



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

**Y Pwyllgor Cyllid
The Finance Committee**

**Dydd Mercher, 16 Mawrth 2011
Wednesday, 16 March 2011**

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

Lorraine Barrett	Llafur Labour
Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Angela Burns	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Jeff Cuthbert	Llafur (yn dirprwyo ar ran Ann Jones) Labour (substitute for Ann Jones)
Andrew Davies	Llafur Labour
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	Cynghorydd Polisi Arbenigol, Llywodraeth Cynulliad Cymru Specialist Policy Adviser Welsh Assembly Government
Michael Hearty	Pennaeth yr Adran Cynllunio Strategol, Cyllid a Pherfformiad, Llywodraeth Cynulliad Cymru Head of 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 Cyllidebu 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 9.34 a.m.
The meeting began at 9.34 a.m.

Ymddiheuriadau a Dirprwyon
Apologies and Substitutions

[1] **Angela Burns:** Good morning. I welcome everyone to the Finance Committee meeting of Wednesday, 16 March. Before I formally welcome our witnesses today, I will go through some brief housekeeping issues. I remind you that you are welcome to speak in either Welsh or English and that headsets are available for translation. I ask you to switch off mobile phones and all such gadgets. If a fire alarm sounds, I request that you follow the instructions

of the ushers. We have received an apology from Ann Jones and I welcome Jeff Cuthbert, who is substituting for her, and we have had apologies from Chris Franks today.

9.35 a.m.

Gwariant Cyfalaf—Trafodaeth gyda'r Gweinidog dros Fusnes a'r Gyllideb Capital Expenditure—Discussion with the Minister for Business and Budget

[2] **Angela Burns:** Welcome, Minister; I am sorry for having kept you waiting for a few moments. We are here for a further discussion with the Minister for Business and Budget on the capital expenditure inquiry that the Finance Committee is conducting. We originally intended to take evidence from a number of individual Ministers on this issue, but, in light of changes to capital funding in the past few months and the new fund that you have put in place, it seemed more appropriate to deal directly with you. For the record, will you introduce yourself and your colleagues and make any opening statements that you wish to make?

[3] **The Minister for Business and Budget (Jane Hutt):** I am the Minister for Business and Budget and I am pleased to introduce Michael Hearty, our director general of strategic planning, Andrew Jeffreys, head of strategic budgeting, Jeff Andrews, our specialist policy adviser, and Stefan Sanchez, who is sitting behind us, who is the head of strategic capital investment.

[4] Thank you for allowing me to make a few opening remarks. The statement that was issued yesterday by the First Minister, the Deputy First Minister and me on capital spending plans for 2011-12 is clearly relevant and pertinent, and I will say a few words on that. However, I first want to focus on our objectives for capital spending or the allocation of capital, which is at the forefront of your inquiry. The Assembly Government recognises the importance of utilising capital spend to best effect and we are committed to ensuring that our capital investment supports our strategic priorities.

[5] Since 2007, we have invested almost £6.8 billion in capital infrastructure in Wales, which is a record level of investment. It has been targeted at transport, housing, hospitals and schools and means that we have been able to make major strides towards ensuring that Wales has the social and economic infrastructure that we need for the twenty-first century. It has also meant that we have been able to use capital investment as a fiscal stimulus during the recession—bringing capital forward helped to mitigate some of the impact of the global downturn on the Welsh economy. The major investment in infrastructure that we have made over the past four years puts Wales in a better position to manage our reducing capital budget over the next few years, but it cannot mitigate the impact of the drastic reductions imposed on us in the UK Government's spending review.

[6] To put our capital budget over the next four years into perspective, it will be £4.6 billion, which represents a real-terms cut of more than 40 per cent in the Wales capital departmental expenditure limit over the spending review period. The challenge of managing this reduction will be particularly difficult next year, when our capital DEL faces a cut of more than 25 per cent in real terms. The impact of the capital cuts on both economic growth and service delivery was a consistent theme throughout the budget scrutiny; indeed, the Finance Committee's report on the draft budget specifically expressed concern about the impact that the significant reduction to our capital budget could have on infrastructure investment.

[7] However, we have been working since the summer to prepare for this difficult settlement. We have already taken steps in this financial year to mitigate the effect of the cuts and we have made effective use of our end-of-year flexibility stocks to find the capital

reductions that were required by the UK Government's June 2010 budget. We have therefore been able to maintain our capital investment in this financial year at planned levels and to continue to focus on supporting our economic recovery and progressing our priorities for public services. We have also effectively managed our spending in-year. We fully utilised underspends by bringing forward capital projects to maximise delivery in 2010-11. This is especially important because of the UK Government's abolition of the current EYF system, as any money not spent this year will be lost to Wales. We have ensured that that has not happened and that the maximised capital spend this year will benefit the services and the economy of Wales.

