

The Assembly Government Budget, Delivering One Wales and Working with the Finance Committee

Introduction

1. This paper, is intended to provide some background for my appearance before the Assembly Finance Committee on 4 October. It is split into four sections which will cover:

- the approach I intend to take as Minister for Finance;
- my views on the role of the new Finance Committee, how I see us working together and what issues we are likely to need to focus on in what is going to be a very demanding few months;
- the Comprehensive Spending Review (CSR), including what remains of the process, the impact of a late CSR and the likely size and shape of the Assembly Government's settlement; and
- costing and monitoring of the Assembly Government's *One Wales* programme.

2. As this paper covers a considerable range of issues, it is inevitably quite high level. We will, of course, have an opportunity at the meeting on 4 October to discuss particular issues in more detail. And I will also be happy to provide the Committee with any further information required after the meeting, as far as is possible.

Priorities and Approach

3. As the First Minister made clear in his statement to Plenary on 18 September, the Assembly Government's programme over the next four years is based squarely on the *One Wales* agreement and aims to improve the quality of life of people in all of Wales's communities, from all walks of life, and especially the most vulnerable and disadvantaged. We will be taking early action in a number of areas, in particular tackling economic inactivity, tackling child poverty, improving the supply of affordable housing, delivering on the sustainability agenda in transport, energy use and waste disposal and making our health services more responsive to local needs and concerns.

4. As Minister for Finance and Public Service Delivery, my job is to ensure that we deliver the *One Wales* programme in full and within budget, building on the progress seen in recent years to continue to improve the

quality and value for money of public services in Wales. A number of key principles will inform my approach to the job. Most importantly:

- (a) my focus will be on delivering outcomes, not inputs. The measure of our success in delivering the *One Wales* programme will not be how much money has been invested in a particular area, but what noticeable improvements have been delivered for that investment;
- (b) improving the efficiency of public services in Wales and maximising the value for money of public investment is vital to ensuring we deliver the best possible service for the available resources. It is clear that improved efficiency comes through smarter working and making better use of our assets, not through cuts in services. But we need to keep our activity under constant review and challenge, and be prepared to shift resources where it is clear that money would be better spent elsewhere;
- (c) creativity and innovation are essential to continuing to improve delivery and maximise value for money. More of the same will not be good enough. I am particularly keen to improve joining up between different parts of the Assembly Government and between the Assembly Government and its delivery partners, building on the Beecham *Making The Connections* agenda. I will also be exploring all opportunities to maximise the resources available, including EU Structural Funds, maximising the value of our public assets and attracting private sector investment; and
- (d) the needs of our citizens must be at the heart of everything we do and in striving to improve public services we must ensure that the services we deliver are tailored to the needs of local communities. This requires a new style of government which is more outward looking and more open to change.

Working with the Finance Committee

5. I very much welcome the establishment of the Finance Committee and believe it has a vital role to play in the development of the Assembly. How the Assembly Government and the public sector in Wales invests public money and what is delivered for that investment is clearly very important and greater scrutiny and more informed analysis and challenge can only serve the public interest. I, of course, am also seeking to improve the quality of spending decisions and ensure that the tax payer gets maximum value for the 'Welsh

pound'. In that sense, we have a shared objective and I hope we will be able to pursue that objective cooperatively.

6. It is this shared objective which will inform the way I and my officials will work with the Finance Committee. In working with you, I intend to adopt the following approach:

- bearing in mind the obvious sensitivities and constraints in relation to financial matters, I will be as open and transparent with the Committee as possible;
- I and my officials will make every effort to be available when required, whether for informal discussions and briefings or formal appearances before the Committee; and
- I will provide you with full information as early as possible to ensure that your work is based on the best available evidence. This will be particularly important in relation to your responsibilities for considering and reporting on the Assembly Government's budget proposals.

7. I am aware that the Scottish Finance Committee and the Scottish Government have a formal protocol on the budget process, what format the budget documentation should follow and what information is provided to the Finance Committee to enable it to discharge its responsibilities. In principle, I think it would be sensible to agree a similar sort of protocol for the Welsh budget. Given where we are in the process, I do not think it would be sensible to try to develop such a protocol ahead of the forthcoming budget: it would risk distracting from the urgent job of producing – and scrutinising – spending plans. Instead, I propose that we proceed on a more ad hoc basis this year, take stock of the lessons learnt after the final budget is approved and develop a protocol in light of that experience.

