



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

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Iau, 4 Gorffennaf 2013
Thursday, 4 July 2013

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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 ynndi yn y pwyllgor. Yn ogystal, cynhwysir
trawsgrifad o'r cyfieithu ar y pryd.

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

Aelodau'r pwyllgor yn bresennol **Committee members in attendance**

Christine Chapman

Llafur
Labour

Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Ann Jones	Llafur Labour
Aled Roberts	Democratiaid Rhyddfrydol Cymru (yn dirprwyo ar ran Peter Black) Welsh Liberal Democrats (substituting for Peter Black)

Eraill yn bresennol
Others in attendance

Jeff Andrews	Cynghorydd Arbenigol, Llywodraeth Cymru Specialist Adviser, Welsh Government
Jane Hutt	Y Gweinidog Cyllid Minister for Finance
Matt Denham Jones	Pennaeth Rheoli a Chofnodi Cyllidebau Ariannol, Llywodraeth Cymru Head of Budgetary Control and Reporting, Welsh Government
Jo Salway	Dirprwy Gyfarwyddwr, Cyllidebu Strategol Deputy Director, Strategic Budgeting

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

Mike Lewis	Dirprwy Glerc Deputy Clerk
Gareth Price	Clerc Clerk

Dechreuodd y cyfarfod am 9.01 a.m.
The meeting began at 9.01 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **Jocelyn Davies:** Good morning, Minister. Welcome everyone to this meeting of the Finance Committee. We have two apologies today from Julie Morgan and Mike Hedges, who are having to attend a different committee, and Aled Roberts is substituting for Peter Black.

Ymchwiliad i Gyllideb Atodol Llywodraeth Cymru ar gyfer 2013-2014
Welsh Government Supplementary Budget Inquiry 2013-2014

[2] **Jocelyn Davies:** We will move on to the first substantive item on our agenda, which is the Welsh Government's supplementary budget inquiry. Thank you, Minister, for coming this morning. If you would like to introduce yourself and your officials, we will go straight to the first question, if that is okay.

[3] **The Minister for Finance (Jane Hutt):** Thank you very much. I introduce Jo Salway, who is our head of strategic budgeting, Matt Denham Jones, who is head of budgetary control and reporting, and Jeff Andrews, our specialist policy adviser.

[4] **Jocelyn Davies:** Thank you. Chris, shall we start with your question?

[5] **Christine Chapman:** Good morning, Minister. I will start by asking you something about the programme for government report. Have the findings of this report influenced the allocations made in the supplementary budget, particularly in relation to decisions on allocations from reserves?

[6] **Jane Hutt:** Thank you very much, Christine. Of course, it is early days in the financial year, but we have made allocations from reserves. Those allocations include £76.2 million additional capital and that was very clearly allocated to support the programme for government priorities. Also, we have allocated £19 million in resource, as is clear in the supplementary budget, to provide the additional funding for council tax support. So, those allocations have been geared to programme for government capital, and very much the Wales infrastructure investment plan and those priorities, and we had to use the £19 million to put those extra resources in to enable those eligible to receive full council tax support in this year.

[7] **Christine Chapman:** Will you be undertaking any further work to link budget allocations with the commitments in the programme for government?

[8] **Jane Hutt:** Certainly, as Minister for Finance for the Welsh Government, steering the allocation and in-year management to deliver on priorities in the programme for government is key; it is at the forefront of my responsibilities. That is very clear in terms of how we developed our draft budget for 2012-13 and for this financial year, making sure that allocations are in the right place to deliver the programme for government. The only changes that are very relevant to your inquiry today are about how budgets have been restructured as a result of ministerial portfolio changes. I am referring, of course, to the changes that were announced by the First Minister in March. The specific change that is reflected in the recent appointment of Jeff Cuthbert as Minister for Communities and Tackling Poverty was a re-focus by the First Minister and the Government on tackling poverty, focusing on delivery and responding to pressures on families and communities. Again, that is a change reflected in the supplementary budget in terms of the restructuring of budgets.

