



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

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Llun, 03 Tachwedd 2014
Monday, 03 November 2014

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Motion under Standing Order 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 trawsgrifiad 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)
Mike Hedges	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Ann Jones	Llafur Labour
Julie Morgan	Llafur Labour
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives

Erail yn bresennol
Others in attendance

Jeff Andrews	Cynghorydd Polisi Arbenigol, Llywodraeth Cymru Specialist Policy Adviser, Welsh Government
Lynne Hamilton	Y Cyfarwyddwr Cyllid a Materion Masnachol, Llywodraeth Cymru Director of Finance & Commercial, Welsh Government
Jane Hutt	Aelod Cynulliad, Llafur (Y Gweinidog Cyllid a Busnes y Llywodraeth) Assembly Member, Labour (The Minister for Finance and Government Business)
Don Peebles	Sefydliad Siartredig Cyllid Cyhoeddus a Chyfrifyddiaeth Chartered Institute of Public Finance and Accountancy
Jo Salway	Dirprwy Gyfarwyddwr Cyllidebu Strategol, Llywodraeth Cymru Deputy Director, Strategic Budgeting, Welsh Government

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

Bethan Davies	Clerc Clerk
Joanest Varney-Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Tanwen Summers	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 12:29.

The meeting began at 12:29.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **Jocelyn Davies:** May I welcome everyone to a meeting of the Finance Committee? I have not received any apologies, so I am expecting Ann Jones to join us shortly. Before we move to the next item on the agenda, would people check that their mobile devices are on

silent, please?

12:30

**Papurau i'w Nodi
Papers to Note**

[2] **Jocelyn Davies:** We have just got a couple of papers to note; those are the minutes of 16 and 22 October. Is everyone content with those? I see that you are, so we will move on to our first substantive item on the agenda today.

**Cyllideb Ddrafft Llywodraeth Cymru ar gyfer 2015-16: Sesiwn Dystiolaeth 6
Welsh Government Draft Budget 2015-16: Evidence Session 6**

[3] **Jocelyn Davies:** This is our final evidence session on the Welsh Government draft budget 2015-16. We have got the Minister with us for this session. Minister, would you like to introduce yourself and your officials for the record? Then, if it is okay with you, we will go straight to the questions.

[4] **The Minister for Finance and Government Business (Jane Hutt):** Thank you very much, Chair. May I introduce Jo Salway, who is deputy director of strategic budgeting, Lynne Hamilton, who is director of finance and commercial, and Jeff Andrews, who is a specialist policy adviser?

[5] **Jocelyn Davies:** Thank you. Obviously, Minister, we have been looking at the draft budget for a number of weeks now and we can see that the most significant reallocation in the draft budget has been the 1.9% real terms increase to the health and social services main expenditure group. That is at the expense of local government. The Nuffield Trust report has been much quoted and is a justification for this decision. Do you agree that equally valid independent assessments could have been presented to justify increasing funding to other programme for government themes?

[6] **Jane Hutt:** As far as commissioning the Nuffield Trust report, 'A decade of austerity in Wales?', is concerned, it was a decision made by the Minister for Health and Social Services, particularly as a result of the fact that, in England, a similar report had been commissioned from the Nuffield Trust. So, it had not only independence, but the expertise in terms of looking at the impact of public finances and the needs and demands of the health service. So, it was a very important independent report that we drew on in terms of looking at difficult budget decisions.

[7] We are talking about a budget that has been cut by 10% in real terms, of course, and yet we are commissioning a report that is trying to give us a clear picture of the financial needs of the health service. Supporting health is very much part of our programme for government anyway, as a key objective, and indeed we are committed, in terms of budget setting, to the evaluation of all of the other aspects of our programme for government. But, I think, and I am sure that many of you would agree, that we had a responsibility to look at particular pressures on health. That is why we went to the Nuffield Trust for this report.

[8] **Jocelyn Davies:** Because health is a priority, but I think that you accept that you could have had an equally valid assessment in other programme areas had you chosen to do so, but health is a priority.

[9] **Jane Hutt:** I think, obviously, health is a major priority for the Welsh Government and it is indeed a major priority, I think, for the Assembly and the people of Wales in terms of

scrutiny, and quite understandably health is in the headlines in terms of our ability and our capacity to invest in the health service and to allocate appropriately. But, of course, we are looking at all other areas of the programme for government and Ministers will have to and have had to do that in terms of tough budget decisions. That has to be underpinned by independent evidence when possible.

[10] **Jocelyn Davies:** Did the Nuffield report tell you anything that, as a Government, you did not already know?

[11] **Jane Hutt:** The Nuffield report was very important in identifying where the health service had made progress, particularly in terms of efficiencies, in addressing issues around the management of chronic health conditions and acute care. It did provide us with a financial scenario of what we needed to do if we were to continue with the Minister for health and the Welsh Government's reform agenda for the health service, transforming the health service and moving towards a more prudent healthcare system, but also some specialisation through the reconfiguration plans. So, it did provide us with an independent assessment of how much money we would need in order to deliver a sustainable health service into this spending review round up until 2016 and beyond.

[12] **Jocelyn Davies:** Was any other evidence sought that sat alongside this in order for you to come to that decision?

[13] **Jane Hutt:** Clearly, we are very much guided by our assessment and, indeed, the health boards' own assessment in terms of their scenario planning, particularly as we have moved to a three-year financial planning regime, which, of course, was very much supported by the Assembly and this committee, to enable us to take on board what their projections were in terms of need, demand and sustainability, alongside the Nuffield report. So, Nuffield underpinned much of the evidence that was coming from the health boards in terms of future needs and the need for investment.

[14] **Jocelyn Davies:** Minister, what prevents any other of your Ministers from commissioning an independent report? Are you aware if any of them have done so, say, for example, on local government?

[15] **Jane Hutt:** Clearly, in terms of financial pressures, and how we can sustain our health service, the title of the Nuffield report is critical: 'A decade of austerity in Wales?'. The Welsh Government, as a whole and as a Cabinet, did agree that we should focus on health to get this right in terms of the circumstances and the needs and demands on the health service. However, I think it is very important that—and we have published this—all Ministers have got to draw on our knowledge and analytical-resource evidence base, which comes under my portfolio. We have principles in terms of evaluation and research. We have got the Public Policy Institute for Wales, which has now been set up, to guide us and enable us and, of course, much work has now been commissioned by Ministers from that institute, which, of course, may lead to further challenges and independent reports. However, of course, one could also say that, perhaps, the Williams commission is another example.

[16] **Jocelyn Davies:** Ffred, shall we come to your questions?

[17] **Alun Ffred Jones:** Mae gennych bedwar maes blaenoriaeth o fewn y Llywodraeth: twf a swyddi, cyrhaeddiad addysgol, cynorthwyo cymunedau difreintiedig, a gwella iechyd a lles. A yw'r gyllideb yma yn adlewyrchu'r blaenoriaethau hynny? **Alun Ffred Jones:** You have four priority areas in the Government: growth and jobs, educational attainment, supporting deprived communities, and improving health and wellbeing. Does this budget reflect those priorities?

[18] **Jane Hutt:** Well, of course, we have sought to reflect all those priorities in this budget, and I believe that we have done so, but this is in the overall context of a reduced budget. So, it has had to be about how we balance pressures and needs against that reduced budget, and, also, looking at where we are making progress that could result in a realignment of investment.

[19] **Alun Ffred Jones:** Mae'n amlwg mai prif flaenoriaeth y Llywodraeth, felly, ydy iechyd, ac felly rwy'n cymryd yn ganiataol eich bod yn ystyried meysydd eraill yn llai o flaenoriaeth. **Alun Ffred Jones:** It is clear that the main priority of the Government, therefore, is health, and therefore I take it for granted that you consider other areas to be less of a priority.

[20] **Jane Hutt:** I would not say that that is the case. Obviously, we have focused on health because of the needs of health, but also we have focused very clearly on tackling poverty and on the link between educational attainment and investing in education, not just through our ongoing commitment to protect funding for schools by 1%, but also through the early intervention engagement that we have through protecting Flying Start and, indeed, ensuring that Flying Start goes through to 2015-16 and doubles over the period of this Assembly administration. So, I think that education, schools and health, if you like, have been the particular beneficiaries of this budget. However, I would also say, in terms of jobs and growth, that everything we can do in terms of the skills base and capital investment will, of course, along with support for business, continue to back jobs and growth. The Jobs Growth Wales initiative has been extended to help young people.

