



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

## **Y Pwyllgor Cyllid** **The Finance Committee**

**Dydd Iau, 25 Hydref 2012**  
**Thursday, 25 October 2012**

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Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from the Remainder  
of the Meeting and for the Whole of the Next Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir  
trawsgrifad 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
Jane Hutt	Aelod Cynulliad, Llafur (y Gweinidog Cyllid ac Arweinydd y Tŷ) Assembly Member, Labour (the Minister for Finance and Leader of the House)
Andrew Jeffreys	Pennaeth Buddsoddi Cyfalaf Strategol, Llywodraeth Cymru Head of Strategic Capital Investment, Welsh Government
Jo Salway	Pennaeth Cyllideb 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
Gareth Price	Clerc Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser

*Dechreuodd y cyfarfod am 9.31 a.m.  
The meeting began at 9.31 a.m.*

**Cyflwyniad, Ymddiheuriadau a Dirprwyon  
Introduction, Apologies and Substitutions**

[1] **Jocelyn Davies:** Welcome, everyone, to this meeting of the Finance Committee. I remind you all to turn off mobile phones and any other electronic equipment. This is a public meeting, so you will not need to operate the microphones. We are not expecting a fire drill, so if you hear the alarm, please follow the direction of the ushers. I have received no apologies for this meeting.

**Cynigion Cyllideb Ddrafft Llywodraeth Cymru ar gyfer 2013-14**  
**Welsh Government Draft Budget Proposals for 2013-14**

[2] **Jocelyn Davies:** Moving to this, the first substantive item on the agenda, I welcome the Minister and thank her very much for returning to us for a second session of evidence taking. Minister, if you can introduce yourself and your officials, we can then go straight to questions.

[3] **The Minister for Finance and Leader of the House (Jane Hutt):** I am pleased to introduce Jo Salway, the head of strategic budgeting, and Andrew Jeffreys, the head of strategic capital investment. Jeff Andrews is my specialist adviser.

[4] **Jocelyn Davies:** Thank you very much. I am sure that you would acknowledge that we have not received any firm estimates of the impact of welfare reform. What work is being done to identify a robust estimate of the impact of welfare reform on your budget?

[5] **Jane Hutt:** Thank you very much, Chair. As I am sure committee members know, we established a ministerial task and finish group, chaired by Leighton Andrews, because the impact of welfare reform runs across departmental and ministerial policy issues. It is important that the group commissioned research into the impact of welfare reform—stage 1 of the work that has been done has been published. You will have seen in the equality impact assessment a summary of stage 1—the Institute for Fiscal Studies undertook that for us, and more research is being undertaken.

[6] For stage 2, it might be helpful to inform the committee that we are looking at impacts on household income in Wales, labour supply, and demand for public services, including health and social care, education and training, community and social justice, and local government. We are looking at expenditure patterns and wider impacts, and we are looking at social impacts. That impact assessment should be completed by the end of this year.

[7] Clearly, we have to use the findings of the impact assessment to help to direct us in how we can mitigate the negative impacts of the change. Probably one of the most important ways in which we can mitigate the impacts is by continuing to support the priorities that we set in our budget, following the introduction of this spending review. As you know, the priority is to support the most vulnerable, which is why we decided to protect social services in particular, and I think that that has been vindicated in the recent IFS study for Welsh local government. The fact is that we are protecting the most deprived areas in Wales in our local government settlement for the protection of social services, while in England, the most deprived areas are being hit the hardest. I would also say that our investment in universal benefits is very important, not just for those who are on benefits and seeking work, including disabled people, but for the working poor as well. ‘Five for a fairer future’ does steer us into a policy agenda of economic and social justice, which we believe can at least help to mitigate the impacts. I am sure that the Finance Committee, and the Assembly as a whole, will want to hear more about that further impact assessment on welfare reform.

[8] **Jocelyn Davies:** Thank you, Minister. So, with the level of detail available to you and other Ministers from your research, could you give an estimate of how much homelessness, for example, is likely to rise, which we are often told is likely? Will this budget then take account of allocations to mitigate that?

[9] **Jane Hutt:** It is going to be difficult. The whole budget is about how we can manage with the reduced settlement that we have. Of course, we know that that figure will increase to £2.1 billion less, so it is all about choices and priorities in this budget, and it is about how we

manage in-year. We have not had the impact assessment or the results, particularly for housing, but we are looking for new ways in which we can support the financing of affordable housing, including on the capital side, and we continue, as we did with regard to the economic stimulus package, to try to boost the supply of affordable housing. We even managed to lift up the social housing grant in the budget last year, if you recall, even though there had been an earlier cut; we managed to re-establish a reasonable allocation of the social housing grant.

[10] This may come up later in questions, but the tackling poverty action plan is crucial to this, and we are undertaking a review of advice services. When we undertake the work for the plan, and the evidence base for it, there is no doubt that there will be a need for robust advice services, and I am sure that that includes all the advice agencies—Shelter Cymru, as well as what local government can deliver by way of advice and support. However, the evidence of the adverse impact that welfare reform will have on the Welsh economy and on vulnerable people in Wales is mounting. As I said, it also relates to the working poor, who are also entitled to housing benefit, and we have heard more today about the impact of housing benefit changes.

[11] **Jocelyn Davies:** When you have done the research, you will have a level of detail that will give you your best guess or estimates of that. There are others; I am just giving you homelessness as an example, but I do not think, Minister, that you are pretending that you can mitigate all the impacts of the welfare reforms.

[12] **Jane Hutt:** No, absolutely.

[13] **Ieuan Wyn Jones:** You have detailed the impact that it may have on the overall budget, but the impact will be felt on the ground. Therefore, will your assessment look at the impact that it will have on advice organisations, local government, and possibly even health boards? In other words, their budgets in a particular year could be more adversely affected than you have even currently allowed through your allocations.

