



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

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Mercher, 23 Hydref 2013
Wednesday, 23 October 2013

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

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

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Ann Jones	Llafur Labour
Julie Morgan	Llafur Labour
Simon Thomas	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Jeff Andrews	Cynghorydd Polisi Arbenigol, Llywodraeth Cymru Specialist Policy Adviser, Welsh Government
Mark Drakeford	Aelod Cynulliad, Llafur (y Gweinidog Iechyd a Gwasanaethau Cymdeithasol) Assembly Member, Labour (the Minister for Health and Social Services)
Jane Hutt	Aelod Cynulliad, Llafur (y Gweinidog Cyllid) Assembly Member, Labour (the Minister for Finance)
Alun Lloyd	Rheolwr Rhaglen, yr Adran Iechyd a Gwasanaethau Cymdeithasol, Llywodraeth Cymru Programme Director, Department of Health and Social Services, Welsh Government
Mark Osland	Dirprwy Gyfarwyddwr, Cyllid, yr Adran Iechyd a Gwasanaethau Cymdeithasol, Llywodraeth Cymru Deputy Director, Finance, Department of Health and Social Services, Welsh Government
Jo Salway	Dirprwy Gyfarwyddwr, Cyllidebu Strategol, Llywodraeth Cymru Deputy Director, Strategic Budgeting, Welsh Government

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

Fay Buckle	Clerc Clerk
Claire Griffiths	Dirprwy Glerc Deputy Clerk
Gareth Price	Clerc Clerk

Dechreuodd y cyfarfod am 09:30.
The meeting began at 09:30.

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[1] **Jocelyn Davies:** I welcome everyone to this meeting of the Finance Committee. May I remind Members to turn off any mobiles or electronic devices, because they tend to interfere with the electronic equipment we have here? We are not expecting a fire drill, so, if you hear the alarm, please follow the direction of the ushers. We have had no apologies, but I understand that, later on, Angela Scott, our special adviser for the budget, will be joining us.

09:31

Bil Cyllid y Gwasanaeth Iechyd Gwladol (Cymru) National Health Service Finance (Wales) Bill

[2] **Jocelyn Davies:** We now turn to the first substantive item on the agenda. I welcome the Minister. Obviously, our session this morning is not part of the process for the Bill, but we are very grateful that you were prepared to come for this session, and I understand that, in our next meeting, we will be having the Stage 2 proceedings. Minister, if you would introduce yourself and your officials for the record, I will then go into the first question, if you like, because we do not have much time with you this morning.

[3] **Mark Drakeford:** I am Mark Drakeford, and with me this morning are Mark Osland and Alun Lloyd, as the officials who are assisting me with this Bill.

[4] **Jocelyn Davies:** I wonder if you would mind, very briefly, to start us off, laying out for the record the reasons for the dispensation of Stage 1. Then I will go into my first question.

[5] **Mark Drakeford:** What you have in front of you is a simple Bill with a very particular purpose—a useful purpose, but a modest one, too. All the Bill aims to do is to move local health boards in Wales away from the annual reporting and financial cycle that they have been on since their inception to a three-year rolling method of organising their finances. It is a course of action that has been widely recommended, both internally within the Assembly, through various committees including the Finance Committee, and externally through bodies such as the Wales Audit Office. The Bill simply seeks to do that.

[6] **Jocelyn Davies:** Is it your opinion that Stage 1 would not have been able to expand on your reasons for bringing the Bill?

[7] **Mark Drakeford:** That was my view. As the Bill is such a modest Bill in scope and intent, and given the fact that it had been extensively considered, that narrow issue, not just in this committee, but in front of the Public Accounts Committee and the Health and Social Services Committee, I felt that a detailed Stage 1 debate would have little to add.

[8] **Jocelyn Davies:** I am assuming, then, Minister, that if things go well for you in getting the Bill through, that this would be in place by the beginning of the next financial year.

[9] **Mark Drakeford:** That was the intention. I am grateful to Members in all parties, and to the Business Committee, for scheduling the Bill in a way that, if it succeeds, would allow us to do that.

[10] **Jocelyn Davies:** Are you confident, looking at the regulatory impact assessment, that

the overall costs in that assessment are a fair estimate of the likely costs of the Bill?

[11] **Mark Drakeford:** We are confident of that. The additional costs involved in the Bill amount to £121,500, of which £119,000 is recurring. That is money that will be paid to the Wales Audit Office for it to produce a narrative report alongside each health board's annual accounts. That is the sum that Wales Audit Office itself has supplied to us as what it believes the costs would be. We have had these costs in the public domain for quite some time as a result of publishing the explanatory memorandum. We have had no organisation come to us to say that it believe the costs are not reasonably set out.

[12] **Jocelyn Davies:** The impact assessment does not attempt to quantify the benefits that the Bill will afford to local health boards. Are you confident that the financial benefits will significantly outweigh the costs and perhaps the risks?

[13] **Mark Drakeford:** The benefits of the Bill are not always quantifiable in the sense that the real intention of the Bill is that it will lead to improved decision making and planning—improved decision making in service planning, in workforce planning and in financial planning. The quantifiable dimension to it will be in the financial aspect. The reason I think it is very difficult for the explanatory memorandum to give a figure is that the financial, quantifiable benefit will depend on the extent to which flexibility is afforded to local health boards, and, given some of the debate that we have already had on the floor of the Assembly about the need for the Bill to be introduced in a relatively precautionary way in its first stages, we are not going to give health boards flexibility of an unlimited or uncontrolled sort; it will be a managed flexibility, and, in the early stages, my own view is that we will manage that rather tightly. So, the amount of financial benefit you get depends on the extent to which the flexibility is afforded, and we will not be able to give a quantifiable sum until we know exactly how much flexibility we will be able to give local health boards.

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

[15] **Simon Thomas:** Do you really think that all the local health boards are up to three-year financial planning?

[16] **Mark Drakeford:** I do not start from that assumption, no. As a result, we have a rigorous new process for conducting the planning regime. One of the major practical differences of this Bill is that, in order to have a three-year, medium-term financial plan where flexibility is afforded to a local health board, that plan will have to have been agreed and approved by the Welsh Government. That safeguard is there for exactly the reason that Simon probably asked the question. If you could take it for granted that the plans would be up to scratch, you would not need the Welsh Government to deploy that decision-making power, but because we think we need to be sure of these things, that power is built into the Bill.

[17] **Jocelyn Davies:** Peter, shall we come to your question?

[18] **Peter Black:** Yes; thanks, Chair.

[19] As the Bill stands, Minister, there is a risk that the benefits of financial flexibility will be reduced after the second year. What flexibility do you think can be built into the system in terms of a tolerated range on meeting rolling three-year targets, and is there scope for unlimited ability for local health boards to carry forward unplanned surpluses and deficits? I guess it would be more deficits than surpluses.

[20] **Mark Drakeford:** Thank you, Peter, for that question. I think that you put your finger on an important distinction in the very last thing that you said when you talked about unplanned carry-forwards and so on. I will address that point in a moment, but I just want to

say that I sometimes think that, in the way the Bill has been talked about, we underplay the amount of planned flexibility that will be available to local health boards on an ongoing, rolling basis. There are undoubtedly extra flexibilities available in years 1 and 2, and I know that the auditor general has drawn attention to that and has urged that local health boards make maximum use of the additional flexibilities that years 1 and 2 will provide them. However, the Bill provides ongoing flexibility each and every year. The totals to which LHBs will work in any three-year period will not be that fixed in the first year, but in the total, which reflects the cumulative annual adjustments that can be made over the three-year period. While a particular year will be the third year of any one period, it will also be the first year of a new three-year period. So, the rolling nature of this flexibility, and the ability of local health boards to come forward annually with adjustments to their plans and to build them into the three years, I think, means that there is a bit more flexibility on an ongoing basis here than we have sometimes given it credit for.

[21] The point that you made at the end was about unplanned flexibility at the end of the year. I have heard Paul Davis and others make the case for a tolerance level that could accommodate that. I have said on the floor of the Assembly that we are doing work on that and, at the moment, it is still my hope that we will be able to bring forward a Government amendment at Stage 2 to give some limited and carefully controlled additional flexibility for unplanned changes at the end of the year. However, I do need to stress—and I again noticed the very careful language that the Auditor General for Wales used about that—that it will have to be tolerance of a controlled sort.

[22] **Ann Jones:** The paper from the NHS Confederation states that the

[23] ‘Welsh Government should endorse the creation of reserves as good and expected best practice, particularly in such challenging financial times.’

[24] Do you agree with that?

[25] **Mark Drakeford:** I do agree with that, Ann. It seems to me to be good practice. It is what the Welsh Government itself does in having a reserve. In difficult times, it is sensible for local health boards to do the same thing.

[26] **Ann Jones:** Have you explored the possibility of local health boards having access to a form of borrowing, linked to their ability to raise income?

