



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

**Y Pwyllgor Cyllid
The Finance Committee**

**Dydd Llun, 6 Rhagfyr 2010
Monday, 6 December 2010**

Cynnwys
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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

Angela Burns	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Rosemary Butler	Llafur (yn dirprwyo ar ran Ann Jones) Labour (substitute for Ann Jones)
Alun Davies	Llafur (yn dirprwyo ar ran Lorraine Barrett) Labour (yn dirprwyo ar ran Lorraine Barrett)
Andrew Davies	Llafur Labour
Chris Franks	Plaid Cymru The Party of Wales
Veronica German	Democratiaid Rhyddfrydol Cymru (yn dirprwyo ar ran Peter Black) Welsh Liberal Democrats (substitute for Peter Black)
Brian Gibbons	Llafur Labour
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives
Janet Ryder	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Jeff Andrews	Ymgynghorydd Arbenigol Polisi, Llywodraeth Cynulliad Cymru Specialist Policy Adviser, Welsh Assembly Government
Ceri Breeze	Pennaeth y Gyfarwyddiaeth Dai, Llywodraeth Cynulliad Cymru Head of Housing Directorate, Welsh Assembly Government
Jocelyn Davies	Aelod Cynulliad, Plaid Cymru (y Dirprwy Weinidog dros Dai ac Adfywio) Assembly Member, Plaid Cymru (the Deputy Minister for Housing and Regeneration)
Michael Hearty	Pennaeth yr Adran Cynllunio Strategol, Cyllid a Pherfformiad, Llywodraeth Cynulliad Cymru Head of the Department for Strategic Planning, Finance and Performance, Welsh Assembly Government
Jane Hutt	Aelod Cynulliad, Llafur (y Gweinidog dros Fusnes a'r Gyllideb) Assembly Member, Labour (the Minister for Business and Budget)
Andrew Jeffreys	Pennaeth Cyllidebau Strategol, Llywodraeth Cynulliad Cymru Head of Strategic Budgeting, Welsh Assembly Government

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

John Grimes	Clerc Clerk
Catherine Hunt	Dirprwy Glerc Deputy Clerk

*Dechreuodd y cyfarfod am 4.01 p.m.
The meeting began at 4. 01 p.m.*

Ymddiheuriadau a Dirprwyon Apologies and Substitutions

[1] **Angela Burns:** Good afternoon, and welcome to this meeting of the Finance Committee on Monday, 6 December. Everyone is most welcome, particularly our witnesses today. Before we start, I will go through the various housekeeping issues. I remind you that you are welcome to speak in Welsh or English and that headsets are available for translation. Please switch off all mobile phones, gadgets and iPods and all those other things. If the fire alarm sounds, please follow the ushers. I welcome Rosemary again as a substitute for Ann Jones and Alun Davies as a substitute for Lorraine Barrett, and I welcome Veronica to the Finance Committee for, I think, the first time as a substitute for Peter Black.

4.02 p.m.

Goblygiadau Ariannol y Mesur Arfaethedig ynghylch Tai (Cymru)—Tystiolaeth gan y Dirprwy Weinidog dros Dai ac Adfywio Financial Implications of the Proposed Housing (Wales) Measure—Evidence from the Deputy Minister for Housing and Regeneration

[2] **Angela Burns:** We are here in the first instance to discuss the financial implications of the proposed Measure on housing, and we have before us the Deputy Minister for Housing and Regeneration. Minister, I ask you to introduce yourself and your colleague for the record.

[3] **The Deputy Minister for Housing and Regeneration (Jocelyn Davies):** I am Jocelyn Davies, the Deputy Minister for Housing and Regeneration, and my colleague is Ceri Breeze, head of housing.

[4] **Angela Burns:** You are both most welcome. We have a number of questions based on the proposed Measure that we have before us today and the explanatory memorandum, but would you like to make any opening remarks? You would be more than welcome.

[5] **Jocelyn Davies:** I have not prepared any, but you will notice that the proposed Measure is in two parts. Part 1 is about the ability of local authorities to apply to the Welsh Ministers for a temporary suspension of the right to buy. Part 2 is about the regulatory regime for housing associations.

[6] **Angela Burns:** I will start. Will you give us an overview of any work you have undertaken to assess the financial implications of this proposed Measure, not only for those whom it would affect but also for the Government in moving forward its programme?

[7] **Jocelyn Davies:** The commitment to bring forward a proposed Measure on the right to buy, as seen in Part 1, is a 'One Wales' promise. In Part 2 on the regulatory regime, a great deal of work has gone on already to underpin that. We have already made changes to the regulatory regime following the Essex review of affordable housing in Wales. So, the regime has already changed, and this is the statutory face of those changes. You will see from the impact assessment that an awful lot of work has gone into preparing that, and I suppose that it would be fair to say that, in relation to the right to buy, we had a very long time in which to prepare it.

[8] **Angela Burns:** What consideration have you been able to give to the aggregate

impact that this will have on current proposed Measures going through the Government, in the cost to either the Government or the nation?

[9] **Jocelyn Davies:** We already have the regulatory regime, so it is already a cost, and we do not see this as incurring extra costs. I will say that we have developed the new regulatory regime along with the sector, and it is worth putting on the record that this is the result of collaborative work. The statutory framework does not add to that, but it gives us a statutory basis. You will see that it sets standards, and so on. There are then intervention powers, which we hope we will never have to use. Although we have assessed how much they would cost if we needed to use them, because we have modernised our regulatory regime, we do not envisage that being necessary.

[10] **Mr Breeze:** That is an important distinction. You have the cost of the regulatory framework, which is going to happen anyway, because that is what we are now doing, and the proposed Measure mentions the extra costs, should enforcement be necessary.

[11] **Jocelyn Davies:** On the right to buy, the legislation requires any local authority that wants to pursue this to make an application to the Welsh Ministers. We see no extra costs in addition to the running of the Housing Directorate as it is. So, there are no extra costs for the Welsh Government.

[12] **Angela Burns:** Thank you for those answers. I will hand over to Nick now.

[13] **Nick Ramsay:** The explanatory memorandum states that some social housing tenants are likely to buy properties in the private sector if the right to buy is suspended. What evidence do you have to support that suggestion?

[14] **Jocelyn Davies:** That is already available in Scotland, so we have learned some lessons from there, and there is some evidence that that would happen. However, I think that it would be rare, because we are talking about suspension for a maximum of five years. If you were in the Chamber when we introduced the legislation, you will know that we said that, should a tenant want to purchase in that period, they could still make an application, which would not be rejected, but stayed, and their discount would still accrue during the suspension period. So, it is possible that some people would not want to wait five years, but I think that most would probably wait for the suspension period to lapse, and then purchase.

[15] **Nick Ramsay:** I was in the Chamber when the legislation was introduced, and I was hanging on your every word. What assessment have you made of any potential impact that this may have on the housing market?

[16] **Jocelyn Davies:** If someone did not want to wait for that time, I suppose that they would look for other houses locally, so there might be more competition. However, I do not think that it would have a radical or marked effect on the housing market. As we know, the housing market is influenced by a great many things, and this would be just one factor. This has been available in Scotland for almost eight years, and it is used sparingly there and affects about 1 per cent of the stock. We do not have any reason to believe that things would be radically different in Wales.

[17] **Nick Ramsay:** At present, there are issues for people trying to access mortgage finance. With the current situation as it is, do you think that the proposals could affect the number of social housing tenants who could purchase their homes privately?

[18] **Jocelyn Davies:** The right to buy has been virtually suspended anyway, because of that. Last year, there were fewer than 200 applications. There is also a lack of finance, as you said, and these things are beyond our control. Furthermore, mortgage lenders now want

people to produce a rather large deposit, which can be difficult for some, and people may be thinking that house prices will come down and are waiting to see. So, there could be several factors at play. If a tenant decided to look in the private market, they would have to find a large deposit and would also need to secure a mortgage elsewhere. So, I do not think that that will be in significant numbers.

[19] **Nick Ramsay:** I have one last question on this issue. The explanatory memorandum states that suspending the right to buy process

[20] ‘may result in an increase in new social housing completions, as the threat of these units being bought by tenants will be reduced by the restrictions in affordability and access to buy their rented house’.

[21] What evidence do you have to support that view?

4.10 p.m.

[22] **Jocelyn Davies:** On what page is that?

[23] **Nick Ramsay:** I do not have the page number, sorry, just the quote. Do you want me to read it again?

[24] **Jocelyn Davies:** Yes, if you do not mind.

[25] **Nick Ramsay:** It states that suspending the right to buy

[26] ‘may result in an increase in new social housing completions as the threat of these units being bought by tenants will be reduced by the restrictions in affordability and access to buy their rented house.’

[27] I am not surprised that you could not really follow that from start to end. [*Laughter.*]

[28] **Jocelyn Davies:** I apologise that it was not written in the simplest language. On the face of the proposed Measure, we have said that if a local authority wanted to make an application for suspension, it would have to demonstrate that an area was experiencing extreme pressure and that it had consulted locally with the people whom it would affect. It would also be required to tell us what action it intended to take during the suspension to increase the supply; otherwise, there would be no point. From the beginning of the next financial year, local authorities in Wales will be deciding which projects in their areas the social housing grant will be spent on. So, that will be among the other tools that a local authority will have available to increase the supply in a specific area. If there were an application, the local authority would have to identify the action that it would take in the intervening period, so I suppose that it could then have more completions, because it would have to demonstrate what it was going to do in an area in the next five years. So, there would be more houses there. Does that answer your question?

[29] **Nick Ramsay:** You have a fine grasp of that particular part of the paper, because I have read that three times and I am less clear now than I was the first time. You are saying that you envisage the process of suspending the right to buy being used only in a way that would lead to an increase in new social housing completions; otherwise, there is no point.

[30] **Jocelyn Davies:** It is on the face of the proposed Measure that a local authority would be required to say at the application stage what action it would take to address the disparity between demand and supply.

[31] **Mr Breeze:** During the period of suspension.

[32] **Jocelyn Davies:** Yes, so that could be using planning tools, releasing publicly owned land for affordable housing, or saying that it will prioritise that area for Government grants and so on during that suspension period.

[33] **Brian Gibbons:** Strangely enough, I had a different interpretation, but it is a bit like reading the Bible or something like that. I thought that the argument that you were making was that, because you were suspending the right to buy, the investment in that property had a longer period in which to provide a return as it was not at risk of being sold on.

[34] **Jocelyn Davies:** I thought that Nick mentioned completions, which I took to be new units that were then available for occupation.

[35] **Brian Gibbons:** Yes, but if the right to buy is suspended, when someone moves in as a tenant, the landlord can be assured of a rental stream for the whole period that the right to buy would have been available. Consequently, the landlord is more assured of an income on that investment, potentially for up to 10 years. The return on that investment would be more assured through the rental stream than if the property had been sold pretty quickly under the right to buy. Is that not the interpretation?

[36] **Mr Breeze:** There would be a rental stream during that period. On the other hand, you could also say that, during that period, if the property were bought through the right to buy the landlord would not have to pay property maintenance and management costs, but they would lose the income stream. In addition, if a property is sold, you lose part of the social housing supply, so you are countering the reduction in the supply in addition to, as the Deputy Minister said, having a possible influence on the number of new-build units.

[37] **Brian Gibbons:** Other mechanisms outside this can influence the number of houses. However, on the basis of what you are saying, I do not see how you can stand by that statement. You are saying that, even if the rental stream is assured, maintenance costs will go down. So, it is a zero-sum game. If it is a zero-sum game, how can you be sure that there will be an increase in new social housing completions?

[38] **Jocelyn Davies:** As I say, my interpretation of ‘completion’ is that it refers to a different property being completed elsewhere.

[39] **Brian Gibbons:** I do not understand the logic. Yes, new properties may be built elsewhere for all sorts of reasons, but I thought that the argument in this case was that, because of the suspension of the right to buy, there was an intrinsic mechanism that would encourage more houses to be built. However, you are saying that that is not the case.

