Cynulliad Cenedlaethol Cymru
The National Assembly for Wales

Y Pwyllgor Cyllid
The Finance Committee

Dydd Iau, 11 Hydref 2012
Thursday, 11 October 2012

Cynnwys
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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Ann Jones	Llafur Labour
Ieuan Wyn Jones	Plaid Cymru The Party of Wales
Julie Morgan	Llafur Labour

Eraill yn bresennol
Others in attendance

Jeff Andrews	Ymgynghorydd Polisi Arbenigol Specialist Policy Adviser
Dr Andrew Goodall	Prif Weithredwr, Bwrdd Iechyd Lleol Aneurin Bevan Chief Executive, Aneurin Bevan Local Health Board
Jane Hutt	Aelod Cynulliad, Llafur, y Gweinidog Cyllid ac Arweinydd y Tŷ Assembly Minister, Labour, Minister for Finance and Leader of the House
Andrew Jeffreys	Pennaeth Buddsoddi Cyfalaf Strategol, Llywodraeth Cymru Head of Strategic Capital Investment, Welsh Government
Geoff Lang	Cyfarwyddwr Gofal Cychwynnol, Cymuned a Gwasanaethau Iechyd Meddwl, Bwrdd Iechyd Prifysgol Betsi Cadwaladr Executive Director of Primary Care, Community and Mental Health Services, Betsi Cadwaladr University Health Board
Karen Miles	Cyfarwyddwr Dros Dro Cyllid a Diwygio Economaidd, Bwrdd Iechyd Lleol Hywel Dda Interim Director of Finance and Economic Reform, Hywel Dda Local Health Board
Jo Salway	Pennaeth Cyllidebu Strategol, Llywodraeth Cymru Head of Strategic Budgeting, Welsh Government

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

Dan Collier	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Gareth Price	Clerc Clerk

Dechreuodd y cyfarfod am 9.29 a.m.
The meeting began at 9.29 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Jocelyn Davies:** Good morning, and welcome to this meeting of the Finance Committee. I remind Members that there is no need to operate the microphones as we are in public session. Please check that all your mobile phones and electronic equipment are switched off. We are not expecting a fire drill, so, if you hear the alarm, please follow the directions of the ushers. We have no apologies so there are no substitutions today.

9.30 a.m.

Cynigion Cyllideb Ddrafft Llywodraeth Cymru ar gyfer 2013-14—Tystiolaeth gan Fyrddau Iechyd Lleol
Welsh Government Draft Budget Proposals for 2013-14—Evidence from Local Health Boards

[2] **Jocelyn Davies:** We are very grateful that you are able to be with us today. I remind Members that this is an evidence-gathering session; we are not scrutinising the local health boards, but gathering evidence in order to scrutinise the Government. We have an awful lot of questions—26 questions, as you know—to cover in under an hour, so we will need to be brief. I am sorry that we do not have any time for introductory comments. If you would like to introduce yourselves for the record, we will then go straight into questions.

[3] **Dr Goodall:** Good morning—bore da. I am Andrew Goodall, chief executive of Aneurin Bevan Local Health Board.

[4] **Ms Miles:** Good morning—bore da. I am Karen Miles, director of finance at Hywel Dda Local Health Board.

[5] **Mr Lang:** Bore da—good morning. My name is Geoff Lang, and I am deputy chief executive of Betsi Cadwaladr University Local Health Board.

[6] **Jocelyn Davies:** Thank you. I will start with the first question. Before we turn to the draft budget for 2013-14, perhaps we could spend a moment or two considering the current financial year. How confident are you that your board will achieve the revenue break-even position at the end of the year?

[7] **Dr Goodall:** Just to start on this, from an NHS perspective our financial targets are statutory targets that are placed on us. Every board starts with a financial plan. That is important to make sure that we get an overview of the services, our workforce changes, and also to make sure that the finance lines up around it. We are at the mid-point of this year. We are expecting to get to break even by the end of the year. We have plans to work our way through the last six months, and I would just say, from a Government perspective, that every board does take that individual position very seriously. Some changes can happen during the year, which can sometimes help to reflect some pressures. I think that you will be aware that we had some emergency pressures funding, which was announced by the Minister, and there are changes that happen around areas such as medicines management that we will have to explore as part of this discussion. However, certainly speaking from my board's perspective, we intend to break even by the end of March, and all of our planning is focused on that at the moment.

[8] **Jocelyn Davies:** You have just listed reasons for the in-year variance, but what would the major ones be?

[9] **Dr Goodall:** Some of the things that we have to deal with at this stage are areas such as emergency pressures that come through the system—simply the number of people arriving through the front door. We do plan to make service changes through the year, and often we have to go through a process of discussing those with our staff, and with our community health councils, to make sure that people are content with those kinds of savings. We expect levels of savings to kick in during the year. To touch on medicines management, some specific price changes occur in October can sometimes distort the position during the year. I can also give you a specific example from my organisation. At a time when we have seen very different weather over recent months, the temperature has had to be maintained in our facilities, so, even over the first four or five months of the year our energy costs were actually £1 million more than for the same period last year. So we have to manage and mitigate those kind of pressures to make sure that they are recovered.

[10] **Jocelyn Davies:** That was unexpected, but some of the other things that you mentioned are things that happen every year.

[11] **Dr Goodall:** There are things that we can always anticipate. We can look forward at technology changes, and we can look forward at some drug price changes and look to manage that. It is not just to start off the year. We know that, from a pay perspective, although it is quite a stable pay outlook, we still end up with increments that go to a number of members of staff each year. However, as you would expect, we do not simply wait till the end of the financial year and start the new one; we have to look forward. The traditional approach of the NHS was probably to go into an annual planning cycle, but what we have been trying to reinforce, certainly over the last 18 months as reasonably new organisations, is getting into a three-year planning process, and we can work out what the future cost pressures look like for our system over those few years or so.

[12] **Jocelyn Davies:** What evaluation have you had regarding the underlying ability of your board to release resource?

[13] **Dr Goodall:** We go into each year with the intention of ensuring that we manage within the budgets and resources that are set for us. We have different ways of approaching it. First, we have had to make sure over the last three years that people are aware of a very different public service financial outlook. My organisation probably feels that it is the most financially aware that it has ever been, throughout all of the structures. That is an open discussion within the organisation. We have tried to ensure that it is not simply about focusing on the budgetary issues, however. That is where, as a chief executive, you have to look at the responsibilities. We have tried to make sure that people know that, by focusing on the right issues, they can make levels of savings. For example, I operate five change programmes in the organisation that look at better ways of organising our services, more effective medicines management, the way that we deal with the placement of patients, sometimes out of area, and to develop some of our local services. There are a number of different ways of getting the organisation to understand the change. Just to give you a specific example, last year we saved £4 million on prescribing, and we were very pleased with that. We saw that all of our quality indicators went up on the back of focusing on this issue. This year, we gave a stretch target of £7 million in prescribing. We have been really pleased, because my head of pharmacy, and the team around him, believe that we will be able to deliver close to £10 million in savings by the end of the year, again with all of the quality measures going up. So, we are able to focus on better care—we can accept the financial responsibility and show that we can organise ourselves in different ways.

[14] **Jocelyn Davies:** You will, no doubt, be aware that the First Minister recently

indicated that help may be available, but only if boards are just short of their targets, which you told us were statutory targets. Are you aware of any discussions with the Government for additional funding for 2012-13? If so, to what extent?

[15] **Dr Goodall:** As you would expect, we have discussions with the Welsh Government on a regular basis. We have to liaise within the NHS Wales framework. We are going into a mid-year review process, which is a normal part of our business. A number of health boards have been going through those reviews individually to determine the kind of pressures that we have faced. Despite that mid-year review process, emergency pressures funding was announced by the Minister a couple of months ago to allow us to plan for the year ahead. I expect that NHS Wales will want to make a judgment about where it looks like we are, individually and collectively, after that review process. We have some helpful things happening as we move forward; the Mental Health (Wales) Measure 2010 kicked in from 1 October, and allocated funding has come in from that. There have also been some national changes around our general medical services, from which our general practitioner services are operated, and those are coming into our budget in the last six months of the year. As a normal part of our business, we would always make a mid-year judgment as organisations, as you would expect, but also sitting down with the Welsh Government.

[16] **Jocelyn Davies:** Are you aware of any of the boards having discussions with the Welsh Government that they might be just short of their statutory target?

[17] **Dr Goodall:** At this stage, all of us are describing where we actually are, because, as you know, we openly report our positions through our public boards, etcetera. We will be describing where we feel that there are pressures, but all of those discussions—I will speak for my organisation—are predicated on a recognition that there is a need to break even. The genuine intention is to ensure that in making financial decisions we make the right ones that support communities and that we continue to improve our performance; those are the genuine values that we try to bring to those discussions with the Welsh Government.

[18] **Julie Morgan:** Moving on to the draft budget proposals for 2013-14, do you feel that there are sufficient resources in the draft budget to meet your statutory duties and deliver the priorities of the Welsh Government?

[19] **Dr Goodall:** From an accountability perspective, we have to work within the budgets that are set for us on the NHS Wales side. The accountability arrangements perhaps work slightly differently from those of other public services. Do we think that we are able to focus on priorities that are set nationally but also on a local basis? Many of those priorities can be delivered by statutory requirements that are placed on us, and we feel that we can make progress on those issues. Do I think that the NHS is always going to face particular demands? Yes, I do. Every year, it is difficult but important to try to keep up with the demographic changes that are happening and the growing elderly population. We need to plan for that and mitigate it. We need to look at some of the advances in technology that come through, and we have to find ways of dealing with them, even with a focus on some of the local changes happening in Wales. Interestingly, I was part of a specialist services discussion the other day, where we could see that with a focus on organ donation we are having higher numbers of donors coming forward. We have to respond to that as an immediate financial pressure. We have to get on with providing services within that allocation, but I think that we try to do it in the right manner to ensure that we get the value for money and focus that are necessary.

[20] **Julie Morgan:** You seem very confident.

[21] **Dr Goodall:** The last four years working in public services have definitely been the most difficult of my 22-year career working in the NHS. We take our responsibilities very seriously. You have to go into any financial year with the confidence that you can do the right

things for your population. For my organisation, I think that I can show that we have been able to focus on money, but also give a foundation for improving our services, whether that is through quality measures or better services for the community.

[22] **Ms Miles:** From a Hywel Dda perspective, we have been part of the all-Wales position on the £300 million savings each year, which accumulate, so we are now hitting the £1 billion mark. We have done that through efficiency and productivity, and we see our focus now, and that is why the confidence is coming through, I think, from listening and engagement, and that extensive process that has now gone on to formal consultation. We have explained to our stakeholders, clinicians and staff that we cannot keep doing the same old, same old. We have to look at more innovative ways to stay within our resources and the regime that is going forward. They take seriously the requirement for us to look to see where integration can cut out duplication and continue to cut out waste, harvesting better relationships between clinicians in the primary and secondary sectors, and helping us with some of the issues going forward. We will do that within our allocation, but it has been about a step change from things such as procurement and medicines savings to asking how we can improve patient services and get more value for the money that we have.

[23] **Mr Lang:** It has become increasingly evident to us that just focusing on the cost input aspect of our work as a health board, and trying to be more efficient and effective on our input side, will get us only so far, and there is still more to do with that, but we have to look at the way in which we deliver services, respond to population need, and even influence population need by intervening earlier thereby, hopefully, promoting and improving health rather than seeking to respond purely to illness and disease. That balance will have to shift significantly in the coming years if we are to sustain our position—challenging the historic way in which we do things and challenging our clinicians and staff to think more innovatively. We need to see a shift in the balance of the way in which we deploy our resources, moving forward to one that is more sustainable than the model that we currently have.