[14] **Jane Hutt:** Yes, and, in fact, part of the second stage of the research is to look at the impact on public services. Local government is very concerned about this, and we are working very closely with the Welsh Local Government Association on this. We are engaged ministerially with cabinet leaders and chief officers of local authorities to try to assess—they are assessing and we are assessing nationally and we are supporting how they are looking at this at a local level also. So, it is about that assessment of demand for public services. That includes health as well as housing and social care. At the end of the day, as we said, we cannot mitigate the impact, but we can try to ensure that our policies, through this draft budget, are geared. The result of our review of advice services will also give us some indication of what we need in order to back them. However, this also goes back to such things as credit unions and how we can try to avert dependence on the pay-day loan and the fact that our high streets are being taken over, in my experience, by the most appalling cash-converter-type pay-day loan and high-interest-rate loan companies. We have a responsibility to try to do what we can with the powers and tools that we have.

[15] **Peter Black:** We heard evidence from local government about the fact that it may have to foot the bill for the implementation of the council tax support scheme. We also know that Ministers have concerns about the uncertainty around the funding transfer for that scheme. What action is being taken to clarify the impact on the budget proposals, regardless of the delays being experienced given the uncertainty of the funding transfer? What are you doing to press the Treasury for clarity on this matter?

[16] **Jane Hutt:** There are ongoing discussions with the Treasury and the Department for Work and Pensions. I take the lead on the Treasury discussions and Carl Sargeant does the same with the DWP. As you know, we have only had provisional figures for the funding

transfer and we have used those indicative figures for the settlement with local government, which Carl announced last week, because it needs to know where we are at the moment with those indicative figures.

[17] I am very concerned about how the UK Government is responding to this because of the shortfall that is emerging from the indicative figures. It talked about a 10% cut when it announced the transfer of council tax benefit, but our concern is that it is beyond 10% in the indicative figures that we currently have. We see that there is an increase in the take-up of council tax benefit and we expect a further increase next year, whereas the UK Government is working its figures on a decrease in council tax benefit. So, this is an inter-governmental issue at the moment. However, it is of great concern. We are working with local government on how we can support not only it, but also the beneficiaries of council tax benefit. The other point is that we do not have clarity, and we are pressing for it, on cover for additional administrative costs, because it will be costly to introduce the scheme.

[18] **Peter Black:** You are passing on that shortfall to local government, however, as opposed to the Welsh Government bearing that cost.

[19] **Jane Hutt:** At this point in time, as you know, we have factored this into the local government settlement. We have raised this point to press for clarity on the impact of it with the administrative costs. We are working closely with local government to support it on this. It is very difficult, because we have such a challenging budget settlement. We are in a difficult position in respect of how we manage this.

[20] **Peter Black:** So, given the impact of this on front-line services and on people on council tax benefit, how can you justify top-slicing £10 million off the local government budget for what appears to be a speculative venture when that money would be better spent on protecting those vulnerable people?

[21] **Jane Hutt:** Presumably, you are referring to the £10 million for collaborative funding. This is a specific policy decision that the Minister for Local Government and Communities has taken to drive collaboration between local authorities, which local authorities are also signed up to. I think that it is a real challenge how we, as a Government, and local government can deal with the council tax benefit transfer with at least a 10% cut. We are very concerned and mindful about the impact of that. However, it goes back to where we are going to find the money. It will be a question of priorities if we try to meet that gap in any way.

9.45 a.m.

[22] **Peter Black:** Is that policy really a higher priority than protecting vulnerable people, when there is already an invest-to-save fund that might do that job anyway?

[23] **Jane Hutt:** Do you mean the collaborative fund?

[24] **Peter Black:** Yes. Is that collaborative fund really a higher priority than protecting vulnerable people, when you actually have an invest-to-save fund that can do that job?

[25] **Jane Hutt:** I have to say, Peter, that it is the UK coalition Government that is imposing this cut of 10%.

[26] **Peter Black:** Well, no. You are the one who has made this choice about the £10 million top slice. Is that really a higher priority than protecting vulnerable people, when you have an invest-to-save fund that will do that job?

[27] **Jane Hutt:** The invest-to-save fund is being used very proactively with collaborative routes. The £10 million that the Minister for local government has made available to drive collaboration will support local authorities with the impact of these changes, such as welfare reform and the council tax benefit change. Local government is responding positively to that, because it is also seeing ways in which it could collaborate more effectively to deal with things such as the impact of welfare reform. However, we are at the stage where we are still in discussions with the UK Government on this and it would be premature, before those discussions are completed, for us to make decisions on this matter.

[28] **Jocelyn Davies:** The UK Government, you say, is estimating that council tax will go down and that benefits will go down. Next year, you are estimating an increase. I am sure that we are all aware of local authorities in our areas that run campaigns to encourage people to take up the benefits to which they are entitled. Do you think that local authorities might be more reluctant to run those campaigns if the cost of that benefit take-up will fall on them?

[29] **Jane Hutt:** We are making the case to the UK Government again that we need a better deal in the transfer of funding—we have given it the figures on the increased take-up, but it has been working on a transfer that assumes a reduction, as I said. So, I think that it is still early days for us as a Government. Obviously, I appreciate the scrutiny on this matter; it is key. It is about choices and priorities and about how we protect and support local government, but, more importantly, the people who have benefited from council tax benefit. I think that we should look to the autumn statement on this—in December. This is important to the level of funding that we have. We have a quadrilateral coming up in the next few weeks. So, I have already written to the Chief Secretary about this issue, along with my finance Minister colleagues. Carl has met Lord Freud on this matter. We have raised our concerns.

