



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

**Y Pwyllgor Cyllid
The Finance Committee**

**Dydd Llun, 22 Tachwedd 2010
Monday, 22 November 2010**

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi 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 pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Lorraine Barrett	Llafur Labour
Angela Burns	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Rosemary Butler	Llafur (yn dirprwyo ar ran Ann Jones) Labour (substitute for Ann Jones)
Chris Franks	Plaid Cymru The Party of Wales
Andrew Davies	Llafur Labour
Brian Gibbons	Llafur Labour
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives
Janet Ryder	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Y Gwir Anrhydeddus/The Right Honourable Danny Alexander AS/MP	Prif Ysgrifennydd y Trysorlys, Llywodraeth y DU Chief Secretary to the Treasury, UK Government
Paul Doyle	Pennaeth yr Uned Gwledydd Datganoledig, Trysorlys ei Mawrhydi Head of the Devolved Countries Unit, HM Treasury

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

John Grimes	Clerc Clerk
Catherine Hunt	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 3.01 p.m.
The meeting began at 3.01 p.m.

Ymddiheuriadau a Dirprwyon
Apologies and Substitutions

[1] **Angela Burns:** I welcome everyone to this meeting of the Finance Committee on Monday, 22 November. Before we start, I will run through the usual housekeeping arrangements. I remind you that you are welcome to speak in Welsh or English, and that headsets are available to hear the interpretation. I also remind you to switch off all mobile phones, iPods and every other gadget that we seem to have these days. If the fire alarms go off, please follow the ushers and do as they request. I remind our visitors that they do not need to touch the microphones, which operate themselves. Rosemary, I welcome you as Ann Jones's substitute.

3.02 p.m.

**Prif Ysgrifennydd y Trysorlys
The Chief Secretary to the Treasury**

[2] **Angela Burns:** We have with us today the Chief Secretary to the Treasury and Member of Parliament, Danny Alexander. Danny, I ask you to introduce your colleague for the record, and, and if you want to make any opening remarks, you would be more than welcome to do so.

[3] **The Chief Secretary to the Treasury (Mr Alexander):** Thank you for the invitation to be here. I introduce Paul Doyle, who is here with me today. He is the head of the devolved countries unit at the Treasury. The only thing that I wish to say by way of introduction is that I gather that I am the first Treasury Minister to appear before this committee. It is a great honour and privilege to be here, and I hope that I can assist you with the inquiries that you are undertaking into the spending review and the budget matters that you are considering at the National Assembly.

[4] **Angela Burns:** It is a pleasure to have you here, because it gives us a chance to ask you at first hand some of our questions. I have had a pre-meeting with the committee members, and we have decided to concentrate on the comprehensive spending review and other related issues for the first section of the meeting. In the second half of the meeting, we will ask more general questions about fiscal responsibility, the Barnett formula, and so on.

[5] **Mr Alexander:** May I remove my jacket?

[6] **Angela Burns:** Yes, you may. It is warm in here, actually.

[7] Can you describe the input that Wales had in the comprehensive spending review process?

[8] **Mr Alexander:** Certainly. With respect to the Welsh Assembly Government, we have regular meetings at ministerial level. I speak to Jane Hutt from time to time, about matters including the spending review. I have regular meetings with the Ministers for finance of the devolved administrations—the so-called finance Ministers' quadrilateral meetings. I think that three of those took place during the spending review period, but certainly during my time as Chief Secretary to the Treasury. During those meetings, we shared information and had a chance to have discussions about the issues on the table. There is regular contact between my officials in the Treasury and officials within the Welsh Assembly Government, and so, between all that, there was a lot of contact during the process. Cheryl Gillan, the Secretary of State for Wales, also played a role in these discussions as a member of the Cabinet, and she made her views known on key issues. So, I think that there was very good engagement with Wales, as well as with Scotland and Northern Ireland.

[9] **Angela Burns:** Thank you for that, because it clarifies one particular point. We noticed that the Public Expenditure Committee of Ministers, the Permanent Secretary's spending review group, and the independent challenge group were three key groups that advised you on the CSR process. However, there appeared to be no representation from Wales on any of those groups, and we wondered why that might be the case. If there was no such representation, would you consider including Wales in those powerful commentators on the CSR in the future?

