



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

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Mercher, 20 Chwefror 2013
Wednesday, 20 February 2013

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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

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	Cynghorydd Polisi Arbenigol Specialist Policy Adviser
Matthew Brown	Rheolwr Cronfa Fuddsoddi Cymunedol Communities Investment Fund Manager
Christopher Chapman	Rheolwr Rhaglen, Effeithlonrwydd a Chaffael, Cymdeithas Llywodraeth Leol Cymru Programme Manager, Efficiency and Procurement, Welsh Local Government Association
Neil Davies	Cyfarwyddwr Cynorthwyol, Gwasanaeth Cyfleusterau, Cydwasaethau GIG Cymru Assistant Director Facilities Service, NHS Wales Shared Services
Matthew Denham-Jones	Pennaeth Rheoli ac Adrodd Cyllidebau Head of Budgetary Control and Reporting
Jonathan Fearn	Cadeirydd Grŵp ar y Cyd CLAW/ACES ar Eiddo ac Ystadau Chair of the Joint CLAW/ACES Property and Estates Group
Phil Fiander	Cyfarwyddwr Menter ac Adfywio, Cyngor Gweithredu Gwirfoddol Cymru Director of Enterprise and Regeneration, Wales Council for Voluntary Action
Jane Hutt	Aelod Cynulliad, Llafur (Y Gweinidog Cyllid ac Arweinydd y Tŷ) Assembly Member, Labour (Minister for Finance and Leader of the House)
Jo Salway	Pennaeth Cyllidebu Strategol Head of Strategic Budgeting
Peter Williams	Cyfarwyddwr, Cymdeithas Ymddiriedolaethau Datblygu Cymru Director, Development Trusts Association Wales

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

Dan Collier Dirprwy Glerc
 Deputy Clerk
Gareth Price Clerc
 Clerk

*Dechreuodd y cyfarfod am 9.03 a.m.
The meeting began at 9.03 a.m.*

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[1] **Jocelyn Davies:** I welcome everyone to this meeting of the Finance Committee. I remind you to check that you have switched off your mobile phones and any other electronic equipment. We are not expecting a fire drill, so if you hear the alarm, please take directions from the ushers. We have received no apologies. I will speak more slowly, because our witnesses are not in front of us yet.

9.04 a.m.

Rheoli Asedau—Tystiolaeth gan Gymdeithas Llywodraeth Leol Cymru Asset Management—Evidence from the Welsh Local Government Association

[2] **Jocelyn Davies:** The first substantive item on our agenda is our review of asset management across Wales. We will take evidence this morning from the Welsh Local Government Association. Good morning to the witnesses; thank you very much for joining us. I know that you sent us some information prior to appearing before us. We have around 45 minutes and about 17 questions to put to you, so that will give you some idea as to how much work we need to get through in this limited time. I ask you to introduce yourselves for the record. I will then move straight to the first question.

[3] **Mr Chapman:** I am Christopher Chapman. I am programme manager for efficiency and procurement for the WLGA.

[4] **Mr Fearn:** I am Jonathan Fearn, head of corporate property at Carmarthenshire County Council. I am also chair of the Association of Chief Estates Surveyors in Wales, and I am a member of the national assets working group.

[5] **Jocelyn Davies:** We will refer to that as CLAW. So, you are from CLAW.

[6] **Mr Fearn:** The Consortium of Local Authorities in Wales and the Association of Chief Estates Surveyors, actually. They are two different organisations.

[7] **Jocelyn Davies:** Okay. The timetable referred to in the CLAW guidance stated that all authorities should have an asset management plan in place by 2006. How many local authorities have met that requirement, and of those how many have plans that just tick the box, as opposed to a clear asset management strategy that interlinks with the wider strategic and financial frameworks?

[8] **Mr Fearn:** I do not have information on all local authorities, but it is my understanding that the majority, if not all, have complied with that. That was helped through the Welsh Government providing funding in the early stages of that process. So, I think that, in 2004 and 2005, £30,000 a year was provided as direct funding to assist each local council in developing the first asset management strategy and asset management plan if they had not done so already. So, that was a good start and it helped everyone to get to that stage.

[9] **Jocelyn Davies:** So, in your view all local authorities should have the plan and they would have a robust strategy that matches that plan.

[10] **Mr Fearn:** Yes, they should. A number will have also updated those over the years. The work that the Wales Audit Office did, along with the buildings management review, assessed the progress on that.

[11] **Jocelyn Davies:** Okay. The guidance on asset management sets out the principles required for good asset management, including an integrated departmental and corporate approach and clear responsibility for, and corporate leadership of, strategic asset management. The WLGA's response to the committee's consultation stated that there may be some way still to go before the integration of all contributing elements can be demonstrated. Given that these principles were set out in guidance in 2003, which is obviously 10 years ago, why do you think that there is still work to be done to achieve the principles?

[12] **Mr Fearn:** I do not think that it is on the principles that we need to do a huge amount of work. I think that we are talking about making asset management the tool that it needs to be to support the wider strategies of authorities and linking into things like the Wales infrastructure investment plan, and so forth, rather than the principles. I think that the principles are very well-established. CLAW did a lot of work in terms of setting out those principles. As we have said, every authority has its own plans in place that are sufficient for their own organisational needs, effectively. The issue is whether they have been brought up to the point where the current agenda over the last five years or so is now looking at efficiency in collaboration, and whether those plans and the way that they can be joined together have been developed properly or to the point where that works.

[13] **Jocelyn Davies:** So, where you say that there may be some way to go, are you phrasing it like that because you do not know whether the local authorities are up to speed on this, or do you believe that some are not?

[14] **Mr Fearn:** No; in terms of the principles and the plans for their own use, they are well up to speed. The expertise is there for it to be taken on. I think that the issue is that everyone knows that we are developing. There are groups in place that are taking this matter forward. It is an evolution, basically, and we are parked down that road.

[15] **Paul Davies:** I want to ask you some questions with regard to links between asset management and capital and financial planning. During our previous inquiry on borrowing powers and capital approaches, the Scottish directors of finance presented a case study setting out the integrated approach to asset management, capital and financial planning. In short, this involves a local authority preparing not one, but seven asset management plans covering specific areas to form an overall corporate strategy integrating capital and revenue implications, which then informs the long-term capital investment strategy. In addition to this, they also detailed regular asset health checks to assist in dealing with backlog maintenance and ongoing asset rationalisation programmes. Are you aware that any authorities in Wales are taking such an integrated approach; and what work is under way to encourage such integration?

[16] **Mr Chapman:** Perhaps Jonathan can answer the detailed element of what individual authorities, and his own authority, are doing that he is aware of.

[17] On the integration of asset management into the wider capital financing opportunities and the like, we have recently been working—well, over the past 12 to 18 months—to develop profiles of capital planning through local authorities. We have achieved that and have published a document that gives that information. That is being discussed in an ongoing

fashion with the Welsh Government with regard to its integration with the Wales infrastructure investment plan and how that works together. It gives the detailed profiling of local government projects that fit the WIIP and the pipeline that is trying to be developed there.

[18] In a more holistic view of it, we would hope to go towards looking at the spatial planning elements of that, how that fits with the WIIP, and how the profiles of work that we are proposing, which can then be looked at financially, can develop a prioritised programme that fits with and takes forward everybody's objectives. However, almost in answer to the earlier question, that is where we are going; we want that more holistic view of things, but it is a developing process, and it is being done step by step at the minute.

[19] **Paul Davies:** So, what you are saying is that there is a lot more work to be done in this area. Are there any barriers to achieving these essential links, do you think, as far as authorities are concerned?

[20] **Mr Chapman:** The simple one, quite easily, is the day job. This is something that we have had to develop over and above our organisational needs to work towards the wider collaborative agenda and the like, seeing what can be done with the wider aspects of Wales and local authorities coming together. We work regionally; we want to give ourselves the opportunity to see that picture regionally and do what we can within our communities, but on that broader basis.

[21] The difficulties are often historical. We have not done this before in lots of ways, so we are breaking new ground. There are always issues of resource. I have talked about evolution; if you want a big-bang approach, you really have to put a lot of resource into it. This is a relatively complex thing to do; there are a lot of layers to it, as you probably appreciate, so it is, unfortunately, at the moment, a resource issue. We need to take it step by step with what we have at the minute and, as you well know, the position with resources is not getting better.

[22] **Mr Fearn:** Can I add some detail as an example of how revenue and capital strategies are informed by asset management? This is just from Carmarthenshire's perspective. We have a three-year rolling capital programme generally and are developing a five-year strategy now, and that is very much informed by the asset management plan that we have developed over the past few years, particularly the asset review process that we undertook last year and the year before, which involved work with the local service board members, our local colleges and university, health, police, the council for voluntary services locally, and the mapping exercise that we undertook across the whole of the county, looking at everybody's assets, what needs there were in terms of service provision going forward, what opportunities there were for disposal to fund some of those changes, and to try to look at that across the board. Now, it was a snapshot exercise, and I must admit that we have not totally embedded that, but it was a useful exercise as a snapshot of a year ago.

[23] What I would like to see is a developing asset management strategy across all organisations on a geographical basis. That is something that we are now working on with each of the estates departments in each organisation. As for the county council's own capital programme, however, we have identified funding that can come from the disposal of assets, relocation from different buildings, a reduction in the number of buildings held, and co-location with different organisations. This realises assets that can be sold to fund the changes, and also efficiencies. This will bring about revenue savings that we have planned over that period. It also brings about capital investment and strategy, which helps our capital programme and helps us to invest in things that we might not be able to otherwise.

9.15 a.m.

[24] **Paul Davies:** In order to drive this forward, is the leadership and responsibility for asset management clearly defined and supported by management and elected members at the level of individual local authorities?

[25] **Mr Fearn:** Certainly within local authorities, I would say that it is, probably on a different basis in different organisations, depending on their own prioritisation.

[26] **Mr Chapman:** I would agree with that in that it is down to the individual organisation to some degree at the moment because of their individual drivers for their communities. In a way, it is those drivers that have been pushing us. The twenty-first century schools programme is a good example—the driver for that was obviously education and improving education. In order to do that, you come back to asset management. You look at the schools; a comprehensive survey was done of the schools to get a picture of what was out there, for example, what we needed to do and how much needed to be spent on them. However, that then came back to us in terms of strategies for rationalising school places and for closing schools before we could start to build schools. Land is needed for that, so again, asset management comes into that. That is an integrated approach, which all local authorities were more than happy to take on board and work with. Potentially, we would like to go there on a greater scale and perhaps that was an opportunity to take that forward, which has not been missed by any means, because it is an opportunity to say, ‘This is how it can work, so let us springboard off that’. I think that the school programme will be an asset for local authorities, but we needed that springboard. The objective was very simple, namely education, and that is what we targeted.

[27] **Jocelyn Davies:** So, would this have been a priority for local authorities if these external drivers of having to rationalise school places did not exist and if there were no funding available for twenty-first schools? Probably not.

[28] **Mr Chapman:** That is the issue. Given that we have these front-line issues that always take the attention, the asset management is done to drive those objectives. Asset management in itself, with all due respect to the good practitioners out there, is almost a support service, helping to deliver those wider objectives. Hence, it tends to come down the pecking order slightly. It is well led once we focus on it and it links into corporate strategies and the like, but it is a mechanism for delivery.

[29] **Jocelyn Davies:** So, it probably takes an external pressure or driver of some sort, for example, the squeeze on public finances, which makes local authorities look at their assets in a slightly different way than they would otherwise. Is that why it has become a priority for Carmarthenshire?

[30] **Mr Fearn:** I think that it has certainly been a driver; I would not say that it has made it a higher priority, but it has been an opportunity to explore assets that we may have been working up gradually and it has given us an imperative to do that more quickly and to have a more disciplined programme. There is always the driver and the demand for capital receipts. There is always the demand to make services locate in the best place for that service. While I agree with Chris on asset management and property management being support services, they can also be a driver for change. For example, if you were to make a case for closing a building and co-locating services together, that may not come directly from the service, but with a property solution, you can drive service change through that. However, it can also support the wider demands of the service as a support function.

[31] **Christine Chapman:** I want to ask questions on collaboration. You have touched on some of this already. We have heard evidence from local authorities when they have talked about collaboration and we have found that some authorities are coping with the collaborative

arrangements, others are seeing it as a barrier. Quite often, there may be similar circumstances, but it is the way it is perceived. Can you provide some insight as to why local authorities appear to have such different views on this?

[32] **Mr Fearn:** It depends on the particular sort of collaboration. There are so many different layers and opportunities. There has been some assistance with trying to direct collaboration into certain regions and the setting up of the regional committees. The local service boards have helped to try to focus on the geographic area of the local authority boundary and the partners around that. You can have collaboration in all sorts of directions: Carmarthenshire County Council has collaborated on IT services with Dyfed-Powys Police, and other education services are shared across the wider region. We are talking with various other councils in different directions, so there is a danger that you are getting quite a disparate set of layers of collaboration, which makes it even more complicated when you are then trying to bring things together even further. So, the appetite is there from all local authorities—Chris may know of some other examples where that is not the case—but it perhaps needs to be channelled more fully to a certain direction rather than a free-for-all, which allows people to work with the willing; we need to bring up the unwilling as well and help them to come to the table.

[33] **Christine Chapman:** Who should be driving this? We have some examples from the evidence that there may be similar circumstances, but two different authorities may approach it in different ways. What is going on under the surface there? We are trying to learn lessons on this. Could you give us an idea of what could be happening in local authorities? There is resistance, obviously.