[9] **Christine Chapman:** I just want to ask you some questions now. Obviously, we know that there are going to be difficult times ahead. Obviously, we have had reducing budgets, given the negative revenue consequential as a result of the autumn statement in 2012 and the UK budget in 2013, and obviously there has been the recent indication of a 2% real terms reduction in revenue budget in the spending round. Could you tell me, Minister, what you are doing and what work is under way to plan for the future to ensure that your strategic priorities are affordable within the spending allocation?

[10] **Jane Hutt:** Clearly, this is the great challenge that we face, and we—the First Minister and other Ministers—have been very clear publicly about the challenges that we face, particularly in developing the next draft budget and in managing our in-year pressures and priorities. The difficult decisions that lie ahead for the Welsh Government, of course, come as a result of those cuts, not just the spending round last week, but the autumn statement in 2012 and the budget in March of this year. This is a key priority again for me, as Minister for Finance, but all Ministers are involved in this because we are determined to protect those priorities—the budgets for health, schools, and universal benefits being at the forefront. Underpinning our budget is a budget for growth and jobs. Also, our commitment to supporting vulnerable people and communities is reflected in the creation of the new ministerial post on communities and tackling poverty. So, it is the toughest budget that the Government, whoever is in Government in Wales, will face, and we have that responsibility. It will be a very tough set of plans that we consider in terms of taking this forward into next year. Our determination is to manage our priorities within our settlement.

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

[12] **Aled Roberts:** Yes. Against this sort of tough backdrop—and I do not think that any of us would deny that—there is clearly new legislation being introduced that will increase commitments as far as the Welsh Government is concerned. I am thinking, in particular, of the Education (Wales) Bill where the costings that I have seen are looking at a minimum of £9 million additional expenditure. We have the qualifications review that was postponed this week, where there was a suggestion that there was a need for a major communication strategy that should have started this summer. Obviously, there is also the Social Services and Well-being (Wales) Bill, where there are significant calls on both preventive services and major issues on eligibility, for example. Have budgets been identified for what are already costed commitments as far as that new legislation is concerned?

[13] **Jane Hutt:** That is a very fair question, Aled. Clearly, our legislative programme is key to delivering our programme for government. As you can imagine, in Cabinet and as Minister for Finance, my scrutiny of the costings of proposed legislation, and then the work that has to be done at official level to support Ministers who are bringing forward legislation, has to be robust. Obviously, our finance officials are also involved in that. It has to be robust in terms of our budget, and then, of course, in terms of the impacts on others who are delivering on that legislation. So, it does add to the challenge—there is no question about that—but there is the commitment that we have to deliver on our legislative programme. Again, it is all about priorities, is it not? However, the costing of our legislation is absolutely critical. This is something that we are learning the lessons on, are we not? I do not know whether you want to say anything additional on that, Jo.

[14] **Ms Salway:** As the Minister said, it is very much a learning curve that we are on since having the extra legislative powers. One of the things with legislation is that the planning period for it is so long, from the point at which you come up with an idea or a solution to a specific issue, and it is about how, over that time, you make sure that the thinking about the costs is developing as the policy develops. These are the things that the Minister talks to other Ministers about and we talk to other officials about, as we are considering the budget each year. It is acknowledged as a key area where we need to get it right, and get it right in the budget.

[15] **Aled Roberts:** May I press you on the qualifications review, because I am getting concerned about the delay? The new qualifications were predicated on the need for a major communications strategy to ensure the portability of qualifications for our young people. Given that those qualifications will be in place in about two years' time, has that communications strategy been costed and have funds been committed as far as that strategy is concerned?

[16] **Jane Hutt:** I think, Chair, that I will have to come back to the committee and to the Member on this point, which I certainly will do, in writing.

[17] **Jocelyn Davies:** Yes, you will know that this is a concern that the committee has raised with you before about the cost of legislation, bearing in mind that you are a Government without a majority, so that you cannot be confident that you can deliver your legislative programme without the support of others, who may want other things added in to your legislation. So, do you have funds available, should Ministers find themselves in a position in which they need to change their legislation in order to get it through?