[21] **Alun Ffred Jones:** Ond mae'r gyllideb sgiliau ac, wrth gwrs, llywodraeth leol, sy'n gyfrifol am ysgolion, wedi gweld toriadau sylweddol. A ydych chi wedi casglu unrhyw dystiolaeth ynglŷn ag effaith y cwtogi ar lywodraeth leol ar eich blaenoriaethau? **Alun Ffred Jones:** But the skills budget and, of course, local government, which is responsible for schools, have seen significant reductions. Have you gathered any evidence of the impact of the reductions in local government on your priorities?

[22] **Jane Hutt:** Clearly, in terms of the strategic integrated impact assessment, all Ministers have had to engage in that and demonstrate the impacts of difficult budgetary decisions. That is reflected in the strategic impact assessment. Also, we are putting extra money into local government because of our 1% protection for schools and in terms of the pupil deprivation grant, for example, which is extra resource for local government. There are also some of our other initiatives, such as Five for a Fairer Future and the fact that our support for universal benefits helps local government, as does our capital investment.

[23] **Alun Ffred Jones:** Fodd bynnag, y gwir amdani yw y bydd llywodraeth leol yn gweld toriad o dros 4%, sydd mewn gwirionedd yn doriad o tua 6% mewn termau go iawn, yn ei chyllideb flwyddyn nesaf. Mae cynrychiolwyr llywodraeth leol wedi dweud y bydd yn amhosibl iddyn nhw warchod cyllidebau addysg a gwasanaethau cymdeithasol yn wyneb y toriadau gan fod y rheini yn gwario tua 60% o'u cyllidebau nhw, ac felly ei bod yn anochel y bydd y rheini yn dioddef. A ydych yn derbyn hynny fel ffaith? **Alun Ffred Jones:** But the truth is that local government is going to see a reduction of over 4%, which is really a cut of 6% in real terms, in its budget next year. Representatives of local government have said that it will be impossible for them to safeguard the education and social services budgets in the face of these cuts as they account for about 60% of their budgets, and therefore it is inevitable that they will suffer. Do you accept that as a fact?

[24] **Jane Hutt:** Well, local government, of course, has had it made very clear to it that we

have protected it over the first three years of this administration. The cut in cash terms to local government in England is 7%; in Wales, we have protected it by 3%—there has been a 3% cash uplift to local government. Also, as I have said, we have put more funding into local government because of the areas that we are protecting in relation to schools and education. But, local government itself also has to undertake its own impact assessments and it is, indeed, in terms of its budget setting; it is looking at the impact assessments on its services. I think that it is important. When I wrote to the committee following the last meeting, Chair, I explained how we were able to ameliorate what had been foreseen as possibly more than a 4% cut and reduce it right back in terms of the revenue support grant. So, in terms of local government, it is in a better place than it thought it was going to be earlier in the summer.

[25] **Alun Ffred Jones:** Mae'n ddrwg gennyf ddweud nad dyna yr oedd cynrychiolwyr llywodraeth leol yn dweud wrthym. Hoffwn ofyn dau gwestiwn arall, yn derfynol, ar iechyd. Pa asesiad a ydych wedi ei gynnal ar y ffordd y bydd y £225 miliwn ychwanegol ar gyfer iechyd yn 2015-16 yn sicrhau gwell canlyniadau iechyd?

Alun Ffred Jones: I am sorry to say that that is not what the local government representatives were telling us. I would like to ask two further questions, to end, on health. What assessment have you undertaken of how the additional £225 million for health in 2015-16 will ensure better health outcomes?

[26] **Jane Hutt:** That is something on which I know that the Minister for Health and Social Services has given evidence to the committee, in terms of the impact that this £225 million will have. It is very much guided by the Nuffield Trust assessment of how we need to ensure that we are investing in and reforming the health service. We are investing in primary care and in a prudent healthcare focus, so that patients can take more responsibility for their health, but also there is a preventative focus in terms of the budget. It also takes into account the pressures on the health service in terms of an ageing population and the needs of the acute sector. Also, in terms of the reforms that are emerging for the health service, they will result in better value for money. Of course, we have to recognise that we are talking now about three-year programmes for the health service as opposed to one-year programmes.

[27] **Alun Ffred Jones:** Fodd bynnag, nid oes gan amryw o'r byrddau iechyd gynlluniau tair blynedd yn eu lle.

Alun Ffred Jones: But a number of the health boards do not have three-year plans in place.

[28] Wrth sôn am y cynnydd o £225 miliwn, rydych wedi cyhoeddi yn eich cyllideb ddrafft bod £200 miliwn yn mynd i mewn eleni i'r byrddau iechyd—neu'r gwasanaeth iechyd—yma yng Nghymru. Rwy'n cymryd nad yw hynny ar gyfer cynlluniau newydd, oherwydd nid oes neb wedi dweud hynny. Felly, mewn gwirionedd, mae'r cynnydd y flwyddyn nesaf ond yn un bychan iawn ar y swm a fydd yn cael ei wario eleni. Felly, a ydych yn disgwyl y bydd lle yn y gyllideb honno i welliannau?

Given the increase of £225 million, you have announced in your draft budget that £200 million will be going this year to the health boards—or the health service—in Wales. I take it that that is not for new plans, because no-one has said that it is. So, really, the increase for next year is only a very small increase on the sum that will be spent this year. Therefore, do you expect there to be room in that budget for improvements?

12:45

[29] **Jane Hutt:** Yes, and I think that, you know, the fact that we are putting £200 million in this year is a demonstration of Welsh Government's recognition of the responsibility that we are taking in terms of the needs of the health service—and, of course, it enables the health service to strengthen its planning arrangements. I think that we would be in a very different place if we had not responded this year as we have in terms of those needs, and it will put the

health service in a better place in terms of moving forward to spend the £225 million next year appropriately. I know that the Minister for health, again, in his evidence to committee, was very clear that this was going to be allocated, including, for example, allocations that would tackle the inverse care law and look also to, for example, the Townsend formula in terms of allocation of finance.

[30] **Christine Chapman:** Obviously, Minister, these are very difficult decisions that you are having to make, bearing in mind the settlement from UK Government.

[31] When we had evidence from local government and the voluntary sector, obviously, we realised that cuts to local government are falling on the non-statutory areas, such as libraries and leisure centres. How have you considered the impact of such services on the Welsh Government's programme for government when determining your budget allocations? Again, using the example we have of libraries, and also leisure centres, how are you actually, you know, coming to terms with that, then, as far as these issues go?

[32] **Jane Hutt:** Well, this does go back, as you know, to your opening statement about how difficult it has been in terms of that 10% real-terms cut. Of course, local authorities have been preparing for reductions. They have not been blind to what has gone on over the border, and they know that we have been protecting local government, and they recognise that that has been to their benefit in terms of the decisions that we have made. Also, I think that many local authorities have already been working together and learning from each other about managing pressures on non-statutory services like libraries. I was interested again to read the committee evidence, for example about local authorities like Ceredigion, which I believe has started to bring its libraries into day centres. Other authorities, obviously, have developed other ways in which they can engage with social enterprise and the third sector in terms of managing services. Some are also looking at other ways in which services can be co-located. So, you know, innovation has had to be at the forefront of local authority response. Where possible, we are helping them steer that, in terms of ministerial engagement.

[33] **Christine Chapman:** Okay, thank you. Obviously, Alun Ffred Jones touched on this, but as far as social services are concerned, we know that local government noted that, as the revenue support grant is not ring-fenced, there is no requirement to spend any additional amount on social services, yet we know that this is such an important area. How will you ensure that this additional funding is used as intended?

[34] **Jane Hutt:** Well, the additional £10 million that we are putting into social services has again cushioned the impact in terms of the reductions to the revenue support grant. We put that additional £10 million in because of the identified need, and that came through the integrated impact assessments as well. It is something where it is not ring-fenced, but we will be monitoring it very carefully, as we do, for example, with the 1% in terms of schools funding, and, indeed, up until 2013-14, we were putting additional funding into social services, over £30 million, and we were able to monitor and identify how each local authority had spent that money. In fact, I remember the former Deputy Minister for Social Services reporting on the fact that that spend had been used for social services, but also looking at how it had been used for social services. I think that that is going to be equally important for us to monitor in terms of the extra £10 million. It will be allocated according to the social services distribution formula, of course.

