



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

**Y Pwyllgor Cyllid
The Finance Committee**

**Dydd Iau, 23 Hydref 2008
Thursday, 23 October 2008**

Cynnwys
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Procedural Motion

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

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

Aelodau pwyllgor yn bresennol
Committee members in attendance

Mohammad Asghar	Plaid Cymru The Party of Wales
Angela Burns	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Alun Davies	Llafur Labour
Lesley Griffiths	Llafur (yn dirprwyo ar ran Ann Jones a Huw Lewis) Labour (substituting for Ann Jones and Huw Lewis)
Chris Franks	Plaid Cymru The Party of Wales
Jenny Randerson	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Joyce Watson	Llafur Labour

Eraill yn bresennol
Others in attendance

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

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

John Grimes	Clerc Clerk
Abigail Phillips	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 11.32 a.m.
The meeting began at 11.32 a.m.

Ymddiheuriadau a Dirprwyon
Apologies and Substitutions

[1] **Angela Burns:** I welcome you all to the Finance Committee's meeting of Thursday, 23 October. I remind everyone that you are welcome to speak in Welsh and English. Headsets are available for translation. Please turn mobile phones off. If there is a fire alarm, follow the ushers' instructions. Do any Members have any declarations of interest to make? I see that there are none.

**Cyllideb Ddrafft Llywodraeth Cynulliad Cymru 2009-10—y Gweinidog dros
 Gyllid a Chyflenwi Gwasanaethau Cyhoeddus**

Welsh Assembly Government Draft Budget 2009-10—the Minister for Finance and Public Service Delivery

[2] **Angela Burns:** I welcome the Minister to our committee meeting. We are quorate, although our numbers are slightly down due to the sheer pressure of the budget round, and because of this extra meeting. We understand the pressure that this puts on his time, so I thank him for coming back to talk to us. Could I ask you please to introduce your officials?

[3] **The Minister for Finance and Public Service Delivery (Andrew Davies):** I am accompanied this morning by my finance director, Dr Christine Daws, by Piers Bisson, who is head of financial planning, and by Jeff Andrews, who is a special adviser.

[4] **Angela Burns:** Thank you. Minister, I suggest that we go straight to questions, if that is all right with you, because you gave us an overview of the budget in a previous meeting.

[5] We are grateful for the time that you have given us, and for the exceptional speed and detail of your responses to all our questions. This budget process has moved on from last year and it is greatly improved, and we all appreciate it. But—and you knew a ‘but’ was coming—we have had reports back from all the other committees, and those that deal with the economy and transport and rural affairs have both struggled with the budgetary information that they have had to provide us with their financial recommendations. In both those portfolios, they had problems with the main expenditure groups, where significant reprioritisation and restructuring has occurred. Those factors were taken account of in the draft budget report, but not in the MEG allocation tables, so it was difficult for those committees to tie it all together. The relevant departments were subsequently asked to reconcile the 2008-09 allocations to reflect the changes, but the timing of the response has made it very difficult for sufficient account to be taken of that.

[6] In economy and transport, a £350,000 transfer to the children, education, lifelong learning and skills portfolio was not recognised in the CELLS MEG. In rural affairs, for example, £207,000 had been transferred from the environment, sustainability and housing MEG. Minister, can you explain why these changes were not presented consistently? Also, what can we do to help you, and what can you do for us, to help us to move forward? I reiterate that there has been a marked improvement in the budget process this year, and so this is just us aiming for gold.

[7] **Andrew Davies:** It is a technical question, so I will ask Piers Bisson, head of financial planning, to answer that.

[8] **Mr Bisson:** In the budget report, we sought to present the budget for future years in a much clearer way than we have done previously, and we attempted to reconcile that with the previous figures that the Assembly would have seen for the 2008-09 financial year. Most departments are not going through a big reprioritisation in the 2008-09 budget, but a couple of departments sought to do so. Where they tried to make transfers, that was sought to be explained. For example, in the economy and transport MEG allocation table, there was footnote explaining that the department was seeking to make that transfer. Such a footnote did not feature in the Department for Children, Education, Lifelong Learning and Skills transfer, although we would have wanted that. So, wherever possible, we have tried to ensure that there is consistency and clarity and that nothing is hidden.

[9] Given that this budget is for future years and is not focused solely on 2008-09, departments did their best to try to ensure that that information was available without extending the report hugely, and they have followed that up with individual notes to the different scrutiny committees. So, if information has not come out through that process, we

need to reflect on it, but there is no intention to have inconsistency in the information provided.

[10] **Angela Burns:** Is there a requirement to present a supplementary budget to reflect these changes?

[11] **Mr Bisson:** We expect to come forward with a supplementary budget later in the financial year to cover transfers between different ambits and to set out the context at that time. So, everything would be clearly explained at the time of the next supplementary budget.

[12] **Alun Davies:** We discussed the rural affairs budget at the meeting of the Rural Affairs Sub-committee on Monday. We were concerned that the budget on bovine tuberculosis compensation remains at £11 million, despite the fact that current demand is at £16 million. When the checking process kicks in, it will probably increase again. Have you had discussions with the Minister for Rural Affairs about the adequacy of this budget? Do you foresee the additional moneys being found within the overall rural affairs budget, or do you envisage that you will have to provide additional funding to cope with that budget demand?

[13] **Andrew Davies:** As it happens, I have just come from a bilateral meeting with the Minister for Rural Affairs and that issue was discussed, as I am sure you would expect. Given the tightness of public expenditure in Wales and pressures across Government and the public sector generally, the message that I have given to all my colleagues is that they have to manage their main expenditure group allocations. There are particular problems with demanded programmes such as the bovine TB compensation scheme. One reason we hold reserves and use end-year flexibility is in case those costs cannot be contained through the internal management of the MEG. However, that will be a decision that my Cabinet colleagues and I make towards the end of the year.

[14] As part of the One Wales Government's commitment to the TB eradication programme, we would expect that payments from the compensation scheme would reduce as it becomes increasingly successful. That is one reason for doing that—as well as for issues of animal welfare.

