



Cynulliad Cenedlaethol Cymru
The National Assembly for Wales

Y Pwyllgor Cyllid
The Finance Committee

Dydd Iau, 6 Tachwedd 2008
Thursday, 6 November 2008

Cynnwys
Contents

- 4 Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions
- 4 Ymchwiliad i Bartneriaethau Cyhoeddus-preifat: y Gweinidog dros Gyllid a
Chyflenwi Gwasanaethau Cyhoeddus
Inquiry into Public-private Partnerships: the Minister for Finance and Public Service
Delivery
- 23 Cynnig Trefniadol
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. Mae hon yn fersiwn ddrafft o'r cofnod. Cyhoeddir fersiwn derfynol ymhen pum diwrnod gwaith.

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. This is a draft version of the record. The final version will be published within five working days.

Aelodau pwyllgor yn bresennol
Committee members in attendance

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

Eraill yn bresennol
Others in attendance

Jeff Andrews	Cynghorydd Arbennig, Llywodraeth Cynulliad Cymru Special Adviser, Welsh Assembly Government
Andrew Davies	Aelod Cynulliad, Llafur (Y Gweinidog dros Gyllid 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
Sioned Evans	Cyfarwyddwr Ystadau a Phrosiectau, Llywodraeth Cynulliad Cymru Director of Estates and Projects, Welsh Assembly Government
John Griffiths	Aelod Cynulliad, Llafur (Y Dirprwy Weinidog dros Sgiliau) Assembly Member, Labour (The Deputy Minister for Skills)
Mark Leighfield	Pennaeth y Llwybrau Dysgu 14-19, Llywodraeth Cynulliad Cymru Head of 14-19 Learning Pathways, Welsh Assembly Government
Elizabeth Williams	Pennaeth y Strategaeth Plant a Phobl Ifanc, Llywodraeth Cynulliad Cymru Head of Children and Young People's Strategy, 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 1.30 p.m.
The meeting began at 1.30 p.m.*

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[1] **Angela Burns:** I welcome you all to the Finance Committee's meeting of Thursday, 6 November. I remind everyone that you are welcome to speak in Welsh or in English. Headsets are available for translation. Please turn mobile phones off. If there is a fire alarm, follow the ushers' instructions.

[2] I welcome Lorraine Barrett, who is substituting for Ann Jones, and Nick Ramsay, who is substituting for Nick Bourne.

1.31 p.m.

Ymchwiliad i Bartneriaethau Cyhoeddus-preifat: y Gweinidog dros Gyllid a Chyflenwi Gwasanaethau Cyhoeddus Inquiry into Public-private Partnerships: the Minister for Finance and Public Service Delivery

[3] **Angela Burns:** I welcome the Minister for Finance and Public Service Delivery to this further session of our inquiry into public-private partnerships. Minister, I thank you on behalf of the Finance Committee for making yourself available to us over the past few weeks, in our scrutiny of the budget and in this inquiry. It is much appreciated and we understand the pressures on your time. Could you introduce your team for the Record?

[4] **The Minister for Finance and Public Service Delivery (Andrew Davies):** I am joined by Dr Christine Daws, my director of finance, Sioned Evans of Value Wales, whose area is developing public-private partnerships involving the private sector, and Jeff Andrews, who is a special adviser.

[5] **Angela Burns:** Do you wish to make any introductory remarks, Minister?

[6] **Andrew Davies:** Yes, if I may. Thank you for the opportunity to give evidence to this inquiry. I am grateful for the contribution that the committee has made to the development of this policy area. As you know, I have given my initial response on the first part of the committee's report and I look forward to your work on part 2.

[7] As Minister for finance, I have put on record many times how important it is, as a Government and as a public sector in Wales, that we maximise the resources that are at our disposal to deliver on our policy objectives, particularly those outlined in the 'One Wales' programme for government. We feel that there is an important role for the private sector and private finance to play in delivering our policy objectives. We have a good record generally of public-private partnerships. There is no agreed definition of a PPP, but such partnerships range from the development of the Wales investment strategic partnership, in which I was involved in my previous role as Minister for Enterprise, Innovation and Networks, through to joint ventures, such as that between us as a Government, Swansea University and IBM to establish the Institute of Life Science in Swansea University.

[8] The involvement of the private sector is up for some debate, partly because of the downturn in the global economy and the turmoil in the global financial markets. At this stage, it is too soon to know the definitive position on access to private finance and the private

sector. I suspect that it will be some time yet before the position stabilises and we have a much clearer idea of the private sector's appetite for engaging with us. Clearly we see the private sector as an important partner, and the use of private finance is important, whether in economic development terms, involvement through housing associations and the development of affordable housing aspirations, or in other policy areas.

[9] We are clear that Wales remains open for business, and we actively seek ways to work with the private sector as well as with other public sector partners and the third sector to ensure that we have sufficient resources to deliver our policy objectives.

[10] **Angela Burns:** Thank you for that, Minister, and for your response to our initial report. As you know, the second stage of our inquiry is to look at the methodology that may be available to us. Members have a number of questions to put to you—in fact, there are quite a lot—so I ask that we make our questions fairly snappy and that, in turn, the replies are fairly succinct. Nick, would you like to start?

[11] **Nick Ramsay:** Yes, thank you, Chair. Good afternoon, Minister. In many ways, in the comments that you just made, you have answered the question that I was going to ask about the current state of affairs with regard to the Government's approach to PFI in Wales, so I will go straight on to what was going to be my supplementary question. Back in December 2001, the then Finance Minister, Edwina Hart, reported in her conclusions following the consultation into PFI held at that time that we must either mirror this form of investment or accept that Wales will have a lower level of investment. I will then bring you on to 2007 and your own tenure in the finance role. The 'One Wales' agreement seems to specifically rule out the use of PFI in the health service, for instance. Would you say that there has been, over that time, a significant downgrading of the Assembly Government's use of PFI or desire to use PFI in Wales?

[12] **Andrew Davies:** As a coalition Government, we specifically ruled out the use of PFI in the health service. We felt that it did not allow us to fulfil our policy objectives. A lot of the concerns about the use of PFI arose with regard to the terms and conditions of staff in the health service. We did not think that it would help us to deliver our policy objectives or give us value for money. However, that does not mean that we have ruled out using public-private partnerships in other areas. I use that term advisedly because I think that we need to be aware that public-private partnerships cover a range of models and options—one of which may be PFI, but they are not exclusively PFI. In fact, in my discussions with a wide range of financial institutions—from the European Investment Bank through to some of the major investment banks and other stakeholders—they have been at pains to point out that there are other models. Certainly, from my point of view as Minister for finance, while we have specifically ruled out using PFI in the health service, that does not mean, as I said in my introduction, that we have turned our back on other forms of public-private partnership in other policy areas.

[13] **Huw Lewis:** I have a question, Andrew, about the current scale of uptake of PFI in Wales. In response to a recent oral Assembly question, the First Minister said that there were 16 existing PFI schemes in Wales, but the Members' research service has been able to identify some 37 ongoing schemes, with a total value of almost £625 million. What is the current picture and how many PFI projects are we talking about?

