



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

**Y Pwyllgor Craffu ar Waith y Prif Weinidog
The Committee for the Scrutiny of the First Minister**

**Dydd Iau, 1 Hydref 2009
Thursday, 1 October 2009**

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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

Val Lloyd	Llafur (yn dirprwyo ar ran Janice Gregory) Labour (substituting for Janice Gregory)
Trish Law	Annibynnol Independent
Darren Millar	Ceidwadwyr Cymreig Welsh Conservatives
Kirsty Williams	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Leanne Wood	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Tracey Burke	Dirprwy Gyfarwyddwr Gweithrediadau, Adran yr Economi a Thrafnidiaeth Deputy Director of Operations, Department for the Economy and Transport
David Hawker	Cyfarwyddwr Cyffredinol, Adran Plant, Addysg, Dysgu Gydol Oes a Sgiliau Director General, Department for Children, Education, Lifelong Learning and Skills
Rhodri Morgan	Llafur, Aelod Cynulliad, y Prif Weinidog Labour, Assembly Member, the First Minister
David Richards	Pennaeth Partneriaethau Cyhoeddus-Preifat, Llywodraeth Cynulliad Cymru Head of Public-Private Partnerships, Welsh Assembly Government
Paul Williams	Prif Weithredwr, Gwasanaeth Iechyd Gwladol Cymru, a Chyfarwyddwr Cyffredinol, yr Adran Iechyd a Gwasanaethau Cymdeithasol Chief Executive, National Health Service, and Director General, Department for Health and Social Services

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

Virginia Hawkins	Clerc Clerk
Meriel Singleton	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 9 a.m.
The meeting began at 9 a.m.

Ethol Cadeirydd
Election of Chair

[1] **Dr Hawkins:** Good morning, ladies and gentlemen, and welcome to the first meeting of the Committee for the Scrutiny of the First Minister. The first item on the agenda is the

election of a Chair, so, under Standing Order No. 10.18, I invite nominations.

[2] **Val Lloyd:** I nominate Darren Millar.

[3] **Kirsty Williams:** I second that nomination.

[4] **Dr Hawkins:** Are there any other nominations?

[5] **The First Minister (Rhodri Morgan):** I do not have a vote. [*Laughter.*]

[6] **Dr Hawkins:** I therefore declare that Darren Millar has been elected Chair.

9.01 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[7] **Darren Millar:** I welcome everyone to this meeting of the Committee for the Scrutiny of the First Minister. I also welcome members of the press or public who may be in the gallery. Headsets for translation and sound amplification are available to everyone. If anyone has any problems using them, then the ushers are able to help. Committee members and members of the public may wish to note that the translation feed is available on channel 1, while channel 0 gives you the verbatim proceedings. I would be grateful if everyone, including members of the public, could ensure that mobile phones, BlackBerry's and pagers are switched off in order that they do not interfere with the broadcasting and other equipment. If it is necessary to evacuate the room or the public gallery in the event of an emergency, everyone should follow the instructions of the ushers, who will be able to guide you to the appropriate exit. Finally, I remind Members and witnesses that the microphones are operated remotely, and therefore it should not be necessary to press the button in order to activate them.

[8] I have received an apology from Janice Gregory, but we are delighted to have Val Lloyd substituting for her.

9.03 a.m.

Ymateb Llywodraeth Cynulliad Cymru i'r Sefyllfa Economaidd Bresennol The Welsh Assembly Government's Response to the Current Economic Situation

[9] **Darren Millar:** We will move straight into our first substantive agenda item, and it is a pleasure to welcome Rhodri Morgan, who is still our First Minister in Wales, and is joined today by Tracey Burke, the deputy director of operations at the Department for the Economy and Transport, and David Richards, the head of public-private partnerships in the Welsh Assembly Government. Members will have seen the papers from the last economic summit in July, which have been circulated to provide background information on our first topic, which is the Assembly Government's response to the economic situation. As time is limited, I ask the First Minister to make some opening remarks, limited to about three minutes, and then we can go into questions.

[10] **The First Minister:** That is convenient for me, and I hope it will be so for the committee. Please cut me off if I start to go over the three minutes. Obviously, this is a subject on which you could deliver a three-minute or a three-hour lecture.

[11] The broad thrust of this recession is that it spread quickly from being a banking

recession into being a manufacturing recession, and it was especially devastating as a construction recession. Whereas banking was bailed out in order to protect people's savings, and prevent runs on banks, and so on, the impact on manufacturing and construction has been severe. This time last year, Wales was very much in the eye of the storm, being an area that was dominated more than most parts of the UK by manufacturing; I believe that there was one month in the autumn of 2008 in which one third of the increase in unemployment in the UK came in Wales. We were first in, in many ways, although most people had thought that it would have been the south-east of England and the Edinburgh area that would be worst hit. They were not—it was us, and the west midlands.

[12] Things have stabilised to a degree. It is not a happy picture, but it is much happier than it was this time last year, in that the past five months have seen a run of what you might call relatively reasonable figures, whether you look at employment or unemployment. Unemployment fell in two of those five months, was flat in two, and sadly rose in the other, during the most recent quarter for which we have results available, which is May to July—and the figures were published in September. However, although unemployment rose, it was not by as much as in the rest of the UK, proportionately. Claimant count unemployment continues to rise, and has just hit 80,000, but that is very much lower than in previous recessions, when it would have been 50 per cent, if not more. Sectorally, we still have a serious problem in construction, which is far worse than that in the rest of the UK. Manufacturing is still in difficulty, but there is some refilling of the pipeline, and business services and retail are still struggling.

[13] As for our response, we set up our summit meetings to bring the stakeholders in, and it has almost become a social partnership model by default. When the recession is over, we will have to consider whether we wish to continue that model of summit meetings every month involving all the stakeholders from business, the trade unions, construction, housing, local government, the third sector, and so on. That is probably not a question for me, but for a future First Minister when the recession is over. Do we continue? Has the social partnership model proved its worth?

[14] Of the measures that have emerged from the summits, among the best known is ProAct, which matches ReAct. ProAct is for those who have not yet been made redundant but who are in serious danger of redundancy because orders are short. We now have an employment/training subsidy for employers to keep people on their books but, rather than pay them to stay at home, they are retrained, which has the added advantage of getting them ready for the upturn with greater levels of skills. We are bringing construction orders forward, and that sector is unusually dependent on public sector work at the moment. The private sector side of the business—the housing market and commercial speculative construction—is dead. There will not be any new tower cranes in Cardiff for a while to replace those that were used in constructing the John Lewis store and the St David's 2 complex. There will be a gap in the pipeline before new construction orders come from the private sector, so we have brought orders forward as much as possible. That does not mean to say that the bigger the cheque, the better the order to be brought forward, as some big construction projects do not employ a lot of people; they just pour a lot of concrete. So, we have been looking at small construction orders because they are much more labour intensive per £1 of spend. They have involved the refurbishment of schools, GP surgeries, hospitals, and so on, rather than the projects where you have these giant concrete-pouring machines and relatively few people. That would not have the effect of saving construction workers' jobs during the dip.

[15] Therefore, the measures that we have taken include bringing construction orders forward, engaging with employers, developing the ProAct and ReAct schemes, and using European finance in a way that counteracts recession as well as prepares for the future. That counteracts the structural problems of the Welsh economy as well as the cyclical problems that we currently have because of the recession. Similarly, we have avoided doing anything

during the recession that cuts across the long-term structural change agenda, because that is what the basic European money is for, and it reflects our strategic intention to make the Welsh economy more competitive during the upturn. You have to help firms to get through the recession to be ready for the upturn, because if you lose them, they do not come back.

[16] **Darren Millar:** We will come back to some of the issues that you have talked about in a few moments. Given that the unemployment rate is much higher or worse in Wales than it is in other parts of the United Kingdom, has your response as an Assembly Government been adequate? How can you determine that the flatlining of the growth in the claimant count in some recent months has been the result of your policies? Is it not just part and parcel of how things go in recessions?

9.10 a.m.

[17] **The First Minister:** Sadly, claimant count unemployment has not flatlined; it has continued to go up, by about a thousand a month. It is the wider count, the one that we are told by the International Labour Organization is the preferred measure of unemployment, which is survey based, that gives the figure of 116,000 rather than 80,000. That is the one that has flatlined, sometimes falling, sometimes rising; it is growing quite strongly in the rest of the United Kingdom every month, and, in Wales, there has been a mixed picture of either flat or falling unemployment when it has been rising in the rest of the UK. In the last quarter for which we have figures, which I think was that for May, June and July, published in September, unemployment was rising by 7,000. However, if it had risen by the same proportion as it did in the rest of the UK, it would have been 10,000, so it is still better, although it is not a good figure.

[18] So, compared with where we were a year ago, we are now performing far better. Then, we were underperforming compared with the rest of the UK economy, and now we are outperforming it. The economy is still declining, but not by as much as it is in the rest of the UK economy—or, if you want to look at it in unemployment terms, it is not going up as much here as it is elsewhere in the UK. A year ago, before we started the summit meeting, unemployment here was going up much faster proportionally than in the rest of the UK.

[19] We cannot say for certain that that is because of what we were doing. We cannot say that this relative improvement from where we were a year ago and now is as a result of, say, ProAct. However, by the end of this week, we believe that about 7,000 people will be on or about to start on ProAct schemes. You cannot say that those 7,000 would now be on the dole were it not for ProAct, because there is always the problem of statistical dead weight: you cannot be absolutely sure what would have happened if you had not done something. Statistically, you cannot be sure. However, say that 5,000 of those 7,000 would have been added to the dole queue if ProAct did not exist, roughly speaking, that would be a 5 per cent increase in the length of the unemployment queue. Claimant count unemployment is below that, at 80,000, but the wider count is above that, at 116,000. Split the difference and call it 100,000 and, although you probably would not get a first-class honours degree in economics with that kind of calculation—this is a politician's answer—it is possible to say that unemployment would be 5 per cent worse in Wales were it not for some of the actions that we have taken, such as ProAct and ReAct. As a consequence of drawing forward construction projects, we have spent another £100 million in this financial year that would otherwise have had to wait until the next financial year. I cannot give an estimate, but that is the kind of amount that you are talking about. We are about 5 per cent better off as regards employment and unemployment as a result of the actions that we have taken.

[20] **Darren Millar:** In that case, are you forecasting that, at some point in the future, unemployment in Wales will be lower than it is in the rest of the UK? If so, when?

[21] **The First Minister:** I think that forecasting is a mug's game, to be honest.

[22] **Darren Millar:** As an Assembly Government, you must have some forecasts.

[23] **The First Minister:** Forecasting relative to the rest of the UK is difficult. I can have a fair idea about Wales from our discussions with industry, but I have no responsibility—and no idea, to be honest—how quickly the rest of the UK economy will improve. We appear to be outperforming the rest of the UK. That does not mean that we are growing; it just means that we are outperforming by declining less quickly and unemployment going up less quickly. A year ago, the reverse was the case. It is possible to construct a theory—although it is a bit early to go firm on it—that Wales was first in, and may be first out of the recession. Just maybe.