[10] **Mr Alexander:** In relation to the spending review process, we tried to design a

collective process that enabled Ministers from across the Government to be involved at different stages. The Cabinet had numerous discussions on the spending review, and the Secretary of State for Wales was able to take part in those. With regard to the Public Expenditure Committee, we set up an arrangement whereby Ministers became eligible to join the committee upon settling their department's budget. So, that was how the composition of the committee evolved. The Secretary of State for Wales and the Welsh Assembly Government had plenty of opportunities to engage with and influence the process. I personally found the discussions that I had about the issues affecting Wales very valuable indeed in relation to the process.

[11] **Angela Burns:** Thank you for that, because I know that members of the committee have concerns that Wales's voice was not heard. I will leave it to Janet and Brian to take this forward, and to talk about business rates.

[12] **Janet Ryder:** You will be aware that Wales is treated significantly differently from Scotland and Northern Ireland in the retention of non-domestic rates that are paid in the respective countries. What consideration have you given to continuing the present situation or perhaps altering it?

[13] **Mr Alexander:** You are quite right to say that there is a difference, and it is that difference in non-domestic rates that accounts for the small difference in percentage terms between Wales, Scotland and Northern Ireland in the overall settlement. The difference relates to how non-domestic rates are accounted for within the national accounts and therefore the spending review. Are they counted as departmental expenditure or as annually managed expenditure? This was a discussion that took place first with the Welsh Assembly Government at the time of devolution, and it has been discussed on several occasions since at official level. That was to see whether the Welsh Assembly Government wished to continue with its treatment of non-domestic rates or to change them to the system used in Scotland and Northern Ireland, where they are regarded as annually managed expenditure, which means that the devolved administration takes on a bit more risk. On the other hand, it alters the comparability factor in the context of the Barnett formula, which is what caused the difference. I am very open to having that discussion again, given that some of the powers in relation to this are included in those powers that will be the subject of the national referendum in Wales in March. That might be a good time to reconsider it, but I would be happy to have that discussion. However, as I said, it is a discussion that has happened on a number of occasions over the past few years, and on each occasion the decision has been made by the Welsh Assembly Government to continue with its treatment of comparability as set out in the statement of funding policy.

[14] **Janet Ryder:** So, you would be open to further discussions on that. However, I am intrigued that you link it to the referendum, which is looking purely at consolidating the situation as it stands.

[15] **Mr Alexander:** I cannot speak for previous Governments and their reasoning as to why they came to this view about how to treat non-domestic rates in the Welsh context, but, as I understand it, by treating them within the context of departmental expenditure limits, within the context of the Barnett calculation, it in effect insulates the Welsh Assembly Government against the risk of changes in-year, and of not collecting as much money as it would expect. However, if you treat the rates as annually managed expenditure, the devolved administration takes a risk but it also gets the benefit if additional business rates income comes in, which is the situation as it applies in Scotland and Northern Ireland. I would be very happy to have that discussion at any point. If Jane, one of her ministerial colleagues, or others would like to raise that at a future date, I would be happy to continue that discussion.

3.10 p.m.

[16] On the referendum, as I understand it, one area in which the powers are to be formalised through the referendum is local government, and so that might provide a good excuse to have that conversation.

[17] **Brian Gibbons:** On the comprehensive spending review, I believe that you state in the document that the money that the devolved administrations have is essentially driven by the Barnett formula, and that the fact that Wales ended up at the bottom of the pile of devolved administrations was just down to the luck of the Barnett formula. However, you have made exceptions for Scotland, in relation to the fossil fuel levy and the promise of £0.25 billion vis-à-vis the green bank. You have also made exceptions for Northern Ireland vis-à-vis the Presbyterian Mutual Society, and other sums that you have given, although I am not clear on what basis you gave those extra sums, over and above those to the Presbyterian Mutual Society. However, in the section on the comprehensive spending review, Wales just got a wing and a promise: we will look at Barnett in the light of the Holtham report, but there is no hard cash. What was so exceptional about Scotland and Northern Ireland that was not about Wales? I am sure that there are many exceptional circumstances in Wales that would justify an equally lenient attitude to be taken.