[30] It would be helpful for me if the committee could acknowledge our concerns on this matter and the adverse impact of a 10% cut in this transfer. It would be helpful if it could acknowledge that it is not getting the figures right in the calculation based on the take-up and future take-up, and if it could acknowledge that we should have funding cover for extra administrative costs and if it could recognise that this is a very difficult situation that we, and the people of Wales, have been put in, as a result of the UK Government's policy.

[31] **Mike Hedges:** I have a simple question following on from what Peter Black asked. Why can you not have an invest-to-collaborate fund? Assuming that collaboration is meant to lead to a reduction in costs, instead of having a £10 million top slice made available, why can you not have a recyclable £10 million that would be an invest-to-collaborate fund?

[32] **Jane Hutt:** Well, I think that the invest-to-save fund is an invest-to-collaborate fund in many respects. Collaboration is one of the major goals of the invest-to-save scheme, and I understand that the committee is carrying out a review of the invest-to-save fund. I welcome that review very much. One of the criteria for the invest-to-save fund is to indicate the partnership engagement of public sector organisations in order to collaborate. The examples that we have are not limited to the Gwent frailty project. [*Laughter.*]

[33] **Jocelyn Davies:** It is a very good example.

[34] **Jane Hutt:** We have projects in the Cardiff and Vale and Abertawe Bro Morgannwg LHB areas that are about a collaborative route. Some Members here have given their views on the collaborative grant aid that has been given to local government, and I am sure that you will have asked the Minister for Local Government and Communities these questions as well.

[35] **Julie Morgan:** To go back to the issue of council tax, I do not know whether you said—perhaps I missed it—what the exact figures are for the under-take-up of benefit at the moment.

[36] **Jane Hutt:** I am not sure whether I can give you that figure. We identified that there are increases in caseload coming through. That is why the provisional figures are lower than we initially discussed with the UK Government. However, recent figures suggest that expenditure on council tax benefit is rising, despite the fact that we have had low council tax increases. Jo, could we get that information for the committee?

[37] **Julie Morgan:** That would be quite useful.

[38] **Jane Hutt:** Then you will know where we are on this. It is about the modelling that is being used in the UK Government, which is driving us down and, as the Chair said, not recognising the fact that we would all wish to support, and have supported, the uptake of council tax benefit.

[39] **Mike Hedges:** The question that I have is fairly lengthy, but it really boils down to this: do you have enough money to do what you are committed to doing? However, I need to preface that with quite a lot of other things. During your previous appearances before the committee, you assured the committee that the commitments in the programme for government have been costed. Other people have come to the committee and said that they remain concerned about the adequacy of the budget to deliver all of the Welsh Government's priorities. Some people, particularly those in local government, get the feeling that they are being asked to do additional things without any extra money. Can you provide any evidence on how robust the costing of the Government's priorities are and how this compares against the available budget?

[40] **Jane Hutt:** You know, and I was very clear in presenting the draft budget, that we are very concerned about the reduction in our settlement. Quite clearly, we have a reduction in our resource budget of £2.1 billion. That has had a major impact on how we are developing and managing our budget. I hope that I can clarify a few points relating to how we are going to address these challenges. I will be as open as I can about the transparency of the draft budget. It is going to be a very difficult time, but the programme for government commitments, particularly the 'five for a fairer future' commitments, are safeguarded with the £129 million that is being allocated. With regard to how we can ensure that we can deliver on all our other programme for government commitments, as well as that clear and transparent £129 million for those key policy priorities, we obviously take stock through close monitoring. The annual report on the programme for government gives us a review of budgets. We are continually monitoring and reviewing budgets. In-year financial management is at the top of my agenda. Of course, pressures also come through in-year and I have regular bilateral meetings with all of the Ministers on specific challenges in their portfolios with regard to delivery of the programme for government.

[41] Last time, I drew attention to the equality impact assessment, which shows the ways in which Ministers have shifted money around in order to meet programme for government priorities. That meant that some budget lines ceased, in order to support other budget lines. So, it is a matter of strict monitoring, continuous review and close working with Ministers. There are areas where it is not about spend—legislation is not all about extra money. I am confident that we can also carry any costs that are associated with legislation. It is interesting that you made the point, Mike, about local government asking 'How are you going to manage on this budget?' It is very difficult to manage on this budget, but we made a decision to protect local government, and I think that we had been vindicated in that. I return to the IFS report, which shows how local government has been protected, compared with local government in England. As a result of the decision about social services and our protection of schools, key public services have been protected. I was at a secondary school last week where I was told, 'Our budget is all right, Jane', and there I was thinking, 'I am not giving you that budget directly; it comes via the local authority'. The reality is that we have protected our

major public services in local government. That is delivery on the ground to our people. As far as education is concerned, it is a universal service, which is a key priority.

[42] **Mike Hedges:** Is there any area of the programme for government that will not be carried forward, because of a lack of money?

[43] **Jane Hutt:** As you see from the draft budget, we have commitments to the whole of the programme for government. I know that you have drilled down, as have other committees, as closely as possible. It will be challenging, particularly for demand-led budgets, but we believe that the way that we have prioritised the commitments will stand us in good stead.

[44] **Mike Hedges:** Was that a 'no'?

[45] **Jocelyn Davies:** Minister, you mentioned legislation, and I did ask you about it during the last meeting, but in a minority Government you cannot guarantee getting your legislation through unless it finds favour with the rest of the Assembly. You did say that reserves would be where your Ministers would have to look if any amendments were required by opposition parties before legislation could be agreed. Are you sure that that is sufficient for all the concessions? Have your Ministers assured you that all the concessions that they will need to make will be affordable?