[18] **Jane Hutt:** I certainly want to go back and check out the issues in terms of the qualifications review and the communications—I perceive that that would be with the Minister for Education and Skills—to see whether this is a financial pressure or what other issues there are. So, I want to address that before we reflect that as a budgetary issue, but, clearly—and that is why it is important that we have our reserve and our contingency—we

have to manage our legislation appropriately and curtail or restrict commitments accordingly. We have to cut the cloth according to our budget, but I certainly take on board the points that the Chair has made and will reflect on them.

[19] **Jocelyn Davies:** Aled, shall we go on to your question?

[20] **Aled Roberts:** May I move on to the consequential? There is a sum of £68 million that is shown in the capital consequential from the autumn statement 2012 and the budget for 2013. Those are restricted for use in financial transactions; you stated in your letter to the committee that the funding can only be used for loans or equity investment. Can you expand on the uses to which that money would be put and how the funding would be used?

[21] **Jane Hutt:** There has always been the capability of having these loans or equity arrangements for capital spend. It is under the Treasury's consolidated budgeting guidance, which is the key guidance on this for financial transactions. This is about loans to third parties or acquisitions of equity stakes in private sector bodies or assets, such as properties. The issue with the new arrangements, which are very difficult for us, is that the Treasury is now ring-fencing chunks of funding for use only for financial transactions. So, we could always have used our capital for that if we had wanted to, but now it is ring-fencing it. That is why there is a clear restriction in that capital consequential of £68 million. So, the challenge is that it is a new development, it complicates matters and it is an additional constraint on the Welsh Government, but we are looking at the best ways in which we could make use of it.

[22] **Aled Roberts:** You also state that the money or a proportion of the funding will have to be repaid to the Treasury. Can you explain why that is the case? Do you have an understanding of what proportion will have to be repaid?

9.15 a.m.

[23] **Jane Hutt:** The Chief Secretary to the Treasury has—as I said, this is ring-fenced—stated explicitly that it does not form part of our capital baseline and it must be repaid. There are equivalent arrangements for the Department for Communities and Local Government as well. We have not yet had formal confirmation of what proportion of the funding will need to be repaid overall, but just to give you some examples on this, the initial allocation the first time this came through in this way with this ring fence was in the budget for 2012, and then in the autumn statement later on in the year. The requirement for that initial allocation is that 60% of the money is repaid to the Exchequer by 2019-20. That gives us a bit of time, but it is important that we are clear about what that means in terms of loans and arrangements that we have made, or indeed if there are losses. We have not heard yet when we will need to repay the allocations made in the 2013 budget.

[24] **Aled Roberts:** In your letter you also state that work is under way to work out how best to utilise the funding, and you just mentioned that in your previous answer. Do you have any understanding of what uses are likely to be made of the funding at this stage?

[25] **Jane Hutt:** You will not be surprised that housing features strongly in this, and I have been engaging with the Minister for Housing and Regeneration. We are looking at measures and ways in which we could use it—for example, a shared equity scheme similar to the ones that have been implemented in England relating to housing. We will be making announcements, and the Minister for housing will be making announcements in due course on how we will use the money.

[26] **Jocelyn Davies:** That is a very short time span that you have to pay it back. Normally, investment in housing would last much longer than a couple of years. How is the Treasury justifying your having to repay this?

[27] **Jane Hutt:** As Ministers for finance, not just for Wales, but for Northern Ireland and Scotland, we have been raising this with the chief secretary. We are also concerned because this has an impact on our budget exchange mechanism. There is some recognition now, because this ring fencing is new, and it is constraining in terms of time limits and getting the appropriate schemes arranged and organised. It would be helpful if the committee could acknowledge that in terms of the way that we are trying to handle this appropriately.

[28] **Jocelyn Davies:** I think that we would all be concerned that there are constraints being put on you in relation to that. Finance Wales uses equity, of course; it buys equity shares in businesses, and obviously the loan is then repayable. You mentioned housing. Is Finance Wales one of the options that you would also be considering?

