

Y Pwyllgor Cyllid

The Finance Committee

Dydd Iau, 9 Hydref 2008
Thursday, 9 October 2008

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

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

Aelodau pwyllgor yn bresennol

Committee members in attendance

Mohammad Asghar	Plaid Cymru The Party of Wales
Lorraine Barrett	Llafur Labour (substituting for Ann Jones)
Peter Black	Democratiaid Rhyddfrydol Cymru (yn dirprwyo ar ran Jenny Randerson) Welsh Liberal Democrats (substituting for Jenny Randerson)
Nick Bourne	Ceidwadwyr Cymreig Welsh Conservatives
Angela Burns	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Alun Davies	Llafur Labour
Huw Lewis	Llafur Labour
Joyce Watson	Llafur Labour

Eraill yn bresennol Others in attendance

Jeff Andrews	Cynghorwr Arbenigol, Llywodraeth Cynulliad Cymru Special Adviser, Welsh Assembly Government
Piers Bisson	Pennaeth Cynllunio Ariannol, Llywodraeth Cynulliad Cymru Head of Financial Planning, Welsh Assembly Government
Andrew Davies	Aelod Cynulliad, Llafur (Y Gweinidog dros Gylild a Chyflenwi Gwasanaethau Cyhoeddus) Assembly Member, Labour (The Minister for Finance and Public Service Delivery)
Dr Christine Daws	Cyfarwyddwr Cyllid, Llywodraeth Cynulliad Cymru Finance Director, Welsh Assembly Government

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol Assembly Parliamentary Service officials in attendance

John Grimes	Clerc Clerk
Abigail Phillips	Dirprwy Glerc Deputy Clerk

"Dechreuodd y cyfarfod am 9.03 a.m.
The meeting began at 9.03 a.m."

Ymddiheuriadau a dirprwyon Apologies and substitutions

<p>Angela Burns: I welcome everyone to the Finance Committee's meeting of Thursday, 9 October. I remind everyone that they are welcome to speak in Welsh or English and that headsets are available for the translation from Welsh to English. I ask everyone to switch off mobile phones. If the fire alarm sounds, we must follow the ushers' orders.</p>
<p>I welcome Lorraine Barrett as the substitute for Ann Jones and Peter Black as the substitute for Jenny Randerson, and I wish to notify the committee that we have received apologies from Chris Franks for being unable to attend today.</p>

9.04 a.m.

Cyllideb Ddrafft Llywodraeth Cynulliad Cymru ar gyfer 2009-10 Welsh Assembly Government Draft Budget 2009-10

<p>Angela Burns: I would like to take this opportunity to welcome the Minister for Finance and Public Service Delivery and to thank him and his officials for making the time to come to explain the initial budget to us. Minister, as a matter of record, will you introduce yourself and your officials and then make your opening statement on the draft budget?</p>

Minister for Finance and Public Service Delivery (Andrew Davies): Thank you, Chair, and thank you for the opportunity to appear before the Finance Committee.

I am joined this morning by Dr Christine Daws, who is my finance director, Piers Bisson, who is head of financial planning in my department, and Jeff Andrews, who is a special adviser.

As colleagues are aware, the draft budget was published on 7 October when I tabled the draft motion. It sets out the One Wales coalition Government's budget for the next two years, with the aim of helping people in communities where it matters most. As you are aware, 2009-10 will be the second year of a three-year comprehensive spending review period. Our final budget, which was approved by the Assembly in Plenary in January 2008, set out firm plans for the three-year spending period.

The aim of this draft budget is to refine—I emphasise this—the published figures for 2009-10, the second year of the spending review period, and the final year of the period, 2010-11. At the same time, its aim is to strategically release resources from the limited reserves that we hold to enable the 'One Wales' programme of Government to be taken forward. I am pleased to say that sound financial management has made it possible to release additional funds from reserves, totalling just over £200 million, to invest in key public services, although, as you would expect, the changes to those previously published plans are relatively modest, given the overall financial allocations from the UK Government.

The global economic outlook and the turmoil on the financial markets and the resulting economic downturn points to the need for everyone in the public sector, including the Assembly Government, to be prudent in its use of resources. There is a need for restraint and to focus on setting budgets. We need to ensure that every Welsh pound that we spend directly benefits the people and communities of Wales. I am determined to fulfil the commitments that we made in the 'One Wales' programme, including providing help to the most vulnerable in our community.

The draft budget allocates an additional £163 million of revenue and £44 million of capital in 2009-10 and £207 million of revenue and £7 million of capital in 2010-11. It means that, in 2009-10, we will carry reserves of 1 per cent and projected reserves in 2010-11 of 2.5 per cent. (1)

I will now outline the key changes from the indicative allocations from last year. In health and social services, there is one-off funding of £63 million in 2009-10 to meet NHS waiting-time targets. That will mean that, by the end of next year, no patient will wait longer than 26 weeks from referral to treatment. There is an additional £54 million in 2010-11 to support ongoing action on patient waiting times, and an extra £53 million for health, benefiting the vital areas of health research and improvements in the delivery of health services in Wales.

On children, education, lifelong learning and skills, I have made available an additional £60 million to fund the full roll-out of the foundation phase in early years education. That is a truly groundbreaking programme that ensures that our children get the best possible support in their early school years. The financial breakdown of that is £20 million in 2009-10 and £40 million in 2010-11.

On economy and transport, there is an additional £30 million for public transport programmes and funding for innovative transport programmes to support sustainable travel in towns and to encourage modal shift in terms of encouraging people to reduce their car use and using more sustainable forms of transport for local journeys. There is also an increase in funding for our highly successful concessionary fare scheme, which is already providing free bus travel for around 600,000 people across Wales.

On environment, sustainability and housing, there is an additional £4 million for the home energy efficiency scheme, helping households that are struggling with fuel bills as well as helping to cut carbon dioxide emissions, which is yet another 'One Wales' goal.

On social justice and local government, we are committed to supporting local government through these challenging economic times and that is reflected in additional resource. Increases in the revenue support grant will mean an average rise in the settlement for local councils in 2009-10 of 2.8 per cent and 2.9 per cent in 2010-11. That compares with an uplift for this year of 2.4 per cent. Local authorities will also benefit from over £650 million in specific grants for revenue purposes, including the money announced for the foundation phase. If you take the revenue support grant plus additional grants, the total going to local government is just over £5 billion, which represents around 30 per cent of our total budget or departmental expenditure limit.

