



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

**Y Pwyllgor Cyllid
The Finance Committee**

**Dydd Llun, 14 Chwefror 2011
Monday, 14 February 2011**

Cynnwys
Contents

- 3 Ymddiheuriadau a Dirprwyon
Apologies and Substitutions
- 4 Cyllideb Atodol Llywodraeth Cynulliad Cymru 2010-11
Welsh Assembly Government Supplementary Budget 2010-11
- 18 Cynnig Trefniadol
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 pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Angela Burns	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Alun Davies	Llafur (yn dirprwyo ar ran Ann Jones) Labour (substitute for Ann Jones)
Andrew Davies	Llafur Labour
Chris Franks	Plaid Cymru The Party of Wales
Brian Gibbons	Llafur Labour
Janet Ryder	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Jane Hutt	Aelod Cynulliad, Llafur (Y Gweinidog dros Fusnes a'r Gyllideb) Assembly Member, Labour (The Minister for Business and Budget)
Andrew Jeffreys	Pennaeth Cyllidebu Strategol, Llywodraeth Cynulliad Cymru Head of Strategic Budgeting, Welsh Assembly Government
Matthew Denham Jones	Pennaeth Rheoli a Chofnodi Cyllidebau Ariannol, Llywodraeth Cynulliad Cymru Head of Budgetary Control and Reporting, Welsh Assembly Government

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

John Grimes	Clerc Clerk
Catherine Hunt	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 1.01 p.m.
The meeting began at 1.01 p.m.

Ymddiheuriadau a Dirprwyon
Apologies and Substitutions

[1] **Angela Burns:** Welcome to this meeting of the Finance Committee on Monday, 14 February. Before we start, I will run through some housekeeping items. I remind you that you are welcome to speak in Welsh or English and that headsets are available for interpretation. Please switch off all mobile phones, iPods, BlackBerrys and that kind of stuff. If the fire alarm sounds, please follow the ushers' instructions. I have not had a fight with my deputy clerk: she is sitting a little away from me because we appear to have a leak on this side of the room. So, if there is a sudden deluge, please do not be overly startled. We have received apologies from Jeff Cuthbert—who is, technically, still a substitute for Ann Jones—and Nick

Ramsay. I think that Chris will be joining us later. There are two items on the agenda, the first of which will be in public session and deal with the Welsh Assembly Government supplementary budget. After that, I would like to have a brief private session to discuss the response that we have received to a letter.

1.03 p.m.

Cyllideb Atodol Llywodraeth Cynulliad Cymru 2010-11 Welsh Assembly Government Supplementary Budget 2010-11

[2] **Angela Burns:** I welcome the Minister for Business and Budget. Good afternoon. I will ask you to introduce your colleagues for the record.

[3] **The Minister for Business and Budget (Jane Hutt):** Good afternoon, and thank you, Chair. Andrew Jeffreys, on my left, is head of strategic budgeting and Matthew Denham Jones, on my right, is head of budgetary control and reporting.

[4] **Angela Burns:** Thank you. Before we start our questions, would you like to make a brief statement on the supplementary budget put forward by the Government?

[5] **Jane Hutt:** Yes, thank you, Chair. It might clarify the key points, which I am sure will be raised in discussion and questioning. As Members know, we tabled and moved the first supplementary budget for 2010-11 before the summer recess, and the purpose of that budget was to seek the approval of the Assembly in relation to developments since the approval of the final budget. It avoided waiting until the end of the year to include all the changes in a single supplementary budget, and it allowed us to reflect ministerial portfolio changes in advance of laying the budget for future years.

[6] I tabled the second supplementary budget for 2010-11 on 8 February, as Members know. The purpose of this supplementary budget is to make end-of-year adjustments to budgets, to ensure that they are sufficient to cover forecast expenditure, to reflect any allocations from reserves or end-year flexibility, to reflect movement to and from main expenditure groups and reallocations between main expenditure groups, and to make baseline adjustments. However, it is mainly administrative in nature. One of the main changes in the second supplementary budget is that it reflects our decision to take all of the in-year reductions that the UK Government imposed on us in its budget last June in this financial year.

[7] So, the first supplementary budget was laid prior to the UK Government's June budget, which, as I mentioned, called on us to make net budget reductions from the Welsh budget of £113.5 million in revenue and £49 million in capital funding. The first supplementary budget did not make any changes as a result of the announcement of those in-year cuts. In July, I announced that we would protect our capital investment plans by using our end-of-year flexibility stocks to meet capital costs. At the same time, I made it clear that we would find as much of the revenue reduction as we could this year without placing damaging pressure on services. I said that I would take a decision later in the financial year on the precise amount of the revenue reduction that we would make.

[8] During the scrutiny of our final budget proposals for next year, I announced at the draft-budget stage that we are making all of the in-year cuts this year financial year. We have achieved this through careful and prudent management of our resources, not by cutting front-line services, but by bearing down on pressures through making savings and efficiencies and by making effective use of our EYF stocks. Taking the reductions in this financial year ameliorates the impact of the spending cuts on our budget for next year—as I said in the final budget debate, we felt that this was the responsible thing to do. However, because we have

found all of the reductions in-year, we now have an additional £57 million next year, as our previous working assumption was that we would find 50 per cent of the reductions this year. I hope that Members will welcome our decision to use this extra resource to maximise our capital investment.