[34] **Mr Chapman:** You say ‘resistance’ and you might term it like that, but one of the key things that we recognise with the autonomy of the individual authorities is that they have to make their own business decisions on these sorts of things. We talk very much about national, regional and local agendas and so on, which is the right way to go, but I do not think that we talk enough about what we do collaborate on, because we collaborate hugely on a number of issues right across the scale.

[35] I come back to what the agenda is, in a sense. I came into this area in 1999 when ‘Better Value Wales’ was published and there have been reiterations of that, and that is where I have seen the collaborative agenda develop from. This asset management and the like has probably been on that agenda for a long time, but nobody wanted to go there for a few years because it was too hard. We did not have the tools in place and various things like that. Now that those have come into place, you will probably see more collaboration.

[36] There is a lot going on through the groups that are out there now. You have the national asset management working group, which is becoming a focus for collaboration and you have seen papers on the number of pilots that are going on to try to develop the practice. I see that as a very good focus to develop things across Wales. There are opportunities with regards leadership to make these things link into the wider strategies in terms of, as I have mentioned, WIIP spatial planning. Those decisions, from our point of view, come back to the role of local authorities, in their community leadership role, in making the right decisions for their communities in the context of the wider regional and national agendas.

[37] **Christine Chapman:** Is the pace of it right? Is it too slow, or is it about right? How would you assess that?

[38] **Mr Chapman:** In a lot of ways, it is a difficult question to answer. If you have more to work with, you can probably increase the pace. I would love to see it going a lot quicker. Ten years on, I am still saying the same things sometimes, in some areas, that I was saying back then. In other areas, I am happy to say that I was right at the beginning of the twenty-

first century schools programme, and it is nice to see that starting to happen, but it is a slow process. The more direction and focus you can get the better. If you get good leadership and that is pushed down, it is very helpful, but you need the extra bodies if you want to make a sea change.

[39] **Jocelyn Davies:** Did you want to come in on this point, Peter?

[40] **Peter Black:** It has probably been answered, but in terms of collaboration to deliver services, to what extent is property management and asset management part of that collaboration? Are you sharing assets to deliver those services on that level?

[41] **Mr Fearn:** Yes. As I said earlier, it can be a driver. It can also be a support function. The way that asset management works is that you should be liaising with the service departments, the services that are being run, identifying what their ideal property solutions are and where their ideal locations and buildings are, and then suggesting ways of achieving their ideals from the current base.

[42] **Peter Black:** Does that work when you are talking to other authorities about services?

[43] **Mr Fearn:** Yes, particularly with cross-boundary services and within the geographic area that you are looking at. Again, looking at the Carmarthenshire example, we have undertaken work, through e-PIMS as well as our own internal mapping systems, to map out the different assets available within a town such as Carmarthen. We have worked with estates colleagues across different organisations to say, 'We could have a combined customer service centre here', or 'We've got too many offices, so let us try to co-locate in a number of offices; let us close a few buildings and reduce running costs, provide a focus for the public to come to, to receive services in a single location, rather than having to knock on a number of doors to get similar services'. That can be a driver for change as well as the service department wanting to make the change for service reasons.

[44] **Christine Chapman:** We have had evidence from the public services leadership group. It says that collaboration has three strands: delivery of services, asset management and policy development. In your experience, are efforts made to include all three aspects in local government collaborative arrangements and how do you support authorities in making these links?

[45] **Mr Chapman:** Whatever you call the levels, they all have to be interlinked. You cannot really work together without doing it. Having said that, I have already said that there is further work to be done on making those links as good as we would like them. That goes for local authorities as well as for public sector bodies, the voluntary sector and the like. It takes a huge amount of time and effort to communicate all these things. We do not have the tools in place yet to make everybody aware of everything that we do. E-PIMS is a developing product, and all the local authorities bar two have put nearly all their data on it. I believe that the other two are currently putting their data on to it. That is a basic tool that you can use to communicate things. Whether or not sharing the agenda and the like is the way to move those things forward properly is a big question to take on.

[46] **Christine Chapman:** Finally, you have mentioned this a bit, how are the collaborative arrangements between local authorities and other sectors such as the local health boards considered, and how are they working? Are they about right or could they be improved?

9.30 a.m.

[47] **Mr Chapman:** I would say that they need improving. Not pointing the finger at any individual sector, they are getting better but we need to push on with them. That is why we are having these discussions with the Welsh Government on the WIIP, trying to feed our work into that. I know we are trying to open that up to make these connections. That is a developing process at the moment.

[48] **Peter Black:** In your paper, CLAW speaks of benchmarking key performance indicators as developed by the data unit. However, some responses from local authorities refer to disparate and unreliable information availability, and the Chartered Institute of Public Finance and Accountancy states that only property condition is really measured and that even that is not reported by all local authorities in Wales. In your opinion, are asset management and local government supported by adequate information systems to enable performance measurement?

[49] **Mr Fearn:** Performance indicators have become dirty words and are associated with bureaucracy and inefficiency. However, they can be a good driver for change and demonstrate an improving or worsening position over a trend analysis. They underpin good asset management to know the properties that you are dealing with, to understand them better and to be able to benchmark across different and similar organisations that are maybe managing their property better, to help bring up those that are not managing it as well. Condition is important, but if you do not have the money to improve it, it is difficult to see what the benefit is of collecting lots of data for the sake of it. I think that pinpointed performance indicators are probably needed. The suite that CLAW commissions through the local government data unit is about right. There is, possibly, a need to encourage greater compliance and uptake with those measures across the board. The national assets working group, and particularly the IT work stream, is looking at a single property database for Wales across all sectors, and that would be a good way to achieve that, with everyone storing data in the same way. At the moment, different sectors are storing things in different ways. Even different local authorities are storing things in different systems and it is difficult for them to talk to each other. They are difficult to analyse on exactly the same basis as somebody may measure floor space slightly differently to somebody else. A consistent set of performance indicators would go a long way to helping comparisons across and within the sectors.

[50] **Peter Black:** Do the indicators that CLAW commissions from the data unit not provide that?

[51] **Mr Fearn:** I think that the suite of indicators provides that, but the lack of buy in from every single organisation is the issue.

[52] **Peter Black:** So, it is not well-populated information at all.

[53] **Mr Fearn:** It is about the number of organisations that are using that system. There are probably no indicators that every single local authority, for example, supplies data for. However, across the suite, if everyone provided everything, that would give a fair indication.

[54] **Peter Black:** How would you drive forward a change to achieve that consistency and make sure that that information is available?

[55] **Mr Fearn:** It is a matter of dedicating some time to explaining the rationale of the logic and the benefit of keeping that information and not making it too onerous. This could be done by having a clear roll-out of a better IT and database system, which will make it easier for everyone to do it on a consistent basis.

[56] **Peter Black:** Is this something that the Welsh Government could take a lead on?

[57] **Mr Fearn:** One way of achieving that would be through the national assets working group, which is a Welsh Government group that involves representatives from various sectors. Different sectors collect different data, so the suite of indicators that CLAW commissions is totally different to the suites that colleges and universities, the police and the health service commission. Therefore, no comparison can be made between them.

[58] **Peter Black:** So, the Welsh Government needs to get involved in this.

[59] **Mr Fearn:** There needs to be an overarching consistent approach.

[60] **Peter Black:** The CLAW guidance sets out that asset management plans have a five-year cycle, but should be reviewed and updated annually. Other evidence suggests that asset health checks should be conducted to identify strengths, weaknesses and areas for improvement. To your knowledge, are plans reviewed and updated annually as you recommend, and are you aware of health authorities carrying out these health checks?

[61] **Mr Fearn:** The health check is a service that the Chartered Institute of Public Finance and Accountancy offers to local authorities and public bodies. In its evidence, it highlighted a number of studies that it has done on various organisations. In terms of asset management plans, I can speak for Carmarthenshire in saying that we fully update ours every three years, and it is updated annually. I cannot speak for every local authority to say that that is happening everywhere, but it is best practice to look at that consistently so that it remains a live document, rather than one that sits on the shelf and is not looked at from year to year.

[62] **Ann Jones:** We have had evidence that a lack of resources might inhibit moving forward, even though there is recognition that there could be potential savings. Do you share the view that that is a barrier to progress in local government?

[63] **Mr Chapman:** It is a barrier to the speed of progress. Everybody is on board with the idea that asset management is a tool that we can use to deliver. As I have said, it is more a case that, in the current financial position, things are getting tighter. We have to put our resources generally into front-line services rather than spend money on developing an asset database or a process of dealing with assets, which takes our resources away from such issues as childcare and the education agenda. It is a balancing act, as you can well appreciate. Some say that staff are our greatest asset and perhaps we should look at better ways to distribute them across the public sector, because there is a huge amount of expertise in property across the public sector. I am sure that the national assets working group is a really good focus for bringing that together, but at the end of the day, it can only do so much. If you want to push systems, you want databases and to be able to communicate, then potentially, you have to make a substantial change, but then you have to consider timing and resource.

[64] **Ann Jones:** You have made it quite clear that you think that the priority should be front-line services and I think that people agree with that. An opposing view is that if you get your asset management right, it would enhance a better service delivery. Given that there are potential savings to be achieved, is that view widely held in local government, or is that just the WLGA's view?

[65] **Mr Fearn:** I think that it is a widely held view, and certainly within the property profession. On the same sort of issues, in my career, I have been trying to persuade colleagues in service departments about property management and sharing buildings et cetera, and it has never been easier than it has been over the last couple of years, because they are desperate to find savings to ensure that they can keep the front-line services going. So, they are very grateful now, whereas they thought I was interfering before. I think that there is a great benefit in that.

[66] **Ann Jones:** Why would the WLGA feel that it is a contentious issue to be putting resources into effective asset management?

[67] **Mr Chapman:** It is not a contentious issue, as such. It is just a reality of life. We fully recognise—

[68] **Ann Jones:** Sorry, but that is what you said in your consultation response. If I could refresh your memory, you say,

[69] ‘it is important to recognise that in times of diminishing resources targeting additional support to developing what may be perceived as “back office” functions’—

[70] that is a term that I do not necessarily like—

[71] ‘can be contentious’.

[72] You said that. So, I am trying to find out why you think that it is necessary to say that on behalf of the WLGA, or why the WLGA is saying it on behalf of local government, when there seems to be a different view out there in local government that potential savings could be made.

[73] **Mr Chapman:** It is very much the case that we fully recognise that there are huge savings to be made. All my work—

[74] **Ann Jones:** So, it is not a contentious issue.

[75] **Mr Chapman:** Yes, it is when you come to actually putting the resources there. We recognise that there is potential there. All the work that I do is in collaboration and trying to look further over the hill to save and to improve the way we work. The difficulty is that you have to deliver the front-line services and functions. As I have said, you can allow this to evolve, which it has been doing for some time, and there are great strides being made, or you can pump prime it and suddenly make a huge, quick stride. That is a very difficult decision to make when you are talking, for example, about whether we have enough money to deal with the childcare issues. Vulnerable children are out there. Our money is shrinking, not growing. That is where the contentious part of it comes in.

[76] **Ann Jones:** Okay. I will leave it there; thank you.

[77] **Jocelyn Davies:** Mike, do you want to come in on this?

[78] **Mike Hedges:** You talked about lack of money, but very few local authorities use the invest-to-save fund in order to make savings. Bridgend is a classic example. When its representatives came along, they explained something, which I understood—so it must have been relatively simple—about where they spent money and had savings at the end of it. However, very few local authorities take advantage of that. Do you know why?

[79] **Mr Fearn:** I was going to mention the invest-to-save fund as a good example of where the Welsh Government has been assisting certain local authorities that have wanted to take forward a particular project of asset management. Carmarthenshire, for example, chose not to do that. We use our own resources to do it so that we can focus our resources on setting up a team to do this particular asset review. We still invested, but we chose to not use that fund. Other authorities may welcome that, and it may be that others are doing that from other resources.

[80] **Mike Hedges:** In a number of countries in continental Europe, all teachers’ pay is

dealt with centrally. All teachers in Wales are paid exactly the same; they are on exactly the same grades and are paid exactly the same way. Surely, there could be some advantage, if you are talking about assets, of dealing with all teachers' pay in one place.

[81] **Jocelyn Davies:** Mike often asks questions that do not need an answer, so do not feel obliged to comment. [*Laughter.*]

[82] **Mike Hedges:** Do you agree? [*Laughter.*]

[83] **Jocelyn Davies:** There is one thing that I am struggling with here. Mr Chapman, you were saying that these are contentious issues—you may not want to use the word 'contentious'—and it is about shrinking budgets and making investment decisions. Mr Fearn, you are telling us that you have never been welcomed so much. So, I am not sure, with the squeeze on public finance, whether this is something that is welcomed. Is it because of the politics of it?

[84] **Mr Fearn:** I would not say that it is politics. There is pressure on budgets. Property is a possible money-saving opportunity, as is staffing and other aspects.

[85] **Jocelyn Davies:** This is what the committee is struggling to understand. If there are potentially huge savings to be made, why are these difficult decisions to make?