[27] **Mark Drakeford:** Once again, thank you for the question. It is an issue that has been raised during the passage of the Bill. I see some merit in the proposition. However, going back to something that the Chair of the committee raised during the very first discussion on the Bill on the floor of the Assembly, I have taken the view all along that, if I have come to the floor of the Assembly asking the parliamentary side of the Assembly to give me permission not to have a Stage 1 and to use an accelerated procedure, then it is incumbent upon me to keep the Bill within the narrow confines within which the Bill began. Had we widened it to include borrowing, you would have needed a Stage 1 to have that issue properly rehearsed. What I am able to say is that we have signalled the possibility that we will prepare an NHS Wales quality Bill, almost certainly for introduction in a further Assembly term, if we were in a position to do that. Borrowing powers would be something that we would look at in that context. There is Silk, as well, in the background of all of this, which means that moving ahead prematurely on a health-only basis in borrowing would be something better avoided.

[28] **Mike Hedges:** I would like to follow up on that and then move on to the question that I wanted to ask. Surely, if you engaged in borrowing, because they are wholly owned subsidiaries of the Welsh Government, it would count against the Welsh Government’s capital anyway and would come off the capital at this stage, without borrowing powers?

[29] I will move on to the question that I was going to ask. As something of a critical friend who agrees with what you are doing, is there not the danger of going back to the pre-2007 period where debt builds up? There were health bodies, of which Morriston Hospital was one, when I was involved in it, which managed to build up debts of over £20 million over a period of time. It was all for good reasons—

[30] **Jocelyn Davies:** Do not say that you were involved in building up a debt at Morriston Hospital. [*Laughter.*]

[31] **Mike Hedges:** I was there at the time. It was built up for good reasons, but is there not a danger that you could return to that accumulation? How will you stop that from happening?

[32] **Mark Drakeford:** It is a very good point, and it is one that has been very much in my mind since the very beginning of considering this Bill. I can say to Members that I would not be bringing the Bill forward if I thought that it opened the Welsh NHS up to the danger that it would overspend in the early periods only to find itself having to slam on the brakes in a very big way later in the process because it had done exactly what Mike has said. I am concerned about that for a whole raft of reasons, but the most basic one might be that, as you will know, LHB accounts are part of the consolidated accounts of the department, and the department is part of the consolidated accounts of the Welsh Government as a whole. So, if we do not have a system that avoids what Mike has said, it is not just the LHB that is in trouble, the Minister and his or her department is in trouble and, beyond that, it is the Welsh Government that is in difficulty. So, we could not possibly embark on this course of action unless we were confident that we had put checks and balances into the system to avoid that happening. The fundamental check in this is that the only flexibility we are able to offer the NHS in Wales is flexibility that we can accommodate within our main expenditure group. Certainly to begin with, there will be a pretty tight limit on the extent of flexibility that we will be able to afford any health board.

[33] **Mike Hedges:** So, are you saying that flexibility is solely within the health budget, solely within your budget for health and social services, or solely within the Welsh budget? Which one of those three is correct?

09:45

[34] **Mark Drakeford:** It is on an escalating basis. If health boards were to go beyond the flexibility offered to them, I would have to be able to cover that from within my own budget. If I were unable to cover it from my budget, I would have to go to the Minister for Finance asking if it were possible within the Welsh Government's ambit. There is a series of escalating ways, but my aim is never to be at the second stage, let alone the third.

[35] **Jocelyn Davies:** Local health boards have, of course, borrowed from each other for short-term periods, and that is perfectly allowable within your current rules.

[36] **Mark Drakeford:** Yes, that is perfectly allowable and I do not see why that might not still be the case.

[37] **Jocelyn Davies:** Julie, shall we go on to your question?

[38] **Julie Morgan:** You said earlier that you thought that this would all be in place by 2014-15. Could you tell us how the planning process will be different from what happens at the moment?

[39] **Mark Drakeford:** I think that the planning process is different in two main ways. First, there are some practical differences—the major one being that these plans will, in the end, have to be scrutinised and endorsed by the Welsh Government. At the moment, we do not have that in relation to annual plans.

[40] The main difference is in culture rather than technicality. It is that it allows health boards to plan over that medium-term horizon. How the planning process will now operate has been laid out in the explanatory memorandum—it is on page 15; I am afraid that I can tell you that [*Laughter.*]. It has already begun. It began before the summer, really, when the Bill was announced, but it began most practically on 6 September when there was a joint meeting of directors of finance and directors of planning right across the Welsh NHS. It is continuing with further meetings of that sort. There is a timetable for plans to be submitted and a peer review process will be conducted in November of those plans, with some external scrutiny of them as well. Plans will be resubmitted in January. There will be a further round of consideration. If at the end of all that—to go back to Simon’s question—we think that a health board’s plans are fit for a three-year approval, they will get the three-year approval. If they are not fit for a three-year approval, then a local health board could be in the position of having only an annual approval to allow them to go forward for the next year.

[41] **Julie Morgan:** If you do decide that they are fit for a three-year approval, will you be looking at them again during that period?

[42] **Mark Drakeford:** Absolutely. The auditor general said in his ‘Health Finances 2012-13 and beyond’ review, published during the summer, that one of the major changes that there has been is that we now have a much better system, which is much more fit for the purposes that we need it, of being able to monitor the financial position of NHS bodies in Wales every month. The information that we get is now reliable and allows us, as a Government, to take action where that is needed. An integral part of this is that we will be monitoring on a monthly basis the new regime that local health boards will be operating under.

[43] **Jocelyn Davies:** Okay. Paul?

[44] **Paul Davies:** Diolch, Gadeirydd. Fel yr ydych yn gwybod, Weinidog, mewn blynyddoedd blaenorol, mae anawsterau wedi bod o ran cytuno ar gynlluniau ariannol gyda byrddau iechyd. Yn y dyfodol, ac o ganlyniad i’r Bil hwn, pryd yn gwmws fydd eich adran chi yn ymyrryd a beth fydd y camau penodol y byddwch chi a’ch adran yn eu cymryd i sicrhau bod cynlluniau yn cael eu cytuno cyn dechrau pob blwyddyn ariannol? Rydych chi wedi cyffwrdd â hyn, ond a wnewch chi egluro pryd yn gwmws fyddwch chi fel adran yn ymyrryd yn y cynlluniau hyn ac yn y byrddau iechyd?

Paul Davies: Thank you, Chair. As you know, Minister, in previous years, there have been difficulties in terms of agreeing financial plans with health boards. In the future, and as a result of this Bill, when exactly will your department intervene and what specific steps will you and your department take to ensure that plans are agreed before the start of each financial year? You have touched on this, but will you explain when exactly you, as a department, will intervene in these plans and with the local health boards?

[45] **Mark Drakeford:** Diolch yn fawr am y cwestiwn, Paul. Wrth gwrs, fel y dywedais, rydym yn mynd i fod yn rhan o’r broses, drwy gydol y broses. Ni fyddwn jest yn eistedd yn ôl ac aros nes bod y byrddau yn dod atom ni. Mae’n bwysig dros ben hefyd i fod yn glir bod gan y byrddau iechyd gyfrifoldebau, a byddwn yn eu gosod allan ac

Mark Drakeford: Thank you very much for the question, Paul. Of course, as I said, what we intend to do is to be a part of the process, throughout the whole process. We are not simply going to sit back and wait until the health boards approach us. It is also extremely important to be clear that the health boards do have responsibilities, and

ailwneud y *standing orders*, y *standing financial instructions* a phethau felly.

we will be setting those out and remaking the standing orders, the standing financial instructions and so on.

[46] Y cam cyntaf fydd i'r byrddau iechyd fod yn glir eu bod wedi cynllunio yn iawn, a'u bod wedi gwneud hynny mewn ffordd agored, yn y bwrdd, lle gall pobl weld beth maent yn bwriadu ei wneud. Bydd yn rhaid iddynt gyhoeddi'r papurau ac yn y blaen. Fodd bynnag, ar ôl hynny, bydd fy swyddogion yn dod i mewn i'r broses, ac yn dangos i mi, fel Gweinidog, bod cynlluniau'r byrddau iechyd yn ddigon da i ni fwrw ymlaen â'r hyblygrwydd sydd gennym yn y Bil hwn.

The first step is for the health boards to be clear that they have planned properly and that they have done that in an open and transparent way, in the board, where people can see what their intentions are. They will need to publish those papers and so on. However, following that, my officials will come into the process, and they will show me, as Minister, that the plans put forward by the health boards are robust enough so that we can proceed with the flexibility contained within this Bill.

[47] There will be a series of fixed points during that process, which will be known through the planning framework that we are publishing—there will be a public document available to Assembly Members, too—to show where exactly the Welsh Government will be involved in this process. Our aim is that in January, boards will have produced plans of a sufficient maturity and convincing quality that we will be able to sign them off and they will know what their position will be for the three years following.

[48] **Paul Davies:** A allwch chi egluro, pan fyddwch chi'n cytuno ar gynlluniau'r byrddau iechyd lleol, a fydd y Llywodraeth yn rhoi ystyriaeth i gyfanswm y ceisiadau am adnoddau gan yr holl fyrddau iechyd gyda'i gilydd?

Paul Davies: Could you explain, when you agree on the plans of health boards, will the Government be considering the total resource requests of all local health boards combined?