[15] **Chris Franks:** Why is the revenue departmental expenditure limit, detailed in schedule 6 to the draft budget proposals for 2009-10, more than £13 million lower than was promised in the 2007 comprehensive spending review?

[16] **Andrew Davies:** I will ask Chris to answer that.

[17] **Dr Daws:** The figure in schedule 6 includes the Wales Office, so to make comparable figures you need to take out £8 million. As part of the comprehensive spending review period, through baselines, we have transferred money to the Home Office for the police, which amounts to £21 million. In the past, that has been done as an in-year transfer across, and we decided that, rather than go through the paperwork every year, it would make sense to do it as a recurring figure. So, the £21 million is the bulk of the money.

11.40 a.m.

[18] The one difference is that there are lots of individual, small amounts of less than £1 million that we have had as additions. For example, we had an addition from something that went on at the Department of Health of £670,000, £638,000 from the Department of Communities and Local Government, £180,000 from the Department for Work and Pensions, £233,000 from the Department for Environment, Food and Rural Affairs, and £1.2 million from the invest to save, child poverty, and modernisation funds. That is all in 2009-10. So, there have been lots of little additions, but the biggest change is because you are looking at a

table that includes Wales Office figures, when our table did not, and the £21 million transfer to the Home Office for the police.

[19] **Chris Franks:** So, if I were to add all that up and take it away, it would come to £13.5 million.

[20] **Dr Daws:** Yes, it would.

[21] **Chris Franks:** Okay. Could we have a copy of that, please?

[22] **Andrew Davies:** We will make that information available to you.

[23] **Joyce Watson:** Good morning, Minister. Thank you for your paper. I want to ask about the detail of how figures are presented and I seek some clarification about changes. For example, the figures shown in table 2, or in schedule 6 of the draft budget proposals, do not represent the DEL available to the Welsh Ministers, so the adjustments were made in table 3, which we have in front of us. That says that they were made to determine the amount of DEL available for allocation. There is a difference of £653,000 between the figure in the draft budget and the figure that we have here, and it explains clearly how that difference has come about. Why are the direct charges on the Welsh consolidated fund presented in this manner, rather than being top-sliced in their entirety from the WCF, which would avoid potential confusion over the differing levels of money, as demonstrated?

[24] **Dr Daws:** I am afraid that I am struggling to know which table in our budget report you are referring to.

[25] **Mr Bisson:** Are you referring to the draft budget proposals for 2009-10?

[26] **Joyce Watson:** Yes.

[27] **Mr Bisson:** Are you talking about schedule 6?

[28] **Joyce Watson:** Yes. There is a difference of £653,000 in the revenue reserve between the draft budget and the budget that we now have, and that is explained as covering items such as the salary costs of the Presiding Officer, the Deputy Presiding Officer and constitutional office-holders. These are detailed in note 5 of schedule 6 to the draft budget, but there are also further direct charges on the WCF, such as election costs and repayments to the National Loans Fund. They are not included in the DEL allocated to departments, and they are removed later in the draft budget proposals to obtain the resource amounts to be authorised in the budget motion. The question was why the direct charges on the WCF are presented in that manner rather than being top-sliced in their entirety from the WCF to avoid the potential confusion over the differing levels of reserves. Is that better?

[29] **Angela Burns:** It is table 1.1 of your draft budget report and table 3 of our report—if that clarifies the situation at all.

[30] **Mr Bisson:** I was presuming that the question was around schedule 6 of the draft budget proposals and why some are listed there as direct charges. This type of report has been developed over the course of the last year, and, for transparency, we tried to set out all the different elements being removed from the overall figures that people might have seen as being allocated to Wales from the UK Government. That is, in essence, what we are seeking to do, rather than have an inconsistent set of overall figures. If that does not come across, we can always work with advisers over the course of the next year to ensure that it comes across in the most transparent and easy-to-interpret way. However, we sought to ensure that everything was identified so that people could see it.

[31] **Joyce Watson:** Thank you. We can see that there is a difference, but perhaps we need greater clarity, if that is possible.

[32] **Dr Daws:** The draft budget is very much the budget for the Welsh Assembly Government, and what we have tried to do is show all the things that would have changed from the numbers that you would have seen printed at the high level. It is not a question of whether it is top-sliced or not; that is a charge to the fund, and that is how we have to present it. We are trying to show you how we have got to the numbers. Perhaps we have made it more complicated by trying to show you exactly where the numbers come from.

[33] **Jenny Randerson:** We have had several reports from committees that have concerns about the level of clarity. Although the draft budget report document was very useful, why was it not designed to more closely reflect and explain the figures in schedule 6 of the draft budget proposals so that we have greater clarity and consistency?

[34] **Andrew Davies:** I will ask Piers or Chris to come in on this, but I think that the general point is that this is the first time that we have done this, and it is a learning process. I very much hope that this committee and other committees will learn from the experience gained through this scrutiny process. Piers or Chris might want to add something.

[35] **Mr Bisson:** From the point of view of practitioners, we would be able to reconcile all of the figures that we have set with what is in the budget report itself. If there is something that has not come across through this scrutiny process, we will always happily work with any advisers to make sure that that comes through. Many of the draft budget proposals are what is mandated as a result of the Government of Wales Act 2006 and Standing Orders. Everything is sought to be set out in a consistent manner. Finance can be difficult at times, so we always welcome feedback and we will always work to try to make sure that everything comes across in the clearest possible way.

[36] **Dr Daws:** Schedule 6, of course, includes information about the ombudsman, the Assembly Commission and the Auditor General for Wales. Our draft budget document was very much about the money that was being allocated to Welsh Ministers on which you would be expecting to scrutinise us. That, predominantly, is the reason why we have done it as we have done.

[37] **Jenny Randerson:** An issue that was raised by committees was about being able to see with clarity—there is still a problem—the way in which you feature specific budget and policy initiatives in the budget. They have found it difficult to clarify where those policy initiatives appear in the budget. The draft budget report would be an opportunity to do that.