[9] Other key changes include allocations from reserves augmented by EYF draw-down, including the extra £110 million that I announced in December for the health service, the additional £25 million for education, the additional capital investment of £49.2 million to stimulate the economy and help the most vulnerable, and adjustments to some departmental non-cash allocations to cover identified in-year pressures. The total budget allocated to Assembly Government departments increases from nearly £15.3 billion to over £15.5 billion. Overall, the total Wales departmental expenditure limit budget increases by over £100 million, and this increase is the result of a number of adjustments, including the drawing down of EYF and the change of our baseline as a result of finding in-year savings. The explanatory note that I published with the supplementary budget on 8 February provides a detailed explanation of the changes.

[10] I think that sums up the management of this year's budget, which has been complex and tough. Through prudent financial management, however, I think that we been able to meet the in-year reductions and make strategic allocations to ease pressures and support priorities. We have made effective use of our EYF stocks, and that will minimise the impact on our resources in the event of the UK Government continuing with its plan to take away all of our existing stocks. You will be aware of my written statement of last week updating Members on the latest correspondence from the Chief Secretary to the Treasury regarding our request for full draw-down of our EYF stocks. I have spoken to the Ministers for finance of Scotland and Northern Ireland, and we are writing a joint letter to the Chancellor repeating a request to have accumulated stocks released. I hope that members of the Finance Committee will welcome this supplementary budget; it demonstrates our commitment to supporting Wales's economic recovery, protecting the most vulnerable and taking steps to mitigate the impact of the UK Government's spending cuts.

[11] **Angela Burns:** Thank you for your statement. I will start by going through the baseline changes, some of which you have already mentioned. You talked about making the reductions this year and about EYF. I see that there was a transfer of £0.2 million from the Ministry of Justice, from the UK Government, in relation to prison healthcare. However, I also note the return of £6.1 million to the Treasury in respect of changes to the business rate relief scheme. Could you explain, briefly, the exact nature of this adjustment, why it is required at this time, and whether it would be something that would happen next year and the year after that, or whether it is a one-off?

[12] **Jane Hutt:** I sought to explain that in the explanatory note. The most important thing to mention is the technical adjustment made to reflect the way in which the scheme is funded. It is not a change in policy, or in the level of spend, so it will not impact on business rate relief for small businesses. We clarified that point in the final budget, because it is important to have transparency. I welcome the opportunity to clarify that again today.

[13] **Angela Burns:** To double-check, is this a one-off?

[14] **Jane Hutt:** Yes. Andrew might want to clarify that point further. It means that, from this time on, it will not have to be taken out as we have done it now. This was done partly to ensure that we tracked it through our 'One Wales' commitments. It will now be clear, in terms of the budgetary accounting technicalities.

[15] **Mr Jeffreys:** Back in 2007, there was an allocation made for this 'One Wales' commitment in the social justice and local government budget, worth about £6.5 million a

year. However, because of the way in which business rates relief is funded, in effect, the money is taken out of reserves through an adjustment in our DEL by the Treasury. In previous years, we have made the transfer from the SJLG budget to the reserves—we did it in the previous supplementary budget and we are doing it this year. Going forward, we have made the adjustment to remove that money from the SJLG budget and have it sitting in reserves, so that we do not have to make the transfer in-year, which is a bit messy and could be misleading. Going forward, we will not be making the same sort of transfer on an annual basis, but the scheme will proceed continuously and unchanged.

[16] **Angela Burns:** While we are on the subject of rates, I would like clarification of the rebate that the Government received for the ports rates. Was that rebate also just a one-off?

[17] **Jane Hutt:** Are you talking about the decision that we had to make about how we would handle that rebate in relation to non-domestic rates for the ports companies?

[18] **Angela Burns:** Yes.

[19] **Jane Hutt:** That was a decision made by the UK Government. We could decide, based on impact on us, whether to follow the UK Government's policy or, as we decided, to ensure that we had the consequential as a result of it. This judgment was made at a time when our budgets were decreasing. Again, I presume that it was a one-off UK Government decision.

[20] **Angela Burns:** Was it a one-off decision?

[21] **Mr Jeffreys:** The UK Government's decision was to offer that rebate, which has a one-off effect. The Assembly Government chose to take the consequential from that rather than offer the same rebate.

[22] **Jane Hutt:** For the Minister for Social Justice and Local Government—

[23] **Angela Burns:** Yes, I understand that. My question was whether that was a one-off activity. Thank you very much. Brian, I believe that you would like to tackle the Minister on the subject of end-year flexibility.

[24] **Brian Gibbons:** I certainly would, but before that, I would like to clarify what our reserves will be at the end of the financial year. Unfortunately, my printer broke down over the weekend, so I could not study this in any great detail. I could not find a sum for the reserves.

[25] **Mr Jeffreys:** Is that for the current year?

[26] **Brian Gibbons:** Yes. Usually, coming up to the end of the year, there is about £150 million in reserves, or something of that order.

[27] **Mr Jones:** Not at this time of year. As we run down to the end of the year, we generally allocate as much as possible, or as much as is prudent, of our reserves. Table 1.1, on page 2 of the explanatory note, shows that we are basically allocating all of our cash-based resources. So, near-cash reserves following this supplementary budget will be zero, as will the capital reserves. A small non-cash reserve of £237,000 remains.

[28] **Brian Gibbons:** So, it is zero.

[29] **Mr Jones:** Basically, yes.

[30] **Brian Gibbons:** I take on board your point that, in previous years, good financial management would have required that you get that figure down to next to nothing. However, do you know, off the top of your head, what that figure was at the end of previous years?

1.15 p.m.

[31] **Jane Hutt:** I do not know whether Matthew can recall.

