



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

**Y Pwyllgor Cyllid
The Finance Committee**

**Dydd Iau, 5 Tachwedd 2009
Thursday, 5 November 2009**

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

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

Aelodau pwyllgor yn bresennol
Committee members in attendance

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

Eraill yn bresennol
Others in attendance

Jeff Andrews	Cynghorydd Arbennig Special Adviser
Piers Bisson	Pennaeth, Cyllidebu Strategol, Llywodraeth Cynulliad Cymru Head of Strategic Budgeting, Welsh Assembly Government
Andrew Davies	Aelod Cynulliad, Llafur (Gweinidog dros Gyllid a Chyflenwi Gwasanaethau Cyhoeddus) Assembly Member, Labour (Minister for Finance and Public Service Delivery)
Dr Christine Daws	Cyfarwyddwr Cyffredinol, Cyllid, Llywodraeth Cynulliad Cymru Director General, Finance, Welsh Assembly Government

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

John Grimes	Clerc Clerk
Abigail Phillips	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 4.04 p.m.
The meeting began at 4.04 p.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Angela Burns:** Good afternoon, and welcome to this meeting of the Finance Committee. I thank our witnesses, the Minister and members of the committee for meeting

here today; this is outside our normal schedule, and I appreciate your giving of your time in coming here. Minister, I ask you to introduce yourself and your team for the record.

[2] **The Minister for Finance and Public Service Delivery (Andrew Davies):** As in the session on Monday, I am joined by Dr Christine Daws, the director general for finance, who is my lead official on the finance side; Piers Bisson, who is head of finance planning; and Jeff Andrews, who is my special adviser.

[3] **Angela Burns:** Welcome. We are joined today also by Lorraine Barrett, who is kindly substituting for Joyce Watson, who sends her apologies. We have also had apologies from Huw Lewis. Alun Davies and Kirsty Williams will be slightly late as they are on other business at the moment.

**Cyllideb Ddrafft Llywodraeth Cynulliad Cymru 2010-11: Tystiolaeth gan y
Gweinidog dros Gyllid a Chyflenwi Gwasanaethau Cyhoeddus
Welsh Assembly Government Draft Budget 2010-11: Evidence from the Minister
for Finance and Public Service Delivery**

[4] **Angela Burns:** Thank you for coming back to join us for our final session. When we met on Monday, we were left with the strong view that we would like to explore a number of issues further. There is general discomfort in the Finance Committee with regard to some of the marrying of policy with the actuality of the budget, which is why I am grateful that you have come, Minister, because clearly your officials are not in a position to answer questions on policy.

[5] The first series of questions, which relate to the direction of travel of the budget, will be taken by Nick and Kirsty. Nick, would you like to start?

[6] **Andrew Davies:** Can I just come in before the questions? I have some up-to-date information for colleagues. Thank you for the opportunity to appear at the committee this afternoon. I thought that it would be useful to update Members on the position regarding the Wales Audit Office. As you know, I reported to the committee on Monday that we were seeking legislation. In fact, I addressed a joint meeting of the House of Commons and House of Lords on Tuesday afternoon. As you know, we are seeking provision for a Measure-making power in the Constitutional Reform and Governance Bill, in order to provide the National Assembly for Wales with the competence to put arrangements in place for more effective oversight of the Auditor General for Wales and the Wales Audit Office. As I said, I briefed MPs and Lords on Tuesday; they raised a series of queries for clarification, and I hope that I was able to answer those. I felt that there was all-party support for this measure. I am pleased to say that, yesterday evening, the required amendment to the Bill was adopted, unopposed, at the parliamentary committee, and the Bill will now continue on its parliamentary journey.

[7] **Angela Burns:** Thank you, that is much appreciated.

[8] **Nick Ramsay:** As the Chair described, following the last session, we had some queries and areas for clarification, and we would be grateful if you could clear those up for us.

[9] I want to start by asking some general questions on overall strategic direction. At the last meeting, you discussed the decisions taken in the draft budget and the need to drive the economy forward at a time of recession. Do you believe that the economic growth required to lead us out of recession is achievable within the parameters of the current budget? Do you think that the decisions that you have taken with regard to the distribution of the funding to different departments are correct?

[10] **Andrew Davies:** On economic development generally, macro-economic policy is not a matter for us; it is for the UK Government. With regard to responding to the recession, we are working closely with the UK Government on a range of counter-recessionary measures, particularly on the skills side. I have made reference on many occasions to the ProAct scheme, but I would also refer to our use of capital expenditure and public procurement. We believe that we are doing everything that we can to maximise that expenditure for the benefit of the Welsh economy.

[11] **Nick Ramsay:** I appreciate that there are macro-economic issues at play, which are outside your remit. However, the Assembly Government has control over economic development; it is obviously a major department, particularly at this time. From looking at the figures, the Deputy First Minister and Minister for Economy and Transport's portfolio has been allocated about £31 million less in 2010-11 compared with 2009. That is a fall of 10 per cent. How does that fit in with your assertion that your priorities for economic development at a time of recession are right?

[12] **Andrew Davies:** Again, the level of funding that we are putting into both the economic development portfolio and that of the Department for Children, Education, Lifelong Learning and Skills in relation to skills development is significant. If you look at the strategic, or big-picture, level, we are investing more proportionally in economic development functions than other parts of the United Kingdom. For example, we invest proportionally more than Scotland in economic development functions. Overall, we are investing a considerable amount of resource.

[13] On the specific question that you raised, perhaps I can ask Piers to respond to that.

4.10 p.m.

[14] **Mr Bisson:** In relation to the Department for the Economy and Transport's overall budget, on the revenue side, there is an increase between 2009-10 and 2010-11 of around £4.8 million. There are changes compared to indicative plans. There is a reduction of £7 million and an addition of around £4 million, so that is the situation.