[24] **Darren Millar:** Can you tell us for the record how many more economic summits the Assembly Government has planned?

[25] **The First Minister:** We still plan to go on a monthly pattern, roughly. There is another one next week, on 8 October—

[26] **Ms Burke:** It is 9 October.

[27] **The First Minister:** Sorry, 9 October. This is why I bring my officials with me. [*Laughter.*] Thank you, Tracey.

[28] That meeting is in Newport, and we intend to continue the pattern for the duration of the recession. However, as I said, there is an interesting question for politicians—although it will probably not be my responsibility by then—to decide whether to carry on with that model. Although the summit meetings require a time commitment, and people in the private sector in north Wales may not want to travel to Newport, and those from south Wales may not want to travel to Bangor, Wrexham, or to mid Wales, where I think the next meeting will probably be held, my own view and the general feeling from participants is that we are getting something out of them. We are getting a feel for how the country is run. People feel that they are participating in making the decisions. There is something quite precious there that we do not want to get rid of just because the recession might be over at such and such a date. However, I do not think that it will be my decision whether to continue after the recession, but I must admit that my feeling inclines in that way. The social partnership model could be just as good for us.

[29] **Kirsty Williams:** First Minister, when will the Government publish its labour market strategy which, I understand, was discussed at Cabinet level in a paper in June 2009?

[30] **The First Minister:** I do not have the answer to the specific question on a date of publication. The key to this is to try to disentangle the cyclical and structural effects. 'One Wales' states as an aim that we will have a fundamental shift in labour market participation rates in Wales from around 70 to 80 per cent but there is no specific date attached to it. When we published it, we had been knocking around 72 per cent for quite a long while—sometimes, it was 71 per cent, at other times, it would be 72 per cent, but we never got above 73 per cent, as far as I remember. The recession has knocked that off course because it has introduced a cyclical factor against this pattern of long-term structural change. The 80 per cent is clearly a reference to the fact that we need to correct this structural weakness in the Welsh economy. That is on top of the fact that the UK Government had said that it wanted to go for an 80 per cent participation rate for the UK, which was around 4 percentage points above where the UK has been for the past seven or eight years, which is better than it was in previous years. Even so, a jump from 76 to 80 per cent is a big increase in economic participation.

[31] So, in drawing up 'One Wales', we had to face the issue and ask whether we should say that we would like to go from 72 to 76 per cent to catch up with the UK's position two years ago, or whether we want to go from 72 to 76 per cent and then also catch up when the UK, if it is successful, reaches 80 per cent. We decided that that was what we wanted to do. You cannot have Wales permanently some 4 or 3 percentage points behind the UK. We did not set a date on it.

[32] On top of that, we now have the cyclical problem: the labour market participation rate has fallen in the UK and in Wales, and we are now just below 70 per cent, which is roughly where we were 10 or 11 years ago. The labour market strategy has to deal with the cyclical problems that we face today because of the recession, as well as the structural issues because Wales has always had a low economic participation rate, because women have never been employed in the numbers that they have been in England. We never had a textile industry that drew women into the workforce, and we have large rural areas where women are classed as not working, such as farmers' wives for instance, when we know that they are working. They are not classed as working and they are very unlikely to take town-type jobs that put them in the labour force. There is then the question of whether the UK will be successful in going to 80 per cent and, if so, do we want to catch up? You can see how complex the issue is.

[33] **Kirsty Williams:** I understand how complex the issue is, but there is only one quantified goal under the 'A Prosperous Society' section of 'One Wales':

[34] 'We will implement a labour market strategy with a long term goal of full employment at a rate of 80%'.

[35] Given that you are unable to give us a date on when you expect that strategy to be published, can you confirm that 80 per cent will still be the goal of that strategy when it emerges?

[36] **The First Minister:** There is no reason to depart from a long-term goal unless you have decided that it is impossible to achieve it.

[37] **Kirsty Williams:** But your paper to the Cabinet in June 2009 clearly states that you are not on course to achieve that 80 per cent.

[38] **The First Minister:** No, of course not. Absolutely. That merely states 'within a recession'.

[39] **Kirsty Williams:** Yes, but it also states that it would be optimistic to expect to achieve even half that figure. You say that you would change a long-term goal only if there was a serious need to look at it again under the circumstances, but we all acknowledge that, when that document was written, the world was a very different place from the one in which you have had to work over the past 12 months. That is the reason behind my question. Given that we are in different circumstances, do you intend to adjust that goal within your labour market strategy?

[40] **The First Minister:** I would not have thought so, really. The issue about Wales is that you could ask why it has always lagged behind the rest of the UK by 3 or 4 per cent but then we managed to get it down to around 2 per cent at one stage. So, we thought that we are going in the right direction and that we were nearly catching up, but then it dropped back to around 3 per cent—and that was before the recession—and the UK and we are now moving in the wrong direction. We are dropping labour market participation.

9.20 a.m.

[41] In the long run, the assumed background reason why Wales has a low labour-market participation rate will correct itself. It is an inheritance from our mining-dominated and steel-dominated society. As we do not have any mining anymore, and steel is no longer a major employer—it now only employs a tenth of the number it employed 40 years ago—we should get a normalisation of the labour market in Wales. If we get that normalisation, because that entire generation has passed into retirement, there should be no reason why the labour market in Wales is any different to that in England, other than for geographical factors, for example the farmer's wife problem in mid Wales, which you will be all too familiar with, and travel to work issues, because we do not have big metropolitan areas, as central Scotland does. Scotland outperforms the rest of the UK; it is 77 per cent above the rest of the UK. Most people would say that that is because 80 per cent of the population of Scotland can get to work in the large metropolitan centres, such as Glasgow and Edinburgh, the like of which we do not have in Wales. However, I do not think that that is a reason for saying that we should be different to the rest of the UK, particularly once the entire coal and steel generation—the heavy industry generation—has moved on into retirement.

[42] **Kirsty Williams:** Given your reliance on natural factors to begin to address some of the inherited issues in the Welsh economy, can we expect to see any new approaches emerging from your Government to address some of the non-institutional factors, or the non-inherited factors—

[43] **The First Minister:** Do you mean the non-demographic factors?

[44] **Kirsty Williams:** Yes, the non-demographic factors within the figures.

[45] **The First Minister:** We are, at the moment, throwing everything at the recession, for reasons that you will all understand. With a recession as big as this one, which is almost equivalent to that of the 1930s, you are no better off in having the figures that you were aiming at before, because of the severity of the recession. At first, all the economists were saying, 'Don't worry about Wales; it is Edinburgh and London that you have to worry about', which proved to be true for about a month. London and Edinburgh appear to be doing quite well, despite having such a high concentration of the banks that caused the problems in the first place. So, we say that all bets are off, for the time being, because of the recession. However, you say, 'Let's have a look at this, once we're through the recession', but you cannot be bothering too much about long-term structural changes while you are firefighting on a recession.

[46] We hope that, when the recession is over, the pattern will be clearer and that the things that we have done on issues such as engagement will have paid off. One issue is the impact on apprenticeships and skills levels; before the recession, we had a funny problem with apprenticeships in Wales, in that an awful lot of apprentices left their apprenticeships half way through, because they could earn good money on building sites if they had done half a course as a bricklayer or a plasterer. Completion rates of apprenticeships have shot up recently, and now the problem is the cost of all of these apprentices who want to complete their courses over three years, instead of leaving after 18 months. That is one of the odd consequences that you would never have anticipated, which creates a different problem. However, in the long term, we will have a much more highly skilled labour force coming out of the recession, for which we hope there will be a demand. If you have a high skill level, you will be better off trying to get a job than if you are unqualified, whether there is a recession or not. Long-term structural changes, along with that enhanced skill level, will pay dividends.

[47] **Darren Millar:** It is over two years since the One Wales Government was formed. You have not published a labour market strategy. Should this not have been a higher priority, and had it been a higher priority, surely the impact of the recession would have been less on Wales? Why has it taken so long for a strategy to come forward?

[48] **The First Minister:** I wonder whether that is right. I do not think that anyone would have anticipated the severity of the recession and its sectoral impact on manufacturing and construction. Therefore, we would have produced a labour market strategy, but it would not have been worth a row of beans when the recession hit, because it would not have incorporated the anticipation of the dreadful events of the past 12 months or so.

[49] **Darren Millar:** However, you could have addressed some of these sectoral change issues that need to be addressed in Wales had you published a labour market strategy, but you have not made much progress on it at all.

[50] **The First Minister:** It would be pointless to do so until you know how soon you are going to be out of the recession. So, when you are firefighting the recession, you must concentrate on firefighting, and, to be honest, anything else is a distraction.

[51] **Darren Millar:** So, you do not accept that it should have had a higher priority, given that it was one of your key commitments.

[52] **The First Minister:** It would not have made any difference to the course of the recession. We must concentrate our resources on firefighting this recession and trying to deal with the side effects, for instance private sector employers withdrawing from apprenticeship programmes and our having to find public money to take their place because we do not want the apprenticeships to stop, and neither do the apprentices, because there is nothing for them out on the street. Therefore, we are trying to concentrate on helping them complete their apprenticeships, and they are doing that now at double the rate that they were three or four years ago.

[53] **Val Lloyd:** I have a question on the spending review evaluation exercise—it is much easier to say ‘SPREE’. You told us in Plenary last week that you have conducted a SPREE to identify the programmes funded by the Welsh Government that have not proved their worth and, conversely, I suppose, those that have proved their worth. Could you explain what impact this exercise will have on the Welsh Government’s response to the recession?

[54] **The First Minister:** It will have a pretty substantial impact. Every budget involves a resource assessment exercise, but the one that we did two years ago was much more fundamental than that and attempted to get into the challenge, if you like. So, we set up a specialist team of civil servants with some experience of being on the spending side and some experience of stopping the spending, if you like, namely civil servants from the finance department and so on, to try to develop a common framework that each department could recognise, using red, green and amber traffic lights and a few other classifications, so that everybody, across health, education, environment, housing and so on, had a roughly comparable understanding of which spending programmes paid off best, which paid off at a medium level and which were the ones for which it was too early to say. Sad though it is, you cannot have a sunrise in the morning unless you have had a sunset in the evening, and we wanted everyone to have an understanding of which fitted into that category. You cannot keep adding programmes in without taking some out at the bottom end, because, in Government, politically and bureaucratically, starting a new programme is nice but finishing a programme is a painful process. The stakeholders will scream but sometimes it has to be done.