[18] **Mr Alexander:** On Wales coming out worst from the Barnett formula, that was entirely accounted for by the question that your colleague asked about the treatment of non-domestic rates and the comparability factors that are applied. That has a significant impact because of the amount of money that is involved in collecting non-domestic rates, and so that then has an effect on the allocation for Wales. If you are interested in more detail on that, the statement of funding policy, which was published alongside this—and I think that it is section 14, from memory—gives more detail on precisely how that is worked out, and the comparability factors are also set out in that document.

[19] The two points that you mention are rightly regarded as particular and exceptional items—one to Northern Ireland, and one to Scotland. There are serious problems affecting Presbyterian Mutual and, following discussions, we felt that it was right to seek to resolve those, partly through a grant and largely through loan arrangements. The fossil fuel levy issue is particular to Scotland; as you know, fossil fuel levy spending is not devolved to Wales. That issue had been raised on numerous occasions in the past under the previous Government, and we had set out in the coalition agreement that we would seek to resolve it. So, in no sense were we seeking to give preferential treatment to Scotland or Northern Ireland, as I think you implied. That was not the motivation. There were two particular problems that required particular solutions, and so, in the spending review, we sought to solve those problems that had been brought to our attention. In the case of the Presbyterian Mutual and in the case of the fossil fuel levy, we needed to deal with an anomaly in the financial system that had built up over time.

[20] **Brian Gibbons:** So, in principle, the Assembly Government or the Secretary of State for Wales could bring a strong enough exceptional case to you, such as the consequences of the welfare cuts, which will disproportionately hit Wales because of the high levels of the population who are on benefits. In the Welsh context, I think that that would be an exceptional circumstance. Are you saying that you would have no problem in principle dealing with exceptional circumstances, and that you are open to the argument being made? If so, was that argument being made?

[21] **Mr Alexander:** I would divide my answer into two parts. If Jane Hutt, or one of her colleagues, or the Secretary of State for Wales would like to make an argument to me, I will happily listen to it. I cannot prejudge my answer, but I will happily enter into that conversation. I have enjoyed a good, constructive, positive working relationship with Jane and with the Secretary of State for Wales on those sorts of discussions. So, I have no problem

with those sorts of issues being raised. However, I am bound to say that I do not regard the welfare reforms as exceptional in the way that you suggest.

[22] The purpose of the welfare reforms is precisely to address the failure over several decades to try to assist people out of benefit and in to work. Wales has, unfortunately, high levels of worklessness, for historical reasons in many cases, and high levels of claims of certain benefits; again, I am sure that that is in part, at least, for historical reasons. The reforms that we are putting forward are designed to give people greater incentives to find work, but also to give people greater assistance to find work, through the work programme that we are establishing and for which we provided funding in the spending review. So, rather than being to Wales's disadvantage, I would have said that a successful programme of welfare reform, which genuinely helps people for the first time to get off benefit, out of dependency and in to work, thereby giving them a chance to secure independence for themselves, would be to Wales's advantage.

[23] **Brian Gibbons:** So, on a pro rata basis, in line with Northern Ireland and Scotland, we would have had an extra £200 million to deliver that. How much extra money did we actually get to deliver precisely the package that you describe? My argument would be that we have probably lost a considerable amount of money. You argue that we have a particular historical legacy, but we are actually going to get less resource to deal with that historical legacy—unless you are in a position to tell me where the extra resource is.

[24] **Mr Alexander:** I do not think that that is the case. For a start, Department for Work and Pensions spending is a reserved matter and benefits expenditure, in particular, is a reserved matter. What we are seeking to create in the work programme, about which more details will be announced by the relevant Minister in due course, is a mechanism whereby welfare-to-work providers are paid by results to help people off benefit and in to work. That means that, if someone is helped off incapacity benefit and into a job, we, as the Exchequer, and the country as a whole, benefit in terms of reduced benefits payments, the individual benefits from going in to work and society benefits, too. The work programme will seek to share some of those welfare savings with the organisation that has helped those people into work. So, clearly, with a significant benefits population in parts of Wales, there are opportunities for helping those people to get ready for work and in to work. Clearly, the providers who are delivering that benefit—presumably based in Wales, in some cases—would be paid by results if they were successful in getting people into work, which I assume is what we would all want to see. However, it is not devolved spending in that sense; it is provided through the benefits system, which is a UK-wide system, and the DWP departmental expenditure line, which is also reserved.

