

# Y Pwyllgor Cyllid

## The Finance Committee

Dydd Iau, 16 Hydref 2008  
Thursday, 16 October 2008

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

" "

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

### Aelodau pwyllgor yn bresennol

#### Committee members in attendance

Mohammad Asghar	Plaid Cymru The Party of Wales
Nick Bourne	Ceidwadwyr Cymreig Welsh Conservatives
Angela Burns	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Alun Davies	Llafur Labour
Ann Jones	Llafur Labour
Huw Lewis	Llafur Labour
Jenny Randerson	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats

Joyce Watson	Llafur Labour
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## **Eraill yn bresennol**

### **Others in attendance**

Rodney Berman	Llefarydd Materion Ariannol, Cymdeithas Llywodraeth Leol Cymru Finance and Resources Spokesman, Welsh Local Government Association
John Davies	Arweinydd Cymdeithas Llywodraeth Leol Cymru Leader of the Welsh Local Government Association
Paul Davies	Cadeirydd Cyfarwyddwyr Cyllid Ymddiriedolaethau'r GIG Chair of Trust Finance Directors, NHS
Steve Greenslade	Cynghorydd Ariannol CLLC a Chyfarwyddwr Cyllid Cyngor Sir Fynwy Director of Finance, Monmouthshire and WLGA Finance Advisor
David Lewis	Cyfarwyddwr Cyllid, Ymddiriedolaeth GIG Cwm Taf Finance Director, Cwm Taf NHS Trust
Nigel Stephens	Cyfarwyddwr Cyllid a Pherfformiad, Bwrdd Lechyd Lleol Torfaen Director of Finance and Performance, Torfaen Local Health Board
Steve Thomas	Prif Weithredwr, Cymdeithas Llywodraeth Leol Cymru Chief Executive, Wales Local Government Association
Peter Tyndall	Ombwdsmon Gwasanaethau Cyhoeddus Cymru Public Services Ombudsman for Wales

## **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 1.36 p.m.  
The meeting began at 1.36 p.m."

## **Ymddiheuriadau a Dirprwyon**

### **Apologies and Substitutions**

**Angela Burns:** I welcome everyone to this meeting of the Finance Committee. Everyone is welcome to speak in Welsh or English, and we have translation facilities available. Please switch off any mobile phones and, if a fire alarm sounds, please follow the instructions of the ushers.

## **Ombwdsmon Gwasanaethau Cyhoeddus Cymru: Amcangyfrifon am y Flwyddyn Ariannol 2009-10**

### **Public Services Ombudsman for Wales: Estimate for the Financial Year 2009-10**

**Angela Burns:** I welcome Peter Tyndall to this afternoon's session. I ask you to introduce yourself for the Record and give us a very brief overview of your paper. We will then ask you some questions.

**Mr Tyndall:** Thank you for the opportunity to speak to you this afternoon for the first time in my capacity as Public Services Ombudsman for Wales, having taken over at the end of April from my predecessor, Adam Peat. As a background to the paper, I will just say that, when I took on the position, I found the office to be well established. There is a committed and dedicated team of people in place, and, by and large, they have the facilities and resources that they need to do their job well, which they do.

During my time in office so far, I have concentrated on ensuring that complaints about public services in Wales are addressed and dealt with properly, and that the lessons learned from dealing with those complaints find a wider audience across the public sector in Wales. Those aspects are dependent on having the necessary resource in place if they are to function effectively. I am particularly concerned to ensure that the service is accessible to people from the most deprived and vulnerable groups in our communities, because we know that the people most likely to make a complaint effectively are those who are well educated, and those who have time on our hands, such as the retired. I am keen to ensure that people who are at the margins of society and who do not have those advantages can also make their case.

I have been engaging in a twofold programme of outreach with representatives of groups, principally in the voluntary sector, that work with people from disadvantaged communities and of organisations that have jurisdiction and who should understand the importance of ensuring access for people who may otherwise be disadvantaged. The point that strikes me forcibly is that, although public services are used by us all, certain groups depend on them disproportionately, so it is important that they are properly represented in my case load. That has been an important aspect of my work to date.

I am also keen to ensure that the people of Wales understand that the service is available, but also that the lessons that are learned can be important for more people than just that individual, such as the organisations providing the services or the regulators. All of these activities require resourcing.

When Adam, my predecessor, spoke to this committee last year, he spoke of the year-on-year increases in workload he had experienced. He said that, within the resources that he was requesting, he felt that he could accommodate a 10 per cent increase year on year. I am more sceptical about that, to be frank, because I have been looking at the length of time that it takes us to deal with complaints from members of the public, which seems to be a fair indication of whether the service can cope with the volume of work that it faces. Over the past year or so, that has been declining, and, to an extent, it has been declining throughout. The reason that it has been declining is a substantial increase in demand from the public for the service.

1.40 p.m.

Our target is to tell a complainant within four weeks whether or not the ombudsman will investigate their case. The success rate for doing that within three weeks for 2006-07 was 62 per cent, which declined last year to 55 per cent. Similarly, within six weeks, 87 per cent were being dealt with, as opposed to 92 per cent, but that leaves a substantial proportion not being dealt with within six weeks, which is two weeks beyond the target.

The target once a complaint is investigated is that they should be completed within 12 months. Performance fell from 94 to 92 per cent. In itself, that is a cause for concern, but in the first six months of the current financial year, the number of complaints has risen by 29 per cent, with the consequence that staff are unable to provide the level of service that the people of Wales should reasonably expect from the ombudsman. The last thing that I want to do is deal with individuals who already have concerns about public services only to find that the ombudsman, in turn, is not responding promptly and not dealing effectively with their complaints.

I should also say that the number of complex complaints has risen substantially, such as those about entitlement to continuing healthcare, which has had a lot of publicity. Within health, the largest single area of complaint is to do with treatment in hospital. In those circumstances, it is normally essential to take advice, but the complaints are, of their nature, complex—there are large files to go through.

Another aspect of my work that has, unfortunately, seen an increase is complaints against members of county borough councils. In those instances, typically, members are now represented by counsel and, consequently, the standard of evidence-taking and proof has risen considerably, and with it, the cost and amount of resources that are necessary to devote.

All in all, we are a service under considerable pressure. I have staff working every weekend on overtime. I have had to take on temporary staff as cover to try to deal with peaks in workload, but it is simply inconceivable to deal with an increase on that level without an increase in staffing. To pre-empt what is probably the most obvious question—what would be the impact if that did not happen?—we would have to decide not to investigate complaints on cost grounds. At the moment, the queues are getting longer and longer, and, at some point, you must draw a line as to which complaints you will investigate and which you will not. We have done all that we can to streamline processes and procedures. We are heavily dependent on information technology, which works quite effectively, to manage cases and so on, but, in the end, it comes down to staff investigating complaints, dealing one to one with members of the public and pursuing their complaints with the public bodies involved. That is labour-intensive work and it is not amenable to automation or simple efficiency savings. You will see from the budget that the request for additional resources is concentrated on investigative staff—it is not on administration or premises; it is to find people to work with members of the public to help to resolve their complaints. That is the case that I want to put to you today.

**Angela Burns:** Thank you for that succinct overview. I know that Oscar wants to come in with a question on that issue.

**Mohammad Asghar:** Thank you for your statement, Peter, which was both precise and open. You said that there has been a 29 per cent increase in complex complaints and that the workload is such that you are sometimes two weeks behind on your targets. What are your intentions in terms of freezing non-staff cost while increasing staff numbers, particularly in this climate of inflation? Inflationary aspects are coming up thick and fast, so how will you handle them?

**Mr Tyndall:** The element of my budget that is associated with administration is very small. You will see that the figure for governance is set at 5 per cent, which is a relatively small percentage. My fixed costs are quite low. The office premises are modern; the lease is due for renewal but it is not especially expensive—it is outside of central Cardiff, so costs are reasonable. There are very few elements of cost other than the production of publicity material, such as leaflets and so forth. If I am to commit properly to the process of outreach—publicising the outcomes of complaints and making sure that the learning is heard—it seems to me that there are elements that need to be retained. It is important to me that the messages are heard and that members of the public are aware of the service. So, I do not see that it would be wise to economise on that front.

Where we can, we have used IT to simplify systems. We are streamlining our processes, such as the process of investigation, to cut out any elements that do not add value. So, if there are bits of process that move paper around and do not actually advance the complaint to a solution, we will deal with them. However, in reality, as I said, the percentage of fixed costs as opposed to staffing costs—investigative staff and their support staff—is very small, and there is very limited capacity for reduction. All public bodies will speak about issues such as fuel price inflation and other inflationary pressures; they will affect us in the same way as they do others. As I said, because they are a relatively small proportion of the overall budget—probably less so than for other bodies—the budget that is put before you shows very modest increases and, in fact, some reduction in office costs; that is being transferred to support the investigative service.

**Angela Burns:** Thank you. You have already talked about the impact of the NHS Redress (Wales) Measure 2008, and Joyce has some very clear questions to ask on that.

**Joyce Watson:** I certainly do. My first question is about the increased workload that you have mentioned and the need for additional staff. In the impact assessment of the NHS redress Measure, it was stated that further dialogue would be required to estimate the financial impact associated with a potential increase. Has the potential impact of the NHS redress Measure been clarified?

**Mr Tyndall:** The answer to that is 'not yet'. The potential impact of the NHS redress Measure is complex, because it would involve taking out the independent review stage and, instead, have people come directly to the ombudsman after the formal internal health process. The current arrangement, as you will know, is quite confusing, because people can either go through the external review stage or come directly to me, or go through the external review stage and come directly to me. So, the new process as proposed should not have an overall impact on the public purse. It should not be any more costly than the current arrangements. It would mean a shift of resources but I do not think that it should cost more. If you are looking at evidence to date, you will see that there have been early attempts to estimate costs but the difficulty is that you cannot put a final costing to a process where the process has not yet been agreed. Depending on the detail of the process, the costings will finally be worked out. However, early estimates show that, although there would be an increased call on my budget for resource, the overall effect should, if anything, be broadly favourable to the public purse.

1.50 p.m.

**Joyce Watson:** Thank you. That answers the next question that I was going to ask. The largest element of the increase in staffing costs comes from you seeking £63,500 to effect changes in senior management to reflect the roles and responsibilities that you indicated earlier, with the aim of giving a better grading structure to the office, by overcoming tight clustering. What changes to senior management are proposed and does the £23.5 million relate to the salary increments for existing staff, or does it just refer to new posts?

**Mr Tyndall:** There are two elements to that. Most of the staff within my service are covered by local government pay scales, and the gradings were established when the office was set up. Most of the proposals for change in terms of additional posts involve more people doing the same work. It has become necessary, in the recent past, to change the level of delegation within the office, because of the fact that the increased volume means that it is simply not possible for me, directly, to deal with the same level of cases as that dealt with by my predecessor. I still deal with the more serious cases directly, but it has been necessary to make substantial changes to delegation arrangements and to review those posts in the context of other posts.

I have not reached a final decision yet; I have asked for a provision. I have put in place a detailed review process that takes account of the duties of the posts, looks at the comparable gradings of equivalent posts in other ombudsman services and looks at the revised nature of the posts. So, that provision is there, and my expectation is that the outcome will be positive. That is why I have made a provision in the budget.

**Angela Burns:** Alun, is your question a follow-on from Joyce's?

**Alun Davies:** It might be; it depends on interpretation.

I am interested in your strategy, Mr Tyndall, because you are saying that you have an increased workload—I accept that—and that you are proactively encouraging the use of your services by vulnerable people and disadvantaged groups; there would be unanimous support here for that approach. I am interested to know how you can increase your staffing, your workload and your reach, yet essentially freeze your costs, in real terms.

