



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

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Llun, 31 Hydref 2011
Monday, 31 October 2011

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Cynnig Gweithdrefnol
Procedural Motion

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches 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**

Jeff Andrews	Cynghorydd Polisi Arbenigol, Cynllunio Strategol, Cyllid a Pherfformiad Specialist Policy Adviser, Strategic Planning, Finance and Performance
Jane Hutt	Aelod Cynulliad, Llafur (Y Gweinidog Cyllid ac Arweinydd y Tŷ) Assembly Member, Labour (the Minister for Finance and Leader of the House)
Andrew Jeffreys	Dirprwy Gyfarwyddwr, Cynllunio Strategol, Cyllid a Pherfformiad Deputy Director, Strategic Planning, Finance and Performance
Jo Selway	Dirprwy Gyfarwyddwr Dros Dro, Cyllido Strategol Acting Deputy Director, Strategic Budgeting

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

Dan Collier	Dirprwy Glerc Deputy Clerk
Tom Jackson	Clerc Clerk
Sue Morgan	Cynghorydd Cyfreithiol Legal Adviser

*Dechreuodd y cyfarfod am 3.01 p.m.
The meeting began at 3.01 p.m.*

**Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions**

[1] **Jocelyn Davies:** I welcome everyone to this meeting of the Finance Committee. You will notice that headsets are available. As always, translation is to be found on channel 1 and amplification on channel 0. Everyone should check that their mobile phones and other

electronic devices are switched off. We are not expecting a fire drill so, if you hear an alarm, it is a genuine emergency.

3.02 p.m.

Cynigion Cyllideb Ddrafft Llywodraeth Cymru ar gyfer 2012-13 Welsh Government Draft Budget Proposals for 2012-13

[2] **Jocelyn Davies:** I welcome to the committee the Minister for Finance, and thank her for returning to us for scrutiny. Thank you, Minister, for agreeing to attend this meeting. Have you any introductory remarks before we go into questions?

[3] **The Minister for Finance and Leader of the House (Jane Hutt):** Yes, thank you. I am glad to have the opportunity to attend the committee again to talk about the Welsh Government's draft budget proposals. Since we last met, the scrutiny committees have considered our spending plans, and I have been looking carefully at the outcomes of those meetings. There have been very constructive discussions here in the Assembly, as well as constructive responses and comments from our key partners and stakeholders to the budget. I know that you have been co-ordinating some of those responses.

[4] I want to touch on the issues that seem to be raised consistently during the evidence sessions before we go on to questions. I recognise that there are issues regarding presentation and the transparency of our budget proposals, and I want to learn from you how we can improve, if that is important, or explain how we have made the presentation this year. Some of those points relate to specific portfolio issues; it is about how the Ministers have reprioritised or restructured within their main expenditure groups. The principle of how we present the figures in the budget and show changes against the latest published plans is also important. I am sure that that will come up in questions. I want to hear your views about how we can move forward constructively on that.

[5] I assure the committee that the way that we have presented the figures this year is the standard approach that we have always taken when we have already published a set of indicative figures. Concerns have been expressed about the level of detail that we provide when we publish the budget, and I know that this has been a particular issue for the third sector. I assure the committee that I am meeting representatives from the third sector next Monday as part of the voluntary sector partnership agreement's talk about the budget. I have already said that, as far the Wales Council for Voluntary Action is concerned, I have asked my officials, for example, to provide a breakdown of budget action tables, as we provided last year, and there has been correspondence to ensure that we can take that forward. There is no easy answer as to how much detail we should give—there is no single budget format that will answer all the questions. However, we want to respond when people have different interests and want to dig deeper in terms of the budget.

[6] The point about the impact of cuts on our capital budgets has been raised across the board in terms of the committee's response and scrutiny. We have been very open about the challenges that we face in responding to UK Government budget cuts, particularly in relation to capital. I am sure that that will be reflected in our discussions. That is why I am pressing the UK Government on a number of fronts, including on the case for borrowing powers. Work has been progressing alongside budget scrutiny.

[7] Finally, to update the committee, I met UK Government Ministers last week regarding finance issues, particularly regarding financial reform and the infrastructure. I met Lord Sassoon, the UK Government Minister for infrastructure, and also Danny Alexander, the Chief Secretary to the Treasury. At both meetings, I pressed the Welsh Government's case for immediate access to borrowing and for proper consideration of our needs in the UK

Government's infrastructure investment plans. Our needs need to be at the forefront in those considerations. I had very constructive meetings with Lord Sassoon and Danny Alexander, and I also met the Secretary of State for Wales. I emphasised the importance of transport infrastructure to the Welsh economy, particularly the acceleration and extension of rail electrification. Those were important meetings, and I wanted to feed that back to you.

[8] We also took stock with the Chief Secretary to the Treasury of my work in terms of inter-governmental talks, and the links to the Silk commission, which meets for the first time this week. We agreed to meet again early in the new year regarding the inter-governmental talks, so I am glad to have the opportunity to feed that back to the committee.

[9] **Jocelyn Davies:** Thank you. We are very grateful for that. In looking back at last year's committee report, concerns were expressed then about budget planning, the setting of objectives and monitoring value for money. So, it was about improving the planning process in general. Will you outline how you have taken up those concerns, and whether that process is better now?

[10] **Jane Hutt:** The programme for government provides us with a very important way forward in terms of our planning processes. The programme for government sets out our plans on how we will seek to deliver our ambitions for Wales, and the outcomes that we want to see from those plans. Progress will be measured and we will report on progress through the annual report. The programme for government was developed alongside the budget, which will provide a more coherent package in order for the committee, the people of Wales and our partners to ascertain how we are delivering in terms of outcomes. The programme offers greater coherence between our business planning and the Government's objectives, but it is about ensuring that we can have the basis for detailed business planning and for monitoring progress.