[8] In the final budget for 2011-12, I established the centrally retained capital fund to support the public sector in managing lower budgets. In the longer term, this will enable us to fund initiatives to achieve revenue savings, but for 2011-12 our focus has been on cushioning the capital reduction as much as possible. We have allocated £50 million for each of the next three years to the centrally retained capital fund to support the delivery of cross-cutting and collaborative projects that drive best value for money for investments. As I have previously announced, we were able to find all of the reductions imposed on us in the UK Government's June budget because of our careful planning and sound financial management. We have been able to release an additional £57 million in 2011-12 over and above our spending review settlement as a result of the management of our finances during this financial year. We have decided to transfer this money from revenue to capital and to use it to support and enhance the centrally retained capital fund and further mitigate the effects of the UK Government's cuts on the Welsh economy and public services. This funding is in addition to the £50 million that I have already allocated for each of the next three years.

[9] As a responsible Government, we recognise the importance of providing clarity to our partners in local government, the third sector, the NHS and the private sector as soon as possible. That takes me to the statement that the Deputy First Minister and I made yesterday, setting out the details of our capital spending plans for 2011-12 where the Assembly Government funds specific projects directly. These plans reflect decisions that Ministers have taken in order to manage the significant reduction to our capital budget. We have also provided information on the capital projects that would be receiving funding from the centrally retained capital fund in 2011-12 as a result of a rigorous process of considering bids for that. These projects represent strategically significant schemes that are no longer affordable within departmental budgets as a result of reductions to our capital departmental expenditure line. As I set out in the written statement, the result of these decisions is that the total capital allocated to ministerial portfolios for 2011-12 will be £1.31 billion, more than 8 per cent higher than the level that we set at the final budget, and this vital additional investment of up to £105.4 million for 2011-12 will provide much-needed support for the Welsh construction industry and the Welsh economy. We know that managing the disproportionate reduction to our capital budget is one of the greatest budgetary challenges arising from the spending review, but our capital plans as set out yesterday reflect the Assembly Government's priorities in moving towards more efficient and effective service delivery.

[10] Finally, Chair, if I may, I want to mention the work that the Deputy First Minister is leading on the development of options for a national infrastructure plan. This is a key commitment within 'Economic Renewal: a new direction', and in a period when public sector capital budgets are falling, it is more important than ever that we provide long-term clarity on our capital priorities and the work that will continue for the next Assembly Government in providing a platform for developing our capital programme during the rest of the spending review period and beyond. I hope that Members will welcome the measures that we have taken to make the most effective use of the capital resources available to us to support our critical infrastructure planning arrangements.

[11] **Angela Burns:** Thank you very much indeed for that. I would like to bring in Jeff, then Brian, but just before that, there were a lot of numbers in your statement, and I want to clarify some of them for my understanding, and for anyone watching. Is the centrally managed fund a brand-new fund, which you are funding with £50 million per year for the next three years, plus the additional £57 million?

[12] **Jane Hutt:** Yes—just for 2011-12.

[13] **Angela Burns:** So, at present, in that particular pot, you have £207 million.

[14] **Jane Hutt:** Yes, £207 million, and £107 million for next year.

[15] **Angela Burns:** Which you will deploy straight away.

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

[17] **Angela Burns:** Thank you. Jeff is next.

9.45 a.m.

[18] **Jeff Cuthbert:** Thank you, Minister, for the statement yesterday, and the annexes, and the opening statement that you have just made. Just for clarity—and this may just be an issue of language—in the main statement where you list a number of particular projects, you head that list by saying that, in addition to your spending plans outlined in annex A, you would be announcing the projects that will be supported by the centrally retained capital funding for 2011-12, and you list those projects. However, as far as I can see, those projects also appear in annex A. Is that extra money for those projects, or is there an issue of language there?

[19] **Jane Hutt:** It is an issue of language here, Jeff. The £105 million that we mentioned for investment next year includes those projects, so it is a matter of language.

[20] **Jeff Cuthbert:** So, they are the same ones?

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

[22] **Brian Gibbons:** Just for clarity because I did not have time to look through all the figures, is this the total capital spend of the Assembly Government, or are there other things going on? For example, it struck me that there is no reference to Department for Environment, Sustainability and Housing spending anywhere, but the various DESH capital programmes are clearly continuing.

[23] **Jane Hutt:** The overall figure for the 2011-12 capital spend is £1.3 billion.

[24] **Brian Gibbons:** What about the sums in annex A?

[25] **Jane Hutt:** The sum in annex A is £540.974 million.

[26] **Brian Gibbons:** So, that is about half of the total sum. Therefore, another half of the spend will go on in the background.

[27] **Jane Hutt:** The percentage of capital spend represented in the capital written statement is 44 per cent.

[28] **Brian Gibbons:** Okay, that is grand. Could you also clarify what you meant when

you said that any money that is not spent this year will be lost? Does that mean that, under the rules that you are operating this year, there will be no opportunity to roll over any money into next year?

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

[30] **Brian Gibbons:** Presumably, this is just a one-off? Will you find yourself in a position in future where you will have to spend down to zero, because that was not fully understood? I thought that you said at the last committee meeting that as long as you gave a signal three months out—and three months ahead of the end of the financial year does not seem like a sensible time to me—you would be able to roll over some money for end of year flexibility. Is that operating this year?

