Cynulliad Cenedlaethol Cymru
National Assembly for Wales

Spending Review 2010 – Impact on Wales

Quick Guide

November 2010

Introduction

The Chancellor of the Exchequer (George Osborne) presented the UK Government's Spending Review (SR) 2010 on 20 October 2010.[1] SR 2010 sets out departmental spending plans for the four years until 2014-15, and for the first time, this SR also covered areas of annually managed expenditure (AME)[2] for each Government department and the devolved administrations.

The SR 2010 details the Government's plans **to cut £81 billion** in spending over the SR period (2011-12 to 2014-15).

The Secretary of State for Wales (Cheryl Gillan) said of the SR:

> No part of the UK can be immune from our share of the cuts made necessary by the deficit we inherited from the last Government, but this is a fair funding settlement for Wales. The Welsh Assembly Government is facing smaller cuts than most UK Government departments but, like everywhere else, tough decisions will have to be faced in Cardiff Bay. In the continued spirit of respect and partnership between our governments, I am committed to working the First Minister and Deputy First Minister to try to protect frontline services in Wales. I also welcome the reserved infrastructure projects announcement which will help support the Welsh economy and will be important for Wales's future growth.[3]

In response to the SR the Minister for Business and Budget (Jane Hutt) stated:

> The Spending Review means that Wales will receive the biggest cuts in its budget in at least a generation, and bigger than the reduction in any of the other devolved administration's budgets.[4]

Impact on the Welsh block

The SR 2010 only shows spending plans to the nearest £0.1 billion, therefore calculations in this document based on these figures will not be precise. Table 1 shows the figures presented in SR 2010 for the Welsh block for 2010-11 (baseline year) to 2014-15. These figures are shown on the basis of departmental expenditure limits (DEL)[5] and AME. From this it can be seen that:

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[1] HM Treasury, **Spending Review 2010**, 20 October 2010 [accessed 21 October 2010]
[2] **Annually managed expenditure (AME)** – Government spending on programmes which are typically volatile and demand-led, and which are therefore not subject to firm multi-year limits in the same way as DEL. The biggest single element is social security spending. Other items include tax credits, Local Authority Self Financed Expenditure, and debt interest.
[3] HM Treasury, **Spending Review 2010 Press Notices**, Wales, 20 October 2010 [accessed 21 October 2010]
[4] Welsh Assembly Government, Jane Hutt (Minister for Business and Budget), *The UK Government's spending Review of 20 October* 2010, Cabinet Written Statement, 21 October 2010.
[5] **Departmental expenditure limits (DEL)** - The total spending limits for Government departments over a fixed period of time, excluding demand led and exceptionally volatile items. DELs are planned and set at Spending Reviews. This is split between resource and capital budgets. Most of the DEL is unhypothecated and allows the Welsh government full discretion over its spending priorities (known as the 'assigned' budget).

In comparison to 2010-11 the 2011-12 Welsh block is:

- Reduced by **£0.5 billion** (3.3%) in cash terms.
- **In real terms[6] this equates to an overall reduction of £0.8 billion** (5.1%).
- From the information provided **it is difficult to identify the component parts of these changes, as figures are rounded to £0.1 billion**, therefore any changes of less than £100 million are not detailed.

Over the course of the SR period the Welsh block will see:

- **A £0.4 billion (2.7%) overall reduction in cash terms.**
- **In real terms this equates to a £1.9 billion (11.3%) reduction** overall.

In a statement responding to the Spending Review, the Minister for Business and Budget (Jane Hutt AM) referred specifically to the capital reduction in the Welsh block saying:

> ...by 2014-15 our capital budget will be lower in real terms than at any stage since the 1980s. The budget is slashed in the first year by more than 25% in real terms. This risks doing major damage to the economic recovery in Wales.[7]

Table 2 shows details of changes to the total DEL of other UK Government departments (including the devolved administrations).