[24] **Julie Morgan:** So, you see the efficiency savings as being bound up with a better way of operating, do you?

[25] **Mr Lang:** They go hand in glove. There are efficiencies in how we currently operate that, no doubt, we can get better at. The audit office review and other reviews show those things: there are procurement efficiencies to be made, as well as in how we organise our theatres and wards. We can be more efficient, but there comes a point at which you have to ask whether the basic building blocks of how the service operates are the right ones to deliver maximum value for the future, and those questions and the challenges to how we shape our plans are increasingly coming to the fore.

[26] **Julie Morgan:** Do you feel that you are getting to grips with those challenges?

[27] **Mr Lang:** We have examples of where we are already changing services. For example, we have looked at how we deliver certain mental health services, what we provide in our area and what is provided outside it, and how we work with our GPs and primary care colleagues. We can see distinct benefits coming from that, and we need to reflect on that, look at other service areas, and adopt the same approach.

[28] **Julie Morgan:** Seeing as there have been real-terms reductions in the NHS budget, should the next spending review bring further reductions, how prepared are you to deal with those?

[29] **Dr Goodall:** I think that it is about trying to build on the foundation. If we rewind four or five years or so, although I know that the outlook for public services was very

different then, the level of savings that we would have been looking to achieve across the previous LHB and trust in Gwent as a community, for example, was probably about £18 million a year. With the current public service outlook, which affects all the services, whether it is the police, local government or health, my current equivalent would be saving close to £50 million. Being prepared for that is partly about recognising that that is just the outlook, the reality, and the staff need to understand that and help us to work through those issues in a positive way. However, having achieved that level of saving over three years, we have to feel that we have a foundation to demonstrate that we can do it. I agree with Geoff's remarks that the trick is how we focus on better services and improvement, and ensure that we also continue to deliver some of the efficiency savings each year.

[30] **Christine Chapman:** Picking up on Julie Morgan's point, as she said, you sound quite optimistic and confident about this. What about quality for patients? How do you assess that in efficiency savings terms? Is the quality improving or is it going down, do you think?

[31] **Dr Goodall:** I can give you specific examples, such as on infection rates in the past two or three years—and, again, these are publicly reported at our boards. We have managed to reduce the incidence of methicillin-resistant Staphylococcus aureus and of Clostridium difficile, for example, which, at their worst, affect patients' outcomes in a serious way. We have been able to show, collectively as health boards and individually, that we have been able to bring down infection rates significantly in the past two or three years.

9.45 a.m.

[32] We can see the impact of that on mortality rates, which is important because of the serious implications. You can genuinely see how the savings come through—a shorter length of stay on wards, for example. We are also seeing that our prescribing levels are going down because we do not have to give people intensive support as they go through those sorts of infections. Given the scale of the challenge facing us, it has been an important message that we make sure that staff understand that we can focus on quality and line it up and that, actually, the money will follow. It will not stop us from still having to make specific financial decisions, because that is what the NHS has always done. However, the way in which you motivate your organisation is to get people to be focused on the patient experience. There are other measures that we will track through annually. Every board in Wales will look at its scores for nursing and fundamentals of care. I can look back over the past three years and know that the scores from the users' perspective as well as our staff have improved in the past three-year period with regard to dignity and care. These are looked at, at board level, alongside any other financial values and targets that we pursue.

[33] **Ms Miles:** If I were a patient of Hywel Dda Local Health Board a few years ago and prone to acute bronchial infections, I could probably expect multiple admissions during the course of the year, which would be longer than I would want as a patient. I would also be away from family, and losing control over my personal management of what is a chronic disease. To that end, through the invest-to-save fund, we brought in an acute response team in the community. When patients feel that they are beginning to lose control of their condition, they have a name to link and they automatically get a quick responsive intervention in their homes to get them back on course. These diseases are for the long term, and patients need that kind of holistic care in their own settings, where they can retain that management of their condition and where their families can support them. It has been a resounding success, and it has saved us loads of bed days in hospital, where the patient could potentially have been waiting for discharge and the community services potentially waiting to align with that discharge. That does not happen now, because they have that named contact in the acute response team.

[34] **Jocelyn Davies:** Mr Lang, I am assuming that your experience reflects that of the

others.

[35] **Mr Lang:** Yes, indeed. In our evidence, we talked about how, as NHS Wales, we work together on many decisions. The 1000 Lives Plus programme, which may be familiar to committee members, is one that has a definite stream looking at international evidence on the quality of care, and at not only the better outcome for the individual receiving that care but, in a cruder sense, the business case for quality. It is clear that cutting out harm, waste and duplication in clinical processes and ensuring that we get things right the first time will reap financial dividend as well as clear outcomes for patients. That is a national programme that we are collaborating on across Wales to make sure that that is effective.

[36] **Julie Morgan:** I understand that you are making three-year financial plans. Are you getting enough help and guidance from the Welsh Government in doing that? Should the Welsh Government be doing more?

[37] **Dr Goodall:** The Welsh Government has been clear that it does not wish us to focus only on the year ahead of us and that it expects us to take a more strategic outlook, and our boards have the same expectation of us. In responding as executives, we have a responsibility to make sure that it is not just about predicting the financial demands placed upon us, and we have to go into a significant level of detail about targets, including local targets that we want to set for our population. We employ thousands of members of staff. We have to work through how the workforce will need to adapt and change over this forthcoming period. We also have to describe in three-year increments what the changes that are likely to happen each year should look like. In Gwent, we have a strategic programme called Clinical Futures that we have enhanced since we took it over as a health board. We are trying to be clear and explicit about what the next sets of changes are that will occur two or three years in advance, so that we can anticipate them and work them through. The support is there from the Welsh Government for those discussions as is the expectation, because it also expects a high level of detail, alongside our boards.

[38] **Julie Morgan:** Is that your experience, too?

[39] **Ms Miles:** It is good to have ‘Together for Health’ as a framework, in that it envisages what the future of health could like, with intensive care closer to home, but the discretion to discuss that locally and to get it to fit your demographic, or your rurality in our case in Hywel Dda, is a latitude that we appreciate—and we do get that, so it is not prescriptive. It is not one size fits all. Some of the indicators that have come through for the new funding regime that we will be looking at for ‘Together for Health’ allow us to plan over two to three years, and will be exceptionally helpful in that regard. It will allow us to take the more ambitious local plans through in a structured way. However, as Andrew says, it will be through the processes that we normally use, such as involving our clinicians and the partnership forum, which includes the unions, and going through it in a planned and structured way, showing key milestones of delivery. We get the support and the latitude to do that.

[40] **Mr Lang:** From my perspective, the environment is helpful in that we have a clear view over three years, and a resource view over three years. It is an area that we need to get better at, certainly our health board. Going back to the comments made at the start of the meeting about the early-year impact of savings and planning a more strategic approach that runs over two or three years, we have work to do on that and we have set work in train to achieve that. However, the environment of looking forward three years is helpful to us rather than the annual cycle.

[41] **Jocelyn Davies:** Several Members want to ask supplementary questions on this. We are on question 5, and we have 26 questions. We do not need the three of you to repeat the

same answers.

[42] **Mike Hedges:** I want to ask you about budgeting techniques, such as zero-base budgeting, budgeting prioritisation, and, finally, I do not think that the term is 'end-point budgeting', but what I mean is when you sit down with a blank piece of paper and ask where you would want to be if you did not have what you have. Are you using those techniques and are they working?

[43] **Dr Goodall:** We use a variety of tools to do that. There are aspects of the zero-base budgeting approach, for example, in which we would be recognising some inherent service pressures, but there may be a danger. All of us have structures that clinicians are leading and where we think that improvements and changes can come forward. The tools that we need to use, moving forward, require us to look forward and scan over three years and be more specific and explicit on that. The financial regime and the framework that comes in may help us a little bit. In our financial process, looking at the flexibility across the financial years is difficult for us to do. When we focus on our budgets and on delivering on them, one area that we do not necessarily have, equivalent to other public services, is reserved flexibility. We would really like to stretch our clinicians to feel that they can overperform on some of these areas, and get some reward and incentive from delivering a better level of savings. Karen could probably speak on some of the specific financial tools.

[44] **Jocelyn Davies:** We will come on to some of these issues later. I know that the tools that you are using are fascinating, but I think that we get the general picture.

[45] **Ieuan Wyn Jones:** Wrth ateb cwestiwn Julie, roeddech yn dweud eich bod yn ceisio cynllunio ar gyfer cyfnodau o dair blynedd, ond mae'r gyllideb yr ydym yn ei thrafod heddiw ond yn cynnwys ffigurau ar gyfer dwy flynedd, sef tan fis Mawrth 2015. A ydych wedi dechrau cael trafodaethau â'r Llywodraeth am yr hyn sy'n debyg o ddigwydd ar ôl hynny? A ydych yn cynllunio ar sail y tebygrwydd y bydd y setliad yn un eithaf heriol i chi, hyd yn oed ar ôl hynny? Pa fath o gynlluniau sydd gennych mewn golwg ar gyfer y cyfnod ar ôl y cyfnod CSR hwn?

Ieuan Wyn Jones: In answer to Julie's question, you said that you try to plan for periods of three years, but the budget that we are discussing today contains figures for only two years, taking us up to March 2015. Have you started to have discussions with the Government about what is likely to happen after that? Are you planning on the basis that the likelihood is that the settlement will be quite challenging for you, even after that? What kind of plans do you have in mind for the period after this CSR period?

[46] **Dr Goodall:** The three-year planning for us is really important, just to make sure that, irrespective of individual year allocations, we are clear about our strategic outlook. Some of my plans in my area stretch to the five-year period, so it is not just about fixing it at that point. We take a steer from a lot of the information that is available, not just from the Welsh Government. The auditor general has given his own take on the public service outlook. From our perspective, we have to make an assumption that the settlement will be challenging and as challenging as it has been in the past three years. If there was other advice, we would obviously link it into our plans, but we have to recognise that a foundation of delivering 5% savings a year is probably what we will have to continue for subsequent years. The steer that we have for that is the Institute of Fiscal Affairs and the auditor general's own reports to the Public Accounts Committee.

[47] **Paul Davies:** Before I ask my set of questions, I should have declared an interest at the beginning of the meeting by saying that my wife works as a financial administrator in the Hywel Dda Local Health Board's finance department, so I want to put that on record. You have already mentioned to us that you will be discussing, as health boards, whether you will be breaking even in the very near future. You suggest in your paper that the statutory duty to

break even seems to act as a disincentive to good financial management and that you should be allowed the flexibility to build up reserves. Can you provide evidence in the form of specific examples of where the statutory requirement to break even has resulted in poor financial management?

[48] **Dr Goodall:** It is about how we get a focus right through and across the organisation. From an executive board perspective, and from the general board, we absolutely understand the governance requirements on us and the statutory duty to break even. The success of managing an organisation in the health service is about the way in which you deliver savings and service change and improvements along with your clinical and professional staff. What we have been trying to look at—in trying to find ways of ensuring that we have financial stability to do this—is how we create the genuine incentives for people to feel that by focusing on organising their money and focusing on quality, they are able to reserve and retain some of those for the development of local services.