[38] **Dr Daws:** If I may make a suggestion, it would be helpful to work with people, because the information has been provided by the different departments. I was worried that our draft budget had turned out to be 50 pages long when our intention was to simplify. The danger is that it becomes another 100-page document. We genuinely want to work with people to see how it can be presented in the best way. We were trying to get an easier version for you to read and summarise the information. The danger was that, if we had focused on policy, it would have become a very long document and we would have missed all of the reconciliations that are also important.

[39] **Jenny Randerson:** Okay. Thank you.

[40] **Andrew Davies:** I think that the message is that we all want to learn from the process and do everything that we can to simplify it and give it greater transparency. Just as we have established the protocol on how scrutiny will be conducted between the Government and the

Finance Committee, we will take on board any comments that this committee or others have to make.

[41] **Angela Burns:** Thank you, Minister. One issue that has compounded the clarity problem is the lack of time. Although the Government and the Finance Committee have worked together in producing a budget protocol, one thing that has come out very strongly from committees that have been providing us with reports is that they still feel that there is an issue over the timings. For example, we received two reports this morning, about half an hour before the meeting, because the four-week period is very tight for many committees. If we had more time, there would be more ability for people to understand the numbers in better detail, and things would be much clearer for them. This is something that the Finance Committee will have to discuss with you again. We are all under tight timeframes—you, as well as us. Perhaps it is a matter of just being able to look at that or talk to the Business Committee about how we can plan time for the respective committees to be able to examine the budget in detail in order to be able to feed into the Finance Committee.

11.50 a.m.

[42] **Andrew Davies:** We also need to bear in mind that the main budget allocations were made last year and that the substantive difference between those and the budget allocations for 2009-10 agreed in Plenary in January is around £200 million that we have drawn down from reserves. That is a substantive and significant change. However, given that the total Assembly budget is £15 billion, it is a relatively small amount of money.

[43] **Mr Bisson:** I will say one thing in relation to the clarity and the questions around schedule 6 and the budget proposals. In the draft budget proposal, that information tends to be on an ambit basis, which is different to the main expenditure groups—they are prepared on different accounting treatments. In relation to the figures in schedule 6 or schedule 1, the total figure of £13,351,541 in schedule 6 is then divided up between the departments coming earlier on in schedule 1. Those are still on an ambit basis, but in annex 1 of the budget report, we sought to describe how you go from a departmental expenditure limit, in the bulk of the budget report, and translate that back through to the individual ambits. So, for example, annex 1, which is on health and social services, describes the overall departmental expenditure limit, which is then referred to throughout, and links that back to the overall resources requested, of £4,995,293. That figure is then replicated in schedule 1, which covers the ambits and the resources requested, and those all add up to the £13,351,541, which is then in schedule 6.

[44] There is consistency, but we will happily work with you and your advisers to ensure that this all comes out in the clearest possible way.

[45] **Angela Burns:** Thank you; I appreciate that undertaking. I would like to move on from the subject of clarity and timing, if that is okay. Does anyone else have anything that they want to ask on that issue?

[46] **Alun Davies:** Before we move on from this, I would like to say that it is a very rushed process. I think that all Members feel rushed in our attempts to understand what you are doing, Minister, with your broad budget and your budget strategy, and in applying that to departments and policy areas.

[47] Perhaps we could continue the discussion, between the department and the committee, to look at ways of increasing the time available for scrutiny in subsequent years, because the quality of our scrutiny is dependent on the quality of information and our ability to absorb and understand that information. Expanding the time available to us—even by a week or two—would improve the quality of the debate.

[48] **Andrew Davies:** We will look at that, but we are faced with the constraints of the Assembly's Standing Orders on the timetable for deciding allocations, such as the funding that goes out to local authorities, health bodies and others.

[49] **Dr Daws:** It might help if we took you through the reconciliations and the tables to explain them, so that, instead of worrying about reconciling the figures, you were able to look at how we were using the resource. That is something that we could do outside of the meetings. Officials could perhaps take you through the reconciliations—not what the numbers are saying, because that would be something that the Minister would want to discuss with you—where all the tables have come from and how they all tie up.

[50] **Angela Burns:** That is a very positive suggestion, Dr Daws. I would like to recommend that we use the opportunity of this committee to raise the concerns felt not only by this committee but also by all of the other committees that have reported to us. I suggest that we separately discuss with you how we might be able to achieve that and bring that back to the committee as a possible way forward.

[51] **Alun Davies:** If Standing Orders are preventing us from doing this, we should propose changes to those Standing Orders.

[52] **Angela Burns:** Absolutely. Oscar?

[53] **Mohammad Asghar:** Thank you. Minister, I am pretty happy with the budget and with everything that you have done. The budget is pretty clear and open and I am glad that things are getting better, year by year. However, the Welsh Local Government Association stated its concern in a meeting with us of the end-of-year flexibility. We have had no control of it and we are as confused as the WLGA. The money goes back to the Treasury, and we have no control of it. The WLGA is concerned about these constraints on EYF. In the same context, Angela wrote to you last week for an explanation, but instead of giving a complete explanation on EYF, your reply of 22 October offers nothing to suggest that we have the power to use that money ourselves. The end of year constraint is still there. International affairs mean that the Treasury is holding the money for different uses, by the look of it.

[54] **Andrew Davies:** I do not know why, or on what basis, the WLGA has made these comments. The policy on access to EYF has not changed, and we regularly discuss with the Treasury the draw-down of EYF stock that we have built up through underspends. I am meeting the Chief Secretary to the Treasury, Yvette Cooper, on 5 November. That is the position. We have used EYF consistently, as with our own reserves, to fund existing Government programmes where appropriate—for example, on waiting times, we have used EYF in previous years. We now better understand the situation around orthopaedics, so we will not now be funding the waiting-times initiative through EYF—we will do it through mainstream programmes. That is why we allocated additional resources to that as part of the budget. However, there has been no change, and I am puzzled as to why the WLGA has said this.