[29] **Jane Hutt:** We would have to come back on that—certainly, other Ministers would have to come back in terms of announcements on how we will use the funding.

[30] **Jocelyn Davies:** Ann, shall we move on to your questions?

[31] **Ann Jones:** My questions are around welfare reform and the devolution of council tax, Minister. The supplementary budget details a consequential of £222 million in relation to the devolution of council tax, which means that it comes down to us here. A lot has been said, and the former Minister for local government, when he was here, said that that would be roughly a 10% shortfall against the levels that we required. Is this the level of funding that you were expecting to receive as part of the devolution of council tax?

[32] **Jane Hutt:** One of the important points to make, as you are all aware, is that council tax benefit was not actually devolved to Wales. The UK Government abolished the benefit, capped the funding available to local authorities and cut the funding available for any future arrangements that we would be able to deliver with local authorities to provide council tax support. As Members are aware, we developed our own council tax reduction scheme in collaboration with local government, but the 10% cut was based on forecasts of demand for support in 2013-14 and 2014-15. Of course, there was much debate and discussion, and the Communities, Equality and Local Government Committee is aware of this, as is the Minister—that is, the impact of this reduced transfer as a result of the forecast, and what this would mean. The UK Government was saying that it had assumed that case loads would fall, but, of course, quite clearly, this has not happened; case load growth is slow in terms of how it has been operating, but it is very unlikely to fall. So, anyway, the final transfer, of course, was £8 million higher than the provisional figure of £214 million that we originally announced in the 2012 budget. However, we are now very closely monitoring the impact of the expenditure in our new scheme in Wales and whether it does represent a cut of more than 10%. We will probably not know, however, until the end of the financial year what the outturn actually is. Again, this is something for which feedback to the UK Government is crucial in terms of the impacts of these changes.

[33] **Ann Jones:** So, it was close to where you thought, and, in effect, it appears that you have made a commitment to compensate for the shortfall in this council tax support that led to the allocation of £2 million in this current year's budget, and a further £19 million in the supplementary budget. Are those in local government happy with that? What is the feedback from local government? Local government is never happy with funding, really, but, you know—

[34] **Jocelyn Davies:** Are they happy-ish?

[35] **Ann Jones:** Yes. Are they happy-ish?

[36] **Jane Hutt:** Obviously, they welcomed the additional funding. Like us, they saw the importance of having the funding to protect particularly vulnerable households, and we are helping them with the financial risks that they are facing, because of increased billing costs. Also, council tax collection rates are a major issue, and it is something that I know the Minister is monitoring, but local government is monitoring it as well, because we changed the regulations in January, of course, from 90% to 100%, as you are well aware.

[37] **Ann Jones:** So, that level of support is there over this year, certainly. What about 2014-15 and beyond? Given that we know that revenue budgets are going down, is there a similar level of support that you are anticipating will be put in?

[38] **Jane Hutt:** The Minister for Local Government and Government Business is discussing the arrangements for 2014-15 with local government, and she will be making a statement in due course.

[39] **Ann Jones:** Okay, thank you. Can we just move to the consequential of £12.4 million that was done in relation to the abolition of the discretionary social fund? In April this year, the Welsh Government established its own discretionary assistance funding. Is the consequential that you received as part of the UK Government's abolition of what I think is quite a needed fund—though that is beside the point—in line with what was expected? What are the Government's total costs going to be for the discretionary assistance fund that we have set up?

[40] **Jane Hutt:** This is, again, a change about which there was a great deal of discussion with the UK Government over the concern about the impact of the abolition of the discretionary social fund. It is something that we were concerned about, not only with regard to the costs that were going to be transferred, but also with regard to the administration of a new scheme in Wales. We did not hear until December last year what the level of funding would be for what is now, as you know, our discretionary assistance fund. The level that was transferred was based on the discretionary social fund spend in Wales for 2012-13, and it was at the mid-point of the range of what the Welsh Government expected.

[41] **Jocelyn Davies:** Paul, shall we move on to your questions?