[11] **Jocelyn Davies:** Paul, I think that you wanted to pursue the monitoring of progress.

[12] **Paul Davies:** Yes, thank you, Chair. Minister, you mentioned the programme for government and the importance of delivering outcomes. I know that the First Minister has made it absolutely clear that his Government must concentrate on outcomes and delivery. However, a number of committees have raised concerns with us that there appears to be a lack of targets against which value for money can be assessed. How will you evaluate whether or not value for money has been delivered, and how will this be assessed? Will this be published?

[13] **Jane Hutt:** The programme for government does not affect our approach to setting targets. It sets out our aims and the actions that we will take, which have been costed in the budget, and the indicators that will be used to judge progress. It does not affect existing or new targets that are set out in detailed policy. The important point, of course, is the annual reporting, and I know about the expectations of annual reporting in terms of delivering on the programme for government. Annual reporting will be very important in terms of providing information on how we have delivered in terms of our performance against established targets.

[14] **Paul Davies:** The last time you appeared before us you said:

[15] 'We have very specific targets in terms of the five that were included in our programme for government.'

[16] I presume that the 'five' you were referring to are the five pledges for a fairer future. You went on to say in your response that:

[17] 'As you know, we go further in the annex. There is one for each chapter of the programme document.'

[18] I can see plenty of aspirations in the Government programme, but can you give us some examples of specific targets?

[19] **Jane Hutt:** Clearly, the target—particularly at this time, with unemployment rising to unacceptably high levels—of ensuring that the Jobs Growth Wales scheme provides those all-important employment opportunities for 4,000 young people over three years, with the funding that is allocated to that scheme, is a very specific target and outcome. Doubling the number of children that will benefit from Flying Start, with a £55 million investment, is again a concrete and clear target in terms of the numbers that will benefit, as is the target for 500 police community support officers. Those targets in relation to the five pledges for a fairer future in the programme for government are the clearest targets on which you and the people of Wales will be able to ascertain whether or not we have delivered.

[20] **Mike Hedges:** I have quite a lengthy question. A number of committees raised concerns relating to the presentation of the budget and the level of detail available to them. Some stated that this impacted on their ability to scrutinise the budget, as allocations to particular policy and programme areas could not be identified. Would you be willing to work with the committees of the Assembly to expand upon the level of detail available to them, and how do you think this could be improved? Following on from that, when the Minister for Education and Skills made his presentation to us, there was some confusion over whether things had or had not been moved; he talked about having moved them. Can you confirm that those actions will take place in the next supplementary budget? For most of us, it is much easier if we can just compare like with like when we are comparing past and future budgets. When things are moved, it certainly makes it much more difficult for me to make comparisons. Have you had discussions with Ministers about how to present this information? It is about ensuring that we can scrutinise properly and make year-on-year comparisons to see exactly what is happening. I am sure that it has not been done with any bad intentions, but it has made life much more difficult. Could you speak to Ministers to ensure that there is that level of consistency in future so that we can compare with past budgets when we scrutinise?

[21] **Jane Hutt:** Thank you very much, Mike. My answer to your first question is that I do want to work with the committees to reflect on these differences and learn from them in terms of how it came across to you and to other committees. I have read all the letters from Chairs to both the Ministers and to the Chair of this committee as well, and I recognise that we need to be clear about how we can make it as open and transparent as possible. To comment on the information provided by the Minister for Education and Skills to the Enterprise and Business Committee, it was consistent with the information provided, as I am sure you would recognise, in the main expenditure group action tables, which were published alongside the draft budget. However, in evidence to the committee, the Minister was looking to provide further information on the interim steps that have been taken that do not appear on the face of the budget. That was important in terms of him wanting to explain or to anticipate questions that would have been raised about transfers within baseline. There were particular issues concerning, for example, literacy and numeracy and the school effectiveness grant. This goes back to the difficulty of how much detail you should provide and at what stage.

3.15 p.m.

[22] Throughout this process, not only at the start of it, I talk to Ministers about the response from committees, to ensure that we can respond to committees' questions or concerns and that I, as Minister for Finance, can reflect on those issues. I can confirm that transfers would be actioned in the next supplementary budget. The issue about actioning in the supplementary budget, which does not come until February, is that that is the point at

which I account for those actions. That is important to answer all of your questions. The supplementary budget gives you confidence and enables me to account for changes and any transfers that will take place. I think that that answers your questions. However, if there is anything else that we can do about the nature and format of the information that we present, as a Government, to respective scrutiny committees, we can think more about that.

[23] **Ieuan Wyn Jones:** I will question you further on this. The committee for education was saying that it had the budget before it that said that you were thinking about these transfers as part of the budget, but the Minister then presented a paper as though the transfer had already taken place. Therefore, the committee and the Minister were reading from different sets of figures. That is the confusion. Secondly, we had always understood that transfers within budgets do not need a supplementary budget. So, if the Minister is transferring from one head of his own budget to another, then normally you would not need a supplementary budget; you would normally do that through reconciliation. Why is a supplementary budget appropriate in this case?

[24] **Jane Hutt:** I will bring Andrew in on this point. On your first point, the information provided on the main expenditure group action tables by the Minister for education was the same as that provided by all other Ministers. However, he was seeking to provide further information and to reassure you on how that would be reflected in the supplementary budget. Of course, the ability to move resource within his MEG is within his gift.