End Year Flexibility

In addition to the impact on the Welsh block as a result of changes to UK Government departments, there may also be a further consequence of the SR 2010 to the Welsh Government's spending power, via changes to end year flexibility (EYF)[8]. The SR 2010 states that the UK Government is:

> ...abolishing the EYF scheme at the end of 2010-11, including all accumulated stocks, and replacing it with a new system from 2011-12 which will retain an incentive for departments to avoid wasteful end-year spending and strengthen spending control.[9]

The UK Government is to set out more detail on this later in the year.

Currently HM Treasury holds the Welsh Government's stock of EYF, and the most current figures[10] detail that these stocks are worth some £594 million in total.[11] The SR refers to abolishing these stocks, but provides no detail as to what will happen to the accumulated stocks.

[6] All real terms figures are calculated using HM Treasury's **GDP deflators**, 29 September 2010 [accessed 21 October 2010]
[7] Welsh Assembly Government, Jane Hutt (Minister for Business and Budget), *The UK Government's spending Review of 20 October* 2010, Cabinet Written Statement, 21 October 2010.
[8] **End year flexibility (EYF)** - mechanism to carry over unspent provision in the DEL budget from one year into future years. This ensures that any under spend remains available rather than being returned to Treasury. Carry over and subsequent draw down of EYF is subject to Treasury approval. Further information on EYF can be found in the Members' Research Service Quick Guide: **End year flexibility** [accessed 21 October 2010]
[9] HM Treasury, **Spending Review 2010**, 20 October 2010 (page 18) [accessed 21 October 2010]
[10] HM Treasury, **Public Expenditure 2009-10 Provisional Outturn**, July 2010 [accessed 21 October 2010]
[11] Although £239 million of these stocks are in non-cash.

Headline announcements which may impact on Wales

SR 2010 also announced a series of measures in non-devolved areas which may impact in Wales. Some of these are detailed below. This list is not intended to be exhaustive.

- £7 billion cuts as a result of welfare reform – this includes a new one year time limit for those on employment and support allowance; development of a Work Programme for the long-term unemployed; the introduction of a universal benefit; a total benefits cap per family; freezing of the maximum savings award in pension credits; increased working hours threshold for working tax credit for couples with children; raising of the state pension age to 66 by 2020 and acceleration of the retirement age for women; increases in the child element on child tax credit and the removal of child benefit for higher rate taxpayers.
- Transport infrastructure investment - additional funding to Network Rail for maintenance and investment – including improvements to the Cardiff-Barry corridor; support for investment to improve reliability on Great Western Main Line services to Wales. The SR contains no announcement on the electrification of the mainline between Swansea and London.
- Defence - decisions not to proceed with the Defence Academy at St Athan, and to continue with the £13bn PFI contract for the Future Strategic Air Tanker Aircraft programme, including the wing construction in Wales.
- Confirmation to proceed with the Green Investment Bank from which Wales could benefit.
- A 25 per cent reduction in funding for S4C, and arrangements for the BBC licence fee to part fund the channel.
- The Wales Office receives cumulative reductions of 25 per cent and 33 per cent to its revenue and administration budgets, respectively.

Funding devolution

SR 2010 confirms the UK Government's commitment to implement the recommendations of the Calman Commission Report in Scotland, and states that a Scotland Bill will be brought forward in the current Parliamentary session.

In relation to the report of the Holtham Commission, the SR states that:

> ...the Government recognises the concerns expressed by the Holtham Commission on the system of devolution funding. Depending on the outcome of the forthcoming referendum, the Government will consider with the Welsh Assembly Government the proposals in the final Holtham report, consistent with the work being taken forward in Scotland following the Calman Commission.[12]

The Minister for Business and Budget (Jane Hutt) responded to this announcement in her statement:

> The UK Government had an opportunity partly to mitigate the impact of the Spending Review on Wales by taking action to address the persistent underfunding demonstrated by the independent Holtham Commission. The UK Government have chosen not to act. We look forward to the UK Government's consideration, with the Assembly Government, of the compelling recommendations contained in the Final Report of the Holtham Commission, as we continue to be underfunded – to the tune of more than £1bn over the next four years.[13]

[12] HM Treasury, **Spending Review 2010**, 20 October 2010 (page 71) [accessed 21 October 2010]
[13] Welsh Assembly Government, Jane Hutt (Minister for Business and Budget), *The UK Government's spending Review of 20 October* 2010, Cabinet Written Statement, 21 October 2010.