**Mr Tyndall:** That is an interesting question. I think that it is because there is capacity within the building, which was acquired with sufficient capacity for some expansion of service—there are desks available for additional members of staff—and the IT system is capable of accommodating additional people. In fact, in the recent IT changes, we have made provision for homeworking—I am sorry, my human resources people tell me that I should not say 'homeworking', because it has particular connotations. We have made provision for off-site working, which means that people can now work away from the office, giving us additional capacity. So, for instance, the proposal to expand the service by having someone on the ground in north Wales is only possible because the person in that post can connect remotely to the office systems, which was not possible previously. The systems have been designed to create capacity. I will not need additional HR capacity or administrative capacity, so the fixed costs will accommodate more. I would not say that that would be the case were you to expand exponentially indefinitely, but it is possible to accommodate the expansion that is planned here within the level of fixed costs set up within the budget, which is broadly similar to this.

**Alun Davies:** I accept that, but there must, surely, be some element of activity-related costs as well, which could simply be issues such as travel costs or communications. I think that I saw that your communications budget will remain fixed—so it is actually a cut in real terms. How do you intend to expand that outreach and the activities of your office, because there must be some costs that are activity related?

**Mr Tyndall:** There is a particular set of costs built into this year's communications budget, which relates to my appointment. We are using up existing stocks of leaflets, so there are still leaflets out there with my predecessor's name on them—we are not being profligate, but there comes a point where we have to update them. We are also looking to introduce simplified procedures, so there are in-built costs associated with this year, and next year that money can be devoted to other purposes. That is part of the reason for holding the money down. We are not planning to revise the major leaflets again next year—we will simply reproduce existing ones. So, there are ways in which we can hold that down. Similarly, we have run a series of seminars around Wales this year as part of my engagement with the various constituencies. There will not be a need to do quite the same thing next year, so we can redirect that money elsewhere.

**Angela Burns:** While we are on the subject of costs, I think that Ann wanted to raise a point.

**Ann Jones:** Your paper mentions employment costs and staffing, particularly in paragraph 5.2, where you outline three additional posts: for an assessment officer, an administration support officer, and additional call-out contract staff to cover peaks in workload. Are those new posts sufficient to deal with the increased workload that you are experiencing?

**Mr Tyndall:** One of the issues that we have is that our workload is episodic. Each time a report is produced on continuing care, for example, we will suddenly get a burst of work as people who think that they may have suffered a similar injustice bring their complaints forward. Rather than build up a fixed staffing base that could accommodate the peaks, we have tried to build up a base that can cope with the steady-stage work, and to have the capacity to bring people in at times of higher workload. It would be foolish of me to say that, if there were an increase on the 30 per cent that we have already seen at the start of this financial year, it would be possible to accommodate beyond that; that would be naive. However, this has been based on what we think is needed to cope with a level of work based on current trends.

**Ann Jones:** You mentioned having an investigator in north Wales. Is that post covered in the estimates?

**Mr Tyndall:** Yes.

**Ann Jones:** How will the cost of the internal audit post be met from your existing budget?

**Mr Tyndall:** We currently buy in internal audit services, and the contract is coming to an end, so we are looking to alternatives. It is not so much for cost savings, although there may be some; we are looking for a more effective arrangement than that which we have had.

**Angela Burns:** You have said that you are struggling to cope with the level of work that you currently have, but you are now taking on an internal audit role as well. How will you reconcile that?

**Mr Tyndall:** It will be an additional post—a part-time post.

**Angela Burns:** Is that on top of the ones that you have just spoken about: the assessment officer and the administration support officer?

**Mr Tyndall:** Yes, but it does not lead to a request for additional resources. It is funded from the existing budget. It is a different way of providing an existing service.

**Angela Burns:** So, you will use the money that you would have paid for the external contract.

**Mr Tyndall:** Yes, and if we save some money, we will be pleased.

**Angela Burns:** We will be delighted. Nick, I think that you wanted to come in here.

**Nick Bourne:** Indeed—thank you, Chair, and thank you, Mr Tyndall, for the presentation. It is a difficult financial round in terms of the settlement across Government. I have a question on pensions provision. There are currently three pension schemes that impact upon the office of the ombudsman and its staff. One needs reduced funding, because of changes to the basis of contributions. One other, at least, is massively dependent on the financial markets—so I am sure that you can guess the question that is coming. I appreciate that these factors are outside of your control but, nevertheless, this is a budget, so we have to get as clear a picture as possible, and the most accurate figures. Are you confident, in the light of the financial markets, that a 3.5 per cent increase in pension costs is sufficient to meet the demand? It seems pretty unlikely to me.

2.00 p.m.

**Mr Tyndall:** The bulk of the staff are in the civil service pension scheme, and contributions to that in the coming year will drop. For the majority of staff, unusually, the cost of providing a pension will drop in the coming year. There will be increases. Yesterday's inflation figures will determine the increases to the former ombudsman, given the pension conditions. That looks to be a 5 per cent increase, which is what we have allowed for in these calculations. From that point of view, the calculation should prove accurate—there is no reason why it would not.

The more difficult issue is with the members who remain in the local government pension scheme. Quite what the long-term outlook is there, I am afraid that I am probably less well qualified than my accountant to comment upon. However, he tells me—and I put him on the spot again today—that he still thinks that the estimates are realistic. However, the budget hinges upon the fact that the majority of the staff are in a scheme in which we do know what is happening. For the former ombudsman, we now have reasonable certainty as to what is happening, so it is the local government scheme that is the issue. As for the future, beyond next year, given the current turbulence in the financial sector, pension costs will almost inevitably rise.

**Nick Bourne:** I accept what you say about the position for two out of the three schemes being fairly easy to predict almost precisely, but the issue is the scheme for which the volatility in the financial market—I say 'volatility', but it is all in one direction at the moment—will have an immediate effect. I accept that the long-term position, and two or three years away, even, is difficult to predict, but, in the next year, I think that it is relatively easy to predict that we are going to suffer massively with regard to the pension provision, and it is that figure that worries me.

**Mr Tyndall:** There is provision made in the budget for an increase in the local government scheme. I would probably share a degree of your anxiety as to whether, in the light of events, it will prove sufficient. I suspect that, for the coming financial year, it will not have a hugely significant impact, but, for future years, it is definitely going only one way. The difficulty that we have, as I am sure my predecessor explained here last year, is that we do not have any certainty about the level of payments until after the end of the financial year, which makes budgeting phenomenally difficult. However, I take the point. I share your anxiety. We have made what we think is prudent provision, but events have moved on swiftly since that prudent provision was made.

**Angela Burns:** You are showing an 81.8 per cent decrease in your capital expenditure. Is that entirely tied up in your office costs and your office relocation, or are capital costs likely to emerge that are not currently forecast in your budget?

**Mr Tyndall:** I do not think so. There were costs associated with the office moves, and also there was the renewal of the IT provision. We do not forecast any major renewal of IT equipment. We do not have a fleet, and our premises are leased, so the exposure to capital requirements is quite limited.

**Angela Burns:** Ann, I think that you have a final question.

**Ann Jones:** I am interested in this £20,000 in untaken leave that you are showing as a possible budget pressure. Surely, that would be contained within your staffing budget line. Why are you indicating that as a pressure?

**Mr Tyndall:** I am not indicating it as a cash pressure on the budget. Next year sees the introduction of the new international accounting standards. As part of that, there is a requirement to show liabilities in a different way and, technically, unpaid holidays are a liability in the sense that all of the people who are due to take holidays could leave and we would have to pay them holiday pay. That would be a pressure on the budget. In reality, it is an accounting requirement. It would never be realised for two reasons. First, staff are entitled to carry seven days over, so that leave entitlement is spread across all of those staff who carry leave over the year end. With regard to the likelihood of all of those people leaving over the next financial year, well, I am very hopeful that they will not, because there would be major problems beyond that level if they were to do so. In reality, we would accommodate any pressure simply by the difference in time between somebody leaving and the new person taking up post, if there were a need to do so. It will never materialise, therefore, as a cash requirement, but, technically, on the balance sheet, it does turn up as a liability, and therefore I am required, technically, to make provision for it.

I suspect that these are some of the by-products of the changes in accounting standards that you will see impacting on other bodies in different ways as you go through the budget round this year.

**Angela Burns:** I see that there are no further questions. Mr Tyndall, thank you for coming to see us today. I am sure that, as you have been in post for almost six months, you probably feel that you have been there for ever and a day. However, on behalf of the Finance Committee, I wish you every success and good fortune in your new post. We look forward to seeing you next year. Thank you very much for coming.

**Mr Tyndall:** Thank you.

2.06 p.m.

## **Cyllideb Ddrafft Llywodraeth Cynulliad Cymru 2009-10: Ymddiriedolaethau'r Gwasanaeth Iechyd Gwladol a Byrddau Iechyd Lleol**

### **Welsh Assembly Government Draft Budget 2009-10: National Health Service Trusts and Local Health Boards**

**Angela Burns:** Good afternoon. I welcome our witnesses to this afternoon's session of the Finance Committee. For the Record, please introduce yourselves and give a brief overview of your paper, which we have all read with great interest. I emphasise the word 'brief', because we have a whole host of questions that we would like to ask you in the time available.

**Mr P. Davies:** Thank you, Chair. I am Paul Davies, the director of finance for the Cardiff and Vale NHS Trust, but also the chair of the finance directors for Wales.

**Mr Stephens:** I am Nigel Stephens, the finance director of Torfaen Local Health Board.

**Mr Lewis:** I am David Lewis, the finance director for Cwm Taf NHS Trust.

**Mr P. Davies:** Thank you for inviting us today. You have received our paper, which, hopefully, explains our position. The NHS recognises the reality of the economic slowdown. It is clear that there will not be as much growth available to the wider economy and the public sector in the future as there has been in the past. It is against that background that we have to recognise the reality facing the demands placed on the NHS and the amount that we will be able to do given that the resources available will not be as great as they have been in the past.

The overall growth rate included in the paper is 5.3 per cent. While that headline figure, which includes capital, is technically correct, account needs to be taken of the end-of-year flexibility payments of £84 million, which were already present in the system. When you compare one year with the other, the real increase in revenue is 3.3 per cent. It is important to note that it is 3.3 per cent as opposed to 5.3 per cent. It is on the basis of that 3.3 per cent of available resource that, as finance directors, we make a judgment as to what we believe will be the demands and, therefore, the costs placed on the NHS in 2009-10.

The paper goes through a variety of issues, but there are three prime ones that I am sure that you will want to talk about. The first of these is inflation. We are not immune to inflation. In fact, we believe that we will have major pressures due to inflation. The price rises that we have seen will impact on most of our non-pay costs. The second is the major challenge and important target for the Assembly in relation to Access 2009. By December 2009, there will be a maximum waiting period of 26 weeks. Major pressure will be put on the service in delivering that target. The third issue is continuing healthcare, which is recognised as applying increasing pressure. This will continue, and I am sure that we will go into more detail on that as we go forward.

We estimate that those three issues, together with the other factors that we have listed, such as the National Institute for Health and Clinical Excellence and high-cost drugs, mean extra costs next year in excess of 8 per cent. Therefore, there is a gap in excess of 5 per cent. There is no doubt that the NHS can always improve its efficiency and productivity. However, we are talking about a 5 per cent cash-releasing efficiency saving. This is not about productivity, which we are already addressing; this is about taking costs out and achieving that saving to balance the books.

2.10 p.m.