[31] **Jane Hutt:** I clarified at the last meeting that the current arrangements for EYF are coming to an end, and we await the details of the new arrangements that will apply not just to us but also to Whitehall departments. We were given the opportunity in January to present any capital and revenue spend that we could project to draw down in terms of EYF agreements. However, as I reported back at the last meeting, it was impossible for us to do so at that point in the financial year. For the next financial year, we will have to manage this in-year, and we will have the new arrangements in terms of EYF. However, we will not be in the position that we have been in where we would be able to get agreement from the Treasury at the end of the financial year that we could forward the EYF capital underspend, which gives the flexibility that we sought.

[32] **Angela Burns:** Minister, that is certainly not our understanding from the last meeting. As a committee, we have written to the Chief Secretary to the Treasury to urge him to clarify the process, because we were under the impression, having met before, that providing you gave the signal three months out that you may not yet have been able to spend x million pounds, you would be allowed to carry that forward for just the one year so that you could roll it over into that one year and finish it off. When you would reach the end of the second year, three months before the end, you would then be able to do the same again. So, instead of having an EYF that you could roll up ad infinitum, you were basically able to roll it forward just for a year, providing you gave that signal. So, that was the first bit that we understood. The second bit that we understood, or perhaps just assumed, was that you gave a signal three months out this year of what you would be rolling forward or looking to complete your spend on in the forthcoming year.

[33] **Jane Hutt:** Andrew, do you want to come in on this point?

[34] **Mr Jeffreys:** As the Minister said, the details of what will follow the current EYF arrangements have not yet been finalised. We are expecting the budget next week to provide further details on what the new arrangements will be. However, within the arrangements that operated this year, we were asked to provide a figure at the time of the spring supplementary budget, which was in January, of how much under our DEL we would finish the year. That is, in effect, what our planned underspend would be. As the Minister mentioned, given that we had to find the savings imposed on us by the UK Government this year, that was all that we were able to find this year. So, there will be nothing to carry over, other than the amount that we have managed to save there.

[35] The key difference between the arrangements in place this year and the old EYF arrangements is that unplanned underspends—that is those that you did not notify the Treasury of three months in advance, which often arise later in the year when there is a choice between spending money in March or April, or when the certificate of works that you receive from the auditors tell you that the value of the work done is only £10 million rather than the £15 million that you expected—are then lost if you are unable to notify the Treasury of them

earlier in the year. That is a significant difference between the old and new arrangements.

[36] **Angela Burns:** We totally understand that, but it gives us concern, which is why we have sought clarification. However, we are now trying to understand two things. The first is whether your understanding and our understanding is the same, in that if you declare an underspend, you are then able to roll it forward for one year. The second is whether or not you actually declared any underspend this year, and I think that you are saying that you did not and therefore there is no sum rolled forward for this coming year.

[37] **Mr Jeffreys:** To clarify that, we did take a reduction in our DEL, but that was to absorb the cuts to our budget imposed by the UK Government this year. So, in effect, that has enabled us to have more resources next year than we assumed at the time of the spending review—the £57 million—but it is not a carry-over in the classic sense.

[38] **Jane Hutt:** If we had not managed it in the way that we have, we certainly would not have had that £57 million to put into the capital pot next year. So, officials and I have had to be ahead of the game with regard to the changes that have come from the UK Government. To add to what Andrew said, we have still not had the consultation and the engagement on the new system that will be put in place. We are hoping to have a quadrilateral meeting in a fortnight, given that the First Minister raised concerns across all of the devolved administrations about the lack of clarity, particularly given that that kind of flexibility helps us, as I have said, to play our part in reducing the budget deficit.

[39] **Angela Burns:** That also concerns the committee, Minister, because we, too, have written to the Chief Secretary to the Treasury.

[40] **Jane Hutt:** Yes, and I am grateful to you for doing that.

[41] **Angela Burns:** Andrew, do you want to come in?

[42] **Andrew Davies:** It must be restated that, first, the Assembly Government, along with the other devolved administrations, has been treated as a Whitehall Government department, which it is not, and, secondly, those accumulated stocks of EYF have been lost, which was money voted to Wales. I thought that the Chief Secretary to the Treasury's response, when he was here, was frankly unacceptable and did not acknowledge the reality of devolution.

[43] **Brian Gibbons:** I concur with that. However, I am still not quite clear as to whether the fact that the money is being spent this year—and I think that this may even be in a written statement—means that no money will be lost. I think that that is what you said. We are spending all of the capital this year—

[44] **Jane Hutt:** We are spending to the hilt this year.

[45] **Brian Gibbons:** By using that phraseology, are you suggesting that there is no carryover mechanism between this year and the next financial year? If so, is that—as Andrew just said—because it has become apparent that, as you have given three months' notice, you have indicated 'Right; we will spend everything to the hilt'? We know that because there were zero reserves for capital in the budget statement. However, now, a few million pounds have now turned up for the reasons that you have given, namely that you cannot spend everything and that there will always be some roughness around the edges. A few extra millions will fall out of the system. You are still trying to spend those extra millions because, if you do not spend the money, it will go back to the Treasury simply because it was not feasible to give advance notice three months out.

