

Welsh Government's Budget Beyond 2015-16

Purpose

1. To provide an overview of the outlook for the Welsh Government's budget beyond 2015-16.

Spending Context

2. In October 2010, the UK Coalition Government published its Spending Review which set the Welsh Government's budget for the four years from 2011-12 to 2014-15. The settlement represented the most challenging allocation since devolution. In the Spending Round 2013, the UK Coalition Government published plans for 2015-16, the final year of its Administration and the last year for which the Welsh Government has a firm settlement. Over this period, the Welsh Government revenue budget has reduced by 7% in real terms and the capital budget is some 30% lower in real terms in 2015-16 than it was at its peak in 2009-10.
3. At the outset of this Spending Review period, Cabinet agreed to provide some protection at a strategic level for schools, health, universal benefits and skills. The focus of this Spending Review period has been on delivery of the Programme for Government, securing efficiencies and more fundamental service transformation.
4. Over the period, the UK Government has regularly reviewed its budgets, with revenue budgets subject to further cuts, but with some increases to capital budgets, albeit in the form of financial transactions, which can only be used for loans or equity investment. It has become increasingly difficult to manage each subsequent round of cuts, whilst maintaining delivery, and in the face of significant pressures.
5. The capital landscape has changed significantly since the start of this Spending Review period. Financial transactions have increased from nothing to 14% of our budget. Alongside core capital budgets, the Welsh Government has increased investment through innovative finance initiatives and work is on-going to prepare for future borrowing.

Summer Budget, July 2015

6. The UK Government published a Summer Budget in July, which revisited the plans set out in the Coalition's last budget in March. This was in addition to the Chancellor's announcement of further in-year cuts to the Welsh Government's budgets made on 4 June. Despite small positive consequential cuts in July, the overall position is that the Welsh budget is £46m lower than it was when the Assembly approved the Government's spending plans in December 2014. The June announcement was also notable for some of the areas in which the UK Government was making reductions – areas which had not previously been subject to cuts, for example some non-NHS health budgets.

7. In July, the Chancellor also updated the projections for future years. He reduced the pace of fiscal consolidation, compared to the plans set out in the March budget. The plans still include a small growth in public spending by the end of the decade, however the profile of spending between now and then has been eased, with a less pronounced reduction in spending before the growth commences. These plans mean it will take an extra year until the Government reports a surplus. The change in profile results from an increase in taxes, an increase in borrowing and an increase in spending.