8. It is, of course, for the Committee to determine its own work programme. However, there are a number of key events on the immediate horizon where the Committee's engagement is required.

(i) *Supplementary Budget for 2007-08* – as the Committee will be aware, it is standard practice for the Government to move one or more Supplementary Budgets each year, covering in-year movements within and between Main Expenditure Groups (MEGs), draw-down of End Year Flexibility (EYF), allocations from reserves and additions to the Assembly Government

Departmental Expenditure Limit (DEL). This year there is a particular need for a Supplementary Budget to reflect the restructuring of MEGs resulting from the reorganisation of Ministerial portfolios announced by the First Minister in July. My judgement is that we need a Supplementary Budget as soon as possible to establish MEG baselines ahead of publishing a Draft Budget which will set out spending plans for the period 2008-09 to 2010-11 (see below). This is likely to be laid in late October and the Finance Committee has up to three weeks to report on the motion. I would be very interested in the Committee's view on how it is planning to discharge its responsibilities here. This Supplementary Budget will be a technical exercise which will not entail substantial changes to spending plans and, as a result I am not expecting much, if any, comment from the Committee.

(ii) *Draft Budget for 2008-09 to 2010-11* – as a result of the delay in the outcome of the CSR, the Business Committee has agreed to propose a revision to Standing Orders which will allow a delay in laying the Draft Budget. In order to ensure there is adequate time for scrutiny and debate of the Government's spending plans, it is also likely that the Annual Budget Motion will have to be delayed, probably until after Christmas. While delay is regrettable, it is unavoidable in the circumstances and I am grateful for the Committee's understanding in this matter. We still do not know the precise date of the publication of the CSR and, while I would like to lay the Draft Budget as early as possible, it seems most likely that it will be laid in early November (**Annex 1** summarises the likely timetable for this year's budget process). I anticipate that the Committee will play a key role in the budget process, in particular by informing the debate on the Government's spending plans through your report and recommendations on the Draft Budget. Given that this will be the first time the Committee performs this role, and the first time I and my officials work with you on a Draft Budget, there will inevitably be a steep learning curve for all involved. As mentioned above, I hope we will be able to use this experience to develop and refine the process. Again, I would be very interested in the Committee's view on how it is planning to discharge its responsibilities here.

9. The Committee should also be aware that I am likely to lay a further Supplementary Budget later in the financial year. I will, of course, provide more information about this in due course.

The CSR and the Assembly Government Budget

Process, timing and timetable

10. I had a constructive discussion with the Chief Secretary to the Treasury on 12 September about the CSR. As mentioned above, the date of the CSR outcome is still not known and, while a large number of Whitehall Departments have already received their settlements, health and local government (which together account for more than a third of total UK DEL) remain outstanding and there are still a number of other issues to resolve before the Assembly Government settlement can be finalised. As the Committee will be aware, changes to the Assembly Government Departmental Expenditure Limit (DEL) are determined by the Barnett formula¹. This means that changes in the Assembly Government DEL is derived from changes in the DELs of comparable Whitehall Departments, multiplied by the relevant comparability factor and Wales's population as a proportion of England's². So, until all of the Whitehall Departments are settled and until baselines and comparability factors are established – something which has been greatly delayed by significant machinery of Government changes in Whitehall – the exact size and shape of the Assembly Government settlement will remain uncertain.

11. The lateness of the CSR outcome for Wales is regrettable. Receiving our settlement in July, as generally happens, would clearly have been preferable and would have simplified our budget planning. But timing is clearly out of our hands and, despite the delay, we have been able to undertake a planning process over the last few months and I am confident that, when we eventually receive our settlement in October, we will be in a position to produce detailed spending plans for consideration by the Finance Committee and the rest of the Assembly relatively quickly thereafter.

12. Because I am committed to ensuring that delay in the CSR outcome does not compromise the scope for scrutiny and debate of Government spending plans, the revised timetable retains the four week period for the Finance Committee to produce its report and allows time for Assembly Members to consider the report before the plenary debate. In practice, this is

¹ The Statement of Funding Policy, revised at each spending review, sets out the arrangements for funding the Assembly Government in detail. The 2007 version remains work in progress.