When I was here last year, we assessed what we believed would be the gap for this year. We thought that it would be 3 per cent; it has turned out to be 5 per cent for NHS trusts. It is important for the committee to understand the back-to-back saving requirement of 5 per cent this year, together with another 5 per cent minimum next year. Achieving that 10 per cent, over a two-year period, will put huge strains on the organisation, particularly when 75 per cent of our costs are pay. As finance directors, we believe that the real challenge, therefore, is how we are going to find that level of savings and maintain the services that we currently provide, as well as delivering the demands and the expectations that are set out in the targets. It is a real challenge, which we do not believe is achievable without repercussions for the level of the services that we currently provide.

**Angela Burns:** Thank you for that. Alun Davies has the first questions.

**Alun Davies:** Thank you for that introduction. The third paragraph of the introduction to your written submission is quite a paragraph, with quite some statements in it. You talk about 'potentially unsustainable pressure on the service'. You explained some of those pressures in your introduction, but you seem to be saying in that paragraph that the funding and resources that you have available are not sufficient to meet the ministerial and political priorities set for the service.

**Mr P. Davies:** Yes. That is highlighted by inflation, for example, which we have assessed at the outset to be 5.5 per cent next year. Even if we tempered it—and it is probably reasonable to temper it for the potential reductions in energy costs if they come down—we believe that that will shave about 0.5 per cent off that 5.5 per cent. It will not make a material difference to what we believe to be the overall level of inflation costs for the NHS, and when you add in the costs of what we believe to be continuing healthcare, which we estimate will be in the region of 1 per cent, and the cost of the 2009 Access Project, you soon get up to a figure that is in excess of 8 per cent.

To achieve the savings, experience from this year tells us that we continue to make efficiency savings; we continue, for example, to increase productivity, by improving the way that we use our theatres and our wards, by reducing the length of stay and improving the number of day cases, but that, at the end of the day, you have to make a saving. Improving productivity is important, but this requires us to make a bottom-line saving, as well as improving that productivity. That is a challenge in the current year; when you add it to the challenge next year, we are saying that it will not be sustainable, from an efficiency point of view.

**Alun Davies:** The NHS is one of the biggest organisations in the world—it is certainly the biggest in Wales. Are you telling us that there are no efficiencies to be made there?

**Mr P. Davies:** No, I am not saying that. I am saying that, year on year, the NHS has made substantial savings. This year, we will achieve, broadly, a saving of 5 per cent. Over the past two or three years, we have achieved efficiency savings of 3 per cent, on average. Those are the cash savings; we have also continued to make year-on-year productivity savings. This year, for example, we have already put into our plans to have saved 2 per cent purely from productivity—that is over and above the cash-releasing savings.

Therefore, we are not afraid of making efficiency savings, and we are not saying that there are no efficiency savings to be made in the NHS—far from it. There are many areas in which we need to continue to improve our productivity in terms of the work that we carry out, ensuring that we deliver high quality care that is also efficient and effective. We will always do that. The question that I am posing, given that the challenge is to make a cash-releasing efficiency saving that goes beyond productivity, is whether we can achieve 10 per cent in two years?

**Alun Davies:** You outline in your paper some of the means by which you have analysed your costs, what you intend to achieve, and how you calculate these additional costs. What sort of work has been going on to achieve further efficiency savings?

**Mr P. Davies:** I will start and my colleagues may want to chip in. Our prime role, as finance directors working with the service, is to ensure that we are benchmarking our performance against the best, to ensure that, when we look at our in-patient costs and day-care costs, they compare with the best. If they do not, we look at what can we do to improve that. The primary work that we are looking at is on pay—to ensure that we are maximising, not only on medical costs, which have gone up considerably over the past few years, but by ensuring, as we do, that the job plans of consultants, as well as those of junior doctors, are properly understood and worked to and that the rostering of our nursing staff is as efficient as possible.

We also ensure that we maximise our facilities. Theatres are expensive resources and we need to ensure that they are used throughout the day, that there is no down time and that we avoid cancellations. For example, there are issues around new to follow-up out-patients. We are trying to ensure that we maximise the number of new out-patients in clinic. That is ongoing and it will continue. We cannot yet say, 'We have now arrived at the desired point.'

**Alun Davies:** But you seemed to say that in your answer to my first question. Are you saying that you have estimates of further efficiency savings that you can make?

**Mr P. Davies:** Yes, we do and we have estimated that we will make at least 2 per cent if not more in terms of productivity efficiency savings—

**Alun Davies:** I understand the difference between those and the bottom-line saving, but I am trying to get at the work that has been undertaken by you and your colleagues to proactively seek out the most efficient way of delivering healthcare for people in Wales. It is easy to list the additional costs, but the flipside of that coin is to work through your systems and your structures to ensure that you are driving down non-essential costs and then delivering excellent healthcare efficiently and effectively.

**Mr P. Davies:** I will give you an example from this year: as trusts, we are having to find savings of 5 per cent in cash terms. Although there are degrees of overspend throughout the service, the expectation is that we will achieve that by the end of the year. That is evidence that much supportive work is going on among the different organisations to ensure that we deliver that.

**Mr Lewis:** If I may add to that, I know that some of you will be familiar with some of the schemes that we have undertaken through which we try to ensure that the most appropriate professions are undertaking the most appropriate work. Examples of that are where non-medical staff have started to undertake work that used to be undertaken by medical staff. That has helped in terms of not having to invest in more medical staff, but the feedback that we get from patients on nurse-led clinics, pharmacy-led clinics and therapeutic-led clinics is good, as is the feedback from staff with regard to job satisfaction. We look at all those areas to ensure that we are using the right resources in the right way and at the right time.

**Mr Stephens:** An example from primary care relates to prescribing. We encourage generic prescribing where we can, working with GP practices to ensure that when opportunities on price changes arise, we secure the best value-for-money drug for the benefit of the patient.

**Angela Burns:** Thank you for that; we need to explore this area because, as Alun rightly said, your statement is strong, referring as it does to 'potentially unsustainable pressure on the service'. Jenny wants to come in on inflationary measures.

**Jenny Randerson:** You state that your non-pay inflation rate is estimated at 9.75 per cent. How did you estimate that figure?

**Mr P. Davies:** We have had a tradition over the past three to four years in working with the Assembly with regard to how we calculate that. We use the hospital service price index as one of the mainstays. That is the accurate record of price increases. We then make estimates based on future costs, particularly in energy, where we can tap into other information over and above that. We look at most of the headings that make up non-pay; more than 30 headings make up the majority of non-pay from business rates through to drugs—medical and surgical—and we then estimate the cost, based on the price index and what we have gleaned locally; we can then translate that into total non-pay. From that calculation, we came up with 9.75 per cent for next year.

**Jenny Randerson:** Do I understand correctly, from an earlier answer, that, if fuel prices were to fall, you estimate that it might have 0.5 per cent impact on that 9.75 per cent?

**Mr P. Davies:** In our original calculation, for example, we knew that in October 2007 the cost of gas was 32p a therm; in October 2008, it was 65p a therm.

2.20 p.m.

A month ago, when we prepared the paper, in terms of inflation, the cost was in excess of 95 per therm because of the oil prices. Since then, that cost has come down to 73 per therm, so my suggestion is to temper it. The cost is probably on the high side because of the estimate that we made but, by remodelling it based on the current cost, about 0.5 per cent will come off the total inflation.

**Jenny Randerson:** How robust do you think that your assumption of a 2.4 per cent pay award is?

**Mr P. Davies:** I can go only on the basis of what has happened in the past and the agreements that have been made. It is extremely difficult to make a judgment. We are usually guided by the Assembly in terms of what we should include in that regard and, certainly, 2.4 per cent was not seen as being incorrect. It seems to be a fair balance at this point, although it would obviously have a dramatic impact if it was lower or much higher.

**Jenny Randerson:** You spoke earlier about the impact of the balance of inflation rates and cost pressures against the increase in the budget—you estimate 3.8 per cent against your overall inflation rate of 5.5 per cent. You talked about service pressures and so on. Have you prepared an estimate of the impact that that would have on service provision?

**Mr P. Davies:** The key cost of service provision is the 2009 Access Project because that is where we believe that the major impact on demand is going to come from, and I will ask David to say something on that. There is also continuing healthcare, and I believe that they will be the two main factors that will drive service costs. Perhaps David could mention something on the referral-to-treatment times.

**Mr Lewis:** Obviously, as far the 2009 Access Project on waiting times is concerned, the target that we now have is that, by December 2009, the total referral-to-treatment time will be 26 weeks. The target for this year is that, by the end of March, the total referral-to-treatment time will be 32 weeks. Within that, there are component waits: this year, outpatients have to be seen within 10 weeks; patients must undergo diagnostic procedures within eight weeks; and patients must receive inpatient or therapeutic treatment within 14 weeks on top of that. So, that takes it up to the time period of 32 weeks that we need to achieve by the end of this financial year.

At the end of August, we had 51,000 patients on outpatient waiting lists of over 10 weeks, so we have to see all those by the end of March. Due to the reducing times on the component waits, as soon as we see those patients, the system kicks in and we have to see them for a diagnostic procedure or treatment within eight and 14 weeks respectively. By December 2009, that total wait is to come down to 26 weeks and two weeks will be taken off each of the component waiting times.

What that means, to put it in simple terms, is that, by December 2009, the entire waiting list will be turning over twice a year. Once we get those patients in the system, it starts to cost us money. The best estimate that we can give at the moment is that, in order to achieve that 26-week target and the various component wait targets, if you look at it in terms of the new community organisations, it will cost roughly £10 million in each of the communities. That is over and above what we are doing at the moment to get to that level and then to maintain it.

One reason that we are seeing this problem is that, over the past 12 months, as waiting times have come down, we have seen an increase in the number of patient referrals. Across Wales, the referrals have increased by 7 per cent, and some communities are facing a 22 per cent increase in referrals. I guess that it is a natural phenomenon; as people learn that waiting times are coming down, they are putting themselves forward for treatment in a way that they have not done previously. That is what we are facing at the moment, and that is why we are saying that we will now have to revise some of the previous modelling work and some of the estimates of exactly what the referral-to-treatment targets were going to cost us. We are concerned about how we can continue to achieve those targets.

**Ann Jones:** I just want to pick up on what you said about the fact that patients are seen within 10 weeks and that that costs more. It is a pressure, but surely it costs more if people are waiting in the system, because they will be on medication or whatever. If they do not receive their treatment within the set time, surely that costs the NHS budget more—and that is not to mention the personal cost to the family or the person who is waiting for treatment. We are talking about budget pressures here but, at the end of the day, we are talking about people who are waiting for treatment.

**Mr Lewis:** Clearly, non-financial issues are involved. I am just talking about the financial issues and, yes, I dare say that those issues may come through in relation to the wider economy. In practice, when you have component waits within an overall target time from referral to treatment, to make sure that we hit the target and to give ourselves some kind of buffer, 10 weeks, eight weeks and 14 weeks have to become nine weeks, seven weeks and 13 weeks. That adds to the cost, but the real issue is the increase in the number of patients who come through from referral.

**Mr P. Davies:** Let us take for example a patient who requires a knee or a hip replacement. I have no doubt that that patient will go to his or her GP and receive medication. The patient will be in pain, and he or she will require treatment. There is no doubt that that incurs a cost.

**Ann Jones:** Physiotherapy and so on.

**Mr P. Davies:** Exactly. However, weighed against the actual cost of the knee or hip replacement, none of the out-patient care or the diagnostic testing such as MRI scanning and so on is overly expensive. The real cost is in the actual operation. The cost of a prosthetic hip alone could be £3,000. So, it is the actual cost of treatment that is the issue. When you do the numbers, as you must, given the 26 weeks and the growing referral rate, the cost of the procedure outweighs the cost associated with patients waiting in the community. Those are purely the financial costs as opposed to the emotional cost of waiting.