[32] **Mr Jones:** I cannot recall.

[33] **Jane Hutt:** I am sure that you are leading to the question, which I do not want to draw you on, about our loss of flexibility in terms of EYF stocks.

[34] **Brian Gibbons:** I am, yes.

[35] **Jane Hutt:** There are two issues. I have made it very clear in the Assembly that we will spend every penny that we can of this year's budget in order to ensure that nothing goes back to the Treasury. So, we have sought to bring the reserve down to nil. The reserve will be built up again from April. However, it is a very fine line in terms of decision making, because you have to guarantee that you can spend that money by the end of March. As you know, we only announced a week or so ago an extra £7 million to deal with potholes. That was welcomed very much by local authorities, but they have then got to demonstrate that they can spend that money by the end of the financial year. This time last year we were in a very different place, but I am sure that we can share that with you in a note.

[36] **Brian Gibbons:** Yes, because I think that the rationale for having end-of-year flexibility, as I think Andrew mentioned in his statement a couple of years ago, is that prudent management of our resources requires some degree of end-of-year flexibility. It is an incentive to properly manage new money and to stop unnecessary end-of-year spend just for the sake of spending it, rather than the money going back. I realise that this has been a particularly tough financial year. It is interesting that the in-year savings that you managed to make in capital and revenue were, to my memory, very close to the reserves that we had in previous years. You have made maximum use of the money. However, looking to the future, it is a perverse incentive of the austere approach that the Westminster Government is taking to end-of-year flexibility that we will end up with effectively zero reserves at the end of the financial year. I think that that is totally unacceptable, to be honest. I just want to confirm the fact that this is where we are. It is certainly not where we were in previous years, albeit we were down at less than 1 per cent of reserves. They were small figures, but the fact that we are operating on zero reserves is worth mentioning. Effectively, nothing will be transferred to end-of-year flexibility unless you cannot spend it between now and then—

[37] **Peter Black:** That is not true—

[38] **Brian Gibbons:** I am just asking the question. I will ask you the question, Peter, if you want me to. Unless there is an underspend of what is left, all things being equal, there will not be a roll-over into end-of-year flexibility—

[39] **Jane Hutt:** No—

[40] **Brian Gibbons:** Or will there be?

[41] **Angela Burns:** Minister, in answering Brian's question, may I ask you to clarify whether there is a difference between reserves and EYF? I always thought that those were two different pots.

[42] **Jane Hutt:** Yes, perhaps I could just look at what we have done in terms of EYF through the year. We drew down £227 million of EYF, made up of revenue, capital and non-cash. It is important to recognise that we have EYF stocks, which we know now are around £385 million. It might be helpful to clarify what that figure is made up of. It is £163 million of near-cash, £221 million of non-cash and £1 million of capital. Those are the stocks that we would lose at the end of this financial year. I will bring Andrew or Matthew in to clarify reserves and EYF. Brian made the point that the EYF stock that has accumulated—quite a lot of which is non-cash stock—is important so that you do not have that end-of-year, rush-to-spend decision making, although I think that we have done it quite effectively in the last few weeks and months, because we know where the pressures are. At every point in the last few weeks, I have asked whether we can spend or reallocate money, which is the responsible thing to do, and is backed by the One Wales Government. Do you want to come in on the technical point about reserves and EYF, Andrew?

[43] **Mr Jeffreys:** Our practice in recent years has been to use our reserves at the final supplementary budget stage. We would make various allocations from reserves during the year but look to allocate virtually all of any remaining reserve in the final supplementary budget. Our reserve is around zero, which is consistent with this time last year, after the supplementary budget, because we are making the same types of allocations this time. However, this is a very different scenario, given the reductions in our departmental expenditure limit imposed in the June budget by the UK Government, and the apparent abolition of EYF at the end of this financial year. In the normal way, any underspend that we had accumulated this year would be carried forward, but the very clear message from the Treasury is that that facility will not be there this time, and that any underspend that we incur this year will not be carried forward; it will disappear in some way. So, that has an effect on how we would plan our budget.

[44] **Angela Burns:** May I ask a quick question? Given that we know that EYF is not coming back to us, is it still prudent not to leave any reserve at all, or do you do it on the basis that a new reserves figure will come live in the new budget, so that our bare moment only lasts a couple of months?

[45] **Jane Hutt:** We do not know if it will be a totally bare moment, in terms of the reserve. That is an important point to make. We have to be responsible about how we handle the last few days and weeks of this financial year, in terms of the supplementary budget. Did you want to add anything, Matthew?

[46] **Mr Jones:** Just to add that the reserve that we laid out in the final budget will still be available in the next financial year, and in future years, on 1 April. So, this is about using up money that we can spend until 31 March in the current year.

[47] **Peter Black:** I accept that the rolled over EYF will disappear, but when the Chief Secretary to the Treasury came before the committee he said that there will be a facility to carry underspend forward from one year to the next, but not to roll it up. I understand that that facility is available, which does not seem to tally with what the doom-mongers on the other side of the table are saying about what will happen in future years.

[48] **Jane Hutt:** I received a letter from the Chief Secretary to the Treasury about the flexibilities that he says that he is offering to the devolved administrations about drawing down EYF. However, it is a bit of a myth that we will be able to draw down EYF as he indicated. I will bring in Andrew in a minute, but it would have meant that we would have had to try to draw down EYF in January when we had already spent everything. We have made so many savings and adjustments during the year that it would be very difficult to identify the EYF to draw it down. The £385 million non-cash and near-cash reserve stocks are important to us for flexibilities next year, particularly with regard to capital funding. There

was no real window to make that draw down.