9.10 a.m.

On resilience measures, as a responsible Government, we have to ensure that Wales is ready to meet future risks. For example, there is provision for new flood risk management procedures: £1.8 million in 2009-10 and £3 million in 2010-11. We also have to be ready for any epidemics, and I am delighted to announce the very first allocation of funds from our new strategic capital investment fund. The management board, which I chair, will be making an investment of over £66 million to ensure that the Assembly Government is prepared in the event of an outbreak of pandemic flu.

On the budget report itself and the process, I am very grateful for the committee's feedback on the scrutiny process of last year and, as colleagues will know, we have agreed in principle the protocol on how to deal with the budget scrutiny process. In terms of the presentation, we have listened to the views of committee members, Assembly Members, the media and others, and we have published the budget in a new form, so there is a budget report alongside the formal budget motion. We hope that it will provide a clearer narrative for colleagues and will aid scrutiny, greater accountability and openness. I am pleased to have taken forward our commitment as a Government to greater transparency and clarity, and I hope that this new form will aid that.

The draft budget is the result of tough decisions, reflecting the tough times in which we are now operating. The growth in public expenditure is significantly less than in previous years. During the first four years of the Assembly, there was growth in public expenditure in Wales of about 7 per cent; in the following four years, it was about 4 per cent; and, in the current spending review period, it is 1.8 per cent. So, we have growth, but it is reducing in pace. One of the major priorities for me as Minister for Finance and Public Service Delivery is to ensure that that expenditure is used wisely and that we get value for the Welsh pound.

Angela Burns: I put on record our thanks to you for your discussions with us over the budget protocol and for your commitment to ensuring that the budget is presented in a way that is easy for even the most lay of laymen to read. That is much appreciated. I would like to throw this open to committee members, because I know that they have an awful lot of questions to ask you. Nick, I will start with you.

Nick Bourne: We sympathise with your plight, Minister. We all recognise that it is not easy in the current circumstances. That said, I would like to probe some of the thinking behind the budget. We are not here to rewrite it. The politics of it are that you get your budget because you have a majority here, but we are obliged to probe some of this thinking. You said that you do not want great shifts in the programmes, but we have had massive changes in economic circumstances in the last six months. In the light of that, I would like to home in on two particular areas, and I am sure that many more will be probed later. The economy and transport budget shows a modest increase—I say 'increase', but it is well below the rate of inflation. We talk about 'growth', but when you take inflation into account, there is no growth there. What are we going to do in terms of business support, which is going to be a massive challenge over the next year, but which is much needed?

I would also like to look at the departmental expenditure limit for local government. Local government had a dreadful settlement last year, and it looks like it is even worse this year, given the pressures that exist in terms of, for example, fuel and energy costs for care homes, food for school meals, and so on. Their inflation rates are far higher than the headline figure. How on Earth are they going to manage? Recognising that there are pressures in all areas, those two seem to me to scream out. Can you reassure us that these settlements are going to be viable in the straitened economic circumstances that we face?

Andrew Davies: On local government, as I pointed out in my introductory remarks, about a third of the total Assembly Government budget goes into supporting local government in providing services; that is a significant amount of money.

The other thing that I wish to point out is that, as a Government, we have consistently supported local government to a much more generous level than is the case in England. If we were to support local authorities at the same level as the UK Government supports English local authorities, there would be approximately £500 million less going into local government support. As a consequence, council tax levels in Wales are approximately 25 per cent lower than the comparable figures in England. So, it must be placed in a historical context.

Nick Bourne: Incomes are also much lower in Wales, so I am not sure that the comparison is entirely—

Andrew Davies: They are not 25 per cent lower on average than they are in England. So, the point is that it must be looked at in the longer term. The level of funding that local government receives in Wales is significantly more generous than it is in England.

However, as I have pointed out, the increase in public expenditure in this spending period is 1.8 per cent, which is lower than the average of 5.5 per cent in the Assembly's first eight years. All areas funded through our budget must live within that context, and local government cannot be exempt from the wider financial constraints. Similarly, local government cannot be exempt from the difficulties of the credit crunch and the economic downturn following the turmoil in global finance markets. Nevertheless, we believe that the uplift this year of 2.8 per cent in terms of the revenue support grant and significant uplifts in areas such as the foundation phase, which is a major priority for the Government, will give local authorities the resource in order to deliver good services. We will work collaboratively with them on improving services for people in Wales.

With regard to the economy and transport, the allocations for the spending Ministers have been agreed by Cabinet. All of my colleagues are aware of the overall financial position, but we need to ensure, particularly at difficult economic times, that business in Wales is able to get the support that it needs. For example, we will support business through enhancing business rate relief schemes in Wales through the use of the streamlined single investment fund, which we established when I was Minister for Enterprise, Innovation and Networks, and I am delighted that the Deputy First Minister is taking that forward, so that we are able to focus resources where they are needed most.

As I said in my opening remarks, we need to ensure that we get value for the Welsh pound and ensure that the support that we are providing to any part of Welsh civic society is targeted on their needs where they are most pressing.

Alun Davies: On the local government issue, I am particularly grateful that you have taken on board some of the suggestions made by this committee last year with regard to the presentation of the budget. Linking it to the policy outcomes that the Government wishes to achieve through its 'One Wales' programme makes our scrutiny far easier, which we all appreciate. You will see from around the table that mid Wales and west Wales are particularly well represented on this committee, and all of us in our different constituency and regional obligations recognise the impact that the current economic situation has on some of the local authorities with particularly challenging geographies—it is not simply about rural geography, as the situation that Powys, Carmarthenshire, Ceredigion and Gwynedd find themselves in proves. We are looking to you to identify and recognise some of the additional costs that these local authorities must meet in delivering public services, particularly to the poorest and most vulnerable people in our communities. The work that we did on the Rural Affairs Committee last year demonstrated real pockets of poverty that are still not reached by elements of our programme. So, we are looking for some recognition of that within the overall settlement.

Andrew Davies: The issue of inflationary pressures has been raised by local authorities and others, but those inflationary pressures are being felt by everyone—by those providing public services and those receiving them.

