



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

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Mercher, 19 Chwefror 2014
Wednesday, 19 February 2014

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

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

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Sandy Mewies	Llafur (yn dirprwyo ar ran Ann Jones) Labour (substitute for Ann Jones)
Julie Morgan	Llafur Labour

Eraill yn bresennol
Others in attendance

Jeff Andrews	Cynghorydd Polisi Arbenigol, Llywodraeth Cymru Specialist Policy Adviser, Welsh Government
Lynne Hamilton	Cyfarwyddwr, Cyllid a Materion Masnachol, Llywodraeth Cymru Director, Finance and Commercial, Welsh Government
Jane Hutt	Aelod Cynulliad, Llafur (Y Gweinidog Cyllid) Assembly Member, Labour (The Minister for Finance)
Gareth Morgan	Dirprwy Gyfarwyddwr Dros Dro, Diwygio Ariannol, Llywodraeth Cymru Acting Deputy Director, Financial Reform, Welsh Government
Jo Salway	Dirprwy Gyfarwyddwr, Cyllidebu Strategol, Llywodraeth Cymru Deputy Director, Strategic Budgeting, Welsh Government

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

Bethan Davies	Clerc Clerk
Claire Griffiths	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Cynghorydd Cyfreithiol Legal Adviser

Dechreuodd y cyfarfod am 08:59.
The meeting began at 08:59.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **Jocelyn Davies:** I welcome everyone to this meeting of the Finance Committee. We have one apology this morning from Ann Jones—I think that she is doing something on her sprinklers legislation. Sandy Mewies is substituting for Ann. Welcome to the committee, Sandy, I am sure that your work on the Public Accounts Committee will help us today.

08:59

Cyllideb Atodol Llywodraeth Cymru 2013-14
Welsh Government Supplementary Budget 2013-14

[2] **Jocelyn Davies:** The first substantive item is on the Welsh Government's supplementary budget. I would like to welcome the Minister. Minister, would you like to introduce your officials and then we will go straight into questions, if that is okay?

[3] **The Minister for Finance (Jane Hutt):** Thank you, Chair. On my right is Lynne Hamilton, director of financial and commercial services. Jo Salway is deputy director of strategic budgeting and Jeff Andrews is a specialist policy adviser.

[4] **Jocelyn Davies:** Thank you very much. Minister, the narrative to the supplementary budget shows a prioritisation of funding to health, with the main allocations being related to the £150 million funding package arising from the Francis review, and a £50 million contingency in the event that some health boards will not reach their break-even position, which we are all hoping for. Before I move on to my question, I see that the £150 million is not all allocated for Francis, as the narrative says—there is £16.5 million for a new immunisation programme, as well as for a new drug for cystic fibrosis and early retirement packages, which leaves about £133.5 million for Francis. I have seen this in a communication that has gone to the Public Accounts Committee. Perhaps you would like to clarify that for the record. In relation to the allocation of the £50 million from the reserves, what information led the Government to believe that that £50 million would be sufficient?

[5] **Jane Hutt:** In response to the first point about the £150 million and what it was made up of, as you acknowledge, that £150 million was part of the draft budget that I announced in October last year. It was in response to the Francis review and to meet new demands, because, clearly, new demands were emerging in the health service. So, it was principally for the Francis review and to meet new demands on the health service—immunisation, which was not budgeted for in the previous financial year, being one of those.

[6] **Jocelyn Davies:** So, we can assume that £133.5 million will be allocated for the Francis review.

[7] **Jane Hutt:** Yes, over the summer months leading up to the draft budget, I worked with the Minister for health. As you will recall, he made a statement in July. He initially announced £10 million towards additional nursing needs to meet standards and quality. However, there was always the question of new demands, which make it up to the £150 million.

[8] In terms of the £50 million, we have made it very clear in this financial year—and it is about management in this financial year—that health has been a priority. The £150 million for Francis was a clear reflection of that. When I made that budget announcement in October with the Minister for Health and Social Services, we were both very clear that there were likely to be continuing pressures on the service and that the extra money would not necessarily remove the need for significant change, as the Minister has said. He also said that he would have to monitor very carefully the financial position of the NHS. He has done that with me regularly in terms of monthly performance reporting and accountability meetings within the service. The position is evolving and, as Minister for Finance working to support the Minister for health, I have to be very clear that the service can manage with these pressures. Indeed, if you look at the latest figures, you will see that the position is improving, but we did have to make a judgment with the supplementary budget about whether the

Minister for health needed more contingency. That is how we came to decide that we needed to put £50 million more into the health service.

[9] We are now into a period where we have had the month 10 figures. There is a very clear message from the Minister that positive improvements are needed in the time left in this financial year. We have to recognise that there are financial risks, and that is why I have allocated the additional £50 million. It is going to be held by the Minister for Health and Social Services centrally in his MEG.

[10] **Jocelyn Davies:** Okay. Ffred, did you want to come in on this point?

[11] **Alun Ffred Jones:** So, the £50 million has not been allocated so far. It is there because of the likely overspend in the figures that we have seen recently within various health authorities.

[12] **Jane Hutt:** It has not been allocated. It is in the central MEG.

[13] **Jocelyn Davies:** Paul, did you want to come in on this?

[14] **Paul Davies:** On this, I know that you said that the figures are improving, but I have a copy of a letter from NHS Wales's chief executive addressed to the Assembly's Public Accounts Committee Chair confirming that the overall NHS is forecasting a deficit of £82 million after month 9. The £50 million will not cover that. Can you therefore confirm that additional funds will be provided by the Government to cover any overall deficits to achieve a break-even position?

[15] **Jane Hutt:** The Minister, as I said, is expecting further improvement in the period of time up to the end of this financial year. We have been here before, as you know, Paul, in terms of the last few weeks and months of the financial year. This is a very strong indication that allocating the money to the MEG of the Minister for health rather than to the health boards means that we and he expect improvement in terms of health board financial positions. However, he does have that £50 million if and when it is needed in terms of the financial pressures and risks on the health boards. I think this is a matter for the Minister for health as we move towards the end of this financial year and into the next financial year, because he has that extra support from the centre to help him to manage the position.

[16] **Paul Davies:** It will also be a matter for you as Minister for Finance. What I am asking you, Minister, is whether you will provide additional funds to the Minister for health if there is a deficit at the end of the financial year. It is a 'yes' or 'no'?

[17] **Jane Hutt:** The £50 million is the extra allocation made—

[18] **Paul Davies:** So, no further allocations.

[19] **Jane Hutt:**—to the Minister for health to enable him to make those decisions, which he will have to make in terms of where we are. It is very important to recognise that when we have had deficits and brokerage in the past, they have had to be repaid, and that is absolutely clear. I am sure that questions about where we go with the new financial regime that we have as a result of the new Finance Act 2013 will help clarify the fact that this is an end-of-year management position, and, as Minister for Finance, as you quite rightly said, I am making sure that the Minister for health has that extra £50 million on top of the £150 million to support him through this difficult time.

[20] **Paul Davies:** So, at the moment then, there are no further allocations?

[21] **Jane Hutt:** No further allocations.

[22] **Jocelyn Davies:** Mike, did you want to come in on this point?

[23] **Mike Hedges:** Yes. I am not quite sure if there is an advantage or not to being a member of the Public Accounts Committee, as we also know that the month 10 figures show a substantial improvement on month 9 predictions. If they continue at that rate, the Minister for health might expect it to reach the £50 million.

[24] **Jane Hutt:** I am grateful for that, Mike, because I have the letter to Darren Millar in front of me. As Paul Davies mentioned, the forecast at month 9 was £82 million. As you say, the draft position at month 10 is £76.39 million. Also, if you look at the letter from David Sissling, the table demonstrates an improvement in the forecast position, and he says that he is expecting further positive movement in the period between month 10 and the year end. He goes on to say that they are working closely with boards, et cetera, and that they are managing central budgets on a very robust basis. So, the Public Accounts Committee is aware of the basis on which we allocated that £50 million.

