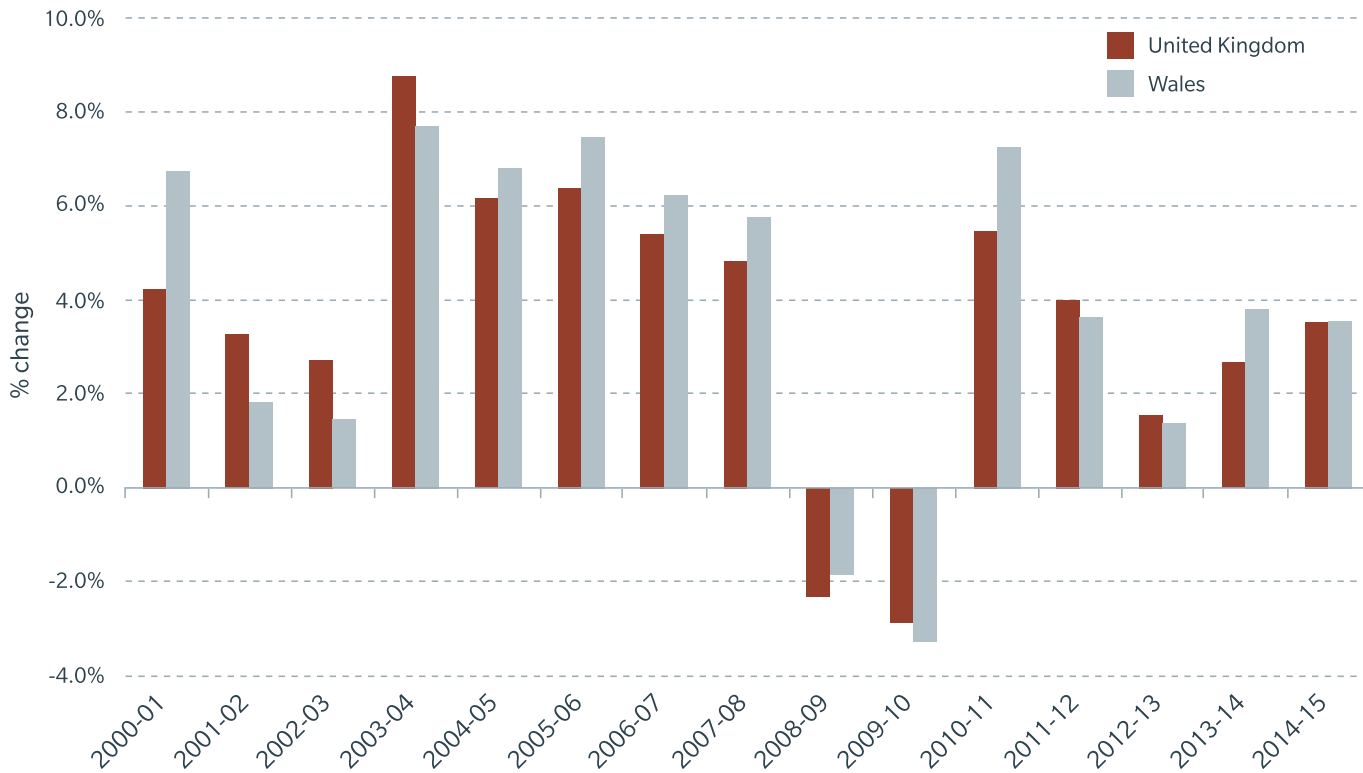
Figure 2.3 shows the annual year-on-year growth in current revenues during this period. While the average annual growth rate of current revenue over this 16 year period was 3.6%, annual growth rates have varied significantly over time. Current revenue in Wales grew quickly in earlier years, particularly from 2002-03. Annual growth rates averaged 6.3% from 2002-03 to 2007-08, increasing total revenues in Wales by £5.5 billion. Driving this increase was strong growth in large direct taxes. Income Tax receipts grew by 37% from 2002-03 to 2007-08, Corporation Tax by 58% and National Insurance contributions by 44%. The rapid increase of 17% in National Insurance contributions seen in the year to 2003-04 reflects the sharp increase in employment levels in Wales seen around this time.

FIGURE 2.2: Current revenue by main categories: Wales, 1999-00 to 2015



The impact of the financial crisis of 2007-08 on Welsh public sector revenue can be seen clearly in figures 2.2 and 2.3. Similarly to the UK as a whole, current revenues decreased by more than 5.1% from 2007-08 to 2009-10. All the major components of current revenue (except Local Authority Revenue) decreased during these years; Income Tax revenue by 8.6%, VAT by 10.2%, and Corporation Tax by 17.7%. Current revenue recovered in subsequent years, surpassing the 2007-08 level in 2010-11. As discussed in the previous section, the main component of this recovery has been the growth in VAT revenue, which has increased by nearly £1.5 billion from 2009-10. Income Tax revenue in Wales remains below its 2007-08 levels.

FIGURE 2.3: Annual growth rate of current revenue, Wales 1999-00 to 2014-15



3

Devolution of Revenues to Wales

Introduction

The vast majority of the public sector revenue described in chapter 2 is collected at the UK level, forming part of the general pool of UK revenues. Consequently, since the onset of devolution, the Welsh Government has received a block grant to finance most of its expenditure, which is set annually by HM Treasury. The funds available for the Welsh Government have therefore been mostly detached from the amount of revenue collected in Wales.

Following passage of the Wales Act 2014 and the Chancellor's announcement on 25 November 2015 that partial devolution of Income Tax is set to take place to Wales without the requirement of an affirmative vote in a referendum, the Welsh Government will soon be responsible for raising a portion of its budget from Welsh taxpayers.

The purpose of this chapter is to take an in-depth look at those revenues that are to be fully or partially devolved to Wales, and how these will shape Wales' future fiscal framework.

Key findings:

- Wales' current fiscal framework means that the level of public expenditure by the Welsh Government and local government in Wales is mostly unconnected to the amount of revenues collected in Wales.
- Recent developments mean that several revenue sources will soon be devolved, and will contribute directly to devolved expenditure.
- The current financing system, particularly the Welsh Block Grant from HM Treasury, will be adjusted to account for the devolution of taxes. How this is done will ultimately determine the effect of tax devolution on the Welsh budget.
- The revenues that are to be devolved collectively raised £4.2 billion in 2014-15, around 18.1% of total current revenue in Wales. This was equivalent to 21.0% of estimated devolved expenditure.
- In recent years, revenues from soon-to-be devolved taxes have been relatively stagnant, primarily because of the fall in the estimated revenues from the Welsh rate of Income Tax. Conversely, revenues from non-devolved taxes have grown more strongly, primarily because of increases in indirect taxes such as VAT.
- The risks and opportunities that the Welsh budget is facing for the first time as a result of fiscal devolution represent a major change in Wales' devolution settlement.

Current Fiscal Framework

This section provides a brief and simplified account of how expenditures by the Welsh Government and local government in Wales are currently funded.

In the UK public expenditure framework, expenditure programmes that are subjected to firm multi-year limits are contained within **Departmental Expenditure Limits (DELs)** (e.g. health, education) that are established for multi-year periods at the Treasury's periodic Spending Reviews. Expenditure outside of this is referred to as **Annually Managed Expenditure (AME)**, and is mostly demand-led expenditure such as social security payments.

Most of the Welsh Government's spending falls in the DEL category, and is financed by a block grant from the UK Government, set annually by HM Treasury. Changes to Wales' DEL are determined by the Barnett formula; through which the Welsh Government receives a population share of changes in comparable expenditure in England. The latest measures that inform the Barnett formula calculations, such as population shares and programme comparability percentages, are published at each Spending Review.¹⁶ Further funding from the UK Government, alongside some locally-financed spending (including Council Tax), forms part of the Welsh Government's Annually Managed Expenditure.

This longstanding fiscal framework meant that devolved expenditure for Wales has mostly been unconnected from the amount of revenues collected in Wales. The Welsh Government and National Assembly were therefore in an unusual position from an international perspective of retaining significant legislative and spending powers but holding no powers over raising at least some of the revenues that fund Welsh public services. Both the Holtham and Silk commissions concluded that devolving selected revenues would assist in addressing this basic mismatch.

Devolving revenues

This section sets out those revenues which have been or will be devolved to Wales in coming years.¹⁷ These revenues will in future partly determine the level of public expenditure by the Welsh Government and local government in Wales. Estimates of how much these revenues raise in Wales, along with recent trends, are consistent with those used for revenues presented in chapter 2. See Annex A for the methodology used for these estimates.

Local Authority Revenue

In 2014-15, council tax was the only tax revenue source that directly affected the level of funding available to the Welsh Government and local government in Wales. Council tax was equivalent to 5.5% of total current revenues in Wales, and was 6.3% of total estimated expenditure by the Welsh Government and local government in Wales.

The devolution of non-domestic rates came into effect for the year 2015-16, and was a budgetary rather than a legal or administrative change. Although Welsh ministers were responsible for non-domestic rates policy and collections contributed to Wales' DEL, the overall level of Wales' DEL was set by the Barnett formula as described earlier, and was therefore unaffected by non-domestic rates revenue from Wales. After its devolution, revenue from non-domestic rates will be removed from Wales' DEL to a separate line in AME. This will mean that the Welsh Government budget will now be partly determined by Welsh non-domestic rates revenue.

¹⁶ HM Treasury (November 2015) *Statement of funding policy: Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly*. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf

¹⁷ 'Devolved revenues' in this section refers to all revenues that will directly impact the level of devolved expenditure for Wales in the future. Technically, the UK Government will only term stamp duty land tax and landfill tax in Wales as 'devolved taxes', while both council tax and business rates are termed 'local taxation', and the Welsh rate of income tax will be created within the UK's income tax system and administered by HMRC.

TABLE 3.1: Local Authority Revenue: Wales, 2010-11 to 2014-15

	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
Council Tax	1,085	1,125	1,158	1,212	1,277
Non-domestic rates ¹	772	782	817	839	854
Total Local Authority Revenue	1,857	1,907	1,976	2,051	2,131

1. This excludes an estimated amount of NDR paid by Local Authorities themselves, and is therefore consistent with estimates presented in chapter 2.

Council tax revenues in Wales have grown by 17.7% over the last five years, to nearly £1.3 billion in 2014-15. This is faster than the corresponding growth at the UK level. This is in part due to the decision in Wales to permit increases in council tax rates compared with Scottish policy and UK policy for England to freeze rates. Welsh council tax revenue as a share of total UK council tax has increased from 4.2% to 4.5% during this time. However, council tax revenue per person in Wales (around £413) is still below that of the UK.

At around £854 million, non-domestic rate revenue in Wales is estimated to be only 3.3% of total UK NDR revenue, and has grown less rapidly than council tax revenue.

Stamp Duty Land Tax

Stamp Duty Land Tax (SDLT) is paid on the purchase or transfer of property or land in the UK, where the amount paid is above a certain threshold. From April 2018, the UK-wide SDLT will be 'switched off' in Wales, to be replaced by the Land Transaction Tax (LTT). It will be collected on behalf of the newly formed Welsh Revenue Authority, and will directly form part of the Welsh Government budget to fund devolved services in Wales.

Table 3.2 presents estimates of SDLT revenues in Wales and the UK, while figure 3.1 illustrates the trends in SDLT revenues in Wales and the UK. SDLT in Wales is estimated to have raised £168 million in 2014-15, around 0.8% of total current revenue collected in Wales.

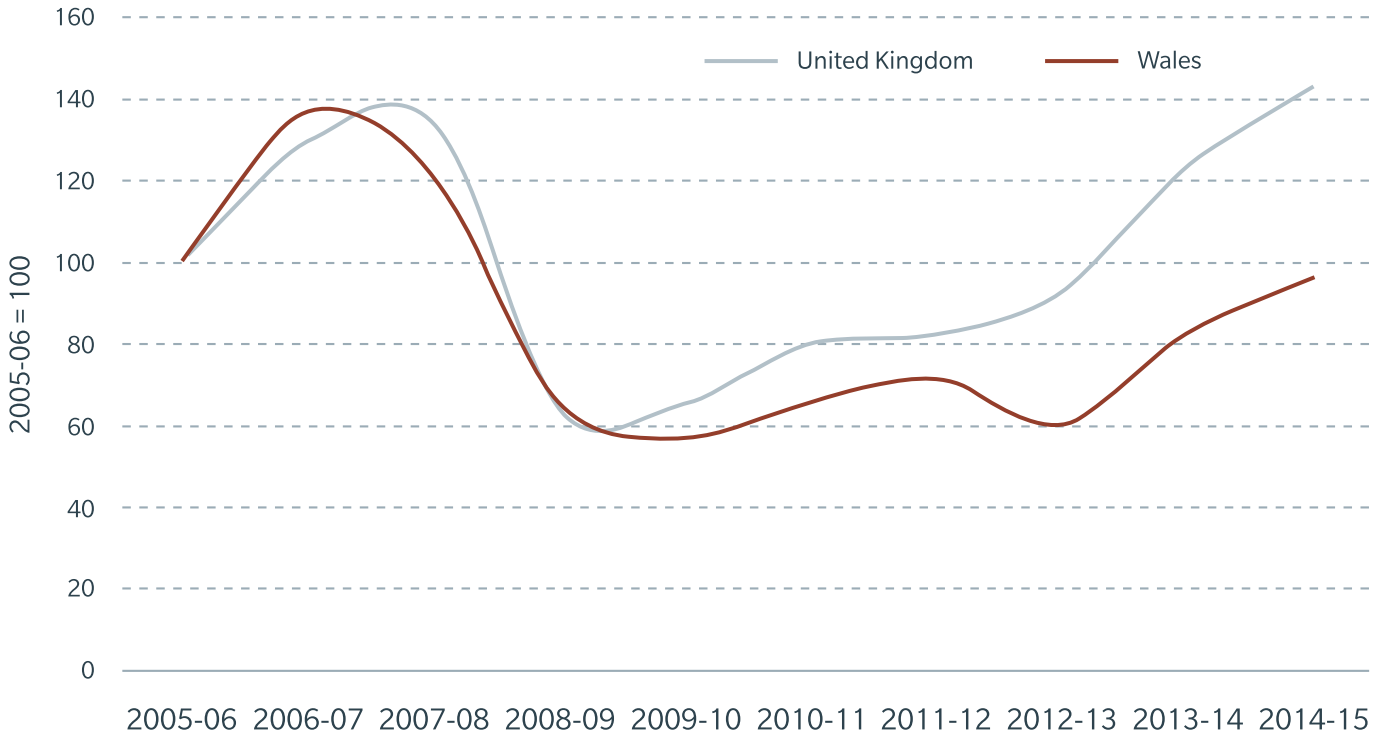
TABLE 3.2: Revenue from Stamp Duty Land Tax: Wales and UK, 2010-11 to 2014-15

	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
UK	5,961	6,125	6,905	9,171	10,620
WALES	115	125	105	144	168
as % of UK total	1.9%	2.0%	1.5%	1.6%	1.6%

Note: number differs slightly from figures presented in chapter 2, due to revenue from the Annual Tax on Enveloped Dwellings being excluded here.