[46] **Jane Hutt:** It is probably early days for how that major legislation is going forward and any unforeseen costs that might arise from legislation as a result. We would hope to build consensus on our legislative programme, because it has been costed—not just this budget, but future budgets of this administration. We have to keep that appropriate level of reserves in order to manage in-year pressures, which could include an extra cost as a result of changes or developments in legislation terms. I do not think that we have an example yet, Chair.

[47] **Jocelyn Davies:** So, Ministers who currently have legislation, or plans for legislation, which would be affected by this budget have all assured you that that is affordable within their own budgets and that any concessions would come out of reserves.

[48] **Jane Hutt:** Again, as you can imagine, the Minister for finance, at every Cabinet meeting and in every bilateral discussion about the legislative programme, has to be assured that the costs are being met within budgets. That is what I seek and is what I have assurances on.

[49] **Ann Jones:** You mentioned the autumn statement and the fact that there is the possibility of consequential changes arising from that, either for additional consequentials or, perhaps, as reductions in consequentials. What contingency planning have you done to ensure that that is taken account of in the next financial year's budget?

10.00 a.m.

[50] **Jane Hutt:** Those uncertainties make it difficult for us, because we could have negative consequentials. Hopefully, we will have positive consequentials in the autumn statement, but we could have negative consequentials. So, it is difficult to plan for those uncertainties in the draft budget, and those could be revenue or capital adjustments. Of course, if we had to make changes, we would come back to the committee with a supplementary budget. It will be difficult, but, as I just said, it is important that we look to our reserve in order to manage and respond to unforeseen events.

[51] One point that is important to make is that, if you recall, in 2010, when the UK Government introduced the so-called emergency budget, we decided as a Government—it was the former One Wales Government—that we would meet that revenue and capital cut

that was imposed on us, because we felt that that was the right decision. However, we had the means to do it at that time. It is now increasingly difficult to be in that position and we hope that we will not be in that position in the future.

[52] It goes back to the fact that, with a tough budget settlement, growth and jobs and protecting the vulnerable are our priorities. We will do whatever we can and I will do whatever I can on capital spend. You know that the £175 million capital spend will create 3,000 jobs. We may, hopefully, get some positive consequentials in the autumn statement, but it means close, careful and on-the-line financial management.

[53] **Ann Jones:** How much do you forward plan rather than just wait to react to an autumn statement? When you have your meetings with portfolio holders, how do you put in any forward or contingency plans, knowing that the autumn statement is just weeks away?

[54] **Jane Hutt:** We hope to get some indication through officials and we have a finance quadrilateral in a couple of weeks' time with the Chief Secretary to the Treasury. So, I think that we will get some indication of where things will be going. As you said, Ann, it is a question of how, with this constrained and tight settlement, I can help our Ministers to prepare for changes that could have a negative impact.

[55] **Ann Jones:** Is that included in the forward planning for the financial year's budget or are you just saying that this is the budget based on where we are, which you have to do, and then you will wait to see what happens. Will you wait until you get your meetings with the Chief Secretary to the Treasury to see roughly what might happen, and then come back and revisit the books? What forward planning is there, knowing that the autumn statement is coming? Are Ministers on a wing and a prayer, hoping that the consequentials will come down and that they will be able to say, 'The consequential has come down in my portfolio area, so I should have that consequential in my budget'? However, the Government's priorities may be different from the UK Government's, where the consequentials are coming from.

[56] **Jane Hutt:** When we have a consequential, it goes to the centre and the Cabinet decides how it will spend that. It goes into the reserve and is geared towards our budget priorities. You will be aware, for example, that the consequential for advice services was as a result of the UK Government's cut to legal aid and end of financial inclusion grant aid. I agreed with Carl Sargeant, with the Cabinet's approval, that that money should go to advice services and a review of advice services.

[57] However, the only cover that we have is what we keep in the reserve and how we manage in-year through financial monitoring, and whether that enables me to advise, as a result of pressure points and priorities, and the announcements that I can make to mitigate the effects. So, in respect of forward planning, we hear from the UK Government what is on the horizon. All we have is the money to protect and perhaps steer Ministers in the direction of invest-to-save and look for ways to support them through those difficult times.

[58] **Jocelyn Davies:** Minister, if there is a negative consequential, how do you distribute that? Do you look to reserves, then, or do you ask all Ministers if they will all take the hit?

[59] **Jane Hutt:** It really takes a cut of the reserve, does it not, Jo?

[60] **Ms Salway:** It depends on the size of the reduction. If we had another reduction like the emergency budget, it would be exceptionally difficult. If it were more like the last autumn statement, where there was a small positive consequential on revenue and a slightly larger negative consequential that had a net reduction but was very small, we could absorb that using the reserves. Much depends on the scale. That is important in dealing with positive

consequential as well. They are at the margins of the Government's spending when compared with £15 billion, so the time and effort goes into managing effectively the money that we have in the core budget and then responding as the issues arise.

[61] **Jane Hutt:** We would certainly take the hit at the centre, because we need to ensure that our priorities are protected.

[62] **Julie Morgan:** I would like to ask you about preventative spending. Would you tell us where the budget allocation is used to intervene early to stop spending later on?

[63] **Jane Hutt:** I think, Chair, that you will have received a letter from me to committee members about this very important part of budget management. This is about the policy priorities of the Government. I hope that you felt that my letter to the committee was useful. I will not go through it all, because you have a copy, but it is about the strategic priorities that we felt were important, particularly education, health, social services and universal benefits, which we feel have a preventative role. It is very important and, in the letter, I mention not just the protection of school funding by 1% above the Welsh departmental expenditure limit, but the investment targeting through the pupil deprivation grant, which is all about early intervention. The doubling of Flying Start is a key early intervention route. What is important about that, to demonstrate the Government's commitment to that early intervention, is that not only are we doubling the number of places in Flying Start, but allocating an extra £18 million of capital for the facilities used by Flying Start, which are important.