[25] **Jocelyn Davies:** Thank you, Minister. Of course, the health boards were, as you say, making good progress between month 9 and month 10; that is before they knew that the Minister had £50 million.

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

[27] **Jocelyn Davies:** Let us hope that the public news that this £50 million held centrally does not deter them from making the changes that they need to make.

[28] **Jane Hutt:** The message is very clear.

[29] **Jocelyn Davies:** Yes. So, the deficit currently is around £77 million, you said, and that is at month 10, but you would expect that to be reduced by the end of the year, as laid out in the letter.

[30] **Jane Hutt:** As I said, it is quite clear that we have allocated £50 million for the Minister for health for the purpose of managing the end of year and then, of course, what that means in terms of any deficit or brokerage that might be needed into the further financial year. However, I think that it is still premature at this point for you and for me as Minister for Finance, but I am confident that I have given him the means to manage risks.

[31] **Jocelyn Davies:** Okay. You mentioned the new National Health Service Finance (Wales) Act 2014, which means that there will be three-year funding agreements. Can you give us an update on any progress in terms of approving those financial plans?

[32] **Jane Hutt:** In terms of the three-year financial plans, it is my understanding that they had to be before the Minister and the health department before the end of January, so, obviously, those plans are being looked at very carefully now. We are on track, I understand, to approve those three-year plans at the start of the new financial year, and, quite clearly, these are issues for the Minister for Health and Social Services, but there is planning guidance from the new Act, which does mean that we are into a new regime in terms of the financial management of the health service. I know that this committee and the whole Assembly have backed this way forward.

[33] **Jocelyn Davies:** Yes, for certain, but, at the moment, things are going to plan and as was envisaged.

[34] **Jane Hutt:** Yes, they are going to plan.

[35] **Jocelyn Davies:** Minister, you probably know that the auditor general has expressed some concern about the narrative around the draft budget presenting additional funding for health, and you have mentioned that this morning, because of the use of the supplementary budget 2013-14 as the baseline. We have also seen another letter between the auditor general and the Permanent Secretary, which says that even though this gives the impression of additional money, because you use that as the baseline, in fact, in real terms, this was not an increase, but was 1.6% lower in 2014-15 than in 2013-14.

[36] **Jane Hutt:** I think that this supplementary budget and its scrutiny are about this financial year and accounting for the extra £150 million and the extra £50 million that I only recently announced in tabling the supplementary budget. Clearly, the impacts on future budgets will be a matter for scrutiny by this committee.

[37] **Jocelyn Davies:** Minister, perhaps you will let us have a note on that and how you intend to go forward, because, certainly, the narrative is as important as the figures that we get. So, a note of clarification on that for transparency purposes, I think, would be useful. Chris, shall we—

[38] **Sandy Mewies:** May I ask a question?

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

[40] **Sandy Mewies:** I am on the Public Accounts Committee as well, but I am not too used to translating things across. It was agreed with the auditor general, I think, that a note would go to clarify the point that you have made.

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

[42] **Sandy Mewies:** The next time that this happens—well, next time, perhaps it will not happen in that way, and there will not be any need for clarification. Is that what you are asking for on that?

[43] **Jocelyn Davies:** One thing that we are striving towards here—normally, we do not ask the Chair questions—is transparency, because one of the things that this committee has been keen to do is to make sure that the supplementary budget and the draft budget are as open and as transparent as possible, not just to Cincinnati lawyers but to ordinary members of the public who might want to look at that. If the narrative says that it is additional funding, although there is a question mark about how it only looks that way because of the way that it was presented, then that is certainly something that we would want to clear up so that there is no misunderstanding about the true position.

[44] **Sandy Mewies:** Thank you for that clarification. I wanted to be clear about that in my own head, but also I will take note of your usual process.

09:15

[45] **Jocelyn Davies:** Sure. Chris, shall we come on to your question on the invest-to-save fund?

[46] **Christine Chapman:** Minister, just by way of background, this committee did a report on invest-to-save and, in the last supplementary budget, we raised a concern over the allocation of funding to Natural Resources Wales from this fund. This supplementary budget makes allocations of £12.2 million to the delivery of core NHS services. Could you provide

some details of what these allocations are related to, and could you tell me whether they fit within the ethos of the invest-to-save fund in terms of generating savings through improvement?

[47] **Jane Hutt:** Thank you very much for that question. The Finance Committee's report was extremely useful in terms of invest to save and we are implementing the recommendations. However, the goal of the invest-to-save fund is quite clear—it is about improving public service delivery, but it has to be on the basis of significant cash-releasing savings and ensuring that those are in line with that often transformational improvement of public service delivery. So, I will give you some reassurance about the allocation of the £12.2 million. It is very much in the ethos of the invest-to-save fund. For example, £0.9 million has been allocated for Betsi Cadwaladr LHB, which is for enhanced care home services in north Wales, the benefits of which include an improved experience for patients. That will release recurrent annual net cash efficiency savings of over £900,000. We also have £0.2 million for Hywel Dda LHB for the implementation of digital dictation, with net efficiency savings of £120,000. You will be aware, from when you did your review, that we have a voluntary early release scheme in the NHS, which is worth £7.4 million and is part of the package announced last year. That will release significant recurrent savings. We have used the invest-to-save voluntary early release very effectively.

[48] It also includes some projects like the one I visited, which got a lot of national publicity, which was the hospital linen tagging project where linen can be tracked. That covers a number of health boards in the south-east Wales area and they have made huge savings from being able to track where the hospital linen has gone. So, I do believe that it is well within the ethos and is delivering cash-releasing savings.

[49] **Mike Hedges:** As you know, I am a great enthusiast for invest to save. Would it be possible to produce an annual report or an annual sheet of income and expenditure showing exactly where the money has gone in invest to save, and how the money has come back in from those that have been invested in in previous years—on a single sheet that would be within the understanding of those of us here?

[50] **Jane Hutt:** I would certainly be very happy to do that and to provide a report to the Assembly and the wider public. This is certainly something that we are pressing for, namely a wider understanding and take-up of invest to save, and that is what came out of your report anyway.

[51] **Alun Ffred Jones:** A allwch chi esbonio yn union beth yw'r *early release*? Rwy'n meddwl fy mod yn gwybod, ond a allwch chi ddweud yn union beth ydyw? Faint o arbedion yr ydych chi'n eu rhagweld yn deillio o'r buddsoddiad o £7.4 miliwn?

Alun Ffred Jones: Can you explain exactly what this 'early release' is? I think I know, but could you explain exactly what it is? How much of a saving do you expect to see stemming from this investment of £7.4 million?

[52] **Jane Hutt:** The NHS voluntary early release is, as it says, a voluntary early release from the health service. All the health boards and the health service have come together on this; it has been very much at the forefront of the efficiency and cash-releasing savings for the health service. If it would be helpful, we can give you information on where those voluntary early release changes have been taking place. They certainly have not been in the front line of the health service; they have been in many administrative posts. It is a minimum of £7.4 million in 2014-15 and annually thereafter in terms of the actual savings as well. It might be useful if I did a note on this.

[53] **Jocelyn Davies:** Paul, shall we come to your questions?

[54] **Paul Davies:** I want to ask about how the programme for government fits in with allocations in the budget. How have priorities and progress with regard to the programme for government influenced the allocations made in this supplementary budget, particularly in relation to decisions on reprioritising funding towards health? How does the additional investment tie in with your priorities?

[55] **Jane Hutt:** Although the whole budget is geared and steered by the programme for government, we have sought to align the budget with the committee's scrutiny, advice and support. We have aligned that more in terms of presenting the budget. Within year, in terms of the supplementary budget, it is very much in the context of in-year financial management pressures and emerging changes and pressures and opportunities. The programme for government has to underpin the decisions we make about financial management in year. We came to the summer with the Francis report and a very clear statement from the Minister for Health and Social Services, the Welsh Government and the First Minister that we had to respond to this effectively and appropriately. It fits well with our programme for government and in the sense that our commitment as a Government is to health. That explains how we have to judge. The supplementary budget has to be about how we manage our budget in year, which includes reallocation. All Ministers know, in terms of the reallocations that they have to make, that they still have to deliver on their programme for government objectives.

