



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Mercher, 17 Hydref 2012
Wednesday, 17 October 2012

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Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod
Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from the Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir
trawsgripiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in the committee. In
addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol **Committee members in attendance**

Peter Black

Democratiaid Rhyddfrydol Cymru
Welsh Liberal Democrats

Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Ann Jones	Llafur Labour
Ieuan Wyn Jones	Plaid Cymru The Party of Wales
Julie Morgan	Llafur Labour

Eraill yn bresennol
Others in attendance

John Graystone	Prif Weithredwr, ColegauCymru Chief Executive, CollegesWales
David Jones	Pennaeth, Coleg Glannau Dyfrdwy Principal, Deeside College
Gwyn Jones	Cyfarwyddwr Cyllid, Cyngor Sir Ceredigion Director of Finance, Ceredigion County Council
Hugh Jones	Prif Swyddog Gweithredol, Prifysgol Caerdydd Chief Operating Officer, Cardiff University
Dr Sue Hybart	Cyfarwyddwr Cynllunio, Prifysgol Caerdydd Director of Planning, Cardiff University
Mark Owen	Pennaeth Cyllid, Cyngor Bwrdeistref Sirol Wrecsam Head of Finance, Wrexham County Borough Council
Yr Athro/Professor Hywel Thomas	Dirprwy Is-ganghellor, Ymgysylltu a Rhyngwladol, Prifysgol Caerdydd Pro-Vice-Chancellor, International and Engagement, Cardiff University

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Dan Collier	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Gareth Price	Clerc Clerk

Dechreuodd y cyfarfod am 9.29 a.m.
The meeting began at 9.29 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Jocelyn Davies:** Welcome to this meeting of the Finance Committee. I remind everyone to turn off mobile phones and any other electronic devices because they interfere with the translation equipment. This is a public meeting so there is no need to operate the microphones. We are not expecting a fire drill, so if the alarm sounds, please follow the directions of the ushers. I have had no apologies.

**Cynigion ar gyfer Cyllideb Ddrafft Llywodraeth Cymru 2013-14—Tystiolaeth
gan Lywodraeth Leol**
**Welsh Government Draft Budget Proposals 2013-14—Evidence from Local
Government**

[2] **Jocelyn Davies:** Today, we are taking evidence from local government. I thank our witnesses for submitting written evidence, which Members will have read. After you have introduced yourselves, we will go straight into the first question. Some Members may ask their questions in Welsh, for which there is interpretation equipment. So, will you please introduce yourselves for the record?

[3] **Mr G. Jones:** Diolch yn fawr am y croeso. Gwyn Jones wyf i, trysorydd Cyngor Sir Ceredigion.
Mr G. Jones: Thank you for your welcome. I am Gwyn Jones, treasurer of Ceredigion County Council.

[4] **Mr Owen:** I am Mark Owen, head of finance for Wrexham County Borough Council.

[5] **Jocelyn Davies:** Thank you. I will start with the first question, which is a general one. Are the resources in the draft budget adequate to meet the commitments related to local government that are set out in the Government's programme for government?

[6] **Mr G. Jones:** Having had the provisional settlement yesterday, we have a clearer picture today than we had when we submitted the written evidence. It has been clear for a few years that the settlement from central government to the Assembly and then down to local government has been tough. We have had reducing settlements for the last few years. What has come out in this settlement for local government is that it is more or less in line with what we were expecting. It is an advantage to have indicative allocations to allow us to prepare a three-year, medium-term plan. The level of resources that come down to local government are not sufficient, which means that there are many pressures on local government services at the moment, but this is in line with what we were expecting. The main pressure in local government—or for Ceredigion in particular—is still in social services, as it has been for a few years. The demographic changes—especially for us in west Wales, but generally throughout the country—and the demographic switches from the younger to the older generation has led to increased demand for services in every local authority. Every year for us, it is social services that cause the problem. There is not enough in the settlement; we could do with more, but we are grateful for what we have had, and we aim to work within that.

[7] **Mr Owen:** The Welsh budget document came out on 2 October, so we had the chance to read that briefly before we put the submission in. We were pleased that the proportions of spend for health and local government were maintained, because our big worry was that there was going to be an increase in health at the expense of local government. The proportion was positive. Also, as I mentioned in the submission, some of the administration allocations for the Welsh Government have reduced, which is also happening in councils at present. So, that was a positive.

[8] We were also pleased that the whole box was not reopened and that the indicative amounts were broadly stuck to. When we had the provisional local government settlement yesterday, in the main, those figures were stuck to. The big surprise that came out yesterday morning was that £10 million had been taken out for collaboration projects. That was a surprise to us, and it has meant that the percentage increases for councils have reduced, so the lowest is only a 0.15% increase, which was partly because of this top-slicing, on which we were unsighted.

[9] The thrust of the Welsh Government's budget, which is about growth and jobs, aligns with Wrexham's key priority, which is the economy. We are pleased about that.

[10] As for whether the settlement is enough for us in local government, the only thing that is really hitting us is the level of protection for schools and social services, given that they are such a high proportion of our budget. In Wrexham, they amount to 61% of our budget, so that is clearly putting pressure on the other areas and the economy is obviously one of those other areas. It is going to be difficult to keep the level of protection going for the next five years as those pressures continue.

[11] **Jocelyn Davies:** Peter is next and then Ieuan.

[12] **Peter Black:** I will try not to tread on the subject of future questions. On the pressure on social services that all councils are facing, how are you able to alleviate that by, for example, working with the health service locally?

[13] **Mr G. Jones:** There is a lot of work being done with the health service, but I am not sure whether it is as successful as we would like it to be, particularly in certain instances. I am not a social services practitioner so I cannot give you the details. However, where in the past we may have shared some costs, the impression I get now is that those costs are falling more and more on local authorities. As a local authority, we are working with Powys on a collaborative project. I am not sure yet how that will end up, but we are looking at sharing services with neighbouring authorities.

[14] **Peter Black:** You are in the Hywel Dda Local Health Board area. Is its collaboration process or the reconfiguration process actually putting more pressure on local authorities?

[15] **Mr G. Jones:** I am not sure that I could say categorically that it is. My guess is that it probably would, yes.

[16] **Mr Owen:** We work closely with health, although, with the financial situation in north Wales, we are noticing that there is increasing pressure on the local authority children and adult social care budget because health is trying to step out of its arrangements wherever it can really. Therefore, when a joint funding package comes up for a child or an adult, it is being more rigorously reviewed and there is more likelihood that the local authority will be picking up the bigger share, as health tries to withdraw and get its difficulties under control. The other aspect of that is that, each year, we put inflation on our budget, and inflation has been running at up to 3% or 4%. Obviously, now, it has come down to 2.2%. However, health does not inflate its budgets, so, gradually over time, local authorities are taking a bigger share of that spend. We used to have a few joint posts to do collaborative work and, again, those are being pulled back from, so it is gradually putting an increasing strain on the relationship.

[17] **Jocelyn Davies:** Ieuan, did you have a question?

[18] **Ieuan Wyn Jones:** Oedd. Mae'r ddau ohonoch wedi awgrymu—mae Mr Owen wedi'i ddweud ar lafar yn y pwyllgor ac rwy'n meddwl bod tystiolaeth Ceredigion yn mynd i'r un cyfeiriad—nad ydych yn hapus gyda'r ffordd y mae'r Llywodraeth yn dweud ei bod wedi cynnal y gyllideb addysg a gwasanaethau cymdeithasol, a bod hynny felly yn cael effaith ddrwg ar weddill eich **Ieuan Wyn Jones:** Yes. Both of you have communicated—Mr Owen has said today in committee and I think that Ceredigion's evidence is going in the same direction—that you are not happy with the way that the Government is stating that it has sustained the education and social services budgets, and that that therefore has a bad effect on the rest of your budget. As I understood it, it was

cyllideb chi. Yn ôl yr hyn yr oeddwn yn ei ddeall, roedd hyn yn rhan o gytundeb rhwng Cymdeithas Llywodraeth Leol Cymru a'r Llywodraeth y byddech yn gwneud hyn. Wrth gwrs, y llynedd oedd y flwyddyn gyntaf iddo ddigwydd. A ydych chi'n dweud erbyn hyn eich bod yn difaru bod y cytundeb hwnnw wedi ei wneud?

[19] **Mr G. Jones:** Rwy'n credu ein bod ni yn y drydedd flwyddyn yn awr. Mae wedi bodoli ers dwy flynedd. A ydym yn difaru? Nid wyf yn gwybod. O ran gwasanaethau cymdeithasol, a siarad am Geredigion yn benodol, mae'r cynnydd yn y galw am wasanaethau cymdeithasol wedi bod tipyn yn fwy na hyd yn oed pe baem ni'n cydymffurfio â rhoi 1% yn fwy na'r hyn y mae'r Llywodraeth wedi'i gael ar gyfartaledd. Ddoe, roeddem yn trafod y gyllideb gwasanaethau cymdeithasol ar gyfer y flwyddyn nesaf. Mae'r math o gynnydd yr ydym yn siarad amdano i Geredigion—ac rydym yn siarad am gais ar gyfer tua £1.6 miliwn o arian ychwanegol—yn llawer mwy na'r hyn fyddai'r gofyniad pe baem ni'n cwrdd â 1% yn fwy na'r cyfartaledd; mae'n gweithio allan, rwy'n credu, i fod fymryn dros 2%. Felly, drwy *default* mewn ffordd, mae gwasanaethau cymdeithasol, yn ein hachos ni beth bynnag, wedi cael tipyn mwy na'r hyn yr oeddem wedi'i gytuno â'r Llywodraeth, sef y byddem yn rhoi 1% yn uwch na'r cyfartaledd.

[20] Mae ysgolion yn wahanol. Gwn fod gennym hawl i ystyried y gostyngiad yn nifer y plant. Yng Ngheredigion, mae nifer y plant yn lleihau. Felly, byddech yn disgwyl yn naturiol y byddai'r arian sy'n mynd at yr ysgolion yn lleihau, gan gofio hefyd ein bod yn rhoi 1% yn uwch na hynny. Nid yw'n fater o ddweud mai dyma beth oedd cyllideb y llynedd ac mae'n rhaid i ni gynyddu hynny yn ôl y fformiwla o 1% yn uwch. Os oes gostyngiad naturiol, dylid ffactorio hynny cyn ichi ddod i mewn gyda'r fformiwla o gynyddu o 1%. Gan fod yr hawl i wneud hynny, a hynny'n gywir, gallwn ymdopi â'r cytundeb gyda'r Llywodraeth. Mae'n glir bod addysg a gwasanaethau cymdeithasol yn ddau o'r prif feysydd.

[21] **Ieuan Wyn Jones:** Rwyf am glirio'r mater hwn, oherwydd mae'n eithaf pwysig o

part of an agreement between the Welsh Local Government Association and the Welsh Government that you were going to do that. Of course, last year was the first year that it happened. Are you saying that, now, you regret that agreement?

Mr G. Jones: I think that we are now in the third year. It has existed for two years. Do we regret it? I do not know. On social services, and talking specifically about Ceredigion, the increase in demand for social services has been quite a lot more than even if we had complied with providing 1% more than what the Government has received on average. Yesterday, we were discussing the social services budget for next year. The sort of increase that we are talking about for Ceredigion—we are talking about an application for about £1.6 million extra—is far more than what the requirement would be if we were to meet 1% more than the average; I think that it works out as just over 2%. Therefore, by default in a way, social services, in our case anyway, have received far more than we had agreed with the Government, that is, that we would provide 1% more than the average.

Schools are different. I know that we have the right to take into consideration the decline in the number of pupils. In Ceredigion, the number of children is declining. Therefore, you would naturally expect that the funding that would go to the schools would reduce, bearing in mind that we give 1% above that. It is not a matter of saying that this was last year's budget and we must increase that according to the 1% higher formula. If there is a natural reduction, that should be factored in before the introduction of the formula of an increase of 1%. As we have the right to do that, and rightly so, we can cope with the agreement with the Government. Clearly, education and social services are two of the main areas.

Ieuan Wyn Jones: I want to clear up this matter, because it is quite important with

ran y gyllideb gyfan. Yn eich tystiolaeth, rydych yn dweud y dylid adolygu'r cytundeb hwnnw.

[22] **Mr G. Jones:** Os wyf yn cofio'n iawn, y ddealltwriaeth o'r cychwyn oedd mai am gyfnod o dair blynedd y byddai'n 1%. Dyna'r hyn y cytunwyd arno. Nid wyf yn hollol siŵr heb fynd yn ôl i edrych. Roeddwn i'n credu ei fod am dair blynedd i wasanaethau cymdeithasol a dim ond dwy flynedd i ysgolion, neu efallai i'r gwrthwyneb—nid wyf yn cofio heb edrych yn ôl ar y papurau gwreiddiol. Yn bendant, yn ôl yr hyn yr wyf yn ei gofio—ac nid wyf yn siŵr a yw Mark yn cofio—yr oedd i fod am gyfnod o dair blynedd pan wnaed y datganiad gwreiddiol. Felly, rwy'n credu bod angen ei adolygu beth bynnag wrth edrych ymlaen at y dyfodol.

[23] **Ieuan Wyn Jones:** Felly, i fod yn glir, pe bai'r Llywodraeth yn dweud ei bod am barhau â hynny, ni fyddech yn hapus.

[24] **Mr G. Jones:** Fel awdurdod, os ydym yn cydnabod y pwysau ar wasanaethau cymdeithasol, fel ar hyn o bryd, a'u bod yn cael blaenoriaeth gennym fel cyngor sir, gallech gyrraedd sefyllfa lle rydych yn dweud eich bod yn ariannu yn ddigonol, ond os oes disgwyl wedyn eich bod yn rhoi mwy eto, dyna lle mae'n dechrau mynd yn aneglur o ran pam mae angen rhoi mwy os yw'r gyllideb eisoes yn ddigonol. Mwy na thebyg, ni fydd byth cyfnod lle bydd gwasanaethau cymdeithasol yn dweud bod y gyllideb yn ddigonol. Mae enghreifftiau lle mae ambell awdurdod—un neu ddau ar y mwyaf—yn dweud bod gwasanaethau cymdeithasol yn medru gweithio o fewn y gyllideb, neu wedi dweud hynny yn y gorffennol. Y cwestiwn fyddai pam mae angen cynyddu yn y meysydd hynny pan fyddai'r flaenoriaeth mewn maes arall. Mae'n clymu ein dwylo rywfaint. Yn ein hachos ni, mae'r angen yno o fewn gwasanaethau cymdeithasol yn benodol, a byddwn yn cynyddu'r gyllideb gyda mwy na'r hyn sy'n orfodol arnom.

[25] **Ann Jones:** Within the programme for government, there is a commitment to deliver fair funding for vital services to be protected. We talked about the additional protection for schools and social services. Is there any evidence within the budget that that delivers fair funding? Are you able to demonstrate that this funding is, in fact, being used to protect vital

regard to the whole budget. In your evidence, you say that that agreement should be reviewed.