[64] On preventative spending, the Minister for Environment and Sustainable Development is having bilateral meetings at the moment regarding the sustainable development Bill. This agenda is crucial to the wider definition of sustainable development—that we invest in prevention. However, the difficulty with reducing budgets is that you are often investing for a long-term gain. Early intervention will help us to prevent young people from becoming NEET—not in education, employment or training—and enable families to get support. Universal benefits, once again, have proved themselves, particularly in mitigating the effects of welfare reform and cuts to public services. If a child can start a day with a free healthy breakfast and a parent can access free childcare at that stage, it is of huge benefit as an early intervention.

[65] The only thing that I would like to add on this point about prevention and a preventative agenda is that this is a clear steer for public service leadership. This goes back to collaboration and multi-agency responses. Taking for example the invest-to-save fund as a lever for investment, we have announced more than £12 million to support seven new projects, including the Care Closer to Home project and the Wyn Campaign: Regaining and Retaining Independence. We also have a multi-agency project in Gwent that is looking at how agencies can improve the public service response to children who go missing. As a result of those interventions, they have reduced the costs, because they have been able to work together to ensure that they can not only prevent children going missing, but support the families in that cycle of deprivation. So, I very much welcome the committee's focus on preventative spending.

[66] **Julie Morgan:** In your response, you have highlighted the importance of the parts of the budget that you have protected. Do you have an estimate of how much of the budget would go on preventative work?

[67] **Jane Hutt:** We are working on that to see how we can develop it and whether we can put that into monetary terms. I have given lots of examples in my letter to the committee, but I feel that our budget is based on an approach that is about prevention, health and wellbeing, and protecting the most vulnerable. It goes back to very simple terms: so much of our programme for government is about long-term issues to do with the economy, health,

education and tackling poverty. Every chapter of the programme for government has an aspect on preventative spending. So, the whole budget, if you like, is a preventative-spend budget. However, it might be helpful for us to try to quantify that.

[68] **Mike Hedges:** Preventative spending does not necessarily mean a net saving of money, but it can mean better services. Is the Minister saying that we will have preventative measures only where it will save money or will we still have preventative measures such as those in health? For example, if I can reduce the number of people going to hospital by 2%, that would have an effect on waiting times, rather than a 2% reduction in hospital budgets, so it would be a good thing, even though it does not save money. Basically, I am asking whether we can still have preventative measures if there is no net financial saving but something is in the general good.

[69] **Jane Hutt:** Absolutely, and as I said—

[70] **Jocelyn Davies:** You do not need to give a long, detailed answer to Mike's question. [*Laughter.*]

[71] **Jane Hutt:** It is very much a long-term gain, is it not?

[72] **Julie Morgan:** Do you have any examples of preventative work where the departments have collaborated?

[73] **Jane Hutt:** Across the Government, do you mean?

[74] **Julie Morgan:** Yes.

[75] **Jane Hutt:** Yes. The tackling poverty action plan is a cross-departmental response, and of course that drives a cross-governmental profile for all the services, so we test and impact-assess all the services provided. However, we can discuss giving it a long and short-term preventative goal and objective in the context of our budgetary management. We have an effective services programme, which is geared towards all the public sector, not just inside Welsh Government. That also goes back to Mike's point. It is about whether we are delivering effective investment in services that do not always immediately have a financial gain, but are delivering the best services most effectively through early intervention. It is an area that perhaps we could report back to the committee on.

10.15 a.m.

[76] **Jocelyn Davies:** We can explore this at another time, perhaps.

[77] **Paul Davies:** I just want to bring the discussions back to collaboration in the Welsh public sector. You have touched upon the collaborative fund on several occasions this morning, and I just want to press you further on it. I want to ask for the rationale behind establishing the collaborative fund given that it is top-slicing the overall settlement. Why, as a Government, do you need this collaborative fund when you have already got your invest-to-save schemes, which should be driving the collaboration agenda anyway?

[78] **Jane Hutt:** It is important that the collaborative fund has been identified within the revenue support grant budget line as a separate fund to support regional collaboration. The public services leadership group, which Carl Sargeant chairs and which has cross-public sector membership—and not just from local government, but the police, the fire and rescue service, and the whole range of public services—is very keen to expedite collaboration. We have used invest-to-save, and a point was well made earlier on about the invest-to-save opportunities. I have already talked about the £12 million that we have already spent and the

£15 million that will be spent next year on invest-to-save. Local authorities are particularly keen on the opportunities of this collaborative fund. It was discussed with the Welsh Local Government Association, and proposals are now being worked up.

[79] **Paul Davies:** I appreciate that it is a policy decision by the Minister for Communities and Local Government, but where do you come into this, as Minister for finance? Surely you have a responsibility for this particular fund. From your perspective, which offers the best value for money: the invest-to-save, or the £10 million collaborative grants fund?

[80] **Jane Hutt:** It is a grants fund, so they do not have to repay it, quite clearly. It is to incentivise change in regional collaboration, and there are times when invest-to-save is just not viable for a project proposal. It is a very small amount of money in the scheme of things, in the context of a £4 billion-plus RSG, but local government and the public sector want support and backing for the collaborative agenda, and this is one way in which the Minister has taken it forward.

[81] **Paul Davies:** So, this fund is not best value for money, because best value for money, in your opinion, is the invest-to-save scheme.

[82] **Jane Hutt:** No. I think that this fund has its place within the scheme of the regional collaborative agenda. It has its place alongside the invest-to-save scheme.

[83] **Paul Davies:** From your perspective, collaboration is intended to save money and drive efficiency savings. If collaboration automatically makes efficiency savings, why do you think that you need to pump more money into this agenda through the collaborative fund?