[56] **Paul Davies:** I know that you started work on linking budget allocations with commitments in the programme for government back in the draft budget for 2013-14. Are you carrying out any further work, or are you building on that work at all?

[57] **Jane Hutt:** Definitely. This links to the annual report on the programme for government. We are held to account on delivering programme for government commitments. We are also working hard to explore links between budgets and outcomes as part of the outcomes of the programme for government. That will be fed into the annual report in June 2014. You will again be able to judge how we have been able to manage the in-year supplementary budget in terms of delivery, and also how we can, for next year, link the draft budget more clearly to outcomes and the programme for government. You know about our mapping document—you recognise that that was helpful in drawing out those links—and it is something that we can work together on in terms of transparency and understanding how we can make that close link more effective.

[58] **Paul Davies:** With regard to outcomes, Minister, can you confirm that you, as Minister for Finance, set targets in terms of outcomes in order to measure the success of the spending allocations?

[59] **Jane Hutt:** They are very much linked to our programme for government indicators. Going beyond that, as Minister for Finance, I am also responsible for ensuring that we have a fit-for-purpose corporate research and evaluation base to monitor the delivery of programme outcomes and indicators. I will shortly, for the committee and the Assembly, be publishing the key principles of research and evaluation, which very much link to getting the right outcomes in terms of the programme for government.

[60] **Jocelyn Davies:** Julie, shall we come to your questions?

[61] **Julie Morgan:** Yes, thank you, Chair. I want to ask you about Welsh Government borrowing, Minister, which is obviously very important. First of all, can you provide us with more details about arrangements for paying back financial transaction funding to the Treasury?

[62] **Jane Hutt:** Yes. This is something on which, at the last finance quadrilateral meeting that we had, which was in November, all Ministers for Finance across the devolved

administrations were pressing for more flexibility, in terms of the financial transactions. We did secure from that discussion with the Chief Secretary to the Treasury enhanced end-of-year flexibility arrangements for financial transactions for this financial year and the next financial year. Now, what we are working on are the repayment terms on those because, yes, it has given us more flexibility in terms of spend in the next two financial years, but the repayment terms are still to be confirmed. That is something I hope we will conclude at the next quadrilateral meeting. I will want to then feed that back to the Assembly.

[63] **Julie Morgan:** What will you be hoping for from that further discussion?

[64] **Jane Hutt:** The repayment terms are very important to us in terms of our financial management, obviously. We have the end-of-year flexibility, so that is a separate part of the budget exchange mechanism, but we want to be able to manage the repayment. There may be differences in some of the financial transactions in terms of housing, regeneration and economic development. However, again, I will need to report back on that when we have more clarity on the position.

[65] **Julie Morgan:** Would you be able to report back on the help-to-buy equity scheme and how that will be paid back?

[66] **Jane Hutt:** Yes. This is very important in terms of differences in repayment because help-to-buy is demand-led. It could take up to 25 years in terms of repayment of the Welsh Government's equity stake, and that depends on choices made by homeowners. Obviously, we can look at this together across the UK in terms of how we are handling the help-to-buy scheme in discussions with the Treasury. The help-to-buy scheme is something to which we have allocated £174.5 million over three years, but it will be a 25-year payback, probably.

[67] **Julie Morgan:** Moving on to capital, the capital borrowing limit is £500 million. Will any of the borrowing that you have done in terms of innovative finance or through financial transactions have an impact on that?

[68] **Jane Hutt:** No, they will not, because all of our use of innovative finance and financial transactions do not count, in fact, as capital borrowing, so it would not impact on the limit. Of course, we do not yet have the powers to borrow, so we are doing what we can with our powers but it does not count, fortunately, against the £500 million.

[69] **Jocelyn Davies:** So, Minister, are you really being expected to use the mechanism when you do not know what the payback arrangements will be as yet—

[70] **Jane Hutt:** On the help—

[71] **Jocelyn Davies:** On the financial transactions. You are still in discussions with the UK Treasury. You are not expected to use that, are you, unless you know what your commitment is going to be in the long term?

[72] **Jane Hutt:** Well, the repayment terms are still being agreed with the Treasury at official level—

[73] **Jocelyn Davies:** But do you know what the quantum is?

[74] **Jane Hutt:** Yes—

[75] **Jocelyn Davies:** It is just the detail of it—

[76] **Jane Hutt:** Yes. Of course, it is also a case of learning from the ways in which the

help-to-buy scheme, for example, is being delivered, and not just in Wales, which is helpful. We need to negotiate the Welsh position.

[77] **Jocelyn Davies:** Julie, are you happy with that?

[78] **Mike Hedges:** I have one question on that—

[79] **Jocelyn Davies:** Yes, of course.

[80] **Mike Hedges:** On the borrowing, I have two questions. Will it be from the public works loan board or are you still negotiating that? Secondly, is the limit of £500 million a limit like it is in Scotland, where it is a fixed limit, or is it like it is in Northern Ireland, where it is a movable limit?

[81] **Jane Hutt:** In terms of the limit, we have been pressing—and we will be pressing and talking to the Chief Secretary to the Treasury about it—to raise that beyond £500 million, because we believe that we could manage a greater borrowing limit. Yes, the national loan board is where we would get the best rates.

09:30

[82] **Jocelyn Davies:** We strongly advise that you use the national loan board. *[Laughter.]*

[83] **Mike Hedges:** Yes, I am a big fan of it.

[84] Moving on to reserves. This is where you have to land an aircraft on a pin, is it not? If you go too much, you have to pay it back and if you go too little, you do not get your accounts passed by the auditors. I have two questions. Are you confident that you have sufficient reserves to deal with the problems that might occur? I know that we have had flooding at what is probably the worst time for you, because it is coming towards the end of the financial year, and by the time things get sorted out, we could be coming very close to the end of the financial year. Are you confident that that can be dealt with? Can it be dealt with without the supplementary budget? I would hate to think that there was a need for £30 million or £40 million to be spent on dealing with flooding somewhere, but that it could not be done because we had not had a meeting to approve that supplementary budget. I do not think that anyone would want that to happen. Is moving money from reserves able to be done in order to deal with that?

[85] My next question is: are you sure that there are sufficient reserves there to make sure that the accounts do not get qualified?

[86] **Jane Hutt:** I will start by answering the second question. I am confident that we have the right level of fiscal reserves at present. It is comparable with each of the last three years, in terms of the reserve. You are absolutely right on why we need that. I have been looking at this every month to see what we can reallocate. That is why we were able to announce not just the £50 million for health but also the £5 million for social housing, in the supplementary budget. However, you get to that point; I had to agree that several weeks ago.

[87] In terms of the ability to meet contingency and unforeseen pressures, obviously, the floods are a very good example. We have been able to manage that so far, as a result of Ministers making allocations. Alun Davies allocated £2 million and then an extra £1 million last week. The Minister for Economy, Science and Transport allocated £1.6 million towards tourism. There are other announcements, as you have heard, and further discussions have taken place. Therefore, that is a key area; we have the ability to support in year, as a result of careful financial in-year management, and we still have the contingency within the reserve. If

we needed to, we could still make further finance available under section 128. You are well aware of section 128.

[88] **Jocelyn Davies:** Unless you buy an airport with it. *[Laughter.]* Yes, we are aware of it. I am sure that, if you can buy an airport with it, you can deal with flooding. Are you happy, Mike?

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

[90] **Jocelyn Davies:** Ffred, shall we move on to preventative spend?