[35] **Christine Chapman:** Moving on to the council tax reduction scheme, the draft budget again allocates funding to support this. Could you say something about whether this represents the use of devolved funds to mitigate the impact of UK Government policy decisions? I know that there is disagreement over welfare reform in Northern Ireland and that resulting penalties are being imposed on its budget by HM Treasury. So, could you say something about that, Minister?

[36] **Jane Hutt:** Of course, we did not really have a choice. This was something that just happened. The UK Government abolished council tax benefit, and also cut the funding. So, it transferred the funding with the cut to us. As a responsible Government, I think we felt that we needed to find a way of continuing with the council tax benefit scheme. I think that it is a question of, as you say, whether this is mitigating. Well, of course, we had no choice: we had to do something and we felt that this was the right and responsible decision to make. I think that it is very important to note, in terms of council tax benefit, that there were 200,000 low-income households receiving those benefits. If we had not replaced that, that is more people into poverty.

[37] **Christine Chapman:** Okay. Julie is next.

[38] **Julie Morgan:** I was going to ask about preventative spending. Obviously, I think that the committee does welcome very much the draft budget narrative, where it shows how preventative spending has been incorporated into each portfolio. I think that that is very welcome. Has this evidence of preventative spending been used when decisions are being made about allocating funds both within and between portfolios?

[39] **Jane Hutt:** I think that the focus on prevention, intervention and collaboration, which were very key themes that came up in my budget tour from people on the front line, is also very key to steering the Government in terms of the difficult task that it had in terms of this draft budget. Also, because we have our strategic integrated impact assessment, we were able, earlier on, and also with the budget advisory group for equality, to look at the benefits of investing in preventative measures. In terms of the impact that it had between and within portfolios, certainly within portfolios, it had a key impact, but also in the overall final decisions that we made in terms of investing in the health service, for example health and wellbeing, which of course you could argue is all preventative in terms of the impacts of that.

[40] **Julie Morgan:** Yes, I sometimes think that perhaps everything that we do is preventative, so it is quite difficult, is it not, to decide between priorities? Obviously, the draft budget narrative refers to individual examples of preventative spending. Would it be possible to get together a more comprehensive list of preventative spending measures to identify the proportion of each portfolio that has been allocated to preventative spending year by year?

[41] **Jane Hutt:** It is interesting in terms of your earlier question about what the purpose is of having a preventative focus. It is to get the evidence of how that investment can make a difference. What difference can the preventative spend have on outcomes, particularly in terms of tackling poverty, or indeed mitigating the impacts, perhaps, of cuts and changes as a result of UK Government policies? As you said, though, I think, Julie, the fact is that you could say that a lot of our budget is a preventative spend. However, I certainly would be happy to look at that. I think that the only thing is that we need to look at this in terms of how comprehensive we can make it. We are learning from others in terms of their focus on preventative spend, but I think that it has to go back to what the impact is of this preventative spend. Sometimes, it is much easier to say that smoking cessation has had a huge impact on health, as you can say that very clearly, and examples have been given. However, I would certainly be prepared to have a look at that.

[42] **Julie Morgan:** Thank you very much. You talked about early intervention and, obviously, Flying Start is an area where the spending has been maintained, but I do not think that we have got a clear idea yet what will be the full benefits of Flying Start in terms of the evaluation that has been done so far. Do you have any views on that, because obviously the early intervention that Flying Start brings about is something that I think we all welcome, but I do not think that there is much evidential stuff coming out yet?

[43] **Jane Hutt:** I mentioned earlier on how important evaluation is, because it has to guide us in terms of whether we are investing in the right places in our programme for government. Should a programme be amended or adjusted, like Flying Start, in order to learn lessons from interim evaluations? Also, for some, the impact can be longer term, and it is difficult, even within the space of four years, or three years with this interim evaluation, to say what has been the major impact. However, I think that you can draw from the Flying Start evaluations—and I think Lesley Griffiths picked this up at her committee—the fact that Flying Start is having a positive impact, if you look at the outcome for families living in Flying Start areas. We need to make sure that we are targeting effectively and appropriately. One example that is very important to the future health of children is that the percentage of immunisations in Flying Start areas increased from 76% to 78% between 2011 and 2013. That is a greater increase than that in non-Flying Start areas, and we know that that has been very important in terms of recent needs. Also, for those experiencing the Flying Start programme, there is research saying, it has been life-changing for some high-need families. So, I think that there are positive benefits, and all of us who know Flying Start and have visited Flying Start in our communities will also know of the more, perhaps at this stage, anecdotal evidence that you get from follow-on through to the schools, which say that these children are coming with communication skills and links to parenting activities that have been very important to their prospects in education.

[44] **Julie Morgan:** No, I absolutely agree with that. One example that my colleague, Mike Hedges, often uses is Designed to Smile, where you do not know the results, do you, for a very long time afterwards—indeed, if you are able to identify the results? I suppose that it is that sort of area where it is quite difficult to measure the preventative spend. Were you going to come in on that, Mike?

[45] **Jocelyn Davies:** [*Inaudible.*]—doubt going to mention Designed to Smile.

[46] **Mike Hedges:** [*Inaudible.*]—another one of my favourites is Flying Start, but I am not quite sure that the people doing the evaluation understood what they were doing, in the sense that they came up with the statement, in the national evaluation of Flying Start impact report, that

[47] ‘no statistically significant differences between Flying Start and non-Flying Start areas in terms of child outcomes’.

[48] Does the Minister not agree that that is actually a success, because that means that those children in a Flying Start area have reached the same level as other children, rather than being behind, as they previously were?

[49] **Jane Hutt:** Yes, I would agree with that, Mike. However, I think, also, at this stage—because some of this is much longer term—that evaluation has showed that there is, as I have said, improved language development, social and emotional development and cognitive outcomes for children. If you do not get there at that stage of a child’s life, they are going to be disadvantaged for the rest of their educational experience. So, I think that Flying Start is proving itself, and you have demonstrated how.

[50] **Jocelyn Davies:** Is that okay, Mike and Julie?

[51] **Julie Morgan:** Yes, thanks.

[52] **Jocelyn Davies:** You are happy. Peter, shall we come to your question?

[53] **Peter Black:** I just want to follow up that line of questioning, first of all. I think, Minister, the issue on preventative spend is that, often, we talk about inputs without looking

at outcomes, and I must say that Flying Start may be an exception to that, in that there are clear outcomes there, which have been demonstrated. Secondly, sometimes we get lost in the value of individual schemes without looking at the overall outcomes for the expenditure, and I think that Communities First is a good example of that, with £75 million going on Communities First to improve people's cooking skills, and, in my area, some of that money is being used to fund Zumba classes. I am sure that that is very valuable, but you cannot actually see the outcomes in terms of how it improves the economic, educational and health outcomes of the particular area that is being invested in, because those sorts of things do not seem to be measured properly by the Welsh Government. Are you concerned that, in terms of the expenditure on preventative spend, the Welsh Government, across the piece, is not being consistent in the way it is measuring outcomes?

13:00

[54] **Jane Hutt:** Well, this is where you have a programme for government that has to be joined up, and clearly some of that is expressed and demonstrated through the portfolios, and so the Minister with responsibility for Communities First and the Ministers with responsibility for housing and Supporting People are all very closely engaged in terms of identifying impacts and joining up Government. So, it is a key point that we have got to make sure that we are looking at outcomes, as you say, Peter, and that there is clearly, through our evaluation, cross-referencing and cross-evaluation in terms of the impact of our spending. I think that that is something that, again, we can learn from in terms of improving our preventative profile.

[55] **Peter Black:** I agree with you that it should be joined up. What I have just illustrated is that it is not joined up, and I think that there needs to be a much better focus across Government and consistency in terms of how these outcomes are measured and presented.

[56] **Jane Hutt:** Yes. Well, that is something where, again, if we were to do a piece of work—and I am not saying that we could do it tomorrow—looking at the preventative spend in relation to outcomes, it might be helpful if we did that in terms of the cross-cutting relevance of some of our programmes. However, Communities First, as you know, has been reshaped in order to focus on the key themes of the budget and to make sure that we are addressing those barriers in terms of addressing worklessness and those barriers in terms of health and wellbeing as well. So, I think that you will see examples, and not just of—. Mind you, Zumba is very good for health and wellbeing, I understand. [*Laughter.*]

[57] **Peter Black:** Apparently it is, yes. My wife swears by it, but I think that I am waiting to see the proof in terms of Communities First. Obviously, that is a matter that I would need to take up with the relevant Minister. One of the themes in the evidence to the committee was the preventative nature of key parts of local government spending, which benefits the wider public sector and the NHS in particular. What evidence was sought of the wider preventative aspects of local government services before you decided on the level of funding?