Mr G. Jones: If I remember correctly, there was an understanding from the outset that it was going to be 1% for a period of three years. That is what was agreed. I am not exactly sure without going back to check. I thought that it was for three years for social services and only two years for schools, or maybe it was the other way round—I cannot remember without looking at the original papers. Certainly, from what I remember—I am not sure whether Mark remembers—it was going to be for a period of three years when the original statement was made. Therefore, I believe that that needs to be reviewed in looking to the future.

Ieuan Wyn Jones: Therefore, just to be clear, if the Government were to say that it wanted to continue with that, you would not be happy.

Mr G. Jones: As an authority, if we recognise the pressures on social services, as they are at present, and that they are prioritised by us as a county council, you could reach a position where you say that your funding is adequate, but if there is an expectation that you will provide more again, that is where things start to get unclear with regard to why we would need to give more if the budget is already sufficient. It is more than likely that there will never be a time when social services will say that the budget is sufficient. There are examples where some authorities—one or two at the most—say that social services can work within the budget, or that have said that in the past. The question would be why there is a need to increase in those areas when the priority would be in a different area. It ties our hands to some degree. In our case, there is a need within social services specifically, and we will increase the budget by more than that which we are required to provide.

services?

[26] **Mr Owen:** That decision as to how the funding is used at a local level is down to the local politicians in accordance with the priorities that are set. There is tremendous scrutiny of that. Following on from the previous point, it depends on where your starting point is. If you have a broad percentage change that goes on over a period, that can take the spotlight off the need to make efficiencies and demonstrate savings in all services. The accountability for ensuring that services are delivering outcomes is down to what is in individual council plans, working to the outcome agreements that we have with the Welsh Government.

[27] **Ann Jones:** Does this budget demonstrate that there is fair funding? Has the Government met its commitment within its programme of government that there is fair funding for vital services to be protected?

[28] **Mr Owen:** I am not sure whether I can answer that.

9.45 a.m.

[29] **Mr G. Jones:** It is a difficult one to answer. What is fair in that context? We have to appreciate that whatever funding the Welsh Government has is restricted by the UK Government. I am not here to make any political comments—it would not be appropriate for me to do so. However, the Welsh Government itself is working within funding constraints, and we know that there are pressures on health and local government, which are probably the two main services that draw on that budget. What is probably evidenced by the Welsh Government budget is that it is treating us equally; there is an equal share of the pain. On the point that Mark made earlier, if there was clear evidence in the Welsh Government budget that health was having a huge increase at our expense, then I would say that that would not be evidence, as far as local government is concerned, of fair funding. However, as it has treated us equally, the Government has been as fair as it can afford to be.

[30] **Mr Owen:** It is having a feel for it, really. Obviously Gwyn and I spent quite a lot of time one weekend reading through the budget in more detail than normal, and there was not anything that jarred or really jumped out and felt unreasonable.

[31] **Ann Jones:** I think that we have answered question 3.

[32] **Jocelyn Davies:** Okay. I therefore call on Chris.

[33] **Christine Chapman:** We have touched on my question, but I just wanted to tease out a few other things. You have both talked about the pressures on social services and the increasing need to spend on children's services. What initiatives are you undertaking in your authorities to manage the demand for these services?

[34] **Mr G. Jones:** Whether it is an initiative or not, we are looking at it at the moment in Ceredigion. We do not have any special schools within Ceredigion, so depending on children's needs, they are placed outside the county, and costs outside the county can be substantial—we are talking up to £200,000 for an individual, depending on their needs. One of the things that we are looking at is whether we can provide facilities within the county to avoid out-of-county placements; if that could be done, obviously it would be better for the family in that the children would be nearer to the family home and there would be a lower cost for the authority. So, we are actively looking at opportunities to do that. That is probably the best way that we can tackle it at the moment.

[35] **Mr Owen:** On the social care side, we have a programme of reablement to try to do more with people in their homes as well. We have spent quite a lot of money, capital and

revenue, on the telecare service, which has helped with that, and we have put that contract out to tender to get a better price for it. A few years ago—three or four, I think—we raised the threshold for the criteria that people have to meet to come into adult social care. On the children's side, where the amounts do seem to be large when children go into extra measures, as it were, we have joint panels to ensure that we are rigorous in assessing what is the best and most cost-effective way of providing care. We have a few initiatives on therapeutic foster care and, as Gwyn said, we try to ensure that people stay in-county more, and that we have the facilities to deal with them in-county, rather than having to put children out to the private sector.

[36] **Christine Chapman:** I just wondered whether you feel that this draft budget gives you the flexibility to balance preventative and reactive services.

[37] **Mr G. Jones:** I am not sure whether the budget, as far as the Government is concerned, would influence that; it is how we deal with it locally.

[38] **Christine Chapman:** So, you would have flexibility and you would not have a problem with that.

[39] **Mr G. Jones:** Yes, I am sure that we would have the flexibility to try to address that.

[40] **Jocelyn Davies:** Julie, you wanted to come in on this particular point.

[41] **Julie Morgan:** Yes. You mentioned the fact that you are trying to prevent expensive out-of-county placements, but in light of the fact that more children are coming into care generally, and following on from Christine's question, are you able to work with families in the community? Do you have the resources to do that, to try to stop them coming into foster care or into care at all? Does the budget cover doing that?

[42] **Mr G. Jones:** Again, I am not a social service practitioner, so I cannot tell you the detail, but I know that there is a lot of work going on with families and young children. The preventative measure is the best measure, is it not?

[43] **Julie Morgan:** Yes.

[44] **Mr G. Jones:** In a recent Welsh Local Government Association finance conference, it was said that if you can address children's issues from pre-birth to three years of age, it will pay for itself in the longer term, because a child is influenced in those formative early years. By supporting the parents, pre-birth, they know what to expect and how they should be treating children.

[45] **Julie Morgan:** Do you feel that you have a sufficient budget to be able to do that?

[46] **Mr G. Jones:** Again, it is difficult to answer that question. If we had the—

[47] **Julie Morgan:** You will probably never have an answer.

[48] **Mr G. Jones:** No, that is the point, I think.

[49] **Julie Morgan:** We have to be honest.

[50] **Mr G. Jones:** Locally, we would have the flexibility if we felt that we needed to switch budget from one heading to another

[51] **Julie Morgan:** You have the flexibility.

[52] **Mr G. Jones:** For us—and for many authorities, I think—the families and children services tend to be where we have the highest budget pressures, more so than adult services. If that is the case, and if that is going to continue, there may be opportunities to switch some funding from adult services to families and children services to try to address some of the issues that you are referring to.

[53] **Jocelyn Davies:** You mentioned that the service would be better if it was delivered locally for the families and individuals concerned and that there would be savings, which seems to me a win-win situation. Why have you waited until there is a financial difficulty that has pushed you into that, rather than have addressed it before?

[54] **Mr G. Jones:** I do not think that it is a matter of having waited. I think that it is something that we have been trying to do for a while. We have been more successful, perhaps, on the educational side than we have on the social services side. There is a whole host of issues as to why children need to be in special residential homes or whatever. On the educational side, we have what we call ‘hafan’ and ‘encil’ set-ups within schools that will cater for children, as best as we can. There are certain categories of children—it is not just behavioural, but it could be physical—where we cannot provide services. We are always looking to bring them back in. There is no doubt that the financial pressure is making us even more focused, but it is not that we have not been focused.

[55] **Jocelyn Davies:** I would imagine that these are individuals with severe and complex needs, currently staying in residential settings in specialist areas. Mr Owen, did you want to comment on that?

[56] **Mr Owen:** I only want to support that our main pressures in social care are also on the children side. We have been doing work called TAC, or ‘team around the child’—although I think that it may have some different initials now—where we got a specific grant from the Welsh Government. We have been doing some work in Wrexham, together with neighbouring authorities, to have that early intervention and to try to get more upstream in terms of how we deal with people. So, it is not a case of the funding not allowing us to do that; we have been trying to do that, but that has been balanced against the increasing demands, because people are now in this category for longer. That then affects our adult side in that one of our budget pressures each year is children transitioning to adults. We put something like £500,000 into that each year just because there is a higher demand and more children are living through that arrangement. The other initiative that you mention in the budget, which also helps in terms of getting in early on a more general basis, is the Flying Start money, which is excellent and supported.

[57] **Christine Chapman:** In your paper, Mr Owen, you suggested that the draft budget does not take account of a higher rate of inflation for council services. What is your assessment of the true rate of inflation, and how does that inform your budget planning?

[58] **Mr Owen:** Inflation has started to drop, but, as I said earlier, one of the authorities has a 0.15% increase for next year and it has to manage pressures in terms of social care. A particular issue that has hit all authorities recently is care home fees, which, because of challenges, have gone up substantially—by tens of per cent.

[59] We work on a planning assumption of 10% increases for energy, but there have been recent increases again in the market on that side. We have a big private finance initiative scheme for waste in Wrexham and a lot of the indicators in that are around oil, tyres—believe it or not—and other retail price index indicators, which are above the general one. I also say in my paper that the main one that would really hit us is if pay awards started taking off again, because of the size of the budget that is spent on that. What we have been protected by over

the last two and a bit years, is a freeze on pay increases, but if they start to take off, that will severely affect all areas of our budget.

[60] **Mike Hedges:** I was pleased to hear that Wrexham had the highest increase in Wales—the only one over 2%. You have just talked about the fact that three years of zero wage increases have had a positive effect on your budget. What assumptions are you working on at the moment for teachers' pay and non-teachers' pay within local government?

[61] **Mr Owen:** I will answer your point about the 2% first. The provisional settlement is done without taking into account changes to the tax base and the final settlement takes into account changes in the tax base. In Wrexham, I am sure that the tax base is rising at a slightly greater rate than in Ceredigion. So, when the final settlement is published in December, we expect our position to drop quite a bit—looking at the number of new properties—when it is based on the actual tax base. Sorry, what was the other part of your question?

[62] **Mike Hedges:** What percentage do you have for teachers' pay?

[63] **Mr Owen:** We have put in 1%.

[64] **Mike Hedges:** How much do you have in for non-teachers' pay?

[65] **Mr Owen:** We have 1%, but it will vary between authorities. That is a working assumption, for our medium-term financial planning.

[66] **Mr G. Jones:** We are also working on 1% across the board for pay awards. I also made the point in the paper that the freeze on pay awards has been a big benefit, in a perverse way, over the last couple of years. As far as budget setting is concerned, Ceredigion, in the last two years, has had a negative revenue support grant increase—or an RSG decrease. So, the freeze in the pay award helped us in those two specific years in particular, because of the negative RSG. There is an increase for us next year—not as favourable as that in Wrexham—of 1.23%. If we work on a 1% pay award, that almost equates out.

[67] However, that does not take into account inflation, and, as Mark said, there are certain inflationary factors. We are very conscious of private sector residential home fees, following the judicial review in Pembrokeshire—a neighbouring authority. We must be careful how we assess those fees. Generally, over the last few years, we have put in extra growth for private sector residential fees, so they are increasing at a higher rate than we would allow as a general inflationary increase for such residential homes.

[68] **Ann Jones:** You have both cited residential care home fees as something outwith your control. Is it not the case that your councils decided to move to private residential care home fees, rather than supporting your own local authority homes? They have come in and had a fee, but there are now no local authority homes, so you are paying the price for that, and you have not indicated that anywhere in the budget plan or planned for it previously.

10.00 a.m.

[69] **Mr G. Jones:** In Ceredigion, we have seven in-house residential homes, which we have had since 1996. So, we have not reduced the number.

[70] **Ann Jones:** You have not, no; but I think that, along the north Wales coast, local authority homes have diminished in favour of private homes.

[71] **Mr Owen:** We have one home. Yes, some of the others have gone, but I think that the issue about care home fees is not one of whether you have council-run residential homes;

it is what you pay, wherever people are—

[72] **Ann Jones:** Yes, but surely, your budget should have taken that in. You should have planned for that in your budget—that there would be a rise in care home fees.

[73] **Mr Owen:** No, because what we were using for care home fees, in effect, meant that they were very much based on amounts paid by health services to put people into those homes. However, the issue is that there was variability between authorities, and then there were legal challenges to that, which meant that all authorities had to take a balanced view on what level their care home fees should be at to prevent further challenges from care-home owners. It was that that led to this increase, and in north Wales, all six authorities worked together to come up with a model and framework to set the fees to try to prevent such a challenge.

[74] **Jocelyn Davies:** Broadly, what proportion of your budget goes on care home fees? This is just for the committee to have a feel for the significance of the rise in those fees. Perhaps you could let us have a note—it is not a memory test for you on your budget. Are we talking about a significant proportion? Let us have a note, Mr Owen; we will be happy with that.

[75] **Ieuan Wyn Jones:** Yn eich tystiolaeth chi, Mr Jones, yn ogystal â'r ffaith bod llai o arian yn dod i'r cyngor mewn termau real gan y Llywodraeth, rydych yn sôn bod y ffioedd a ddaw o bethau fel ceisiadau cynllunio wedi disgyn. Eto, dywedodd y Gweinidog ddoe mai un ffordd y mae'r cynghorau'n gallu cynyddu eu harian yw drwy godi ffioedd uwch—rwy'n cymryd nad ffioedd am geisiadau cynllunio yn unig yw'r rhain, ond hefyd am ofal cartref ac yn y blaen. A yw'r cyngor yn ystyried hynny yn rhan o'r ateb?

Ieuan Wyn Jones: In your evidence, Mr Jones, as well as the fact that less money is coming to the council in real terms from the Government, you say that the fees that you are able to raise from such things as planning applications have fallen. However, the Minister said yesterday that one way in which councils are able to raise more money is by raising the level of the fees—I am assuming that these are not just planning application fees, but for residential care and so on. Does the council consider that to be part of the solution?

[76] **Mr G. Jones:** Ddwy flynedd yn ôl, cawsom adolygiad cyflawn o'r ffioedd a godir gennym a chymharu hynny â ffioedd awdurdodau eraill. Arweiniodd hynny at gynyddu rhai ffioedd ar draws y bwrdd—tipyn yn fwy na'r hyn a wnelem fel rheol. Mae disgwyl blynyddol y byddwn yn codi ffioedd yn unol â chwyddiant neu rywbeth tebyg, a gwneud y ffigur hwnnw'n glir—gyda pheiriannau talu a dangos, er enghraifft, mae'n rhaid gwneud hynny mewn lluosrifau o 5c neu beth bynnag. Felly, edrychwyd ar godi rhai ffioedd. Er enghraifft, gyda rhai meysydd parcio lle nad oeddem yn codi tâl, cyflwynwyd ffioedd.

Mr G. Jones: Two years ago, we carried out a comprehensive review of the fees that we charge and compared that with the fees of other authorities. That led to an increase in some fees across the board—quite a bit more than we would as a rule. There is an annual expectation that we will increase fees in line with inflation or something similar, and make that figure clear—with pay-and-display machines, for example, that has to be done in multiples of 5p or whatever. So, we took a look at raising some fees. For example, with some car parks where we did not charge, we introduced fees.

[77] **Ieuan Wyn Jones:** Poblogaidd iawn, rwy'n siŵr.

Ieuan Wynne Jones: Very popular, I am sure.