[91] **Alun Ffred Jones:** Mae'n debyg, wrth gynllunio'r gyllideb, bod y Llywodraeth wedi rhoi pwyslais ar bwysigrwydd gwariant ataliol. Ond, wrth graffu ar y gyllideb ddrafft ar gyfer 2013-14, daeth y pwyllgor i'r casgliad nad oedd wedi cael sicrwydd bod Llywodraeth Cymru wedi newid pwyslais y gyllideb tuag at wariant ataliol. Sut y cafodd gwariant ataliol ei adlewyrchu ym mlaenoriaethau'r gyllideb atodol hon, ac yn y newidiadau a wnaed i'r dyraniadau?

Alun Ffred Jones: Apparently, in planning the budget, the Government has placed an emphasis on the importance of preventative spending. However, during scrutiny of the draft budget for 2013-14, the committee concluded that it had not had an assurance that the Welsh Government had shifted budget emphasis towards preventative spending. How is preventative spending reflected in the priorities of this supplementary budget, and in the changes to the allocations?

[92] **Jane Hutt:** Of course, this is an area on which I would also very much welcome the committee's focus on preventative spending. We are working harder, I think, in terms of the development of our budget and our future budgets, to focus on this. It is reflected in this year's budget and it has been reflected in our quality impact assessments, but we are, as you say, in year, in terms of the supplementary budget in-year management.

[93] I would suggest that increased funding for the NHS is preventative. One part of that is not just about the response to the Francis review, but new pressures, such as immunisation, developing during the year that were not forecasted. We know that health spending can have a very clear preventative impact. I would also say the same for the total housing grant—the £5 million, 60 to 100 new affordable homes, the help in terms of tackling housing need, which we debated last week, and 100 jobs in the construction phase. Therefore, I believe that the decisions that we have made—and we have just mentioned flooding and coastal erosion—and the statement that was made last week by the Minister for Natural Resources and Food, demonstrate that we were well-placed in Wales, fortunately, in terms of the investment that we have already made in flood protection, and protection against coastal erosion. We know, and everyone with a coastal constituency will know, that much of our flood defence investment—that £240 million, and £50 million of European funding—has made an impact. So, I think that we can say that there is quite clearly a preventative element in our additional allocations.

[94] **Alun Ffred Jones:** Gan ein bod yn sôn am y gyllideb atodol, rwy'n credu y byddai'r rhan fwyaf o bobl yn dweud bod y £50 miliwn sydd wedi cael ei neilltuo ar gyfer iechyd yn ymateb i *crisis*, yn hytrach nag yn ymateb i unrhyw wariant ataliol. Sut fydddech chi'n ymateb i hynny?

Alun Ffred Jones: As we are talking about the supplementary budget, I think that most people would consider the £50 million that has been allocated for health as a response to a crisis, rather than a response to any preventative spending. How would you respond to that?

[95] **Jane Hutt:** As I have already indicated, I believe that the £150 million not only has a strong case for it, but it is a very important investment in terms of health. I would like to see

the £50 million as helping to manage continuing pressures and risks. I would say, in terms of that £50 million, that we know that it is going to be spent well—it is going to be spent on our health service, and on our nurses and doctors, in primary and secondary care. I am sure that that is what the people of Wales would want us to spend our money on.

[96] **Jocelyn Davies:** So I take it, Minister, that, in terms of preventative spend, what you are telling us is that you are putting systems in place so that Ministers begin to think about it, if it is in your impact assessment now, which it was not before. Ministers are beginning to think about preventative spend, but we could not expect a supplementary budget to shift the emphasis entirely in your programme for government. You are giving examples here of how you hope to build on that. I know that that is something that we will be returning to in the future, and if we can assist you with that, we certainly will.

[97] **Jane Hutt:** I welcome the question, because that is the message to Ministers, it is key to the programme for government, and it is key to sustainability. So, if we are going to reallocate and reprioritise within year, there have to be principles that have to be passed. I can assure you that there are many other things that I have turned down, where you certainly would not have a preventative spend, which might have involved some other priorities.

[98] **Jocelyn Davies:** So, it is one of the things that you take into consideration when you are judging between two bids from two Ministers—the element of preventative spend might tip the balance in favour of one allocation as opposed to another.

[99] **Jane Hutt:** Yes, absolutely. It is a very important criterion.

[100] **Jocelyn Davies:** Okay, thank you. Peter, would you like to ask your questions now?

[101] **Peter Black:** Thank you, Chair. My question is in relation to the Welsh Government's council tax support scheme. Obviously, we are coming towards the end of the financial year now and I was wondering, Minister, whether you had a better idea of the likely cost to local authorities of that scheme, and whether it still remains affordable.

[102] **Jane Hutt:** Obviously, we had the statement from the Minister for Local Government and Government Business yesterday. I think that it is important that we reflect on this as a Welsh Government and local government scheme—it is a joint scheme. The fact is that we have been monitoring very carefully since we introduced it back in April last year, so that we can not only monitor the spend, but also estimate the impact for the next financial year. I think that the outcome is very clear, that the £22 million that we provided for this financial year did meet the costs of the scheme at the point of transfer. Obviously, there have been differences, in that some authorities made local decisions about council tax rises that have had an impact on expenditure. However, the Minister is confident that the £244 million that we have provided for the next financial year is sufficient and that local authorities would have to then meet any costs of any shortfall. Obviously, we are providing the majority of the funding to operate the scheme.

[103] **Peter Black:** So, obviously, the Minister's statement yesterday was about the review of the scheme going forward, but in terms of this current financial year, you are confident that the £244 million that has been provided by the Welsh Government has covered the cost of that scheme in full.

[104] **Jane Hutt:** It has covered the costs except where there are some local differences and adjustments, as you say, in terms of council tax levels, where local government knows that it has to meet those.

[105] **Peter Black:** So, some councils have met additional costs because of their own

decisions on council tax.

[106] **Jane Hutt:** Yes, they are their own decisions.

[107] **Peter Black:** Okay; lovely. Moving on, the supplementary budget includes a £568,000 transfer out of the discretionary assistance fund. Can you confirm where that is in relation to an underspend, and can you provide details of the total costs of the discretionary assistance fund?

[108] **Jocelyn Davies:** Is the discretionary assistance fund now the old social fund?

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

[110] **Jocelyn Davies:** So, that is devolved now and renamed as the discretionary assistance fund; okay.

[111] **Jane Hutt:** Yes. It was devolved and then the Welsh Government consulted on how we should manage and handle this. This, of course, is with Jeff Cuthbert. There was an underspend in this financial year with the discretionary assistance fund. Again, this is a matter for the Minister in terms of providing more detail, but it was being set up. From constituency work, Members will probably know that there is a slow take-up in terms of people getting to know about the discretionary assistance fund. However, the budget for this financial year is £10.2 million, and the budget for next financial year is £10.2 million. As a result of the slow take-up there was an underspend, but the take-up is now at expected levels. You have probably noted that the transfer of savings on administration costs was reallocated to support the children's play duty. That, again, is where we try to manage things within year via an appropriate policy area.

[112] **Peter Black:** May I just clarify how much was in the fund? I understood that the transfer from the UK Government in June 2013 was £12.4 million.

[113] **Jane Hutt:** There is also £2 million for administration on top of the £10.2 million. So, it is £12.2 million. The transfer is £12.2 million. It is £10.2 million for the actual fund and £2 million for administration.

[114] **Peter Black:** So, £2.2 million is actually being paid to the company, which is Northgate Public Services, to actually administer the fund.

[115] **Jane Hutt:** I understood that it was £2 million, but we will check that out.

[116] **Peter Black:** So, given that you are paying this company so much money to administer the fund, has there been a review of its performance in the light of the fact that it has underspent?

[117] **Jane Hutt:** As I said, there was some slow development and take-up of the fund at the beginning, and we have taken that underspend. We have had the underspend to reallocate ourselves.

[118] **Peter Black:** Obviously.

[119] **Jane Hutt:** Certainly, that is a matter for the Minister, Jeff Cuthbert, to respond to any review of the management of the scheme.

[120] **Peter Black:** Okay; thank you.