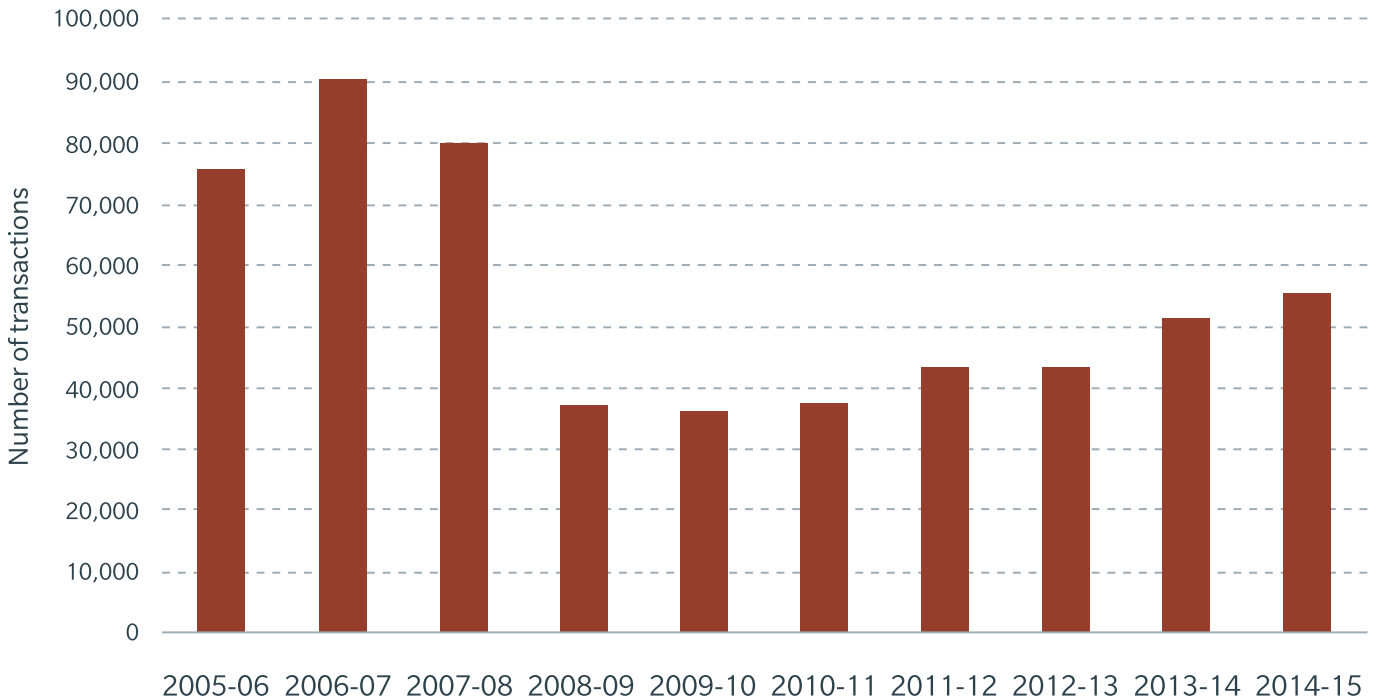
The volatility of this revenue stream can be seen clearly in figure 3.1. After rapid growth in the first half of the last decade, receipts in Wales peaked at £240 million in 2006-07. Following the financial crisis of 2007-08 however, these receipts fell sharply, and despite strong growth in the last two years, they have not yet fully recovered to the 2006-07 level.

FIGURE 3.1: Trends in Stamp Duty Land Tax: Wales and UK, 2005-06 to 2014-15 (2005-06 = 100)



Apart from policy changes, volatility in SDLT receipts can be driven by two factors – either by changing house prices, or a change in the number of transactions taking place. Both of these fluctuate in often-unexpected ways. The slump after the financial crisis of 2007-08 was driven mainly by a sharp drop in the number of transactions (see figure 3.2).

FIGURE 3.2: Number of SDLT liable transactions in Wales, 2005-06 to 2014-15



Source: HMRC

A similar pattern was observed in total SDLT receipts from across the UK. However, SDLT receipts in Wales have recovered far more slowly. Figure 3.1 illustrates the growing gap between the amounts of SDLT raised in Wales compared to the amount raised across the UK; the UK total surpassed its pre-crisis level in the last financial year. This means that Wales' share of UK SDLT has fallen significantly, from an already low 2.5% in 2006-07 to less than 1.6% in 2014-15. Given that Wales' share of UK transactions has been relatively stable (4.2% in both 2005-06 and in 2014-15) we can assume that it is differences in house prices and tax policy that has driven this change. The rapid growth of house prices in London has resulted in a large and growing divergence between Welsh house price levels and averages for the UK. Given this significant difference in Welsh and UK average house prices, UK government policy can have very asymmetric impacts on revenues in Wales and other parts of the UK. For example, measures to exempt first time buyers for lower priced houses from 2010 to 2012 are likely to have disproportionately affected Welsh receipts, and the movement away from the old "slab" system of stamp duty at the 2014 Autumn Statement made the tax regime more progressive, increasing the tax on high value properties primarily located in London and the South East of England.

The devolution of Stamp Duty is an opportunity for Welsh policymakers to tailor policy to local conditions, though its significant volatility will present a challenge. The significant difference in house prices and their trends between Wales and the UK makes the development of Welsh-specific forecasting (currently being considered by Welsh Government officials) of paramount importance. Furthermore, the trends described above could be a cause for concern after the devolution of SDLT in April 2018, depending on how the Welsh Block Grant is adjusted over time to account for local collections (see next section below).

Landfill Tax

Landfill tax applies to waste disposed by way of landfill in the UK. The Wales Act 2014 intends its full devolution to Wales from April 2018.

The tax in Wales is estimated to have raised around £49 million in 2014-15, and despite increasing tax rates this revenue has remained broadly stable in recent years.

TABLE 3.3: Landfill Tax revenues: Wales and UK, 2010-11 to 2014-15

	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
UK	1,094	1,075	1,116	1,179	1,125
WALES	48	45	49	52	49
as share of UK revenue	4.4%	4.2%	4.4%	4.4%	4.4%

Although the revenue collected in Landfill Tax is a very small share of total revenues in Wales and will not greatly influence the size of the Welsh budget, its devolution offers Welsh policymakers an additional lever to influence waste disposal in Wales.

Income Tax

The Wales Act 2014 included a provision for the partial devolution of Income Tax to Wales, and in November 2015 the UK Government announced that it will proceed without the requirement of an affirmative vote in a referendum that was previously set out in the Act. Following its devolution, a substantial portion of revenues raised in Wales through Income Taxes will now directly fund the Welsh Government budget.

Income Tax collected from Welsh taxpayers will in future be shared between the Welsh and UK Governments. Specifically, each of the three UK Income Tax rates will be reduced by 10p in the pound for those defined as Welsh taxpayers. The Welsh Government will then have the power to set Welsh Rates of Income Tax (WRIT) in each band, receiving the revenues raised at these rates. Income Tax paid on savings and dividends income will not be devolved.

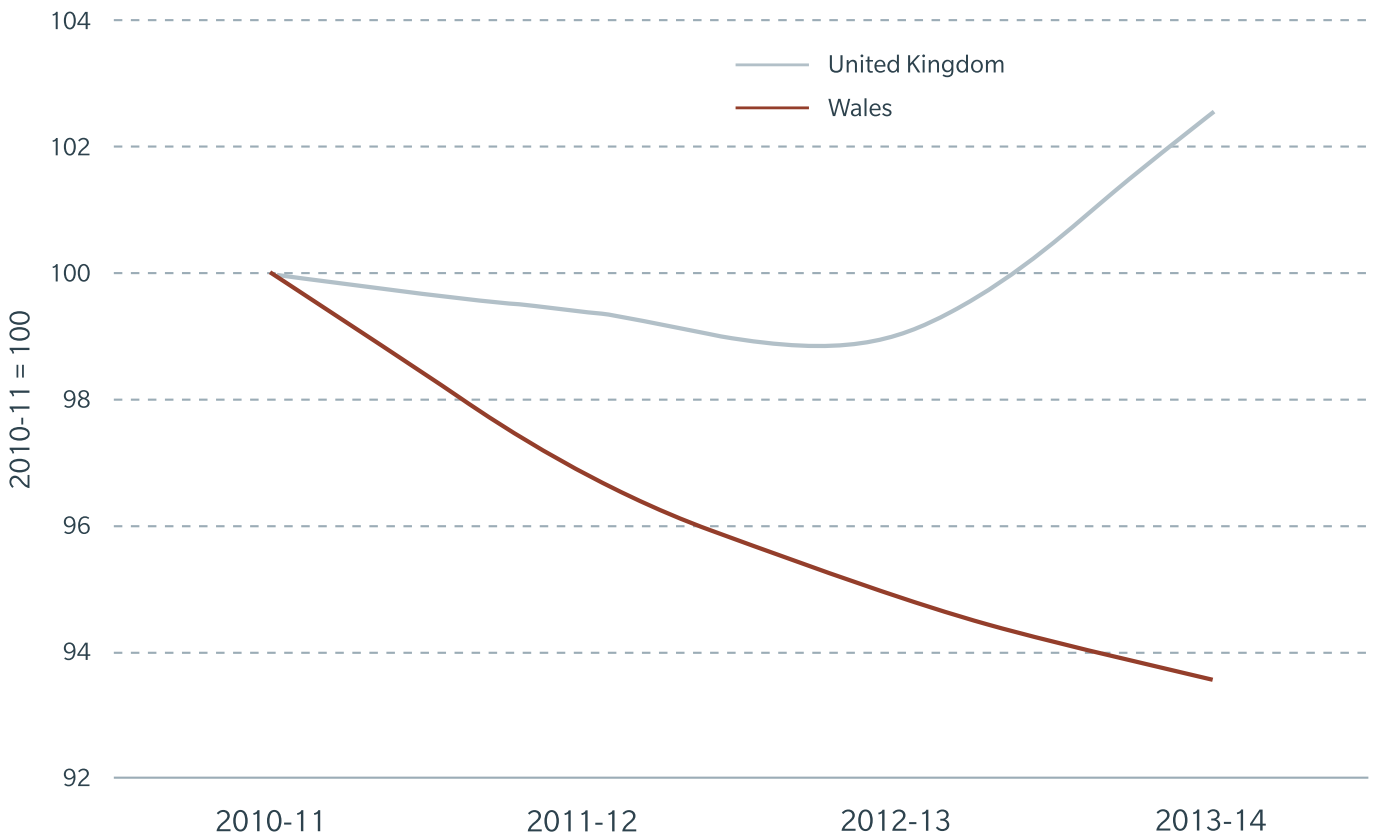
Table 3.4 presents estimates of the total Income Tax raised in Wales, alongside estimates of how much the devolved WRIT would have raised in revenue between 2010-11 and 2014-15, assuming the rates of 10p at each band. The portion of Income Tax set to be devolved to Wales raised around £1.9 billion in 2014-15, around 40% of total Income Tax revenues, and 8.0% of total current revenue in Wales.

TABLE 3.4: Total Income Tax revenues and estimated revenues from Welsh Rates of Income Tax (WRIT), 2010-11 to 2014-15					
	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
Total Income Tax revenues ¹	4,759	4,608	4,516	4,453	4,634
Estimated Revenues from WRIT ²	2,023	1,920	1,866	1,805	1,877
% of total current revenue in Wales	9.7%	8.9%	8.5%	8.0%	8.0%

1. Latest Welsh share of UK Income Tax available was for 2013-14. This share is applied to UK totals for 2014-15.
2. Assumes 10p rates set in each band. These estimates are based on OBR estimates and forecasts. See methodology in Annex A for explanation of how these estimates were constructed. This is an estimate of tax revenues, and not liabilities as presented in the original data source (OBR). This was done in order to be consistent with the basis of other revenues.

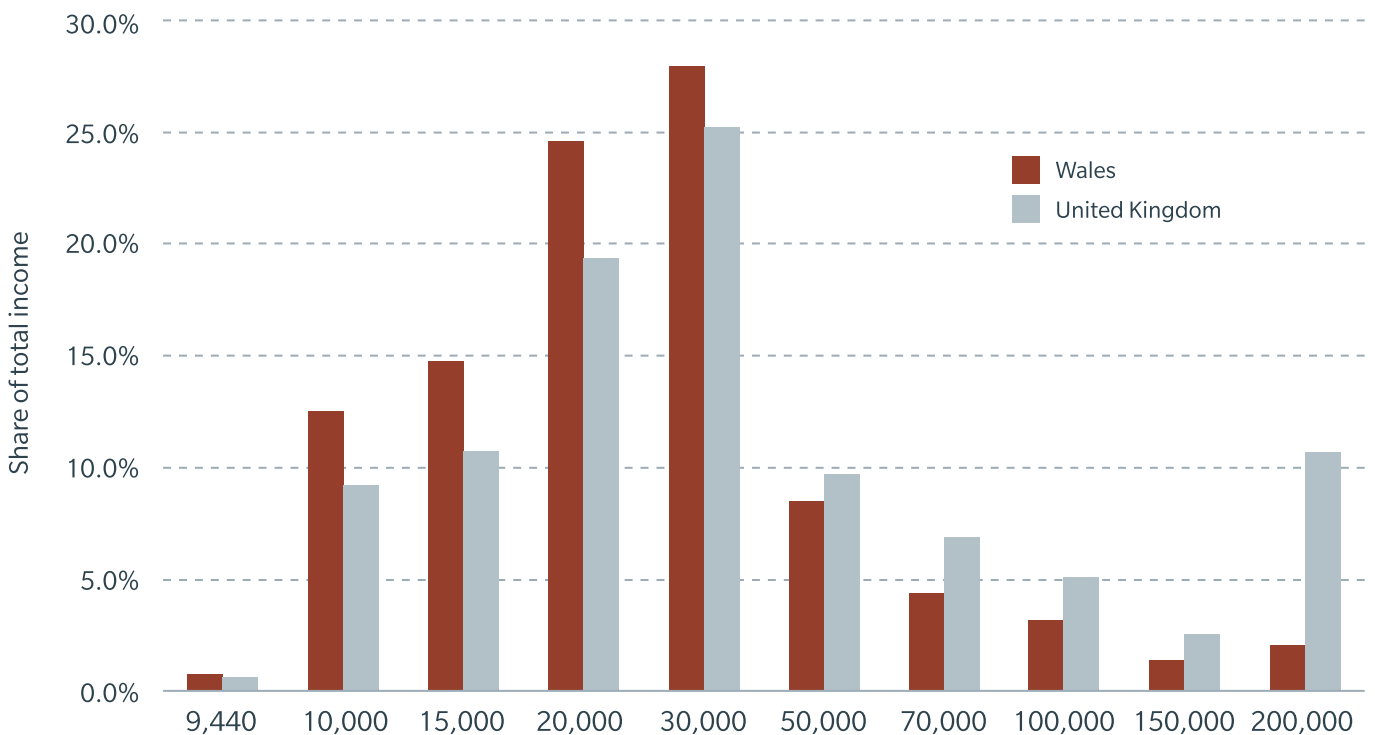
As shown in figure 3.3, the growth of Income Tax revenues in Wales has fallen behind that of the UK as a whole in recent years. Income Tax revenues in Wales fell quickly from 2010-11 to 2013-14, by over 6.4%. This meant that the Welsh share of UK Income Tax revenues fell to below 3% in 2012-13, and to 2.85% in 2013-14.

FIGURE 3.3: Trends in total Income Tax revenues: Wales and UK, 2010-11 to 2014-15 (2010-11 = 100)



In addition to Wales' population share falling as percentage of the UK, recent reports from the Office of Budget Responsibility suggest that a primary reason for this divergence has been the asymmetric effect of tax policies across the UK since the start of the current decade.¹⁸ Revenue-raising policies, such as the additional rate of Income Tax for incomes over £150,000 and the tapered withdrawal of personal allowances from those with incomes over £100,000, have primarily affected the highest earners. On the other hand, policies that have cut tax burdens, such as the raising of the personal allowance, have impacted the lower end of the income distribution. To see why this will have had a disproportionate impact on Welsh revenues, we can look at how distributions of incomes in Wales compare to the UK as a whole (figure 3.4). Wales has lower wages than the UK average, so the Welsh tax base is more heavily skewed towards the lower ranges of income. 53% of taxpayers' income in Wales is earned by individuals earning less than £30,000 a year, compared with 40% across the UK. Moreover, less than 7% of taxable income in Wales is earned by those earning £100,000 and above, compared with 18% across the UK. Recent steep increases in the personal allowance have taken more Welsh taxpayers, and more of the Welsh tax base, out of Income Tax compared with the UK as whole.