[49] **Peter Black:** There is only £1 million of capital.

[50] **Jane Hutt:** Yes, but given that we can transfer revenue to capital, we are talking about potentially transferring £163 million near-cash to capital; that is the £1 million. I am sure that you would agree that that would be welcome for the next three financial years.

[51] **Peter Black:** I am not disputing that, and I accept the point about the £385 million. However, I am trying to establish the issue that was raised by the Chief Secretary to the Treasury. He said that you could carry forward underspend from one year to the next, although you could not roll them up over a number of years.

[52] **Mr Jeffreys:** The facility that we were offered this year was that we would have the opportunity to carry forward to next year any planned underspend in the current year that we were able to confirm with the Treasury by the time of the closing date for spring supplementary estimates, namely the end of January. As we understand it, although full details have not yet been provided, that is likely to be the new regime for EYF: you tell the Treasury by how much you are going to underspend, and it will then allow you to roll that forward into the following financial year. However, there will be no scope to carry forward what it would describe as unplanned underspends. Therefore, anything that you do not declare, you lose.

[53] **Peter Black:** So it is a matter of getting used to the new regime for future years—although this year is a problem.

[54] **Mr Jeffreys:** It is a different regime, in the sense that, at a particular point of time, relatively far before the end of the financial year, you have to say where you will finish up. That still leaves the risk that people's behaviour will be distorted and that you will behave differently than you would if you knew that you could carry forward money without that constraint. To echo the Minister's other point, in the current year, we ended up spending £163 million less than we had planned to spend at the start of the year, because of the UK Government budget reductions, and finding additional underspends on top of that £163 million was just not possible.

[55] **Jane Hutt:** It is about the realities of the reductions in the budget. As I said, it was perhaps a myth to say that this was a flexibility, when in reality—as I am sure that you can see in the budget—we were pressing all departments and all Ministers to find savings, and to find any possibility of underspend. The £113 million revenue came as a result of that pressurising, from the June budget onwards. We did then, just up until the end of January, find that £113 million. There is no way that we would have been able to find other underspends of that kind in this year's budget. These are stocks that I am talking about, which would have given us that future flexibility.

[56] **Peter Black:** I understand that. It is a flexibility, but it is not as flexible as what you are used to. I understand that this year is a problem, and I can see why it is a problem, but you should be able to plan for future years.

[57] **Jane Hutt:** It depends. As you know, we are facing the toughest spending review, for the next three years—

[58] **Peter Black:** That is because the previous Labour Government screwed up, is it not?

[59] **Jane Hutt:** Do not forget that there will be a 40 per cent cut in capital. As I made clear in correspondence to the Chief Secretary to the Treasury—and this is reflected across

the devolved administrations—we need that flexibility to make our decisions. The point about this money is that it was voted by Parliament to Wales. That is the reality; we are a democratically elected Government—we are not a Whitehall department. I know that you share the view that we, as devolved administrations, need to have a different settlement in terms of the flexibilities that we require. We are also working hard to try to get recognition from the UK Government of the fact that we are not fairly funded. I hope that we can make some progress on that front.

[60] **Peter Black:** To be fair, although we are not another Whitehall department, our finances are set up as if we were a Whitehall department. That is how it has been set up ever since we went on to this way of financing the Assembly.

1.30 p.m.

[61] **Jane Hutt:** I am sure that there will be other questions about this this afternoon, but the fact is that the Holtham commission identified not only that we needed a new settlement and a fairer funding arrangement with regard to the Barnett formula, but that we should have more flexibilities. The recommendations about flexibilities were important, alongside those on the Holtham floor. Those flexibilities are not reflected in the kind of response that I have received from the Chief Secretary to the Treasury on how we deal with end-of-year flexibility. The other Ministers with responsibility for finance, namely Sammy Wilson and John Swinney, share that view strongly and, indeed, the First Ministers and Deputy First Ministers met and signed a joint agreement to press for us to have end-of-year flexibility. A letter is being sent to the Chancellor to say as much in the next few days.

[62] **Angela Burns:** Thank you for that response. Brian, you have another question on EYF, although I did note that Andrew wanted to ask a quick supplementary question.

[63] **Andrew Davies:** I will come in after Brian.

[64] **Brian Gibbons:** My recollection of what Danny Alexander said is exactly the same as what Peter said. He seemed to give a clear indication that there would be a different regime here in Wales, and that—although I accept Peter's point that we would not be able to accumulate stock—end-of-year flexibility would be retained. I do not think that he gave any indication, if I have understood what Andrew said, that, three quarters of the way through a financial year, you would have to try to double guess where you would be in the final quarter and then calculate your end-of-year flexibility on that basis. Peter is saying that that is good budgeting—*[Interruption.]*

[65] **Angela Burns:** Gentlemen, I am not interested in having a huge punch-up between Westminster and the Assembly; we are talking about the supplementary budget

[66] **Brian Gibbons:** I just wanted to clarify with Andrew whether it is right to say that, effectively, in January, on the basis of what has been offered to you, you would have to try to make your best guess as to what the rollover would be.

[67] **Mr Jeffreys:** The mechanics of the new system have not quite been established yet, but that is exactly how it was supposed to work this year: in January, we were to agree with the Treasury what our DEL should be for the year, in the spring supplementary estimate. That would be the last opportunity in the year for the Treasury to adjust our overall DEL. Our expectation is that that is how any new system would have to work: at that stage of the year, we would notify the Treasury how much we wanted to try to carry forward to the following year.