[58] **Jane Hutt:** As I said, prevention and preventative spend have had to be identified by every Minister in terms of budget setting and looking at the emerging evidence in terms of evaluations and outcomes. We are tested, obviously, and rightly, in terms of the annual report on our programme for government. We are tested in terms of the data that are coming forward in terms of impacts. I think that our decision to protect the 1% funding for schools and Flying Start is very clearly steered at supporting local government in terms of preventative interventions. We have actually put nearly £106 million of extra funding into schools' budgets as a result of our priorities. So, it is demonstrated by the decisions we have made.

[59] **Peter Black:** Yes, I accept that. I think that, from my understanding of social services, a lot of that spending is preventative, especially when you deal with clients, trying to

prevent them from taking up other services. However, of course, only 2% of the health budget is preventative, according to the Minister. Does the fact that you are reallocating local government spending to health mean that there will be an overall reduction in the amount of preventative spending because there will be less for social services and more for health?

[60] **Jane Hutt:** Yes, I do not think that the 2% figure is very helpful, is it? Actually, that 2% only identifies—. My understanding is that that is based on those very clearly demonstrable projects and programmes, such as immunisation, where you can see that it is preventative spend—

[61] **Peter Black:** Nevertheless, that is what Mark Drakeford put forward.

[62] **Jane Hutt:** —but, actually, I would say—and I think that the Minister would also say this—that so much of what is spent on the health service is preventative spend. The other interesting thing is that, if you look at things like substance misuse, for example, there is a £27 million investment in substance misuse. That is considered to be preventative. Much of the investment in the funding allocated to local health boards is going to be preventative. So, I think it is something where it is not necessarily very helpful to put a percentage around an allocation, but what is helpful in terms of that 2% is to see what specific public health measures can do in terms of prevention.

[63] I would also say very quickly that, if you put money into health, as I am sure that you know, the evidence is that you are helping people on low incomes. It is about investing in health. I think that that is what Michael Marmot said when we came to Wales earlier this year—if you are investing in health you are investing in tackling inequalities. I do believe that that is a preventative spend.

[64] **Jocelyn Davies:** Minister, you can justify the spend on health without saying that it is preventative, because most of the evidence that comes before us is saying, ‘If you spend this money on us, we will prevent the health service from having to spend this money’. So, preventing people from having to go into substance misuse programmes is often cited as preventative spend. Nick, did you want to come in on this before we go back to Peter?

[65] **Nick Ramsay:** Yes. It is on this specific point. I am trying to get my head around this, Minister; I think that Peter is as well. Are you saying that the 2% figure—? Does that 2% figure for preventative spend that has been cited before matter, or does it not matter?

[66] **Jane Hutt:** Well, it is very important in terms of the outcomes, because immunisation is going to prevent disease; that is certainly one aspect of that 2% spend. It is very important.

[67] **Nick Ramsay:** What you are trying to say, however, is that that 2% figure is just grabbed out of the air, is it not, because actually there is a much bigger figure than that in the health service that is preventative? I think that that is what you were trying to say.

[68] **Jane Hutt:** No. The 2% is very important in terms of those specific public health interventions, and we should recognise that those are perhaps the easiest ones to show what the outcomes are, such as immunisation. However, in terms of the rest of the spend on the health service, equally, you could say that it has a very strong early intervention and preventative element to it in terms of the impact. If you think of the GP services that we all access, the flu immunisation programme is just one example of preventative spend, but there are other ways of keeping people healthy and well. Free prescriptions, I believe, are a clear example of preventative spend, as they help keep people well and healthy. However, I think that it is very difficult to categorise what ‘preventative’ is.

[69] **Jocelyn Davies:** Just one quick question from you, Nick, and then we will go back to

Peter.

[70] **Nick Ramsay:** I think that the problem that this committee has been having over the last few evidence sessions is that, on the one hand, we are given figures such as the 2%, which is very helpful and we can then analyse that, but, at the same time, witnesses come to the committee and say, ‘Oh well, actually, that 2% is only a small part of the picture, and there is a much bigger picture than that’. So, I think that it is important, Chair, that we actually understand at the outset whether these figures, such as this 2%, are the preventative spend or whether they are not. It is a simple question: is it 2% or is it not 2%? If it is not 2%, then tell us it is not 2% and we will not worry about it.

[71] **Jane Hutt:** Well, I think it is 2% plus, I would say.

[72] **Jocelyn Davies:** At least 2%, that means. [*Laughter.*] Peter, back to you.

[73] **Peter Black:** I think, Minister, we are clearly struggling with definitions here, because I did not pluck that 2% figure out of the air—the Minister for Health and Social Services did. You are citing examples of what you say is preventative spend, but I would say that the vast majority of money going on substance misuse is actually spent on treatment and on people who need to put their addiction behind them. Equally, the money spent on prescriptions is actually spent on medicines to treat people who have an illness—it is not there to prevent them getting the illness in the first place. Do you not think that there is a problem in terms of definition, particularly in health, of what is preventative and what is not? Maybe the Minister has a better handle on it.

[74] **Jane Hutt:** I think that that is something that the Minister for Health and Services will, I am sure, be able to respond to. However, I do think it is something—. I was asked the question by Julie earlier on as to whether we could bring together a more comprehensive focus on what this budget is delivering in terms of preventative spend, and I think that this discussion has identified how difficult it is to grasp that in a way that is meaningful. However, obviously, you have welcomed the fact that we have made a good start, I believe, by actually focusing, for every ministerial portfolio, on what they believe is preventative spend and how they can evidence it.

[75] **Jocelyn Davies:** It is early days, I think, in terms of our looking at preventative spend.

[76] **Peter Black:** Indeed. It is only the third year that we have had that assessment. So, yes. There are some significant examples of support by the voluntary sector, Minister, that benefits the NHS, some of which are under pressure from local government cuts; support for home carers is one example. Have you assessed the impact of the cuts on the voluntary sector in terms of the extra spending that it may actually incur in other areas?

[77] **Jane Hutt:** Just in terms of the engagement with the voluntary sector, I have certainly engaged with it. At all of my budget tour discussions, the third sector was present. I think that its strongest messages were that, if it could collaborate and integrate more with the statutory services work—. As its work is so often in the sharp end of the community, it is very preventative in terms of engaging people to seek solutions to support each other at community level. In terms of impacts of reductions in budgets, that is something that, of course, further into the allocation of those budgets, will have an impact, and I am sure that the third sector will engage. I am meeting with the third sector in the next couple of weeks, before the draft budget debate, to again talk to it and listen to it about what it feels the impacts of this budget are.

[78] **Peter Black:** The third sector brought a number of issues to us, one of which was the

way that it receives its funding. It often receives its funding from grants, but that is now moving towards contracts, and there are issues around core funding. Is it not time that you carried out another review of the way that the third sector gets its funding and the value that it adds to the Welsh economy and to the Welsh Government spend to try to perhaps rationalise some of those things?

[79] **Jane Hutt:** There have been a number of reviews of the code of practice on funding the voluntary sector, the third sector, and that is something that I know will be on my agenda with the third sector when I meet it. It has certainly been on my agenda to discuss with it the issues around grants rather than procurement in terms of commissioning avenues for funding. This is something where—and I know that you will have seen the report from the Public Accounts Committee on grant funding for the third sector—we actually do more direct grant funding than any other part of the UK does. We have a culture of doing grant funding as opposed to contracting out and commissioning through procurement. So, it is a key issue, and it is not just for Welsh Government funding, but also for local government and health boards, which also do not always abide by this kind of code of practice, which we believe is something that all of the public sector should follow. I think that that is where the budget advisory group on equality, which is also drawn very much from the third sector, has been helpful in advising us.

[80] **Peter Black:** I think that that is why I suggested a wider review, because there are other bodies involved in the funding. When we had the third sector in front of us, it was united in its concern about the cuts in the Supporting People programme, which I think that we would all agree is a major area of preventative spend, and has a huge impact for the money spent on it. What evidence did you seek from it before you reduced this allocation?

[81] **Jane Hutt:** Just in terms of the Supporting People programme, as you know, and I know that the Minister responded to this in her appearance at committee, I think that it is important to recognise that the third sector is very involved in it, in the national advisory board—not just Cymorth Cymru but Community Housing Cymru is also very involved with the housing leadership group. The third sector is very involved in Supporting People, and I know that the Minister has been meeting with it to look at ways in which it can manage the reduction in funding. However, it is important to say that, as a result of our budget agreement, we had additional funding of £5.5 million this financial year and, of course, there is going to be £5 million in the draft budget for 2015-16 to mitigate the impact of planned reductions. So, we are recognising that Supporting People comes out very clearly as an area where preventative spend is key. However, also, it links to the prevention of homelessness as well—

13:15

[82] **Peter Black:** Absolutely.