9.20 a.m.

The budget that we are dealing with is for 2009-10, and current inflation forecasts only apply to the position now. Obviously inflation has risen, which is largely down to the increase in commodity prices and, in particular, in energy prices. The price of oil on the global market reached \$140 a barrel, but it has now dropped back to below \$90 a barrel. The chair of the Monetary Policy Committee wrote to the Chancellor saying that it had overshot the target set by the UK Government of 2 per cent and that it was talking about a 4.7 per cent increase in inflation, but was confident that that would drop back. As I said, one of the major drivers in increasing inflation has been the increase in oil prices and those have already dropped back. They may not be dropping back to previous levels, but, nevertheless, they have dropped back, and the MPC is forecasting that inflation will drop back, in which case, we expect and hope that, by 2009-10, inflation will be significantly less than it is at present. I stress that point because many people are assuming that inflation will continue at the current rate, but the forecast is, in terms of commodity prices and an economic downturn, that the rate of inflation will drop back.

Angela Burns: Alun, do you want to come back on that? I see not. Joyce is next, and then Nick.

Joyce Watson: Thank you for presenting a budget that is clear and, for the most part, self-explanatory. As you know, I represent rural Mid and West Wales and there will be concerns in local authorities about the additional expenses that they incur through rurality, because it is the increase in those commodities that you have described that will hit them hardest in, for example, taking children to school, as a large amount of the education budget will be spent on transport, with all those additional associated costs.

I am glad to see that there is a floor in this budget, which provides a safeguard. However, will there be any greater recognition of rurality within the local government formula? Also, as you will have heard on the news this morning, some local governments in Mid and West Wales have invested money in banks in Iceland. Are we able to offer any help to deal with the possible repercussions of that, or do we know that their money will be guaranteed?

Andrew Davies: On the first issue about a particular aspect of the funding formula for the local government settlement, I will draw that to the Minister for Social Justice and Local Government's attention, but that is a matter for the formula by which funding for individual local authorities is allocated. The Minister for Social Justice and Local Government, Brian Gibbons, will be announcing individual council allocations within the overall settlement of a 2.8 per cent uplift in the revenue support grant on 15 October, I believe, but I will draw the views of the committee to his attention.

On the issue that you raise about some local authorities, the media has identified five local authorities in Wales that have been affected by the problems with the Icelandic bank. Their individual investment decisions are a matter for the local authorities, but, in terms of the fiscal effects of the credit crunch, it is also a matter for the UK Government. We are working with it and with local authorities to identify particular problems, although we do not have direct responsibility for that.

Angela Burns: Thank you, Minister. Huw, you wanted to ask a question on the Icelandic issue, I believe.

Huw Lewis: Yes. Given the difficult economic situation in terms of the credit crunch and so on and the exposure to risk that we have seen among local councils, my question is simple: who is the Welsh Assembly Government banking with and are we exposed to any kind of risk?

Andrew Davies: I do not have a personal cheque book, but I know someone who does, when it comes to our budget. ["Laughter."]

Dr Daws: We draw our money directly from the Treasury; we do not invest in the markets at all.

Huw Lewis: We must be using bank accounts.

Dr Daws: We have small bank accounts, but we do not invest to generate interest in that sense, which is what local authorities are empowered to do. We do not do that because that would be like drawing Treasury money to invest somewhere else when the best bank in that sense is the Treasury. So, we have small bank accounts from the point of view of managing—

Nick Bourne: It is not a question of investment is it? At any one time, we do not have millions of pounds in a bank account—
["Inaudible".]

Dr Daws: I do not know; I would have to get back to you on that, but we do not leave lots of money in bank accounts.

Huw Lewis: My original question, Chair, was—["Inaudible."]

Dr Daws: I cannot remember, and I do not want to give you a wrong answer.

Andrew Davies: We will get back to you on that.

Peter Black: I wanted to come back to the local government settlement, because one of the announcements was that there would be a 1.5 per cent floor on the amount of money that local government gets—the increase. Is that being financed through additional money in the local government settlement or is that being top-sliced from the settlement itself?

Andrew Davies: That is a matter for the Minister for local government, but I will draw that to his attention and ask him to respond to you on that.

Alun Davies: ["Inaudible".]—come back to Joyce Watson's question on the Icelandic situation. Can you confirm that you are monitoring the situation with regard to Welsh local authorities and any potential losses and that you will work with local authorities and the UK Government to ensure that council tax payers and the local authorities do not lose out as a result of that?

Andrew Davies: Yes, we will do that. I think that we have a good relationship with local government and local authorities. My understanding, certainly from media reports, is that five local authorities in Wales are affected, but it is not just a Welsh problem; it is a UK-wide one. That is why we will be working with the UK Treasury on that. I will quote Tony Travers, the director of the London School of Economics and Political Science, who said that:

'The amounts ought to be small enough even for a relatively small authority not to take a big hit against its budget'.

Nevertheless, we will want to work with local authorities to identify their exposure and see what we can do with the UK Government—if there is anything that the UK Government can do to help.

Angela Burns: I have a lot of bids for questions at the moment, but I would like to stick to the topic of local government and the global crisis. Has anyone else got a question on that?

Nick Bourne: I have some relatively brief questions. First, on the inflation figures that you are working on, the 4.7 per cent figure is a true one, but, as far as pensioners are concerned, the inflation figure is 9 per cent when you consider what they spend their money on. They do not, for example, buy electrical goods and clothes in the same proportion as they buy food and energy. So, there is massive pressure on the local government budget. You referred to the change in oil prices, and, again, that is true, but we are paying in dollars so we have a double whammy given the exchange rate against the dollar. So, that does not translate to reduced costs in the UK, sadly.

Secondly, on local authorities and coming back to the rurality issue and exposure to the Icelandic bank situation hitting Powys, Ceredigion and many rural counties, those are new factors because of all this turbulence. What concerns me is that there is not enough in the budget for local authorities given the changed economic circumstances and what they are expected to deliver. They have not had the same sort of percentage. The absolute sum is meaningless, in a way—it is the lack of growth that is of real concern here.

9.30 a.m.

Andrew Davies: On your comment that the aggregate amount of money is meaningless, a third of our budget, effectively, goes to support local government, so I do not think that it is meaningless. The percentage increases may be less than they were in previous years, but the overall aggregate amount of money going to help local authorities is very significant.

