



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

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

**Dydd Mercher, 28 Medi 2011**  
**Wednesday, 28 September 2011**

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,  
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.  
In addition, an English translation of Welsh speeches is included.

**Aelodau'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, Cynllunio Strategol, Cyllid a Pherfformiad Specialist Policy Adviser, Strategic Planning, Finance and Performance
Rodney Berman	Llefarydd Cyllid, Cymdeithas Llywodraeth Leol Cymru Finance Spokesperson, Welsh Local Government Association
Jane Hutt	Aelod Cynulliad, Llafur (Y Gweinidog Cyllid ac Arweinydd y Tŷ) Assembly Member, Labour (The Minister for Finance and Leader of the House)
Andrew Jeffreys	Pennaeth Cyllidebau Strategol, Cynllunio Strategol, Cyllid a Pherfformiad Head of Strategic Budgeting, Strategic Planning, Finance and Performance
Vanessa Phillips	Cyfarwyddwr Adnoddau, Cymdeithas Llywodraeth Leol Cymru Director of Resources, Welsh Local Government Association
Jo Salway	Pennaeth Polisi Cyllideb Head of Budget Policy
Steve Thomas	Prif Weithredwr, Cymdeithas Llywodraeth Leol Cymru Chief Executive, Welsh Local Government Association

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

Dan Collier	Dirprwy Glerc Deputy Clerk
Tom Jackson	Clerc Clerk
Sue Morgan	Cynghorydd Cyfreithiol Legal Adviser

*Dechreuodd y cyfarfod am 9.30 a.m.  
The meeting began at 9.30 a.m.*

### **Cyflwyniad ac Ymddiheuriadau Introduction and Apologies**

[1] **Jocelyn Davies:** I welcome everyone to the first meeting of the Finance Committee of this term. Headsets are available for translation and amplification. Translation is available on channel 1 and amplification is on channel 0. Please turn off mobile phones and electronic devices, as they will interfere with the sound equipment. We are not expecting a fire drill this morning, so if the alarm sounds it is an emergency, and the ushers will direct us to the nearest safe exit and assembly point.

9.30 a.m.

### **Cynnig Cyllideb Ddrafft 2012-13 Draft Budget Motion 2012-13**

[2] **Jocelyn Davies:** The Minister and her officials have joined us. We are grateful, Minister, that you have agreed to attend the meeting this morning. Would you like to introduce yourselves for the record, please?

[3] **The Minister for Finance and Leader of the House (Jane Hutt):** I introduce Andrew Jeffreys, the head of strategic budgeting, Jo Salway, the head of budget policy, and Jeff Andrews, our specialist adviser.

[4] **Jocelyn Davies:** I understand that Matt Denham Jones is also in attendance today.

[5] We have received your paper and we thank you for that. Would you like to make some introductory remarks, and then move to questions?

[6] **Jane Hutt:** Thank you very much. I remind colleagues that, in less than a week, I will publish the Welsh Government's spending plans for the next three years. I believe that we have a strong track record of working together during the scrutiny phase of the budget, and I want to continue that relationship. I am committed to working in an open and transparent way, which I hope will make the scrutiny role as effective as possible. So, this year—and this is the purpose of the paper and our discussion today—I propose to make small changes to the annual budget motion. I will now clarify these changes.

[7] I set out the proposals in the committee paper in order to inform Members about the reasons for these changes. The budget motion that the Assembly votes on has remained unchanged since the Government of Wales Act 2006. The motion sets individual budget control totals for each major expenditure group. If the Government were to breach any one of these totals, even by a very small amount, our accounts would be qualified. As an example, in June 2008, the Welsh Government laid a retrospective supplementary budget to authorise the spending of £400,000 in excess of what was then called the 'other ministerial services ambit'. It was approved by the Assembly in the March 2008 supplementary budget.

[8] Of course, it is right for there to be robust financial controls in place and we should monitor expenditure against these, but I have become concerned that the existing system may, on occasion, work against effective financial management. With reducing budgets, it is more important than ever that we maximise expenditure in line with our priorities. However, a fear of breaching this legally binding ambit can result in excessive caution in budget management and also in the retention of underspends until late in the financial year, with limited

opportunity to redirect them. So, the current system also provides an incentive to group together small budgets with limited commonality in the interests of managing the risk of breaches. This does not help transparency, and this is a point that has been made regularly by the Finance Committee.

[9] To avoid this, I propose that we insert an overriding clause into the budget motion. This would mean that if an individual portfolio budget were to overspend, it would not result in an ambit breach if the overspend was covered by total resources. This would be an important change to allow us the flexibility to manage resources more effectively. I am very clear, however, that the change should not circumvent the established budget processes. The Assembly's scrutiny of our budget plans and changes to those plans is a crucial element of our democratic accountability. I am committed to continuing the cycle of supplementary budgets that we currently have—two each year—and we will continue to provide at least the same level of detail as we do now. I am clear that a situation in which we do not manage portfolio expenditure within the published plans would be very much the exception. We would also report to the Assembly any incidence of spending above the individual portfolio limits that are set in a supplementary budget. Portfolio limits will continue to be an important control, but we want to drive effective management rather than encourage risk-averse behaviour.

[10] Finally, on this basis and with these commitments, I look for your support to make these changes. I would like to publish the new motion with the draft budget material to give you a chance to comment on the proposal in your report. I have attached a draft motion to the papers for your consideration. I would also be happy to codify the commitments that I have made today in a written protocol, if the Finance Committee thinks that that would be helpful.

[11] **Jocelyn Davies:** Thank you very much for that, Minister. My first question was going to be to ask you to provide some examples, but you have already given an example. I think that you mentioned a figure of £400,000. What percentage of the overall budget is £400,000?

[12] **Jane Hutt:** It is a very small percentage.

[13] **Mr Jeffreys:** It would be a fraction of 1 per cent.

[14] **Jane Hutt:** It was an example.

[15] **Jocelyn Davies:** Yes, it was a good example.

[16] **Christine Chapman:** You have touched on the point that I was going to raise, Minister. You referred to the fact that the current arrangements have led to small budgets being grouped together to avoid breaching the limits, which has resulted in main expenditure groups consisting of a combination of smaller budgets. Could you provide us with examples of where this is the case? How might the proposed changes alter the structure of such budgets?

[17] **Jane Hutt:** Thank you very much for that question. As you said, I referred to an example. The ambit that I talked about, in relation to the 2007-08 budget, was called 'other ministerial services', which included quite a few spending lines. That was changed so that we now have a central services and administration main expenditure group, which includes a range of budget heads, including the First Minister's budget heads and my budget heads. So, it could be Wales for Africa, or it could be the key strategic spend of the department. It is something that we wish to avoid, because it does not aid transparency. Taking forward the proposal that I have outlined would enable us to do that.

[18] **Ieuan Wyn Jones:** Yr ydych wedi **Ieuan Wyn Jones:** You have stated that you

dweud eich bod yn dymuno gweld y trefniadau hyn yn eu lle ar gyfer cyllideb 2012-13, ond os ydych yn cyflwyno eich cynnig yr un pryd â'r gyllideb ddrafft eleni, byddai'r trefniadau newydd yn eu lle ar gyfer unrhyw gyllideb atodol y byddech yn ei gwneud eleni. A ydych yn bwriadu defnyddio'r rheolau newydd ar gyfer unrhyw gyllideb atodol eleni cyn ichi gyflwyno cyllideb 2012-13?

would like to see these arrangements in place in time for the 2012-13 budget, but if you propose your motion at the same time as this year's draft budget, the new arrangements would be in place for any supplementary budget that you would make this year. Do you intend to use the new rules for any supplementary budget that you present prior to the 2012-13 budget?

[19] **Jane Hutt:** It would be helpful to have the committee's views on whether we should introduce it for the second supplementary budget that would be due this year. We felt that it is important to introduce it with the draft budget on Tuesday for 2012-13 and the next three years, but if you feel that it would be helpful to introduce it for the next supplementary budget, then we could do so. I will be guided by the committee on that.

[20] **Ieuan Wyn Jones:** Gan fod hynny'n dibynnu ar yr ateb i'm cwestiwn nesaf, gwell imi ofyn y cwestiwn hwnnw. Er mwyn i'r pwyllgor hwn gael yr holl wybodaeth sydd ar gael o safbwynt symud arian rhwng gwahanol benawdau yn y gyllideb, yr ydych wedi dweud y byddech yn fodlon sefydlu protocol ysgrifenedig gyda'r pwyllgor fel ein bod yn cael gwybod popeth sydd angen inni ei wybod. Nid oes gennyf wrthwynebiad i'r hyn yr ydych yn ei gynnig, gyda llaw, ond mae'n bwysig ei bod yn cael y wybodaeth i gyd. A ydych yn fodlon cael cytundeb ar y protocol ysgrifenedig, os mai dyna yw eich bwriad, cyn bod cyllideb atodol ddrafft arall yn cael ei chyflwyno? Os ydych yn fodlon gwneud hynny, gall y pwyllgor ei ystyried wedyn yn llawn.