[40] **Mr Breeze:** Suspending the right to buy would stop the loss of supply to the social housing sector. On the justification—you are right to point it out—as the Deputy Minister says, it is stated clearly on the face of the proposed Measure what local authorities have to do in order to secure a suspension. That includes setting out what the pressures are in different areas—it may be shown by type of house or refer to a particular area in a local authority—and what they will do about it.

[41] **Brian Gibbons:** So, the way in which it will work has nothing to do with this but relates to the other powers. In other words, if you want to suspend the right to buy, as part of the process you have to say what you will proactively do.

[42] **Mr Breeze:** It is part of the process.

[43] **Brian Gibbons:** It is the second leg of the right to buy. To get the right to buy, you have to say what you are going to do.

[44] **Mr Breeze:** Yes.

[45] **Brian Gibbons:** That particular sentence, which is repeated several times in the explanatory memorandum—

[46] **Mr Breeze:** It could be clearer.

[47] **Brian Gibbons:** It is not at all clear. I can see that my colleague is equally bemused.

[48] **Angela Burns:** Thank you, Brian; I think that you have explored that point really well. [*Laughter.*] We get it, and I think that Nick gets it. I certainly understand it now.

[49] **Nick Ramsay:** I am on the road to getting it, thanks to the elaboration provided by members of the committee.

[50] **Angela Burns:** There is some clear language Act, is there not? Veronica, I think that you were going to talk a little more about the right to buy.

[51] **Veronica German:** Yes, and about the income of the social housing providers. Given that the explanatory memorandum says that the suspension of the right to buy would result in a loss of sales, what estimates have you made of the likely cost to social landlords—bearing in mind what Brian has just said as well, I presume—as a result of losing that income over the next three years? What effect will that have on their business plans?

[52] **Jocelyn Davies:** As I said, there were fewer than 200 last year, across local authorities and housing associations. So, they were few and far between. If there were business plans that were reliant on those sales, I am afraid that they would be disappointed. A local authority whose property is subject to the right to buy would keep 25 per cent of the receipts, and 75 per cent is returned to the Treasury to go towards paying the debt with the UK Government. Registered social landlords keep 100 per cent of the receipts. In the housing market it is difficult to even guess what the sales will be next year, the year after or the year after that, because those things are outwith our control and could just depend on the availability of mortgages—it is as simple as that. It is impossible for us to assess how many people would exercise the right to buy over the next three years, because we do not know what the availability of mortgages will be. So, there are financial implications, and we know that registered social landlords keep 100 per cent of the receipts, and local authorities keep just 25 per cent.

[53] **Veronica German:** So, the reason why you did not include an estimate of that in the explanatory memorandum is that you do not know.

4.20 p.m.

[54] **Jocelyn Davies:** We do not know; we have no idea. Local authorities are required to produce a business plan based on previous experience, and we know that, over the last few years, the estimate for sales under the right to buy has simply been wrong.

[55] **Veronica German:** Along the same lines, the explanatory memorandum also says that there may be additional financial pressures on the social housing providers to meet and maintain the Welsh housing quality standards in their housing stock over the short term. Do you have any estimates of the likely additional cost for that? Is it the same?

[56] **Jocelyn Davies:** The cost of meeting the Welsh housing quality standard varies considerably from property to property. We can tell from some of the work that has already been done that that could be in the region of £12,000 per property, although that standard then has to be maintained over 30 years, with environmental work on top. The replacement of kitchens and bathrooms, and perhaps the upgrading of central heating systems and so on has been, on average, in the region of £12,000.

[57] **Veronica German:** However, there is additional pressure because of the right-to-buy suspension. Have you got an estimate for how that will affect them?

[58] **Jocelyn Davies:** Obviously, if a property has not had that work done, and a tenant purchases it, the landlord saves money, because he does not have to bring it up to the WHQS. If the tenant does not purchase, the cost will fall to the registered social landlord. If you then turn to housing associations, their stock tends to be newer and in better condition, and perhaps they are not spending quite as much per property. However, I have seen some properties cost as much as £20,000 to bring up to standard.

[59] **Veronica German:** Would it not have been useful to have an estimate of these costs in the explanatory memorandum?

[60] **Jocelyn Davies:** We could include the average—

[61] **Mr Breeze:** I think that the cost of meeting the WHQS is in the explanatory memorandum somewhere. As the Minister said, it is £11,000 or £12,000 per dwelling, and the total cost of meeting the WHQS up to 2035 is some £3 billion. The right-to-buy dimension is a very small part of that, as the Deputy Minister said. If the standards are reached before the right to buy is agreed, that is the cost that a local authority or registered social landlord would save. However, the cost itself is quite small in comparison with the overall figure for meeting the WHQS. I am not sure if I have covered—

[62] **Angela Burns:** Has that answered your question, Veronica?

[63] **Veronica German:** I am not sure, really.

[64] **Rosemary Butler:** When you say that the cost is small, what is that compared to? How small is small?

[65] **Mr Breeze:** The total cost of social housing meeting the WHQS is about £3 billion up to 2035. The cost of the right-to-buy element is necessarily very small—there were fewer than 200 cases last year. I would like to know which specific elements of the cost of right to buy you would like us to try to draw out. Is it the cost saved by social landlords or—

[66] **Veronica German:** No, it is the additional pressures on the social housing providers. It says, allegedly, in the explanatory memorandum—sorry, I have the same problem as Nick, in trying to find my place in the papers—that the right to buy may result in additional financial pressures on providers. If that is in there—

[67] **Jocelyn Davies:** That is a result of the suspension of right to buy, not of the right to buy. Obviously, if a property remains in the social rented sector, the landlord has to bring it up to the Welsh housing quality standard. If it is purchased by the tenants, the cost falls to them.

[68] **Veronica German:** However, you are saying that there were only 200 such cases last year.

[69] **Jocelyn Davies:** There were only 200 that were subject to the right to buy last year. Those properties would not be extra costs, would they? They have been lost from the social rented sector. The ones that would amount to an extra cost would be the ones that were not sold, because tenants chose not to exercise that right over the last few years. It is impossible for us to say, if mortgages had been available, how many would have been bought.

[70] **Angela Burns:** As a matter of interest, do you have figures for how many were sold the year before and the year before that, just as a comparator?

[71] **Jocelyn Davies:** The comparator goes back a number of years: in 2003, it was 6,000 and something.

[72] **Angela Burns:** So, it has gone from 6,000 to 200.

[73] **Jocelyn Davies:** Yes. In 2003-04 it was over 6,000, and last year it was less than 200.

[74] **Mr Breeze:** The additional pressures that you are talking about are related to the costs of meeting WHQS for those that would have been sold but were not. We might be talking about 200 across Wales if we looked at last year—the figure may be even lower this year; it depends on the number of properties. If 100 properties would have been sold if the right to buy was brought in, you could argue that it is 100 times the average cost of £11,000 per dwelling. However, it is very difficult to forecast how many properties would have been included if the right to buy had not been suspended. What we do know is that it is up to local authorities whether they apply for this for their whole area or target certain parts of their area, or even certain types of houses. Local authorities have control, because they are best placed to know what housing pressures and needs they have. So, it is very difficult to draw out a specific estimate, other than that these costs are already budgeted for in the business plans, because they are looking at bringing up the current stock to the Welsh housing quality standard.

[75] **Jocelyn Davies:** Even with the properties that have been subject to the right to buy, the environmental work that goes on would still have to be met, regardless of whether some of the properties have been sold or not. So, a registered social landlord has to meet the WHQS. If the right to buy is suspended, RSLs will have to meet that standard in more properties, because the properties would otherwise have been sold. However, they will have the rental income during the suspension period; that would not have been the case had the property been sold. They would also have foregone the receipt of whatever they would have got for the property, which they would then be reinvesting in the rest of the stock.

[76] **Andrew Davies:** Deputy Minister, the committee has had difficulty with a number of proposed Measures, such as the Proposed Welsh Language (Wales) Measure and the Proposed Waste (Wales) Measure. We have found them very difficult to scrutinise because a lot of the costs are not included, for a variety of reasons. I accept that there are difficulties, for all sorts of reasons, in being able to provide costs, which makes it very difficult for us to carry out our duty to scrutinise. You said in your response to Brian and Veronica that it is very difficult to estimate cost as a result of the suspension of the right to buy, but that you acknowledge that there will be costs—whether it is in the reduction in receipts, in additional maintenance costs during the suspension or in the administrative costs of local authorities in making an application. So, I acknowledge the uncertainty, but the committee, in looking at other Measures, has felt that the Government should be providing some estimate. I accept that it is difficult to do so with the suspension of the right to buy, because you have indicated that the number of purchases has declined dramatically, and I suspect that that is because of the market, the recession and so on.

[77] In terms of the agreement between the Assembly Government and local authorities,

there is a commitment that there will be no additional responsibilities without additional costs. So, what discussions have you had with local authorities and registered social landlords on issues around costs, or has it just been about the powers?

[78] **Jocelyn Davies:** There is an acceptance that the cost of the application would be offset by the fact that you will not be administering the right to buy applications during that period. In addition, all the information that would be required for the application purposes is already in the possession of the local authority, because it has a strategic housing function. Local authorities will have additional costs inasmuch as they are required, on the face of the proposed Measure, to consult those affected, and all registered social landlords should be in regular contact with their tenants anyway. So, I do not think that significant extra costs will arise from the administration. You also have to bear in mind the fact that Community Housing Cymru and the WLGA had this in their manifestos for the last Assembly elections, so this is something that they have all called for. I think that it is accepted that this has the support of the housing sector in Wales.

4.30 p.m.

[79] You could make the point that, because of financial circumstances and the squeeze on lending, there are no right-to-buy applications going through. That is something beyond our control, and, being perfectly honest, we do not really have a handle on how many properties will be saved as a result. All we can say is that, if a local authority wants to pursue this, during the suspension period, it must do something in that area to increase the supply. It is only a temporary suspension, so, although there may be costs in that period, after the suspension, the property will be available for that tenant to purchase and the receipt will be received by the social landlord. So, although some receipts will be forgone during that period, the landlord will get the money once the suspension is lifted.

[80] **Mr Breeze:** To add to that, in all of our discussions on this with stakeholders, the issue of the proposed Measure being a burden, administratively or financially, really has not come to the fore. They have been looking at this as a measure to address housing supply. One of the key things that local authorities would have to do in applying for the right-to-buy suspension is to assess supply and demand. They are doing that anyway; that is part of their role, and one could therefore argue that this would not be a huge additional element. They would have to prepare an application, but the actual assessment is something that they are well versed in already.

[81] **Jocelyn Davies:** They will already have that information.

[82] **Andrew Davies:** I hear what the Deputy Minister is saying, Chair, but it goes back to the point that we have made endlessly, which is that there seems to be a lack of financial rigour. It may not be huge cost—I accept that—but I think that it should be quantified.

[83] **Brian Gibbons:** You have said that there will not be any administrative costs during the period of suspension. So, what does the phrase, 'There will be a stay' mean? Either you or Ceri said that people can still put in a right-to-buy application, but that there will be stay on the application until the suspension is over. What does that mean in this instance? Does it mean that the application form will be received and acknowledged, but that nothing will happen with it or would something happen so that people are told, 'You are still in the running and, once the suspension is over, you will be eligible to proceed'? If it is the latter, clearly, there will be a cost incurred even during the stay period.

[84] **Jocelyn Davies:** There will be a cost in responding to an application to tell someone that they live in an area where there is a suspension of the right to buy and that their application is valid or whatever and will be stayed until the suspension period is over.

[85] **Brian Gibbons:** That is the point that I am asking about. Clearly, there would not be zero administrative charges. There would certainly be some administrative charges during the stay period. What I am trying to quantify is what administrative work would go on as a consequence of the stay. Would the person be given some indication of what the likely cost would be to them or what discount they might be entitled to? I am trying to get a feel for what would be done during a stay compared to the work involved in responding to a full application.