Members who were on the committee last year may recall similar debates that we had about the local government settlement then. We were told by the Welsh Local Government Association and individual local authorities that the settlement would lead to double digit council tax rises, massive cuts in services and probably loss of jobs, none of which, to the best of my knowledge, has come to pass. The average rise in council tax in Wales last year was 3.8 per cent. If you include the police settlement, it is 3.9 per cent. I am not aware of any huge reductions in services or in employment by local authorities. At the time, I was sceptical about those claims, and the outturn confirmed my scepticism and that of the Assembly Government.

To return to my point, not only do we live in uncertain economic times, but the growth in public expenditure is less—we still have growth, but it is less—and everyone working within that financial regime must be cognisant of the overall settlement. As a Government, we are constrained so I do not think that local government can be exempt from those constraints.

Mohammad Asghar: In the first two terms, we had limited funding but growth was high; now there is high funding and 1.8 per cent growth. So, this is a robust budget that we must scrutinise. However, you have not given an indication of how we can increase our funding to keep our growth at around 4 per cent. There is nothing in the budget for inward investment.

You are giving £500,000 to local government to help first-time buyers, but I come from south-east Wales, which has the four poorest areas in Wales, and no pilot scheme is implemented there.

Andrew Davies: Sorry, the pilot scheme for what?

Mohammad Asghar: The pilot scheme for first-time buyers. Torfaen, Newport, Monmouth and Ebbw Vale do not have the scheme. Is there a reason for that? Those are the poorest areas in the United Kingdom.

Andrew Davies: On your second question, I do not know that level of detail and I will get the relevant Minister to write to you on that. In terms of the overall amount of available to us, our budget or departmental expenditure limit—the amount of money that we get—is calculated through the Barnett formula and we receive that funding from the UK Treasury. We have extremely limited ways of raising additional revenue. There are ways to do it in some areas through European structural funds, and there are other limited ways in which our budgets can be enhanced, but we do not have revenue-raising powers. As I am sure that you are aware, on Tuesday, the same day on which I laid the draft budget, the full membership of the Holtham commission, chaired by Gerry Holtham, which is a three-member commission, announced that the commission will be looking at the working of the Barnett formula in terms of how the formula and the amount of money that we get is calculated, and also at the operation and the mechanisms of the Barnett formula. It will also look at possible alternative ways in which the Assembly Government could be funded by the UK Government. Obviously, we cannot prejudge the outcome of the commission's review, but it is a fulfilment of one of the significant 'One Wales' commitments that we look at the whole way in which the Barnett formula works.

Mohammad Asghar: I appreciate that it is robust and I must admit that it is a very good budget, but, to keep the momentum of growth, we need ideas to attract investment from abroad and I cannot see that yet. That is one objective that I think we should have. To keep our momentum going for growth, we must have other resources.

Andrew Davies: I am not sure whether you mean growth in the Assembly Government budget or economic growth, but inward investment is certainly a major priority for us, as a Government. From my previous role as Minister for enterprise, I know that we have been very successful at attracting international investment to Wales—and Amazon in Swansea is one example—and that Wales has consistently punched above its weight in attracting inward investment and creating employment and wealth. If you are talking about additional resources for investment by the Assembly Government, I can tell you that we do work with other bodies, such as the European Investment Bank. We have had very productive engagement with the European Investment Bank, and, among the joint ventures that we are taking forward are JESSICA, the joint European support for sustainable investment in city areas fund, and JEREMIE, joint European resources for micro to medium-sized enterprises, looking at support for businesses throughout Wales. So, we are engaging with a range of financial institutions, including the European Investment Bank, to bring more resources to bear on delivering our policy priorities.

Peter Black: I want to return to the constraints on local government. I hope that we all recognise the reality of what local government did last year. It was a local government election year and so many local councils planned over four years to have a bit extra in the bank, to keep their council tax rises low. That is normal politics, and has been for many decades. However, I am sure that you also recognise, Minister, that the impact on local government is cumulative. As it makes savings, the pressures increase, and so it becomes more and more difficult to make savings in the short term or even in the medium term. So, a settlement that is constrained to a 2.8 per cent increase in the first year after an election will have a significant impact. You say that the present budget is constrained, which we all recognise, and that local government has to live with those constraints as well, but why is it that local government funding is more constrained than that of other areas of your budget? For example, funding for the environment, sustainability and housing portfolio is going up by 3.1 per cent, it is going up by 3.4 per cent for the rural affairs portfolio, and by 3.8 per cent for the heritage portfolio, but the budget for local government is going up by only 2.8 per cent. Why is local government taking the hit for the other services delivered by the Welsh Assembly Government?

Andrew Davies: I could point out that your opening remarks made my point for me. You said that local authorities make their own decisions about council tax levels and that it was a local government election year last year. That was exactly the point that we were making, as a Government: local government has to make its own decisions about council tax levels and it has to live within the same financial constraints as we have to live within. A third of our budget goes to local authorities, which is a very considerable investment and level of support. We support local government to a more generous level than the UK Government supports English local authorities. We hypothecate, or ring-fence, less of the support that we give proportionately than is the case for the support given to English local authorities by the UK Government, which attaches a lot more strings to the funding. For example, in education, we ring-fence relatively little of the funding that goes to local authorities, which is often a contentious matter; in England, there is a lot more direct funding of schools than is the case in Wales. I just do not accept that local authorities have somehow been singled out for special treatment. You can look at percentage increases, if you want, but a lot of these departmental budgets are quite small, and so one relatively large increase in a particular ministerial budget will create a large percentage increase, although the amount is relatively small when compared with the aggregate figure.

9.40 a.m.

Nevertheless, to return to the point that I made, last year, we set three-year spending plans, so there should be absolutely no surprise about the amount of money allocated to local authorities, because we had already laid out the indicative allocations. We are still putting additional resource into local government. We are putting £10 million in the revenue support grant for 2009-10, and an additional £10.5 million for 2010-11. Local government collectively has identified some priorities, and I am sure that Peter will remember the WLGA's mini manifesto last summer in which it identified five priorities. The first was waste management. We are working with local authorities, individually and collectively, to release resources to help them to deal with that particular problem. The other priorities included surplus school places, climate change and affordable housing, and we are working collaboratively with authorities on those. So, you cannot just talk about the amount that is going into the revenue support grant, Peter, or through additional grants. We are working with local authorities to identify additional resource, where we can sort policy priorities out with them.