[25] **Mr Jeffreys:** The Minister is right. Ministers have the opportunity to move money within their own budgets in-year, and do so on a frequent basis. In a sense, the supplementary budget provides a level of detail that enables the wider public and the Assembly to scrutinise those changes at the point at which they are published. So, come February we will publish a consolidation of the changes that have taken place throughout the year. At any given point in the year, the published budget is a little bit, or quite a lot, out-of-date. So, in February, we publish the supplementary budget that provides the most up-to-date figures that are available. So, part of the difficulty in that committee was that the Minister's working budget was a bit different to the published budget, which is what the baselines in the draft budget and final budget are always based on. Does that make sense?

[26] **Ieuan Wyn Jones:** Yes. However, I want to establish the principle that if you move money within the budget, you do not need a supplementary budget to justify that, do you? That is the point that we need to establish.

[27] **Jane Hutt:** As Andrew said, the supplementary budget, in a way, confirms the changes that a Minister will have made during the year.

[28] **Jocelyn Davies:** Ieuan, would you like to move on to your questions about retained capital?

[29] **Ieuan Wyn Jones:** Gerbron y pwyllgor ym mis Mehefin, bu i chi ddweud, unwaith y byddech wedi cael yr achosion busnes y byddech yn cyhoeddi'r arian ar gyfer cyfalaf ac y byddech yn gwneud hynny ym mis Mawrth pan fyddwch yn cyhoeddi'r gyllideb atodol. Ydy hynny yn dal yn fwriad gennyh?

Ieuan Wyn Jones: When you appeared before the committee in June, you said that once you had had the business cases you would publish the funding for capital and that you would do so in March when you publish the supplementary budget. Is that still your intention?

[30] **Jane Hutt:** Yes, we still intend to account for those allocations in the next supplementary budget. As I said at the last meeting, the budgets of those centrally retained capital-funded projects are being monitored month by month and money is being spent. There

may be some slippage in some of them, and we may want to make more allocations later this year. So, they may be different from the figures that we announced in March, but we will then finally account for the actual spend on them in the supplementary budget.

[31] **Ieuan Wyn Jones:** Yn y gyllideb yr ydym wedi ei weld, yr ydych yn sôn am arian canolog cyfalaf. Mae cynlluniau gwerth £105.4 miliwn gennyh—mae ar dudalen 5 eich naratif. Yr ydym wedi sylwi, er enghraifft, mai dim ond £69 miliwn sydd yn y gronfa wrth gefn, sydd yn golygu bod £35.5 miliwn i ddod o rywle arall ac nid yw'n hollol glir inni o le mae'r arian hwnnw'n dod.

Ieuan Wyn Jones: In the budget that we have seen, you mention centrally retained capital funds. You have £105.4 million-worth of schemes—it is on page 5 of your narrative. We have noticed, for example, that you have only £69 million in the reserve fund, which then means that £35.5 million will have to come from another source, and it is not entirely clear to us from where that money is coming.

[32] **Jane Hutt:** I have marked page 5 in terms of the centrally retained capital projects, because those are the ones that we agreed to fund. As I said, there could be some slippage. In terms of how we will fund them, it will be from the reserves, but also, as you know, we will switch resource to capital as well. I have said that I plan to switch up to about £57 million. I cannot say today whether it will be that exact sum, but we will, again, confirm the actual switch from resource to capital in the supplementary budget.

[33] **Ieuan Wyn Jones:** Mae'r arian felly yn y gronfa wrth gefn ac yn arian yr ydych yn bwriadu ei newid o refeniw i gyfalaf, a ydyw?

Ieuan Wyn Jones: So, the funding is reserve funding and funding that you intend to switch from revenue to capital, is it?

[34] **Jane Hutt:** Yes, absolutely.

[35] **Ieuan Wyn Jones:** I symud ymlaen, mae nifer o bwyllgorau wedi mynegi pryder gan fod tipyn llai o gyfalaf ar gael ar gyfer adrannau. Er enghraifft, yn yr adrannau iechyd, addysg a thrafnidiaeth, mae'r tri Gweinidog wedi penderfynu gohirio gwneud unrhyw benderfyniadau ynglŷn â'u dyraniadau neu gynlluniau cyfalaf, ac mae'r pwyllgorau wedi mynegi pryder am hynny oherwydd bod angen gweld y cynlluniau hynny yn dod gerbron, nid yn unig ar gyfer yr adrannau ond er mwyn hybu'r economi. A fedrwch ei wneud yn glir a yw'r Gweinidog iechyd wedi penderfynu gohirio pob cynllun cyfalaf hyd nes iddi gael adroddiadau ar yr hyn y mae pob bwrdd iechyd eisiau ei wneud? A yw'r Gweinidog addysg wedi gohirio unrhyw benderfyniad ynglŷn ag ysgolion ac a yw'r Gweinidog trafndiaeth wedi gohirio unrhyw benderfyniad ynglŷn â gwariant cyfalaf ar ffyrdd a rheilffyrdd? Os ydynt, a fedrwch ddeall pryder y pwyllgorau?

Ieuan Wyn Jones: To move on, several committees have expressed concerns due to less capital funding being available to departments. For example, in the health, education and transport departments, the three Ministers have decided to postpone taking any decisions regarding their capital allocations or projects, and committees have expressed concerns about that because there is a need to see those projects being brought forward, not only for the departments, but in order to boost the economy. Can you make it clear whether the Minister for health has decided to postpone every capital project until she receives reports on what all the health boards want to do? Has the Minister for education postponed any decisions regarding schools and has the Minister for transport postponed any decisions regarding capital expenditure on roads and railways? If so, can you understand the concerns of the committees?

