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The *Welsh Economic Review* is produced twice yearly, by the Welsh Economy Research Unit (WERU) at Cardiff Business School. The aim of the *Review* is to provide an authoritative and objective analysis of the Welsh economy in a manner that promotes understanding and informs decision-making. The 'core' section of the *Review* is written by members of WERU, with feature articles contributed by academics or practitioners within or outside Wales. The *Review* is circulated widely within Wales, to both private and public sector organisations, including the education sector and the National Assembly.

#### **Notes for Contributors**

Authors should send papers for potential publication in the *Welsh Economic Review* to the Editor at the address given below, preferably via e-mail in a Word for Windows format. Papers are welcome on any topic that would be of general interest to the readership, and should be written in a style suitable for non-specialist readers. Papers should be approximately 3,000-4,000 words and any graphs or figures should be accompanied by the underlying data to allow reproduction.

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# Public Sector Spending

The establishment of the National Assembly has dramatically changed the process of allocating public expenditure within Wales. Once the overall budget for Wales has been determined by central government, the Assembly has the freedom to make its own spending decisions on devolved programmes within the overall total. This new process is intended to be both more transparent and democratically accountable, as well as to more effectively link spending decisions to policy needs and priorities within Wales. In order to facilitate this process, the Assembly has established new structures and mechanisms for setting and debating budgetary priorities.

Prior to devolution, the budget round was conducted behind closed doors and involved only the Secretary of State for Wales, two junior Welsh Office Ministers and Welsh Office Group Directors. The process is now open to debate by Assembly secretaries and Committees, and is subject to wide public consultation. As well as becoming more transparent, spending decisions and priorities are also subject to a much greater degree of political scrutiny. Indeed, whereas previously the Secretary of State for Wales simply presented the budget as a *fait accompli*, the final budget now has to be ratified by the Assembly, although no amendments can be made at that stage. These changes have significantly lengthened the budget process in Wales.

Box 1 sets out the process the Assembly followed in allocating its budget for the 2001-02 financial year.

Table 8 shows the Assembly's approved budget for the period 2001-02 to 2003-04, and compares spending levels with those of 2000-01. Over this period, the total budget available in Wales will increase by 34 per cent, as determined by the UK government's July 2000 Comprehensive Spending Review (CSR). This increase, which constitutes a 5.4 per cent real terms increase in spending over the next three years, was primarily intended to address the significant public expenditure implications of Objective 1 funding in Wales. Critically, the Chancellor conceded to the argument of the Assembly leadership that funding or 'cover' to pay for the European component of Objective 1 spending (which is paid to the Treasury and not directly to the Assembly) could not be determined purely on the basis of the Barnett formula. The Chancellor therefore announced an increase in cover for the Objective 1 programme in Wales amounting to £272 million for the three years covered by the CSR. Additional cover of £149 million was also provided for the transfer of Wales' European Social Fund allocations from the Department for Education and Employment to the Assembly.

Table 8 also illustrates the Assembly's priorities for increased spending over the period 2001-02 and 2003-04. The

allocation of the budget within Wales for this period has been specifically designed to target resources at the priorities identified in the Assembly's strategic plan – Better Wales.com. These priorities fall under three main themes – sustainable development; tackling social disadvantage; and equal opportunities. The significance of spending commitments under the Objective 1 programme in Wales is reflected in the 85 per cent increase in spending on economic development over the period 2000-01 to 2003-04. The importance attached to sustainable development is reflected in the increase in spending on the environment, transport and planning which includes £275,000 in 2001-02 for the European Regional Innovation Grant Scheme as well as an additional £10 million in 2002-03 and 2003-04 for integrated transport initiatives. Increasing the spending on front-line health care services has also been prioritised with an average annual real terms increase of 5.1 per cent in the health budget in Wales. The budget for 2001-02 also included £600,000 in the education budget for piloting a Welsh Baccalaureate, in line with the new partnership agreement between the Labour and Liberal Democrat parties in the Assembly.