[14] **Andrew Davies:** I will ask Sioned to take that one.

[15] **Ms Evans:** We respond in terms of 16, and they relate to the 11 local authority schemes that we provide PFI credit support for that were won under two bidding rounds—one in 1999 and one in 2000. There are 11 schemes there and we also refer to the three health schemes—St David's Hospital, Cardiff, Neath Port Talbot Hospital and Chepstow Community Hospital—and the two schemes that the Welsh Assembly Government or the

former Welsh Office, as was, and the Welsh Development Agency and the Cardiff Bay Development Corporation were involved with. They have obviously come through a number of hands. Those two schemes are the A55 and Callaghan square schemes. So, those are the 16 that we refer to as main schemes. Some of the other schemes—some of those in health—are actually too small to really be classified as PFI schemes.

[16] **Dr Daws:** They may involve something like a car park.

[17] **Ms Evans:** Yes, they may be to develop a car park or something like that, so they are just too small to be what you would term a PFI scheme.

[18] **Huw Lewis:** So, there are another 20-odd out there, but they are small.

[19] **Ms Evans:** Yes. Just to clarify, they may be small or they may be slightly larger, but the questions that are generally raised concern the schemes that the Assembly Government has an interest in and that is why we refer to the 16.

[20] **Andrew Davies:** We could provide a list.

[21] **Ms Evans:** Yes, we could provide a list.

1.40 p.m.

[22] **Huw Lewis:** That would be helpful. As a supplementary to that, Minister, you stated that WAG is establishing links with external organisations to look at approaches for accessing external sources of finance, particularly from the financial investment community. Can you expand on that, and mention in particular which organisations you are or have been in discussion with?

[23] **Andrew Davies:** We are on record as having a close working relationship with the European Investment Bank, with which we have had extensive discussions. In fact, the EIB is a formal partner on some of the projects that have been mentioned, such as the European-funded JESSICA programme. It would be difficult for me to say which individual banks I have been in discussions with on commercial grounds, but the European Investment Bank has been one of the major ones. The chair of the strategic capital investment fund advisory panel, Dr Tim Stone, is a board member of the EIB, as well as being an employee of KPMG. Officials and I have had extensive discussions with a wide range of clearing banks and investment banks.

[24] **Mohammad Asghar:** You have stated that you are working with public sector partners to consider the potential for partnership with the private sector—it certainly appears very attractive in such areas as risk management, transport infrastructure and property. Why are these particular sectors the most attractive for partnership?

[25] **Andrew Davies:** The important point is to be able to maximise resources for a wide range of areas. It may be that we have insufficient resources at our immediate disposal. Also, the private sector is able to offer a huge amount of expertise in financial management and the management of these policy areas. Waste management is a crucial area and I have been working with my colleagues in this area. For example, Jane Davidson takes the policy lead in this area, but other Ministers have a direct interest and a contribution to make, such as the Deputy First Minister on the economy and transport, and Brian Gibbons on local government, because, if we are to deliver solutions for waste management across Wales, it requires the active involvement of the Welsh Local Government Association and individual local authorities, as well as my involvement.

[26] Our view is that we need to take a cross-Government approach. However, given the scale of investment and the expertise required, we have been actively involved in discussions with those in the private sector that have expertise in this crucial area.

[27] You mentioned transport. When I was the Minister with responsibility for transport, I made the decision to go ahead with the new M4 south of Newport in principle. That is a crucial part of our transport infrastructure, and the decision was taken that that would be financed through some form of user charging. The involvement of the private sector in putting the financial model together and the delivery of the new road was going to be crucial, in terms of financial and human resources. That is the rationale or understanding behind those decisions.

[28] **Mohammad Asghar:** Were other sectors or areas also considered?

[29] **Andrew Davies:** Obviously, we have ruled out the health service, for the reasons that I have already given in response to Nick Ramsay. We take a very pragmatic view that, if there are areas in which we feel the involvement of the private sector would add value, either in a formal public-private partnership or some other joint venture, we will discuss that with them, and if it is pragmatic and possible and doable, then we will seek to take that partnership forward.

[30] **Jenny Randerson:** You mentioned again the reasons why you ruled out the health service, Minister. Are you aware of the concordats that exists in Scotland and Northern Ireland on staff pay and conditions, which proved to be extremely successful, which the unions have fully signed-up to and which preserve staff pay and conditions in any public-private partnership agreements? If so, why do you still maintain your opposition on staff pay and condition grounds?

[31] **Andrew Davies:** The 'One Wales' agreement was made last year and that aspect was part of the formal agreement, which was an important commitment on our part, but that does not mean to say that we will not use public-private partnership in other policy areas. As I said in my response to the committee report, we would want to work closely with the trade unions in rolling this out. One of the outcomes of those discussions may be some agreement—whether a formal concordat or some other form of agreement—but I have given a commitment that we will discuss it with the trade unions. I chair the workforce forum on behalf of the Assembly Government, which involves all of the public sector unions, and this will be something that we will discuss with the unions through those formal mechanisms.

[32] **Alun Davies:** You discussed the issue of PFI in the health service, and I agree with you about the philosophical background to it and I have voted in party meetings on the policy—it is something that we need to say and do. However, in terms of the work that the committee has done, we visited the Royal Victoria Hospital in Belfast in the spring, and the point made to us by clinicians and others was that some projects are classified as PFI because of the complex financial mechanisms that underpin them, but they are in reality high-scale leasing projects for major pieces of equipment, such as scanners, and so on. As a Government, would you be prepared to look at those types of leasing projects, which are, in pure financial terms, described as PFI but are a million miles away from the disastrous PFI projects that have created so many problems in the health service elsewhere?

[33] **Andrew Davies:** If there are areas where PFI can deliver on our policy objectives, we will take a pragmatic view of it, but if it is something to do with the health service and its effect would be to undermine that policy commitment in the 'One Wales' agreement, it would be difficult for us to do that. Nevertheless, if what you and others are saying is that it is a pragmatic way forward, it is something that we can look at, but given the commitment in 'One Wales', it would be difficult.

[34] **Nick Ramsay:** Still on the subject of the NHS and the non-use of PFI in that service, the Wanless review estimated that the backlog maintenance in the NHS built estate is in the region of £400 million. That is a heck of a lot of money, which must come from somewhere. Are you confident that the Assembly Government can address that backlog maintenance within the NHS without the use of PFI?

[35] **Andrew Davies:** The resources that we have at our disposal are significant, particularly in terms of investment in health over and above the considerable investment made through the Minister for Health and Social Services's main expenditure group in her budget. We have access to other resources, particularly through the strategic capital investment fund. The Minister for health, along with other Ministers, will be putting forward proposals for access to those funds to be used. In discussions with the Minister for health, we have looked at her capital investment programme, and any concerns about current refurbishment or new investment will be taken into account in terms of the delivery of her plans.