[55] SPREE was a one-off exercise that was intended to strengthen the annual resource assessment exercise that is part of every budget. The draft budget will be published in two or three days’ time, and that will have informed the process. I hope that it will enable—and this is up to you—the budget process to be pushed at during the scrutiny process, so that the extent to which it reflects real prioritisation can be seen. I do not think that the climate will be better for growth in public expenditure in future years than it will be in 2010-11. There are

some special features about the 2010-11 budget because of the drawing forward of construction projects into 2009-10 and at the tail-end of last year too, to a certain extent. The so-called hole of £120-odd million caused by the drawing forward of capital programmes into this year is a one-off but, in other respects, what happened in 2010-11 will be replicated in 2011-12, 2012-13 and for another five years probably, as the UK Government attempts to claw back the very high levels of national debt that we currently have and, therefore, things are going to be tight. If things are tight, you have to look for economies and, if you want a growth programme of any description, you have to have a decline programme elsewhere and, in order to inform that, you do not want health looking across at education and saying, 'You should take all the cuts. We are health; you cannot cut us', and education saying, 'We're not having that. Health should be cut as well'. It does not mean anything unless there is some common format for deciding priorities. That is the key thing about SPREE.

[56] **Darren Millar:** I ask you to be brief with your answers, First Minister, as we have a lot of subjects to get through. Val, did you want to come back on that?

[57] **Val Lloyd:** No, that has answered my question.

[58] **Leanne Wood:** I know that you are planning to make an announcement later today, First Minister, so you will not be First Minister in the future when the effects of this credit crunch really bite and take hold in Wales. What is your assessment of the situation? Do you think that there will be another crash?

9.30 a.m.

[59] **The First Minister:** I believe that I have been First Minister through the worst of the recession, namely the last 12 months. There is some survey evidence of the tiniest of green shoots emerging, but the situation is fragile. There is the question of whether there is going to be a second wave of credit crunch. That is an open question that everyone is puzzling about. There has been a restocking of the pipeline in industry following the de-stocking a year ago, when orders simply fell off a cliff after everyone came back from their summer holidays in 2008. Following the total de-stocking, people have realised that they have to start ordering something to refill the pipeline, but they have not ordered very much. If that does not sell during this autumn term, then they will not order anything until next summer. That would then take you into a double-dip recession. Otherwise, if final demand in the economy is such that what has been ordered to restock the pipeline sells, then they will order twice as much in another wave of ordering later this year. The relighting by Corus of the second blast furnace in Port Talbot is a sign that it thinks that it is worth doubling its iron-making capacity, but it could prove to be wrong and it might have to close it down again. I cannot tell. We are in the state of fragile recovery from the recession, but we are not sure what the level of final demand is once you go beyond the restocking of the pipeline following the de-stocking that has taken place for the last 12 months.

[60] **Leanne Wood:** I accept that we can only speculate as to what might happen in the future, but one thing that we can be certain of is that there will be a real squeeze on public expenditure, not just next year, but possibly 10 years hence.

[61] **The First Minister:** Think along the lines of the Bible: seven good years and seven lean years.

[62] **Leanne Wood:** Okay. I know that your Government has a number of planned legislative proposals in the pipeline—the legislative programme. Do you think that the credit crisis requires any additional legislation that you have not devised already in your programme?

[63] **The First Minister:** That is a good question. I am just thinking off the top of my head. On housing, we do not know when private housebuilding will recover. We are pleased that Redrow is now going to the market for £150 million; that will be useful. On the other hand, we still think that housebuilding will be dominated by social housing and not private housebuilding for the next few years.

[64] We are working on proposals for a Welsh housing bond that will enable housing associations in Wales to build and which would replace the money that they cannot get. We do not think that it will require legislation, but it might. At the very outside, it might be able to raise £500 million, but that is the top figure. It is comparable to the £105 million that we announced last week that the housing finance corporation had got from Europe and the Principality Building Society—some £70 million from the European Investment Bank and some £30 million from the Principality. However, it would be three or four times bigger than that. If that requires legislation, then, yes, that is the kind of thing that I am talking about, but it may not require legislation, it may be Executive action. It would be big and would replace the money that is not available from the banks.

[65] **Leanne Wood:** Can you explain to us what you see as being the fundamental weaknesses in the current legislative competence Order system if we need legislation in the future to deal with the effects of the credit crisis? Can you outline what you think the problems might be in the future with that?

[66] **The First Minister:** The strange thing is that we are still in the relatively early stages of the LCO system in that, although our departments have probably by now each dealt with an LCO, Whitehall departments are, quite often, dealing with their first LCO; it completely throws them and they think ‘What is this animal that we are being presented with here?’. Civil servants in Whitehall do not like something that is new and they tend to put it in the ‘pending’ tray, scratch their heads and give it to someone else to deal with. They do not think, ‘This is interesting, an LCO from Wales; we will really put our top young civil servants on that and get it moving’. They quite often put it in the ‘pending’ tray because it is new. There is not another system like it anywhere else in the world and it is, therefore, quite a struggle for them to grasp the principle of transferring a power to make legislation with which they may or may not disagree.

[67] **Leanne Wood:** Is that a sustainable situation?

[68] **The First Minister:** It should, in principle, be sustainable, because, in the end, Whitehall civil servants will get used to them.

[69] **Leanne Wood:** Is it politically sustainable? Would it be sustainable with a future Conservative Government?

[70] **Darren Millar:** It is the First Minister that is under scrutiny, not a future Conservative Government, is it not?

[71] **The First Minister:** I have always said that, although it may not happen in my time—I said this a long time ago—the devolution settlement has to be robust enough to cope with cohabitation, or a different colour of Government in Cardiff and in Westminster, whichever way around that takes place. It will happen at some stage. It may not happen in my time, but it will happen and must, therefore, be robust enough. Consider the Salisbury Convention that applies in the House of Lords, where Labour has never had a majority. That convention means that the House of Lords does not resist legislation with which it disagrees, if it is promised in Labour’s manifesto. When the Conservatives are in Government, they do not usually have this problem because there is usually a kind of built-in Conservative majority in the House of Lords. However, for Labour it has always been a problem. The Liberal

Government in 1906 avoided the crunch because of the Salisbury Convention.

[72] **Leanne Wood:** This is a new system, so is it robust enough?

[73] **The First Minister:** Only time will tell, but I believe that it is because, ultimately, the ability of a Westminster Government to disagree with what you propose to do with the powers, and to nevertheless believe that it is better for this legislative competence to reside in Cardiff rather than in Westminster is a principle that is already established in Westminster and Whitehall custom and practice because it is equivalent to the Salisbury Convention. You can hold your nose and disagree with what you will do with this, but still say that constitutionally it is right and proper for you to have the right and ability to do it.

[74] **Leanne Wood:** You may be aware of the problems that we have had with, for example, the proposed affordable housing LCO with a sympathetic Government in London. If there were a Conservative Government in London, could we trust David Cameron to put Welsh LCOs at the top of his to-do list?

[75] **The First Minister:** Yes, but if you remember what happened with the proposed affordable housing LCO, in the end, the civil servants in Whitehall said, 'Look, if you are having some of this power, you should have the "expletive deleted" lot'. That is when the MPs did not like what their Whitehall civil servant colleagues had recommended, namely to give us more than we had asked for on the grounds of legal neatness and that it made a clearer distinction between what was Wales's responsibility and what would remain reserved. What we had asked for was relatively modest. They gave us a lot more than we had asked for and the MPs then rebelled. That was not because of anything that we had done or asked for, but because Whitehall civil servants said, 'If you are having this, then you had better have that as well, so we will shove it all over to Wales'.

[76] **Darren Millar:** Right, let us get back to the economic downturn. Val, you are next.

[77] **Val Lloyd:** You touched in your opening remarks on ReAct and ProAct and my questions will focus on those. On the ReAct scheme, in the update paper for the economic summit, published in July, you stated the number of employers and redundant workers that have accessed the ReAct scheme to date, so has there been a major shift in those numbers in the two to three months since they were last published? As a supplementary to that, what proportion of redundant workers, whom you have supported through the ReAct scheme, has found employment as a direct result of the training that they received? Has any analysis of the longevity and sustainability of those jobs been undertaken by the Welsh Assembly Government?

[78] **The First Minister:** I had better write to the committee with the most up-to-date picture at the end of September because the schemes are pretty good at producing up-to-date figures for us. The figures at the end of August showed that there were 9,000 participants, flowing at the rate of around 900 new participants per month. Around 889 joined ReAct in August. You are right to emphasise that what happens at the other end is the important part, namely how many employers are utilising the employer subsidy to take on people after they have been trained under ReAct. So, the question is: how many take jobs and are those early participants in ReAct still in work with the same employer 13 weeks later? That is the usual test. I do not have those figures and I would be pleased to see them myself, so can I commission some work, come back to the committee and circulate a paper on how many are still in ReAct-subsidised jobs or are in the post-subsidy period, after the subsidy has run out or whatever? We will get that figure for you but, roughly speaking, just under a 1,000 people per month join the ReAct programme. However, I agree that the key issue is what happens at the end and that is an important further figure.

[79] **Val Lloyd:** Following on from that, I have a question on the evaluation of the scheme. I am sure that an evaluation is made, so will there be or has there been an evaluation to establish the net impact of the scheme and if so, when will it take place?

9.40 a.m.

[80] **The First Minister:** It is almost the same answer in a way because that is the key test. It is about when we should start to apply the test, given that you have to allow a certain amount of time to elapse before seeing whether people are still in the jobs that they got as a result of the ReAct programme picking them up when they were made redundant. Therefore, I will commission some work on this, because I would also like to see what is emerging out of this.

[81] If we take some of the bigger job losses, Alcan in Rogerstone was the biggest case that we have dealt with so far, where we brought in teams of careers advisers to meet the employees who were departing—I think that that was in the summer. As of today, we will have Anglesey Aluminium, which is roughly about the same size—around 440 people between those who have accepted voluntary redundancy and those who were made compulsorily redundant yesterday afternoon. We will need to see what happens to them. Obviously, it will be quite a while before we can pick up the figures on Alcan from July and Anglesey Aluminium, as of 30 September. However, over the next six to eight months we will see whether it has been successful and whether there is a difference between what happens in an urbanised area like Rogerstone, where there is a large range of jobs in theory within 20-odd miles, but an awful lot of people looking for them, and what happens in a relatively isolated area like Cemaes Bay on the north-western tip of Anglesey where Anglesey Aluminium is. We will see whether that makes a big difference and whether people will leave the area rather than use ReAct and look around to find a local employer, which may be much more difficult because there is nothing within travelling distance.

[82] **Darren Millar:** ReAct is looking at people who are facing redundancy or have just been made redundant. What about those who have been unemployed for a long time? What Assembly Government support is in place for those people, to get them back into the workplace? Are they not being ignored through this crisis? I get the impression that they are last in the queue for some support.

[83] **The First Minister:** The recession strategy has to have more than one or two components. ProAct is there to avoid making people redundant when orders are short and ReAct is there to pick up people who have been made redundant, who were not protected by ProAct. However, as you rightly say, those schemes are for people who are in the labour market or who are near the labour market, who have just lost their jobs. They are the low hanging fruit of any labour market strategy because it is about getting people back into work who have a good work record. They may have slightly unrealistic expectations on wages, that they should not be earning less than what they earned before and all of that, but even so, they have good work records and they should be easy to place.