[49] **Mark Drakeford:** Wrth gwrs, bydd yn rhaid i ni wneud hynny, fel y dywedais yn fy ateb i Julie Morgan. Yr hyblygrwydd rydym yn gallu ei roi i'r byrddau iechyd yw'r hyblygrwydd sydd gennym yn yr adran i gyd.

Mark Drakeford: Of course, we will have to do that, as I said in my response to Julie Morgan. The flexibility that we provide to the health boards is the flexibility that we have within the department as a whole.

[50] We will only be able to offer local health boards such flexibility as we can accommodate within the departmental budget. In that sense, the flexibility that we are able to offer any individual health board will have to be balanced against the flexibilities that other health boards are looking for. There will come a point—and I think that this is quite a realistic prospect—when we will have to say to one local health board or more, 'The degree of flexibility that we are able to offer you is not what you would like it to be, because we are balancing that against the flexibilities that other health boards are looking for'. Some plans will be better than others and some boards will get more flexibility than others as a result.

[51] **Christine Chapman:** Minister, we know that the timescale to approve all of the LHB plans before the start of the financial year is going to be tight. Do you think that there are any risks in the fact that the legislation and the approval of plans will not be in place before the start of the financial year? Of course, it will not be the fault of the local health boards, but if that is the case, what action will you take?

[52] **Mark Drakeford:** There are risks, of course. I always have to caveat anything that I say to local health boards about this proposal against the decisions that are for the National Assembly for Wales to make. The Bill might not make it on to the statute book, and in that

case, there would be no new regime, so that is a risk to which I have to draw their attention. We are involved in a process and, in the end, it is for me to persuade you, or not, to endorse the course of action that the Bill sets out. If I did not persuade you, there would not be a new regime. So, that is a risk and they know that.

[53] The other risks are the planning risks to which you referred. I am more confident that we have a series of practical actions in place and a series of milestones that we set out early in the explanatory memorandum. We have met all of those so far and I feel confident that we will be able to go on meeting those milestones.

[54] What is the worst that could happen, Chris? The worse that could happen would be that the next financial year would be carried out on the same basis as every financial year that there has been since health boards began. We do not want that to happen, because we want to offer them the opportunity to be able to do things better, to make better decisions and not to be short-termist in everything that they have to do. However, the worst that could happen is that the current regime would have to go on for another year.

[55] **Simon Thomas:** Yn amlwg, er mwyn i bwrpas y Bil hwn weithio'n iawn, mae'n rhaid cael system fonitro ac arolygu gref mewn lle. Rydych chi wedi amlinellu rhai o'r pethau hynny sydd wedi digwydd, dros yr haf, o leiaf, a'r gwelliant sydd wedi bod yn hynny o beth.

Simon Thomas: Obviously, for the purpose of this Bill to work properly, there needs to be a robust monitoring and reporting process in place. You have outlined some of the things that have happened, during the summer, at least, and the improvement that there has been in that regard.

[56] Mae dau beth yn fy nharo sy'n hollbwysig, ac rydych chi wedi sôn amdanynt y bore yma. Y cyntaf yw bod adroddiad naratif blynyddol gan Swyddfa Archwilio Cymru ar bob bwrdd iechyd. Yn ail, rydych chi fel Gweinidog yn cymeradwyo cynlluniau blynyddol ac yn derbyn gwybodaeth yn fisol ar gyflwr bob bwrdd.

There are two all important things that strike me, and you have spoken about them this morning. The first is that there is an annual narrative report from the Wales Audit Office on all local health boards. Secondly, as a Minister, you approve annual plans and receive information on a monthly basis regarding the state of each board.

[57] A ydych yn meddwl, fel Gweinidog, fod hynny yn rhoi digon o rym i chi felly i sicrhau bod y system yn gadarn, o gofio bod y byrddau hyn yn dechrau mewn lleoedd gwahanol iawn?

As a Minister, do you think that that therefore gives you enough power to ensure that the system is robust, given that these boards are starting from very different positions?

[58] **Mark Drakeford:** Rwy'n meddwl bydd y Bil yn rhoi'r pwerau i mi i wneud y gwaith sydd gennyf i'w wneud. Hoffwn ddweud hefyd nid wyf yn dibynnu ar y pwerau a fydd gennyf yn y Bil hwn yn unig, gan fod pwerau gennyf yn barod yn Neddf 2006, ac mae nifer o bwerau gennyf fel Gweinidog i helpu'r byrddau ar yr un llaw a hefyd i fynd i mewn i'r byrddau a newid pethau.

Mark Drakeford: I think that the Bill will give me the powers to do the work that I need to do. I should also say that I am not going to be depending on the powers within this Bill alone, because I already have powers in the 2006 Act, and many powers are available to me as Minister to assist boards on the one hand, but also to go into the boards and change things.

[59] So, for example, in section 26 of the 2006 Act, I have powers to remove individual members of boards or to remove whole boards, to remove specific functions from particular boards and to transfer responsibility for those functions to other boards to discharge on their behalf, and to issue intervention Orders. Under section 28, I have even more general and

sweeping powers. So, standing behind the arrangements that this Bill sets out, and which I think provide me with sufficient levers to be able to be satisfied that the boards are acting in the way that I would want them to act, there are a series of other powers available to me that I could rely on if things were going wrong in a way that we do not anticipate or do not intend.

[60] **Simon Thomas:** Rwy'n derbyn y pwynt yr ydych wedi ei wneud, ond o gofio taw, yn y bôn, y Cynulliad sy'n gorfod pleidleisio ar y gyllideb ddrafft yn ei chyfanrwydd a bod hwn yn newid y ffordd yr ydym yn edrych ar dros £5 biliwn o'r gyllideb honno o ran y ffordd y bydd yn cael ei wario, a ydych wedi ystyried yn y Bil hwn o gwbl sut mae'r Cynulliad ei hun yn gallu cael trosolwg o'r gwariant hwn i sicrhau eich bod chi'n defnyddio'r grymoedd yr ydych newydd eu hamlinellu mewn ffordd briodol ac mewn ffordd sy'n sicrhau y darperir gwasanaethau sy'n hollbwysig i'r bobl yr ydym yn eu cynrychioli?

Simon Thomas: I accept the point that you have made, but given that, in essence, it is the Assembly that has to vote on the draft budget as a whole and that this changes the way that we look at over £5 billion of that budget in terms of how it is spent, have you considered in this Bill at all how the Assembly itself can have an overview of this expenditure to ensure that you use the powers that you have just outlined in an appropriate way and in a way that ensures the provision of services that are vital to the people whom we represent?

[61] **Mark Drakeford:** Rwy'n ymwybodol o'r pwyntiau hynny ac rwyf wedi clywed Elin Jones yn eu gwneud yn barod. Rydym ni'n meddwl, ac yn bwrw ymlaen i feddwl, am rai awgrymiadau yr ydym yn mynd i'w cynnig i gryfhau'r broses o graffu. Rwy'n derbyn y pwynt mae Elin a chithau, Simon, wedi ei wneud. Bydd y gwaith mae'r WAO yn mynd i'w wneud, yn cyhoeddi'r *narrative reports* hyn, yn help achos byddant yn hollol agored a bydd Aelodau'r Cynulliad yn gallu gweld beth fydd y WAO yn ei ddweud bob blwyddyn. Fodd bynnag, rwyf hefyd yn derbyn y ffaith bod, wrth symud yn y cyfeiriad hwn, mae'n rhaid i ni ailfeddwl a thrio meddwl am ffyrdd gall Aelodau'r Cynulliad helpu i graffu'r broses hefyd.

Mark Drakeford: I am aware of those points and I have heard Elin Jones make them already. We are thinking, and continuing to think, about certain suggestions that we are going to make in order to strengthen the scrutiny process. I accept the point that Elin and you, Simon, have made. The work that the WAO will do, in publishing these narrative reports will be of assistance, because they will be entirely open, and Assembly Members will be able to see what the WAO will have to say on an annual basis. However, I also accept the fact that, in moving in this direction, we do have to rethink and try to identify means by which Assembly Members can help to assist with the scrutiny of the process as well.

[62] **Simon Thomas:** Nid bob mis—

Simon Thomas: Not on a monthly basis—

[63] **Mark Drakeford:** Na. Diolch am hynny. [*Chwerthin.*] Yr hyn yr wyf eisiau ei wneud, os wyf yn gallu, yw ysgrifennu llythyr at aelodau'r pwyllgor hwn ac aelodau'r pwyllgor iechyd gyda rhai syniadau cyn diwedd dydd Llun nesaf. Dim ond syniadau y byddant, ond rwy'n ymwybodol o'r pwynt sy'n codi.

Mark Drakeford: No. Thank you for that. [*Laughter.*] What I want to do, if I can, is to write to the members of this committee and the members of the health committee with certain ideas before close of play on Monday. They will only be ideas, but I am aware of the point that arises.

[64] **Jocelyn Davies:** Are Members happy with that? I think that we have covered all the points that we intended to cover with you, Minister. So, just for clarification, you will likely be bringing just one Government amendment forward—

[65] **Mark Drakeford:** There may be a second.