[78] **Mr G. Jones:** Nid oedd yn boblogaidd iawn, rhaid dweud. [*Chwerthin.*]

Mr G. Jones: It was not very popular, it must be said. [*Laughter.*] So, we did that, and

Felly, gwnaethom hynny, a'r teimlad yn y ddwy flynedd ers hynny yw nad oes cyfle i wneud *step change* pellach. O ran ffioedd cynllunio, er enghraifft, nid y cyngor sir sy'n penderfynu ar y lefel beth bynnag; mae hynny'n cael ei wneud yn ganolog.

the feeling in the two years since then is that opportunities to introduce a further step change do not exist. Taking planning application fees as an example, the county council does not determine the level in any case; that is done centrally.

[79] Felly, nid ydym yn credu bod llawer o gyfleoedd i wneud *step change* arall, yn bendant mewn rhai achosion, fel meysydd parcio—mae busnesau lleol yn cwyno bod y ffioedd yn achosi i bobl beidio â dod i siopa gyda hwy, gan eu bod yn siopa yn y manau lle mae'r parcio am ddim. Felly, gall fod yn *two-edged sword*.

So, we do not believe that there are many opportunities to introduce an additional step change, certainly in some cases, such as car parks—local businesses complain that the charges deter people from shopping with them, as they choose to shop where there is free parking. It can therefore be a two-edged sword.

[80] **Mr Owen:** All Welsh authorities went through this review in which we compared charges across Wales. At that time, we pushed charges up, and I am certainly going to do some more with my lead member for finance before next year's budget is set. However, it is clear that you cannot push up all fees and charges. We have not been as forceful in pushing up those that have an impact on the economy, such as parking, industrial rents, and so on, but the amount of income that we get in Wrexham is in the top quartile, so we have done that review. However, the potential to do much more after that for a review will not save the budget position.

[81] **Mr G. Jones:** Pe baech yn codi rhai ffioedd, fel rhai ar gyfer canolfannau hamdden, ychydig yn ormod, efallai y bydd llai o ddefnyddwyr ac ni fyddai hynny'n beth da o ran yr ochr ariannol nac ychwaith o ran yr ochr iechyd os nad yw pobl yn mynd yno.

Mr G. Jones: If you were to increase some charges, such as those for leisure centres, a little too much, there could be fewer users and that would not be good in financial terms or in health terms, if people did not go there.

[82] **Ieuan Wyn Jones:** A symud ymlaen i sôn am yr ochr cyfalaf, mae'r ddau ohonoch wedi dweud yn eich tystiolaeth bod toriadau sylweddol mewn arian cyfalaf yn broblem. A allwch chi roi syniad i ni o'r math o bethau nad ydych yn gallu eu gwneud y byddech wedi dymuno eu gwneud pe bai'r lefel cyfalaf wedi aros rhywbeth yn debyg?

Ieuan Wyn Jones: Moving on to capital, you have both said in your evidence that substantial cuts in capital funding are causing a problem. Can you give us an indication of the kinds of things that you are not able to do that you would have liked to do had the level of capital remained roughly the same?

[83] **Mr G. Jones:** Mae nifer o brosiectau y mae adrannau eisiau eu gwneud. Credaf mai Ceredigion yw'r unig sir yng Nghymru heb *all-weather athletics track*, ac mae hwnnw'n un cynllun yr hoffem ei ddatblygu, gyda felodrom o amgylch y trac. Yn ystod y blynyddoedd diwethaf, mae Ceredigion wedi codi rhai ysgolion ardal newydd. Mae gennym gynllun ar gyfer Llandysul sy'n dod o dan y rhaglen ysgolion ar gyfer yr unfed ganrif ar hugain. Bydd y cynllun hwnnw'n costio tua £32 miliwn, a bydd angen i'r cyngor sir roi £16 miliwn i mewn. Mae grantiau i gael, ac rydym wedi cael cynnig

Mr G. Jones: Departments wish to undertake a number of projects. I think that Ceredigion is the only county in Wales without an all-weather athletics track, and that is a scheme that we would like to develop, with a velodrome surrounding the track. Over the last few years, Ceredigion has built some new area schools. We have a scheme for Llandysul under the twenty-first century schools programme. That scheme will cost around £32 million, of which the county council has to put in £16 million. There are grants available, and we have been offered a grant for that. We are waiting for further

grant am hynny. Rydym yn aros i gael gwybodaeth bellach am hynny. Nid ydym wedi cael gwybod pryd bydd y grant yn dod lawr yn llawn, ond cawsom wybod yn y datganiad diweddar ein bod yn cael £1 miliwn ar gyfer blwyddyn nesaf, sy'n ein galluogi i ddechrau'r gwaith cynllunio a bwrw ymlaen gyda phrynu tir, ac yn y blaen. Mae gennym gynllun ar gyfer theatr gymunedol Felinfach. Cafodd y tîm rheoli gyflwyniad ddoe ar gynllun eithaf uchelgeisiol i wella'r adnoddau yn y fan honno, nid dim ond i'r theatr ond i'r gymuned hefyd, a allai gostio hyd at £6 miliwn yn ôl y ffigurau a gawsom ddoe. Dim ond rhai enghreifftiau yw'r rheini o'r prosiectau yr hoffem eu symud ymlaen.

information on that. We have not been told when that will come to us in full, but we have been informed in the recent statement that we will receive £1 million for next year, which enables us to start planning work and get on with buying land, and so on. We have a scheme for Felinfach community theatre. The management team had a presentation yesterday on quite an ambitious scheme to improve facilities there, not just for the theatre but for the community, and that could cost up to £6 million according to the figures we were given yesterday. Those are just a few examples of projects that we would like to take forward.

[84] Mae gwella ffyrdd wastad yn bwysau arnom, er ein bod yn ddiolchgar bod y Llywodraeth wedi dod lan gyda'r cynllun hwn o ran *prudential borrowing*, sydd wedi ein galluogi i wario mwy ar ffyrdd nag y byddem wedi gallu ei wneud heblaw hynny.

Road improvement is always a pressure on us, although we are grateful that the Government has come up with this scheme in terms of prudential borrowing, which has enabled us to spend more on roads than we could have done otherwise.

[85] **Ieuan Wyn Jones:** Mr Owen, do you have similar examples?

[86] **Mr Owen:** Yes, just a couple of additional ones. I would like to say thank you for the money that we had to get the industrial estate link road going, which was completed this summer in Wrexham. Obviously, we want to follow up on that in terms of investment in the industrial estate, given that it has 7,000 staff and 300 businesses, making it one of the largest in Europe. If we had more capital, we could do more in terms of the infrastructure on that estate. Looking at our programme, schools are the main expenditure. We anticipated getting 75% grant funding for that and it went down to 50%, so that has obviously moved the programme out. We have done quite a lot in terms of combining infants schools and junior schools so that they operate on an organisational basis, but we now need to invest in the buildings themselves.

[87] Then there are roads, and some of the other things that you perhaps do not think about as being capital expenditure, such as disabled facilities grants and the investment in telecare equipment that I mentioned earlier. We have a number of heritage and tourism projects around the aqueduct near Wrexham. Those are getting pushed out because we do not have the resource. All our capital resource is directed to matching the twenty-first century schools programme.

[88] **Ieuan Wyn Jones:** If the programme were to be accelerated, would that still cause you difficulty because of the need to match?

[89] **Mr Owen:** It is more difficult, because the capital receipts are not as fluid as they used to be in terms of—

[90] **Ieuan Wyn Jones:** Would you prefer to have a different balance between the share that you provide and that the Government provides?

[91] **Mr Owen:** I think that it was a surprise. When it moved from 75% to 50%, it was at a

time when our ability to pull extra money into capital receipts was also being hit, so it is a problem for everybody.

[92] **Mike Hedges:** I will make two points. Without attempting to micromanage Ceredigion County Council, have you considered, if you want to have this athletic track and the velodrome, collaboration with the two universities in Ceredigion? That is what worked in Swansea; Swansea's sports development is a Swansea University and Swansea council development rather than just a Swansea council development. The other point is that, unlike the Welsh Government, you have borrowing powers—unlimited in theory, if not in practice—through prudential borrowing. How much prudential borrowing have your authorities used?

[93] **Jocelyn Davies:** On the first point, if you could just be in agreement with Mr Hedges, it was not really a—

[94] **Mr G. Jones:** Right. I agree with him. [*Laughter.*]

[95] **Jocelyn Davies:** What about the second point?

[96] **Mr G. Jones:** We are in discussion with Aberystwyth University, because the preferred location for the athletics track is in Aberystwyth, so we are in discussions with it. I would add that Aberystwyth University did have an all-weather pitch years ago, because I remember running on it myself. It got rid of it, but that is another issue.

[97] **Jocelyn Davies:** The other question was on whether you have used your potential for prudential borrowing.

[98] **Mr G. Jones:** If you look at the statistics, you will see peaks and troughs in the use of prudential borrowing. I am sure that I do not need to tell you that, whatever prudential borrowing we undertake, obviously there is a financing cost, which is not supported by the Assembly. That has to come out of the council tax budget. As I said, we had a negative RSG, and what we have seen over the last two years is that the opportunity to use more prudential borrowing was limited, because, had we had to put funding in to fund the repayment costs, we would have to take money from other services. We have had to take difficult decisions to get a balanced budget as it is over the last couple of years. However, we have used prudential borrowing; we have built new offices in Aberystwyth, which are adjacent to the Welsh Government offices, and we used a fair bit of prudential borrowing to fund that office development.

[99] As part of that funding package, the office is using what we would refer to as temporary prudential borrowing in that we were vacating seven office buildings in Aberystwyth. We knew that we would get about £2 million capital receipts from those sales, but those sales would not happen until after we had built the new offices. So we borrowed temporarily, until the receipts came in, and then the receipts repaid the borrowing. On the three to 19 school project for Llandysul, which is one of the projects supported by the twenty-first century schools programme, the council will have to put in a substantial amount of prudential borrowing, but, as I said earlier on, it is a £32 million project. We might try to refine and reduce that cost if we can. The council is putting in £16 million through a combination of sales, because schools will be vacated once the new school is developed, so there will be revenue savings from the closure of the primary schools and the existing secondary schools. There should be economies of scale in running a new school, so that will generate a revenue saving, which we have earmarked to fund prudential borrowing. So that specific element of prudential borrowing, or part of it, will be funded through those savings.

[100] Over the last few years, we have had a policy, when we have had primary school closures because of falling pupil numbers, of not taking that saving back centrally. We have

kept that budget within the education portfolio, but it is earmarked to fund future prudential borrowing, so any revenue savings go into a separate pot. When we eventually need prudential borrowing, again, that will contribute towards it. For the major projects, prudential borrowing has to be an option otherwise we would not be able to do them. We were pleased with the provisional settlement yesterday; the capital allocation was a lot better than expected, because we were looking at a projection of -13% or so and it ended up just a shade under -2%, so that is a lot better than I expected. However, when you think that for us in Ceredigion the general unencumbered capital settlement from the Assembly is still only about £4.6 million a year, but our share of the Llandysul school project is £16 million, you can see that we cannot live on that general unencumbered funding, so we have to look at innovative ways to fund.

10.15 a.m.

[101] **Jocelyn Davies:** I remind Members that we are only halfway through the questions and we have a quarter of an hour left. I do not want to cut anybody off, but we need to get to other Members. Do you have anything to add to that comprehensive answer, Mr Owen?

[102] **Mr Owen:** I will be brief. We are using it significantly for a solar panel scheme, to the tune of about £13 million, because there was an income stream there. We used it for leisure, to build a gym facility. We did prudential borrowing for roads to the tune of about £1.5 million, prior to the latest scheme. However, it has to be within the prudential code and it has to be affordable, so you cannot just carry on borrowing.

[103] **Peter Black:** This is a question for Ceredigion. Your evidence states that reserves may be used during the worst settlement period to lessen the budgetary impact. In light of the likelihood of a tighter settlement in the next spending review, how are you planning to manage your reserves over 2013-14 and also in the medium term?

[104] **Mr G. Jones:** Even for the current year, we have used some of the reserves to help balance the budget. We have a target to keep general balances between 3% and 5% of the net budget, which, for us, is up to £6 million at the top end and £3.5 million to £4 million at the bottom end. There was a time, a few years ago, when the council reserves were down to just 1% of the net budget. That was way too low, and the auditors said that they should be at a higher level. So, we have managed to build the reserves back to a level where they are now near the top end of our target range. From a director of finance perspective, I am comfortable with the level of the reserves and comfortable that we use some of those reserves to help support the base budget. What I was referring to in the report is that, if you are looking at a short-term dip and then the settlement going back up, it would perhaps be prudent to use reserves to flatten out the dip. Our concern is how long that dip will last. We had a presentation recently in the Welsh local government finance conference where the best-case scenario was a continuing dip until 2016-17 and then starting to climb back up. However, the worst-case scenario was a continuing dip until 2021. If it is a prolonged dip, you cannot rely on reserves for the longer term.

[105] **Jocelyn Davies:** Was that the presentation by the Institute for Fiscal Studies that you mentioned earlier?

[106] **Mr G. Jones:** Yes.

[107] **Peter Black:** Are there any lessons that you can give us about how you should use reserves?

[108] **Mr Owen:** Our gross budget is £359 million and our general balances are £6.9 million. We were in a similar position; we had to gradually grow our reserves, because we

were being constantly castigated by the external auditors. The only advice that I would give is to keep your general balances at a low-ish level and have reserves earmarked for specific things. They tend to be for the same sort of things: match funding for twenty-first century schools is one of our biggest ones, or to meet equal pay claims, and so on. You need to regularly review those. All our members review those each year to see which ones are not necessarily still needed and they are put into other areas of pressure.

[109] **Jocelyn Davies:** Peter, if you have finished, we will go on to questions from Mike.

[110] **Mike Hedges:** How successful do you think that outcome agreements have been in driving performance? Have they reduced the administrative burdens on local authorities?

[111] **Mr G. Jones:** I do not think that they have reduced administrative burdens, to answer the easier part of that question. They have required local authorities to concentrate on some services in particular. The danger, depending on what the outcome agreements are, is with regard to whether the concentration of resources might be in the right area or not. As a local authority, we did not get full payment of the outcome agreement last year, because we did not hit the targets. However, this year, we have hit most of the targets, and we are getting full payment of the grant.

[112] One area that we found difficulty with was linked to the disabled facilities grant. Work is ongoing on that. The fact that it was part of the outcome agreement and that we did not meet the target that we set ourselves has drawn particular attention to that issue, perhaps more so than it would have done otherwise. So, it is focusing our minds even more on that, to try to improve it. It is also to do with the turnaround of the disabled facilities grant. So, it helps to focus attention on some areas.

[113] **Mr Owen:** I have nothing to add to that.

[114] **Ann Jones:** On the impact of new legislation, you have both highlighted as a key concern the scale and potential impact of the Government's legislative programme. Do you have any indication, or are you aware, of the scale of any likely burden on local government from the Government's legislative programme? Is there anything that you would like to see the Government doing to ensure that that does not impact adversely on local government budgets?

