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Y Gweinidog Cyllid ac Arweinydd y Ty
Minister for Finance and Leader of the House



Llywodraeth Cymru
Welsh Government

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Jocelyn Davies AM,
Chair, Finance Committee,
The National Assembly for
Wales,
Cardiff Bay,
Cardiff
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 October 2012

Dear Jocelyn:

At the Finance Committee's scrutiny session of the Draft Budget 2013-14 on 11 October, I agreed to provide further information on some of the spending areas we have protected and the consideration we have given to how preventative spend can reduce the demand on public services.

As I said during my evidence to the Committee, we know that there are interventions we can make which will prevent spend in other areas later down the line and the protections we have given to our strategic priorities are targeted to support areas which can benefit Wales in both the long and short term.

Having considered our strategic priorities at the outset of this Spending Review and in the context of significantly reducing budgets, we concluded that education, health, social services and universal benefits were our priority areas:

- Our decision to protect schools funding by 1% above changes to the Welsh DEL overall, in addition to the investment we are targeting through the Pupil Deprivation Grant, is helping to equip the young people of today to be the best citizens that they can be tomorrow. It is about allowing children and young people to fulfil their potential and to play a full part in the economy and communities of Wales and represents a long term investment in all of our futures.

There is also strong evidence that not being in employment, education or training for a significant period in early adulthood has a long-term effect on an individual's employment prospects, entrenching inequality over a lifetime. That is why we are investing £75 million over the three years 2012-13 to 2014-15 in Jobs Growth Wales. This funding will support 4,000 young people every year with tailored training and employment opportunities and will combine Welsh Government funds and European support.

- Investment in health is vital because of the impact it has on quality of life and the contribution that good health makes to so many of our ambitions. That is why we have protected the health budget from cash reductions over this Spending Review period and it is why we announced an additional £288 million for the health service in last year's Draft Budget up to 2014-15. However, we also took the decision not to invest in health at the price of other complementary services. At the time of the Spending Review, we were clear that improving health and the wellbeing of the people of Wales was more complex than just increasing spending in the NHS. We took a holistic view of public services and concluded that equalising health outcomes required investment in education, in housing and in prevention.
- As I said at Committee, investment in social services can have a significant impact on health outcomes across Wales in the broadest sense. Social services are about ensuring the highest quality of early interventions to protect the longer term interest of the vulnerable. It is about ensuring that our children have a secure and safe environment in which to grow and that our older population have the dignity and respect they deserve. However, it is also about ensuring that their needs are planned for and do not fall to the more expensive reactive services.

That is why we have ensured that funding for social services continues to grow over this Spending Review period. By 2014-15, funding for social care will be £35m higher per annum than it was in 2010-11. It is also why we have invested an additional £74 million over the three years 2012-13 to 2014-15 to double the number of children benefitting from the Flying Start Programme. Early years interventions strongly influence a child's school-readiness, future education attainment, economic participation and health and show that funding at this stage can prevent later costly interventions to help people overcome inequalities.

- Universal Benefits are also an important part of the network of programmes and benefits that help us to achieve our goals for the people of Wales which is why we have protected our investment over the course of the Spending Review period. They are an investment in the social fabric of society and are focused on ensuring that everyone is equipped to play their full part in society and reflect our longer term commitments. They also help to mitigate the financial pressures now widely experienced by the people of Wales:
 - Free prescriptions make sure that people on low incomes are not deterred from taking regular medication and enabling them to return and stay in work with long-term chronic conditions. It helps them play a role in the economy and prevents more expensive treatments down the line;
 - Free school breakfast and free school milk initiatives provide primary school children in Wales with access to a healthy start to the day and help improve educational outcomes;
 - Concessionary bus travel provides access to public transport for those who need it most; and
 - Free swimming initiatives support our health and well being ambitions for the citizens of Wales.

In addition to our strategic priorities, Ministers have also identified priority areas within their portfolios and protected these budgets from the full impact of budget reductions. I know that this has been an area of interest for all of the scrutiny committees and I have highlighted below some examples from across Ministerial portfolios:

- The Domestic Abuse budget continues to be protected from any reductions, enabling us through the *Right to be Safe Strategy* and the *10,000 Safer Lives* project

to help victims of domestic abuse and violence against women and to reduce incidents and the numbers of repeat victims. We are also continuing to support Community Safety Partnerships in Wales through the Youth Justice budget which funds a range of interventions and projects aimed at diverting young people away from crime and anti-social behaviour.

- We are maintaining our investment in housing support services through the Supporting People Programme as well as continuing our investments to prevent homelessness, which is one of the extreme examples of deprivation. These key interventions can have a significant impact on people's lives, affecting health and well being, quality of life, and increasing the opportunities available to the people they support.
- We are committed to preventing poor health and reducing health inequalities in Wales and through the *Change4Life* Wales campaign we are encouraging and supporting around 40,000 families and adults to make small, incremental changes to their lifestyles to reduce the risk of suffering from the health effects of obesity and to tackle excessive alcohol use. We are also supporting employers in Wales to maintain and improve the health and well-being of their employees in the workplace through our *Healthy Working Wales* campaign.
- Our continuing investment in the Flood and Coastal Risk Management Programme will deliver major infrastructure improvements across Wales. This is essential if we are to create a safe and attractive environment in which to make future investment. These improvements will protect homes and businesses, both create and protect jobs and mitigate the impact of climate change on our economy. Investment in flood and coastal defences also reduces risk for essential services, transport links, communication and energy infrastructure and generates public service savings through reduced maintenance and clean up works.

Economic research undertaken this year by Cardiff University has demonstrated that the works undertaken in our current programme, supported by the European Regional Development Fund, also has a significant impact on the Welsh economy. Some of the benefits include:

- 600 job losses avoided over the lifetime of our schemes;
 - An estimated 930 jobs have been supported or created across Wales as a result of the flood and coastal erosion risk management construction works to date; and
 - Over 7,000 homes and businesses with reduced flood and coastal erosion risk.
- The Invest-to-Save fund is another key intervention we are making to help public service providers to develop and maintain quality, effective and efficient citizen-centred services. The Fund provides short-term repayable investment to public service providers to help them introduce new and/or proven ways of working that deliver improvements, including through collaborative working arrangements. In many cases, the investments we are making can support savings and efficiencies which make services more sustainable in the longer term.

As I mentioned during the Committee session, I published 'Investing-to-Save 3' alongside the Draft Budget on 2 October which includes a number of case studies from across Wales with the aim of sharing best practice. This document also provides a full directory of projects supported by the fund. I enclose a copy of 'Investing-to-Save 3' for the Committee's information.

During the Committee session we also discussed the level of Welsh Government Reserves. I said it may be helpful for me to give these figures for the record. A table setting out the Reserves position for Fiscal Resource, Non-Fiscal Resource and Capital in 2013-14 is provided below.

In terms of the Capital Reserve, I have already mentioned that there are a number of schemes in the Wales Infrastructure Investment Plan pipeline which are still being developed, including Enterprise Zones and the Wales Economic Growth Fund. We will be considering allocations to some or all of these proposals in due course.

Welsh Government Reserves

	2013-14	
	£m	% ¹
Fiscal Resource Reserves	£142.4m	1.1%
Non-Fiscal Resource Reserves	£70.8m	14.7%
Capital Reserves	£18.9m	1.6%

I hope this additional information is helpful.

Yours sincerely,
Jane

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¹ Figures reflect Reserves level as a percentage of Wales Fiscal DEL, Wales Non-Fiscal DEL and Wales Capital DEL.