

Finance Committee

Title – Welsh Assembly Government Draft Budget 2011-2012

Purpose

1. The Welsh Assembly Government's *Draft Budget Proposals 2011-2012* was published on 17 November 2010. This paper provides an overview of the strategic priorities which have shaped our spending plans and the next steps in terms of the business planning process which follows the publication of the Draft Budget.

2. A copy of the *Draft Budget Proposals 2011-2012*, together with the supporting MEG Action tables and Budget Document, can be found on the Welsh Assembly Government's website at:

<http://wales.gov.uk/about/budget/draftbudget2010/?lang=en>

Budget Settlement

3. The *Draft Budget Proposals 2011-2012* sets out the Welsh Assembly Government's spending plans for the next three years from 2011-12 to 2013-14. These plans are based on the settlement for Wales announced by the UK Government in its Spending Review on 20 October.

4. The plans published in the Spending Review amount to the deepest cuts to public expenditure in a generation. Overall, the Welsh budget is facing a reduction of 0.8% per year in cash terms or 3.1% per year in real terms. The tables provided below set out the details.

The Welsh budget settlement in the Spending Review¹

| | £m – cash terms | | | | |
|----------------|-----------------|---------|---------|---------|---------|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| Revenue | 13,445 | 13,269 | 13,340 | 13,483 | 13,521 |
| Capital | 1,674 | 1,268 | 1,188 | 1,064 | 1,106 |
| Total | 15,119 | 14,537 | 14,528 | 14,547 | 14,626 |

Notes:

- 2010-11 figures are Wales DEL as at the Supplementary Budget approved by the Assembly in July.

¹ The budget settlement comprises various elements, including resources for the Assembly Commission, the Auditor General for Wales and the Public Services Ombudsman for Wales.

2. Ring-fenced depreciation and student loans Resource Accounting and Budgeting charge change from £412m in 2010-11 to £431m in 2011-12, £473m in 2012-13, £482m in 2013-14 and £506m in 2014-15.

| | £m – real terms | | | | |
|---------|-----------------|---------|---------|---------|---------|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| Revenue | 13,445 | 13,015 | 12,795 | 12,602 | 12,311 |
| Capital | 1,674 | 1,244 | 1,139 | 994 | 1,007 |
| Total | 15,119 | 14,259 | 13,934 | 13,597 | 13,318 |

5. This means that the total Departmental Expenditure Limits budget in 2011-12 will be £860m lower in real terms than it is in 2010-11 and will be £1.8bn lower in real terms by 2014-15.

6. Over the period of the Spending Review, the Welsh revenue budget will reduce by 8% in real terms and the capital budget by 40%.

Budget Document

7. We are publishing our spending plans for 2011-12 against the backdrop of the most challenging financial settlement since devolution. Given the significance of the Draft Budget for 2011-12, we have published a more comprehensive Budget narrative than in previous years. The Budget document provides a detailed account of the strategic priorities which have shaped the Assembly Government's spending plans. The Budget Document includes an overall narrative setting out the Assembly Government's strategic priorities for the Budget and provides Departmental MEG chapters, setting out more detail on portfolio spending priorities.

Budget Planning Process

8. We started our budget planning process at the beginning of the year when there was still a great deal of uncertainty about future budgets. In the absence of confirmed budgets beyond the current year, the early stages of the budget planning round was undertaken on the basis of planning assumptions. All of the indications were that we were facing a series of tight budget settlements and, in light of the ongoing uncertainties, we adopted planning assumptions at the cautious end of the likely range to guide our planning. We selected cautious planning assumptions to provide us with flexibility and to avoid volatility in our budget planning. This cautious and prudent approach was vindicated.

9. For the past year, we have been developing a pan-public sector response to the challenge of delivering high quality public services against the backdrop of reducing resources. We have convened a series of Public Services Summits and established the Efficiency and Innovation Board which is driving change in key areas where national, public service wide action is needed.

10. In shaping our plans, we have talked to a broad cross section of people across Wales about their priorities for the Budget. We have consulted with frontline staff, their trade unions, people who use public services and representatives of the third sector. We have listened to their experiences and heard their views about the challenges we face and how we can safeguard and improve public services with falling budgets. We have also sought the views of the private sector as our key delivery partners in leading Wales out of recession.

Strategic Priorities

11. The *Draft Budget Proposals 2011-2012* reflect our commitment to deliver responsible and sustainable spending plans, despite the most challenging settlement since devolution.

12. We have taken a distinctive Welsh approach in preparing our Draft Budget. Our careful and prudent planning has enabled us to reach principled, fair and sound decisions which are underpinned by the principles and priorities that shaped our work when budgets were increasing. These principles have at the heart our commitment to fairness and our vision for Wales as a self-confident, sustainable and healthy nation.