FIGURE 3.4: Share of taxable income by range of total income: Wales and UK, 2013-14



Unlike the proposals for Scotland that have been developed since the 2014 independence referendum, a critical feature of the partial income tax system proposed for Wales is that the setting of Income Tax allowances, reliefs and exemptions will be reserved to Westminster after devolution. The amount of devolved Income Tax revenues will therefore continue to be influenced by the policy decisions of the UK Government. If the asymmetric response to UK policy changes outlined here were to continue after partial Income Tax devolution, the Welsh budget could be significantly reduced in the order of hundreds of millions of pounds, depending on how the Welsh block grant will be adjusted after fiscal devolution. For further discussion on this issue, see the section below and a February 2016 report from the Wales Governance Centre.¹⁹

¹⁸ Office of Budget Responsibility (2015). *Economic and fiscal outlook: Devolved taxes forecast* (November 2015). Paragraph 2.12. Available at: http://budgetresponsibility.org.uk/docs/dlm_uploads/Devolved-taxes-forecast.pdf

¹⁹ Wales Governance Centre (2016) *Income Tax and Wales*. Cardiff University. Available at: <http://sites.cardiff.ac.uk/wgc/files/2016/02/Income-Tax-and-Wales.pdf>

Borrowing powers

An additional source of revenue for the Welsh Government in the new fiscal framework is an increase in its borrowing powers. With the devolution of SDLT and Landfill Tax, the Welsh Government is set to be able to borrow up to £500 million to fund capital expenditure. This borrowing limit will be reviewed at each spending review, and may be subject to an increase once Income Tax revenues have been partially devolved. Expenditure financed by this borrowing can be for any capital purpose, and will always be in addition to block grant-funded expenditure.

The Welsh Government will also be able to borrow a further £500 million in order to manage volatility in devolved tax revenues.

Other taxes considered for devolution

Air passenger duty (APD) is an excise duty charged on the carriage of passengers from UK airports. Devolution of APD on long-haul flights was recommended by the Silk Commission, but has not been agreed by the UK Government to date. Short and long-haul APD together raised an estimated £10 million in Wales in 2014-15. The Silk Commission estimated that long-haul APD on its own raised around £1 million in 2011.

The UK Government has also considered devolving the Aggregates Levy to Wales, subject to the resolution of current legal challenges in the European courts. The Aggregates Levy is a tax on the commercial exploitation of rock, sand and gravel. In 2014-15, the Aggregates Levy raised an estimated £30 million in Wales.

As shown in table 3.5, the revenues raised by these minor taxes are small, and would largely not affect the levels of total expenditure if they were to be devolved. However, as originally argued by the Holtham Commission, they are aligned with existing devolved responsibilities and their devolution might further empower Welsh Government ministers.

	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
Aggregates levy	27	23	21	25	30
Air Passenger Duty ¹	10	9	8	10	10

1. Includes short and long-haul APD – only a small portion (from long-haul APD) would be devolved.

Provisions in the Wales Act 2014 will also enable the Welsh Government to introduce specific new taxes in Wales, with the agreement of both Houses of Parliament and the National Assembly. The Welsh Government might choose to do so in order to raise additional revenue and/or affect behaviours to support its policy objectives.

Adjusting the Welsh Block Grant

To account for the extra revenues gained by the Welsh Government and for revenues lost by the UK Government, the annual block grant that Wales receives to fund devolved expenditure will need to be adjusted. In effect, the block grant will be reduced by the amount that the UK Government's tax revenues decrease, and then the Welsh Government can decide whether (and how) to replace this funding through levying devolved taxes.

In the first year of devolution, this adjustment is relatively straightforward – it can simply equal the amount of revenue being devolved. However, in subsequent years this adjustment will need to change over time, to ensure fairness to both governments. Alongside tax base growth in Wales and the tax policy of Welsh policy-makers, the method chosen for adjusting the Welsh Block Grant for various revenues will ultimately determine the effect of tax devolution on the Welsh Government budget.

For some revenues, like the devolved Income Tax revenues, adjustments to the Welsh block grant will be indexed to the growth of comparable revenues or growth in the appropriate tax base in the rest of the UK. In these cases, what will become important in terms of the net impact of devolution on the Welsh budget will be the relative growth of the tax base in Wales compared with the UK. If comparable UK revenues were to grow, then the block grant adjustment would also grow, and the difference would need to be made up by growth in Welsh devolved taxes. If the Welsh tax base grows relatively faster, then the net effect of devolution on the Welsh budget would be positive; if the Welsh tax base were to grow more slowly, the net effect would be negative. One potential risk to the Welsh Budget is reserved UK Government policy disproportionately affecting Welsh revenues (including the effect of raising the personal allowance described earlier), which would cut the funds available for devolved expenditure in Wales. Under such circumstances Welsh revenues would fall by a greater amount than the fall in the block grant adjustment.

Another risk to the Welsh budget would be a method of adjustment that has been termed the 'Levels Deduction' method. This would change the adjustment to the Welsh Block Grant according to a population share of absolute changes in comparable UK revenues. For example, if UK comparable revenues grew by £1 billion, the block grant adjustment would grow by a Welsh population share of this, of around £50 million, and the difference would need to be made up for by growth in Welsh taxes. This method was the preferred choice of the HM Treasury in the recent fiscal framework negotiations in Scotland, and in effect mirrors the proposed mechanism for adjusting the Welsh Block Grant for non-domestic rates devolution. For revenues for which the Welsh share of total UK revenues is substantially lower than Wales' population share (for example, SDLT, Income Tax and NDR), this method could significantly cut funds available for devolved expenditure over time. This is because Welsh revenues would need to grow much faster (in percentage terms) to reach a population share of absolute changes in comparable UK revenues. If they fail to do so, the funding available for the Welsh Government would be cut.

There is also a question regarding differential rates of population growth in Wales and the UK. Slower population growth in Wales (as outlined in box 4.1) would tend to mean lower tax base growth. An important (and unresolved) question in the future fiscal framework is whether the Welsh Government should be shielded from the effects of this through factoring the effects of this into the block grant adjustment. On the one hand, not doing so would encourage the Welsh Government to attract and retain income taxpayers in Wales; requiring the Welsh Government to take economic responsibility for any population effects from its policies. However, it is unclear exactly how much influence the Welsh Government has on Welsh population growth, especially as immigration policy – a key factor in population growth – will be reserved to Westminster.

These issues in the context of partial Income Tax devolution are examined in more detail in the February 2016 Wales Governance Centre report.²⁰

²⁰ Wales Governance Centre (2016) *Income Tax and Wales*. Cardiff University. Available at: <http://sites.cardiff.ac.uk/wgc/files/2016/02/Income-Tax-and-Wales.pdf>

Future Fiscal Framework

Using recent outturn figures as a guide, this section examines how the devolution of revenues to the Welsh Government might affect Wales' future fiscal framework. Table 3.6 presents the revenues that were collected in Wales from the revenue sources that will be devolved, from 2010-11 to 2014-15.

TABLE 3.6: Illustrative Future Fiscal Framework for Wales, 2010-11 to 2014-15					
	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
Welsh Rate of Income Tax ¹	2,023	1,920	1,866	1,805	1,877
Land Transaction Tax	115	125	105	144	168
Landfill Tax	48	45	49	52	49
Council tax	1,085	1,125	1,158	1,212	1,277
Non-domestic rates	772	782	817	839	854
Other revenues under consideration:					
<i>Aggregates levy</i>	27	23	21	25	30
<i>Air Passenger Duty</i> ²	10	9	8	10	10
Devolved revenue	4,043	3,997	3,996	4,052	4,225
As a share of total revenue	19.5%	18.5%	18.2%	18.0%	18.1%
As a share of estimated devolved TME ³	20.8%	20.1%	20.6%	20.6%	21.0%
As a share of estimated devolved TES ⁴	22.4%	22.0%	22.7%	22.6%	23.3%
As a share of estimated GDP	7.5%	7.1%	6.9%	6.7%	6.9%
Total Current Revenue in Wales	20,771	21,604	21,939	22,524	23,321
Devolved Total Managed Expenditure (TME)	19,449	19,860	19,376	19,686	20,133
Devolved Total Expenditure on Services (TES)	18,032	18,140	17,588	17,907	18,158

1. See methodology in Annex A for explanation of how this estimate was constructed. This is an estimate of tax revenues, and not liabilities as presented in the original data source (OBR). This was done in order to be consistent with the basis of other revenues.

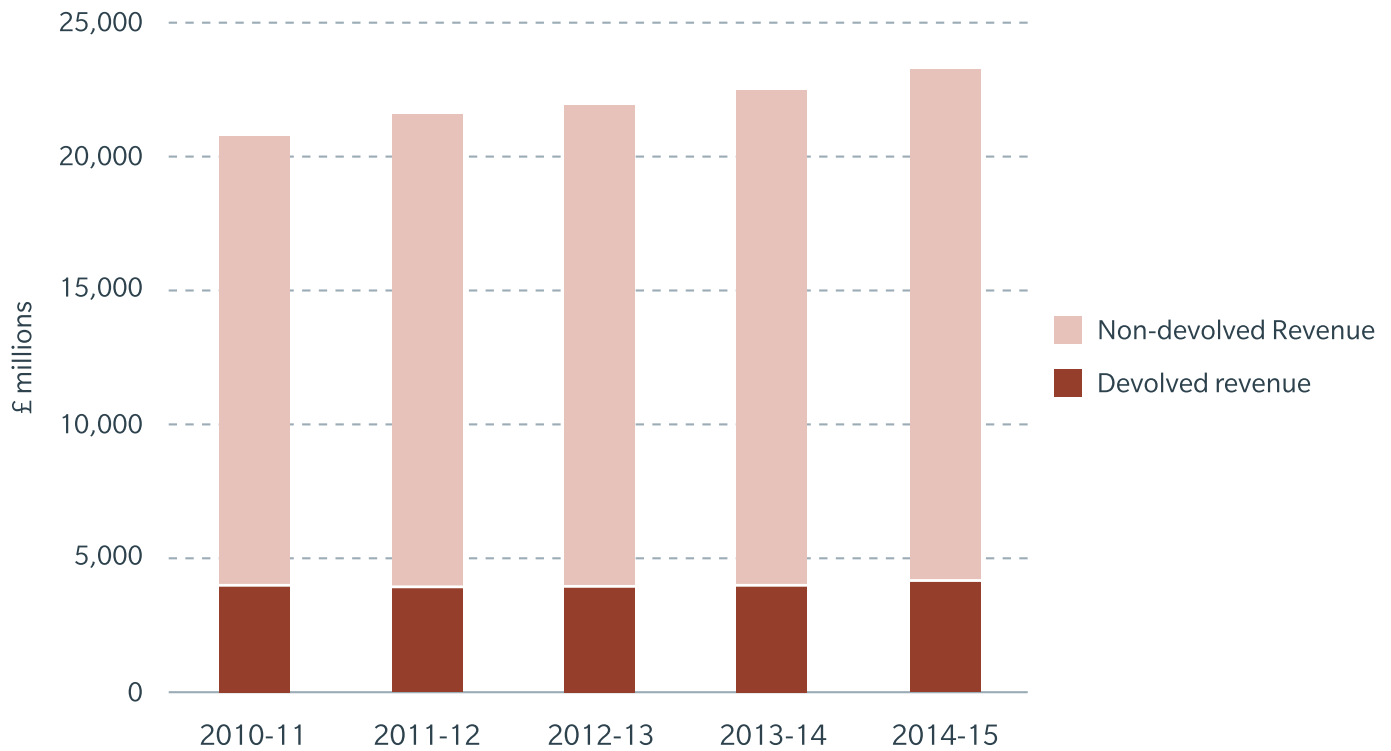
2. Includes short and long-haul APD – only a small portion (from long-haul APD) would be devolved.

3. Total Managed Expenditure. Includes estimated share of Accounting Adjustment. See chapter 4 and Annex B.

4. Total Expenditure on Services. Excludes estimated share of Accounting Adjustment.

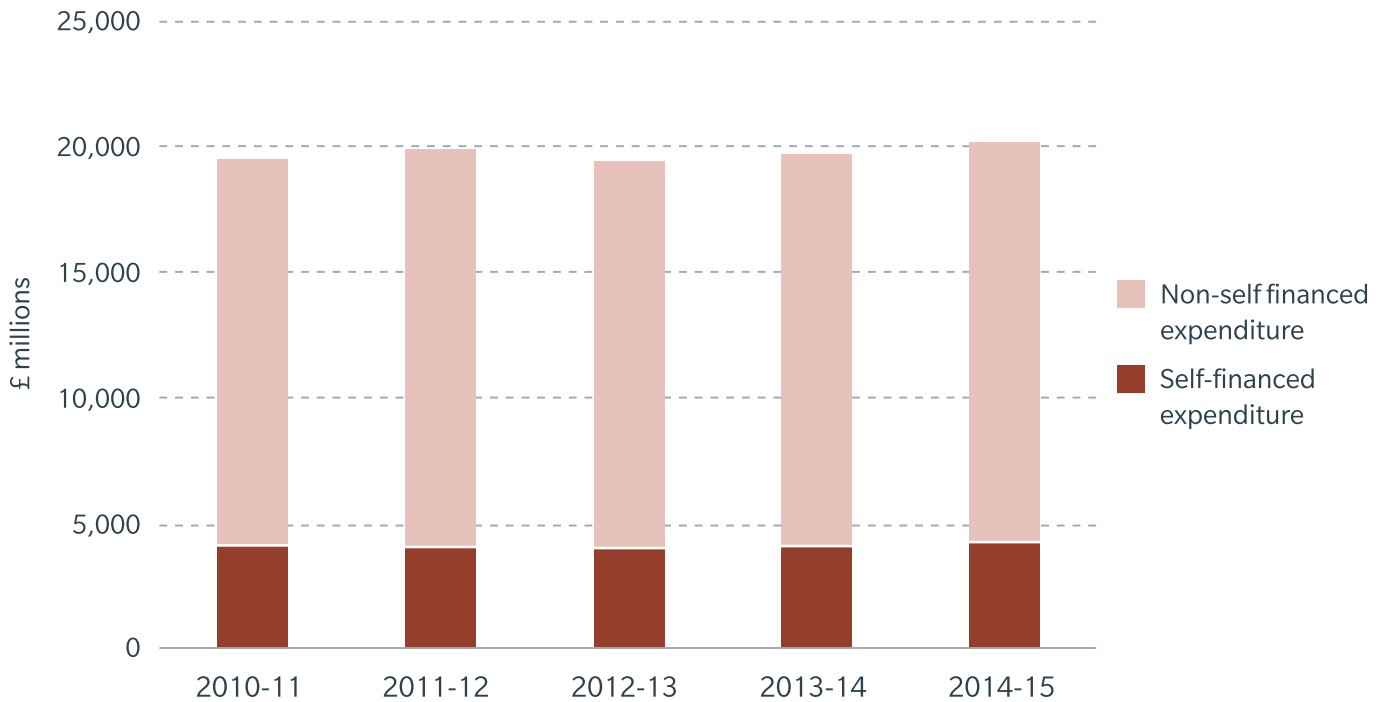
The revenue sources that will be devolved to Wales in the coming years raised approximately £4.2 billion in 2014-15. This was equivalent to 18.1% of all revenues collected in Wales in that year. **The total amount of revenue collected in recent years from soon-to-be devolved taxes has been relatively stagnant, primarily because of the fall in the estimated revenues from the Welsh rate of Income Tax. Conversely, as shown in figure 3.5, amounts collected from revenues that are not to be devolved have grown more strongly in recent years, mainly because of increases in non-direct taxes, like VAT.**

FIGURE 3.5: Illustrative share of revenues that will be devolved, 2010-11 to 2014-15



Based on 2014-15 figures, approximately 21.0% of total expenditure by the Welsh Government and local government in Wales will be financed by own-sourced revenues after all planned tax devolution. This is an increase from the current figure of around 6.3% (or 10.6% after the devolution of non-domestic rates). Estimated revenues collected through soon-to-be devolved taxes as a share of estimated devolved expenditure from 2010-11 to 2014-15 is shown in figure 3.6. **However, this figure does not illustrate what would have happened to devolved expenditure had tax devolution been in place during this time.** As outlined in the previous section, the effect of tax devolution on devolved expenditure will be significantly influenced by the method chosen to adjust the Welsh Block Grant.