Peter Black: I believe that there has been very little increase in affordable housing this year. However, the health and social services portfolio receives 40 per cent of your budget, and it has had a 5.3 per cent increase, so it is not just a question of big percentage increases in small budgets; there are big percentage increases in big budgets as well. It is still the case that local government is getting a proportionately smaller increase in funding than other areas of your budget are. So, the question remains. Why is that the case?

Andrew Davies: As I said, historically, we fund local authorities to a more generous level than English local authorities are funded by the UK Government. You might argue about percentage increases at the moment, but, historically, that is coming from a much higher level. To take the health and social services portfolio for example, the judgment in Grogan was that there should be a shift in the responsibility of providing continuing care from local authorities to the health service. Therefore, last year, we put £100 million-worth of additional resource into the health budget to accommodate the costs of that. However, we did not claw back a commensurate amount from local authorities, and so local authorities have had a windfall. I do not recall any local authorities accepting that point. So, there are swings and roundabouts. I return again to this point. We live in a time when growth in public expenditure has slowed, and so we must all live within our means. It is absolutely crucial that we get value for the Welsh pound.

Joyce Watson: Following on the same theme, it is all well and good to look at the percentage of the total, but the total is small, and that brings us back nicely to what the Minister said in the first place, namely that we need to look at the amounts of money. Nick Bourne said that the total does not matter, but it does matter in some cases. I am pleased to see that the health portfolio is receiving a 5.3 per cent increase, and I hope that you are not arguing, Peter, that we rob health to pay local government. I just want to be clear about that.

Peter Black: No, I was asking a perfectly valid scrutiny question.

Joyce Watson: That is okay. I just wanted to be clear that you were not suggesting that we take the money out of health to put into local government.

Peter Black: You can be clear on that.

Joyce Watson: Okay, that is good. I ask the Minister for his views on this, but my view is that this is a pertinent time to look at local government and at how it operates its budgets, because, in some cases, collaboration would surely help some authorities to deliver greater value for the Welsh pound, as the Minister put it. Some things are coming rather nicely together, and the timing is good to push that agenda forward. They ought to justify what they spend in each case.

Nick Bourne: Are you happy with the settlement, then, Joyce?

Alun Davies: The questions should be for the Minister, rather than—

Angela Burns: Sorry, Minister, but I am just trying to find a question in Joyce's contribution.

Joyce Watson: The question was this: does the Minister agree that it is timely that we ask local authorities to collaborate, so that they can be clear that they are delivering the absolute maximum benefit to the people whom they provide services for with the money that we give them?

Andrew Davies: There is growing recognition in local authorities, individually and collectively, that maybe the old way of doing business does not work, particularly when public expenditure is growing at a significantly lower rate than it has in previous years, and that collaboration must be the order of the day. I gave the example of waste management, and it is recognised that local government will gain significant benefits from working with us. Jane Davidson, other Ministers, and I are working on that.

There are other areas where I also think there are huge benefits to be gained. It does not make sense financially or for the quality of service delivery for every service to be delivered separately by 22 different local authorities, and I think that authorities recognise that. For example, I think that many local authorities struggle to provide specialist services, maybe in social services departments, and so they recognise the need for greater collaboration, either between local authorities or between authorities and the Assembly Government. There is also recognition of the fact that it does not make sense for every local authority to have its own separate back-office facilities. Using the 'Making the Connections' fund, which comes under my department, we are supporting the 10 local authorities in south-east Wales with a project to share services such as human resources, payroll and so on. There is wider recognition that we can get better services delivered much more efficiently and at a lower cost by collaborating than by doing everything separately in 22 local authorities. There may be areas in which we as a Government can provide services more efficiently by working closely with local authorities, and so I have asked my officials to look at that.

Angela Burns: I am conscious of the time, and I would like to move on to other areas of the budget. Alun, is your last question on local government?

Alun Davies: I wanted to move on as well.

Angela Burns: No—["Inaudible."] Does anybody else have a question? We will be able to come back to the Minister in a few weeks' time.

Lorraine Barrett: I want to ask about something that Huw touched on earlier about money being invested, and he was trying to come in again on a similar point. Where do Assembly Government sponsored bodies stand on this? I mean the likes of the Arts Council of Wales and the Sports Council for Wales. Do they have money to invest? I suppose that they would say that they have only just enough money to get from year to year, and that investment would be a luxury, but do you have any input on, information about, or control over that, Minister?

Andrew Davies: We will need to come back to you on that, Lorraine, and provide a note.

Angela Burns: Alun, take us forward.

Alun Davies: I want to focus on the strategic capital investment framework. You touched on that in your introduction, Minister, and you have outlined some broad themes and ways of working in the papers that you provided for us. Can you put some meat on the bones of that and explain to us the policy approach and the broad strategic approach that you are taking to the management of that fund? How do you see that developing in this and in subsequent financial years?

Andrew Davies: There has been widespread recognition of the fact that the public sector in general does not deal with capital investment in the most efficient way, and that there are huge benefits to be gained from taking a more strategic view. That is why I set up the strategic capital investment framework.

9.50 a.m.

The funds available are £400 million over the three years. The profile is £50 million in this financial year, 2008-09, £100 million next year, and £250 million in the final year of this Assembly. That is provided through capital reserves and the use of end year flexibility, or EYF. The way it works is that the overall framework will be managed by a Cabinet committee, or management board, which I chair. The membership comprises the First Minister, the Deputy First Minister, the Minister for Health and Social Services, the Minister for Children, Education, Lifelong Learning and Skills and the Deputy Minister for Housing.

I have asked for bids from each of the spending Ministers, setting out their strategic priorities. The management board that I chair has looked at those bids, and I have conducted a round of bilateral meetings with Ministers to work through their understanding. The idea is that those bids will be for particular strategic priorities; they may be 'One Wales' priorities, wider strategic priorities whereby two or more departments are working together to identify an area where capital investment is needed, or, indeed, a collaborative bid with local authorities, such as a bid for schools rebuilding or some other priority.