**Ieuan Wyn Jones:** As that depends on the answer to my next question, I had better ask that question. In order for this committee to have all of the available information with regard to the movement of money between different headings in the budget, you have said that you would be willing to establish a written protocol with the committee so that we know everything that we need to. I have no objection to what you are suggesting, by the way, but it is important that we have all of the information. Are you willing to have an agreement on the written protocol, if that is your intention, before another draft supplementary budget is introduced? If you are willing to do so, the committee can then consider it fully.

[21] **Jane Hutt:** Definitely. We can get to work on it straight away, and then you can consider whether it would be appropriate for the next supplementary budget.

[22] **Ieuan Wyn Jones:** Hoffwn ofyn un cwestiwn dilynol arall, er mwyn cwblhau'r gyfres o gwestiynau sydd gennyf. A chymryd na fyddwch yn cyflwyno cyllideb atodol pan fyddwch yn symud arian rhwng un pen o'r gyllideb i'r llall, ac mai dim ond os ydych yn cymryd arian o'r gronfa wrth gefn y byddwch yn gwneud hynny, a fydddech yn fodlon, pan fyddwch yn symud yr arian yn fewnol, i anfon llythyr at y pwyllgor i ddweud bod hynny wedi digwydd?

**Ieuan Wyn Jones:** I want to ask one more question on the back of that, just to complete my set of questions. If we take it that you will not be introducing a supplementary budget when you will be moving funds from one part of the budget to another, and that you will do so only if you take money out of reserves, would you be willing, when you make that shift internally, to send a letter to the committee to say that that has happened?

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

[24] **Mike Hedges:** I think that it is a good idea, and I am pleased with the answer that you gave to Ieuan Wyn Jones about making sure that the committee is informed when such

changes take place. So, you have heard my view. Have you heard the view of Wales Audit Office, and, if so, what is its view?

[25] **Jane Hutt:** We work closely with the audit office. The discussions would be subject to the views of this committee. The audit office is aware of the proposal, and is comfortable with it.

[26] **Mike Hedges:** Would you report back to us what the Wales Audit Office has said?

[27] **Jane Hutt:** I understand from officials that it is comfortable with it, but that can be part of an exchange of information in codifying the changes, if that would be helpful. However, I do not foresee any difficulty.

[28] **Mike Hedges:** I do not foresee any difficulty either, but it would be useful for everyone concerned for the committee to have it noted in writing that it is happy with it.

[29] **Julie Morgan:** The changes seem eminently sensible to me as well. You say that they will increase transparency and accountability, but what impact will they have on the structure and presentation of the budget?

[30] **Jane Hutt:** They will not have any impact on the structure of the budget in terms of the arrangements that we have in place. They respond to how we manage the budget in-year, and how we account, report and effectively manage underspends.

[31] **Julie Morgan:** So, they would make no difference to the presentation.

[32] **Jane Hutt:** They would not make a difference. One point that I did not make earlier that is worth making, in terms of effective management during the year, is that, in the past, we had more flexibility through our end-of-year flexibility scheme. So, if there was an underspend, we knew that we could follow it through to the following year. However, that has now been constrained as a result of the new budget exchange mechanism. I have not met the committee since we had a better outcome from the negotiations with the Chief Secretary to the Treasury in July. Despite the fact that we had a better outcome than we had perhaps anticipated, we still will not be able to carry forward funding in the same way. In answer to your question, the budget will be presented as it has been for the past couple of years.

[33] **Peter Black:** You say that there is no change to the structure of the budget. Does that mean that the example that you gave of the central services and administration MEG would stay the same, or will you break it up into smaller MEGs when it comes to presentation?

[34] **Jane Hutt:** No, it will be the same. With regard to the structure of the budget, as you will know, I will be providing action tables and a strategic narrative to explain proposed changes. However, the MEGs will remain as they are.

[35] **Mr Jeffreys:** Part of the reason for having the broad central services and administration budget at the moment, which covers many things, is to avoid the sort of problem that the Minister referred to earlier. Ministers may choose to split that MEG into its component parts, but those decisions have not been taken yet. The budget will be published next week—

9.45 a.m.

[36] **Peter Black:** I understand that this applies to 2012-13, not to next week. I thought that the rationale for this was for you to have greater transparency by having those big MEGs split up so that you could see where all the money is going. If you do not intend to do that,

what is the point of the change?

[37] **Jane Hutt:** The purpose is to ensure that we have better budget management within year in terms of avoiding underspends and being more flexible within MEGs and across MEGs. This is an opportunity for us to look at what further information we could provide to make this budget more transparent. I am certainly committed to hearing more from committee and from Members as to how we can do that. We have mentioned one MEG, the central services and administrative MEG, which is perhaps the least transparent—although it does not focus on the most important issues of the budget—but it would be helpful to have your views on how we can progress in terms of transparency.

[38] **Peter Black:** I would like to see the sub expenditure groups published as well. I understand the need for flexibility, and that is a perfectly reasonable point to put to the committee. However, I understood from your paper that you were also advocating transparency and accountability, and it seems that you have not actually made up your mind yet whether you want that. Most Assembly Members will want that, but I am concerned that you are not making it a major feature of your pitch to the committee.

[39] **Jane Hutt:** I am making a feature of the fact that these changes that I am proposing are as transparent as possible for you, Members, all our partners and the people of Wales, so that we can be held to account for our ministerial and Government decisions that will be made much more flexibly in terms of the management of resources in-year. It is that transparency and accountability that we are focusing on in this paper in terms of this change. Of course, I am happy to consider any request that comes from this committee about the structure of the budget as a whole. I am happy to consider requests for that lower level information to be published.

[40] **Jocelyn Davies:** A number of Members want to come in on this point. Paul is next, and then Mike.

[41] **Paul Davies:** I want to pick up the point on accountability. I understand why you want to make these changes, but in your paper you say that the key advantage of this change would be to increase transparency and accountability, yet on the other hand, you say that you want to move towards the Scottish model, where the Government has the flexibility to move resources between budgets without Parliament's approval. So, on the one hand you are saying that it will increase accountability, but on the other, you do not have to come to the Assembly to make these changes. Do you therefore accept that it gives you greater power as a Minister, and do you also accept that it gives the Executive greater powers in this instance?

[42] **Jane Hutt:** I hope that it gives us greater flexibility as Ministers to govern effectively and use our resources most effectively. On accountability, as I have said, this will be transparent and clear, not just as reflected in our supplementary budget, but also in the commitment that I made to Ieuan Wyn Jones on reporting back to committee any changes that may occur. We will also ensure that this is codified in a written protocol so that the committee is absolutely clear on what information we will provide. That would be reflected in our supplementary budget; we have talked about whether you want to see it reflected in this year's supplementary budget, and that is something that we would want to exchange information about when we have a draft protocol to consider.

[43] **Mike Hedges:** Does this mean that, at the end of the year, you will be able to spend money in such a way that it will remove the danger of any money having to be paid back to the Treasury? That is something that no-one wants to see happen. The second thing is: will you use it to move money from revenue to capital towards the end of the year, if you have revenue underspend?

[44] **Jane Hutt:** Regarding the first point that you made, we ended up in this financial year with only £14 million underspend. However, we could have even avoided that with the flexibility that I am suggesting in this new arrangement, because right through the second half of the last financial year I was pressing Ministers to identify underspends. It means that if you end up towards the end of the financial year with an underspend in one policy area, you have more flexibility to vire that to another policy area where there is a pressure, for example. We have not had that flexibility until now. That is reflected in their being able to account for a switch, which is important in terms of transparency and flexibility, because at the end of the year, if you had an underspend in rural affairs and a pressure in health, you would want to be able to switch across. That is what this will give us as Ministers.

[45] On your second point about resource to capital, that is something that we can do. Indeed, last year, that is what we were seeking to do. Regarding the outturn, we did switch from resource to capital. That is not affected at all by these provisions.

[46] **Jocelyn Davies:** I believe that you wanted to make a point, Mr Jeffreys.

[47] **Mr Jeffreys:** I have just one point to add on the scope to switch money between resource and capital budgets. The key constraint is the Treasury's estimate process, so any changes to our capital or resource departmental expenditure limit would need to be agreed by the Treasury in a supplementary estimate, which tends to be around the end of the calendar year in the new set-up. So, we will have to set our resource and capital departmental expenditure limits at that point of the year. We are not able to make changes to those limits late on in the year. So, there will be that key point in the timetable to set those limits. Then, within those limits, this change would give us flexibility to move resources.

[48] **Jocelyn Davies:** Thank you for the seminar on that.

[49] **Paul Davies:** Following on with the accountability issue, I appreciate that, as Minister, you still provide us in the Assembly with the same information as before; however, that does not mean that future Ministers and Governments will do that. Do you accept that there will be less accountability in that sense?

[50] **Jane Hutt:** My offer of a written protocol should underpin this. It is a serious bit of work. It is partly technical to reflect the accountability routes that should enshrine this for future Ministers and Governments.

[51] **Paul Davies:** So, just to confirm, it remains your intention to lay two supplementary budgets in each financial year.

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

[53] **Ann Jones:** Your paper states that you intend to report to committee, as you have done previously, any variations between spending plans detailed in your last supplementary budget and the final outturn. How do you intend to do that?