[66] **Jocelyn Davies:** But there will be a small number—

[67] **Mark Drakeford:** There is a second technical amendment about definitions of expenditure that we may need to bring, but that is of a technical nature rather than anything else.

[68] **Jocelyn Davies:** Okay. Thank you very much, and we will, of course, send you a transcript, which you can correct. We are very grateful that you have made yourself available to us this morning.

[69] **Mark Drakeford:** Thank you all very much.

10:00

**Craffu ar Gyllideb Ddrafft Llywodraeth Cymru ar gyfer 2014-15: Tystiolaeth gan
Lywodraeth Cymru
Scrutiny of the Welsh Government Draft Budget 2014-15: Evidence from the Welsh
Government**

[70] **Jocelyn Davies:** Minister, if you would like to introduce yourself and your officials, for the record, then we will then move straight to questions, if that is okay.

[71] **The Minister for Finance (Jane Hutt):** Thank you very much. Jo Salway, head of strategic budgeting, and Jeff Andrews, specialist adviser.

[72] **Jocelyn Davies:** Thank you. Minister, in the programme for government annual report this year, it was stated that the top priority for your Government is to deliver growth and jobs and to tackle poverty, which was reflected in last year's draft budget for growth and jobs. However, this year's draft budget seems to have expanded on these priorities, focusing on growth and jobs, educational attainment, and supporting children, families and deprived communities. Could you explain the process behind this reprioritisation and how, with a reducing budget, you are able to expand on your priorities?

[73] **Jane Hutt:** Thank you very much, Chair. To respond to that question, I would say that our priorities have remained the same in terms of jobs and growth, schools, protecting universal benefits and health. So, our priorities have not changed. What we sought to do this year is drill down, particularly because it was a reducing budget, so that Ministers could see the impacts if they do need to reprioritise or need to look at how they can protect. As a result of that, we themed the budget, as you will see in the narrative, into jobs and growth, enhancing educational attainment—which is critical, of course, if you are going to protect and support funding into schools—and then looking at the key issues about supporting families and deprived communities. So, it is not about a reprioritisation or extra priorities, but about trying to drill down better to ensure that, and that we have a cross-cutting approach by Ministers to those themes.

[74] **Jocelyn Davies:** Okay. Thank you, Minister. The narrative to the draft budget states that we cannot continue to fund everything that we do. Can you tell us the things that you have decided not to continue doing?

[75] **Jane Hutt:** Obviously, this has been the toughest budget in terms of reducing budget lines. We have had to protect—we have already talked about our priorities. I am sure that other Ministers that have appeared before you and other committees have talked about the particular reductions that have been made. The Cabinet faced some really tough decisions that had to be made, so we were focusing on our priorities of growth and jobs, and also protecting

the most vulnerable. If I look at my own budget heading in terms of central services and administration, I think that it is important again that every possible efficiency and every reduction is made in areas such as general administration costs, for example, £4 million next year and £2 million the following year; Enabling Government £2.8 million; targeted match funding £1 million next year, which is very important in terms of European structural funds. Geographical information services will be cut by £0.3 million, and events, Value Wales and public appointments will be cut by £0.2 million. Also, looking at other ministerial and main expenditure groups, the Minister for Natural Resources and Food, for example, will see his communications budget cut by £0.6 million. Clearly, of course, natural resources and food, like all MEGs, has a communications budget, but those come first in terms of where we make reductions.

[76] **Jocelyn Davies:** So, are there any substantive policy areas where you have decided to discontinue Government funding, other than making efficiencies in communication, which I suppose is public relations?

[77] **Jane Hutt:** Yes. Alun Davies can speak for himself in terms of natural resources and food, but there is a lot of promotion done, is there not? There is very important promotion in terms of the preventive health stream as well. It has had to be those tough decisions about, ‘Well, can you not do that?’ There have been some changes; for example, there are fewer hard-copy magazines and leaflets going out, and much more electronic communication. Those are obvious efficiencies, but it is also moving with the times. Not everyone has online access, which is the difficulty, but those are the kinds of savings you would make on communications.

[78] **Jocelyn Davies:** So, there are no substantive policy areas where Ministers have decided, ‘Well, we just won’t do that anymore’.

[79] **Jane Hutt:** Well, there have been reductions across the board. In terms of the minutiae, you are obviously analysing and seeing where those reductions are. However, the priorities—the protected areas—inevitably mean that there are tougher decisions for non-protected areas, and you can see that across those MEGs.

[80] **Jocelyn Davies:** Okay. The document that you published alongside the draft budget, showing alignment to the programme for government, is on the same basis as last year in that it shows how budget actions align to sub-outcomes and chapters in your programme for government. Do you think that that could be taken even further to show what resources are available to meet specific commitments?

[81] **Jane Hutt:** This is an area where I feel we, and our officials, have worked very closely with your committee, and your clerk and officials, to try to improve the transparency. It is a judgment as to how far you can go in terms of comparability and aligning those budgets with outcomes in the programme for government, but I hope that you feel that we have, where we can, made the links between our funding allocations and the programme for government commitments in the budget narrative. We are committed to improving on this work, not just its presentation but the level at which we provide the information for the budget. It does not always link to specific commitments. It is always difficult when there is a portfolio change as well. However, I certainly would want to be able to work more with this committee on this point.

[82] **Jocelyn Davies:** Okay. Obviously, the programme for government is a very important document. Do you have any evidence that it shapes the financial planning process of the wider public sector?

[83] **Jane Hutt:** Clearly, all our partners and Welsh-Government-sponsored bodies are

aware of our expectations in terms of the programme for government. That is also reflected in not only ministerial monitoring and engagement but also remit letters, for example. They are being funded by Welsh Government funding streams, so they are very clearly aligned to our programme for government. Also, at a local level, we have guidance on single integrated plans, for example, and they, again, draw on our programme for government. So, there is ongoing monitoring and engagement. The scrutiny of our programme for government and our annual debate on it is also important, because that is all in the public domain.

[84] **Jocelyn Davies:** Okay. Julie, shall we go on to your questions?

[85] **Julie Morgan:** Yes, thank you. I am going to ask about preventative spending. Can you give a figure for how much of the Welsh Government's budget is spent on preventative funding as a percentage? We know that the auditor general has said that, over the UK, it is about 6%. Are you able to give any estimate?

[86] **Jane Hutt:** It is difficult to give a percentage on preventative spend. We do want to ensure, in terms of preventative spend, that it is aligned to our programme for government and our priorities and that for all our spend, increasingly, the discipline of making sure that it is cost effective in terms of delivery is as clear as possible. However, it is very difficult to categorise preventative spend in the way that has been suggested. A lot of work has been done on this, not just here but across the UK, and I am sure that we will learn from that. I have asked Ministers, and you will see, not just in the draft budget but also in the equality impact assessment, the ways in which we have looked to highlight preventative spend and demonstrate the difference that preventative spend will make. Sometimes, it will be about long-term benefits and impact, which are difficult to quantify, and other times it will be about how we can, here and now, help people who are suffering as a result of poverty, which we would still see as a kind of mitigating, preventative, spend. I certainly could not give you a figure, but it is something that we need to work on and, perhaps, that is something that I can work with the committee on, in terms of how we analyse this. Some of the interventions that we make are not necessarily cost savings. So, again, it is about the definition of 'preventative spend'. It is not necessarily cost releasing. It can be long term in terms of impacts, but some of it will be money that has to be allocated to alleviate the pressure of poverty impacts due to the economic and social situation that people live in.

[87] **Julie Morgan:** You said that you felt that the benefits should be evaluated in the long term. We had witnesses, particularly those from the Community Links early action taskforce, who suggested that a 10-year period would be a good period to evaluate the effectiveness of preventative spending, and that a 10-year test should be applied to each budget line. Have you considered that?

[88] **Jane Hutt:** This, again, is something on which I feel that we can work together regarding how we analyse this. Julie, you and other colleagues were at the Environment and Sustainability Committee last week where we talked about the opportunities with the future generations Bill, because that will help us to start futureproofing, in terms of our spend, because it will also look at key long-term challenges. That is about tackling poverty and climate change and creating jobs. So, the methodologies need to be developed in terms of how we take this forward. We have short-term needs that we have to meet, which are very pressing. Also, we have to find ways in which we can make savings that release funds from our budget. It is interesting that, last week in committee, we talked about some of those aspects of spend and priorities where we feel that it is here and now that it helps people, but it also prevents longer term pressure, such as, for example, keeping and safeguarding the domestic abuse funding line in Lesley Griffiths's MEG, which means that we can keep supporting those organisations that work with women particularly affected by violence, and also we can see that that has a preventative spend, in terms of what that means for the lives of those women, their families and their prospects. It is something that we have to do more work

on.

[89] **Julie Morgan:** Preventative spend does not always result in saving cash. Obviously, one part of the public sector can make a preventative spend where the benefit goes to another part of the public sector. Have you thought of ways to look at preventative spend spread across the whole of the public sector?

[90] **Jane Hutt:** Yes. This is something on which we can also work with the whole public sector more effectively. Lesley Griffiths chairs the public services leadership group, which includes not just local government, but the health service, the police, the fire service and all of the public sector. One of the ways in which we are looking to make this more of a reality, in terms of ensuring that there are benefits from this approach to budgeting, is to look at innovative ways of changing service delivery, which can have some cashable savings, but can also lead to cost-avoidance in the future.

