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Minister for Business and Budget



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Eich cyf/Your ref
Ein cyf/Our ref

Kirsty Williams AM
Chair of the Sustainability
Committee
National Assembly for Wales
Cardiff Bay
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/ March 2011

Dea Kirsty,

When I attended the Sustainability Committee meeting on 3 February 2011, I provided evidence about how I was reflecting sustainable development as the Assembly Government's central organising principle in my Ministerial responsibilities. I undertook to write to you and set out how we assessed the impact of budget proposals on sustainable development and what the outcome of that work was.

The Assembly Government has adopted sustainable development as its central organising principle. Our understanding of what that means goes beyond an understanding based on reducing carbon emissions and extends to all areas of the Assembly Government's responsibilities. *One Wales: One Planet* defines sustainable development as 'enhancing the economic, social and environmental wellbeing of people and communities, achieving a better quality of life for our own and future generations'. We are committed to embedding this as the central organising principle.

With regards to budgets and budget setting, at the simplest level this means ensuring that decisions are financially sustainable – are we building up decisions and commitments that cannot be honoured in the longer term? However, equally it means bringing a strong evidence base to bear on decisions and being confident that we balance the short term implications with the longer term impact on our strategic objectives. This kind of consideration becomes more important than ever as budgets reduce and as we face decisions about where to reduce spend rather than where to invest additional resources. Consequently, this commitment has shaped our entire approach to budget allocations this year.

During the Committee meeting, we talked about assessing the impact of budget proposals on sustainable development. We talked about this in the context of the equality impact assessment that I published alongside the Final Budget proposals. I want to take this opportunity to clarify that there is not a single sustainability assessment that can be published in the same way. Instead, our commitment to sustainable development underpinned the process for collecting evidence to support our decisions, it shaped the analysis of our options, the Cabinet consideration of our options and ultimately the budget allocation proposals that we published in November. In so far as there is a single document that outlines our consideration,

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assessment and ultimate proposals, it is the explanatory note that accompanied the publication of our Draft Budget. That document sets out what our long term strategic objectives are in the context of *One Wales*. It outlines how we have balanced our commitment to those objectives alongside the challenges of finding budget savings on an unprecedented scale. We are confident that the budget proposals approved by the Assembly and the rationale set out in the explanatory note are a comprehensive and responsible reaction to a difficult budget – a reaction which honours our commitment to sustainable development and the services and initiatives which will make our *One Wales: One Planet* commitments a reality.

However, in addition I thought that it might be helpful if I expanded on the process that we used in the budget planning round and how that influenced decisions that we made. As I said in my supporting evidence paper and during the session itself, we are undertaking changes that will improve our business planning, and ensure that there is a much stronger link between the money we invest and the outcomes we wish to achieve. I have said on a number of occasions that this is a journey and that we still have some distance to go, but that without a doubt these developments are helping to strengthen the evidence base that we rely on to make decisions. These developments have been at the heart of this year's budget planning round.

Our budget planning began well in advance of the UK Government's announcement of the Spending Review. Indeed, our planning began before we knew what the composition of the UK Government would be. We undertook six months of planning work on the basis of planning assumptions. These assumptions were not estimates of our Spending Review settlement, but were a range of possible outcomes which would allow us to model the allocations we would make in response and to assess the likely impact of those allocations on the delivery of our objectives. I therefore asked each portfolio Minister to consider how they would respond to a range of outcomes – which areas of expenditure would they protect and why? What would the impact of that be on all areas? How would these proposed allocations affect the associated outcomes. I supplemented the evidence that this process produced with a consideration of what the historical performance of spending areas had been. All of this information came together to inform a Cabinet debate of our priorities, how our priorities could best be reflected in allocations and what the impact might be on other spending areas. Once we knew our actual settlement we were able to return to allocations and finalise the best use of resources which balanced our long term goals with the short term imperative of finding significant savings.

Overall, we concluded that education, health, social services and universal benefits were our priority areas:

- **Education** is about ensuring that we equip the young people of today to be the best citizens that they can be tomorrow. It's about allowing them to fulfil their potential and to play a full part in the economy and communities of Wales. It is a long term investment in all of our futures.
- **Health** spending is vital to the longer term health and wellbeing of the people of Wales. However, we acknowledged that the NHS cannot deliver this on its own. That is why we took the decision not to invest in health at the price of other complementary services. Without an investment in education, for example we would not have the qualified workforce that the NHS depends on. Without investment in housing services for the vulnerable, we would increase the pressures on the NHS. This reflects our focus on sustainable development in the round.
- **Social services** is about ensuring the highest quality of early interventions to protect the longer term interests of the vulnerable. It is about ensuring our children have a secure and safe environment in which to grow. It is about ensuring that our old people have the dignity and respect that they deserve. However, it is also about ensuring that their needs are planned for and do not fall to the more expensive reactive services. So investment in the

Extra Care programme has been vital in achieving the maximum length of independent living possible. These decisions make sense for the individual, but also for our long term future.

- **Universal benefits** are an investment in the social fabric of society. They are about ensuring that everyone is equipped to play their full part in society and reflect our longer term commitment to the economic, social and environmental well being of people and communities. Free prescriptions make sure that people are able to take the prescriptions that they need to manage medical conditions. It helps them play a role in the economy and prevents more expensive health treatments down the line. Free concessionary travel is about independence and mobility. Free school breakfasts are part of our investment in the health and education of our young people.

Of course, any decision making process is only as good as the evidence that it is based on, and we are currently on a journey to improve our business planning processes and awareness of the outcomes we are seeking to deliver. Part of this work includes monitoring our performance and measuring the impact of our spending decisions going forward. We will review evidence of the impact of our spending decisions on our outcomes and consider whether evidence of the actual impact of a decision is in line with the evidence that we based the initial decision on. We will therefore be keeping the impact of our budget allocations under review as part of our monitoring process and will look again at the indicative allocations for future years. This work will continue to be focused around our commitment to sustainable development as our organising principle and we will continue to look to improve our performance. However, the smooth progress of our budget proposals through the scrutiny process and the implicit endorsement of the public sector and stakeholders gives me confidence that we have developed a strong base from which to deliver public services in our long term interests, within the most difficult budget settlement since devolution.

Yours,

Jane