An enduring focus of concern is the impact that the Assembly's public sector match funding commitments for Objective 1 will have on other areas of

## Box 1: Budget Planning Round for 2001 - 02

- Paper issued by the Finance Secretary Edwina Hart on 18 May 2000 outlining the strategic context for the budget process (as defined by the Better Wales document), the financial background to the process and initial issues for consideration. Public responses were invited by 14 July 2000.
- Assembly Secretaries invited to submit issue papers to appropriate committees in order to focus discussion by 14 July 2000.
- Assembly Committees formally responded to their respective Assembly Secretaries in July and August 2000 setting out priorities for the Budget and Strategic Planning Round.
- The Preliminary Draft Budget was published on 26 October 2000 and debated in plenary session on that date.
- Subject Committees discussed their particular budget allocations and were asked to present their views to the Finance Secretary in November 2000.
- Finance Secretary prepared Final Budget by 29 November 2000.
- Final budget ratified by Assembly in plenary session of 7 December 2000.

spending in Wales. Estimates prepared by Assembly finance officials suggest that over the period 2000-06 a total of £885 million will be required from the public sector and a further £309 million from the private sector to match the EU grant element of the Objective 1 programme. Based on the experience of previous Structural Fund programmes in Wales, it is anticipated almost all of the

£885 million public sector requirement will come from those agencies (such as local authorities) which are funded out of the Assembly's budget. However, the CSR did not provide anything above the Barnett formula's allocation for match funding Objective 1 projects in Wales. Public sector match funding for Objective 1 (or other Structural Fund) projects will therefore need to be found

from within the Assembly budget thereby squeezing spending in areas such as health and education. Opposition parties have already been quick to draw attention to the fact that education spending will rise on average by only 3.2 per cent in real terms per annum over the next three years in Wales, compared with a 5.6 per cent rate of increase in England.

**Table 8: National Assembly for Wales Budget for 2001-02 to 2003-04 Main Expenditure Groups (£000)**

Expenditure Groups	2000-01 Plans 12 April 2000	2001-02 New Plans	2002-03 Indicative Plans	2003-04 Indicative Plans	% change in spending (2000/01 - 2003/04)
Health and Social Services	2,986,559	3,248,758	3,559,598	3,840,814	+28.6
Local Government	2,712,018	2,852,418	3,022,717	3,194,917	+17.8
Housing	530,425	562,987	585,701	594,231	+12.0
Environment , Planning & Transport	275,830	294,315	350,553	379,485	+37.6
Agriculture & Rural Development	231,057	258,411	247,242	247,647	+7.0
Economic Development	263,164	409,584	449,169	485,824	+84.6
Education & Lifelong Learning	877,452	932,370	975,554	1,032,049	+17.6
Culture, Sport & the Welsh Language	55,475	56,505	59,950	62,865	+13.3
Auditor General (Estyn)	9,650	10,051	10,805	11,301	+17.1
Auditor General for Wales	2,741	2,166	2,166	2,166	-21.0
Welsh Administration Ombudsman	450	600	600	600	+33.3
Forestry (1)	0	3,000	3,630	4,250	Na
Office of the Presiding Officer	29,690	22,269	22,825	23,396	-21.2
Central Administration	99,775	121,749	115,055	120,055	+20.3
<b>TOTAL ASSEMBLY EXPENDITURE</b>	<b>8,074,946</b>	<b>9,689,531</b>	<b>10,396,737</b>	<b>11,067,006</b>	<b>+37.0</b>
Office of the Secretary of State for Wales	2,862	3,096	3,096	3,096	+8.2
<b>TOTAL WELSH BUDGET</b>	<b>8,077,808</b>	<b>9,692,627</b>	<b>10,399,833</b>	<b>11,070,102</b>	<b>+37.0</b>

(1) Subject to agreement on transfer of responsibility of forestry  
Source: National Assembly for Wales