[36] **Dr Daws:** We were asked about this issue when I came to this committee last year. One of the things that will happen with the current health service investment programme—I am thinking of schemes such as the one in Caerphilly hospital—is that the backlog maintenance will disappear for five other hospitals that are already in the portfolio. We need to be clear that the backlog maintenance in many cases is being removed by the investment in new facilities that are already in the capital programme. So, the backlog maintenance figure was a point in time, and if you look at the programme of investment, those figures will disappear as new facilities come onstream.

1.50 p.m.

[37] **Angela Burns:** May I clarify that, Dr Daws? If we have new facilities coming onstream, it would be helpful for us to understand where they are going to be and what backlog of maintenance you believe that they will eradicate, because I assume that some of these backlogs in maintenance are dotted around Wales, and some are in areas where new facilities will not affect the backlog. Therefore, how do we move those people further forward too?

[38] **Dr Daws:** It is a combination. The health capital programme is meeting, in some cases, the backlog of maintenance, but only in part. The new facilities that are being built will remove the need for backlog maintenance on some of the facilities that are being removed; an example is the Caerphilly hospital scheme. It is more complex than taking a big backlog maintenance figure.

[39] **Angela Burns:** It is a case of mix and match.

[40] **Dr Daws:** Yes.

[41] **Nick Ramsay:** To build on Alun Davies's earlier question in a way, I take on board what the Minister is saying about the 'One Wales' commitment not to use PFI in the health service, but are other private finance options still being considered, such as other forms of PPP, or is it an across-the-board, blanket ruling-out?

[42] **Andrew Davies:** In the health service?

[43] **Nick Ramsay:** Yes, in the health service specifically.

[44] **Andrew Davies:** PFI has been ruled out. I do not know whether Chris or Sioned are aware of other things that are being considered, but I am not aware of any.

- [45] **Ms Evans:** Not that I am aware of.
- [46] **Angela Burns:** Is the committee satisfied that we are clear on this point?
- [47] **Jenny Randerson:** We are not clear on the reasons, but we are clear on the point.
- [48] **Angela Burns:** Thank you very much for that, Minister.
- [49] **Jenny Randerson:** In a recent Government press release, there was an announcement by Leighton Andrews about the creation of an urban development fund under the JESSICA programme, with both Assembly Government and private sector funding. The proposal is, as I am sure you are aware, to use equity or loans in that fund. The Deputy Minister said that this was a better approach than PFI had traditionally been. Why is that so? What are the advantages of this urban development fund?
- [50] **Andrew Davies:** It is difficult for me to comment, because I have not seen the specific comments by the Deputy Minister on that. As I said in my opening remarks, JESSICA is an example of a joint venture, particularly with the European Investment Bank. To the best of our knowledge, Wales will be ahead of the game in terms of this type of development, certainly in using access to European funding. In addition, in terms of the loans, it is very much in line with our policy now to move towards an investment culture as opposed to a grant or subsidy culture. We think that the JESSICA programme will allow us to reach our policy objectives in terms of regeneration.
- [51] **Jenny Randerson:** Although you may not be aware of the Deputy Minister's comments, you will obviously be aware of that combination of funding and how it is working. Are you as a Government looking at the possibility of using a similar mechanism and combination of funding for schemes other than regeneration schemes?
- [52] **Andrew Davies:** Very much so. As I said, we take a pragmatic view in terms of access to private finance or private sector resources. In the past, we have established special purpose vehicles such as Finance Wales—a joint venture between us as a Government and Barclays Bank—which was one of the most successful public-private partnerships. I think that we have a good record with this type of public-private partnership, special purpose vehicle or however you want to describe it. If we can do that in a way that will allow us to deliver on our policy objectives, we will do so. As I said, it is a pragmatic view.
- [53] **Jenny Randerson:** So, you are looking at it. Can you give us any clues as to which areas of Government activity we might start to look for it in?
- [54] **Andrew Davies:** In my reply to Oscar, I mentioned two, one of which was waste management.
- [55] **Jenny Randerson:** Is it the same model?
- [56] **Andrew Davies:** It may be a possibility; these matters are all up for discussion. In many cases, whereas JESSICA would be a joint venture between us and the European Investment Bank, with waste management we are dealing with 22 local authorities. Therefore, as a champion of local authorities, Jenny, I am sure that you would not want us to trample on their autonomy. However, if you remember the WLGA's mini-manifesto from last summer, you will know that it has identified waste management as its top priority, and we are working actively with it. There may well be some form of single joint venture, or it may be based on a regional consortium basis—those decisions have not yet been made. However, as I said, we are very open and pragmatic about it, and we will choose a solution that gives us the best

opportunity to deliver on our policy objectives, as well as giving us value for money.

[57] **Lorraine Barrett:** The European PPP Expertise Centre is intended to allow EU members and candidate countries to share experience, expertise and best practice relating to public-private partnership transactions. I understand that the first tranche of its work will focus on opportunities within the transport infrastructure, and you have already touched on some transport ideas in earlier questions. Can you provide any examples of opportunities under consideration within the transport infrastructure?

[58] **Andrew Davies:** We do not have any at the moment other than the one that I have mentioned already, namely the new M4 proposal, which is still under active consideration. However, we can provide information on that to the committee.

[59] **Lorraine Barrett:** Okay. In that case, is it planned to expand this consideration to other sectors?

[60] **Andrew Davies:** Do you mean using pan-European resources?

[61] **Lorraine Barrett:** Yes.

[62] **Andrew Davies:** Yes, very much so. One reason why we joined that body was to be able to access expertise and share best practice across other parts of Europe. Having said that, we are not concentrating on or restricting it to the European field; we have had discussions with, for example, Australian interests and others about their experience. Therefore, we are looking across the globe to see where we can draw down expertise and best practice.

[63] **Lorraine Barrett:** Thinking about other sectors, can you give us a flavour of what sort of sectors you would be looking at apart from transport?

[64] **Andrew Davies:** It is quite extensive. There is waste management and transport, which I have mentioned, as well as urban regeneration—and JESSICA funding is the eye-catching one. However, there are many examples of joint ventures. For example, there is the Coed Darcy development at the former Llandarcy oil refinery; again, that is a joint venture—or a public-private partnership, or however you want to define it—which has been successful. The Baglan energy park, which almost adjoins Coed Darcy, is another example of regeneration, in this case, mainly between the former Welsh Development Agency—now the Assembly Government—Neath Port Talbot County Borough Council and BP. Therefore, there are some good examples of PPP over many years.

[65] There are other policy areas too. We are actively considering such an approach with regard to the affordable housing agenda. When I was briefly the Minister for Social Justice and Local Government last summer, Community Housing Cymru—the umbrella organisation for registered social landlords and housing associations in Wales—expressed its frustration in discussions at its inability to be able to leverage in a higher level of private finance, compared with housing associations in England. Following my brief tenure in that area, you will be aware that Sue Essex was commissioned to look at this issue and other housing issues. One of her recommendations is that housing associations should be allowed to draw down higher levels of gearing, or should have access to high levels of private finance.

2.00 p.m.

[66] Therefore, those are some of the areas. We are also looking at, for example, the school building programme with local authorities, which is something that I have started negotiations with Jane Hutt on.