[36] **Jane Hutt:** May I start by saying that, as I reflected in my opening remarks, the impact of capital cuts has been one of the major concerns of committees? As you well know, we feel that those capital cuts are too deep and are very detrimental to our funding base. They

are a major challenge, not just for us, but for our delivery partners, particularly local government as well as the health service. That is why we are trying to and are developing a more strategic approach to capital. We can talk more about the ways in which we are now trying to develop more innovative funding streams for capital and also to use all-important funds such as JEREMIE and the partnerships that we are developing, for example, the Welsh housing partnership. I saw the concerns about what this means for current health service capital spending plans and ensured that I had information about the current health and social services capital spending plans. Currently, for example, over £700 million-worth of projects are proceeding across all the health boards. Maybe you have asked the Minister for Health and Social Services for sight of that. However, there is a clear indication that over £700 million—

[37] **Ieuan Wyn Jones:** I think that the question is this, really: there are clearly schemes in the system that are continuing, but has the Minister for health put on hold any new capital projects until she has had a view from the health boards as to what they want to do in the future? Is that true?

[38] **Jane Hutt:** It is entirely appropriate that she considers any new schemes that are awaiting business approval. There are many steps, as you know, in capital investment approval, and as far as I understand it, that is a question for the Minister herself. However, the capital programme consideration of the needs of the service are under way. It is important that people out there know that £700 million-worth of capital is currently, as we speak, being spent across Wales, in every health board, and that is work that is progressing and under way.

[39] **Ieuan Wyn Jones:** I am sorry to push you on this point, but this is an important issue that has been raised. We understand that there are currently schemes going ahead, which have started and are continuing, but the issue is whether she has made a conscious decision to delay any new ones until the health boards have come up with their plans. That is clearly a matter for you. You will either know that or not know that.

[40] **Jane Hutt:** I am certainly not aware of that.

[41] **Jocelyn Davies:** So, you are not aware that projects are on hold that do not currently have contractual obligations in any of those portfolios. Peter is next.

[42] **Peter Black:** Minister, you will know that, throughout this budget process, you and others have talked about the need to borrow money to invest in capital. On a number of occasions, Members on all sides have raised the issue of whether we can make use of the borrowing power that local government has, in terms of supported borrowing in particular. Where are we in terms of investigating the use of local government borrowing powers to boost capital investment?

[43] **Jane Hutt:** Work is ongoing and, in fact, I am meeting the Minister for Local Government and Communities again this week to progress that. Work is also ongoing with my officials and the Welsh Local Government Association.

[44] **Peter Black:** May I just clarify—your officials might want to comment on this—how this is actually accounted for in terms of Treasury rules? For example, if the Assembly provides £20 million that can be used for supported borrowing, is that shown in your accounts as £20 million, or would you have to show the full amount of borrowed money within your accounts?

[45] **Jane Hutt:** This is an important point, Peter, that we should clarify, because my officials, who are beside me, say that we must be very careful when talking about supported borrowing. If you look at Treasury budgetary rules, the budgetary cover for supported

borrowing does score in the Welsh Government capital departmental expenditure line. Revenue funding, of course, comes from the Welsh Government resource DEL. There is also supported borrowing, which is scoring quite a lot—it is £100 million—

[46] **Peter Black:** Yes, that is in the local government budget.

[47] **Jane Hutt:** What we are talking about is how we can boost unsupported borrowing by local authorities. Unsupported borrowing is self-financed and it scores in the annually managed expenditure, and we are looking at how we can boost that unsupported borrowing so that it would not score against the capital DEL.

[48] **Peter Black:** Just for the sake of clarity, and particularly for those like me who are not fully conversant with Treasury rules, let us say that you took £20 million of this £38.9 million and said to local authorities, ‘Here is £20 million that you can use to borrow with’, and they borrowed £200 million with that; would you show £20 million or £200 million in next year’s accounts?

[49] **Jane Hutt:** I shall ask Andrew to answer, before I make a mistake.

[50] **Peter Black:** It is an important question.

[51] **Jocelyn Davies:** It is an important question. Are you able to give an answer that the rest of us, who do not know Treasury rules, will be able to understand?

[52] **Mr Jeffreys:** I will try. It is a hypothetical question, so it is very difficult to answer. It very much depends on the exact nature of the funding that you are providing for local government. As the Minister mentioned, there is a very specific thing called supported borrowing, which has certain very specific budgetary treatment under existing rules. So, if it is supported borrowing, the borrowing scores in the Welsh Government departmental expenditure limit. That is what happens with supported borrowing at the moment as it goes through the local government settlement.

3.30 p.m.

[53] **Jocelyn Davies:** I know that Mike Hedges—

[54] **Peter Black:** But—

[55] **Jocelyn Davies:** I am getting more confused the lengthier the answer gets.

[56] **Peter Black:** What you are saying is that the capital scores, not the revenue.

[57] **Mr Jeffreys:** They both score, so—

[58] **Jocelyn Davies:** Do you know, Mr Jeffreys, you can send us a note?

[59] **Jane Hutt:** It is one of the points that we have to clarify for the committee, because this is going to be a very important source of funding for capital. We are looking for ways in which we can support this borrowing that would not score against the capital.

[60] **Jocelyn Davies:** Minister, I do not think that it is the place of this committee to scrutinise you on your knowledge of Treasury rules. However, we would like to have that information in a note so that we can understand exactly what the rule is. Peter, have you finished? I know that Mike Hedges—

[61] **Peter Black:** I have some questions for later, but I am happy for Mike to come in at this point.

[62] **Jocelyn Davies:** Okay. I think that Mike has a supplementary question on this point.