[55] **Mohammad Asghar:** When you see the Chief Secretary to the Treasury, would you bring up this concern of the WLGA? The WLGA has clearly stated that we have no control of EYF money.

[56] **Andrew Davies:** As I said, I do not know why, or on what basis, the WLGA made those allegations. There has been no change in policy. We have access to EYF. There has been no change in this area, and we will discuss the draw-down with Treasury as usual. We are not losing the money at all.

[57] **Lesley Griffiths:** You announced that you would use £200 million of Welsh

Assembly Government reserves; I would like to look at local authorities' reserves. My own local authority, Wrexham County Borough Council, has reserves in the region of £16 million or £17 million. I would urge that authority to use some of its reserves if there is a hole to fill. Have you had any dialogue with local authorities around this issue?

[58] **Andrew Davies:** Yes, we have some discussions on occasion. I know that there has been a concentration on the reserves that we have as a Government. For next year, we are proposing reserves of 1 per cent, which is just under £100 million. Local authorities have often emphasised those reserves, but it is worth putting on the record the estimate of the total reserves that local authorities hold. The estimate is that the 22 local authorities in total hold reserves of £581 million. That is £0.5 billion. The estimated reserves held by schools total £57 million. Then there are other reserves that have been earmarked, so they are held by local authorities for specific purposes, amounting to nearly £380 million. Perhaps most noteworthy is the estimated unallocated reserve held collectively by local authorities, which amounts to just under £145 million. You will note that that is significantly more than the Assembly Government holds from a budget of £15 billion.

[59] **Jenny Randerson:** I want to come back to the question of your reserves, Minister. Last year, in this session, we had an interesting discussion with Dr Daws—and you were unable to attend at the time—not about the reserves but about the level of EYF accumulated over the years. At the time, I did some research into it, and found that there were strong indications from the Treasury that it would be placing restrictions on the way in which those reserves could be drawn down. There was a suggestion that limits would be set and that it could claw back those reserves—the EYF money—if the money had lain in its coffers for too long. For the sake of clarity, can you explain what restrictions are there on those reserves, or rather, on that EYF money? You say that the Treasury's rules have not changed, but we need absolute clarity about what freedom you have to access that money. We were all concerned because we had not heard about that money before. It is helpful that this year's documentation draws our attention to it.

12.00 p.m.

[60] **Andrew Davies:** I am not sure whether you are talking about reserves or about end-year flexibility, because you use the terms interchangeably.

[61] **Jenny Randerson:** I was referring to EYF. I corrected myself. I said that I was referring to EYF, and not to reserves.

[62] **Andrew Davies:** The situation has not changed since you were a Minister, Jenny.

[63] **Jenny Randerson:** So, the proposals put forward by the Treasury have never been implemented?

[64] **Andrew Davies:** End-year flexibility is unspent money within our DEL, which is held by the Treasury. Those stocks have been built up and we regularly spend between 95 and 100 per cent of the DEL. That has always been the case. When you were a Minister, we had higher levels of end-year flexibility, which we were able to draw down in subsequent years for investment in our Government programmes. There has been no change. As I said, these are discussions that my predecessors have had with the Treasury. I have had many meetings with Andy Burnham, the former Chief Secretary to the Treasury and I will be discussing access to our EYF stocks with Yvette Cooper on 5 November.

[65] **Jenny Randerson:** With respect, Minister, you do not need to sound so defensive. I was not criticising. I was seeking clarification.

[66] **Andrew Davies:** You made the comment that you were unaware of EYF. I pointed out that I was surprised that you, as a former Minister, were not aware of EYF. The same situation applied when you were a Minister. I am not being defensive.

[67] **Jenny Randerson:** As you were not at the session last year, Minister, you are probably unaware of the conversation then. Of course, we were aware that EYF existed. However, it was not in the documentation last year. Dr Daws clarified then that EYF appeared only in the Treasury's official publication leaflet and that, therefore, it was not in our information. It is very useful to have it in our information now. However, we were unaware of how much had been built up as stocks. We were unaware that we had to look for it in Treasury documentation.

[68] Getting back to the point of my question, I am seeking clarification regarding the concerns expressed by the Welsh Local Government Association, and whether there are any grounds for those concerns. Let me put a hypothetical question to you. Supposing a disaster occurred; some terrible event such as another outbreak of foot and mouth disease—I cannot think of another example at the moment, but I am sure your mind will be able to encompass the idea. Supposing such a disaster occurred and that you needed to access all that accumulated EYF at once, would the Treasury put any restrictions on you? The suggestion, from both Scotland and Northern Ireland, was that limits would be placed on how they could access their EYF at any one given time.

[69] **Andrew Davies:** As I said, those will be discussions that we will have with the Treasury. The Scottish Government and the Northern Ireland Executive will negotiate with the Treasury about drawing down their own EYF stocks.

[70] I come back to the point about openness and transparency. Annex 2 to the document outlines the historical cumulative EYF totals. Since I have been Minister for Finance and Public Service Delivery, I have been answering questions on EYF stocks and reserves. We discussed it at great length in relation to last year's budget, so I am perplexed by the allegation that, somehow, it has suddenly come to light. It has been discussed openly in the Chamber over many years. I remember being in the Chamber when Sue Essex, my predecessor as Minister for finance, was answering questions on access to EYF and reserves.

[71] **Angela Burns:** Alun, I think that you had a question on this.

[72] **Alun Davies:** Yes. Minister, it does not happen very often, but you blew my socks off earlier when you described the amounts of money held by local authorities in reserve. That is certainly a very different picture to that painted by the Welsh Local Government Association and individual authorities. Perhaps it would be useful for us as a committee to receive some background from you in written form, if you could, Minister, to outline those figures. A breakdown of those figures would help us, because we will be focusing on local government funding in our report to the Assembly from this process.