[15] On capital, one significant change in relation to the Department for the Economy and Transport is the bringing forward of the capital budget from 2010-11 into 2009-10 and earlier years. So, there is an element there of bringing forward the projects as well as the capital.

[16] **Nick Ramsay:** I think that some of my colleagues want to ask questions later about the bringing forward of capital, so I will leave that to one side for a moment. However, I would like to ask you about one particular aspect of the economic development portfolio. I believe that there is a reduction in both revenue and capital funding for the action to provide flexible support for businesses and the overall funding to develop Wales as a focal point for innovation, technology and commercialisation. Those are two areas where both revenue and capital are falling. I am having problems here seeing this. You may have reasons for reducing the amount and I understand that things are tight at the moment. However, I am trying to marry the reduction in those key programmes with what you say is your aim at the moment, which is to drive the economy forward. I cannot see how those two fit together.

[17] **Andrew Davies:** As I have said on many occasions, irrespective of those figures, the most important thing is to look at the return for the investment. So, it is not about how much you spend, but the return that you get for that investment. It also disregards the funding that we have put in through the strategic capital investment fund process. For example, an additional £4 million has gone into supporting research and development in relation to capital expenditure specifically for the economy and transport. We are also funding a range of other

investments in that portfolio as well as in the Department for Children, Education, Lifelong Learning and Skills portfolio.

[18] If you look at our use of reserves, you will see that we have targeted the 1 per cent capital reserves particularly at counter-recessionary measures as well as, on the revenue side, the additional resources that we have put in through the ProAct scheme. So, whether it is through the supplementary budget process early in the year, through the draft budget, or through the SCIF process, we are targeting a considerable amount of resource into helping the economy. In addition, £20 million has been put in through DCELLS to tackle youth unemployment specifically, because we do not want to have another lost generation. So, a considerable amount of money is being invested in both long-term economic development and in dealing with more immediate counter-recessionary measures.

[19] **Nick Ramsay:** Thank you, Minister.

[20] **Angela Burns:** Kirsty, do you want to come in on this point?

[21] **Kirsty Williams:** Yes, if I may. Minister, you are confident in your assertions that you have given money to the Deputy First Minister that reflects the seriousness of the situation that the Welsh economy faces at the moment. Given that you are so confident, why do you think that the members of the Enterprise and Learning Committee have been so categorical—across the parties; all members of that committee would have had to have signed off the letter that we have received—in stating that funding is not necessarily being directed to the areas in which it could have the greatest effect in helping Wales out of recession? That committee, which scrutinises the Deputy First Minister on a regular basis and has an overarching view of the Government's portfolio, seems to be completely at cross purposes with you. When it comes to effect and outcomes, it believes that the projects that should be funded are not being funded in your budget.

[22] **Andrew Davies:** I accept what you have said, but I did not appear before the committee, so I do not know what the counter-views were. What programmes, for example, would the committee recommend that the Government or the Deputy First Minister should invest in that are alternative or additional to those that he had done?

[23] **Kirsty Williams:** I am happy to go on.

[24] **Andrew Davies:** I am asking because I do not know what the alternatives were.

[25] **Kirsty Williams:** The committee goes on to state that it is surprising that financial support to business is being cut and that initiatives around innovation and research and development also seem to have been cut. Our concern is that the Government has quite clearly stated that its priority is to get us out of this recession and we would then expect the budget to reflect that. The very committee that has a strategic overview of the Government's policy in this area is not convinced that your budget reflects the need to invest in these particular programmes at this time.

[26] **Andrew Davies:** I hear what you say, but you still have not offered an idea of what other priorities this Government should fund and where the additional resource should come from. Should that come from the health, education or heritage budget? As a Government, we have to make those strategic decisions and, as Minister for finance, I am responsible for working with colleagues to decide on those allocations. However, I still have not heard what alternative measures we should invest in. If you are saying that more money should be allocated to certain priorities, where should that money come from?

[27] **Kirsty Williams:** I am simply reflecting the concerns of the committee whose job it

is to scrutinise that aspect of Government policy. It is not convinced that the budget accurately reflects that priority.

[28] **Andrew Davies:** I accept that it was looking at one particular area of activity for which the Government was responsible. As Minister for finance, I am responsible for all levels of financial decision making. If you rob Peter to pay Paul, you need to be able to work out where that money is coming from.

[29] **Kirsty Williams:** Absolutely, and I am glad that you have raised the fact that you are taking cross-portfolio strategic responsibility for this budget. Perhaps you could give us an insight into the discussion that you have had with individual portfolio Ministers on Government-wide themes in response to the current climate. As you say, this is difficult and we cannot spend the money twice. The departments have to make these decisions among themselves. Perhaps you could give us an insight into that process. For example, if the Government's main priority is to get us out of this recession, how have your discussions resulted in that being followed through?

[30] **Andrew Davies:** The major strategic priority for us as a Government is delivery of the 'One Wales' agreement. The strategic allocations for delivering 'One Wales' were made back in the 2007 budget. At this level, we are fine-tuning rather than making significant changes to those decisions that were made two years ago. Ann, as Chair of the Committee on Equality of Opportunity, wrote to me separately—she has a copy of my response—on how we, as a Government, deal with cross-cutting issues, whether those are related to a healthy future, a more prosperous society or a fair and just society. We work collaboratively on those areas as a Government to decide on allocations in terms of whether they are strategic, cross-cutting areas.

[31] Even when we made decisions on the second tranche of the strategic capital investment fund, explicit in that process was the use of the Wales spatial plan as another cross-cutting driver. So, at a sub-regional spatial plan level, there was an opportunity for Ministers and other stakeholders, including local government and others, to have an input into those allocations on a cross-cutting basis. So, whether it is done on all-Wales level or on a regional level, there is implicit cross cutting.

[32] **Kirsty Williams:** I am struck by the fact that you say that this budget reflects the One Wales Government priorities. I assume that you are referring to the 'One Wales' document.