[83] **Jane Hutt:** I know that you have raised this issue in other committees—the link between homelessness and the Supporting People programme. It is very important that the Minister is grasping that in terms of the allocation she has got of the £4.9 million for the homelessness prevention budget.

[84] **Peter Black:** Not to mention the prevention of substance misuse, but there is that £10 million-cut, Minister, so that is quite a substantial reduction.

[85] **Jocelyn Davies:** Minister, can you give us an assurance then that the cuts to that budget will not affect the vulnerable people that it is meant to support? Has there been an assessment of how this is going to be managed so that the preventative part of that spend is maintained?

[86] **Jane Hutt:** I think that the link to homelessness prevention is key. There is no question, of course, that these are very vulnerable people. We are using legislation also, of course—the new legislation—to help, for example, to reduce the costs of homelessness. However, what has been very clear—and it is agreed by the national advisory board and all the partners there—is that they need to target the most vulnerable in terms of reductions in the budget to make sure that they are protected. I think that protected funding for mental health services is important as well as the homelessness budget. So, the Minister is looking very, very carefully at how we can protect the most vulnerable. Going back to evaluation, there is a longitudinal study evaluating the programme's impact on individuals over a period of time. So, I think that that will help us again to see how the resources are being allocated.

[87] **Jocelyn Davies:** But Minister, if, by reducing this budget, you end up spending more somewhere else, there is not any point in reducing this budget, is there? I mean, the evaluation, which obviously was sent to us, seemed to me to be incredibly positive in terms of the value for money for quality of life and savings in other budgets.

[88] **Jane Hutt:** I think that the pilot audit work that has been undertaken on Supporting People has guided local authorities in terms of how they target their resources. I think that, also, they are looking at efficiencies in the way in which they can deliver Supporting People, so there is more regional collaboration in terms of the delivery and management of it, working very closely with local authorities and providers. Of course, the strategic integrated impact assessment addresses this in terms of Supporting People. However, it goes back to the position we are in, which is that we have less money to do, arguably, more. More is needed to be done, and we have less money to do it. So, I think that the mitigation measures that we have put in this year and for next year, which has been through your influence, are very important.

[89] **Jocelyn Davies:** Peter, I see that you are happy. Nick, shall we move on to your questions?

[90] **Nick Ramsay:** Thanks, Chair. I have some quick questions, if that is possible, on long-term financial planning—[*Laughter.*]—and the need for greater assurance in budgets. You have referred to the report by the Institute for Fiscal Studies, Minister, as an example of the basis for medium-term planning. May I ask you what other evidence you might have considered for future funding requirements? In particular, have you given consideration to the Office for Budget Responsibility forecasts?

[91] **Jane Hutt:** Yes, we are moving into a whole new phase in terms of devolution and new responsibilities and, alongside those, new risks as well, which, of course, we have to manage. Also, we have to make sure that we have medium-term planning arranged with good advice. So, the Office for Budget Responsibility forecasts are going to be important and it is going to be forecasting for the first time, as the committee knows, on receipts for all the taxes that could be devolved to Wales as a result of the Wales Bill—

[92] **Nick Ramsay:** That is this autumn, I think.

[93] **Jane Hutt:** —so that is going to be important in the autumn statement in December.

[94] **Nick Ramsay:** You have just touched on the increasing role that the OBR is going to have with the devolution of taxes. Are you concerned that the potential volatility in the revenue from taxes, particularly if the predictions are not completely right, will make it more difficult, on the one hand, to carry out the long-term planning that we think is important? At the same time, we know that the long-term planning has to come more into play. So, there is a tension there. Are you concerned about the ability to predict those devolved taxes effectively?

[95] **Jane Hutt:** We have to take responsibility. Part of the progress for making the devolution is that we take responsibility. It is empowering us. That is what the Silk commission has said—to take responsibility. Obviously, that volatility will produce more uncertainty into our planning process. OBR will be important to us. You have met Robert Chote, as I have. Also, we are getting into place in our Welsh treasury team the capability, expertise—and, indeed, in my tax advisory group—to help us with this. When we go out to consultation on things like stamp duty and land tax, you will very clearly see the responsibilities that those in Government will have to take through scrutiny and making the right decision about how we manage that volatility. In the Wales Bill, we have a new cash reserve of £500 million, which will help us to manage volatility. That is how governments manage.

[96] **Nick Ramsay:** Thank you, Minister. I get the argument about responsibility. I also get the fact that, at the same time, you will have enhanced borrowing powers, which can be used to cover short-term and medium-term volatility. The reason for my question and the concern is that, yes, you will be taking greater responsibility, but if there is a discrepancy or a problem, then sectors dependent on you for funding, which are already hard pressed, may well take an extra burden. I am thinking about local government, because that is the obvious one this year, which, without getting to the whys and wherefores, has taken a cut. Do you think that you will be able to push this idea of long-term and medium-term financial planning to sectors like local government if, at the same time, the volatility and the responsibility you are taking is increasing, and the shortage in funding may end up getting passed on to them, so that they will be in a more difficult position that they are in at the moment?

[97] **Jane Hutt:** We have the protection. In terms of developing the Wales Bill, we have a command paper alongside it. We have a new cash reserve, which is in the command paper, and that will help us to manage volatility. We have a local government finance colleague sitting on our tax advisory group, because it needs to be very much part of that. We will have the revenue borrowing facility in the Wales Bill to help us to manage fluctuations. Local government is already looking—and always has looked—towards the medium-term and long-term scenarios because it raises council tax and it has other fees and charges. It has had to manage that in terms of volatility.

[98] **Nick Ramsay:** It also has borrowing potential.

[99] **Jane Hutt:** It has borrowing.

[100] **Peter Black:** Minister, as you have just said, local government produces medium-term financial plans, which are available to the public. Once you have the Wales Bill through and you have that reserve and more certainty in terms of taxes, will the Welsh Government be following that example?

[101] **Jane Hutt:** We can already learn from local government in terms of its responsibilities, but we are clearly in a different place from local government. We have to have our own policy and legislative framework in terms of how we manage this. It is important that local authorities have a key role to play. For example, they will be considered as an option for collecting some of our new taxes.

[102] **Nick Ramsay:** I have one more question. The Minister for Public Services said that he believes that local authorities could make more use of reserves to support their budgets, and this has unleashed a whole load of speculation about the amount of reserves that local authorities currently hold. As the Minister for finance, what evidence on local authority reserves do you have, particularly on the financial risks faced by each local authority? Given that, what other elements of financial risk faced by each local authority does the Welsh Government consider when deciding on its budget allocations?

[103] **Jane Hutt:** It is no secret what the reserves are, is it? They are published every year in terms of the whole of Government accounts returns. I think the Minister for Public Services would say, as we would, that local authorities have a responsibility to manage their financial risks and to look to their reserves in terms of funding future pressures, and there are clearly some considerable differences between local authorities in terms of their reserves. However, that is very clearly in the public domain and I think it is—

[104] **Nick Ramsay:** Do you agree with him, Minister, that local authorities are not making the best use of the reserves at the moment?

[105] **Jane Hutt:** I certainly do not think that it is for me to say. They have their financial risk, but in terms of using all of the tools that they have available, reserves are part of that. As I said in answer, there are variations, are there not, in terms of levels of reserves? That is something that perhaps local government could think about.

[106] **Nick Ramsay:** A significant amount of that reserve held by local authorities is actually not 'reserve' reserve, is it? It is their pool to cover statutory obligations, so, in the same way that you would distinguish between your 2% and your 2% plus preventative spend, you have to recognise that there are parts of reserves that are more reserved than others.

[107] **Jane Hutt:** Yes, and that is a fair point, which I know that spokespeople from local government have made in terms of their responsibilities. However, what we need is consistency and I am sure that that is a strong message that will come through as a result of these tough times that we are in and tough times that local government is in. There needs to be some consistency, and that is something that the Minister for Public Services has also recognised.

[108] **Nick Ramsay:** But, you do not agree with him that they are not making the most of their reserves.

