

Impact of UK spending reductions on Wales

Quick Guide

May 2010

Overview

On 24 May 2010, the Chancellor (George Osborne) and Chief Secretary to the Treasury (David Laws) announced details of how the UK Government intends to reduce spending by **£6.2 billion** during 2010-11.¹ The following provides further details and the potential impact on the Welsh budget. In summary:

- Gross reductions to UK Government departments totalling £6.2 billion, to be offset by £500 million reinvestment, giving a **net reduction of £5.7 billion**.
- Of the £6.2 billion gross reductions, **£704 million** is to be borne by the devolved administrations.

Of this, gross reductions of £187 million to Wales, offset by £24 million reinvestment, giving a **net reduction of £163 million**. This represents **1 per cent** of the £15.7 billion Welsh budget.²

Impact of changes to Welsh budget

Changes to the Welsh budget as a result of the reductions announced are presented in table 1. In the case where Wales has devolved responsibilities from any UK Government department, Wales receives its share of any changes via the Barnett formula, based on population and comparability.³ The Welsh Government has complete autonomy over how these changes are managed within the Welsh budget.

As the Welsh Government's budget for 2010-11 has already been passed,⁴ the UK Government has offered the Welsh Government the option to defer these spending reductions until 2011-12. The offer of deferment has also been given to the Scottish Government and the Northern Ireland Executive.

¹ HM Treasury, *Reducing the Government deficit*, 24 May 2010. [accessed 25 May 2010]

² Refers to departmental expenditure limits (DEL) only, as this is the area over which the Welsh Ministers have discretion.

³ In accordance with HM Treasury's *Statement of Funding Policy*. Further details on the operation of the Barnett formula can be found in the Members' Research Service Quick Guide: *Barnett Formula*. [accessed 25 May 2010]

⁴ Welsh Government, *Final Budget 2009*, December 2009 [accessed 25 May 2010]

Table 1: Welsh share of changes to Budget 2010-11

<i>£ millions</i>		
Department	UK Departmental contributions 2010-11	Impact on Welsh block
Reductions		
Education	670	39
Transport	683	27
Communities and Local Government	780	45
Local Government	405	24
Business Innovation and Skills	836	37
Home Office	367	0
Ministry of Justice	325	0
Law Officers' Departments	18	0
Foreign and Commonwealth Office	55	0
Energy and Climate Change	85	2
Environment Food and Rural Affairs	162	8
Culture Media and Sport	88	5
Work and Pensions	535	0
Chancellors' Departments ¹	451	0
Cabinet Office	79	0
Devolved Administrations	704	..
Total reductions	6,243	187
Additions²		
Further Education Colleges	50	3
Apprenticeships in SMEs	150	9
Social Housing	170	10
Business Rates ³	50	3
Total additions	420	24
Net reduction	5,823	163

Source: HM Treasury and Members' Research Service calculations.

1. Includes £320 million of savings in annually managed expenditure from reducing the Child Trust Fund. In calculating the consequential to Wales this has been omitted, and the impact on the Welsh budget is based on the remaining £131 million.
 2. Additions have been calculated as in Budgets and Pre Budget Reports, ie using 100% comparability.
 3. Should the Welsh Government decide to follow the English approach to business rates, there will be no consequential as a result of this change. However, should they decide not to do so then there will be a resulting addition to the Welsh block.
- .. denotes not applicable

The reduction to the Department of Culture Media and Sport includes responsibility for £27 million of savings from the Olympic Delivery Authority, which does not seem to have been disregarded when calculating the consequential reduction to Wales. In her statement on 25 May, the Minister for Business and Budget (Jane Hutt AM) stated:

...we seem to have been given a consequential of cuts in the Olympics budget. As Members will be very well aware, Wales did not receive consequentials from the Olympics budget when it was established in the last CSR. Clearly we should not be subject to cuts from budgets we didn't receive in the first place.⁵

The Minister went on to state that she intends to pursue this matter with Treasury.

Welsh Government response

In response to the announcement of reductions on 24 May, the Minister for Business and Budget (Jane Hutt AM) stated:⁶

These cuts are being imposed despite the fact that – as the Holtham Commission has demonstrated – Wales is already being underfunded by some £300m annually. It would therefore be completely inappropriate for Wales to suffer large in-year cuts. Whatever the circumstances may be in England, our current underfunding means it is impossible to extract £187m from the budget

⁵ Welsh Assembly Government, Minister for Business and Budget (Jane Hutt AM), *Statement from the Welsh Assembly Government on UK Government spending cuts*, Cabinet Oral Statement, 25 May 2010 [no link available at time of writing]

⁶ Welsh Government News Release, *Response from Welsh Assembly Government on UK Government spending cuts*, 24 May 2010 [accessed 25 May 2010]

this year without impacting on front line services. And we are already relatively efficient compared to Whitehall – for example Wales has already led the way again in the UK by scrapping the major Welsh quangos. So, the scope for administrative savings in Wales is simply not the same as it is in England.

With regard to the offer of deferment, the response states:

... we still need greater clarity on the terms under which we might be able to defer any cuts. I have been, and will continue to be, pursuing this urgently with Treasury Ministers. In the meantime, we will not be taking knee jerk action now to cut budgets in Wales.

The Scottish Government has announced that it intends to take up the Treasury's offer of deferment until 2011-12.⁷

Further action

The Chancellor has confirmed that an emergency Budget will be held on Tuesday 22 June.

He has also announced the creation of a new **Office for Budget Responsibility**, to independently assess the public finances and the economy for such a budget.⁸ The Treasury are also undertaking a Spending Review to report in the autumn.

Further information

For further information on aspects of the impact on Wales of the UK spending reductions, please contact **Dr Eleanor Roy** (Eleanor.Roy@wales.gov.uk), Members' Research Service.

For further information on the topics below, double click on the links.

- HM Treasury, **Reducing the Government deficit** (May 2010)
- HM Treasury, **Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy** (October 2007)
- Members' Research Service Quick Guide on the **Barnett formula**, or for further detail the research paper **The Barnett formula: funding the devolved administrations**

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Enquiry no: 10/1527 Eleanor Roy

⁷ Scottish Government News Release, *Public spending cuts*, 24 May 2010 [accessed 25 May 2010]

⁸ HM Treasury, *Press Notice 03/10: Chancellor announces date of emergency Budget*, 17 May 2010 [accessed 25 May 2010]