[84] **Jane Hutt:** As I have said, it is because invest-to-save is not always the appropriate vehicle. The business case for an invest-to-save scheme has to be justifiable, valid and robust. Occasionally, a grant scheme would be more appropriate than invest-to-save. It is not a question of me, as Minister for finance, saying, 'It all has to be driven by cost reduction', because, sometimes, the regional collaborative agenda will not necessarily have a cost saving initially. It is about the better delivery of services. The regional collaboration that we are beginning to see emerge, for example the education fund with the consortia, needs support to get off the ground. Of course, the Minister for Education and Skills has made that available. I think that it is an incentive. From the perspective of the Minister for Local Government and Communities, he needs to be able to work with local government and the public sector. It may not be the public sector that comes to the Minister for support on this front, and it certainly will be a regional collaborative fund for the whole of the public sector.

[85] **Paul Davies:** When looking at the collaborative agenda, as a committee, we received evidence from the further education sector outlining the efficiencies gained from college mergers, for example. Evidence provided to us estimates that there have been savings of around £0.5 million per college per year. Do you think that the pace of change is consistent across all parts of the public sector?

[86] **Jane Hutt:** On the FE collaboration, the mergers that are taking place are well regarded as a key policy driver as well as in ensuring greater strategic effectiveness and cost efficiency. In respect of value for money, good evidence is already emerging of the cost efficiency and savings. Some of us went to the new merged FE colleges awards event on Monday night at the Cardiff and Vale College. The critical mass for policy development and the beneficial impact of bringing two colleges together, given what they can offer the students, is tremendous. We need to see this from a wider perspective. There is no doubt that we would expect to see savings of £9 million to £25 million in that kind of collaboration across organisational boundaries<sup>1</sup>.

[87] Look at another area of collaboration for example, namely waste services in hubs across Wales. Another example is Blaenau Gwent and Caerphilly county borough councils working to create joint social services. Real benefits and a drive are emerging. That relates to why we want a number of routes to support collaboration, which include the invest-to-save fund and the collaborative fund.

[88] **Paul Davies:** The reason I ask whether it is taking place across all the public sector is because a representative from Wrexham County Borough Council suggested to us that there is increasing pressure on the local authority's social care budget because health is trying to 'step out of its arrangements'—and I think that that was the phrase that was used. What are you doing to ensure that collaboration is taking place and that all public bodies are playing a part in making efficiency savings, effectively?

[89] **Jane Hutt:** I mentioned the public services leadership group, which Carl Sargeant chairs and which includes representatives of local government and the health services. The health boards and the Welsh Local Government Association are all engaged as key players. Local service boards also have their part to play, and I imagine that that would be reflected in the Wrexham context. The Minister needs to address these points on collaboration—

[90] **Jocelyn Davies:** I think that the point being made is that there may be some reluctance on the part of public bodies to work together if one of them ends up with the entire bill because the other partner has stepped back. Perhaps you could give that serious consideration, because we do not want people to be reluctant to collaborate.

[91] **Paul Davies:** It is important for you, as Minister for finance, to monitor the value-for-money agenda, so how are you monitoring to ensure that these efficiency savings are being achieved?

[92] **Jane Hutt:** That is a fair question. I do so closely because I steer and manage and am responsible for the invest-to-save project. I work closely with Carl Sargeant on the public services leadership management group, working on value-for-money issues as a result of the whole policy agenda, and that includes value for money from the long-term preventative agenda mentioned in our earlier discussions, as well as the outcome of collaboration.

[93] **Jocelyn Davies:** So, Minister, built into invest-to-save, would it then be a criterion that one of the partners does not fall away and leave the others to find increased resources on their decreasing budgets? Is that part of invest-to-save? I can see that Mr Jeffreys is nodding, so I guess that it is. If it is not, it will be something that I guess you would consider.

[94] **Jane Hutt:** Definitely. I hope that the example that you have given us has been brought to the attention of the Minister for local government. If it were an invest-to-save project, we would certainly want to know about it, would we not?

[95] **Ms Salway:** Yes.

[96] **Ieuan Wyn Jones:** Rwyf am ofyn am fater sy'n achosi tipyn o bryder i'r byrddau iechyd, sef y ffaith nad oes ganddynt gymaint o hyblygrwydd i ddelio â'u cyllidebau. Ar y naill law, os ydynt yn gwneud arbedion mewn blwyddyn, rhaid iddynt eu trosglwyddo yn ôl i'r canol, ac ar y llaw arall, os ydynt yn gorwario, y perygl yw na fydd yr Ysgrifennydd Parhaol yn gallu arwyddo cyllideb y Llywodraeth. Mae hyn yn

**Ieuan Wyn Jones:** I want to ask about an issue that is causing some concern to the health boards, and that is the fact that they do not have a great deal of flexibility to deal with their budgets. On the one hand, if they make in-year savings, they have to transfer them back to the centre, and on the other hand, if they overspend, the risk is that the Permanent Secretary will not be able to sign off the Government's budget. That creates

creu trafferthion ac, ym marn llawer, nid yw'n rheolaeth dda ar arian. Faint o hyblygrwydd y medrwch chi ei roi i fyrddau iechyd lleol ar hyn o bryd, ac a yw hynny wedi cael ei gyfyngu i'r trefniadau broceriaeth fel y cewch ganiatáu iddynt ddod â rhywfaint o arian ymlaen o'r flwyddyn ganlynol?

difficulties and, in the opinion of many, this is not effective financial management. How much flexibility can you give to the local health boards at present, and has that been limited to the brokerage arrangements so that you can allow them to bring some funds forward from the next year?