[54] **Jane Hutt:** That will be a report to committee and obviously the supplementary budget is subject to a full scrutiny. However, any other changes I would want to report—

[55] **Ann Jones:** Would that be reporting by writing a letter to the Chair, by coming here and facing scrutiny from Members or just by putting it on the website?

[56] **Jane Hutt:** It would be helpful if we reflected that method in the protocol. Maybe you would want to consider what would be the best way of reporting to the Assembly.

[57] **Ann Jones:** Thank you.

[58] **Jocelyn Davies:** I suppose, Minister, that the feeling that I am getting from Members is that you have given a good example of having to come to the Assembly because of £400,000; however, there is a danger that too much flexibility would allow a Government, perhaps not this one, but any Government, to escape accountability, and we need to find a balance between the two.

[59] **Peter Black:** I think, Minister, that you have indicated by your offer of a protocol that you will continue with the frequency, level and quality of the information provided. I am interested in whether you will be able to look at this new system and come to us with proposals on how to improve the quality of information, rather than just keeping it the same, in particular regarding giving us more detail on the main expenditure groups and how you can restructure them to allow for greater transparency and clarity.

[60] **Jane Hutt:** I would very much like to do that. That is a larger task. We should move forward on the protocol in terms of these new arrangements, but I would like to offer the opportunity for us to look at how this could have a wider impact on the transparency of the whole structure of the budget.

[61] **Peter Black:** You have 12 months to do so. [*Laughter.*]

[62] **Jocelyn Davies:** We have covered your second question, Ieuan, so can we move on to your question, Mike.

[63] **Mike Hedges:** Under the Government of Wales Act 2006, the Assembly Commission, the Public Services Ombudsman for Wales and the Wales Audit Office are dependent on the Welsh Government moving a supplementary budget motion should they require any in-year variation to their resources. Have you had discussions with these directly funded bodies in relation to your planned revisions to the budget motion?

[64] **Jane Hutt:** Yes, discussions have already commenced with the Assembly Commission, the Wales Audit Office—as I mentioned earlier, Mike—and the Public Services Ombudsman for Wales.

[65] **Mike Hedges:** My other question is based totally on ignorance. If you you have a protocol, how do you embed it in the Assembly's systems, as opposed to it being a protocol for Jane Hutt as Minister with a certain body? If someone else becomes Minister for finance, such a protocol could disappear.

[66] **Jane Hutt:** It is a very fair point. I do not know if we have precedents for other protocols of this kind. Our officials need to discuss with Commission officials how we could—

[67] **Jocelyn Davies:** I assume that you represent the Assembly Government and that this committee represents the Assembly in that relationship. So, even if this committee did not exist, the protocol would stand firm.

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

[69] **Peter Black:** We could always get Plenary to vote on it.

[70] **Jocelyn Davies:** We will find a way of embedding the protocol, Mike. It is a good question. Paul, did you want to ask a question?

[71] **Paul Davies:** I think that you have touched upon this already, Minister, but can you assure the committee that the proposed arrangements and any potential subsequent decision on the frequency of supplementary budget motions will not have a negative impact on directly funded bodies?

[72] **Jane Hutt:** Yes, I can assure you on that.

[73] **Jocelyn Davies:** I have one last question in relation to the Assembly Commission. Is it intended that Assembly Commission resources are no longer considered as two separate parts in Schedule 3, and that resources for Assembly services and Assembly Members are grouped together for the purposes of the budget motion?

[74] **Jane Hutt:** There is no intention to alter the separate ambits for the Commission. The wording of the finalised annual budget motion will reflect the separate ambits that will be detailed by the Commission in its budget proposals.

[75] **Jocelyn Davies:** I do not think that anyone has further questions for you. Once the transcript is available, it will be sent to you to check for factual accuracy. Thank you very much.

9.58 a.m.

### **Cynnig Cyllideb Ddrafft 2012-13 Draft Budget Motion 2012-13**

[76] **Jocelyn Davies:** While we wait for our next set of witnesses, I remind Members that the background to this item is that the Welsh Government advised the committee that its intention was to lay the draft budget on 4 October. We decided, before the summer recess, to take views from outside organisations prior to the budget being laid. We launched a call for information over the summer and over 20 organisations replied. We will take evidence today from the Welsh Local Government Association. We had also hoped to take evidence from the Welsh NHS Confederation, as Members were keen to hear from it. Unfortunately, its representatives could not attend today, but they will hopefully be able to attend at a future meeting.

10.00 a.m.

[77] Thank you for agreeing to come to give evidence to us today. For the record, could you introduce yourselves and perhaps make some introductory remarks? We will then move on to the questions.

[78] **Mr Berman:** We will start with the introductions. I am Rodney Berman; I am here as the finance spokesperson for the Welsh Local Government Association and I am also the leader of Cardiff Council.

[79] **Mr Thomas:** I am Steve Thomas, chief executive of the Welsh Local Government Association.

[80] **Ms Phillips:** I am Vanessa Phillips, director of resources at the WLGA.

[81] **Jocelyn Davies:** Would you like to make any introductory remarks?

[82] **Mr Berman:** I will start. The first thing to say is that I hope that there will be common ground between us all in that we all want to see a prosperous and resilient Wales, where people are healthy, well-educated and have the skills and opportunities to lift

themselves out of poverty, and where those who are vulnerable are supported to live independent lives. However, we all know that we are in challenging circumstances and that the economy is still not at a point that gives us sufficient comfort. There is still the prospect that we could go back into recession, and that worries all of us in terms of public service delivery.

[83] We know that the finances available for the public sector are tighter than they have been in previous spending years. To a certain extent, I am not sure that the situation is hugely different from where we were last year when I gave evidence to the committee. We welcome the level of protection that the Welsh Government has given in relation to the funding coming to local government relative to some other services. Therefore, we appreciate where we are and we appreciate that Ministers have been able to adhere to previous projections with regard to roughly where we think the revenue settlement for local government is likely to be.

[84] The concerns that local government has remain around the availability of capital funding, which is an issue for public services across Wales. We face continuing pressures in that regard. We have been through a couple of harsh winters, which have caused damage to roads across Wales. Our ability to find the funding to resurface the roads, and so on, remains a challenge. That is one issue. We continue to be concerned about the shortfall in capital available for areas such as housing. There is no doubt that it is also an issue for the Welsh Government in areas like health.

[85] I would like to touch on the school buildings issue, because I am sure that we all have concerns about the availability of capital funding to fund school building improvements in the future. We are in a difficult position in relation to that. I do not think that it is necessarily being helped by a failure on behalf of Ministers to recognise the severity of the situation at an early enough stage to tell councils what the true situation is. For example, at the beginning of the year, we had to submit a bid for twenty-first century schools funding. That was to outline what school building improvements we wanted to carry out during the financial years 2012-15. We were given to believe that these improvements could be funded on the basis of councils contributing 30 per cent and the Welsh Government contributing 70 per cent. It was only in July or August that we were told that that was not affordable. We have been told that we have to completely rethink our plans and resubmit them on the basis of the Welsh Government being able only to match fund the money that councils can put in.

[86] My concern is that we could have been told that a lot earlier. That situation should have been known following the comprehensive spending review in October 2010. That is when the Welsh Government knew how much funding would be available for capital in the future. I will give you an example from my own local authority, and I am sure that all local authorities in Wales are in a similar position. Based on that, we submitted a programme total for those three financial years of £151 million investment. That was based on the local authority in Cardiff being able to contribute £42 million on a 30/70 split, topped up by around £80 million from the Welsh Government. However, we have had to re-examine that now if the Welsh Government can only match what we can put in and not top it up at 70/30. Essentially, if we can put in £42 million, that is not going to change in the future, so the Welsh Government can, at best, now only put in £42 million, giving us a total of £84 million, which is £67 million short of the programme that we published. My big concern is that we published that programme and told schools right across the authority area that money was being bid for projects that we named. Now, we have a huge hole in that, and it was very unfortunate that we did not know the reality of the situation a bit earlier. We put plans into the public domain that cannot now be fulfilled.

[87] Leighton Andrews, in his statements, has talked about the ability of local authorities to borrow, which the Welsh Government cannot do directly. Perhaps we could press for a bit more clarity on that. Yes, we have the ability to borrow, but the issue with borrowing, from

our perspective, is being able to afford to pay back any money that we borrow. If the Welsh Government is not able to borrow directly, but it could help us with the repayment costs of taking out additional loans to help plug that gap, let us know about it. If we can undertake more supported borrowing, we can help plug those gaps that are appearing in the schools programmes. Here we are, gearing up towards submitting a fresh bid for twenty-first century schools funding and we still do not have any guidance or information on how the Welsh Government might be able to help us with that borrowing. We could look further and look creatively across the board at issues other than school funding. There may be arenas where you could look to borrow to do something that could give a commercial return. If the Welsh Government was able to help us with the costs, we could then get that paid back by an income stream coming in somewhere down the road. There is an opportunity for us to work co-operatively with the Welsh Government to look at how we can plug gaps in capital funding. I would welcome some sort of dialogue on that. That is all that I have to say.