**Ann Jones:** Sorry, but I cannot accept that—

**Angela Burns:** I have to say that I agree with Ann's view. You have given a tangible example, a hip, but with something like a heart problem, the empirical evidence shows that the quicker that person is treated, the better their recovery, and the less of a burden they are in the future.

**Joyce Watson:** Likewise, I cannot accept entirely what I have just been told. I am not saying that I dismiss it in its entirety, though. It seems as though a bit of double accounting is going on, and perhaps you can bring some clarity to the matter.

You talk about the targets, the increase in pressure, the greater numbers coming through, and the reduction in the time available, all of which creates pressure points, but you also account for the Grogan judgment on continuing care. Surely, at some point, one will alleviate pressure in the other. Your point about joint replacements is a good example of pressure being alleviated in one area if the person affected does not need continuing care, perhaps because, as a consequence of the operation, the patient is back in his or her own home. I want to explore this theme, because it is not being presented in a favourable light, and I am not convinced about the balance in the sheet that I see.

**Mr P. Davies:** You make a very good point. One difficulty is that we are presenting evidence today about the particular timescale of 2009-10, but what you described, and what was picked up earlier, is looking over a 10 to 15-year lifecycle. If we could reach a position of achieving the 26-week target routinely, you are completely right that there would be far less illness. Patients would be treated more quickly, and those treatments would be performed at a time that best suits the patient, as opposed to after they have already developed chronic conditions. If you take a long-term view of this, taking in the whole healthcare pathway of the patient and his or her wellbeing over 10 to 15 years, I have no doubt that it will be cheaper in the longer term. The conundrum for us is that we asked for evidence on what the impact will be in 2009-10. Currently, we are catching up on a backlog, because we have gone through a period in which waiting times were in excess of three years, but, over the years, we have brought it down and down, and they are now down to weeks. It is not months and it is certainly not years anymore.

2.30 p.m.

The biggest, and the next, challenge is whether we can turn over the total waiting list twice a year, because that is what is required going forward next year. Every six months, the complete waiting list must be turned over. Once we get through that and develop a sustainable pattern, I have no doubt that you are right about the long-term impact on health and wellbeing, as well as the long-term costs of continuing healthcare. The question is whether that is sustainable during the next year, and our proposition is that it is not.

**Angela Burns:** Alun, did you have a quick question on that before I go back to Jenny?

**Alun Davies:** Yes. You said in an earlier reply that the £63 million of additional funding is not sufficient to meet these costs in the next financial year. What is your estimate of the cost that would be required to achieve these policy objectives?

**Mr P. Davies:** It is extremely difficult, because, as has been widely described, there is no easy measure of the capacity requirement for delivering the 26-week target. The NHS is attempting to develop sophisticated IT systems to measure and record the pathway so that, as patients come through the system, we know exactly where they are on their pathway. Estimates have been made, and, as we described earlier, in one community, it was estimated that it could cost £10 million extra to achieve the 26-week target. That is over and above our current funding levels.

It is also important to note that it is entirely right that the Minister has announced a further £63 million, but that money already exists in the system as part of our end-year flexibilities; it is not new money. It is still contained within the 3.3 per cent. If there was £63 million of extra funding, the service would say that that was probably a reasonable estimate at this stage, to achieve the 26-week target. However, that money has already been built into the 3.3 per cent and is not therefore extra funding, and that is another reason why we believe that it will not be sustainable.

**Alun Davies:** If you do not know what the additional costs will be, it is difficult to make such an absolute statement that the funding is insufficient.

**Mr P. Davies:** We can only go on the basis of our experience over the past three years. We have brought the wait down from three years, to two years, to a year, and it has cost more to do that. I agree that there is no final estimate of the additional cost, partly because we do not know the demand, which will be part of the modelling, but the calculations to date show that it would cost each community around £10 million. It is a credible estimate, given our experience over the past few years.

**Alun Davies:** It could be £60 million.

**Mr P. Davies:** Who is to say? We have to make a judgment based on where we stand at the moment, and we believe that the moneys that we currently have will not be enough and that more will be needed. To achieve that target, the best estimate so far is that we need around £10 million per community.

**Alun Davies:** I understand where you are coming from and what you say, but do you understand our difficulty? Unless you can provide us with a real estimate, it is difficult to accept that the figure that we have is unreasonable.

**Mr Lewis:** The figures that are being used by us and others are based on what it has cost us to get us to where we are. We are now looking at the number of patients coming through the system. You make a valid point around the potential for double accounting in a few years, and I accept that. However, we have looked at what it has cost us to get to where we are, at the additional patient numbers that we need to treat over the next few years, the additional staff whom we have had to appoint, the additional waiting lists that we have to put on, the additional theatre sessions on evenings and weekends, and so on, and, based on that, on what we have done in the past, we think that the cost could be £10 million per community for the numbers of patients coming through, broken down by specialty.

**Alun Davies:** Given the productivity that you have described, I think that everyone would agree that Cwm Taf NHS Trust has done a fabulous job of delivering excellence in healthcare. However, if you have ratcheted up performance in this way and you are eating away at these waiting times year on year—and we all accept that the improvements have been record-breaking—I find it difficult to believe that it will cost so much more to go a relatively small distance further.

**Mr Lewis:** It is because of the numbers that are coming through. A 7 per cent increase in the numbers being referred across Wales is a significant amount. That is the figure to home in on: a 7 per cent increase in referrals is hitting the system.

**Joyce Watson:** For clarification, I accept that you have had 7 per cent additional coming through, but to sort out this counting problem that I still cannot get my head around, have you assessed how many of that 7 per cent are from our ageing population and who might receive care elsewhere? We must have absolute clarity on this. If we are talking about extra people coming through, where are they coming from, and what are they currently drawing—or what have they previously drawn—from your budget? They might exit completely. We do not have enough clarity, and I think that that is what we are all struggling with.

**Mr P. Davies:** We can only go on the basis of the evidence that we have seen over the past three years. Three years ago, the Assembly Government announced an additional £80 million for waiting lists to achieve in four years the target that we are looking to achieve next year. That £80 million has gone into increasing the capacity to deliver the targets that we have already witnessed. The LHBs have put in at least a further £80 million on top of the £80 million that the Assembly Government identified as specific hypothecated sums. So, we know that in excess of £160 million has already gone into the system. They are true costs that are impacting on the NHS. If your theory were right, we would see that massive investment having a major payback in the level of continuing healthcare, but we have not seen that. When you look at the cost in primary care, which Nigel looks after, you will see an ongoing increase in drug prescribing and increases in continuing healthcare. So, while it might be a factor, it is certainly not material in the context of this programme and the delivery of the 2009 target.

**Mr Lewis:** The other factor that complicates this—and I would love to get to the figure that you are looking for—is that the cohort of patients that is coming through is within a generally ageing population.

**Mr Stephens:** May I just touch on the increase in drug prescribing? The volumes in prescribing are continuing to increase. The savings generated through category M generic prescribing have meant that our total prescribing costs have come down. However, LHB finance directors have used that to help us to fund the work on achieving the waiting times target that the trusts have been talking about. That may give you some of the answers as to what we have done with the resource: it was to help to fund what the trusts are doing on waiting times.

**Angela Burns:** Thank you for those answers. I now want to move on to a few other areas, because I know that we are running out of time. The sum of £66.3 million for an influenza pandemic programme is an awful lot. Can you explain to us briefly what that covers? Is it just the medicine costs, is it extra staff to give people the jabs, or is it something else?

**Mr P. Davies:** It is for a whole range of costs. In the event of a flu pandemic, you will be literally talking about thousands of people, so there will be a need for vaccinations and all sorts of materials to be stockpiled and available. In some of the scenarios, a potentially very high percentage of people is infected, and I can understand the Assembly Government wanting to ensure that proper precautions are put in place. So, there are stockpiles of vaccines, masks and all the other things that will be needed to ensure that we could cope if that terrible event ever occurred.

**Angela Burns:** You are not buying the vaccines this second and sticking them in a warehouse somewhere, are you?

**Mr P. Davies:** I am not sure of the details of what is being purchased and what is being stored. I know that this is all part of the preparation, because, if it happens, there is no way that we could then place an order. We would want access to those materials immediately, so, for the purposes of prudence, it is about ensuring that we are as prepared as we can be.

**Angela Burns:** Does the vaccine have a shelf life?

**Mr P. Davies:** I cannot answer on the detail of that.

**Angela Burns:** I would be grateful if you could write to us on that to let us know, because I want your opinion, briefly, on whether it is appropriate for this to come out of the strategic capital investment fund. We saw that as a fund for buildings and something that you put on your asset sheet at the end of the day, and you are all financiers in various formats. We would just like to hear your view on the fact that something that we consider to be a consumable is actually coming from a capital spend.

2.40 p.m.

**Mr P. Davies:** I think that it is literally the scale of the cost. You are right; the individual items would not be counted as capital. It is due to the fact that it is such a large strategic sum that it would qualify for that. Otherwise, if you are looking at an individual item, such as a vaccine, that would be regarded as revenue, but because of the scale and if you bring it all together, that would be categorised under this definition.

**Angela Burns:** Just to get back on scale, you buy gas, fuel and food in vast scales; surely vaccine would also be bought in vast scale. I still do not understand why it is coming out of the capital fund.

**Mr P. Davies:** We would need to take advice from Assembly colleagues in terms of how they have categorised that and how they have attributed it to the capital strategic budget.

**Angela Burns:** I would be very grateful if you could clarify the shelf life of a vaccine as soon as possible, because we need these answers by next week, and also clarify, of that £66.3 million, what percentage, roughly, is for vaccine and what percentage is for gloves and masks and so forth.

**Nick Bourne:** You said that it was a matter of detail as to what we currently have as holdings; I do not think that it is a detail at all. I think that it is rather important. From memory, I think that £19 million has been spent in the current year, so I hope that we already have a stockpile. Unless there is something very sensitive about letting out that information—I cannot see that there would be—that might be useful.

**Angela Burns:** Thank you. Huw, will you take the subjects that you are very concerned about?

**Huw Lewis:** Returning for a while to the Grogan judgment and its implications, I wonder whether there was any aspect of the implications for NHS budgeting that you have not mentioned but would like to comment upon in order to clarify things for us in terms of the impact of Grogan. You might like to take that opportunity now. In addition, your paper states that additional resources were made available for 2008-09 for the impact of Grogan. Has further provision been made for 2009-10?

**Mr Stephens:** When we came here 12 months ago, the local health board finance directors with nurse-director colleagues had estimated the cost of the implementation of Grogan across Wales to be £200 million, based on a calculation of nursing-home patients transferring under that judgment and in line with the Welsh Assembly Government's policy of October 2006 of around 40 per cent of them transferring from NHS funded care into continuing NHS healthcare. In addition, due to the ruling about not having a gap in care between social service provision and health, there was a determination in the October 2006 policy that, if a patient was continuing in healthcare, there would not be any joint-funded packages between health and social care. That was the basis of the £200 million bid last year; because it is being part-implemented over a period of time, at a different pace across different boroughs, we were satisfied with £100 million. In that regard, £100 million has been issued to health, £50 million of which has been issued into the budgets of local health boards, and we are now looking to manage the demand, which is evident across all of the boroughs in Wales, but at different paces.