[63] **Mike Hedges:** What you have in local authorities is capital maintenance, which can be funded from revenue if they so desire. If you were to provide money to cover some of that capital maintenance within local authorities so that they are funding it from revenue, they could then have free capital money, which they could use for things other than maintenance.

[64] **Jocelyn Davies:** As you can see, we have our own resident expert. [*Laughter.*] That was not actually a question, Mike. We will just leave that on the record.

[65] **Peter Black:** Perhaps that can be included in the note.

[66] **Jane Hutt:** Yes, we will include examples of ways in which we feel we can support—

[67] **Peter Black:** I suspect, Chair, that the Treasury rules—

[68] **Jane Hutt:** I will not use the word ‘support’. I will use the word ‘assist’—

[69] **Jocelyn Davies:** One at a time, please.

[70] **Peter Black:** I suspect that the Treasury may have thought of that, but perhaps you can include that in the note.

[71] **Jane Hutt:** I am talking about ‘assist’ not ‘support’—

[72] **Peter Black:** I know.

[73] **Jocelyn Davies:** The Treasury is usually one step ahead.

[74] **Peter Black:** Indeed. May I move on?

[75] **Jocelyn Davies:** Yes, we have some more questions.

[76] **Peter Black:** Moving on to the BETS portfolio, the draft budget states that the spending plans for this portfolio are not yet finalised. What discussions have you had with the Minister regarding this, and why was it the case that plans could not be finalised in time for the draft budget? Will those plans be finalised and reflected in the final budget?

[77] **Jane Hutt:** I understand that the Minister talked about the fact that there was still ongoing work in relation to, for example, enterprise zones, that work is being finalised on other areas, such as next-generation broadband, and that plans would be finalised for the final budget. So, it is about the timing of those ongoing discussions, some of which are with the UK Government. They certainly will not be finalised for the draft budget.

[78] **Peter Black:** On the enterprise zones, I think that there was a consequential of £0.8 million for next year. Has that been included in the block for 2012-13? Is it reflected in the draft budget or will it be in the final budget?

[79] **Jane Hutt:** The consequential relating to the enterprise zones are included in our baselines for 2012-13 and for the following two years. At the moment, they are currently sitting forming part of our reserves, which is what we usually do when we receive a

consequential. However, they are included in our baselines.

[80] **Peter Black:** So it is in the reserve, but you will bring it forward into the correct line in the final budget.

[81] **Jane Hutt:** Andrew says 'not necessarily'. It goes back to the point of ongoing discussions, does it not?

[82] **Jocelyn Davies:** Mr Jeffreys, do you want to clarify?

[83] **Jane Hutt:** He is telling me 'not necessarily'.

[84] **Ieuan Wyn Jones:** It depends on the business case.

[85] **Jocelyn Davies:** Will we be able to see it? When we see the final budget, will we, as Assembly Members, be able to see it?

[86] **Jane Hutt:** It is there in the reserve. I think that the Minister for business will be able to report on where she is in terms of enterprise zones by the time of the final budget.

[87] **Jocelyn Davies:** Peter?

[88] **Peter Black:** Okay, I think that is the most I am going to get out of that.

[89] **Jocelyn Davies:** Julie, could you ask question 18 on council tax, please?

[90] **Julie Morgan:** I apologise for being late. I was caught in traffic and I was desperately rushing.

[91] **Jocelyn Davies:** That is okay.

[92] **Julie Morgan:** When will a decision be made on how the funding that is being used in England for the council tax freeze will be used in Wales?

[93] **Jane Hutt:** That funding is for this financial year and, as you know, the First Minister has said that our priority in this current environment should be protecting jobs, promoting skills and economic growth, and that is the focus that we are considering. We hope that our discussions with opposition leaders will enable us to announce the decision shortly.

[94] **Julie Morgan:** Will this be allocated in the final budget?

[95] **Jane Hutt:** It is for this financial year, so it would not be in the final budget, but we would account for it formally in our supplementary budget in February. However, it is not for next year; it is money for this year.

[96] **Jocelyn Davies:** Paul wanted to come in with a supplementary question on this, as well as Peter. Peter, do you want to come in after Paul?

[97] **Peter Black:** I just wanted to know whether it can be carried over to next year.

[98] **Jane Hutt:** As you know, Peter, the difficulty is that there could be things that we would like to do that could only be done if we do something next year. That means that we would either have to adjust, through the use of reserves, or make some decisions now that would have an impact on next year's budget. I am afraid that it is next year's budget that we would be taking the funding from. We cannot talk about carrying forward, but this will have

an impact on the decisions that we make. The money that has been allocated to us by the UK Government is for this year.

[99] **Paul Davies:** My question is on the council tax freeze in England. I accept that council tax levels are lower in Wales than in England. However, do you accept that the average value of a property and average salaries are also lower in Wales than in England? Therefore, why did you immediately rule out the possibility of freezing council tax in Wales?

[100] **Jane Hutt:** This is a question of priorities, which is what Governments have to decide. Our priorities are economic renewal, supporting skills and growth and, in particular, tackling unemployment. That is why we made this decision. Council tax levels are 20 per cent lower in Wales and there is, fortunately, also a large take-up of council tax benefit. As I think that Carl Sargeant said a few weeks ago when he tabled the local government revenue settlement, it is for local authorities to decide whether to have a council tax freeze or not.

[101] **Ann Jones:** The Minister for Health and Social services announced an additional £100 million in the current financial year to be distributed to health boards. She stated that it came from a combination of reserves and her own portfolio budget. How much of that £100 million came from reserves?

[102] **Jane Hutt:** It is, in fact, £103 million for the NHS in the current financial year, and that is part of a proposal for putting the NHS on a more sustainable footing. We will be clarifying the exact source of the funding in the supplementary budget. We think that it is likely to be about £63 million from reserves, with the remaining £40 million being funded from resources within the health and social services MEG. That has been set aside for contingency against significant cost pressures in the health service.