[49] I can give you a very specific example in my mental health services, which have had some budgetary pressures, along with all our divisions. They looked at external placements that were happening with individuals going into services across the border in England, at significant cost. They came forward to the board with a whole series of proposals to develop a local service, so that they could bring these people back closer to their families, and they felt that there would be a significant and material financial saving alongside that change. The output for us was to generate, because of the high cost of these individuals when they are placed, a saving of £2 million just on that one example. I felt that we had got right the incentive for people to recognise that they wanted to get their budgets in line, and secondly, the discretion to be able to deal with developing a local service that was a positive for the local area.

[50] Our issue about the financial years is that, in the strictest terms, we have to break even to the last penny, and, for my own organisation, that means breaking even on a £934 million budget. If I have an energy cost that is £1 million either way, if I have a service pressure, or if I have an improvement on medicines management, when I get to the end of the year and if I have over-achieved on the financial targets, the money is not retained by the organisation. So, there is a general philosophy of how we can create a mentality about reserves being a good thing and having the flexibility to retain those savings internally. However, for a lot of those, they are about the clinicians wanting to lead change themselves and seeing the benefit on their individual service.

[51] **Jocelyn Davies:** Dr Goodall, may I just challenge you on that? That money belongs to the public purse; not to you and not to the Welsh Government. If that money was returned to the Welsh Government, it could spend it on something else that would be very useful to the public. Care and Repair says that every pound it spends saves you £7.50, so a saving of £1 million given to Care and Repair saves you £7.5 million. That is a better spend of public money than perhaps you being allowed to retain it in reserves.

[52] **Dr Goodall:** Yes, and that is why we use Care and Repair in Gwent as an area in terms of those underlying savings.

[53] **Jocelyn Davies:** I am challenging you on you wanting to retain the reserve rather than the Welsh Government reprioritising and spending it on something else to the public good. It is just a challenge that I am putting there. Did you want to go on to your next question, Paul?

[54] **Paul Davies:** Have you had any discussions with the Welsh Government with regard to the flexibility you would actually want to see?

[55] **Dr Goodall:** We have. I think it was clear from the Public Accounts Committee discussion that there was a need to look at the financial regime in a different way, and it is to try to give this flexibility, which is to just apply the guidelines that apply to other public services in how we use this money. A lot of our world on the NHS side is a very collaborative mechanism. We are expecting a different financial regime to emerge for the 2013-14 financial year. There have been some discussions about what the financial framework should look like, but I know, given the steer of the Public Accounts Committee, that there have been discussions on whether there is an opportunity to introduce that financial flexibility.

[56] Chair, to reassure you, the money would be about focusing it on the right levels of services here, and, from our perspective, it would be looking for similar provisions that would be made in the case of the police and local government. We are not asking for anything different in terms of the rules.

[57] **Jocelyn Davies:** No. However, in terms of our scrutiny of what is value for money, savings made in one area and spent in an entirely different area can sometimes be better value for money. It was just a challenge.

10.00 a.m.

[58] **Ms Miles:** In many instances, when we plan with our clinicians a new development that is a bit more ambitious in-year—which is a kind of step-up—when we know that the implementation in some way might be behind the curve, not having the flexibility that Andrew has outlined means that often we bring in a development at 80% of its capacity, when going out 100% full-pelt would bring the optimal benefit for patients and would allow the flow improvement that we are looking for in patient care. So, that is what gets forgone because of that lack of flexibility; it is the fact that we often have to curtail a business case and run it at 90% of its value rather than going for what we were trying to achieve as benefits.

[59] **Ieuan Wyn Jones:** Rather than being able to have the flexibility, if, for example, you had the power to borrow, would that not overcome some of these issues?

[60] **Ms Miles:** We are quite keen to manage this position in the NHS envelope. Power to borrow is perhaps a step change further on, but within the resource accounting framework that we work in at the moment, we are looking for flexibility that we can self-generate.

[61] **Paul Davies:** To clarify, when you say that you want financial flexibility, what do you mean by that?

[62] **Dr Goodall:** We are looking for the ability to pump prime when we need to across financial years. For example, you do not naturally always start services on 1 April each year, but, sometimes, because you are trying to end up with an end-of-year financial balance, you may need to slow things down in respect of those particular plans. It is also to give us a bit of discretion to be able to almost develop our own invest-to-save process. As I start each financial year, we have a fund that is available, so in the very early part of the year, our clinicians are able to come forward with service plans and hopefully we will be able to give them a bit of transitional support to make the change happen.

[63] However, in this general discussion, there are lots of other opportunities to think differently about public services in general terms and the kind of areas that we are exploring. That is not where the NHS has traditionally been, but, examples are the use of social enterprise models and the development of different kinds of relationships with the housing sector and housing associations—because we need to look at the collective potential—and core budget arrangements. I have a section 33 agreement with five local authorities, and you can imagine the legalities around that, but it sets out how we are meant to perform and

manage our budgets across them—it is a £20-million section 33 agreement.

[64] **Ms Miles:** We in Carmarthenshire have the largest in Wales, and it is working well.

[65] **Ieuan Wyn Jones:** Un o'r materion sydd wedi bod yn pryderu byrddau iechyd, a'r ymddiriedolaethau cyn hynny, oedd y ffaith bod lefel chwyddiant y gwasanaeth iechyd yn uwch na'r hyn yr oedd y Trysorlys yn ei roi fel ffigur chwyddiant pan oedd yn gosod ei arian ar gyfer gwariant yn y sector cyhoeddus. Pa fath o effaith y mae hynny'n ei chael ar eich cynllunio chi?

Ieuan Wyn Jones: One of the issues that has been of concern to the health boards, and the trusts before that, was the fact that the inflation level in the NHS was higher than what the Treasury provided as an inflation figure when it was allocating its money for expenditure in the public sector. What kind of impact does that have on your planning?

[66] **Dr Goodall:** I apologise, I did not catch the first part of that question; I had to change channels.

[67] **Mr Lang:** Perhaps I could answer, Chair. We recognise that, year on year, particular costs affect the NHS in terms of technology, drugs and clinical advances, which are unique to the NHS as compared with other public sector areas. Those bring additional pressures and challenges. As an NHS organisation, we are accustomed to understanding what those issues are and to preparing. In our assessment of resource requirement, we are able to predict what those costs may well be. We do quite a lot of horizon scanning on drugs, on the NICE guidelines and on the all-Wales medicines strategy—things of that nature. We can build that into our planning. The reality is that, as a general inflation measure, my perspective is that the NHS will always run ahead of that. We have the information to estimate that, to know what it might be, and we have to build that into our plans and we regularly do that.

[68] **Jocelyn Davies:** For your benefit, Dr Goodall, the Treasury's GDP deflator is perhaps not a good tool for your calculations. I think that Mr Lang has confirmed that.

[69] **Ieuan Wyn Jones:** Hoffwn ofyn un cwestiwn arall yn sgîl hynny: os yw ffigur chwyddiant y gwasanaeth iechyd yn uwch na'r un y mae'r Trysorlys yn ei gydnabod, a ydych yn cynnal trafodaethau gyda phobl i weld a fyddai modd cael ffigur chwyddiant yn y gwasanaeth iechyd y gallech ei adeiladu i mewn i'ch cynllunio ariannol yn y blynyddoedd nesaf?

Ieuan Wyn Jones: I would like to ask one more question on the back of that: if the inflation figure for the health service is higher than the one recognised by the Treasury, are you having discussions with people to see whether you could have an inflation figure for the health service that you could build into your financial planning in future years?

[70] **Dr Goodall:** That is a good suggestion. We have to track through the actual position for the NHS over recent years and compare and contrast with, for example, the gross domestic product deflator. However, our general experience is that it feels like we can often run ahead of these. Sometimes, there are different ways of having discussions that allow us to suppress some of this. You will have hopefully seen some of the outputs of the recent McClelland report for procurement savings. The NHS showed really good performance on collaboration, with about 70% of approaches collaborative. That is a very good way of suppressing the pressures that we have outlined in previous years and move things forward. We would need to work on that proposal.

[71] **Jocelyn Davies:** There is an acceptance that, in reality, this is not a good indication for the NHS of what inflation would be. You think that this is a good suggestion, but you are not aware of any discussions that have gone on around this.

[72] **Dr Goodall:** It will fit in with the financial framework and the revised guidance. We will try to take a more realistic look at some of the comparisons and contrasts.

[73] **Christine Chapman:** Chair, before I ask my question, I need to declare an interest. My husband is a GP in the Aneurin Bevan LHB area.

[74] **Jocelyn Davies:** Well, as the NHS is the biggest employer in Wales, there will often be interests to declare.

[75] **Christine Chapman:** Thank you.

[76] In your paper, you say that, over the last three years, health boards have made savings in excess of 5%. However, the Minister's position is that 5% is the maximum saving that can be made in a given year. How do you react to that, because it is quite contradictory?

[77] **Dr Goodall:** I do not see that as contradictory. I see that as good performance by NHS Wales on savings. It compares with savings that have been driven through other systems, whether they are international or not. On what is happening, we are, as I was saying earlier, trying to make sure that we make the right kinds of decisions in this output. Whether I have reached 5.2% or 4.9% at the end of year, the statutory target still remains. I hope that it is starting to show that, for example, over the last six to 12 months in the Aneurin Bevan LHB area, we have stronger foundations in place. There has to be a realism that a 5% level of savings should be generally accepted. Do I think that that is a hard level of savings to achieve? I said earlier that public services have been going through a very different period. We have all had to recognise that this has required a change in our approach, making sure that organisations can focus on finance properly. I see that as good performance by NHS Wales over the last three years, while we have been new organisations.

[78] **Christine Chapman:** We know that some boards have had to make savings in excess of the 5% level. Was that due to the real-terms reduction to the allocation from the Welsh Government?

[79] **Dr Goodall:** Whenever I talk to any of my public service colleagues, we all seem to be in the pretty consistent position of thinking that the reductions were required because we have a very difficult outlook. As I said earlier, from an accountability perspective, for us, as officers, the budget is the budget; that is the nature of the focus for our financial plans. It is an extremely difficult outlook for us. We have had to genuinely increase the level of savings to an unprecedented level, but it has been an unprecedented environment. The foundations are that we have to continue that level of progress over subsequent years.

[80] **Mike Hedges:** It would be remiss of me not to say that you have done phenomenally well in the levels of savings that you have managed to achieve year on year. The credit for that does not seem to come out as often as it should. I have a couple of questions around that. On shared services, if somebody is a doctor or a nurse working in the Abertawe Bro Morgannwg or Hywel Dda LHB areas, their method of payment is going to be similar. IT systems are expensive and are bought regularly—sometimes they do not work very well, as some people here are well aware—but, what about opportunities, instead of buying a new system, to use a joint payroll system with another board, for example? The NHS, not just NHS Wales, is a huge purchaser in Great Britain. It needs a procurement policy that would benefit from using its size and capacity for procurement, because it is probably the largest organisation in Britain.

[81] **Jocelyn Davies:** Dr Goodall, do not give an answer as long as the question. [*Laughter*.]

[82] **Dr Goodall:** Karen will start.

[83] **Jocelyn Davies:** He has made his point, do you have a point? You can just feel free to agree—

[84] **Ms Miles:** We quickly went to where you went to. We have arrangements for shared services in place for payroll. All NHS Wales payroll is paid through a shared-service mechanism. We have it for procurement and accounts payable, so we are doing what you have said, because you can do this transactional work collaboratively and it can be better value for money.