[86] **Jocelyn Davies:** What I am saying is that the application would not be rejected. It would still be a valid application at that date. The discount that you accrue over time would continue to accrue. I do not think that I said that there would be no administrative costs, but that they would be offset by the fact that the application would not proceed to sale at that point.

[87] **Brian Gibbons:** Yes, but that is the point I am making. What quantum of the administrative costs of a sale would be incurred during a stay?

[88] **Jocelyn Davies:** I would hope that local authorities would acknowledge receipt of the application and explain that there is a suspension in that period because not all tenants may remember, or they may be unsure about when the five years is up. They would be told when the suspension period would finish and the letter would probably explain what would happen once the suspension period was finished, in the same way that I hope that local authorities or registered social landlords would answer any letter or application that they received from someone, even if it was incorrect.

[89] **Angela Burns:** Therefore, you are anticipating it to be just a small administrative cost for a couple of letters going backwards and forwards. Would you encourage them to keep some kind of notification so that, at the end of the period, they would then get back in touch with those people and say, 'It has now expired and you can now proceed'?

[90] **Jocelyn Davies:** Yes.

[91] **Brian Gibbons:** I am not clear as to how you can draw that conclusion. On the basis of what you have said—and to pick a figure—90 per cent of the administrative costs of purchasing your house could just as easily be incurred during the stay period as 9 per cent. We do not have the information. From what the Deputy Minister is saying, a fair amount of work will be done during the stay period, except that we just do not know how much of it will be done.

[92] **Jocelyn Davies:** No, I did not say that—

[93] **Brian Gibbons:** That is what I am trying to clarify.

[94] **Jocelyn Davies:** I am saying that I hope that, by using the term 'stay', the registered social landlord will not reject applications for the right to buy or right to acquire. An application will be registered in terms of saying, 'Yes; we have received your application. At present, your dwelling is subject to a suspension of the right to buy, which is up in however many months, and your entitlement to discount will still be accruing during this period of time'. I do not think that there would be much point in going to any lengths to pursue that sale because the tenant could change his or her mind during the suspension period. The tenant will not want to involve himself or herself in costs. However, I would expect it to be acknowledged and the tenant told when the suspension period finishes, that his or her rights would then resume and that the discount continues to accrue.

[95] **Mr Breeze:** I am sure, as the Chair said, that it would literally be one letter. It would be a matter of receiving correspondence from someone who was interested in purchasing and responding with an explanation that the right to buy was currently suspended and perhaps advising them not to incur any costs. I am sure that the local authority would not wish to take the application forward at that point.

[96] **Brian Gibbons:** I think that we need more clarification on what the tenant could reasonably expect to receive during the stay period. That might give us a better feel for the proportion of the overall sale cost.

[97] **Angela Burns:** I will write a note to you, Deputy Minister.

[98] **Jocelyn Davies:** Yes; okay.

[99] **Angela Burns:** Did you wish to come in on this, Alun?

[100] **Alun Davies:** I just wanted to seek that sort of clarification. Essentially, you are saying, Deputy Minister, that you would not anticipate that a local authority or registered social landlord would take any steps towards a completion of a purchase during this period, that the application would simply be acknowledged, and that no work would begin until the period of suspension had elapsed. I assume that that is your clear expectation of all registered social landlords.

[101] **Jocelyn Davies:** Yes.

[102] **Angela Burns:** Thank you. I will ask you, Andrew, to go through the administrative and financial impact, and to use your session to move on to cover the right-to-buy element, but also to move on to the second part of the proposed Measure, which covers the registered social landlords, because I am quite keen to move on.

[103] **Andrew Davies:** I will just touch, in more detail, on what I was asking earlier in a broader question, about the costs of administering the scheme by local housing authorities, whether they are local authorities or registered social landlords.

[104] **Jocelyn Davies:** As I say, we know that the local housing authority, which will be the only organisation able to make an application, will make the application covering its area even if it does not have the stock itself, because it would make that application on behalf of the registered social landlords locally. So, there would obviously be some costs with regard to the communications between the housing authority and the local registered social landlords.

4.40 p.m.

[105] They would also have to demonstrate that they have consulted the people who would be affected, and tenants' organisations are mentioned in the proposed Measure. As I said, they would need to explain why they had concluded that this housing pressure exists—they already have that information because they have to carry out a local needs assessment regularly—and they would then have to lay out what action will be taken during the suspension period.

[106] **Andrew Davies:** I accept all of that, but are you saying that you do not know what that cost will be, or that you have not yet quantified that cost?

[107] **Mr Breeze:** We have not quantified that particular cost. May I just check that you are referring to the extra costs of administering the suspension of the right to buy?

[108] **Andrew Davies:** The explanatory memorandum states that:

[109] 'Local Housing Authorities will incur administrative costs in preparing and submitting an application to suspend the RTB'.

[110] So, you accept in the EM that there is an additional cost.

[111] **Mr Breeze:** There would be a cost for them in putting together an application, but they would already have some of the information.

[112] **Andrew Davies:** I know that; I heard what you said. You do not have a figure for that cost. That is what I am asking about.

[113] **Mr Breeze:** No, but I think that it would vary from authority to authority.

[114] **Jocelyn Davies:** We would expect it to be nominal, really.

[115] **Andrew Davies:** Sure, but the general issue is that costs are mentioned throughout the EM, but they are not quantified. However, you accept that that is the case.

[116] You also state in the EM that suspending the right to buy

[117] 'would result in savings in the costs of administering the schemes for the Local Housing Authority and RSL(s)'.

[118] Do you have an estimate of what those savings would be?

[119] **Jocelyn Davies:** Can you point to where that is stated in the explanatory memorandum?

[120] **Andrew Davies:** I do not actually have a copy in front of me.

[121] **Jocelyn Davies:** I was just wondering which section that refers to.

[122] **Andrew Davies:** Do you acknowledge that there will be savings?

[123] **Mr Breeze:** The Deputy Minister mentioned earlier the many savings from not having to administer right-to-buy applications, which are obviously running at a low level, and there are probably more in some areas than others. However, again, I cannot quantify what one application would cost a local authority.

[124] **Andrew Davies:** The point that we are making, Chair, not just in relation to this proposed Measure, but with regard to previous ones as well, is that reference is made to costs or savings, but we are unable to scrutinise what they will be. That is not a criticism of the Deputy Minister specifically, but it is a point to be made to Government with regard to the handling of legislation, and it is a point that we have made before with regard to the Proposed Waste (Wales) Measure, the Proposed Welsh Language (Wales) Measure and others.

[125] **Angela Burns:** Do you have any comments that you want to make with regard to the financial impact on RSLs?

[126] **Andrew Davies:** No, Chair; I am aware of the time.

[127] **Angela Burns:** Alun, do you want to briefly touch on financial penalties, because I would particularly like to get to Rosemary and her set of questions?

[128] **Alun Davies:** I will be very quick, Chair. The Deputy Minister and I have faced each other with regard to this proposed Measure for the past three years, so I think that I have exhausted every question that I had on it.

[129] You will have the power, under sections 57 to 63, to impose a financial penalty of around £5,000 on a registered social landlord. First, why have you set the penalty at that level? Secondly, can you outline whether that maximum penalty is applicable to an individual offence or to a number of offences; is it £5,000 for one offence, £10,000 for two offences and £15,000 for three offences, or would £5,000 be the maximum total penalty?

[130] **Jocelyn Davies:** The figure of £5,000 was considered to be reasonable; it is not insignificant and would certainly cover the costs of getting to that point in terms of intervention. On your question about whether it would be £5,000 per offence, I would imagine that, if you get to that point of intervention, there could be a number of individual things that would add up to a penalty.

[131] **Mr Breeze:** The sum is fixed according to a scale of charges.

[132] **Alun Davies:** I understand that.

[133] **Mr Breeze:** I am trying to find the reference to the scale.

[134] **Alun Davies:** We understand about the scale.

[135] **Jocelyn Davies:** We did not want it to be insignificant.

[136] **Alun Davies:** If it is scalable, then it is also linked to individual offences and not to a number.

[137] **Jocelyn Davies:** Okay.

[138] **Alun Davies:** That is my understanding of the scalable awards.

[139] **Jocelyn Davies:** I am not entirely certain about that. Could I give you a note on that to clarify that point?

[140] **Angela Burns:** Yes, of course.

[141] **Mr Breeze:** I am not sure that it is scalable. The £5,000 comes from a scale of charges.

[142] **Alun Davies:** In terms of compensation, in section 64 to 71, you amend the Housing Act 1996, and describe the arrangements relating to the imposition of a requirement on registered social landlords to pay compensation. Are you setting any limits on the amount of compensation that a registered social landlord could be required to pay? Have you taken any view of the likely amount of any compensation awards that might be payable under these sections?

[143] **Jocelyn Davies:** Compensation, rather than penalty, normally covers the quantified loss of individuals. This section has been drawn up in collaboration with the sector. What you see here is an escalation of intervention. So, you start with the voluntary undertakings and then it escalates to a point where you could order an RSL to be taken over by another RSL. So, this is an attempt to say that it could escalate to that point. So, compensation has been included. I would say that it is an assessment of loss, otherwise it would be a penalty.

[144] **Alun Davies:** So, there is no limit in your view.

[145] **Jocelyn Davies:** Well—

[146] **Angela Burns:** In your explanatory memorandum, paragraph 3.57 gives no limit at all; it simply states that Welsh Ministers could require an RSL to pay compensation.

[147] **Jocelyn Davies:** I am trying to imagine under what circumstances the compensation would be so huge that you would not go to this. An RSL is like any other legal entity; if it causes a loss to someone else, it could always be sued for that loss—whatever it was. This cuts across the need for individuals to make cases in common law, as we could order them to pay compensation, if they were not treating tenants, or others, in an appropriate fashion. We would expect the compensation to be equivalent to the loss. This would be used in the appropriate circumstances. There is no requirement to use this section if people's losses would be better dealt with under other legislation.

[148] **Angela Burns:** We will ask for a brief note on this and, Ceri, on the point that you made on the compensation penalties. You talked about £5,000; we have just considered the Proposed Waste (Wales) Measure, in which there is a legal framework for £5,000 up to, I think, £20,000 or £25,000. It is a standard that is applied. However, we will ask you to clarify what that is, as that is quite important.

[149] **Mr Breeze:** May I add one point? The proposed Measure says that, in making an award of compensation, Welsh Ministers must aim to avoid risking the financial viability of a provider and the services in the award itself. Obviously, we would then be talking about huge awards, but, as the Deputy Minister said, some losses to individual tenants could be much smaller.

[150] **Jocelyn Davies:** Yes. The fact that Welsh Ministers have the ability to instruct compensation does not prevent a body or legal entity from taking its own case in law for compensation against another legal entity. This would be used when it would be appropriate, in the view of Welsh Ministers, to order the compensation to be paid by the registered social landlord.

[151] **Alun Davies:** I am interested that you think that you have qualified that, but I am sure that you can answer that in the note.

[152] **Angela Burns:** The topic of compensation bring us very neatly, Rosemary, to the concerns that you were raising about registered social landlords.

4.50 p.m.

[153] **Rosemary Butler:** Yes. I wanted to ask a question about the intervention powers of Welsh Ministers. A range of regulatory and intervention powers for Welsh Ministers are outlined in the proposed Measure, but the financial implications of most of these seem to be unclear. Will you explain why you have not included an estimate of the financial implications for all the intervention powers that would be available to Ministers under the proposed Measure?