[88] **Jocelyn Davies:** We are not the Welsh Government, so the dialogue on borrowing would have to be with the Government itself. However, I know that Members here would be particularly interested in that. So, you as a local authority could not have made up the difference in the schools programme, from 30 to 50 per cent, because as you would have had to find around an extra £30 million. The essence of what you are saying is that you have had to reduce the programme, is it not?

[89] **Mr Berman:** Yes. We have worked out a programme based on how much we can put in, knowing that it can be topped up by Welsh Government funding. We are not in a stronger position than we were before to put any more money in, so if there is a gap, we cannot plug it. The concern is that it would have been better if we had known that before we published a programme and told schools that these particular plans might be in the pipeline.

[90] **Christine Chapman:** I have a point of clarification, Councillor Berman. You talked about guidance from the Welsh Government. I understand that other authorities, such as Rhondda Cynon Taf, for example, have already started looking at borrowing. Is there another arrangement with them and not with you? Obviously, I do not know the details, but I was surprised at what you said about wanting guidance or support from the Welsh Government, because I know of other authorities that are doing it now.

[91] **Mr Berman:** We are waiting for the guidance on how the revised bids for twenty-first century schools should be submitted for the first tranche. Maybe I was not specific enough. I am specifically waiting for that guidance. That could put more flesh on the bones of what Leighton Andrews referred to in the summer about local authorities, unlike the Welsh Government, being able to borrow. That might help us, but we are still working towards that revised bid without having any clear guidelines as to how we should submit that bid.

[92] **Mike Hedges:** If we had been having this discussion 10 years ago, you would have asked for supplementary credit approval in order to make up the gap. Supplementary credit approval disappeared with prudential borrowing—I am not sure why; no-one has been able to explain to me why that is the case. We must also remember that the Welsh block is the Welsh block, and if money gets moved into capital expenditure, it comes off revenue, and I am sure that in a few moments' time you are going to tell us about the revenue problems of Welsh local government. There is a balance. The other point is that all the money is distributed by a formula. If you had supplementary credit approval, that would have to go out outside of the formula, so would Welsh local government have a problem with that?

[93] **Mr Berman:** I cannot speculate on what formula might be used to distribute something that does not exist at the moment. The point that I would make is that you are right, there is a balance: if you make more revenue available to cover borrowing there is less

revenue available to spend on service provision. However, I would make the point that, from our perspective in Cardiff, when we have spoken to our headteacher fora over the years there have been times when they have told us, 'We would rather you gave us a bit less revenue next year and use what you save to fund some borrowing to help us to have more capital investment'. What I am saying is that maybe we need to have a dialogue between local government and Welsh Ministers to see where that balance should be drawn. Would there be an appetite to see a little less revenue if we got more supported borrowing to plug the gap in capital? I appreciate that it is a finite pot.

[94] **Jocelyn Davies:** Following on from Chris Chapman's point that she knows of specific discussions or plans around borrowing, there has not been a dialogue with the local authorities in Wales as a whole. It appears that individual local authorities may be looking at this but, as a whole, there has not been this dialogue between yourselves and the Welsh Government.

[95] **Mr Thomas:** There is a board dealing with the twenty-first century schools programme, which has been discussing all these issues. What we have been trying to do with that board is plan for a staged schools building programme over time. Our problem was that, when the board was set up, there was something called Lehman Brothers bank, but then the world changed dramatically. As a result of that, and because of last year's budget, capital, in particular, has been severely hit. The upshot is that the whole programme has been recast. Where Councillor Berman is coming from, and he is absolutely right, is that we have got to start to think about new capital mechanisms. That goes back to Mike Hedges's point.

[96] We had a discussion yesterday, for example, with Gerry Holtham, about how we go forward in terms of capital funding. There are things that we need to explore that are slightly more radical than what we have done in the past on capital funding, not least of all around local authorities being allowed by the Assembly to do supported borrowing. It might well be a one-off, but there are ways of bringing more money into the Welsh economy. We have to be radical about that because, when you look at the scale of the problem in relation to the schools building programme, you see that, yes, £5 billion-worth of repairs were identified and you could argue that local authorities put too much in there, but the Wales Audit Office, only two years ago, was highlighting £3.3 billion-worth of repairs. Capital is now the big debate for us in terms of finance.

[97] **Ieuan Wyn Jones:** Could you be even more radical? You have indicated that there is a particular issue around the schools programme, and a particular issue also around transport—

[98] **Jocelyn Davies:** And housing.

[99] **Ieuan Wyn Jones:** Yes, and housing. In what sense, then, could you not just limit it to schools? I understand the importance of the schools programme, but there are other capital projects that could stimulate the Welsh economy. Are you willing to talk about other budget heads that might be included in the same pot, because that is something that, presumably, both the Government, and ourselves as committee members, would be interested in scrutinising and examining?

[100] **Ms Phillips:** We have started discussions with Welsh Government officials about the need for a more strategic group to look at the whole of public sector capital needs, the availability of capital and the options for, potentially, generating more resources to deal with the needs that we have. That is looking not just at schools, but also transport and economic development opportunities. That would also be about looking at the whole budget and being able to say that if we do certain aspects of borrowing you can then release resources that are in the Welsh block to spend on other non-commercial generating schemes, such as schools. It

is about translating that from an idea into reality and how we can make that happen.

10.15 a.m.

[101] **Ieuan Wyn Jones:** I would like to tease that out a little bit further, because you make an interesting point. I assume that, in order to deliver that programme, if Welsh public authorities use local government as the vehicle to borrow, it means that you will have to be supported to pay the revenue cost. So, as part of the discussion, you must be looking to the Welsh Government to assist in paying the cost of borrowing. Therefore, in a sense, it is almost like a guarantee, is it not?

[102] **Ms Phillips:** Yes, it is—

[103] **Jocelyn Davies:** I am sorry to interrupt, but we are here to talk about the draft budget. This is incredibly interesting and it is a very important point, and I know that we have you for slightly longer than we had planned, so we will continue on this issue for a few more moments, because I know that Mike wants to come in, but we will then need to refer to the paper that you submitted to us and take evidence on it, as we have to produce a report on what we have set out to explore this morning. Mike, I ask you to constrain yourself, if you possibly can, as I know that you have a whole host of questions later on.

[104] **Mike Hedges:** I will be very brief. It is my understanding that the Public Works Loan Board is limited as to the amount of money it is prepared to lend, and that local authorities, on a collaborative basis, are looking at issuing bonds in England and Wales. Could you let us know what stage you have reached with that?

[105] **Mr Thomas:** We have already had discussions on local authority bonds in the coordinating committee. Rodney, do you want to come in on that?

[106] **Mr Berman:** It is probably easier for me to answer the question, because I am on the working group that is looking into this. At the moment, we are establishing the feasibility of this. We have identified what may be the legal hurdles to this: some small changes in legislation may be required by the Westminster Government. We have not bottomed that out yet, but, as a working group, we are in the process of commissioning legal and financial advisers to look into those specific issues. This will take us a few months to unravel, but there is willingness among local government across Wales, where we have discussed it, and, I believe, in England as well, to look at the opportunity for borrowing at a lower rate than we might get from the Public Works Loan Board. That is the prize for us: to be able to borrow more cheaply. So, that is why we are doing that.

[107] **Jocelyn Davies:** Your paper talks about your expectations of the draft budget that will soon be laid, and you mention that local authorities are making efficiencies and savings of £166.5 million in 2011-12 to balance the budget. The committee has noted in the past difficulties in measuring and identifying genuine efficiency savings. Therefore, could you update us on the progress that local authorities have made in making these savings in the current financial year?

[108] **Ms Phillips:** In terms of where those figures come from, we conduct a survey in the spring of the year preceding the year in question to inform our understanding of what the pressures are on local authorities. The survey highlighted that these were the savings and efficiency gains that local authorities needed to make in order to present a balanced budget. So, those efficiency savings comprise a range of different things: some are procurement savings, business process re-engineering—introducing lean systems and improving their processes—voluntary redundancy schemes, changes to terms and conditions, and improvements in asset management. So, they have looked at a whole range of things and

when they put forward their budget they also put forward saving plans to their councils for approval. Those plans are now being implemented, and the indications are that authorities will come to the end of the year with a balanced budget position.

[109] **Mike Hedges:** What savings, if any, are proposed to be made by sharing back-office functions such as payroll?

[110] **Mr Thomas:** In terms of payroll, there is a discussion going on in the Society of Welsh Treasurers, which is looking at the possibility of payroll services being undertaken at a regional level. There has also been a discussion about ICT and a range of other back-office services. A classic example in terms of ICT is that the Minister set up the efficiency and innovation board in the Welsh Government, and groups have been looking at potential savings around data centres and a range of other things. One thing that has happened is the use of the public sector broadband aggregation contract. Carmarthenshire County Council, for example, has now adopted that and will save a considerable sum of money over the next five years. That is as a result of some of the work that has been undertaken in that regard.