[109] **Jane Hutt:** It is up to the Minister for Public Services to comment on how local authorities use their reserves. I have made the point that I think that, in these tough times, local government as a whole, and the whole family, should be looking at whether they are using them and whether their levels are consistent.

[110] **Ann Jones:** You have mentioned the strategic integrated impact assessment for this budget, which the committee has welcomed, because it starts to address some of the issues. However, it provides some very limited information on some of the key decisions, such as the negative impacts around reduced funding in sectors and groups. Are you planning to release more supporting detail in the future?

[111] **Jane Hutt:** Getting it right with the impact assessments is quite a challenge and I know that, in past times, there has been a view that we have produced too much information and too many different strands of all the impact assessments that we are undertaking. This year, it is a much more strategic document. The approach that we have taken has been welcomed by the budget advisory group for equality. I think that the impact assessment clearly identifies difficult decisions that have been made and the impacts of those. It is also worth looking at the review of evidence on inequalities in Wales, which has been published and is also on the Welsh Government website, which goes into more detail about the impact of inequalities.

[112] **Ann Jones:** Okay. We have heard evidence in this committee that the three paragraphs that report on the impact of the reductions to local government funding are not sufficient. What people have said is that it does not represent the scale of the adverse impact

facing services, with some services at risk. Do you accept that evidence, or can you provide any further evidence in support of the impact assessment that sits in that document?

13:30

[113] **Jane Hutt:** I think I have answered quite a few questions already in terms of how we have tried to help local government—and not just over the last three years—by alleviating the cuts in terms of local government. With the 3% plus cash uplift to local government, compared with the 7% cut in England to local government, we are still in a very different place in Wales in terms of local government. However, it is identified in the strategic equality integrated assessment that we put in the extra £10 million because we knew that that was going to have an impact in terms of supporting social services. Also, I think that there are other things that we have tried to do, such as the strong push to roll specific grants in to the RSG. That is what local government wants, so that it has more flexibility—

[114] **Ann Jones:** I know what local government wants.

[115] **Jane Hutt:** I know that not everyone agrees with that. We are trying to reduce bureaucracy in terms of integrated planning. Also, local authorities themselves are undertaking their own impact assessments. I think that you also have to look at performance, because, in terms of local government, we know that some do things better than others. You only have to look at the performance programme indicators that come out every year. You see it in some of the specific programmes that we are helping to deliver, like the disabled access facilities grant. The way that local authorities operate is very different in terms of performance. They have to look at their performance as well as reductions in their budgets and learn from each other.

[116] **Ann Jones:** I will resist mentioning the RF words. Looking at this integrated impact assessment, it focuses only on the spending decisions and potential impacts for a 12-month period. How are we going to incorporate the impacts, which may not occur for several years? I think that Julie Morgan made reference to it, and Mike referred to Flying Start, the foundation phase, and Designed to Smile. There are lots of others there that will hopefully see, particularly within health, a better outcome for people, but we are not able to measure that within short 12-month bursts. How are we going to incorporate all of those intergenerational inequalities in the long term?

[117] **Jane Hutt:** It does go back to some of our earlier discussions about investment for prevention and what the outcomes are. You could argue that, with substance misuse, unfortunately you have not prevented the substance misuse, so you end up treating it. Indeed, in terms of chronic conditions in health, we are trying to get people back into work as quickly as possible, and that may require medication. In terms of local government, in particular, we have to ensure that it is learning the lessons in terms of the intergenerational impacts of the spend. We have not ring-fenced social services, of course, and we have not said that it is just for adult social care. It could be for all age groups. In terms of community support officers, again, we have protected that in local government. Arguably, that can also help all age groups. However, I think that it is early days to say that we have that kind of intergenerational evaluation of the age of austerity. Austerity and the cuts that we have to live with, deal with and manage from the UK Government are, we know, impacting on the poorest people, and we know the impact of welfare reform on the Valleys. You only have to read the Sheffield Hallam University research on that. We have to make sure that we are trying to invest where we feel that we can make a difference to all generations. However, there is no question about early intervention: that is key to preventing longer term poverty and ill health.

[118] **Jocelyn Davies:** Julie, did you want to come in on this point?

[119] **Julie Morgan:** Yes. One of the key areas that the Welsh Government has concentrated on, which we have to evaluate its long-term effects, is play. I just wondered whether you had any comments about the fact that, in the letter that the Children, Young People and Education Committee sent to this committee to inform our discussions on the budget, the issue was raised about the children and families delivery grant. In the initial bidding rounds, Play Wales, for example, did not get a grant, but has subsequently been awarded £50,000 in order to help keep it going, which I welcome very strongly. I just wondered how we are able to ensure that key areas of work, when they end up in some sort of bidding process, are recognised.

[120] **Jane Hutt:** That is an example where I hope you will see that Government has been flexible in terms of responding to what appeared to be a great concern about what that meant for the play organisation that had previously received money. However, of course, there was a bigger picture there about trying to integrate—and it is reducing funding—our funding programmes into something that is more strategic. So, that included play, alongside wider children's services. I think that the strategic approach that was set out was important, but the fact that those organisations had to put in proposals, which, perhaps, did not meet all the criteria, caused a great deal of difficulty and some of those organisations were not successful in their first application. Obviously, there have to be lessons learned about that, but I think that the strategic approach should be commended. We perhaps need to look at how we can support organisations in adapting to new arrangements.

[121] **Julie Morgan:** The other body mentioned by the children's committee was Funky Dragon, which, of course, has not received any money since.

[122] **Jane Hutt:** Clearly, there have been ongoing discussions about how youth participation is going to be delivered. I know that we have responded to debates on this and there is a link also to the work that the Presiding Officer is doing with the Commission, which all the leaders have signed up to. So, that is something that, again, has to be taken forward.

[123] **Julie Morgan:** I was bringing forward those examples of where there appeared to be a clear mismatch between the priorities of the Government and what actually results in the awarding of grant funding.

[124] **Jane Hutt:** That point I made about preparing organisations that have been delivering services over a period of time for new arrangements has to be looked at very carefully, because, obviously, there was a change of arrangement and also a reduction in funding. We need to look at this very carefully in terms of future rounds and still look at what the impact is now. The Minister is looking at this, particularly in terms of youth participation.

[125] **Jocelyn Davies:** Mike, shall we come to your questions?

[126] **Mike Hedges:** I will start off with a very short one first, before I move on to my other questions. You mentioned the DFGs: is it not the problem with DFGs that future grant funding for DFGs is based on the current year's expenditure, so those that are not spending much do not get as much in future years to fund them, so they will always be behind?

[127] **Jane Hutt:** There has been clear evidence that the way DFGs are delivered has varied across local authorities. I seem to remember at one stage having a presentation about Neath Port Talbot fast-tracking DFGs compared with other authorities. I think you make a good point.

[128] **Mike Hedges:** I have a couple of questions. The first is on smaller budget areas, which have not been disproportionately hurt but have actually lost sums of money, which makes it very difficult for them. They include things like the Welsh language, Communities

First and Supporting People, and so, because they are dealing with such small sums of money anyway, the reductions can have a disproportionate effect on them. Do you accept that comment that they can have a disproportionate effect on them and is there any way that they can be protected?

[129] **Jane Hutt:** Well, you have to look at the programmes and the benefits and outcomes of those programmes. It may be a smaller budget in the scale of things, compared with health, for example, but there is no question that we have to look at the adverse impacts of cuts on those areas. That is something that Ministers are very closely engaged with and have been in terms of draft budgets. As we move into actually implementing this budget, it will become a big issue, particularly in terms of grants.

[130] **Mike Hedges:** I will start off by saying that my constituency probably has as much money in pupil deprivation grant as any other in Wales. What I am going to say though is that you have had an evaluation that has focused on the implementation of it. When do you expect to actually have some information on whether it is cost-effective or not?

[131] **Jane Hutt:** I mean, I think it is very important that it is about the positive findings that we have on the outcomes of this. One of the most important things is that this is focusing on the most disadvantaged children in Wales in school and making sure that the funding is targeting them. If you look at the evaluation, over half the interventions that are now being used in primary and secondary were not running in schools prior to the PDG's introduction.

[132] **Mike Hedges:** So, when would you expect to start seeing actual benefits coming through at key stage 1 or key stage 2 or GCSE? When should we start seeing the benefits of this expenditure? We are spending an awful lot of money per child through the pupil deprivation grant. If a child starts school now and stays there for 11 years, they will perhaps have £11,000 more spent on them than the child sitting next to them. When is that financial benefit going to be shown in terms of results at some stage?