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

[34] **Kirsty Williams:** With the best will in the world, when that document was written, we were not in the middle of the longest-ever recession since records began. The situation in which we find ourselves is serious, with unemployment rocketing through the roof. That could not have been foreseen when that document was written, so I am not passing judgment on it being wrong, but we have moved on hugely since that time, so surely a budget should reflect where we are now and not a political document that was written two years ago.

[35] **Andrew Davies:** Sorry, I did not want to bore you by repeating what I said earlier.

[36] **Kirsty Williams:** I am not bored; I am interested.

4.20 p.m.

[37] **Andrew Davies:** I will repeat that we have undertaken a range of measures to deal with the recession and its effects. For example, the ProAct scheme and the beefing up of the ReAct scheme have been commended, not only in Wales, but throughout the UK and globally

in terms of our response to this recession. We have used our capital reserves in relation to the construction industry, in particular, working out how we can work with that industry, which has been particularly hard hit by the recession, for example, in our policies on procurement and increasing our level of spend across the public sector. Of the £4.5 billion that we spend annually, we have now taken that from a level of over a third being won by Welsh-based companies in 2004 to well over a half. We have also been working with the UK Government on the Future Jobs Fund, administered by the Department for Work and Pensions, for example. We have taken a whole range of measures that are aimed specifically at dealing with the effects of the recession, whether through revenue or capital funding. One of the very significant increases in funding for DCELLS was the £20 million to deal specifically with youth unemployment. As I said, we do not want to have another lost generation on our hands.

[38] **Alun Davies:** Thank you for giving more of your time than had been anticipated to discuss this issue, Minister. I think that everybody appreciates that.

[39] I was struck by your answer to Kirsty's question. In terms of where we are with 'One Wales', all of us signed up to that and accepted the consequences regarding the comprehensive spending review up until the 2011 election and that that would guide and provide a framework for our budgetary priorities. However, since then—at the risk of repeating what Kirsty said—we have entered an unforeseen recession. I would have anticipated that we, as a Government—or you as a Government—would have been able to act in a more agile fashion and reorder the spending priorities to meet the needs of the Welsh economy. All of us on the Government side have been talking about the way that we have responded to the recession. I think that the Government has done a very good job in responding to the recession, prioritising skills, training and investment in a different economy. I think that perhaps I would have anticipated that this year's budget would reflect those new priorities that we could not have anticipated in 2007. Is that a fair comment?

[40] **Andrew Davies:** I am not sure whether you are saying that we have responded or that we have not. On the one hand, you are saying that we have not responded agilely enough and, on the other, you are saying that we have responded. The Confederation of British Industry Wales has said very clearly that, as a Government, it holds us up as an exemplar in terms of responding to the needs of the economy, whether in relation to the construction industry, dealing with youth unemployment or the ProAct scheme. Over a year ago, we established the first economic summit, chaired by the First Minister. Only two or three weeks ago, we had the eighth of those economic summits and because of what we call the Team Wales approach, the social partnership approach, I believe that we have responded very agilely to the needs of the economy and the people of Wales. I do not want to repeat what I have said before, but whether it is in terms of our capital reserves, investing in capital expenditure and targeting the needs of the construction industry, or whether it is in terms of an additional £20 million to tackle youth unemployment, or the ProAct scheme, which was a direct result of the first economic summit over a year ago, or investing in a whole range of other programmes, there is a very considerable additional resource going in to ensuring an immediate response to tackle the needs of the Welsh economy. So, again, I think that we have responded in a very agile way, whether in Wales or, indeed, working with the UK Government through the Future Jobs Fund.

[41] **Alun Davies:** It certainly was not my intention to criticise that response. I certainly would not want that to be perceived as the case. I suppose that it is because this is the first post-recession budget in many ways. When we were having these discussions and debates last year, we were in the throes of that dreadful financial crisis and although, at different times, we anticipated the impact on employment and on the wider Welsh economy, we are now in a situation to see the damage that has been done by last autumn's crisis, and I suppose, having viewed all of that, perhaps there was an expectation that this year's budget would be quite different from what would have been anticipated a year ago. I think that that is what the

Enterprise and Learning Committee was trying to reflect, that it would have expected more of a reordering of the Government's priorities in order to respond to the events of the last year, which, when we drew up the original 'One Wales' budget, would have been unforeseeable. I think that there was anticipation that this budget would be quite different, that it would be a more political budget possibly, with greater focus on those issues that you and other Ministers have identified as being crucial to leading Wales out of a recession.

[42] **Andrew Davies:** I do not accept your premise that this budget does not respond to the people and communities of Wales. Another example of our making a significant allocation is through the revenue support grant. We have put an additional £34 million into the revenue support grant, and that has allowed local government an uplift of 2.1 per cent in terms of the RSG, which is the same as the overall uplift for Assembly Government departments. That addition has been welcomed and acknowledged by the Welsh Local Government Association in particular, and by individual council leaders. I was with Councillor Russell Roberts, the leader of Rhondda Cynon Taf, only this morning, and he made the point that, despite a very tough financial settlement, they are extremely grateful for the additional resource going in. That was a political judgment in explicit recognition of the fact that local authorities are having a tough time, in which demand for many of their services has increased, as I am sure you know, while at the same time their income has decreased because of the reduced value of asset sales and reduced income from planning fees and other sources. We have accepted that local government in particular has had a difficult time, and the financial allocation has increased as a result. That is another area in which we have responded, in this case in terms of revenue, to deal with the recession.

[43] **Angela Burns:** Ann is next, and then Nick, after which, because I am mindful of the time—we ran out of time last time—I would like to move on to the series of questions that I know that Ann and Lorraine have on a certain area of interest.