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Table 1: Welsh block figures 2010-11 to 2014-15

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15	Change in cash terms 2010-11 to 2011-12		Change in real terms 2010-11 to 2011-12		Cumulative change in cash terms 2010-11 to 2014-15		Cumulative change in real terms 2010-11 to 2014-15	
	£ billion	*£ billion*	*£ billion*	*£ billion*	*£ billion*	*£ billion*	*per cent*	*£ billion*	*per cent*	*£ billion*	*per cent*	*£ billion*	*per cent*
Revenue DEL[1]	13.3	13.3	13.3	13.5	13.5	0.0	0.0	-0.3	-1.9	0.2	1.5	-1.1	-7.5
Capital DEL	1.7	1.3	1.2	1.1	1.1	-0.4	-23.5	-0.4	-25.0	-0.6	-35.3	-0.8	-41.0
Total DEL	**15.0**	**14.5**	**14.5**	**14.5**	**14.6**	**-0.5**	**-3.3**	**-0.8**	**-5.1**	**-0.4**	**-2.7**	**-1.9**	**-11.3**
Revenue AME	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	-1.9	0.0	0.0	0.0	-8.9
Capital AME	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total AME	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**-1.9**	**0.0**	**0.0**	**0.0**	**-8.9**

Source: Members' Research Service calculations from HM Treasury, **Spending Review 2010**.
Figures in this table are sourced from the HM Treasury Spending Review 2010 publication. Figures in this publication are rounded to the nearest £0.1 billion. The figures in this table will not all add up due to this rounding. Calculations in this table showing total figures and percentage changes may not exactly equal calculations in the SR document, which are based on exact figures
1.Revenue DEL figures are shown exclusive of depreciation. If depreciation is included figures are £13.7bn for 2010-11 and 2011-12, £13.8bn for 2012-13, and £14bn for 2013-14 and 2014-15.