[121] **Jocelyn Davies:** Okay. Sandy, shall we finish this part of the meeting on your question?

[122] **Sandy Mewies:** Thank you, Chair. Good morning. Continuing with the theme of the message that the Welsh Government has taken to ameliorate the impact of welfare reforms and transfers like the discretionary housing payments scheme, which used to be called the social fund, or whatever, this supplementary budget includes a £1.3 million transfer to the discretionary housing payments scheme. Can you provide details of the total cost of the fund and whether you think that the funding is sufficient, and whether it is likely to continue in future years?

[123] **Jane Hutt:** I think that it is very confusing that we have a discretionary assistance fund, which is the old social fund, and that is devolved, and then we have the discretionary housing payments scheme, which is a separate scheme, and that is the responsibility of the DWP, but local authorities administer it. There was a debate on this last week as well. The total funding for Wales, which the DWP then allocates to local authorities, is £6.2 million. We anticipate that that is going to continue for the next two years.

9:45

[124] I will just add that we did add £1.3 million to that for this financial year, and it is in the supplementary budget, because, again—I think this is a very good point about prevention and reprioritisation—Carl Sargeant, the Minister for Housing and Regeneration, said that it would be helpful if we could find anything to help top that up.

[125] **Jocelyn Davies:** So, that tops that up. So, you were expecting all of that to be spent. You topped it up, so I am assuming that you did not think it was sufficient.

[126] **Jane Hutt:** That is right. We are also working, as you know—the Minister said last week that there is a working group with housing partners—to look at ways in which they could help local authorities to be more strategic about the way the money is used. It has helped authorities, but it has also helped people who are at risk of eviction and homelessness.

[127] **Jocelyn Davies:** Are there any other questions from Members? Minister, thank you very much. As you know, our next item is scrutinising you on something else. I think that what we will do is have a break now, and start again at 10.00 a.m..

*Gohiriwyd y cyfarfod rhwng 9:46 a 9:59.
The meeting adjourned between 9:46 and 9:59.*

Bil Drafft Cymru: Tystiolaeth gan Lywodraeth Cymru Draft Wales Bill: Evidence from the Welsh Government

[128] **Jocelyn Davies:** Welcome back to this meeting of the Finance Committee. We still have the Minister for Finance with us. We are devoting this part of the meeting to scrutiny of the draft Wales Bill. I will just draw Members' attention to the letter from the Secretary of State for Wales, received in response to a letter written by me on behalf of the committee.

[129] Minister, before we go into questions, you will probably know that the committee intends to do a piece of work on budget best practice in order to ensure that we have fit-for-purpose budget procedures as we go forward under the new Bill. Peter, shall we start with your questions?

10:00

[130] **Peter Black:** Thank you, Chair. I will start off with an easy one, Minister. How significant is it that the draft Wales Bill proposes new tax powers for Wales when the issues of addressing fair funding for Wales and reforming the Barnett formula remain outstanding?

[131] **The Minister for Finance (Jane Hutt):** Well, you know that I have welcomed the draft Wales Bill. It delivers many of the financial reforms that were recommended by Silk, which the Welsh Government has endorsed. Clearly, there are areas of the Bill that we would like to see improved. In terms of the borrowing ceiling for capital investment, which is set at £500 million, it is a good start, but I believe that it should be set at a higher level. Air passenger duty was recommended by Silk to be devolved. I think there that there is a strong case for devolving that tax. Also, the Bill does not grant us the powers to vary income tax rates independently of one another, as Silk proposed.

[132] I think the issues in terms of fair funding are very important. First of all, I think that the draft Bill is a step forward towards a better overall settlement. The fact that we cannot borrow was unfair, so we are now going to be able to borrow. Scotland, Northern Ireland and local authorities already can borrow, and have the powers or are getting them. Our lack of tax powers is unfair. So, borrowing and tax powers are going to be addressed through the Bill. However, we have made it quite clear as a Government that we have concerns about fair funding for moving any further forward in terms of our tax basis.

[133] You will know that we secured the 2012 joint statement on funding reform. It sets out a new process to address convergence, and that was an important step forward. Last summer, we used it in terms of the UK Government and Welsh Government looking at the impact of the spending review. At that time, of course, we were not moving to a point of convergence because budgets were being cut. However, we know that budgets will grow again and that the Barnett formula will act to reduce our overall relative funding level. So, there is an inescapable problem with Barnett. It should be replaced, ideally, with a new needs-based formula, but there are obstacles to getting that kind of fundamental reform at this time.

[134] It was recognised by the Silk commission in its recommendations that the two Governments have to be very clear—. Certainly, there was a recognition and understanding that we should have a fair funding basis before we move towards, for example, a referendum on tax-varying powers. I continue to work on the basis that the Welsh Government and the UK Government are seeking a fairer funding base for Wales as a result of our agreement in 2012, and recognise that the Silk commission fully endorsed that in its report to the UK Government. We should now move forward and get what we need from this draft Wales Bill, which is borrowing powers and the devolution of those all-important small taxes. Of course, we have started work on stamp duty and landfill tax already.

[135] **Peter Black:** Just for the sake of clarity, Minister, if the UK Government conceded to your view of the lockstep and put in place reform of the Barnett formula, would you then embrace income tax-varying powers?

[136] **Jane Hutt:** It would be a great step forward, Peter, if we were to secure reform of Barnett, which would address convergence, and a needs-based formula, which I think is needed for the whole of the UK; we are not just talking about Wales. It is then up to the people of Wales, because the cross-party Silk commission said that we would need a referendum. So, it puts us in a better place in terms of being able to consider that. If you can help achieve that, Peter—

[137] **Peter Black:** I am trying to establish—

[138] **Jane Hutt:** It would be a great step forward at this point in time in terms of Barnett reform—

[139] **Jocelyn Davies:** I think that you have started something there, because I have other Members who want to come in, but we will continue with your questions, Peter.

[140] **Peter Black:** What I am trying to establish—

[141] **Jocelyn Davies:** Yes, you continue.

[142] **Peter Black:** So you do not, then, actually agree with the shadow Secretary of State for Wales's outright rejection of this. In fact, if you could get the terms right, you would be happy to accept income tax powers.

[143] **Jane Hutt:** I think that the First Minister has made absolutely clear, as he did in the debate last week, our position as a Welsh Government. We have all come together, and I made it absolutely clear from day one, when the draft Bill was announced, that we were very, very unhappy about the lockstep, because it made, in fact, tax-varying powers unusable. I made it absolutely clear from the word 'go,' as did the First Minister last week, that fair funding is critical, because 75% of our budget would be the block grant and we cannot be in a position with any tax-varying powers where, if any Government chose to cut the block grant by 1p in the pound, we would then have to find £200 million. Where would we take that from? So, it is absolutely critical that we get the fair funding and the Barnett reform and get rid of the lockstep, and then we will be in a better place for the people of Wales to have a proper consideration of the matter.

[144] **Peter Black:** That is far more positive than Owen Smith.

[145] **Jocelyn Davies:** Yes, I think so. Mike, did you want to come in on this point?

[146] **Mike Hedges:** Are not other things needed as well, for example, the 'no detriment' rule, as they have in Scotland, which would need to be in the command paper and also some protection against decisions made at Westminster that could lead to substantial closures? I just look in the past at the closure of Government offices or the substantial closure of other areas, such as former nationalised industries, that have cost the Welsh taxpayer huge sums of money. Surely, there needs to be some protection against central Government decisions as well, otherwise, you take the risk without the opportunities.

[147] **Jocelyn Davies:** You do not need to give a long answer in response to that question, Minister.

[148] **Jane Hutt:** I think that Mike raises some important points in terms of the 'no detriment' principle. The command paper will be important and that is something that, hopefully, this committee can scrutinise very carefully. We certainly want the same protections that Scotland has in terms of its settlement at this point in time.

[149] **Jocelyn Davies:** That is for very good reasons. I know that you have to continue, Peter, but I should apologise to Mr Morgan, because, at the beginning, we did not introduce you. Do you mind introducing him, Minister, and then we will go on to Peter's further questions?