We have also worked with social services in terms of trying to develop innovative approaches to how we might manage this demand so that when frail and elderly patients, for example, get into difficulty in their own homes, they do not have to go into hospital. We aim to catch them through an intermediate care service; with therapeutic support, we can re-enable them to stay at home and, therefore, not have the slide—as our intermediate care co-ordinator in Gwent says—of 'going, going, gone' into institutional care. That is an innovative approach, which will, hopefully, slow up the rate of patients moving into continuing care.

The problem that we have at present is that, within nursing homes, we still have a transition—these are the patients who our clinicians may say have already gone into institutional care, who we will not be able to bring back. Under the arrangements and the criteria that we have for continuing healthcare, those patients will slip into continuing healthcare over the next 12 to 24 months. Therefore, from our perspective, we have a hole, or a cost pressure, of another £100 million that we will realise within health as these patients transfer.

It is a pressure that we recognise; it is demonstrated within the papers that we have submitted. The concern for us is that we manage this cost and service pressure in a way that works to the benefit of patients, by working with our partners in local authorities on managing the frail and elderly population.

**Huw Lewis:** Is this a funding hole for this financial year?

**Mr Stephens:** Sorry?

**Huw Lewis:** You mentioned a £100 million funding gap.

**Mr Stephens:** Some boroughs are already experiencing that pressure, but there is no funding for it. We are trying to put in place alternative savings plans to try to offset those costs, and LHB finance directors are looking to do that through issues such as improved prescribing. We recognise that we must also target our resources at other pressures, such as funding trusts for the delivery of waiting times.

So, we are caught in a bit of a pressure valve at present, and, certainly in my borough, the implementation of the Grogan judgment is far advanced, compared with some other boroughs across Wales, and, therefore, we are specifically realising that cost pressure.

**Huw Lewis:** So, the further advanced an area is, the more it is currently feeling the pinch.

**Mr Stephens:** Absolutely.

**Huw Lewis:** I am happy with that, Chair.

I will now move on to the National Institute for Health and Clinical Excellence and its approvals of new drugs, therapies and so on. My understanding is that we are talking about a budgetary allocation for 2009-10 of between 0.5 and 1 per cent each year. That is your estimate. May I naively ask 0.5 to 1 per cent of what? Is this the drugs budget, or are you talking about the whole budget?

**Mr P. Davies:** It is the whole budget, so it is the equivalent of between £30 million and £60 million.

**Huw Lewis:** What is the likely impact on the availability of therapies? It is very difficult to estimate. The Lucentis follow-through is predictable, to a degree, but within six months, we might have another Lucentis. What is your best guess of the impact on the availability of the therapies to the public?

**Mr Lewis:** On the number of guidelines that we anticipate, we know that, next year, there will be 17 appraisals issued in the NICE programme. Of those 17, 10 will relate to cancer drugs. We do not know the detail of the guidelines yet, so, until NICE comes up with exactly what its advice will be, we clearly cannot estimate a cost. However, if we use the past as a predictor of the future, we know that, every time there is a NICE announcement in relation to a new cancer drug, it will mean a seven-digit figure.

I think that you are probably talking about some of the non-drug guidelines that are coming out in terms of therapeutic interventions—some of those have recently been around mental health, such as cognitive behavioural therapy, and the availability of the appropriate therapists to undertake that work. So, there is a dual problem there. First, are the resources and funding available—is 1 per cent enough?—and, secondly, if we do get the funding, are the people available to implement it? There is a double whammy for us as far as that is concerned. However, purely looking at our estimate, if we have 17 coming out next year, 10 of which are cancer-related, 0.5 to 1 per cent is probably a fair estimate.

2.50 p.m.

**Joyce Watson:** Moving on, I would like to go through the areas that you have identified, one of which is the working time directive. You estimate that, in order to meet the directive in Wales for junior doctors, you will need 100 additional members of staff, and that might cause issues for the budget. Would you like to expand on that?

**Mr P. Davies:** Over the last three years, junior doctors have had to comply with the European working time directive, and, as boards, we must ensure that they work the hours, and take the rest periods, specified by European law. The maximum working week had steadily decreased, and was 56 hours as of August 2006. From 2009, the maximum drops to 48 hours. The extra 100 doctors is a simple calculation, because we know exactly how many junior doctors there are in Wales, and we know what their current hours are. We have made progress, and the majority are not working 56 hours per week—we are averaging 52 or 53 hours. However, you only have to multiply the number of doctors by the four-hour gap to see that it amounts to the equivalent of 100 doctors.

We do not expect an extra 100 doctors. Even if we advertised tomorrow, we would not recruit 100 doctors. Therefore, we have to look at different ways and means of getting their hours down to 48 while putting other staff in place, or reworking the service so that it can continue. At the end of the day, there is bound to be a resource consequence—you do not lose four hours of a doctor's time and not feel it in some way. Something has to change, because patient care is affected. Someone will have to provide that service, so we need to flag up these cost pressures for each of the trusts and boards in Wales. It is a requirement that we will not be able to avoid: from August 2009, junior doctors can take boards to court if they are working illegal rotas. Therefore, it is beholden on the boards to ensure that they are compliant.

**Joyce Watson:** On the same theme of pay, your submission suggests that the risk of equal-pay claims in the NHS may have a significant impact on your resources, and that resulting costs could be enormous. Has provision been made for the risk in previous years? You flag it up this year, but it would have existed in previous years as well.

**Mr P. Davies:** You are right to raise that. As finance directors, it is something that we are aware of. When the issue emerged three or four years ago, we were advised by our auditors, on an all-Wales basis, to make reference in our accounts to the contingent liability associated with equal pay. However, none of us have set aside specific sums of money, because we cannot measure it. We know that there are many thousands of claims across the UK, some individual, and some grouped, and at this stage, we are waiting for the results of test cases. We are constantly liaising with our HR directors, and not just body by body, on an individual basis—it is being done on an all-Wales basis, because we want to ensure that we are dealing with it appropriately. The latest development involves a test case in the north-east of England in October. The expectation was that these issues would be tested in that case, and then the implications would become apparent. The implications could be enormous—at this stage, we just do not know.

**Joyce Watson:** To press you further on that, this is not a new issue—it has not fallen out of the sky recently. It is an issue that has been around for 30 years. I am a little surprised that you have not set aside anything to meet that risk.

**Mr P. Davies:** We were advised by our auditors—I think that it is sensible advice—that we should only put provision aside if we can quantify it. If it is a contingent liability, meaning that there is a problem, and a potential liability, but it cannot be measured, then it would be wrong to make a guess in the accounts. The auditors would not allow us to simply make up a figure. The only reference point that we would have is local authorities, because we know that local authorities have had a major burden with local pay over the last few years and many have come to private settlements—they did not go through test cases; they simply recognised the problem and came to an agreement with the staff concerned. It would be inappropriate for the NHS simply to take the local authority experience and multiply the numbers, because every case will be different according to the comparison between what was paid and what should have been paid for two equivalent jobs. The local authorities have done the assessment but there is still work ongoing with these test cases in the NHS.

**Angela Burns:** Nick, did you have a short contribution?

**Nick Bourne:** I am not an accountant—far from it—but I just feel a bit uneasy about that answer. We are saying that there is a potential liability that could be massive, but there is nothing in the budget for it. That strikes me as rather worrying.

**Mr P. Davies:** That is the advice that we have been given by our auditor. Every year, we seek that advice, and the advice of Jeremy Colman is that you have to make it clear that there is a contingent liability, but in order to put it into your income and expenditure return you would have to come up with a number, and we would do not have a basis upon which to come up with a number.

**Angela Burns:** We are running seriously over time now. I would like to take one last question on policy implementation, because I think that that is important. May we write to you with the questions that we have on efficiency and other cost pressures? May I also ask that the written replies get to us by the end of next week? We would like to consider them when we put our report together. Joyce, would you like to talk about policy implementation issues?

**Joyce Watson:** You said in your submission that there were concerns about certain policy initiatives, for example, free car parking and the Jenkins review on 'Agenda for Change', and the costs that might arise from implementing those policies. What discussions have the NHS finance directors had with the Welsh Assembly Government regarding funding for those policy initiatives?

**Mr P. Davies:** There is not a great deal of discussion between the service and the Assembly. This is the prerogative of the Assembly Government and, in particular, of the Minister. There is a range of policies, certainly for 2009-10, for example, on ward cleanliness, meal nutrition and the 'Free to Lead, Free to Care' policy for nurses. We applaud those; we think that they are right and proper. What we are flagging up is the fact that those initiatives will have some resource consequences. There has not been—you make a good point—a discussion as to what the resource implications will be upfront, before the initiative is arrived at. It would be helpful to have that discussion to understand the implications before the final announcement.

**Angela Burns:** Indeed. Oscar, you have a quick question.

**Mohammad Asghar:** You have mostly answered my question in talking about efficiency savings. You mentioned inflation funding shortfalls in your statement. You also talk about 'unfunded service pressures', which is unclear. What does that mean?

**Mr P. Davies:** All organisations have a range of pressures that come up on a routine basis and never get categorised. An example that I am currently facing in my own organisation is that we traditionally receive income from English primary care trusts for the care of long-term, specialist rehabilitation patients at Rookwood Hospital. The PCTs, as part and parcel of the care that they want to deliver in future, want to save money and, therefore, do not wish to pay for the provision of that care in the Welsh hospital. I used to receive income in excess of £3 million a year; it is now down to £1.5 million a year. That is simply because the cross-boundary flow has dried up.

3.00 p.m.

It is a pressure that the organisation has to deal with. It is true that you do not have to provide the care for the patient and, therefore, you can make savings in that context, but, by and large, you do not make the equivalent level of savings because the income you have lost would have been the total cost and yet the building is still there and you have to provide the necessary infrastructure. That is an example of an unfunded pressure that will never be recognised. There are umpteen pressures like that you have to just deal with on a daily basis.

**Mohammad Asghar:** Looking at the budget, I am concerned about the decline in provision for older people's services and other adult social care. Is there any good budgetary reason for this?

**Mr P. Davies:** That is not specifically our budget.

**Angela Burns:** No, it is not; that is the Welsh Assembly Government budget. We will bring that together in the report. I would like to clarify one comment that you made to Joyce, to make it absolutely clear. Are you saying that you are not consulted on policy initiatives beforehand? Surely, civil servants would sit down and say, 'If we are going to do x policy initiative, we will work out the sums and it will cost y', even if they do not talk to you.

<b>Mr P. Davies:</b> I am not aware of assessments being made about the resource implications of some of these policies.
<b>Angela Burns:</b> Okay.
<b>Joyce Watson:</b> You said 'some of these policies'. This is an important point for us to be clear on. Does it happen in some cases, but maybe not all? We have to be clear about that.
<b>Mr P. Davies:</b> I will give you an example. We knew that the Jenkins review was commissioned to look at 'Agenda for Change', and we knew that, as part of that review, there were discussions with the service to understand some of the anomalies in relation to that. Therefore, we were aware of the type of thinking that the report would come up with, and we were therefore able to make some assessment of that. It is 'some', as opposed to 'all'.
<b>Joyce Watson:</b> As opposed to 'none'. Thank you.
<b>Angela Burns:</b> Thank you very much indeed for coming in to talk to us this afternoon. As I said earlier, we will write to you this week and ask you a few extra questions that we have not had a chance to get around to. We appreciate your evidence and your paper. If anything else comes out of our discussions today, we may also add that to our list of additional questions. Thank you for your time; I am sorry that we have delayed you. We will take a short break.

"Gohiriwyd y cyfarfod rhwng 3.02 p.m. a 3.06 p.m.  
The meeting adjourned between 3.02 p.m. and 3.06 p.m."