So, there has been a wide consultation within Government. We have refined the bids and made one initial allocation, as I said in my opening remarks, of £66 million for the all-Wales pandemic flu programme, and we will be making further announcements shortly.

To help us to ensure that we get the best value for that £400 million, we have appointed an advisory panel chaired by Dr Tim Stone of KPMG, who has huge international experience in project management. For example, he worked on the project management of the channel tunnel, along with many other projects. The idea of the advisory panel will be to get the experience of those professionals with a background in either finance or project management, and capital investment generally, to help us to add value at the business planning stage. We are applying a standard procedure called the five-business-case model to ensure a unified approach to capital investment business planning. We are using that advice, as well as advice from elsewhere, on the procurement of the capital investment projects, and, thirdly, we are getting their advice on project management. These are three areas where it has been acknowledged that there are weaknesses in the public sector generally.

The figure of £400 million may sound a significant amount of money, and it is, but we spend £1.6 billion each year on capital investment across the Assembly Government. So, although it is a significant sum, it must be put into the context of that wider picture. Having said that, it is our intention as a Government, and my intention as a Minister, that the discipline that we will take through the capital investment framework will be applied increasingly to all capital investment. We will have a strategic, disciplined approach to capital investment, and we intend that that will apply to all capital investment in the coming years.

Alun Davies: I am interested in that relationship between this and other areas of capital investment. Many of us on this committee have, over the past year, been looking at different means of public procurement and investment across the UK, and, for us, perhaps the most striking aspect of this debate is the size of that fund. It is considerably smaller than the funds available to the Governments in Northern Ireland and Scotland. I understand that there are reasons for that that are far beyond your control—we appreciate that. However, my question is whether you have yet developed a policy approach—or will you be outlining one—to use this money to lever in investment from other sources?

Andrew Davies: Very much so. As I indicated in my replies to earlier questions, I am determined that, as a Government, we should be able to access additional resources, wherever they are. We must ensure, for example, that they are aligned with our strategic priorities. The European structural fund is one area, and the European investment bank is another. We are actively exploring the potential for public-private partnerships. I will report to the committee by way of a paper in due course. I think that I am appearing before the committee in November to discuss that. The credit crunch may well have an impact on that; we are not entirely sure how it will play out. It could benefit us in that the Government and the public sector will be seen as being blue chip and less of a risk than private sector partners. I am absolutely determined that we will maximise the opportunity to draw down funds and align them with our strategic priorities because, again, the approach to capital investment and the use of other resources has been too fragmented and insufficiently strategic.

Peter Black: I am very grateful for the explanation of how the fund will work, but, from our perspective, the working of that fund is quite opaque and difficult to follow, because it is all going on in the background—on the fifth floor, or wherever. In a sense, we are sitting here waiting for an announcement as to when you will spend the money allocated to that fund. I am interested in knowing when you think you will come to some conclusions with regard to the way in which this money is allocated. When will you be in a position to make an announcement with regard to what this fund will be used for? I think that many people in Wales are also waiting for those announcements.

Andrew Davies: I know they are. In fact, I have given a commitment to the committee that I will keep it fully briefed on developments. I think that I have stood by that and, at every stage, I have informed the committee of developments, including the appointment of the advisory panel and other developments. I have already indicated that we have made the first decision in terms of the allocation of £66 million for a pandemic flu preparedness programme. The reason that I have made no further announcements is that we have made no further decisions; they will be made in the next month or so. I stand by my commitment to keep the committee fully informed of the development of the framework and the decisions that we make on any investment.

Peter Black: When you make those decisions, will we get an indication of which bids have not been successful and the reasons why? That would help to make the process more transparent.

Dr Daws: Some of the bids that will not be funded by the strategic capital investment framework may well be funded by Ministers' own portfolio capital funds. So, it is not as though we are looking to see which of the schemes might benefit from what is almost acceleration from this fund. It is not as straightforward as saying that if a bid was not funded by the strategic capital investment framework, it would not get funded at all. It is not that simple.

Andrew Davies: I will give that some thought and come back to the committee on that point.

Alun Davies: Could we have a note, Minister, on that relationship, to enable us to understand how that relationship will work? Dr Daws has made quite an important point.

Andrew Davies: The relationship with individual spending Ministers?

Alun Davies: That is right; between the departments and your fund overall.

Angela Burns: I would like to ask a quick question on this point. I am puzzled that what I perceive to be a flu programme is coming out of a capital reserve. Could you explain to me whether it relates to buildings?

Dr Daws: It involves the stock of vaccine.

Angela Burns: As that is something that disappears once it is used, why would you use capital money for what is essentially a revenue item?

Dr Daws: By its nature, it is stock. We are part of a wider initiative in that sense. It has been deemed that we can use capital for it. Our view is that, because it is stock, we will use capital for it. The way that the purchase is being made, as part of the UK Government programme, we are all using capital funding.

Nick Bourne: That is the point that I was going to make. I am certainly not speaking against preparedness, as that makes sense. However, it almost sounds, from what you are saying, as if we have squeezed this in and got a satisfactory definition so that we can treat it as capital. It is certainly not classic capital and it is not what many of us thought this fund was for. I thought that we were talking about infrastructure projects. If you look at the evidence from across the world, that is what would make a massive contribution to the Welsh economy.

10.00 a.m.

We are talking about improvements to the rail service and so on, which are classic capital projects. This does not seem like a classic capital project.

You mentioned £66.3 million. However, the figures do not stack up on the breakdown of £40.7 million in 2009-10 and £6.2 million in 2010-11. Maybe I have missed something but there is a £19.4 million shortfall on the figures. I do not know where that has gone.

However, those are two separate points.

Andrew Davies: The £19.4 million figure is the figure for the current year.

Nick Bourne: Okay. That explains it.

Dr Daws: The issue is that resilience is increasingly becoming an important area and, in terms of taking a strategic view, civil servants' advice to Ministers was that we also needed to look at resilience issues so that there is money going in for flooding, for example, to capital funding budgets.

Nick Bourne: I could understand that much more if there were permanent improvements to the infrastructure—that is classic capital funding. It may be an important issue to take care of, but it just does not seem like the sort of thing that would attract capital strategic investment. It is not capital; it is not strategic; it is not investment. It may be very sensible, but that is a very different issue.