[115] **Mr Owen:** The WLGA response highlighted quite a bit of the new legislation that is coming along—the social services Bill, the School Standards and Organisation (Wales) Bill, the sufficiency of play, and others. Given the pressures on us, if we have that new legislation without the funding to go with it, we will struggle to quickly divert resources to perform the implementation. So, it is a case of coming to a common understanding during the legislative process, as it were, as to the cost of implementation, so that it goes in on a fair basis. Flying Start was one example: in the early years, the grant conditions were not fully funded, and that has caught up with itself now. It is about avoiding that sort of thing happening again, particularly with these bigger pieces of legislation.

[116] **Ann Jones:** So, you would want to see some concrete communication at the outset.

[117] **Mr Owen:** Yes.

[118] **Peter Black:** As a result of UK welfare reform, local government is required to reform the council tax benefit system. You have both expressed concern about the difficulties in quantifying the impact of the changes. What budget assumptions have you made in respect of the new council tax reduction scheme?

[119] **Mr G. Jones:** Based on the figures that we have seen, as well as the figures in yesterday's provisional settlement of the potential moneys coming down to local government, the main difficulty from a budgetary perspective is how much council tax we will not be able to collect in the future, compared with what we are collecting now. I say that on the basis that, across Wales, thousands of people receive full council tax benefit, but under the new council tax reduction scheme, everyone will potentially be liable to pay a certain element. We do not yet know what that percentage could be—it could be 10%, although the figures seem to point towards 20%. How much of that will we be able to collect from those who previously did not pay, and maybe have not paid for the past 10 or 15 years, or even since the council tax was introduced? They received 100% council tax benefit because they were deemed unable to afford to pay council tax, but we are now going to start chasing and collecting, which will create an extra workload for council tax recovery officers. We have done some calculations. It is a difficult one to guess, but we estimate that there will be a reduction of about 1.8% in collection. That is our latest estimate. I think that, across the Welsh authorities, they are broadly talking of up to 2%, but it depends on the mix of council tax benefit recipients in each authority area.

[120] **Peter Black:** What would that be in money, for your budget?

[121] **Mr G. Jones:** For us, 1.8% would be about £550,000.

[122] **Mr Owen:** The main impact is on the claimant. With our moving to a national scheme, the UK Government reductions will be passported on to the people who are paying, in effect. We are not sure what percentage reduction there will be. The scheme is out for consultation at the moment by the Wales Government, with a closing date of this Friday, but we are not sure about the actual percentage. Potentially, further information will come out in December, so it will be one of the last parts of our budget that we put together. However, in the same way as Ceredigion council has anticipated a reduction in the collection rates, we will be in a similar position.

[123] **Peter Black:** What assumptions have you made in your budget on the impact of welfare reform in general, particularly from 1 April 2013?

[124] **Mr G. Jones:** Other than the council tax benefit—

[125] **Peter Black:** I mean housing benefit, the universal benefit et cetera.

[126] **Mr G. Jones:** We have not, at this moment, flagged up any budgetary growth, but there are concerns about an increase in homelessness, which will have a knock-on effect on budgets. However, we have not put a financial sum on that projection.

[127] **Mr Owen:** We have a line for welfare reform, which still has question marks against it, even at this point. Some of the universal credit aspects, particularly, which need to be factored in, have moved past the next financial year now, so some of the positive things will be introduced first, and the areas that will feel the impact are support, advice and the homelessness knock-on.

[128] **Mr G. Jones:** From what we understand, the universal credit changes will be phased in over a period up to 2017. We understand that the initial changes are the ones where the recipients will be better off, but the tail end will be where they will be potentially worse off. I do not know whether that is factually correct, but that is what we have understood. So, if people are better off in the early stages, the impact on local authorities might not be until the tail end of the introduction of universal credit.

[129] **Julie Morgan:** In Ceredigion council's evidence, you highlighted the additional cost

related to pension auto-enrolment. Could you expand on that and the implications for the authority?

[130] **Mr G. Jones:** I do not know how much you know about auto-enrolment—

[131] **Julie Morgan:** Not much.

[132] **Mr G. Jones:** It has been in the news a lot recently. It commenced on 1 October for the larger companies, and there is a phased roll-in of that across the private and public sectors. For Ceredigion council, what is referred to as the 'staging date', which is the implementation date, is 1 May 2013, a month into the next financial year. It means that anyone earning more than £8,105, which is the current threshold, although that might change, will have to be automatically enrolled if they are aged 22 years or over. We have done an analysis of how many of our staff would potentially fall into that category, and we have found that many of the lower-paid or part-time staff tend not to be in the pension scheme, and so many will now be auto-enrolled into the scheme. They have the option to opt out if they do not want to be a part of it. If everyone who was auto-enrolled stayed in the scheme, because we pay an employer's contribution rate of 15.2%, which is one of the lowest of the Welsh authorities, that would potentially cost us around £400,000 or £450,000.

[133] **Julie Morgan:** Do you have any indication yet of whether people will stay in?

[134] **Mr G. Jones:** No. From what I have read in the press about various experiences with this, for budgeting purposes, we are working on the principle that 50% will remain in the scheme. So, only yesterday, we came up with a figure of just over £200,000 into a base budget as a potential budgetary pressure for next year. I know that our neighbouring authorities say that it could cost them up to £2 million if they auto-enrolled everyone and they all stayed in the scheme.

[135] **Jocelyn Davies:** Obviously, Wrexham is a much larger local authority.

[136] **Mr Owen:** Yes, we have not come to a concrete figure as yet. Most authorities are doing the sums on it and our actuaries have done some work on it. There is a question before we make the calculation as to whether to delay going into the scheme, and we are still at the point of deciding whether to take that option of delaying.

10.30 a.m.

[137] If we do not, we will need to put something in the budget. The other knock-on effect, as Gwyn mentioned, is the employer's costs. There is a triennial review of each of the pension funds, and ours comes up in 2014-15. There is a knock-on effect there based on how the markets are performing and so on, and we are expecting, in our medium-term financial plan, to have to pay an extra £1 million in that year, just because of that triennial review. So, there is a double whammy: there is auto-enrolment and the increase in the contribution.

[138] **Julie Morgan:** How long can you delay the auto-enrolment?

[139] **Mr G. Jones:** It can be delayed until October 2017. That is a question that each authority will need to address. We have not formally addressed it. I have discussed it with the leader and the management team, and the view in Ceredigion is that we should go with the staging date. There is perhaps a moral obligation for us to help people into the pension scheme. Although it is effectively forcing them into a pension scheme, they have the option to opt out. Everyone has the option to join the pension scheme anyway. When I mentioned the cost of about £400,000 to £450,000 for those who are auto-enrolled, there will still be staff who are below the income threshold, who will still be written to and offered to join the

pension scheme. They will not be auto-enrolled because we cannot do that, but we must still offer them the option to join. They have not been factored into my costing analysis, but if they came in as well, there would be a bigger budgetary impact. However, although those who are below the income threshold still have that offer—and it is currently an open-ended offer, anyway, but they have not decided to do so—I doubt that many of them will choose positively to opt in, rather than choose positively to opt out.

[140] **Paul Davies:** Hoffwn ofyn rhai cwestiynau i chi am werth am arian a chydweithredu. Rwy'n cydnabod eich bod wedi cyffwrdd â chydweithredu yn gynharach yn y cyfarfod hwn. Dywedodd Cymdeithas Llywodraeth Leol Cymru yn ei thystiolaeth inni fel pwyllgor y byddai angen buddsoddiad ariannol er mwyn sicrhau bod y cydweithredu angenrheidiol yn digwydd yn ddigon cyflym ac i'r graddau sy'n ofynnol. Yn eich tyb chi, a oes gan awdurdodau lleol ddigon o arian i'r cydweithredu ddigwydd yn ddigon cyflym ac i'r graddau a ragwelwyd yng nghompart Simpson?

Paul Davies: I want to ask you some questions about value for money and collaboration. I recognise that you have touched on collaboration earlier in this meeting. The Welsh Local Government Association stated in its evidence to us as a committee that financial investment would be required to ensure that the necessary collaboration happens quickly enough and to the extent that is required. In your opinion, do local authorities have sufficient funding to be able to implement the level and pace of collaboration envisaged by the Simpson compact?

[141] **Mr G. Jones:** Yn y flwyddyn neu ddwy ddiwethaf, mae arian wedi dod o'r Llywodraeth drwy grant penodol i helpu gyda'r cydweithredu ac i gyflogi cwmnïau i'n helpu gyda'r gwaith hwnnw. Ni fyddem yn dweud bod gan gynghorau lleol ddigon o arian, ond oherwydd bod y Gweinidog, yn y setliad dros dro, wedi tynnu £10.16 miliwn allan o'r RSG a'i roi i'r naill ochr ar gyfer y chwe rhanbarth yng Nghymru—ac mae swm ar gyfer ardal yr hen Ddyfed Powys, sydd ychydig dros £1.7 miliwn, rwy'n credu, i'w fuddsoddi ar gyfer cydweithio—nid oes gennym arian yn benodol. Fodd bynnag, os yw'r arian hwnnw i aros ym mhot canolog y Llywodraeth, bydd adnodd inni alw amdano os bydd angen help arnom i symud y cydweithredu hwn ymlaen yn gyflymach.

Mr G. Jones: In the past year or two, money has been coming from the Government in the form of a specific grant to help with that collaboration and to employ companies to help us with that work. I would not say that local authorities have sufficient funding, but because the Minister, in the provisional settlement, took £10.16 million out of the RSG and put it aside for the six regions of Wales—and there is a sum for the former Dyfed-Powys area, which, I believe, is just over £1.7 million, for investment in relation to collaboration—we do not have specific funding. However, if that money is going to sit in the Government's central pot, there will be some resource available for us to bid for if we need help to progress the collaboration agenda more quickly.

[142] **Mr Owen:** I do not think that it is the funding that holds up the collaboration; it is just the complexities and the willingness of partners to get on with it. If that willingness is there, the money can be found to do it, and clearly it can be helped by the various specific grants. There is the invest-to-save scheme, and the money that has been top-sliced from the settlement will help with that. It is just that it is so much more complicated. When we sit down to do something with six authorities, it can take six times as long and, in many cases, you can make that saving much quicker if you get on with it and do it yourself. It is that tension that is the difficulty, rather than the money to enable you to do it.

[143] **Paul Davies:** Fodd bynnag, yn gynharach, Mr Owen, dywedasoch fod mwy a mwy o faich ariannol cydweithredu yn cwmpo ar awdurdodau lleol, felly sut, yn eich tyb chi, all y Llywodraeth sicrhau

Paul Davies: However, you said earlier, Mr Owen, that the financial burden of collaboration increasingly falls upon local authorities, so, how, in your opinion, can the Government ensure that there is fairness and

tegwch a gwneud yn siŵr bod meysydd eraill make certain that other fields in the public
yn y sector cyhoeddus yn chwarae eu rhan? sector play their part?

[144] **Mr Owen:** I mentioned the invest-to-save fund, which is one way in which there is encouragement and a financial incentive across the sector to work together. Another £15 million, I think, will be put up in November, but if a further £10 million was put into that fund to enable cross-collaboration rather than it being top-sliced from local government services, that would be one way that there could be some incentive.

[145] **Jocelyn Davies:** Ieuan, do you want to come in on this point?

[146] **Ieuan Wyn Jones:** There is a difference, is there not, between a specific grant and invest-to-save funding, because with invest-to-save funding you have to repay? So, are you saying that you prefer invest-to-save funding, where you have to repay, to a specific grant, which you would not have to?

[147] **Mr Owen:** No, I would prefer the specific grant. [*Laughter.*] It has worked best when it has been on a specific grant basis. An example of a project in north Wales that we tried to do through invest-to-save funding is the closed-circuit television project, which has been going on for years. Where you have a grant and you can just do it and get on with it, it is better.

[148] **Jocelyn Davies:** However, with invest-to-save funding, the idea is that you have some money upfront, but the savings that you make will help you to pay that back. Is that not the concept?

[149] **Mr Owen:** Local government, as has been indicated, has its own invest-to-save schemes. We can borrow, so if there is a proven benefit, we can do those things. It is more about hearts and minds and agreement between the partners from the start.

[150] **Jocelyn Davies:** We have run out of time before we have run out of questions. We have one or two left, which we will send to you, if that is okay, and you have promised to send us a note on one or two points of detail. Thank you very much for your evidence today. We will produce a transcript, which we will send to you to check for factual accuracy.

[151] We will take a break now. I ask Members to be back by 10.55 a.m.

[152] **Mike Hedges:** Do you mean 10.55 a.m. by the clock in the room or 10.55 a.m. according to real time?

[153] **Jocelyn Davies:** You will not be taking that clock with you, so 10.55 a.m. in real time.

*Gohiriwyd y cyfarfod rhwng 10.38 a.m. a 10.54 a.m.
The meeting adjourned between 10.38 a.m. and 10.54 a.m.*

**Cynigion ar gyfer Cyllideb Ddrafft Llywodraeth Cymru 2013-14—Tystiolaeth
gan Sefydliadau Addysg
Welsh Government Draft Budget Proposals 2013-14—Evidence from Education
Institutions**

[154] **Jocelyn Davies:** I thank our next witnesses for attending today. Would you like to introduce yourselves for the record, and I will then ask the first question?

[155] **Mr Graystone:** I am John Graystone, the chief executive of ColegauCymru, which represents all of the colleges of further education in Wales.

[156] **Mr D. Jones:** Bore da. David Jones ydw i, pennaeth Coleg Glannau Dyfrdwy. **Mr D. Jones:** Good morning. I am David Jones. I am the principal of Deeside College.

[157] **Yr Athro Thomas:** Bore da. Hywel Thomas ydw i ac rwy'n ddirprwy is-ganghellor ym Mhrifysgol Caerdydd. **Professor Thomas:** Good morning. I am Hywel Thomas, a pro-vice-chancellor in Cardiff University.

[158] **Mr H. Jones:** I am Hugh Jones, the chief operating officer for Cardiff University.

[159] **Dr Hybart:** I am Sue Hybart, the director of planning at Cardiff University.

[160] **Jocelyn Davies:** Thank you very much. I will start with the first question. The 2013-14 allocations for higher education and post-16 education show a real-terms reduction. What impact will these reductions have on the sectors? Who would like to speak for you?

[161] **Professor Thomas:** I will go first. First, on behalf of the university, I would like to thank you very much for the opportunity to be here. We recognise the difficult times in which we live and the difficult economic conditions, so our comments are all set in that context. We are very conscious of the need for the budget's emphasis on economic development and economic growth. As a university, although, as you know, our primary concerns traditionally are our students, their education, and the student experience, we are also highly committed to that agenda and the development of that agenda.

[162] The message that I want to try to get across to you is a fairly balanced message about the position in Cardiff University. I was here to give evidence to the Horizon 2020 inquiry some time ago, and I think that we are doing well as a university and as a sector, but, equally, there is no room for complacency, and changes in funding are a challenge for us. For us, on the student experience fund side, there are two areas to highlight at the very beginning. The first is that we have a range of subjects at Cardiff University that you might describe as standard subjects, expensive subjects and very expensive subjects. In the very expensive category, we have medicine and dentistry, for example. There is a worry in the university, and there is what might even be described as a threat, with regard to the cost involved on the financial side for the teaching of the very expensive subjects.