[86] **Mr Chapman:** What I wrote was from an overview position in the WLGA. When you go into individual local authorities—to be fair, Carmarthenshire is probably one of the better ones in this area—you see that they can be quite progressive. They see these things slightly differently. It has to be contentious in a sense, because people have to make decisions about where things go. I would maintain that. All of the collaborative opportunities and things that are coming over the horizon have been there for a long time. I have spoken for a long time about looking at bigger issues and trying to draw things together. It is not simply a case of going and doing it tomorrow in many instances. The day job and the priorities of the day have to come first, and then people tend to look over the horizon. Unfortunately, it is taking a long time to get past that. Helpfully, the WIIP that the Welsh Government is putting in place is starting to give that longer view of things. We are talking about longer viewpoints with regard to finance and the like, which is allowing us to plan better. The issue of finance starts to come into it: can you plan and do you know what your budget will be over the next few years, so that you know how you can set your stall out? Then you can start to move money into different places—

9.45 a.m.

[87] **Jocelyn Davies:** Yes, we understand that. What we do not understand is, in a time of pressure on public spending, there are potentially huge savings to be made and even though, on paper, this makes good sense, individual local authorities are reluctant to take action to do it.

[88] **Mr Chapman:** I am not sure that 'reluctance' is the right word. Maybe I have used it and taken you down that route—

[89] **Jocelyn Davies:** What is the hesitation then?

[90] **Mr Chapman:** It is the opportunity. I think that everybody would like to do it, but whether they can put the resources in to do it and to take that big step—

[91] **Jocelyn Davies:** So, it is making that initial investment that is the hard thing to do.

[92] **Mike Hedges:** May I come back on that? If there are all these problems with getting the money, why are they not using the invest-to-save fund?

[93] **Jocelyn Davies:** We will consider that in terms of the report. We have only about five minutes left, so we will have to move on quickly.

[94] **Ieuan Wyn Jones:** I will ask my questions in Welsh, so you may want to use the translation facilities.

[95] Un o'r cwestiynau y mae angen ei ofyn yw sut mae rheoli asedau mewn llywodraeth leol yn dangos ei fod yn effeithlon ac yn gosteffeithiol. Sut ydych yn cofnodi gwerth am arian yn dilyn hynny? One of the questions that has to be asked is how it is shown that managing assets within local authorities is done efficiently and cost-effectively. How do you record value for money following on from that?

[96] **Mr Fearn:** That comes down to the performance indicator question, as to recording the baseline and monitoring that going forward, so if you know that you are improving but you cannot prove it, then you cannot do the next project that follows the same pattern and you cannot demonstrate best practice to the wider community across the public sector, which is why the national assets working group is a good place to base some of that analysis. The invest-to-save programme, in looking at a number of projects and evaluating them, will be a way of demonstrating a series of best practice items. I referred in my evidence to the nine best pilot projects that were selected by the national assets working group in 2010, and a number of those items of work have been completed. There would be some merit in maybe the Wales Audit Office's best practice exchange expanding to cover a number of more current examples. There would be some benefit in a wider sharing of those best practice examples.

[97] **Ieuan Wyn Jones:** Mr Chapman, mae Mr Fearn wedi egluro'r broses yn sir Gaerfyrddin, ond a ydych yn ymwybodol bod hynny'n rhywbeth sy'n digwydd ar draws awdurdodau lleol yn gyffredinol? **Ieuan Wyn Jones:** Mr Chapman, Mr Fearn has explained the process in Carmarthenshire, but are you aware of that as something that happens across local authorities in general?

[98] **Mr Chapman:** In terms of the adoption of benchmarks, KPIs and so on, I cannot speak specifically about the detail of those organisations and how they measure that. The national assets working group has been looking at that issue and, hence, Jonathan is probably in a better position to do that. One thing I would say about value for money—this is where the process needs to be joined up—is that the idea of getting and managing your assets properly is about what outcomes you are trying to deliver at the end of the day. So, the methodology—I will come back to twenty-first century schools—is benefits realisation by utilisation of the five-case model, which is simply about understanding what you are trying to achieve through your processes and your delivery upfront. Jonathan may want to say something about this, but I am not sure whether we completely understand what we are trying to achieve with asset management now. Are we trying to go to this higher level of strategic, holistic approaches, such as the Scottish example that was mentioned earlier, where you have an integrated approach? If so, you are going to measure something slightly different. We need to get that focused and understand where we are going with that, and we can then probably get what we are going to measure better defined. Whether we are getting the best out of the land depends on whether or not it is resulting in proper services and educational attainment being raised at the other end.

[99] **Ieuan Wyn Jones:** Rwyf yn sylweddoli ein bod o dan bwysau ariannol difrifol, ond dywedwch bod awdurdod lleol yn rhoi tir am ddim i adeiladu tai **Ieuan Wyn Jones:** I realise that we are under considerable financial pressure, but say that a local authority gives land for free to build affordable housing, someone could argue that

fforddiadwy, gallai rhywun ddadlau nad yw hynny yn rhoi gwerth am arian, ond mae'n rhoi budd i'r gymuned.

that does not offer value for money, but it is of benefit to the community.

[100] **Mr Chapman:** Yes.

[101] **Ieuan Wyn Jones:** Rwyf eisiau gofyn i chi hefyd roi enghreifftiau. Mae Mr Fearn wedi gwneud, chwarae teg—mae wedi sôn am y cydweithio sydd wedi digwydd rhwng y cyngor sir a Heddlu Dyfed-Powys ar dechnoleg gwybodaeth. Dyna oedd un o'r enghreifftiau. A oeddech yn gwneud hynny er mwyn gwneud arbedion, megis arbedion maint, neu a oeddech yn ei wneud er mwyn cael system a oedd yn fwy effeithiol, neu'r ddau?

Ieuan Wyn Jones: I want to ask you to also give examples. Mr Fearn has done so, to be fair—he talked about the collaboration that has taken place between the county council and Dyfed-Powys Police on IT. That was one of the examples. Did you do that in order to make savings, such as economies of scale, or did you do it to get a more effective system, or both?

[102] **Mr Fearn:** It was both, obviously, but the main driver would have been financial. There was an opportunity with a retiring head of IT service in the county council to have discussions with partner organisations that could perhaps take forward a service jointly. So, that was the driver. That was less of an asset management issue and more of a structural and personnel issue. However, there are other opportunities through buildings and land to share costs through sharing of buildings. There are examples of shared offices between social care and health in Carmarthenshire. We have three separate regional offices jointly set up with social care and health and we will shortly produce a paper on the benefits that have come from that. Some of the benefits are just gossip around the photocopier and getting to know your customers speaking from a health perspective and a social care perspective in the same office in an open-plan environment. A lot of those benefits are not that tangible, but they drive significant benefits for the customer.

[103] **Ieuan Wyn Jones:** I am interested that you still use photocopiers, I must confess. *[Laughter.]*

[104] **Mr Fearn:** Only in social care. *[Laughter.]*

[105] **Ieuan Wyn Jones:** Yr hyn roeddwn yn ffeindio'n ddiddorol yn yr enghraifft a wnaethoch ei rhoi am y berthynas â'r heddlu oedd eich bod yn cydweithio â chorff na fyddai rhywun yn disgwyl yn arferol i awdurdod lleol weithio ag ef. Felly, yr hyn yr ydych yn ei ddweud yw bod y cyfleoedd i gydweithio yn mynd y tu hwnt i ddim ond yr hyn a fyddai rhywun yn ei ddisgwyl, megis chi yn cydweithio â'r bwrdd iechyd, ac maent yn mynd yn ehangach na hynny hyd yn oed i gynnwys cydweithio â gwasanaethau sydd heb gael eu datganoli. A fydddech yn gweld potensial i fwy o hynny ddigwydd?

Ieuan Wyn Jones: What I found interesting in the example that you gave about the relationship with the police was that you are collaborating with a body that one would not normally expect a local authority to collaborate with. So, what you are saying is that the opportunities to collaborate go beyond what you would expect, such as you working with the health board, and go even wider than that to include collaboration with non-devolved services. Do you see potential for that to happen on a greater scale?

[106] **Mr Fearn:** I think that there is potential, and it goes back to what I said earlier about doing business with the willing. There was a willing partner in the police in the Carmarthen area. The police headquarters are in Carmarthen, and that probably helps—with the location being there a relationship was built up over a number of years in terms of joint heads of

service meetings, et cetera, with that organisation. That is something that we are trying to deliver across a number of different services and organisations. Through the national assets working group, those relationships are forming as well, and through local property groups, such as the one that I chair, for all of the heads of estates in the different public sector bodies in the county, which meets three or four times a year and looks at their strategies and at which properties are coming up for disposal and which properties and services could be co-located. There are still organisations, however, that are not interested in discussing in any great detail in different areas and different locations. There are certain sectors of different organisations that are more willing than others, and I think that it comes down to individual managers, individual directors and chief executives in terms of a willingness to open up and look at the property issues, which we are focusing on today, as well as the staffing issues.

[107] **Jocelyn Davies:** Okay. We have run out of time before we have run out of questions. I know that Mike Hedges and Julie Morgan had some questions on good practice and guidance; therefore, if it is okay with you, we will send those to you and perhaps you could respond to us in writing. Thank you very much for your evidence this morning. We will send you a transcript, and perhaps you could check that for factual accuracy, because it will eventually be published. Thank you.

9.55 a.m.

**Rheoli Asedau—Tystiolaeth gan Gydwasanaethau GIG Cymru
Asset Management—Evidence from NHS Shared Services**

[108] **Jocelyn Davies:** We have just one witness: Neil Davies. Mr Davies, thank you for coming today to give us evidence for our inquiry into asset management. If it is okay with you, I will go straight to the first question. We have until approximately 10.30 a.m. for this session and we have around 20 questions to ask in this session.

[109] **Mr Davies:** I will get my skates on.

[110] **Jocelyn Davies:** We were unable to get through all of the questions during the earlier session, but that will give you some idea of how much time we can devote to each question. In your written evidence, you state that wider strategic and policy objectives drive asset management within the NHS. Can you evidence how this operates in practice, and perhaps provide us with one or two examples?

[111] **Mr Davies:** I guess that the current situation that we are in is probably the best example of that. You will all be aware, from your own constituencies, that there is a huge exercise under way at the moment to deliver an improved health service, which has meant some very serious consultation exercises around Wales with very serious implications, which, of course, have caused a great deal of public anxiety in certain places. However, that has been brought about because it is an attempt to deliver a new health service in line with the requirements of the Minister for health. In time, that will lead, depending on the outcome of the consultation, to changes in the healthcare estate, and that will then require the asset management plans to support that. So, it is absolutely at the heart of asset management plans and the service delivery plan, as in fact it is has to be—or should be—in every organisation. It does not exist outside that, albeit that there can be opportunities to deliver efficiencies through some property issues outside your central delivery service plans, where there is rationalisation and such things. However, ultimately, it has to be at the heart of what you do.

[112] **Jocelyn Davies:** So, at the level of the individual health boards and trusts, would you say that there is such a clear link between asset management and their local strategies, and how would that be demonstrated?

[113] **Mr Davies:** Yes, I would say that there is a clear link. The health boards are required to put in place detailed service delivery plans outside this very significant consultation period. To do that, they have to be supported in some way by the asset base. So, there is an iterative process at each health board whereby you are trying to develop your plans, understand what your asset base can offer, where investment is needed, and also your human resource base to deliver that. So, there has to be an iterative process to develop those service plans. The Welsh Government was involved in that also, because the majority of the capital funding through the NHS in Wales is developed through the Welsh Government. So, there is this iterative process. However, I have to stress that it is driven by healthcare needs through the health boards in Wales.

[114] **Jocelyn Davies:** Shall we go on to your questions, Ieuan?

[115] **Ieuan Wyn Jones:** I will be asking my questions in Welsh, so you will need the translation.

10.00 a.m.

[116] **Ieuan Wyn Jones:** Gwyddom fod canllawiau wedi'u cyhoeddi yn 2011 a oedd yn diweddarar'r trefniadau ar gyfer cyfrifoldeb dros reoli asedau. Yn eich barn chi, a yw'r arweiniad a'r cyfrifoldeb dros reoli asedau wedi'u diffinio'n glir ac a yw hynny'n cael ei gefnogi gan reolwyr sy'n gweithio yn y byrddau iechyd lleol?

Ieuan Wyn Jones: We know that guidance was issued in 2011 that updated the responsibility arrangements for asset management. In your view, has the leadership and responsibility for asset management been clearly defined and is that supported by managers working in the local health boards?

[117] **Mr Davies:** Yes, I think that there is clarity around where asset management lies in the NHS and that, ultimately, lies with the statutory bodies responsible for the delivery of healthcare. Within that, it is fair to say that there is a different skill base available to different organisations across Wales. There are inconsistent levels. My organisation is a central, shared service, and, ultimately, the responsibility for the healthcare estate rests with the health boards. The resources that are available to different organisations to assist them with that local asset management planning process are variable.

[118] **Ieuan Wyn Jones:** Yn eich papur, rydych yn crybwyll y bydd yn rhaid i gyrff y gwasanaeth iechyd gwladol—y byrddau iechyd ac yn y blaen—ddatblygu cynlluniau rheoli asedau i ddangos sut y bydd eu hystâd ymhen pump neu 10 mlynedd. Rydym hefyd yn deall mai eich barn chi yw y dylid datblygu strategaethau ar gyfer yr ystâd sy'n cysylltu â gwasanaethau. A yw hynny'n digwydd ac a ydych yn credu bod y byrddau iechyd lleol yn deall yr angen i wneud y cysylltiadau hynny?

Ieuan Wyn Jones: In your paper, you mention that NHS bodies—the health boards and so on—will need to develop asset management plans to show the future of their estate in five or 10 years' time. We also understand that your opinion is that strategies should be developed for the estate that link to services. Is that happening now and do you believe that local health boards understand the need to make those links?