[84] The not so low hanging fruit will be the 18 to 24-year-olds who cannot have a long work record because they have not been around for long, and those who already had difficult experiences of the labour market, even before the recession. Where do they sit? They sit with the Department for Work and Pensions. This is where you get a slight divide between us and the Westminster Government. Westminster, through the Department for Work and Pensions, has traditionally concentrated on the long-term unemployed or the young unemployed and on trying to get them into the labour market from way out in the outer reaches of very occasional working, not like ProAct and ReAct. What we are doing comes on top of what DWP does as part of its main strategy to try to re-engage people in the labour market who have been on benefits for more time than they have been in work, even before the recession. Making sure

that what we do fits in with what DWP is doing is part of our good working relationship with Jobcentre Plus in Wales.

[85] **Darren Millar:** You mentioned two categories there. You are trying to push the responsibility onto the DWP for those who have been out of work for a long time—

[86] **The First Minister:** Yes, because it is the DWP's responsibility.

[87] **Darren Millar:** Okay, but we are talking about 18 to 24-year-olds and a lot of them, of course, are presenting at FE colleges at the moment. We know that FE colleges have seen 20 per cent or 30 per cent rises in the number of new applicants for some courses, but you are not making any additional funding available as a Government to make sure that those colleges are funded for that. There is still this huge funding gap. What are you doing to ensure that the colleges are getting the cash that they need to ensure that these people are fit for the employment market when the upturn comes?

[88] **The First Minister:** The 18 to 24-year-olds are usually the long-term casualties of a difficult post-school, post-college or first experience of the labour market. We know that and we accept that. The main responsibility for placing people aged between 18 and 24 into the labour market will come from the additional money in the budget, which was given to the Department for Work and Pensions, to use the future jobs fund. With your permission, I would like to ask David Hawker to comment, as he sits on the board that determines the applications and is the director general for education and skills. Is it possible to arrange for him to sit at the table? Once he has settled himself in, he can say more about the future jobs fund, which, although we participate in it, is basically the DWP's, as it has the extra £750 million in the budget to deal with the surge in demand.

[89] On this issue of further education places, one of the bad side effects of the recession is that private sector employers withdraw from apprenticeship programmes, possibly because they have ceased to exist as employers in building or because they cannot afford to take apprentices on or afford for those that have started apprenticeships to complete them. We are trying to plug the gap by putting money towards the preservation of those apprenticeships. A good side effect of the recession is that apprenticeship completion rates have been revolutionised, because it is not a good time for those who may be halfway through their plastering or bricklaying apprenticeship to ask employers to take them on in the building trade, because there are no building sites. So, on FE places, we are trying to encourage colleges to make provision to handle the surge in demand and, at the same time, become much more efficient providers, either by merging, by swapping provision, or by ensuring that they no longer carry out low-priority functions by concentrating instead on the real high-priority functions to meet the demand.

[90] **Darren Millar:** We are talking about 20 per cent to 30 per cent increases for some courses. Even with the best will in the world, no college can meet that demand without being given the proper and adequate resources, can it? We know that the number of NEETs is rising dramatically.

[91] **The First Minister:** David can talk about this in much greater detail. It can sometimes be different to that. What you say is very simple logic, so one thinks that it must be true, but if sub-optimal class sizes of five or six people are no longer being sustained, and are replaced with quite a lot of classes of between 18 and 25 students for the courses where demand is highest, that can make an FE college run much more efficiently than if it were to try to hang on to a lot of courses for which the demand is marginal.

[92] **Mr Hawker:** We are working quite intensively with the sector at the moment to look at how it can cope with the increased demand by streamlining, by looking at the funding

formula, and so on. For example, with courses that would function on the basis of 10 students, we ask whether we could put 15 students in there, and what the extra cost of doing so would be. The unit cost of doing so would not be the same as for one student. So, there are things that we can do with the funding formula.

[93] There are also things that we can do to make the lives of FE colleges easier, by allowing them to be flexible with their funding. For example, with learndirect, we are looking at the potential for the colleges to engage more learners. We are doing a number of things with the FE sector at the moment to maximise our resources, because, clearly, they are tight, and demand has increased. So, that work is going on at the moment, and it will continue, and that is something that we will be keeping in close contact with it about.

[94] In other parts of the sector, the work-based learning providers are also working more efficiently and with greater quality. Of course, they are the link to the employers in terms of the stimulus for growth. The First Minister mentioned ConstructionSkills, and our figures show that, with the construction sector, in bringing spending forward, we have enabled small companies to retain their apprentices in a way that has not been true for other parts of the United Kingdom. Although the number of apprentices has gone down in that sector, it has gone down only a third of the rate for either England or Scotland, which I think is quite a success story.

[95] We are also funding additional programmes, such as Pathways to Apprenticeships, which has just started this September. Three hundred people will be on that programme at the moment in the construction sector alone. So, that has more than compensated for the loss of real apprenticeships by placing people on programmes that will prepare them for getting onto apprenticeships successfully.

9.50 a.m.

[96] In relation to working with the DWP, the Future Jobs Fund has so far generated 2,500 new jobs in Wales, which are the six-month package. Through the additional funding that we are generating from the ESF pot, we are able to front-end the training for the people who will get those jobs to ensure that they are more sustainable than they would have been—these are young people who are relatively long-term unemployed. Again, we are working with the voluntary sector and the public sector employers, which are largely the employers in this case, to ensure that those jobs are sustainable when the programme finishes for them. We are working on a number of fronts to try to close off all the avenues. There is no single silver bullet; a whole range of things is having an impact.

[97] **The First Minister:** I have two brief points, Chair. First, Linda Badman, the head of the Jobcentre Plus operation in Wales, attends all the summit meetings and so is fully participating in this process. Secondly, to get back to the question of where DWP's responsibility stops and ours starts, it tends to concentrate on people who have been unemployed for a minimum of six months, and then there are lots of special programmes to get those people in. A lot of our programmes try to cover the first six months, because you will be picked up by the DWP if you have been unemployed for six months. In England, the Train to Gain scheme is used to help employers to take you on. We have increased our Skillbuild programme, which is our equivalent of Train to Gain, whereby we have more than doubled its capacity since the recession; it has gone from about 5,000 places to 12,000 places, to ensure that people can fit in by having our money to help them to develop their skills, and an employer can then pick you up through the DWP-subsidised golden hello programme, which is an employer subsidy, but only for those who have been out of work for a six-month minimum.

[98] **Darren Millar:** We will turn our attention to ProAct before moving on.

[99] **Val Lloyd:** You gave us the actual figures, so I will not repeat that point, and many of my questions are along very similar lines, so I will try to roll them up because I am conscious of time. I am keen to know whether there has been an evaluation to establish the impact and effectiveness of the scheme, and if it will be the same, as you said, for ReAct. Do you have any plans to increase the amount of money available and extend the scheme beyond March 2010? You could well answer that that is not a question for you. Finally, the outcomes paper last produced in July said that 11 companies, for example, operating in the hairdressing sector had applied to ProAct for support. So, how do the companies that have received support from ProAct reflect the Government's key priority areas?

[100] **The First Minister:** It is a flexible scheme, in that it goes from a hairdresser taking on two people through the scheme in Swansea or wherever, to some large employers. I think that there will be an announcement tomorrow involving almost 600 people, and, even before that announcement, I think the scheme covers 574 people at one end and two at the other end. So, it is very flexible and it is available throughout Wales. It is available in the service industry as well as in manufacturing and construction. Initially, it was heavily targeted at automotive manufacturing, but we have found a way of spreading it across nearly all sectors of the economy. If that announcement is made tomorrow, I think that that will take us to almost 7,000 people on the scheme, or on the scheme where the money has been committed, out of the anticipated 12,000. The money committed will probably reach about £17 million by the end of this week, out of the £48 million available.

[101] On the question about next year, we are crossing our fingers that the recession will be, if not necessarily over, over to the extent that some of the run-on expenditure will be in the next financial year, but that it will be out of commitments made in this financial year. We hope that any application made by companies for the last few million of the £48 million in the second half of March 2010 will still have schemes running well into the spring and summer, but we would like to think that the end of the scheme will coincide with a return to normality in the labour market.

[102] **Darren Millar:** How many people have been made redundant who have participated in the ProAct scheme so far?

[103] **The First Minister:** You cannot be in ProAct if you have been made redundant.

[104] **Darren Millar:** No, but how many people who have received support from ProAct subsequently have been made redundant?

[105] **The First Minister:** In theory, no-one, but I am sure that there must be some examples. Can we supply you with figures in a note?

[106] **Darren Millar:** We would appreciate that.

[107] **The First Minister:** In principle, I think that we have had around 300 expressions of interest, 37 of which have been turned down on the grounds that it did not seem as if the company was viable to see its way through the recession even if it had had ProAct assistance. Therefore, we have turned down, or are in the process of turning down, around 10 per cent of the applications. One of the major grounds for turning down an application is where a company does not look viable, and where we are not sure that the company will be here.

[108] **Trish Law:** ReAct and ProAct have been worthy initiatives. Constituents who come to see me tell me how grateful they are that they have been able to get on the ReAct programme. Also, looking at the figures for ProAct, industrialists have told me that it was vital and that it has certainly helped their businesses. It is a really worthy initiative that the

Government has taken, and I thank you for that.

[109] We talk a lot about the recession, but as I have said to you before, First Minister, there are people in Blaenau Gwent who are third-generation unemployed or not in employment, education or training. What can your Government do to sort that problem out? I am talking about sorting it out after the recession now, because these are difficult times. However, this problem is now in its third generation, and it is now a matter of employment and getting people into the area. What can you do to bring industrialists into the area of Blaenau Gwent which is, as we all know, a beautiful area? The Government has spent so much money pushing Blaenau Gwent but we need proper jobs, First Minister. What can you do about that?

[110] **The First Minister:** This brings us back to the question of the structural problems of Wales as a whole, as a national economy. It is the problem of being so specialised in coal and steel through its history, as well as the cyclical problems caused by the recession. It is hard to disentangle the two, sometimes. If the tide never came in very far in Blaenau Gwent, then it went back out again because of the recession, and even when it comes back in again it will not come back in very far in areas like Blaenau Gwent, Merthyr Tydfil and so on. That is the history of trying to replace the jobs lost when the original decision to close the steelworks was made in 1979-80, and the long drawn out agony of the bits of the steelworks and tinsplate works that eventually closed a couple of years ago.

[111] Replacing the 11,000 jobs that there were in the steel industry in Ebbw Vale, and in coal mining in Cwm and so on, has been incredibly difficult on top of the other weaknesses. The question is: what is the structural answer to the long-term problems of Blaenau Gwent on top of and after the recession? We have to face the fact that with the competition between Blaenau Gwent and Merthyr Tydfil, let us say, and eastern Europe since 2003 or China for manufacturing jobs, the traditional answer to the loss of jobs in mining and steel has been to put up an advance factory, persuade an employer and give it a grant to locate there, and it then starts producing car parts or whatever, as in the case of the Alfred Teves plant in the mid 1970s, which, I think, is still partially with us, although not employing as many as it did before. It is much harder now to compete with eastern Europe because the wages there are so much lower than ours, not to mention China, where the wages will be one twentieth of ours.