Budgets beyond 2015-16

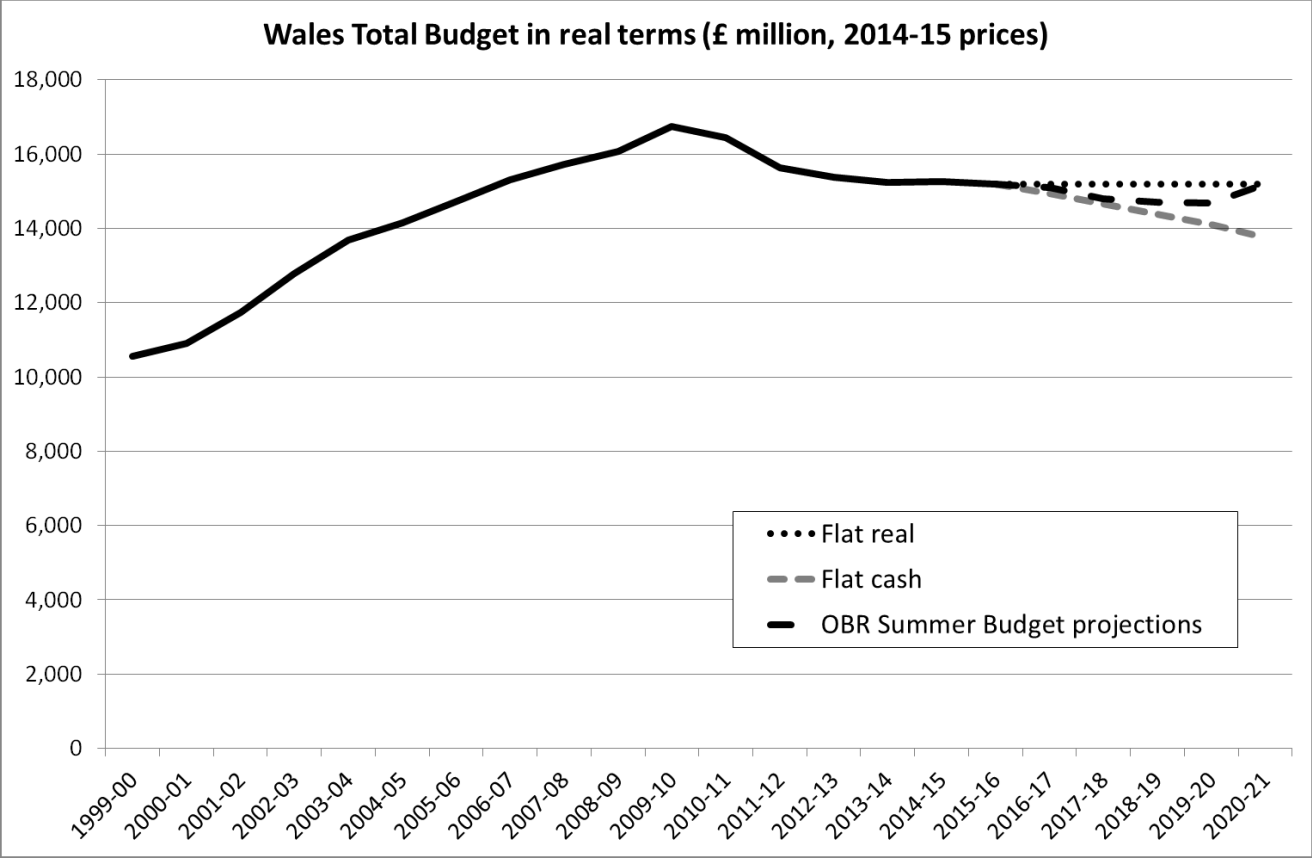
8. The financial settlement for Wales will be determined by the UK Government when it announces the outcome of the 2015 Spending Review, on 25 November. The Welsh Government's budget will be determined by changes applied to its baseline, reflecting budget changes to comparable spending departments in England. The overall changes to the Welsh budget will reflect a range of positive and negative changes to English budgets. This means that it is not possible to replicate spending growth in one area, without mirroring cuts in another, or finding additional cuts in another area again.
9. The exact settlement for Wales will not become apparent until we can see how all comparable Departments have fared. The UK Government has identified some of its spending priorities:
 - Real terms increases in defence;
 - Maintaining international development expenditure as a percent of the GDP;
 - Real terms growth in the NHS, with a further additional £8bn by 2020; and
 - Protecting per pupil funding in schools.
10. The first two commitments will not result in additional funds for Wales, but will affect the amount of the Government's budget available for comparable areas and will therefore have an indirect impact on the Welsh Budget. Additional funds for health and funding protection for per pupil spend in schools will have an impact. However, just as important for Wales as these potential increases is how the Government funds its commitments within the envelope it has set for its plans. If these increases are funded by greater cuts in comparable areas, then the overall impact on us could be neutral, or even negative. Planning assumptions for 'non-protected' English departments of 25 and 40% have been well reported, and also provide an indication of the scale of challenge that we face.
11. Given the complexity of the factors shaping our settlement and given the late announcement of the Spending Review outcome, we have to err on the side of caution in our planning. All indications are that the financial outlook will continue to be difficult and it is likely that we will have to find further revenue savings of an equivalent level to those which we have faced over this Spending Review period.
12. The graph at Annex A sets out the likely scale of the challenge that we face at the Welsh Government level. Based on the approach to prioritisation that the

Welsh Government has taken to date, it is unlikely that this impact will be equal across all Departments, and as the Government undertakes its own planning, it will be considering how it can meet its priorities within a budget that continues to reduce in real terms.

Approach to Spending Review preparations

13. The late timing of the Spending Review presents the Welsh Government with a further set of challenges. Not only must it manage a further round of as yet unconfirmed reductions, but it must also ensure that it can provide early funding certainty to the organisations that it funds and ensure that the Assembly has the opportunity to complete a meaningful scrutiny of its spending plans. In 2010, the Welsh Government published its Draft Budget within a month of the outcome of the Spending Review.
14. The Minister for Finance and Government Business has notified the Presiding Officer and Assembly that the Government is seeking to publish its spending plans on 8 December – less than two weeks after the outcome of the Spending Review. This timing is challenging, but does ensure that the Assembly has completed its scrutiny of the Budget, and approved the Final Budget before the deadline for local authorities to set their council tax requirements. Given the timing constraints, the Welsh Government will publish budget plans for 2016-17 only.
15. In order to achieve these challenging timescales, it is important that planning is well advanced before the outcome of the Spending Review is known. The Welsh Government is in the process of considering how it can manage pressures within the services for which it is responsible. The early conclusion is that we cannot continue to deliver the full range of services and programmes that we currently provide on the same basis and scale. We need to consider what we can do differently to deliver priorities over the short to medium term. It will also mean looking critically at the range of programmes that we currently deliver, and may threaten programmes that we value but take for granted.
16. Over the summer the Minister for Finance and Government Business has undertaken a Budget Tour to talk to those who will be affected by the budget decisions, including service users and providers. The accompanying leaflet is attached to this paper. Other Ministers will also be engaging with their sectors and other interested parties. In order to help shape the Government's thinking on its spending plans, it would be helpful to receive any suggestions or submissions before the end of October. It is important to reflect the fact that the whole budget is under pressure, and that any increase to spending in one area will mean a reduction in another. Services across the board are under pressure, however in the face of budget reductions, it is impossible to respond to all pressures. The Government is particularly interested in views on priorities, how it can encourage innovation in service delivery and how it can maintain delivery standards at a lower cost, including alternative opportunities for accessing funding.