[73] Would it be possible—and this may also be a question for the committee—to examine not only the funding of local government, but also its performance? I know that Brian Gibbons has published performance data, and it would be a useful exercise in examining how we fund local government to compare both the performance of individual authorities and also the funding available to them from the Government, and to look at how local authorities are delivering on public services. Sometimes, we can be too concerned with the process and not concerned enough about the output from that process. So, it might be useful for us to converse with the Minister and his department to understand these performance and funding issues in more detail.

[74] **Andrew Davies:** I will do anything that I can to help in this regard. I believe that we

have just provided the Members' research service with the figures. In addition to the 22 local authorities, there are other public bodies such as the police, the national parks, and the fire authorities. If you add all of those together, the total reserves—both allocated and unallocated—are estimated to be just under £630 million. That is a significant amount of money. However, a large proportion of that money would be allocated by the individual organisations for capital investment, or whatever.

[75] **Angela Burns:** I would be grateful, Minister, if you could provide that information to us. However, I would hate anyone to leave this meeting thinking that we had already agreed our forward work programme.

[76] **Andrew Davies:** The recent cases of the Icelandic banks and the implications that that has for nine local authorities in Wales, along with universities and other bodies has perhaps drawn attention to the fact that public bodies hold considerable investments. It is up to the committee to decide on its work programme. However, it would be a useful piece of work for someone to do. I have asked my officials, along with those of Brian Gibbons, to look at how much it costs local authorities and others to provide services and the correlation between what they spend and the outcomes, the performance. I am on record as saying that it is not what you spend, but what you get from your expenditure that is important. I am not aware that there is a correlation between the quantum that is spent on a particular service and the outcome that is delivered for that expenditure.

[77] **Angela Burns:** Thank you very much for that, Minister; it was most interesting. We are slightly off our subject of examining the Welsh Assembly Government's budget, although I take on board some of the points that you have raised. Joyce, I think that you had a point; I will then bring in Chris and Oscar.

[78] **Joyce Watson:** I am going to bring us back very much to where we should be, that is, looking at the Assembly Government's budget, but I am still going to do it under the heading of local government, because that is what it is about. We are trying to balance the books in what everyone agrees are difficult economic times. Therefore, it is in that context that I ask my question.

12.10 p.m.

[79] I have hot-footed it to the Assembly from local government, so I have had a foot in both camps. I have sat in local government meetings many times, and have said that there have not been sufficient funds to deliver local services. The immediate assumption then is that we either cut services or increase local taxes, and yet we are now hearing about these massive reserves that authorities are sitting on. I have questioned that at local government level, because it is the unallocated moneys in reserves in local government that I am particularly concerned about. We need some clarity to help us to understand why they are sitting on those reserves. They often say that they are sitting on them because it is the only way that they can draw down any additional moneys that either we or someone else gives them.

[80] **Angela Burns:** Is this not a question that should be directed to the WLGA, Joyce? We can do that if you wish.

[81] **Joyce Watson:** No. I am asking the Minister for some clarity about what we are being told by local government, that the unallocated reserves are being kept as a source of funding to draw down additional funding. We need to know whether that is the case before we can do the next piece of work.

[82] **Andrew Davies:** I do not know, basically. These figures have been supplied by the Local Government Policy Division. You asked about local authorities keeping reserves for

drawing down additional funding—whether that is European funding, or other sources of funding, I do not know. I do not know whether that would come under allocated or earmarked financial reserves, or unallocated ones. If they have earmarked it for a particular purpose, I presume that it would appear under that category. However, the unallocated reserves are still a significant figure; as I point out, it is just under £145 million, which is considerably more than the reserves that we hold, bearing in mind that our budget is £15 billion, and, collectively, local authorities would be about a third of that.

[83] **Chris Franks:** I am conscious that we need to be focused. I am grateful for the breakdown, and I look forward to further information. I believe that the unallocated reserves work out at about £6 million per authority. Would you suggest that that is too large a figure?

[84] **Andrew Davies:** I am not saying anything, Chris. I am just saying that those are the estimated figures that we have.

[85] **Chris Franks:** The auditor suggests a minimum figure, and, for a medium-sized council, it is about £3 million.

[86] **Andrew Davies:** The Chartered Institute of Public Finance and Accountancy recommends that local authorities keep aside 5 per cent of their total budget in reserves. I am not saying that this is good or bad; I am just saying what scale of reserves is available, given that there has been considerable concentration on the level of reserves that we hold. The WLGA and local authorities talk about £100 million as if it is a very significant figure, and it is; however, compared with our total budget of £15 billion, it is small. I am making the point that the reserves that we hold are, proportionately, significantly less than those that local authorities hold, individually and collectively.

[87] **Angela Burns:** I believe that you have a question on this, Oscar. I would like to move on after that.

[88] **Mohammad Asghar:** It has just been mentioned what would happen should some unfortunate incidents occur in future and what funds might be available, Minister—the flexibility, and so on. In Scotland, there is a substantial slush fund of about £2 billion. You meet Treasury officials regularly; have you ever asked them why they do not set aside a similar fund for Wales?

[89] **Alun Davies:** That is an extraordinary statement.

[90] **Angela Burns:** I am sure that Oscar would not really want to use the term ‘slush fund’. It is a pot. [*Laughter.*]

[91] **Mohammad Asghar:** If reserve funds are available to Scotland, why can we not have the same?

[92] **Andrew Davies:** I do not know what level of reserve the Scottish Government holds. I am not sure whether you are referring to its level of reserves or its end-year flexibility. I cannot comment on that because I am not sure to what you are referring.

[93] **Mohammad Asghar:** Okay.

[94] **Alun Davies:** We discussed at the beginning of this session the structure of the budget and how it has been presented. We looked to some extent at the EYF funding, the presentation of which was a great improvement on last year. Notwithstanding some difficulties, I think that we all found this year’s budget to be more transparent. It was easier for us to relate the budget to policy areas and to projects and programmes of Government than

it was in previous years. We mentioned briefly at the beginning of this session that there had been a reprioritisation in both the rural affairs and the economy and transport main expenditure groups. In that context, we found it difficult to reconcile some of the figures and how they were presented in both those departmental budgets. Could you tell us why the reprioritisation exercises were not reflected in the MEG allocation tables, but were reflected in the draft budget report, because that gave us slightly different views of where your political priorities were going as a Government?