[112] Manufacturing is not the whole answer, as we know. It is a much wider and more diverse answer than we previously thought—it is not as simple as putting up an advance factory and attracting an employer. That is one of the reasons for trying to use the old tinsplate site as a campus for a lot of other activities, be they public sector activities, like the hospital or the learning campus, or not. We hope that we can get all of the parties together, and then attract enterprise and new IT, software, or telecoms, or life sciences or whatever, but where it is not a branch factory of someone else's idea, so that we are producing the ideas. That is the big conversion that we have to make because we cannot compete with China and Poland on wages.

[113] **Darren Millar:** What assessment has the Assembly Government made of the scrapping of the WDA now that the responsibility has been taken into the Department for the Economy and Transport, given that there are still parts of the United Kingdom that are attracting overseas inward investment, such as places like Yorkshire, for example? We were at the top of the league table in terms of attracting inward investment with the WDA and we have now slumped down and are languishing near the bottom. What on earth is going on? Is there a problem?

10.00 a.m.

[114] **The First Minister:** In a way, I anticipated your question in what I just said to Trish.

Twenty years ago, when it was in its pomp and when it was regarded as the best development agency in Europe, and it was getting 20 per cent of all the UK inward investment—some figures state 25 per cent, but 20 per cent is a more realistic estimate, which is very good given that Wales only accounted for 5 per cent—the Welsh Development Agency’s sales pitch was, ‘Come to Wales, where you will have cheap property, rent-free periods, low wages, and the cheapest place to assemble Japanese television sets you will find anywhere within the tariff barriers of the European Union.’

[115] As Kirsty will remember, and as anyone with Swansea valley roots like me will remember, three months before this Assembly came into existence, Lucas SEI left Ystradgynlais over one weekend. The workers finished their shift on Friday, but by the time they came back on Monday, there was nothing there—the machinery had all gone on six flat-bed lorries and was already being installed in a factory in Poland. That was in February 1999, just before the Assembly came into existence. That was the death knell—the canary singing in the coal mine—for the WDA strategy of Wales being a low-cost producer of assembled manufactured goods, with the lowest cost production inside the tariff barriers of the EU. Lucas SEI went to Poland, well in advance of Poland becoming a member state, but in anticipation of that. However, it has now left Poland for Romania, because, when you are the lowest-cost producer, you have a window, but it will eventually go to Morocco and then to China.

[116] Chinese and eastern European competition during the past 10 years has rendered completely out of date the WDA low-cost production strategy. So, we must have a new strategy; it is not easy to turn a supertanker around, but you must turn it around, and sell Wales’s capacity to produce the intellectual property for products and services that we developed in Wales—we are not the assemblers, at a low cost, of someone else’s ideas, because Poland will always beat you on the wages, and if Poland does not beat you, Romania will. If Romania does not beat you, north Africa will beat you for textiles, and if north Africa does not beat you, China will anyway. So, we cannot have that strategy any longer, but finding the new strategy takes a long time because it is like turning a supertanker.

[117] **Darren Millar:** Does it take as long as it is currently taking the Assembly Government? Why are we languishing so far behind Yorkshire, for example?

[118] **The First Minister:** The geographical position of Yorkshire has given it an advantage. The south Yorkshire area also had full structural fund status and tier 1 status, in terms of being able to offer maximum grants, seven years before we did in Wales.

[119] **Kirsty Williams:** I will turn to Flexible Support for Business. Is it possible to give us a picture of what the impact of the economic downturn has been on Flexible Support for Business and the number of inquiries that it has been receiving and dealing with?

[120] **The First Minister:** I will respond generally to this question, and then Tracey would perhaps like to give the statistical answer. Flexible Support for Business has been an attempt to pull together all of our different schemes. We tried to cover the full waterfront of tourism, with section 4, the SMART programme for new product and process development, and property development grants for those who wanted a rent-free period, or who wanted to build their own factory but could not justify it because the value of their factory would be less than the cost of constructing it over here. We had regional selective assistance, which could be used to pay salaries or the cost of the machinery, if the work was machinery intensive.

[121] There is no way of evaluating a tourism project against a SMART project for new products and processes, or a manufacturing project, so we tried to bring them all together in order to assess them on a common format. That should, in principle, be much more flexible, and everyone will understand the message that we are trying to sell, namely that jobs,

particularly high-paying jobs and sustainable jobs, have a long-term future, and not just in this window before the Chinese out-compete you. We can also give a higher grant if we think that there is real sustainability. That has been roughly our principle. I do not know whether Tracey wants to comment.

[122] **Ms Burke:** We have tried to adjust Flexible Support for Business during the downturn, so that it is truly flexible. So, for instance, at the beginning of September, we introduced a less than £5,000 capital grant in east Wales, because the feedback that we were getting from companies was that that was the sort of intervention that they wanted. So, that was introduced, and we also made further extensions in June to increase that flexibility. We have been trying to extend the reach of Flexible Support for Business by working with the people who smaller businesses go to for advice initially if they do not come to us—accountants, solicitors and banks, for instance—to ensure that they are all aware of the support that we can provide through FS4B.

[123] I do not have our latest figures on the number of inquiries. Earlier in the year, we saw a dip in the number of companies coming to us for general business advice and support but, over the last two months, we have seen an increase. As a corollary to that, we have had the highest levels of inquiries and business through Finance Wales that we have ever had, and that is a reflection of the difficulty that companies have had accessing bank lending. I will happily provide you with our figures on the flexible support inquiries.

[124] **Kirsty Williams:** Has any analysis been done on businesses' satisfaction levels with FS4B as compared with the previous service, which would have been delivered under Business Eye initiatives?

[125] **Ms Burke:** We carry out a client satisfaction survey, and that is due this autumn. I think that the last one was done last September. We have tracked that over the time of the mergers process, so over about three years.

[126] **Kirsty Williams:** Will that information be made available to Members?

[127] **Ms Burke:** I am sure that it can be, yes.

[128] **Kirsty Williams:** You will be aware of the difficulties of establishing FS4B in the mid Wales region, in Ceredigion, Powys and south Gwynedd. Has any analysis been done of the skeleton service that was available and the number of inquiries coming in then versus the proper service that was established in the rest of the country while we had the difficulties with FS4B in the mid Wales region?

[129] **Ms Burke:** I am afraid that I do not know whether that analysis has been done but, again, I can get a note from colleagues on that.

[130] **The First Minister:** It was a very unhappy episode, and we all have to accept that. It is one of those things. There was a breakdown in communication and a dispute between Powys and Business in Focus, the enterprise agent. It just fell apart, and we have had to rescue it as best we can. That is not perfect and it means that there is now a patchy service, but I hope that it will soon be up to the level of the service seen in the rest of Wales.

[131] **Kirsty Williams:** You will be aware of the work that the Enterprise and Learning Committee has been doing, looking at capturing information and letting the wider world know about the success of initiatives. The Deputy First Minister and Minister for the Economy and Transport has accepted in principle the need for monitoring reports to be published on a more regular basis than at present. How far away are we from implementing that recommendation from the Enterprise and Learning Committee?

[132] **Ms Burke:** I would need to check that. Through the summit process, we have provided very detailed monitoring information on the take-up of all our business support activities. I am not sure whether that is required in a different format for the Enterprise and Learning Committee. May I take that away as another action?

[133] **Darren Millar:** Okay. Just before we close this part of the meeting and move on to the 'One Wales' commitments, Leanne has a question.

[134] **Leanne Wood:** On the 10-year anniversary of devolution, quite a lot was made of the inability of the Assembly to get to grips with Wales's economic problems and to turn the situation around over the decade. Ieuan Wyn Jones has said that we need a complete rethink about how we provide support for businesses in post-recession Wales. What are your views on that?

[135] **The First Minister:** I do not want to exaggerate the problems of the last 10 years. Employment growth in Wales has been higher than that in the rest of the United Kingdom, and, even in the depths of a recession, we are up by more than 104,000 jobs compared with where we were when devolution kicked off. That is a 9 per cent increase compared with a 7 per cent increase in the UK as a whole. So, despite the recession, things are not that bad—compared with how they were in previous recessions, that is—but they are much worse than they were two years ago, because we have dropped from jobs peaking at 1,360,000 jobs to 1,316,000 jobs now.

10.10 a.m.

[136] The rethink is very much along the lines of the answer that I gave to Trish and later to Darren, namely of trying to reverse the supertanker that was the attempt to sell Wales as a low-cost assembly location for Japanese television sets, to use a crude example. We need to turn Wales into a country in which you would develop research and development, products and processes by local enterprise, by local contact with universities, further education colleges, and anywhere where knowledge is being developed, and to translate that knowledge into products outside. That is what Yorkshire has been doing with its advanced manufacturing park, which Rolls-Royce has now moved into.

[137] A strategy oriented around the products, processes and services of the future is needed rather than this grant towards the window of opportunity before China out-competes us, just to get to assemble a product that anyone else could assemble. The middle market, the oily rag or soldering iron assembly-line production that we have used for far too long to replace jobs in coal and steel was not viable once eastern European countries started coming into the European Union. That happened seven years ago, but the process started 10 years ago, in anticipation and, since then, we have also seen the rise of China. Those countries will always out-compete us on wages, so we can compete only on brain power. The strategy has changed to being led by investment, enterprise, IT, new ideas, and new products and processes rather than by assembling grommets and widgets for someone else's supply chain, using intellectual property developed in Tokyo, America, Germany or wherever.

[138] **Leanne Wood:** Okay, thank you.

10.12 a.m.

**Yr Hinsawdd Economaidd Bresennol a'r Effaith ar Ymrwymadau Allweddol
'Cymru'n Un'**

The Current Economic Climate and the Effect on Key ‘One Wales’ Commitments

[139] **Darren Millar:** We now move on to the next item. We will just allow a few moments for the officials to change seats. Are you having a reshuffle, First Minister? [*Laughter.*]

[140] **The First Minister:** I have now been joined by Paul Williams, the director general for health and social services, and David has moved around the table.

[141] **Darren Millar:** He has a nameplate now. Marvellous. Trish Law will kick off the questioning.

[142] **Trish Law:** First Minister, one of the ‘One Wales’ commitments was to relocate Assembly Government divisions to north Wales, west Wales and the south Wales Valleys. We all know that moving the social justice department to Merthyr Tydfil has been a hit. However, the office in Llandudno Junction has lacked that degree of popularity among civil servants, and I understand that only a dozen or so have opted to move from Cardiff. That raises questions, which I hope you can answer. Will we have a building in Llandudno Junction that is staffed largely by unqualified staff? What will happen to the 100 or so staff in Cardiff who are now surplus to requirements? First Minister, I have previously raised with you the possibility of relocating the health and social services department to Blaenau Gwent, the birthplace of Nye Bevan and the spiritual home of the NHS. What can you tell me, First Minister?