[119] **Mr Davies:** Yes, I do think that is happening now and I do believe that they understand those links. For many years, we have had a requirement for health boards, and their predecessor trust organisations, to develop estate strategies and to update them annually, and they drive the capital programme within those health boards. The capital programme supports the service delivery, so, I think that that link is known and well understood.

[120] **Julie Morgan:** Is there much collaboration between local health boards on asset management? Does that happen?

[121] **Mr Davies:** Yes, and we have a part to play in that as a central, shared service body that has been established by the NHS. Outside the work that we do, health boards and the trusts that exist in Wales collaborate closely with regard to their assets. They share assets all over Wales. We have a specialist estate, which restricts, to a certain degree, the extent of collaboration that you can have with other partners. For example, your main hospital centres are unlikely to be shared with many other public sector operators but, within those, you will often have a mix of different health boards and trusts occupying the same building, so that certainly occurs.

[122] **Julie Morgan:** Is it your job to look strategically at those links?

[123] **Mr Davies:** We are there to support that. The responsibility for the asset management of each health board rests with that health board. Our role in that capacity is to support health boards with how those exercises should be undertaken and what constitutes asset management plans. We would help them where they feel that they are weak in certain areas. Then we have some specific roles around asset management whereby we undertake all of the property management for them. Asset management is a very broad term that covers the whole gamut of asset management responsibilities, and we undertake many of the technical and professional functions within that.

[124] **Julie Morgan:** Does the initiative have to come from them, however?

[125] **Mr Davies:** Yes, I think that that is correct.

[126] **Julie Morgan:** I was just thinking of situations such as in Cardiff where you have Velindre NHS Trust and the local LHB, and how any sort of initiative could come from both.

[127] **Mr Davies:** I think that you are correct. Ultimately, that has to come from the respective organisations working closely together to arrive at an agreed position. Where we would support—

[128] **Jocelyn Davies:** Could you send us a note on examples of where assets within the NHS have been shared, either with other NHS organisations or others outside? It would be useful for us to see some examples, perhaps.

[129] **Mr Davies:** Yes, certainly. I will do that.

[130] **Jocelyn Davies:** I think that covers your question, Julie. We will move on to Chris.

[131] **Christine Chapman:** To continue on the collaboration theme, I just wondered whether you work with other bodies on asset management.

[132] **Mr Davies:** Yes. One of the main bodies there is the assets working group. We participate in that, and always have. We share our experiences with other public sector bodies, such as Construction Excellence in Wales—we often participate in its forum, giving examples of how we have developed a construction framework, so that is fed around the system. Certainly, on specific projects the majority of the shared assets that we would be involved with in the NHS tend to be in our primary and community care facilities, where, as you know, there has been a development to move services closer to patients where we can, and that has led to a wave of slightly different health centres, as they might have been called in the old days. They are now much more involved community resource centres. A number of those that we have developed, without giving more specific examples, would involve both independent

contractors, GPs particularly, but also the local NHS body, local authorities and, often, third sector bodies as well. So, where there is a commonality of purpose, we try to work with other providers to develop joint solutions.

[133] **Christine Chapman:** You are going to send us a note with some examples.

[134] **Mr Davies:** Yes, I will.

[135] **Christine Chapman:** Further to that, how is asset management considered in the collaborative arrangements for service delivery with partners from other sectors? I am thinking, for example, of local government.

[136] **Mr Davies:** The example that I just gave is probably typical of that. We are trying to provide services to communities, such as health services linked to social issues. There are often joint-occupation buildings and close working together as well. That would mainly occur in our primary community centres.

[137] **Christine Chapman:** Who would be initiating that? Would that be you? What about local authorities, for example? Are they coming to you with ideas or are you going to them with ideas?

[138] **Mr Davies:** There is probably a variety of different ways that that occurs. In theory, it should be through the local service boards, whereby you have different parts of the public sector coming together to, presumably, discuss these very issues and see where they can work together. Where we would be involved is the delivery aspect, I guess. Once these plans start to be developed we would come in and help to facilitate the delivery of that. How would the lease be structured, for example? How would you organise a deliverer to provide a building with multi-agency occupation? We provide that professional, technical support to enable some of these things to happen, but—I think the question is about this—we are not the catalyst for that change. That comes through the statutory bodies involved in that process.

[139] **Peter Black:** You state in your paper that the land transfer protocol developed by the national assets working group is used in the NHS in Wales. Is that true across the board in all cases?

[140] **Mr Davies:** Yes, because one of our functions within shared services is to do all of the property transactions for all of the NHS, so where appropriate, yes, it would be used.

[141] **Peter Black:** We have heard evidence that around 30 transactions have been undertaken utilising that protocol. How many of those have involved NHS bodies?

[142] **Mr Davies:** I believe that eight are through the NHS.

[143] **Peter Black:** We have also heard evidence from officials in the asset management work stream of the public services leadership group that they are working on phase 2 of the protocol, aimed at overcoming financial hurdles relating to the powers of organisations, and that the health sector is the most problematic in that regard. Can you explain the nature of those financial hurdles as applied to the NHS in Wales and detail any involvement you have had in relation to that work?

[144] **Mr Davies:** I assume that what they are referring to is that the NHS does not have the flexibility that the Welsh Government and local authorities have in offering sites for sale below market value. The Welsh Government can do it, and so can local authorities, but that is not part of our constitution. We are not able to do that.

[145] **Jocelyn Davies:** Legally you are not able to do that?

[146] **Mr Davies:** Yes, legally we are not able to do that.

[147] **Peter Black:** So, that would require a change in the law.

[148] **Mr Davies:** There is a way around it, and that is through the Welsh Minister, who is able to do that. However, I believe that for her to do that, she needs to declare a concessionary sale and attend a Plenary discussion to raise it. I am not an expert in these constitutional matters, but that is what I understand the position is.

[149] **Jocelyn Davies:** But there is a bureaucratic process that governs that.

[150] **Mr Davies:** I suppose that you have to see what the NHS is there for. The NHS is ultimately there to deliver healthcare. That is its role. It is not there with a fundamental purpose to participate in economic regeneration or job creation and those sorts of things. It can be a consequence of what we do, certainly, and of course it is, but NHS officers are not able to offer concessionary sales. If there is a greater good, that has to be referred back to the Welsh Minister, who can take the decision.

[151] **Peter Black:** This dates back to the days before joined-up Government, then.

[152] **Mr Davies:** It could well do. I think that there is another point to this, though. You have to be careful; it has to be very well controlled if you are offering sales at below market value, because inevitably, if the property gets into the wrong hands, the new owners could be making an extraordinary profit on the sale. So, it has to be carefully controlled; that is the position in the NHS. Our guidance does not allow us as independent officers within the NHS to do that.

[153] **Peter Black:** Okay. You also state—

[154] **Jocelyn Davies:** I know that Peter would argue, as would I, that land given up for affordable housing improves the wellbeing and health of the local community, whereas selling to the highest bidder might not. [*Laughter.*]

[155] **Mr Davies:** Absolutely, and the affordable housing protocol deals with that, because it essentially says that we will not offer the land on the open market, but that we will offer it for affordable housing. However, it is still offered at the open market value for affordable housing, as determined by the district valuer in this case.

[156] **Jocelyn Davies:** Okay, Peter; let us come back to you.

[157] **Peter Black:** There is an affordable housing protocol, of course.

[158] **Mr Davies:** Correct.

[159] **Peter Black:** And you use that to assess the suitability of NHS property for affordable housing before you sell it. Is that used in every instance?

[160] **Mr Davies:** Yes, absolutely.

[161] **Peter Black:** Have there been any cases in which land has been utilised for that purpose?

[162] **Mr Davies:** Yes. The eight examples that I gave you regarding the use of the land

transfer protocol were associated with the affordable housing protocol. So, the transfer to housing associations for affordable housing used the land transfer protocol.

[163] **Jocelyn Davies:** So, all of the eight were to housing associations for affordable housing.

[164] **Mr Davies:** Correct.

[165] **Peter Black:** I assume that one will be Hill House Hospital.

[166] **Jocelyn Davies:** Do think that you could send us a note on that?

[167] **Mr Davies:** Yes, I will send you a note on that.

[168] **Jocelyn Davies:** Peter, do you have any more questions?

[169] **Peter Black:** I have finished, thanks.

[170] **Jocelyn Davies:** Okay, then. Mike, shall we go on to your questions?

[171] **Mike Hedges:** I want to talk about systems and processes. Is there an overall common approach to options appraisal and prioritisation of capital across the NHS in Wales? Why has so little use been made of invest-to-save to top up capital in terms of buildings?

[172] **Mr Davies:** The answer to your first question is ‘yes’. The NHS is more closely controlled, in a sense, by the Welsh Government than perhaps local government is, so we tend to adhere to the requirements of the Welsh Government in this regard. It has quite a detailed process for option appraisals through the business case process. It is difficult for me to answer the second part of your question. I do not know why it has not been accessed for that reason.

10.15 a.m.

[173] **Jocelyn Davies:** It would be a matter for the individual bodies—

[174] **Mr Davies:** I would have to have sight of all their plans, which I do not have.

[175] **Mike Hedges:** Is there a systematic process for property reviews, or asset health checks, in place within each health body and for the overall health estate? If a hospital in Cardiff is graded at one level, would a hospital in exactly the same state in north Wales be graded the same? Is there consistency across the evaluation of the health of the NHS estate?

[176] **Mr Davies:** There is certainly an attempt to do that. We introduced the estates and facilities performance management system 11 years ago in an attempt to get consistency across all health bodies in the way in which they measure and assess their estate’s condition and performance. There are issues with that. It is a complicated and a resource-intensive process on occasion. Different levels of accuracy apply across health boards. We have worked very hard with them over the years to try to identify weaknesses. Consistency of the data returns we get has improved considerably over those 10 years. I would not be able to categorically guarantee the accuracy of all that data, but it is starting to be at a level where it is reasonably reliable.

[177] **Paul Davies:** I want to ask you some questions regarding the availability of information and benchmarking to support asset management. In a 2010 Wales Audit Office report, it is recognised that the estates and facilities performance management system in NHS Wales provides an improved evidence base. However, it remained concerned about the

quality of some data. In the 2011-12 estate condition and performance report, it is mentioned that there were problems obtaining data from some organisations and that a data verification exercise revealed a substantial number of anomalies. In your opinion, is asset management in NHS Wales supported by adequate information systems? Could they be improved to aid benchmarking and performance evaluation? If so, what is being done to achieve that?

[178] **Mr Davies:** As I said in response to the previous question, there are still concerns regarding the quality of some of the data. Over the years, we have gradually, with the support of the Welsh Government—I am being careful with my choice of words here—approached some organisations and worked a little more closely with them to try to improve the quality of their data. However, more could still be done.

[179] Some issues go way back to the creation of the NHS trusts, when, for a long period, the NHS adopted a more competitive approach to healthcare. Consequently, the benchmarking and collaborative support fell away for many years. As a consequence of that, for example, there is inconsistency in the information and communications technology support for different health boards. For example, they all run different property management systems, which is probably not helpful in this regard. However, they exist—they are in place and work for those organisations. The central returns that we request are fed from different systems, and that explains some of the difficulties with some of the inaccuracies. As I said, we have a system for challenging outliers—that is what those comments referred to—and we go back to them. Sometimes, it is as simple as someone not putting a zero somewhere on a return. For example, they put 10.5 when they meant 100.5 and we would pick that up. So, some of it is simple data entry difficulties, but there is also a broader issue with different levels of resources across different organisations dedicated to the particular area.

[180] **Paul Davies:** When you say ‘more could still be done’, you are saying that there needs to be consistency as far as the systems are concerned.

[181] **Mr Davies:** Certainly, consistency would help. You need drivers for change and the Welsh Government emphasising this, certainly within the NHS, has a big effect; there is no doubt about that. If the Welsh Government issues policy directions, the NHS does its best to follow them, so any support from the Welsh Government in terms of what you feel is needed in terms of guidance is always very helpful, and that does have an effect on health boards, probably more so than me turning up, to be perfectly honest. There is an issue there; consistency of information is important, but it is also about those drivers, and one of the key drivers now is the financial situation that everyone finds themselves in. That is certainly driving far more activity around asset management than it has for probably 10 years previously.

[182] **Peter Black:** We have just heard from the WLGA that there is no consistency in terms of data across the public sector and that the information that is available is sparse in some areas and not consistent. You are saying now that that is the case within the NHS as well. Is there a case to get a consistent public sector approach to this in which we have data that matches up and can be understood across all sectors?

[183] **Mr Davies:** Within the NHS, the data sets are consistent. There may be some inaccuracies feeding into those data sets. The previous speakers were probably talking about inconsistencies with the data sets across different parts of the public sector. I would have to look at that. It is quite difficult to compare an acute hospital with a school. There are different things within that; there are some common features, but also some very different features, so I would need to be convinced about the benefit of some of those data sets. However, where you can create consistency across larger areas, the better it is, but there are some practical issues in determining what those data sets should be to compare such a diverse estate as the public sector estate in Wales.

[184] **Peter Black:** If you are going to have an asset management plan driven by the Welsh Government to cover the whole Welsh public sector, you would need to do that, presumably.

[185] **Mr Davies:** You would certainly need some sort of indicators. I suppose I am pausing to wonder what they would be.

[186] **Paul Davies:** I have one final question. Can you tell us if the information held in the estate and facilities performance management system is linked to other relevant systems such as the geographic information system?