[150] **Jane Hutt:** I introduce Gareth Morgan, who is the acting deputy director for financial reform in the Welsh Government.

[151] **Peter Black:** As Mike has just touched on my third question—. Well, I will put these questions as two. What discussions have you had, Minister, with the UK Government and HM Treasury, first, with regard to any concerns that you have expressed relating to provisions

in the Bill and, secondly, specifically on what mechanism will be used to offset devolved taxes against the block grant?

[152] **Jane Hutt:** Certainly, our officials are having constant discussions with the Treasury about the issues. There are some technical issues that, obviously, we need to clarify and there are some competence issues that we need to clarify as well. I met the Chief Secretary in January, after Christmas, raising the earlier points that I made about the areas where we felt that there should be a change from the draft Bill to the Bill.

[153] We also discussed the issue about the offset. We have been very fortunate in Wales that we have the Holtham commission, and Gerry Holtham's evidence on how we should handle the offsets has been used in the Scotland Act. So, he is well regarded in Scotland in terms of the evidence that he gave on this. In terms of the offsets, we have to make sure that they are fair to Wales and fair to the rest of the UK. I did speak to Danny Alexander about this. The Holtham offset is being used for income tax, and that is probably the most appropriate way to use it. So, we now looking at that for income tax, but we are looking at stamp duty, land tax and landfill tax in terms of whether a different kind of offset is needed. We believe that that has to be a very responsible decision that is fair to Wales and also in line with UK Government Treasury requirements. However, I think that there is nothing more to report on this at this stage.

[154] **Peter Black:** So, do you get the impression, Minister, that in those discussions, given that this is a draft Bill, if the door is not ajar, it is at least unlocked?

[155] **Jane Hutt:** Oh, definitely. *[Laughter.]* Well done, Peter. This is something on which we can be flexible and we already have the evidence of what we think will work. So, it is a very competent and mature discussion.

[156] **Jocelyn Davies:** Sandy, shall we come to your questions?

[157] **Sandy Mewies:** These questions look at the way in which the Assembly could amend budgetary processes to apply the new powers proposed in the draft Wales Bill. So, not surprisingly, the first question is this: does the Welsh Government believe that the current budget scrutiny process needs to change to adapt to the new borrowing and tax powers, and if so, have you thought about in what ways that should happen?

[158] **Jane Hutt:** It will obviously have to change. Our view as a Government, and my view as Minister for Finance, is that, although it is a bit early to say how it should change, we should develop those changes with the Finance Committee. I am glad that you made that point, Chair, at the outset. When you get to the point of forming your initial views on this, it would be helpful for us to have a discussion. However, what we are concerned about in terms of the Bill is to make sure that we have the full legislative competence to design the process that works for Wales. So, this is more of the hidden sort of stuff, if you like—the not so upfront, publicly interesting part of looking at the draft Bill, which we are doing at the moment. So, you are starting to do the work on this and we are looking at the legislative competence in the draft Bill.

[159] **Sandy Mewies:** Thank you for that. The UK Parliament splits legislation governing expenditure from tax and borrowing by using an appropriation Act and a budget Act. So, do you believe that a single finance Act is the best solution for agreeing both those things here, or should they be voted through on separate appropriation and budget Acts, or whatever you wanted to call them, as happens in Westminster?

[160] **Jane Hutt:** Again, we have not taken a view on this. It is something that the committee and the whole Assembly will want to consider. We would want to take a view

drawing on the opinions and evidence that you bring together. This is new territory for us all and we are open-minded about having a single finance Act or separate appropriation and budget Acts. Let us look at this from the perspective of what is open, transparent and understandable for Wales in terms of the budget and work on it.

[161] **Jocelyn Davies:** Chris, shall we come on to your questions?

[162] **Christine Chapman:** I have a few brief questions, Minister. Could you tell me when you expect the implementation of the new powers in the draft Bill to be enacted and when will the associated changes to the budget process be required?

[163] **Jane Hutt:** There are a number of areas in terms of new powers and they have different timelines. If we start by looking at non-domestic rates, which is not in the legislation, we can get on with the devolution of non-domestic rates. So, I raised this with the Chief Secretary when I met with him. We are pressing for the earliest possible date; we talked about 2015-16 as being possibly manageable. That is an ongoing discussion, but we can get on with that without the Bill. Similarly, we do not need the Bill in terms of new legislation on early access to borrowing. We can secure that and that has been promised. So, we want to make that available before the Assembly election in 2016. Again, we are discussing that with the UK Government. We are already beginning to discuss how that would be accessed. The early access to borrowing, of course, is partly linked to the fact that we already have Welsh Development Agency borrowing powers.

10:15

[164] In terms of the primary legislation reforms, we have to get a Bill first of all, which, hopefully, will be in May or June in the Queen's Speech, with Royal Assent before the Westminster election in 2015, and then we need our own legislation to introduce the new Welsh taxes. Scotland has had to introduce three new taxes: the stamp duty land tax, the landfill tax and tax management. Tax management is how we collect and manage taxes. We have a slight difficulty in that in 2015 we get Royal Assent and in 2016 we have our own election as well. So, that will have an impact on the legislative process. If we are looking to when a new law replacing stamp duty land tax, and perhaps the landfill tax law as well, would come into force, we think that the earliest date would be 2018. That is based on how long it has taken in Scotland—

[165] **Jocelyn Davies:** And bearing in mind the various elections that may take place between now and then.

[166] **Jane Hutt:** In addition to our election in between.

[167] **Christine Chapman:** How will the National Assembly be informed of ongoing discussions between Welsh Government and the UK Government on changes to budgetary processes, following the enactment of the draft Wales Bill?

[168] **Jane Hutt:** We will continue with the way that we work together. The cross-party consensus and the work of the Finance Committee in terms of scrutiny have been essential for getting us to where we are. I have been meeting with the finance spokespeople of all parties to update them; we last met in January and hope to meet again in March. We will have debates—we had one last week, of course. I will do oral and written statements; I did one last week on the tax advisory group. I am happy to come in front of the committee whenever. I do not think that anything is going to happen without the knowledge of not just this committee, but the whole Assembly and the wider public. I think that interest will start to emerge as a result of the tax advisory group. Eventually, there will have to be a change to the statement of funding policy. That will come after the legislation. That is about what we expect from the

UK Government in terms of our relationship.

[169] **Christine Chapman:** Finally, Minister, following the Scotland Act 2012, there is now a joint exchequer committee of the Scottish and UK Governments. Do you think that we need a similar committee in Wales now, or could the existing joint exchequer committee be adapted?

[170] **Jane Hutt:** Definitely. I already raised this with the Chief Secretary and he agreed that we should have a joint exchequer committee for Wales.

[171] **Jocelyn Davies:** So, it would be separate. You would not join the one that already exists. You would have a separate one.

[172] **Jane Hutt:** It would be a separate one for Wales. That would joint exchequer committee just for Wales ensure that we have close bilateral working relationships between the UK Government and the Welsh Government.

[173] **Jocelyn Davies:** There would then be no distraction about anything that is happening in Scotland. You would just focus on Wales. To clarify, you said that Royal Assent is expected in 2015.

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

[175] **Jocelyn Davies:** You do not envisage any Bills being introduced in this Assembly—there will be none before the next Assembly election in relation to anything that is in this Bill.

[176] **Jane Hutt:** We are looking at all the candidates for legislation at the moment. We have a very full legislative programme for the Welsh Government in the Assembly. I will come back to the committee on the likely timelines for any prospective new legislation.

[177] **Jocelyn Davies:** Mike, shall we come onto your questions about Treasury management?

[178] **Mike Hedges:** One of the greatest advantages of our current system is that you know exactly how much money you are having, although there are lots of disadvantages. If we move to the new system, what information will be required for the Welsh Government to accurately forecast devolved tax revenue after the implementation of the Wales Bill?