[85] **Dr Goodall:** In the past, we bought separate IT systems and had different organisations. Now, we are buying one radiology system, one pathology system and one patient management system for Wales. So, again, that has been a change over this last three-to-five-year period.

[86] **Mr Lang:** Just to put on record for the committee, on the progress being made with GP clinical systems in Wales, we have had an excellent track record on procurement. We have just done another procurement narrowing down the number of systems and getting significant financial and service benefits, so we have some good success stories on IT procurement, particularly around GP systems.

[87] **Jocelyn Davies:** Mike, there were some good examples there. Would you like to ask another question?

[88] **Mike Hedges:** I will ask another question and it will be a lot quicker this time. The auditor general has suggested that many of the opportunities for easy savings have already been taken. You would probably agree with that. To what extent will further savings not just be efficiency savings, as you tighten budgets, but service reductions as well?

[89] **Dr Goodall:** I think we have already outlined some of our response to this in earlier questions. Efficiency is something you have to focus on every year. In my organisation, we have tried to focus on upper-quartile performance. We are stretching ourselves now by measuring ourselves against the best in the UK in respect of efficiency, but you do need to look at different ways of co-ordinating services, whether that is about introducing local service changes like the mental health example that I gave earlier, or working differently with other public services, like local government.

[90] In Gwent, we have been really pleased with developing our frailty programme and having the budgetary and governance arrangements set up for that, but it is about focusing on what individuals need in a different way. There are service changes that we can make. It is always a last resort for anyone who works in the NHS, because we all have values around wanting to end up with a cuts discussion. From our perspective, it is to focus on the improvement agenda and to make sure that we can genuinely move the services to a better place, but there are budgetary pressures that underlie that at the same time.

[91] **Jocelyn Davies:** I think Mr Hedges' point is that you have got the lowest hanging fruit—the easiest to get—and now you are going to have very tough decisions to make.

[92] **Ms Miles:** May I go back to zero-base budgeting? We can use it as a standard, but if we used it in terms of what the service should deliver, it would lock us into service delivery methods that are very traditional. For the future, we are moving towards shared care arrangements, where the boundaries between hospital and out-of-hospital services are completely blurred. The patient experiences the appropriate care, at the appropriate time and in the appropriate place and setting, and because of that, that is where we are looking for the

next level of savings. We are not looking to traditional efficiency and productivity, in the normal, standardised, traditional way of working; we are actually looking at what shared care will do and, as we said earlier, at the acute response team, where the patient takes responsibility as well.

[93] **Peter Black:** While we are on transformation, in January 2011, the Welsh NHS Confederation came here and said that the NHS in Wales was confident that the financial settlement was sufficient to undertake transformational changes within the NHS, provided they had the public and political support for service reconfiguration. Is that still the view of the Welsh NHS?

[94] **Dr Goodall:** We have had to think differently around areas about how you pump prime and demonstrate the alternative service, and we reflected on some of that decision earlier. As I was saying earlier, we need to think about what the different ways of delivering services are that mean it is not just the NHS on its own. We have had to pursue some different areas. In Gwent, I have a specific programme looking at housing opportunities that allow us to find different ways of delivering our budget, but with a focus on individuals. It requires us to be far more open and transparent about some of the pressures.

[95] As we look forward at the changes to the NHS, what really surprises those of us who work in it is that the advancements that come are very speedy. If we look back 10 years and think about some of the changes that have happened in an area like radiology, the pace of change seems very quick. So even with a three-year view of the future, you find some very incredible things that have been developed elsewhere. In answer to your question, I do not think that we can take away some of the ongoing year-on-year service changes, pressures and demands around our population, but we have a responsibility to manage within the budget.

10.15 a.m.

[96] **Peter Black:** So, is the financial settlement sufficient to achieve that transformation, or not?

[97] **Dr Goodall:** I think that we are always looking for different ways to try to manage the pressures we have, but we have to manage within the budget because that is our responsibility in terms of the statutory duty that is placed upon us.

[98] **Jocelyn Davies:** Peter, do you want to put the question in a different way again and then Mr Goodall can answer you in a different fashion? [*Laughter*.]

[99] **Peter Black:** I think I have just done that. [*Laughter*.]

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

[101] **Peter Black:** In your paper, you suggest that service reconfiguration is driven by a number of factors, but few of them appear to be financial in nature. In contrast, in his report on health finances, the auditor general states that reconfiguration is required to make the NHS in Wales financially sustainable. In your opinion, how much of a driver for reconfiguration is fiscal sustainability?

[102] **Dr Goodall:** I will start and then colleagues can come in on this. Our responsibility is to ensure that any service change is taken forward within the money that we receive. However, there are different pressures. For example, with some of the emerging issues in the south Wales programme, on which we are currently in a period of public engagement, the particular services that are under focus from our clinical staff are those that are driven by a quality and sustainability discussion about the need to meet standards and the need for

training. However, I can give you another example, such as developing local services in mental health, which is a different environment. It can give you a focus on what families need, but I think that you can make savings out of it at the same time. We need to be open about both. There will be some services where we can show that there is a financial benefit from reconfiguration and we can reorganise ourselves, but there will be some where it will simply be about standards and we will have a responsibility to ensure that it is a quality and safe service.

[103] **Ms Miles:** As you know, in Hywel Dda health board, we are going through our formal consultation process at the moment. Our overriding driver was clinical sustainability. We were and still are incurring medical agency costs because of a failure to recruit, because our service models were based on traditional hospital care. It is only through an engagement process—and, with the clinicians, we have gone through what we can deliver differently by bringing everything together and having one hospital over four sites—that we will not only tangibly improve patient care and outcomes, but attract the staff we are looking for in sub-specialisms, which helps patients in terms of their long-term care. It will also mean that we can have our own workforce as opposed to the agency workforce that we have been dealing with by having four distinct units all trying to do the same thing.

[104] **Peter Black:** So, it is clinical sustainability—

[105] **Ms Miles:** Most definitely. It is about clinical sustainability and quality and the best outcomes for patients. That is then triangulated within our resource base because it is our statutory duty to ensure that it does not cost more than the resources available.

[106] **Mr Lang:** In terms of the conversations we have had with clinicians and are now having with the public about services, we talk about three issues: improving the health of the population; improving the experience, outcome and safety for those who access our services; and living within our resources. The conversation has to be constructed in that way. A plan that is purely predicated on resource will be out of balance; likewise one that is wholly aspirational about service and that does not take the financial situation into consideration will not be viable. Therefore, we try to focus on those three issues and to have them running through all of our conversations with stakeholders and the public in the way we build our plans.

[107] **Peter Black:** The auditor general also says that double running costs for services may not be feasible in future and that you may need to prepare for a new way of working. How prepared are you if the double running of services is not financially possible? What discussions have you had with the Welsh Government about that?

[108] **Dr Goodall:** I think that we can make some provision and some transitional support available to demonstrate that you can have a period to give confidence to communities. My experience of service change is that people are most confident, of course, when they have actually experienced the alternative service. It is not just about understanding the strategy and the concept. I am sorry, but I have lost my train of thought on that one.

[109] **Jocelyn Davies:** The question was about the double running of services, but I think you have actually covered this in a number of the answers you gave earlier. Mike, do you want to come in now?

[110] **Mike Hedges:** I want to talk about something entirely different now, namely invest-to-save. It is available from the Welsh Government. Some have used it, some have not. Do you see it as a useful tool? Do you see its use increasing? Does it really mean ‘invest to save’ because some things have been done in parts of Wales and, when I ask why they have not been done in another part of Wales, they say that they were given additional money for it?

[111] **Ms Miles:** It is most definitely very useful. It is a key enabler. It provides confidence, when you are going through that double-running position, bringing in new models of care. We have a comprehensive £2.7 million invest-to-save scheme that is considerably strengthening our community teams. I cannot envisage that not having that benefit would provide the kind of stability and confidence that organisations need when they go through transformational change, and that is provided to our staff and to our patients. So, from our perspective, we have really welcomed what it has done, in terms of allowing us to take the pressure off staff and patients by having the model there, developed, while we are double-running. So, it is invaluable.

[112] **Ann Jones:** My question is specifically for Miss Miles on Hywel Dda's transitional support package. Ministers told this committee that it is not dependent on the health board's service plans or its outcomes, so can you explain what the conditions of the funding package are?

[113] **Ms Miles:** There were no conditions attached to the £80 million funding package. It was merely to provide us with medium-term funding stability, so that we could have the right lead-in time to the discussions. We have probably had the longest and most comprehensive listening and engagement position that will be taking place in Wales, in terms of how we deal with the unique challenges in the Hywel Dda area—our rurality, the fact that we have four hospitals, our geography and the medical recruitment issues around that. There were no conditions attached. We have gone through to develop our consultation as we have chosen to do as a board—with our clinicians, our patients, our public and our key stakeholders. So, that is the basis of that package.

[114] **Jocelyn Davies:** I know that Paul and Ieuan want to come in, and perhaps Ann.

[115] **Paul Davies:** I want to pick up on what you said earlier. I think you mentioned that the proposed reconfiguration is based on clinical safety. Are you therefore saying that there are no financial considerations in this at all?

[116] **Ms Miles:** There most definitely are. We made it very transparent in our consultation document that, for us, we did see that this would yield a financial benefit. We have about £14.8 million signalled in there, which will be achieved mainly through care closer to home and care in the community, and the invest-to-save position has allowed us to bring those teams in earlier. We make no bones about the fact that we will then be able to live within our funding resource, given that this funding package is a tapering one. The whole idea of this is to improve the quality of patient care and it is on the basis of sustainability. It will take out those agency costs that I spoke about earlier and, in so doing, it will help us come within our resource envelope.

[117] **Ieuan Wyn Jones:** The £80 million is non-recurring, is it not?

[118] **Ms Miles:** Yes.

[119] **Ieuan Wyn Jones:** So, at the end of the period, do you expect that Hywel Dda will come in on budget every year?

[120] **Ms Miles:** Hywel Dda will be on an equal footing with everyone else in Wales at that point, because we will have undertaken the service redesign that we want to do.

[121] **Ieuan Wyn Jones:** So, the £80 million is part of the process.

[122] **Ms Miles:** It is part of getting on that equal footing in terms of service delivery.

[123] **Ieuan Wyn Jones:** So, at the end of the period, you will not need the £80 million.

[124] **Ms Miles:** It is not £80 million in the sense of an annual sum anyway. It has been tapered in order for us to ensure that we come in on our resource base. So, it was £30 million in the first year, £20 million in the second year, £20 million, and then £10 million. So, it is tapering, with a view to the fact that we then live within our funded resource.

[125] **Jocelyn Davies:** May I remind you that I think it was in 2009 that Hywel Dda had about £40 million of debt written off to prevent there being a burden on the new boards? At the time—and I was looking this up on my friend Peter Black's blog just this week—Hywel Dda said that, under the new chief executive, it was putting together robust plans so that it could manage within the budget. That was just in 2009, when the debt was written off. I accept that you were not in your position then, but we are often given assurances that, with extra money or with debt being written off, 'We're starting with this new phase now and, going forward, we can see that this will put us on the right track', but that does not always come to something. What interests me—and, as I say, we are not here to scrutinise you—is that you asked for £100 million, and you managed to get £80 million, yet you did not even have to meet the Minister to do it. The Minister never met you. So, you can rock up to officials and ask for £100 million, and you get £80 million without having to eyeball the Minister. I find that astonishing. Is that the case?

