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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 Welsh Assembly Government.

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

Finance Minister Sue Essex announced the Welsh Assembly Government's draft budget for 2004-05 on 14 October 2003, alongside indicative spending plans for 2005-06 and 2006-07. The draft budget was debated and approved on 2 December 2003. The Assembly's 2004-05 budget takes the administration's spending to £11.9 billion (Table 5). This represents a 6% increase in spending on 2003-04 and means that the Assembly's budget for this financial year is nominally some £4.5 billion higher than the 1999-2000 budget inherited by the Welsh Office. Unlike in previous years, the indicative plans for the next two years have been held constant, whilst the Assembly undertakes a more detailed budget review. These totals will also be revised as a consequence of the forthcoming UK Government Spending Review in the summer of 2004 which will determine the Assembly's block grant for the next three years.

Table 5: Assembly Government's Budget 2004-05 – 2006-07 (£000)

Major Expenditure Group	2003-04 Original Plans	2004-05 Final Budget	% change from Original Plans	2005-06	2006-07
Health & Social Services	4,160,809	4,558,345	9.6	4,558,345	4,558,345
Local Government	3,257,205	3,377,262	3.7	3,377,262	3,377,262
Social Justice & Regeneration	614,802	639,235	4.0	639,235	639,235
Environment, Planning & Countryside	409,213	417,137	1.9	417,137	417,137
Economic Development & Transport	1,229,656	1,353,712	10.1	1,353,712	1,353,712
Education & Lifelong Learning	1,187,017	1,227,320	3.4	1,227,320	1,227,320
Culture, Welsh Language & Sport	97,997	124,304	26.8	124,304	124,304
Reserves	54,956	32,229	-41.4	882,144	882,144
Overall Total*	11,214,066	11,935,019	6.4	12,780,296	12,780,296

* Administration and the Inspection expenditure groups have been omitted and so columns do not sum to the total.
Source: Welsh Assembly Government

The continued increase in the Assembly's budget has helped the new institution avoid any really difficult budgetary decisions in its early years, and allows it to continue to target resources at the priority areas identified in the Assembly's key strategic plans. Thus, the Assembly continues to prioritise spending on health, education, economic development and social justice and regeneration. In health, for example, the Assembly has announced that from 2005-06 prescription charges will be cut at a cost to the Assembly of £11 million. The Assembly is also increasingly keen to target resources at initiatives designed to encourage healthier lifestyles and tackle the growing problem of obesity in Wales. So, for example, a further £3.5 million will be spent in 2005-06 on extending the free provision of school breakfasts to promote healthy eating patterns, with a further £3 million being spent on extending free swimming for both children and older people.

However, there are clear signs that resources are becoming more stretched,

and that difficult decisions may well lie ahead. First and foremost is the thorny issue of local government funding. The local government settlement for 2004-05 does not represent the increase in financial support that Welsh local authorities feel was necessary. Councils therefore have to face the difficult choice between keeping council tax bills low or maintaining services. Furthermore they face costs which have risen by much more than the standard inflation rate. Teachers' pay, which is the biggest single cost for local councils, has risen by 10.5% this year, for example. Local authorities were also dismayed by the Assembly Government's decision to allocate the £19.5 million earmarked by Gordon Brown for council tax relief in Wales to social care services. The Assembly is clearly facing strong pressure on its health and social services budget which appears to be squeezing local government spending. Local authorities hope that the forthcoming Balance of Funding review in Wales will provide the basis for a more equitable and sustainable funding settlement. This is intended to consider

the most appropriate balance in local authority funding between revenue raised locally and resources provided by the Assembly Government, and to examine alternative forms of local taxation.

Secondly, the Assembly faces the continuing pressure to match fund its European funding commitments from within the block grant. This pressure has been somewhat exacerbated of late by the strengthening of the Euro in relation to the Pound. This has resulted in an increase in the value of European funds coming into Wales. Indeed, it is estimated that the value of Objective One funds may rise by as much as £30 million a year for the remainder of the programme. This has raised concern that bids for the next phase of funding will be rejected and has forced major match funding providers such as the WDA to review and consequently prioritise all projects receiving European funding. The outcome of the Chancellor's forthcoming Spending Review will be eagerly awaited in Wales.