[187] **Mr Davies:** Not directly, no. We use the e-PIMS system to manage the property issues within the NHS and we also have a land and property terrier computer-based system that shows all of the maps and all of the rights of way and things like that across the whole of the NHS. There is a link between the e-PIMS and the LAP system, but not the estates and facilities performance management system report and any other systems; it is a standalone system.

[188] **Paul Davies:** So could there be improvements in that area in your view?

[189] **Mr Davies:** Yes, there could and that was my reference previously, namely if you had a common IT system in terms of property management across the NHS, you could envisage systems that talk with one another, which we do not have at the moment; we have separate systems. I know that Scotland has made great strides in trying to bring that together. It is a large exercise, but it is one that would certainly allow systems to talk to one another and be able to interrogate the information perhaps more easily than we can at the moment.

[190] **Jocelyn Davies:** In terms of the officials that would deal with this at a local level, would they all be professionally qualified in terms of asset management, or is this something that somebody does as part of their job? Who are the people locally who are dealing with this?

[191] **Mr Davies:** With asset management in its purest sense, because it is such an intrinsic link with service delivery, it really has to be quite close to the top of the organisation. So, within the NHS, generally, the executive director on health boards who would tend to lead on this would be the planning director. The planning directors are usually from a general management background. They would be supported within their organisation by the head of estates, who would feed into that exercise the more property-related matters.

[192] **Ann Jones:** I want to talk about resources and value for money. The WLGA was of the view that, although it could see the benefits of good asset management, there is, within the current climate, a contentious issue about diverting resources into that type of back-office function. Is that view held in the NHS or have you found that that inhibits progress?

[193] **Mr Davies:** If there is a clear case where you can deliver a value-for-money solution, you can normally find a way to do that. I listened to the previous session and I was not clear about that message, to be perfectly honest, because I am sure that, in reality, if there were huge gains, you would attempt to pursue them.

[194] **Ann Jones:** Yes; it must be the same in the NHS, must it not?

[195] **Mr Davies:** Absolutely. We differ a little in that we have such a specialist estate. So, the majority of our core estate is difficult to share in that sense, but we also carry a lot of office accommodation, much of which is on NHS sites. However, one job that I am currently undertaking as a member of the executive team for shared services is to look at our own office

accommodation across Wales. Certainly, we would be looking to try to work collaboratively in dealing with that where we can.

[196] **Ann Jones:** Another issue raised by local government is capacity and capability. On two occasions, we have had a response of, 'Well, it's the day job'. So, do you think that having a centralised approach to estates management in the NHS addresses that?

[197] **Mr Davies:** You are probably asking the wrong person because I am bound to say, 'Yes'. Wales is not a big place. I am not clear how many different property centres we have across the public sector, but I would guess that we have quite a lot. As the effects of the financial environment take place, you start to wonder whether they get down to such a small size that they are not capable of fulfilling the functions. So, there is an issue there.

[198] **Ann Jones:** 'The NHS Estate in Wales Estate Condition and Performance Report 2011-12' states that only two of the five national performance indicators have been met on an all-Wales basis in the last 11 years, and that in 2011-12, none of the five performance indicators has been met by all of the health bodies. So, do you think that estate management in the NHS in Wales is effective and efficient?

[199] **Mr Davies:** If you look at the pattern of those estates' performance indicators, you will see a strong relationship between improvement in the condition of the estate and capital investment. That is one thing that I have tracked for many years. Certainly during the majority of the 1990s and the early part of the 2000s, very little capital investment went into the NHS in Wales. Consequently, conditions did deteriorate. Since 2006, we have seen some very significant investment going into the NHS in Wales and we have seen fairly significant improvements in those indicators. I still think the NHS in Wales has been running at a capital deficit compared with some of our colleagues in Northern Ireland, Scotland and England. There is a big issue there about the relationship between the estate and investment and how you manage that.

[200] **Julie Morgan:** I am aware that our time is almost over, so I will very quickly ask you about your role in the national assets working group. How do you operate in that group and how do you get information?

10.30 a.m.

[201] **Mr Davies:** My head of property within facilities services is a member of that group. We are probably one of the most active members of that group. We have certainly embraced all of the initiatives, in terms of affordable housing and land transfer protocols. All of the NHS assets are on e-PIMS Lite, which is the national e-PIMS. In addition to that, we have utilised the e-PIMS website to properly manage all of the NHS properties. So, we have a lot more information on the e-PIMS site than any other organisation because we use it as a management tool. In addition to that, the information that comes back from that, particularly around vacant accommodation, is exceptionally helpful because it provides information locally every month. There are always things happening across the NHS. There are always opportunities to look at other vacant accommodation elsewhere. Sharing that information has been a very important innovation. I attended a Government property meeting in Manchester last week, and a chap called Richard Baker, whom you may know, from the Welsh Government was on the panel. I thought that Wales came across very well, in terms of some of the initiatives that it had taken. I was surprised to a certain extent, not because I thought that Wales was not doing well but because both Scotland and Northern Ireland have established central systems—the Scottish Futures Trust in Scotland and the Strategic Investment Board in Northern Ireland. I was a bit surprised that, in this area, they were a little behind the curve.

[202] **Julie Morgan:** You mentioned the information that you obtain. What about good practice and support? Does that come from the group as well?

[203] **Mr Davies:** Yes, certainly. There are various pilot projects that go through the board. It will be interesting to see how the board develops, I guess, and to see whether the functions of the board move towards a Government department or whether the board continues to operate in the way that it does. It is certainly a forum. It depends on the enthusiasm of the members. I think that we are pretty enthusiastic about it and contribute towards it.

[204] **Julie Morgan:** Lastly, do you think that more could be done by the Welsh Government to progress asset management in the Welsh public sector?

[205] **Mr Davies:** There is perhaps an area where more could be done around providing guidance where appropriate, and providing a Welsh Government view on things. As it would cover the whole public sector, I appreciate that this would have to be written in a certain way. However, those things are helpful. Certainly within the NHS, if I say that the Welsh Government wants something, it has an impact. There is no doubt about that. Therefore, I think that, where appropriate, published examples of good practice and the way in which the Welsh Government would like things to develop in this area would be helpful. Another potential area that the Welsh Government might wish to consider is training people on asset management. A lot of people in the property field have come through as chartered surveyors, architects, builders or engineers and have moved into asset management. Perhaps some training and support around that might be very helpful.

[206] **Jocelyn Davies:** Are you happy with that, Julie? I see that you are.

[207] I thank the witnesses very much for their evidence this morning. You are going to send us a note on examples of sharing assets. We will send you a transcript. If you could check it for factual accuracy, it would be very helpful.

[208] **Mr Price:** If we could have a list of the eight with regard to the LTP; that would be helpful.

[209] **Jocelyn Davies:** Yes, please send us a note of the eight pieces of land given up for affordable housing.

[210] We will have a quick break now. I ask everyone to come back by 10.40 a.m., so that we can take evidence from our next witness. We will then have an hour with the Minister, from 11 a.m. until 12 p.m.

*Gohiriwyd y cyfarfod rhwng 10.33 a.m. a 10.42 a.m.
The meeting adjourned between 10.33 a.m. and 10.42 a.m.*

Rheoli Asedau—Tystiolaeth gan Gyngor Gweithredu Gwirfoddol Cymru Asset Management—Evidence from the Wales Council for Voluntary Action

[211] **Jocelyn Davies:** Thank you for coming to speak to us this morning and contributing to our inquiry into asset management. Before we go into questions, would you like to introduce yourselves individually for the record?

[212] **Mr Fiander:** My name is Phil Fiander. I am the director of programmes at the Wales Council for Voluntary Action, and I have responsibility for a lot of this activity within WCVA. On my right is Peter Williams, who is the director of Development Trusts Association Wales and who has had a lot of experience in helping organisations with asset

transfer and so on. On my left is Matthew Brown, who heads up our community investment fund, which looks at social finance and provides social finance for asset transfers and those sorts of things. We have put together an expertise on a particular area.

[213] **Jocelyn Davies:** We appreciate from your paper that you state that some of the topics covered by this inquiry are outside your expertise and experience. However, we would like you to think about your dealings with organisations in the wider public sector and give your views on how well you think that asset management in these bodies is linked with wider strategic and policy objectives. In this respect, are there any particular areas of concern? Also, what would you like to see in terms of improvement? Peter, would you like to comment?

[214] **Mr Williams:** We did some work for the Welsh Government in 2008 on taking forward the Quirk review, which was a review of community ownership of assets, primarily in England, but it was looking at the opportunities to extend that learning and the discussions about community right to buy, which was then in its early days. We came up with six or seven proposals that looked at whether the barriers to potential transfers of assets to communities were real or just perceptual barriers. We also looked at awareness raising around where good practice had happened, perhaps capturing more of the economic benefits. We looked in particular at financing assets. There was a complexity of different types of finance that were required at different stages of asset development and in different communities. Some of the recommendations that we put forward as part of that research are now being taken forward. The community asset transfer fund has been established, as we mentioned in the paper, which was a joint venture between the Welsh Government and the Big Lottery Fund. It was a particularly innovative fund because it looked at asset transfer from all types of public bodies, not just local authorities, which has primarily been the focus. It also included things such as a development fund that allowed communities to put in that important pre-investment-type approach to developing their business model and business case. Some might not then go through to the second stage of a two-stage approach; however, we found that invaluable.

10.45 a.m.

[215] The other side of the equation is about opening up opportunities for communities to access other types of finance, particularly through the community ownership model. The key thing about community ownership is that the asset can sit on the balance sheet of the organisation, and it can then use that funding to generate other types of income like loan funding; it can also use it to take security. Since the early days of lobbying for more types of social finance for community asset development, we have seen that there has been quite significant growth—there is the community investment fund with the WCVA, but also things like the charity bank, co-operative and community finance, Big Issue Invest and a raft of what we sometimes call patient capital funds, which sit between grants and loans.

[216] We have seen significant progress, but there are a couple of areas where we think that there could be greater investment—sort of thinking bigger, really, about opportunities and the huge amount of assets that are owned by a number of different public bodies that are more likely to become available in future. Some of those might be energy-inefficient assets of which more productive use could be made through collaborative developments with public bodies, local authorities and local communities. We have some really good case studies that are examples of where that has been done; we put one or two of them in the paper. I think that the CAT fund has itself been evaluated, and the projects that are coming forward from that seem to occupy quite a broad spectrum.

[217] I have touched base with my colleagues elsewhere in the UK; in Scotland, they had the Land Reform (Scotland) Act 2003; in England, the previous administration brought in community right to buy, whereas there is now a slightly different version called community

right to bid. However, there are some major drivers for taking this agenda forward. I think that we have some ad hoc examples of good practice in Wales. However, we think that there could be more of a strategic approach, with all the different public bodies involved in a dialogue on how we could build it.

[218] The key economic message is about ensuring that we are, first of all, making more productive and efficient use of underutilised assets. Secondly, it is what you do on the back of the assets that is important; it is about how you have swept an asset to build enterprises, income-generating opportunities, skills and employment opportunities on the back of it. Thirdly, it is about how this can open the organisation up to being what we could call investment ready, particularly where the asset sits on the balance sheet and allows it to access wider finance outside public finance.

[219] **Jocelyn Davies:** Matthew, do you have anything to add to that?

[220] **Mr Brown:** Yes; we see that lots of community groups come forward that have spotted assets in their communities that they want to use. What is important is providing them with support to get to a point where we can make it a decent investment decision. We are about making investments that are going to make a return for us so that we can invest again. It is about helping communities to get together so that they have a strong business plan, they understand that it is not about relying on one income source, and so that they understand what is going to be needed to turn an inefficient building into a building that is fit for purpose. It is also about thinking about all of those different areas of expertise and how community groups can really get hold of expertise to ensure that they put something together that is investment ready. There might be a mix of grants and investment-ready schemes, but that is a better step to take than just being reliant on grants.

[221] **Jocelyn Davies:** Can you provide us with any examples of organisations in the voluntary sector where assets are managed as a resource to aid service delivery and where this forms part of an overall strategy? You do not have to think of an answer now; perhaps you could think about it and let us have a note. Julie, shall we go on to your questions?

[222] **Julie Morgan:** I think that you said that the good examples that exist are ad hoc in nature. How can you spread this good practice? Can you use the organisations that have done well in this field to help the rest of the voluntary sector?

[223] **Mr Fiander:** Yes; that is one of the things that we do. A lot of the stuff that we do is about creating the marketplace. To give a good example of the way that you create the marketplace, we get organisations that come forward with the seed of an idea and we link them up with organisations that are already up and running. For me, the issue is about having a consistent approach with public sector bodies. CAT started to drive some of that process, because it was a very clear strategy with regard to what you were trying to do; it gave clear deadlines and it allowed organisations to get involved. Often, the problem on a community level is that it is ad hoc. If you are a community trying to purchase or transfer an asset, trying to work your way through the maze of public service routes to get hold of the asset is very difficult. So, in some respects, it is about that consistency and delivery. We can promote the availability of the assets, but the route to getting hold of them is a mixed bag—you do not know whether you have to talk to legal people, this department or that department—and, often, that is what happens. That puts the groups off in the end, because it becomes such a hard task; whereas, CAT drove some of that as it drove some of the local authorities to set deadlines for things to happen. So, it is about consistency.