[179] **Jane Hutt:** We need to be able to forecast our tax revenues. We are already exploring this; work is under way. We have some expertise in place already. Just in terms of the work of the Holtham commission, I am very glad that Gareth is here today because he was in the Holtham team—we have kept that team going all the way through from the Holtham commission, through the Silk commission and, now, with this financial reform team. We need the expertise, obviously, to take this forward, Mike, to enable us to be ready for that forecasting. Of course, there will be implications, not just for us but for local government and HMRC. So, information sharing between Welsh Government and HMRC is going to be very important.

[180] **Mike Hedges:** Are you intending to work with the Office for Budget Responsibility or will you consider creating your own independent fiscal body, as they are apparently doing in Scotland?

[181] **Jane Hutt:** Again, further discussions with the OBR will be necessary. We are looking at ways in which we can interact with the OBR and considering whether it should generate forecasts for Wales, which we could then check and challenge, or whether it should

be the other way round with it checking and challenging our forecasts. So, good working relationships with the OBR are a key element of Welsh tax forecasts. We are not persuaded at the moment about setting up a new OBR-type body for Wales, but that is something that we could at least consider. We would not rule it out, but, obviously, we must develop relationships with HMRC and the Land Registry on stamp duty land tax—those are key elements as well.

[182] **Jocelyn Davies:** Julie is next.

[183] **Julie Morgan:** Obviously, you will be setting up a Welsh Treasury. We discussed the internal expertise that will be necessary. Do you think that you will have to use external consultants very much in order to provide the sort of specialist knowledge that you need?

[184] **Jane Hutt:** I think that you will all have seen my written statement last week about the tax policy group that I have set up—the tax advisory group—which is going to meet in March. It is going to have a very key role in advising Welsh Government, building on the internal expertise that I have talked about in developing the Treasury. With regard to having to employ other experts, the tax advisory group includes all of the partners that we work with, obviously. Business, trade unions, the third sector, the Bevan Foundation and the Law Society are all part of the tax advisory group. However, we have also appointed three tax experts to the tax advisory group. You will have seen the statements that they have made welcoming the role they are going to play. David Phillips from the Institute for Fiscal Studies is one of the key ones. The other two are an accountant and a lawyer who are tax experts. I hope that that will help us at this stage to move this forward, but we obviously have to have that expertise and we have to develop it.

[185] **Julie Morgan:** So, what protocols will be needed with UK Government departments and other bodies to ensure that the Welsh Government gets accurate tax and spending data?

[186] **Jane Hutt:** We are discussing that with the UK Government very closely at the moment. We are also looking at how we work with HMRC. We have to be very clear about UK Government departments sharing information with us. Developing a memorandum of understanding will probably be necessary. A lot will depend on how we decide to collect and administer the new taxes. We have not decided that yet, but the draft Bill does include provision for information sharing between the Welsh Government and HMRC in clause 7. That is the starting point.

[187] **Julie Morgan:** Have you looked at the way Revenue Scotland will collect—. The new body—have you looked in any detail at how it plans to collect the taxes?

[188] **Jane Hutt:** Yes, we have obviously followed—. We have met, on several occasions leading up to this, John Swinney to look at the way in which they are developing, through the Scotland Act 2012, Revenue Scotland. That could be an option to develop our own independent tax authority. We could contract with other organisations to collect and manage taxes. You could do a mixture. We are talking about the smaller taxes. Revenue Scotland is there just to manage the smaller taxes. I do not think that people quite realise that. It is just for stamp duty, land tax, landfill tax and replacements that they have. However, there are differences between us and Scotland because we are part of the Land Registry for England and Wales. That is an issue for us in terms of the stamp duty and land tax, whereas Scotland has its own land registers. So, there is a lot of detail in terms of legal financial governance issues in coming to a view, which has to be about responsibility, expertise and accountability. These are all areas that you are going to be interested in.

[189] **Julie Morgan:** What about the cost? Do you have any estimate of the cost of collecting different taxes?

[190] **Jane Hutt:** Costs are an issue. If you look at the explanatory notes to the Bill, you will see that there is no reference to the administrative costs for either stamp duty or landfill tax. So, basically, it will cost us, but we have to keep those costs down, quite clearly, and we are looking at a range of options. That does have an impact on how we collect and manage the taxes. I think that it is a bit early to say, but we certainly do need to look very carefully at this in terms of what it would cost as we start. We are starting with the small taxes, so that is what we are focusing on.

[191] **Jocelyn Davies:** Peter wanted to come in on this.

[192] **Peter Black:** Could you clarify why the land registry is relevant in terms of stamp duty? Is it not collected by HMRC?

[193] **Jane Hutt:** I will ask Gareth to answer that question.

[194] **Mr Morgan:** It is. That is right. It is collected by HMRC, but when a sale takes place it is registered with the land registry, which is an England and Wales body as things currently stand. There is a relationship between the sale of the property and the registration of the tax, a registration of the sale in the land registry, and the fact that the sale has been registered with the land registry feeds back into the issue of monitoring that the tax has been administered correctly. So, they would need to be distinguished on whether a property was registered for sale in Wales or England, whereas previously that has not mattered for tax purposes.

[195] **Peter Black:** The land registry checks, as part of a number of checks, that the stamp duty has been correctly paid and will send it back to the solicitor if it has not been. It will also collect data on prices, but that is the sole involvement in terms of stamp duty. So, the fact that there is an England and Wales land registry should not really matter in terms of this particular issue.

[196] **Mr Morgan:** There will just need to be a new relationship between the Welsh tax collection arrangements and whatever collects the tax. Previously, they solely had a relationship with HMRC. In future there will need to be a relationship with whatever is collecting the devolved equivalent tax in Wales.

[197] **Jane Hutt:** It could be HMRC, depending on whether we go down that route, or it could be a revenue Wales body. It would have to be a new working relationship.

[198] **Peter Black:** I understand that, but the land registry is not a tax-collecting agency.

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

[200] **Peter Black:** That is where you were confusing me a bit by the reference to the land registry.

[201] **Jane Hutt:** Sorry.

[202] **Mr Morgan:** It does not do any collection.

[203] **Peter Black:** Yes, I know that.

[204] **Jocelyn Davies:** Peter is our resident expert on land registry.

[205] **Jane Hutt:** Obviously, we have one, and you have one.

[206] **Jocelyn Davies:** Yes, we have our own expert; and now, of course, Mike wants to come in. [*Laughter.*]

[207] **Mike Hedges:** I do not understand why landfill should cost more in being sent to the Welsh Government as being sent anywhere else. Perhaps you could explain why. The great thing about stamp duty is that buildings do not move and you know exactly where they are. Consequently, that should not create a problem in allocating it. What worries me is income tax. It seems to be based on HMRC knowing the accurate place of living—and whether it is in England or Wales—of everyone. Certainly, in north-east Wales, there are an awful lot of people who live in north-east Wales but work in England, and a lot of people who live in England but work in north-east Wales. I am sure that large employers would not have a problem, but a lot of them work for small employers and contractors. Have you had any discussion with the Westminster Government regarding how it is going to ensure that it captures every Welsh taxpayer to pay money into a system, if income tax was devolved?

10:30

[208] **Jane Hutt:** I have to say that, at this point, no, we have not had those kinds of detailed discussions. Obviously, we have taken note—as you will have done—of the Bill's explanatory notes, where they actually do start referring to the costs of income tax devolution. They have used the sum of money that is the cost in Scotland—the £45 million—which we think is a very high figure. We would, obviously, have to look into this. All this would, of course, be very important information in terms of the case to be made—or the case for and against—in terms of referendum campaigns, and in terms of costs and implications. However, certainly, there is a point that we have more people crossing the Wales/England border for work than there are crossing the Scotland/England border, which could have an impact on cost. However, we have not, at this point, gone into that detail, Mike.

[209] **Jocelyn Davies:** Shall we come to your questions now, Ffred?

