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Llywodraeth Cynulliad Cymru
Welsh Assembly Government

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Angela Burns,
Chair, Finance Committee,
National Assembly for Wales

7 February 2011

Dear Angela,

Finance Committee inquiry into the allocation of capital funds

Thank you for your letters of 21 January to my Ministerial colleagues regarding the effect of reduced capital budgets on the allocation of capital funds in their Departments and the impact that it will have on their capital programmes. I am sending a single response on behalf of the Assembly Government.

As you highlight in your letter, there have been significant reductions in our capital budget for future years as a result of the UK Government's Spending Review. We face a real terms reduction of nearly 40% by 2014-15. The challenge of managing this dramatic scale of reduction is particularly severe in 2011-12, when our Capital DEL faces a cut of more than 25%.

As we face the challenge of reducing capital budgets, prioritising capital spend and ensuring our capital allocations are closely aligned with our strategic priorities is more important than ever. In developing their spending plans, all Departments have assessed their capital programmes against the strategic priorities as set out in One Wales. With reducing budgets, this is more challenging, particularly in terms of balancing existing commitments against the need to support new policy priorities. However, the overarching principles underpinning how we allocate funding are the same as those that have shaped our work in times of increasing budgets.

We know that our greatest budgetary challenge arising from the Spending Review is the disproportionate reduction to our capital budget and we are working to lessen the impact of capital reductions on vital capital investment in Wales. As you know, we have already taken steps in this financial year to mitigate the effect of the cuts imposed on our capital budget by the UK Government.

In July, I announced that we would protect capital spending by using our End Year Flexibility to accommodate the in-year capital cuts of £49 million. I also announced in

November a further package of capital investment this year, totalling £47 million to stimulate the economy and to help the most vulnerable.

Protecting capital investment as far as we can in the face of falling budgets is a distinctive feature of our Final Budget for the coming financial year. The potentially devastating impact of the capital reductions we face, both in terms of economic growth and service delivery was acknowledged by the Finance Committee in its Report on the Assembly Government's Draft Budget for 2011-12. This message has been emphasised by our stakeholders and partners throughout the scrutiny process.

We have looked to maximise our capital investment next year, in recognition of this strong message. Our careful financial management of in-year resources means that we have been able to find all of the revenue savings required by the UK Government in its June budget in this financial year. That gives us additional flexibility next year, amounting to an extra £57 million. We have decided to transfer this sum to capital budgets to reduce the impact of capital budget reductions in 2011-12. This additional £57 million enhances our centrally retained capital reserves of £50 million which we had already set aside in the Budget to support our strategic objectives and secure best value for money for investments. The £57million is over and above the overall capital programme baseline of £1.267billion in 2011-12 which includes Departmental capital allocations.

Details on which capital programmes are being protected and which are being reduced over the next three years have been provided in the Final Budget. Our focus now is on reviewing our detailed capital spending plans in light of the additional funding available in order to let our stakeholders know as soon as possible the consequences of our decisions for individual programmes and projects. That is complex work that balances priorities and commitments and is currently being undertaken by each Minister. It is our intention to make a Government-wide statement on our capital plans in early March, which will answer your more detailed questions.

I hope this is helpful in the meantime.

Sincerely,
Jane