[224] **Mr Williams:** To add to that, there are other examples where you need some peer to peer support, as you mentioned, from more experienced practitioners who have, perhaps, been there and done it before and made mistakes, so that communities do not reinvent the wheel

every time they go through this process. There has been a huge amount of that happening in Wales already. We have done it through training seminars and we have also developed an assets portal, which is quite a detailed, comprehensive guideline for those coming into this for the first time. We have also worked with the public sector, for example, Cardiff Council, on developing its community asset transfer strategy, and we used model guidance for that process. A lot of risk guidance has been put in place for the public sector partners and the community partners and their boards or staff. That is a good example of something that was not available a few years ago and it is now in place. So, it can help. It is not for everyone and we would say that community asset transfer is most useful where there is a strong business model or case, but communities may want to acquire assets for other reasons, such as a short-term lease or agreement to deliver some sort of community service or facility, so we have to distinguish between the types of assets. We have talked mostly about buildings, but we should also talk about land for food and growing, renewable energy and all sorts of other types of use in which communities might want to get involved.

[225] **Julie Morgan:** Could the Welsh Government do more to help facilitate this?

[226] **Jocelyn Davies:** You mentioned earlier that you had done a piece of work in 2008 and a number of your recommendations had been taken up, but you did not say that all of them had. So, were there any recommendations that were not taken up that you feel would be beneficial? Of course, things have moved on a little since 2008.

[227] **Mr Williams:** I think that it needs to be a collaborative approach and we need to have the support for asset development and the peer learning that you talked about—mentoring—alongside the finance. So, that is the key to ensuring that, essentially, communities do not take on liabilities, because if you talk to most people about community asset transfer, they tend to think about things like community centres, which are not necessarily the most sensible assets for communities to take on, because they often run at a loss and they require a significant subsidy to break even. However, if we are looking for assets that will be used for some sort of income generation, community enterprise or a more developed community service, those are the assets that we think should be the ones that we encourage communities to take on, because there is a risk in this area.

[228] **Jocelyn Davies:** So, in terms of Julie's question about whether the Welsh Government could do more, it is in terms of supporting people with a knowledge base and being able to plan businesses and so on.

[229] **Mr Fiander:** Also, there needs to be a continuation of something like CAT, because the problem is that it tends to be on an ad hoc project basis of saying, 'We'll have this and see what happens'. It is what comes out of that. One of our comments would be that CAT is brilliant and it has driven a lot forward, but what happens now, because CAT has finished? You build up expectation and try to start to build up the marketplace when, suddenly, you pull back and the marketplace disappears. It is a longer term investment; it is not just a short-term matter of saying, 'We'll try this project'. We need something over a two, three or four-year period to make that happen.

[230] **Jocelyn Davies:** Okay, thank you. Chris, do you want to ask a question?

[231] **Christine Chapman:** A lot of my question has been covered.

[232] **Jocelyn Davies:** Okay. Mike, we will move on to your question.

[233] **Mike Hedges:** Can we talk about e-PIMS? From what I have read, no voluntary bodies west of Bridgend or north of Merthyr seem to have been involved in it. Why is that? Do you think that it is a good idea to get everybody involved in it?

[234] **Mr Fiander:** You are correct. I do not think that the third sector has been particularly involved in e-PIMS full stop, whether it is Bridgend or anywhere. However, there has been some movement within the third sector partnership council in trying to get a working group, but that does not seem to have gone very far. I think that it would be a good idea because, again, I think that it is about communicating what is available and how we can potentially do it. I am not sure as to how we do it because e-PIMS does not necessarily excite people, I suppose, and if you are trying to get third sector organisations involved why would they get involved in a database about property unless they have a particular interest in it?

[235] **Jocelyn Davies:** I can tell you that there are members of this committee that are very excited. [*Laughter.*]

[236] **Mr Fiander:** I am sure that there are. [*Laughter.*] From an organisational point of view, unless you have some sort of necessity to be involved in those sorts of things, you are not likely to be very excited by e-PIMS although it is, perhaps, a very practical tool. It is more about how the sector understands how to use that and how we encourage the sector to use the tool.

[237] **Mike Hedges:** It says more about the members of this committee than it does about e-PIMS. [*Laughter.*]

[238] **Jocelyn Davies:** Shall we go on to your question, Paul?

[239] **Paul Davies:** The work plan of the asset management group mentions pilot schemes being established in the voluntary sector. Your paper suggests that although such schemes have been proposed they have yet to come to fruition. What is the nature of the pilot schemes being proposed, what organisations are likely to be involved, and how are they progressing?

[240] **Mr Fiander:** The simple answer is 'no', unfortunately. There have been very minimal discussions at this present moment around those pilot schemes. I think that they were basically looking at particular areas to see how the county voluntary councils could get involved. I am not sure that much progress has been made apart from an outline proposal that those sorts of conversations would carry on and then we would look to see what those pilot schemes looked like. There is not much more development other than what is there.

[241] **Paul Davies:** In your paper, you also refer to the possibility of gatekeepers to the system to represent the voluntary sector at a local level. Are there organisations, to your knowledge, willing to take on this role, and how is it envisaged that this would work in practice?

[242] **Mr Fiander:** It is my understanding that that is what some of these pilot schemes were looking at, such as looking at the county voluntary councils to act as the gatekeepers in order to be able to translate that to local community organisations so that they can make their way through that maze and understand what properties and assets are available in their area.

[243] **Jocelyn Davies:** Okay. Could we go on to your question, Peter?

[244] **Peter Black:** Yes, of course. In your paper you suggest that,

[245] 'there are concerns regarding the perceived lack of a broader strategic vision for community capacity development and how this links into the asset management and transfer agenda.'

[246] Whose fault is that? Is that the fault of the voluntary sector or the wider public sector?

[247] **Mr Williams:** I think that it is a bit of both, actually. If we look elsewhere and take the example of Scotland, we see that the Land Reform (Scotland) Act 2003 was a huge driver in rural areas—the highlands and islands—for the growth of development trust co-operatives. For example, the local residents on the Isle of Gigha came together to buy the island, and there are five development trusts in the Orkney Islands doing renewable energy projects now. So, there was a driver that came from Government, which was incentivised, transferable and geared towards community ownership. Historically, there has been reluctance, if you like, for one reason or another. You could say that the Quirk review stated that community asset transfer was all about community empowerment. So, that was the essential ingredient. In Scotland, in 2014, they are looking to extend the community right to buy to urban areas. That is certainly proposed, whereas the Land Reform (Scotland) Act 2003 primarily was about rural areas and applied up to a certain population.

[248] So, I think that there are issues around whether we can move on. I think that that is where e-PIMS and other things would fit in. It gives an idea of the scope of potential assets that will become available from lots of different public sector bodies that could be made better use of by community ownership methods.

[249] On the sector side, there is an issue around scaling up the level of skills and experience to manage assets and to make them investment-ready to be able to deal with loan finance, equity funding and other types of more creative funding. There is quite a lot that needs to be done, but perhaps we could use these examples as part of a more strategic approach and look at assets through e-PIMS and other methods to look at a more strategic approach on a local level. That has certainly happened elsewhere. There was a programme called Advancing Assets, where the third sector would sit down with public sector bodies and look at the potential of a number of aspirations that they had for development, community facilities and enterprises, and what is potentially available or coming available within the public sector that could support those aspirations.

11.00 a.m.

[250] **Mr Fiander:** This also relates to the point that I made about CAP being a one-off and there being nothing in between. You end up with a type of wave effect in that, one minute, there is a lot of activity and then the next, there is very little. We have to have a strategy, partly driven by the public sector that allows this to happen and allows organisations like the WCVA and DTA to work with groups to have a purpose. If you work with a group for which there is no avenue to move forward, then you are not helping that group. However, if there is a consistent approach to something like CAP running over two, three, four or five years, you then have something that organisations can be built up to access and you gradually build up that momentum. It is about building up that marketplace. The problem is that we play at building the marketplace—we get a good idea, we set it off, we stop, the market goes flat again and then we go off and do not become very consistent in trying to develop that marketplace.

[251] **Mr Brown:** The sector definitely has a lot of work to do in terms of governance arrangements and the trustees on board, because what I often see is passionate local people who want to do something—and you need that in a group of trustees—but when you start analysing their skills and experiences, you realise that they need a couple of local businesspeople and an accountant or a solicitor. So, much of our work involves trying to help trustees analyse the skills that they have in order to realise that if they are going to take on an investment—for example, if they are buying a property, which could mean 20 or 25 years—they need a range of skills on that trustee board to be able to take that organisation forward, to generate money to repay the loan and to make the organisation more sustainable in the long term.

[252] **Ieuan Wyn Jones:** Byddaf yn gofyn fy nghwestiynau yn y Gymraeg, felly bydd angen yr offer cyfieithu arnoch.

Ieuan Wyn Jones: I will ask my questions in Welsh, so you will need the translation equipment.

[253] Un cwestiwn yn unig sydd gennyf gan fod y llall wedi'i ateb yn barod. O safbwynt ariannu, rydych yn dweud y byddai trosglwyddo asedau yn gwneud y trydydd sector yn llai dibynnol ar grantiau, ond mewn lle arall rydych yn dweud bod angen cefnogaeth ariannol barhaus er mwyn hyrwyddo trosglwyddo i'r sector. Felly, a yw'r ddau osodiad hynny'n gwrthddweud ei gilydd?

I have only one question because my other has already been answered. From a funding point of view, you say that transferring assets would make the third sector less dependent on grants, but in another place, you say that continuing financial support is needed to promote the transfer to the sector. Therefore, are those two statements contradictory?

[254] **Mr Fiander:** No, I do not think that they are. The reality is that we often get asset transfers that ensure that the groups are ready to take that on. They often access grants that public sector organisations cannot normally access. They renovate the building and they end up with the building. We suggest that, alongside that, over a period of time, while they are developing those skills, you provide some grants. In the longer term, those can be tailed off and the groups can be moved away from grant dependency. This is not about keeping them dependent on grants, but about how you invest those grants to ensure that they have the skills to enable them to come out at the other end. This is not a six-month project; we are talking about two or three years before they are ready to do it. Often, they get into trouble because, as Matt said, they do not have the right skill—the governance skills and so on. They get all of the money from various funders to renovate a building, they get the building up and running and then it all falls flat because they do not have the skills to maintain it. We are talking about a phased approach to ensure that you make those buildings and organisations much more sustainable.

[255] **Ieuan Wyn Jones:** Felly, yr hyn yr ydych yn ei ddweud, yw, er enghraifft, os oes arian cyhoeddus ar gael, byddai hybu sgiliau a phrofiad yn well defnydd o hwnnw yn hytrach na fel grant i bwrcasu'r adeilad yn y lle cyntaf.

Ieuan Wyn Jones: So, what you are saying is that, for example, if public funding is available, a better use of that would be to promote skills and experience rather than as a grant to purchase the building in the first place.

[256] **Mr Brown:** I think it is a mixture of both. Those skills and experiences are important. It depends what social investment they are looking to access because, as we know, 100% mortgages on buildings are perhaps not the best idea. However, social investment definitely has a part to play so that all of the money is not being provided to develop skills and purchase a property; social investment can play a role in lessening the amount of grant aid that is provided.

[257] When you talk to organisations about repaying a loan investment, it changes their thinking because, all of a sudden, it is not about putting together a business plan that gets the grant in, and they are thinking about sustainability. When you talk to them about loan repayments over the next 20 years, that changes their business plan and they start to think hard and fast about the need to start generating money because they have to find £1,000 to £2,000 every month and, once that period ends, they have to consider whether they will need to start to repay the loan finance. So, it is a mix of the two.

[258] **Jocelyn Davies:** Thank you. I know that you have been here on a number of occasions, but I will just say that we will send you the transcript and perhaps you would look

at that for any factual inaccuracies. Thank you very much for contributing to our inquiry.

11.05 a.m.

**Cyllideb Atodol Llywodraeth Cymru 2013-14—Tystiolaeth gan Lywodraeth
Cymru**
**Welsh Government Supplementary Budget 2013-14—Evidence from the Welsh
Government**

[259] **Jocelyn Davies:** We move on to the next item on the agenda, which is to take evidence from the Minister for Finance on the supplementary budget. You have the papers in front of you and you have had the briefing. I will just give the Minister an opportunity to come in. We have about 60 minutes for this and I think that there are about 18 questions.

[260] Thank you, Minister, for agreeing to be present this morning while we take evidence on the supplementary budget. Would it be okay with you if we go straight to questions, or do you want to make some brief introductory comments?

[261] **The Minister for Finance and Leader of the House (Jane Hutt):** I will just introduce Jo Salway, the deputy director of strategic budgeting, and Matt Denham-Jones, who is head of financial control. I think you all know Jeff Andrews, our specialist policy adviser. I am happy to go straight into questions.

[262] **Jocelyn Davies:** Despite the additional allocations made in this supplementary budget, the motion appears to request a reduction of around £44 million in the amount to be paid from the consolidated fund. From the motion, it would seem that this is due to higher-than-forecast payments from UK Government departments and other sources equating to over £19 million. Can you clarify whether these higher-than-expected payments have resulted in a reduction in the grant payable and in the amount to be paid out of the consolidated fund?

[263] **Jane Hutt:** Just to clarify, Chair, the change in the request for funds from the consolidated fund is, as you say, because we have higher-than-expected payments from other UK Government sources. That is about changes to the level of funding that we receive from different funding sources. Just to clarify, in the main it is national insurance contributions and business rates.

[264] **Jocelyn Davies:** You said ‘in the main’; could you provide us with a breakdown of the income referred to and the reconciliation of that against the requested reduction?