## **Cyllideb Ddrafft Llywodraeth Cynulliad Cymru 2009-10: Cymdeithas Llywodraeth Leol Cymru Welsh Assembly Government Draft Budget 2009-10: Welsh Local Government Association**

<b>Angela Burns:</b> We will restart, as we are quorate. ["Inaudible".]—having NHS representatives here to talk to us, and now you, is very interesting. Please introduce yourselves for the record. Are you content to go straight into questions, or would you like to go through your paper quickly? We have all received it.
<b>Mr J. Davies:</b> Questions will be fine.
<b>Angela Burns:</b> Okay. Please introduce yourselves.
<b>Mr Greenslade:</b> I am Steve Greenslade. I am the financial officer for Monmouthshire County Council, and a financial adviser to the WLGA.
<b>Mr Berman:</b> I am Rodney Berman. I am here in my capacity as the finance spokesperson for the WLGA. I am also the leader of Cardiff County Council.
<b>Mr J. Davies:</b> I am John Davies. I am the leader of Pembrokeshire County Council, as well as the leader of the WLGA.
<b>Mr Thomas:</b> I am Steve Thomas, from the WLGA.
<b>Angela Burns:</b> Thank you, and welcome to committee. Joyce, you are having a starring role today. Please open this session with the first questions on the budget proposals.

**Joyce Watson:** Welcome to committee. We have read your paper with interest. You allude to the widening disparity—those are your words, not mine—between the funding of services and the budgets. The first obvious question that arises from that is whether all extra funding streams within the budget have been taken into account in arriving at your final figures?

**Mr J. Davies:** I will start off, and I will then bow to technical advice. This reminds me of being at home, when Joyce used to ask me questions as the leader of Pembrokeshire council as a council member.

I hardly need to rehearse the situation for committee members. We have several elements coming into the settlement this year. There is a bone of contention regarding the local authority business growth incentives scheme money. The proposed Learner Travel (Wales) Measure money is also coming in. When you put them all together, we agree that there is about 2.85 per cent on average. On the issue of disparity, we do not want to labour that point; you and everyone else understand that it is a matter of priorities. The challenge for you as the Finance Committee is whether the priorities are right in that respect, and whether the disparity is justified. The general uplift in the Assembly's capacity to spend is 4.8 per cent, and the decision has been made that Welsh local government will get 2.85 per cent. Therefore, that is one of the fundamental questions. It is a matter of priority—we understand that, and that is in the office and the gift of Ministers.

However, when we are expected to deliver as much as we have delivered in the past—and more, as new responsibilities come through—it is becoming increasingly challenging. Some would argue that we have said all this before, and that we said it last year and the year before. However, none of us have been in this position before; it is uncharted territory as far as finance is concerned. I was invited to this morning's economic summit with Rhodri, at which we heard representatives from the business sector saying that these are worrying times. In the meantime, local government has to go on and deliver business as usual. However, it is not going to be business as usual when inflation is 5.2 per cent, and what we get is 2.85 per cent. It cannot be business as usual when Blaenau Gwent County Borough Council gets an uplift of £1.5 million, when its energy costs alone are increasing by £1.7 million.

Therefore, I am just setting the scene. I am not crying foul about the differences in the level of funding of local services in terms of health services and council services. However, it is a fact, and this question needs to be tested in this forum and in other Assembly fora. I do not know whether the others wish to add to that.

3.10 p.m.

**Mr Berman:** I will add to that because you are alluding to money that is also being provided through specific grants. I raised concerns about this last year because, from last year on, there has been quite a shift in the new funding going into specific grants. That is all very well and it may be that the Assembly has a particular priority to which it wishes to allocate funds in the form of a grant, but if that money is provided at the expense of a sufficient increase in our ordinary, general funding, something else has to go. The problem is that, as local councils, we cannot always stop the things that that money is used to fund. For example, we cannot necessarily stop the general provision, social services provision or services provided by the libraries, leisure centres and so on.

So we are getting to a situation where certain areas may be fine—and the Assembly is increasingly dictating the priorities for local government—but the question is, where does the local accountability come in and where is the ability of the local council to respond to the need of its local electorate? We need to review that. I said to Brian Gibbons last year that we would like an audit of the grants that have built up over the years in order to establish whether some need to remain as specific grants or whether they could be merged into the general settlement. That process has been followed in Scotland. It gives local councils the ability to better respond to the needs of their local electorates.

**Joyce Watson:** I am quite happy to explore that argument with you, particularly in light of a report published today on social services in Gwynedd, where it is fairly obvious that extra money did not deliver better services. In fact, they are failing. So, that argument could be held up—you could say that more money will automatically deliver better services or less money will automatically deliver worse services, but that is not strictly true in every case, which is why I draw your attention to that somewhat damning report published today.

So, I would like you to expand on your point that the disparity will inevitably affect the availability and quality of services, which could damage the crucial relationship between social services and health. I am concerned that we are looking at service provision in the true sense of getting value for money and service delivery.

**Mr J. Davies:** The first point to make is that I concur with the fact that spending more money does not always equal a better service. We have been there before and we have discussed it locally. Some authorities have precepts that are far greater than those of others, but their services are not equal to the top ranking and vice versa. So, that is accepted, but the point that Rodney makes is a valid one in that there are core services that we have to protect and maintain. It hardly takes a scientist or a mathematician to tell you that when you receive only x on the one hand and you have to spend xx on the other, you cannot square it without having to make painful choices between priorities, which will have to be considered in the context of what is statutory and what needs to be done right in the name of social services and education and what does not need to be done.

We add value to our local communities through providing local choice and numerous non-statutory services because that is expected of us. We will have to sit down to make decisions in the next dark months—dark financial months; I am not referring to the street lights going off, although that is a good example of something non-statutory that people expect to be dealt with by the councils. Councils will have to make such decisions and be sharper and more innovative in providing services. We accept that and we are not absolving ourselves from that responsibility.

**Mr Berman:** I will give you a real-life example. Last year, in order to help to balance the books in Cardiff, we had to delete some vacant social worker posts in children's services. We know that there are difficulties recruiting and retaining social workers, which is why we are not always able to fill all of our posts, but I would rather be in a position to retain the budget for those posts and try to fill them. However, we could not because the money was not coming forward in the revenue support grant and we had to balance the books somehow, so we had to say, 'Right, we will give up on trying to fill those posts.'. So, when we have a settlement that just does not keep pace with rising costs, there will have to be real cutbacks that will cause real deteriorations in service provision.

**Angela Burns:** I wish to ask one quick question to ensure that I understood you correctly. Are you saying that the cuts to service provision that will result from the cut in funding, as you perceive it, would be less damaging if you had access to all of the moneys that are given to the council, rather than some of the moneys being dedicated or hypothecated for certain things? Is it your argument that you would be able to survive this terrible time better, if you were completely unhypothecated?

**Mr Berman:** It depends on where the additional money that is coming in is to be spent. The money may be going in specifically to generate or enhance a service somewhere—say, the foundation phase; the Assembly Government has made a decision that it wants to put money into that, which is perfectly laudable. However, if that is happening at the expense of core funding being made available for other services, you have to accept that other services will have to be cut back to plug that gap.

**Mr Thomas:** There are more than 90 specific grants in education alone. That means that there is a lack of flexibility. There are grants that appear to be very much like other grants—Cymorth funding and early years funding seem to be very much the same. You have a range of grants that are dedicated and hypothecated and they are inflexible for councillors. If local democracy is about local choice, we have a problem here, do we not? We now have £647 million of money in specific grants, but our cousins in Scotland are putting £2 billion of specific grants back into the revenue support grant. I think that there is a big debate to be had about the role of specific grants.

**Mr Greenslade:** On specific grants, I will just add that, as local authorities, we have a lot of overheads to complete the forms for specific grants; here, at the Assembly, you have a lot of overheads to agree them, look through them and so on, and the external auditors have a lot of overheads in order to audit them. There is a big efficiency agenda here in terms of specific grants. If they went into the general unhypothecated settlement, you would not have all those overheads, and they are significant.

**Huw Lewis:** To follow on, gentlemen, is the WLGA to some extent not reaping what it has sown in terms of fair funding? Is it not the case that, since the inception of the Assembly, the WLGA has robustly dismissed proposals to introduce fair funding based on need and has clung to a complicated, arcane funding formula for local government because of a vested interest within the organisation and an inability to prioritise those parts of local government funding that need investment the most?

For instance, your dismissal of the Bramley review of school funding on the basis that it was too complicated has meant, to my mind, that local authorities such as Blaenau Gwent, which is the one that you mentioned as having a small uplift this year of 1.5 per cent, have missed out. If you had not dismissed Bramley and had engaged with the policy-making process that the Assembly was involved with, surely the uplift for Blaenau Gwent, for instance, would have been very different this year. Is it not time to break away from these received ideas about how local government funding works—to break away from grants—and to start thinking in these tough times about a fair and clear funding formula for local government? It would mean some tough decisions for some of your members, but it would deliver fairness and transparency across the board. Is it not time for you to stop resisting this?

**Angela Burns:** It was an excellent question, but you may offer an exceptionally brief reply if you wish, because it is slightly outside our remit regarding what we are here to talk about today, which is the draft budget. I do, however, think that it is a very good question.

**Mr J. Davies:** I will start and Steve will follow. As far as Bramley is concerned, none of us would deny that outcome-based formulae are the way forward—we have always operated on that principle—but it is about how you reach those outcomes and how those definitions with regards to deprivation are understood and constructed. We believe that Bramley did not have a clear understanding and definition of deprivation.

3.20 p.m.

We have no problem with outcomes, and we will construct our services—in education especially—on that basis, but we believe that the Bramley report was not robust enough and that it lacked a clear understanding of what went in or what would emerge at the other end.

**Huw Lewis:** Remarkable. That is remarkable for anyone who followed the discussions around Bramley.

**Mr Thomas:** We had a discussion with your officials recently, and we had a seminar on Bramley. The problem is that, apart from Glen Bramley, nobody buys into the report's methodology. The methodology used is fatally flawed, and there is no doubt about that. We can agree to disagree about that, and I will write to you about why I think it is flawed. We are in continuing discussions with your officials, particularly those in the local government finance division, about how we take forward the good elements in the Bramley report—there are some good elements in there, particularly the stress on needs—with regard to formula changes. However, we cannot implement the Bramley report in its entirety because, frankly, your officials do not buy into and neither do we.

**Angela Burns:** Did you have a quick question to ask on this matter, Nick?

**Nick Bourne:** It was not really on Huw's point; I want to track back to the issue of the grants, to ensure that I have understood it properly. Steve mentioned that there are 90 grants for education alone, and Rodney talked about the position in Scotland. For us to take this forward, should we want to, are we to understand that it is the coherent, agreed WLGA position, and not just the view of the four of you, that you would like this to be looked at?

**Mr J. Davies:** It goes across the piece.

**Nick Bourne:** Okay. That is all I wanted to know.

**Angela Burns:** Joyce, do you want to finish your series of questions?

**Joyce Watson:** I do indeed, and I feel that they are fitting. We will leave to another debate the issue of hypothecated and unhypothecated funds, because I think that the results will show us that, as many cases show, hypothecation is the only clear way in which service delivery has happened in some cases, and social services is a case in point. Anyway, I will move on.

I want you to clarify whether the WLGA feels that the partnership approach is working in some respects and possibly failing in others. I ask that because you state in your paper that the disparity and unfairness call into question the effectiveness of the consultative forum on finance and the expenditure sub-group processes, both of which fall under the partnership council. Later in the same paper, however, you welcome the additional funding made available for the foundation phase, stating that the partnership approach underpinning this should be the way forward as budgets tighten. There seems to be inconsistency.