[44] **Ann Jones:** I am glad that you mentioned that extra £34 million for the RSG, because we are just letting local authorities spend it; we have not given them any direction as to how they should spend that additional money, just as we did not give them any direction on how to spend the £22 million that you have rolled in from the deprivation grant. When I asked you about that on Monday, you said that you would talk to Brian Gibbons about it. Have you done that?

[45] **Andrew Davies:** Yes. We also discussed the issue of business rates. We had a discussion about that the other day, and we are looking to have a more formal meeting about that shortly.

[46] **Ann Jones:** So, will you discuss whether the deprivation grant can be a stand-alone grant?

[47] **Andrew Davies:** That matter would have to go through the finance forum, which is chaired by Brian Gibbons as the Minister for local government, and which is attended by local government representatives, the WLGA and others. I have not been party to the discussion about the deprivation grant specifically, but there are areas—I mentioned business rates as one example—where there are clear concerns. I gave a commitment to raise the issue. I have done that informally, and I shall be doing so formally as well.

[48] **Nick Ramsay:** Minister, you said that you have your fingers on the purse strings. You are the Minister that controls overall strategic planning—basically, the other Ministers do not spend the money without speaking to you about the amount they get. Coming back to a question that Kirsty asked, I may not have been listening properly but I seem to have missed the answer to it. It was: what discussions have you had with the portfolio holders regarding their medium and long-term plans and their proposed changes to their current budget

priorities to get us out of this recession? I do not think that you have answered that question effectively. Do you want to come back to it?

[49] **Andrew Davies:** On the precise mechanisms, there are two channels. There is the normal budget process, in which I conduct a series of bilateral meetings with individual spending Ministers, and they are paralleled by meetings at official level. There is also the budget performance Cabinet committee, which the First Minister chairs and which the Deputy First Minister and I attend along with other Ministers. That, too, has an oversight of the budget process. So, there are extensive mechanisms by which, bilaterally or collectively at Cabinet level, spending decisions and budget processes are overseen. With the budget performance committee, on the other side, expenditure and its effectiveness are monitored, and that is in addition to my series of bilateral meetings with Ministers in-year on their expenditure and outcomes.

[50] **Nick Ramsay:** Do you have the changes that you wanted?

4.30 a.m.

[51] **Andrew Davies:** We are now in a much better position, combined with the administrative and technical changes made by Dr Christine Daws as the director general of finance, which have led to much more robust financial measures. Chris may want to come in on this to give some detail on the systems, which are now much more effective in terms of planning and monitoring expenditure.

[52] **Dr Daws:** We put in a new SAP system ledger 18 months ago, which has enabled a much more devolved structure. I also have matrix-working with the heads of finance in each of the director general areas and the portfolio spending areas. We now meet on a fortnightly basis to go through the issues, plans and look at the budget. We had a meeting today to go through where we were in-year and where we were around the final budget issues going forward, capital issues and revenue issues. It is far more structured now in terms of the advice that we offer to Ministers and to the fortnightly budget and performance committee meetings. So, we are in a much better position. There is also the development of the integrated planning and budgeting tool that we now have as part of the system, which means that we will be able to monitor budget lines against the activities to see how we are contributing to the outcomes.

[53] So, there is a much more strategic approach, alongside the strategic capital investment fund, which has made a huge difference in terms of the processes at an official level to advise Ministers in the most effective way. As part of the work that we do now, we are interrogating how many jobs are being created as part of the capital investment that we are making, and that is an ongoing part of the process.

[54] **Angela Burns:** Ann, do you want to explore your area?

[55] **Ann Jones:** Overall, the Department of Children, Education, Lifelong Learning and Skills has seen a reduction in its total departmental expenditure of £66.8 million, as compared with its expenditure in 2009-10. On top of that, we know that there are planned efficiency savings of 5 per cent for the further and higher education sectors, which is different from the target in other sectors of 1.6 per cent. We are concerned about skills, and I know that you have said that money is going into the skills budget, but if the sectors are facing that reduction, and given the additional pressure on the skills budget and the 5 per cent efficiency savings that we are looking for, are you not treating education poorly?

[56] **Andrew Davies:** No. If you exclude transfers, there has been a real increase in the DCELLS budget of 2.5 per cent. On the capital side in terms of the reduction, a lot of that has been accounted for by bringing forward capital expenditure and other changes in-year. The

point that you made about efficiency savings is one that will be faced by the public sector across the board. It will be incumbent upon us as a Government to ensure that we, and those organisations that we fund, get the best value from the expenditure that we make.

[57] Higher education is a priority, and the Minister for Children, Education, Lifelong Learning and Skills is looking at increasing the amount of resource going into higher education through reform of the student support and student finance system. There is also a major area with the number of higher education institutions that we have and, as the Merfyn Jones report showed, the question is whether we have a higher education sector that is competitive and provides the education required by not only students, but by the Welsh economy. We will be looking at the performance of the higher education sector collectively and individually over the coming years.

[58] **Kirsty Williams:** The crux of Ann's question is why are you expecting 5 per cent efficiency savings of HE and FE in their revenue budgets when the target for other departments is 1.6 per cent. What information do you have that has led you to believe that that is an appropriate level of efficiency savings to be made from that particular sector, and not from others?

[59] **Andrew Davies:** I will have to come back to you on that as I do not have the information in front of me, but I will get it and make it available to the Chair.

[60] **Kirsty Williams:** Christine, is that something that the process that you have just talked about throws up when you look at the efficiency of individual portfolios, and track it and monitor it carefully? Is it that information that lends the Minister to say, 'That division can make efficiencies of 5 per cent and everyone else can only manage 1.6 per cent'? It is a big discrepancy.

[61] **Dr Daws:** Our tracking system is now looking at how they are delivering. We did not look at the capacity at my level; that would have been done within the individual departments. However, you are right that, in future, that would be part of what I would look at. In setting these budgets, that would be an individual portfolio decision about its priorities in the main expenditure group.