[163] The second area to highlight, which will come as no surprise to your committee, is the worry about the implications of the student loan scheme in the sense that money that might have come to Welsh universities in the past is now going to English universities as a result of the changes in the organisation of the student loan, as Welsh-domiciled students go to English universities. Nobody is for one minute suggesting that Welsh-domiciled students should not go to English universities, but there is an issue there to do with the funding of the university and the knock-on effect of that. If that element of finance is large, what effect will that have on other aspects that are very important to Cardiff University—the so-called QR element, which is the basis for the funding of the research and the foundation on which we build. Those are the highlights, really, of what I would like to say.

[164] **Jocelyn Davies:** I guess that is reflected by the other institutions, although I suppose that might not be the case with regard to the teaching of the more expensive subjects. Do any other witnesses have anything to add to the answer that we have had?

[165] **Mr H. Jones:** On the point about the very expensive subjects, it is not unique to Cardiff. That is an important point. So, the conservatoire provision of the Royal Welsh College of Music and Drama, which is the University of Glamorgan, would also fall into that

category, and Swansea University similarly has medical provision. So, it is a general point across Welsh universities. It is shown up in the specifics; the public investment fund from the Higher Education Funding Council for Wales is being reduced in the forthcoming two years. That is the specific reduction that threatens that.

[166] **Jocelyn Davies:** Okay. Are there any areas of particular concern regarding the level of resources available now and your ability to deliver?

[167] **Mr D. Jones:** In front of you this morning you have representatives of the university sector and FE colleges, which work very closely together, but which, in many ways, are quite different as well. Certainly, I fully agree with Professor Thomas's opening remark: we all recognise the context within which we are working, and we have to be realistic about that.

11.00 a.m.

[168] In terms of 2013-14, as is usually the case, it is not absolutely clear at the moment exactly what allocations we are going to receive. In that sense, it is difficult to comment specifically. For instance, there is a line in the draft budget that includes funding for further education colleges, but that is within a line that includes a range of other sources of funding, including sixth forms. While I believe there is an overall increase, it is not a real-terms increase and, until we get our allocations, it is unclear.

[169] The FE sector is fairly confidently facing the future, but that is partly because it has chosen to respond proactively and maturely to the bigger picture, particularly in the context of transformation and reorganisation. As our paper outlines, there have been a number of mergers in Wales over the last few years, and there are a number that will be completed by August next year. While we do not present mergers as a panacea or think that big is always best, there is a lot of merit in doing it. That has been a key issue for us, which now puts us in a reasonably strong position, but we have faced significant cost pressures over the last five years and we are clear that that is likely to continue in many respects.

[170] **Jocelyn Davies:** Julie, did you want to come in?

[171] **Julie Morgan:** Yes, I would like to follow up on areas of concern for Cardiff University. Are there any problems with the Government's visa policies in attracting overseas students? On expensive subjects, what about engineering? Could you make any comment on that?

[172] **Professor Thomas:** In relation to the UK Border Agency and the whole visa system, that affects international students and their recruitment, and it affects the ability of international students to come here. It is fair to say that the messages that have been going out to some of the recruitment countries from the UK Government have been fairly negative. On the international front, we are feeling some very stiff competition from other countries such as Australia and the US, which are at the same time ramping up and making attractive noises. We have a new vice-chancellor at Cardiff, who is particularly interested in the international agenda. As you may know, he leads Universities UK's work in this area, so international issues are high on the agenda. We will be looking to develop other business lines if these policies continue. They are generally described as transnational education, where you embark on distance learning so that the students do not all come to the university where the education is provided. That is a powerful tool that is available today. We will also be going along the same route as other universities and beginning to ask the question of whether we should have a campus overseas. That would be a counterpart to deal with this.

[173] **Julie Morgan:** How much do you depend on international students' fees at the moment?

[174] **Professor Thomas:** I do not think that international students' fees is the big issue; the big issue is the UK Border Agency. There is also a big perception issue, because once the UK Government makes certain statements on a matter like this, those statements percolate out. In India in particular, we are finding that the impact is beginning to be felt. As you are a Finance Committee, it would be useful to highlight how much money international students bring to Cardiff and to Wales. As a sector, it is quite a significant sum of money, and the economic impact of not just students being here, but their parents coming over is significant. I am sure that you are well aware of that as a Finance Committee. There are dangers to that level of funding if worst-case scenarios were to prevail.

[175] **Jocelyn Davies:** Have you done any work on the value of overseas students not just for the university, but for the wider economy?

[176] **Professor Thomas:** Yes.

[177] **Jocelyn Davies:** Could you let us have a note on that?

[178] **Professor Thomas:** Yes, certainly.

[179] **Jocelyn Davies:** Julie also asked about you about engineering and the cost of delivering engineering.

[180] **Professor Thomas:** We would put engineering within the expensive category. As I said, we have three categories: normal, expensive and very expensive. Indeed, all sciences are expensive. The key issue to get across to you there is stability of the longer term financial environment, so that we can do strategic research. Investment in that will be difficult in the current climate, and that will affect engineering. In terms of the students, it is medicine and dentistry that are in the very expensive category, and there is a particular issue there to do with the shortfall in funding. Perhaps Hugh and Sue would highlight that a little more.

[181] **Dr Hybart:** The shortfall in funding, to give it a broad figure, could be about £20 million per annum. This is where, at present, for 2013-14, we have no certainty that there will be the public funding for the universities in Wales on teaching. It costs about £18,500 per annum to educate a medical or dental student, and the cohort of students in the first few years would be paying the £9,000 fee, so there is a £9,500 gap there. However, we still have students in the sector who are paying the previous level of £3,500, so there is a £15,000 gap for those students. In 2013-14, we need public funding of about £20 million to make up the shortfall in the fee income alone. So, that is just to give you an idea of that.

[182] **Jocelyn Davies:** Could you tell me what input the sector has had in informing the formation of this budget?

[183] **Dr Hybart:** We would have provided our financial forecasts to the funding council and, beyond that, it was limited.

[184] **Mr Graystone:** One thing that we welcome is the three-year funding that we have received, because we need to know exactly what we will get in order to be able to plan ahead. If there is a reduction or an increase, we can actually plan for that. We have had discussions with the Welsh Government about three-year planning, and at the end of that period is 2013-14. What we would hope is that we can continue with that, and roll forward that three-year programme so that we know what we are going to get. What we find most difficult is our income from Welsh Government fluctuating from year to year. We need to know, even if it is a reduction—and we hope that it is not—because it means that we can actually make adjustments in the longer term. We have regular discussions with the department's civil

servants, and we meet the Minister twice a year, so we are in fairly regular contact. Funding is always one of the items on the agenda when we have those meetings.

[185] **Jocelyn Davies:** I suppose that it is kind of difficult for the Welsh Government to give you certainty when it does not have that itself.

[186] **Mr Graystone:** We appreciate the difficulties, but it has managed to do so for the last three years, and we have welcomed that.

[187] **Professor Thomas:** It would be fair to say that the higher education sector has exactly the same sort of access to Ministers and the Welsh Government.

[188] **Jocelyn Davies:** I did not think for a minute that he had favourites on that side of the table. [*Laughter.*] I did not think that at all.

[189] **Mr Graystone:** It is a shame.

[190] **Jocelyn Davies:** He might have told you that you are the favourite, but you have discovered now that you are all being treated equally.

[191] **Ieuan Wyn Jones:** Hoffwn ofyn cwestiwn i Brifysgol Caerdydd. Mewn ateb i gwestiwn gan Julie, dywedasoeh mor bwysig yw myfyrwyr tramor. A fedrwch chi ddweud wrthym, o ran cyllideb y brifysgol, pa ganran sy'n dod o grant y Llywodraeth drwy CCAUC, a faint sy'n dod drwy bethau fel myfyrwyr tramor, grantiau ymchwil a FP7, er enghraifft?

Ieuan Wyn Jones: I would like to ask a question to Cardiff University. In an answer to a question from Julie you said how important overseas students are. Could you tell us, in terms of the university's budget, what percentage comes from the Government grant through HEFCW, and how much comes through things like overseas students, research grants and FP7, for example?

[192] **Yr Athro Thomas:** Mae un rhan o dair yn dod o Gymru, o'r cyngor cyllid a'r Llywodraeth.

Professor Thomas: It would be one third that comes from Wales, from the funding council and the Government.

[193] **Jocelyn Davies:** Mr Jones, you can answer on the overseas students.

[194] **Mr H. Jones:** In respect of overseas students, it is about 10% of our total income.

[195] **Ieuan Wyn Jones:** Faint o hynny sy'n dod o ffynonellau o'r tu allan i'r Llywodraeth?

Ieuan Wyn Jones: How much of that comes from sources outside the Government?

[196] **Yr Athro Thomas:** Dwy ran o dair.

Professor Thomas: Two thirds.

[197] **Ieuan Wyn Jones:** Felly, mae dwy ran o dair yn dod o'r Llywodraeth.

Ieuan Wyn Jones: So, two thirds comes from the Government.

[198] **Yr Athro Thomas:** Nage—un ran o dair sy'n dod o'r Llywodraeth.

Professor Thomas: No—one third comes from the Government.

[199] **Ieuan Wyn Jones:** Ie. Felly, mae 33% yn dod o'r Llywodraeth, a'r gweddill yn dod o leoedd eraill.

Ieuan Wyn Jones: Yes. So, 33% comes from the Government, and the rest comes from other places.

[200] **Yr Athro Thomas:** Yn achos

Professor Thomas: In Cardiff, yes,

Caerdydd, ie, yn hollol.

absolutely.

[201] **Ieuan Wyn Jones:** Rwy'n ymwybodol bod y ffigur yn wahanol mewn colegau eraill.

Ieuan Wyn Jones: I am aware that the figure is different in other colleges.

[202] **Yr Athro Thomas:** Y ffigur yw 35%, i fod yn hollol gywir.

Professor Thomas: The figure is 35%, to be completely accurate.

[203] **Ieuan Wyn Jones:** A ydych chi'n rhagweld, oherwydd pwysau ariannol yn sgîl arian y Llywodraeth, y bydd y cydbwysedd yn newid yn y blynyddoedd nesaf? Er enghraifft, a ydych chi'n credu y gall rhagor o brifysgolion yng Nghymru godi eu gêm er mwyn cael mwy o siâr o arian y cynghorau ymchwil? Rwy'n gwybod bod Caerdydd yn gwneud yn well na phrifysgolion eraill, ond a fyddai modd i eraill gynyddu eu siâr o arian y cynghorau ymchwil, yn enwedig gyda Horizon 2020 ar y gorwel?

Ieuan Wyn Jones: Do you anticipate that, because of financial pressures as a result of Government funding, the weighting will change in the ensuing years? For example, do you believe that it is possible for more Welsh universities to raise their game to get a greater share of research council funding? I know that Cardiff does better than others, but could others increase their share of research council funding, especially with Horizon 2020 on the horizon?

[204] **Yr Athro Thomas:** Byddai, yn siŵr. Mae hynny yng nghanol ein golwg ni, yn enwedig Horizon 2020. Nid yw'r symiau o arian sydd ar gael yn awr yn y wlad hon drwy gynghorau ymchwil yn codi llawer y dyddiau hyn. Nid oes neb yn siŵr beth fydd yn digwydd yn Ewrop gyda'r symudiadau sydd yno, ac mae'n ddigon tebyg y bydd rhai o'r cyllidebau hynny'n cael eu torri, ond dyna lle mae'r arian mawr yn awr, ac rydym yn canolbwyntio ar hynny. Ar ôl rhoi'r neges bwysig, glir a ffafriol honno i chi, rhaid dweud bod pob prifysgol arall yng Ngrŵp Russell wedi gweld yr un pot o arian ac mae pawb yn tsiaso amdano. Wedi dweud hynny, mae'r wlad hon yn llwyddiannus iawn yn Ewrop o'i chymharu â phob gwlad Ewropeaidd arall.

Professor Thomas: Yes, certainly. We are keeping a keen eye on that, particularly Horizon 2020. The amount of funding now available in this country through research councils does not increase a lot these days. Nobody is quite sure what will happen in Europe with the movements there, and it is likely that some of those budgets will be cut, but that is where the big money is, and we are focusing on that. Having given you that important, clear and favourable message, it must be said that all other universities in the Russell Group have seen the same pot of money and everyone is going after it. Having said that, this country is very successful in Europe compared with all other European countries.

[205] **Ieuan Wyn Jones:** Fodd bynnag, y realiti yw mai ychydig bach o sefydliadau sy'n gwneud yn dda.

Ieuan Wyn Jones: However, the reality is that very few institutions do well.

[206] **Yr Athro Thomas:** Yn hollol, ac mae hynny'n gwestiwn yn Ewrop hefyd, fel rydych yn deall, yn ogystal â dwyrain Ewrop, gan nad ydynt yn hapus am hynny.

Professor Thomas: Exactly, and that is a major question in Europe, as you understand, as well as eastern Europe, as they are not happy about that.

[207] **Mr H. Jones:** On that specific point, the Sêr Cymru initiative, which clearly aims to drive up the proportion of research council income coming into Wales, is a positive one. The key to it will be working collaboratively with other universities in Wales to make sure that we are not—

[208] **Ieuan Wyn Jones:** And outside Wales.

[209] **Mr H. Jones:** Yes, outside Wales unquestionably. Starting from the premise of academic excellence is the surest way to get the research council income, but there is also scope for working within Wales in slightly more nuanced ways than we have done before.

[210] **Yr Athro Thomas:** Fel rydych yn gwybod yn iawn, mae'n bwysig ein bod yn defnyddio'r arian sy'n dod o Ewrop i Gymru, drwy uned 1. Mae'r ffordd y bydd hynny'n datblygu yn bwysig iawn.

Professor Thomas: As you will be aware, it is important that we use the funding that comes from Europe to Wales, through unit 1. The way that that develops will be very important.

[211] **Ieuan Wyn Jones:** Mae rhesymau y tu hwnt i resymau economaidd. Mae rhesymau o ran codi'r economi ac ati.

Ieuan Wyn Jones: There are reasons beyond the economic reasons. There are reasons related to boosting the economy and so on.

[212] **Yr Athro Thomas:** Mae siawns enfawr o ran defnyddio'r arian hwnnw. O safbwynt Prifysgol Caerdydd, byddwn yn dadlau bod siawns o'i ddefnyddio'n well er mwyn cael mwy o ymchwil. Mae siawns dda iawn yno i wneud pethau sy'n mynd i fod o ddefnydd i'r wlad hon am amser hir a rhoi pethau strwythurol ar waith.

Professor Thomas: There is a huge opportunity in using that money. From Cardiff University's point of view, I would argue that we could use it in a better way to have more research involved. There is a great opportunity there to do things that will be useful to this country in the long term and put structural things in place.

[213] **Ieuan Wyn Jones:** Hoffwn fynd gam ymhellach. Rydych yn dweud yn eich tystiolaeth fod cysylltiad cryf rhwng rôl y brifysgol a thwf economaidd. Rydych yn dweud bod y lluosydd, y *multiplier effect*, yn uchel. A allwch chi roi ychydig mwy o gefndir i'r hyn rydych yn ei olygu gan hynny?