[97] **Jane Hutt:** This is a very important point to do with the flexibilities that the health service needs, and this and other committees recognise that we need to enable that flexibility for the health service. My role, of course, is to monitor with the Minister for Health and Social Services the NHS's financial position, which I do with my officials.

[98] The auditor general has also commented on this matter, and the Minister for health's officials are undertaking a review of the NHS finance regime. That is about exploring how flexibility can be put into practice. I understand that the review will be completed later this session, and I hope that what comes out of it—through discussions with me—will be a broader framework for integrated planning in the NHS to allow that kind of flexibility.

[99] Obviously, we have to manage the financial impact of unforeseen or unplanned events across the financial year-end, particularly in the health service, and that is something that we would take into account as part of any new arrangements.

[100] **Ieuan Wyn Jones:** A ydych yn derbyn y pwyt canolog nad yw'n syniad da, yn nhermau rheoli arian, bod y rheolau presennol yn bodoli? Fel y Gweinidog sydd â chyfrifoldeb dros sicrhau gwerth am arian, a ydych yn derbyn yr egwyddor sylfaenol y dylid rhoi i fyrddau iechyd yr hyblygrwydd naill ai i gadw'r arbedion y maent yn eu gwneud yn ystod y flwyddyn neu i drafod â'r Gweinidog iechyd—a hithau gyda chi—os ydynt yn debygol o orwario? A ydych yn derbyn yr egwyddor honno?

**Ieuan Wyn Jones:** Do you accept the central point that it is not a good idea in financial management terms for the current rules to remain? As the Minister with responsibility for ensuring value for money, do you accept the basic principle that health boards should be given the flexibility either to retain the savings that they make in-year or to negotiate with the Minister for health—and her with you—if they are likely to overspend? Do you accept that principle?

[101] **Jane Hutt:** Yes, I think that the new flexibility that the Minister for health brought in last year to enable health boards to bring forward a limited amount of their future funding was important. That was a new—

[102] **Ieuan Wyn Jones:** But that is very limited.

[103] **Jane Hutt:** Yes, but it was a new flexibility, and it was endorsed by the auditor general. In fact, I think that the Public Accounts Committee's recommendations were very helpful. It was the first time that we have had that flexibility in the NHS, and I think that the Minister for health has made it clear that that flexibility would be available again, if required, in this financial year. However, we must await the review and—

[104] **Ieuan Wyn Jones:** I accept the point that we need to await the review, but is it your view as Minister for finance that it makes good sense, in value-for-money terms, that health boards be given the flexibility either to come to a brokerage arrangement or to keep any savings that they have made in year rather than sending them back to the centre? What is your view as Minister with responsibility for finance?

10.30 a.m.

[105] **Jane Hutt:** We have to be very careful in terms of the central grip, if you like, that we need to have over this major budget of the Welsh Government. After all, over 40% of our budget goes to the NHS. With the pressures on the NHS and the challenges that it faces, it will be a balance between the flexibilities that we would like to offer and having fairly firm central controls, led by the Minister for finance and the Minister for Health and Social Services. I will not be drawn into making a final comment on that.

[106] **Jocelyn Davies:** So, Minister, it is in principle, but with caveats.

[107] **Jane Hutt:** I think ‘in principle’, but we need to await the review—

[108] **Ieuan Wyn Jones:** I understand the point that you are reluctant to give a view. However—I hope that I am not labouring the point—you have acknowledged that it would be a good idea to allow them the flexibility to come to you if they are overspending—and I think that you have agreed that because that is what the Minister for health has done—but what about the concerns that health boards have that if they save money during the year, they are not allowed to keep that into the following year? I am asking you respond to that particular point.

[109] **Jane Hutt:** I certainly could not respond to that point at this stage. This is about the financial regime in terms of budget allocations and ensuring that that can be balanced across the whole of the health service. That is a major responsibility.

[110] **Paul Davies:** On the health budget specifically, we received a letter from the chair of the Health and Social Care Committee, and in his letter, he states,

[111] ‘The Committee continues to have concerns about the Welsh Government’s ability to deliver its Programme for Government commitments in relation to health and social services from within the current allocation.’

[112] How do you respond to that as Minister for finance?

[113] **Jane Hutt:** We believe that we have given a sufficient allocation to the health service in our draft budget. Clearly, the allocation that we have given to health of over 40% is very important. We allocated an additional £288 million to the NHS over three years and we expect the NHS to put itself on a sustainable financial footing. Also, the improved delivery that we expect as a result of this is very clearly evidenced in the chief executive’s annual report issued in the summer. I go back to the fact—and I recognise the Health and Social Care Committee’s concern—that it is a very challenging settlement. We work very closely with the NHS. It is about building safe and sustainable services, but we are supportive of the Minister in the review that she has undertaken of resource pressures. That review will enable us to see, at this stage of the financial year, how the NHS is performing not only financially, but also non-financially in terms of service change and delivery. As a Government, and as committees, we will have to wait until this review is completed to respond to that judgment.

[114] **Jocelyn Davies:** One thing that I think the committee would be keen to know about LHBs is whether they are allowed to spend any of their resources to deliver other services to make savings. The example that we gave was care and repair, which can save the health service £7.50 for every £1 spent. Are they allowed to fund services through care and repair that save them considerable sums? You might not know the answer, but perhaps you could let us have a note on that.

[115] **Jane Hutt:** I do not think so, but I do not see why not in terms of their budget—

[116] **Jocelyn Davies:** Is this perhaps in the review in terms of flexibilities? Is this something that is being considered?

[117] **Mr Jeffreys:** The basic answer is that the Minister for health can finance anything that is within her ambit, which is quite broad. Whether that specific service is within that, I am not sure.

[118] **Jocelyn Davies:** Coming back to Ieuan Wyn Jones's point, one of the reasons why the local health boards spend every single penny, and often a bit more than they have, is because they do not want that money to go back to the centre; they want it to be spent in their area. Ieuan, did you want to come in on that?