Annex A



To note: The spending total in the chart above includes the Wales near cash DEL, capital DEL and expenditure financed by Non-Domestic Rates from 2015-16 onwards. The OBR Summer Budget projection applies the growth rate for UK DEL consistent with that Budget.

Budget Tour 2015 - Investing in the Wales We Want



Llywodraeth Cymru
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Despite the financial challenges we have faced in recent years as a result of the UK Government's austerity plans, we have remained resolute in our commitment to protect the services that matter most to the people of Wales and boost the economy.

Over the last five years, we have seen unprecedented reductions to the Welsh budget, with over £1.4 billion (8% in real terms) less to spend in Wales now than in 2010-11. The UK Government will not set out its detailed plans for 2016-17 and beyond until the Spending Review in the Autumn but all of the indications are that we are likely to see further real reductions to the Welsh Budget for much of the rest of the decade. It is against this backdrop that we need to prepare for the impact of further cuts and ensure that our future investment decisions provide the bedrock for building the Wales we want, providing better outcomes for ourselves and for future generations.

We have done everything we can to maximise the resources available in Wales to support our priorities. We are pressing ahead with new innovative ways of investing in our infrastructure – in health, education, housing, transport and Broadband. We have already generated £2.4 billion, which will be invested in the priorities set out in the Wales Infrastructure Investment Plan. We have always said that investment in infrastructure is crucial to growth and jobs and, as the economy recovers, now is the time to invest further, supporting businesses and helping them grow.

We are also continuing to maximise the opportunities presented through the European Union Structural Fund programmes. Building on the £3.7 billion secured over the period 2007-2013, nearly £2 billion is available until the end of the decade. This funding supports growth and jobs through research and innovation, business finance, ICT and transport connectivity, energy and tackling poverty through sustainable employment, skills and youth employment and attainment.

Our approach over this period has been underpinned by our commitment to social justice and fairness and doing everything we can to address inequalities. With the prospect of the UK Government reducing public spending further and cutting welfare spending again, these principles will remain at the heart of our decision-making.

Our budget plans in the Autumn will also be an important step in preparing for the full implementation of the Well-being of Future Generations Act, which comes into force next April. The Act has been shaped by a year-long conversation on the 'Wales We Want' – a sustainable Wales. Preventative spending has been central to managing our reduced budget. Early investment is key to ensuring the best outcomes for people in Wales and to relieving pressures on budgets in the long term. Effective integration and collaboration is also integral to this agenda.

To support our budget decisions, we must draw on all the evidence available to understand what is working well and to share learning and best practice. In my Budget Tour, I want to hear your views on these important issues, helping to ensure that we collectively meet these challenges, investing in the Wales We Want.

Jane Hutt
Minister for Finance
June 2015



Well-being Goals

The Well-being of Future Generations Act 2015, which comes into force next April, is about improving the social, economic, environmental and cultural well-being of Wales. It will make the public bodies listed in the Act think more about the long-term, work better with people and each other, look to prevent problems and take a more-joined-up approach. This will help us create a Wales that we all want to live in, now and in the future.

To make sure we are all working towards the same vision, the Act puts in place seven well-being goals:

- **A Globally Responsible Wales**
- **A Prosperous Wales**
- **A Resilient Wales**
- **A Healthier Wales**
- **A More Equal Wales**
- **A Wales of Cohesive Communities**
- **A Wales of Vibrant Culture and Thriving Welsh Language**

We want you to consider which of the Well-being goals the service you provide contributes to and tell us:

- **Which services really matter to you?**
- **Are our priorities the right ones?**
- **How can we improve services with less money?**
- **What challenges do you face on a daily basis to deliver the services you provide?**
- **Are there areas where there are opportunities for doing things differently, working more collaboratively?**
- **Are there areas where you think we should be delivering more or less?**
- **Are there things you think we should stop doing?**
- **Where can we make savings?**
- **What one big idea do you have which would transform public services?**

To find out more about the Welsh Government budget and the Wales Infrastructure Investment Plan visit: www.gov.wales/funding/?lang=en

To find out more about the Well-being of Future Generations (Wales) Act visit: www.gov.wales/topics/people-and-communities/people/future-generations-bill/?lang=en