[42] **Paul Davies:** Thanks, Chair. As the Minister for Finance, can you tell us when you knew of the decision to purchase Cardiff Airport, and how did this purchase affect your budgetary plans?

[43] **Jane Hutt:** Clearly, as the Minister for Finance and a member of the Government, I am involved in and responsible for the Wales infrastructure investment plan in the discussions about opportunities for appropriate investment. However, as you will be aware, there was a considerable amount of discussion and negotiation about opportunities to safeguard Cardiff Airport, but I was clearly aware and engaged in understanding the impact of that in terms of the timing of any decisions that we might make.

[44] **Paul Davies:** So, can you tell us whether the purchase of the airport had an effect on other infrastructure projects, because, in February, you stated your intention to carry forward the £50 million remaining capital reserve into this financial year to be used in support of the infrastructure investment plan, but in March, you used the funds to purchase the airport? Given that this £50 million will not be carried forward in support of the infrastructure investment plan, how do you intend to fund the projects that this would have contributed to?

[45] **Jane Hutt:** First, in response to that question from Paul Davies, I would like to say that, as the Minister for Finance, I was able to increase the limit of our capital departmental expenditure limit for the last financial year so that we could carry forward that £50 million

under the budget exchange mechanism. I know that all Members would agree that the importance placed on having that flexibility in terms of infrastructure investment opportunities was key. So, we secured that flexibility and used it to purchase the shareholding in the airport. As a major Welsh infrastructure asset, it clearly fitted with the priorities of our Wales infrastructure investment plan, but also, as we discussed earlier, the supplementary budget details the £76.2 million capital investment that I have been able to make in housing, schools, health, transport and flood defence. So, I was able to ensure that, not only were we to play our part and release the funds for the airport infrastructure investment decision, but also commit to those important priorities in the Wales infrastructure investment plan.

[46] **Paul Davies:** So, you are saying, Minister, that the purchase of the airport did not have an impact on other infrastructure projects at all.

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

[48] **Jocelyn Davies:** Before you move on, Minister, the purchase of the airport is not in the national transport plan, is it?

[49] **Jane Hutt:** We have to be flexible and we have to be clear about infrastructure investment needs. Transport is a key priority of the Wales infrastructure investment plan. However, obviously, there was clear scrutiny and a response from Ministers at the time—the First Minister and, indeed, the Minister for the Economy, Science and Transport—regarding concerns about the airport. I certainly believe, as the Minister for Finance, that it was right that we were able to use our capital resources in this way. All of the due diligence procedures have taken place. However, in terms of the prospects for the airport and the support that is now extended, not just in terms of business and the communities that are benefiting from that, but politically, it is very welcome in terms of that decision.

[50] **Jocelyn Davies:** Aled, do you want to come in on this point.

[51] **Aled Roberts:** The decision to purchase the airport was taken on 27 March. Are you saying that, if that £50 million had not been allocated for the purchase of the airport, it would not have been allocated for other infrastructure projects?

[52] **Jane Hutt:** We had the facility, as a result of the extension of our flexibilities and the budget exchange mechanism for the £50 million, to purchase the airport. We had the resources to purchase the airport, but, as I said in response to Paul, we are also, through careful management, able to make allocations to other strategic priorities. An agile and, I would say, confident Government should be in that position to make such decisions. We certainly did make that decision at the end of March. However, it is important that we draw attention to the section 128 mechanism that we used under the Government of Wales Act 2006 to lay that report as a result of the purchase. That is in the public domain.

9.30 a.m.

[53] **Jocelyn Davies:** We will be coming to the section 128 mechanism now.

[54] **Aled Roberts:** So, just to understand, all projects that were in the final consideration stage under the Wales infrastructure investment plan, as at 27 March, will still be proceeding?

[55] **Jane Hutt:** Yes. I published the first annual report of the Wales infrastructure plan in May, where I provided an update not only on the spend for the last year, but on the pipeline of projects. When projects are shovel-ready, as we say, and the business plans have put us in a position where we have to decide what the priorities are, it is then a question of political priority and consideration, and it always will be. The projects that could be ready to move

when you have a capital allocation will be ready to be considered. I can assure you that it was not the case that something else did not progress because we made that decision for the airport.