[91] The other thing that is going on, which is very similar to the preventative spend approach, is work on demand management. I am sure that that is something that you will have considered with other Ministers as well. For example, the Welsh Local Government Association, which we are supporting, is doing some work in Gwynedd, and that is about how they can manage demand through prevention and earlier intervention. Demand management and prevention are also about early intervention.

10:15

[92] We also have—and I know that colleagues are aware of this—the team around the family approach. There is a family services calculator being used now to see what this means in terms of saving funding and reducing demand on public services. So, we do have savings estimates coming forward. I think that in Rhondda Cynon Taf the calculator estimates that, in one case, £18,000-plus costs were avoided through this team around the family approach. So, that is another area that the Finance Committee, I am sure, would be interested in.

[93] The local service boards have done some good work on this as well, backed by the European social fund. So, that is something that we are seeing as a cross-public sector responsibility; it is not just our responsibility. It is about how we work with our partners, not just in challenging times in terms of reducing budgets, but actually changing the way that we do things so that we are investing effectively.

[94] Finally, I would say that invest-to-save has been a key way to help public service partners to deliver and maintain high-quality, cost-effective and efficient services.

[95] **Peter Black:** Minister, as effective prevention involves collaboration, stakeholders have told us that they would appreciate an overall strategic approach to prevention at a national level and that this should be an integral part of the budgeting process across the public sector. Is that sort of national strategy on prevention something that the Government would be interested in leading on?

[96] **Jane Hutt:** Definitely. I have given a few examples. I think that the public services leadership group is the steer for that and, obviously, I am very engaged as well in supporting Lesley Griffiths in her role. However, you may be aware that, as a Government, we are hosting a joint seminar with the Wales Audit Office next year, looking at the challenges of shifting the emphasis from remedial to preventative approaches. The WAO interest in this and in the demand of management approach is very valuable. This is Welsh Government engaging with the public sector for this new strategic approach.

[97] **Peter Black:** On a more specific point, on 9 October, you suggested that Care and

Repair might possibly benefit from the intermediate care fund. However, our witness from Care and Repair was unsure whether it would be able to access the fund. I think that the Minister for Housing and Regeneration was also unsure, when he gave evidence to the Communities, Equality and Local Government Committee, about whether it would be able to access that fund. Could you provide some detail around the process and criteria involved in accessing this fund? Will Care and Repair benefit from it?

[98] **Jane Hutt:** Discussions are ongoing at official level about elements of the intermediate care fund, based on our constructive discussions and budget agreement. There is a meeting very shortly to discuss this more specifically, particularly with our partners from Plaid Cymru and the Welsh Liberal Democrats. What is interesting about the intermediate care fund is that it is three MEGs—health, social care and housing—and there are no presumptions yet in terms of how local authorities, which will take the lead, will be able to develop their proposals in terms of meeting the elements of the intermediate care proposal that we agreed. Care and Repair featured highly, I remember, in our discussions.

[99] **Peter Black:** As I understand the way that Care and Repair works, it is, effectively, an intermediate care fund in itself, but it also works on a very strong collaborative basis, with both the health boards and the local authorities putting money into it. In fact, the money that the Welsh Government puts into Care and Repair is match funded by those two parties. So, effectively, the £500,000 cut that is in the budget amounts to £1 million lost to the Care and Repair fund. I wondered whether you had understood that particular process.

[100] **Jane Hutt:** I think that it is very important that you have aired it again today, Peter, because we need to look at it very carefully in terms of what our proposals are and the details of the fund.

[101] **Peter Black:** I think that Care and Repair is uneasy about relying on a bidding process in terms of its planning for the financial year. Would you reconsider the cut to Care and Repair, in the light of the information that is becoming available as part of the scrutiny process?

[102] **Jane Hutt:** I think that we need to look carefully at the discussions that have been held so far and the implications of the current funding streams, but also at how this could possibly improve the way in which proposals could come forward in terms of the intermediate care fund. I certainly want to look at the funding streams and how they operate.

[103] **Jocelyn Davies:** Obviously, Minister, the reason why you have a draft budget before the final budget is for you to consider representations. Can you think of examples of when budget lines in the draft budget have changed in previous years due to representations made to you and things that you have discovered during this scrutiny period? Or do they never change?

[104] **Jane Hutt:** That is the purpose of scrutiny—to see where there are issues and where we could make adjustments. Clearly, we have a draft budget, and if you are going to put anything else into it, you have to take something out of it. So, it is about where we would find savings or make reductions in order to introduce something additional. That is the difficulty. In past times, as I am sure your clerk and support staff would see, there have been adjustments between draft and final, because that is when we have our debate, really—although, of course, the scrutiny raises things in all the committees. We are certainly tracking every committee to see what is coming forward.

[105] **Jocelyn Davies:** Ann, shall we move on to your questions?

[106] **Ann Jones:** When you were before the committee previously, we discussed the issues

around the cost in the current and any future legislation. Given that the Assembly has now passed a number of pieces of legislation, including Measures from the third Assembly, can provision to meet the cost of this legislation be identified within the current budget?

[107] **Jane Hutt:** This is something where, clearly, we have a chapter in the budget narrative, laying out the importance of legislation and what it means in terms of the costings. That is key now that we have those powers. We have to be mature and confident and robust about that as a Government and, indeed, through your scrutiny at every stage. As you can imagine, at Cabinet, as the Minister for Finance, I am testing and monitoring. It is at the planning and development stage of a Bill that you have to be very clear about the future costs. It is not just in terms of the Bill itself, clearly; it is about the impact for our partners in terms of delivery. So, pre-consultation in terms of legislation is key to this, to make sure that we are informed.

[108] I think that you will see in the budget narrative that we have specifically looked at legislation, such as the Food Hygiene Rating (Wales) Act 2013, the Human Transplantation (Wales) Act 2013 and the Social Services and Well-being (Wales) Bill. We looked at them specifically to address the questions of costs. I think that it is something where the affordability of legislation is becoming more of a question and an issue—not just for us, but for our partners, and because of our shared, reducing budgets. I appreciate that the regulatory impact assessment is right down the line, in a way. It has got to be, ‘Well, what does this mean?’ when a proposal comes forward—what does it mean for us and for our partners? Obviously, legislation is a key part now of our programme for government.

[109] **Ann Jones:** You have mentioned some difficulties around measuring up the priorities in legislation, and then particularly around secondary legislation. I think that the last time you were here you said it was difficult to quantify how much secondary legislation actually would cost, and that there was no real financial costing of regulations when the legislation passed is of an enabling nature. So, how do you then monitor the cost of the secondary legislation from any piece of legislation that is passed? How does that marry up with the financial regulatory impact assessment that we have to look at?

[110] **Jane Hutt:** I think that the cost implications of secondary legislation, in a sense, have always been with us, prior to our getting full legislative powers. The impact of that, of course, when you have growing budgets is very different from when we are in the financial climate we are in now. So, the discipline and the monitoring, as I said, are really very important at the planning stage and the consultative stage, because it is the follow-on impact of secondary legislation that will be particularly felt by our delivery partners. So, this is something about which I can only say that we are relentlessly focusing in terms of budget implications, and we have to have a programme of continuous improvement on the implementation of our legislation in terms of understanding and predicting what those costs would be. Again, it goes back to powers for a purpose, does it not? We are looking at legislation, and I know that Gwenda Thomas would say this in terms of the social services and wellbeing Bill, which, in the long-term, arguably, in terms of the way in which we will deliver our social services, could be preventative in its nature. It may have upfront costs, but in the long term, it could be preventative, as indeed could the human transplantation Bill.

[111] **Ann Jones:** I think that you said the last time you were here before us that the costs of legislation and secondary legislation will be borne by the portfolio holder. Therefore, if there is some huge cost from secondary legislation, and there is that difficulty, what mechanism is available to the portfolio holders to seek your assistance in delivering that piece of legislation?

[112] **Jane Hutt:** I maintain that that kind of cost should be predicted at the pre-legislative consultation stage in the development of work across Government and inter-governmentally

in terms of delivery partners. It should be foreseen and predicted, but, clearly—and this is one of the reasons we have to be flexible in our budgets and have a reserve—we have also to be ready for emerging pressures that perhaps have not been foreseen. I do not know whether we have an example here of how that could emerge from legislation, but, you know, it could.

[113] **Jocelyn Davies:** Peter wanted to come in on this point.

[114] **Peter Black:** I am interested in the assertion, Minister, that the cost should be predicted. The social services Bill is struggling because they are not able to make that prediction, so how is that taken into account in your budget?

[115] **Jane Hutt:** I think that the Deputy Minister has responded to that, and the response in the summer was to ensure that there is some funding towards the transition with the social services and wellbeing Bill, recognising that the transition in the long term means that that Bill could release savings; it could have a preventative impact. The Deputy Minister responded—I think that £2.1 million was announced for transitional support for local authorities. We should also remember that, as she will have said, there is a big budget line for social services expenditure. It is hoped that this new Bill will help in the management of those budgets. So, I maintain that your scrutiny is vital to this, and between us, with your scrutiny and good Government, we should be able to, if not predict, then at least analyse what the impact of the new legislation will be.