Ieuan Wyn Jones: I would like to go a step further. You state in your evidence that there is a strong link between the role of the university and economic growth. You state that the multiplier effect is high. Could you give us a little more background as to what you mean by that?

[214] **Yr Athro Thomas:** Mae'r brifysgol yn canolbwyntio ar hyn. Mae'n bosibl ateb y cwestiwn hwn mewn dwy ffordd: yr hyn rydym yn ei wneud i greu arian a busnes, ac mae'n bwysig gweld y brifysgol fel busnes. Mae'n fusnes mawr a chryf ynddo'i hun. Rydym wedi siarad yn barod am ddenu arian o wledydd eraill. Rydym yn blês gyda'r hyn rydym wedi'i wneud ac yn hapus gyda lle rydym yn awr, ond nid ydym, mewn unrhyw ffordd, yn sefyll yn ôl a dweud bod digon wedi'i wneud. Roeddwn i mewn cyfarfod rai wythnosau yn ôl gyda Leighton Andrews i drafod ei fenter newydd i gael prifysgolion a diwydiant i weithio'n galetach gyda'n gilydd. Mae mentrau newydd fel hyn yn bwysig iawn i ni. Rydym yn frwdfrydig ynghylch hyn, a byddwn yn ymuno â nhw'n llawn ac yn gryf. Rydym yn derbyn yr her bod angen i ni wneud rhagor ac rydym yn barod i'w hwynebu. Rydym yn hyderus y gallwn fod yn

Professor Thomas: The university is concentrating on this. It is possible to answer this question in two ways: what we are doing to generate income and business, and it is important to see the university as a business. It is a big and strong business in itself. We have already talked about drawing money in from different countries. We are pleased with what we have achieved and we are happy where we are now, but we are not, in any way, standing back and saying that enough has been done. I was in a meeting a few weeks ago with Leighton Andrews to discuss his new initiative to get universities and industry to work better together. New initiatives such as these are very important to us. We are enthusiastic about these, and we will join them fully and vigorously. We accept the challenge that more needs to be done and we are up for that challenge. We are quite confident that we could be successful in

llwyddiannus.

[215] **Ieuan Wyn Jones:** A fedrwch chi roi enghreifftiau ymarferol o beth yw'r buddiannau sy'n dod o fuddsoddiad o'r fath?

[216] **Yr Athro Thomas:** Gallaf. Mae nifer o gwmnïau yn cael eu creu o'r brifysgol. Mae cwmni newydd gael ei greu o'r ysgol beirianeg—gallaf siarad am yr ysgol beirianeg oherwydd roeddwn yn arfer bod yn bennaeth adran yno—sy'n edrych ar fatris ffonau symudol. Mae hwn yn gwmni sy'n datblygu'n dda iawn. Mae cyffur newydd yn cael ei ddatblygu o'r ysgol fferylliaeth. Mae'n agos iawn at fod yn barod i'w ryddhau. Rydym wedi creu dros 100 o gwmnïau. Rydym yn gwneud llawer o waith drwy uned 1. Rydym yn gwneud llawer o waith drwy *knowledge transfer partnerships* ac ati. Rydym yn gweithio ledled Cymru gyda chwmnïau bach—ac mae cwmnïau bach yn bwysig iawn—a gyda chwmnïau mawr fel Tata. Rydym yn gwbl ynghlwm fel rhan o EADS Foundation Wales—EADS, Llywodraeth Cymru a Phrifysgol Caerdydd yw aelodau'r bwrdd.

11.15 a.m.

[217] **Ieuan Wyn Jones:** A ydych chi'n gweld hynny'n cynyddu?

[218] **Yr Athro Thomas:** Ydw. Rydym yn derbyn yr her, a byddwn yn dweud bod angen inni weithredu fel busnes rhyngwladol. Yr oeddwn yn Tsieina bythefnos yn ôl, ac, am y tro cyntaf, roeddent am siarad am ddiwydiant Tsieina yn gweithio gyda ni. Nid oeddent yn sôn am brifysgolion Tsieina yn gweithio gyda ni, ond am ddiwydiant y wlad yn siarad â ni. Felly, mae hynny'n beth newydd.

[219] **Jocelyn Davies:** I am sure that you can come up with examples of the investment potential of colleges. Unlike the Minister, we do not have any favourites. Would you like to add anything to that?

[220] **Mr D. Jones:** Yes, very briefly. There are numerous examples. The key thing that Professor Thomas talked about was partnerships. Further and higher education in Wales need to work far more closely together. We have some brilliant FE colleges and universities. Businesses want us to work together because that is really going to help them. Certainly, when I visited China with Professor Thomas about a year ago, one of the things I came back with was the idea that universities can be the key to the door in China and in other countries because, unfortunately, further education colleges do not have a name or credibility in that sense. That is unfortunate, and it is not justified in my view. In many cases, what these other

that regard.

Ieuan Wyn Jones: Can you provide practical examples of the benefits accruing from such investment?

Professor Thomas: Yes. Many companies are created from the university. A new company has just been created from the engineering school—I can talk about the engineering school as I used to be the head of department there—that deals with mobile phone batteries. It is a company that is developing very well. A new drug is being developed by the school of pharmacy. It is almost ready for release. We have created more than 100 companies. We do a lot of work through unit 1. We do a lot of work through knowledge transfer partnerships and so on. We work across Wales with small companies—and SMEs are very important—as well as with larger companies such as Tata. We are completely tied in with the EADS Foundation Wales—EADS, the Welsh Government and Cardiff University make up that board.

Ieuan Wyn Jones: Do you see that growing?

Professor Thomas: Yes. We would accept the challenge, and we would also say that we need to act as an international business. I was in China about a fortnight ago, and, for the first time, they wanted to talk about industry in China working with us. They were talking about not just universities in China working with us, but industry talking to us. So, that is something new.

countries need are many of the things that the better FE colleges in Wales are doing really well. However, that partnership with higher education is something we really need to forge. Going back to the role of this committee, I think that there are benefits in reducing costs and increasing income, because that is the other side of it—being genuinely competitive. That is what can come out of such relationships.

[221] **Mr Graystone:** In paragraph 39 of our evidence, we look at the economic contribution of colleges. In fact, interestingly, Cardiff University carried out a study on this a few years ago on behalf of the Welsh Government. It was an independent study. It was not pre-planned I should say [*Laughter.*] There are lots of studies showing the economic benefits of apprenticeships and so on. We feel that the skills agenda, improving the skills deficit, is important. We are in economically hard times, but we have learnt lessons from previous recessions where, all of a sudden, the economy has picked up and we have had a skills shortage and have had to recruit people with certain skills from outside Wales. We want to have a reservoir of skills in Wales ready so we are able to take up the challenge once we have the growth. Therefore, colleges are a key part of driving the skills agenda, and that is a huge investment for the long-term future.

[222] **Peter Black:** On the theme of working together, the Welsh Government has promoted collaboration and reform with the aim of reducing the number of institutions in the FE and HE sectors. I think that, in both sectors, the most recent examples of that are in my region so I have a big interest in this. To date, there have been a number of mergers, including ones involving yourselves. Based on your experience, does this policy deliver efficiencies and can you quantify those? Perhaps we should start with FE because there seem to be more mergers in that sector.

[223] **Mr Graystone:** I will make a general point and then hand over to David. It is early days yet, but we did some work about a year or so ago, on which we provided evidence to the Government, showing that the immediate cost saving of a merger is about £0.5 million. That is a pretty crude figure, but, in the longer term, you get savings in back-office functions and management information systems, an improvement in quality and so on. What you do not save on is the delivery of teaching because, basically, the teaching carries on. There will be long-term savings, but it is difficult to provide a clear figure. However, it is not just about savings. We believe that it is about raising standards, improving opportunities and providing a wider choice. Therefore, we need to look at the whole equation. The transformation we have been through was voluntary. No FE college has been compelled to go through a merger; it has always come from within the college and involved close partnership, collaboration and fairness. It is early days. I understand that Estyn has taken an initial look at mergers and that it has painted a fairly positive picture. However, as I said, it is early days and we would need to ask that question in five years' time to be really accurate. I will pass you over to David who has actually been involved in several mergers.

[224] **Mr D. Jones:** Yes, we have certainly not been compelled to merge. We have been encouraged and many of us have been very proactive. The college where I work has done two mergers. We did one in 2009 and another in 2010. Next summer, there will be a third. So, by next summer there will be four colleges combined as one in north-east Wales. That builds on the merger of three other colleges in north-west Wales to create one college. It is a massively good step forward. That is not because mergers are good, per se; it is because there is a strategic plan behind it. In north Wales, we will end up with a north-west Wales college and a north-east Wales college working together, not working apart. Working with higher education can make a big difference.

[225] The question was about savings. Yes, you can. However, if you do not set yourself targets for the savings that you want to make, or if you govern or manage them badly, then you will not make the savings. There are plenty of examples like that in the public and private

sector if you read papers and books on mergers. It is about setting a sound target. You can do it. There are obvious efficiencies in back-office functions, overheads such as audit functions that you can more or less get rid of overnight, and marketing—there are marginal additional costs for bringing colleges together. That is the negative side of reducing costs, as important as it is. As I said earlier, it also has to be about getting more growth in income. There are opportunities there as well.

[226] As I have touched on, there is a role for FE colleges with HE internationally. We, as a Wales brand, should be going out there, FE and HE together, to grasp those opportunities. There is business as well. There are other companies, private and public sector organisations, out there. Bigger colleges, following a merger, are in a much better position to be confident about providing skills, training and consultancy services. They do that in order to compete and maximise the provision.

[227] The organisation I work for took over two colleges that were in difficult financial positions; they were making losses. We have not had a loss since. We have absorbed their costs and put them on a level footing. We have invested in more courses and front-line services, better outcomes, growth and investment, and we are making savings of around 5% following the merger, although it can be as high as 10%.

[228] **Peter Black:** Okay. Sticking with voluntary mergers, has the higher education sector had a similar experience?

[229] **Professor Thomas:** In principle, yes. I have been at Cardiff long enough to have lived through two mergers, which were both successful. In practice, Hugh Jones, our chief operating officer, can tell you a bit more about the financial implications and savings and so on.

[230] **Mr H. Jones:** I should clarify that I speak from the experience of universities in England, rather than mergers within the Welsh higher education sector. There are critical questions around scale. There is an argument on sustainability that larger institutions are more sustainable and there is an efficiency argument driven from managing certain processes. An extreme example would be a small specialist college that had a very small number of overseas students every year. Going back to the UK Border Agency question, there is a difficulty with how to manage each part of the process. If you are doing it for five students a year, it is a real pain. However, if you are recruiting hundreds or thousands, it is straightforward and you have a team to do that and there are huge efficiency and quality gains.

[231] On back-office savings, as David was saying, they are absolutely achievable through a merger, but you have to drive them rather than assume that they will come. If you look at the experience of some of the English universities that have merged, where there were difficulties, those were because they had not driven through savings. They had either not moved to a single site or they had not gone through the academic disciplines being taught and worked out if there were duplications and whether things should be brought together in one single organisation. It is true that they can be achieved; whether they will be achieved is a contingent question.

[232] **Julie Morgan:** Presumably, your last merger was with the medical school. Briefly, could you give examples of the problems that arose from that, and what were the savings and advantages?

[233] **Professor Thomas:** Essentially, it was what you would expect when bringing two management systems, two working systems and two cultures, in a way, together. That is often what happens when you merge. We were both higher education institutions, so the cultures were not a million miles away, but the actual working practices and the financial management

and so on were different. It was a question of going through the nitty-gritty process of doing that. Sue was involved in some of the work. Do you want to add to that, Sue?

[234] **Dr Hybart:** I would just say—similar to the FE response, really—that the strategic driver for the merger was that, together, we could develop further, grow more, bring in further income, and improve the quality for our students. In doing that, there were efficiencies. We had the capacity to achieve that growth from within the back-office resources we had, so while the costs themselves were not reduced, our capacity to deliver was greatly enhanced.

[235] **Professor Thomas:** Also, our ability to offer subjects in certain academic areas has increased. We won an arthritis research centre some years ago, which involved staff from the medical school working more closely with the school of health care studies, working with the school of biosciences and the school of engineering. It simply gives you a more comprehensive team that you can put up to bid for funds in areas that are open to bidding.

[236] **Paul Davies:** I have a brief question. You referred to the advantages of the mergers that you have experienced; have they been any disadvantages?

[237] **Mr H. Jones:** I will make a general observation about the experience of the former University of Wales college of medicine. Universities are funny places at the best of times—certainly to manage. Clark Kerr, who was president of the University of California, Berkeley, defined a university as being,

[238] ‘a series of individual faculty entrepreneurs held together by a common grievance over parking.’ [*Laughter.*]

[239] Most of the changes involved are to do with culture change in the organisation and the sense in which people who identify with the organisation accept the degree of prioritisation based on a new institution’s strategy. That is the case for any organisations that are brought together, not just universities—I am sure about that. It is particularly so for universities where the discipline is the hub of academic activity, in that it creates particular challenges. So, again, the rationale for a merger, and the extent to which that is a shared and understood rationale, is a critical component in the success of making it work.

[240] **Mr D. Jones:** In response to the question, we have not seen any disadvantages or anything of any significance whatsoever in the mergers that we have had so far. To qualify that, however, I did use the word ‘takeover’ just now—

[241] **Jocelyn Davies:** You did.

[242] **Mr D. Jones:** Yes, I did, and I am conscious of having done so, but you have to be honest about it. In that sense, when you have a much bigger and more successful organisation that is on a firm financial footing merging with a smaller organisation, the reality is that it is—

[243] **Jocelyn Davies:** If it was failing financially—

[244] **Mr D. Jones:** It was.

[245] **Jocelyn Davies:** I see.

[246] **Mr D. Jones:** The two mergers that we have done have been of that nature, which has meant that the larger college—Deeside in this case—has effectively come in and probably dominated, in some way, what has happened, and has not been sensitive to the issues. With the merger that we are in the middle of planning at the moment, with Yale College in

Wrexham, we will see the dissolution of Deeside College and Yale College as legal bodies and the creation of a new legal body. That is totally different, and it will be harder work. However, it is about putting the investment in up front, before and just after the merger, in order to deliver the benefits.

[247] It is hard work, and universities and colleges are people organisations. Most of our money is spent on people, and we help people, and people have moods—they answer back, they have opinions and so on, unlike bits of metal. You have to work at it. It is a long-term plan. To build quickly on the response just given, the key thing is that the bigger organisations can afford to be strategic. They can really afford to invest in things for the longer term; they are not just looking over their noses all the time. Getting back to what we are trying to do here, that is a massive benefit for institutions and for Wales.

[248] **Mr Graystone:** I just want to take up Paul's question. On the disadvantages, in the short term, this takes up a lot of management time, because it is about change, and people often feel threatened by change. So, in the short term, it takes up a lot of management energy, but we would say that that is for longer term benefits.