FIGURE 3.6: Illustrative share of self-financed devolved expenditure¹ after devolution, 2010-11 to 2014-15



1. Devolved expenditure shown is estimated Total Managed Expenditure (TME) by the Welsh Government and Local Government in Wales

Conclusion

As a consequence to the major changes to Wales’ devolution settlement at the Wales Act 2014 and Spending Review 2015, Wales’ fiscal framework will change dramatically in coming years. For the first time, a significant portion of the revenue raised in Wales will directly fund devolved expenditure for Wales. This is a major course-change in Wales’ devolution journey.

These developments are not without risks for Wales however; particularly in the calculation of how the Block Grant will be adjusted for the devolution of revenues, and how UK policy changes might continue to influence devolved revenue collections. In the implementation of devolved Welsh revenues, Welsh Government Officials, Assembly Members and other practitioners will therefore need to be keenly aware of the risks and opportunities that Wales is facing for the first time.

4

Public Sector Expenditure for Wales

Introduction

The level of total public sector expenditure for Wales is heavily influenced by trends in overall expenditure at the UK level. A large portion of expenditure for Wales, such as that covered by Wales' block grant from HM Treasury, will be linked to changes in comparable expenditure in England. However, the composition of such expenditure will vary in Wales, given the freedom of the devolved government to spend according to its own priorities. Non-devolved expenditure and more demand-led expenditure (e.g. social security and debt interest payments), will be greatly influenced by general UK trends, but important economic and demographic differences will also lead to variations in expenditure for Wales as compared with the UK as a whole.

These factors are reflected in the detailed estimates of public sector expenditure for Wales provided in this chapter. The composition of public expenditure by function, by level of government and by current and capital spending is presented and analysed. Recent and longer-term trends in government expenditure are also provided.

The primary data source used to estimate Welsh public sector expenditure is the November 2015 Country and Regional Analysis (CRA) published by HM Treasury. The CRA is a statistical exercise undertaken by government departments that aims to identify public expenditure according to where the individuals and enterprises benefitting from it were located. The CRA analysis is presented on the basis of **Total Expenditure on Services (TES)**.

Key findings:

- Total public sector expenditure for Wales in 2014-15 was an estimated £38.0 billion, around 5.2% of total UK public sector expenditure of £737.1 billion.
- Expenditure per person was approximately £12,300, around £900 (7.7%) above the UK level.
- Total expenditure for Wales was equivalent to 61.8% of estimated GDP in 2014-15, compared with 40.2% across the UK.
- Social protection is by far the largest expenditure programme for Wales, accounting for 37.4% of total expenditure for Wales, followed by health (17.0%) and education (10.8%).
- Total expenditure for Wales increased by £1.4 billion, or 3.9% in nominal terms since 2010-11, compared with 4.1% across the UK. This was very slow growth compared with the decade before 2010-11.
- The largest increase in expenditure from 2010-11 was for Social Protection. Health expenditure increased by 4.5%, well below the 11.9% increase across the UK.
- Approximately 53% of total expenditure for Wales was by Welsh or Local Government in Wales.

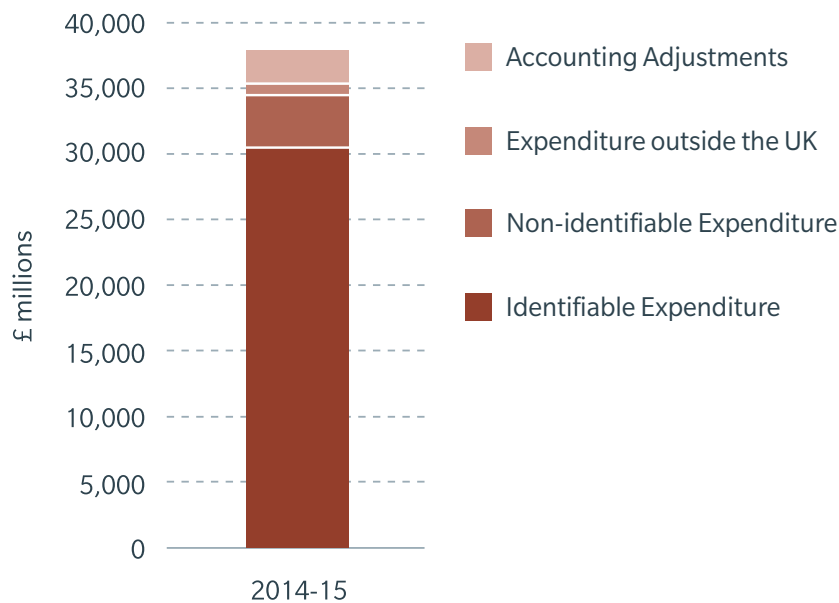
TES in the CRA is presented in two forms. **Identifiable expenditure** refers to spending which can be identified as benefitting particular countries or regions. For example, expenditure on health services or on social protection can be identified as benefitting individuals in Wales. The CRA also includes **non-identifiable expenditure** and **expenditure outside the UK** (around 11% of total expenditure in the CRA). This is expenditure that is deemed to be incurred on behalf of the United Kingdom as a whole. Major examples include the majority of defence expenditure and public sector debt interest payments. In the tables presented in this chapter, this expenditure has been apportioned to Wales according to different methodologies (see Annex B).

Also included in this analysis is an **accounting adjustment**. This is expenditure that is not included in TES (the basis of the CRA), but is included in **Total Managed Expenditure (TME)**, the headline measure of aggregate public spending in the UK Public Sector Finances. The largest component of the accounting adjustment is capital consumption (depreciation) of central and local government, that is, a measure of the fixed capital resources used up in the process of providing services.

A detailed methodology underlying the data presented in this chapter can be found in Annex B.

Composition of Public Sector Expenditure for Wales, 2014-15

FIGURE 4.1: Estimated Public Sector Expenditure for Wales, 2014-15



Total public sector expenditure for Wales in 2014-15 is estimated to be £38.0 billion. This amount is approximately 5.2% of the total UK public sector expenditure of £737.1 billion. A breakdown of this estimate by HM Treasury function is provided in table 4.1.

As shown in figure 4.1, of the £38.0 billion of total expenditure apportioned to Wales, £30.6 billion was identifiable expenditure for Wales. A further £4.7 billion consists of non-identifiable expenditure and expenditure outside the UK, apportioned to Wales according to various methodologies (see Annex B). A further accounting adjustment of £2.8 billion was estimated in order to arrive at a TME measure of total expenditure.

Despite being a largely non-devolved policy area, social protection is by far the largest expenditure programme for Wales. In 2014-15, it accounted for 37.4% of total expenditure for Wales, representing 5.5% of total UK expenditure on social protection. Over 43.2% of this expenditure was on old age social protection, the majority of which was pensions. Spending related to sickness and disability was over a fifth of social protection expenditure for Wales.

Health spending was the second largest component of total expenditure, at £6.5 billion, followed by education expenditure of £4.1 billion. Together, these three largest categories of spending account for nearly two thirds of total managed expenditure for Wales. Further discussion of the largest functions of government expenditure for Wales is provided in sections below.

Around 90.9% of total expenditure for Wales in 2014-15 was classified as current expenditure, while capital expenditure accounted for 9.1%, or £3.4 billion. These shares were similar to those of the UK as a whole.

TABLE 4.1: Total Expenditure¹: Wales and UK, 2014-15

	WALES		UK		Wales as % of UK
	£ million	% of total expenditure	£ million	% of total expenditure	
General public services					
Public and common services	738	1.9%	11,731	1.6%	6.3%
International services	517	1.4%	10,823	1.5%	4.8%
Public sector debt interest	1,596	4.2%	33,341	4.5%	4.8%
Defence	1,747	4.6%	36,484	4.9%	4.8%
Public order and safety	1,424	3.7%	29,908	4.1%	4.8%
Economic affairs					
Enterprise and econ development	534	1.4%	4,764	0.6%	11.2%
Science and technology	225	0.6%	4,940	0.7%	4.5%
Employment policies	180	0.5%	3,154	0.4%	5.7%
Agriculture, forestry and fisheries	444	1.2%	5,171	0.7%	8.6%
Transport	1,003	2.6%	20,636	2.8%	4.9%
Environment protection	728	1.9%	11,681	1.6%	6.2%
Housing and community amenities	592	1.6%	10,675	1.4%	5.5%
Health	6,467	17.0%	134,125	18.2%	4.8%
Recreation, culture and religion	752	2.0%	11,992	1.6%	6.3%
Education and training	4,108	10.8%	84,405	11.5%	4.9%
Social protection	14,206	37.4%	257,905	35.0%	5.5%
Accounting adjustments ²	2,754	7.2%	65,384	8.9%	4.2%
Total Expenditure	38,016	100.0%	737,119	100.0%	5.2%
of which:					
Current Expenditure	34,570	90.9%	670,834	91.0%	5.2%
Capital Expenditure	3,446	9.1%	66,285	9.0%	5.2%

1. Table presents Total Managed Expenditure.

2. Includes EU transactions line. See Annex B for full breakdown.

Recent Trends in Public Sector Expenditure for Wales, 2010-11 to 2014-15

Table 4.2 presents the breakdown of total expenditure for Wales from 2010-11 to 2014-15, while table 4.3 presents the same data for the UK as a whole.

Growth in public expenditure for Wales has been slow in the last five years, especially compared with trends in expenditure in the decade before 2010-11 (see figure 4.9 on page 61). Total expenditure for Wales increased from £36.6 billion in 2010-11 to £38.0 billion in 2014-15. This was a nominal increase of 3.9%, compared with growth of 4.1% in total expenditure across the UK.

Growth trends in expenditure for Wales and the UK as a whole have followed different paths over the past five years, as can be seen in figure 4.1. Whereas total expenditure at the UK level fell slightly in the year to 2011-12, expenditure for Wales increased by 1.8%. This was partly caused by an increase in Wales’ share of government capital consumption, which makes up a large part of the accounting adjustment. However, expenditure for Wales excluding the accounting adjustment also grew above growth at the UK level in 2011-12. The largest divergence in 2011-12 was in education expenditure; whereas education spending for Wales grew slightly, there was a large reduction across the UK. Growth in expenditure for Wales then fell below the UK growth rate in both 2012-13 and 2013-14. Total expenditure then increased in the year to 2014-15 slightly faster in Wales than for the UK as whole.

FIGURE 4.1: Growth in Total Expenditure: Wales and UK, 2010-11 to 2014-15 (2010-11 = 100)

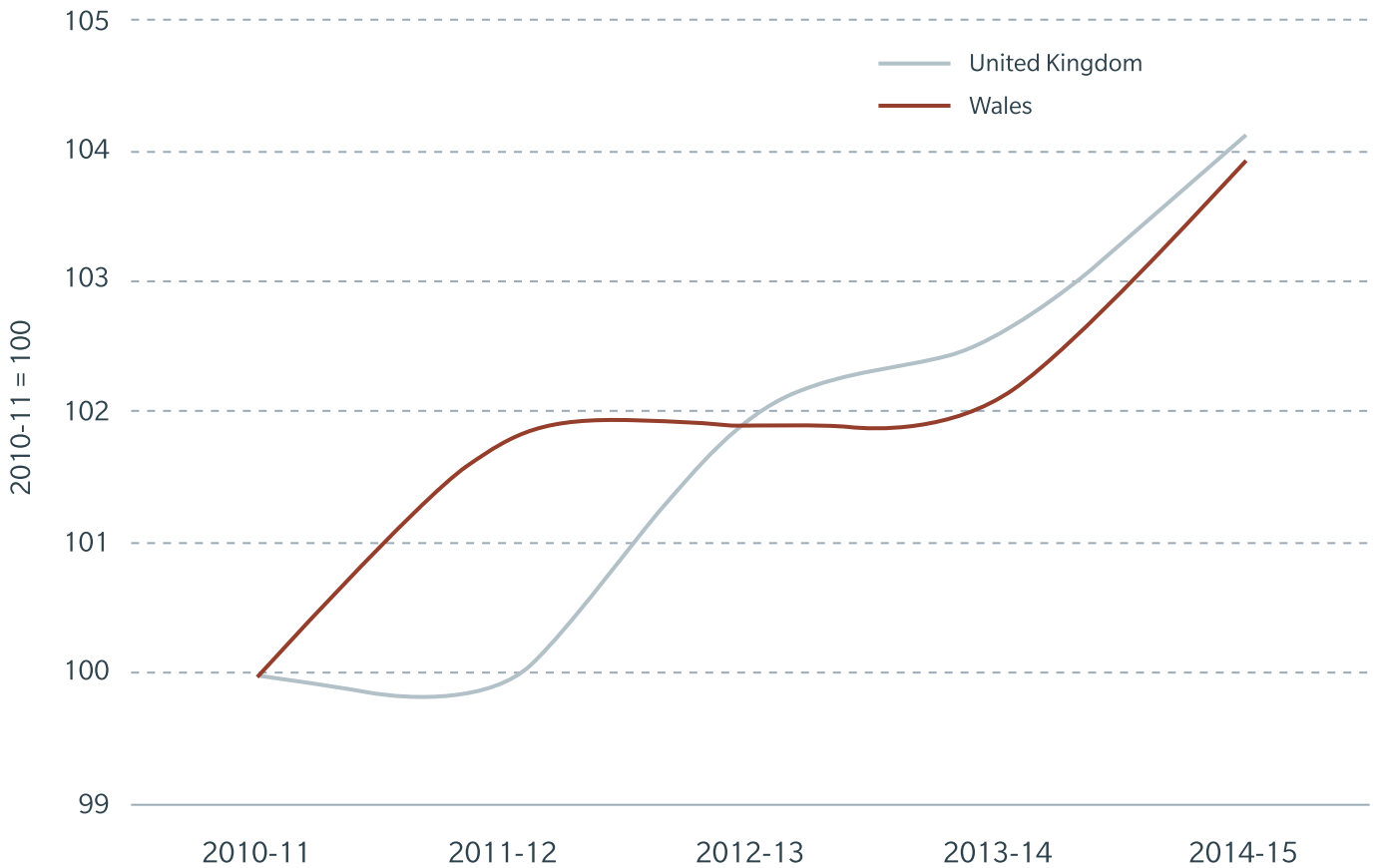


TABLE 4.2: Total Expenditure: Wales, 2010-11 to 2014-15

	£ million														
	CURRENT					CAPITAL					TOTAL				
	2010-11	2011-12	2012-13	2013-14	2014-15	2010-11	2011-12	2012-13	2013-14	2014-15	2010-11	2011-12	2012-13	2013-14	2014-15
General public services															
Public and common services	708	680	635	646	684	86	65	83	70	54	794	746	718	716	738
International services	353	356	357	456	416	36	29	27	29	102	388	384	384	485	517
Public sector debt interest	1,955	2,036	1,820	1,777	1,596	0	0	0	0	0	1,955	2,036	1,820	1,777	1,596
Defence	1,582	1,595	1,477	1,469	1,458	327	277	278	282	290	1,910	1,872	1,755	1,752	1,747
Public order and safety	1,416	1,415	1,401	1,339	1,351	97	72	63	79	73	1,513	1,487	1,464	1,418	1,424
Economic affairs															
Enterprise and econ development	457	358	363	392	350	246	74	92	160	184	703	431	455	552	534
Science and technology	0	0	0	0	0	118	120	127	171	225	117	120	127	171	225
Employment policies	224	157	141	187	178	5	4	4	4	2	229	161	145	191	180
Agriculture, forestry and fisheries	504	714	406	427	384	54	41	46	55	60	558	755	452	482	444
Transport	523	526	494	474	428	597	537	592	556	575	1,119	1,064	1,086	1,030	1,003
Environment protection	495	505	517	546	527	168	141	184	181	200	663	646	701	727	728
Housing and community amenities	130	125	140	132	124	440	480	491	475	468	570	605	631	607	592
Health	5,801	5,828	5,839	5,965	6,175	389	297	212	221	292	6,190	6,125	6,051	6,186	6,467
Recreation, culture and religion	699	662	656	620	655	89	101	117	91	97	788	763	774	711	752
Education and training	4,001	4,030	3,854	3,932	3,863	253	406	308	298	245	4,254	4,436	4,162	4,230	4,108
Social protection	12,508	13,062	13,606	13,768	14,206	50	32	30	-18	0	12,558	13,094	13,636	13,750	14,206
Accounting adjustments	1,726	1,904	1,893	1,957	2,176	543	603	1,023	601	579	2,268	2,508	2,916	2,558	2,754
TOTAL EXPENDITURE	33,079	33,954	33,599	34,089	34,570	3,498	3,279	3,677	3,256	3,446	36,577	37,233	37,277	37,345	38,016