² For example, the current comparability factor for the Department of Health is 99.5% and the population proportion which will be used in CSR07 is 5.87%. So, for every additional £1bn allocated to DoH, Wales receives £58.4m (1,000,000,000 x comparability factor (99.5%) x population proportion (5.87%)).

likely to mean that the Annual Budget Motion will be delayed and that final budget allocations for the period 2008-09 to 2010-11 will not be settled until January, potentially posing problems for delivery partners, including local authorities and the NHS, who will need to start their budget planning earlier than this. I will be consulting with Ministerial colleagues and delivery partners about the best way of ensuring as much certainty around their allocations as early as possible.

Size and shape of Assembly Government settlement

13. Given where we are in the process and the remaining uncertainties, I am not prepared to give a figure for what I think the year on year growth will be in the Assembly Government's budget over the period 2008-09 to 2010-11. There is no doubt, however, that spending growth will slow.

14. Since the Assembly was formed in 1999, spending has grown by an average of 5.5% per year in real terms – much faster than GDP has grown in this period. This record investment in public services – which has seen the Assembly's budget almost double since 1999 – was necessary to correct a long period of under-investment. And it has helped us to deliver real, sustainable improvements for the people of Wales. To take just a few examples, we now have record employment levels and faster employment growth than any other part of the UK, shorter hospital waiting lists, smaller class sizes and improved school attainment, free bus travel for the elderly and prescriptions for all, and record investment in new hospitals and school buildings.

15. No sensible person would expect – or want – public spending to continue to grow significantly faster than the economy indefinitely. Spending growth has been on a downward trend for several years now and we have managed this while continuing to deliver our objectives. This trend in spending growth will continue over the next few years and plans are being developed with this in mind. So I am confident that we have the resources we need to continue improving and developing public services and continue making a difference to the lives of people in Wales.

16. While I will not speculate about exactly how much additional resource will be delivered in the CSR, I can assure the Finance Committee we will provide the resources necessary to deliver the *One Wales* programme. While *One Wales* is ambitious and radical, it is also realistic and designed to be deliverable within the level of resources we are expecting.

Barnett review

17. The debate on the Barnett formula and other financial matters has been running since the beginning of the Assembly and there are legitimate questions to be asked about Barnett and about Assembly Government funding and finance more broadly. That is why we are setting up an independent Commission to look into this. We are in the process of developing the remit for the Commission and it is currently anticipated that members will be appointed and in a position to begin their work in the winter. The Finance Committee clearly has an interest in this work and I will keep you informed as it develops.

Monitoring the *One Wales* programme

18. I acknowledge the Committee's interest here. However, at this stage I am unable to provide details of the cost of the programme. A good deal of preliminary work has already been done to turn the commitments in *One Wales* into detailed plans. But there are options around implementation and timing – as the First Minister has already made clear, not all commitments will be delivered in year one, or even in year two. Until our final CSR settlement is known and we understand the level of resources available over the next three years, this work will necessarily remain preliminary.

19. In developing its work programme in relation to *One Wales*, the Committee will want to bear in mind the Assembly Government's own plans for monitoring delivery in general and monitoring delivery of the *One Wales* programme in particular. The Cabinet Budget and Performance Committee will be responsible for the continuous process of financial and delivery monitoring and we will need to ensure that we avoid duplication.

20. To conclude, I am more than happy to provide you with the relevant information once it is available. This will be after the Government's budget is finalised, likely to be early next year.

Likely 2007 Budget Timetable

Activity	Deadlines*	Comments
Draft budget laid before Assembly	By 5 November**	No debate at this stage, until Finance Committee (FinCom) has reported
Subject Committees may make recommendations to FinCom	By 19 November	Maximum two weeks stipulated in Standing Orders
FinCom prepares report, taking account of views of Subject Committees and the Finance Minister		
FinCom circulates report to the Assembly, appending any recommendations received from other Committees	By 3 December	Maximum four weeks stipulated in Standing Orders
Motion by Welsh Minister that the Assembly takes note of the draft budget	By 6 December	Tabled three working days after FinCom report is circulated to ensure debate takes place before Christmas.
Draft budget motion debated in the Assembly	By 13 December***	Five working days from tabling – in line with convention and allows time for consideration of FinCom report, for amendments to be tabled, etc.
Annual Budget Motion tabled by Welsh Ministers	By 16 January	
Annual Budget Motion moved in the Assembly	By 23 January	Must be at least five working days after tabling.

Notes

* All deadlines are latest possible dates.

** Assembly half term runs from 29 October to 2 November 2007. This means that the CSR outcome would need to be known in the w/c 15 October to allow for the draft budget to be laid before half-term recess.

*** Final day before Christmas recess. Assembly returns on 14 January.