[126] **Ms Miles:** From the outset, we have made it clear that we had some unique challenges, which are well rehearsed. Meetings have taken place, and they do take place as part of our regular performance monitoring. As part of our first five-year framework going forward in 2010-11 as Hywel Dda Local Health Board, we identified that it would be beneficial to have that position—

[127] **Jocelyn Davies:** I am not questioning at all whether this is good value for money. What I am saying is that, in 2009, the then Minister was convinced by Hywel Dda to write off the historic debt and that it would go forward with a robust plan. You have now been able to secure £80 million, and I am not questioning for a minute that it will be well spent, without having to eyeball the Minister. That was to get £80 million. I find that astonishing, but I would like you, on the record, to confirm that that was the case. There was no need this time to convince the Minister of that.

[128] **Ms Miles:** I am not privy to the discussions that happened with the Minister before my taking on the director's post.

[129] **Jocelyn Davies:** What I said earlier came from the public records.

[130] **Ms Miles:** As I said, since our inception, like every other health board, we have laid out our service workforce and financial framework with a view to living within our resource and shown how that can be the case. That, we believe, allows a rigorous performance management of our service plans.

[131] **Jocelyn Davies:** However, you did not have to convince the Minister, just officials. Paul, shall we go on to your questions?

[132] **Paul Davies:** You have touched on this as well, but you state in your paper, and it is generally accepted, that a large component of the cost pressures faced in the NHS are due to demographic change and progress on clinical practices. To what extent are you aware that such factors are considered by the Welsh Government in setting the budget allocations for the NHS in Wales?

[133] **Mr Lang:** We share our annual plans each year and we give an outline of some of the underlying pressures. That is shared as part of the general financial framework. There may be some opportunity for a different level of focus with a new financial framework from 1 April next year. There is an open sharing of this type of information, because it is an expectation. As we got into a cycle of three-year rather than one-year plans, those plans are usually on the public record. I do not think that it is just about having a discussion with the Welsh Government. We tend to make them visible in all of our local discussions. It is about trying to ensure that all this is debated openly and transparently. I think that you are right to highlight that the real challenge for us in the financial context at this stage, however, is how we deal with the growing demographics. Positively, people are living longer, which raises lots of issues about an elderly population. We are trying to be innovative in our approach, moving forward, but rather than making it a central discussion, we try to do that visibly through our local preparation for our plans and make it available.

[134] **Jocelyn Davies:** I guess, Ms Miles and Mr Lang, that you would add rurality to that, which is a reason that has been cited to us before for your ability to secure extra funds, and that does not change.

[135] **Ms Miles:** The geography and the rurality do not go away.

[136] **Mr Lang:** The need to reflect the unique geography and the nature of the population in each of our areas features when we look at designing our service, the plans that emerge from our service reviews and our current consultation. So, no one size fits all. Some of the themes that we face are common, but they challenges and how we respond are different, and those are clearly laid out in our plans.

[137] **Jocelyn Davies:** Paul, was there anything else? I see that there was not. I am sorry, Ms Miles, I keep mispronouncing your name. I apologise for that; the clerk has just passed me a note. Ieuan, do you want to ask your questions?

[138] **Ieuan Wyn Jones:** Given that there is a reduction in capital funding and that there will be a further real-terms reduction next year, how has this had an impact in practical terms and what pressure has it put on your maintenance budgets?

[139] **Dr Goodall:** It is clearly a large drop in the capital outlook for the Welsh Government and the plans across all of the public services. I know that that is the reality for us on the ground, but it can cause some genuine difficulties for us. Despite that, it means that we have to make sure that every pound that is spent in the capital programme works for us. It is important to make sure that we liaise, for example, on some of the earlier discussions where we can to procure collectively and make sure that we do that even on the capital side.

10.30 a.m.

[140] On the maintenance side, although this has been the most challenging three years that we have worked through, from my local maintenance perspective on the sites that I have within the Aneurin Bevan health board area, we have been able to reduce the number of areas that do not hit the condition B requirements. Some of that is because we have had some new—

[141] **Ieuan Wyn Jones:** Sorry, but what is condition B?

[142] **Dr Goodall:** Condition B is an estates rating, basically, that tells you whether the estates have deteriorated. If you have an A rating, it usually means that it is a pretty new building. With a B, you tend to end up with a level of deterioration, and obviously, if it gets lower, it can be a statement about some very poor sites within our local facilities. For us, it is

a measure of whether the maintenance backlog is increasing or decreasing. Actually, we have managed to decrease it over the last three years, and we are still able to access the central capital programme for some significant schemes. Recently, we needed a significant investment in electrical installations on the Royal Gwent Hospital site, for example, and we were able to have that brokered through the Welsh capital scheme.

[143] As I was saying earlier, this is where we have to think a little bit differently about what our estate looks like in the future. It means that we have a responsibility so that, if an estate is potentially unused, we will look at whether we can dispose of it and whether that would allow us to generate capital receipts. With areas such as housing, for example, it is clearly about looking at our accommodation needs in a different way to do with individual patients. So, we have to try to build up the capital support according to a different model and approach.

[144] **Ieuan Wyn Jones:** I must confess that I am pleasantly surprised to hear you say that your maintenance budget has not gone up. Is that generally the case within the health service?

[145] **Dr Goodall:** There will be some different experiences. I have some sites that will continue to need some investment, even over this next period. We have seen some improvement in our estate locally within the Aneurin Bevan health board, however, and that has helped us with that. For example, last year, we opened a new hospital facility in Caerphilly, at Ysbyty Ystrad Fawr in Ystrad Mynach, and that allowed us to move away from some of the previous fabric at Ystrad Mynach hospital and at Aberbargoed hospital, which would have been rated lower down on the estates rating that I described to you. We have been able to dispose of those sites, and things have improved for that reason.

[146] **Ieuan Wyn Jones:** What I asked was whether it was a general view across the health service.

[147] **Ms Miles:** It depends on the fabric of the estate that you have. Some of ours are very old Victorian community hospitals, in the main, and they represent an ongoing—

[148] **Ieuan Wyn Jones:** The experience across the public sector is that maintenance budgets are rocketing, because of backlogs.

[149] **Ms Miles:** It depends on where your baseline is, as Andrew pointed out. Where you can receive funding for such things as our major refurbishment at Bronglais at the moment, for example, that deals with a lot of what were backlog maintenance issues as part of a comprehensive refurbishment programme. We have tried to use that, when we do have an infrastructure improvement, to address some of the core infrastructure issues on a site. There is no doubt about it, however: there is still some maintenance work to get through on the old community hospitals—the pre-Victorian and the Victorian.

[150] **Mr Lang:** Ours is a very similar situation, but I would just add that our experience is that we are questioning the number of premises that we have across the health board in terms of the pressure that that brings with backlog maintenance and issues of that nature. Part of our strategy, as Andrew referred to, is to rationalise our sites and to release resource, which will then allow us to invest capital, to bring things up to date and to eradicate some of that backlog maintenance challenge. However, it is a growing challenge for us, as we are finding with our capital programme.

[151] Also, equipment is in the same category as maintenance, in that we are being squeezed more towards the essential repair, maintenance and replacement of equipment rather than a forward-looking approach. We are, therefore, trying very hard to generate other capital resource and to link to our strategic plan, so that we can bring the service benefits that we

want to bring. However, it is a challenging situation.

[152] **Jocelyn Davies:** Your procurement policy, with your maintenance budget, is, I hope, to employ Welsh people and to use Welsh companies and so on. Ieuan, have all of your questions been covered?

[153] **Ieuan Wyn Jones:** Yes.

[154] **Ann Jones:** You touched on capital enabling you to reduce your unused estate. Do you know, or can you quantify, the cost of unused estate in NHS Wales?

[155] **Dr Goodall:** We can probably come back to you with the precise figures, because it is quite a technical estates evaluation.

[156] **Jocelyn Davies:** We would be happy to have a note on that.

[157] **Dr Goodall:** Okay.

[158] **Ann Jones:** You also talk in your paper about capital being the major enabler of the ongoing service change in the improvement agenda—I will try to keep this one away from what is happening all over with reconfiguration. If service change gives you the results that you want in delivering more in community settings, does this suggest a reduction in the capital requirement for fixed investment?

[159] **Mr Lang:** I do not think so in the context of north Wales. If our plans were to progress and we were to implement some of our changes, we would probably need somewhere in the order of £35 million of capital to do it. So, in the short term, there is a requirement for capital. We have reprioritised our capital requirements to ensure that the service reconfiguration plans are at the very heart of the estimates that we have been working on with officials and that they are within the expected budgets. So, we had to work really hard to realign the priorities. Over time, some of that will mean that there is less of a requirement for capital, because we will be operating from fewer premises. However, it is a very valid point that we have had to ensure that, in preparing plans, we are as confident as we can be that the capital is there to deliver them and that we are not in a position where we have a service solution but cannot see the way through with the capital. We have worked very hard with officials in the Welsh Government to ensure as best we can that that fit is there.

[160] **Ann Jones:** That is quite a good answer to that question. So, if your plans across the board do not go as you have suggested and you have to revisit them, how have you assessed the capital on the existing buildings that you perhaps thought you could get away with but in which you are now having to keep services? How have you reassessed what that will mean?

[161] **Mr Lang:** Andrew referred earlier to the categories of conditions, and we have estimates of the maintenance backlog to bring sites up to a satisfactory condition. I do not have the figures with me on that, but, for each of the sites where, for example, we have proposed change in north Wales, we have an estimate and we know what it would cost if that site was to remain unchanged but was brought up to a modern standard. Often, those costs can exceed, in some instances, the alternatives that we have provided. We have those figures, but I do not have them with me.

[162] **Ann Jones:** So, a cynic could say that you have kept your maintenance budgets down on some sites to add to the proposal to close and rationalise your services. Have you not been putting the capital in for the maintenance budgets to keep the sites up to date and attaining your A rating rather than a B rating?

[163] **Dr Goodall:** We have a responsibility to make sure that, even on our capital spend, there is value for money. That is why there are times when it is about the development of new facilities and new approaches. In the Aneurin Bevan area, our aspiration is that everyone should be able to be in a single-room environment. Sometimes, trying to do that with some of these very old estates is a very difficult issue, because they have very fixed configurations from tens of years ago.

[164] **Jocelyn Davies:** I will ask the last two questions. You mentioned the Mental Health (Wales) Measure 2010; is there any other health legislation in the pipeline that you are concerned about or which you think will be unmanageable in the budget as it stands?

[165] **Dr Goodall:** Certainly, in respect of the Mental Health (Wales) Measure, we have money for preparation. It may be worthwhile for Geoff to outline that. We can also highlight another couple of areas for you, if that would be helpful, but Geoff may want to start there.

[166] **Mr Lang:** In terms of the Measure, we have had money for preparation. Some £5 million of resource was allocated for that. That has helped us to put the practical steps in place to recruit the staff et cetera. I think that it is fair to say that it is too early to say what the impact of the Measure will be. A four-year review has been established. However, I think that the health boards will probably know in about 12 or 18 months whether the resource and the capacity that we have identified will meet both the primary care assessment requirement and the ongoing care and treatment planning requirements that the Measure explicitly requires us to deliver for people. So, in terms of seeing when legislation impacts upon us and whether we are able to deal with that, we know at the outset with the Measure that there is still more to see with regard to how that rolls out over the next 12 to 18 months.

[167] **Jocelyn Davies:** Is there any other legislation that you are aware of that may very well come forward that might have an impact on you?