[67] **Angela Burns:** Thank you, Minister. We still have quite a few questions to get through, and I can see that time is marching on. There are three key areas that rise above all the others, so I ask Members to concentrate on those first, and, if we have time, we will come back to the others. Alun, can you lead us on the formation of the PPP unit?

[68] **Alun Davies:** Given your response, Minister, to our initial report, one thing that stood out for me, in the penultimate paragraph of your overview section, was the following statement:

[69] 'I intend to establish a PPP unit within Welsh Assembly Government'.

[70] That, to me, given the language that has been used, is a different approach from that of your predecessors. Can you tell us how you see that unit operating within the structure that you have described in the paper? Can you put some meat on the bones of that? How do you see it working with public sector bodies, and how do you see this PPP unit differentiating itself from the old PFI unit, which, I think it is fair to say, was disbanded by the previous Government?

[71] **Andrew Davies:** I am on record on many occasions saying that we have not taken a sufficiently strategic attitude and approach to capital investment over many years. It has been far too fragmented, with departments tending to do their own thing. We missed the opportunity for being more strategic and getting greater value for money. That is one of the reasons why I have set up the strategic capital investment fund, and the expert advisory panel, chaired by Dr Tim Stone of KPMG, was appointed to take that forward.

[72] To take forward capital investment, we are able to pool the considerable expertise and resource that we have within Government—for example, Sioned works for Value Wales, which comes under my department—in terms of involvement with the private sector. The Finance Department, under Christine Daws, also has a great deal of expertise, as does the Department for the Economy and Transport. Reference has been made on a few occasions to the JESSICA programme. The Department for the Economy and Transport officials, particularly Chris Munday, has a huge amount of expertise and is highly regarded by the private sector. So, there is a great deal of capacity in different departments, and we failed in the past to bring those together to have a much more strategic view. So that, in part, lay behind my decision to set up the unit. The precise form that the unit takes has not yet been decided, but the hub and spoke structure is probably in place, so that we can draw down the resources and the expertise in different departments to provide help and support, whether it is our capital investment programme or through working with local authorities, for example on waste management or skill rebuilding.

[73] **Alun Davies:** Thank you for that, Minister; it was helpful. Do you see the unit operating along Treasury guidelines, in terms of implementing different policies, or do you see it as being as much about policy development and this initiative as management and providing advice?

[74] **Andrew Davies:** The decision on the precise form that it will take is yet to be made. In areas such as the economy and transport, there is a huge amount of expertise, not only in policy-making, but also in terms of practical on-the-ground delivery. When it comes to school programmes, if we take this forward with local authorities, a great deal of the practical delivery work will be done by the local authorities and not necessarily by the Assembly Government. So I think that it will be on a needs-must basis, depending on the nature of the investment that we will be making.

[75] **Joyce Watson:** You have partly addressed my question, which is really part of the general debate, but it is about the perception—which I know you have answered before—that

Wales is closed for business. How do you intend to address that? In part, you have done so already, to be fair, but would you like to reiterate where that perception comes from, and how you intend to put it to bed?

[76] **Andrew Davies:** If there is a perception that Wales is closed for business, it is erroneous. We work actively with many large companies, for example, and they feel as though they get a good response from us. If you talk to companies such as IBM, which is involved in the Institute of Life Science, or Amazon, which has invested in Swansea bay, those large, global companies—two of the most recognisable global brands—would tell you that doing business in Wales is a good experience.

[77] However, because of policies of adopting the private finance initiative in the health service, there has been a view that Government is not engaged with business and is not business-friendly, but that is wrong. If you talk to people in the financial services sector and other sectors, they will tell you that Wales is business-friendly.

[78] **Angela Burns:** There are more questions to come on this, but we have not yet covered the alternative models that you might be considering. This is stage 2 of our inquiry, so we have already made a set of recommendations on PPP and PFI. Alun, do you want to take this forward?

[79] **Alun Davies:** In your paper, Minister, you say, 'I intend' to establish a PPP unit, using the present tense. Does that mean that it is happening at the moment?

[80] **Andrew Davies:** I am actively in discussions with the new Permanent Secretary, Dame Gillian Morgan, about setting that unit up. Staffing is a matter for her, but I have made it clear that I intend to do this, so we are in discussions as to what form it takes.

[81] **Alun Davies:** I am sorry to press you on this, Minister, but I think that the committee would like to clarify how you see this progressing. My assumption is that the political decision has been taken for the unit to be established, and we are now moving on to recruitment, and agreeing on how the unit will be set up. This will then be taken forward. How many people do you envisage will work in this unit? Will it be a large operation, or will it take more of an administrative role, bringing together functions elsewhere in the civil service?

[82] **Andrew Davies:** As I said, the precise form will depend on the restructuring that the Permanent Secretary undertakes with the senior management team. At this stage, I am not able to say what form it will take, but these are matters that I am discussing with the Permanent Secretary. As soon as I have that clarity, I will let the committee know.

[83] **Alun Davies:** On the timing, given that that decision has been taken, I assume that you want this up and running as soon as possible, so do you hope to have it at an embryonic stage in the new year?

[84] **Andrew Davies:** I very much hope that that will be the case.

[85] **Alun Davies:** Will it certainly be up and running in the first quarter of next year?

[86] **Andrew Davies:** I very much hope that that will be the case.

[87] **Alun Davies:** I will not press you further, Minister, to avoid embarrassing both of us.

[88] **Andrew Davies:** The Permanent Secretary knows my views.

[89] **Alun Davies:** I asked earlier about your vision for the unit. I would like to take that a wee bit further, if I may. The tone that you have used this afternoon suggests that you see this as a proactive means of delivering public services in different sectors. You have been very open in speaking about different models. How proactively are you looking at moving away from the traditional PFI models that we are familiar with and looking for alternative models of delivery, and for different elements of this new approach?

2.10 p.m.

[90] **Andrew Davies:** I will bring Chris Daws in to give more detail on this, but I can say that, in the discussions that we have had with financial institutions, they have been at pains to point out that PFI is only one model, that lots of lessons have been learned by Government and the public sector about the operation of PFI and other public-private partnership forms, and that they are very much up for having discussions with us about other forms. Those may be off-the-shelf models or they may be bespoke models that we could negotiate with a financial institution. I will ask Chris to come in on some of the options that may be available.

[91] **Dr Daws:** First, where we have revenue streams rather than capital—and we have been looking at something along the lines of a securitisation model—that has to be the principal thing, as that has the least risk. Most recently, because of the credit crunch, we have been talking to advisers, and at least two on our panel are experts in this area, and they are looking at whether we can introduce different models to respond to the credit crunch. In general, the sorts of things that we are looking at are more like joint ventures, which Wales has a history of doing through the Department for the Economy and Transport anyway.

[92] We are also looking at options such as non-profit-distributing models, specifically in the social arenas, and then there are Scottish futures, of course. We are being advised that, until we have our PFI unit up and running, we need somebody working on this more intensively, and that was the point of setting up the ministerial advisory panel.

[93] **Andrew Davies:** You mean the PPP unit.