**Mr J. Davies:** We welcome any opportunity that brings creative outcomes as far as understanding finance and the needs of finance go. You mentioned the foundation phase, and that is a classically positive example of how Ministers and senior officers in the Department for Children, Education, Lifelong Learning and Skills sat down with the WLGA and elected Members to work out the problem. A year ago, we were professing that we were short by about £15 million—at least, some were as far as WAG was concerned—and we now find that we were short by £60 million. That money has been found through creative partnership.

We do not find the same level of creative partnership and working when it comes to the consultative forum on finance, because we are where we are. It does not add value. Partnership is fine if it adds value.

**Mr Berman:** There is a problem with the ESG and the CFF processes, in that we produce the ESG report, in which, between us, we hope that we have clearly identified what pressures are coming in local government, and yet that does not lead to any particular outcome. The Minister for Social Justice and Local Government has basically been saying that he recognises the fact that he is not giving us the money to deal with the pressures. That calls into question the point of having a process of our sitting down to work out between us a shared understanding of the pressures, given that we will not deal with those pressures or allocate funding to alleviate them.

**Angela Burns:** Huw, would you like to go forward with your own questions about flexibility?

**Huw Lewis:** On end of year flexibility, an eye-catching sentence in paragraph 5 of your written evidence says that

'It appears that the Treasury has placed constraints on the Welsh Assembly Government's access to EYF'.

How did you come to that conclusion, and what evidence do you have to support it? I for one was not aware of these Treasury constraints on end of year flexibility.

**Mr J. Davies:** The officers can come in after me, but it is my understanding that, if you do not spend the money, it remains in the coffers of the Treasury. Therefore, you cannot claim it. I would suggest that it is in your interests and in the interests of public services that we—

**Huw Lewis:** You are not answering my question.

**Mr J. Davies:** In what way, Huw?

**Huw Lewis:** What are the Treasury constraints placed on end-year flexibility as a result of the global financial crisis? You are talking about constraints that were not there last year.

**Mr Thomas:** You currently do not have unfettered access to your own end-year flexibilities; the Treasury now controls the money that goes back. The result is that you do not have the access that you previously had to end-year flexibilities. It is a big issue for you as an Assembly. In financing the Assembly, it is as big an issue as the discussions that you are having on the Barnett formula.

**Huw Lewis:** Sorry, but I am still not sure where you are getting this from. You are making a statement.

**Mr Thomas:** Traditionally, you have had a range of end-year flexibilities that you have been able to bring to the budgeting process. For example, £63 million has been allocated to the reduction of hospital backlogs. There is £48 million to make preparations for pandemic flu. Traditionally, that money would have come from your end-year flexibilities. Why is that money not available to spend on these programmes? We are as confused about it as you are, so, as Assembly Members, you have to check about the use of your year-end flexibilities, because we think that the Treasury is constraining access.

**Huw Lewis:** So, you 'think' this.

**Mr Thomas:** We are pretty sure about it, but it needs to be checked.

**Angela Burns:** Thank you for bringing up the point, but we as a Finance Committee or as an Assembly are not particularly aware of it. There are a number of disputes between political parties, and there are queries about the use of various areas within the budget, and why things are coming out of the strategic capital investment framework, for example. Nonetheless, we are of the opinion and the understanding that our year-end flexibility criteria are the same as they always have been. It has always been a negotiated deal. It has always been the case that the Treasury and the Welsh Assembly Government would negotiate the levels that are retained and sent back.

**Mr Thomas:** Our understanding is that the two programmes that I mentioned would have traditionally come from the Assembly's year-end flexibilities, and not from the mainstream budget; hence our claim that this is distorting your funding priorities. You must address it as a Finance Committee, because it is a big issue for the Assembly.

**Mr Berman:** It could be that the rules have not necessarily changed, but the Treasury is taking a different view than it was a year ago.

**Huw Lewis:** We could check this, but you do not know.

**Mr Thomas:** We are posing the question in the same way as you, but it is there to be checked. We do not have the same access to the books as you have, as Assembly Members.

**Huw Lewis:** So, you are now transposing your statement of fact as written into a question.

**Mr Thomas:** No, we are saying that that is our understanding of the position, but we cannot give you definitive advice on that, because it is your officials' responsibility to do so.

**Jenny Randerson:** When we had our discussion on the last budget, I recollect indications that there would be a tightening-up of the criteria on end-year flexibility. You will recall that I discovered last year that the Government had been setting aside a little pot of accruing money. There was an indication that, in future years, the Government may not be able to accrue it in the same way. So, a year ago, there was some indication of a change in the Treasury's approach. We need clarification on that.

**Nick Bourne:** We need to write to the Minister.

**Angela Burns:** We will clarify that. I think that Huw's point was that the Welsh Local Government Association made a statement as opposed to asking a question. However, for all of our sakes, we will clarify it and let you know the result. Nick, can you move us onto the whole issue of council tax?

**Nick Bourne:** My first question relates to something in the body of the written evidence that you have put forward. I think that John has written to the First Minister about the 1 per cent efficiency assumption that was made, and the possible retention of that money in local government, which amounts to some £38 million that could be invested in local services. It is broadly equivalent to a 4 per cent rise in council tax across Wales. Have you received a response from the First Minister on that, or are there ongoing discussions?

3.30 p.m.

**Mr J. Davies:** The only ongoing discussions are between the Minister for Finance and Public Service Delivery, the Minister for Social Justice and Local Government and me in the first instance. We had an informal discussion about it today. We are saying that this is not the year to put extra burdens on the council tax payers of Wales. The leaders of all authorities are conscious of the financial pain that everyone is suffering at the present time, but we also find ourselves in a straitjacket, and it is difficult to maintain low council taxes given the settlement that we have and with inflation what it is. The sum of £38 million is the 1 per cent efficiency savings represented as a figure, and that would equal a 4 per cent rise in council tax. There is a real opportunity—and we would welcome it—for the Welsh Assembly Government and local government to work in partnership to keep council tax as low as is practically possible this year.

**Nick Bourne:** To push that a bit further in the light of your response, is there to be a specific meeting on this issue or is it one of many that you are looking at? Is the Minister taking the proposal seriously, in your view?

**Mr J. Davies:** Andrew Davies has told me that he is willing to consider it.

**Nick Bourne:** Thanks. My second question relates to the same paragraph in the evidence, and is borne out by the first meeting that we had on the draft budget with the Minister, where he made a comparison with England. He said that, in England, a greater portion of local government spending is met from council taxes, and that comparisons are invidious because of different wage rates and so on. I took that to mean that he was looking at a shift from the revenue support grant to council tax levels. Are you having any discussions with him on that? Have you been able to probe whether that is his thinking, and are we likely to see a shift in Wales towards the council tax going up as opposed to possible cuts to services, or will there be a mixture of both? I appreciate that it is like putting your finger in the wind, but where are we going on that?

**Mr Thomas:** We had a discussion last year at the partnership council, at which the First Minister, the Minister for finance, and the Minister for local government were present. The First Minister gave full assurances at that time that he did not want to see an alteration to the balance of funding. However, statements about the difference in council tax levels between England and Wales suggest that the balance of funding is up for consideration. We would be greatly concerned about that. We do not want to shift more burdens on to council tax payers, particularly with the onset of an economic recession. As on the last subject matter, we are seeking clarity from the Assembly. We want to know what the policy is. We do not have clarity on that at the moment. All it takes is a definitive 'yes' or 'no'.

**Nick Bourne:** I appreciate that and what the First Minister said last year, but it is not my recollection of what the Minister for finance said to the Finance Committee or in answer to my questions in Plenary yesterday. Have you spoken to the Minister for finance about this?

**Mr Thomas:** No.

**Joyce Watson:** I am glad that you are in dialogue, and that you asking the Minister about direct taxation rather than funding from the Government. I am delighted that you are saying that the 1 per cent efficiency savings should be seen as a partnership between us and yourselves, which is what government is all about if we return that 1 per cent of efficiency savings to you in the sum of £38 million that you described. We have more or less set our budget from the comprehensive spending review, and you know what it is, and what pots of money you will receive. Do you think that it would be advantageous for that partnership and would aid clarity and give transparency for all if local government did the same, by projecting what it might raise from the local population for its budgetary requirements?

**Mr J. Davies:** It would be difficult. I understand where you are coming from, as far as giving clarity of commitment and expectations for the council tax is concerned, but you cannot do that. I will give you the example of this year, when energy contracts were renewed across the two consortia in south Wales. We are seeing a £50 million increase in energy costs alone. Had we published that commitment 12 months ago, the ball would be in a different park by now, and we could have been accused of misleading the electorate. We would not want to do that and I am sure that you would not want to be a part of that either. That is just to give you an example, Joyce.

**Mr Berman:** Staff costs account for a large part of our costs. If you can tell us with confidence what the pay award is likely to be for the next three years, we could plan our resources on that basis. However, the fact is that we do not know. It would be foolhardy to go down that road of committing yourself to certain levels of funding being available when you do not actually know what your cost base will be.

**Mr Greenslade:** One thing that authorities are doing is medium-term financial planning, which leaves them a bit of a hostage to fortune. If they are not careful, they will raise expectations that they cannot deliver. We went out to consultation with a version of the medium-term financial plan last autumn, and we are about to renew it now. So, we are trying to plan in the medium term, and, in a way, we can manage down services if we need to over the medium term rather than the short term, but short-term things do impact heavily on it. One example is the three-year comprehensive spending review process. It is in three-year blocks. That is difficult for the medium-term planning of local authorities, because we are trying to run a four-year rolling medium-term plan. There are huge difficulties in doing it, but local authorities generally are trying to move towards medium-term planning. As my colleagues have said, there are big difficulties in trying to get away from the one-year hit, which is when you are hit with things like energy costs and the revenue support grant coming at half the level of inflation. Those are the things that really hit any attempt at running for the medium term.

**Mohammad Asghar:** Thank you, John, Steve, Rodney and Steve. My question is on the revenue support grant. You say that this has gone up by more than £105 million. In fact, it is only £10 million, £2 million of which is reserved as a consequential of the local authority business growth incentive scheme. That is what it is. It was previously departmental expenditure limit administered through annually managed expenditure. The £3 million does not actually represent new funding but a shifting of this funding into the revenue support grant. You say that a further £3 million would be required to provide a funding floor of 1.5 per cent. So, there is almost £4 million extra on top of the £10 million revenue support grant. Is that new money for the 22 local authorities to benefit from? Is it reasonable for you to include that in your calculation of underfunding?

**Mr Thomas:** You included it in your calculation of new money as an Assembly Government. The Assembly Government announced that £10 million in the draft budget; it is additional money that applies across the totality of local government. The £10 million is made up of £3 million for a floor that applies to Powys, Anglesey and Blaenau Gwent, £3 million from the local authority business growth incentive scheme, which is, in effect, the residue of the scheme—LABGI is in its dying days, and we have agreed with the Assembly that that money will transfer into the revenue support grant and will no longer be a specific grant—and £4 million of new money. So, in effect, that accounts for the £10 million.

**Mohammed Asghar:** So, only four councils of the 22 councils are getting the money.

**Mr Thomas:** We are saying that the new money available to 22 councils across Wales at the present time is £4 million.

**Joyce Watson:** Let us assume that we are not asking about new or old money or where it is coming from. You have presented these figures, and we are not saying that they are not factual.

**Mr Thomas:** They are your figures.

**Joyce Watson:** That is what I am saying. You have presented them to us. We want to know whether you think it is reasonable to include those figures as a calculation of underfunding, because that is the principle. That is the question that we really need to know the answer to. No-one is arguing that the extra money is there, but it seems that you are somehow re-presenting those figures and deducting amounts, showing it to be the result of underfunding.

