

**Julie James AC/AM**  
**Y Gweinidog Tai a Llywodraeth Leol**  
**Minister for Housing and Local Government**



Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref MA-P-KW/1198/19

Lynne Neagle AM (Chair)  
Children, Young People and Education Committee  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

29 April 2019

Dear Lynne,

I am writing on behalf of the Minister for Education and myself following our appearance at the Children, Young People and Education Committee meeting on 3 April 2019 about school funding. We agreed to provide a note on the complexities of arrangements available to carry budgets over, in relation to the potential for three year school budgets, when talking about the Wales reserve. The note is attached at Annex 1.

Yours sincerely

A handwritten signature in blue ink that reads "Julie James".

**Julie James AC/AM**  
**Y Gweinidog Tai a Llywodraeth Leol**  
**Minister for Housing and Local Government**

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

**Note on the complexities of arrangements available to carry budgets over, in relation to the potential for three year school budgets.**

Our ambition is to give as much certainty to partners and stakeholders as possible for budget planning purposes and our intention is to set medium to long term spending plans where possible. However we face a significant challenge, as we have for the last few years, of a period of significant uncertainty. The financial implications of leaving the EU are stark for Wales – greater than any other part of the UK, because Wales is a net beneficiary of EU membership. 2019-20 is also the last Budget of the current UK Government Spending Review settlement. These factors combined mean that we have only been able to set short term revenue budget for the past few years.

Although the Chancellor announced a full three-year Spending Review to be launched before the summer recess in the Spring Statement we do not know what impact the latest delays to the Brexit timetable will have on this. The spending review will be concluded alongside the Autumn budget, which in the past has been published after the Welsh Government draft budget. We therefore do not know what impact this will have on the Welsh Government's budget in the future. Our ability to publish longer term plans is inevitably linked to the UK Government's production of short term plans.

The Committee asked about the use of the Wales Reserve to facilitate three year budgets for schools. While the new Wales Reserve enables more flexibility for the Welsh Government to manage its budgets across years, it would not provide a suitable nor appropriate mechanism to set multi-year settlements for other public bodies.

From April 2018 the way Welsh Government is able to carry forward funding changed as part of the new Welsh Government fiscal framework, alongside the new Welsh Government tax raising powers.

The Wales Reserve is capped at £350 million. Annual drawdowns are limited to £125 million for revenue spending and £50 million for capital spending. There are no annual limits for payments into the reserve. The limits on the Wales Reserve were negotiated as part of the overall fiscal framework but offer additional flexibility over and above the previous Budget Exchange process which was capped at 0.6% for revenue (approximately £75m) and 1.5% for capital (approximately £20m).

The purpose of the is to give a "cushion" for differences to forecasts of tax income as well as being a mechanism for carry funds forward from any underspends arising and manage in year demands.

The previous Cabinet Secretary for Finance, Mark Drakeford, set out in the 2018-19 draft budget an approach to reserves to make optimum use of the new Wales reserve, carrying forward the maximum amount to be deployed in later years to

protect against some of the large cuts to public services that would have been necessary as a result of austerity.

To explain why the Wales Reserve would not be an effective mechanism to set multi-year settlements for local government it is worth comparing the size of the available drawdown. The annual revenue support grant for local government, excluding the distributed non domestic rates is £3.2bn. The total Welsh Government fiscal resource planned expenditure for 2019-20 is £14bn, the maximum reserve drawdown is only 0.89% of this total. Therefore even if it were appropriate to do so the amount of surety that could be given to any significant sector, especially in a Comprehensive Spending Review year, is limited.