

Council for Economic Renewal

Welsh Government Budget: Priorities and Prospects

Purpose

1. To provide an update to the Council for Economic Renewal (CER) on the outlook for public finance in Wales and the financial challenges ahead.

Action

2. The CER is asked to note the content of this paper.

Background

3. During the course of the Welsh Government's Budget preparations last year, I undertook a series of regional Budget Events across Wales in order to discuss with key stakeholders and partners the financial challenges facing the Welsh Government.
4. Building on this engagement, I am undertaking a Budget 2014 Tour across Wales, which comprises a series of monthly regional events with frontline staff working at the sharp end of public service delivery – in local authorities, health, housing and the third sector. The purpose of the meetings is to continue to raise awareness of the effects of the UK Government's austerity measures on the Welsh Government Budget, and to listen to the views of key stakeholders on the Government's investment priorities.
5. As part of this, I welcome the opportunity to seek the views of the private sector as a key delivery partner in leading Wales out of the recession.

Budgets up to 2015-16

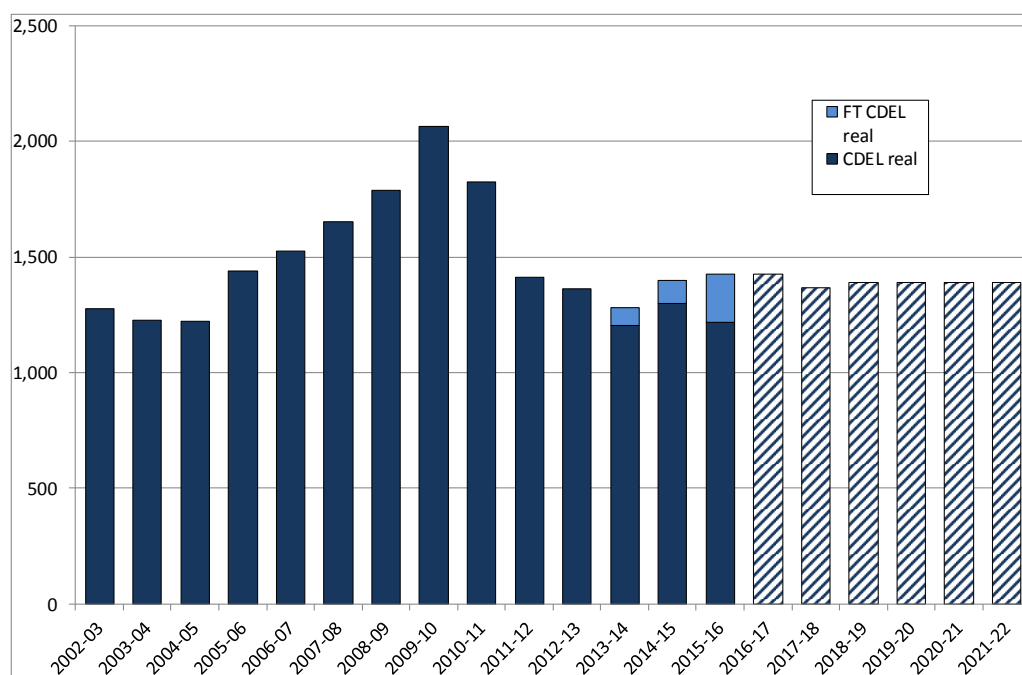
6. The UK Government's Spending Review in October 2010 set the Welsh Government's Budget for the four years covering 2011-12 to 2014-15. The settlement represented the most challenging allocation since devolution. Since then, the UK Government announced the Spending Round 2013 which set the Welsh Government's Budget for 2015-16 for the first time. In addition to the Spending Round announcements, the UK Government has made a number of adjustments to the Welsh Government's Budget over the period.
7. Taking into account all of the adjustments that have been made over the Spending Review period, the total DEL budget in 2015-16 will be 10 per cent lower in real terms than in 2010-11.