3.40 p.m.

**Mr Thomas:** Absolutely. What we are saying, for example, is that £3 million of that money cannot apply to the 22 authorities; it can apply to only three authorities. That means that, of the £10 million, £3 million applies to just three authorities, and that 19 authorities get nothing.

The money from the local authority business growth incentive scheme is money from outside the settlement. It is a grant that we have agreed will go into the settlement, and it is money that we would have expected as a specific grant in any case. The sums of money involved are small—in the grand scheme of things, they are not show stoppers—but, at the same time, even when you break down this small amount of money, you see that there are caveats and qualifications to this £10 million. This is not a straight £10-million-worth of new money.

**Joyce Watson:** However, it is £10 million in the pot. The fact that there is a floor is significant for those people or authorities receiving it. I can see where you are coming from, and I understand your argument and the points that you make perfectly, but, if we are looking at a total budget, all we are asking for—you have given the clarity to it now—is whether it is reasonable to include it as a calculation of underfunding when the funding is actually going in to local government, wherever and however that might be?

**Mr Thomas:** Let me get the terminology right. This is additional money; it is £10 million in addition to the £95 million that we had last year. That is clearly stated in paragraph 9, where we say:

'The revenue support grant (RSG) increase'.

However, what we are saying is that you then need to break the £10 million down to see the different elements of the increase.

**Jenny Randerson:** I will turn to energy prices. You state that 15 authorities have seen costs increase by 100 per cent from 1 October. Can we have clarification about the other seven—these are all south Wales authorities—and about the impact that this will have as a percentage of the total budget? When I raised this issue with the Minister in the Chamber this week, he said that inflation will go right down to zero or possibly to negative next year, so they will all be benefiting. However, officials told the Health, Wellbeing and Local Government Committee that these are annual contracts that you are entering into. I am sure that you have carried out an assessment about which local authorities might be in the situation of just having signed a contract, and which will be in this position for the next year. There has also been a recent reduction in the price of oil, so your fuel costs, one would assume, will be going down. Can you comment on all of those issues?

**Mr J. Davies:** The first point that I will make is that we have experienced this pain of inflation in this financial year, and the contracts that we are getting into will be with us for at least 12 months, taking us well into the best part of the next financial year. We are being generous with ourselves in making the assumption that the price of fuel is coming down and will remain down forever. Today, the Organization of the Petroleum Exporting Countries is meeting to discuss reducing its output, so I do not think that we will be out of the woods for a very long time.

We may want to talk ourselves out of the woods, but, in reality, we have 15 authorities with a 100 per cent increase in energy costs. The figures on that are quite clear—I mentioned Blaenau Gwent, and in my own authority, in Pembrokeshire, energy costs will increase by £2.2 million, taking up half of the uplift that we will get in the RSG. North Wales authorities, which work under a different consortium, will be looking at increases of at least 50 per cent, if not more.

**Mr Greenslade:** May I clarify that we are not really looking at what is happening now? Part of this is about what happened a year ago, as a result of the fact that we did not budget adequately for this year's energy costs—currently, I am running with £1 million overspend on energy and fuel alone, which has a build-up effect. So, it is not just the position now, but it is the inflationary increase, or the escalation in oil and fuel prices, from a year ago that is impacting. The fact that it is coming down today does not account for the fact that it went up hugely over the course of the last 12 months, and it is not coming down to the level it was at 12 months ago. That is one of the big issues for us; we have huge overspends this year, and the contracts for next year will be based on this year's prices.

**Jenny Randerson:** Are the 15 authorities that you referred to in your paper in some kind of consortium? Is there a north Wales consortium as well?

**Mr Thomas:** We work as a consortium from the Office of Government Commerce, which negotiates the wholesale contracts for local government. Negotiations have just concluded. We have an annex in the paper that explains the technical side of this, but the wholesale market works out as more expensive than the retail market. The problem that we then have is the impact on individual authorities—I think that Rodney would tell you that Cardiff's increase is around £5 million, and Neath Port Talbot is in the region of £1.8 million. John highlighted the fact that Blaenau Gwent has a £1.7 million increase in its fuel bill, but only had a £1.5 million uplift—that is a particularly poor example of the impact of this settlement. There are huge costs and prices involved, and the contracts run for 12 months, so even if inflation was to drop to zero, you nevertheless negotiate a contract over a period of time.

**Jenny Randerson:** What is the impact as a percentage of your total budget?

**Mr Thomas:** That would vary for each authority.

**Jenny Randerson:** Roughly?

**Mr Greenslade:** For Monmouthshire, it works out as about 2 per cent of the total budget.

**Mr Thomas:** For Blaenau Gwent, it is a 1.5 per cent increase.

**Mr Berman:** It is in that realm. Steve was talking about £5 million for Cardiff—that is a predicted full-year additional cost for gas and electricity for the next financial year. In the current financial year, with the price rises that came in at the beginning of October, we had to find an extra £1.5 million that we did not budget for. That exemplifies the point that Steve was making.

**Angela Burns:** I have two final questions for you, the first of which is very brief. Can you provide us with an update on your discussions with the Welsh Assembly Government about the Icelandic banking situation, and the number of authorities that had money tied up in those banks?

**Mr Thomas:** I attended a meeting with the Treasury yesterday. The Assembly Government was represented by the Minister, Dr Brian Gibbons, and the Wales Office was represented by Wayne David. We are working with the Local Government Association in England, which is in daily contact with the administrators of the Icelandic banks, particularly Heritable Bank and the other British subsidiaries. Given the information that we have had from the administrators, we are hopeful that the book value of the assets of the British subsidiaries should be sufficient to satisfy the creditors. We are not aware of the position of the largest Icelandic bank, Landsbanki, of which Heritage is a subsidiary. Discussions are ongoing with Treasury officials on that. Its assets have been frozen by the British Government, and we are waiting to hear from the administrators and receivers about the bank's asset base. The one positive bit of news is that, hopefully, the British subsidiaries at least will be able to meet their obligations.

**Nick Bourne:** What impact will that have on local authorities in Wales? Were they all with the subsidiaries rather than the main Icelandic bank?

**Mr Thomas:** The £20 million from Neath Port Talbot, which is the biggest single sum, is with the British subsidiaries. It is a fair amount of money. My understanding about Caerphilly's money is that £10 million is with the Icelandic parent bank, and £5 million with the British subsidiaries. So, the picture is varied across the authorities.

**Nick Bourne:** Do you know about Powys and Ceredigion?

**Mr Thomas:** I can find out for you.

**Nick Bourne:** It would be interesting to find out about all of them.

**Angela Burns:** Yes. Huw, you have a question.

**Huw Lewis:** Briefly, Chair, when the sound and fury is over regarding the Icelandic banks situation, I wondered whether we will all have learned a lesson. The destination of local government money, even for short periods of time, needs to be thought about at a more fundamental level. There are banking options out there that are unaffected by the credit crunch—I am thinking particularly of some of the ethical banks that do not invest in the same way. Could we take a long hard look at that when the sound and fury is over?

**Mr Thomas:** We will want to review that, as will other public sector bodies, including the Audit Commission, which invested £10 million in an Icelandic bank in July. I understand that a range of universities also invested in the Icelandic banks. You are right—we need to look at our investment policies.

3.50 p.m.

That said, we also need to look at the future of the credit ratings industry, which was providing double credit rating advice on these banks as late as 30 September. It is not just local government that has been caught by this; a range of public bodies have been caught—I mentioned the Audit Commission. We would not want to see this as a deterrent to local authorities undertaking proper Treasury management policies that would serve us well and which would enable us to invest back into front-line services.

**Angela Burns:** Just before your somewhat apocalyptic table of things that are going to happen when the economic crisis bites us, you make the following comment:

'In such an environment the mainstay of devolution will be provided through the backdrop of its public services'.

In what context are you referring to devolution there?

**Mr Thomas:** The leader of the association, John, made a speech last week in which he talked about two debates occurring in Wales. One is about the future of the Assembly and of the institutions of devolution, and the other is the debate that, to be frank, concerns most of our citizens, which is on the condition of their public services—their street lights, their roads and the general standards and quality of services that they get. What we are saying is that devolution will be tested by both these debates, but the mainstay of devolution will always be the condition of Welsh public services, which account for 63 per cent of gross domestic product per capita in Wales. They are a huge element of providing prosperity in the Welsh context. If Welsh public services see themselves shrinking in this environment, they could have huge problems.

**Mr J. Davies:** We are measured, as politicians and as service providers, on what we do today rather than what we profess we may do tomorrow. It is as simple as that.

**Mr Berman:** Local government delivers some of the services that are closest to the people—the services that people interact with on a day-to-day basis—and when these services start to suffer, I imagine that people will start questioning how well they are being served by the political establishment that we have. People may start asking, 'Has devolution done anything for us if our roads are crumbling and my bins are not being emptied?'.

**Joyce Watson:** That would be the case if the National Assembly—you are talking about devolution and service delivery—was directly connected to the consequences of local government action. I highlighted in my opening gambit—I am glad that you have also highlighted it—that we will be judged on the services that are provided. We are talking about budgetary provision to provide those services today, and I highlighted one example of where more money has not delivered better services, and that was with Gwynedd social services. Your debate, which is up there in the ether, is very interesting, but we both need to take responsibility and when we—central Government—provide money for local government, there is an onus on both of us to ensure that what we both aspire to do takes place, and that that is measured by good outcomes for the people. We are a major employer and a major provider of services.

**Mr Thomas:** Absolutely. I would hope, in turn, that you would highlight the excellent joint reviews on social services in Neath Port Talbot, Ceredigion and Anglesey, because it is not all bad news out there.

**Mr Berman:** In 2002, Cardiff had a very damning joint review. One of the findings was that it was not necessarily about how much money you spent; it was about how you spend it. I would agree with that to a certain extent but, having come a long way down the road, and having provided a much better service that has been lifted out of special measures from the Assembly, I can assure you that we had to put an awful lot of extra money in in order to help turn things around. You cannot pretend that money is not part of the equation.

**Angela Burns:** Thank you for your paper, which is very interesting. This may be tricky, but it would be very helpful if, by the end of next week, you were able to get back to us with anything that could give an indication of the likely impact, in monetary terms, of an ongoing economic recession upon the services that you are required to provide. I know that we would have to look back over previous recessions to see if there is anything in the archives that could give us a feeling of what to expect. You talk about the fact that there might be an increase in homelessness, a possible increase in family breakdown and so on; I wondered if there was any way of putting a number to that, so that we can have a feeling for the provision that might be required going forward if the current dire financial straits carry on.

**Mr J. Davies:** It was mentioned in this morning's summit that local authorities would find themselves having to shift the emphasis from service improvement and development to firefighting—through social services, homelessness services and so on—other consequences that these financial times will bring. That is a given and is understood. With regard to the way in which we can quantify it, it is uncharted, is it not? However, we will do what we can.

**Angela Burns:** I wondered if there was any information available from previous—

**Mr J. Davies:** We will assist you if we can. We will do that part, but it would be useful if you could also add clarity on the end-of-year surplus.

**Mr Thomas:** A publication has been produced by our sister organisation in England, the LGA, on the trajectory of housing markets over the last 30 years, which may give you a clue in terms of your priorities on affordable housing.

**Angela Burns:** That would be very interesting; I appreciate that.

Thank you for coming. I am sorry that we have overrun, but it has been a very useful session. I appreciate your time and commitment.

Would the committee like to discuss anything else? I see not. Therefore, I will formally close the meeting. Thank you.

"Daeth y cyfarfod i ben am 3.56 p.m.  
The meeting ended at 3.56 p.m."