[46] **Jane Hutt:** I think that you have summed it up very well, Brian. Our in-year

monitoring is done week by week, let alone month by month, to take us right to the end of this financial year. Since January, we have had no room to manoeuvre.

[47] **Brian Gibbons:** I just want to say that that is clearly not an acceptable set of arrangements. I am sure that, for the reasons that you have had to take in-year cuts, there are worthwhile capital projects on which we can spend the money, but spending money at five minutes' or five weeks' notice is not a good way to do business. I strongly feel that.

[48] **Jane Hutt:** Hopefully, that clarifies that we are talking from the same knowledge base in terms of changes to EYF.

[49] **Brian Gibbons:** How much revenue was transferred to capital? It might be included in the statement, but I have not had the chance to look at it. How big a sum was that?

[50] **Jane Hutt:** It was £57 million.

[51] **Brian Gibbons:** Looking to the future, transferring revenue to capital is one way of trying to maintain some sort of adequate capital budget. Other ways of doing that include things like floating bonds, trying to work with public-private partnerships and meeting capital costs through revenue mechanisms. Are these things being actively explored? It is not particularly referred to in your statement—I know that your statement is pretty long as it is, so it is reasonable that you might have felt that enough had been said for one day—but is this the sort of thinking that is going on? The cut of 35 or 40 per cent in the capital budget over the CSR period was pretty catastrophic, and we must make the pound go further and work harder, but what mechanisms are you thinking of, other than converting revenue to capital?

[52] **Jane Hutt:** You are right; converting revenue to capital is not something that we have done blithely, given the cuts to our revenue funds. We made that decision because of the fact that we have a 25 per cent cut next year on 2011-12, and 40 per cent over the next three years. Clearly, our revenue is also very important for our public services. I will mention again the infrastructure planning that is being done through 'Economic Renewal: a new direction', because it is clear that the national infrastructure plan is our strategic direction. It is clearly a cross-Government projection of the way in which we should provide. I mention very briefly in the statement our long-term clarity over our capital programme and the active work that we have been doing, very much building on the former Minister for finance's work in this respect, to look at ways in which we can lever in alternative models of funding investment.

10.00 a.m.

[53] We can look at it sectorally, in terms of waste management and housing, for example. The very important expertise provided by the strategic capital investment panel comes into play here. Although it no longer has a role in terms of SCIF, because we have allocated the strategic capital investment fund. It is playing an important part in advising at departmental level—Shonagh Hay, for example, on twenty-first century schools, Tim Stone in Anglesey with the Wylfa project and David Goldstone with health. We have used their expertise and looked at cross-departmental opportunities for sharing and spreading that expertise.

[54] I also want to mention innovative investments like JEREMIE and JESSICA, which are matching public and private sector funding arrangements. Sectorally, I know that we could talk quite a bit about what we are doing on waste management, but there is also housing investment and working with registered social landlords, because they can access funds from the private sector and they are clearly involved in the bond route in terms of housing finance. This is crucial to the way forward. What I announced yesterday is how we are spending what we have in capital funds.

[55] **Brian Gibbons:** Finally from me, Chair, as you said, specifically on housing and in DESH, there is a lot of capital spend, but that will be private sector spend, or spend by social landlords, housing associations and so forth. It will effectively be paid for through the revenue streams that we have here, or through gate fees for waste, tenants' rents and so forth. Would you see the Assembly Government in future expanding that model into other areas of major capital spend, rather than converting revenue straight into capital? That is, unless you choose revenue as an ongoing stream to lever in capital.

[56] **Angela Burns:** Before you answer that question, Minister, I very gently ask the committee and Minister for shorter questions and answers. We have a lot of questions to get through in a short amount of time.

[57] **Jane Hutt:** Stock transfer is a classic example and, obviously, we have to look at every source and every vehicle.

[58] **Andrew Davies:** I want to explore at least one of the areas that Brian mentioned, for the record. There has been a lot of speculation recently about the Assembly Government, perhaps in future, raising money through bonds, for example, on the money markets. My clear understanding, from the Holtham commission and from the operation of the Barnett formula, is that the Assembly Government cannot do that directly—it does not have the power to do that. As we have found with Finance Wales and balance sheets, if this was to be done, it would have to be done at arm's length, through a third party, if bonds were to be raised.

[59] **Jane Hutt:** That is my understanding.

[60] **Angela Burns:** Peter, I wonder whether this might be an appropriate time for you to talk about infrastructure planning, as the Minister has mentioned it a couple of times.

[61] **Peter Black:** I will just follow up on that question first. The UK Government has indicated that it is prepared to initiate a Calman-style review, and our priority will be to get a fairer funding formula as part of that. However, there are other issues around that, one of which is the raising of money on the bond market and the use of vehicles like Finance Wales to lever in extra money. Will you be talking to the UK Government about using that Calman-style process to look at borrowing powers and other vehicles around that for leveraging in that additional capital?