[168] **Dr Goodall:** There are three or four areas that will have implications for us and we will need to work on the detail, but the discussions on the public health Bill, for example, will inevitably draw us into a broader discussion on public services. The social services Bill, as it progresses, will see us knitting things together in a close relationship. With regard to the housing Bill proposals, some of the relationships will be different there. As I said earlier, there is a general feeling that there is an awareness of organ donation, which, as you increase that public awareness and have more donors coming forward, will mean that we, inevitably, will have to look at some of the knock-on effects of those services, not least on the specialist side.

[169] **Jocelyn Davies:** Okay. There was just one thing that I wanted to touch upon in winding up. In terms of the three-year budget planning that you are now moving into, of course, your budget from the Welsh Government does not have the surety of the three-year budget planning, because it has to go from year to year. So, is there a tension between you planning for three years when your income comes from an organisation that does not have that privilege?

[170] **Dr Goodall:** I do not think that it is a tension; we just see it as the reality of the way in which we need to move through the final discussions and framework. As I said earlier, for those of us working in the health service, our experience in the last three or four years tells us that that is likely to continue as a pressure on public services in the years ahead. We will have to continue to manage professionally in that kind of environment.

[171] **Jocelyn Davies:** Thank you very much. I know that we have overrun slightly, but we are very grateful that we managed to get through all the questions. As normal, we will send you a copy of the transcript. Transcripts must be piling up on your desk, Dr Goodall, because

you are a regular attendee here. Please let us know if there is anything in the transcript that is not factually accurate. Thank you very much.

10.40 a.m.

Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod
Motion under Standing Order No. 17.42 to Resolve to Exclude the Public From the Meeting

[172] **Jocelyn Davies:** I move that

the committee resolves to exclude the public from the meeting to discuss items 4, 6 and 7 in accordance with Standing Order No. 17.42(vi).

[173] Are all Members happy with that? I see that you are. Thank you.

Derbyniwyd y cynnig.
Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 10.41 a.m.
The public part of the meeting ended at 10.41 a.m.

Ailymgynullodd y pwyllgor yn gyhoeddus am 11.30 a.m.
The committee reconvened in public at 11.30 a.m.

Cynigion Cyllideb Ddrafft Llywodraeth Cymru ar gyfer 2013-14—Tystiolaeth gan Lywodraeth Cymru
Welsh Government Draft Budget Proposals for 2013-14—Evidence from Welsh Government

[174] **Jocelyn Davies:** Welcome, Members and witnesses, to the reconvened public session of the Finance Committee today. We are very grateful that the Minister and her officials are able to be with us today. For the record, Minister, would you like to introduce yourself? We will then go straight into questions.

[175] **The Minister for Finance and Leader of the House (Jane Hutt):** I am the Minister, and with me is Jo Salway, head of strategic budgeting, Andrew Jeffreys, head of strategic capital investment, and Jeff Andrews, a specialist adviser.

[176] **Jocelyn Davies:** Thank you, Minister. The budget available to the Welsh Government in 2013-14 is some £15 billion. Has delivery against commitments in your programme for government been costed?

[177] **Jane Hutt:** Absolutely. Of course, that is the main objective of the draft budget. Clearly, we are in the second year of the spending review, so it is very much building on the budget for 2012-13, which was approved by the Assembly last year. Clearly, costing it against our commitments in the programme for government has been key, and there are various staging posts across this year to see that the 2012-13 budget was robust. For example, we look at the annual report on the programme for government. We also monitor progress at the supplementary budget time, and also, during the summer months, we work through to see where a comprehensive review of our spending plans is needed. I will also briefly mention that the discussions between your committee and our officials have been very helpful with regard to transparency and ensuring that we can be clear about how we are showing the year-

on-year changes, because that would obviously impact on costings. I hope you have found that useful in terms of what we have published this year in the budget.

[178] **Jocelyn Davies:** Most certainly. On behalf of the committee, I acknowledge the improvements in the presentation, and I hope that negotiations between officials in future years will be just as fruitful. Julie, shall we come to your question?

[179] **Julie Morgan:** Yes, thank you. Good morning, Minister. You mention in the paper that, in preparing the draft budget, you did a review of spending plans to ensure alignment with the delivery of commitments in the programme for government. Could you explain the nature of this review and how you conducted it across the departments?

[180] **Jane Hutt:** When I mentioned the programme for government steering the whole budget process, and that that was reflected in the whole budget for the three years, part of that was to make sure that we could fund our 'five for a fairer future' commitments. That was £129 million. However, we have reviewed our spending plans, as I said in my paper to the committee, and we have restructured some budgets in support of the programme for government. That is part of an ongoing process, but it is also helpful to give some examples of the ways in which we have realigned our budget. I also have to say that holding regular bilateral meetings with Ministers is key to this review of spending plans to make sure that they can also share with me issues about delivery and timelines.

[181] I will give you an example of some budget changes to improve the support of the programme for government. You will be aware from looking at the detail of the budget that we have realigned budgets to provide an additional £1 million to support youth employment and engagement, which increases the total funding for that programme to £19.7 million in 2013-14. That is an example of where the Minister has seen that we need to focus on that key area of policy and delivery. In the housing, regeneration and heritage main expenditure group, we have provided £2 million to support a new mechanism to increase investment in social housing, so that is about our commitment to deliver additional housing. We have also made some adjustments in terms of the additional £1 million in the urban environment action, which has resulted from a realignment of budgets. So, there is some realignment, as we review through the year timelines and commitments, and sometimes it is about emerging policy areas that are over and above our programme for government commitments.

[182] **Julie Morgan:** Is this something that you will be doing each year?

[183] **Jane Hutt:** It is part of good financial management, so it is a continuous review. It is a central part of budget planning. I have also mentioned the annual report on the programme for government, which provides us with time to take stock of outcomes in the delivery of our policies, which have been funded through the budget.

[184] **Peter Black:** Have any Ministers raised concerns about the availability of resources and how that may impact on their ability to deliver commitments in their portfolio areas?

[185] **Jane Hutt:** I suppose that I have touched on that in part in answer to Julie Morgan's question. Throughout the year, I have regular meetings with the Ministers, partly to prepare for the next draft budget. Clearly, the pressures that Ministers may experience in delivery may be as a result of other factors having an impact, such as changes in UK Government spending decisions. So, this goes back to the fact that there is an ongoing, continuous review. In-year monitoring is crucial to this, because we take stock, particularly at each quarter, of where we are with in-year monitoring. However, Ministers are concerned about the impact of UK Government decisions, for example, on welfare reform. Those are not part of our programme for government or funded through our budget, but they may result in extra pressures on services, particularly in terms of welfare reform and also forthcoming changes through the

council tax benefit transfer.

[186] **Peter Black:** Thank you for that answer, Minister. One issue that arose in last year's budget was whether or not the health boards would be able to live within their means in terms of the budget allocated to them. We have yet to see whether that will happen. There are issues next year around that same problem—can they live within their means? We heard from some of the health boards earlier; Hywel Dda Local Health Board, for example, has an extra £80 million over four years to try to get its budget more secure. However, we were told that was 'unconditional'. As noted by the Chair during that session, back in 2009, Hywel Dda LHB had its £40 million debt written off by the Government on the basis that, from then on, it would be able to move forward without getting into financial difficulties, which clearly did not happen. So, what assurances have you had that that £80 million that has gone to Hywel Dda LHB will lead to it having a stable budget and enable it to live within its means? Are you really confident that the health boards can live within their means?

[187] **Jane Hutt:** I recognise that you have had that opportunity earlier today to scrutinise and discuss these issues with the health boards. This goes back to my point on in-year monitoring, which includes bilateral meetings with the Minister for Health and Social Services to get updates on the impact of spend and, indeed, pressures during the year. I will repeat the amount of money that we have put in again, namely £288 million. That was fully costed in terms of expectations for delivery from the health boards. You will be aware that the director general is reviewing resource pressures on the NHS; the Minister for Health and Social Services has made that clear. She has also introduced this new flexibility to help the health boards to draw forward a limited element of their future funding to manage year-end financial timing issues. I am confident that the allocation—

[188] **Peter Black:** Is that a recurring flexibility then, and not just a one-off?

[189] **Jane Hutt:** It is important to note that that new financial flexibility approach was endorsed and welcomed by the auditor general in his report. The Minister for health has not said that she will need to use it, but you have to recognise that there are these flexibilities that the Minister for Health and Social Services has in order to deliver. Consider the Hywel Dda situation. It is designed to give the health board the headroom that it needs to review and restructure its services. It is not provided, as they said, against a fixed set of proposals. It is a tapered funding package. Hywel Dda is quite clear that it has to deliver against that plan.

[190] **Peter Black:** Given that that money was not conditional, what assurances did you have before you gave that money out of reserves that it would have that stability at the end of the four-year period?

[191] **Jane Hutt:** It is monitored very carefully.

[192] **Peter Black:** So, you were given assurances.

[193] **Jane Hutt:** Clearly, it is very carefully monitored, and you had the opportunity to speak to the health board this morning.

[194] **Peter Black:** But you were given assurances.

[195] **Jane Hutt:** Clearly, in planning for an allocation of this kind, we would have it on the basis of a clear set of expectations and we would expect the health board to deliver to that. I am sure that you had a very constructive scrutiny session with its representatives today about their responsibilities, given that we have been so flexible in helping them through a very challenging time.

[196] **Ieuan Wyn Jones:** I want to follow that series of questions with just a question of detail. In your table 9.1 on health, the indicative budget for NHS delivery for next year has been reduced by £12 million. That looks suspiciously like the sum that was given to the boards to borrow so that they met their budget for this year. Would that be correct?

[197] **Jane Hutt:** No, it is not correct. I think that this reflects the changes that we have made relating to the transfer to the central services and administration main expenditure group. The figures happen to correspond, but—

[198] **Ieuan Wyn Jones:** Actually, the total revenue DEL is the precise figure.

[199] **Jane Hutt:** Yes, but you were saying that this was the amount of money that we were able to use to support the health boards. The increase in the health central budgets reflects the transfer of £27.475 million from the local government and communities MEG in respect of substance misuse. Just over £12 million—

[200] **Jocelyn Davies:** So, it is just a coincidence.

[201] **Ieuan Wyn Jones:** So, it is a total coincidence.

[202] **Jane Hutt:** Yes, it is purely coincidental.

[203] **Ieuan Wyn Jones:** The fact that it goes into reserves is also a coincidence.

[204] **Jane Hutt:** It actually goes into the central services and administration MEG. It does not go into reserves, does it, Jo?

[205] **Ms Salway:** That is right.

[206] **Ieuan Wyn Jones:** No, it goes into the health central budgets.

[207] **Jane Hutt:** It goes into the central services and administration MEG, so it is not the health budget. If you like, it comes back to my budget at the centre. That transfer relates to the invest-to-save fund arrangements.

[208] **Ieuan Wyn Jones:** Okay. Do you expect that further borrowing will be required by health boards at the end of the current year?

[209] **Jane Hutt:** We are not planning for that, or anticipating it, because of the very close in-year monitoring. As I said in response to Peter Black, the Minister for health has asked her director general to take stock at this point in the year. That is the right way to deliver the financial management of a major budget with major challenges.

[210] **Ieuan Wyn Jones:** Yes, because the line taken by the Government has changed, has it not? In previous years, you have said that there was no more money available. However, I think that the First Minister has now made it clear that there is a prospect that, perhaps, if they come in fairly close to the budget, there might be a little bit of flexibility.