[68] **Brian Gibbons:** Is that unique to us or does it also apply to Whitehall departments?

[69] **Mr Jeffreys:** It was offered this year uniquely to the devolved administrations. Going forward, we do not know yet, but—

[70] **Brian Gibbons:** Again, Danny Alexander did indicate that we were getting a special deal.

[71] **Mr Jeffreys:** My understanding is that the specialness, as it were, for the devolved administrations is that the Treasury will not retain the discretion to say ‘no’ to any request that we make. For example, if we said in any year that we wanted to carry over £100 million, it would agree to that, whereas, in the case of a Whitehall department, the Treasury would have the discretion to say, ‘No, sorry, you cannot do that, because of wider fiscal considerations’. So, we would have guaranteed access to whatever our planned underspend was.

[72] **Angela Burns:** I do not wish to be overly acerbic, Andrew, but this is fairly standard practice in business. I understand that the private sector is a different ball game, but there must still be fairly strong predictors. My sympathies are with you, but I just wanted to say that this is not a unique accounting policy—at least it is not when I think of the global companies that I have worked for.

[73] **Andrew Davies:** Having been the Minister for finance, I would say that it is difficult enough to predict your expenditure over the DEL anyway, without having to predict three or four months in advance by how much you will underspend. At least Peter’s understanding of the system seems to be better than that of the Chief Secretary to the Treasury when he appeared before the committee. I always understood that you could not do things retrospectively, certainly with regard to legislation, but the Treasury has ripped up an agreement with the devolved administrations, and, as the Minister for finance has said, the Chief Secretary to the Treasury has unilaterally cut off funding that was voted on by Parliament. It is a very important point of principle that that was money for the Assembly Government—in the case of Wales—that has now not been allowed. I am not surprised at all that the Treasury has not decided on the details; it was probably a scam that was pulled out by some bright Treasury official who thought that they could work out the details later. With a DEL of around £16 billion, it is very difficult to predict what the outcome will be, without having to tell the Treasury three or four months in advance what the underspend will be. I think that it is ludicrous.

[74] **Angela Burns:** Minister, have you formally requested that the Treasury give you details of its new scheme as soon as possible? If you have done so, I assume that you have not had any response.

[75] **Jane Hutt:** Yes. I met, on a quadrilateral basis, with the other Ministers for finance in the autumn of last year when this was being indicated. We asked to be consulted about new arrangements, but the sad thing is that we have not been consulted about new arrangements because the detail is not there yet. The letter that I have had from the Chief Secretary to the Treasury now gives some indication about what he regards as flexibilities that he has afforded to devolved administrations. To give you another example, he says that the timing of the contribution to the £6 billion reduction offers us greater flexibility than other UK departments. As you know, we could have carried forward the capital and revenue cut into next year, which would have meant a double whammy in terms of the settlement for next year. We have chosen to manage it in this way, this year, but that is regarded as a kind of greater flexibility for devolved administrations. I hope that the Finance Committee could also call for the detail of the new arrangements that are now being set down by the Treasury for devolved administrations. I think that that would be very helpful.

[76] **Angela Burns:** Thank you for that piece of advice.

[77] **Chris Franks:** May I ask a supplementary question?

[78] **Angela Burns:** Yes, of course.

[79] **Chris Franks:** My concern is that there might be a great temptation for the department and the Government to front-load the spending in the first half of the financial year, and that the priority might be ensuring that we had spent all of our resources rather than making the right decision at the right time. No-one wants to lose huge sums of money. I do not quite know how some of us will explain to our constituents that hundreds of millions of pounds have been taken from us. What is the danger of decisions being taken before the information is available, to avoid the loss of such huge amounts of money?

[80] **Jane Hutt:** The challenge in terms of managing our budget responsibly rests not only with us, but with our partners. Many of the programmes involve expenditure by local government and NHS bodies, for example, working in partnership with us. It would be very dangerous and irresponsible to consider such a way forward in terms of financial management. I go back to the fact that one of the major difficulties that we have, as well as the loss of money that was voted to us by the UK Parliament, is that this is coming at a time of dramatic reductions in our budgets. We have sought to spend to the hilt. We are spending to the hilt, but in a responsible way. As you go through the supplementary budget, you will see the adjustments that we have made within and between main expenditure groups in order to manage this effectively and responsibly. It is not about being in a position where we could front-load in order to have the so-called draw down of EYF as a facility for the following financial year.

[81] **Angela Burns:** I would like to move on because we are running out of time.

[82] **Brian Gibbons:** On Chris's point, it is a massive amount of money in absolute terms—it is hundreds of millions of pounds—but, in fairness to the Assembly Government, it is still a very small proportion of its overall allocation. It is remarkable that the Assembly Government has been so successful in managing its money, even compared with the other devolved administrations. So, it is a lot of money in terms of individual services, but it is not in overall management terms. If private companies could manage their money down to less than 1 per cent, I think that most of them would be more than happy with that.

[83] **Angela Burns:** I would agree with you on that.

[84] **Chris Franks:** I accept that, Brian; it is a very good point.

[85] **Janet Ryder:** I will run together a series of questions on transfers, particularly transfers from revenue to capital, because your supplementary budget shows a total switch of £5.9 million from revenue to capital. It details that there has been a transfer from revenue to capital of £1.2 million in environment, sustainability and housing, £0.7 million in heritage and £4 million in central services and administration. First, can you explain the process by which that was done and whether Treasury approval was required and obtained? Secondly, can you elaborate on the reasons for the revenue to capital switch in those particular portfolios, what the capital is to be used for and how the required revenue savings were identified?

