

# Tough times ahead?

What 2018 might hold for Wales

JANUARY 2018

Bevan Foundation  
145a High Street  
Merthyr Tydfil CF47 8DP

[www.bevanfoundation.org](http://www.bevanfoundation.org)  
@bevanfoundation

## Introduction

Just over two years ago, the Bevan Foundation published an outlook to 2020.<sup>1</sup> Based on a wide range of expert forecasts and projections, it provided a sobering account of what Wales could be like unless there was radical action to change course. Sadly, two years on, much of what we anticipated has come to pass: the economy is continuing to flatline, poverty rates are rising and the UK is indeed heading out of the EU.

This short paper on the outlook for 2018 again takes a range of expert forecasts and various planned outputs for the year, along with a little speculation. As in our previous report, the outlook is tough, whether for individuals or communities, or public bodies and businesses.

It might make for depressing reading, but our view is that there is nothing to be gained by pretending that all is rosy. People can see for themselves the empty shops in the high street, the crowds in the A&E waiting rooms and the pot-holes in the road.

It may well be that some of the projections outlined here are not realised. That doesn't invalidate the overall message that Wales faces some huge challenges in 2018. We recognise that the Welsh Government, local authorities and many businesses and charities are making very real efforts to address them. But the progress that many would like to see is barely visible and on some measures, such as child poverty, we are going backwards. We hope that this paper will provide food for thought and some calls to action over the year.

We would welcome your support – whether as an individual or an organisation - to help us develop the radical ideas that are so urgently needed to change Wales for the better. Find out how you can help at <https://www.bevanfoundation.org/support-us/> or email us on [info@bevanfoundation.org](mailto:info@bevanfoundation.org)

Victoria Winckler, Director

28<sup>th</sup> December 2017

## Economy and Labour Market

The economic outlook is tough for the UK and – assuming Wales follows the UK’s trajectory – Wales. The twin challenges of Brexit and low productivity mean that economic forecasters are pretty unanimous about what lies ahead over the year.<sup>2 3 4 5 6</sup>

### Output

In the UK as a whole, output is widely expected to grow slightly, with most forecasters anticipating growth of around 1.4% over the year. In Wales, PWC expect GDP growth to be slightly below the UK rate, at around 1.2%. While this performance is better than Scotland, Northern Ireland and some English regions, it is not enough to narrow the gap between Wales and the UK average (Figure 1).

**Figure 1 PwC main scenario for output growth by region in 2017 and 2018**



Source: PWC (2017) UK Economic Outlook, November. <https://www.pwc.co.uk/economic-services/ukeyo/ukeyo-nov17-full-report.pdf>

### Employment and unemployment

Almost all forecasters anticipate a modest increase in UK employment, with unemployment remaining at around 4.3% over the year.

That performance is unlikely to be enough to boost those parts of Wales where unemployment stands well above the UK figure – such as Merthyr Tydfil (7.3%) and Blaenau Gwent (6.7%). Nor is it likely to help young adults, with more than one in eight 16-24 year-olds out of work in Wales as a whole (13.1%). Most analysts expect continued growth of self-employment and there are few signs that use of ‘flexible’ employment terms (e.g. variable hours contracts) will decline.

### Infrastructure

The economic challenges could well see more empty shops and run-down town centres. At the same time public investment brings some big-ticket items in 2018. The key question is, will they make a difference?

- From October rail passengers will travel with a new operator instead of Arriva Trains Wales. The rolling stock and even the timetables are likely to be the same, so the change is symbolic more than real, at least in the first year.
- There could be even more people eligible to receive free bus travel – but if trends continue there will be fewer buses to travel on.
- The inquiry into the M4 relief road should end sometime during 2018 but whether the Welsh Government gets to make its planned start on construction in the year remains to be seen.
- The dualling of the A465 Heads of the Valleys road will still not be complete.
- The decision about the Swansea Tidal lagoon must surely be taken at some point in 2018.

## Standard of Living

2018 looks set to continue the squeeze on people's standard of living, with some forecasts that poverty and hardship will worsen over the year.

### Earnings and benefits

Most analysts expect median earnings in the UK to increase slightly, by between 2% and 2.5%. However, inflation is anticipated to match or even outpace earnings growth, resulting in a real-terms drop in wages. The outlook is worse for workers in the public sector whose pay increases are capped at 1% a year. Over-25-year-olds on minimum pay can look forward to an uplift of 4.4% to £7.83 an hour from April 2018.

Claimants of most in-work and out-of-work benefits face yet another year of benefits frozen at 2015 rates plus the benefits cap. In addition, Universal Credit 'full service' is set to be rolled out to cover the majority of claimants in Wales over the year, bringing significant changes in how benefits are paid to claimants as well as the amount received.

### Housing costs

The cost of buying a home is expected to rise much more slowly than in previous years, although forecast increases in Wales of between 3.2%<sup>7</sup> and 3.7%<sup>8</sup> are still higher than the forecast increases in earnings.