[211] **Jane Hutt:** I think that Lesley Griffiths has made it very clear that she expects the LHBs to come in on budget, but she has requested this review of resource pressures, and that is right and proper. Clearly, we have to await the outcome of that review.

[212] **Jocelyn Davies:** On that point of in-year monitoring, we heard earlier from the local health boards that, if you are halfway through the year, it might not be a very good indication of how you are going to be at the end of the year. At what point in the year would you say that

you could get a pretty good indication of whether the health boards were going to break even?

11.45 a.m.

[213] **Jane Hutt:** I do not know whether Jo or Andrew wants to comment on that.

[214] **Ms Salway:** It is an ongoing process. It ramps up as the year goes on. Probably by about month 9, the end of the calendar year, we would start to look and to draw conclusions, not least because some of the timescales in relation to confirming requirements to Treasury are around about then, so that tends to bring things to a crux. It is never perfect.

[215] **Jocelyn Davies:** So, it could be a different picture at month 9 than, say, if you looked at month 6. That was my point. Mr Jeffreys, do you agree with that?

[216] **Mr Jeffreys:** Yes.

[217] **Ieuan Wyn Jones:** Yn ei ddatganiad yr hydref y llynedd, awgrymodd y Canghellor am y tro cyntaf y byddai toriadau yn dilyn yn y flwyddyn 2015-16. Eleni, mae Prif Ysgrifennydd y Trysorlys wedi dweud bod disgwyl i gyfanswm y toriadau yn 2015-16 fod tua £16 biliwn. Wrth gwrs, mae hynny'n cynnwys pethau sydd heb eu datganoli, felly nid yw o reidrwydd yn golygu bod yr holl doriad hwnnw yn dod draw i Lywodraeth Cymru. A ydych wedi dechrau gweithio allan gyda'ch swyddogion y math o gyllideb y gall Llywodraeth Cymru ei disgwyl yn y CSR nesaf? Os ydych, a allwch chi rannu hynny gyda ni?

Ieuan Wyn Jones: In his autumn statement last year, the Chancellor suggested for the first time that reductions would follow in the financial year 2015-16. This year, the Chief Secretary to the Treasury has suggested that the expectation is that the reductions in 2015-16 are expected to amount to about £16 billion. Of course, that includes matters that are not devolved, so it does not necessarily mean that that entire reduction will transfer over to the Welsh Government. Have you started to work out with your officials the sort of budget that the Welsh Government can expect in the next CSR? If so, could you share that with us?

[218] **Jane Hutt:** We are looking to the future and are having discussions with the UK Government about the potential impacts. Indeed, it is not just me who is doing that, as the Welsh Government's Minister for finance, but also the Ministers for finance for Scotland and Northern Ireland. We are all concerned about the prospects for the future. We need to await the autumn statement, which is due on 5 December, to get a clearer picture of where we are going. There is no doubt that we are in for further public spending constraints. We must continue to press the UK Government, as I do, for a change of course. The IMF information and statements this week show that it also expects and hopes the UK Government to change course, so that we will not be in the position that we are talking about, of having to make £16 billion-worth of savings.

[219] Although my focus is on this budget and on making sure that we can deliver in this spending review budgetary settlement, we are looking at how we can best deliver our programme for government commitments, which include the more strategic use of capital, innovative finance, continuing to press for borrowing powers, and improving our delivery through things like invest to save. So, it is about the here and now for us. We have our heads down to deliver on our current budget, and we are talking to the UK Government about our concerns for the future and our funding needs, while looking at how we can ensure that we are robust in our budget planning and delivery.

[220] **Ieuan Wyn Jones:** A prudent Government would be planning for the future as well. Are you telling us that there is no working assumption within your department as to what the next CSR might look like?

[221] **Jane Hutt:** We know what the Chief Secretary has intimated and what the Chancellor said this week at conference about public spending constraints continuing well into the next spending review period. So, my officials and I must look at this in the context of the impacts on future budget plans, and that work is ongoing. We will be in a better place in December, because of the autumn statement, to clarify the position. However, we are looking at some horizon scanning—demographic changes, for example—and at the impacts not just on our programme for government, but on our budgetary needs. We are also handling the in-year difficulties that we are getting as a result of UK Government policies on areas such as welfare reform, council tax benefit and social fund transfer.

[222] **Ieuan Wyn Jones:** Could I ask you a more general question? As a rule of thumb, are you expecting the next CSR settlement to be as challenging as the current one?

[223] **Jane Hutt:** Certainly at this point in time, we envisage that it will be as challenging, and we have worked to try to persuade the UK Government that it should not be in this position.

[224] **Jocelyn Davies:** So, Minister, you and your officials will have a range of assumptions and none of them will be of a glowing, rosier financial picture in the future. Your assumptions will be on the cautious side.

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

[226] **Peter Black:** I want to ask about the ongoing bilateral discussions on fairer funding for Wales. The First Minister has indicated that he believes that an agreement has been reached and will be announced in the near future. Can you give us an indication of the outcome of these discussions and how they might impact on your budget proposals, which we have in front of us?

[227] **Jane Hutt:** I have drawn attention to that in answer to earlier questions. Everyone knows that we have been in discussions with the Treasury about funding reform for the past year. This forms part of our thinking about and planning for future prospects in the next spending review. As the committee knows, we have been focusing on addressing the problem of convergence in our relative funding and also of enabling the Welsh Government to exercise its existing borrowing powers. So, we are now drawing the current phase of the process to a conclusion, and we expect to make a joint announcement between the two Governments later this month.

[228] **Christine Chapman:** We have discussed that, potentially, a huge amount of savings will have to be made, from what the UK Government is saying. Given that and the impact that it would have on the priorities for the Welsh Government, is any work being done to assess that? If so, what work is being done to assess the long-term sustainability of the Welsh Government's policies and priorities?

[229] **Jane Hutt:** Again, that goes back to a continual assessment and review of the impacts of a range of factors on Welsh Government spending plans, and I have mentioned that demographic projections are a key issue. It is about how we shape future budget developments in our planning. I would say, partly in answer to the Chair's previous question, that we are still partway through this spending review period. In terms of the settlement that we have and our confidence that we can produce a balanced budget against the backdrop of a 12% cut in resource departmental expenditure limit and a 45% cut in our capital programme, the fact that we can deliver that—of course, with scrutiny from yourselves—provides some confidence that we have planned and are delivering for difficult times, and we recognise that this is going on into the future.

[230] The difficulty for us in Government, as you will recognise, is how we balance short-term needs against longer term considerations in respect of sustainability and confidence about fiscal sustainability. That is part of how we deliver on sustainable development in its wider sense. So, everything that we are doing to be smarter, leaner and more innovative to make those efficiencies and improve the way in which we spend the Welsh pound for financial sustainability, is the key to ensuring that we can fund our priorities. Of course, that means reductions in some budgets, which you will see in the draft budget. However, we feel that, in these challenging times, we are grasping the agenda effectively.

[231] **Mike Hedges:** What are you doing to consider preventative spending to reduce the demand on public services, and, if you were given borrowing powers, what changes would you make?

[232] **Jane Hutt:** That is a key part of the work that we have been undertaking on balancing the short-term and longer term needs and pressures in the budget. So, the decisions that we made, for example to protect local government services and particularly social services, have been vindicated insofar as having less impact on local government in its spend and allocation, compared with, for example, the way the UK Government has treated local government in England.

[233] I am sure that Members will be aware of the Institute for Fiscal Studies' report on this. The WLGA published it a couple of weeks ago. In England, deprived areas are being hit hardest. In Wales, deprived areas are getting the most protection. That is because we made a decision to protect local government funding and social services in particular. With regard to prevention, that funding can feed into early intervention. Therefore, I am supporting Flying Start, which provides early intervention for early years. It also supports vulnerable elderly people and it helps the health service in terms of continuity of care.

[234] Looking at the equality impact assessment, there are lots of examples of how we are investing in and protecting services, including budgets for tackling domestic abuse and budgets for tackling violence against women. Of course, that is a preventive measure. We are protecting Supporting People and tackling the issue of young people who are not in work or training. The rapid response adaptation programme is another important example of prevention. Every pound spent on adapting homes where a serious fall could occur saves the NHS nearly £70 over 10 years. Therefore, the £1 million invested in rapid response adaptations will save the NHS £70 million over 10 years. That is the sort of prevention that is the focus of our budget setting. It is crucial.

[235] It also follows on from Christine's question about how we can be clear about how we can protect and sustain our public services against the huge cuts being made by the UK Government. It vindicates the approach we took way back—predating this Government—to protect local government, and particularly social services and education, as a political policy decision.

[236] **Jocelyn Davies:** So, Minister, you have a number of budgets that are protected even in tough times. Can you provide us with a note on those that you protect?

[237] **Jane Hutt:** Yes. I think that the equality impact assessment, which was launched on Monday, provides clear detailed indications of where Ministers have realigned budgets in order to protect budgets. I gave you a couple of examples where there has been realignment by Ministers in order to meet new policy needs. It is important that all the decisions we have made have ensured that all of the departmental budgets have increased compared with the previously published plans. However, I am very happy to draw out some of those budget heads that we have protected for this purpose.

[238] **Jocelyn Davies:** Thank you. Chris has a question on equality.

[239] **Christine Chapman:** Minister, obviously, I welcome that equality impact assessment, but why was it not published alongside the draft budget proposals?

[240] **Jane Hutt:** It was published as a stand-alone document on Monday, a few days after the draft budget was published last week. We wanted it to be a stand-alone robust document. Alongside it, I published a statement to say that I am establishing a budget advisory group on equality. I wanted to give it a focus. Of course, it accompanies the narrative from the draft budget that I published last week.

[241] **Ann Jones:** We have talked about the transfer of the council tax benefits to Wales and social funding. In your narrative to the draft budget, you make reference to the fact that you are still in discussion with the UK Government about the amount of funding that is likely to be transferred, although we know that it will probably not reflect the level of provision. Do you have any indication of how much this transfer is likely to be? Have you made any provision in your draft budget for this?

12.00 p.m.

[242] **Jane Hutt:** This is something that the Minister for Local Government and Communities, Carl Sargeant, and I are working very closely on together, making representations to UK Government Ministers on the proposals and the transfer arrangements. We are very concerned about the proposals. For example, we anticipated a 10% cut to expenditure on council tax support before the budget is devolved, but it could be more. Carl Sargeant, in response to committee scrutiny this week, said that it could be 14% to 16%. That transfer will place huge burdens on some of our poorest and most vulnerable households. It makes the situation very difficult for us. We have provisional figures that show that it will be a funding transfer of at least £214 million to £215 million for the next two years. We continue to press for more clarity. It is also about how the transfer is calculated. We have had very little detail from HM Treasury. We are not the only ones who are concerned; local government in England is also concerned about its transfers. We have to have a fair and accurate assessment of administrative costs, for local government as well as for ourselves. That is a great pressure and difficulty.

[243] **Jocelyn Davies:** Minister, Peter wants to ask about the figures.

[244] **Peter Black:** Is it for each year, or for two years?

[245] **Jane Hutt:** It is each of the two years.

[246] **Julie Morgan:** When do you think it will be possible to come out with how the scheme will operate? Do you have any suggestion of time?

[247] **Jane Hutt:** On the financial front of how much will be transferred, we expect to get the detail in the autumn statement on 5 December. As you know, the Minster has consulted and worked closely with local government, as a consequence of the transfer of council tax benefit, on a national scheme for consultation. He does not yet know what the full amount will be. Local government has raised questions about that. It might be useful if the committee looked at what the Minister has said on how we anticipate delivering the scheme.

