

Public Sector Spending 2006

The imperatives of public sector restructuring, efficiency savings and reform continue to set the context for public sector spending debates in Wales. The Assembly has a total of £13.3 billion at its disposal in 2006-07, with the budget set to grow to £14.1 billion by 2007-08. This means that whilst the budget has almost doubled since the Assembly was established in 1999, the period of strong and sustained growth in funding is coming to an end and, as predicted, the rate of growth in the Assembly finances will be much slower over the next three years. As a consequence, public sector organisations in Wales, as across the rest of the UK, are being asked to make considerable savings.

Local authorities appear to be on course to exceed the Assembly government's 1% efficiency targets. Moreover, they have achieved this with only fairly modest rises in Council Tax levels, which have risen on average by 4.4% in Wales this year. But key services in certain local authority areas are inevitably feeling the pinch. Schools across Wales have been asked to make 1% efficiency cuts in line with the Assembly's overall target for local government savings. For example, in securing cuts of £4.9 million (2.5%) in its budget for the next financial year, Powys County Council has cut £1.53 million from its delegated budget for schools. This has left some schools in the county having to encourage early retirements and voluntary redundancies amongst teaching staff, as well as cutting back on other investments and activities such as school trips.

In addition to finding efficiency savings, local authorities in Wales also face a range of other pressures including the costs of meeting stringent targets for waste processing, essential investments in transport and highways, and education and social care. Similar challenges confront the National Health Service in Wales which will end this financial year (2005-06) some £71 million in debt. There are a myriad of possible explanations for this including rising costs of treatment and drugs, an ageing population, increased energy prices, increased wage and salary bills as a consequence of pay reform, the bureaucracy associated with the all-embracing target culture in the service, and the dramatic escalation in expectations regarding the quality of health service delivery.

In this context, expectations around the Beecham Review of local service delivery in Wales are inevitably high. The review, which was launched in July 2005 and is expected to report in July 2006, will focus on local authorities, health authorities and other local service delivery organisations in the public, voluntary and independent sectors. It has the potential to propose radical change in the way all public services are delivered at local level, and has already sparked speculation around the thorny issue of possible future local government re-organisation in Wales. The review will also consider the scope

for changes in the financing of local public services and in this regard is complementary to, and indeed will feed into, the ongoing Lyons Review of local government in England.

Whatever the precise outcomes of these reviews, it seems inevitable that all public sector organisations in Wales will be required to build new institutional capacities and to find new, more innovative and creative ways of working together. Indeed, there is continuing evidence of progress in this regard. For example, following the emphasis in *Making the Connections* on greater collaboration, in October 2005 the Welsh Local Government Association agreed to the establishment of four Regional Partnership Boards covering North, Mid, South West and South East Wales. These are to be charged with delivery of five major national collaborative working projects including waste management. Furthermore, the Minister for local government in Wales has announced plans to rationalise the number of statutory local authority plans. This means in future local authorities will only be required to produce four statutory plans in areas of devolved policy, namely plans relating to community strategies, health and well-being, children and young people and local development. Finally, the Wales Spatial Plan has carved Wales up into six spatial areas which are providing the focus for new collaborative projects and forms of partnership and co-operation across both sectoral and geographical boundaries. These developments have the potential to have far-reaching implications not only for local government administrative boundaries, but also their political structures. Moreover, these developments raise some interesting questions around the relative processes of centralisation and decentralisation in governance structures within Wales, reflecting perhaps the existence of competing pressures for efficiency and solidarity on the one hand, and greater local autonomy and flexibility on the other.

Whilst current budgetary pressures are tight, there are some grounds for optimism in relation to future levels of public sector spending in Wales. A positive development in this regard was the agreement reached at the end of 2005 as to the future budget of the

European Union (EU). This settlement ensures that West Wales and the Valleys will qualify in full for the funding programme set to replace Objective 1 – the Convergence Programme. This will provide an estimated level of funding of £1.3 billion for continued investment in regeneration in Wales over the coming seven years. Inevitably, however, this will re-open the debate as to whether the Treasury will provide the additional funding required enabling Wales to make full use of and match the available European funds. This presents an area of some uncertainty not least because of the Treasury's announcement in July 2005 that the next review of all public spending in the UK, expected to take place in the summer of 2006, would be postponed a year and become a Comprehensive Spending Review. This decision reflects the Treasury's desire to engage in a wholesale review of the effectiveness of the spending by all UK Government departments, in relation to the delivery of outputs and the long-term trends and challenges facing key public services as they seek to both improve their performance and invest for the future.

A critical question as far as Wales is concerned is whether the Barnett formula will be applied as part of this review or whether the budget to be made available to the Assembly will be determined by some broader assessment of public spending requirements, capacities and performance in Wales. The Treasury has denied that it has any plans to review or replace the Barnett formula but as yet it has not made clear whether its review will consider the spending of the devolved administrations and whether or not the population-based Barnett formula will continue to provide the basis on which changes in public spending in England are allocated to Wales. The prospect of an impending review of the Barnett formula thus remains a matter for conjecture but continued silence by the Treasury as to its precise plans can only fuel latent demands for a wholesale review of the arrangements for funding the devolved administrations and the development of a system which allocates funding in line with comprehensively assessed levels of public expenditure need.