[86] **Jane Hutt:** This again goes back to how we manage our budgets through the year, in that departments can have the flexibility to transfer budget cover from revenue to capital. The Treasury does not need to approve those transfers, but we must ensure that we take account of the estimate with regard to the transfer. We would then reflect any transfers of that kind in the spring supplementary estimate, which would not need Treasury approval. That is not the same

with transfers from capital to revenue, which, as you know, are not generally permitted. We have asked for that flexibility from the Chief Secretary to the Treasury and we are looking to test it out. However, we are currently moving in a different direction, moving money from revenue to capital, because of the capital cuts.

[87] I can give you some examples: some of them are reclassifications of expenditure for accounting purposes and some are to meet pressures. Perhaps I can give an example with regard to the—

[88] **Janet Ryder:** Can you elaborate on the particular portfolios that I mentioned?

[89] **Jane Hutt:** Right. I will start with central services and administration, which is about reclassifications of expenditure for accounting purposes. For example, there is a switch of £1,500,000 for invest-to-save projects, which we have discussed in the past in this committee, and there is a reclassification of the costs of furniture and accommodation from revenue costs. Those are technical switches in terms of reclassification for accounting purposes.

[90] If you look at the environment, sustainability and housing MEG, you will see that there is a transfer from revenue to capital of £1,200,000 from the enable people to live independent lives action to the increase the supply and choice of housing action. Then, if you look at the heritage MEG, you will see that there is a switch from revenue to capital of £650,000, which is about addressing pressures. You can see the ways in which that money has been allocated: £100,000 has been allocated to the National Botanic Garden of Wales, £300,000 to the National Library of Wales, and an amount to Cadw to meet capital pressures.

[91] So, those were the pressures identified by Ministers with regard to the switch from revenue to capital, and they then sought our approval on a financial basis. That is reflected in the spring supplementary estimate.

[92] **Janet Ryder:** Are those the capital projects that that money will be spent on or are they the identified savings?

[93] **Jane Hutt:** With regard to the switch from revenue to capital, that is what Ministers are seeking.

[94] **Janet Ryder:** For central services and administration, you have only detailed £1,500, did you say?

1.45 p.m.

[95] **Jane Hutt:** My apologies: it is £1.5 million and £2.5 million.

[96] **Janet Ryder:** That is £2.5 million for equipment?

[97] **Jane Hutt:** Yes, and for the furniture and accommodation.

[98] **Angela Burns:** Peter has a question about reserves.

[99] **Peter Black:** Before I ask that question, may I go back to something that the Minister referred to earlier? You talked about the extra £7 million that you have put into dealing with potholes, Minister, which I think was in an announcement by the Deputy First Minister last month. There was also an announcement made last year by the Minister for Social Justice and Local Government of £7 million for dealing with potholes. Am I to take it that they are not the same sum of money, but that there is actually £14 million?

[100] **Jane Hutt:** Yes, I can confirm that.

[101] **Peter Black:** I just wanted to check that.

[102] **Brian Gibbons:** You cynic, Peter.

[103] **Peter Black:** I just like to ask, you know. [*Laughter.*]

[104] **Jane Hutt:** Do not worry: £14 million is going into our potholes.

[105] **Peter Black:** So, £14 million is going into potholes.

[106] **Jane Hutt:** Yes. Some of that is for local authorities and some for trunk roads.

[107] **Peter Black:** That is great, thank you.

[108] In relation to movements on reserves, there has been an allocation of £110 million from the revenue reserves to the health and social services portfolio, which is stated to be for non-recurrent pressures in NHS organisations. Can you give some more detail on these pressures and why that allocation was made?

[109] **Jane Hutt:** Again, throughout the year, as you will know, pressures emerge, particularly in relation to the NHS. This announcement was made just as the snow was falling and the winter months were beginning to bite in terms of pressures on the health service. It is non-recurrent funding, but that injection of funding was recognised as a way to offset the pressures on the health and social services MEG; it can be used across the board, from NHS delivery purposes at the front line to recognising the impact on delayed transfers of care and emergency services. So, it was as a result of a clear indication of the pressures that the health service faced, exacerbated by the severe weather.

[110] **Peter Black:** You say that it is non-recurrent funding, but it is weather-related. Are you not anticipating weather-related pressures next year?

[111] **Jane Hutt:** I am sure that we will have weather pressures next year. Again, we have a reserve for next year that will build up. I am sure that the weather will not be as severe as it was this year; it was a very severe winter. In addition, if you recall, there were issues around the take-up of the flu vaccine because, the year before, there had been pressures because of the fear of a pandemic flu outbreak. Therefore, before Christmas, which is not that long ago, flu levels were rising, and we needed to ensure that we could meet those pressures. So, it was for prevention through to cure, if you like, before Christmas.

[112] **Peter Black:** In the 2009-10 supplementary budget in February last year, there was an allocation of £97 million from reserves to the economy and transport portfolio in respect of the external borrowings of Finance Wales. At the time, you stated that work was being undertaken to determine the future structure and funding options of Finance Wales. In the current supplementary budget, there is an allocation from economy and transport to capital reserves of £10 million, which is stated to represent in-year loan repayments on borrowings made by Finance Wales. Can you explain the reason for this £10 million transfer to reserves and whether it is in some way a repayment to reserves of the earlier £97 million allocation?