[154] **Jocelyn Davies:** I have said on many occasions, Rose, that I would hope that Welsh Ministers would never have to use any of these powers, because that would show that there has been a failure to spot something early enough, although there has been one example of a housing association getting into extreme financial difficulty. It is no longer in existence. That is why the regulatory regime needed updating, and we would expect that, normally, voluntary undertakings would be the order of the day. However, it could then escalate. We estimate—I

think that it is stated in the explanatory memorandum—that if we had to appoint an interim manager, for example, that it would cost the Welsh Assembly Government in the region of £10,000, but the salary costs of that individual would then fall on the registered social landlord. The cost of not intervening, should a housing association get into trouble, would be much greater, because of the risk to the sector as a whole, and the idea of bringing this in was to ensure that lenders have confidence about the ability of Welsh Ministers to intervene should there ever be a need to do so. So, this is more about providing comfort and ensuring the financial viability of the sector as a whole. In fact, we were urged to do this by the Council of Mortgage Lenders. When we consulted on our new regulatory regime in the past, the council said that the key outstanding point was a statutory basis for Welsh Ministers' intervention and enforcement powers. I know that we have not provided you with the cost of this, but we know that, without it, there would be severe consequences for the sector as a whole because lenders would be reluctant to lend, or it would cost individual RSLs more to borrow because of the perceived risk.

[155] **Rosemary Butler:** We are talking apple pie here almost, are we not? We hope that it would never happen, but some very interesting things have happened in the financial market in the last few years that you would never have expected to happen. So, it would be helpful if we could know what these costs are, and whether those costs, if ever they were incurred, would come out of the housing directorate's programme budget, or whether there would have to be a supplementary budget for them.

[156] **Jocelyn Davies:** Our regulatory regime is accounted for out of our budget. We do not think that there is anything here that we could not deal with from within our budget as it stands. However, as I said, we have already made the changes to the regulatory regime, and I suppose what this does is give us the statutory force for that. We used to, for example, expend significant sums with the Wales Audit Office to carry out our inspections of housing associations. The cost of that used to be in the region of £600,000 a year; we no longer do that, because we have changed the way in which we regulate. All that is now done in-house and we would envisage that all of this would be within our current budget.

[157] **Mr Breeze:** Within the new regulatory framework, we are confident that the approach to that, which is based on self-assessment and assessment by the regulation team, will spot issues early enough. It is possible, if an issue is spotted, that we may need to commission a piece of research for example, or legal advice on a certain issue. Estimates of that in the explanatory memorandum are around £5,000 to £7,000. That reflects 10 to 15 days of dedicated investigation. However, we are confident that the regulatory framework itself will overcome the need to spend large amounts of money from the housing directorate budget.

[158] **Rosemary Butler:** I think that we will wait and see, Chair.

[159] **Angela Burns:** Did you want to come in specifically on that point, Brian?

[160] **Brian Gibbons:** Yes, I have a question before we leave this point. I have another question about the regulatory unit that I can go back to later. Is there a right of appeal to any of these? I did not see that in the explanatory memorandum. A registered social landlord could presumably decide to resist some of these recommendations, and there would be an appeal process. I did not see anything about a cost for an appeal process. I do not know whether there are estimates of that.

[161] **Mr Breeze:** There is an appeal against the penalty.

[162] **Brian Gibbons:** However, they could, presumably, appeal against putting in tendering and against any adjudication of the unit.

[163] **Mr Breeze:** Yes, they could. The essence of the approach is voluntary undertakings in the first circumstance, but, in theory, they could disagree, and that is when the enforcement powers would come in.

[164] **Brian Gibbons:** So are there estimates for that? We know from residential homes, for example, that several residential home landlords, even in the face of what seems to the lay person to be pretty blatant evidence of underperformance, seem to be willing to go to court.

[165] **Jocelyn Davies:** To court?

[166] **Brian Gibbons:** Yes, to challenge. If there is no appeal mechanism—

[167] **Mr Breeze:** A registered social landlord could appeal to the High Court in respect of an enforcement notice.

[168] **Brian Gibbons:** Are there estimates in here of the cost of those sorts of things?

[169] **Mr Breeze:** No.

[170] **Angela Burns:** Rosemary Butler has the next questions.

[171] **Rosemary Butler:** Your explanatory memorandum notes the few instances in Wales of RSLs getting into difficulty—Corlan was one instance, in the 1990s. However, in England, we have had the Ujima Housing Association situation. Do you think that the proposed Measure will help to prevent such a situation—Ujima collapsed—from occurring in Wales?

[172] **Jocelyn Davies:** The changes that we have already made to the regulatory regime, which you do not see in these pages, because this just gives them statutory force, give us a better oversight of all the RSLs. Therefore, even though, on the face of it, you can see what action would happen, our current regime makes that virtually impossible. If someone set out to deceive you, it would be difficult, but we have communication with RSLs all the time now, so we should spot things early on. There are examples of where we have spotted things early, and have been able to put things right quickly, without anyone noticing that something was wrong. The new regime is about everyone being involved in the regulation; it is about robust self-assessment and having delivery outcomes, and so on. If someone was determined and dishonest and criminal—depending on how good they were at that—then it might be difficult, but I am satisfied that the regulatory regime that we now have is fit for purpose. Those in the housing finance world have endorsed our approach, and have said that they are much better satisfied that lending in Wales is as low risk as it can possibly be.

[173] **Rosemary Butler:** We are all saying that it will not happen, but have you done a risk assessment of the cost impact on the Welsh Government if an RSL were to collapse in Wales, or is that so far-fetched that you do not have to do it?

[174] **Angela Burns:** It is not so much that it is far-fetched, but that there are so many different shapes of RSLs, perhaps.

[175] **Mr Breeze:** The cost could be considerable, but we have not done a precise assessment. To add to what the Minister said, inherent in the new regulatory framework approach is a high degree of challenge, and a proportionate approach to risk assessment. Therefore, the approach itself is designed never to get to this stage; obviously, these are the essential things if you get an association that does not go down the voluntary undertaking route. I do not believe that we will ever get there, but that does not take anything away from the most important point. I would emphasise what the Deputy Minister said about the new approach, namely that it is very much fit for purpose and is challenging.

5.00 p.m.

[176] **Angela Burns:** I want to pick up on something that Rosemary said, before Brian asks the last questions. I want to make sure that I heard correctly when you said that lenders have been saying to you that the risk of lending in Wales is very low.

[177] **Jocelyn Davies:** Yes. In fact, I have received a document from the Council of Mortgage Lenders, which I would be happy to provide to the committee. It says that, in Wales, lenders' key concerns are about how the Welsh Ministers will ensure the financial viability of the sector and that housing associations have good governance arrangements in place. It says that it welcomes the progress that has been made through the development of robust, evidence-based self-assessment, a set of delivery outcomes linked to governance and viability, and a risk-based, proportionate approach to regulation in the future. It says that the key outstanding points for lenders are the delivery of formal judgments on viability and government by the Welsh Ministers, and a statutory basis for the Welsh Ministers' objectives and intervention and enforcement powers.

[178] Since the review of housing associations, carried out by Sue Essex in 2008, we have worked with the sector to create the new regulatory regime on which it is based. So, we have collaborated with, and have the co-operation of, RSLs, local authorities, lenders, private developers, tenants and others, who have all come together to produce our new regulatory regime.

[179] **Angela Burns:** That frees up finance at a time of tight finances in Wales and the rest of the UK, for example for people to become registered social landlords. It will also increase the quality of the offering of those landlords, because more money will be available for that spend.

[180] **Jocelyn Davies:** Yes, and as I mentioned, inspections have been carried out by the Wales Audit Office, at considerable cost, and those inspections did not include governance and finance. Typically, an inspection would take place, and it would be two years before the report was published. Then, lenders rightly asked what good that was to them in giving them comfort. They are now much happier with the relationship that we as regulators have with the sector, and they are happy that we have introduced the proposed Measure. Lenders have been more than happy to indicate that clearly in response to our consultation.

[181] **Brian Gibbons:** On page 54 of the explanatory memorandum, in paragraph 10.22, it is stated that the staffing cost of the regulation unit is £514,000 for nine and a half full-time equivalents. Those seem to be very well-paid posts, equating to well over £50,000 on average per person. Will those people be highly trained, specialist accountants and so on?

[182] **Mr Breeze:** It is a highly specialised team, comprising people who have different skills, including accountants, financial analysts and senior regulation co-ordinators. That reflects the nature of the role that they take up with housing associations.

[183] **Jocelyn Davies:** In fact, we have recently replaced the head of regulation, and it was considered that we needed to advertise the post externally, because of the specialism required.

[184] **Brian Gibbons:** So, the fact that the average cost is over £50,000 does not surprise you, because of the specialist nature of the work that they are doing.

[185] **Mr Breeze:** That is right.

[186] **Brian Gibbons:** Lovely, thank you. This is my last question. In relation to having to

intervene, putting in new managers and so on—and this touches a little on what Rosemary said—how often are you likely to have to do that? Would it be done once every five years, or once a year, for example?

[187] **Jocelyn Davies:** I think that one housing association in Wales has collapsed in the past 25 years. I suppose that we are in more financially uncertain times now, but we have had the global accounts of the associations over the past few years, and they look healthy. I would hope that, as long as we can keep up with the regulatory regime as it is, we would never have to take over the management of a housing association. Some associations are very small and some are very large. For example, in your area, Rose, the new stock transfer organisations has 12,000 properties, but other associations have tiny numbers, so you can imagine that things could possibly go wrong. I hope that we would see it very rarely. I cannot give you a prediction, as only one housing association has collapsed in 25 years but, given the uncertainty of the current financial circumstances, I suppose that it is possible.

[188] **Brian Gibbons:** Going back to Rose's question, is there a risk-profiling process? I do not know what rating, such as AAA+ rating, Standard and Poor's uses, or credit agencies, but unless the risk profiling of these organisations is undertaken, it might be a bit foolhardy. Is there such risk profiling?

[189] **Mr Breeze:** Yes. The whole basis of the regulatory framework is about working closely with housing associations. Risks are identified, challenges are set and action taken in relation to associations that are considered to have risks. So, it is proportionate, but it is targeted and well directed as well.

[190] **Jocelyn Davies:** Since I have been Deputy Minister, it is not unknown for an association to need a little help. Where that has happened, we would ask someone else from within the sector to join its board for a period of time—a couple of months, maybe—until things are back on track. We now receive very early indications if something is about to go wrong. I am not saying, Brian, that things could not possibly go wrong, because I know that associations are concerned about changes to the housing benefit regime if tenants are paid the benefit, which they then have to pass on to the registered social landlord. I know that some social landlords are concerned that arrears could accrue quickly among a large proportion of their tenants. I do not know whether that would happen, but you can imagine that scenario playing out.

[191] **Brian Gibbons:** From what you are saying, you have a low threshold for intervention.

[192] **Jocelyn Davies:** Yes.

[193] **Mr Breeze:** I suppose that you could say that we are intervening all the time with social landlords because of the regulatory—

[194] **Brian Gibbons:** That worries me slightly, because if you are intervening all the time, that suggests that there are problems all the time. If your threshold for intervention is quite low, that would be quite understandable, but if you are having to intervene all the time, that suggests that there are chronic problems.

[195] **Jocelyn Davies:** We give advice to associations whenever they seek it. For example, since I have been Deputy Minister, we have helped two associations by asking people to sit on their board for short periods of time. In one case, no-one noticed—none of the tenants was affected, and neither was their welfare. There have been two such cases in the last few years, so the threshold is quite low. We find that people from within the sector are willing to help out by sitting on other boards and bringing their expertise to bear. There is no payment for

that, but they are willing to do it.

[196] **Mr Breeze:** To clarify, the intervention is in the form of advice, guidance and support, which we give to associations day in, day out. That is quite different from the enforcement powers that we are talking about here.

[197] **Jocelyn Davies:** On the whole, global accounts show that this is a financially healthy sector. Lenders have indicated that they are happy with our approach as regulator. This legislation will give statutory force for intervention powers in extremely rare circumstances, which we cannot predict at this moment in time.