TABLE 4.3: Total Expenditure: UK, 2010-11 to 2014-15

	£ million														
	CURRENT					CAPITAL					TOTAL				
	2010-11	2011-12	2012-13	2013-14	2014-15	2010-11	2011-12	2012-13	2013-14	2014-15	2010-11	2011-12	2012-13	2013-14	2014-15
General public services															
Public and common services	10,813	10,036	9,673	9,520	10,301	1,803	1,214	1,355	1,476	1,430	12,616	11,250	11,028	10,996	11,731
International services	7,257	7,360	7,407	9,475	8,689	743	593	546	621	2,134	8,000	7,953	7,953	10,096	10,823
Public sector debt interest	40,227	42,065	37,707	36,965	33,341	0	0	0	0	0	40,227	42,065	37,707	36,965	33,341
Defence	32,549	32,950	30,586	30,543	30,430	6,738	5,711	5,768	5,867	6,054	39,287	38,661	36,354	36,410	36,484
Public order and safety	31,014	30,503	29,846	28,283	28,673	2,028	1,556	1,406	1,257	1,235	33,042	32,059	31,252	29,540	29,908
Economic affairs															
Enterprise and econ development	2,831	3,280	3,951	4,376	3,907	2,035	1,596	942	1,153	857	4,866	4,876	4,893	5,529	4,764
Science and technology	0	0	0	0	0	3,406	3,564	3,598	4,438	4,940	3,406	3,564	3,598	4,438	4,940
Employment policies	4,603	3,170	2,803	3,584	3,123	94	83	78	76	31	4,697	3,253	2,881	3,660	3,154
Agriculture, forestry and fisheries	5,173	5,544	5,010	5,000	4,697	329	269	306	408	474	5,502	5,813	5,316	5,408	5,171
Transport	8,814	8,254	7,712	7,692	6,866	12,679	11,693	10,938	11,342	13,770	21,493	19,947	18,650	19,034	20,636
Environment protection	7,780	7,834	7,380	7,519	8,029	3,158	2,612	3,205	3,472	3,652	10,938	10,446	10,585	10,991	11,681
Housing and community amenities	3,220	2,722	3,086	2,984	3,054	10,031	7,431	6,877	6,823	7,621	13,251	10,153	9,963	9,807	10,675
Health	114,465	117,005	119,496	123,632	129,556	5,389	4,249	4,782	5,698	4,569	119,854	121,254	124,278	129,330	134,125
Recreation, culture and religion	10,256	9,660	10,692	9,648	10,162	2,718	2,818	2,006	1,770	1,830	12,974	12,478	12,698	11,418	11,992
Education and training	82,371	79,089	80,553	82,245	78,154	9,150	7,798	6,643	7,254	6,251	91,521	86,887	87,196	89,499	84,405
Social protection	229,408	239,635	250,224	251,189	258,012	1,019	596	450	-402	-107	230,427	240,231	250,674	250,787	257,905
Accounting adjustments	45,111	44,876	46,409	50,695	53,840	10,779	11,976	20,646	11,903	11,544	55,890	56,852	67,055	62,598	65,384
TOTAL EXPENDITURE	635,892	643,983	652,535	663,349	670,834	72,099	63,759	69,546	63,157	66,285	707,991	707,742	722,081	726,506	737,119

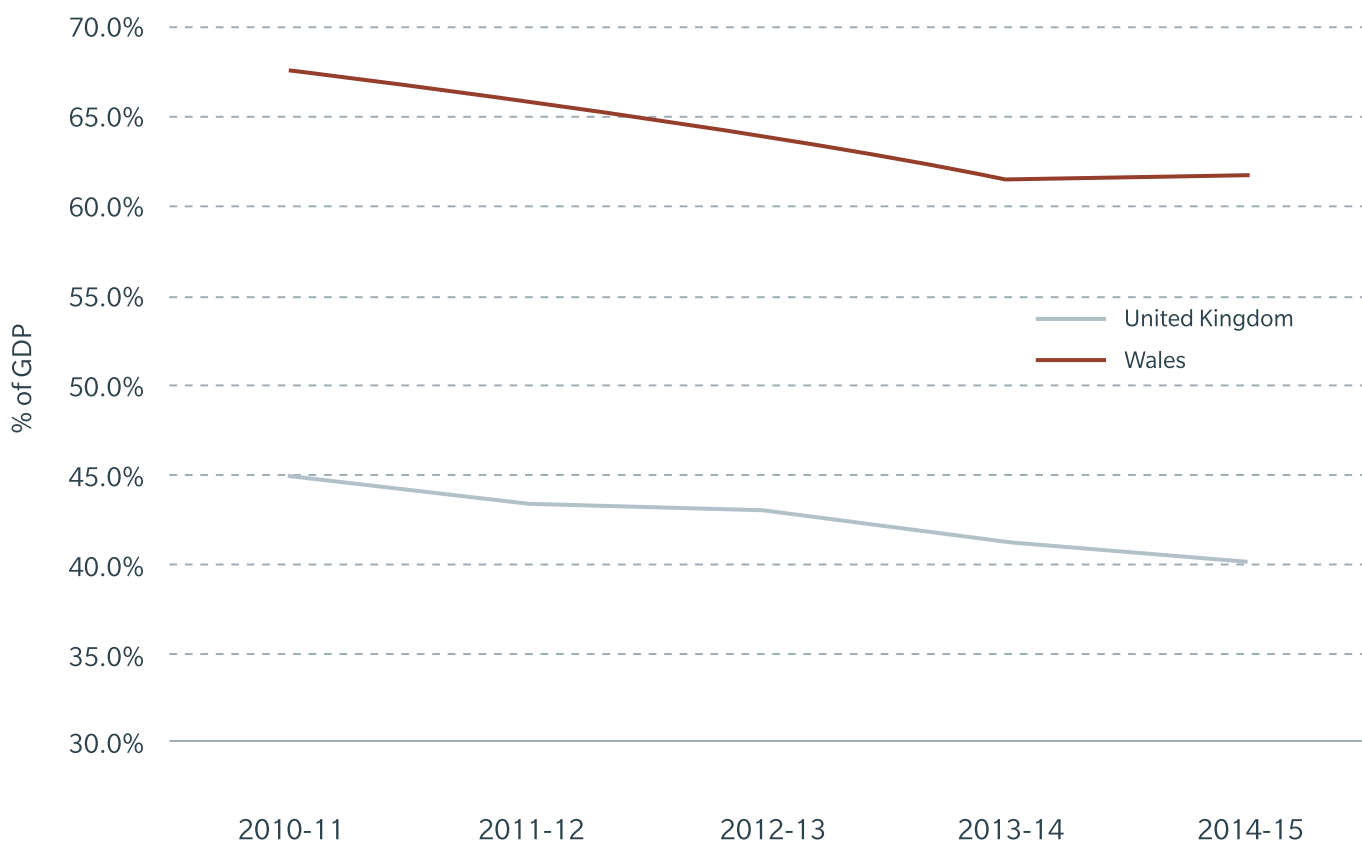
Table 4.4 and figure 4.2 show total expenditure as a share of estimated GDP.²¹ These statistics provide a useful illustration of the relative size of public spending between countries and over time by controlling for the size of the economy. However, they do not indicate the contribution of public spending, or the public sector, to the economy as a whole, as a large proportion of such spending is on transfers from government to individuals and businesses.

TABLE 4.4: Total Managed Expenditure as a Share of GDP, 2010-11 to 2014-15					
	(% of GDP)				
	2010-11	2011-12	2012-13	2013-14	2014-15
WALES	67.6%	65.9%	63.9%	61.6%	61.8%
UK	44.9%	43.5%	43.0%	41.4%	40.2%

As a share of total income, government expenditure for Wales is much higher than for the UK as a whole. This reflects the higher levels of government expenditure per person described below, and the far lower income levels in Wales.

However, public expenditure as a share of GDP decreased rapidly in Wales from 67.6% in 2010-11 to 61.6% in 2013-14, a 6.0 percentage point fall. This was much larger than the decrease for the UK as a whole during this period (of 3.6 percentage points). This reflects both the slower growth in total expenditure and the stronger growth in estimated Welsh GDP during this time. Meanwhile, the slight increase recorded for Wales in 2014-15 reflects a slowing in estimated GDP growth and faster growth in total expenditure.

FIGURE 4.2: Total expenditure as a share of GDP, 2010-11 to 2014-15



²¹ As public finances are often presented as shares of GDP, it was seen as appropriate to estimate Welsh GDP, in order to facilitate comparisons with other countries. These figures should be considered as rough approximations only. See Annex C for details.

Table 4.5 presents total expenditure per person in Wales and the UK from 2010-11 to 2014-15. Total expenditure per person for Wales was around £12,300 in 2014-15. This was £900, or 7.7% higher than total expenditure per person for the UK as a whole. Although total expenditure for Wales has grown at a slower rate, the lower level of population growth in Wales (discussed in box 4.1) means that expenditure per person has risen faster for Wales than for the UK as a whole.

Of the estimated expenditure for Wales of £12,300 per person in 2014-15, around £9,900 was classified as identifiable expenditure for Wales. This was around 10.9% higher than the level across the UK in 2014-15, a greater difference than for total managed expenditure. This reflects the fact that non-identifiable expenditure (e.g. on defence and debt interest payments) will be apportioned to Wales according to a population share, which is lower than Wales' share of total expenditure. It also reflects the significantly negative EU Transactions line for Wales included within the accounting adjustment (see annex B).

TABLE 4.5: Total Expenditure Per Person: Wales and UK, 2010-11 to 2014-15

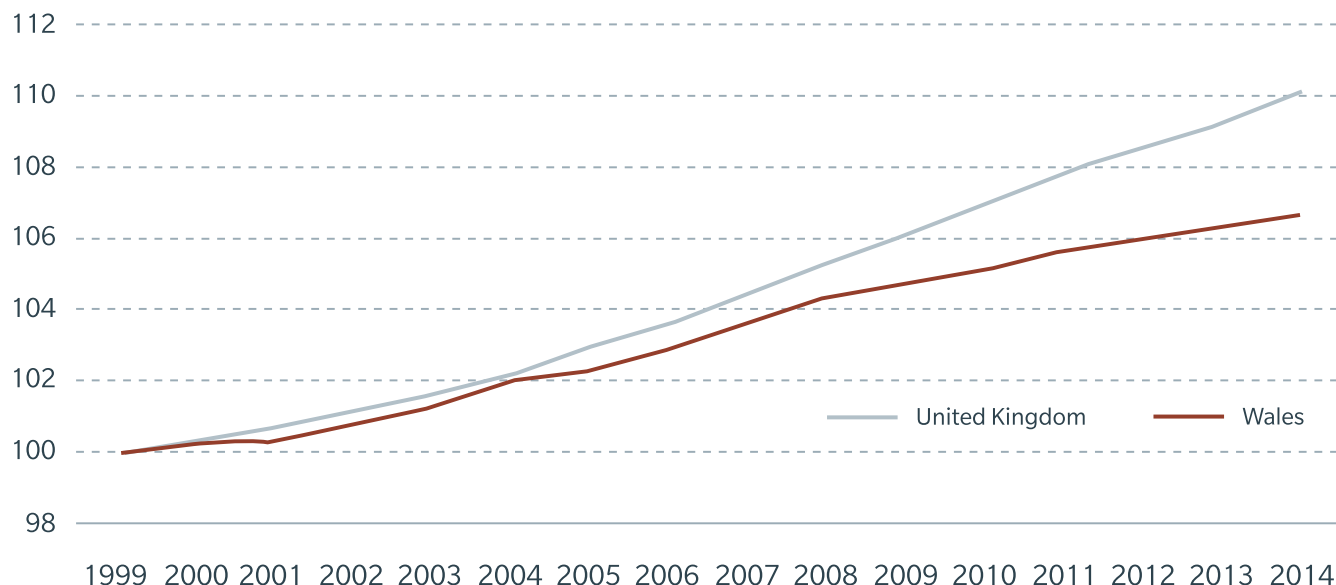
	2010-11	2011-12	2012-13	2013-14	2014-15
Total Managed Expenditure					
Wales (£)	12,000	12,200	12,100	12,100	12,300
UK (£)	11,300	11,200	11,300	11,300	11,400
Difference (Wales minus UK - £)	700	1,000	800	800	900
Relative TME for Wales (UK = 100)	106.3	108.7	107.0	106.9	107.7
Identifiable Expenditure					
Wales (£)	9,600	9,700	9,600	9,700	9,900
UK (£)	8,800	8,600	8,700	8,800	8,900
Difference (Wales minus UK - £)	800	1,000	900	900	1,000
Relative Identifiable Expenditure for Wales (UK = 100)	109.6	111.9	109.9	110.2	110.9

The higher public expenditure per person for Wales reflects the greater need for some public services in Wales. The first report by the Holtham Commission (2010) outlined policy areas in which there was a greater relative need in Wales as compared with England, according to the UK Government's own funding criteria for English regions. For example, it argued that the relative need for health expenditure in Wales was around 14% higher in Wales than in England. For housing, the relative need for expenditure in Wales was 45% above the English level.

The trend in per person expenditure for Wales is heavily linked to the formula applied by HM Treasury to determine Wales' annual block grant. The Holtham Commission (2010) demonstrated that in times of relatively fast UK expenditure growth, applying a Welsh population share of changes in expenditure in England meant that relative expenditure for Wales would converge towards the English level - the so-called "Barnett squeeze" effect. This meant that expenditure per person for Wales could fall below the level of its relative need. However, in times of lower expenditure growth (such as in recent years) this phenomenon is less prone to happen, as demonstrated by the slight increase in relative expenditure per person for Wales since 2010-11.

BOX 4.1: Wales' population slow-down

In recent years, Wales' population growth rate has substantially diverged from that of the UK as a whole, as can be seen in figure 4.3.

FIGURE 4.3: Growth in population: Wales and UK, 1999 to 2014 (1999 = 100)

Whereas the population of the UK as a whole has grown by 4.5% since 2008, Wales' population growth has been less than half of that, at 2.2%. This trend is likely to continue, with ONS projections suggesting Wales' population will grow at almost a third of the rate of England.

Historically, Wales' population has often grown in line with the UK; unlike Scotland, where slower population growth is a long-established phenomenon. The divergence in population growth between Wales and the UK will likely have a significant impact on Wales' public finances in future years.

Slower population growth will tend to lead to an older population, increasing Wales' relative need for public expenditure. This would tend to grow non-devolved expenditure, for example through increasing pensions spending.

Slower population growth will also have an impact on per capita expenditure by the Welsh Government. Wales' population as a share of England's population is a crucial part of the Barnett formula – Wales receives a population share of changes in comparable expenditure in England. This population share is now set once every five years at the time of Spending Reviews, which means that population growth divergence in that time will not be reflected for those years, leaving per-capita expenditure slightly higher. As noted by the first Holtham Commission report (2010) and explored by Cuthbert (2001),¹ slower population growth has the potential to partially offset the so-called 'Barnett squeeze' effect, especially in times of slow expenditure growth.