[143] **The First Minister:** The overall programme has been a success. The move to Merthyr Tydfil, as you rightly said, excited considerable opposition among civil servants in Cardiff to begin with but is now a popular place to work because the facilities are fit for the twenty-first century. They are not luxury, but they are good. They are sufficiently modern that people find it a pleasure to go to work in the morning, and they make our other offices look not so good in comparison. Once people were used to the idea of relocating to Merthyr, they could not be dragged back to Cardiff.

[144] Llandudno Junction should have come next. However, around the time of the formation of the One Wales Government, we suffered a sudden, huge increase in the cost of that building, and now that I come to think about it, I see that the reason for that was the overenthusiasm of civil servants, trying to get everything into that office. It involved the unbelievably expensive idea of excavating the rock on which the Llandudno Junction office was to be located to install a huge computer in the basement. That would have meant that, had a bomb hit the Government’s Cathays park office, we would have had total resilience because all our records would be duplicated in this bunker underneath the Llandudno Junction office. That was a mad idea and it had to be killed off because excavating a large hole in a rock in north Wales was not a great idea. It would have involved the whole project having to be re-advertised under the European procurement rules because the contract would bear no resemblance to the original contract. Overenthusiasm therefore had to be reduced to normal enthusiasm, and we reset the building so that it was compatible with the original advertisement. However, in the meantime, we had lost two years. So, the Aberystwyth office, which is to open next week, has now overtaken that. The Llandudno Junction office will go ahead as originally planned, and will open in 2011.

[145] The relocation of civil servants and the divisions in which they work from Cardiff to Aberystwyth is just as problematic as setting up the Merthyr Tydfil office was. In some ways, it is more problematic, because Merthyr Tydfil is within commuting distance of Cardiff and people do not have to think about moving house. In fact, for many of them, it means a shorter journey to work. Setting up the office in Aberystwyth is in some ways easier, because it is a

reversal of the decision made 15 years ago to move the rural affairs division from Aberystwyth to Cardiff. We are now reversing that decision and relocating that division back to Aberystwyth where it should always have been.

[146] Llandudno Junction will be slightly different. Instead of having particular divisions, it will be more of a north Wales functional office. It will have some all-Wales functions, but it is mainly north Wales functions that will be concentrated there, to save having to move entire divisions from Cardiff. There will be the same initial reluctance as there was with Merthyr Tydfil and Aberystwyth. However, in the end, once staff have gone there, they will say, 'Oh this is much better; I am never going back to Cardiff'. That always happens. Change is difficult to manage, but it will not be any different, in principle, from the move to Merthyr Tydfil.

[147] **Trish Law:** Do you think that the One Wales Government will ever give a commitment to relocate the health and social services division to Blaenau Gwent? We now have a railway line in place, which has exceeded everyone's expectations, and the purpose of it was to bring people into Blaenau Gwent as well as take them out.

[148] **The First Minister:** Sorry, I should have answered that, and I accept that point entirely. The difficulty is that the number of civil servants whom we employ will not rise over the next seven years, let us say. For the foreseeable future, the numbers employed by the civil service will be, at best, flat. We all have to accept that there will not be an expansion of the civil service workforce. There is a temporary increase in the civil service workforce in relevant areas at the moment, such as the Department for Work and Pensions increasing the number of clerks. It has to, to deal with the surge in unemployment claims. However, by and large, civil servant numbers will not be increasing.

[149] The whole strategy over the past 10 years has been to try to disperse Assembly Government functions to other parts of Wales so that people see it as an all-Wales body and not as a Cardiff-dominated one. At the same time, we have been trying to persuade the UK Government to move more civil servants from London to Cardiff, Newport, Wrexham and so on. That is what the Lyons review instructed them all to do. However, they will not be increasing civil service numbers either, so we have to take note that civil service workforce numbers will be pretty static, if not falling, over the next seven years, and that makes it much more difficult to make promises.

[150] I understand the emotional point about Ebbw Vale being Aneurin Bevan's spiritual home, and about the railway line for commuting going not just one way but two ways—out of the area in the morning and back in the evening. You are right about that, but I cannot say that we have an expanding pool of jobs here. It is much easier to manage a move like that if you have an expanding overall pool of jobs either at the UK civil service level or at the Welsh civil service level. That is the problem.

[151] **Darren Millar:** Do you accept that the delay in the Llandudno Junction project has built up significant resentment towards the Welsh Assembly Government because of the two-year delay and because north Wales is geographically remote from Cardiff?

10.20 a.m.

[152] **The First Minister:** It probably has, which I hope will stop on the day after the office opens. Until something opens, people always have doubts that it really is going to open. Those doubts are only resolved on the day that whatever it is opens, when they can see it in existence. It is in a superb location, because it is at the railway crossroads of the east-west and north-south railway lines, such as we have in Wales—the Blaenau Ffestiniog-Conwy valley line—and likewise for the A470 and the A55. It is a fantastic location for public and private

transport. It is visible from pretty well anything that moves in north Wales.

[153] **Val Lloyd:** First Minister, the ‘One Wales’ commitments that I am to cover are health related. I am interested particularly in the commitment that talks about improved access to services, including wellbeing centres and pharmacy-based NHS drop-in centres, and secondly, provision for patients with long-term conditions such as stroke and diabetes. If I could concentrate on the first one, I understand that we have at least one wellbeing centre, which is sited at Ystalyfera, and was opened in the summer and funded from European structural funds. How many other wellbeing centres have been built using structural funds or other funds? What scope might there be for using that programme further?

[154] **The First Minister:** I will ask Paul to answer the factual question. The broad thrust of shifting to invest in wellbeing is of huge importance. It is an issue that we have struggled with from day 1 of the Assembly, to be honest. It was not sustainable for a small country like Wales, next to a big country like England, which was throwing money as if it was about to go out of fashion at elective surgery waiting lists, to do so as well. We were trying to get into the wellbeing area, because it is the right answer in the end, but it was not a sustainable strategy. The amount of stick that we got meant that we could not hold the line politically, even though, intellectually, we all know that Welsh lifestyle problems are such that we have to convert people’s lifestyles into being something healthier. I know it myself. I could almost draw you a graph of where I was 10 years ago, before I became First Minister. I was eating too many curries and takeaway pizzas and too much fish and chips and I put on three stone. I then clogged up my arteries and had a heart problem. I had stents put in and now I do not have a problem. I have lost three stone so that I am back where I was 10 years ago. You could replicate my experience—the stresses and strains of being First Minister, grazing rather than eating properly, and not cooking my own food and so on—across Wales, especially for men of my age. As a result, I got heart problems and became a pest to the national health service, as will a lot of other people, but if you change your lifestyle, you will not.

[155] It was impossible to sustain that without doing a lot on the access problems—we had to be doing something equivalent to England in terms of reducing waiting times for elective surgery on hips and knees. It is the great conundrum that the national health service is not supposed to be just a national illness treatment service—a NITS; it has to be a national health service. How do you create health? You have to persuade people to change their lifestyles or not to adopt unhealthy lifestyles in the first place, consuming too much alcohol and abusing drugs, with a bad diet, a lack of exercise and too much stress. People need to know how to balance their lives out so that they can save themselves the problem of going into the health service with something urgent, so that the only bother that they have with the health service is at a primary care level. Trying to switch the emphasis to a primary-care-led approach and to a health-promotion and ill-health-prevention approach is of huge importance. That is my general message, which you could say is heartfelt. If I could ask Paul to—

[156] **Darren Millar:** May I ask, First Minister, if you can be brief with your responses? We have targeted questions on specific ‘One Wales’ commitments and I hope that we can have targeted answers to those questions.

[157] **The First Minister:** I hope that you will excuse that particular little episode.

[158] **Darren Millar:** I understand about the personal experience and that you wanted to relay that.

[159] **The First Minister:** Okay.

[160] **Mr Williams:** I will build on the First Minister’s points, particularly as it is today that we start the new reorganised health service, which is integrated. That underpins what we

are doing. It is not just about structures; it is actually about shifting our whole approach. Within the new reorganised NHS, we have integrated care and public health, which is central to what we are doing, and which underpins the First Minister's point about thinking long term as well as short term. Wellbeing centres are obviously part of shifting the balance and the emphasis. I will come to the specifics about two particular wellbeing centres shortly.

[161] In terms of our underpinning strategies, we now have the primary and community care strategy, which we are rolling out under the chairmanship of Dr Chris Jones. That will be one of the main drivers in shifting the balance from hospitals to primary care across Wales. We have underpinned that with our chronic disease management strategy, which has been referred to. This, too, is groundbreaking. We are testing the concepts of chronic disease in three areas, namely Carmarthen, north Wales and Cardiff. We are rolling that approach out. In Carmarthen, we are seeing a significant reduction in hospital admissions, because we are tackling chronic diseases proactively. One third of all adults probably have at least one chronic disease, but when you get to my age, the possibility is that they will have two or three. So, all these issues are challenging the NHS, and rather than being reactive, it has been very proactive in using our wellbeing approach.

[162] There are two major, specific projects. In one, we are developing the Merthyr health park on the Georgetown plateau, and that will involve other public sector agencies working with us in health to promote wellbeing. We have ensured that it is located in an area where footfall is heavy, so that we can get people through the door. We are also trying a different concept by rejuvenating the Cardiff Royal Infirmary site, not as a hospital, but as a wellbeing centre that is well placed in an urban environment.

[163] We are looking at using other projects, such as the one in Cardigan for example, where we have a good story to tell in terms of 'One Wales' and the rural health planning that we may touch on later. The whole wellbeing agenda, with its wellbeing centres, is essential to the whole way of approaching the new NHS.

[164] **Val Lloyd:** Is there any scope for using European structural funds to expand provision under the health and inequalities fund to push the agenda that you have been talking about? That is what is at the base of this, in many ways, is it not, health inequalities?

[165] **Mr Williams:** One of the features of the way in which the Welsh Assembly Government is working is that the director generals are working across portfolios. I am certainly talking to other director generals about any possibility of using structural funds.

[166] **Darren Millar:** Can you just touch on the NHS drop-in centres as well? That was part of Val's original question.

[167] **Val Lloyd:** It was about pharmacy-based centres.

[168] **Darren Millar:** Yes. Where are they? When will we see them?

[169] **Mr Williams:** We are testbedding one at the moment in Cardiff as a drop-in centre.

[170] **Darren Millar:** When can we expect to see them rolled out? The commitment was for 'centres', not 'a centre'.

[171] **Mr Williams:** Yes, but we need first to testbed the concept, and because it involves multi-agency working, it requires some negotiation with other partners.

[172] **Darren Millar:** You say that it is being testbedded, but it says here that the Assembly Government is committed to delivering pharmacy-based NHS drop-in centres. It is a

commitment, is it not, First Minister?