[133] **Jane Hutt:** Of course, it is early days, but we are undertaking the evaluation. I have already given you some clear numeric impacts in terms of how schools are investing, particularly targeting disadvantage. It is like Flying Start; there will be a time lag in terms of data around impacts, but I think that it is very clear that the investment is reaching the children who need it in those schools. I think that the fear that schools had that they would not be getting PDG next year at the levels that they get—and, of course, they are getting a bit more—was considerable.

[134] **Jocelyn Davies:** Minister, I suppose that an evaluation would tell you that you could spend the same money in a slightly different way and get a better result from it. I mean, that is the point of an evaluation, is it not? It is not just, 'These are the pupils that we want to target, this is the money, and this is how we are going to deliver it'. Surely, an evaluation allows you to make adjustments, perhaps, to a programme that would result in a better outcome.

[135] **Jane Hutt:** That is a very fair point in terms of the guidance that we give to local authorities. Certainly, that is what the Minister is seeking to do—to improve the guidance, even at this stage, in terms of the early days of evaluation.

[136] **Jocelyn Davies:** Are you happy?

[137] **Mike Hedges:** Yes.

[138] **Jocelyn Davies:** Minister, if we could just go back to the health sector, we heard from it that additional reforms are required to allow citizens to manage their own healthcare, and I noticed that you mentioned this earlier on in this session. So, do you support the need

for that type of reform, and how will that be funded? Actually, I did wonder, what it would mean.

[139] **Jane Hutt:** I think that the Minister for Health and Social Services is the key Minister to report on his plans for prudent healthcare, which is very much linked to the development of primary healthcare, strong and resilient local community care services and also developing and building on the integration of health and social care, and also looking at those key policy perspectives, like tackling the inverse care law and helping to tackle poverty. However, I think that the prudent healthcare approach is part of a framework, the NHS Wales planning framework for 2015-16, about how we should use that investment differently. Clearly, this is based on the evidence that we have that we could improve outcomes for patients and their carers and tackle the fundamental causes of ill health rather than just treating people when they fall ill.

[140] **Jocelyn Davies:** So, this is not about denying health treatments to certain groups of people because of the lifestyle that they choose or poor choices, so that, I do not know, people who eat too much cheese are not allowed to have their athlete's foot treated or something. Obviously, you can justify it sometimes: clinically, you can say to somebody, 'Well, you need to lose weight before you have this operation' but it did seem to me that there was a hint there that this could go a lot further, that people making choices that the Government does not approve of might be denied treatment.

13:45

[141] **Jane Hutt:** I know that the Minister would be very concerned if that, in any way, had come over as what the ambition of prudent healthcare is. One point was made earlier on that, actually, there are other things that we invest in that can prevent ill health, and they include things like our investment in leisure centres. In fact, when I was talking to people from leisure centres on the budget tour, they said, 'We ought to be called health centres not leisure centres.' Also, there is the fact that we still have the very pioneering, from years back, exercise referral schemes where, instead of going for drugs, you go for an exercise referral. This is really what we are talking about. Prudent healthcare is not just about the health service.

[142] **Jocelyn Davies:** I was not suggesting that eating cheese would give you athlete's foot. It was a silly example, but the point that I was making was that, for making poor choices, you might be denied access to healthcare that you needed, and that certainly seemed to be the implication of what we were being told. However, what you are saying is that perhaps your GP would give you access to a local gym rather than write you a prescription for blood pressure tablets.

[143] **Jane Hutt:** And also workplace health is very important. So, we do have a focus on healthy working places, as well.

[144] **Jocelyn Davies:** The health sector also told us that the additional £200 million provided for 2014-15 was to plug a gap rather than to deliver new services. So, just to clear up this confusion, has this additional funding been linked to any need for reform?

[145] **Jane Hutt:** It is very clearly linked to the three-year integrated planning process, which was mentioned earlier on. As you know, not all health boards, but I think four, have had approved medium-term plans and six have got their annual plans in place. So, it is clearly linked to reform.

[146] **Jocelyn Davies:** It is clearly linked to reform and it is not just about a bail-out or plugging a gap.

[147] **Jane Hutt:** Absolutely not. They are going to be scrutinised very clearly. Indeed, the fact that not all the plans have been approved fully by the Minister, I think, is an indication that they are going to have to deliver the right plan—a reform plan—and the allocation of that £200 million is very linked to the three-year planning process.

[148] **Jocelyn Davies:** Okay. I notice in the—. Yes, Ffred, go on.

[149] **Alun Ffred Jones:** Let me get this clear, then. So, the £200 million that is going to be allocated this year is linked to these three-year plans, yet only four, did you say, health boards have three-year plans?

[150] **Jane Hutt:** Well, it is linked to the planning process, so we are still in the financial year where, we are hoping, the Minister and his officials are working with all of the organisations to get them up to speed. However, the £200 million is linked to the delivery of outcomes—

[151] **Alun Ffred Jones:** So, unless they have approved plans, they will not be receiving this extra money.

[152] **Jane Hutt:** The Minister will be deciding how he is going to allocate that funding and, clearly, that funding is being allocated, back to the Chair's question, in terms of the focus in those plans on improved delivery of the health services in their areas and achieving efficiencies and the integration in terms of their medium-term plans.

[153] **Alun Ffred Jones:** I am sorry to labour the point, but is it linked to these plans being accepted or is the extra money going to be distributed anyway?

[154] **Jane Hutt:** My understanding is that the allocation is dependent on each health board showing significant improvements in both finance and performance delivery in this financial year in line with its plans.

[155] **Jocelyn Davies:** I notice that the Nuffield report, in its introduction, mentions the announcement that you made last year of £150 million for spending

[156] 'to avoid a scandal such as the one in Stafford Hospital'.

[157] So, this extra money this year is not about avoiding a crisis, but about putting them on a firm footing in order that—

[158] **Jane Hutt:** Yes.

[159] **Jocelyn Davies:** Have you discovered that in the development of these three-year plans? I have to say, in the evidence that we took for that legislation, all the health bodies said, 'If we had this freedom, we would be fine', and it does not seem that that has become a reality. Well, not yet, anyway.

[160] **Jane Hutt:** Well, we have still got a bit of time to hopefully get those three-year plans into place by the end of this financial year, but you are absolutely right. This is about safeguarding our services, clearly, but it is 'strings attached', is it not? It is in terms of delivering on their integrated plans.

[161] **Jocelyn Davies:** Julie, shall we come to your question?

[162] **Mike Hedges:** May I come in?

[163] **Jocelyn Davies:** Yes, okay, Mike.

[164] **Mike Hedges:** I have three very brief questions. The first is: have you talked to the Minister for health about pharmacy? That does seem to be an area of growth, and a number of people, including Drs Hart, Tony Beddow, Wayne Pritchard and Jonathan Richards, think it is a case of concern.

[165] Secondly, we talked about one Nuffield report. The other Nuffield report, on the four health systems, shows that in-patient admissions per hospital doctor between 1999-2000 and 2011-12 dropped by about 25% in Wales—the biggest drop of any of the four.

[166] Thirdly, again, an expert at the Cochrane centre for meta-analysis concluded in 2012 that treatment in the borderline range of blood pressure is more likely to harm patients than to help them, except in people with diabetes. I—

[167] **Jane Hutt:** Well, I do—sorry.

[168] **Mike Hedges:** I am just saying. I do not expect you to answer any of those in detail, but are we sure that we are spending this money on health and that we are not doing more harm than good to patients?

[169] **Jane Hutt:** I do think that those are very specific questions for the Minister for health, but I think that it is important that they are on the record.

[170] **Jocelyn Davies:** It is always nice to have them on the record. [*Laughter.*]

[171] **Jane Hutt:** They are on the record, and I shall be feeding them back to him.

[172] **Jocelyn Davies:** Yes, thank you. Julie, shall we move on to your question?

[173] **Julie Morgan:** Yes. The health panel that we saw said that they were concerned about the reduction in capital and how that made it difficult to plan, although one point put to us was that health should be less focused on buildings. I just wondered whether you had a comment on that.

[174] **Jane Hutt:** Yes. The fact is that core funding on capital has not changed, but what does happen is that we have an all-Wales capital programme and we have our Wales infrastructure investment plan, and the spend of that fluctuates according to business plans being ready. I mean, there can be delays. So, I think that we need to put the record straight on this, in that there is not a reduction to capital, but there can be fluctuations in the spend of the capital programme. For example, you know that, earlier on this year, I announced an additional £18 million to £19 million on diagnostic equipment, and some of that is about a swift response to, perhaps, an underspend in one area in terms of capital, and making sure that we can use it for something that is very clearly needed. So, I want to reassure the committee and perhaps, via the committee, the panel that there are not cuts in the core capital programme.