[103] **Ann Jones:** Given that health boards are already predicting deficits of around £140 million for this financial year, is the amount put in sufficient or will they still come knocking on the door in March when the books cannot be balanced? The draft budget contains an additional allocation of £83 million for 2012-13. How was that amount arrived at and what would happen if LHBS failed to meet their statutory duty in 2012-13?

[104] **Jane Hutt:** We have worked closely, at ministerial level, with the NHS to plan for a difficult budget, recognising the operational pressures faced by the NHS. That is why we felt that it was important to bring more money into this budget for the NHS. However, I feel that we have been very fair in recognising those pressures and we have reflected on the efficiencies that the NHS has already made. Last year, the NHS delivered savings of over £300 million and it has a five-year plan, which indicates how it will make further savings, and we have put in this additional investment. So, it is a very strong core for the NHS, with the additional investment and the increased level of efficiency savings that it says it can deliver. Therefore, we feel that this budget should give the NHS a sustainable financial footing.

[105] **Ann Jones:** The local health boards are currently finalising their plans—these plans have been going on for a number of years, but we are still waiting to see them. I cannot remember how many years now they have been meant to be doing these plans. These figures for the health budget are based on previous years and expected efficiencies; would it not have been better to have put that money aside and to have waited for the plans to come in before allocating? I fear that some health boards will come up with the plans, and say, ‘There are the plans, Minister—now we need the funding, because we have already taken the upfront funding’, because you will have provided funding based on an assumption, but not on their delivery plans. Is there manoeuvrability for health boards to come back to look for more money despite the fact that the Minister for Health and Social Services has been quite clear that this money, which will be provided upfront, is meant to provide a sustainable health budget? When we get to April, will the health boards be looking for that all-important bail-

out?

[106] **Jane Hutt:** As I have said, it is a very tough budget in terms of priorities and we are working very closely with the health service at a ministerial level to recognise not only inflationary pressures, but the projected demand for services and the efficiencies have been achieved. The NHS knows that, in relation to the extra money has been found for the health service, it will not be possible to have a bail-out. In the past, we had a growing budget; we now have a reducing budget. We cannot underestimate the scale of the challenge, but we have to be very clear. There was a very constructive article by Kirsty Williams in the *Western Mail* today about this. We all have to recognise that this will be a tough time for the health service and we should move forward on this.

[107] **Ann Jones:** So what will be the outcome if a health board does not meet its statutory duty in the next financial year? What action will be open to the Minister? Will she come to you to talk about finding money from the reserves or will another sanction have to be deployed?

[108] **Jane Hutt:** We have given extra funding to local health boards and we have been very clear that they have to come up with the plans and proposals with regard to how they will deliver on that funding. It is interesting that the auditor general, in his recent report, recognised the savings that the health service had already made and he said that he expected it to make savings of approximately £225 million next year and a further £220 million the following year. So, it will be about efficiencies. I am sure that you will see that the invest-to-save fund has been a very important source of support to generate those efficiencies and produce that change in the delivery of services. We have to work with the health service to ensure that it can deliver this.

[109] **Jocelyn Davies:** Mike, you wanted to come in on this point.

[110] **Mike Hedges:** Yes, I would like to make two points. First, the demographics are against us. Secondly, when you were the Minister for health, you had a scheme to pool the budgets of social services and health; is that scheme still going and is it still working?

[111] **Jane Hutt:** That certainly played an important part in terms of getting local government and the health service to work together, particularly with regard to social care and healthcare. It has now concluded and lessons were learnt from it.

3.45 p.m.

[112] I do not think that it is a scheme that still operates; Andrew, maybe we can find out whether it is. However, there is much closer engagement between health and social care as a result of reforms and changes in the health service, with local government, which should enable that joint working to progress. We can find out about the exact scheme.

[113] **Jocelyn Davies:** Minister, I know that the committee has concerns from evidence that we recently took that these three-year plans still have not been seen by anybody. Therefore, it is difficult to have confidence in plans that are three-year plans, which, for two years, seem to be under development. Last year, the committee heard that the health confederation was confident that it could deliver the efficiency savings without any material change to the delivery of service, and it is apparent to everyone that that did not happen. So, Minister, I do not think that you can take too much comfort from its confidence this year that it will deliver this year. However, it would be helpful once we see the plans because, at least then, we will have something to judge. The fact that the plans are constantly evolving and are kept secret means that everyone will be suspicious. I know that that is not a matter for you, Minister, but I would not take too much confidence from it.

[114] **Ieuan Wyn Jones:** In your budget, you make clear that there is an additional £83 million for the next financial year, but you also say that you expect all the NHS organisations to find cash-releasing savings of £250 million next year. So, on the one hand, they have been given £83 million, and on the other hand they are expected to achieve those savings. In the past, they always had to achieve those savings, but they were achieved against a substantially growing budget. Are you confident that they can meet those savings with a much reduced budget?

[115] **Jane Hutt:** I will unpick the £83 million first, Ieuan. The £83 million makes recurrent the additional £63 million allocated from reserves from 2011-12. It also includes a further £20 million for Hywel Dda Local Health Board to support its local services. That funding is also based on an assessment of projected demand—demography and inflationary pressures in the NHS have just been mentioned. So, it is about assurances that we have been given about how the NHS feels that it can handle this in terms of a balanced financial position. There is no question that it is a huge challenge. Tomorrow, the Minister for Health and Social Services will make a statement about the way forward. We have sought to support the NHS settlement with this further uplift this year because we recognise that challenge.