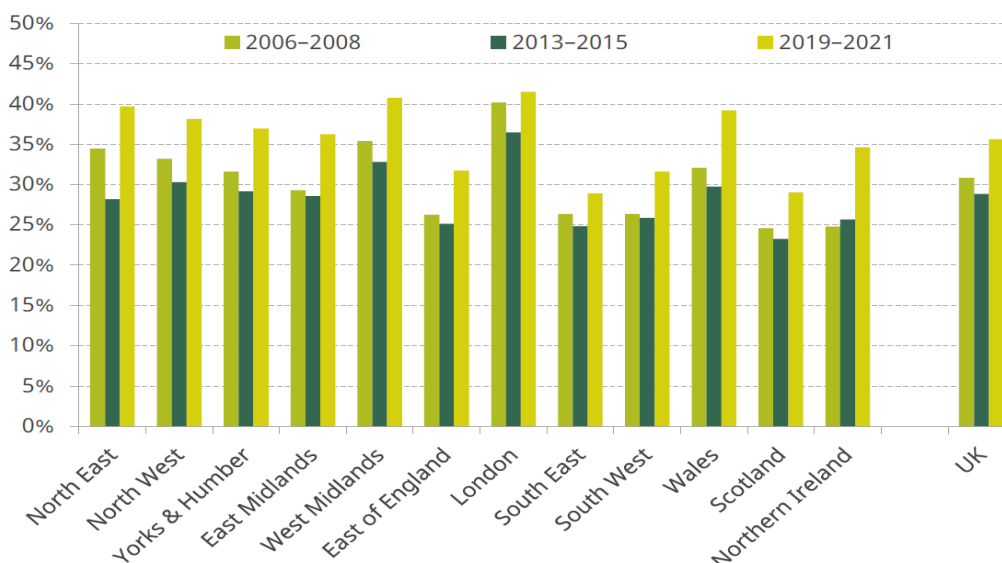
The Welsh Government's rent policy<sup>9</sup> will increase rents in social housing by the Consumer Price Index plus 1.5% - potentially raising housing costs by 3.9%. This is equivalent to an extra £3.65 a week for a 2-bed home rented from a housing association in Cardiff.<sup>10</sup> Forecasts of rents in the private sector are not available, but recent trends are broadly static.

The Welsh Local Government Association's warning of Council Tax rises of 5%<sup>11</sup> looks set to be realised, with Pembrokeshire Council debating an increase of 12.5%.<sup>12</sup>

### Poverty

The modest increase anticipated in incomes and rising costs are expected to result in an increase in poverty in the next few years. Relative poverty is forecast to rise in Wales to around 27% in 2019-2021, while child poverty is forecast to rise to close to 40% (Figure 2).<sup>13</sup>

**Figure 2 Relative Child Poverty Rates (after housing costs), selected years<sup>14</sup>**



## Society

Social change is typically much slower to take effect but nevertheless we can anticipate a number of important shifts in 2018.

### Population

There is expected to be a net increase in the number of people living in Wales – up by 9,500.<sup>15</sup> All the increase is expected to be in people aged 65 and over. In-migration of people of all ages from the UK and internationally is expected to continue, although the numbers of international migrants may fall. EU migrants in particular face uncertainty about their future and community tensions may well worsen.

### Public services

2018 has been described as a ‘watershed year’ for Welsh finances.<sup>16</sup> The Welsh Government is expected to announce a new devolved tax in January 2018 and will collect taxes on land transactions and on waste disposed to landfill from April 2018. It should also begin planning to take on responsibility for 10p in the pound of income tax from April 2019.

Public spending in 2018 will continue to be a story of austerity. The Welsh Government’s total budget in 2019-20 will be £1.1bn lower than in real terms than in 2010-11, a fall of 7%.

### Health

2018 will see the NHS continue to be squeezed by a combination of increased demand for its services, shortages of staff in key specialities and a gap in funding. We can expect Government announcements of new projects and facilities, coupled with news stories about queues of ambulances at A&E, waits for treatment and the outstanding work of dedicated staff.

### Local Government

As the second biggest area of spend, local authorities will have further reductions in income to manage in 2018. Welsh Government funding has already fallen by 16% since 2009/10, with cuts being greatest in the most deprived areas.<sup>17</sup> With a further 0.5% cut in 2018/19, cuts to discretionary services such as leisure are inevitable, while even protected services such as education and social care are likely to struggle.

There will continue to be talk about reform of local government but nothing will happen.

### Education

The third largest area of spend is education. We can expect the Welsh Government’s employability programme early in 2018, concerns about the roll-out of new curriculum and cuts in higher education. The gap in attainment between pupils from low-income homes and others, at all stages of education, is likely to widen.

## Politics

Last there's the political outlook.

2018 is probably the most politically uncertain in a very long time, with minority governments in place in Wales, Westminster and Holyrood and no government in place at all in Northern Ireland. So, while there are no elections planned in 2018, only a fool would place a bet on none occurring.