[62] **Kirsty Williams:** Given that the person who is the favourite to become the new First Minister has made specific commitments about increasing spending on education, what provision do you have in your budget, Minister, to allow that to happen?

[63] **Chris Franks:** This answer will be interesting.

[64] **Angela Burns:** We will disregard any comment about who may or may not be the next First Minister.

[65] **Andrew Davies:** That is a hypothetical question, and it is not one for me.

[66] **Kirsty Williams:** What room for manoeuvre do you have, should priorities change in six weeks?

[67] **Dr Daws:** In real terms, the education budget was increased.

[68] **Andrew Davies:** The budget that we are now talking about will be debated and, I hope, voted in by the Assembly on 8 December, and that will be the budget for 2010-11.

[69] **Ann Jones:** On the discrepancy between the 5 per cent saving and the 1.6 per cent saving, surely, as Minister for finance with a strategic overview, you should be able to say to

a Government department, 'I want you to find savings of this amount'; it should not just be left to individual portfolio holders. We have a tight budget. If skills and education are our priority, I cannot see anything in the skills and education budget that offers any hope for those out there. Higher education and further education will be major players in taking us out of this recession and yet we are asking them to face this. Somewhere across the board, as a strategic Minister for finance, you should be able to say to portfolio holders, 'I expect you to find this amount of money—no argy-bargy, this is how much you've got to find'. It does not appear that you have done that. You have let them all go off and play around and come back and say, 'Oh, Mr finance Minister, I'm sorry, I can't do this', and your response is, 'Okay'. That is not how I think that it should have been done. I might have got it wrong, of course.

[70] **Andrew Davies:** Decisions about allocations within each Minister's budget or MEG is a matter for them. When it comes to a strategic level, as a Cabinet, we agreed that we would deal with the reduction as a result of our share of the £5 billion-worth of efficiency savings that the UK Government required through a saving of 1.6 per cent across the board. It was decided collectively by Cabinet that each Minister and each budget would face a 1.6 per cent efficiency saving. It was then up to each individual Minister to decide how he or she would deal with that 1.6 per cent saving. Individual Ministers would make the decision on the basis of 'One Wales' commitments or other commitments. If I were to say to the Minister for education or the Minister for health, 'You cannot do this, but you must do that', I would no doubt be accused of micromanaging or control freakery. We operate Cabinet Government collective responsibility and those decisions have always, certainly since I have been a Minister, been a matter for individual Ministers to make within their budget level.

[71] **Ann Jones:** If it is now the case that there will be a planned 5 per cent efficiency saving for the further and higher education sectors, you must revisit that with the Minister for education and find out why that is the case and, if necessary, find some additional money. You referred to robbing Peter to pay Paul, but it is not my job to rob Peter to pay Paul because I am not in Government. Further to that, I throw in the £25 million that is unallocated in the health budget. Was every Cabinet member happy that that went in?

[72] **Angela Burns:** It was £50 million.

[73] **Ann Jones:** I am sorry; I thought that it was £25 million. That is even worse; it was £50 million. Was everyone happy with that unallocated £50 million in the health budget or did Cabinet members around the table say, 'Hang on a minute, perhaps we would not have the 5 per cent planned efficiency saving if £25 million had come to education'?

[74] **Andrew Davies:** I accept, as you say, that it is not your job to—if you think that money should be spent on other priorities—

[75] **Ann Jones:** I can advise you, but you do not have to take any notice.

[76] **Andrew Davies:** It is part of the scrutiny process. Individual Ministers will appear before the relevant committees to answer questions and be scrutinised. There is the democratic process for the draft budget, which is to be debated in Plenary very shortly, for the Assembly collectively to express its view. In addition, there will be the final budget itself on 8 December. So, those are the opportunities for such issues to be addressed.

4.40 p.m.

[77] On the £50 million additional resource for the health and social services budget, the Minister will make more detailed announcements on those allocations as part of the budget process.

[78] **Ann Jones:** So, every Cabinet member has had to put £50 million of unallocated resources into one portfolio. Was every Cabinet member happy to sign up to that, even the Minister for education, knowing that the further and higher education sectors had to make 5 per cent efficiency savings?

[79] **Andrew Davies:** As I said, the detailed allocations will be passed on as we go through the budget process. The announcements and that detail will be provided.

[80] **Ann Jones:** By the time we get to the detailed allocations, surely that money is already in that portfolio. Was every Cabinet member happy with that £50 million going in unallocated? Skills will be the key to our coming out of the recession and yet, here we are, looking at 5 per cent efficiency savings in further and higher education. They are our major players to get people out of the recession.

[81] **Andrew Davies:** As I said, the process has been agreed by the Cabinet collectively. The Cabinet has agreed the process, as it will agree the budget and the budget proposals going forward in the draft budget in the Assembly debate.

[82] **Alun Davies:** Minister, you are absolutely right about the democratic process and scrutiny, and about our role as a Finance Committee. However, it is fair to reflect on the considerable concern across the committee about future spending on education. That is for two reasons. First, the Government itself has stated that it is a priority area and you, the First Minister and others have stated that in different debates and policy initiatives. We have accepted that and the Assembly, across the parties, has accepted that as a key way of responding to the recession. It was therefore anticipated that spending on education would increase proportionately as part of this budget, and I think that there is a sense of surprise that that has not happened.

[83] Secondly, education is more important in Wales than it is in any other part of the United Kingdom in how we respond to recession. We have discussed before the role of higher education, and you will have seen the reports on that. We have fewer headquarter companies and private sector research and development in Wales than anywhere else in the United Kingdom, or certainly in England and Scotland, and, as a result, we rely more on further and higher education than those other administrations and territories. If we are to invest in the high-quality economy that we have all discussed in different ways—and I think that when you were Minister for economic development you were responsible for discussing a lot of these, in ‘Wales: A Vibrant Economy’—we need to be looking at greater spending on further and higher education proportionately. Many of us were stung and hurt by the experience earlier this year with the issues surrounding further education and post-16 provision, and we do not want to be in a similar position next year. So, we are looking for some reassurance that, in your strategic view of the budget, education will have a role that will be reflected in the allocations made to it. When we see these 5 per cent efficiency savings, a ripple of fear runs across this committee. Are we delivering sufficient resources to education for it to deliver to the economy and to the people of Wales the ambitions that we have for it?

