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Llywodraeth Cymru
Welsh Government

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Jocelyn Davies AM
Chair, Finance Committee
National Assembly for Wales
Cardiff
CF99 1NA

21 October 2013

Dear Jocelyn,

Following my appearance at Finance Committee on 9 October, I agreed to provide further information on a number of areas in advance of my attendance at Committee later this week.

During the Committee session, we discussed the implications of the High Speed 2 (HS2) rail project for Wales. I explained during the session that discussions were on-going with the UK Government over the implications of HS2 for Wales but agreed to provide further clarification on the current position.

In *Investing in Britain's Future*, published in June, the UK Government confirmed that HS2 will be funded from the Department for Transport (DfT) capital DEL (CDEL). I thought it would be helpful to provide further clarification of the implications of that decision for Wales.

In the Spending Round 2013, the DfT CDEL for 2015-16 was increased by more than £2bn, which included £832m for HS2. As a result, the Welsh Government received a consequential increase in its CDEL from the total increase in the DfT CDEL of £84m. However, the Welsh Government's DEL in a given year is determined by the starting baseline plus the net changes to all comparable DELs, rather than changes to one DEL in particular. This means that the Welsh Government CDEL in 2015-16 is actually £48m lower than in 2014-15, despite the positive consequential from increases to the DfT CDEL.

In terms of the period beyond 2015-16, the UK Government has set an overall funding envelope for HS2 of £42.6bn for construction costs (£21.4bn for Phase 1 and £21.2bn for Phase 2) and £7.5bn for rolling stock, including £16.1bn of contingency (see below - all figures are in 2011 prices).

2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
832	1,729	1,693	3,300	4,000	4,498	16,052

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Although the funding envelope for HS2 has been set, the DEL budgets for the period beyond 2015-16 have not, which means we will not know until the next Spending Review what the net impact of UK Government decisions will mean for the Welsh Government CDEL. As in this Spending Round, if HS2 is funded by reductions in CDEL elsewhere, the actual impact of these decisions could be more complicated, when taken in the round.

Turning to Local Government, there were a number of issues on which I agreed to provide further information. Firstly, I agreed to provide clarification on the anticipated level of income from non-domestic rates, following the publication of the provisional Local Government Settlement on 16 October. I can now confirm that the provisional estimate of the National Non-domestic Rate Income to be collected and redistributed to Local Authorities is £1,037m in 2014-15. This is included within the Local Government MEG.

Secondly, I offered to provide further information on the arrangements in place for Local Government to set fees and charges. As I am sure the Committee is aware, it has long been possible for Councils to charge for certain services where express legal powers exist. However, Section 93 of the Local Government Act 2003 introduced a new wide ranging power to charge. Councils can charge for all discretionary services including those services provided under the power to promote or improve Economic, Social or Environmental Well-Being. The only exceptions are where charging is specifically prohibited or a special charging regime exists, such as the cap on social care fees which is governed by specific legislation. Any charges set should be limited to a level that covers the costs of providing the service, such as building control costs.

As I said during the session, it is for local authorities to make decisions on how they set fees and charges at a local level, while acknowledging that there are some limits in legislation in terms of the extent to which fees can be charged. Local Authorities have the ability to charge for a wide range of services and do so in over 500 different charging areas. The specific arrangements will, of course, vary across these different charging areas. Clearly it is important that Local Authorities balance the potential for additional income generation with the adverse effects additional charges can result in, such as making their town centres less attractive places to visit, adding costs on local business and households and encouraging fly-tipping.

Finally, in terms of Local Government funding, we discussed the 1% protection provided for schools funding, which is delivered through Local Authorities. As I mentioned in Committee, whilst this funding is not ring-fenced our expectation is that this funding is spent on schools and Local Authorities provide information, which enables us to monitor this expenditure. As I indicated during the session, I will ask my Ministerial colleagues to provide this monitoring information to the Committee.

In the context of our discussion around the Social Services and Well-being (Wales) Bill, I agreed to provide clarification on the funding available to support the development of the National Adoption Agency. I can confirm that, in 2013-14, we have allocated £130k to support the development of the National Adoption Agency, comprising £50k to the Association of Directors of Social Services Cymru (ADSSC) to procure resource to facilitate a project looking into the governance arrangements and business modelling of the National Adoption Service; £70k for the development of a National Standardised Performance Framework for the National Adoption Service; and £10k to undertake a procurement exercise for the development of a National Adoption Register for Wales. This level of spend will be maintained in 2014-15.