[95] **Mr Bisson:** I will try to answer that. I am not sure that the departmental chapter should be inconsistent with the information that is there. Departments have been thinking about their allocations for 2009-10 and 2010-11, but they do not do that in isolation from what happens in 2008-09. They may re-profile and rephrase some programmes, which is why it makes sense to set things out on a three-year basis. However, when they think about future programmes, they try to bring that back to ensure that it is set out on a consistent basis over those three years. When they think ahead about what their future structure should be, that structure may not reconcile immediately with their current BEL structure, hence there will be some movements around.

[96] As I understood it, where profiles had been done in those different departments, the issues had been discussed at the relevant scrutiny committees with Ministers and officials from those departments to try to provide that extra clarity where appropriate. So, the overall budget document should be consistent. On individual departments, I thought that there had been scrutiny sessions to tease out individual reprioritisations.

[97] **Alun Davies:** There were scrutiny sessions, but a problem with many of those was that they were taken up with Members trying to gain information rather than hold discussions. We spent too much time trying to understand the budget in technical terms, which meant that we were not able to spend that time discussing the political aspects of the budget with individual Ministers. Where these changes take place in structural terms within the budget it makes year-on-year comparisons difficult for us as lay people, given our ability to understand the politics of the budget. So, when you make these structural changes, could you outline exactly where those changes are made to enable us to continue scrutinising the budget in the same way as we are able to in other areas?

[98] **Dr Daws:** We cannot do much more than what we have offered to try to do. It is difficult; trying to gather all the changes is quite a time-consuming process. It is the 2008-09 changes that are causing you the problem and not the 2009-10 and 2010-11 changes. We have always tried to ensure that the numbers at least tie up across the piece, but if an individual policy area decides to reprioritise, it is more problematic for us to explain that to you than it is for them to do so, to be frank. We move the numbers and they tell us what they are changing.

12.20 p.m.

[99] **Andrew Davies:** We must bear in mind that the principle is that individual spending Ministers are responsible for the management of their MEG and any reprioritisation. It may be something that we will consider, but perhaps the Finance Committee, in discussions with the respective subject committees, needs to have a look at this as well.

[100] **Dr Daws:** Those changes will come through in the supplementary budget, so you will have an opportunity to ask about them at that time.

[101] **Angela Burns:** Thank you. Jenny, may I ask you to tackle the tricky question of the strategic capital investment fund?

[102] **Jenny Randerson:** Yes; thank you, Chair. During the budget scrutiny process in the

committees, it came to light that a number of bids have already been submitted to the strategic capital investment fund. There have been two bids for heritage and, under the environment, sustainability and housing heading, three bids have been made for affordable housing and other things. The only allocation that seems to have come out so far is the money for the preparedness programme for a flu pandemic. This committee and a number of others have raised concerns about the transparency of the SCIF, and Members have consistently asked questions about it in the Chamber, as you will know, Minister. What criteria are you going to apply to decide which bids will be successful and to allocate funds?

[103] **Andrew Davies:** First, all Ministers—all spending departments—have submitted bids to the SCIF. You are right that, at this stage, the management board, which I chair, has signed off only one bid, which is for the pandemic flu preparedness scheme. We will be making decisions in the next month or so on the second phase of applications.

[104] The principles are broad ones, namely our strategic priorities, so ‘One Wales’—we consider whether the bid will help us to deliver on those commitments—and Government priorities, whether that is in relation to education, health, regeneration, affordable housing or whatever it might be. We also consider whether colleagues are able to demonstrate collaboration in a bid. If there is integration, we will be getting a more efficient use of resources. I am not saying that we would approve such a scheme, but if, for example, there was a scheme for increasing energy efficiency or using renewable energy in schools and hospitals and they were able to demonstrate that that fitted with other investment priorities, for example, in a new hospital build or a new school build, that would strengthen that bid. That is another key area, as well as the consideration of other priorities, such as how it would fit with the Wales spatial plan and the wider public service delivery agenda.

[105] You must bear in mind that it is still very early days. This is the first time that we have ever approached our capital investment in such a strategic way, so we want to ensure that we maximise the expenditure. I need to repeat what I have said before: although the £400 million available is a significant amount of money, it is for a three-year period. When you compare that with our Government’s annual capital investment of £1.6 billion, that £400 million over three years, although significant, is clearly much smaller.

[106] It is not just about the fund itself; it is also about a new and more strategic approach to capital investment. We hope that the way in which we deal with the SCIF, with discipline and a common approach, will be applied to the rest of our capital programme over coming years. So, for example, we will look at the way in which the five-case business model is applied when the business case is developed so that there is consistency there. Then, with regard to design, we can achieve efficiencies through adopting a common approach to procurement. Finally, project management is an area in which it is recognised that we have issues about competence and capacity in the public sector. This point was explored at a recent meeting that I convened with the leader of the WLGA and Dr Brian Gibbons, the Minister for Social Justice and Local Government, to look at ways in which we could collaborate across Government in response to the economic summit held a week ago.

[107] **Jenny Randerson:** You referred to the five-case business model. Can you explain that?

[108] **Andrew Davies:** Chris will explain it.

[109] **Dr Daws:** Under the model, we ask that five cases be produced in separate chapters, and the emphasis depends on which stage the business case is at. For example, in the early stages, there will be greater emphasis on the strategic case, which sets the strategic context. There is the economic case, which looks at the value for money; the financial case, which looks at the affordability in light of whole-life cost and revenue; and the commercial case,

which looks at the best available deal. Finally, there is the project management case. So, early on, when we are looking at an appraisal of a capital scheme, we will concentrate in particular on the strategic case, and the closer we get to approving the money and to the scheme going ahead, the greater the emphasis on the commercial case and the project management case.

[110] **Jenny Randerson:** That is helpful.