[116] **Ieuan Wyn Jones:** So, you are confident that they can make those savings against the reduced budget?

[117] **Jane Hutt:** If we had not found that extra funding that has gone into the budget for the next three years, then the health service would be in a very difficult position.

[118] **Ieuan Wyn Jones:** We have talked about a saving of £250 million for next year, but, according to page 28 of your budget, the actual saving that they are expected to deliver this year is £296.5 million. Is that the total saving that they must achieve or do individual NHS local health boards have additional targets they need to meet in addition to that?

[119] **Jane Hutt:** I have mentioned the savings that we were expecting as a result of supporting Hywel Dda LHB, which was a particular—

[120] **Ieuan Wyn Jones:** I am talking about the whole situation.

[121] **Jane Hutt:** Yes, absolutely. With regard to the financial footing that the NHS will be in, we expect that those savings will be achieved. They have been forecast in my budget narrative, but it is interesting that it was recognised by the auditor general in his report. That is where the challenge of delivery is going to be, with the NHS.

[122] **Ieuan Wyn Jones:** Is it the case, then, that the £296.5 million for this year represents the total saving? Individual boards are not expected to achieve even greater savings than that, are they?

[123] **Jane Hutt:** It is the total saving.

[124] **Ieuan Wyn Jones:** That is the cumulative figure, is it?

[125] **Jane Hutt:** Absolutely.

[126] **Jocelyn Davies:** Ieuan, I think that you wanted to ask about transport.

[127] **Ieuan Wyn Jones:** I am sure that you will recall the question that I asked about health. The Minister apparently told the committee that she is putting all strategic decisions about the future on hold, and the evidence would show that. Also, the Minister for transport

has made a similar proposal, in that he wants to re-prioritise the national transport plan spend, which means that there will be another delay in the announcement of new projects. Will the changes to the national transport plan proposals be reflected in your supplementary budget, or are they going to be included in next year's budget? Do you understand people's concern that these constant delays in the announcement of capital projects are having an impact on the economy? We need these projects, because the economy is in such a dire state.

[128] **Jane Hutt:** I could not agree with you more—we should not be in this position of having deep capital cuts, which are affecting economic recovery, particularly in terms of transport infrastructure. I would reassure you about the prioritisation of the national transport plan, which the Minister for local government reported to the committee. As I think he said, he does not envisage any changes that come about as a result of the national transport plan prioritisation being reflected in the final budget. Clearly, this will be about how he meets any changes within his current transport budgets. The investment decisions that he has made have been taken against the overarching priorities of this Government. There is not going to be change that would not be reflected in the final budget.

[129] **Ieuan Wyn Jones:** So when do you expect an announcement on the re-prioritisation?

[130] **Jane Hutt:** That would be for the Minister to say.

[131] **Jocelyn Davies:** Transport and health must take the bigger share of your capital spend. I take Ieuan's point about the economy being affected by the lack of capital projects, but if capital projects are on hold, what happens to capital allocation that is not spent by the end of the financial year?

[132] **Jane Hutt:** I have already answered on the health front that the current capital allocation of £700 million is, as we speak, being spent. We have a capital programme of £1.3 billion. I have already responded in terms of transport to say that there may be some re-prioritisation there, but that will be within the capital budget. I have to say that I was talking to UK Government Ministers about more money from additional sources, such as the infrastructure investment plan. I was telling the Minister for infrastructure that Wales should have a share of any extra money announced by the Chancellor at the end of November. So, we are looking for more money for transport, and not just at how we are going to manage within our constrained budgets.

[133] As for the capital budget that we have for transport and health, it is fair to say that, not only do we anticipate spending it, we will also try to get further sources of funding—not a single pound is being held back in the capital spend of our resources.

[134] **Jocelyn Davies:** Okay, so you are fully confident that, even though there may be re-prioritisation, all the capital projects that you are able to fund will be funded and no money will be lost.

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

[136] **Jocelyn Davies:** Thank you for clarifying that. Chris, did you want to come in?

[137] **Christine Chapman:** I will ask you about the impact assessments. If I remember rightly, I asked you some questions on this the last time you were here. We know that other committees have raised concerns regarding the lack of a full equalities impact assessment in the 2012-13 budget round. It was done last year, but not this year. We know that we have the new equality legislation, which has been introduced in the past year, and a change in economic circumstances. How would you respond to these concerns? Would you consider conducting and publishing a full equalities impact assessment for the 2012-13 budget round?

[138] **Jane Hutt:** I answered questions about this when I came to the committee before. Our commitment to the Equality Act 2010 is clear in the budget narrative. I think that we went further than any other part of the UK in terms of producing an equality impact assessment, which was over and above our statutory requirements. That impact assessment affected the budget that we passed in February. We then sought to look at any changes that we were making. Our five pledges for a fairer future, which are mentioned on page 17, reflect the areas where we felt we needed to undertake an equality impact assessment of new developments in the programme for government, which we did. Conducting equality impact assessments of the issues is not going to stop today with this budget. Part of the draft budget scrutiny helps us with those assessments. In fact, next week I am meeting again with representatives of all the equality organisations in Wales to get their view on this draft budget.

[139] **Christine Chapman:** Are you confident that although you are not undertaking this as you did last year, it would still be as rigorous as possible in view of the considerations you have taken this year?

[140] **Jane Hutt:** Yes, because we did a detailed equality impact assessment for the budget. Then, we had to look at new developments within the budgets, as I said. Other Governments in the UK are looking to us to see how we have developed our equality impact assessment. So, I think that I have said enough. This is something that we can be clear and confident about: we are doing more than any other Government in the UK on equality impact assessing our budget.