[94] **Dr Daws:** Yes, sorry. I mean the PPP unit. PFI is such a small part of the PPP market. Sorry. So, we are working on a number of different strands but, specifically, we are using the panel as a source of advice. I have been in touch with it quite recently to ask about different models, especially around waste, because there are some innovative things that we can do, and we need to be responding to the times now, given the credit crunch. We need to be leading, at the cutting edge. The panel will be helpful until we can get the PPP unit up and running.

[95] **Alun Davies:** The committee visited Scotland in the spring to look at issues around the Scottish futures fund, and we will visit Glas Cymru next week to look at that sort of model of financing. This committee is very interested in how we can develop financial funding mechanisms, which may be very new, and the committee is interested in the option of non-profit and mutualism as a means of delivering different models. I hope that you can reassure us, Minister, that those sorts of models are on your policy horizons, and that the Government will retain an open-door approach to these new and alternative models.

[96] **Andrew Davies:** They are very much on our horizon. I mentioned housing associations and the work that we are doing with those, which is a not-for-profit area. I have also had a very useful meeting with Chris Jones of Glas Cymru, the company behind Welsh Water, and that is an extremely successful not-for-profit organisation. My view is that we should cast our net very widely and look at effective models.

[97] On the PPP unit and our approach, there is a lot of evidence that shows that the public

sector has to be a much more intelligent customer now than it has been in the past, whether that is with regard to public-private partnerships or the delivery of, for example, e-government projects. One failing has been that Government and local government, the public sector, have often not had the capacity to understand some of the agreements that they have entered into, or have not been able to manage the relationship with those supplying goods and services. So, the whole area of being an intelligent customer is vital, and I hope that the PPP unit will go a considerable way towards making up for what I think is often a deficiency.

[98] **Angela Burns:** Jenny mentioned the concordat that exists in Scotland and Northern Ireland, and I know that Huw wanted to talk about staff issues with going down the PPP route.

[99] **Huw Lewis:** Yes, I have two questions, Chair. Could the Minister expand on the issues relating to the protection of the workforce, and outline how far down the road we are in discussing these issues with trade unions, how much confidence there is out there, whether sufficient awareness has been raised, and what priority this will be given in the scheme of things?

[100] My second question is on the credit crunch and the stated intentions of the Deputy First Minister in a previous meeting to front-load capital projects to get these things out of the door of the Assembly Government more quickly, to give that financial fillip to the Welsh economy that has also been talked about at the UK level. How does the PPP unit fit into that renewed sense of urgency about the timescale? I cannot see anything here that prompts me to think that the credit crunch has made this even more of a priority so that it happens faster and we see more of that capital spend as a reality in our communities any time soon.

[101] **Andrew Davies:** On our relationship with the trade unions, our approach to social partnership is well known and well attested, and we have been in discussion with the unions about this. In individual discussions that I have had with, for example, Unison, when I have explored public-private partnerships, I have said that I understand its concerns over the impact that PFI has had on its members' terms and conditions, particularly in the health service. That is one reason why we have eschewed its use in the health service. However, I have explored with it the use of PPP in other areas, such as to build roads and to enable housing associations to leverage in a greater level of private finance, and they have no policy, political, or ideological objections to that. However, as I said in my response to Jenny Randerson, these are areas that we will want to explore with the trade unions, whether specifically on these areas, or through the workforce forum, which I chair. We are very committed to a social partnership model. We think that it has worked extremely well in Ireland, and we think that there are lots of practical lessons that we can learn.

[102] On the role of PPP in response to the credit crunch, we are looking as a Government at bringing forward capital investment and interventions in the economy to mitigate the worst effects of the credit crunch. In fact, as I am sure you know, the second meeting of the economic summit is taking place at this very moment in St Asaph in north Wales. The PPP unit can add value in the medium term rather than the short term, because, as I said to Alun Davies, it has not been established yet. However, there is already a huge amount of expertise in different departments, and the Department for the Economy and Transport is one, Value Wales another. So, we are looking for capital programmes that can be fast-tracked, whether in health, education, or the economy and transport, to mitigate the effects of the credit crunch. Those can come forward well before the unit is set up.

[103] **Joyce Watson:** Coming back to that fast-tracking, I think that we would all agree that we want to keep people in work, and, if we can do that by fast-tracking projects that have a beneficial outcome, it is only a good thing. You have mostly answered the question that I wanted to ask, but I want to ensure that we do not act in haste and repent at leisure. If we are

to pump-prime the economy with public money to provide employment, we must not end up losing sight of the workforce and our commitment to our workforce, in that fast-tracking.

2.20 p.m.

[104] I hope that I can be assured that that will not happen. There is a need to invest and to front-load, but at the same time there is a need to sit back and think about the way that, in a year or 10 years' time, that might have affected a relationship with that workforce that they will be stuck with.

[105] **Andrew Davies:** My assumption is that bringing forward capital investment—to take that example—would be done through more conventional means, if I can put it like that. It would be through health expenditure or expenditure in the education sector. Therefore, at this stage, I would imagine that, if we are talking about the very near future, it would be easier to do it under conventional terms and conditions, rather than going down a public-private partnership route, which will probably take some time to set up. That is unless some of the existing proposals are based on some form of public-private partnership, in which case those arrangements are already in place, and it would then just be a matter of fast-tracking it.

[106] **Angela Burns:** I thank you, and your officials, for coming to committee today, Minister. I have a few requests for you. There are several questions that we did not have a chance to ask today, which I would like to put in writing to you and ask for your responses.

[107] **Andrew Davies:** Sure.

[108] **Angela Burns:** You were also going to list the number of current PPP projects. While you list them all, could you make the distinction between the big and the small—or the ones that are recorded in one set of figures, as opposed to the ones recorded in another? I also believe that you are going to reply to us with details of possible PPP initiatives in the transport sector. Would that be acceptable?

[109] **Andrew Davies:** Yes.

[110] **Angela Burns:** Thank you very much for your time—it is much appreciated.

[111] Would Members like a five-minute break now? I see that you would.

*Gohiriwyd y cyfarfod rhwng 2.22 p.m. a 2.28 p.m.
The meeting adjourned between 2.22 p.m. and 2.28 p.m.*

[112] **Angela Burns:** Thank you for returning to the committee, Deputy Minister. Please introduce your colleagues for the record.

[113] **The Deputy Minister for Skills (John Griffiths):** Thank you, Chair. I will ask them to introduce themselves.

[114] **Ms Williams:** I am Elizabeth Williams, head of children and young people's strategy.

[115] **Mr Leighfield:** I am Mark Leighfield, head of 14-19 learning pathways.

[116] **Angela Burns:** Minister, the last time you were here, you answered many of our questions, so I would like to go straight to questions now. Alun has the first question.

[117] **Alun Davies:** Thank you, Minister, for taking the time to address this issue. I think

that we said at our previous session that the Finance Committee has been somewhat stung by its experience of the foundation phase over the last six months. So, we tend to be quite sensitive about the levels and quality of information made available to us. Could you explain why the more detailed financial information that is available to us was not included in the impact assessment that was originally produced to accompany this legislation?