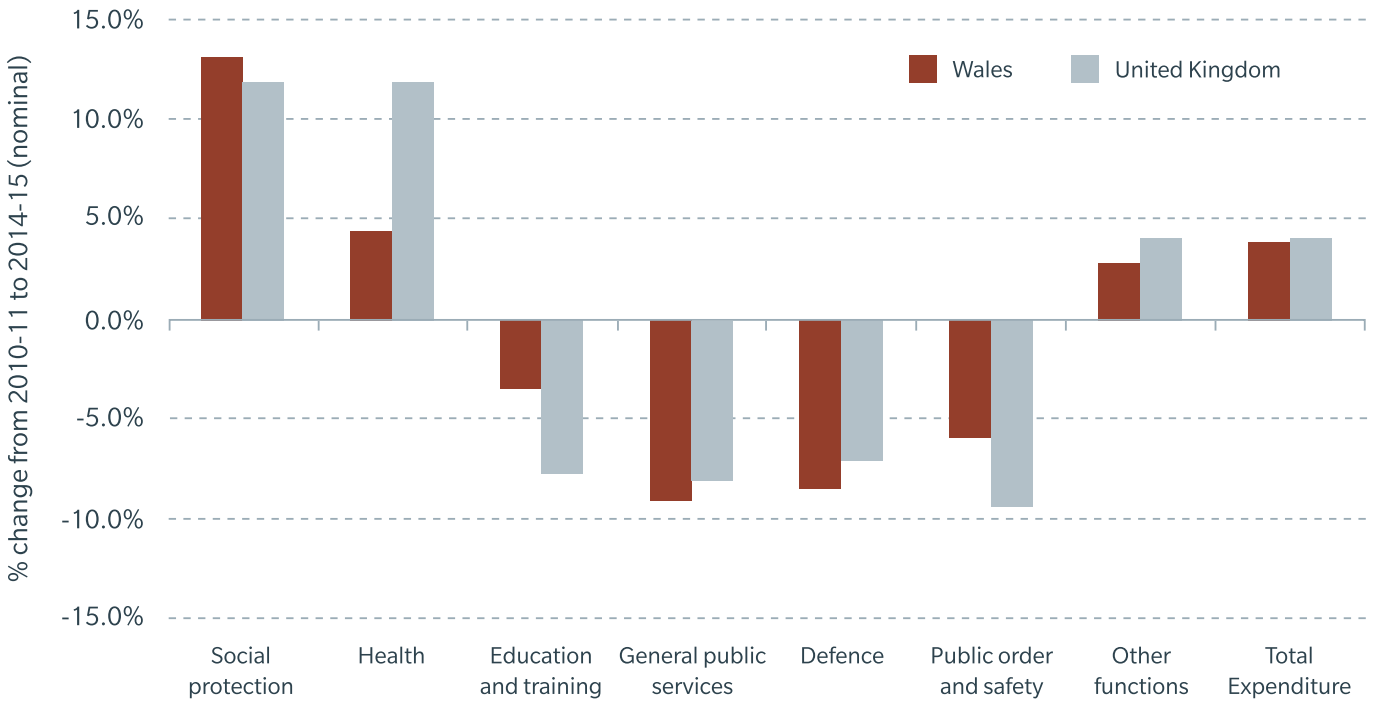
On the revenue side, slower population growth will also generally mean slower tax base growth. As well as impacting Wales' overall fiscal balance, this may become an important point after significant tax devolution, depending on whether the adjustments made to the Welsh Block Grant shield the Welsh Government budget from its effects (see chapter 3 for further discussion on this).

1. Cuthbert, J. R. (2001) The effect of relative population growth on the Barnett squeeze. *Quarterly Economic Commentary*, 26 (2). pp. 34-37.

Trends by Expenditure Programmes for Wales, 2010-11 to 2014-15

Figure 4.4 shows the change in expenditure for Wales and the UK from 2010-11 to 2014-15, by the largest functions of expenditure.

FIGURE 4.4: Change in expenditure by largest expenditure functions: Wales and UK, 2010-11 to 2014-15

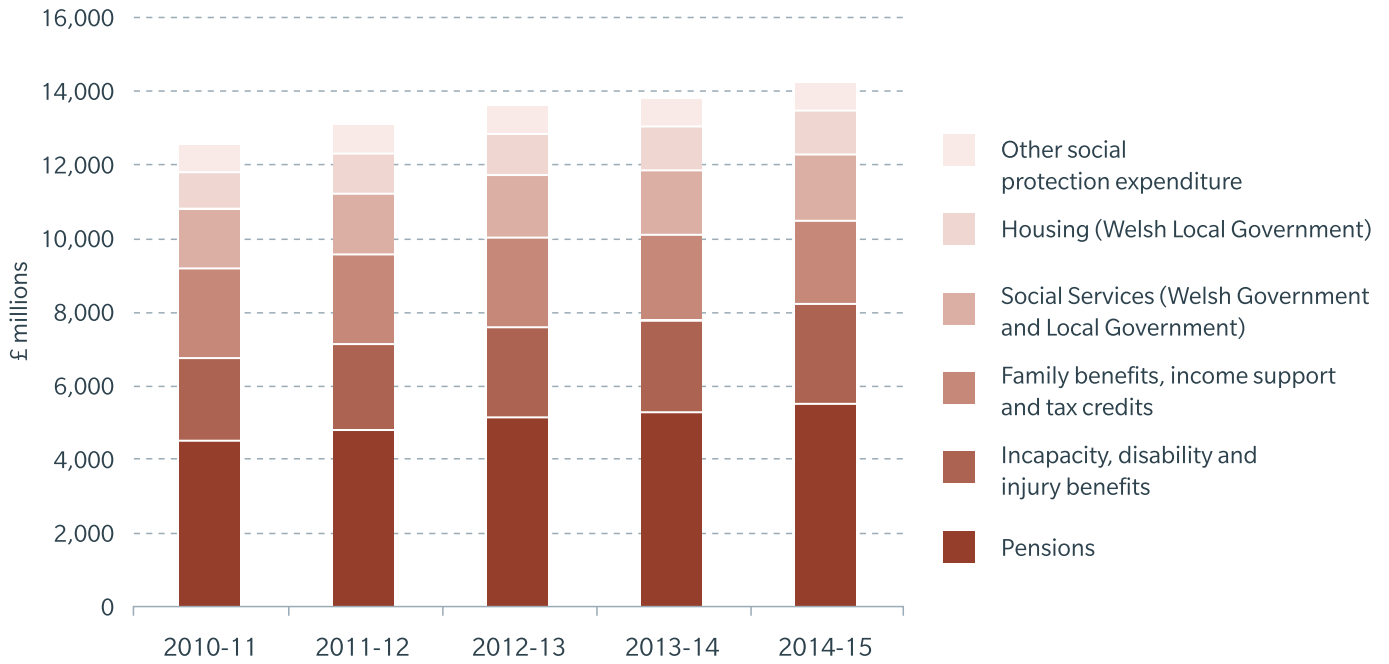


The largest increase in expenditure for Wales from 2010-11 to 2014-15 was for social protection, which grew by £1.6 billion, or 13.1%, in this time period. This compares with an 11.9% increase in social protection expenditure across the UK. Social protection as a share of total expenditure for Wales increased from 34.3% in 2010-11 to 37.4% in 2014-15.

Figure 4.5 provides a breakdown of expenditure on social protection for Wales from 2010-11 to 2014-15. The largest growth was seen in expenditure on pensions, which grew by over £1.0 billion (22%) in this time. Expenditure on incapacity, disability and injury benefits also grew by over a fifth, or £452 million. The social protection category also includes devolved expenditure by the Welsh Government and Welsh local government on social services, which grew by 12.1% during this time. Expenditure by Welsh local government on housing related social protection also grew strongly during this time period, by £216 million.

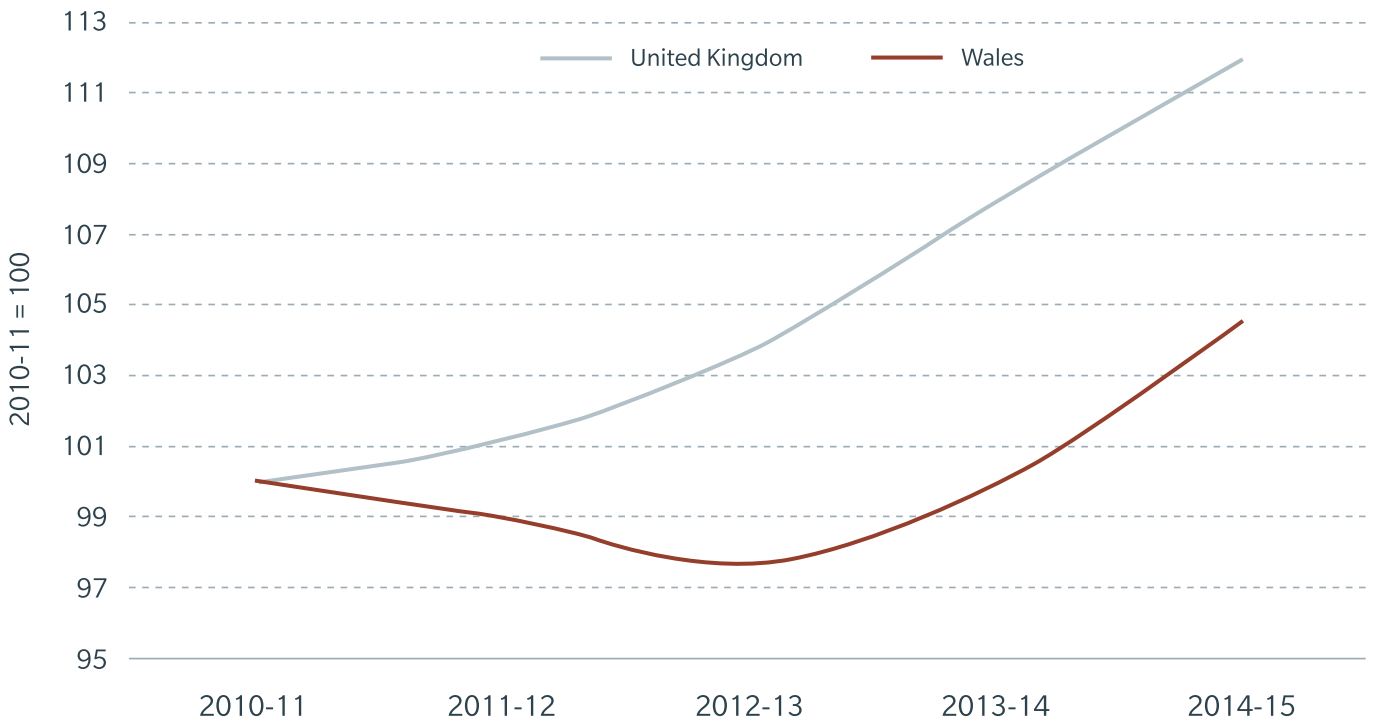
These spending increases meant that social protection expenditure per person for Wales grew from around £4,100 in 2010-11 to £4,600 in 2014-15. Social protection expenditure per person across the UK in 2014-15 was £4,000, having increased by £300 from 2010-11.

FIGURE 4.5: Breakdown of Social Protection Expenditure for Wales, 2010-11 to 2014-15



Health expenditure for Wales also grew during this time period, by £278 million, or 4.5%, in nominal terms. This however was a substantially lower rate of increase than the corresponding growth across the UK of 11.9%. Figure 4.6 shows the growth trend in government expenditure on health for Wales and the UK between 2010-11 and 2014-15.

FIGURE 4.6: Growth in Expenditure on Health: Wales and UK, 2010-11 to 2014-15 (2010-11 = 100)



The growth in UK expenditure on health in this period reflects the decision of the UK Government to ring-fence health spending in England during the course of the last parliament. Figure 4.6 illustrates the Welsh Government's decision early in the parliament to use Barnett consequential from protected English NHS spending to moderate the impact of cuts across other areas of Welsh spending, such as local government. However, the data shows the change in approach by the Welsh Government from 2013-14, as health expenditure for Wales grew by more than 4.6% in nominal terms to 2014-15.

The trends described above meant that health expenditure per person in Wales declined in the earlier years analysed, and then recovered in 2014-15. Health expenditure per person in Wales is now in line with the UK average of around £2,100.

The largest decrease by expenditure function from 2010-11 to 2014-15 was in public sector debt interest payments, which forms part of the General Public Sector services category in figure 4.4. UK public sector debt interest payments fell by over £2.8 billion from 2010-11 to 2014-15. As in the case of defence expenditure, Wales is allocated a population share of this spending. As Wales' share of the UK population fell during this period, figure 4.4 shows a slightly larger decrease in spending on these functions for Wales as compared with the rest of the UK.

Education expenditure for Wales fell by 3.4% in nominal terms during this time period, but not as much as expenditure across the UK, which fell by 7.8%. This again reflects the different priorities of the Welsh and UK Governments.

Expenditure for Wales by Welsh Government, Local Government and UK Government

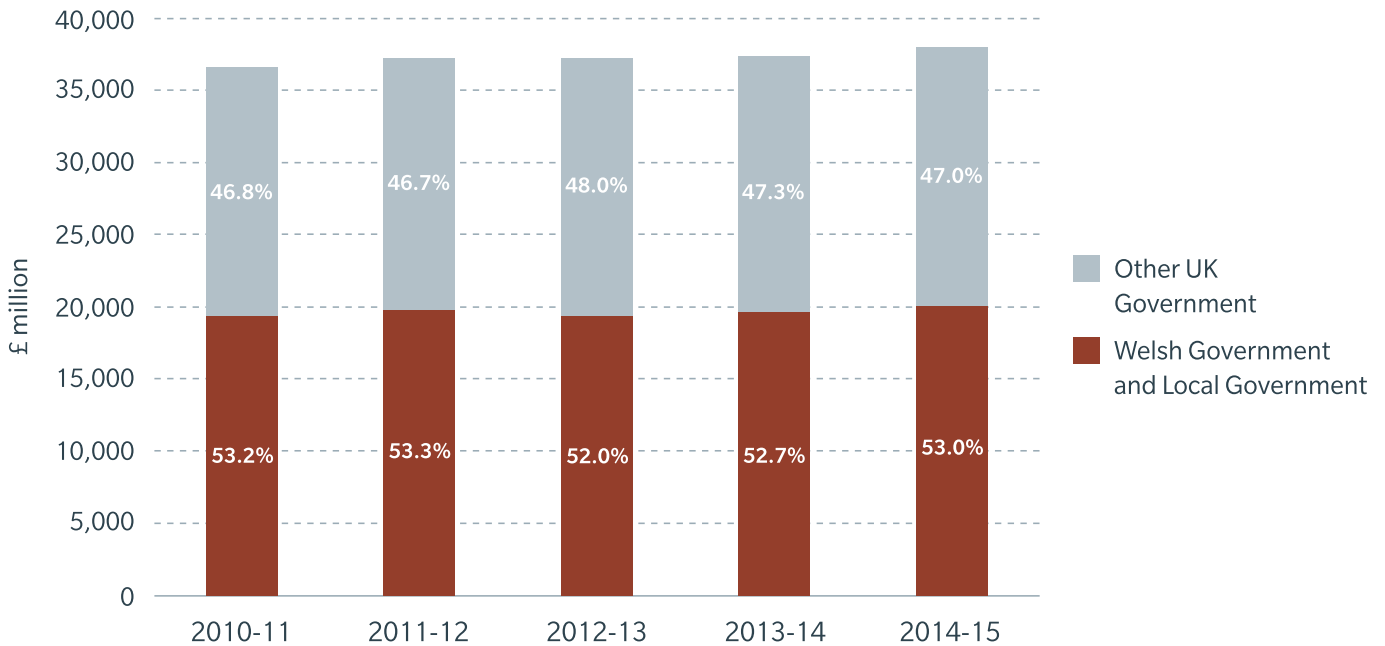
HM Treasury's CRA data allows us to assign public sector expenditure for Wales to different levels of institutions.