I also agreed to provide further information on the efficiency savings that the Welsh Government has made in the Central Services and Administration MEG. Over the Spending Review period we have implemented a number of initiatives to reduce costs in a coherent and balanced way, including efforts to manage staff costs, reduce non-pay administrative costs, and the rationalisation of our administrative office. As we set out in the Draft Budget narrative, as part of this efficiency drive, we have implemented an estate rationalisation programme, which has seen the number of Welsh Government buildings reduce from 75 in April 2010 to 42 in April 2013. The Location Strategy is projected to deliver gross aggregated savings of around £18m over a 5 year period (2010-2015) and an annual recurrent cost saving of circa £5.3m (based on the 2010 baseline) from 2015, which equates to an approximate 30% reduction in the overall annual occupancy costs for the estate.

During the session, we also discussed the importance of preventative spend and I welcomed the Committee's scrutiny on this issue, particularly following our discussions last year in the context of the Draft Budget 2013-14. We recognise that making the maximum use of available resources has never been so important for those delivering public services in Wales. It is essential that the most cost-effective approaches to delivery are adopted and that in considering these, greater focus is given to possible prevention measures rather than mitigation. That is why, as part of the development of the Draft Budget 2014-15, all Ministers have considered how their budgets support a preventative approach. When I gave evidence, I provided a number of examples where a preventative approach has informed budget decisions, including the additional funding for the Domestic Abuse Services Grant, the steps we have taken to mitigate impacts on the Supporting People Programme and our Invest-to-Save programme. Ministers have also looked to set out how their budgets support preventative spend more explicitly in the Draft Budget narrative. Whilst a commitment to preventative spending underpins the Draft Budget 2014-15, it is important to remember that a preventative approach does not achieve savings in the short term. We need to take a balanced view as a blanket protection of preventative spend may not allow us to respond to short term mitigation demands.

I agreed to provide further information on the issue of Welsh Language considerations in the Budget. As I said during Committee, the Welsh Government is committed to considering the impact of its actions on the Welsh language and Welsh speakers, alongside its legal obligations under the Government of Wales Act 2006 and the Welsh Language Act 1993. The Welsh Language Strategy 2012-2017 *A living language: a language for living* sets out our vision to mainstream the language into service and policy development. To support this work, we have established Welsh Language Champions across all Welsh Government Departments to promote considerations of the Welsh language in service and policy development.

In the Draft Budget we have taken steps to consider the impact on the Welsh language as part of the work we have done to consider equality, children's rights, socio-economic disadvantage and sustainable development. In this context, we are committed to improving how we approach assessing the impact of expenditure on Welsh Language and from 2015-16, this commitment will be reinforced by the duties established within the new Welsh Language (Wales) Measure 2011, which introduces a statutory obligation on those making policy decisions to consider the effect on the Welsh language when developing policy. Work is already underway to ensure processes are put in place to ensure Welsh Government meet these standards and a formal project will be set up to take this work forward to ensure that Welsh language is considered at policy inception and in relation to budget considerations.

You have also asked for further information on the approach we have taken to consider sustainable development in the budget planning process, which clearly aligns with our considerations around Welsh Language. As I know the Committee is aware, sustainable development is our central organising principle and we have worked to consider sustainable development throughout the budget planning process in order to ensure that our spending decisions consider the economic, social and environmental wellbeing of people and communities in Wales. Our spending plans are also aligned to support the Programme for Government, which has sustainable development at its heart.

Whilst we cannot avoid budget reductions, a sustainable development approach has helped influence how we manage them. That is why we have prioritised activity that improves outcomes, reduces the impact of negative outcomes on the people and communities of Wales and also considered how we can reduce the demand on public services in the future. This aligns with the preventative approach we have taken as this is a fundamental requirement for taking a sustainable approach to such decisions, alongside the need to look to the long term, engagement and involvement of people and communities and better integration so that we make the connections between the economic, social and environmental challenges Wales faces. Together with the Minister for Communities and Tackling Poverty, I provided further information on the approach we have taken to consider sustainable development in the context of the budget in our evidence paper to the Environment and Sustainability Committee, in order to facilitate their scrutiny of the Draft Budget.

The different impact assessments we currently undertake all contribute to our wider understanding of the sustainability of our decisions and the equality impact assessment of the budget sets out in more detail the approach we have taken to embed these considerations in our budget planning processes. We are committed to building on our experience to improve our impact assessments each year. Within the context of the proposed Future Generations (Wales) Bill, we are also taking steps to move towards a more integrated approach to impact assessments, under the umbrella of sustainable development, and will look to build on this in future budgets.

The Committee has also requested further information on whether any assessment has been made of the risk to public bodies in Wales as a result of the UK Government's move to a Public Service Network. In Wales, the Public Sector Broadband Aggregation (PSBA) network provides connectivity to the entire public sector. Work is well underway, in conjunction with Cabinet Office, to ensure that PSBA is fully PSN compliant, and that it will be able to offer PSN services to those organisations which comply with the PSN Code of Connection. This work is on-going and continually evolving as Cabinet Office clarifies the requirement. The risks are continually being monitored and reflected in the work to re-procure PSBA where PSN compliance is a mandated requirement.

I hope this response is helpful.



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