[210] **Alun Ffred Jones:** Mae'r Bil yn rhoi terfyn benthyca cyfalaf o £500 miliwn. Pa anawsterau ydych chi yn eu rhagweld gyda'r terfyn hwnnw? Os ydych yn credu ei fod yn isel, lle fydddech chi'n gosod y terfyn?

Alun Ffred Jones: The Bill gives a capital borrowing limit of £500 million. What difficulties do you foresee with that limit? If you think that it is too low, where would you set the limit?

[211] **Jane Hutt:** As I have already said, we feel that the limit is too low, and we have already made that point. We think that the £500 million ceiling is a good start—and, of course, it does enable us to invest in major capital projects, which Wales needs. However, we think that, in terms of where we could be, if you compare with Scotland, and if you look at the borrowing rules that have been set in Scotland and apply them to the Welsh budget, they imply a borrowing ceiling of around £1.3 billion for Wales. Of course, we have relatively low private finance initiative debts as well, in terms of the repayment. If we just look at the £500 million of borrowing, that would cost around £30 million a year, based on current interest rates, and a 25-year loan. Therefore, we have to bear in mind that that is what we would have to pay back, but we do believe that a higher sum would be affordable. I have mentioned the £1.3 billion possible ceiling, which does compare with Scotland.

[212] **Alun Ffred Jones:** A ydych wedi bod yn trafod hynny, neu a ydych yn trafod hynny, gyda'r Llywodraeth yn Llundain?

Alun Ffred Jones: Have you had, or are you having, negotiations on that with the Government in London?

[213] **Jane Hutt:** I have started negotiations. I have raised it with the Chief Secretary to the Treasury, and have said that we could make a case for the raising of the ceiling—and we are making the case. That is based not only on our Wales infrastructure investment plan, and what

we feel that we need in terms of the borrowing—we are working with innovative finance to get other sources of funding anyway for capital—but we also have to look, at a time of reducing revenue budgets, at how we can afford this. Therefore, there is a financial responsibility here, which is quite difficult for us. However, we believe that that is for us to manage—for them, they have to give us a higher ceiling, because we feel that we can manage it.

[214] **Alun Ffred Jones:** Mae gennyf un cwestiwn arall. Yn y cynigion presennol yn y Bil Cymru drafft, Trysorlys ei Mawrhydi fydd yn gallu diwygio'r terfyn benthyca hwnnw. A ydych yn gyfforddus â'r ffordd y byddai penderfyniad o'r fath yn cael ei wneud?

Alun Ffred Jones: I have one more question. In the current proposals in the draft Wales Bill, it is HM Treasury that will be able to amend that borrowing limit. Are you comfortable with the way in which such a decision would be made?

[215] **Jane Hutt:** The most important thing is that the Bill assures us that they cannot fall below £500 million. That is critical to us. Therefore, I think that that is a guarantee that we have in legislation—we want it to rise, but the Bill at least says that it cannot be reduced. However, I think that we have to be very clear—and this is something, perhaps, for the Bill, and scrutiny of the Bill—about how you review that borrowing limit. We really need to have a clear understanding of how we can review the borrowing limit upwards.

[216] **Paul Davies:** The draft Bill does not actually explain how cash flows relating to tax and borrowing will be administered. I think that you have made it clear this morning that there are ongoing discussions with regard to how tax and borrowing receipts will be handled. Can you give us an indication of what sort of timescales we are looking at in terms of when these decisions will be made?

[217] **Jane Hutt:** It is probably too early to say, because we have not come to a view about the institutional arrangements. We have talked a bit about Revenue Scotland, and it will administer stamp duty, land tax and landfill tax. So, it is too early to say. We are working on that now and getting advice on it in terms of institutional arrangements for handling. In terms of borrowing—and this goes back to an earlier question from Mike Hedges—our priority would be to borrow from the national loans fund, and we need to then come to an agreement on mechanisms for repayment. Certainly, we do not envisage any difficulties on this. We have already openly discussed—I certainly did with the UK Government Minister—the fact that we recognise that this would be 25 years at £30 million a year, so we do not anticipate any problems in terms of repayment arrangements.

[218] **Paul Davies:** You referred to the Scotland Bill command paper, and that describes clear administration arrangements for borrowing, including when it can be made, how it is applied for, and when it must be repaid. How will similar arrangements for Wales be agreed with Her Majesty's Treasury, do you think?

[219] **Jane Hutt:** I have mentioned the fact that we will need to be very clear about our command paper, which will accompany the legislation. It will be published alongside the Wales Bill. We are anticipating that it will be very similar to Scotland's paper. We have already talked about the need for the offset arrangement, in terms of calculating offsets to our block grant. We have also discussed how we need to get clarity about borrowing limits being uplifted over time, and reviewed. As I said, also there is going to be a new statement of funding policy, which will apply to all the devolved administrations. It has not yet been amended. It is usually amended at spending review time, but because this spending review is only for a year, and we have the Scotland Act and this legislation forthcoming, it has not been amended. All of this will have to be reflected in the new statement of funding policy.

[220] **Jocelyn Davies:** Mike, you wanted to come in on this.

[221] **Mike Hedges:** The command paper is the great unknown that we have at the moment. It will play a major role. Would the Minister be happy if we had the same information in our command paper as they have for Scotland?

[222] **Jane Hutt:** That is a start. I would want to get advice as to whether there were any other areas in our command paper that would put us in a different ball game to Scotland.

[223] **Mike Hedges:** Would it be possible to send that to this committee? I am just guessing, but I think that we may want to look at the command paper, and what is going to be in the command paper, at some stage in the future.

[224] **Jocelyn Davies:** Minister, is that okay?

[225] **Jane Hutt:** Yes, I am very happy to do that.

[226] **Jocelyn Davies:** You have been exploring new and novel ways of financing various projects and so on? How do these borrowing powers sit with your new projects?

[227] **Jane Hutt:** The earlier question on the supplementary budget was helpful on this, because the borrowing powers are just one of the ways in which we can fund capital. The new borrowing powers will sit alongside our capital programme and our innovative finance mechanisms, which we are already using to a great extent with our Welsh housing finance scheme. Also, we are developing aspects of the Wales infrastructure investment plan, such as the A465; it was a manifesto and programme for government commitment that we would do this through a non-dividend mechanism, and that is just the start of innovative finance. So, the borrowing powers have to sit alongside a much bigger requirement for capital. Obviously, the borrowing will count against our ceiling and will have to be repaid. We have to use those borrowing powers carefully, but we think that we could still do that. In terms of the cuts to capital programme, anyway, we need those borrowing powers and we need to continue with our innovative finance.

[228] **Jocelyn Davies:** Obviously, you have a responsibility to monitor borrowing right across the public sector, so are you confident that the total amount of borrowing across the public sector in Wales will remain affordable?

[229] **Jane Hutt:** We already keep a close eye on borrowing across local government in Wales. Obviously, it is governed by a different code—the prudential code. So, it is very much up to local government to ensure that its levels of borrowing on its local assessments are prudential. We have a low debt on PFI, so we would handle a higher borrowing commitment than is in the draft Bill. So, our borrowing at this stage will not make a big difference to the stock of Welsh public sector debt or affordability.

[230] **Jocelyn Davies:** Okay. Are there any other questions from Members? I see that there are none. Minister, thank you very much for attending this morning. As normal, we will send you a transcript, of both sessions, and perhaps you will be good enough to check it for factual accuracy.

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

10:42

Papurau i'w Nodi
Papers to Note

[232] **Jocelyn Davies:** Before we go into private session, there are a couple of papers to note. You will notice that we had a response from Angela Burns on behalf of the Assembly Commission on the supplementary budget. Is everyone happy to note that? We have also had a reply, as I mentioned earlier, from the Secretary of State for Wales about the draft Wales Bill. Are you happy to note those papers? I see that you are.

Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public from the
Meeting

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

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).

[234] I see that Members are happy.

Derbyniwyd y cynnig.
Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 10:42.
The public part of the meeting ended at 10:42.