[62] **Jane Hutt:** We have the recommendations from parts 1 and 2 of Gerry Holtham's report. Those recommendations included not only needing the flexibility that we have just discussed on EYF, but our call for borrowing powers. As you say, Peter, fairer funding arrangements need to be the starting point of our discussions with the UK Government. That is what I hope to achieve in meeting with the Chief Secretary to the Treasury over the next few weeks. However, all the Holtham recommendations, in terms of borrowing powers and further flexibilities, are crucial to the way forward. We have moved through difficult times in assessing the role of Finance Wales, in terms of off-balance sheet finance, and that is crucial in how we can help these important vehicles to get support for small and medium-sized enterprises in Wales. However, that must be part of our future discussions. As you know, I do not believe that we need another Calman—we have Holtham. However, we may need to add to what Holtham has done in further areas, but we have to start with fairer funding, as I am sure you would agree.

[63] **Peter Black:** The advantage of a Calman-style review is that the Treasury has ownership of it, which is always an advantage when you deal with Treasury officials. Is the Welsh Government content, therefore, for that process to look at wider issues, as well as at the funding formula?

[64] **Jane Hutt:** The final Holtham report covers all the relevant issues. First of all, we need to get around the table to discuss our report, which has been backed by the whole Assembly, across the political parties. I am sure that you would agree that our ownership of the Holtham review and its recommendations—and it is an independent review—is what we must take to the Treasury. We have a measure of recognition now. I was pleased to see that the Chancellor mentioned this in his recent speech in Cardiff. He now recognises that, following the ‘yes’ vote in the referendum, we can move forward to look at the financial arrangements for Wales, including the Holtham floor. I was pleased to see that in his speech.

[65] **Peter Black:** I take it that that is a ‘yes’.

[66] **Angela Burns:** Do you have a quick supplementary question, Nick, before Peter carries on with his questions?

[67] **Nick Ramsay:** No, the Minister has just answered the question that I was going to ask.

[68] **Peter Black:** I will move on, therefore, to strategic infrastructure planning. You refer in your statement to the development of options for a national infrastructure plan, as set out in the Welsh Government’s ‘Economic Renewal: a new direction’. Can you clarify exactly what is meant by the development of options and the nature of the work that is being conducted on this plan?

[69] **Jane Hutt:** I appreciate that you do not have much time, but you need to speak to the Deputy First Minister, in his role as the Minister for the Economy and Transport, about this issue. This relates, for example, to the Scottish plan. We need to consider whether we should have a statutory infrastructure plan. We have been looking at the options for a plan of this kind, which could play an important role in terms of certainty and direction for strategic investments. We will also draw on our spatial plan in looking at this, and we have started to collate the estate, in terms of investment. That is being done by our spatial plan officials. However, it is about that long-term vision and about what we can learn from others. I am sure that the next Government will want to take this forward.

[70] **Peter Black:** When you say that this is a matter for the Deputy First Minister, are you indicating that that infrastructure plan will be limited to his portfolio, or would you be looking to cover investment in all portfolio areas?

[71] **Jane Hutt:** No, certainly not. This would be a Wales Government plan. ‘Economic Renewal: a new direction’ flags this up as a key part of that, which is what our partners in the public and private sectors would wish to seek. We therefore need to consider to what extent our capital budgets will play a part in the infrastructure plan, but clearly we have partners in the private sector, local government, the utilities and so on—across the board. That all has to form part of the direction and make-up of a capital investment and infrastructure plan.

[72] **Peter Black:** Is it your intention, as part of that work, to sweep up into the plan all existing capital budgets across all portfolios?

[73] **Jane Hutt:** We are at an early stage of considering the role of our existing capital programme within the national infrastructure plan.

[74] **Andrew Davies:** I thank Peter for his questions. May I just tease this out? I am surprised by this. If this is a national infrastructure plan—you said, Minister, that it covers more than just investment relating to transport and the economy—why is it being delegated to a spending Minister, rather than managed by you as the Minister for finance?

[75] **Jane Hutt:** I would not say that the national infrastructure plan has been delegated—

[76] **Andrew Davies:** You are saying that you will have to ask the Deputy First Minister.

[77] **Jane Hutt:** It is important to put it in the context of ‘Economic Renewal: a new direction’. With regard to the private sector and economic interests in the national infrastructure plan, the Deputy First Minister has a key role to play, but it would be a cross-Government national infrastructure plan, clearly.

[78] **Andrew Davies:** I am just intrigued as to why a spending Minister is doing it and not the Minister for finance.

[79] **Jane Hutt:** In my statement and in my response today I have put it in the context of being a key part of the economic renewal plan. I have been very involved in the options appraisal and consideration of it, not only as the Minister for finance, but as the spatial planning lead in the Government.

[80] **Angela Burns:** I share Andrew’s surprise regarding this. May I clarify whether you would see the national infrastructure plan that the Deputy First Minister is currently putting together as including other capital spend such as that on new hospitals, improvements to doctors surgeries, the new renal clinics that you have mentioned in annex A and so on? Will all of those come under that plan because he is driving things with a commercial and economic hat on, rather than a more social hat perhaps?