[111] However, part of the problem that we have had when it comes to such matters as payroll and back-office services is that, although there are savings to be made, the big savings to be made are in the large services. Part of the reason for the great collaborative effort that we are currently making, in looking at such areas as education and social care, is that is where the big budgets are. We can squeeze more out of back-office services, but experience suggests that it is not the silver bullet with regard to the efficiencies that we need.

[112] **Ms Phillips:** To add to that, one barrier is the IT investment costs that are required upfront, and therefore the length of pay-back on projects, which has certainly impacted on the business cases that we have looked at in the past. That is not to say that we are not looking at it. In north Wales, in particular, there is a project looking at trying to share support services.

[113] **Jocelyn Davies:** Is that because different local authorities will have their own computer systems and therefore a capital investment needs to be made when you try to merge them?

[114] **Ms Phillips:** Yes. There is also a training cost associated with that, so all of those costs have an impact.

[115] **Mr Thomas:** When we did work on the big south-east Wales project, which did not come off, part of the problem with that was that a lot of authorities had already invested in brand new payroll systems when we started talking. That is not their fault; we started to talk about it after they had invested. The problem is that, once you have done that, you want to cash in on your investment and so it would be a problem to have to go to another IT system because it needs to be a shared IT system. So, getting the various IT systems to speak together is a big issue for all of us.

[116] **Mike Hedges:** You have a situation in which IT and payroll systems stop being supported after five or six years and in which Councillor Berman, for example, is processing in his local authority the same number of people in terms of payroll as four local authorities in certain other parts of Wales put together. It can be done, but the timing needs to be right. However, after four or five years, people will tell you that they are no longer going to support your IT system, or that you will have to pay for upgrades. So, every time authorities need to upgrade their system, they could look at a regional system. If all the systems were run to be the same size as in Cardiff, we would have 10 running in Wales.

[117] **Jocelyn Davies:** I do not think that there was a question there, but it was a point well-made. Councillor Berman, I know that you are tempted to respond, because Mike mentioned

your local authority, but I ask you to be brief, as I know that Peter Black wants to come in.

[118] **Mr Berman:** I will just reiterate the point that, because we do not spend a huge amount on those kinds of functions compared to other services, the amount that could be saved is not so much. Steve highlighted the project that could have made some savings in south-east Wales, but it would not have delivered any savings until about year 6, because you have to pay for the initial investment. As an authority, we said that we could save a lot more ourselves more quickly and, in fact, we have done that. On the human resources side, for instance, we have used technology solutions and we have saved about £2 million a year since then by doing electronically a lot of processes that we used to do manually. So, we have saved more, more quickly, without going down the route of collaboration.

[119] **Peter Black:** While I accept that sharing back-office systems provides little savings in comparison to, say, collaboration in health or education, what potential is there for local government to assist other sectors, such as higher education, health and so on, to make savings by undertaking back-office functions for them?

[120] **Mr Thomas:** There have been offers from some local authorities across Wales, particularly in those areas where you have national park authorities, police authorities, fire authorities and so on, to undertake finance functions for those bodies. I still think that a lot of organisational boundaries need to be overcome in that respect. Many organisations are still precious about those functions and not keen to hand over their sovereignty. However, that is the direction of travel. Developments are occurring, for example, between Carmarthenshire County Council and the police authority with regard to payroll. I think that we will see more and more of such developments. Torfaen and Monmouthshire also work closely with Gwent Police. We will see more of that, but do not underestimate the organisational resistance that there can be to that on occasion.

[121] **Jocelyn Davies:** We are 25 minutes into the session and we have reached question 2. There are 18 questions, and I know that Ann Jones has a range of questions for you, Mr Thomas, so we need to be getting on.

[122] **Paul Davies:** Of the efficiency savings that you have just been talking about, can you identify the level of savings that is directly attributable to the Welsh Government's efficiency and innovation and invest-to-save programmes?

[123] **Ms Phillips:** Not in this meeting, but I am sure that we can provide you with that information.

[124] **Paul Davies:** Okay. Do you have any thoughts on how the work of the efficiency and innovation board could be improved?

[125] **Mr Thomas:** The efficiency and innovation board has been abolished. It no longer exists. It has now been replaced—

[126] **Jocelyn Davies:** I did not know that. We are not very efficient, or we would have known that. Rather than waste time embarrassing us because we did not know that, we will move swiftly on to question 3.

[127] **Peter Black:** May I ask what has replaced it?

[128] **Mr Thomas:** It has been replaced by the new public services leadership group, which I think the Minister highlighted in your Plenary meeting yesterday.

[129] **Ieuan Wyn Jones:** We were listening carefully.

[130] **Mr Thomas:** You clearly were. Well done.

[131] **Christine Chapman:** You have touched on the point that I want to raise, but perhaps you would like to add a little more. In your paper, you talk about £20.3 million of savings that are expected through service reductions. We have touched on some of these service reductions, but can you outline which services will be affected by these reductions?

[132] **Ms Phillips:** I cannot go into specifics to build that figure up to £20.3 million, but I can give you an idea of the sorts of things that we are talking about. This will relate to the volume of service that may be available, either in terms of access to leisure services, perhaps, or eligibility criteria for social services, namely the point at which the intervention occurs. Those are a couple of examples of where there will potentially be a change in service levels.

[133] **Jocelyn Davies:** When you speak about the volume, do you mean that there will be fewer people getting something?

[134] **Ms Phillips:** It could be a reduced service being available. That is, the service may be available for a reduced number of hours.

[135] **Christine Chapman:** Obviously, it is a question of whether everyone takes a hit, or whether it is about priorities. Could you say something about that? We understand that you are trying to protect front-line services, but what decisions have been made with regard to certain services being prioritised?

[136] **Mr Berman:** There is no one answer to that, because, ultimately, it is up to each individual local authority to make its own decisions as to what they prioritise and what they give less of a priority to. It is a 'how long is a piece of string' type of question.

[137] **Ms Phillips:** There will always be consideration of statutory services and discretionary services, but there is also recognition that some discretionary services have a positive impact on the need for statutory services. However, as Councillor Berman said, there will be a different discussion in each local authority, depending on their needs.

[138] **Julie Morgan:** Have you had a discussion as a group about the areas where you think the people who might be hit will be most vulnerable? Have you had that discussion, and can you give us any more detail about that?

[139] **Mr Thomas:** We have had a range of discussions across the totality of public policy. We had a robust debate recently about some of the welfare reforms that will occur. I have been talking to the Institute of Revenues, Rating and Valuation, which represents the officers who deal with council tax and housing benefit. The way in which we implement those changes will be a major factor in terms of combating poverty and a range of other aspects. One of the things that we were very clear about prior to the budgets being set—and this goes back to your earlier point—was that there was an emphasis on trying to protect education and social care as much as possible. That was the debate that we had with the Assembly before the budget came out last year. We are having discussions with our colleagues in services such as leisure and culture, and they tell us that they are being hit very hard. This is largely because they are non-statutory services. The same is true of economic development as, unfortunately, it is a non-statutory service. Traditionally, when it comes to budget cuts, local authorities tend to place the emphasis on those services before they cut the statutory services.

10.30 a.m.

[140] **Jocelyn Davies:** Julie, do you want to ask about reserves?

[141] **Julie Morgan:** Yes. You say in the paper that you will have to take money from reserves—I think you say that it is £4.9 million. I wanted to ask what that will leave you with, and what are the implications?

[142] **Ms Phillips:** There are different types of reserves held within local authorities, as I am sure Members are aware. The vast majority are earmarked for specific purposes and, as such, are there to address known future funding requirements. In addition, there are general, non-earmarked reserves, which are the contingency reserves to take account of unforeseen events and mitigate the risks for the authority, both in terms of external factors and internal risks. Overall, they represent about 2 per cent of the gross revenue budget for the whole of local government. So although the figures in this report are about how much councils are expecting to have to use to meet budget cuts this year, the unallocated reserves are in the region of £700 million for the whole of Wales, I believe—I can confirm that afterwards. That is around 2 per cent of the gross revenue budget. The point is that you cannot keep using those reserves to bridge recurrent funding gaps. Local authorities need to ensure that they have sufficient reserves to mitigate any risks—such as flooding, or bad winter weather, and the impact that that has on roads, and other similar issues. There is a balance to be struck.

[143] **Julie Morgan:** So, if you take out this £4.9 million, are there sufficient reserves left to deal with the risks?

[144] **Ms Phillips:** Yes, there are sufficient reserves left in the sense that, in each local authority, when the budget plan is put to the council each year, the finance director has a statutory duty to ensure that there are sufficient reserves in place to meet known and unknown risks. That is a matter for each individual authority. The external auditors comment on the level of reserves, but they do not specify an amount or a percentage that an authority should hold—they recognise that that is to be determined individually by each authority based on the risks that it faces. At this point, there have been no indications that the auditors are uncomfortable with the level of reserves that authorities are holding, either in the sense of them being too high or too low.

[145] **Jocelyn Davies:** Ieuan, you have a question on specific grants.

[146] **Ieuan Wyn Jones:** Yes. Obviously, there is a constant tension between Government and local authorities over the level of hypothecation. The mainstreaming of Cymorth and other specific grants has presumably reduced, to an extent, the administrative burden of these specific grants. Have you had further discussions with the Government about further reductions in that administrative burden, and if so, where are those discussions at the present time?