[56] **Paul Davies:** Will you clarify that you were involved in the discussions to purchase the airport from the outset as the Minister for Finance?

[57] **Jane Hutt:** As the Minister for Finance—but my officials were also engaged in this, particularly as there was lengthy negotiation, as you will be aware. We had to ensure that due diligence procedures were completed before any negotiation was completed, and before any decision was made about the spend. That is all reflected in the section 128 mechanism report.

[58] **Paul Davies:** You mentioned the section 128 mechanism. Can you explain to us why it was decided to use this particular mechanism to authorise the use of resources? Will this be detailed in the outturn report for 2012-13? Why was the use of resources to purchase the airport not included in a supplementary budget and laid in front of the whole Assembly for full scrutiny? Surely, that would have been an appropriate mechanism to use in order to ensure openness and transparency.

[59] **Jane Hutt:** I believe that openness and transparency have been delivered, particularly in relation to the section 128 report. To account for the way in which this happened, in response to your question, we laid that report on the use of the section 128 mechanism on 3 April of this year, which is required under the Government of Wales Act 2006. That report outlines the circumstances surrounding the purchase and the reasons for the use of that mechanism, which is important in terms of openness and transparency. We used that mechanism for reasons of urgency, in that it was not practical to move a budget motion to authorise the payment. That is why we used the section 128 mechanism.

[60] **Paul Davies:** Why was it not practical?

[61] **Jane Hutt:** It was not practical, and, partly, it was about the timing because of the end of the financial year. I do not think that the section 128 mechanism has been used on any other occasion, but it was appropriate, and that was the advice given in practical terms.

[62] **Jocelyn Davies:** So, to make it clear, you were not able to use the supplementary budget mechanism, not that you did not choose to.

[63] **Jane Hutt:** We were not able to do that due to the end of the financial year period, which is difficult. However, we had a mechanism that we felt would be justifiable and transparent, namely section 128.

[64] **Paul Davies:** Are you saying that you were not able to use it because of the timescales involved?

[65] **Jane Hutt:** It was not practical to have a budget motion at that particular time to authorise this payment, because of the urgency of making the decision.

[66] **Jocelyn Davies:** We fully appreciate that discussions and negotiations have to be kept confidential, but, once the decision is made, there is no reason to keep that confidential. Paul, do you have further questions?

[67] **Paul Davies:** As Minister for Finance, do you think that the purchase of an airport is the appropriate and proper way to use contingency funds. In other words, is the purchase of an airport a proper definition of 'contingency plans' in your view?

[68] **Jane Hutt:** I think that you need to look at this as an allocation of our capital resource for the acquisition of the airport. Obviously, the budget mechanism enabled us to access this capital resource in order to acquire the airport. It was not being purchased out of a contingency arrangement. The contingency was that we had access to this capital resource. I certainly feel that it is a key economic driver for the Welsh economy; it is a major employment centre. A dynamic airport, of course, is crucial to the wider Welsh economy as a gateway to business, tourism and freight. The decision was made to access and use our capital resource. The fact that it happened around the end of the financial year complicated it in terms of the way in which we could then present this and account for it. However, I believe that section 128 powers, which we are now using—and that is why we have the Government of Wales Act, of course—. Also, of course, there have been statements by the Minister. In fact, the Minister for Economy, Science and Transport returned a major statement on 16 April, as soon as she could after the Easter recess.

[69] **Jocelyn Davies:** However, it did not require a vote of the Assembly.

[70] **Jane Hutt:** No, it did not.

[71] **Jocelyn Davies:** Did you have a further question, Paul?

[72] **Paul Davies:** I have one final question. Earlier this year, you stated the intention to carry forward £59 million in revenue into 2013-14. This was intended to provide a £40 million allocation for apprenticeships in the final budget, and £19 million for council tax support in this budget. Is it still the case that this £59 million will be carried forward under a budget exchange, and are there likely to be any further changes to the amounts proposed to be carried forward?