[81] **Jane Hutt:** I responded to Peter by saying that that is for an option appraisal with regard to the infrastructure plan, that is, the extent to which our public capital programme would fit within the national infrastructure plan. Clearly, every investment that we make in schools, colleges, hospitals and so on is part of our national infrastructure, as are roads, transport and housing, which represent the spatial planning dimension. They will all be part of a national infrastructure plan. We are at a very early stage in the progression of the national infrastructure plan and I hope that whichever Government will be in power after May will take it forward. At present, as I have said—and I do not want to repeat myself—I, as the Minister with responsibility for finance and spatial planning, am working with the Deputy First Minister and Minister for the Economy and Transport to make sure that the options are explored appropriately. A new Government will, I hope, take that forward.

[82] **Angela Burns:** I am sorry to make you repeat yourself, but we are undertaking an inquiry into capital funding. From listening to what has been said and reading the information, the inference that is made is that the national plan will cover infrastructure, full stop. As I said, infrastructure is everything, from extending a medical centre to building a five-lane highway. We just want to clarify exactly what is being considered in it at the moment. You say that the ambition of it is to ensure economic development, and no-one is arguing with the principles behind it. The question is whether it is looking truly at the whole of the national infrastructure, or part of it, because if that is the case, there will be another body of capital somewhere else for those parts of it that are not necessarily tied directly into the economic renewal plan. That is why we have been asking these questions.

10.15 a.m.

[83] **Jane Hutt:** I do not think that we need to go further than the sentence that I have put into the statement, which is a statement by the First Minister, the Deputy First Minister and me. It says:

[84] ‘Ministers have made difficult choices about priorities in developing their capital spending plans. This is why the development of options for a national infrastructure plan,

a key commitment within *Economic Renewal: A New Direction* is so important in terms of providing long-term clarity over our capital programme. This work will continue in the next Assembly Government.’

[85] It is quite clear that our capital programme is critical to a national infrastructure plan. I hope that the committee will acknowledge that.

[86] **Andrew Davies:** When you introduced your officials, you said that Michael and Andrew had the word ‘strategic’ in their job titles, so that is presumably a key thrust of Government. On what you said about having a national infrastructure plan, one logical conclusion would be that you would effectively have one national capital fund. What are your thoughts on that?

[87] **Jane Hutt:** I was interested to check with officials whether a statement like the one that was made yesterday by the First Minister, the Deputy First Minister and me had been made before. I do not think that there has been such a statement. We are moving to this strategic direction. As you know, Andrew, our strategic capital investment fund and panel sought to bring together that sort of strategic approach. In fact, it related only to a sum of money that we then identified as a central capital fund. It did not cover all of the portfolio capital programmes. I think that it would be a very brave Minister for finance who would sit here and say that we need to move further in terms of the strategic approach, but, clearly, there is a logic there, is there not?

[88] **Andrew Davies:** I think that is a ‘yes’. [*Laughter.*]

[89] **Brian Gibbons:** What is the added value of a statutory infrastructure plan as opposed to the national infrastructure plan?

[90] **Jane Hutt:** Certainty comes through the statutory infrastructure plan. We looked at the Scottish example to see how that has helped to underpin partnerships and certainty for the private sector in particular as well as the public sector. There are issues. I know that the Scottish plan has come under criticism recently, for example, because it has not been updated as a result of the spending review. Presumably, that will happen after the election. It is very important that, if we have a statutory infrastructure plan, it is seen as a key vehicle. Government, at the forefront, leading it, is going to have to deliver on that in partnership with the private sector. So, I think that there is a very strong imperative there with regard to the fact that we now want, with reducing budgets, to have some more certainty and clarity about what we can deliver.

[91] **Brian Gibbons:** As you said, the advantage is obviously some sort of certainty and underpinning. I suppose that a disadvantage of a statutory infrastructure plan is a degree of inflexibility. I suppose that there is a balance to be struck there. To go back to Andrew’s question, I realise, as Jeff pointed out and as we have accepted, that some of the wording of yesterday’s statement could have been improved, vis-à-vis ‘in addition to our spending plans’. I think that we understand having a national Department for the Economy and Transport infrastructure plan, but is that plan ‘it’ or is the national infrastructure plan that we are talking about in the statement that plan plus something else? Aside from bringing clarity to the concept, I ask that because I have some misgivings about how the national infrastructure plan is being rolled out in the Department for the Economy and Transport, particularly with regard to how ICT is being rolled out in the context of cutting direct financial support to business by 50 per cent to pay for that infrastructure. In other committees, I have not been given any assurance that a value-for-money exercise was undertaken of how that ICT roll-out was taking place. We did not have it. However, that is the responsibility of the Minister for the Economy and Transport and it is not a matter for us to criticise. If you are saying that the national infrastructure plan is part of the wider finance portfolio, that requires your

department also to look at some of these value-for-money considerations that the Department for the Economy and Transport infrastructure can incorporate.