13. Through the collaborative approach we have taken, and by talking to people the length and breadth of Wales, we have been able to develop and test our priorities. From the outset, we have made it clear that our priorities are to protect investment in schools, skills and community and secondary healthcare and to maintain universal benefits. Despite the challenges we have faced the Welsh Assembly Government's Draft Budget 2011-2012 reflects these commitments.

Budget Proposals

14. The Budget Document sets out in detail the strategic priorities which have shaped our spending plans. In summary, they are:

Health and Social Services

15. In health, we have been able to extend additional protection to health budgets, beyond our initial commitment to protecting secondary and community healthcare. We have afforded the Health and Social Services Main Expenditure Group (MEG) a level of protection which protects this MEG from cash reductions across the whole of the Spending Review period. This is the only area of Assembly Government expenditure which will not reduce in 2011-12.

16. The settlement for local government also means that the budget for social services will also be maintained above changes to the Wales DEL, with budgets 3.4% higher by 2013-14.

Schools and Skills

17. Both within the Children, Education, Lifelong Learning and Skills MEG and the Revenue Support Grant, we have protected budgets for schools and skills by 1% ahead of any changes to the Welsh DEL as a whole. The protection for schools and skills budgets in the Children, Education, Lifelong Learning and Skills MEG means that funding for these areas will be £61m higher in 2013-14 than in 2010-11.

Universal Benefits

18. We have protected investment in universal benefits - free prescriptions, free school breakfasts, free school milk, concessionary fares and free swimming – by an additional 1% above changes to the Welsh DEL as a whole. This means that funding for these areas will grow by 3.7% across the three years.

Promoting Economic Growth

19. Supporting the economic recovery remains a priority but this challenge is made harder by the scale of the cuts to our capital budgets. That is why we have taken a distinctive approach in Wales this year to protect our capital investment plans. This has enabled critical capital projects to proceed in health, housing, education and social care. We have also taken further action to sustain the economic momentum and provide a fiscal stimulus by allocating an additional £47million of capital this year, over and above current capital budgets, to fund capital projects brought forward from future years – thereby reducing pressures in those years and maintaining our planned capital investment in so far as we can in light of the budget reductions.

20. The Draft Budget 2011-12 protects the spending on skills and through the '*Skills for Economic Renewal*' programme we are ensuring that our spending plans support economic development. The commitment to increase apprenticeship opportunities will continue through the Pathways to Apprenticeship programme with a special focus on youth engagement and employment and tackling long term unemployment.

Equality Impact

21. With reducing budgets, it is not possible to maintain all spending at 2010-11 levels. What we have sought to do in the Draft Budget, however, is to manage our spending reductions in ways that protect, as far as we can, devolved services to the most vulnerable in our society, continue to promote equality of opportunity and outcome and make the most effective contribution to tackling the long-term causes of poverty and inequalities in Wales. Throughout the process, we have assessed the equality impact of our decisions to ensure that our spending plans do not disproportionately affect vulnerable groups.

Business Planning Process

Delivery of Strategic Objectives

22. The budget planning round forms part of the annual Business Planning process, which aims to support Departments to monitor progress in the delivery of our strategic objectives and outcomes for Wales.
23. The annual business planning process is designed to assist Departments in setting out how they are planning to deliver Ministerial commitments and priorities.
24. A key part of this annual planning process is the development of the Draft Budget and the Departmental chapters which form part of the Draft Budget document. These Departmental chapters set out each Department's strategic objectives, their role in delivering these objectives and the action that they are intending to take through their key delivery programmes over the coming year with the allocation of resources that they have. At a higher strategic level, this evidences how resources are allocated to deliver strategic priorities.
25. Business planning continues after the publication of the Draft Budget to operationalise how resources will be allocated to deliver these strategic priorities over the coming year or years. It sets out the work that Departments are planning to do to deliver against these key objectives in more detail.

Impact on outcomes

26. Current business planning processes expect Departments to be able to demonstrate what they are delivering for the resources that they use, and policy and other review processes consider the impact of policies in delivering the desired outcomes. These processes already inform resource allocation and policy development.
27. However, we recognise that the financial pressures across the public sector require us to be increasingly clear about how we are improving the lives of people in Wales, and how we are impacting on the outcomes that Welsh Ministers are seeking to achieve. There is a consensus across the public sector that we need to have a clearer understanding about the effectiveness of our interventions.
28. The Welsh Assembly Government seeks to improve continuously its approach to business planning. The focus of this work is ensuring that we are taking a joined-up and coordinated approach to key strategic challenges, that we are using evidence in the most effective way possible, and that we are incentivising innovative approaches to organisational and policy challenges.
29. This is not just a priority for the Welsh Assembly Government. The

Efficiency and Innovation Programme emphasises the need for public sector organisations to work together to improve our delivery. We are working to ensure that across the public sector we are clear on how we best work together, and the different roles that we play, in delivering these outcomes.

30. It will, of course, be a matter for the new Government to decide what information it wishes to publish on performance against its strategic objectives.