[73] **Jane Hutt:** We do expect that the £59 million will be available to carry forward, but we are still at the stage of finalising the audit of the Welsh Government accounts, which are still ongoing. That is Matt's responsibility. We are confident that that £59 million will be available. Perhaps, Chair, I could just say that we do have—as you know—a good record in terms of financial management. Approximately 99% of our departmental expenditure limit has been spent since devolution. So, we will look forward to being able to account and return to the committee to account for the outturn.

[74] **Jocelyn Davies:** I now turn to Chris.

[75] **Christine Chapman:** Minister, I want to ask you a question about Natural Resources Wales. We did an inquiry on the invest-to-save fund. One of the concerns that we had was over the allocation of funding to Natural Resources Wales from this fund. We know that the supplementary budget makes two further allocations to this body. You responded to our report saying that all awards made need to demonstrate savings, but, in the light of these statements that you made, what is the evidence of the savings to be achieved as a result of the £3.8 million award in relation to the workforce reconfiguration?

[76] **Jane Hutt:** The approach that we are taking is forecasting a saving of at least £4 million. Obviously, we feel that Natural Resources Wales does provide significant opportunities to realise efficiencies and improve delivery, but in terms of the ways in which we are trying to support that, particularly through the £3.8 million invest-to-save transformation programme, at this point in time, the forecast is that we will save at least £4 million.

[77] **Christine Chapman:** So, there is a £3.8 million award, but you are predicting savings of £4 million.

[78] **Jane Hutt:** That is just at this point in time, particularly relating to workforce reconfiguration. It is very early days, so I want to be realistic at this point in terms of what is forecast, but I would certainly want to come back to committee to update you on that.

[79] **Jocelyn Davies:** On the housing revenue account subsidy system, everybody on the committee, obviously, is pleased with the news. It is a shame that Peter Black could not be with us this morning; I am sure that he would have had a whole range of questions on this. In your statement on the exit of local authorities from the housing revenue account subsidy system, you state that authorities will buy themselves out via a lump-sum payment, and will take on a new debt to do so. What is the amount that has been negotiated for this buy-out?

[80] **Jane Hutt:** We are all in agreement that this was the way forward. I thank committee members—and I know that, if Peter Black was here, I would want to thank him—because although this is something that has been led by the Government, there has been cross-party support. Authorities with housing stock send £73 million each year back to the Treasury under the existing scheme. In terms of the detail on this, a joint statement was made, and we are in quite early days in terms of being able to give the detail on the amount negotiated, but, as a result of this, the 11 Welsh local authorities that still have their housing stock will be in a similar position to those in England, where the old HRA system was replaced in March 2012. It is going to be secured on the basis of the amount of annual interest payments local authorities will pay each year, so that will provide certainty to local government on its share of the annual interest, and that it will remain constant. The buy-out figure will be determined a short period before the settlement date, and it will be dependent on the interest rate applicable at that time. These are perhaps early days to report on this, and certainly the Minister for Housing and Regeneration would want to give more detail.

[81] **Jocelyn Davies:** In England, I know that that debt was shared out among the local authorities, redistributed depending on the ability to pay. How will that debt be shared among the local authorities in Wales? Will it be on the same basis as in England?

[82] **Jane Hutt:** There are quite detailed discussions taking place now between local government finance officials, our officials, and indeed the Treasury. Again, this is something where there will be consultation about the impact it will have on the authorities, and how the settlement and the borrowing cap will be distributed across the local authorities. One of the major gains is that all local authorities will be better off with that share of around £33 million in savings each year. We would probably have to come before you again with the detail in due course.

[83] **Jocelyn Davies:** Where do you get £33 million?

[84] **Jane Hutt:** As a result of the changes. They were sending back £73 million each year to the Treasury. The settlement means that it will be £40 million, so £33 million each year will be saved.