[92] **Jane Hutt:** As I said in my statement, we are at the point of developing options for the national infrastructure plan. It was a key commitment in ‘Economic Renewal: a new direction’. It is appropriate to say at this stage that it is the development of the options that needs to be reflected upon. I am sure that you will have a view on this as a committee. A national infrastructure plan is key to the prospects and the strategic objectives of any Government as a whole and of its partners in the public and private sectors. I would want to leave it at that at this stage.

[93] **Angela Burns:** I know that Peter and Andrew wish to come in on this question.

[94] **Peter Black:** To follow on from Brian’s question, if the Department for the Economy and Transport is effectively the driver behind this infrastructure plan, the rationale behind it will be the economic benefits that the infrastructure expenditure can have. However, if you start bringing in the capital projects of other departments, such as schools, hospitals and so on, does that mean that they will have to meet economic criteria before they are approved? Which criteria would you apply to other departmental capital expenditure as part of that plan?

[95] **Jane Hutt:** That is part of the development of options and the influence that it could have on our capital programming as a whole. It is difficult to think of projects in our capital programme that do not have a beneficial economic impact as well as social, educational and environmental impacts. That is where we would look to the decisions that we made about the centrally retained capital fund. The criteria that we used to consider how we spent that—which were strategic decisions that were made by our budget performance committee, following robust consideration by the officials group, led by Michael Hearty—were, in a sense, a microcosm of what we would be doing when looking at wider criteria for our whole capital programme. We must have a more cross-Government strategic approach towards these decisions.

[96] **Peter Black:** I understand that all capital expenditure has an economic benefit, but if the economic driver becomes the key criteria, you are effectively saying that the future Minister for economic development will become the gatekeeper of capital expenditure across the Government.

[97] **Jane Hutt:** We are steering quite a way from scrutiny of my role.

[98] **Peter Black:** It is important to how you do this.

[99] **Jane Hutt:** As I said earlier, we have reached the point of options for the development of the national infrastructure plan. I am sure that this committee and all political parties will have something to say on those options, but, in the development of this stage, there is consideration of the spatial planning, and that is the key point. The spatial planning perspective is important to the economy as well as a link to society, community and educational objectives. We must see this as a whole-Government approach, and that takes us back to the strategic approach that we have been trying to develop. We must return to the fact that we are here today as part of your inquiry into capital and that must be in the context of major reductions in our public capital profile and how we should best use the levers that we have in Wales to deliver the best in terms of service delivery and economic growth.

[100] **Angela Burns:** I accept that there has been a restructuring in the capital profile, Minister, but the inquiry is also about how we maximise the bang for the Welsh buck, and whether we have billions of pounds or half a million, the whole point is that it is spent in a strategic and constructive way. The committee has spent a lot of time on this inquiry looking

at how capital is spent within portfolios and at whether everyone's strategic objectives appear to have any alignment with the portfolio holder next door. Surely, that is what we need to do; even if you have lots of money, it is about maximising that value all the time because we have a capital infrastructure that sorely needs a huge spend.

[101] **Jane Hutt:** It is a threat and an opportunity in terms of the way forward.

[102] **Angela Burns:** Yes.

[103] **Andrew Davies:** On some occasions, talking about the proposed national infrastructure plan, you have talked about the consideration of options. Can you give some indication of what that range of options might be?

[104] **Jane Hutt:** I have talked about the question of whether we should go down the statutory route as one of the options. We are starting from the perspective of strategic planning in relation to our spatial planning responsibilities. We have looked at it in terms of planning issues, for example, which was another part of the response and consultation on economic renewal. In terms of that longer term vision for infrastructure development, planning certainty for strategic investments is crucial. We need to look at the whole issue in terms of sustainable development principles, but it is scoping work at this point in time. I do not feel that, at this stage, the Government could bring before you a draft national infrastructure plan. The options are only being explored at this point in time.

[105] **Andrew Davies:** I understand that, but can you give us some indication of what those options might be?

[106] **Jane Hutt:** I do not think there is anything more that I can add at this stage in terms of those options.

[107] **Jeff Cuthbert:** When we talk about the infrastructure planning—and this may be obvious—I presume that we are talking only about the physical infrastructure here. If my question is best left to the Enterprise and Learning Committee tomorrow, when the Minister for transport will be before us, then I am happy to ask it there, but with regard to the sort of thinking that has gone into the decisions on projects, do you have any involvement in that? For example, there is the park-and-ride programme and enhancements to the railway infrastructure on the Valleys network in the Rhymney Valley, all of which I am very pleased to see within annex A, but, in annex B, an integral part of that, namely the new station at Energlyn, has been deferred. Have you had any involvement in that level of detail, or is that a matter best left to the spending Minister?

[108] **Jane Hutt:** That is a matter for the spending Minister.

[109] **Angela Burns:** I will ask a couple of quick questions, Minister, as we are coming to the end of our session. In the targeted match funding list at the end of annex A, do you anticipate the match funding coming from other governmental bodies, or are you looking for private investment as well? Also, what private investment would you anticipate, or wish to see—or not—in your entire capital spending plan?