[265] **Jane Hutt:** Yes. Obviously, we have estimates of income from national insurance contributions and business rates, and they do change. We provided updates to our draft budget, which we laid in October 2011, and, at that time, the estimates of income from revenue and customs and business rate receipts of Welsh local authorities were £55 million and £59 million lower respectively. If the income from these sources decreases, our cash grant would then be increased. It does not have an impact on our overall spending power. It is just the adjustments.

[266] **Jocelyn Davies:** I know that Peter wants to ask for clarification on this.

[267] **Peter Black:** We are now drawing less money from the consolidated fund, so will this money still be available? Was there any reason why you could not draw it down and capitalise it, for example?

[268] **Jane Hutt:** There is not any less money available to us. It is about a transfer. Matt, do

you want to clarify?

[269] **Mr Denham-Jones:** Yes, the way our current funding settlement works, our overall expenditure and spending power is backed mainly by the main cash grant from the Secretary of State for Wales. It is then topped up by amounts collected in national insurance contributions that come from the UK's national insurance fund and by business rates collected by local authorities.

[270] The way the relationship works is that, where these levels increase, we draw less cash from the Secretary of State, but, where they decrease, we draw more, so we are insulated against movements in those balances. Unfortunately, if the estimates increase, there is no way to keep the funds and employ them elsewhere.

[271] **Peter Black:** So, it is a direct relationship.

[272] **Mr Denham-Jones:** Absolutely.

[273] **Jocelyn Davies:** You have no discretion in this matter. Is that right?

[274] **Peter Black:** Just to clarify it.

[275] **Jane Hutt:** We do not lose anything, but, if it went in the other direction, we do not gain anything.

[276] **Jocelyn Davies:** There is not an opportunity for you to gain from it, is there?

[277] **Jane Hutt:** No.

[278] **Jocelyn Davies:** I think that is clear. We just wanted to get it on the record.

[279] **Jane Hutt:** We would love to have the flexibility. [*Laughter.*]

[280] **Jocelyn Davies:** Ieuan, shall we go to your question?

[281] **Ieuan Wyn Jones:** Rydym wedi nodi'r swm canlyniadol cyfalaf ar gyfer eleni yn sgîl datganiad yr hydref—datganiad y gaeaf ydoedd y llynedd, mewn gwirionedd. A fedrwch gadarnhau bod symiau canlyniadol cyfalaf ar gael ar gyfer 2013-14 o £92 filiwn ac ar gyfer 2014-15 o £132 miliwn, sef bod yr arian dros dair blynedd?

Ieuan Wyn Jones: We have noted the capital consequential sum for this year in the wake of the autumn statement—it was a winter statement last year, in truth. Can you confirm that capital consequentials are available for 2013-14 of £92 million and £132 million for 2014-15, that is, that the money is over a three-year period?

[282] **Jane Hutt:** Yes. I can confirm those figures, and they are for 2013-14. It is the capital DEL increasing by £92.275 million and, in 2014-15, by £132.077 million. Those were the consequentials, as you say. It was on 5 December, the day of the so-called autumn statement, that I issued that information in a written statement.

[283] **Ieuan Wyn Jones:** Rydych wedi dweud o'r blaen—cawsom wybodaeth gennyhych—mai'r swm canlyniadol ar gyfer refeniw eleni oedd £16 miliwn, ond, pe byddech yn ymestyn y cynllun rhyddhad ardrethi busnesau bach, gallai'r swm canlyniadol fod yn un negyddol. Gan fod y

Ieuan Wyn Jones: You have previously stated—we had information from you—that the revenue consequential for this year was to be £16 million, but that, if you were to extend the small business rate relief scheme, it could result in a negative consequential. Given that the Government has decided to go ahead with

Llywodraeth wedi penderfynu bwrw ymlaen â'r cynllun hwnnw, beth yw'r sefyllfa erbyn hyn? that scheme, what is the situation now?

[284] **Jane Hutt:** Just to clarify, as you say, there were not any revenue consequential in the previous year, 2012-13, in the last autumn statement. So, this was about consequential in 2013-14 and 2014-15. We were originally notified of £16 million in revenue consequential, as you said, for 2013-14, but we took the decision to extend the small business rate relief scheme, and so we are now in the situation of receiving negative revenue consequential of £6 million as a result of accepting the small business rate relief scheme, as we did previously, I think, when you were in Government with us.

[285] **Ieuan Wyn Jones:** So, the negative impact is £6 million.

[286] **Jane Hutt:** The negative impact is £6 million.

[287] **Ieuan Wyn Jones:** Okay.

[288] Mae hynny'n egluro'r sefyllfa honno, rwy'n meddwl. That explains that situation, I think.

[289] Rydym hefyd wedi sylwi ar y trosglwyddiad i DEFRA o ran costau dibrisio dan y prosiect llwybr clir. A fedrwch roi gwybodaeth i'r pwyllgor am y cynnydd a wnaed o ran y prosiect llwybr clir, a pha bryd y mae'r camau terfynol yn debygol o gael eu rhoi ar waith yng Nghymru? We have also noted the transfer to DEFRA with regard to depreciation costs under the clear line of sight project. Can you give the committee information about the progress made with the clear line of sight project, and when the final stages are likely to be implemented in Wales?

[290] **Jane Hutt:** The clear line of sight project is something that we engaged fully with. It was a UK Government project, of course, and a commitment to increasing transparency in budgetary and accounting processes is something that we have very much taken forward with this committee. We implemented a number of changes as a result of the clear line of sight project a number of years ago, in fact.

[291] The UK Government implemented the final stages of these reforms, but we reserved the right for us to agree our appropriate budgeting and accounting regime in Wales. So, we needed to see what the effectiveness of the alignment project would be and its impact on UK departments. I was going to say anyway that, on issues like this, I am happy to progress with further discussions with the committee, if you feel that we can improve on our budget transparency and take on board some of the reforms from the clear line of sight project that we have held in abeyance.

11.15 a.m.

[292] **Peter Black:** I want to ask some questions about the budget exchange mechanism. The supplementary budget adjusts the baseline to account for carry-forward of £93 million from the 2011-12 financial year, as you indicated at the time of the outturn report for 2011-12. Were there any differences in the amounts carried forward to those that you reported at the time?

[293] **Jane Hutt:** There were no adjustments to the outturn following the report that I gave to the committee.

[294] **Peter Black:** The narrative details that you intend to carry forward some £109

million from the 2012-13 financial year—£59 million revenue and £50 million capital. Given the level of reserves remaining at this point, how confident are you that there will be no further call on reserves prior to the end of the year and, if that is the case, will you be permitted to carry forward all the remaining revenue reserve?

[295] **Jane Hutt:** We have the budget exchange system, which we agreed with the UK Government. We are able to carry forward underspends up to an agreed cap during the spending review period. That was a good achievement in terms of intergovernmental negotiations and working through. We have to retain an appropriate level of reserves, which I maintain as Minister for Finance, for unforeseen circumstances and contingency, but also to give us the maximum flexibility that we have. The end of the financial year does not mean it is a difficult time. In terms of our capital spend and the way that we want to move forward in maximising resources, we need to have as much flexibility as possible. So, we intend to carry forward a £59 million fiscal resource DEL and a £50 million capital DEL.

[296] **Peter Black:** So, if that revenue reserve is not spent, will you be able to carry it forward?

[297] **Jane Hutt:** Yes. We carry forward any unused reserves according to the caps that we have, as I said—0.6% of resource DEL and 1.5% of capital DEL. So, that gives us the flexibility to carry forward.

[298] **Peter Black:** Thank you for that, Minister. Of the £59 million revenue to be carried forward from 2012-13, £40 million relates to apprenticeships, as detailed in the final budget for 2013-14. However, £20 million is intended to be carried forward into 2014-15. Can you explain why it has been decided to state the intention to carry forward funding over two financial years, given the possibility of further reductions to the block during this time?

[299] **Jane Hutt:** Again, it is about the flexibility that we need. However, I would say that, as you know, as part of the autumn budget agreement for the coming financial year, we agreed to provide an additional £20 million in each of the next two years to expand support for apprenticeships. There is still the possibility of further reductions to the Welsh budget over the period, so we have to maintain the flexibility that we need, and we have that flexibility under the budget exchange mechanism, so it is about having as much certainty of resource available to us as possible.

[300] **Mike Hedges:** The Treasury has allowed you to carry forward £50 million in capital from 2012-13 over and above the 1.5% cap. Why did this come about and is this money already committed, or is it free capital?

[301] **Jane Hutt:** If you look at the increases in our budget as a result of the autumn statement, which we have discussed, you will see that we still have cuts to our capital DEL in the next financial year, 2013-14, of £1.24 billion. So, that is a real-terms reduction of well over 10%, compared with this year. Due to our budget exchange mechanism, we can carry forward our underspends, as you said, to the 1.5% cap on the capital budget. This is about flexibility. I do not want to repeat myself on this, Chair. I wrote to the Chief Secretary to the Treasury and raised with him that we felt that it was important to have as much flexibility as possible and that we intended to transfer nearly £114 million from revenue to capital. This was about safeguarding vital projects and the need for flexibility. He agreed that we could carry over an additional £50 million in capital DEL.

[302] **Ann Jones:** I am going to talk about carry forward for council tax support. The supplementary budget notes the intention to carry forward £19 million into 2013-14 for council tax support. However, the Minister for Local Government and Communities, Carl Sargeant, has stated that to provide 100% support would require £22 million. Can you explain

the difference of £3 million?

[303] **Jane Hutt:** Yes, I am very happy to explain that. The additional £22 million covers the 10% cut in the funding for 2013-14. That was calculated by the UK Government, based on estimates of expenditure for this financial year, 2012-13. It was also based on Office for Budget Responsibility assumptions on economic forecasts. To clarify how this was calculated, £21 million came from central reserves to provide council tax support to local authorities over the next two years. We are carrying forward £19 million to 2013-14 through the budget exchange system. We are allocating £2 million in this financial year, 2012-13, to help local authorities with their transitional costs in preparing for the change. The remaining £1 million is to be found from the local government and communities MEG as part of its routine budget management.

[304] **Ann Jones:** Okay, thank you. Do you have any indication of how this level of support will be provided for in the years beyond 2013-14?

[305] **Jane Hutt:** As all Members will know, this was an additional £22 million to meet the 10% cut in the transfer of council tax benefit for 2013-14. We are committed to working with Members and local government to review the regulations. In fact, we have to bring forward a new set of regulations in line with the sunset clause that was agreed by all parties.

[306] There is uncertainty about the impact of this over the next year with welfare reform changes, which provides us with an opportunity, working closely with local government, to look at how we can develop affordable arrangements from 2014-15 onwards. However, we really have to recognise, in terms of the pressures and priorities, that we now face further revenue cuts of £50 million in 2014-15. We do not have budgets beyond 2014-15, so this is for the coming year, and we have this year to very carefully review the way forward. I am sure that similar discussions must have taken place in the Scottish Parliament and in many local authorities in Wales and in Northern Ireland, because we are all in the same boat.

[307] **Jocelyn Davies:** So, there is nothing specific at the moment, and it will follow this year's review of how things are looking.

[308] **Jane Hutt:** No. Before we even enter the next financial year, we are looking at this and at its impact. Obviously, local authorities have had that £2 million, which they have welcomed, to help them to prepare for the changes. This is one way in which we are mitigating the impact of some very severe cuts coming through from 1 April.

[309] **Jocelyn Davies:** Okay, thank you. Chris, shall we go on to your questions?

[310] **Christine Chapman:** Minister, I want to ask you a few questions on transfers between revenue and capital. The supplementary budget details a number of transfers between revenue and capital within the main expenditure groups, and a baseline adjustment of £113.9 million for a switch from revenue to capital. In your statement in January of this year, you stated that £70 million would be transferred from revenue to capital this year. Could you explain why the transfer is some £40 million more than previously stated?

[311] **Jane Hutt:** The £70 million that I announced in January reflects the amount that we transferred from revenue to capital and that was to support investment opportunities in line with our Wales infrastructure investment plan. Again, making those transfer decisions is about careful management at a time of pressure and recognising our priorities in terms of infrastructure and the budget for growth and jobs. Also, to clarify the whole picture of transfer, a number of transfers were made by Ministers within their departments between their resource and capital budgets, and I know that you recognise that flexibility. That totalled nearly £45 million. It does not affect the reserve position because those transfers are managed

within the total resources and are reflected in that baseline adjustment, as you mentioned, of £113.9 million.

[312] **Christine Chapman:** Further to that, in relation to the capital to revenue switch within the health, social services and children portfolio, we know that £7 million is stated to relate to the accounting treatment for the expiry of pandemic flu drugs. Could you provide the rationale for this transfer?

[313] **Jane Hutt:** This goes back to the former Minister for health's decision in 2011 that Wales should be part of the UK framework for pandemic flu preparations. That framework took a precautionary approach to stockpiling antiviral drugs. In fact, pandemic influenza is still at a very high level in terms of national risk assessment. So, we agreed to keep a stockpile in Wales as part of that framework. It is important to give a bit of detail: as of 1 April last year, the value of the antiviral drugs stock held by the Welsh Government was £27.9 million—£7 million-worth of which was Tamiflu, but that has an expiry date and that date is the end of March of this year. So, that has to be written out of the resource accounts and the stock disposed of. Again, this is all part of the UK Government framework, so a budgetary treatment is agreed with the Treasury for flu stock.