[111] **Andrew Davies:** If it would help, we can give committee more information about this approach. It has excited a great deal of interest at the UK Government level and across Europe. In fact, Chris has spoken to representatives of the French Government about this approach.

[112] **Dr Daws:** It is a translation of the Treasury's 'The Green Book' so that people can apply its techniques in a very real and practical sense. We in Wales have produced the templates that the Treasury is now adopting on its website, so we feel that we are leading on this approach.

[113] **Andrew Davies:** We can provide more information.

[114] **Angela Burns:** That would be very good, Minister, because it would help us in our deliberations on other issues.

[115] **Jenny Randerson:** Some of the committees have expressed the concern that the Government's strategic priorities rely on bids to a capital investment fund. You have made it clear that that is in line with your approach to it and with its purpose, but in what respect do you balance a bid to that fund against the overall achievability of the proposed project within the alternative resources of the Assembly Government?

[116] **Andrew Davies:** As I said, we would want to achieve synergies between any capital investment made from the SCIF and those areas where it can complement the existing investment programmes—whether that is within one department or across all Government departments. The idea is that the SCIF should not be seen as a separate fund; we can integrate it with our capital investment programme.

[117] **Jenny Randerson:** Let us envisage a situation in which a Minister presents a case for money from the fund. Is access to the strategic capital investment funding conditional, so that you go to that fund only if you cannot otherwise afford a project?

[118] **Andrew Davies:** We have been clear that we do not want the SCIF to be used just to add to existing programmes. Ministers may feel that they want to add something on to their existing capital investment programmes, and we need to demonstrate that it is different and additional, adding value to the wider Government capital investment programme.

[119] **Angela Burns:** May I ask a small supplementary, Jenny?

[120] **Jenny Randerson:** Yes, of course you may. You are the Chair; you can do what you want.

12.30 p.m.

[121] **Angela Burns:** Yes, but I do not want to interrupt your train of thought. I will turn Jenny's question on its head. What if someone were to come to you requesting money from the strategic capital investment fund—such as the Deputy Minister for Housing, who will be seeking funds for a raft of affordable homes given that the Government will be releasing some land—but you cannot give it to her because the money has already been earmarked to build a

school or to cover the pandemic flu programme? What if she has no place to go for those funds? What would be the proposed solution or way forward in that example?

[122] **Andrew Davies:** That is why the SCIF process now allows us to look at these issues strategically; previously, the individual spending Minister would tend to look at that just within his or her budget. It allows us to look at things holistically and more strategically. For example, we are compiling a massive register of land owned by the Assembly Government and the public sector in Wales, which Brian Gibbons and I discussed with John Davies, the leader of the Welsh Local Government Association. Instead of looking at this in departmental or organisational silos, we are looking at the big picture. For example, on affordable housing, we are considering how we as a Government can look across departments, given that significant land holdings are owned by the Department for Economy and Transport, as well as the health department and NHS trusts.

[123] It may be that we could do this with local authorities, too, because they hold and own considerable amounts of land. So, we are viewing the land that is available as an asset and taking a strategic approach by collaborating across departments. Instead of just looking at it in a piecemeal fashion, we are taking a strategic view. We could look to the market, to investors and construction companies, to local authorities and housing associations to do this in a strategic and collaborative way. The SCIF process will allow us to do that, and will help us to take a more strategic view in dealing with, in this example, affordable housing.

[124] So, it may well be that it is not necessary to gain access to SCIF funding for affordable housing given the other ways in which we could deal with the issue. However, that is part of the ongoing discussions that we are having at ministerial and departmental level.

[125] **Angela Burns:** However, that is one of the concerns that has come out of the report. The relevant Ministers have said to the respective committees that they will go to SCIF for the money for things such as affordable housing and flood defences, but, as you have already said, it is only a £400 million pot over three years. If there is no money available, they do not seem to have a back-up plan. They are just telling their committees that they are going to SCIF—end of story.

[126] **Andrew Davies:** It is about managing expectations across the board.

[127] **Jenny Randerson:** The criteria are interesting, and it has been helpful to receive the additional information. However, I am perplexed by the link between what you have given to us as the criteria and your assertion that it cannot just be money added on to a budget. The only successful bid so far has been the £71 million—which is an awful lot of that £400 million—for preparations in case of pandemic flu. We probably have a legal obligation to prepare for pandemic flu, placed on us by the UK Government, but it does not seem to fit with your other priorities. It seems to be a good cause—and I know that we have debated whether it should be capital or revenue funding, but I will leave that aside—but it is additional money for something that the Minister could not otherwise afford.

[128] **Andrew Davies:** As I mentioned, national resilience is another criterion and that may well apply to the bid on flood defences, for example. I do not wish to prejudge any bids that may come from individual Ministers, and I do not want them to quote my words back at me, but national resilience is a criterion. However, it would have to be a specific bid.

[129] **Jenny Randerson:** The evidence that committees have received has included a number of references to bids for EU funding. From where will the match funding be drawn for those bids?

[130] **Andrew Davies:** The arrangements for match funding have been changed. It was

decided by the previous administration that it made no sense to have two separate funds—the match-funding pot of last resort, Pathway to Prosperity, and the local regeneration fund—so it was decided to streamline them into one, targeted match-funding pot. Responsibility for that moved from what is now the economy and transport portfolio to the finance portfolio. So, I am responsible for applications to the targeted match funding fund, which, from memory, amounts to £350 million over the programme period—again, a significant amount of resource. We have already approved some applications. From memory, one was from Chwarae Teg, which was also led by the Wales Co-operative Centre, and there was also a private sector projects in Gwynedd, which had a link to tourism.

[131] **Dr Daws:** The match-funding line is shown on page 44 in table 10.1.

[132] **Andrew Davies:** In addition to the targeted match funding fund, you must bear in mind that we have said clearly to colleagues, to officials in departments and to Ministers, that the bulk of the match funding will come from other sources, including departmental budgets. In the first case, match funding is the responsibility of the project applicant, so it could come from public funds, the private sector or the third sector.