Figure 4.7 below shows total expenditure for Wales by the Welsh institutions (the Welsh Government and Welsh local government) and by UK Government departments, while table 4.6 provides a more detailed breakdown by government function. For consistency with other expenditure tables presented in this chapter, the accounting adjustment expenditure for Wales has also been allocated to each institution (see methodology in Annex B). There will be a number of differences between the figures for spending by the Welsh Government and local government presented here and figures presented in Welsh Government budgets and Welsh Local Government Finance Statistics. These differences reflect a number of coverage differences, accounting differences and different treatment of grants and transfers within the public sector.²²

Expenditure by the Welsh Government and local government in Wales is largely determined by the Welsh Block Grant, set annually by HM Treasury, along with some local taxation (namely council tax, and from 2015-16 onwards, non-domestic rates). The Welsh Block Grant is mainly determined by the extent of devolved responsibilities and changes in comparable expenditure in England. In future years, this spending will also be influenced by growth in various other taxes in Wales, once these revenues will be devolved to the Welsh Government (see chapter 3 for further discussion).

Total managed expenditure for Wales by the Welsh Government and Welsh Local Government in 2014-15 was £20.1 billion. This accounted for 53.0% of total expenditure for Wales. Other UK Government departments accounted for £17.9 billion, or 47.0% of total expenditure in Wales. These shares have remained relatively constant over the last five years. The slightly higher share of expenditure by the UK Government in 2012-13 reflects the inclusion of a one-off expenditure associated with the transfer of the Royal Mail Pension Plan, as well as a fall in expenditure by the Welsh institutions.

²² See Annex E of HM Treasury's Public Expenditure Statistical Analyses publication for further discussion of the differences between budgets and National Accounts concepts.

FIGURE 4.7: Total Expenditure for Wales¹ by Institutional Level, 2010-11 to 2014-15

1. Contains an accounting adjustment

The institutional breakdown of expenditure for Wales by function reflects the devolved responsibilities of the Welsh Government. The largest portion of expenditure by Welsh institutions is for health, which accounts for almost a third of total Welsh Government expenditure. This is followed by education, which makes up over a fifth of expenditure. Nearly all expenditure for Wales for these policy functions are by the Welsh institutions. Meanwhile, devolved social services expenditure accounts for 21.6% of all social protection expenditure for Wales.

Around 62.3% of expenditure for Wales by other UK Government departments is for social protection, including pensions and benefits expenditure. A further significant portion of expenditure for Wales by other UK Government departments is in the form of non-identifiable expenditure, for example on defence and public sector debt interest payments.

TABLE 4.6: Total Expenditure by Institutional Level, Wales 2010-11 to 2014-15

	£ million														
	Welsh Government and Local Government					Other UK Government					Total				
	2010-11	2011-12	2012-13	2013-14	2014-15	2010-11	2011-12	2012-13	2013-14	2014-15	2010-11	2011-12	2012-13	2013-14	2014-15
General public services															
Public and common services	493	473	456	450	455	301	273	262	266	283	794	746	718	716	738
International services	0	0	0	0	0	388	384	384	485	517	388	384	384	485	517
Public sector debt interest	0	0	0	0	0	1,955	2,036	1,820	1,777	1,596	1,955	2,036	1,820	1,777	1,596
Defence	4	3	4	4	4	1,906	1,868	1,751	1,748	1,744	1,910	1,872	1,755	1,752	1,747
Public order and safety	846	823	808	822	848	667	664	656	596	576	1,513	1,487	1,464	1,418	1,424
Economic affairs															
Enterprise and economic development	712	386	329	411	420	-9	45	125	141	114	703	431	455	552	534
Science and technology	9	7	14	29	44	108	114	113	142	180	117	120	127	171	225
Employment policies	0	5	3	2	3	229	156	142	189	177	229	161	145	191	180
Agriculture, forestry and fisheries	545	748	444	472	432	13	7	8	9	12	558	755	452	482	444
Transport	912	870	881	835	822	207	194	206	195	181	1,119	1,064	1,086	1,030	1,003
Environment protection	527	503	563	579	564	136	142	138	148	164	663	646	701	727	728
Housing and community amenities	566	602	627	603	586	4	3	4	4	6	570	605	631	607	592
Health	6,123	6,070	6,008	6,145	6,429	67	56	43	41	39	6,190	6,125	6,051	6,186	6,467
Recreation, culture and religion	456	464	454	413	401	332	299	320	298	352	788	763	774	711	752
Education and training	4,201	4,416	4,146	4,132	4,086	53	20	16	98	22	4,254	4,436	4,162	4,230	4,108
Social protection	2,638	2,771	2,851	3,008	3,066	9,919	10,323	10,785	10,743	11,141	12,558	13,094	13,636	13,750	14,206
Total Expenditure on Services (TES)	18,032	18,140	17,588	17,907	18,158	16,277	16,585	16,773	16,880	17,104	34,309	34,725	34,361	34,787	35,262
% of TES	52.6%	52.2%	51.2%	51.5%	51.5%	47.4%	47.8%	48.8%	48.5%	48.5%	100.0%	100.0%	100.0%	100.0%	100.0%
Accounting Adjustment ¹	1,418	1,719	1,788	1,779	1,975	851	789	1,128	779	779	2,268	2,508	2,916	2,558	2,754
Total Managed Expenditure	19,449	19,860	19,376	19,686	20,133	17,128	17,373	17,901	17,659	17,883	36,577	37,233	37,277	37,345	38,016
% of TME	53.2%	53.3%	52.0%	52.7%	53.0%	46.8%	46.7%	48.0%	47.3%	47.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1. The share of this accounting adjustment apportioned to the Welsh Government and Local Government is likely to be slightly overestimated. See Annex B for further details.

Box 4.2: Private Finance Initiative (PFI) Expenditure

The Private Finance Initiative (PFI) involves using private sector funding to deliver projects that were traditionally provided by the public sector, and hence is a form of Public Private Partnership (PPP). The private sector party is usually responsible for various roles including designing and constructing a building or facility and maintaining and servicing it throughout the contract term. The public sector retains accountability for the main public services, and has a larger role in regulation.

While the private sector is responsible for financing the project up front, it receives payment from the public sector once construction has been completed and the services have commenced. These payments take the form of unitary charges that are usually paid annually over the lifetime of the contract. This expenditure is included in spending lines for various functions in the main tables of this chapter. Table 4.7 below presents an estimate of public sector unitary charge expenditure from PFI projects in Wales from 2010-11 to 2014-15, based on a dataset compiled by HM Treasury.

TABLE 4.7: Public Sector Unitary Charge Expenditure in Wales, 2010-11 to 2014-15

	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
Welsh Government	83	87	93	94	96
UK Government departments in Wales	48	53	75	73	72
WALES TOTAL	131	140	167	167	168
% of UK unitary charges	1.7%	1.6%	1.8%	1.7%	1.7%
UK TOTAL	7,771	8,504	9,257	9,740	10,189

The use of PFI projects in Wales has been relatively limited, reflected in the low share of UK unitary charges for projects in Wales. This is due to the divergence in PFI policy between Wales and England in the early years of devolution.¹ Furthermore, the 2007 *One Wales* agreement between Labour and Plaid Cymru ruled out the use of PFI within the Welsh health service.

The largest unitary charge expenditure for a project in Wales was by the Department of Justice, relating to the HM Parc Prison in Bridgend. The Welsh Government's unitary charge expenditure was an estimated £96 million in 2014-15. The largest component of this expenditure for 2014-15 related to the A55 road across Anglesey, followed by the Wrexham Recycling Park which opened in October 2009.

1. See Welsh Assembly (2008) briefing paper. Available at: <http://www.assembly.wales/NAfW%20Documents/qg08-0001.pdf%20-%2017062010/qg08-0001-English.pdf>

Longer Term Trends in Public Sector Expenditure for Wales

Figure 4.8 shows levels of total expenditure for Wales between 1999-00 to 2014-15, while figure 4.9 shows the annual year-on-year change in total expenditure during this time period. The data behind these figures, along with further breakdowns, can be downloaded online.

Difficulty in compiling consistent data means that figures for years before 2010-11 should be treated with extra caution. Recent changes in reporting, classification and accounting procedures are not reflected in older data. While total expenditure is likely to be of a high level of accuracy, the historical breakdown between capital and current expenditure is less likely to show the same level of accuracy. Expenditure breakdown by policy function is also less likely to be consistent over time due to HM Treasury classification changes. For these reasons, only trends in total expenditure for Wales are discussed in this section.

In the early part of the last decade, estimated total expenditure for Wales grew rapidly, from £18.9 billion in 1999-00 to £29.0 billion in 2005-06. This amounted to an average annual growth rate of 7.4% over this period, with growth peaking at 9.4% in 2002-03. Growth in this period was still typically just below the UK growth rate however. Total expenditure for Wales as a share of estimated GDP increased from 54% in 1999-00 to 60% in 2005-06, and remained close to this level until 2008-09.

The onset of the financial crisis saw another sharp rise in total expenditure for Wales, growing by £2.4 billion in the year to 2008-09. Expenditure on social protection, the largest component of expenditure for Wales, increased by 7.7% in this year. Also contributing to this increase was the effect of the UK Government's Financial Sector Interventions, discussed in Box 4.3. This increase in total expenditure, along with a contraction in GDP, pushed expenditure as a share of GDP up to a peak of 67.9% in 2009-10. As discussed in previous sections, growth in total expenditure for Wales in more recent years has been much slower.

Estimated total expenditure per person for Wales grew by 88.8% in nominal terms during the 16 year time period analysed, slightly below the UK level of growth (90.0%). Relative expenditure per person for Wales peaked at 109.4% the UK level in 2002-03. This figure then decreased to less than 106.0% of the UK level in 2009-10, before recovering somewhat in more recent times. This downward trend in relative per person expenditure levels from 2002-03 is at least partially reflective of the "Barnett squeeze" effect described earlier.

BOX 4.3: Effect of Financial Sector Interventions

Total expenditure figures for Wales presented in GERW include a share of the permanent effects of the UK Government's interventions to support the banking sector in the midst of the financial crisis of 2007-08. These interventions included the financial assistance offered to Bradford and Bingley, Northern Rock, and other institutions.

In the CRA data, net outlays of the UK Government's financial sector interventions are recorded as capital expenditure, whilst the fees received are recorded as negative current expenditure. These expenditures are classed as non-identifiable expenditure in the CRA. As in GERS, GERW's methodology assigns Wales a population share of this expenditure, on the basis that all areas of the UK have benefitted equally from the resulting stabilisation of the UK financial system. The impact of the permanent effects of the UK Government's financial sector interventions on total expenditure for Wales is outlined in table 4.8 below.

TABLE 4.8: Estimated Share of UK Government's Financial Stability Expenditure: Wales, 2008-09 to 2014-15

	£ million						
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Current	-51	-17	-90	-48	-24	-1	-7
Current	458	221	0	0	0	0	0
TOTAL	407	203	-90	-48	-24	-1	-7

FIGURE 4.8: Total Managed Expenditure: Wales, 1999-00 to 2014-15

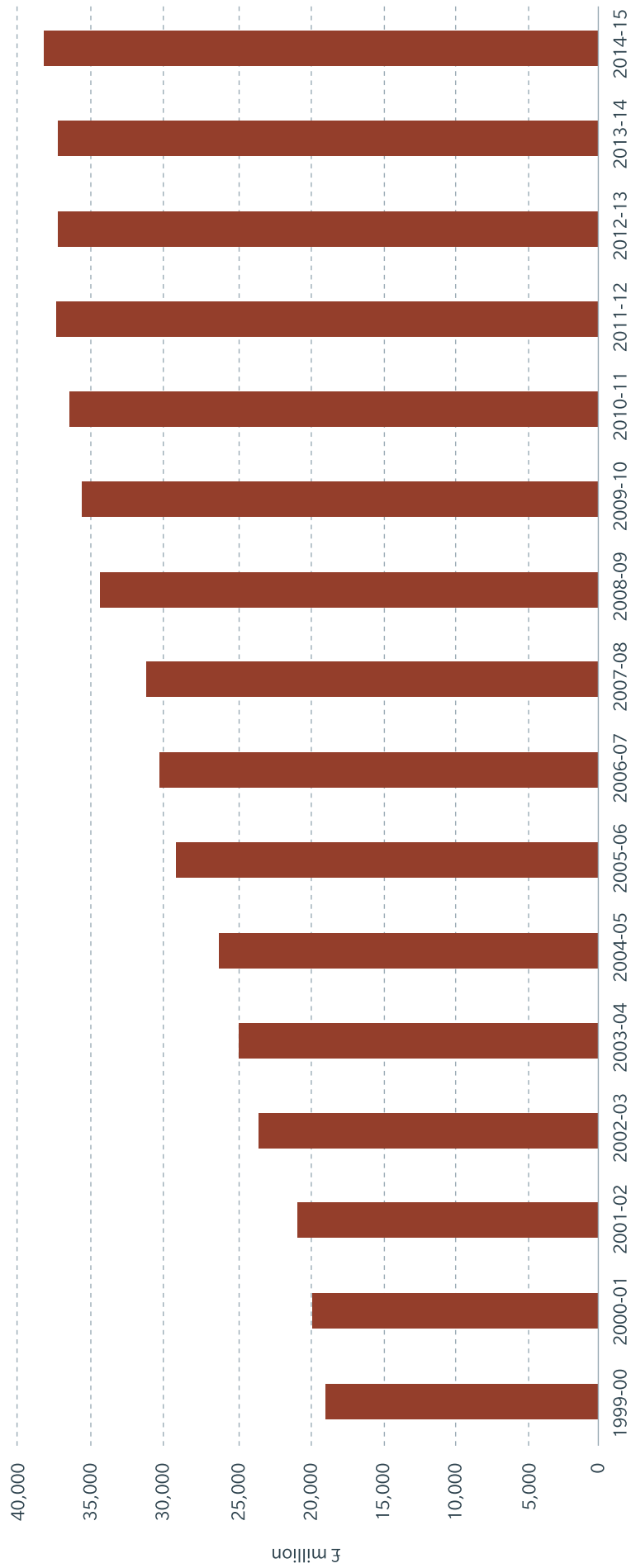
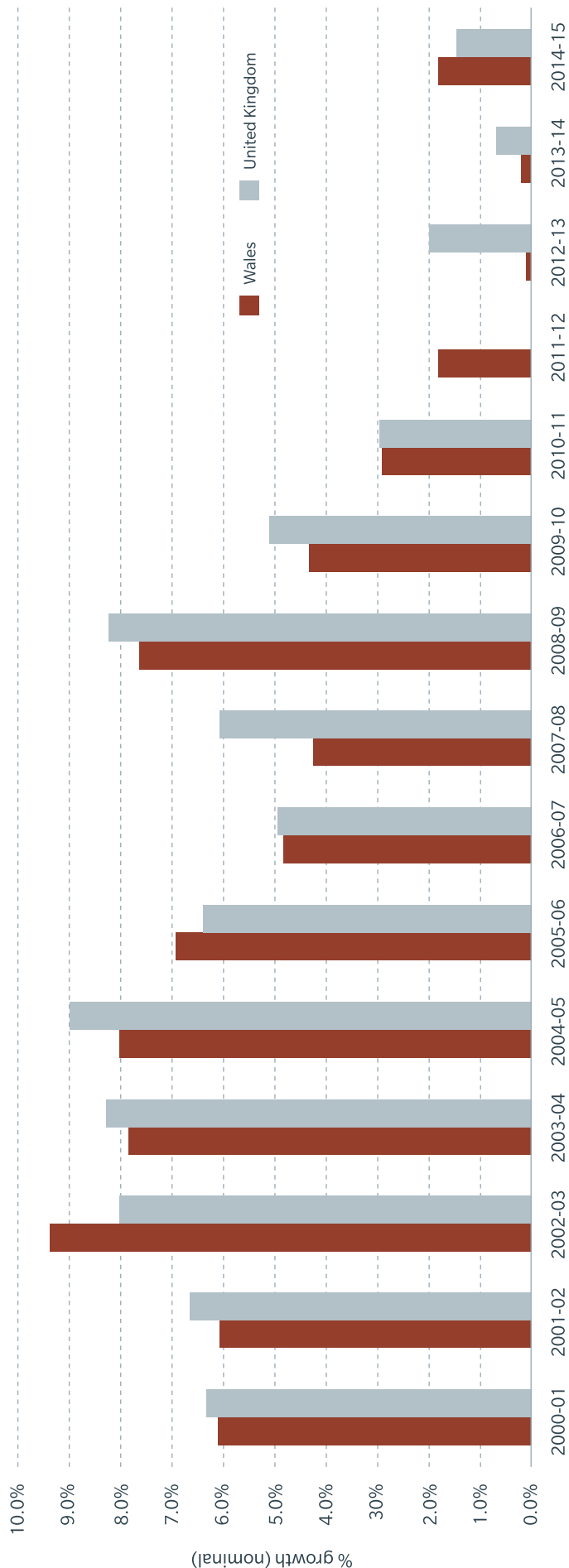


FIGURE 4.9: Annual growth in Total Managed Expenditure: Wales and UK, 1999-00 to 2014-15



Annex A: Revenue Methodology

This annex outlines the various methodologies used to obtain estimates of public sector revenues in Wales. Readers are encouraged to also consult the extended methodology that is available online.