[198] **Angela Burns:** Thank you for that. Sorry, Chris, as we have not got to your questions. We have more questions to ask you, Deputy Minister, which are of a quite technical nature, so I will put them in a letter to you. Are there any other comments that you would like to make?

[199] **Jocelyn Davies:** We will try to quantify some of the costs that I have been asked about and return those to you as soon as we possibly can in letter form, if that is okay with you, Chair. I apologise that they are not contained in the explanatory memorandum. So, even if they are nominal administrative costs, we will try to estimate the number of days that someone would take to complete that work.

[200] **Angela Burns:** We will send you a letter identifying the things that we really want to know. Thank you very much, Deputy Minister and officials, for your time.

5.10 p.m.

**Cyllideb Ddrafft Llywodraeth Cynulliad Cymru 2001-12—Cyflwyniadau gan
Bwyllgorau Eraill y Cynulliad ac Ymatebion gan Weinidogion Cymru
Welsh Assembly Government Draft Budget 2011-12—Representations from
Other Assembly Committees and Responses from Welsh Ministers**

[201] **Angela Burns:** I wish to draw your attention briefly to these representations from other Assembly committees, and also to the draft budget responses from the Welsh Ministers. I wish to ask that we note them formally in public. I know that we will want to discuss them in our private discussions on the budget. I am also aware that a number of our Members will need to leave fairly shortly.

**Cynnig Trefniadol
Procedural Motion**

[202] **Angela Burns:** As the Minister for Business and Budget is not due to arrive until 5.30 p.m. to attend our next item on the agenda, I am keen to discuss the Proposed Safety on Learner Transport (Wales) Measure, because we need to put together our report on that. Therefore, I would like for us to go into private session to discuss that, and then we will take a quick break before the Minister arrives. Therefore, I ask a Member to move the appropriate motion.

[203] **Rosemary Butler:** I move that

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

[204] **Angela Burns:** I see that the committee is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 5.11 p.m.
The public part of the meeting ended at 5.11 p.m.*

*Ailymgynullodd y pwyllgor yn gyhoeddus am 5.27 p.m.
The committee reconvened in public at 5.27 p.m.*

**Cyllideb Ddrafft Llywodraeth Cynulliad Cymru 2011-12—Tystiolath Bellach
gan y Gweinidog dros Fusnes a'r Gyllideb
Welsh Assembly Government Draft Budget 2011-12—Further Evidence from the
Minister for Business and Budget**

[205] **Angela Burns:** For the bemused viewer—if anyone ever views the Finance Committee on any of the television channels out there—we have popped back onto your radar again. We went into private session to discuss the findings of some reports that we intend to issue, which we always do in private. However, we are back now in public session.

[206] I wish to warmly welcome, on this cold afternoon, the Minister for Business and Budget and her colleagues. Will you introduce your colleagues for the record, Minister?

[207] **The Minister for Business and Budget (Jane Hutt):** Thank you, Angela. Joining me today are the Director General for finance, Michael Hearty, and Andrew Jeffreys, who is the deputy or the director of finance—what is your title, Michael? I get it wrong each time. *[Laughter.]*

[208] **Mr Jeffreys:** I am the head of strategic budgeting.

[209] **Jane Hutt:** Also with us is Jeff Andrews, our special adviser.

[210] **Angela Burns:** Thank you. We are here today, having scrutinised the budget with you some weeks ago. Since then, we have had responses from other Ministers, as well as representations from other interested parties, and we have met with a few other witnesses. This is our wrap-up session, if you like, in which we will come back to you with things that we have discovered, concerns that have been raised with us, and things that we do not understand or have not been able to match and marry. I am keen to try to keep to our time limit this afternoon, because the temperature outside is falling fast. Do you wish to make any opening comments, Minister? If not, we will go straight into questions.

[211] **Jane Hutt:** Thank you, Chair. I wish to make a few opening comments. First, I am pleased to be able to join you again to talk further about the Assembly Government's draft budget proposals, and about the process for ensuring that we use these resources as effectively and as efficiently as possible. I am conscious that, since we met on 18 November, you have also received evidence from the Chief Secretary to the Treasury, as well as, as you said, corresponding with Ministers directly on their detailed spending plans. I wish to take this opportunity to report on the private meeting that I had with the Chief Secretary to the Treasury after he had been before the committee.

5.30 p.m.

[212] I emphasised at that meeting the Assembly's commitment to implementing a funding floor for Wales, as recommended by the Holtham commission. I also noted our

disappointment that the funding floor had not been announced as part of the spending review. However, I am pleased to say that the Chief Secretary confirmed that he was still open to discussions on the funding floor. I am continuing to press the UK Government on this issue to ensure that it remains focused on achieving a real outcome for Wales. This is my first opportunity to report on that meeting, Chair, so I hope that you find that useful. On end-of-year flexibility, which you may wish to question me on, the Chief Secretary acknowledged that the devolved administrations should not be treated in the same manner as Whitehall departments. Indeed, he confirmed that the new mechanism, which he talked about when he appeared before you, would allow devolved administrations to carry underspends over to the following year, without the need for agreement with the Treasury. This is welcome news, and it is only what we expect in the case of money that has been voted by Parliament for Wales, of course. However, I have written to the Chief Secretary to confirm the way forward, following the exchange at our meeting. I look forward to hearing from him soon, and I will share that correspondence with you.

[213] I also wanted to say that I was pleased to see the responses from the individual portfolio Ministers, which have been sent to you. I draw attention to the fact that the departmental chapters within the draft budget set out each department's high-level strategic objectives. That is critical to the discussions we had about business planning. I explained the business planning process in my paper of 17 November, which I submitted to the committee. It is important that the departments are going through that intensive period of business planning now, to ensure that they can identify how their work will deliver these overarching outcomes for the people of Wales and that the effectiveness of that is monitored.

[214] To conclude my opening remarks, as an Assembly Government, we are clearly focused strategically on delivering outcomes for people in Wales, and that is where this budget has got to hold up. Considering that it is a very challenging draft budget, in the strategic focus, which you quite rightly set as the tone of the agenda when I last came to the Finance Committee meeting, it is quite clear that we have set clear priorities, and that we have been able to deliver many of these objectives. That sets the scene with regard to how we can move forward. However, in a time of financial pressures, we have to focus on delivery. I hope that there will be some questions to me today about how we are taking forward the efficiency and innovation programme, showing how, pan-public sector, we can work together to innovate and improve delivery while working more efficiently. We should be constantly improving our understanding of how our work delivers outcomes across all sectors.

[215] I am sure that Members will notice the written statement I issued earlier today to confirm that an additional £135 million is being made available this year for public services in Wales, £110 million of which will be allocated to the health service. It will ensure that we have a robust service that will be able to deal with pressures, particularly during this cold spell. A particular focus on winter pressures is important. The remaining £25 million is for education, in recognition of the increase in student numbers this year. I feel that it is important that I come to the Finance Committee today, having made that announcement, to report on that to you. I look forward to your questions.

[216] **Angela Burns:** Thank you very much. You are absolutely right on the topics you have mentioned, such as EYF and the innovation and efficiency board. We will be addressing questions to you on those. However, first, I am going to hand over to Andrew, who has a series of questions on outcomes.

[217] **Andrew Davies:** Thank you for your introduction, Minister. I think that the committee very much welcomes your approach. You talk about taking a uniform approach to resource allocation, based on business planning, and focusing on outcomes. However, for many of us, the responses from individual Ministers to the Chair of this committee and, indeed, in their evidence to the respective committees, do not seem to indicate a uniform

approach—far from it in fact. They seem to indicate a variety of approaches to resource allocation. At what stage in the budget process do you and spending Ministers consider the outcomes, in determining resource allocation?

[218] **Jane Hutt:** Obviously, we can go back to the 19 strategic outcomes that we set ourselves as a One Wales Government around the ‘One Wales’ themes, but in terms of steering our resource allocation in that strategic, uniform way, as you put it, the impact of spending programmes on outcomes is a critical, key element of the resource allocation process from the outset, particularly with a challenging budget. In March—and we did go back to March—we set the priorities and recognised that Ministers would have to manage budget reductions in their portfolios, and in doing so, they would have to provide evidence, not just of how the budget reductions would be delivered, but of the impact of those budget reductions going back to the strategic outcomes that we sought through the ‘One Wales’ programme of government. So, it had to be a strategic approach driven not just by myself as Minister for finance, but by the Cabinet.

[219] I think that I said at my previous appearance before the Finance Committee that this is clearly something in which we are engaged as a long-term journey and as a cultural change in terms of looking for better evidence and evaluation, better partnerships and joined-up working and a clear understanding of effectiveness of our programmes. However, the fact that we had such a challenging settlement, and had sought to be clear about priorities as a Cabinet, has inserted some discipline into this in terms of a strategic approach. Clearly, Ministers themselves have to identify—and I am sure that has come through scrutiny—how to deliver the objectives that they have to set in the resource allocation process and what impact that will have on outcomes.

[220] One of the most useful things that we have done in this resource allocation exercise is to engage with the equality impact assessment. That has focused the minds of Ministers and their officials on the impact that reductions will have on the people they serve and on outcomes. That can relate to tackling poverty, reducing the number of people not in education, employment or training, or improving patient safety. It is about looking at the populations most affected by changes and particular reductions in budget.

[221] **Andrew Davies:** I can only speak for myself, but from reading the individual letters from Ministers and the responses from committees, I will contrast those from the Minister for Health and Social Services and the Minister for Environment, Sustainability and Housing. The Minister for health states very clearly the impact on her budget going forward in terms of efficiencies and gives figures for what has been achieved in the health service. She also sets out her stall for the future, highlighting capital funding reduction and monitoring outcomes. She refers under the monitoring outcomes heading to an annual operating framework, and social services similarly, as a way of assessing performance. However, the Minister for environment’s letter does not talk about the business planning process internal to Government. It says that

[222] ‘In terms of evaluating outcomes, all main areas of spending are subject to formal outcome monitoring, which we then subsequently monitor with our respective senior officials’.

[223] She then goes on to give some examples. However, the letter then looks at the home energy efficiency scheme and the contribution of the social housing grant towards providing 6,700 affordable home units. It is retrospective; there is no reference to the 2011-12 budget, which is what this budget scrutiny is about. What I am saying is that there does not seem to be any consistency in the way in which individual Ministers are dealing with this. This may raise questions for committee on the extent of their strategic direction. I suppose what I am asking is whether there is anything the committee can do to add value to your considerations as the

Minister for budget in terms of getting greater clarity in terms of business planning, outcomes and performance management.

5.40 p.m.

[224] **Jane Hutt:** I am sure that, out of this process, and particularly out of this challenging budget, there will be lessons to learn that can feed through to the strategic direction that, particularly as the Minister with responsibility for finance, I need to take responsibility for. I do not believe that it is my place to respond by identifying differences in terms of those two ministerial approaches. I was concerned to ensure that Ministers were clear about their priorities and that they went through their budget line by line, to ensure that there was not just a salami-slicing approach to this budget, but a more strategic one.

[225] To comment on environment, sustainability and housing, a clear decision was made by Ministers that they would protect their major repairs allowance budget. I believe that you can say that there was a strategic objective to that, because it would help local authority housing to reach the Welsh housing quality standard, so that was a definite strategic decision that was made by Ministers. They also sought to protect energy efficiency and fuel poverty programmes in terms of lower energy costs and lower carbon emissions. Therefore, you can go back to the ministerial handling of this in that way.

[226] I was also interested to see—scrutinising for myself—the different ways in which Ministers had identified their priorities. For example, the Minister for Children, Education and Lifelong Learning had looked at the impact of reducing budgets on learner attainment and on reducing the number of young people who are not in education, employment or training. That goes back to our strategic objectives, but I am sure that the process of the Finance Committee looking at this in this way will provide helpful feedback for me, and for the Government, on how we can get this change of direction that we need in terms of effective resource allocation.