[249] One of the challenges and tests for us is in the fact that colleges are community-based organisations. We serve our local communities, and one of the challenges for us with the larger institutions is whether they can continue to serve the local communities. Colleges are at the moment looking at setting up some form of membership bodies in which we involve the local community, but most people will still see their local college as being there. It may have a little name change at the bottom of a sign.

11.30 a.m.

[250] In Dolgellau, for example, as far as local people are concerned, Coleg Meirion Dwyfor is still the same college—you still have teaching and learning going on there, as well as in Bangor, and so on. In Deeside, the Llysfasi brand is still there. So, it is about making sure that we retain those local links, which will be a test for us in the longer term.

[251] **Ieuan Wyn Jones:** To play devil's advocate with Mr Jones for a moment, in essence, after all the mergers have taken place in north Wales, you will basically have one college for north-east Wales and one for north-west Wales. What does that do for student choice?

[252] **Mr D. Jones:** It is already making a difference. I can comment on the north-east, because that is the bit for which I am responsible. We have already expanded the number of courses that we offer, and it has also protected some provision that would probably in reality have disappeared by now. So, student choice has been maintained and expanded.

[253] It is also about the quality of the experience. If you go to Coleg Llysfasi, which I invite you to visit at any time, you will see investment in its farm of over £1 million. It is Deeside College making that investment; that particular one has not come from the Welsh Government. When you sign up to a merger, you have to sign up to the principles and to what you want to achieve, whether it is financial advantage or anything else. It is important that there are some hard measurables against which you can measure performance after one year, two years, three years and beyond. However, there are definitely massive benefits to learners.

[254] I cannot comment directly on north-west Wales. There are different challenges in the north-west because it is a far more sparse area. I know it has established a group structure that will hopefully address the particular challenges that a rural area faces.

[255] **Mike Hedges:** I can see the reinvention of Gwynedd and Clwyd county councils' further education, and I see that Mid Glamorgan's is going at a pace. Before too long, we will

be back to the eight counties again for further education.

[256] I have two questions. We have talked about integration and mergers between further education colleges and higher education institutions, but apart from Merthyr college and the University of Glamorgan, there has been very little movement between further education and higher education. Could further savings be made by integrating further and higher education establishments?

[257] **Mr D. Jones:** At least one potential merger may happen next year that involves a higher education institution and two FE colleges in south-west Wales. That is another example that builds on the Merthyr Tydfil and University of Glamorgan position. In both those cases, the higher education institution has, in effect, ‘taken over’ the FE college—there is that term again. I am not sure that that type of structural relationship is always the right thing if you look at the missions of an FE college and a HE college. However, it is not just about the merger of the relationship between FE and HE, and there are other ways of achieving benefits from closer collaboration short of merger.

[258] As ColegauCymru, we have not opposed FE-HE mergers where we think that it is the right thing; it is about considering each particular situation and seeing whether it provides the right answer in that particular area.

[259] **Professor Thomas:** To go back to something that Hugh Jones said at the beginning, I think that collaboration between the HE and FE sector is a really good thing. David mentioned China. We were together in Chongqing. There is now a sort of Wales-Chongqing HE consortium arrangement. There is a Wales-Chongqing FE consortium coming together, if that is the right way around. All of that is fantastic. On the international front, we could do a lot of things together in those ways because David is quite right, for example, about trying to work on the economic development agenda together. Imagine trying to attract a big company to Wales: that company would need a range of expertise and would not fit into just a HE or an FE requirement. Taking a Team Wales approach in FE and HE works very well when you are travelling internationally, as we found out in China.

[260] **Mike Hedges:** You named a few very expensive subjects earlier. I am sure that there are accountants saying to you, ‘Don’t do them anymore’, so as to improve the financial viability of the university. What benefits do you get from having those very expensive subjects?

[261] **Professor Thomas:** Basically, that is where Wales’s doctors and dentists are educated. It is as fundamental as that, really. If we were to operate strictly as a business, you can image a Dr Spock-like logic where we closed our medical school because the teaching was expensive, but I cannot imagine that you would all be happy with the idea that we would not have a medical school in Cardiff. It is somewhere where very bright and very good Welsh students come to learn medicine and, hopefully, many of them can be persuaded to stay in Wales to work.

[262] **Mike Hedges:** We would also be very unhappy if we did not have a dental school.

[263] **Professor Thomas:** I am delighted to hear you say that. *[Laughter.]*

[264] **Christine Chapman:** This question is just to Cardiff University; you spoke earlier about the tuition fee regime, but what impact do you think it will have on your sector? I am looking for negatives and positives.

[265] **Professor Thomas:** On the positive side, it is very nice to see Welsh domiciled students having this opportunity. You cannot help but feel pleased about that, for certain. As I

said in my opening statement, Welsh students have traditionally—certainly all my lifetime—gone to Oxford, Cambridge and the best English universities, and that is all to be rejoiced.

[266] The negative side is the financial impact of what could happen if the number of Welsh domiciled students going to English universities increased significantly, or continued to increase—the impact that that might have on the higher education budget, and other parts of that budget that might then be squeezed. The worry that we have is a particular part of that—technically, we call it the ‘QR budget’—which is the quality research budget. That is the underpinning money that comes in under the dual support system to the university to provide for a certain level of resourceful research. From that money we then bid competitively for other money. If there is any danger that that might be lost or reduced, that would be a big worry for us. That is the big negative.

[267] **Christine Chapman:** What impact will the reduction of student loan support in England have on higher education institutions in Wales?

[268] **Professor Thomas:** I guess that, at the moment, you could see English domiciled students as a useful source of funding for a university like Cardiff. Without appearing mercenary, similarities to international students begin to emerge in one’s thinking if one is not too careful about it. Obviously, the population of England compared with that of Wales is large and the number of 18-year-olds is significant. Our catchment area at Cardiff University includes a significant element of south-west England—traditionally, we have always recruited very well from Devon. Any area to which you can draw a radius of 100 miles is a typical catchment area for a university like Cardiff. It is just far enough for students to come, but far enough away from parents as well. [*Laughter.*] That is the rule that applies—100 miles is about that level. So, if you can imagine, that is a big population from which we could take most of the students.

[269] **Mr H. Jones:** Essentially, the introduction of fees—£3,000 in 2006 and the significant increase to £9,000 now—has created a very different dynamic in student recruitment terms. One thing that I think all Welsh universities would say—I have not road-tested it, so I am making an assumption there, but certainly I can speak for Cardiff—is that systems that allowed us to compete on a level playing field with England would be very useful in this regard. Certainly, English universities have had fewer restrictions on their recruitment this year than Welsh universities. Although, in Cardiff, this year we have done very well—we have grown as a university; not many can say that—it is something that, in future, we see as being a concern, if English universities are able to compete in ways that we are prevented from using.

[270] **Christine Chapman:** Could you expand on that?

[271] **Mr H. Jones:** English universities have a cap on recruitment numbers for certain categories of students and they are unrestricted in other respects. This is the ‘A, A, B’ issue that you will have heard about in English universities. Effectively, a student with grades of A, A, B or better at A-level does not count, for an English university, against its funding cap. I am not sure that the policy is necessarily desirable, but it gives English universities freedom to grow and behave in different ways. So, the University of Bristol grew significantly this year by recruiting lots more students. That has been one of the system perturbations that English universities have faced—as have we. There are other ways, one imagines, in which Welsh universities could similarly behave with a greater flexibility. The challenge is to look at ways of doing that while still finding support mechanisms for Welsh students that provide what the Government is seeking to do.

[272] **Peter Black:** As I understand the way the new system works, any loss of Welsh students to England should be compensated for with English students coming to Wales. We

have all seen headlines about fewer than expected English students being recruited to Welsh universities. Has that worked its way through in budget terms? Have you found that you are not recruiting—maybe Cardiff University is an exception? In the higher education sector across Wales, has there been a general reduction in the recruitment of English students? Are you not compensating for the loss of Welsh students?

[273] **Professor Thomas:** This is the first year that we have experienced this, so, as you said, we are seeing the impact of it. We are seeing different patterns of behaviour; we saw that in the early part of last year. In explicit terms, what this means is that four of our schools were in clearing for a significant time this year in order to get the student numbers that they wanted. So, frankly, we do not know. I do not want to describe this as an experiment, because that would be taking it too far, but, we are still in the early stages of seeing how this will work out.

[274] What the University of Bristol did is very interesting, in increasing its student numbers significantly. There will be Welsh students in that number. Obviously we are very close to Bristol and we feel the competition from it, but universities in England, on the other side of Bristol, have also felt that pressure—the University of Southampton has seen a reduction in student numbers. So, we really are in a new dynamic system and that is why it is difficult. Perhaps as early as next month we will have a clearer picture, as the statistics become clearer, but it is slightly difficult to give a definitive position right now, as I understand it.

[275] **Dr Hybart:** We have seen the number of English applicants into Wales's sector decline for this year of entry, but we need another few weeks before we can see how that has played out in respect of enrolments. So, perhaps we could provide you with that information after the meeting.

[276] **Mr H. Jones:** On that point, it is now—much more explicitly—a question of universities marketing themselves, than it used to be. English universities can market themselves without the constraint of a cap. Welsh universities cannot: that is a constraint. That is one of the issues that you would need to look at to find out why the number of English students coming to Wales has declined. Welsh universities bear greater risks if we market ourselves too greatly in England at the moment. Removing that cap will make a huge difference to our capacity.

[277] **Peter Black:** However, there is a real risk that there might have been a net outflow of money from the Welsh Government to England this year.

[278] **Mr Jones.** That is correct, yes.

[279] **Paul Davies:** Mae'r cwestiwn hwn i Brifysgol Caerdydd. Rydych wedi cyffwrdd â hyn yn barod. Yn eich papur, rydych yn dweud bod y gyllideb hon yn bygwth ac yn peryglu'r arian ymchwil a dderbyniwch gan Gyngor Cyllido Addysg Uwch Cymru. A allwch ymhelaethu ar hyn, ac egluro beth fyddai'r effaith benodol?

Paul Davies: My question is to Cardiff University. You have touched on this already. In your paper, you say that this budget threatens and risks the research money that you receive from the Higher Education Funding Council for Wales. Could you elaborate on this and explain what the specific impact would be?

[280] **Yr Athro Thomas:** Wrth gwrs, mae'n dibynnu'n hollol ar ba mor wael fyddai'r sefyllfa. Dyma'r arian y byddech yn ei ddefnyddio fel sylfaen. O hwn, byddech yn cyflogi pobl fel fi, sydd wedyn yn ceisio

Professor Thomas: Of course, it would depend entirely on how bad the situation was. This is the money that you would use as your foundation. From this money, you would employ people like me, who then try to gain

ennill arian cyllid ymchwil, o Ewrop a chyrrff felly. Os bydd hynny'n torri lawr yn sylweddol, bydd problemau. Byddai hynny'n mynd at sylfaen yr adeilad, mewn ffordd, a byddwn yn dadlau'n gryf yn erbyn hynny. Hynny yw'r peth gwaethaf a allai ddigwydd; nid yw'n digwydd yn barod, mae'n rhaid imi ddweud—nid wyf am greu gofid lle nad oes gofid—ond, gallwn weld y gallai ddigwydd. Mae hyn yn dilyn o'r cwestiwn diwethaf ynglŷn ag arian yn mynd gyda myfyrwyr i Loegr.

11.45 a.m.

[281] Unwaith bod prifysgol o Loegr yn rhoi lle i Gymro neu Gymraes sy'n byw yng Nghymru, mae'r arian yn mynd; mae wedi ei glustnodi i fynd. Os ydynt yn cael y graddau, mae'r arian yn mynd, ac nid oes rheolaeth arno; mae'r rheolaeth yn ymwneud â'r derbyniadau.

[282] **Paul Davies:** A allwch egluro i ni hefyd pa gyfran o'ch arian ymchwil a ddaw drwy HEFCW?

[283] **Yr Athro Thomas:** Dywedais yn gynharach bod popeth o Gymru yn 35%.

[284] **Paul Davies:** Pa waith arall rydych yn ei wneud fel prifysgol i gynyddu'r arian ymchwil o ffynonellau eraill?

[285] **Yr Athro Thomas:** Mae hynny'n ofnadwy o bwysig. Mae hyn yn galed, ac mae'n mynd yn galetach o ddydd i ddydd, gan fod cymaint o gystadleuaeth. Rydym wedi siarad yn barod am *Horizon 2020* ac mae hynny'n bwysig iawn i brifysgol fel Caerdydd. Byddwn yn canolbwyntio ar hynny. Fel mae pethau ar hyn o bryd, mae'r Arlywydd Barroso yn siarad am gynyddu'r arian yn sylweddol iawn. Rydym i gyd wedi gweld hynny'n digwydd yn barod ac rydym yn dilyn yr arian hwnnw. Byddwn ni fel prifysgol yn edrych yn ehangach na hynny hefyd, ac yn edrych yn fwy rhyngwladol.

[286] Soniais yn gynharach bod cydweithio gyda diwydiant yn mynd i fod yn bwysig iawn yn y dyfodol. A bod yn onest, bydd gennym diddordeb siarad a chydweithio ag unrhyw un sydd ag arian, ag sydd â diddordeb mewn gwario arian ar ymchwil ac

research budget funding, from Europe and such other bodies. If that is significantly reduced, we will have problems. That would have an impact on the foundations of the building, as it were, and I would argue strongly against that. That is the worst that could happen; it is not happening now—I do not want to cause concern where none exists—but we can see that it could happen. This follows on from the previous question regarding the funding that goes with students to England.

Once an English university gives a place to a Welsh domiciled student, that funding is lost; it has been earmarked to go. If they then get the grades, that funding goes and you lose control of it; the control is with the admissions.

Paul Davies: Could you also explain to us what proportion of your research funding comes via HEFCW?

Professor Thomas: I said earlier that from all sources in Wales, it is 35%.

Paul Davies: What other work are you doing as a university to increase the research funding from other sources?

Professor Thomas: That is exceptionally important. It is difficult, and it is getting more difficult from day to day, because there is so much competition. I have already mentioned *Horizon 2020* and that is very important for a university like Cardiff. We will be concentrating on that. As things currently stand, President Barroso is talking of increasing that funding very significantly. We have all see that happening already and we are certainly following that funding. We as a university will also be looking more broadly than that and looking internationally.

I said earlier that collaboration with industry is going to be extremely important in the future. To be honest, we would be very interested in speaking and collaborating with anyone who has funding and is interested in spending that funding on research and

arloesi. Yn ein strategaeth ryngwladol, sy'n cael ei datblygu yn awr, byddwn yn edrych fwy fwy ar hynny. Mae'n rhaid inni wneud hynny, gan nad yw'r dyfodol ariannol yng Nghymru, y Deyrnas Unedig ac Ewrop, dros y blynyddoedd nesaf, yn edrych cystal ag mewn rhannau eraill o'r byd.

innovation. In our international strategy, which we are currently developing, we will be looking more and more at that. That is incumbent upon us, because the financial future in Wales, the United Kingdom and Europe, over the next few years, does not look as good as in other parts of the world.