In contrast to public sector expenditure, there is no generic best approach to estimating public sector revenue. Instead, around 112 revenue streams are estimated using separate methodologies. Where possible, the methodologies used replicate similar publications deemed as National and Official Statistics, for example, the GERS publication and HMRC's disaggregated taxes data.

Overview

The majority of public sector receipts raised in Wales are collected at the UK level by HM Revenue and Customs.

In some cases, revenue figures can be obtained for Wales directly, for example local government revenues. For most revenue streams this is not possible, and this report therefore uses a number of different methodologies to apportion revenues to Wales. In certain cases, a variety of alternative methodologies could be applied, each leading to different estimates.

For revenues without direct data for Wales, the estimates are produced in two stages. Firstly, the UK outturn figure for each revenue stream is obtained from ONS Public Sector Finance Statistics. In the second stage, Wales' share of the UK figure is estimated according to a specific apportionment methodology.

UK Revenue Figures

Figures for UK fiscal revenue streams are taken from the ONS Public Sector Finances. The detailed components, revenue by revenue, are taken from an ONS database (PSAT2) which is produced on a quarterly basis.

These data are presented on an accruals basis and separately identify revenue attributed to central government, local government and public corporations. The international standards for National Accounts and Government Finance Statistics use the accruals basis rather than a cash approach. This is because accruals accounting reflects a more accurate picture of when revenue is due and spending occurs than the more volatile alternative of cash, which, for example, records when bills are settled rather than when the expenditure occurs.

Included in the UK revenue figure is an accounting adjustment (like on the expenditure side), to ensure consistency on both sides of the fiscal balance calculations. The revenue accounting adjustment is very small and is included in the 'other taxes, royalties and adjustments' category.

Wales Revenue Figures

Table A.1 outlines the methodologies used to apportion each revenue source to Wales.

TABLE A.1: Apportionment Methodologies and Data Sources for Public Sector Revenue in Wales

REVENUE	APPORTIONMENT METHODOLOGY	SOURCE
Income Tax	Welsh share of UK income tax liabilities applied to income tax gross of tax credits.	Survey of Personal Income (SPI): HMRC and authors' analysis
Estimated Revenue from the Welsh Rate of Income Tax	See online methodology.	Office of Budget Responsibility (OBR)
Corporation tax (excluding North Sea)	Analysis of HMRC administrative data on Corporation Tax (CT) and the ONS Inter-Departmental Business Register (IDBR). Most CT allocated according to sub-national split of enterprises' employment totals, or to the location of the registered office if employment data is unavailable. See HMRC publication for full methodology.	HMRC data
Capital gains tax	Actual outturns for Wales.	HMRC data
National insurance contributions	Analysis of a sample of Pay-As-You-Earn data taken from the National Insurance Recording System.	HMRC data
VAT	Net VAT revenue apportioned according to HMRC analysis of various sectors paying VAT and survey data.	HMRC data
	Local Government refunds apportioned according to Wales' share of UK identifiable expenditure by Local Government.	Country and Regional Analysis, HM Treasury
	Central Government refunds - Ministry of Defence refunds apportioned according to population. NHS refunds apportioned according to Wales' share of UK TES on health. Other Gov. Departments refunds apportioned according to Wales' share of UK TES (excluding health).	Country and Regional Analysis, HM Treasury
Fuel duties	Wales' share of UK road traffic fuel consumption. Separate shares are calculated for petrol and diesel consumption.	Department of Energy and Climate Change (DECC)
Stamp Duty Land Tax	Actual outturns for Wales. Also includes an estimated share of the Annual Tax on Enveloped Dwellings.	HMRC data
Stamp Duty on shares	Analysis of Welsh households that own stocks and shares.	Family Resources Survey, Department for Work and Pensions (DWP)
Tobacco duties	Analysis of weekly expenditure on tobacco by Welsh households, from survey data.	Family Spending Survey, ONS (Editions covering years closest to each financial year used)
Alcohol duties	Analysis of weekly consumption of different alcoholic beverages by Welsh individuals, from survey data.	Family Food Survey, DEFRA

TABLE A.1: Apportionment Methodologies and Data Sources for Public Sector Revenue in Wales

Betting and gaming duties	Analysis of weekly expenditure on gambling products by Welsh households, from survey data.	Family Spending Survey, ONS (Editions covering years closest to each financial year used)
Air passenger duty	Analysis by HMRC of information on number of passengers from the Civil Aviation Authority.	HMRC data
Insurance premium tax	Analysis of expenditure on insurance by Welsh households, from survey data.	Family Spending Survey, ONS (Editions covering years closest to each financial year used)
Landfill tax	Analysis by HMRC on Wales' proportion of tonnage sent to landfill in the UK.	HMRC data
Climate change levy	Revenue from electricity consumption apportioned to Wales on the basis of Wales' share of UK electricity consumption.	DECC data
	Revenue from gas consumption apportioned to Wales on the basis of Wales' proportion of total UK gas consumption.	DECC data
	Revenue from other fuels apportioned on the basis of Wales' share of UK GVA.	ONS Regional Accounts
Aggregates levy	Analysis of Wales' share of UK aggregate production of sand, gravel and crushed rock.	UK Minerals Yearbook 2014
Inheritance tax	Actual outturns for Wales.	HMRC data
Vehicle excise duty	Wales' share of licensed vehicles in Great Britain.	Vehicle Licensing Statistics, from the Department of Transport
Non-domestic rates	Actual outturns for Wales used for the gross amount of NDR paid. Estimates of discretionary reliefs and costs of collection subtracted. Apportioned share of UK NDR paid by local government subtracted also.	https://statswales.wales.gov.uk
Council tax	Actual outturns for Wales.	https://statswales.wales.gov.uk
Other taxes, royalties and adjustments	Various methodologies. See extended online methodology.	
Interest and dividends	For Public Corporations: Wales' share of public sector UK GVA	ONS Regional Accounts
	For receipts of Local and Central Government: Wales' share of UK Population.	ONS

TABLE A.1: Apportionment Methodologies and Data Sources for Public Sector Revenue in Wales

Gross operating surplus	Central Government - Share of UK non-market capital consumption.	ONS Regional Accounts
	Local Government - Share of UK non-market capital consumption.	ONS Regional Accounts
	Public Corporations - Share of UK public sector GVA.	ONS Regional Accounts
	Bank of England – Population.	ONS
Rent and other current transfers	Various methodologies. See extended online methodology.	
Other taxes on income and wealth	Various methodologies. See extended online methodology.	

Annex B: Expenditure Methodology

This annex outlines the methodologies used to estimate public sector expenditure for Wales. Readers are encouraged to also consult the extended methodology that is available online.

Overview

Figures for UK and Welsh public sector expenditure are taken directly from official UK Government sources.

The primary data source used to estimate Welsh public sector expenditure is the Country and Regional Analysis (CRA) database, published by HM Treasury. In this annual statistical exercise, UK Government departments and devolved administrations allocate expenditure programmes to Wales, Scotland, Northern Ireland and the English regions.

GERW uses expenditure classed as identifiable to Wales in the CRA, with some minor amendments. The report also apportions non-identifiable expenditure and expenditure occurring outside the UK to Wales according to different methodologies. An accounting adjustment is also introduced to produce a Total Managed Expenditure (TME) measure of total expenditure.

Methodologies for Apportioning Non-identifiable Expenditure

The different methodologies used for apportioning non-identifiable expenditure to Wales by function are listed in table B.1 below. Each methodology aims to capture most appropriately the 'who benefits' principle (see Introduction).

TABLE B.1: Apportionment Methodologies for categories of Non-Identifiable Expenditure: Wales 2010-11 to 2014-15^{1,2}

EXPENDITURE CATEGORY	NON-IDENTIFIABLE UK EXPENDITURE	OUTSIDE THE UK
General public services		
Public and common services	Population	Population
International services	Population	Population
Public sector debt interest	Population	n/a
Defence	Population	n/a
Public order and safety	Population	n/a
Economic affairs		
Enterprise and economic development	Population	Population
Science and technology	GVA	Population
Employment policies	n/a	Population
Agriculture, forestry and fisheries	Population	Population
Transport	GVA	Population
Environment protection	GVA	Population
Housing and community amenities	Population	n/a
Health	Population	Population
Recreation, culture and religion	Population	Population
Education and training	n/a	Population
Social protection	Population	Population
Accounting adjustments	Various (see table B.2)	Various (see table B.2)

1: n/a (not applicable) denotes that there is no UK non-identifiable expenditure.

2: Identifiable expenditure outside the UK, except EU transactions, is primarily apportioned on a per capita basis.

Amendments to CRA Data

Replicating the methodology developed by the GERS report, a small number of supplementary amendments to the CRA 2015 dataset were made. Further detail on these amendments can be found in the online annex.

The amendments made related to expenditure on the London Olympics, expenditure on nuclear decommissioning and the latest figures for expenditure on public sector debt interest payments.

Research and Development expenditure classified as current expenditure in the CRA was also reclassified as capital expenditure, to be consistent with ESA10 definitions.

Accounting Adjustments

As mentioned previously, an accounting adjustment is introduced alongside the estimate of TES to produce a measure of expenditure on a TME basis. The main difference between TES and TME is that TES does not include general government capital consumption and does not reverse the deduction of certain VAT refunds in the budget-based expenditure. It also contains a number of items that are in budgets but are not in TME, for example the grant equivalent element of student loans.

The accounting adjustments required to reconcile TME and TES for Wales and the UK are set out in Table B.2.

TABLE B.2: Accounting Adjustments ¹ : Wales and UK, 2010-11 to 2014-15					
	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
UK ACCOUNTING ADJUSTMENTS	55,890	56,852	67,055	62,598	65,384
EU Transactions	3,628	2,034	4,307	5,047	3,723
Accounting Adjustment	52,262	54,818	62,748	57,551	61,661
WALES ACCOUNTING ADJUSTMENTS	2,268	2,508	2,916	2,558	2,754
EU Transactions	-295	-319	-334	-436	-442
Accounting Adjustment	2,563	2,827	3,250	2,994	3,197
of which current expenditure:					
Central government capital consumption	759	878	920	929	960
Local government capital consumption	406	473	510	529	563
Current VAT refunds	554	605	609	615	598
VAT receipts paid to EU	92	92	96	87	92
Student loans subsidy	-204	-107	-183	-303	-101
Imputed subsidy from Local Authorities to the Housing Revenue Account	52	21	19	22	29
Imputed flows for Renewable Obligation Certificates	67	77	102	134	163
Local authority pensions	85	91	96	93	92
Tax credits	289	244	153	141	133
Current expenditure residual	-79	-151	-95	146	88
of which capital expenditure:					
Capital VAT refunds	104	113	115	117	113
Royal Mail pension plan	0	0	456	0	0
Capital expenditure residual	439	491	451	484	465

1. For more information on how the accounting adjustment was calculated for both UK and Wales, see extended online annex.

The accounting adjustment is first calculated for the UK as a whole. The accounting adjustment for Wales is then calculated using a variety of apportionment methodologies, alongside some actual disaggregated data for some items, such as tax credits. See the online annex for a full description of the methodologies used. The residuals in the table above are for expenditure not captured by individual accounting adjustment lines, because of a lack of data. For example, included in this residual will be revenue and expenditure by Network Rail. This is allocated to Wales according to its population share. The accounting adjustment is also assigned to the different levels of government (see table 4.6), although this should be seen as an approximation only, due to a lack of data. For more information, see extended online annex.

EU Transactions

Also included as an accounting adjustment are EU Transactions, as shown in table B.2. It is important to note that the expenditure reported in this line is a balancing item in order to reach TME, and does not report Wales' total EU receipts or notional contribution.

Data on EU receipts for Wales are taken from the Welsh Government Consolidated Accounts. This relates to spending by the Welsh Government financed by the EU, such as the Common Agricultural Policy and European Structural Funds. As Wales receives a relatively high share of this spending, these negative spending lines outweigh the estimated Welsh contribution to the EU. This is the reason why the overall EU transactions line for Wales is negative, whilst the line for the UK as a whole is positive.

Longer time-series from 1999-00

The CRA is produced annually, and each publication contains data for the previous five financial years. Between each publication, changes are made to HM Treasury guidelines and methodologies for apportioning different expenditure as identifiable or non-identifiable, as capital or current spending, and to different functions. Coverage and classification therefore differ greatly between publications, which means building a consistent data series for years before the years covered by the latest CRA publication is difficult (in this case before 2010-11).

As most revenue streams could be consistently estimated back further than 2010-11, it was seen as desirable to include some estimate of public sector expenditure for Wales, to provide a rough estimate of Wales' fiscal position before 2010-11. To do this, a headline level of expenditure in each previous financial year was estimated. The latest published source was used for each financial year before 2010-11, i.e. data for 2009-10 was taken from CRA 2014 and data for 2008-09 was taken from CRA 2013. Non-identifiable expenditure in each category was apportioned according to the methodology outline above. This is done on the assumption that although some spending programmes will be reclassified between functions or reclassified as identifiable expenditure in other years, an aggregate figure will give some indication of the level of public sector expenditure for Wales in previous years.

Due to lack of available data, the amendments to the CRA discussed above were not made to years before 2008-09.

Data on EU receipts for Wales from the Welsh Government Consolidated Accounts were only available from 2009-10 onwards. EU receipts for Wales for previous years have been estimated by applying the 2009-10 Welsh share of total UK EU receipts to total UK EU receipts for previous years.

Annex C: Estimates of Welsh GDP

Public finance statistics are often presented as a share of GDP. By controlling for the size of the economy, these statistics can help illustrate the relative size of fiscal aggregates between countries and between different years. In order to facilitate comparisons with other publications and countries, this report estimates Welsh GDP. These figures should be viewed as rough approximations only.

The Office for National Statistics produces annual Regional Accounts containing estimates of Welsh Gross Value Added (following the 'income' approach). GVA equates to GDP before accounting for taxes and subsidies on products.

Wales' GVA data is first converted from calendar years into financial years. From these, Wales' share of UK GVA for each financial year is calculated. These shares are then applied to UK GDP figures.

Estimates of GDP for Wales are presented in table C.1.

TABLE C.1: GDP Approximations for Wales					
	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
UK GDP ¹	1,575,370	1,628,854	1,677,910	1,755,936	1,831,924
Estimated Wales GDP	54,099	56,489	58,331	60,596	61,507
Wales share of UK GVA ²	3.4%	3.5%	3.5%	3.5%	3.4%

1. Taken from ONS, Quarterly National Accounts (updated December 2015).

2. Share of UK GVA (including Extra-Regio, i.e. GVA that can't be assigned to regions)

Wales Governance Centre at Cardiff University
Pierhead Building
Cardiff Bay
CF99 1NA

wgc@cardiff.ac.uk

<http://sites.cardiff.ac.uk/wgc/>