[84] **Andrew Davies:** We do feel that education is a priority, which is why there is a 2.5 per cent real increase for the Department for Children, Education, Lifelong Learning and Skills budget. Ann and you are saying that we should be putting more money into education and skills, but I am also hearing that we should be putting more money into economic development. What I am not hearing is where you propose funding to be taken from.

[85] Take the health budget for example. If we were to reduce the allocations to the health budget when we are experiencing unprecedented pandemic conditions, we would probably be roundly criticised by this committee, the Assembly, or the media. Look at the large allocations: health accounts for 40 per cent of our budget, and local government, education

and economic development are all large areas of expenditure. So, we have to make these decisions about strategic allocations as a Government. If you want more money to be put into a priority area, it means that money for another area has to be reduced. I keep asking the question, but I have not yet heard an answer. From where should we, as a Government, take the resources? I can understand colleagues saying that that is not a matter for them, but as a responsible, prudent Government, if we are to shift resources around, we must take them away from some key areas.

[86] I return to the point that our departmental expenditure limit has increased by £287 million overall. However, we may not be looking at increases in future years, but at reductions. I know that some people do not like to be reminded of this but other political parties have been saying that we must make savage cuts in expenditure. Perhaps Kirsty would like to suggest, as her party leader has recommended, very savage cuts to public expenditure, and that we should make cuts to put money into other areas. All that I am hearing is that we should be putting more money into various areas, but I have not heard anyone say where we should be reducing expenditure to do that.

[87] As a Government, we are using every resource that we can, whether it is our own, European funding, the use of private investment funds as in waste management, or working with the UK Government on the Future Jobs Fund. We are using all the resources at our disposal to deal not only with long-term investment in Wales, but also with responses to more immediate pressures, such as the recession.

[88] **Angela Burns:** Alun is next, then Kirsty, Ann and Nick. I want to have time to get to Lorraine and Oscar's questions, and I also have one more of my own.

[89] **Alun Davies:** I accept the point that you make, Minister. It is frightening that some political parties have demonstrated such enthusiasm to make quite brutal cuts in the public sector and the public estate. However, I was hoping to hear a positive rationale for the allocations that you have made in the individual budget areas. I accept what you are saying: it is the easiest thing in the world for a committee or an opposition party to say, 'We want more money spent here, here and here'. Of course, no opposition will ever tell you where it wants to cut back, and I accept that that is partly the role of opposition. I do not disagree with you on that, but we would like to hear a positive rationale from the Government stating why it has allocated a certain amount of money to a given area, to which it could have allocated more but that it decided not to for whatever reasons. We would like to hear more about that rationale for spending and for the strategic decisions that you have made. We all, certainly on this side of the table, accept the wider political points that you make.

[90] **Andrew Davies:** I thought that I had said that earlier when responding to Nick Ramsay about the budget process that we undertake. The major programme is 'One Wales', which is a four-year programme for government, and the funding decisions and priorities have largely been dictated by that—but not exclusively. As I said, in response to the recession, we have put considerable additional resource into dealing with that. The Government and individual Ministers, through the budget process, have made that collective decision about the total amount of money available, plus the extra £287 million, and we then agreed the allocations on the basis of bids from individual Ministers, whether for health, education, or whatever. It is the same with any funding round. In local government, the Assembly Government, or the UK Government, the amount that is bid for considerably exceeds the total amount of resource or additional resource that is available. Therefore, it is my job, as Minister for finance, to work with colleagues, individually and collectively, to agree how that extra money is allocated or whether there should be changes in each individual main expenditure group. That is through the normal budget process, and there is a similar process for the additional money that we are putting in through the strategic capital investment fund, both the first tranche of £350 million, which I announced earlier this year,

and the second tranche of just under £120 million. That reflected our strategic priorities, the bulk of which went to education, including the Ebbw Vale learning campus and a range of other education investments. The funding that you are scrutinising here today in the DCELLS budget does not include that considerable additional resource that has gone through the SCIF tranches. Those are strategic decisions that are made, in this case, on capital.

4.50 p.m.

[91] **Angela Burns:** Alun, you may come back in quickly.

[92] **Alun Davies:** The reason why I was late this afternoon was because I was in Ebbw Vale discussing that investment with people there. A great concern is getting the people to do the teaching. To cut to the chase, why are you not allocating more money to education in recurrent revenue expenditure?

[93] **Andrew Davies:** We are. We have put 2.5 per cent additional resource into DCELLS—a real-terms increase on last year. There is also the increased investment in local government. There is the additional resource that we are putting into capital investment, not only through our mainstream capital programme, which is substantial, but also through the SCIF process. When it comes to education, we all know that one of the big challenges that we are faced with is falling rolls. We are working with local authorities on that substantial transformation programme. I have to say that the Minister for Children, Education, Lifelong Learning and Skills is working very closely with local authorities on how they are dealing with that issue. For example, the twenty-first century schools programme is all about working with local authorities on a partnership basis to deal with those significant issues. Clearly, if you have falling rolls, one side-effect of that is that you need fewer teachers.

[94] **Angela Burns:** Minister, I will have to ask you to move on.

[95] **Andrew Davies:** I am being asked about how we are dealing with strategic issues. I am trying to explain.

[96] **Angela Burns:** I know, and I have heard the answer that you are giving now often enough this afternoon. Kirsty, if you have a question that will elicit a different answer, I would be interested in that.

[97] **Kirsty Williams:** I doubt very much that it would, Chair, so I am quite happy to yield to Lorraine.