Andrew Davies: I think that we will have to agree to differ on this. The judgment was that this was a capital investment. It was deemed to be legitimate expenditure for the strategic capital investment framework, and Ministers were satisfied that it was an appropriate use of the strategic capital investment framework funding. We do not want to prejudge any decision by the management board; we will be looking at things such as investment in rail infrastructure and other issues that, as you say, are more conventionally seen as capital investment. When we come with a full list of projects that have been funded, I hope that the committee will be reassured.

Angela Burns: Thank you for that. However, I am still quite puzzled by it because, in a business context, you would buy in the stock for something such as the flu vaccine and you would put it into consumables because you know that, although it is stock, it is coming in and going out. Traditionally, capital would be employed on something that would give you a tangible asset that could then go onto your balance sheet. I appreciate that the Government does not work in the same way; nonetheless, the principles of accounting still run true. It is the one area that I am very surprised about. I am delighted that the fund is up and running and that the Minister will spend money on capital, but its first spend is a significant sum of money on something that will not exist in a year's time because it will be, hopefully, inside people.

Joyce Watson: May I ask a question?

Angela Burns: Yes. I think that Oscar also wants to ask a supplementary question.

Joyce Watson: Let us assume that your analysis is right and that everyone is agreed that we should not be spending strategic capital investment framework funding on this particular item or similar items. I need to be clear about the answer to the accusation that we should not be spending this money in this way. What is the answer? The obvious answer would be that it comes out of the budget that we have just been looking at and that it is somehow set aside and predetermined within that budget. As you and Nick have raised this as an issue, are you suggesting that, next year, we set that amount aside and top-slice it from the general budget—the revenue budget—in advance? There is an obvious question here, is there not? If that money is needed for that contingency, will you suggest that that is what happens? You seem slightly concerned about it coming from this fund, but you recognise the need—

Angela Burns: Joyce, I would like to draw this meeting back to order. It is not my job to suggest to the Minister for Finance and Public Service Delivery how or where he does anything with his budget. My job, as Chair of this committee, and the job of the committee, is to scrutinise and to ask perfectly legitimate questions. I believe that that is all that I did. I believe that Nick, Peter and—given the few nods that I had around the table—other people were also interested in that answer. It is certainly not a matter for me to then say to the Minister, 'I think that you should take your £60 million or so out of this budget and plop it somewhere else.' The question is: how, in pure accounting terms, would you take a stock of a consumable item and move it forward? I think that that is a perfectly legitimate scrutiny question.

Joyce Watson: I was going to ask that question.

Mohammad Asghar: We are making investments relating to flu and flooding, for example, there is a storage cost for the flu vaccine and a time limit to how long you can keep it. It will be wasted if there is not a flu outbreak, although I hope there is not. The same is true of flooding, although, given climate change, we are more likely to get flooding than a flu outbreak. I do not know on whose advice you have put this money aside, but it is substantial money that surely could be used for other social services or benefits instead of being put aside based on an assumption.

Andrew Davies: Any responsible Government has to take seriously the risks that are presented by global warming and by epidemics. We would be justifiably criticised if did not take prudent measures to deal with risks. Given global warming, all the predictions are that there will be increased serious weather incidents, which will lead to flooding. We have identified areas in the current budget to deal with flood risk management, but also, within the European structural funds programme, opportunities are provided for capital investment. So, as I said earlier, it is not only about what happens in this budget, because there are other opportunities, as I said in response to your earlier question, to access resources, through European structural funds or others, that can help us to defend our citizens from what is recognised to be an increased risk.

Mohammad Asghar: Does Mr Brown consult with you when he makes decisions on the international stage? He is now investing billions, and if that does not resolve the global financial problem, every individual in Britain will have a £16,000 debt. That is the type of money that we are talking about. Did you know about it?

Andrew Davies: He did not phone me up and say, 'This is what I am going to do; what do you think about it?'. However, there are government processes in which we take an active role. For example, our views are represented through the Secretary of State for Wales on the new National Economic Council, chaired by the Prime Minister. As I am sure you are aware, next Thursday, the business partnership council meeting will, in effect, be an economic summit to deal with many of the issues that have been highlighted this morning. The First Minister, the Deputy First Minister and I will be at that important meeting.

Huw Lewis: On the subject of trying to take care of people as best we can, given the current economic circumstances—and I have not been able to identify this, presumably because we do not yet have that level of detail—I was hoping that you could tell me whether we can look forward to an expansion of the mortgage rescue scheme that the Assembly has been working on in certain parts of Wales, and which has been very welcome in those areas of Wales.

Andrew Davies: I do not have the details to hand. Can we get back to you on that?

Huw Lewis: Fine. I thought that it might be too detailed a question.

Angela Burns: Thank you, Minister. Alun is next.

Alun Davies: I would like to ask you a question on your reserves policy. I was quizzed for 30 minutes last night by the BBC on your policy and I hope that you will be able to give a more coherent explanation of it than I was able to last night. I think that I might have let you down, Minister. ["Laughter."] Could you outline the policy that you are now following in relation to reserves and whether that has changed over the last financial year?

10.10 a.m.

Andrew Davies: There is no change in how we deal with our reserves or any other—how can I put it?—underspends that we accumulate, for example, end-year flexibility. We have always taken the view that reserves are resources that are accessible for contingencies. We have also always taken the view that there is no point holding huge reserves that you then roll forward year after year, when there may be spending or policy priorities that need funding. Our policy remains the same as ever, in that we are keeping what we regard as a prudent level of reserves: for example, for 2009-10, it will be 1 per cent and, at the moment, the reserves that we have allocated or identified for 2010-11 are 2.5 per cent. (1) As I said at this time last year, the further out that you are in terms of financial management, the larger the amount of reserves that it is prudent to keep because, obviously, you do not know what contingencies you are going to be faced with. As you then come up to, for example, the next financial year, you have a clearer idea of the risks that you might be exposed to and, therefore, you can allocate those reserves where appropriate. We take the same view in terms of access to end-year flexibility, which is basically the underspend that we accumulate. We have a record that is second to none compared with other devolved administrations and UK Government departments. We have consistently spent around 99 per cent of our budget or departmental expenditure limit. We use both our reserves and our accumulated end-year flexibility in a very prudent way to fund the policy priorities of the Assembly Government, which includes local government and other public sector bodies.