[287] **Jocelyn Davies:** I remind Members that we have 10 questions left and 10 minutes, so we might overrun by a tiny bit.

[288] **Ieuan Wyn Jones:** Rydych chi wedi dweud yn berffaith glir eich bod, ym Mhrifysgol Caerdydd, am weld gweithgarwch ymchwil yn cynyddu. Rydych hefyd yn dweud yn eich tystiolaeth bod arnoch angen, er mwyn gwneud hynny, adeiladau ac offer o'r radd flaenaf. Beth yw effaith y cyfyngder ar wariant cyfalaf wrth geisio ymateb i'r galw hwnnw?

Ieuan Wyn Jones: You have said quite clearly that, in Cardiff University, you want to see an increase in research activity. You also state in your evidence that, in order to do that, you need the best possible buildings and equipment. What is the effect of the restriction on capital expenditure in trying to respond to that need?

[289] **Yr Athro Thomas:** Yn yr un modd ag unrhyw brifysgol, y gystadleuaeth yw'r peth mwyaf. Rydym ni, fel prifysgol ryngwladol, yn cystadlu nid dim ond â phrifysgolion yn Lloegr, ond â phrifysgolion ar draws y byd. Dyna beth sy'n bwysig i ni yn awr, ac mae'r prifathro wedi nodi'n glir yn ei strategaeth newydd ei fod am greu prifysgol yng Nghymru a fydd yn y 100 uchaf, ond a fydd, yn bwysig iawn, yn brifysgol dros Gymru hefyd. Dyna'r strategaeth rydym yn ei datblygu.

Professor Thomas: As is the case for any university, the competition is the biggest thing. We, as an international university, compete not only with English universities, but with universities across the world. That is what is important to us now, and the new principal has made it clear in his new strategy that he wants to create a university in Wales that is in the top 100, but that will also, very importantly, be a university for Wales. That is the strategy that we are developing.

[290] Pe baech yn gofyn imi beth yr hoffwn ei gael yn fwy na dim, yr ateb, fel pawb arall, fyddai tipyn bach o sicrwydd. Rwy'n gwybod bod hynny'n amhosibl i chi ei roi i ni, ond dyna sy'n bwysig os ydych yn cynyddu buddsoddiad. Mae'r prifathro newydd wedi dweud yn glir ei fod yn bwriadu buddsoddi a mynd i'r farchnad i godi arian i fuddsoddi mwy yn y brifysgol. Gall Hugh siarad mwy am fanylion hynny; gwn fod gennym arian wrth gefn yng Nghaerdydd yn barod, ac mae wedi gwneud y penderfyniad clir ei fod am ddefnyddio'r arian hwnnw i fynd i'r farchnad. Rydym yn siarad am fuddsoddiad sylweddol. Dyna beth fydd yn dechrau'r peth, yn bendant—adeiladau newydd a phobl newydd.

If you were to ask me what I would like more than anything, like everyone else, I would say a little bit of stability. I know that it is impossible for you to provide that, but that is what is important when you are increasing investment. The new principal has made it clear that he intends to invest and go out into the market to raise capital to invest more in the university. Hugh can tell you more about the details of that; we know that we have reserves in Cardiff already, and he has made a clear decision that he wants to use those reserves to go to the market. We are talking about a significant investment. That is what will kick-start it, for sure—new buildings and new people.

[291] **Ieuan Wyn Jones:** Rydym i gyd yn sylweddoli bod arian cyfalaf o'r Llywodraeth yn mynd i leihau oherwydd y toriadau o San

Ieuan Wyn Jones: We realise that capital funding from the Government will reduce, because of cuts from Westminster. How will

Steffan. Sut y byddwch yn mynd ati, felly, i gyllido? Er mwyn denu ymchwilwyr o'r radd flaena ac athrawon o gategori arbennig, rhaid ichi gael adeiladau da. Yn y cyfamser, pan fo'r arian o du'r Llywodraeth yn lleihau, o ble y daw'r arian?

[292] **Yr Athro Thomas:** Byddwn yn mynd i'r farchnad i godi arian—

[293] **Ieuan Wyn Jones:** I fenthyg, ie?

[294] **Yr Athro Thomas:** Ie. Yr hyn sy'n bwysig yw ein bod yn denu pobl newydd, a beth sydd wrth galon y strategaeth hon yw parymateb y byddwn yn ei gael gan y REF—y *research excellence framework*. Bydd hwnnw'n dylanwadu ar bopeth, ac rydym ni, fel prifysgol, yn canolbwyntio'n gryf arno. Y targed yw cyrraedd yn uchel yn hwnnw.

[295] Rydych am ddatblygu ethos sy'n gwneud i bobl feddwl bod Caerdydd yn lle iawn i weithio ynddo, i gael staff newydd sydd eisiau gweithio mewn sefydliad hyderus lle maent yn teimlo y gallant wneud eu gwaith ymchwil. Hugh, wyt ti eisiau dod i mewn?

[296] **Jocelyn Davies:** Very briefly, if you would not mind, because we have a number of other questions to ask.

[297] **Mr H. Jones:** Universities are regarded as good investments by capital markets and a key factor there is the stability of funding. They are regarded as being safe as regards Government attention and care. That is the critical point for us. We can raise funds from the market if there is a backstop in the form of the Government backing universities.

[298] **Peter Black:** The invest-to-save fund is open to all Welsh Government-funded public sector organisations, so how have institutions in the further and higher education sectors made use of the fund? Perhaps we should start with FE.

[299] **Mr Graystone:** It has not been used greatly within the FE sector. We have had some presentations on it. The issue for us is that it is not a grant, but a loan, so we have to pay it back. So, any college that decided to draw on the invest-to-save fund would need to take account of that fact. However, we welcome it as a gesture from the Welsh Government on the need to provide interest-free loans, but it is a loan. So, I would say that we have not used it as much as we would have anticipated when it was set up. I know that it will be reviewed, and we would like to make a submission to that review to look at how it can be made more attractive to further education colleges.

[300] **Mr H. Jones:** I am not aware of our having taken that up, but that may be down to lack of knowledge rather than a definitive statement.

[301] **Mike Hedges:** Work-based learning in further education is funded through a contract rather than a grant. Does that give you any concern about the continuation of the contracts and

you, therefore, generate funding? In order to attract the best possible researchers or teachers from a specific category, you need good buildings. In the meantime, when Government funding reduces, where will that funding come from?

Professor Thomas: We will go to the market to raise money—

Ieuan Wyn Jones: To borrow, is it?

Professor Thomas: Yes. What is important is that we attract new people and what is at the heart of this strategy is what response we will get from the REF—the research excellence framework. That will influence everything and we, as a university, are concentrating hard on that. The target is to be high up in that rating.

You want to develop an ethos that makes people think that Cardiff is a good place in which to work, to get new staff who want to work in a confident institution, where they feel that they can carry out their research work. Hugh, do you want to come in?

the difficulties that that could cause you?

[302] **Mr D. Jones:** Yes, it does. It is to do with European procurement rules and so on. We are in the third period of funding for work-based learning through that particular approach. A new procurement period starts about a year from now. Our concern is more about ensuring that officials work within the rules but are sufficiently flexible in how they do that to ensure that work-based learning funding gets to the front line as soon as possible and meets the needs of the businesses. Ignore the providers, be they colleges or private training providers. Ultimately that provision is there to help the economy, and that is what we are looking for. However, it does bring an angle of instability into colleges. However, bigger colleges are able to cope with that different approach to funding because they have a critical mass.

[303] **Julie Morgan:** You say, Mr Jones, that you need flexibility to generate extra income. Could you describe what greater flexibility you would like?

[304] **Mr D. Jones:** One issue, and John has touched on it already, is a commitment to funding over longer periods, rather than this year-on-year funding. There used to be a time when we only found out in about May what our funding was for July—two months later. Things have got a lot better. That date then became December, but now we are getting fewer indicative periods. So, that is a key improvement.

[305] I am not an expert on the procurement rules, I have to say, but I pick up, anecdotally through colleagues, CollegesWales and through the National Training Federation for Wales, on a view that sometimes the rules associated with procurement are being adhered to in a less flexible way than is reasonably possible.

[306] **Mr Graystone:** To answer David's comments, the further and higher education Bill that is proposed will give colleges increased flexibility over things like borrowing, so we have reacted positively to that development, and we feel that it would enable colleges to be more flexible in their approach, which is a big advantage to us.

[307] **Ann Jones:** Your evidence describes the priorities letter of the Minister for Education and Skills for 2012-13, in which up-skilling learners to level 3 is a priority. With that, there is support in the form of a 2.5% cash increase. How can you measure the link between the inputs and the outcomes, as well as any eventual outcome on the wider Welsh economy?

[308] **Mr D. Jones:** That is a good question, Ann.

[309] **Jocelyn Davies:** You are not allowed to phone a friend. You will have to give us an answer, I am afraid. [*Laughter.*]

[310] **Mr D. Jones:** The starting point is that we wholeheartedly support the focus on level 3 learning, as set out in the Minister's letter. Unfortunately, there are young people—and older people—out there who, unfortunately, have not had the positive learning experience to allow them to go straight in at level 2 or, hopefully, level 3. Equally, we need to aspire to a high level. Our concern at the moment is that we are seeing massive unemployment in 21 to 24-year-olds across the country. Some of them are undergraduates and postgraduates, but many learners are also coming out of colleges who, three, four, five or six years ago, would have got jobs on the back of their qualifications. We have seen a big increase, through the focus on level 3 qualifications. In making that link, we would, I think, take that back and then come back to you to consider how we can make that cause-and-effect relationship more clear.

[311] **Ann Jones:** You can go home and phone a friend, and we can have the answer later.

[312] **Mr Graystone:** One thing that I would add, because I have debated this with Ann in

the past, is to do with hairdressing courses, for example. Does the economy need more hairdressers? Probably not, but the young people on those courses develop a wide range of skills. They gain confidence, improving their literacy and numeracy, and develop customer service skills. Often, they do not go into the hairdressing industry, but into others. If those youngsters were told that they could not do the course, they would become NEET—not in education, employment or training. So, in a sense, you cannot fit young people into narrow employment slots. You have to look at the wider picture and at the overall skills that would enable them to take up jobs in the future. It is quite a hard ask, ‘What are the measurable outputs?’ However, as I said at the beginning, when the economy does pick up, we want to have people who are trained and able to move into those jobs when they become available.

[313] **Jocelyn Davies:** So, they are transferable skills.

[314] **Mr Graystone:** Exactly, yes.

[315] **Ann Jones:** I will see whether I can find another good question, now. Here is one, on the common contract. You refer to the introduction of that and say that it will be cost neutral. Can you give us any further detail on that? Will it be an efficiency or just a redistribution of resources?

[316] **Mr D. Jones:** I will come in first, and then John may want to. It is a difficult challenge to come up with a common contract for staff employed in FE colleges in Wales. I happen to be the current chair of CollegesWales. Before I was chair, I was a strong advocate of having a common contract. We have a common pay scale for lecturers in Wales, and you cannot justify having different contracts if you have a common pay scale in a country such as Wales, when, essentially, people are doing the same job. It is a good starting point, but how to get there is a bit more difficult. There is no money to provide millions more all of a sudden to fund the contracts that people would like. I am sure that managers would like to give contracts that cost more money, but the money is not there. The Minister has made it very clear that it is not there. So, we have worked, and still are working, with the unions to come up with a common contract. In reality, that means an average contract. You used the term ‘redistribution of funds’, and that is what it is, up to a point. The work that has gone in over the past 18 months has led to having a contract on the table, which we believe is a reasonable way forward and, to all intents and purposes, could be cost neutral. John was on the negotiating team.

[317] **Mr Graystone:** You would not think that I was only 20 years old, would you? *[Laughter.]*

[318] We are at a very delicate stage. We have made a formal offer, and the union has met and is considering our offer. Both sides are looking at the end of October, because if we are to introduce it for next year, working back on the timetable for consultation, we really need to get an agreement. However, I do not want to say anything that might prejudice that today. It is a redistribution, as David said.

[319] **Ann Jones:** Could other parts of the public sector learn from what you are trying to do with the common contract—or have they? Or are you catching up with other parts of the public sector?

[320] **Mr Graystone:** Other parts of the public sector have common contracts—school teachers, for example. In a sense, we have had 19 different contracts, which we are now bringing together. We are learning from them, actually, rather than the other way around.

[321] **Julie Morgan:** You have already mentioned the forthcoming legislation. Have you budgeted for the likely implications arising from that legislation?

12.00 p.m.

[322] **Mr D. Jones:** Are you specifically referring to the FE and HE Bill?

[323] **Julie Morgan:** Yes.

[324] **Mr D. Jones:** Not at this point. We do not anticipate, from our understanding of the Bill, that there will be any significant impacts upon us, but it is only at the White Paper stage, and so we will have to see how it progresses. Some of the major issues for FE colleges are linked to governance, and it is uncertain at the moment whether the changes associated with the potential developments in governance will lead to additional costs. However, from our understanding of what has been presented at this point, there are stand-out issues that give us particular concern, but we have responded to the consultation and we are keeping a close eye on the Bill's passage.

[325] **Mr Graystone:** Essentially, it restores to colleges the status that they have always had, so the cost will be pretty marginal. What it does is ensure that we cannot blame the Government in the future, as it will be down to us to deliver. We will not be bailed out by the Government, so it will make us even more responsive, to look at the agenda and really make sure that we follow that.

[326] **Jocelyn Davies:** I have just one last question. Other witnesses have told us that there is a specific rate of inflation that should be applied to their sectors. So, this is your opportunity to put your views on the table. Mr Jones, you are nodding, so I guess that you can go first.

[327] **Mr H. Jones:** An extensive longitudinal piece of work is being done by universities in the UK as a whole that indicates that the higher education sector faces an inflation rate of about 1% above the general rate.

[328] **Jocelyn Davies:** And that is because—?

[329] **Mr H. Jones:** It is a combination of things. Some of it is to do with the particular contractual obligations that universities face, but the majority of it is to do with the sorts of things that universities buy, such as large equipment et cetera, which cost a lot.

[330] **Mr Graystone:** We did some work looking at the core funding of colleges since 2007-08, and we have had a funding increase of 10%, while the GDP deflator for that same period has been 17%. So, we are well used to managing our efficiency gains. We are projecting a 1% increase for next year and probably a 1% pay increase—we have had two years of pay freeze—but, beyond that, we would like a three-year funding deal. I appreciate that it cannot be precise, but a steer would help us in our planning for the long term.

[331] **Jocelyn Davies:** Thank you very much for a very good session. You said that you would give us a note to clarify one or two matters, and we will send you the transcript to check for factual accuracy.

12.02 p.m.

Papurau i'w Nodi Papers to Note

[332] **Jocelyn Davies:** We have a paper to note, namely the minutes of the last meeting. Are Members happy with that? I see that you are.

**Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod**
**Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from
the Meeting**

[333] **Jocelyn Davies:** I move that

the committee resolves to exclude the public from the rest of the meeting in accordance with Standing Order No. 17.42(vi).

[334] Are Members content with that? I see that you are. Thank you.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 12.03 p.m.
The public part of the meeting ended at 12.03 p.m.*