[98] **Angela Burns:** Ann wants to come in quickly, and so does Nick, and then Lorraine.

[99] **Ann Jones:** Will you go back and talk to the Minister for education to see what you can do strategically to stop this 5 per cent planned efficiency saving for further and higher education? Will you also briefly give me your take on the admission by NHS finance directors that 20 per cent of the current budget, let alone the £50 million that is unallocated, is not being spent correctly? Will you tackle that strategically? That is a lot of money that you could put somewhere else if it is not being used properly.

[100] **Andrew Davies:** This issue came up on Monday, and I answered then. Finance directors at LHBs are extremely well remunerated. These are senior executives of the health service and if they, in their expert opinion, are saying that 20 per cent is not being used as effectively as it could be—not so much used correctly as in an optimal way—the Minister for Health and Social Services and I would expect them to deliver a much more efficient use of the resource. That is what they are paid for, and that is what we expect them to do.

[101] On the Minister for education, I will give a commitment, as I did regarding Brian Gibbons, to discuss this with her and take back your concerns.

[102] **Nick Ramsay:** We have moved on slightly, but I wanted to take issue with something that the Minister said earlier, namely that if he had come forward with a different set of proposals for efficiencies, we as a Finance Committee would have taken issue with those. The reason you are here again, Minister—and I thank you for coming to answer our questions—is because of that strategic role that you play, and our lack of conviction that decisions are being explained properly, even though you may be taking those decision for the right reasons. You have spoken about your meetings with Ministers, and I am sure that that is how it is done, but I could have read that in a textbook, to be honest, or seen it in a programme about how the Assembly works. What we are trying to get to is a positive rationale, as Alun Davies said, for why decisions have been taken. That is where the gap is at the moment with our conviction.

[103] **Chris Franks:** Could I point out that when people say ‘we’, it does not mean the whole committee? Some committee members accept what the Minister is saying. So, it might be the Royal ‘we’ and it might be a number, but ‘we’ is not speaking for me, and I am content with the answers that the Minister is giving.

[104] **Angela Burns:** That has been noted, Chris. Thank you for making that clear. I have a quick question before I bring Lorraine in. When you make a decision and then changes are made to spending programmes, or Ministers make changes in their portfolio spending programmes, who monitors the multiplier effect of any changes? Would you take a financial strategic overview, and how often would it be noted?

[105] **Andrew Davies:** We started doing that with capital expenditure on the construction industry, particularly with regard to the counter-recession measures that we have taken. However, we feel that we could extend that principle to embed that approach in what we do. In particular, that will be done through the budget performance Cabinet committee.

[106] **Lorraine Barrett:** There has been a huge build-up to my question, so I hope that I can do it justice. [*Laughter.*] I have come in fresh to the committee today, although I have been here before as a substitute. I am looking at the capital re-profiling and the potential future shortfall that was raised by the committee. You provided a response in a letter dated 4 November, which I have in front of me. I have some questions about that, because the committee had raised concerns about bringing forward £120 million from the 2010-11 budget to the 2009-10 spending year. You say that it will not be a problem, because it is for capital projects that were planned for 2010-11 that can be dealt with in 2009-10.

[107] Is there the capacity to spend that money on capital projects? Surely there are capital projects already in place for 2009-10. You are bringing forward moneys to build houses, trunk roads and schools, and for school improvements, which is all wonderful, and I can understand wanting to do that in order to stimulate the economy and keep people in jobs, but as I remember from being a school governor, you have to spend the money that you are given within that year, and if you do not have the capacity to build a new classroom that year you might lose the money. So, are you confident that there is the capacity to spend that capital? Furthermore, what will happen in 2010-11 to the planned capital programme? Will we be living in hock, so to speak? How will we catch up if we are bringing all of that money forward?

[108] **Andrew Davies:** This is not money being lost; it is just being brought forward. It is for capital projects that were in the capital programme for 2010-11. Basically, we are just spending the money a year earlier.

[109] **Lorraine Barrett:** My concern is that there are other capital projects already in

place. Is there the capacity—the workforce, for example—to do this? Will we be able to spend that money?

[110] **Andrew Davies:** One of the main reasons for bringing it forward is the impact of the recession on the construction industry. We are adding demand to the construction industry. If we had not made that extra investment, jobs could have been lost or companies put out of business. That is one of the major ways that we feel we are dealing with the recession. In addition to bringing forward capital in this case, and through the strategic capital investment fund, we are injecting more money into the construction industry in particular—building schools, hospitals and affordable homes, because there has been a huge reduction in the number of private houses being built. So, we are making up for that lack of demand in the construction industry. I think that that has been recognised as very important indeed. I believe that the latest figures show that activity in the construction industry has increased in the past few months.

[111] **Lorraine Barrett:** What about the concern about the shortfall—whether perceived or real—in 2010-11? How will you fill that gap?

5.00 p.m.

[112] **Andrew Davies:** You may have read some time ago that, at the Joint Ministerial Committee, the leaders of the three devolved administrations made a plea to the Prime Minister and the Chancellor of the Exchequer for a drawing forward of £100 million from 2011-12 into 2010-11 to help deal with the recession. However, coming back to the point that I made before, this is not a cut in our capital expenditure, as you referred to it; the investment is made in those projects that were already in the existing capital programme. Those projects will be funded but it will just happen a year earlier.

[113] **Lorraine Barrett:** I do not think that I can take that any further.

[114] **Angela Burns:** Alun, did you want to come in very briefly on that?

[115] **Alun Davies:** One of the ways in which we can maximise the impact of capital spending is through the partnership Wales process that you began earlier this year. It would be useful for us to have a note from the Minister—I would not expect the Minister to answer detailed questions on this, this afternoon—on the progress that is being made with the partnership Wales process, as it might help us understand how we can maximise capital investment in these more difficult years.