[248] **Ann Jones:** Are any other consequentials or transfers expected for the next financial year that you have not factored into the budget? Are you expecting anything else to come winging our way?

[249] **Jane Hutt:** That is an important point, and a current and topical point. The committee will be aware of the announcements made about possible consequentials when the UK Government announced a further freeze on council tax. Jo can confirm that we have just heard that we will receive a consequential in the region of £13 million for the next financial year, and for 2014-15. So, there will be £13 million in each of the following financial years. Again, we will hear more on that in the autumn statement. On your other question about consequentials, we do not know of any others, but the autumn statement will state if there are any positive or negative consequentials. We must remember that they could be negative as well as positive, not just taking into account the funding for the council tax freeze for a third year.

[250] **Paul Davies:** Minister, I want to ask some questions on capital allocations. The draft budget mentions £175 million additional capital allocations over the two years, in comparison with previous plans. However, our understanding is that the difference between indicative capital figures and planned allocations is some £223 million. We understand that the £175 million includes only those allocations that have not been previously announced. Why have you decided to refer only to the unannounced capital as additional?

[251] **Jane Hutt:** Thank you, Paul; your question provides a helpful opportunity to clarify at this point. We took the decision, partly to try to improve transparency in terms of information, and to make a clear distinction between funding for the projects we had previously announced and new spending decisions in this draft budget. As you say, we focused on the new capital package, the £175 million in the budget narrative supporting our key priorities. The additional allocations we are making in this draft budget build on previous decisions we had taken to support our capital projects. That means that, in total, we are allocating £226.8 million to specific capital projects between 2013-14 and 2014-15 in this draft budget. If it would be helpful, Chair, I could forward you these figures.

[252] It is a more strategic approach that we are taking, and I think that it responds well to your report on borrowing powers and innovative approaches to capital funding. Just to clarify further, £51.8 million of the £226.8 million does relate to previously announced funding from the centrally retained capital fund. Again, as I indicated, £175 million relates to the new capital that we are allocating, and which I announced last week.

[253] **Paul Davies:** Of the £50-odd million that you have just mentioned, £19 million is allocated to CRC projects in this particular draft budget. Usually, CRC allocations are only made in-year. Why have you decided to allocate this £19 million now?

[254] **Jane Hutt:** As committee will be aware, the practice has been to announce capital allocations from the centrally retained capital fund when we have had final business case approval for schemes. However, that can come rather late in the financial year, so we have been more strategic, in line with our Wales infrastructure investment plan. We feel that it is better to allocate central capital funding at the earliest opportunity, so that is why we are making those announcements. Of course, we still expect business case approval before the spend is approved, but what we are doing is allocating funding in advance of business case approval and adjusting budgets at a later date if we need to or if the profile changes. So, it is about being very clear for our delivery partners about where we want to allocate the funding and not just doing it on an in-year basis, which can appear to be ad hoc, although it is linked to final business case approval.

[255] **Paul Davies:** Can you clarify whether the £19 million that has been allocated goes to projects that have previously been announced?

[256] **Jane Hutt:** Yes. There are also allocations that we have made from the CRC for

future years, which I actually announced or clarified in the second supplementary budget in February. For example, there were two schools projects, one in Anglesey and one in Wrexham, and Flying Start, so they do relate to those that are announced. I am giving more information, if you like, on when those projects will go ahead. Andrew, do you want to add to that?

[257] **Mr Jeffreys:** I will just confirm that all of the CRC allocations are for projects that have been previously announced, either in March 2011 or November 2011—the two phases of the CRC allocation. All of the CRC allocations are for previously announced projects.

[258] **Julie Morgan:** Moving on to the reserves, you say in the narrative that you are satisfied that there is enough in the reserves, both revenue and capital. Are any of those remaining reserves committed for known purposes at this point?

[259] **Jane Hutt:** Just to clarify for committee where we are with the reserves, our fiscal resource reserves stand at 1.1% of the fiscal resource departmental expenditure line in 2013-14; our capital reserves stand at 1.6% of the capital DEL in 2013-14; and our non-fiscal reserves stand at 14.7% of the non-fiscal resource DEL for 2013-14. It may again be helpful for me to give the Chair those figures, just for the record.

[260] There are issues to do with non-cash charges that are variable and which relate to your question. Depreciation charges on the trunk road network are one example. So, we need to hold a higher percentage of non-fiscal resource DEL to deal with pressures in-year when they arrive. That is one point about commitment: we need to have that flexibility.

[261] Also in terms of commitments, within fiscal resource reserves, £5 million has been earmarked for the transition fund for 2013-14. Colleagues will remember that I announced the establishment of a transition fund at the beginning of the spending review period, because we wanted to support change and to meet pressures, particularly pressures on the public sector, during difficult times in terms of the spending review settlement. So, that is £5 million that is being allocated for that purpose.

[262] **Julie Morgan:** In relation to the capital reserve, are there any plans to take anything out of that for the infrastructure plan?

[263] **Jane Hutt:** We are developing a number of options, and they are in line with the priorities set out in the Wales infrastructure investment plan.

[264] **Jocelyn Davies:** Minister, yours is a minority Government, and a number of your Ministers are taking legislation through the Assembly, for which you will need the support of at least one other group to get any piece through, and you have very little wriggle room. Would you therefore have to use your reserves if you found that some of that legislation was going to cost you more than you had originally estimated?

[265] **Jane Hutt:** Costing our legislative programme is critical to our financial stability and budget planning and, as Minister for finance, I am very clear about my expectations of costings for new legislation. Clearly, we have a reserve for these contingencies and to deliver a programme of government, including our legislative programme.

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

[267] **Peter Black:** Moving on to the invest-to-save fund, the draft budget shows £13 million in repayments to invest-to-save in 2013-14, plus an allocation of £2 million from reserves. Is it intended that the repayments will be used to repopulate the fund in addition to the allocations made from central reserves? So, for example, will the £13 million repayment

be added to the £2 million for the fund next year?

[268] **Jane Hutt:** Yes, it will be.

[269] **Peter Black:** Do you envisage that the fund will eventually repopulate itself from repayments and that it will therefore make no call on central reserves?

[270] **Jane Hutt:** Yes, I do envisage that, from 2015-16, it will be self-populating wholly from the repayments of sums invested by the fund in previous years.

[271] **Peter Black:** Thanks.

[272] **Mike Hedges:** It has been said that the least contagious thing in Wales is good practice. [*Laughter.*] In the narrative, you state that the Welsh Government is supporting the spread of good practice initiatives. What are you doing to encourage the dissemination of lessons learnt from the invest-to-save initiative throughout the wider public sector? How will you deal with those bodies, some of which I have talked to, that say, 'Ah, but they only did it because they had extra money'?

[273] **Jane Hutt:** Of course, Mike, good practice should travel easily, especially in Wales. Unfortunately, that is not always the case, is it? So, we have clearly got a lot more to do on invest-to-save to promote the good practice initiatives. At this point, I must say that I was really pleased to hear that the committee is to review invest-to-save, because I think that it will help to bring out the clarity and transparency of invest-to-save.

[274] As you know, on 3 October, I published 'Investing-to-Save 3' alongside the draft budget, and that is a publication to promote case studies of projects supported by the fund. I hope that Members are aware of the publication with the case studies. We have also published a full directory of projects already supported under the fund, and we are linking with Good Practice Wales to disseminate information further.

12.15 p.m.

[275] I know that, when asked in Plenary about invest-to-save, I tend to refer to the Gwent frailty project, as it is something that people know about because it involves all the authorities in Gwent, led by the health board and the third sector, and it is about changing the way in which health and social care are provided. We need to publish some snappy case studies, and I hope that your review will at least help to explore the impact of invest-to-save.

[276] **Jocelyn Davies:** We heard earlier today about the Gwent frailty project, although no-one has ever told us that they have copied it. It is often quoted and it would be nice if there was a whole range of them, as it is a very good example of something that could be duplicated elsewhere.

[277] **Jane Hutt:** In fact, there are replicas of the Gwent frailty project, although they are not exact replicas. The Cardiff and Vale University Local Health Board has a similar scheme, and I think that there is one in Carmarthenshire as well. The benefit of it is that good practice travels, but you can learn lessons along the way. Some of the projects have been adjusted for those geographical differences. That is a message that we need to get across, to promote that more effectively.

[278] **Ieuan Wyn Jones:** There has been a general welcome for the improvements in the way in which the budget has been presented, but I have a further improvement to suggest to you, Minister. The figures in the narrative that you have given for each chapter can be very difficult to equate with the figures in the tables. For example, it says that the Young Recruits

programme has been extended for next year, but there is no precise figure for that. It says that the sum is now £4.2 million for 2013-14. It is impossible to find out where that appears in the education table. Would it be possible to have a footnote against each of those narrative figures simply telling us where that figure could be located in the table?

[279] **Jocelyn Davies:** It is a suggestion for the—

[280] **Jane Hutt:** I am sure that that would be possible. Perhaps we could develop that discussion between officials.

[281] **Ieuan Wyn Jones:** The final question on the detail is that you refer in the narrative to a cut in your budget in real terms, but you have given us cash figures in the tables. Again, that makes it difficult to find out how you have worked out the cut, when you have used real terms in the narrative but cash figures in the tables.

[282] **Jane Hutt:** One of the points I would make about the developments in the way that we have presented the budget is that, last year, you recommended that we should show year-on-year changes affecting each MEG using the latest published figures as a baseline. As you will see, we now include that information in the budget, but we need to go further than that.

[283] **Ieuan Wyn Jones:** To give you a typical example, you say in your narrative that your budget will be down £1.8 billion in real terms. That is the figure you give. However, you would never find that out from the way you present the figures in the budget, because they are in cash terms. Therefore, no-one can verify the figure of £1.8 billion because you do not tell us how it is calculated.

[284] **Jocelyn Davies:** We should put on the record that we are very impressed with the improvements that have been made so far to the way in which the budget has been presented. I have a final question, Minister. Has a full impact assessment been conducted of the 2013-14 spending plans, or, similar to last year, has it been updated to reflect changes to indicative plans?

[285] **Jane Hutt:** This refers to the equality impact assessment. In terms of the way that we have approached that for the coming financial year of 2013-14, it is an analysis of changes to indicative plans. As you will also see from the impact assessment, it goes deeper into the socioeconomic impacts of, for example, our ‘five for a fairer future’ commitments. It also assesses the equality and socioeconomic impacts of previous budget decisions and additional capital allocations. One of the things that we have also done in the impact assessment, which I hope that Members will welcome, is an analysis of the impact of UK Government changes such as welfare reform. In the annex, you will see an analysis that has been undertaken by the Institute for Fiscal Studies looking at the negative impact of welfare reform changes on Welsh households and communities. It is important that we give our Members the full picture regarding the impacts on our budget and our services. So, that is in addition to our own budget impact assessment.

[286] **Jocelyn Davies:** We are grateful for your attendance today. I know that you have agreed to come back in a few weeks’ time to see us again so that we can conclude our scrutiny of the budget. As normal, we will send you a transcript of today’s proceedings so that you can look at it for factual accuracy.

[287] We will now move to private session, in accordance with the motion that we agreed earlier.

Daeth rhan gyhoeddus y cyfarfod i ben am 12.21 p.m.
The public part of the meeting ended at 12.21 p.m.