[173] **The First Minister:** Yes. The issue is that the definition of a drop-in centre has changed over the years. The English drop-in centres were frequently for minor cuts and bruises, so that you could avoid going to casualty. If you had cut your foot on a piece of glass or something, you could avoid a long wait in casualty by going to a drop-in centre, where a nurse could sort it. The concept that we are talking about is really about chronic disease management and/or health promotion. It might involve some cuts and bruises and other minor stuff that can be dealt with in that way, but we recognise that the neglected area in any health service is chronic disease management and health promotion, and we want to crack that. Ease of access in a drop-in centre, and using the underemployed skills of the pharmacists, is critical to that. The model, however, is changing to chronic disease management, as distinct from cuts and bruises. Is that right?

[174] **Mr Williams:** I would be somewhat reluctant, because the evidence shows that they have not been very successful in England. What we have is a very good primary care service. So, we are looking at possibilities, but it might have been a quick-fix solution that actually is not paying dividends. Our investment and commitment is to primary care. Pharmacies play a key role in that, and we are training all pharmacists up to that end. It is actually a matter of capitalising on the existing infrastructure, and not necessarily one of liberally sprinkling these around, using our existing infrastructure. The Cardiff Royal Infirmary is an example where we want to try it, by way of a Welsh solution.

10.30 a.m.

[175] **Val Lloyd:** I take your point, but the idea of a wellbeing centre is that you also improve people's ability to work, and to function within their lifestyle. I am pleased to see that there is such a centre in Ystalyfera, but you could do them as adjuncts to GP surgeries at the same time. Most new surgeries are being built with added provision, and they could be incorporated in that regard where the neighbourhood could drop in.

[176] **Mr Williams:** We take those opportunities—Merthyr health park will be a flagship example. We are also looking at Cardigan as another example as part of the rural health plan. So, we are taking opportunities as and when they arise.

[177] **The First Minister:** On the particular point about European funding, there is a ban on using European funding for 'health', so you cannot use European structural funds for plain and simple health provision. You can use European structural funds for labour market participation rate improvement by better chronic disease management and getting teams of occupational therapists and physiotherapists to help you to participate in the workforce, so you have to box clever, to some extent, in how you define it. Otherwise, you are out of the sports for European structural funds.

[178] **Kirsty Williams:** First Minister, 'One Wales' made no commitment on transforming the Welsh ambulance service. Given the continuing poor performance of the ambulance trust in some parts of Wales, is it time to amend the document so that there is a strategic plan to improve those figures?

[179] **The First Minister:** Regardless of whether or not it is in 'One Wales', improving the Welsh ambulance service is one of Edwina Hart's and Paul Williams's permanent headaches. It has had, and continues to require, urgent attention. There are one or two urban areas of Wales where the service is not up to scratch, and there are also problems with areas of a very sparse population where it is difficult to figure out exactly how to strategically locate your ambulances so that they are near to the next call-out, when you do not know where the next call-out will come from. If you put the ambulances in a lay-by in the wrong place, you could

double the journey, because you have no idea where the next call will come from. In a sparsely populated area, that is a genuine management difficulty. I suppose that mid Wales, along with the highlands and islands of Scotland, are the two most difficult areas to serve in the United Kingdom.

[180] However, some urban areas have a weak service—I think that Torfaen and Monmouthshire are the weakest areas. There is no explanation for that, as there is for areas with a sparse population such as the one that you represent. Paul can probably give us a more up to date account of where we are, and whether the arrows are heading in the wrong or right direction.

[181] **Mr Williams:** We are heading in the right direction. I have given this a particular focus, with the service, since I took over. Prior to December, when I took over, the performance was very poor and variable. I have done two things. First of all, I should emphasise that the whole of the service needs to have a responsibility. We talk about turnaround times and ambulances waiting for too long to discharge patients into hospitals, and I have been driving that to make sure that we have smooth turnovers, so that we can get the ambulances back on the road. We are also concentrating on the significant investments being made and getting the performance up, particularly in Torfaen, Monmouthshire and Powys, as the First Minister said. From March, we started to hit our 65 per cent overall target. We continued to do that until July and August, when we just dipped under the 65 per cent mark. This was due to holiday periods and staffing. We have improved our recruitment, and next month's figures will take us closer to 65 per cent, probably. We have done significant work in Torfaen. Monmouthshire still concerns me. Powys needs a different approach, because Powys's deep rurality means that different approaches are needed. I have asked the ambulance service to look in particular at the first, second and third responders and rapid response vehicles to deal with issues of deep rurality. We are absolutely focused on this issue at the moment. There is more that we can get out of the ambulance service, and, in fact, I was in conversation with the chairman only yesterday about the ways that we want to see the management arrangements being much more focused on those areas where poor performance needs to be improved.

[182] **Kirsty Williams:** How much money has been invested in the Access 2009 project and will the NHS meet the 'One Wales' commitment on waiting times of no longer than 26 weeks by December 2009?

[183] **Mr Williams:** We have invested about £350 million over the planning period. The figures for July on the referral to treatment, as we call it—namely being picked up by a GP and referred for treatment—showed that 93 per cent of all patients in Wales were waiting less than 26 weeks. So, we are on track. We have had a slight hiccup with swine flu during the summer. We are planning, but we do not know what will happen with swine flu this Autumn. However, all things remaining equal, I am confident that we will be on track to achieve the commitment.

[184] **The First Minister:** Edwina Hart and I have a monthly meeting with the people in charge of the Access 2009 project to deliver the 26-week RTT times by 31 December. It is going in the right direction, but you are always nervous about a commitment of that sort and the closer you get to the last few months, the more nervous you get politically. Things are moving in the right direction, but we could be knocked off course depending on which theory is correct about when the second peak of swine flu occurs—60 per cent of the experts say that it will hit in January-February, the same time as seasonal flu, while others say that it will be October-November. On the other hand, I do not consider that an excuse. It might turn into something very nasty, but, so far, it is much milder than we originally expected. However, there could be a severe peak, which could mean that medical beds and intensive care beds will be in short supply, so you would have to take over some of the surgical beds, which would

mean suspending elective surgery. I hope that that does not happen. It will not be used as an excuse. We are continuing to drive to meet that 31 December target, and it is looking okay at the moment, but there is no complacency at all, because there are three or four months to go and we have to keep driving.

[185] **Kirsty Williams:** You are a little further away from the commitment to achieve elimination of the use of private sector hospitals in the NHS by 2011. Can you confirm that you will achieve that commitment, especially with regard to patients who require or are receiving mental health treatment?

[186] **The First Minister:** You put in an interesting tail piece, which makes me change my answer completely from what I thought that I was going to say. Had you not included that little add-on, I think that I would have said that we are on track, despite the well-known problems that exist in orthopaedics, where it is common to spill over some of the provision to Bupa or its successor and to other private hospitals. However, the NHS has been developing its ability to put weekend shifts on, which is expensive because it means paying piecework rates, rather than normal rates, but it works, it keeps the money within the NHS and there are huge training opportunities for junior doctors, which they might not get from Monday to Friday. That has gone reasonably well, although it is expensive.

[187] The issue about mental health and the specialist—

[188] **Kirsty Williams:** That is where your problem lies; it is relatively easy to fix.

[189] **The First Minister:** If you asked Paul and Edwina, I am not sure that they would say that there is no problem other than in mental health. Orthopaedics delivery is a huge problem, especially with the complicated surgery requirements for people with spinal problems.

[190] On mental health, we have never, to my mind, thought that the non use of the private sector covered the specialist and small institutions that are dotted around country houses in Wales, which provide services that the national health service has never provided.

10.40 a.m.

[191] That is, places where teenagers with multiple problems—whether they are drugs, anorexia, various problems with the law or whatever—go. It is a case of deciding what to do with them and asking whether there is provision for them within mental health hospitals. I have never had this mental picture where we would say that we will not be using any such institutions for any patients in Wales and that we would eliminate the private sector. I have always thought that we meant that we would not be using Bupa and all these other private hospitals as back-up because we could not provide the capacity within the NHS. I am not sure whether we ever envisaged providing the capacity for that ultra specialist service; I could name a few institutions where occasional constituents of ours go for treatment that the health service has never really provided.

[192] **Kirsty Williams:** Do you think that your Plaid Cymru colleagues thought that you never intended that commitment to apply to specialised cases?

[193] **The First Minister:** Absolutely. As far as I am aware, they had exactly the same mental picture as we did.

[194] **Darren Millar:** So, it is okay to use the private sector for specialist cases—

[195] **The First Minister:** No; not specialists.

[196] **Darren Millar:** That seems to be what you are suggesting.

[197] **The First Minister:** No; I think that I said ‘ultra’ or ‘super’ specialists.

[198] **Darren Millar:** Pardon me; ultra specialists. So, it is okay for one part of the health service, but not—

[199] **The First Minister:** It is not part of the health service. It is something that the health service has never provided. They frequently are started by individuals with a special interest in psychiatrically much damaged teenagers, and they will say, ‘We can, at great expense, on a one-to-one basis, provide some sort of turnaround’. They do something that the health service has never provided and does not provide.

[200] **Leanne Wood:** I accept your point on that, First Minister, but are there any plans to reduce the numbers of private consultants that currently use NHS facilities over time? Are there any plans to stop them from using NHS facilities?

[201] **Darren Millar:** Before we go on to that, perhaps you could just continue on this theme of the mental health service and the ultra specialist services, which might not be mental health related, which are being procured currently.

[202] **The First Minister:** They are related to mental health. The point is that they are started by great enthusiasts with a much specialised skill and a willingness to work on a one-to-one basis trying to turn around an almost impossible-to-turn-around difficult teenager with multiple mental health problems. They believe that a residential setting usually in an isolated country house or converted large house in a nice rural area is the right way to do this, working incredibly intensively in partnership. The NHS cannot do that kind of thing because it is institutionally not enthusiasm-led. You get employed to provide a routine repeat service, whereas the enthusiasts who run these sort of services really develop and they put everything that they have into it. They are not the same as the employed status that you would have in functions like the NHS.

[203] Do you want to add anything to that, Paul, about the numbers?

[204] **Mr Williams:** I would concur with the First Minister’s understanding as far as the service is concerned and what we are addressing. However, since I have taken over, I think that this presents us with a good opportunity. I am looking at the numbers of patients that are currently being treated outside Wales and outside the NHS in Wales. First and foremost, coming back to our reorganisation, our priority is mental health services, and we have a director on the board for mental health services. We need to go back to some of the history. If you look at learning disabilities, which are part of the issues that we need to address, you will see that it was never envisaged that the health service had a key role in the future in providing services. Therefore, some of the private sector developments happen as a result of what was conceived to be the position at the time, which has not proven to be the case. As I am an NHS person through and through, I think that we can provide these services more effectively and probably far more cheaply. I am collecting this information at the moment to see where we can start to develop proposals to ensure that we can provide most of these services in the NHS and as close to people’s homes as possible. This provides us with great opportunities: something that I will be taking forward in my future plans.

[205] **Darren Millar:** Picking up on the other issue that Leanne Wood raised about private treatment in NHS hospitals—

[206] **The First Minister:** Where are we on private treatment? Ten years ago, it was quite common to build a ward because it was seen as a revenue generator, was it not? Are we in a

position whereby that is gradually falling off?