[116] **Andrew Davies:** One of my officials, Howard Marshall, who is a former Unison official, has brought together all the various social partners to work up a proposal, which has very wide consensus, and we hope to make an announcement very shortly. However, I will provide Members with a more detailed note on that.

[117] **Ann Jones:** On your letter—and thank you for turning it around so quickly—question 4 was: have there been any changes to the allocations announced in the first tranche since December 2008? Your response was that the allocations are broadly consistent, which leads me to think that there have been changes. Can you detail those changes?

[118] **Andrew Davies:** In some cases, a project may need less money than was originally planned for efficiency and cost savings, and allocations will be adjusted accordingly. Chris or Piers might want to comment on this. The spend profiling for certain projects may change.

[119] **Dr Daws:** It is the profile that has changed slightly, in terms of the spend across the three years. The one area in which we have put a flag is the area of pandemic flu. We had

long discussions about whether or not that money was capital, because we were purchasing stocks. We might end up using those stocks, so we are looking at how much we need to cope with not just trying to stockpile for avian flu but also with managing swine flu. That is the one area where the profile might change, and we are working on that at the moment.

[120] It is not about the change in the total amount of money required; it is also about small movements across the years. Those are the only small differences. There are no major differences, other than with the pandemic flu allocation, which we are not certain about at the moment.

[121] **Ann Jones:** Has the cash been available so that projects can get under way straight away?

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

[123] **Ann Jones:** So, it is definitely all there.

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

[125] **Ann Jones:** Will projects be held up?

[126] **Dr Daws:** No.

[127] **Angela Burns:** Oscar, I know that you wanted to talk about partnership Wales. Alun has touched on it. Did you have another question that you wanted to ask on it?

[128] **Mohammad Asghar:** Yes. Minister, I am pleased that, as you have mentioned, you have taken some robust financial measures in this budget. There are constraints on your pocket. There is not enough money to give everybody what they are asking for. *[Laughter.]* All these departments are screaming—

[129] **Kirsty Williams:** There are slush funds and there are slush funds, Oscar.

[130] **Mohammad Asghar:** I am not going to use that word again. *[Laughter.]* On the extra funding, have you considered any alternative mechanism for financing future capital investment? For example, the Welsh Local Government Association has mentioned the tax increment model.

[131] **Andrew Davies:** There is going to be a very different financial context in the next five years. Earlier this year, the UK Treasury budget, in the Red Book, a very significant reduction in capital expenditure was forecast. However, the need to invest in our public infrastructure, with schools, hospitals, affordable homes and so on, will be as pressing as ever, so we are looking at a range of ways in which we can be more innovative in using resources. I have been working very closely, for example, with Jocelyn Davies, the Deputy Minister for Housing, on the development of a Welsh housing bond, which, again, would give us a much more innovative, imaginative and—we hope—ambitious way of drawing down more resources through the bond market in order to increase investment in affordable housing.

[132] On waste management, there has been a series of public-private partnerships; indeed, Jane Davidson, the Minister for Environment, Sustainability and Housing, opened a new waste management facility in Wrexham two or three weeks ago, which was the result of a £14 million investment, and which, I believe, was funded through a private finance initiative. So, in certain areas, such as waste management and affordable housing, we are looking at more innovative funding measures that would allow us to make the Welsh pound go further.

[133] **Mohammad Asghar:** Further to that, what are your plans to utilise private finance in order to stimulate the economy? How will you address any potential difficulties in accessing private finance, given the current climate?

[134] **Andrew Davies:** As I have reported to the committee on previous occasions, we have ruled out PFI in the health service. That was an explicit commitment in 'One Wales'. As I have just indicated, we are looking at innovative funding measures in areas such as affordable housing and waste management. The Welsh housing bond will use the social housing grant, which is a substantial amount of money that we put into affordable homes, mainly so that housing associations can build affordable homes. There is potential for raising bonds on the private bond market, and then using the rents from tenants as the revenue stream to finance them.

[135] On waste management, again, we are working with local government. Waste management is a huge priority; in fact, it was the WLGA's No. 1 priority in its mini-manifesto in the summer of 2007. We are working collaboratively on a regional basis with local government on a public-private partnership approach to delivering on big, ambitious targets with regard to waste management.

[136] The Government's purpose is to be a more intelligent customer, so that when we are dealing with the private sector, we do not get ripped off—to put it frankly—as the public sector too often has been in the past. I am delighted that, in areas such as waste management, we have people with real financial commercial expertise who are able to advise. In this case, it is Andrew Garcia, who has that commercial expertise. Similarly, in the case of the strategic capital investment fund, I have an advisory panel that is chaired by Dr Tim Stone of KPMG and the European Investment Bank. His panel comprises people with a great deal of commercial expertise, who are applying that expertise in the use of capital investment. We are using a range of levers to make sure that we get maximum value for money for our investment.

[137] **Angela Burns:** Are there any further questions?

[138] **Ann Jones:** Specific grants need to be kept and ring-fenced until we are absolutely sure that local government will do what it says that it will do—which will be never. So, they need to hypothecated.

[139] **Angela Burns:** That is subjective.

[140] **Andrew Davies:** Despite your belief, I still ask the question.

[141] **Lorraine Barrett:** Not everyone believes that all grants should be ring-fenced. That is a huge political policy. That is Ann's—

[142] **Ann Jones:** It is my hobby horse.

[143] **Angela Burns:** It is indeed.

[144] **Andrew Davies:** I should come back to the committee to have that discussion.

[145] **Angela Burns:** Minister, thank you for coming here again today. I greatly appreciate your appearing for a third time before the Finance Committee during the budget process. I understand that you are a busy man, and I do appreciate your time. I also thank your officials.

5.09 p.m.

Cynnig Trefniadol
Procedural Motion

[146] **Angela Burns:** I move that

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

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

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 5.09 p.m.

The public part of the meeting ended at 5.09 p.m.