[116] **Peter Black:** The social services Bill may have transitional costs, but the cost of the secondary legislation is unknown. As I understand it, any savings will come in the medium to long term, as opposed to upfront. So, there are clearly issues with how the secondary legislation in particular is costed and what understanding you have as the Minister for Finance in making allocations for that in the next two or three years.

[117] **Jane Hutt:** Clearly, these are questions for the Deputy Minister, and I am sure that she is already responding to you and to other committees. I am working closely with her and colleagues to support them through the legislative process, but I also think that, in this instance, in terms of the social services and wellbeing Bill, the intermediate care fund is going to be a very useful and important means of providing new opportunities for local authorities, in a sense, to pave the way for the new Bill.

10:30

[118] **Jocelyn Davies:** Have your Ministers been told not to bring secondary legislation unless they can afford it from within their own departmental budget?

[119] **Jane Hutt:** Clearly, as Ann said, meeting the cost within their MEG, unless we have identified that this will have a cost impact, is what we would expect from any new legislation. We do not just say, ‘Well, yes, you will meet the cost from the MEG’, we ask them how they will meet it and from which budget lines they will meet the cost. However, it would be presumptuous for me to say that. Looking down the line is so much a part of the implementation of the whole Bill, is it not, in terms of secondary legislation? This would have to be taken into account when I agree that they do seem to have the financial competence in terms of the legislation.

[120] **Jocelyn Davies:** Of course, the intermediate care fund has just one year’s funding. So, the Deputy Minister, Gwenda Thomas, will have to focus very carefully on that if she hopes that this will be the saviour of her Bill.

[121] Paul is next.

[122] **Paul Davies:** Thank you, Chair. I want to continue on the theme of future financial planning. At the beginning of this month, you told the committee that there was uncertainty around the potential for further consequentials in the 2014-15 financial year, and levels of funding for future years. Can you tell us what work is being done in your department in relation to contingent planning for 2014-15 and, indeed, future years?

[123] **Jane Hutt:** Thank you very much, Paul. Contingency funding is key to our in-year management. So, for this financial year, that was crucial, because we also had reductions to our budget this financial year. So, in-year financial management is crucial, as is making sure that we keep an appropriate level of reserves in terms of contingency purposes. The fact that we have a reserve moving forward into 2015-16, which is important in terms of future years, will enable us to manage any reducing budget and risks.

[124] If you look at the capital budget, you will see that we have a pipeline of projects for the next three years. That is important in terms of confidence, particularly to partners and to the private sector in terms of construction. We will be updating that with our final budget in December. However, there has to be close management of the budget and we continually have to assess the impact of factors and pressures. We also need to be closely engaged with the UK Government in terms of what it is planning for future years.

[125] **Paul Davies:** So, you are in continuous discussions with the UK Government on any future consequentials. Is that what you are saying, Minister?

[126] **Jane Hutt:** Well, it is part of that. In this budget planning round, we have had reductions as a result of budgets, the spending review and the autumn statement, and we have had to take those into account, certainly with regard to budget setting for the next two years. That is ongoing through our finance quadrilateral meetings. We also have to recognise that this is about how we manage our own pressures against reductions as well. You will know from this draft budget that we have found £150 million this year for health. That was not easy to do, as you can imagine. However, we recognised that we needed to meet that pressure, particularly following the Francis review. So, I have been managing and monitoring very carefully our spend across this financial year and also looking to our reserve to help us with that.

[127] **Paul Davies:** Now that you have mentioned the £150 million additional funding that will go to local health boards this financial year, can you clarify for us where exactly that £150 million came from?

[128] **Jane Hutt:** It is important that we have done that, as I said, through careful in-year financial management. There are some underspends in people's budgets. I would like to respond to this fully, Chair, when we come back to the supplementary budget, because it is still in-year management.

[129] **Jocelyn Davies:** Okay. Thank you.

[130] **Paul Davies:** On the theme of future financial planning, the last time you appeared before us, we discussed the ability of the further education sector to plan adequately for the 2014 financial year. Similar concerns have been raised by local government representatives, who began the year expecting an increase to their funding, based on indicative figures published in last year's budget. They were then told, of course, to expect reductions to their budgets. They stated that this was unclear and that the difficulty of quantifying the scale of the likely reductions was impacting on their ability to plan. What measures can you undertake to improve the reliability and timing of funding information provided to the wider public sector in order that they can undertake adequate financial planning?

[131] **Jane Hutt:** Openness and transparency are key, as well as close working relationships with our partners and making sure that the Assembly and the committees, through scrutiny, are fully aware of the pressures that are upon us. If you go back to the indicative plans that we set for 2014-15, you will see that they were the best assessments that we could do at the time with the settlement that we had available. It was a year ago that we did those indicative figures for 2014-15. Since then, as I said, we have had cuts to our budget; our revenue budget has been reduced several times. If you look at what has happened since last autumn, you will see that the UK Government has reduced our budget twice. It is now £81 million lower in 2014-15 than it was this time last year. That was no secret; those cuts were announced and I responded to them at that time, in the autumn statement, which became a winter statement last year—I think that it will be a winter statement again this year—and in the spring budget, and in the spending review. So, we have had £81 million less.

[132] We have been very open about those reductions and as well as those reductions from the UK Government, we have also had the emerging pressures. We have already talked about the NHS, the Francis review, and new vaccinations, which have meant that we have had to respond.

[133] **Paul Davies:** So, you are confident that you have improved the reliability of information to public bodies, to help them plan ahead.

[134] **Jane Hutt:** Ongoing engagement with Ministers and the sectors is key. They are updated on the financial position—all of these reductions in our main budget are made very clear to them. They also have to take responsibility for being updated on the financial scenarios. Given the predictions that have come from the Institute for Fiscal Studies and from the UK Government itself on future prospects for public finance, no-one should be under any illusion that it was not going to be tough. The dialogue is the critical point, for example the dialogue that the Minister for local government has with the partnership council. They now have a finance sub-group, which I also appear at and give updates to. That dialogue is critical, but, obviously, we are in a position where there are reductions to our budget. We cannot predict them and we have to make sure that our partners are kept well informed and well prepared for the challenges.

[135] **Paul Davies:** What is your department now doing differently—I suppose that this is what I am asking—with regard to improving the reliability and timing of funding information to the wider public sector, compared with what it was doing, say two or three years ago?

[136] **Jane Hutt:** More dialogue, more openness, I think, about the challenges that we face. Certainly, as Minister for Finance I have to take the lead on that. Our officials are constantly engaging with their counterparts in the Treasury and I am transmitting the challenges and working with colleagues in the Welsh Government to anticipate those. However, we also have, through our Standing Orders, a process for setting our draft budgets and then going through the scrutiny, where the indicative budget that I set last year for 2014-15 was changed. We were all aware, at the highest level, in terms of the £81 million, that we would have to find that funding and that there would also be other pressures on our budget.

[137] **Jocelyn Davies:** I think that Simon has a question on this point.

[138] **Simon Thomas:** I think that Paul wants to ask a question first.

[139] **Paul Davies:** I have just one final question to ask, if I may, Chair. In order to help public bodies to plan ahead, could the Government not carry the risk, for example, by using reserves in order to give the local delivery budgets more time to adjust? Could that have been possible from your perspective?

[140] **Jane Hutt:** It would be very difficult in terms of the use of our reserves for that purpose because, clearly, we have a reducing budget line, and the sectors will have to prepare for that. Public information and Government engagement are critical to this.

[141] **Jocelyn Davies:** I now call on Simon on this point.

[142] **Simon Thomas:** On this point, you have mentioned some of the in-year pressures that affected your indicative sums in last year's budgets, which are reflected in the cuts in this draft budget. We are very aware of the £81 million that was announced on 5 December last year. However, even after that, sectors such as the FE sector and local government were still working on financial planning based on the indicative budget. It was not until early summer that the indication was given to those sectors to start to prepare for something very different. You have also indicated that some of the other pressures were actually within the Welsh Government, particularly health, which changed some of the financial planning there. So, on reflection, do you think that you did enough as a Government between the autumn statement and the emerging pressures to give early indication to these sectors so that they could plan better?

[143] **Jane Hutt:** I could root back, Simon, to all my statements and announcements responding to those changes and to those cuts, particularly to our mainstream budget, providing a forewarning of tough times to come to some of those external organisations, and, indeed, the WLGA itself, for example, commissioning work on this front. We could track back. I think that the messages were coming pretty strongly and clearly from Ministers—

[144] **Simon Thomas:** What I am trying to see is whether the budget was joining these dots and getting the message out to the sectors in good enough time for them to prepare better.

[145] **Jane Hutt:** Clearly, we can track back and learn lessons, but I feel that, in terms of the challenges that we were set, everyone knew that this was going to be the toughest budget since devolution. In a way, in the preparations for those tough challenges, certainly in those sectors, the leadership, without any doubt, were not surprised when it came to the tough messages that came through, and they were coming through very clearly from Ministers from the early summer months onwards.