[119] **Ieuan Wyn Jones:** I have a general point to make: there is an incentive for health boards not to keep within their budgets because, every year, they are allowed to come back to ask for more, as they have done every year. However, there is no incentive to save. Why should one incentive be there, but not the other?

[120] **Jane Hutt:** These are important points on the flexibility that health boards should or could have. They are making major changes regarding the management and delivery of their services. They are using invest-to-save effectively. I think that the NHS is the major beneficiary of that. Invest-to-save could include schemes such as the one that the Chair commented on, on the use of care and repair. Of all our budgetary challenges, the health service is at the forefront. I need to be as flexible and as supportive as possible of the Minister for health and the health boards in how they manage their finances. This has been a constructive line of questioning for me.

[121] **Christine Chapman:** Minister, you know that comments were made recently by the Wales Audit Office in relation to the All Wales Ethnic Minority Association issue; it talked about weakness in the management of grant schemes. What is being done to ensure that grant schemes provided for in the draft budget will be properly managed to ensure value for money for the public purse?

[122] **Jane Hutt:** Thank you for that question. It is important that we look to the statement made by the Permanent Secretary on action taken to improve grants management. He made a statement last week, on 18 October, reporting on the grants management project that we set up in September 2010. That project included the creation of a grants centre of excellence and the development of corporate processes, procedures, tools, guidance and other material for non-procured funding. Also, on the grants management project, the Wales Audit Office recognised in its report on AWEMA that we were putting considerable effort into improving the way that we manage grants. The WAO report is valuable; we have accepted all the recommendations and have passed them to the grants management project, which has been in place for two years. I am particularly interested in implementing the recommendation on a customer relationship management system. We think that that will help our work with grant recipients, and we are working on that. I feel confident that we had already started on improving grants management as a result of the project established in 2010. I also feel confident that we can work to ensure that value for money is delivered with regard to our grants management.

[123] I undertook a due diligence exercise across all the organisations that I fund under my equalities funding—the advancing equality fund and the inclusion grant. We checked the health of the corporate governance and financial management of all those organisations. We found no concerns in relation to fraud. We had on-site visits involving internal audit services. That exercise revealed a great deal of good practice in the third sector organisations that we fund. We gave them detailed feedback on the way that they are delivering in terms of their

grants and financial management. We are now going to roll out this due diligence model across all Welsh Government departments. I instigated that work in March of this year.

[124] **Christine Chapman:** The outcome in this discussion is about greater transparency in decisions made by the Welsh Government. Do you feel that there is any danger that if the grant process is tightened—I imagine that that is what you are saying now—there would be a stifling of innovation and people will feel a little fettered in putting in for grants, which will have an impact further down the line?

[125] **Jane Hutt:** The third sector has been very engaged in responding to these concerns, with organisations ensuring that their governance is robust, and the concerns that they will be under greater scrutiny for the delivery of the services that they have agreed to provide as a result of the funding provided. We are working closely, for example, with the Wales Council for Voluntary Action, and with the Charity Commission, which has not yet reported on its investigation into AWEMA. The Charity Commission is very much responsible, as far as I am concerned, for some of the governance issues in terms of the way trustees are managing third sector organisations. We hope that it will report and engage more effectively. However, we have to work with our third sector. We need the right customer-relations management system. As regards the due diligence process, although it was a tough thing to ask organisations to go through all of that, they have been strengthened by the feedback that we have given them. So, it is about how we handle this appropriately and proportionately.

[126] **Jocelyn Davies:** Thank you for that. Is evaluation routinely built into projects?

[127] **Jane Hutt:** Evaluation is built into projects. In many of the schemes that we are delivering and the grant aid that we are giving across the whole of the Welsh Government—all departments are involved in this through the grants management programme—ongoing monitoring evaluation, via impact assessments, is crucial.

[128] One of the challenges, as many Members will be aware, is that there is a strong view—and the Public Accounts Committee has done work on this—that we have a strong grant-giving culture and regime. We give more grants than Governments in other parts of the UK. However, we also know that if you move down a procurement route with the third sector, organisations can lose grant funding and you can end up with contracts with organisations from outside of Wales coming in. That also means that you lose the continuity of long-standing local and national campaigning groups, as well as groups that provide services. So, it is very much a challenging issue for Welsh Government and the third sector. I am sure that these issues will be followed through in terms of what is the best regime. We feel that we can manage a good grants programme. We have learned lessons from the WAO report, which we commissioned. The third sector is also very keen to work with us to improve its governance, if appropriate.

[129] **Jocelyn Davies:** Minister, we have got through all of our questions. We will, of course, as usual, send a copy of the transcript to you so that you can check it for factual accuracy.

10.44 a.m.

### **Papurau i'w Nodi Papers to Note**

[130] **Jocelyn Davies:** Is everyone happy to note the papers? I see that you are.

**Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd o  
Weddill y Cyfarfod ac o'r Cyfarfod Nesaf yn ei Gyfanrwydd  
Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from  
the Remainder of the Meeting and for the Whole of the Next Meeting**

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

*the committee resolves to exclude the public from the remainder of the meeting and for the whole of the next meeting in accordance with Standing Order No. 17.42(ix).*

[132] I see that Members are content. Thank you.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10.44 a.m.  
The public part of the meeting ended at 10.44 a.m.*

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<sup>1</sup> *Hoffai'r tyst wneud y sylw canlynol:  
The witness would like to make the following comment:*

It might be helpful to clarify that this comment implies that the savings quoted relate to the FE mergers. However, they relate to 'the pooling of common and repetitive spend across Wales through the creation of a national procurement service', which was the context for the figures.