

D 987/08-07

Y Gwir Anrh/Rt Hon Rhodri Morgan AC/AM
Prif Weinidog Cymru/First Minister for Wales



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Our ref/ Ein cyf: MB/FM/177/07

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Dear Mike

At First Minister's Questions on 27 March, you asked a question about growth in the Assembly's budget during the forthcoming Assembly Government period and how much of that growth is likely to be absorbed by increases in public sector pay and other inflationary pressures. I said that I would write to you in response.

The Chancellor announced in his Budget on 21 March that total public spending will grow by 2% in real terms in the 2008-09 to 2010-11 period. Because of the way the Barnett formula works, growth in the Assembly's budget depends on the balance in spending growth between devolved and non-devolved areas allocated in the Chancellor's Comprehensive Spending Review. In practice, this means real growth in the Assembly budget could be a little above or a little below 2%. The Chancellor has already announced settlements for Whitehall departments – including the Department for Education and Skills where spending growth will be 2.5% in real terms – accounting for around a third of total spending. However, the exact rate of growth in the Assembly Government's budget in the period 2008-09 to 2010-11 will only be confirmed when the final outcome of the Comprehensive Spending Review is announced in the autumn. Exactly how much of this additional spending will be available for particular public services will, of course, be a decision for the next Assembly.

As you rightly pointed out in your comments during First Minister's Questions, pay makes up a large proportion of spending in many public services. We estimate that the pay of Welsh public servants – teachers, nurses, and local government staff as well as civil servants – accounts for around half of the Assembly Government's total revenue budget. In a number of areas, pay accounts for a much higher proportion of the budget: education and the health service are particularly labour intensive. The scope for investing additional funding in new activity is, therefore, crucially dependent on growth in the public sector pay bill. Forecasting pay bill growth is, however, extremely complex, even within particular sectors. The rate of growth in pay per head depends partly on growth in rates of pay (most public sector workforce groups in Wales receive annual pay increases which are set at an England and Wales or UK level), partly on changes in the skills, experience and working patterns of the workforce, partly on the net impact of progression built into pay systems and partly on changes in employers pensions contributions. Change in the number of public sector employees is also significant in determining the overall size of the pay bill.

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As a very rough guide, we would expect pay per head in the period 2008-09 to 2010-11 to grow at least along the lines of the historic trend of 2% per year in real terms, roughly in line with overall growth on the Assembly Government budget. Other things being equal, we would, therefore, expect pay to continue to account for around the same proportion of the total budget and, overall, absorb around half of the additional funding the Assembly Government will receive as a result of the Chancellor's Spending Review.

Yours
Rhodri