[146] **Jocelyn Davies:** However, Minister, when we heard from local government witnesses last week, they said that they did not really understand what English-style cuts meant because of the wide variation of what that could mean. Of course, in the past, local government has experienced adjustments to its budget that mirrored yours. So, is it experiencing a greater reduction, in percentage terms, to its budget this year than it would have experienced in the past? You have been careful in the past to ensure that local government's adjustment has been comparable with the adjustment to yours. Has it fared worse this year than you have fared?

10:45

[147] **Jane Hutt:** In terms of the English-style cuts, the WLGA did the work itself, with the Institute for Fiscal Studies, to show that the cuts, over the last three years of this spending review, have been up to 9.5% in England compared with 4% in Wales. When we made the decision three years ago to try to cushion local government because of the services that it was providing and the links between health and social care, we started work on ways in which it could start changing its services and ensuring that it was releasing efficiencies. We have already talked quite a bit about some of the good projects that local authorities have taken forward that are cash releasing and preventative. So, in a sense, it was always going to be coming, this tough time. In terms of the reductions that are now coming forward that impact on local government, I think that we may still need to do comparisons with what is happening

in England and Scotland. However, we did everything that we could within the budget setting to stick to our priorities, and part of our priorities do benefit local government, like funding for schools. Although it does not give local authorities the freedoms that they want, it is of benefit to their services, as will be the uplift of the pupil deprivation grant and a lot of other support that we are giving through the capital project and the local government borrowing initiative, and support for Flying Start and the foundation phase. Those are all local government services. We were also looking at how we could protect local services, but the inevitability in a reducing budget of having to reduce the RSG was clear.

[148] **Jocelyn Davies:** Chris, did you want to come in on this?

[149] **Christine Chapman:** Yes. Following on from Simon Thomas's question, Minister, does your department work on a best-case scenario and a worst-case scenario? Obviously, these are very difficult times, but is that an approach that you might use? If you did, would you then be able to share that with the sectors? If that does happen, is it consistently done across portfolios?

[150] **Jane Hutt:** The tough decisions about preparing the draft budget will start almost as soon as, hopefully, our final budget is approved in December. We will start work in the new year. We will have an autumn statement—I think that it will be on 4 December, the week before our final budget—and then we will have a budget in the new year. Spending review scenarios are reflected in our draft indicative budget for 2015-16. We are in a new place in terms of reducing budgets and looking at best-case scenarios as a Cabinet. It has to start in the Cabinet, in the Welsh Government. We are looking at how we are going to protect services and whether we can maintain our commitments. We have had to go through all those discussions. What does it mean for non-protected areas? Those are the kinds of discussions that we have as Ministers, with the support of officials, in the spring and into the summer of our budget-setting process. It is difficult to say that you could then go out. We are here because we have a draft budget. We could not have a draft budget in July and say, 'It might be okay, and it might not'. We really have to take responsibility as a Government on these points. We have a unique way of scrutinising the draft budget here, have we not? It has not changed for 14 years, the timetabling and the Standing Orders. However, apart from forewarnings, dialogue and engagement, I do not think that we can do more than we have done in terms of best-case scenarios.

[151] **Jocelyn Davies:** Mike, shall we go on to your questions?

[152] **Mike Hedges:** Effectively, the budget has moved money from local government into health. I have two questions on this. What was the evidence for doing that? What about the repercussions? If local government cuts school-crossing patrols and environmental health officers, which are two areas that are bound to come under pressure, is that not likely to add to the cost to health in the next year, rather than create savings? What I am really saying is: was the interrelationship between health and local government, outside social care, looked at when you put this budget together?

[153] **Jane Hutt:** I think that, perhaps, it is an over-simplification to say that this has been a reprioritisation from local government to health, because we set this budget based on our priorities, and our priorities have been and are jobs and growth, health, schools and universal benefit. So, it is an over-simplification, I believe. I have already made my point about the fact that it was a reduced budget—reduced from our indicative budget by £81 million—and that there were new pressures emerging, particularly for health, as a result of the Francis review and new clinical developments that we had to respond to.

[154] As I said, some of the announcements that I have made in the draft budget do support local services in local communities, which local authorities are responsible for. They may be

our priorities, such as Flying Start, but I think that that is a shared priority. Free school breakfasts are enormously important to local services. So, when local government now has to go through the difficult process of identifying where it will make cuts, as you say, Mike, it will be difficult and tough for it, in terms of those decisions. We want to make sure that we can help local authorities through the way they run their services, the way they try to develop more preventative services and in how they can make more use of the invest-to-save scheme, for example. They have certainly taken advantage of the regional collaboration grant. However, they are going to have to undertake their own impact assessments, in terms of equalities, and we will have to see what impact it has. Again, the links between health, social care and housing, apart from our intermediate care fund, are very clear. The social housing grant is another example of where we are helping them with their populations' housing need, particularly in terms of the impact of welfare reform with the £20 million for the one to two-bedroomed properties.

[155] **Mike Hedges:** I am sorry, I was talking about other things outside of that that you might give us a note about. Do you have anything on the effect that cuts may well have on school-crossing patrols, environmental health and other issues that are in the areas that could be cut, but may well have an effect on health?

[156] I have two other questions, and one is very brief. Did you look at the pressure that local government is under? The growing elderly population is not just a growing elderly population for health; it is a growing elderly population for local government as well, in terms of social services.

[157] **Jane Hutt:** May I say that in terms of school crossings and transport, there is a road safety grant, which is the Minister for transport's responsibility, for safe routes to schools? So, although there are reductions across our budgets, there is access to Welsh Government funding. In terms of statutory responsibilities, clearly environmental health is part of that; I could ask the Minister and bring something back to the committee on the point.

[158] Obviously, we are looking at working through the pressures with local government. It also works through its distribution group. Throughout the year, it brings forward its own pressures, but Lesley Griffiths set up this finance sub-group, which I have been attending as well, so that we can discuss what the impacts of these reductions could be.

[159] **Mike Hedges:** Local government has raised the issue of where it makes cuts. If you are protecting education, you are protecting social services—that is getting on for about 60% of the budget. It has other areas, such as debt charges and charges from the fire authority, which it has to meet. Some local authorities have engaged in contracts for things such as leisure facilities. They have to meet those contracts. They also have statutory responsibilities in areas such as environmental health and trading standards. Do you see a problem in some areas where a 3% or a 4% cut becomes massively magnified when you take out all of the things that cannot be cut?

[160] **Jane Hutt:** We have also been working with them to try to improve their flexibilities, for example. You know that they would rather that we reduced the number of ring-fenced, hypothecated, grants. In fact, this year, we are transferring £64.7 million of grants into the RSG, which gives it more flexibility in terms of opportunities. There is no question; local government in Wales has been protected substantially over the last three years, which has provided authorities with that opportunity to prepare for tougher times and to manage within lower budgets. It is a difficult settlement for local government; there is no question about it. Also, you might be aware that the Minister for Local Government and Government Business has commissioned a review on partnership with local government on specific grants. We also need to recognise that 80% of local government funding comes from Welsh Government, but it has control of the other 20% in terms of council tax, fees, charges and reserves.

[161] There is one important point that I would like to make, Chair, if you would be interested. I want to update committee members on something that is in the public domain about local authority revenue expenditure. Last year, it rose by 2.5% in real terms, which was an increase. Education spending rose by 1.5% and spending was boosted by a net drawing from reserves of £32 million. These are important factors about how local government, in the last financial year, spent its money. Local authority capital investment also increased in 2012-13 by 5%. That is how local government has managed its funding.

[162] **Mike Hedges:** It has been a decision—you said that it was not but, effectively, if you look at the numbers, it is moving money from local government to health. That might well be the decision, and it might be a decision that I agree with. One local government person said to me—and you might have a comment on it—that what we are doing is protecting health buildings at the expense of local government services.

[163] **Jane Hutt:** Well, you know, that is—.

[164] **Jocelyn Davies:** Right. Simon, shall we move on?

[165] **Simon Thomas:** Following on from Mike's point first, you have mentioned this a couple of times, Minister, but do you think that local government, on the whole, has used the last three years to do the hard financial planning that was necessary, or has it simply coasted?

[166] **Jane Hutt:** It is difficult to generalise about all local authorities in Wales, but I certainly feel that we have worked with local government to try to prepare it for tougher times—not just preparing for tougher times and reduced budgets, but changing the way it does things. We have some very good examples of how local authorities have responded to this and some, already, are more resilient than others in facing this new financial scenario.

[167] **Simon Thomas:** We will see next year if it has been able to prepare for this. I now turn to something for which, to be fair, I do not think that you or local authorities could prepare, but with which you have had to deal: the reduction in the council tax benefits scheme. Could you confirm my interpretation of the draft budget, in that you are maintaining the £22 million that you put in last year? Does that mean that local government has had to match any of that sum itself?

[168] **Jane Hutt:** No. It is maintained.

[169] **Simon Thomas:** When this was done last year, and the Bill and everything went through—I will not rehearse everything that we went through there; I will not repeat that—it was done, clearly, on a yearly basis. So, what evidence have you been able to collect during the year that has given you the assurance that maintaining this subsidy is the best way forward?