[110] **Jane Hutt:** On the targets for match funding, I am sure you will be glad to see that we have been able to lever those in. A lot of the projects are matched with European structural funds. There is also some local authority investment, and, for many of them, which are town centre regeneration projects, there is also the private sector investment. There are different balances in terms of contributions of course, but they are a very good example of public-private investment with European funding. In terms of levering in other funding, I am sure that you will be reflecting on the importance of the European structural funds and the

ways in which the match-funding arrangements have come through, and Jeff Cuthbert has a key role in that. It has really added value to the capital spend across the portfolios.

10.30 a.m.

[111] **Angela Burns:** Andrew, do you want to come in briefly on this point?

[112] **Andrew Davies:** Yes. Some of the projects in annex A will not have revenue implications, but others will, particularly the rail schemes. There is a mention of the rail re-opening programme, in Hirwaun for example; presumably, if passenger services were to be extended to Hirwaun, that would be over and above the existing Arriva Trains Wales franchise, and therefore there would be revenue implications, as in the case of an hourly service to Ebbw Vale. So, when bids are made for capital expenditure, as Minister for Business and Budget, do you have to have reassurances from the portfolio Minister that the revenue implications have been accounted for and that you will not be hit in subsequent years by unplanned expenditure, shall we say?

[113] **Jane Hutt:** Thank you for that, Andrew. My finance officials work closely supporting portfolio Ministers' officials to be quite clear that any capital programmes are affordable in revenue terms.

[114] **Angela Burns:** I have two brief final questions, Minister, unless anyone else has anything else to bring forward. You said that you would be reviewing the strategic capital investment fund and ensuring that lessons learned would be transferred into your new fund, the centrally retained and managed fund. What was the major lesson learned from the SCIF exercise that you would want to carry forward into the future?

[115] **Jane Hutt:** There are two things: to improve business assurance standards across the Assembly Government, and to increase cross-cutting collaboration between departments and the wider public sector.

[116] **Angela Burns:** Finally, to go back to a question that Jeff asked right at the beginning, about annex A, I think that you said that, if you added all of that up, it would come to about £540,974,000. We would find it useful to know in which areas the £1.3 billion is being spent, and whether you are able to indicate sums of money for each area. We went through the annex and picked out a couple of examples. You mention the West Wales General Hospital critical care centre—does that involve £5,000 for painting the walls, or £50,000 for the renewal of the roof, or £500,000 for building an extension? My eyes are falling on the ones in my patch, which is terrible. The A40 at Llanddewi Velfrey—does that involve the entire bypass, or just the planning process? I am trying to find an example from someone else's area.

[117] **Brian Gibbons:** Try to find something between Bridgend and Maesteg. [*Laughter.*]

[118] **Jane Hutt:** We have given you the cost of the centrally retained capital funding allocations in the main bulk of the budget. The actual sums are allocated by portfolio Ministers, so you will have to ask them about that. All of the £1.3 billion that you mentioned in your first point is in the final budget anyway, so remember that this is additional funding that I have brought in. We have itemised that for you because it is additional to the budget.

[119] **Angela Burns:** I really appreciate that. Could I clarify: although you know that it is £1.3 billion, you are saying that the finance department might not know the detail of what the national station improvement programme, for example, would cost the portfolio department?

[120] **Jane Hutt:** We know it, but it is for the portfolio Minister to give you the detail. I will not be able to give it to you today. Andrew, do you want to come in?

[121] **Mr Jeffreys:** The Minister for finance allocates resources at the main expenditure group level. We publish details of capital budgets at the programme level in the budget, but the project-by-project decision making is done by portfolio Ministers and their officials. They hold the detail on each individual project, and that varies over time. As you go through the year you set a budget at the start of the year for a project, and it may turn out that it costs a little less or a little more, and, for example, the weather might affect how quickly you can do the work—it is quite a dynamic picture. Each department will have a figure for each of these projects in their plans at the moment, based on the detail set out here. I am sure that those departments would be happy to provide that information if you would find it helpful.

[122] **Angela Burns:** I am slightly staggered that we have to go to each individual Minister to ask them how much they will spend on hospitals, roads or this, that or the other.

[123] **Mr Jeffreys:** Information at a programme level is in the budget, but we do not hold the project information centrally.

[124] **Brian Gibbons:** It may be of interest, but in our papers there is correspondence from Northern Ireland and Scotland. If I understand it correctly, they seem to have a web-based database in which the details of all their major capital programmes are available. To what level of detail, I do not know, but at least someone has half-invented the wheel on this, and it might be worth looking at it for the future.

[125] **Jane Hutt:** I think that that is already under way in the mapping that we are doing for the national infrastructure plan.

[126] **Brian Gibbons:** We will not go back there.

[127] **Jane Hutt:** Providing that information in such a database will be the next step.

[128] **Angela Burns:** Thank you very much for your time today, Minister, and for that of your officials, and thank you for your evidence this morning.

10.36 a.m.

Cynnig Trefniadol Procedural Motion

[129] **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).

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

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10.36 a.m.
The public part of the meeting ended at 10.36 a.m.*