[141] **Christine Chapman:** The Environment and Sustainability Committee has expressed concern regarding the lack of equality impact assessments for the environment and sustainable development and rural affairs budgets. It has also expressed concern that there has been no sustainability impact assessments conducted on the budget as a whole. Is this something that you have considered? Would it be possible to do that this year or in the future?

[142] **Jane Hutt:** As part of the whole draft budget process, the impact on sustainable development was a key plank of our resource assessment exercise. It was something that I raised at every bilateral meeting with every Minister. There is not a single document that sets out this work, but it underpins everything that we do on evidence gathering as regards the impact of the draft budget on sustainability.

[143] **Peter Black:** In paragraph 4.2 of the narrative on the budget, you set out the process by which you approach this issue this year. You said that there is initial screening, and if it was apparent that there was significant impact on people with protected characteristics, then a full equality impact assessment would be required to better understand the impact of the proposed budget allocations. It became apparent in the scrutiny work of the Communities, Equality and Local Government Committee that you have cut the disabled facilities grant by £6 million next year and a further £10 million the year after.

4.00 p.m.

[144] However, this appears to have been missed out by your initial screening, and there appears to have been no full equality impact assessment of that decision. So, I am interested in how thorough this process was, given that such a significant change to the budget—£6 million does not sound like a lot, but it is quite a lot of money when you look at the total amount of money in that budget—was missed?

[145] **Jane Hutt:** Identifying this point demonstrates the importance of this being an ongoing process of scrutiny. We are facing reducing budgets, so Ministers have had to decide in which lines they are going to present their reduced budgets.

[146] **Jocelyn Davies:** I would not expect you to have that level of detail, but we would be grateful if you could let us have a note on the process in relation to that specific budget.

[147] **Peter Black:** I scrutinised the relevant Minister at the time, but the issue is how thorough the process of assessing equality impacts has been, given that something as significant as that appears to have slipped through.

[148] **Jocelyn Davies:** Yes, and it is a specific grant for people with disabilities. So, you have heard what we have had to say—

[149] **Jane Hutt:** I have, and I will take it back to look at, because I am concerned. However, this is precisely why this is not just a one-off event; this is about scrutiny, and I am very pleased that it has been brought to my attention.

[150] **Paul Davies:** Minister, I want to ask you about payments into the Welsh consolidated fund. The Environment and Sustainability Committee has raised concerns about the lack of scrutiny of receipts from the Forestry Commission paid into the consolidated fund. Can you respond to those concerns and provide the committee with further details of how these receipts, and any other receipts that are paid into the Welsh consolidated fund, are treated?

[151] **Jane Hutt:** You will know that the windfarm income level will be very volatile, so we do not make any allowance for it in the draft budget. However, any receipts that we get are managed in year, and I will account for them in the supplementary budget in February. In terms of other receipts paid into the consolidated fund, unless there is a budget motion saying otherwise, they will also be detailed in the budget proposals. Can we give any other examples, Andrew?

[152] **Mr Jeffreys:** There are receipts in a number of different areas. You put the predictable ones in the budget as a number, but windfarm receipts are a bit more volatile, so they tend to be adjusted in year.

[153] **Julie Morgan:** I want to ask you about the invest-to-save fund, which you mentioned earlier. During your previous appearance, you said that the invest-to-save fund makes no call on reserves, and that the £6.3 million for it was funded from recycled receipts. How many projects are repaying their invest-to-save funding, and how much has been received to date in payments?

[154] **Jane Hutt:** Twenty five projects have reached the point where they are making repayments. The first receipts were made in the 2010-11 financial year; the figures show that £0.7 million of recycled payments were returned. So far for this year, we have received £2 million in receipts, and a further £2.7 million is due before the end of the year.

[155] **Julie Morgan:** Do you intend to conduct any future rounds of invest-to-save funding, and, if so, how much money would be available?

[156] **Jane Hutt:** I mentioned earlier that this fund is a very important vehicle, particularly for the health service, which is the greatest beneficiary of invest-to-save, working collaboratively with local government. We have mentioned projects such as the Gwent frailty project. Local government has also used invest-to-save for progressing collaborative procurement and e-procurement, and it is helping to make efficiencies and save funding. So, we have a large number of proposals for the next round, and I anticipate announcing £6.5 million of new investment before the end of year.

[157] **Mike Hedges:** The draft budget shows an increase of £1.2 million in the staff costs

action of the central services MEG over the indicative figures for 2012-13. This is said to be due to a move from contracted services towards internal service provision. Can you provide further explanation, such as what services are involved and why it involves such increased costs?

[158] **Jane Hutt:** I am very conscious, Chair, that this is the responsibility of the Permanent Secretary. I am happy to give some clarification on the point, but you may wish to write to the Permanent Secretary about this.

[159] **Jocelyn Davies:** Who normally scrutinises this particular budget?

[160] **Mr Jeffreys:** These are internal movements within the budget, and, as the Minister says, they are matters for the Permanent Secretary. However, the committee scrutinises those as much as it does any others, but it is for her to answer the questions.

[161] **Jane Hutt:** Yes; it is your call. If you would like me to—

[162] **Jocelyn Davies:** We will write to the Permanent Secretary with those questions. There is no point in scrutinising you on something that you are not responsible for, Minister. We have managed to ask all the questions—we were not expecting to do that. As usual, we thank you for your attendance today. We will send you a transcript to check for factual accuracy. Thank you.

4.06 p.m.

Cynnig Gweithdrefnol Procedural Motion

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

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

[164] I see that the committee is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 4.07 p.m.
The public part of the meeting ended at 4.07 p.m.*