[118] **John Griffiths:** Originally, we sought to demonstrate affordability, because that is this committee's primary concern. Subsequently, we thought that for the committee's general information, it would be useful to provide additional information that went beyond demonstrating affordability, for context, and to put the committee in a more informed position.

2.30 p.m.

[119] **Jenny Randerson:** In your paper, Deputy Minister, you say that it is recognised that there will be transportation and co-operation costs. Why were these additional costs not recognised in the original cost-benefit analysis in the explanatory memorandum?

[120] **John Griffiths:** With the co-operation costs, we have sought to demonstrate that enough money will be provided for the networks because they will have the additional burden, as it were, of working up the arrangements that require the co-operation. The networks will take the co-operation forward, whereas the schools and colleges, for example, already have staff in place that work up the timetables as a matter of course, so they would not have any additional expenditure as far as co-operation costs are concerned. I think that that is relevant to the cost-benefit analysis and the explanatory memorandum. I do not know whether either Mark or Liz would like to elucidate further on that.

[121] **Mr Leighfield:** No, only to say that the explanatory memorandum looked at costs and benefits in a generalised way, which is what I think that you are referring to, but it became clear that, for the purposes of this committee, some additional information would be useful.

[122] **Jenny Randerson:** You say, Deputy Minister, that there are not expected to be additional costs, yet further education providers suggest that there will be. Have you tried to quantify what any additional costs that they think might be associated with this are likely to be and whether their assessment or yours is correct?

[123] **John Griffiths:** I hope that there is not a difference between the two, Jenny, because we recognise that there will be additional costs and we have built those into our figures, which are in the paper before you today. There will be additional costs for travel, for example, and I have mentioned the additional costs for co-operation that will have an impact on the networks. Basically, the moneys that we have provided have been used by the local authority, typically, to employ an additional member of staff to work up that co-operation and take it forward. So, we have sought to identify where the additional cost will fall and to provide the money to meet that additional cost. There will be additional costs incurred as a result of this Measure and taking forward the 14-19 learning pathways. To assess those costs, we have worked closely with the 22 networks across Wales because, obviously, the experience to date is crucial in determining those additional costs for transport or whatever they may be. We have learned from that experience to date and then built into the projections the increased participation that we expect to see, notwithstanding the demographics that point in the opposite direction. Through that process of working very closely with the networks—of course, the further education colleges are key in those networks—we have come forward with these projections.

[124] **Jenny Randerson:** To clarify, you are saying that there will be additional costs for

co-operation and transportation, but that you believe that you have put in sufficient additional money so that the impact on providers will be neutral.

[125] **John Griffiths:** We are confident that the £32.5 million that we have provided, which is, in effect, pump-priming money, is enough to move the system of delivery on from what we have—recognising that there has been considerable improvement already—to what will be the new way of doing things under the Measure and associated policies. We are confident that the additional costs that we mention, Jenny, are provided for in that £32.5 million and that that is sufficient.

[126] **Nick Ramsay:** Deputy Minister, may I ask you specifically about the learning in Wales allocation in the 2009-10 budget? On the face of it, it seems to have been reduced by about £280,000 compared with the 2008-09 allocation. The Minister for education has informed the Enterprise and Learning Committee that this is not actually a reduction, but technically a transfer. I think that it was a transfer to Careers Wales for the 14-19 learning pathways. Can you tell a bit more about that, and if that is indeed a transfer? If so, what is the nature of it and what is the reason behind it?

[127] **John Griffiths:** It is a transfer and something of a technicality, as you suggest, Nick. The reasoning behind it is that Careers Wales is providing a web-based database that is quite important and central to 14-19 learning pathways and the Measure as it is taken forward. It will, in effect, be a free facility for schools to present learners with their options, and it is also useful to the clusters that have developed around 14-19 learning pathways in terms of the co-operation and collaboration because it provides learners with a web-based database of course level details, entry requirements, availability and location. So, it is within the Measure and the 14-19 learning pathways delivery. That is why, in effect, it contributes towards what we want to see. As you say, however, technically, it has been transferred to Careers Wales.

[128] **Nick Ramsay:** Thank you, Deputy Minister. Your answer has explained that in large part. Can you tell us categorically that that is a direct transfer, and it makes up the shortfall in its entirety?

[129] **John Griffiths:** Yes.

[130] **Jenny Randerson:** In the Enterprise and Learning Committee, the Minister stated that of the £32.5 million budget, some £9 million is capital allocation that will be spent through a bidding process. Can you explain the details of that £9 million capital allocation and the bidding process that will be involved?

[131] **John Griffiths:** For the sake of completeness, Jenny, £11.6 million is there for capital, some £2.6 million of which is distributed according to a formula. That has been used for such things as videoconferencing, e-learning more generally and some new vocational provision. That obviously benefits all of the 22 networks. The £9 million capital project fund is a pot of money to which bids are made, and that is because it is about strategic change and collaboration and co-operation. It is about bids that can demonstrate an understanding of the agenda and which include a proposal to use capital money to significantly further the agenda. It is being used for such things as 14-19 learning centres, sixth-form provision in Rhyl, around co-operation and collaboration in post-16 FE provision, a marine and built environment centre at Coleg Llandrillo, and, in Merthyr Tydfil, a construction and technology block has been rebuilt. So, it has been used for some significant projects that demonstrate in whole or in part that they are addressing the 14-19 agenda.

[132] **Jenny Randerson:** What criteria are you applying? Do they relate to the social need in an area or the condition of existing buildings? Can you give us an idea of the vision?

[133] **John Griffiths:** The formula that we use for the £2.6 million takes into account those sorts of factors, but the £9 million for bids is about effecting strategic change and taking the 14-19 learning pathways forward effectively.

[134] **Joyce Watson:** Good afternoon, Deputy Minister, and thank you for giving us more of your time.

2.40 p.m.

[135] I am particularly interested in the implementation of the proposed Measure. A number of responses to the consultation expressed concern over the timing of the implementation of the Measure. In particular, Estyn said that the commencement date of 2009 was unrealistic, given all of the arrangements that needed to be set up to enable learners to choose their courses. Paragraph 3.1 of your paper refers to the phased implementation of the proposed Measure, and it suggests that that should occur at different rates in different areas, and that local authority areas have been placed in one of three bands. It goes on to say that the banding arrangements recognise the various stages of progress among local authorities, and that the bands were derived from a benchmarking process undertaken with members of the 14-19 learning networks across Wales. Can you expand on the process of how these bands were allocated, and how will the banding arrangement be reflected in the allocation of resources? I am sorry that it was a long question, but it is a matter that seems to be concerning people.

[136] **John Griffiths:** Thank you very much, Joyce. With regard to Estyn's concern about the achievability of September of next year as an implementation date, there was a little confusion around Estyn's evidence, which has now been clarified. Given the banding and phasing arrangements, I understand that Estyn is content that September 2009 is achievable as an implementation date. Its previous caution, as it were, was in the light of the banding and phasing not being part of the implementation. So, hopefully, that will be clarified in the future.