[227] **Andrew Davies:** I only chose those two as examples, and you have given examples of the variety of approaches taken by Ministers. I would also draw your attention to the Sustainability Committee's recommendations, which make the points that I have made in much more detail. The committee asks for greater clarity. Indeed, on many issues, it says that it would like greater clarity in terms of the business planning outcome and how you performance manage. I believe that the point of view that the committee wishes to take is to ask how we can help you in order to get much more efficient use of public resources at a time of reduced public expenditure. One of the major issues is getting clarity, and maybe consistency, across portfolios. Can you also give us more information on the business planning process, as well as the in-year budget monitoring in terms of outcomes? Obviously, that would be for the next financial year now. Could we also have more information on performance management and on the financial management of the systems that are in place to allow you, as the Minister for Business and Budget, to monitor performance and efficiency?

[228] **Jane Hutt:** I welcome that. My department provides the framework for the detailed planning process to manage and then support the process of developing business plans; I take responsibility for that, and it is helpful that the committee is focusing on it. We are also supporting the in-year reporting process, which is crucial in terms of monitoring. We could go into some detail about how the plans are structured around a set of spending programmes that are known as actions; each action has a budget allocation, and, through planning, a set of performance indicators and deliverables are established for each action. It may be helpful if I wrote to the committee with further details on that.

[229] However, if we are looking at outcome measures, such as GVA or skills levels, we need more regular and dynamic measures, such as the number of jobs created or protected or

the number of people trained. If you, as the Finance Committee, can commend that sort of approach and make it clearer that not only I, as Minister for finance, but other Ministers will be scrutinised on these overall objectives, I would find that very helpful.

[230] **Andrew Davies:** I think that a note from the Minister would be very helpful, but I just wish to say that, in my ministerial experience, there is very little relationship between detailed business planning at a departmental level and high-level objectives.

[231] **Jane Hutt:** I hope that we can overcome that, Andrew.

[232] **Angela Burns:** It is one of the things that we are keen to give you further tools to help overcome. Obviously, as an Assembly Member, I sit on other committees. I sat here as the Chair of the Finance Committee a few weeks ago, when you first came here, and you talked about the fact that the budget was predicated on informed decisions about outcomes, but in other committees, I was hearing Ministers saying, 'We're still looking at what we are going to do; we haven't actually got there; we haven't actually decided on our outcomes'. I was wondering how you knew where you were going when some of the constituent parts did not.

[233] **Andrew Davies:** In my experience, very few Ministers ever read the business plans of their departments. I do not know how many of the senior management staff in the departments read the business plans that were produced annually.

[234] **Alun Davies:** I am not sure that I can follow that, actually. Perhaps the Minister should comment on that before we move on.

[235] I have to say that I agree very much with the Chair's feelings on this. Is it the case, Minister, that by creating the high-level context—the political context, shall we say—for this budget, you have been able to create a context in which Ministers are able to take early decisions on their priorities, which means that they have created a space to look at alternative ways of ensuring that key areas and front-line services are protected within their budgets? Given some of our experiences, this has been a curious few weeks for us in trying to scrutinise Ministers on their approach to budgeting.

[236] **Jane Hutt:** I did go back to say that the first thing that we had to do as a Cabinet, knowing that it was going to be a tough budget settlement and that we would be reducing budgets, not growing them, was to agree priorities for spending and to be very clear that we did not expect a salami-slicing approach to what was left of the budget. Clearly, given those priorities, some Ministers knew what was going to be protected. However, as a Cabinet, we needed to be clear that it was not just about political priorities; it was about delivering outcomes. If we were going to protect schools, it was about delivering outcomes in terms of learning opportunities for our pupils and young people. As we moved into the process, and through the equality impact assessment, we discovered that protecting social services was emerging as a critical pathway in terms of its impact on older and more vulnerable people. So, that priority emerged through the budget planning process. That is a very good example of how an equality impact assessment has helped us.

[237] We also had very clear guidelines for ensuring that Ministers were looking at contractual and legal commitments; significant risks associated with reducing budgets; as I mentioned last time, issues in terms of match funding opportunities with EU programmes; and the impact on the third sector and the private sector with regard to the decisions made. Those were the underpinning criteria that we used to drive the process of Ministers reducing their budgets and doing so more strategically. Of course, they had to come back, not just through bilateral meetings, but to the whole Cabinet, with their proposals. It is very helpful for the Finance Committee to take this interest. It is interesting that, if you look at the draft

budget, you will see that there are key delivery programmes. Andrew Davies has mentioned health. The narrative contains some very clear indications on objectives, particularly for health, the strategic direction of the NHS to develop into a fully integrated healthcare system, and all elements working together putting citizens at the heart of the delivery of services. That has been very much geared to all of the work that has been done in terms of innovation, as well as efficiency, in the delivery of healthcare and the links to social services. This is an ongoing discussion that I hope that we can have. An important point about this is that if we have deliverables and performance indicators by which Ministers have to abide, and then it is monitored, I hope very much that those business plans are living documents that guide the Ministers through the management of their budgets and programmes during the ensuing year.

5.50 p.m.

[238] **Alun Davies:** We certainly hope that they will read them.

[239] In terms of the politics of some of this, Minister, when this budget was tabled some two or three weeks ago, there was a very clear statement that there will be a protection of front-line services, and that money will be used in order to protect those services. That means that money has to come from somewhere else, clearly in a declining income. In terms of what I have been reading in these papers and around the debate, I have seen probably one straight reference that I can understand in one area of expenditure, namely economy and transport, where Ieuan Wyn Jones very clearly stated, as he did in his letter to the committee, that infrastructure projects will suffer as a consequence of decisions taken to protect mainly capital spending in health. That is what seemed to be happening there. Could you give us any other examples of where that sort of thinking and politically driven approach has changed the decisions that might have been taken otherwise?

[240] **Jane Hutt:** As I said before, my role is to make the decisions on the high-level main expenditure group allocations, rather than on the individual budget lines. In terms of reducing budgets, you have mentioned the economy and transport, but we only have to look at health and social services to see that there are reductions in the budget lines on supporting education and the training of the NHS workforce. On the other budgets, in social justice, there are reductions in fire and rescue services' resilience; in children, education, lifelong learning and skills, there is a reduction in higher education; in environment, sustainability and housing, there is a reduction in managing the delivery of legacy, regeneration areas, rural affairs, and protecting animal health and welfare; in heritage support and sustaining a strong arts sector, there is a reduction in the Arts Council of Wales's budget. When you get to public services and performance, you will see that there is a reduction in the spending periods in our inspectorates and in central services and administration—a 20 per cent reduction over the next three years. We can give you a flavour of the kinds of reductions that are seen and the percentages are there within the budget lines.

[241] **Angela Burns:** We are concerned, Minister, that one thing that has come through is that the process of identifying outcomes is occurring after spending plans have already been made in some of the portfolios. It is a chicken-and-egg situation, perhaps, but given that those plans have already been made, how can someone say, 'I plan to spend this money. Oh, this is the outcome, but I am still working out what that outcome will be that I want to achieve'? It seems to come through loud and clear and that is a matter of concern for us. We understand your comments about the reductions, and we understand the excellent rear-guard action that you are putting up in defence against what we think are some real issues in terms of ministerial understanding of the economic climate within their portfolios. I will not mention any particular Minister, but I did listen to one Minister explain that, despite the appalling reductions in the portfolio, there would not be one single change to any of the lines. I wonder how that piece of magic is going to happen. Those are the kinds of concerns that we have.

[242] **Jane Hutt:** I made sure that I covered every single Minister so that no Minister thought that they were being left out. I have given you examples of the reductions in every ministerial budget in terms of the lines. Obviously, Ministers are seeking to reassure the citizens of Wales that the work that they have done to manage the difficult budget has involved trying to minimise the impact on the delivery of services. I am sure that everyone in this room would recognise that it is the responsibility of Ministers, in making tough decisions about priorities, to look at ways in which they can lessen the negative impact of reductions. It is important to recognise that Ministers do not yet know what the impact of some of those reductions will be. Where programmes are functioning and are effective, Ministers have sought, through evaluation of the evidence base, to protect them and to minimise the reduction in those programmes. So, to be fair to Ministers, they are in new territory of reducing budgets, because budgets had been growing. The evidence base is vital in justifying a reducing or a growing budget. It is not a mechanistic process whereby you can calculate the impact of a change in spending levels on outcomes. To be fair to Ministers and delivery partners such as local government, they are working through the impacts of the difficult decisions that they will have to make. It goes back to the fact that the business planning process and the evidence base will prove to be more important than ever in being able to justify decisions and priorities. That is where we and all Ministers will have to be held to account.

[243] **Nick Ramsay:** Minister, on the argument regarding the outcomes—and the Chair has spoken about the chicken-and-egg situation—did you say earlier that there is a role for the committee in determining what the outcomes should be and the best way of measuring them, or did I mishear you?

[244] **Jane Hutt:** I think that I was responding to Andrew Davies's point on how the committee can help me in seeking to ensure that business planning is robust and adhered to and that Ministers are fully engaged in it in relation to the strategic priorities, delivery objectives and outcomes. Clearly, the Finance Committee is here to make sure that our budget planning process is robust, that we have a clear evidence base, a clear framework for business planning, and that we can be held to account, as I have said, for delivering on those objectives.

[245] **Nick Ramsay:** I am sure that we are more than willing to chip in in that process with the experts across the table. Going back to the Chair's point, if we are to get involved in it, we need adequate notice. The expression that might be used is 'it has been dropped on us', in that we are now in the middle of the process, and determining the outcomes after the process seems a little strange. We are more than happy to help, but really this needs to be a longer-term process than one that involves our telling you the outcomes that it would be wise to pursue.

[246] **Jane Hutt:** To be clear, it is up to the Government to be clear about its objectives and outcomes. It is up to the committee to be robust in its scrutiny—as you are today—of me as the Minister for finance, and indeed of other Ministers, in justifying decisions that we have made as a result of business planning and priorities. It would be helpful for the Finance Committee to comment on the process, rather than on establishing the outcomes. Your role is to comment on the process and to scrutinise it. If you have suggestions to make to me as a Minister and the Government—

[247] **Angela Burns:** I promise you, I can barely hold them back.

6.00 p.m.

[248] **Jane Hutt:** I do not think that there will be any difficulties in those coming forward, but it is our responsibility to justify the decisions that have been made in this budget with

regard to priorities, the framework for business planning and the overarching objectives that we have as a Government to deliver on strategic objectives. It is then for you to scrutinise whether we are delivering on those objectives or not and that we are using the most appropriate tools. I am sure that there will be some advice and comments on whether we could strengthen those tools.

[249] **Angela Burns:** Andrew, are you satisfied on the subject of outcomes? I see that you are, so I turn to Nick to talk about the efficiency and innovation programme and invest to save.

[250] **Nick Ramsay:** I know that time is short, so I will roll my questions into one on the efficiency and innovation board. The programme is slated to run from April 2010 until March 2012. However, within the public services and performance main expenditure group, there is an allocation for efficiency and innovation of approximately £3 million per year for each year of the budget period. Why is there an allocation to the efficiency and innovation board for the 2012-13 financial year, if it is intended to run only until March 2012?

[251] **Jane Hutt:** I am sure that you realise that, after the election, a new Government will consider whether it wants to continue with the same kind of vehicle, but I know that public service management and improvement will be on the agenda of any future Government. What is clear with regard to the budget line is that this does not just relate to the efficiency and innovation programme and agenda, but also includes possible match funding, for example, from the European structural funds, such as the 'Making the Connections' ESF budget line, which we are accessing for public services. We also have work streams, which I am sure are pan-public sector, with regard to the efficiency and innovation board that will progress, with the Government's current steer and leadership, so we need to ensure that there is a funding line for that.