In Wales attentions are already turning to the next Assembly elections, due in 2021. Parties are beginning to plan how they compile their manifestos – no small task for the new post-Brexit, income-tax-raising era.

It is doubtful that manifestos are the only matter on politicians' minds. There's the thorny question of party leaders. Each of the leaders of Labour, Plaid and the Conservatives will have held office for around ten years by the time of the next Assembly elections. Will the parties feel it is time for some fresh faces to take them into the sixth Assembly? And, if so, could 2018 be the year?

There's also the difficult issue of political culture. The tragic death of Carl Sargeant showed that politicians are not immune from the pressures of public life, and the aftermath of his death has highlighted that there's a great deal wrong with how politics is done in Wales as elsewhere. There'll be the findings of the various inquiries, but inquiries rarely change behaviour - which is what counts.

We can confidently expect 2018 to see the continued rumblings of concern about the lack of capacity of the Assembly and its lack of impact on people's everyday lives. These are vital issues, but unless they are debated outside the Cardiff Bay bubble then they will not win popular support for change. We can expect the status quo will hold for at least another year.

---

## References

- <sup>1</sup> Bevan Foundation (2015) The Shape of Wales to Come: Wales' economy, environment & society in 2020. <https://www.bevanfoundation.org/publications/shape-wales-2020/>
- <sup>2</sup> Office for Budget Responsibility (2017) Economic and Fiscal Outlook, November 2017 <http://cdn.budgetresponsibility.org.uk/Nov2017EFOwebversion-2.pdf>
- <sup>3</sup> EY ITEM Club (2017) Autumn Forecast: Is the economy ready to step up a gear? October 2017 - <http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>
- <sup>4</sup> ICAEW (2017) UK Economic Forecast, Q4 2017 <https://www.icaew.com/technical/economy/economic-insight/economic-forecast>
- <sup>5</sup> PWC (2017) UK Economic Outlook, November <https://www.pwc.co.uk/economic-services/ukey/ukey-nov17-full-report.pdf>
- <sup>6</sup> OECD (2017) OECD Economic Outlook - Developments in individual OECD and selected non-member economies - United Kingdom <http://www.oecd.org/eco/outlook/economic-forecast-summary-united-kingdom-oecd-economic-outlook.pdf>
- <sup>7</sup> KPMG (2017) Prospects for the UK Regional Housing Market <https://home.kpmg.com/uk/en/home/insights/2017/10/prospects-for-uk-regional-housing-market.html>
- <sup>8</sup> PWC (2017) UK Economic Outlook, July. Section 3 – housing. <https://www.pwc.co.uk/economic-services/ukey/pwcuk-section3-housing-july-2017.pdf>
- <sup>9</sup> Welsh Government (2013) Policy for Social Housing Rents <http://gov.wales/docs/desh/publications/150216-policy-for-social-housing-rents-en.pdf>
- <sup>10</sup> Calculated from average weekly rent 2016/17 of a 2-bedroom, general needs property rented from a housing association in Cardiff, via StatsWales <https://statswales.gov.wales/v/CtDG>
- <sup>11</sup> BBC News (2017) Council tax to rise by 5% this year, warns WLGA <http://www.bbc.co.uk/news/uk-wales-politics-41496582>
- <sup>12</sup> Hotchkin, B. (2017) Pembrokeshire County Council considers 12.5% council tax hike to fill £3.64 million budget shortfall next year. Western Telegraph, 27<sup>th</sup> November. [http://www.westerntelegraph.co.uk/news/15687004.12\\_5\\_council\\_tax\\_hike\\_considered\\_to\\_fill\\_budget\\_black\\_hole/](http://www.westerntelegraph.co.uk/news/15687004.12_5_council_tax_hike_considered_to_fill_budget_black_hole/)
- <sup>13</sup> Hood, A. and Waters, T. (2017) Living standards, poverty and inequality in the UK: 2017–18 to 2021–22 <https://www.ifs.org.uk/uploads/publications/comms/R136.pdf>
- <sup>14</sup> Ibid.
- <sup>15</sup> Welsh Government (n.d.) Population projections by year and gender (2014 based). StatsWales <https://statswales.gov.wales/Catalogue/Population-and-Migration/Population/Projections/National/2014-Based/populationprojections-by-year-gender>
- <sup>16</sup> Wales Public Services 2025 (2017) Welsh Government Budgetary Trade-offs: Looking Forward to 2021-22 <http://www.walespublicservices2025.org.uk/files/2017/09/Looking-Forward-Report-Final-Updated.pdf>
- <sup>17</sup> Wales Public Services 2025 (2017) Austerity and Local Government in Wales: an analysis of income and spending priorities, 2009-10 to 2016-17 <http://www.walespublicservices2025.org.uk/files/2017/11/Local-Gvt-Report-Final-221117.pdf>