[147] **Mr Thomas:** Specific grants are like *Groundhog Day*. We are always having discussions about reducing the number of specific grants. There was a reduction last year, and I think that we are down to something like 46 grants providing a total of £760 million within the local government—

[148] **Ieuan Wyn Jones:** What proportion of the total funding is that?

[149] **Mr Thomas:** I have a figure here—I think that it is equivalent to about 15.9 per cent of the total funding that we get. In broad terms, we are concerned about not just the level of specific grants in the settlement, because they have grown rapidly in recent years, but the fact that we are also having discussions with the Permanent Secretary in the Welsh Government, who is telling us that they are losing a lot of civil servants, and we are concerned about the number of civil servants who are tied up in mundane grant monitoring and the bureaucracy that surrounds that. You would want people at this time to be fleet of foot; you do not want

them constantly monitoring grants. We are in a position where there is still far too much bureaucracy around grants. We have had horror stories in the past where we have had specific grants to the value of £40,000 distributed among 22 authorities; well, who thought up that one?

[150] **Ieuan Wyn Jones:** Can I test this a bit further? This is a perennial tension—it is something that has been around for as long as I have been an Assembly Member, and probably even longer. What do you think is the real reason? The Government wishes the money that it gives to local authorities to be spent in a particular way. That is why Sue Essex introduced indicator-based assessments, to give some transparency to the way that the budget was being allocated through the revenue support grant. Then again, local authorities say that they need the freedom to determine the way in which they spend their money. There is a constant tension that has not been resolved. One thing you could do would be to assure the Welsh Government that you would be mindful of the priorities that it sets. Why has that discussion not concluded with a satisfactory solution for both sides?

[151] **Mr Thomas:** We have a grants protocol with the Welsh Government; it is a very underused document. We are in a position where we have reached an accommodation with the Welsh Government for a number of grants. We agreed to phase them into the settlement. Children First, the grant of £21 million, was recently brought into the settlement. That phasing allows local authorities, within their revenue budget, to protect that money wherever they can. It is ultimately a question of trust, of whether we will spend the money in the way that Ministers want it spent. What we are saying is that we can give that assurance in some areas, but there are specific grants whose relevance we would debate in the first place, as we would like to see that money subject to local democratic decisions, not the decisions of Assembly Ministers.

[152] **Ieuan Wyn Jones:** You will know that one of the key pledges of the current Government is to allocate extra resources to education, and ensure that it goes to schools. In what sense can the Government have the comfort of knowing that the money would go to the schools rather than be held up in local authorities' other priorities? It is potentially an area where there could be a trust between you. What assurances can you give, and in what form would you give those assurances?

[153] **Mr Thomas:** We have had a discussion with the Minister for Education and Skills on this and we have given a commitment that 80 per cent of school budgets will be delegated to schools over the next period. The target eventually goes up to 85 per cent over time. On the surface, that sounds right, and we have pledged to do that. We want to do that. However, some schools do not want that. Many schools do not want to be picking up budgets for special educational needs, school transport or a range of other factors. We are currently discussing with the Minister for education what we delegate and what we do not. I hear people saying that 100 per cent of the budget should be delegated to schools, but that is illegal. The education authorities have to provide certain functions. What we are looking for is a greater level of delegation to schools, and that is occurring. There is a target in place for that. On protecting schools' budgets, the commitment given by the Welsh Government was to cut them by less, not to increase them.

[154] **Ieuan Wyn Jones:** I understand that. However, one of the difficulties for a Government is that if it is challenged on money spent per pupil rather than the total allocation that it gives to education, it is unfair when money is held centrally by local authorities, as that distorts the figure. Where do you think those discussions will lead? Are you able to give an assurance that the money goes directly to schools?

[155] **Ms Phillips:** With regard to the 1 per cent commitment, when the funding in last year's settlement was allocated, when the Minister gave additional money for education, local

government made a commitment to the Assembly that it would spend the funding on individual schools and that it would be fed through to the expenditure data so that the Welsh Government could see that it had happened. We provided that assurance, but it had to take account of changing pupil numbers and other factors. However, in terms of the amount of money that goes to schools, it will follow the commitment that the Welsh Government has asked us to fulfil.

[156] **Jocelyn Davies:** I know that both Ann and Mike want to come in on this point.

[157] **Ann Jones:** Steve, my view in this Assembly has not changed from my view in the last three Assemblies—you can roll your eyes, Peter, but it is a serious point. You say that there has to be trust, but you have to win that trust. Can you give me a cast-iron guarantee that the 22 local authorities in Wales spent those specific grants that have been rolled into the RSG on what it was intended that they should be spent on? Deprivation money is one such specific grant that they would have received. As you always tell me that local authorities want to spend more than the specific grants, can you provide any evidence of where they have put more money from the RSG into deprivation than they would have done had they specifically had the £30 million?

[158] **Mr Thomas:** The deprivation grant is earmarked within the settlement. The money is, in effect, still ring-fenced within the settlement. All that happened with the deprivation grant is that it moved over to the RSG on the same level of funding. That is another issue that we have to point to, because specific grants, particularly in recent years, generally have not been uplifted. So, one of our problems is that there is no inflationary effect on specific grants, and they are therefore being cut.

[159] **Jocelyn Davies:** The Member asked for a cast-iron guarantee about the 22 local authorities and an example of where more money has been put in. I know that she will say afterwards that you did not answer the question and, at this point, I would have to agree with her. So, I will give you another opportunity to give her a cast-iron guarantee and to give an example of local authorities putting more money in than they have received in specific grants for something.

[160] **Ms Phillips:** In terms of the deprivation grant, and this is true across all the different grants, there are different terms and conditions and reporting requirements against them. The deprivation grant does not have detailed reporting requirements against it, so local authorities would not collect the information needed in order to answer your question categorically. There are other grants, however, that have terms and conditions that they have to report against, and they can demonstrate that they have put more money into those.

[161] **Jocelyn Davies:** We would be happy to receive a note, if you can give specific examples.

[162] **Ms Phillips:** We can give you a couple of examples of where they have specific grants and where they have to supplement those costs with their own funding.

[163] **Ann Jones:** On the Cymorth funding that was taken into the RSG, again, I see little evidence across local authorities that that Cymorth money is being spent on the purposes set out in their children and young people's plans. That was put in at the WLGA or the local authorities' behest; they did not want the specific grant, because they wanted to be able to prioritise their spending. Social services funding is not hypothecated within the local government settlement—it is in there—so why are we seeing social services across Wales now reducing their services and why were they starting to introduce reductions last year and the year before? Why are we seeing vulnerable people not having that degree of spend on them that we would expect to see from local authorities? If we cannot hypothecate it, how can

we be sure that the 22 local authorities are prioritising vulnerable people in their areas?

[164] **Mr Berman:** May I come in on that? I am sure that my colleagues can deal with the specifics about social services funding, but there is a fundamental principle here, in that if you decide that the be all and end all is getting absolute proof that money is being spent in a certain way, you will spend a certain proportion of that money checking how it is being spent. The more that you spend on checking how it is being spent, the less there is to spend—

[165] **Ann Jones:** So, I have to trust you and give you £100 million—

[166] **Mr Berman:** But if you do not trust—

[167] **Ann Jones:** And then when you do not spend the £100 million—

[168] **Jocelyn Davies:** Let us not interrupt each other; it does not look good in the transcript when we do. Ann, if you will allow Councillor Berman to speak, I will let you come back in later.

[169] **Ann Jones:** That is fine. I will see what he says.

[170] **Mr Berman:** The point is that if you do not trust people on every bit of expenditure, and you spend a lot of time checking that every bit of expenditure is spent properly, then the proportion that is diverted towards the checking is detrimental to getting the money to the service. I am saying that, to a certain extent, there must be a bit of trust, because if you do not have that trust, you could end up with less money getting to the service.

[171] **Ann Jones:** However, that trust has never been provided in local authorities. I will return to the Denbighshire education situation, where a generation of children were failed over a 10-year period, because Denbighshire would not put in what the Assembly was offering and suggesting that it should for education. How do I trust that authority, give it more money in a pot and say, 'Get on with it', when I know that there is a generation of children who have been failed by its education system?

10.45 p.m.

[172] **Mr Thomas:** You cite a very real example in Denbighshire and I accept the point that you are making. However, you spoke of indicator based assessments earlier and Cardiff is a classic case in point, because it has traditionally spent £10 million above its IBA in terms of education—it has been putting more in than you require. That is a local democratic choice. I agree with you about Denbighshire; I was involved in the Denbighshire recovery, as you well know. It was a local education department from hell, but, in the recent period, we have turned that education department around, and it is now a much better department. That has been a problem, but there are also good examples of authorities putting more in.

[173] One thing that I would say on the Cymorth grant is that we are only talking about core costs and the bulk of the Cymorth money remains as a specific grant. There is something like £50 million in Cymorth and only £5 million has gone into the settlement.

[174] **Ms Phillips:** That funding is supporting the partnerships that are already in place.

