



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

WRITTEN STATEMENT BY THE WELSH ASSEMBLY GOVERNMENT

Title: The UK Government's Budget of 22 June 2010

Date: 23 June 2010

By: Jane Hutt, Minister for Business and Budget

Yesterday, the new UK Government published its first Budget. Cabinet met this morning to discuss the implications for Wales.

The UK Government has said a lot about its 'respect' agenda for working with the Devolved Nations. But, while the Budget makes specific references to the needs of Scotland and Northern Ireland, there is absolutely no recognition of the particular circumstances and needs of Wales. This is not respectful to Wales and is not fair to the people of Wales.

The impact of the Budget measures will be felt hardest in Wales, not least because, as the independent Holtham Commission has demonstrated, Wales is already underfunded by £300m per year. The UK Government must act now to implement the conclusions of the Holtham Commission and implement a floor ahead of the Spending Review to start addressing underfunding straight away.

Detailed UK spending plans for the period after 2010-11 are not included in the Budget. The Chancellor confirmed that the outcome of the Spending Review will be published on 20 October. Until then, there remains a lot of uncertainty about what the Welsh budget will be over the period to 2014-15.

The measures set out yesterday by the UK Government take risks with the fragile recovery that we have been seeing. Based on the Office of Budget Responsibility's forecasts, the Government's plans will hit the economy hard, reduce growth and increase unemployment.

We are also concerned that the UK Government has not demonstrated how it will encourage growth to help address the deficit and bring us fully out of recession. We need to take a longer term approach in Wales which limits the impact on jobs and services, to provide stability and resilience for the future – a smaller public sector will not guarantee a larger private sector.

The Assembly Government's view – shared by many economists and business leaders – is that cutting the deficit too hard, too soon could damage the economy as well as public services. The deficit needs to be reduced and Wales will play its part in this. In fact, the Assembly Government has led the way in the UK and started planning for these challenging times over a year ago. The Wales Efficiency and Innovation Board is driving a national programme to transform operational efficiency, catalyse innovation in the way that public services are designed and delivered, and promote collaboration. It is only through this sort of innovative, collaborative approach that we will be able to manage through the next few years without damaging the public services that so many in Wales rely on. But the deficit should be reduced at a pace which does not threaten the economic recovery and without incurring massive damage to public services.

The Assembly Government is extremely concerned that this Budget will hit the poorest and most vulnerable in our society the hardest. We are also concerned that, by making big cuts in spending and increasing taxation, the Budget takes significant risks with the economic recovery.

This Budget contains an unprecedented combination of:

- tax increases – totalling more than £8bn by 2014-15;
- cuts in benefits – totalling £11bn by 2014-15; and
- further cuts in public spending – totalling £20bn by 2014-15.

This is grim news for most people across the UK and particularly grim for the people of Wales.

Because of the remaining uncertainty about the UK Government's intentions, the Assembly Government has been planning on the basis of cautious assumptions. Further work is needed, but initial analysis of yesterday's figures indicates that these planning assumptions remain sound. The Assembly Government will publish its Draft Budget as soon as possible after the outcome of the Spending Review is known, and I hope to agree a detailed timetable for the scrutiny process with the Chair of the Finance Committee before summer recess.

Yesterday's Budget reiterated the £6.2bn cut to budgets in 2010-11. As Assembly Members are aware, the Prime Minister offered us the opportunity to defer some or all of the Welsh 'share' of these cuts – until next year. Before deciding on our approach, we needed clarity from the Treasury in three areas.

First, we needed clarity about exactly what the size of the cuts are, how much is revenue and how much is capital. Treasury have now corrected their error in relation to the cut arising from cuts to the Olympics budget and have revised some of the positive consequentials from recycled savings. They have also now provided the revenue / capital split: around 1/3 of the cut is capital.

Second, we needed clarity about our flexibilities□ the EYF position: whether previously agreed access for this year will be honoured and whether we will have unfettered access to EYF in future years. I wrote to the Chief Secretary about this last week and have asked for assurances by the end of the month.

Third, we needed to know whether the new Government's Budget would materially effect our planning assumptions. As mentioned above, further work is needed but initial analysis suggests our assumptions remain sound.

In light of this progress, I am confident that I will be able to confirm the approach we will be taking to the cuts imposed by the UK Government in 2010-11 to the Assembly before the end of this session.

There are elements in the overall Budget package which the Assembly Government welcomes. The increase in the Income Tax personal allowance by £1,000 will benefit more than 1m basic rate taxpayers in Wales. The proposed tax break for businesses to assist in creating jobs outside London and the South East could be of benefit to business in Wales. And the decision to make no further cuts in capital budgets beyond the previous Government's already tough plans is also welcome. Continuing capital investment is key to supporting the recovery and to transforming public services.