[170] **Jane Hutt:** It has been monitored very carefully over the last year. I understand that it has been monitored on a monthly basis since the new scheme, so it has given us a bit of clarity about the estimate that we would expect in terms of annual expenditure. The monitoring has shown that, although caseloads have remained static, some areas declined and expenditure has risen. Local decisions about council tax rises, of course, have an impact, but again, we have had to come to this decision now, although we are only halfway through the financial year, based on that evidence.

[171] **Simon Thomas:** You felt that you had enough robust evidence to do this.

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

11:00

[173] **Simon Thomas:** You mentioned the council tax variations that could happen; what do you make of the evidence that we had from the Welsh Local Government Association last week, which particularly pointed out, in areas of deprivation, perhaps, where there is a high reliance on benefit entitlement, at least, that the interaction between rises in the council tax and the council tax reduction scheme is, in effect—as it was put, I think, by the spokesperson—the council swallowing its own smoke? In other words, any rise in council tax income is netted back off because you have to deal with the council tax reduction scheme. Is that something that you were able to factor in when you prepared this?

[174] **Jane Hutt:** We certainly did factor in those issues, and we factored them into our budget-setting process and, indeed, the local government settlement.

[175] **Simon Thomas:** Turning to a wider question, I think that we have noted that, in several ministerial papers that are now going around and being scrutinised in different committees, there has been a statement of a requirement of Ministers to make savings of a specific amount or percentage. Could you outline how you came to allocating that to each department? Was it done on the basis of financial planning within a department? Was it a case of saying to Ministers, ‘I need x; come forward with y, so that we can add it all up to make x’? It might have happened in the past.

[176] **Jane Hutt:** We have always said that we would not salami slice, in terms of reductions, and that we would start with our priorities. Of course, those priorities then lead to protected areas.

[177] **Simon Thomas:** There are inevitable implications to that, with the location strategy.

[178] **Jane Hutt:** It is inevitable, and so—[*Inaudible.*]—those priorities in protected areas. As I said earlier, I think, non-protected areas would face the brunt. Then, of course, if you look at some of the MEGs for non-protected areas, you can see that there were important things to consider in terms of the impact on our priorities. Supporting People is a very good example. That is within a MEG that perhaps would not have been protected—it would not have had as much protection. We also had to consider things like the future of Jobs Growth Wales. It was meant to be a three-year programme, but we do not feel that it has finished its job—there are still a lot of young people who need that. So, we had to decide whether we were going to extend that for another year, and whether we were going to sustain the costs of the police community support officers, now that we have reached the 500 mark.

[179] So, there were very tough decisions to be made across the Welsh Government. We certainly did not say that this was going to be a percentage cut. We looked at the impacts. This is why it is a much more detailed process than when you have a growing budget. We looked at the impact of loading all cuts on non-protected areas. It is a question of what that means for those key services. You then have to start making adjustments. Those who have been in Government will know what that is like. I worked through that in the spring and the summer. However, it goes back to the fact that we have to start with priorities. We have to be responsible and look at pressures; then, we just have to make the decisions, for scrutiny.

[180] **Simon Thomas:** I accept that these are political priorities. You have stated very clearly what those were. There are implications when you do that, but you have mentioned other areas that may be politically sensitive. You mentioned Jobs Growth Wales, for example, and the thought that it had not finished its job and that the need for it was still there. In what way could you gather the evidence around those other areas? It seems to me that you have a core, which is protected, you then have this other series of services, which, for various

reasons, has escaped the scythe within the budget, and then you have others that are unprotected—and we discussed the bigger cuts in local government and further education, for example, just to take two examples. With the outer core, how have you been able to use evidence to ensure that you really are getting value for money out of that?

[181] **Jane Hutt:** In further education, for example, the Minister for Education and Skills has accounted for many of the changes that have been taking place in terms of the mergers, efficiencies and outcomes that we are seeking. Everything has to be tested against the outcomes and the evidence; certainly, that would apply to Jobs Growth Wales, and the benefits that are already accruing from it. Within their MEGs, Ministers have the flexibility to look at savings. Earlier I mentioned £600,000 from Alun Davies in terms of communications. They have had to use their discretion in terms of evidence and priorities to make those decisions as well. Then there is a much bigger, tough, overall picture that you have for the whole Cabinet to consider.

[182] **Jocelyn Davies:** Chris, do you want to ask your questions?

[183] **Christine Chapman:** Minister, I want to ask you a few questions about capital investment. In relation to the capital DEL ring-fenced for use on financial transactions, earlier in the year you told us that you were seeking clarity from Treasury in relation to the requirement on timing for repayment of this funding. Could you tell us the outcome of those discussions in terms of the detail as to the requirement for repayment?

[184] **Jane Hutt:** Discussions are under way; in fact, we have a finance quad in a couple of weeks' time, and this will come forward. We discussed it recently with the Northern Ireland Minister for finance, Simon Hamilton, who visited us. We are all looking to different ways of using the financial transactions. What we are doing at the moment is forecasting profiles for the schemes, at an official level, and then discussing with Treasury what this means in terms of repayment. However, it has not been clear yet about its requirements.

[185] **Christine Chapman:** In the draft budget, you have allocated £209.5 million of this funding to schemes over the two years to 2015-16. These allocations relate to housing projects, the town-centre property fund, an investment fund for SMEs and a loan scheme for sport and leisure facilities. Will these schemes generate the repayments that you are required to make to Treasury within the timescales involved?

[186] **Jane Hutt:** Although we have not got full clarification of its requirements, we are confident that those schemes will generate significant returns to enable us to repay. I think that it would be helpful if I came back to the committee, perhaps even as soon as we have more clarification on the financial transactions arrangements. I think that what we are suggesting—we are working with the Treasury—is to have an aggregate repayment profile, so that, in a sense, there will be different risks and opportunities in terms of all these financial transactions and arrangements. Finance Wales arrangements may be different from the town-centre loan fund, for example.

[187] **Christine Chapman:** You said that you are confident about these repayments, but do you have any contingency plans if that did not happen?

[188] **Jane Hutt:** We cannot set ourselves into the territory of risk here. This is an opportunity that we are taking, although we would rather have direct capital funding; we are taking advantage of every £1 of this financial transactions funding. I would say this: we are in exactly the same place as my colleagues in Scotland and Northern Ireland on this, and Treasury has been flexible—the chief secretary has recognised that we need to be flexible, and we need to have a new arrangement for our budget exchange mechanism, so that there can be a carry forward. I think that it is a very constructive working engagement that we have

at this point on this.

[189] **Christine Chapman:** Finally, Minister, you say in the draft budget that the capital funding available is reducing in real terms by more than 5% between 2014-15 and 2015-16. Given this—and we know of the significant allocations that you have made to new projects—what assumptions are you making in relation to the requirement for backlog maintenance across the portfolios, and how is this reflected in the budget for 2014-15?

[190] **Jane Hutt:** We have to make sure that we maintain our asset base, obviously, so although there are new assets that we will be funding, in terms of their maintenance costs, they will be minimal. However, it is quite clear that we have to maintain our asset base. To give some examples of the announcements that I have made, there is £120 million for Prince Charles Hospital, which is basically redevelopment. There is also the highways maintenance and improvement programme, which is a real win-win for local government, working together. It is about helping it with its highways improvement and maintenance, and that is one of the most positive points that local government colleagues make to me when I meet with them, because they say, ‘That local government initiative has really transformed the way we’re improving our highways’. There is also the funding for twenty-first century schools, some of which has gone into refurbishment as well. Also, every MEG of every Minister, particularly transport and education, has maintenance in their core budgets, so it is critical that we have that baseline maintenance in their budgets.

[191] **Christine Chapman:** Will this be for future years as well, not just 2014-15, but beyond that?

[192] **Jane Hutt:** Way beyond that, in terms of the budget allocations and estimates.

[193] **Jocelyn Davies:** In relation to that, Minister, despite not having your own borrowing powers, according to the narrative document, you seem to be able to tap into the ability of others to borrow. So, do you know what your overall level of debt is due to the commitments via these innovative funding methods, because, obviously, if you ask somebody else to borrow on the understanding that—

[194] **Jane Hutt:** It is about £200 million, but I think that I had better write to you on that.

[195] **Jocelyn Davies:** Could we have a note on that and a note on the not-for-dividend investment vehicle that you are using? I think that that would be very useful. Does any other Member have any further questions? I see that no-one does. Minister, we have run out of questions and out of time. We are very grateful for your time this morning and, as usual, we will send you a transcript for you to correct. I think that you have agreed to send us a range of explanatory notes, and we will be very grateful for those.

[196] **Jane Hutt:** Thank you very much.

[197] **Jocelyn Davies:** Thank you.

11:12

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o’r
Cyfarfod**

**Motion under Standing Order 17.42 to Resolve to Exclude the Public from the
Meeting**

Jocelyn Davies: There are no papers to note this morning, so I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).

[198] I see that all Members are content.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:12.
The public part of the meeting ended at 11:12.*