[175] **Ann Jones:** Could you do a piece of work on how local authorities are spending that Cymorth money differently to how they would have spent it if it had been a specific grant?

[176] **Mr Thomas:** To stress the point, the bulk of Cymorth is being spent in exactly the same way that it has always been spent.

[177] **Ann Jones:** I beg to differ on that.

[178] **Jocelyn Davies:** Could you provide us with a paper on that? In terms of democratic accountability, and coming back to Ann's point about Denbighshire, I do not think that anyone stood on an election platform at local authority level to say, 'We are not going to do right by your children'. That does not happen. Mike, did you want to come in on this point?

[179] **Mike Hedges:** Yes, because education was mentioned. I have heard Councillor Berman, on more than one occasion, talk about the difference in average expenditure between Wales and England, yet I have never heard him talk about differences between local authorities in Wales, although there is double the difference between the average in Wales and England between Ceredigion and the Vale of Glamorgan.

[180] **Jocelyn Davies:** You are coming to a question, are you not, Mike?

[181] **Mike Hedges:** We talk about education, but between 2004 and 2005 and between 2008 and 2009, there was a 1 per cent reduction in the total that Welsh local government spent on education. Can you give any assurances that the amount of money that Welsh local government provides for education as a percentage of the total allocated to it will not continue to decrease?

[182] **Mr Berman:** Vanessa has already given an assurance that local government as a whole, in terms of what the Welsh Government has said that it wanted, has committed that x amount will go into education, and that protection from cuts will, in some cases, be passed on to schools. I do not have any reason to believe that that has not been happening.

[183] **Mr Thomas:** The point that you make about the difference between Ceredigion and the Vale of Glamorgan is interesting, because I listened to the Minister for Education and Skills the other day and his point was that the reason why Ceredigion's education spend is so high is because of the prevalence of small schools in the area and the higher per-pupil costs that arise from having small schools. The Vale of Glamorgan spends less than any authority in Wales on education yet has the best results—that statistic was quoted by the Minister for education the other day. So, you must not only look at the spend, but also at the outcomes. Mike, you are being attacked by a fly there.

[184] **Jocelyn Davies:** That fly has travelled all the way around the room, and I can promise you that it is making its way to you, Mr Thomas.

[185] Ann, did we cover your question on hypothecation because we need to go on to outcome agreements?

[186] **Ann Jones:** Yes, I am happy to move on.

[187] **Jocelyn Davies:** Mike, do you want to cover the question on outcome agreements?

[188] **Mike Hedges:** Yes. On the outcome agreements, is that the old PIG money—performance incentive grants—by another name? Will the outcome agreements agreed between the Welsh Government and individual local authorities be successful in refocusing the allocation of funds to outcomes rather than inputs?

[189] **Mr Thomas:** Outcome agreements are essentially the old policy agreements that were in place a while back. They are much sharper in terms of measurement, although I must say that they are not necessarily sharper with regard to the guidance. Some agreements now run to about 70 pages, with some 30 pages of guidance, so it is starting to get a bit out of

hand. You will remember that the original policy agreements were fundamentally about delivering on top of existing service provision and stretching targets, and that is what the outcome agreements are primarily about. The Assembly Government can withhold the outcome agreement money if an authority's performance is not adequate, and I think that it has happened in one case at least. So, the outcome agreements are clearly measured and monitored by a team of people in the local government division.

[190] **Jocelyn Davies:** Peter, I believe that you have a question on the budget allocations.

[191] **Peter Black:** I think that this question is trying to ask about common priorities in local government across Wales. How do local government priorities inform what the Welsh Government's priorities are and to what extent is local government included in the consultation process in terms of the Welsh Government's priorities?

[192] **Ms Phillips:** With regard to local government priorities, we have set those out in the WLGA's manifesto. As we have said previously, those relate to educational attainment. That is very much a priority for local authorities, as are social services and protecting the most vulnerable; waste and addressing the priorities of dealing with residual waste and recycling; housing and meeting our affordable housing requirements; and economic development and creating prosperous local economies. That is all set out in the WLGA's manifesto. Many of those priorities are aligned with the Welsh Government's priorities and commitments over the next term.

[193] **Mr Thomas:** I suspect that, in future Plenary sessions, you will be discussing the Simpson report. It is the local, regional and national report. In the paper we provided, we set out the top 10 priorities that we are discussing in relation to that report. I would not want to give an exact figure, but there is a lot of finance in there and it goes well above the £750 million-mark with regard to the services that we are talking about. For example, we are talking about regional commissioning hubs for social care, looked-after children, tele-care and a range of very important and costly services. The area of looked-after children currently costs about £170 million across the whole of Wales. So, one of the things that we are discussing with the Assembly Government is the delivery of those services on a much greater scale, at a regional level. The key area that we are having lots of discussions with the Assembly Government about is education and school improvement. There will be four school improvement services in place by September 2012. Those will be about driving up standards in schools.

[194] **Jocelyn Davies:** Ann, I think that you have a question on measuring effectiveness.

[195] **Ann Jones:** Yes. How do local authorities intend to identify and measure the effectiveness and outcomes of the Government's strategic priorities—and your own, of course—and therefore the allocations made in the budget to align with those priorities? Vanessa started to touch on that, but it comes down to whether I trust you or not.

[196] **Mr Thomas:** You can trust us, Ann, you know you can. [*Laughter.*]

[197] **Ann Jones:** I don't think so. [*Laughter.*]

[198] **Mr Thomas:** On measuring priorities, there is the emergence of a brand new set of performance indicators. The latest set will be published next week, and I think that they will show improvement in some areas. However, they will show other areas where there is room for further investment in services. We have a range of new indicators emerging that we are discussing with the Assembly Government. They are 25 cross-cutting indicators that very much tie in with that programme of Government that you put out yesterday. Those can be monitored. Whether they all sit comfortably with some of the new targets and measures you

have put in, I do not know. That is something that we are going to have to examine.

[199] **Jocelyn Davies:** You keep saying ‘you’, but this committee represents the Assembly; we are not the Assembly Government.

[200] **Mr Thomas:** Yes, sorry.

[201] **Ann Jones:** You are responsible for the three fire and rescue services across Wales—they are part of your family. They are going to have to make some significant savings, of course, but it is very difficult because of public safety and the staffing levels. Has the WLGA had any thoughts on, or spoken with, the Welsh fire and rescue services about the pension abatement service, particularly for senior officers?

[202] **Mr Thomas:** We have a discussion with the three fire authorities scheduled for next week on the position of the three chief fire officers. Obviously, the chief fire officer for south-east Wales, Andy Marles, is leaving the service. That has been a problem in terms of some of the pension issues we have. That is a serious challenge for us all. Andy is a very experienced fire officer and it is a shame that he has to leave the service. As I say, I have a discussion scheduled with all of the chairs of the fire authorities next week, and we need to take that issue forward. It is a very tricky issue.

[203] **Ann Jones:** Could we have a note on that?

[204] **Mr Thomas:** That would be no problem.

[205] **Jocelyn Davies:** Would you mind providing that?

[206] **Mr Thomas:** No, that is no problem.

[207] **Ann Jones:** Thank you.

[208] **Christine Chapman:** In your paper, you say that the certainty of future funding is vital to your medium-term planning. Would you like to see the UK Government providing greater certainty to the Welsh Government in terms of three or more years rolling indicative funding figures?

[209] **Mr Berman:** I am sure that we would always welcome that if it were possible. The difficulty is predicting what will happen to the economy in those three years, which will have an impact on how much money the Westminster Government has. I am not sure that my crystal ball is necessarily any better or worse than anyone else’s in that regard.

[210] **Ms Phillips:** The three-year cycle means that we also have three-year indicative settlements for local authorities, but only on the revenue side. For 2011-12 we only had a one-year settlement for capital. It would be helpful if we were able to receive a three-year settlement for capital, and to have some confirmation of our three-year indicative settlement now, so that local authorities can plan more effectively. Councillor Berman is right; because beyond three years, it is difficult to predict what will happen in the economy. So, that planning cycle is probably reasonable.

[211] **Julie Morgan:** You have raised concerns in your evidence about the reduction in capital funding, with regard to what we know and what may happen in the future, and we have already had a discussion about the twenty-first century schools programme. You have referred to transport; could you say a little more about how you think it will be hit by the reduction in the capital budget?

[212] **Mr Thomas:** The issue is the division of transport funding and the total pot of transport funding. Some recent issues have related specifically to road maintenance and the impact of the winters on the condition of our roads. We need to start to have a long, hard think about transport funding in Wales, because ever-diminishing returns suggest that the patch-and-mend approach that we take to dealing with local roads is becoming more and more problematic. The amount of insurance claims that we are meeting and the maintenance costs that go with that approach are problematic. Attempts have been made by authorities—Newport council is a case in point—to repair their road network through public-private partnerships and new funding mechanisms. We will have to look in those directions, because the capital will not be there. I have to admit that, when the budget came out last year, I was surprised at how restrained you all were about the announcement on capital. I thought that it would cause a row, because it is a savage cut: it is 40 per cent. We have huge problems in local government. School stocks is one of them, but local roads is another. Capital funding is becoming the big debate that we really have to start paying attention to. Frankly, I am delighted that we are talking about collaboration, shared services and so on, but we need to give equal attention to those areas and start to have some new and innovative thinking on them. Transport money, and the transport grant in particular, is shrinking constantly every year.