Table 2: Changes to UK departments total DEL1 2010-11 to 2014-15

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15	Change in cash terms 2010-11 to 2011-12		Change in real terms 2010-11 to 2011-12		Cumulative change in cash terms 2010-11 to 2014-15		Cumulative change in real terms 2010-11 to 2014-15	
	£ billion	*£ billion*	*£ billion*	*£ billion*	*£ billion*	*£ billion*	*per cent*	*£ billion*	*per cent*	*£ billion*	*per cent*	*£ billion*	*per cent*
Education	58.4	56.1	56.3	56.2	57.2	-2.3	-3.9	-3.4	-5.7	-1.2	-2.1	-6.9	-10.7
NHS (Health)	103.8	105.9	108.4	111.4	114.4	2.1	2.0	0.1	0.1	10.6	10.2	0.5	0.4
Transport	12.8	13.0	13.1	12.5	12.0	0.2	1.6	0.0	-0.3	-0.8	-6.3	-2.0	-14.6
CLG Communities	9.0	5.3	4.0	3.4	3.2	-3.7	-41.1	-3.9	-42.2	-5.8	-64.4	-6.7	-67.6
CLG Local Government	28.5	26.1	24.4	24.2	22.9	-2.4	-8.4	-2.9	-10.1	-5.6	-19.6	-8.4	-26.8
Business, Innovation & Skills	18.6	17.6	16.7	15.5	14.6	-1.0	-5.4	-1.4	-7.1	-4.0	-21.5	-5.8	-28.5
Home Office	10.1	9.4	9.0	8.4	8.3	-0.7	-6.9	-0.9	-8.7	-1.8	-17.8	-2.8	-25.1
Justice	8.9	8.6	8.0	7.6	7.3	-0.3	-3.4	-0.5	-5.2	-1.6	-18.0	-2.5	-25.3
Law Officers Departments	0.7	0.7	0.6	0.6	0.6	0.0	0.0	0.0	-1.9	-0.1	-14.3	-0.2	-21.9
Defence	32.9	33.8	34.4	34.1	33.5	0.9	2.7	0.3	0.8	0.6	1.8	-2.6	-7.2
Foreign & Commonwealth Office	1.6	1.6	1.6	1.5	1.3	0.0	0.0	0.0	-1.9	-0.3	-18.8	-0.5	-26.0
International Development	7.8	8.1	8.8	11.3	11.5	0.3	3.8	0.2	1.9	3.7	47.4	2.9	34.4
Energy & Climate Change	2.9	3.0	3.4	3.5	3.7	0.1	3.4	0.0	1.5	0.8	27.6	0.5	16.3
Environment, Food & Rural Affairs	2.9	2.6	2.5	2.3	2.2	-0.3	-10.3	-0.4	-12.0	-0.7	-24.1	-1.0	-30.9
Culture, Media & sport	1.5	1.6	1.5	1.3	1.3	0.1	6.7	0.1	4.7	-0.2	-13.3	-0.3	-21.0
Olympics	1.0	1.1	0.2	0.0	-0.1	0.1	10.0	0.1	7.9	-1.1	-110.0	-1.2	-109.1
Work & Pensions	7.0	7.8	7.7	7.8	7.8	0.8	11.4	0.7	9.4	0.8	11.4	0.1	1.5
Scotland	28.2	27.3	27.6	27.5	27.7	-0.9	-3.2	-1.4	-5.0	-0.5	-1.8	-3.2	-10.5
Wales	**15.0**	**14.5**	**14.5**	**14.5**	**14.6**	**-0.5**	**-3.3**	-0.8	-5.1	**-0.4**	**-2.7**	-1.9	-11.3
Northern Ireland	10.5	10.3	10.3	10.3	10.3	-0.2	-1.9	-0.4	-3.7	-0.2	-1.9	-1.2	-10.6
HM Revenue & Customs	3.7	3.8	3.6	3.5	3.4	0.1	2.7	0.0	0.8	-0.3	-8.1	-0.7	-16.3
HM Treasury	0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.0	-1.9	0.0	0.0	0.0	-8.9
Cabinet Office	0.4	0.5	0.4	0.3	0.5	0.1	25.0	0.1	22.7	0.1	25.0	0.1	13.9
Single Intelligence Account	2.0	2.1	2.1	2.1	2.1	0.1	5.0	0.1	3.0	0.1	5.0	-0.1	-4.3
Small & Independent Bodies	1.9	1.8	1.6	1.6	1.5	-0.1	-5.3	-0.1	-7.0	-0.4	-21.1	-0.6	-28.1
Reserve	4.1	3.3	3.4	3.5	3.6	-0.8	-19.5	-0.9	-21.0	-0.5	-12.2	-0.9	-20.0
Special Reserve	4.1	4.0	3.8	3.8	3.5	-0.1	-2.4	-0.2	-4.3	-0.6	-14.6	-1.0	-22.2
Green Investment Bank	0.0	0.0	0.0	1.0	0.0	..	..	..	..	..	..	..	..

Source: Members' Research Service calculations from HM Treasury, **Spending Review 2010**.
Note figures in this table are sourced from HM Treasury Spending Review 2010 publication. Figures in this publication are rounded to the nearest £0.1 billion. Therefore, calculations in this table showing total figures and percentage changes may not exactly equal calculations in the Spending Review document which are based on the exact figures.
DEL is shown with the revenue DEL excluding depreciation.

Further information

For further information on aspects of (insert quick guide subject here), please contact **Dr Eleanor Roy** (**eleanor.roy@wales.gov.uk**), Members' Research Service.

A full set of spending review documents is available on the HM Treasury website: **Spending Review 2010**

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