[252] **Nick Ramsay:** Andrew Jeffreys, at one of our last sessions, pointed out the issues over match funding, so I will not go into that. I will stick to the efficiency and innovation board. Do you have an overall picture of how much savings can be achieved by the programme? When projects are put forward under this programme, is there any requirement that they must estimate the level of savings that they are aiming to achieve?

[253] **Jane Hutt:** We did touch on this in the last meeting, and, in fact, in paragraph 4.29 of the draft budget narrative, I indicate that we are working with our partners across the public sector to provide estimates of the potential for savings to be delivered and that I would provide a clearer position by the time that the final budget is published in 2011. We have given an indication, in the chapter on efficiency, of the savings that can be made, for example through public service broadband aggregation and Xchange Wales, and the work streams are already identifying savings at an authority level and at a pan-public sector level. However, it is important that the Assembly has a clearer picture of estimates of those savings by the time that we have the final budget.

[254] **Nick Ramsay:** I am glad that you added that at the end. Wearing another hat, you are probably aware that I, as do other Members, sit on the Public Accounts Committee, and we recently took evidence from public service and local government strategic planning officers, and enormous concern was raised about the fact that it was almost impossible to get accurate figures out of the department as to what targets had been set for making savings. It seems that, in many cases, there was a vacuum. Without those targets and without knowing what is to be achieved at the end of it, it is very difficult for us, as Assembly Members, to sit here to say that the efficiency and innovation board is achieving its target.

[255] **Jane Hutt:** I have read the transcript from the Public Accounts Committee—

[256] **Nick Ramsay:** You were not there, to be fair.

[257] **Jane Hutt:** That was an important and valuable session. We have brought together a group of experts to provide a measurement framework for this. This will be valuable work. We have brought people not only from the Welsh Assembly Government but from NHS Wales, local government and, importantly, the Wales Audit Office to ensure that we can come to you confidently with a measurement framework against which we can chart those efficiency savings.

[258] **Nick Ramsay:** There was a fear of missing a target and a desire not to be seen to fail, so they did not have that information at the outset.

[259] **Jane Hutt:** That is why a measurement framework is important for us. We must recognise that we have seven work streams, which are being led by local government and the health service. Some will lead to short-term gains, while others, such as the service redesign, will lead to longer-term gains. I have mentioned the public service broadband aggregation scheme. There are areas, particularly in the public sector and ICT, in which you can see the gains being accrued quickly, such as the national asset management work stream. I will not go back over this, because it is all in the budget narrative, but you can see that one local authority has realised £500,000 a year of revenue savings and £1.2 million of capital savings from vacating eight buildings, decamping staff and so on. This is where you can see the efficiencies being gained by that kind of change. If one authority can do it, all authorities can.

[260] **Nick Ramsay:** Can you see the change or the amount of the saving?

[261] **Jane Hutt:** Yes, you can. I have just mentioned the £0.5 million of revenue savings.

[262] **Nick Ramsay:** You did not have that information before.

[263] **Jane Hutt:** Denbighshire is a pioneer in Wales, delivering £1.5 million of savings—just that one authority—over five years by adopting Xchange Wales. It is now working with other authorities across Wales to help them to gain value from this e-procurement solution. When I come back to you with the final budget and we have this measurement framework, we will be able to give you clear indications of figures and perhaps the ranges of figures that we would expect to come out of this. That will give you some confidence in these arrangements, particularly because we have the Wales Audit Office, local government and the NHS all on board for this. It is pan-public-sector efficiency and innovation. It will not stop now; the pace is developing. I have a meeting of the board on Thursday and we had a successful public services summit only two weeks ago. The change is now being driven as a result not only of the public service reform agenda, which I took on, with the First Minister in the lead, when I became the Minister for finance and started chairing this board, but of the statement before Christmas on better outcomes for tougher times. That is what I believe that we are getting.

[264] **Angela Burns:** You have a supplementary question, Andrew, but I remind the Minister and committee members, with the greatest of respect, to try to be relatively brief.

[265] **Andrew Davies:** This may be something that the Minister can answer in writing if she cannot answer today. In her 29 April statement on the EIB she said that:

[266] ‘the Board has already agreed actions to secure £200 million efficiencies by 2013’.

[267] It would be interesting to know how that figure was arrived at, because Dr June Milligan, in giving evidence to the Public Accounts Committee, said:

[268] ‘we are currently working with the Wales Audit Office and the work streams to

identify the possible scope of efficiencies that might be realised. So, I am not going to rush in to give you an answer.'

[269] That seems to imply that, while you referred to the £200 million figure, officials have not—presumably, they are aware of that.

[270] **Jane Hutt:** Yes.

[271] **Andrew Davies:** So, how was that figure arrived at, and how does it compare with the 'Making the Connections' figure of £600 million, which I accept is over a longer period? I also seek clarity on which financial year '2013' refers to—is that 2012-13 or 2013-14? Given the time, that might be something that we could look at in writing.

[272] **Jane Hutt:** It would be helpful if I could give the committee a note on this. It was very much through the collaborative procurement and commissioning route that the £200 million came that I highlighted back in April, but it would be helpful if I could come back to you in writing. To be fair, and to respond to the point that I made to Nick earlier, this is about ensuring that we have a robust framework. I appreciate that officials did not answer that point as you may have hoped at the time, but it takes on board the fact that I have made a commitment to come back as a result of the work that has been done with the Wales Audit Office, the NHS and local government.

6.10 p.m.

[273] **Andrew Davies:** I have just one last point on the Wales Audit Office: it agreed to the efficiency savings drawn up through 'Making the Connections' but subsequently changed its mind on what was to be counted as an efficiency saving. I hope, under the new regime, that the WAO, if it agrees to this, will abide by any agreed definition of 'efficiency savings', and will stick to it over the longer period.

[274] **Angela Burns:** Nick, you have a quick supplementary question before Alun comes in.

[275] **Nick Ramsay:** It is just as I will not get the chance to ask this later. It was about something that the Minister said earlier and is a purely technical question. Minister, you mentioned £25 million in the context of student numbers. Is that related to the recent policy announcement on tuition fees, or is that going back to the general increase that there has been?

[276] **Jane Hutt:** That is pressure on student numbers in this financial year. It is nothing to do with the announcement made last week.

[277] **Alun Davies:** Minister, could you write us a note on the invest-to-save fund, given the time constraints that we have this afternoon? I would be grateful if you could tell us in that note how much of the £60 million that is available in the fund has been allocated over the three rounds already announced, whether you have any estimate of the total savings expected from these projects, and whether you intend to continue the fund into 2011-12, so that at least we have a context in which to consider your expectations. The Chair has referred to the rather curious session that we had at the Sustainability Committee. That committee runs in parallel with the Rural Development Sub-committee, so that you sometimes get the chance to ask questions of witnesses separately, and, sometimes, you learn an awful lot more than you do when questioning people together. The Minister for Environment, Sustainability and Housing told us that she had achieved allocations from the invest-to-save fund of, I think, £2.9 million in respect of energy efficiency and £0.8 million in respect of flood risk. However, your statement on 22 November detailed these allocations as part of the additional £47 million

capital funding being allocated in the current financial year. It would be good if you could clarify from which fund those sums are coming, because one is a loan, and the other is straight capital funding.

[278] **Jane Hutt:** I will write to you on the points that you raise about the allocation and the savings, as well as with details of the invest-to-save projects that have been backed so far. I confirm that those projects that you questioned the Minister for sustainability about are part of the capital investment package that I announced on 23 November. The £2.9 million for energy efficiency is to support a public sector invest-to-save programme, but it is supporting investment in energy efficiency and low-carbon energy solutions. Last year, we also committed £5 million to an invest-to-save programme managed by Salix Finance Ltd, which funds the installation of energy efficiency measures. So, yes, it is important that we are clear about which money has come through the invest-to-save route, which is in the form of a loan, and which money has come through as grants for capital investment. However, capital investment can have an invest-to-save objective.

[279] **Alun Davies:** The important point was the difference in view between the two departments on policy and approach. We questioned the Minister for sustainability on the potential savings that were anticipated as a consequence of the invest-to-save resources being allocated, and officials responded that work was being carried out on any expected savings, so it appeared that they were asking for the money without knowing how much would be saved. That conflicted with the approach of the Department for Rural Affairs, where savings had to be identified prior to an application being submitted to a fund. It would be interesting for us to understand your policy approach, Minister, and your expectations of the applications that you receive from individual Ministers, on the detail available, and the investment and savings that are anticipated. We would also like to understand the repayment arrangements that you anticipate for invest to save—as it is a loan, as you pointed out—when that saving is achieved as a consequence of the original allocation.

[280] **Jane Hutt:** I will bring Andrew in on the points about the differences between the Minister for sustainability and the Minister for Rural Affairs. On repayments, projects are required to repay in full to the Assembly Government when the project has delivered its expected benefits. However, the exact terms of repayment are decided on a case-by-case basis. Andrew, do you want to come in on that other point?

[281] **Mr Jeffreys:** Yes. I think that there is a bit of confusion here. The £2.9 million that you referred to that was allocated to the Minister for Environment, Sustainability and Housing from the recycling of capital funds this year was to fund a specific energy efficiency invest-to-save scheme within the sustainability portfolio. That is a public sector energy efficiency scheme, which is based on invest to save. However, I think that the details of that are still being finalised. The conversation with the Minister for Rural Affairs related to the central Assembly Government invest-to-save scheme and the criteria and process for allocating that resource, which are significantly different.

[282] **Alun Davies:** Thank you for that, which clarifies things. However, to be clear, from a policy approach, the Welsh Assembly Government will not be releasing any loans to departments under invest to save without their demonstrating that there will be very clear outcomes in the form of savings and efficiencies to be made over a period of time.

[283] **Jane Hutt:** Absolutely. However, as I said, our investment in the energy efficiency programme, to which we made a one-off allocation of £47 million, clearly has to be robust, but it is not a part of the loan system, which has its own criteria. Perhaps it would be helpful if we gave you some information on the criteria and the process for the invest-to-save fund. That, in itself, is robust. A lot of this work involves pan-public sector collaboration, so we engage with local government, the NHS, and work-stream chairs to see whether any invest-to-

save proposals fit the work stream. So, it is a robust procedure: there is an expression of interest, evidence of the need is required, as is evidence of the approach to the work, savings, and innovation. I can give you details of those criteria.

[284] **Veronica German:** I have a question on cross-portfolio savings, which I will illustrate with an example. In her letter to the committee, the Minister for environment suggested that investment in rapid-response adaptations results in a saving to health and social services. In fact, it was said that, for every £1 spent on rapid-response adaptations, £7.50 was saved. What work is undertaken within your department to evaluate these assertions and monitor whether such cross-portfolio savings are realised? How do you evaluate how the use of resources within one portfolio may impact on the requirement for resources in another? How do you consider these issues when the resources are allocated at the beginning?

[285] **Jane Hutt:** I will give you details of how we work up the bid proposals, if you would like me to do so. Those who are putting in bids tend to work up those proposals from an expression of interest. These then go to a panel and then further information is requested.

[286] On the collaboration, which is what we are seeking, particularly between NHS and social services, that cross-portfolio approach will clearly be important to the strength of the bid. In evaluating those expressions of interest and proposals, our officials work closely on identifying the likely benefits and outcomes of that cross-portfolio approach.

6.20 p.m.

[287] It is interesting that we have decided to protect social services in the revenue support grant in this budget. We have done that because of the recognition that is coming out of a lot of this work that your spend on the health service is only one part of the picture, but if you do not spend on social services so that people can come out of hospital with a care package, you will be trapping people in hospital resulting in delayed transfers of care. The invest-to-save fund is helping to drive examples of collaboration and efficiency. For example, there is the Gwent frailty project, where the five local authorities and the health board have been saying for some time that they need some pump-priming money, and that they will pay us back. Every acute bed that is not used represents a saving because they have been able to move people on into more appropriate care, and it is not something that they can front-load. The invest-to-save fund has driven that type of change, and it has proved that cross-collaboration leads to delivery. That has come clearly from the evidence of the work that they were doing without our support, but it was not getting any further without our support. So, the evidence from the Gwent frailty project has convinced us that we need to give invest-to-save support.