[113] **Jane Hutt:** On that point, Peter, you will know that we have been working hard to support the progress of Finance Wales and the important role that it is playing. I think that it is a £9.5 million transfer back to reserves that you are talking about, in fact. It represents the repayments that are being made, which were expected by the providers of external finance to Finance Wales by the end of March this year.

[114] **Peter Black:** Is it the intention that the whole £97 million will be repaid to reserves?

[115] **Jane Hutt:** Yes, the whole £97 million will be repaid. The majority of that—around £83 million—is due to be repaid by March 2015, and the final amount is to be repaid by March 2017. Paying this back to reserves is very important for the future prospects of our capital programme.

[116] **Peter Black:** Could you give us an update on the structure and funding of Finance Wales?

[117] **Jane Hutt:** As I said, we have been working hard to protect Finance Wales and support it in its role. It is an important lever for the Assembly Government in supporting the Welsh economy, and small to medium-sized enterprises in particular, with regard to economic renewal. It is a subsidiary of the Assembly Government, and is a key policy driver for helping the economy in Wales. The structure and funding arrangements, which we just talked about, are as they were in that it is a subsidiary.

[118] **Peter Black:** You said that you were undertaking work to determine the future structure of Finance Wales, and I wondered whether anything had come out of that.

[119] **Jane Hutt:** That was an important exercise, which was undertaken to see whether there was any other arrangement that we should have for Finance Wales. It will remain as it is—as a subsidiary—as a result of that work. The most important point for the Finance Committee and the people and businesses of Wales is that Finance Wales is going from strength to strength. The £97 million will be repaid, and we already have the first tranche.

[120] **Andrew Davies:** Could you clarify the accounting procedures that will be used in future? The Treasury in effect changed the rules so that Finance Wales appeared on the balance sheet. In future, will it be on or off the balance sheet in terms of Assembly Government finance?

[121] **Jane Hutt:** It is on the balance sheet, as you recognised, because of the way that things have developed. You will recall that there were discussions with Treasury about the arrangements. The important point regarding the status of Finance Wales is that we can ensure that the borrowings are paid back to reserves and can be levered through for future capital projects.

[122] **Andrew Davies:** I understand the historical position, and about paying those borrowings back, but, going forward, what will the accounting arrangements be regarding Assembly Government finance? Will it be on or off the balance sheet?

[123] **Jane Hutt:** It is on the balance sheet.

[124] **Andrew Davies:** So, it will be on the balance sheet.

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

[126] **Alun Davies:** On reductions, you have explained, Minister, how the Government seeks to achieve the spending cuts imposed by the UK Government, and you have listed in the supplementary budget the contributions to in-year savings that will be made by each department. Could you outline the process that you followed to reach those numbers?

[127] **Jane Hutt:** When we realised that we would have to find these reductions in revenue as well as in capital, I asked all Ministers to identify efficiency savings. Through the

efficiency and innovation programme, we were already working across the public sector to identify savings. The NHS already had a considerable drive for efficiency and innovation, and we saw that across ministerial portfolios as well. It was a clear call to Ministers to find savings and, as stated in the explanatory note, to ensure that these savings could reach £113.5 million, as was done eventually, with the support of capital, EYF and our reserves.

[128] **Alun Davies:** Thank you for that answer. The figures that we have managed to bring together indicate that if you take the reserves and the reductions that have been outlined from each department together with the near-cash EYF draw-down of £71.5 million, you reach a figure of £98.1 million, which leaves a shortfall of around £15.5 million to reach the £113.5 million. Can you explain to us how you bridge the gap?

[129] **Jane Hutt:** We met the final amount of just over £15 million from revenue reserves.

[130] **Alun Davies:** I have one final question, and I apologise for what is perhaps my own curiosity here. You are returning to reserves £6.4 million from the rural affairs portfolio in respect of windfarm income and a reduced expenditure on the bovine TB eradication programme. It would be interesting to receive a note from the Minister for Rural Affairs on that regarding whether it was due to a reduction in the incidence of bovine TB, which has implications for wider policy, or whether there is a reduction due to the policies being followed by the Government. Perhaps we could discuss that later.

[131] Does the fact that you have a double reduction from the Department for Rural Affairs mean that you can use the greater response from that department to reduce the pressure on other departments, or was this something that you had to push through for all?

[132] **Jane Hutt:** This is about the mature and responsible way in which the Cabinet responded to this call for savings through efficiencies and through underspends that were emerging. You have to recognise that there are differences in budgets and that some are demand-led. That is very much reflected in the rural affairs budget and main expenditure group. It was about where, across each MEG, it was possible for Ministers to find and surrender—as they did—those areas where there was an opportunity in terms of resource. So, there was no policy change, it was about financial management and scrutiny at a very early stage in the financial year. There were projections and predictions regarding spend, and then money was released to the centre.

[133] **Alun Davies:** Thank you for that answer. Chair, perhaps we could ask the clerk to write to the Minister for Rural Affairs for clarification regarding the questions raised earlier.

[134] **Angela Burns:** Indeed, because my recollection of the same evidence session does not necessarily chime with this. Therefore, we will write to the Minister for Rural Affairs. Do you have any further questions, Alun?

[135] **Alun Davies:** No, I am happy with that.

[136] **Angela Burns:** Brian, did you have a very quick supplementary question? I am conscious of the time.

[137] **Brian Gibbons:** No, I will wait until Andrew has asked his question.