[137] On the particular band that a local area is placed within by the local area networks, they have worked closely with us throughout the development of 14-19 learning pathways. We have said to them that we intend to adopt this banding and phasing arrangement. They know what their state of development is within the local area so they are best placed to know which of the three bands the area should be placed within. So, it has been left to local area networks to decide which band they should be in, although we have worked with them closely. As time goes on, some of the areas may choose to move up from the band that they are currently in to a higher band.

[138] The allocation of resources is on the basis of a formula, which does not reflect the state of advancement of any particular area in the implementation of 14-19 learning pathways policy. So, it is up to the 22 areas in Wales, particularly those that are less developed, to use the resource that is provided to ensure that they make the type of progress that we want to see. A formula has been in place for some time, and we would not want to re-jig that formula to reward or to provide a perverse incentive for areas not to get on with this valuable agenda and implement it properly and fully.

[139] **Joyce Watson:** Okay, thank you. I also have a point for clarification. Paragraph 3.3 in your paper says that all areas would be required to reach the minimum entitlement by 2012. Table 2 on page 4 of your paper shows transitional implementation and that all bands should achieve 30 by 2013 or 2012. However, I want some clarification about what this refers to. What is the minimum entitlement from table 3? It appears to be 30, but does the 30 refer to courses? It is just a point for clarification.

[140] **John Griffiths:** The 30 does refer to courses. All areas must achieve 30 courses by 2012, but from September next year, areas will have to achieve 24, 26 or 28, and then increase by two in subsequent years, until they all reach 30 by 2012.

[141] **Angela Burns:** On the subject of clarification of the numbers contained in your paper, I have a couple of questions about your population projections. First of all, on what year did you base your population projections? Your table shows a drop from 2008 to 2014, did you use a median year? How did you reach those population numbers?

[142] **John Griffiths:** I will ask Mark to come in on this, because I think that it varies in terms of post-16 students and key stage 4, and it is probably 2007, but rather than speculate I will ask Mark to give you chapter and verse.

[143] **Mr Leighfield:** Mark is desperately searching through his files at the moment.

[144] Basically, we took the latest Government actuarial department figures as the basis for building our population figures, and they have been worked on by the statistics department in DCELLS. So, we took the most recent year that was available in order to take that forward, and I believe that the Minister is right and that that is the correct year.

[145] **Angela Burns:** Is that 2007?

[146] **Mr Leighfield:** Yes.

[147] **Angela Burns:** Thank you for that. To expand on this a little further, you show the population as going down, but you make the statement,

[148] 'Estimates of increased participation rates have been assumed in the costs'.

[149] That is because this process will re-engage more people who have left schooling, but they are not shown in the table, which shows a decrease. From where have you got your projections for the increased participation and how sure are you that those projections for increased participation are sound? Again, I do not want to see one graph dropping, and that being the figure on which you base your money, and another graph rising and then a gap in the middle.

[150] **John Griffiths:** As we state, even though the demographics show a decline in population for the relevant ages, because, as you said, Chair, it will be a much better offer, which will engage young people more effectively, we expect participation rates to increase. In assessing what the increase will be, we have drawn heavily on experience to date, because we have been developing the 14-19 learning pathways policy for some time, and we have seen an increase in participation as a result of that development. So, we have drawn heavily on experience to date, which is absolutely vital, because, in many ways, that is the best evidence that there is, but we have also erred on the side of caution in terms of our projections. We projected an increase in participation above and beyond what we have seen to date, partly because we think that that will happen as the policy is further developed, but we have also erred on the side of caution. That has been the basis for the projections.

[151] **Angela Burns:** Thank you for that. So, in short, you have been using empirical evidence. One of the things that would concern this committee would be if not enough funding was put in place to allow for a strong uptake. The objective of the exercise is to ensure that we have a strong uptake of this new pathway. So, are you happy and convinced in your own hearts that the empirical evidence and the extra bounce that you have built in will be more than sufficient to cover any uptake, despite the drop in population, and that you have got the sums right?

[152] **John Griffiths:** We are confident that we have, although it is fair to say that any exercise of this sort is not an exact science. However, we have drawn heavily on experience to date from the development of the 14-19 learning pathways, which is not the very recent past—we have been developing this policy for several years, and that gives us a bank of empirical evidence on which to draw.

[153] **Lorraine Barrett:** I am looking at the cost estimates and table 4 in particular. You say,

[154] ‘The estimates are based on a number of assumptions’.

2.50 p.m.

[155] However, no information is provided as to how these estimates were calculated. With regard to the assumptions, it stated that they relate only to population, provision of entitlement, travel and learning coach function training. Could we have some more detail on how the estimates were calculated and on what the assumptions were based?

[156] **John Griffiths:** Yes. As you say, Lorraine, in essence those assumptions relate to population and participation, training costs, learning coach function, the addition of provision including the cost of course take-up—as we have just been discussing—and the frequency and cost of travel. Participation is assumed to increase for post-16 learners by 1 per cent per annum, and the current trend is 0.2 per cent per annum. Therefore, I think that you can see from that that we have built some leeway into the projections. We also know that vocational options will be taken up much more. They have a funding uplift of 25 per cent therefore that is also built into the projections. As I said, those assumptions are very much based on experience to date in taking forward 14-19 learning pathways. There is an assumption on the number of trainees per group, the rate of pay of the trainers, the completion dates of the training of the learning coaches on the learning coach function modules, the co-operation and planning functions and much more besides. We could provide you with an additional paper on this, Chair, if you think that it would be valuable. Obviously, it gets into quite some detail.

[157] **Lorraine Barrett:** As the Chair said earlier, the committee probably just wants to be confident that the estimates are calculated on some firm foundations and that you are confident that the assumptions that you use have a strong base and that it will not fall flat half way through.

[158] **John Griffiths:** Absolutely. It is very much a matter of drawing on experience to date. As I said earlier, I think that that gives you the soundest idea of what extra costs will be involved.

[159] **Angela Burns:** We would like to have that paper and in quite a fair amount of detail. I think that we have learnt quite valuable lessons over just getting the numbers right. Therefore, it would be excellent if we could see that.

[160] **John Griffiths:** Okay, Chair.

[161] **Angela Burns:** Oscar, did you have a very short supplementary to Lorraine’s question?

[162] **Mohammad Asghar:** It was similar, Chair. Table 6 gives the costs of implementing the proposed Measure by year. Why have the co-operation costs not been included?

[163] **John Griffiths:** We included the co-operation costs, Oscar, in the previous tables—

tables 4 and 5—but table 6 has a different purpose. It rolls out expenditure as more groups come online. There is no direct relationship between the co-operation costs allocated and the additional year groups. The co-operation costs continue outside of that rolling out of the programme. That is why we did not feel that it was relevant to table 6. Obviously, it is very much relevant to tables 4 and 5.

[164] **Lorraine Barrett:** Going back to table 4, which shows the estimates of costs, those are revenue expenditure, but what about capital expenditure? Why has that not been taken into account for these purposes?

[165] **John Griffiths:** That reflects the emphasis of expenditure issues raised within the consultation. It was revenue expenditure that was considered to be the key issue with regard to 14 to 19 development. In relation to the implementation of the proposed Measure and the minimum entitlement within that, capital expenditure was thought to be a lesser concern. I guess that that reflects the generality of service provision where revenue, in many ways, is by far the more difficult part of the equation.