[175] **Julie Morgan:** Thank you. In terms of managing assets, do you feel that there are strong strategic asset management plans across the NHS?

[176] **Jane Hutt:** The NHS does have its own estate plan, which is key in terms of the management of its strategic assets. It has to look not just at what its assets are—the asset base—but also at modernisation. Of course, there is not so much of a focus on buildings, but the ones that we have need to be modernised and refurbished, and they do need to look at

investments in the future. Of course, that does include primary care investments, as well. However, it is an estate plan, and there is an asset in that that has to be managed, in terms of that asset base.

[177] **Jocelyn Davies:** Nick, shall we come to your question?

[178] **Nick Ramsay:** Yes. The local government panel has noted that, despite the publication of the Williams commission report, no business case or any overarching strategy has been produced for mergers. What evidence can you provide on the impact upon services from the proposed mergers?

[179] **Jane Hutt:** I think the Minister for Public Services has addressed this in terms of his published prospectus. That is clear in terms of the challenges facing public services and is recognised in terms of the next stage, which is the voluntary mergers. There are opportunities now and business cases would have to be developed in terms of those voluntary merger arrangements.

[180] **Nick Ramsay:** However, as of this moment, there is no business case for those mergers. How can local authorities be expected to make a leap in the dark if there is no business case?

[181] **Jane Hutt:** Well, there certainly was a commission, which included a wide range of interests, and the Williams commission report very clearly came out as saying that the status quo was not sustainable. For some years, we have been moving towards more collaboration, and it is very important that we again go back to focusing on prevention, early intervention and collaboration. This has to be about ways in which we can move forward and ease the pressures on local government. However, I think that, when we get to the point that we are looking at the business case for this, it is going to be ensuring that that prospectus that has been published is a guide for those business cases.

[182] **Peter Black:** Minister, I would like you to clear something up, if you can. In your evidence on the draft budget, you said that no funding would be provided for local government reorganisation and that the cost of local authority mergers would need to be met by local authorities themselves. That seems to contradict what the Minister for Public Services has been saying. Could you just clarify where those costs are going to be met?

[183] **Jane Hutt:** I cannot recall my exact words, but I did say—and I have just said—that, clearly, we need to look at business cases for any voluntary merger proposals that come forward. There are many ways in which, in terms of those proposals for mergers, those organisations can be helped. Money is part of it, I am sure, but it is the expertise and the support that can be provided to those organisations. However, clearly, we have to address this as the business cases come forward.

[184] **Jocelyn Davies:** So, does that mean that there could be money from your reserves to fund mergers?

[185] **Jane Hutt:** The reserve is all we have got. We have not got money in the draft budget. However, it is important that we recognise that we need to look at these business cases, and that local authorities have the opportunity to consider that. One of the important things, of course, for the future is the fact that the Minister has also set up this public services staff commission, because that is an area where there are particular concerns about the impact on staff and cost.

[186] **Jocelyn Davies:** Nick, did you have a question?

[187] **Nick Ramsay:** Yes, just to clarify what the Minister has said. So, local authorities are being asked to come forward with voluntary merger plans. We do not have any business cases at the moment, so we do not know what the impact on public services will be, or the savings to be made. On top of all that, they may be expected to do it without any commitment or funding to fund the mergers process. Is that not all a little bit strange?

[188] **Jane Hutt:** I do not think that there is anything contradictory in what I have said about the fact that we do know that there would be costs in terms of merger, transition and change, and we are prepared to discuss that. However, I think the Chair has hit the nail on the head: we do not have anything in the budget, but we of course know that these are contingencies and we would have to look at this in terms of how we could resource mergers.

[189] **Jocelyn Davies:** Depending on the case presented to you, you are not ruling out the use of reserves, although I do not think that you are opening up your reserves for dipping into by local authorities. However, you are not ruling it out at this point.

[190] **Jane Hutt:** Members here will be quite clearly aware of the fact that we do not have large injections of cash available to take this forward. However, we do need to look, as has been said very clearly, at what local authorities come forward with in terms of proposals. It is not just financial, either.

[191] **Jocelyn Davies:** No, no. Nick, are you happy? Yes. Mike, shall we come to your questions?

[192] **Mike Hedges:** On invest-to-save?

[193] **Jocelyn Davies:** Yes.

14:00

[194] **Mike Hedges:** Looking at the current report, there are two very big expenditures: NHS voluntary early release, which is £5.5 million or just under £6 million, and roughly half that for the exit scheme for Natural Resources Wales. Are you concerned that a substantial amount of invest-to-save is being used now for redundancies and early retirement? Are you also concerned that both of those schemes show no payback in the first year and that payback is in some time in the future?

[195] **Jane Hutt:** I am not concerned about the payback in the future, because that is an agreed business case and there will be payback. I think that it is very important that we support our public services in terms of managing workforce pressures, and some of that is about workforce transformation and that is where early release is a very key element. It has enabled the health service, for example, to improve its services and to gain efficiencies. I think that it has a very important role to play in terms of invest-to-save.

[196] **Mike Hedges:** Why can they not start paying back in the first year, after people have left and you have engaged the expenditure? Surely, saving must start from the first year onwards.

[197] **Jane Hutt:** Well, if it is possible to gain early repayment, that would be welcome. It certainly depend on advice from my officials in terms of enabling those organisations to manage that change and to manage the release of staff in a sustainable way. So, I think it goes back to how you manage risk. As long as we know that we are going to get that payback, then that can be factored into our invest-to-save budget projections.

[198] **Mike Hedges:** Sorry, but my understanding was that, under invest-to-save, you had

the money one year and from the following year onwards you started paying money back, which is what happens in lots of other examples such as digital records for Aneurin Bevan Local Health Board, a review of staffing levels for Sport Wales, Paperless Wrexham, et cetera. You seem quite happy, however, that the two biggest are not going to pay back until after the second year or later.

[199] **Jane Hutt:** Yes.

[200] **Jocelyn Davies:** The Minister is content with that as a proposal, and it might make—Peter, shall we come to your questions?

[201] **Peter Black:** Yes. Thank you, Chair. Obviously, we welcome the various additional disclosures provided in this year's draft budget, including the estimated costs in 2015-16 of the impact of new Welsh legislation. Most of the information shown is stated to be based on the information contained in the original regulatory impact assessments, although it is stated that some further work has been done. To what extent has further work on costs been done, and how does this compare with the original expected costs?

[202] **Jane Hutt:** I am glad that you recognise the importance of that separate identification in annex D of legislation costs. Clearly, as you progress with legislation, you have the regulatory impact assessments. In terms of draft legislation, you need to make sure that those are robust, but then, of course, as we work through legislation, the scrutiny of financial costs will be important to test out the estimation that we have. It is very important to make sure that that is all transparent so that we can be scrutinised and also, if necessary, can make adjustments.

[203] **Peter Black:** I am sure that the regulatory impact assessments are robust, Minister, especially those produced by Government. Is there actually a big difference between what the outcome is and what the original provision was?

[204] **Jane Hutt:** I suppose that you could say that it is still pretty early days in terms of implementation of our legislation, although we got through a big programme in the last four years. They are the best estimates that we have in terms of financial impact. It is also about timescales in terms of the costs that would arise. It is about the best estimates, and then we have to make sure that costs are absorbed into the budget process.

[205] **Peter Black:** Okay. The disclosure shows associated costs for some recent legislation. However, there is earlier legislation that will also be impacting on the current budget. To what extent can that be reported?

[206] **Jane Hutt:** Well, I would hope that that could be assessed. Some of it will probably start to be reflected in terms of budget projections and budget costs as well—core budget costs—because you want to finance legislation for a purpose, but, then, of course, it will become part of service delivery.

[207] **Jocelyn Davies:** Thank you, Minister. We have got to the end of all the questions. As normal, we will send you a transcript. I would be very grateful if you would check it, and then we will be able to publish it.

14:05

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod**
**Motion under Standing Order 17.42 to Resolve to Exclude the Public from the
Meeting**

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

the committee resolves to exclude the public from the remainder of the meeting and item 1 of the meeting on 6 November 2014 in accordance with Standing Order 17.42(vi).

[209] Is everyone agreed? Thank you.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 14:05.
The public part of the meeting ended at 14:05.*