[85] **Jocelyn Davies:** I know that Aled—and you could have predicted this as well—has a number of questions on this. You mentioned earlier that the £68 million capital consequential with strings could be used for housing. Could you possibly assist the local authorities with that? Is that one of the things that you might consider?

[86] **Jane Hutt:** As we move forward, they will have considerable opportunities in terms of that £33 million, and there now has to be consultation on the sharing out. There are opportunities in terms of borrowing, and the borrowing cap is important—that was part of the negotiations—but clearly housing is a priority. There is our route through financial transactions as well, which gives us more opportunities for housing, and not just for local authorities, of course. Local government is pleased with the deal that we have, and housing is

a key priority. The capital allocations for Houses into Homes have gone down well; that is, the empty homes initiative, which local authorities are fully involved with. Of course, there are also the new opportunities through housing legislation, which will help to steer the way.

9.45 a.m.

[87] **Jocelyn Davies:** Aled, do you want to come in on the housing revenue account?

[88] **Aled Roberts:** Yes, on the English situation, there is a significant delay in England in achieving the consent of the local authorities to the agreement that was reached. What mechanism will be used in Wales? I know that you will not be able to give us the detail of the circumstances of each authority, but will it need the agreement of all 11 to the particular settlement that is reached?

[89] **Jane Hutt:** There has been so much work and such good engagement between the Welsh Government and local government that I hope that they will come to a view—the chief finance officers are working on behalf of the 11 local authorities, and I believe that there is goodwill there. However, it will have to be a formula, and there will have to be consultation. That formula will be developed in line with acceptable arrangements. I am interested as I was not aware of that situation in England, but perhaps it is more difficult to secure in England. However, I think that we have goodwill on all sides.

[90] **Aled Roberts:** It is certainly easier with 11.

[91] **Jane Hutt:** Exactly.

[92] **Jocelyn Davies:** However, you could of course translate it into a 30-year debt, but at least then, in 30 years' time, that transfer of money going back to the Treasury would stop. Currently, it would never stop.

[93] You mentioned the housing-related borrowing cap. What is the level of the cap and how was that arrived at?

[94] **Jane Hutt:** I am not sure whether those figures are in the public domain as of yet. Jo, do you want to clarify this? This is something that we have agreed at an all-Wales level, because we need that borrowing to enable local authorities to bring their houses up to standard, but I am not sure whether the headroom is in the public domain.

[95] **Ms Salway:** I do not believe that the Minister for housing has announced that yet. I think that there is to be a conversation with the WLGA and the affected local authorities shortly to talk that through with them first, but, in the negotiations with Treasury, we were able to reflect the current borrowing plans that those 11 local authorities have. My understanding is that there are conversations to be had with them before that figure is announced.

[96] **Jocelyn Davies:** It is just that you are not able to release that information to us as yet. Okay, that is understandable. So, the timescales are subject to agreement with Treasury in terms of the exit, but when do you think that the exit is likely to take effect? Have you got a good guesstimate that you could—

[97] **Jane Hutt:** 'As soon as possible' does not sound good enough, does it? However, we have this deal and we have to deliver on it. This is a priority. I am meeting with Lesley Griffiths who set up a finance sub-group of the Welsh Local Government Association, which I am meeting on Monday next week, and I am sure that this will be on the agenda. However, it is going to be—going back to Aled's point—about getting the 11 to rise up to the challenge

and agree with us, but based on the deal. As Jo said, the fact that they have their plans for the Welsh housing quality standard means that it should be manageable. Those plans, up until this point, have been very constrained in terms of reaching the WHQS and now they feel very confident that they can reach it.

[98] **Jocelyn Davies:** Does anybody else have any other questions? I see that no-one does. Thank you very much, Minister. We will send you a transcript, as usual, to check for factual accuracy.

9.49 a.m.

Papurau i'w Nodi
Papers to Note

[99] **Jocelyn Davies:** We have one or two papers to note. Are Members content with those? 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**

[100] **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.

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

Derbyniwyd y cynnig.
Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 9.49 a.m.
The public part of the meeting ended at 9.49 a.m.