[314] In terms of new purchase of stock, the charges to the capital departmental expenditure line and the charges to the utilisation right-off of stock are charged to the revenue DEL and then across, when in credit, to the capital DEL. So, there is no impact on our revenue budget and it does not impinge on our abilities to commit to revenue funding, but it does mean that we still have antiviral stock.

[315] **Jocelyn Davies:** So, when you purchase the drug it is a capital cost, but when you dispose of it, or use it, it is revenue.

[316] **Mr Denham-Jones:** There is also a credit back through capital when you dispose of it and that is why the transfer has occurred, namely to equalise that effect in the budget this year.

[317] **Julie Morgan:** I want to ask about centrally retained capital. Do you intend to launch a further phase of CRC funding, in view of the fact that the remaining funds committed to CRC projects have been allocated in the supplementary budget and in the budget last year?

[318] **Jane Hutt:** The centrally retained capital fund was a very important source to ensure that the Government, and the previous One Wales Government, could make strategic decisions about capital. However, as of May of last year, we now have our Wales infrastructure investment plan, so we are embedding the key elements of the approach that we used in the CRC into the WIIP. There will not be another phase of CRC funding, as such; it all now comes through our Wales infrastructure investment plan.

11.30 a.m.

[319] **Julie Morgan:** Any bids will now, therefore, go through the infrastructure investment plan; is that so?

[320] **Jane Hutt:** Yes. Just to clarify, we have made changes to the way that we handle the Wales infrastructure investment plan projects as compared with the way that we handled the old CRC funds. With the Wales infrastructure investment plan, projects have to be aligned with strategic priorities, they have to have well-developed business cases and they have to be at a point where we can allocate money. Before, with CRC funds, we tended to respond to the bids and agree to them, but the money would not go out until we had the business plans. We have a much stronger programme management arrangement in place. We will continue to

provide updates on the Wales infrastructure investment plan.

[321] **Julie Morgan:** Moving on to the mortgage guarantee scheme, at the time of the first supplementary budget, I think that you said that this was in progress and was being looked at. Can you tell us what stage it has reached?

[322] **Jane Hutt:** NewBuy Cymru, which is our mortgage guarantee scheme, was announced in early November. I do not know whether you have had an opportunity to talk to Huw Lewis, the Minister for Housing, Regeneration and Heritage, about the developments. He announced the details of the NewBuy Cymru scheme in November. He hopes to launch the scheme formally shortly, but as far as the finance is concerned, we have allocated initial funding of £50,000 in this supplementary budget to support implementation in this financial year.

[323] If you look at the housing bond, you will see that we allocated £4 million in revenue funding for the next financial year in the budget; £2 million of this is in our central services and administration main expenditure group and £2 million is in the housing, regeneration and heritage MEG. That funds the social housing revenue grant for the next two years, which supports the bond.

[324] Huw Lewis and I met with Community Housing Cymru and the Welsh Local Government Association only a few weeks ago to discuss both of these projects. We had a very positive meeting with them about the use of the housing bond in particular. There has also been a very positive response to the NewBuy Cymru mortgage guarantee scheme. I know that Peter Black and his party have taken a very close interest in that.

[325] **Jocelyn Davies:** I think that Peter has a question for you on it. [*Laughter.*]

[326] **Jane Hutt:** I am sure that he has; I have been waiting for it. I cannot overstate the importance of the ways in which we are using these innovative financing routes, particularly on the housing bond. When I came before the committee in June, we were still at the early stages with regards what the details would be. Again, on new affordable housing, there will be an investment of £140 million over the next two years, which will deliver over 1,000 new homes across Wales.

[327] **Peter Black:** After I raised the issue of the NewBuy Cymru scheme with the First Minister in the Chamber, he wrote to me to say that the funds would not be available to first-time buyers and builders until the summer of this year. If that is the case, is the money that you are allocating for this financial year there as part of the administration work involved in setting up the scheme? Do you envisage the funds coming onstream earlier than that?

[328] **Jane Hutt:** As I said, we have allocated money this financial year for the implementation of the scheme. Would it be helpful if I sent a note to the committee on this matter?

[329] **Jocelyn Davies:** Yes; it would. I am assuming that as it is a mortgage guarantee scheme, it does not cost you anything unless somebody defaults on their mortgage. Obviously, you have to get it up and running, but you will not be paying out money unless there is a default on a mortgage. There is, therefore, bound to be a bit of a lag before somebody defaults on their mortgage and it costs the Government something. However, a note on that would be useful for clarification.

[330] **Peter Black:** I intend to ask the Minister about that this afternoon, but a note might provide more clarity.

[331] **Jane Hutt:** That is a forewarning to the Minister. *[Laughter.]* I know that the Minister has recently met with businesses to learn more about the scheme. An announcement of the details is imminent. I am sure that he will say that a lot of lessons have been learned about the schemes in England and Scotland, which have been beneficial in terms of moving forward in Wales. The key thing is that I am helping with the money, but, as you say, we hope that he will not have to use it.

[332] **Jocelyn Davies:** Mike, do you have a question on this?

[333] **Mike Hedges:** Yes. Would this only cost money when someone defaulted and at a time of falling house prices?

[334] **Jane Hutt:** I think that you should direct your questions to the Minister this afternoon. *[Laughter.]*

[335] **Jocelyn Davies:** We will all have a surprise this afternoon; we look forward with interest to that. We now move on to Paul's questions.

[336] **Paul Davies:** I wish to ask some questions about NHS finances. The supplementary budget makes it absolutely clear that you will be providing an additional £82 million to local health boards. However, the figure does not seem to add up. The narrative mentions that a capital-to-revenue transfer of £35 million will be provided, and that there will be a £28.6 million transfer from the delivery of targeted NHS services revenue action from the contingency fund. There is also a transfer of £15.4 million to the delivery of targeted NHS services revenue action, stated to be to part fund this allocation, and to be sourced from identified savings and efficiencies. Can you clarify for us whether this £15.4 million is part of the £28.6 million transferred from this action, or whether it is in addition to the contingency allocation?

[337] **Jane Hutt:** Yes, I will be glad to clarify that. The £15.4 million is included in the £28.6 million. That budgetary action is a transfer from the delivery of targeted NHS services to the delivery of core NHS services action.

[338] **Paul Davies:** So, if the £15.4 million is included in the £28.6 million, this means that, in relation to the £82 million, the supplementary budget transfers only around £64 million. Could you explain to us where the additional £18 million is coming from to make the total of £82 million?

[339] **Jane Hutt:** I will break down the £82 million that we are providing to health boards in Wales through the NHS MEG. We accounted for the £15.4 million as part of the £28.6 million. The £28.6 million is transferred from the contingency reserve within the delivery of targeted NHS services action. The £35 million is capital transferred to revenue. The remaining £18.4 million reflects the repayment of brokerage from the NHS, following the additional funding that was provided in 2011/12. You know about the flexibility that the Minister introduced to draw that down.

[340] **Paul Davies:** Are you confident, therefore, that the additional £82 million will be sufficient to meet the needs of local health boards?

[341] **Jane Hutt:** The Minister for health has been very clear about that. This obviously came about as a result of the mid-term review that she undertook. As a result of that, she looked at her resources and made this allocation available to the health service. The Minister for health expects the health boards to deliver against their savings and efficiency plans.

[342] **Paul Davies:** I take it from that answer that you are probably confident that this

additional funding will meet the needs of the local health boards. It has recently been suggested that, despite the additional funding, two health boards may still fail to break-even at the end of the financial year. In the event of that happening, will the Government look to provide additional funding to those local health boards, or is the message from you now clear, namely that no more money will be made available?

[343] **Jane Hutt:** As you know, and as the Minister has said on frequent occasions, she is in close contact with the health boards and her officials work closely with their finance teams to ensure that they achieve financial break-even. They are monitoring financial performance carefully. Also, she has made it clear that there is flexibility, which has been used and could be made available again next year.

[344] **Paul Davies:** So, resources could be made available if local health boards do not break-even. That is basically what you are saying.

[345] **Jane Hutt:** I think that it is about the flexibility. I was interested to see in your report on NHS finances, which was published yesterday, that health boards should be able to have that flexibility, if required, to draw forward a limited element of future funding, as they have done in the past. I would say that the Minister for health's expectation is that they should achieve financial break-even this year.

[346] **Paul Davies:** During our scrutiny of the draft budget, we looked at potential financial flexibilities for health boards, which you have just talked about. As you have just said, the Minister for Health and Social Services subsequently informed the Health and Social Care Committee that three paths were being considered: a short-term brokerage arrangement; a medium-term planning arrangement; and, a longer term route involving changes to legislation. Following the mid-year review, can you tell us what discussions you have had in relation to those flexibilities and what progress has been made?

[347] **Jane Hutt:** I think that it is well recognised and we acknowledge, and I see from looking at your report on health finances that you recognise, that we welcome the importance of a new flexibility for health boards—a flexibility that is available to other parts of the public sector and local government. That brokerage scheme was introduced for the first time to give the NHS some of the flexibility that the other sectors have. It was good that the Auditor General for Wales recognised that in the report on health finances. So, it is available. My main point is that the Government has committed to reviewing the NHS's finance regime. It is looking at those options for taking forward additional financial flexibilities in the short and medium term. The Minister has already indicated that.

[348] **Jocelyn Davies:** Just for clarification, the NHS finance report is a report by the Public Accounts Committee, but there is a considerable crossover of membership from this committee to that one. So, there is partial ownership here.

[349] **Mike Hedges:** I want to make a point about unforeseen accidents. I remember the major accident that took place in Port Talbot, for example. Do you agree that there has to be a level of flexibility if an accident occurs that creates substantial costs to the NHS? By its very definition, an accident is unforeseen, so there has to be a flexibility that understands that accidents can occur and those costs will have to be met. I was thinking of the major accident that took place in Port Talbot with the burns et cetera. If that happened on 31 March, you are not going to say to the people involved, 'Hang about, can you wait until tomorrow before we can start treating you?' There has to be a level of flexibility.

[350] **Jane Hutt:** Yes. I made the point earlier that we should have flexibility between financial years, which are artificial, in terms of spend and in terms of contingency. There is no question about that. It is certainly not just a contingency that needs to be drawn upon by the

health service; in the past, it has been other parts of the Welsh Government—foot and mouth issues come to mind.

[351] **Jocelyn Davies:** You mentioned £28.6 million from contingency. That is from the health contingency and not the Welsh Government's central contingency. Is that used for unforeseen circumstances?

11.45 a.m.

[352] **Jane Hutt:** Yes, we need to have that available to the whole Government for unforeseen circumstances. The expectation that the health service will break-even and come within budget has to take account of the fact that there can be unforeseen circumstances. The final point that I would want to make on this is that the use of the brokerage, for example, was only £24 million, so, that brokerage was used and very much welcomed by the health service.

[353] **Jocelyn Davies:** I understand that £18.4 million of that has been repaid. On the use of the contingency, does the Minister for health need to consult you? I can see that your official is shaking her head.

[354] **Jane Hutt:** It is not within her budget.

[355] **Jocelyn Davies:** Okay. The obvious question would be why it was unforeseen that the health service would not break-even at the end of the year. I think that most of us would ask that. Mike, do you want to ask the last question on invest-to-save?

[356] **Mike Hedges:** This is only the third time that I have mentioned invest-to-save this morning. *[Laughter.]* I note that £848,000 of capital has been moved from the invest-to-save action to the IT costs action for the purchase of software licences. Is this related to any invest-to-save projects? If not, how does it fit into invest-to-save? As the Minister and everybody else here knows, I think that there should be an innovation fund running alongside the invest-to-save fund. If that is what this is doing, do you think that it is a good idea?

[357] **Jane Hutt:** I am anticipating now; I do apologise, but there are so many cross-overs of committee membership. I am sure that you would agree with a lot of the recommendations in the Public Accounts Committee's report on health finances. We look forward to your report on invest-to-save. I might need to take some advice from officials on this issue. My understanding is that this is a transfer within budget from capital to revenue. It does not relate to an invest-to-save project. Invest-to-save is a recyclable project and more capital repayments than were anticipated have come in. That is within my main expenditure group. I took the initiative to transfer that capital to meet an IT costs action, but in doing that, we have released more money into revenue invest-to-save. Would it be helpful if I prepared a note on that for the committee?

[358] **Jocelyn Davies:** I think that it would; yes.

[359] **Jane Hutt:** I can see that if you look at the explanatory note, you would think that this was about an invest-to-save project and I want to clarify that it is not; it is about a transfer. However, it is useful to highlight that we have released more revenue for invest-to-save.

[360] **Jocelyn Davies:** Mike, are you happy with that?

[361] **Mike Hedges:** Yes.

[362] **Jocelyn Davies:** Obviously, Mike keeps a close watch on anything connected with

invest-to-save. Peter, you are next.

[363] **Peter Black:** So, the invest-to-save fund is not diminished.

[364] **Jane Hutt:** No, in fact we have raised the revenue by £1.3 million, but we will do a note on that.

[365] **Jocelyn Davies:** Yes, we will be grateful for a note, but we accept that explanation. Do any Members have any further questions? I see that you do not. Thank you, Minister, for coming in. We will send you the transcript of the meeting, as usual, and we would be most grateful if you would check that for factual accuracy.

[366] **Jane Hutt:** Thank you very much.

11.48 a.m.

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

[367] **Jocelyn Davies:** Members, we have a number of papers to note before we go into private session. Are you happy to note the two papers? I see that you are.

**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**

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

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).

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

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11.49 a.m.
The public part of the meeting ended at 11.49 a.m.*