Alun Davies: Thank you for that. I think that the way in which you have presented the budget this year has improved the transparency of the process and, as a committee, we welcome that. Could you give us the rationale, Minister, for your decision to use around £200 million of reserves in this budget and an explanation of your decision-making process?

Andrew Davies: As part of the normal budget process, we obviously had the existing indicative allocations for individual spending Ministers that were established last year—or in last year's budget in January of this year, if I can put it that way. During the budget process, negotiations and discussions with individual spending Ministers will identify spending priorities that will need additional resources. For example, Jane Hutt, the Minister for Children, Education, Lifelong Learning and Skills, and I worked very closely on identifying additional resources for the foundation phase. That is where we have used part of that sum of about £200 million, to increase resources for the Minister for education. We have done something similar with the Minister for Health and Social Services in terms of meeting waiting times commitments, so that we can give an assurance that no patient will have to wait more than 26 weeks from referral to treatment. That is part of the normal budget process. It is done through discussions with spending Ministers. Similarly, for the Minister for Social Justice and Local Government, we have identified an additional £10 million from revenue support grants. We use additional resources where we are able to. We think that it is a prudent way of using reserves.

Nick Bourne: Following on from that, I appreciate that a judgment has been made about the level of reserves, but I think that Sue Essex used to carry a higher percentage of the budget in reserve. Do you think that 1 per cent is sufficient and would you now regard that as the norm that you would expect to carry, at this stage, into the next financial year?

Andrew Davies: If we consider past practice, given the fact that our financial management has been good—I am not being complacent, but I think that we have a very good record—we are confident that carrying a reserve of 1 per cent is adequate. In the current financial climate, I think that we would probably be criticised if we were to run much higher levels of reserves than we currently do. Coming back to local government, we were roundly criticised by local government for allegedly holding huge levels of reserves, because it was just looking at the aggregate figure, and I had to point out that the reserves are only 1 per cent of our total budget. The Chartered Institute of Public Finance and Accountancy recommends that local government, for example, keeps 5 per cent in reserves.

Nick Bourne: So, the absolute sum does not matter—it is the percentage that is important?

Andrew Davies: I was just pointing out that, in terms of the total amount of the budget, it was not a great deal, but I note that Peter confirmed that local authorities used their significant reserves last year to keep council tax down to an affordable level.

Peter Black: I would not bank on that this year.

Andrew Davies: Well, will have to see what happens, will we not?

Joyce Watson: From reading your very clear budget, I note that the end-year flexibility has built up over the years, and that at the end of 2006-07 it was £240 million. You quite rightly state that you intend to use that in 2008-09 and 2010-11 with a capital element—quite rightly, in my opinion—going to the strategic capital investment framework. As far as I can see, no EYF is being handed over by the Treasury in 2008 or 2009. When are the negotiations with the Treasury on the use of EYF accrued during 2007-08 to be concluded? What amounts of the accrued EYF are intended at present to be used in 2008-09?

Andrew Davies: We have not finalised the figure with the Treasury, because the final accounts need to be agreed by us and with the Treasury, and that is why the end-year flexibility figure has not yet been identified.

Dr Daws: The accounts have been signed off, but there are a number of adjustments that we would have to formally agree. It will take us another month before we submit the figures to the Treasury, and, at that point, we will start the negotiations with it. The Treasury must formally agree and check them through the draw down.

Mohammad Asghar: On funding reserves, last year as part of our budget discussions we discussed efficiency savings. Have we achieved the substantial amount that was mentioned? If it was achieved, it will go directly towards reserves and funding. So, have we achieved those efficiency savings, how much were they and which department had the most efficiency savings?

Andrew Davies: It is difficult to say off the top of my head which department has performed best, but we have a target for £600 million in efficiency savings through 'Making the Connections' by the end of this decade, and we are confident that we will deliver on that. In specific areas such as the efficiency savings identified through the mergers programme of the former Assembly-sponsored public bodies, such as the Welsh Development Agency, we have achieved that. In fact, we have achieved more than we set for the initial target.

Coming back to my point about getting value for the Welsh pound, it is a major priority and I see that £600 million as a minimum, not a maximum: we are all beholden in the public sector to achieve the more efficient delivery of services. That is one of the areas that I have looked at through the 'Making the Connections' fund, working with local authorities and schools to identify ways in which we can invest to save money. For example, in the schools programme we have identified a potential £20 million in savings by helping schools to draw down the procurement of everything from stationery to computer equipment. That will, hopefully, allow schools to buy products at a lower price and the money can be released for the schools to invest in other things. There are areas for savings in procurement and collaboration on the back-office functions.

10.20 a.m.

I mentioned that, in south-east Wales, local authorities are working jointly to invest in shared back-office HR and payroll functions. So, whether it is the Assembly Government acting on its own or in collaboration with local government and others, we can achieve efficiency savings in a whole range of areas.

Angela Burns: Thank you very much for your responses, Minister, and for coming here to talk to us about the budget. I believe that you will come back to us on three issues, two of which are pretty much the same, namely those relating to Welsh Assembly Government banks and the banking arrangements of publicly funded bodies, and the third issue is to give us some further details on the mortgage rescue plan. You are due to return here on 23 October to discuss our conclusions and recommendations, which will be based on the evidence that we have received from other committees and from further discussions with witnesses. Therefore, I ask that you try to get that information to us by the middle of next week, or at the end of next week at the latest, so that we have time to absorb it and include it in our calculations as we go forward.

Nick Bourne: I would add to that that we would like to know how much is held in banks, if it is not—

Dr Daws: I understand.

Nick Bourne: Yes, the two of these.

Angela Burns: Many thanks for giving us your time today. I know that you have squashed us into a hectic schedule. Thank you.

10.21 a.m.

Cynnig Trefniadol Procedural Motion

Angela Burns: I propose that

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

I see that there are no objections.

"Derbyniwyd y cynnig.
Motion carried."

"Daeth rhan gyhoeddus y cyfarfod i ben am 10.21 a.m.
The public part of the meeting ended at 10.21 a.m."

(1) The witnesses wish to confirm that, as they have three different ways of calculating the percentage, the best way to describe the figure is 'around 3 per cent' rather than '2.5 per cent', which they say is incorrect.