[207] **Mr Williams:** The interesting thing is that it is gradually falling off; the NHS is becoming more successful and its waiting times are reducing. We are now finding that demand for private medicine and facilities is in decline because the NHS is becoming much more successful.

[208] **Kirsty Williams:** Is it not in decline because people cannot afford to go private?

[209] **The First Minister:** Why pay for insurance that gives you access to something that is provided free by the NHS. That is the key issue here.

[210] **Mr Williams:** That is why a lot of private providers are getting out of hospital care.

[211] **Kirsty Williams:** What is the latest data that you have access to that confirms that point? The data that we have access to are in the 'Health Statistics Wales 2008' document, which clearly states that the number of patients who were being treated privately in NHS hospitals, as in-patients, day cases and out-patients, are rising not declining. That is what 'Health Statistics Wales 2008' states, which is contrary to what you have just said.

[212] **Mr Williams:** I do not think that it is.

[213] **Darren Millar:** It is.

[214] **Mr Williams:** It is not, because, as the First Minister said—

[215] **Darren Millar:** You said that it was declining.

[216] **Mr Williams:** Please allow me to finish answering the question. The First Minister said that there is a decline in the use of private-sector medicine. The First Minister also said that, in the past, hospitals have used this as an income-generating opportunity. So, the totality of private medical use is declining and the NHS has used spare capacity to take some of that on board. That will reflect in those figures because, as the total numbers are declining, we may have been picking up more of the marginal business. However, that, as a whole, is declining as a number because the NHS is becoming more successful in treating patients far quicker than it used to.

[217] **Darren Millar:** There is a 21 per cent increase in private out-patients appointments, according to the figures that we have.

[218] **Mr Williams:** That is relatively small. That is, in fact, tiny.

[219] **Darren Millar:** The figure is 9,390.

[220] **Mr Williams:** Yes, but we are talking about over 0.5 million within the NHS.

[221] **Darren Millar:** It is not falling though, which is what you are suggesting.

[222] **Mr Williams:** If you look at the numbers outside, the number is falling. That is why we have private facilities closing.

[223] **Kirsty Williams:** I will move on to another aspect of the private and the public sector working together, which is the commitment in 'One Wales' to rule out the use of the private finance initiative in the Welsh health service. Can you give us an idea of the impact of that policy on the renewal of the hospital estate and the renewal and the purchase of high-tech

equipment in our hospitals, and your ability to deliver on people's expectations of new hospital building, which are fit for purpose in the twenty-first century?

[224] **The First Minister:** I will talk generally on this, and then Paul can answer any specific management questions. The broad thrust of the policy is not to use PFI. We have inherited PFI hospitals and we started some PFI hospitals in the past. Baglan hospital and Chepstow community hospital, for example, were in mid-contract when the Assembly came into being, so we did not aggregate those contracts because we could not have afforded the capital at that time. PFIs have become financially much less attractive since then, because you must take the whole hit on your balance sheet in year one, and you cannot spread it over the 50-year life of the initiative.

[225] The English health service is now burdened with the behemoth 900-bed hospitals that have been built under PFI, where the PFI payments will go on for 50 years. Hospital designers today say that if you build a hospital in 10 or 15 years' time, you definitely would not build a billion-pound hospital of that nature to serve an area of 0.5 million people, or whatever, in Leeds, Norwich, parts of London, and so forth. You would build a much more flexible unit, similar to our new Ystrad Mynach Hospital. However, you cannot make the switch if you are tied in by PFI. So, I thank my lucky stars that we did not go in for any of these PFI behemoths, for which you are then committed to the payments that you cannot get out for the next 50 years. I thank God that we did not build any such hospitals in Wales. We are building hospitals using taxpayers' money, but, importantly, we are pioneering hospital developments, which are acknowledged worldwide as being the kind of hospitals that everyone will be building in 10 or 20 years' time. It is a flexible model, where you have very short stays as an in-patient, you have step-down and step-up facilities nearer to your own home, and you have half the number of in-patient beds that you would have in a normal hospital, providing a normal service, but you double the number of out-patient facilities that you provide—either on site or in step-up or step-down community hospitals nearer to the patient's home.

10.50 a.m.

[226] **Mr Williams:** The private finance initiative was used as a device to reduce public capital spending, but in many cases it was a much more expensive solution. Not using much PFI in Wales has meant higher public capital spending, and the advantage of that is enormous. First and foremost, you do not have to rely on the market to decide where your hospitals are to be built. You might not have any takers with PFI, and so you might not get your hospital built. Rhodri could always say, 'Yes, we want more public capital spending', but the average of £350 million that we have been investing in the NHS has given us a range of schemes across Wales. It is not just the exciting new hospitals, but also—and we touched upon this when we were talking about the economy earlier this morning—a range of schemes costing £10 million to £30 million that involve adding to existing buildings, refurbishments, and new developments. Strategically, we are much better placed to use the capital spending, and not just to change facilities quickly, but to determine exactly where we want them strategically, and where there is a benefit for the economy of Wales.

[227] **Leanne Wood:** I will move on to the budget, and to local authority budgets in particular. The Welsh Government's final budget in 2008 indicated that planned expenditure in the local authority spending programme area would increase by 3.1 per cent in 2010-11. Subsequent to that, the Treasury budget highlighted that the Welsh departmental expenditure line for 2010-11 would be reduced by £300 million, so there will be £300 million less than we anticipated. In addition, up to £140 million of capital spend has been brought forward from 2010-11 budgets. What impact will these reductions will have on local authority funding in 2010-11?

[228] **The First Minister:** I cannot anticipate the end of the budget process just a few days before it starts, with the public exposition of the budget, the scrutiny by the Finance Committee, and then by the individual committees. The pressures are absolutely clear. Then there are the efficiency savings that will flow via the Barnett formula into the 2010-11 budget. Those savings are expected from our equivalent departments in Whitehall, and if they do better than us in finding efficiency savings, then that puts huge pressure on us. If we find a higher proportion of efficiency savings than them, then it takes the pressure off.

[229] On top of that, you are right to refer to the £120 million, I think, of capital spending that was drawn forward from 2010-11 to this year and the end of last year. It leaves a hole next year; clearly, you cannot have that money twice. You either spend it this year or next year. It is possible, for reasons relating to the recession, that we may be able to persuade the Treasury to bring forward money from 2011 into 2010, but then there would be a hole in 2011. The recession might have eased off substantially, so it may be to everyone's advantage to spend that money in 2010 instead of 2011, because the recovery from the recession is currently so fragile. At the moment, we still have a hole, and we do not know how it will be filled, because the extra money that we are spending this year, £100 million, and another £20 million at the end of last year, was draw-forward capital investment.

[230] The impact on local government is therefore critical. There will be efficiency savings from local government and departments within the Assembly Government, like health; we must try to beat Whitehall at its own game, if you like, by finding better efficiency savings than the equivalent Whitehall departments. Whether we can achieve that is an open question. Obviously, as the First Minister of Wales, I think that we can do everything better than they do in England. Therefore, my view is that we can find efficiency savings at least as well as in English departments. However, we cannot necessarily cover underspends. This is a more difficult area, because we tend to fully spend our budget. Comparable English departments, for one reason or another, spend, say, 96 per cent of their budgets, while we spend 99.5 per cent of ours. It is that underspend that is adjusted retrospectively out of the Barnett formula money. If they have not spent it, we cannot spend the equivalent of that—although we have already spent it by then; we find out later that they have not spent it, and it is then knocked off from the Barnett formula by a retrospective adjustment. You cannot beat the English at their own game when it comes to underspending—and we do not want to.

[231] **Leanne Wood:** I cannot see how we can avoid passing on a significant cut to local authorities in 2010-11, after everything that we have just talked about. They have already been forced to find efficiency savings, not just in the past few years, but over the past decade or so. I do not see that there is a huge amount of room for manoeuvre there. Given that, how can we ensure that front-line public services that are delivered by local authorities are protected?

[232] **The First Minister:** I half agree with you in the sense that cuts and efficiency savings really only amount to moving a couple of little beads on the abacus. The more efficiency savings you can find, the less pressure there is to make cuts. The fewer efficiency savings you find, the greater the threat to front-line services, because the cuts would have to be at the front-line service end, which nobody wants. So, the question is how good we are at finding ways of trimming the overheads. People ask what we mean by this. The answer is that, following the years of finding efficiency savings, you cannot achieve this by doing the same thing that you did before but a bit faster or with slightly reduced overheads. Now is the time to take more radical steps to re-engineer public services; you have to take them apart and re-engineer them and do them better through redesign, not just by finding savings on overheads. I do not think that that will work any longer for the reasons that you gave. They have been doing that for the past three or four years.

[233] That is why the radical reform programme to re-engineer public services through

local service boards and so on is very much at the top of the agenda at the moment, and top of the agenda for local government and the health service. Finding ways to deliver at the fringe between the health service and local government is also very much top of the agenda.

[234] **Leanne Wood:** First Minister, this sounds great in theory, but we know that, already, in local authorities, leisure budgets are being cut so that front-line services that are provided to people that are part of the preventive health agenda that we have just been talking about are under threat or being cut. The Welsh Government cannot direct Welsh local authorities to spend their money in particular ways can it?

[235] **The First Minister:** No, but I do not want to get into individual decisions about swimming pools and so on. That is a matter for local government, but how local authorities engage with the efficiency agenda, the re-engineering of public services agenda, or the collaborative agenda is critical. You are right to say that more of the same in the sense of slightly tightening the screws with regard to efficiencies and overheads is probably not going to work. It is a matter of re-engineering public services so that they are delivered in a different way; that is the only way forward. This is a problem for seven years, not just one year.

[236] **Darren Millar:** I am looking at the clock, and time is against us. I have a final question, First Minister. We know that hundreds of millions of pounds will be cut from the Assembly Government's budget next year. Clearly, that will have an impact on the 'One Wales' commitments in your programme for Government. Which of the commitments will be for the chop as a result of the economic situation?

[237] **The First Minister:** We do not believe that any will be, provided that we are at least as good as comparable departments in Whitehall and Westminster at finding efficiency savings by re-engineering public services.

[238] **Darren Millar:** So, am I right to say that, in your opinion, every one of those 'One Wales' commitments will be met despite the economic circumstances?

[239] **The First Minister:** I cannot predict the outcome of the budget negotiation, but there is no proposal in the budget negotiations that I am aware of that involves jettisoning a 'One Wales' commitment. So the answer is that no 'One Wales' commitments are to be removed from the budget. However, I cannot anticipate what will happen over the next eight weeks as we go through the scrutiny process, the draft budget becoming a final budget, the Chancellor's pre-budget report in November and so on. There are things that are off-limits in that sense. For example, swine flu could turn out to be 10 times worse than any of us anticipate, but, as things stand, we are determined to deliver.

[240] **Darren Millar:** On that note, we will close our meeting. I thank you and your officials for attending, First Minister.

*Daeth y cyfarfod i ben am 11 a.m.
The meeting ended at 11 a.m.*