[288] **Veronica German:** What about the monitoring? You have said how you evaluate it and how you think that it is going to happen, but what plans do you have in place to ensure that what you thought would happen does happen, and to inform future decisions? It is only by looking back at your evaluations that you will know whether they will work again the next time.

[289] **Jane Hutt:** What is encouraging is that they are loans and they have to be repaid, and that will provide the income stream for the next round of invest-to-save projects. The impact of the investment is already producing results, so we are beginning to be repaid on the loans. The monitoring is tangible because invest to save is not just a one-off loan but an ongoing process. Through the public service summits and the work streams, we are identifying good practice and applying it across Wales, with local authorities and NHS taking the lead. I have given one example, which is the Gwent frailty project, and another recent example is in Newcastle Emlyn, where invest to save has funded rehabilitation beds in a care home. I met patients and the staff who have cared for people who have come out of hospital in a much quicker and more timely fashion to have therapies and support in a rehabilitation setting. They

call it ‘convalescence’ there, although we do not use that word much anymore. That is delivering savings in the acute sector and a much better-quality experience for patients on their way back home. So, the evaluation and monitoring is clear in the invest-to-save regime.

[290] **Veronica German:** On the cross-portfolio savings, if, for every £1 spent by one department, another department saves £7.50, the implication is that you might be giving extra money to one portfolio and reducing money to the other portfolio. Are you waiting to see whether that happens? How does that work, if you will excuse my ignorance?

[291] **Jane Hutt:** You are quite right. You say ‘cross-portfolio’ but it is actually cross-collaboration at a local level. So, quite a lot of the bids that have been submitted, of which I have given you the details, are led by an NHS board and/or a local authority or group of local authorities. The savings that will result from invest to save will reduce pressures on the health service and local government. You must also remember that, in some of these circumstances, we have joint appointments between health and social services to manage these new collaborations and so the savings are being accrued to both the local authority and the health service. We are then seeing that gain as a result of our loan through invest to save. This is also something that will come out of the work that we are doing with our measuring efficiencies framework. We will have moved on from the forerunner of ‘Making the Connections’ to have perhaps a more rigorous approach to understanding where those efficiencies are going to benefit local delivery, as well as our finances.

[292] **Angela Burns:** I do see your difficulty here. You are saying that the drive for this cross-collaboration is coming from the grass roots, if you like, rather than from your department looking down and saying, ‘Well, somebody’s asked for x amount of money in this area and that would have an effect on that area.’ That is not so much your role; it is coming up, rather than coming down.

[293] **Jane Hutt:** Absolutely. That is right.

[294] **Angela Burns:** Brian has a question on end-year flexibility.

[295] **Brian Gibbons:** I suppose this is the Danny Alexander moment. Could you clarify your opening remark in relation to the Holtham floor? Is it your understanding that Danny Alexander, Chief Secretary to the Treasury, is much more receptive to at least drawing a line underneath the current fairness in the allocation formula? Clearly, he was very unhelpful vis-à-vis introducing a fair formula for Wales, but did you find him more receptive to putting an end to the continuing deterioration at least?

[296] **Jane Hutt:** Obviously, I had observed the scrutiny of Danny Alexander in this committee, and I felt that the Chair summed up very well the disappointment with regard to the Chief Secretary to the Treasury’s interpretation of what we felt was a commitment made, not only in the coalition agreement, but in the framework for the comprehensive spending review, which clearly said that the recommendations of the Holtham commission would be looked at after the referendum, and as part of the delivery. I met him straight away and said, ‘I think you’ve got it wrong, Mr Alexander’. What we are concerned about in Wales is that we get our fair funding, which was the first major part of Gerry Holtham’s recommendations, recognised as the key point of a commitment by the UK Government to recognising that we are underfunded. I said that the easiest way to start that process was through recognising that we need to implement a funding floor and asked whether I could ask his officials to start to work with my officials on that. He agreed to that, and I wrote to him following that meeting and I emphasised, as I said earlier, our unanimous commitment to the implementation of a funding floor, and said that, given the importance of this issue, I was keen for discussions to start soon and would welcome his confirmation of this to share with finance spokespersons and the Finance Committee. I welcomed his confirmation that he is still open to official-level

discussions on how a floor could be made to work. I have put my head on the line here; that is what I said and what I believe that I have secured a commitment from him to look at.

[297] I said that, as far as the referendum is concerned, this is not about part 2 of the Holtham commission's recommendations. I said very clearly that the second part of Gerry Holtham's final report recognised that the fair funding issue had to be dealt with before we went into tax-varying powers, and also highlighted that this should be a matter for the next Government after the elections. So, I hope that we managed to put the record straight in my private meeting with him, and I am very happy to come back to this committee with my correspondence and the response to it. He agreed that he would now look at the funding floor as a result of our interchange.

6.30 p.m.

[298] **Angela Burns:** Thank you for that. Before we go back to Brian and EYF, Danny Alexander said in his meeting with us that, if representations were made to him, he would be prepared to discuss borrowing powers as well. Have you taken that any further? That is a quick aside, because I know that it is not strictly to do with EYF or the budget.

[299] **Jane Hutt:** There are parts of part 2 of Gerry Holtham's report that we can progress, such as borrowing powers, and, indeed, other flexibilities that we have been seeking. I also, for example, said that there is a recommendation in Gerry Holtham's report about investing EYF stocks, which I think is an imaginative suggestion. He said that he would be prepared to receive proposals from me on that. It would be helpful to have the Finance Committee's backing to progress issues such as borrowing powers.

[300] **Angela Burns:** In our report on public-private partnerships, which we published about two years ago, one of our strong recommendations was that the Welsh Assembly Government should seek the ability to borrow in order to progress the capital asset programme for Wales, in particular, so we are behind you on that one.

[301] **Jane Hutt:** Thank you.

[302] **Angela Burns:** Brian has the next questions.

[303] **Brian Gibbons:** Moving on to EYF, did you have an assurance from the Chief Secretary to the Treasury that all our existing EYF stocks—capital and revenue—would be drawn down, and that we could draw that down?

[304] **Jane Hutt:** Yes. I think that I highlighted this clearly in my opening remarks. He acknowledged that devolved administrations were different from Whitehall departments. He also confirmed that even the new mechanism would allow us to carry forward underspend into the following year, without the need for agreement within the Treasury, and I have written to him to confirm the decision. For example, our current planning assumptions are that we will draw £75 million revenue stocks, and £125 million capital, in 2011; it is important that we are clear about that with the Chief Secretary to the Treasury.

[305] **Brian Gibbons:** Are you able to say what proportion of the stocks is capital and what is revenue?

[306] **Jane Hutt:** It is hard to give precise figures. Andrew, do you want to deal with that?

[307] **Mr Jeffreys:** As the committee is probably aware, the stock that is available depends on the level of underspend in any given year. We have not yet finalised our outturn for 2009-10, so there is a provisional figure for that year. Also, of course, we have not completed 2010-

11 yet, so the stock that we will generate in 2010-11 is not clear. However, as the Minister has mentioned, our planning assumption is that this year we will draw £75 million revenue and £125 million capital. Based on that, we expect our EYF, as at the end of this year, to be around about £400 million. Most of that is non-cash; I hesitate to raise the spectre of non-cash in this committee.

[308] **Angela Burns:** We have been there many times. [*Laughter.*]

[309] **Mr Jeffreys:** About £250 million of that £400 million is non-cash. In fact, I believe that it is £236 million—no, it is £239 million.

[310] **Brian Gibbons:** The stock exchange is moving as we speak. [*Laughter.*]

[311] **Nick Ramsay:** On that point, was any agreement reached in terms of converting revenue money into capital funding, in terms of EYF stocks? I know that the Minister was looking at that.

[312] **Jane Hutt:** It is in our gift now to be able to convert revenue into capital.

[313] **Brian Gibbons:** I have one last question. It seems that, even though there was a certain amount of song and dance about changing the EYF arrangements, for the devolved administrations, it is pretty much business as usual. Will the new arrangements that Danny Alexander spoke about for Westminster departments have any material impact on us?

[314] **Jane Hutt:** They should not.

[315] **Brian Gibbons:** The Wales package may be different, but, in practice, it does not amount to much.

[316] **Jane Hutt:** I would like to share his written response with you. I am seeking confirmation of this in writing, because this was a verbal statement that he made to me. He said similar things to you as a committee, but I am seeking that in writing.

[317] **Andrew Davies:** Chair, he said that requests would be honoured, but he would not be drawn on the outstanding stocks. I understand the issue about non-cash. It is like the Schleswig-Holstein question and I feel as if I am one of those people who are still alive. The point is that it still allows in-year management of resources by the Assembly Government. It may be a technical issue, but it is still important.

[318] **Angela Burns:** Absolutely. Minister, we have two areas left and I want to check your availability. We wanted to talk about the staff costs in the central services and administration MEG and have a few questions on strategic capital investment. Are you able to stay or would you prefer that I put them in writing to you?

[319] **Jane Hutt:** It would be helpful if we could have an exchange in writing. On the issues surrounding staff costs, the Permanent Secretary is responsible for some of those questions, so I would want to ask her to reply on those. In addition, on the strategic capital investment fund, it would be helpful if I could write to you, if you can give me your line of questions.

[320] **Angela Burns:** Are you happy with that, Alun and Rosemary? I see that you are.

[321] **Andrew Davies:** One additional point, Minister, is that we were scrutinising the Deputy Minister for housing on the proposed Measure on housing earlier. I know that the committee has been quite exercised about the fact that there is a consistent pattern now in the

Government's legislation in relation to financial management. We saw it in the proposed Measure on waste and the proposed Measure on the Welsh language, and now we see it in the proposed Measure on housing: explanatory memoranda are almost silent on many of the costs involved. We have references in documents to costs being minimal or small, but there is no attempt to quantify them. I am sorry, this is really for the Chair, but the committee is very concerned about what seems to be a secure policy grasp not being matched by secure financial management within the departments. Again, this is a matter for officials, rather than Ministers; nevertheless, it has been a consistent concern. You will be aware of this from debates in Plenary in which the Chair, in commenting on proposed Measures, has made this point consistently.

[322] **Jane Hutt:** I am grateful for that contribution, as I am now in that position as Minister for finance. With reducing budgets, it will be even more critical that financial memoranda are robust. This will also be an issue for future legislative programmes with reducing budgets. All Members and parties will have to take that into account.

[323] **Alun Davies:** It would be useful if we could continue the conversation on this issue, Minister, because, during my somewhat broken membership of this committee over the last four years, it has been an issue to which we keep returning.

[324] **Angela Burns:** Every time.

[325] **Alun Davies:** If we are to have greater or more coherent legislative powers, it is absolutely critical that the Government is organised and managed in such a way as to be able to demonstrate to scrutiny committees that the powers that it will be exercising will be exercised according to its guidelines and policies. It is a significant issue, Minister, and we would appreciate being able to return to it before dissolution.

[326] **Jane Hutt:** I would be grateful for that.

[327] **Angela Burns:** Thank you for your attendance today, Minister, and for that of your colleagues. I wish you a safe journey onwards, as a flight attendant whom we probably know and love would say. It is very dangerous out there, so take care.

[328] **Jane Hutt:** The same to you.

[329] **Nick Ramsay:** Sorry, who is this flight attendant? [*Laughter.*]

[330] **Angela Burns:** I thought that I sounded like a flight attendant. That is what they say, is it not?

6.39 p.m.

Cynnig Trefniadol Procedural Motion

[331] **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).

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

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 6.39 p.m.
The public part of the meeting ended at 6.39 p.m.