Future Public Spending Outlook

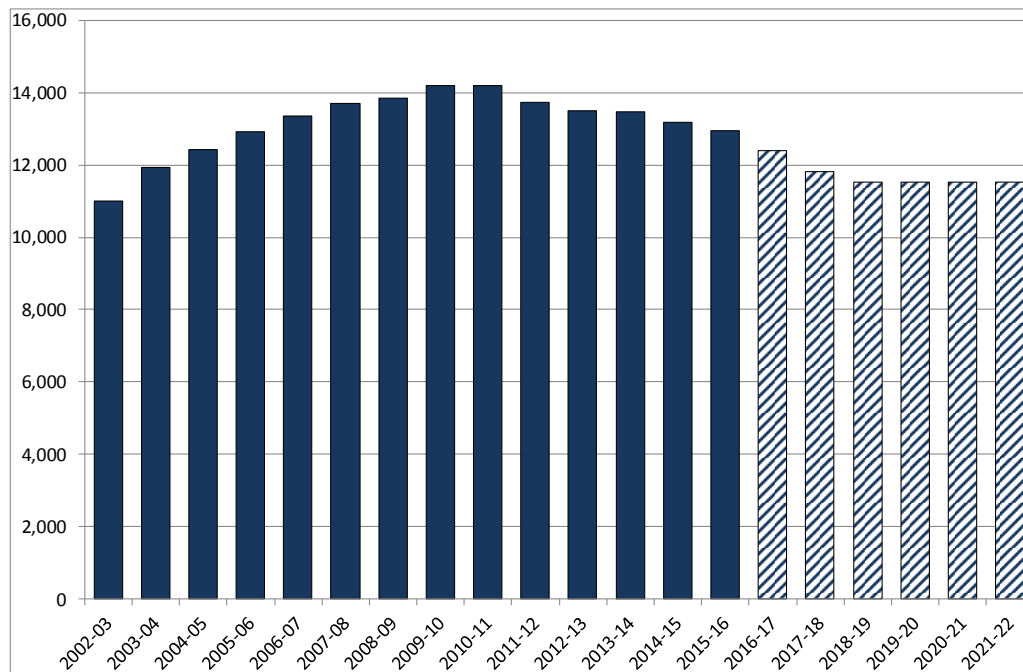
8. Detailed spending plans for 2016-17 and beyond have not been set yet by the UK Government and it is very likely that we will not know budgets beyond

2015-16 until Summer 2015. However, all indications are that the financial prospects beyond 2015-16 mean that our Budget is likely to be under even greater pressure. The Institute for Fiscal Studies has predicted that, depending on UK Government decisions, our Budget could be around 20% lower at the end of the decade than at the start.

9. Making forecasts of the fiscal position of the UK Government is exceptionally challenging, not least because of the uncertainty about the performance of the wider economy, which drives both tax revenues and large areas of welfare spending.
10. However, the UK Government has provided a broad envelope for likely spending over future financial years and from this we can consider plausible scenarios for Welsh public finances.
11. Based on current forecasts, while capital budgets could increase in cash terms, we still expect to see further real terms reductions to the capital budget up to 2017-18, with the assumption that it will remain flat in real terms thereafter. The graph below shows the profile of capital DEL in real terms over a 20 year period.



12. On revenue, we face an even greater challenge and budgets are likely to reduce in cash and real terms up to 2018-19, with the assumption that it will remain flat in real terms thereafter. The graph below shows the profile of revenue DEL in real terms over a 20 year period.



13. The tough financial challenges we face mean that we will not be able to continue delivering everything that we currently support and that managing our priorities within reducing budgets will get tougher in the years ahead.

Welsh Government Priorities

14. In shaping plans for future spending, the Welsh Government wants to ensure that our priorities for investment are the correct ones. Despite the challenges we have faced over this Spending Review period, we have been determined to promote and progress policies which boost growth and jobs, protect our health service and invest in our children and young people.

15. These priorities are reflected in our current spending plans:

- Protecting investment in our health service - the budget for the Welsh NHS is now the largest it has ever been, with an additional £620m invested over three years to reflect Welsh needs and priorities;
- Enhancing educational attainment and protecting investment in frontline spending in schools - an additional £35m has been invested in 2014-15 for the Pupil Deprivation Grant which will increase our funding from £450 to £918 per eligible pupil;
- Maintaining our Universal Benefits – this investment provides vital access to services, particularly in times of financial hardship;
- Supporting early years and pre-school children - the number of children benefitting from Flying Start has doubled and an extra 500 Community Support Officers will continue to serve communities in 2015-16;

- Continued commitment to creating jobs and supporting the growth of the Welsh economy - since the publication of the Wales Infrastructure Investment Plan in May 2012, we have generated additional investment of around £2bn, including over £1.1bn capital and £900m through innovative finance to boost growth and jobs; and
- Supporting young people – we have extended Jobs Growth Wales with an additional £12.5m investment to create more than 4,000 extra job opportunities for 16-25 year olds in 2015-16.

Recommendations

16. The Council is asked to note the content of this paper, with a view to discussing at the next meeting of the Council the Welsh Government's investment priorities and how we can work together to respond to the financial challenges ahead.