[133] **Alun Davies:** Thank you for that, Minister. I am also a member of the Sustainability Committee, and, during our scrutiny session, we got the sense that SCIF was an integral part of the environment, sustainability and housing budget. It appears to me that there are issues over whether it is revenue or capital funding, because there are significant issues in the department's remit that it appears to wish to be funded via SCIF. For example, the flood defence bid for £8 million could nearly all be spent in Ystradgynlais, to be frank. To what extent are such bids for the strategic use of funding or for bolstering departmental budgets? I do not yet have a feel for this, and the term 'strategic', to me, implies much larger expenditure. You discussed the national resilience criterion in awarding the £70 million on influenza, and that is the scale of expenditure that I would expect to see from the capital fund. When I see £8 million, I am not entirely sure whether that is really strategic. The waste capital funding that the department is seeking is another example. That is a good thing, but it does not appear to me to be a strategic use of resources, merely the implementation of departmental priorities. I agree that that expenditure is good and valid, but should it come from SCIF? I am interested in how you will be taking this forward. It may be well be useful—again, I am filling up our future work programme—for us to look at this again in a few months' time.

[134] **Andrew Davies:** It is about looking at the whole of Government expenditure and matching that with priorities. That is why I said that SCIF should not be seen as a separate fund that Ministers and others can bid for because they do not have the resources to pay for their particular capital programmes. That is why the decision will be made by the Cabinet committee that I chair. A bid must fit across the board, so that SCIF can complement investment programmes, whether they are within one department or across many, or, indeed, in other areas, such as local authorities, working on school rebuilding or refurbishments. This gives us an opportunity to look at the big picture.

[135] The amount of money does not necessarily equate to its importance. Something costing £8 million or £10 million may be very strategic and may allow us to do things differently on an all-Wales basis. A project does not necessarily have to be in double figures to be regarded as being of strategic importance. It is not a matter of how much we spend; it is what we get for that expenditure that will be a major criterion.

12.40 p.m.

[136] **Angela Burns:** I am very conscious of the time, but I wonder whether I might prevail upon you for just a few more moments, because Joyce and Lesley have two very important

questions. Then, we will probably be at the end of our session.

[137] **Joyce Watson:** I think that my question has mostly been answered. It relates to clarifying a policy issue and so it is probably better asked of the relevant Minister. However, it has been raised in a few committees and so I may as well ask it in any case. The question is about equality and child-poverty proofing. Concerns have been raised principally about the mainstreaming of the equality strands and child poverty. By looking at the budget, how can we be sure that that mainstreaming is a likely outcome of it? I am not sure that that question necessarily fits in at this point, but perhaps it brings us back to the wider issue that we need more time to look at the policy issues, and more clarity. I accept your previous answer that that probably sits within the department rather than within the overall budget.

[138] **Andrew Davies:** In presenting the budget document, we have already discussed the challenges of providing it within departmental allocations and the individual main expenditure groups. If we were to add another level of complexity, looking at the cross-cutting issues, it would be problematic. However, I can tell you that very significant investment is going into achieving our targets on tackling child poverty. It has to be said again, so that it is put on record, that, when the Assembly was set up, we had a child poverty rate above that of the United Kingdom rate, but it is now below it. So, significant progress has been made but we know that there is a considerable way to go. Within individual spending departments, £160 million is being spent in the Cymorth programme over the next three years, £89 million will be available through Flying Start, £32 million is being invested in the Want 2 Work project to help people into work, £5 million a year is being provided for the free swimming initiative in Wales, £5 million will be invested in the Welsh premium to the child trust fund between 2009 and 2011, and £3 million is being made available to increase the take-up of council tax and housing benefit. So, those are just some of the major spending areas.

[139] Those are the budgets, but much of the co-ordination and integration work is being undertaken by Ministers across departments, and most of that is led through our Cabinet sub-committees, whether it is the children and young people sub-committee, which is chaired by the Minister for Children, Education, Lifelong Learning and Skills, or the regeneration, skills and tackling economic inactivity sub-committee, which is chaired by the Deputy First Minister and Minister for the Economy and Transport.

[140] **Lesley Griffiths:** This is a slight digression but, last week, you made a statement about the situation with the Icelandic banks. I understand that you are in talks with the Treasury and the Welsh Local Government Association because, as you mentioned before, a lot of local authorities' and universities' money is tied up in Icelandic banks. Do you have an update for us?

[141] **Andrew Davies:** There is not a great deal to add to what was discussed before, although there have been subsequent meetings at a UK level, and the UK Treasury and officials have been in discussions with the Icelandic Government about the reclamation of the assets held by them. Our understanding is that the nine local authorities and other public bodies affected do not feel that their present exposure will affect their core business or their ability to discharge their duties and responsibilities. To the best of my knowledge, there have not really been any further developments since I made my statement. However, if there are any substantial changes, I will keep Members informed of them.

[142] **Angela Burns:** Thank you. We have just about come to the end of our session. Does anyone else have a burning question to ask the Minister while we have him here?

[143] **Chris Franks:** Yes, please. Minister, you read out a list of actions to tackle child poverty, but I could not write them all down. Could we have a note to that effect?

[144] **Andrew Davies:** Of course.

[145] **Angela Burns:** I thank the Minister and his officials for coming today. I also thank you for your indulgence, because we have run over time quite significantly. I hope that we have not held you up too much.

12.45 p.m.

**Cyllideb Ddrafft Llywodraeth Cynulliad Cymru 2009-10—Adroddiadau gan
Bwyllgorau Eraill
Welsh Assembly Government Draft Budget 2009-10—Reports from Other
Committees**

[146] **Angela Burns:** I would like to formally accept the submitted reports from all of the other committees. Would anyone like to make a brief overview comment on any of them? I see that you do not. We will move into private sessions to discuss the format of our report.

**Cynnig Trefniadol
Procedural Motion**

[147] **Angela Burns:** I propose that

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

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

*Derbyniwyd y cynnig.
Motion carried.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 12.45 p.m.
The public part of the meeting ended at 12.45 p.m.*