[166] **Lorraine Barrett:** Are you saying that the capital is already there—the usage of buildings, facilities or whatever—and that it does not actually come into the proposed Measure?

[167] **John Griffiths:** Capital is part of it and that is why, within the £32.5 million, there is the capital provision, because, in taking things forward, new builds and new equipment are relevant. In the consultation exercise, revenue was seen as the key matter to be considered in taking the proposed Measure forward, and we have responded to that concern in the way that we presented the paper.

[168] **Angela Burns:** May I clarify Lorraine's point? You feel that you have enough funding, or enough of a grasp of the amount of capital funds that you will require, to take this proposed Measure forward and implement it successfully throughout Wales?

[169] **John Griffiths:** Yes, we do, Chair. The £32.5 million is about pump-priming, in terms of revenue and capital. There is a big envelope of funding available that is used every year for 14 to 19 education and training. The £32.5 million is outside of that and is there for pump-priming to facilitate the step change that we need. So, in that context, we are confident that it is sufficient money.

[170] **Jenny Randerson:** To link that to my previous question, further education providers have complained for many years that there is not enough capital money available. I assume that the pump-priming £9 million that is allocated will be eagerly bid for, so what about the unsuccessful bids? Do you have any ballpark figures for how many bids you are likely to receive and how many further education colleges and other providers will not receive what they regard as necessary to provide the strategic change that is needed?

[171] **John Griffiths:** There is a question of general funding for further education colleges, and then there is the proposed Measure and the sum of £32.5 million, which is what we are concerned with today. Within the £32.5 million, there is the £2.6 million capital that is distributed under the formula and £9 million for the bidding process. We are confident that those moneys are sufficient, in terms of pump-priming, to effect the sort of change that we want. There is then the more general question, which I think you are referring to, of general money for further education estate development, such as new builds, outside of that. That is when the general capital moneys provided and the strategic capital investment board become relevant. As far as the latter is concerned, many area networks, including colleges, have impressive bids and proposals that they are currently taking forward.

[172] **Nick Ramsay:** I have a brief supplementary question on that issue, following on from Joyce Watson's comment. Of that £32.5 million, £17.5 million is at the peak level of implementation. Are you confident that that will be the peak level upon the full implementation of the proposed Measure, or is there any leeway in that? Have you built in any safeguards if it exceeded that?

[173] **John Griffiths:** We have built in safeguards in terms of the general £32.5 million that is provided, and in all of our projections and figures, we have erred on the side of caution because we think that that is entirely appropriate. So, we are confident that those figures are robust and will stand the test of implementation as we take things forward.

[174] **Huw Lewis:** I have a quick question on the cost of inflation. John, you have used a steady rate projection of 2.75 per cent, which, I think, is based on Treasury deflators.

[175] **John Griffiths:** It is, yes.

[176] **Huw Lewis:** There are other measures of inflation out there, such as the consumer price index and retail price index, which are at 5 per cent and above. Why did you choose the lower figure?

3.00 p.m.

[177] I am sure that it is more than just wishful thinking.

[178] **John Griffiths:** Yes, Huw, it is. As you rightly say, the GDP deflator is the standard measure used within the Treasury rules for public projects of this nature. It measures movements in prices and UK inputs into the economy, such as wages and profits. A measure based more on the consumer basket of goods, as it were, would not be so relevant to this particular project. So, we have adopted the usual and most appropriate measure for projects of this kind, in line with Treasury practice, as you say.

[179] **Nick Ramsay:** I want to ask about the implementation group. When Jane Hutt appeared before the Enterprise and Learning Committee, she stated that she had asked you to form such a group, similar to the one she chaired on the foundation phase. It was to involve the WLGA, the Association of Directors of Education in Wales and other interested parties. Can you update us on that? How is it progressing, and have you been successful in setting it up?

[180] **John Griffiths:** First, in taking forward this 14-19 learning pathways policy since 2002, we have worked closely with key stakeholders across Wales, and that is still the case. Obviously, the local area networks embody that partnership approach, involving all the key stakeholders. What we decided to do with the implementation group was to bring various organisations together—including the relevant trade unions, the WLGA, Estyn, UCAC and many others. We wanted to hear their opinion of the current position, particularly given the concern expressed to the Enterprise and Learning Committee about whether implementation in September 2009 was realistically achievable. We thought it best to get everyone around a table to discuss those issues and engage openly and constructively on the matter.

[181] We are confident that September 2009 is achievable because of the progress made across Wales under policy within the 22 areas. Obviously, if there is a need to communicate that progress better, and to listen to the concerns, we are very willing to do so. A meeting has been arranged for Friday of next week, and I look forward to that because I want to ensure that we take this important, flagship policy forward effectively in ever-closer partnership with the key stakeholders.

[182] **Nick Ramsay:** You certainly have a wide range of stakeholders there. You said that the 2009 target is achievable, but doubts have been expressed about that.

[183] **John Griffiths:** Yes, I think it is achievable because, drawing on experience to date, substantial progress has been made across Wales, and those areas that have been progressing more slowly have elected to go into band C, which is less challenging—relatively speaking. They will be required to provide only 24 options in September next year, rather than the 28 for authorities in band A, or the 30 that will be required by 2012. So, the phasing and banding arrangements allow the September 2009 targets to be reached. Encouragingly, we have seen that those areas that have had the most difficulty in implementing this policy have invested more time, effort and commitment, and, as a result, there has been a substantial uplift in performance in those areas. With all that practical experience to draw upon, I am confident that the September 2009 date can be met.

[184] **Angela Burns:** Deputy Minister, I thank you and your colleagues for coming to committee and answering our questions today. We have identified several areas where you have based your plan on estimates and assumptions, and we have asked for fairly detailed responses from you. I cannot emphasise the importance of that to this committee. We need to be able to produce a report on this proposed Measure, and we are seeking reassurance that those estimates are based on sound methodology and current numbers, along with the hard and fast figures that we see in budgets and so forth. Would you prefer us to write to you with the questions that we want answers to, or are you happy to take on board what we have said and to come back with an initial hit?

[185] **John Griffiths:** I am happy to provide you with the information that I think you want. However, if there is any additional information that you require, please write and we will provide what we can.

[186] **Angela Burns:** Thank you. The clerk has just reminded me that we need those answers quite urgently, because of the timescales for the progress of the proposed Measure. Could we have that information by the middle of next week?

[187] **John Griffiths:** I think that we can do that, Chair.

[188] **Angela Burns:** Thank you, and thank you for your time today.

3.06 p.m.

Cynnig Trefniadol Procedural Motion

[189] **Angela Burns:** I now need someone to propose that we go into private session.

[190] **Joyce Watson:** 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).

[191] **Angela Burns:** I see that the committee is in agreement, which brings this meeting to a close. Thank you for coming.

*Derbyniwyd y cynnig.
Motion carried.*

Daeth rhan gyhoeddus y cyfarfod i ben am 3.06 p.m.
The public part of the meeting ended at 3.06 p.m.