[138] **Andrew Davies:** I have a few questions about the strategic capital investment fund. From memory, in tranches one and two of SCIF, I do not recall there being any reference to the Pontio arts and cultural centre. Is this what was formerly known as ‘the Da Vinci project’?

[139] **Jane Hutt:** Yes. It is, quite simply, a name change. If you recall, there was to be a Da

Vinci arts centre at Bangor University. It was supported by tranche two of SCIF. The name has been changed to Pontio.

[140] **Andrew Davies:** My understanding of SCIF, from the way in which it used to work, is that Ministers and other bodies would bid for SCIF funding for specific projects, which are then assessed against set criteria—which included deliverability, planning consent, and so on. Under the Department for the Economy and Transport portfolio, £37 million was allocated to rail projects, which I understand have had to be deferred, and the money has now been allocated to road projects. which would seem to indicate that the capital allocation was to a department rather than a specific project. This would imply that the allocation process has changed.

2.00 p.m.

[141] **Jane Hutt:** There has been no change in the SCIF allocation process. You will recall that rail improvement projects—which were strategic in terms of infrastructure—were approved by the SCIF Cabinet committee in 2008. They were considered and approved in line with the SCIF assessment procedures. Inevitably, issues will emerge—as they will with partners—which means that the spend will not take place in line with the projections, in which case we will want to ensure that we can use the SCIF allocations in associated areas of spend. That is why the shift to use that funding for roads was made for this financial year. Again, this is about managing and maximising the use of current and future budgets.

[142] **Andrew Davies:** I understand that. My previous practice used to be that, if projects did not go ahead, the funds would be retained, by the finance department in this case, for reallocation against its criteria. However, in this case, it would appear that money was just allocated to a department for rescheduling to a road project. I accept, from the information that you have provided, that those rail projects will go ahead through the department's normal capital expenditure programme. However, it would seem that there has been a change in policy here.

[143] **Jane Hutt:** As the Minister for finance, I have to recognise that important monitoring of spend on SCIF projects was taking place, to ensure that we were on time and to monitor any issues and difficulties. It is worth mentioning that the two SCIF projects that you are referring to were rail improvements to the west of Swansea, on the Gowerton to Loughor line, and the north to south Wales journey times. Those were profiled for spend in 2010-11 and they did not proceed as quickly as planned. In discussions with the Deputy First Minister, particularly with regard to SCIF programme budget requirements and criteria—and you are absolutely right, Andrew, about ensuring that they fitted—we decided to use this to accelerate strategic transport investment. It was an appropriate realignment of transport funds, because it meant that we would accelerate capital road maintenance schemes and re-profile local road schemes, such as the peripheral distributor road in Neath Port Talbot and the Church Village bypass. So, we have to be flexible in how we manage the use of SCIF, but I accept the point that they were originally SCIF rail projects. Of course, they will now be delivered with the capital that we are making available for those projects.

[144] **Andrew Davies:** This is no criticism of the department, as I know how difficult it is to develop rail projects—the Ebbw valley rail line project was a classic example of that. The department often has to deliver financially for what others are doing operationally. I understand that. SCIF is time limited and was always intended to be. You have now set up a centrally-retained capital fund. What is the Government's thinking at the moment as regards taking forward any central allocation of capital?

[145] **Jane Hutt:** We decided to ensure that we had the centrally-retained capital fund, having very much learnt the lessons to build on the SCIF vision. Obviously, it includes

nothing like the kind of money that we had allocated for SCIF—it could not warrant that sort of money on its own. However, we are looking to the SCIF criteria, particularly in terms of cross-cutting collaboration and business assurance standards. We are very much drawing on some of the expertise that we had from the panel that was set up, from the private sector in particular, to assist us. That centrally-retained capital fund will be valuable in meeting strategic objectives. As you know, we are now adding to that fund, with £50 million in the draft budget as a year-on-year sum and another £57 million next year. This means that it will be a larger fund, under which we have now called for proposals based on the SCIF approach—the Treasury’s five-case model—to get the optimum effect.

[146] **Peter Black:** Of the £41.6 million going to transport projects in the economy and transport portfolio, how much is going to projects that have either overspent or have slipped in the programme?

[147] **Jane Hutt:** We may need to provide a note in answer to that question.

[148] **Peter Black:** It would be interesting to see the breakdown of the amount dealing with slippage or overspend and the amount going to new projects.

[149] **Jane Hutt:** I will write to you on that matter, Chair.

[150] **Angela Burns:** That is fine.

[151] **Alun Davies:** On a similar point, in terms of the £51.6 million going to the three projects that you mentioned, it would be useful for the committee to understand the breakdown of expenditure on those projects, to show what that money represents, how moneys have moved between different projects and the reason for that movement.

[152] **Jane Hutt:** That is fine.

[153] **Angela Burns:** I will write to you on that, Minister. I see that Members have no further questions, but I have one, which I will send in writing. It is to ask for an update on the Welsh provisions of the Constitutional Reform and Governance Act 2010—I see that the Orders are not yet made—and how they will affect the presentation of your budget motions in future? It is probably easier to answer that in writing, because I am sure that the answer will be quite lawyerly.

[154] **Jane Hutt:** I am happy to do that.

[155] **Angela Burns:** Thank you for your time this afternoon, Minister.

2.07 p.m.

Cynnig Trefniadol Procedural Motion

[156] **Angela Burns:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 10.37(vi).

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

*Derbyniwyd y cynnig.
Motion agreed.*

Daeth rhan gyhoeddus y cyfarfod i ben am 2.08 p.m.
The public part of the meeting ended at 2.08 p.m.