[213] **Julie Morgan:** You mentioned the insurance claims; are they going up?

[214] **Mr Thomas:** Yes. We had a discussion with Carl Sargeant at the end of last year, and more money became available for the funding pot, for which we are very grateful. However, the backlog on road maintenance is huge. You are driving around on it. I live in Blaenau Gwent, and I am sure that every morning I drive over a car in a pothole. The situation is getting worse. It is not a question of repairing roads constantly; sometimes, they just need to be totally resurfaced and re-laid. The problem is that they become patchwork quilts.

[215] **Ieuan Wyn Jones:** I may have a vested interest in this issue, as I think you might know. The transport grant, over the past four years, was dominated by two schemes for two local authorities in Wales. It was difficult to get any headroom in the transport grant for other schemes from local authorities to come through—they could not even plan for new schemes because those two schemes were so dominating. The other thing—and we have to be clear about this—was that there were some substantial overspends on those programmes, which prevented anyone else from getting a look-in. So, under the regional transport plans, which now dominate the priorities, are you satisfied that some local authorities are now able to consider new schemes and that your agreement with the Welsh Government means that cost overruns, while not being a thing of the past, will be substantially reduced?

11.00 a.m.

[216] **Mr Thomas:** The answer to the latter point is ‘yes’. With regard to schemes, however, I looked at some of the regional transport plans earlier, and there is a lot of ambition in them, but there is no way of meeting that ambition. The issue that we have, and you are starting to address it—we started to discuss it with you during your time as Deputy First Minister—is that we need to get a planning framework in place. Will someone please give the spatial plan a decent burial for a start, because it is not doing what it is supposed to do? However, we need a discussion about a national infrastructure plan. If there is a limited amount of money available, we need to prioritise that money. Prioritising that money requires a national discussion, because it is accepted that some authorities will get their schemes paid for and others will not. A national infrastructure plan is key.

[217] **Ms Phillips:** That links to the point that we were discussing right at the beginning about how you then go about financing that plan.

[218] **Mike Hedges:** If capital is such a big problem, why are local authorities using capital for capital maintenance, which they could fund from revenue if they so desired? Boiler replacements in schools and so on could be funded from revenue. My experience in a senior capacity in local government, which was some time ago now, was that revenue was the great problem; capital was something that was always nice to have, but revenue to keep current services going was always the biggest problem. Can I take it that that is no longer the case?

[219] **Mr Thomas:** There are inevitably some authorities that are slightly behind others. I was looking at the Wrexham solar panels scheme the other day, and the authority there is putting capital spending into solar panels. It will receive its money back from the tariffs that it puts into the national grid. More authorities should do that across Wales; that is absolutely something that every authority should do. We want to try to encourage new thinking in this area. However, I accept your point.

[220] **Ms Phillips:** I also make the point that there are strict rules about what can be classified as capital and classified as revenue.

[221] **Mike Hedges:** There are strict rules, but putting a new boiler in a school could be a revenue or capital expenditure; putting new windows in a school could be capital or revenue. There is a grey area in which local authorities make a decision whether to treat something as capital or revenue. If they think capital is a problem, they could use revenue and save the money for other capital schemes. There are authorities that spend almost all their education capital on capital maintenance, for example.

[222] **Jocelyn Davies:** That was not a question either, so there is no need for—

[223] **Mike Hedges:** Is it true?

[224] **Jocelyn Davies:** I have noticed, Mike, that you have learned ‘would you agree with me?’ and ‘is it true?’. Paul, you wanted to come in. I know that we are running out of time, but we have one last question on enterprise zones, which I know Members will want to ask you about.

[225] **Paul Davies:** In your paper, you make it absolutely clear that you are seeking more innovative approaches to financing capital expenditure and you go on to say that, as members and professionals, you are working to understand the potential of tax increment financing, public-private partnerships, non-profit distributing models and the regeneration investment fund Wales. Are you in favour of pursuing these approaches? You do not make that absolutely clear, especially whether you are in favour of pursuing public-private partnerships, for example.

[226] **Mr Berman:** I would have thought, yes. It is a case of looking for opportunities that will suit particular local circumstances. You highlighted tax increment financing in that list, for instance; I have been asking whether that could be done for a few years. We are at the stage where we are waiting for some legislation from the Westminster Government to facilitate that. The enterprise zones in England and tax increment funding are all ready to go sooner than in other areas. That is my understanding. I do not know whether that will carry through to Wales. On the enterprise zones, we have not had much information to date on how the enterprise zones are going to work, so we would appreciate some clarity on that. However, if you can get things like tax increment financing piggy-backing on to enterprise zones, that would be something that we would grab. So, I would say that we are in favour of whatever mechanisms we can get to get more innovative funding, particularly for capital.

[227] **Mr Thomas:** The whole of the waste agenda is, essentially, based on public-private partnerships.

[228] **Ms Phillips:** The point is to understand what tools are in the box and then see which one applies most appropriately to a given project, while trying to ensure that we have considered all of those options. It is about understanding what we could do in each circumstance and then taking a view on which one is worth pursuing.

[229] **Jocelyn Davies:** Ieuan, did you have anything else on the enterprise zones?

[230] **Ieuan Wyn Jones:** Yr ydych yn awyddus i gael mwy o wybodaeth am y parthau menter. A oeddech yn gwybod bod y Llywodraeth yn bwriadu gwneud y cyhoeddiad yr wythnos diwethaf? A gafwyd unrhyw drafodaethau gyda chi ymlaen llaw? A oedd y cyngor yn gwybod bod rhan o Gaerdydd yn mynd i gael ei henwi yn un o'r parthau menter?

**Ieuan Wyn Jones:** You would like more information on enterprise zones. Did you know that the Government intended to announce those zones last week? Were there any discussions with you beforehand? Was the council aware that a part of Cardiff was going to be named as an enterprise zone?

[231] **Mr Berman:** Sorry, I missed the beginning of the question because, unfortunately, I took a while to get my headphones working. Regarding what you asked about Cardiff, we had been lobbying the Welsh Government for an enterprise zone, but I first heard that we were going to get an enterprise zone when somebody telephoned to tell me that the Minister had just announced it live on the regional news that evening. I was then giving comments to the media without any detail as to what exactly the announcement was. At that stage, I did not even know whether it was for our central business district proposal in Cardiff. I do not think that we have had much in the way of concrete information since. However, I welcome the fact that the announcement has been made and I am looking forward to getting more detail on it.

[232] **Peter Black:** Collaboration is a major drive for the Minister. I am interested in how local government is responding to this collaboration agenda and whether you think that the way you have been portrayed by some people as not being susceptible to it is a fair portrayal?

[233] **Mr Thomas:** We met with the south-east Wales chief executives and leaders last week and there is an enormous amount of work going on in terms of collaboration, and some of that list that we have put together regarding Simpson is key. In education, we will see a collaboratively based way of delivering school improvements in the next period. We are looking at regional commissioning in the area of social care. We are looking at delivering the Supporting People scheme, which has a huge budget at a regional level, and talking about a different way of regionally delivering trading standards. So, the impact across local government is large.

[234] The only thing that we are concerned about is to make sure that, when we put in all of these regional arrangements, we do not have a democratic deficit. The danger is that everything goes to a regional level, but where is the scrutiny and the accountability, and does the public understand what we are doing? I used to work in a district council and members of the public used to come in confused about the fact that county services were not included in the district council. I do not want to find us in a situation where we lose that democratic oversight and control. Large collaborations in south Wales or north Wales create some tricky problems for us in terms of governance.

[235] **Peter Black:** How receptive are other sectors, such as health and further and higher education, to collaborating with local government?

[236] **Mr Thomas:** It depends on what part of Wales you are talking about. There are some local health boards that are good at collaborating and others that are hard to engage. There

have been some complaints to the Minister regarding that. This new public services leadership board is about getting the public services together, trying to make sure that everybody is on the same page in terms of collaboration. There is no getting away from the fact that collaboration is the Government's general theme, and we support it. However, that does not make it easy. This is a difficult approach, particularly with sovereign bodies that guard their sovereignty.

[237] **Ms Phillips:** In south-west Wales, there is the regional learning partnership, which is a collaboration between the local authorities, the higher education institutions and training providers. That is a good example of collaboration with that sector. In north Wales, our regional partnership board has extended its membership to include the local health board and also the police authority. Again, that is another example where we are not just joining up with the local authorities but with other sectors, too.

[238] **Jocelyn Davies:** We ran out of time before we ran out of questions. Thank you for attending today. You have given us a great deal to think about, some of which was related to the budget, on which we have to report; we are grateful for that. We will send you a transcript for you to check for factual accuracy. Thank you.

11.10 a.m.

### **Cynnig Gweithdrefnol Procedural Motion**

[239] **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).*

[240] **Jocelyn Davies:** I see that the committee is in agreement.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11.10 a.m.  
The public part of the meeting ended at 11.10 a.m.*