[25] **Brian Gibbons:** The point about benefits was not particularly the line that I was taking. Other colleagues will raise the possible exceptional items that we would be looking for, such as investment in infrastructure, which is needed to boost Wales's economy. We can have an argument about the benefits system, but a substantial sum of some hundreds of millions of pounds was given to the other devolved administrations for exceptional reasons, and there are exceptional reasons why we need infrastructure investment here in south Wales, or Wales in general. There does not seem to be any willingness to be up front in Wales, as has happened in the other devolved administrations.

[26] **Angela Burns:** I will just expand Brian's point to include Peter and Chris, because I know that they have particular examples that they wish to discuss with you.

[27] **Peter Black:** I was going to ask about the Holtham issue, in terms of borrowing—

[28] **Angela Burns:** Were you not going to talk about the housing subsidy? I know that Chris was going to talk about infrastructure.

[29] **Peter Black:** On housing, you know that the coalition Government has announced that it wants to reform the housing subsidy system. Wales has been semi-detached from that since 2004, but we pay a substantial sum of money to the Treasury, which comes out of housing revenue accounts; it was about £90 million last year. Would Wales be included in the reform of the housing subsidy system? Would there be a chance of us repatriating some of that money, which could then be used to invest in council housing or new housing around Wales?

3.20 p.m.

[30] **Mr Alexander:** You are quite right to say that we are seeking to reform the housing revenue account system in a fiscally neutral way, to try to allow authorities to keep more of the income from their housing. I would be very happy, at your suggestion, to respond positively to any idea that might come from the National Assembly or the Welsh Assembly Government to take part in those reforms. Clearly, it is a matter that would have to be discussed, but as we are now in the process of examining this—Eric Pickles’s department has responsibility for how we go through this housing revenue account reform—I would say that this is a good time to open up that conversation, to see whether Wales wants to take part in that reform, with the benefits that you describe. So, certainly, I would be very happy to respond positively if that suggestion was put forward and to put the relevant Minister or committee in touch with the relevant Minister in the UK Government. I think that that would make a great deal of sense at the moment.

[31] **Peter Black:** Have you had any approaches from the Welsh Government so far on this?

[32] **Mr Alexander:** After this meeting, I am going to see Jane to have a conversation with her about some issues, and I gather that this may be one of the things that she wants to raise. I would very happily respond positively if and when she does.

[33] **Angela Burns:** Chris, picking up on Brian’s point, you were going to raise some issues to do with infrastructure.

[34] **Chris Franks:** My main question is: what measures are there in the CSR to promote rebalancing of the economy, geographically and sectorally? I am aware that there are specific commitments in the CSR: London Crossrail, London Underground, the high-speed link from London to Birmingham—you will notice that there is one city constantly mentioned in this—and points north. As far as I am aware, there are no comparable examples of substantial capital investment in Wales. I am thinking particularly of the electrification of the line to Swansea. Over and above that, I believe that there are three major initiatives in the world of science. Again, they are all in the London area—in London, Oxford and Cambridge. You claim that you want a more regionally balanced economy, but, in the list that I have we do not figure at all. We are talking about billions of pounds. You are aware of the capital investment that was potentially available with regard to St Athan and the Severn estuary. It seems that Wales has lost everything and gained nothing. How does that stack up against your claim that you want to rebalance the economy?

[35] **Mr Alexander:** I think that to say that Wales has lost everything and gained nothing in the context of the spending review is a bit of an exaggeration, if I may say so, in the most polite and respectful way that I can to this committee.

[36] **Chris Franks:** I would like to hear a few examples.

[37] **Mr Alexander:** Wales has had a settlement that is in keeping with that for everybody

else. I do not want to hide from the committee that these are very difficult decisions and that we have the largest budget deficit in our country's history. We have the largest budget deficit in Europe outside Ireland, and the largest budget deficit in the G20. The worst thing possible for Wales and the rest of the United Kingdom would have been to not take the action that we have to ensure financial stability in the economy. That said, let me come to your point. First, you asked what we are doing to support growth and rebalance the economy. I can answer that question first and then go on to the Welsh examples, if that meets with the committee's approval.

[38] In the approach that we took, particularly to capital spending, in the context of a very substantial reduction in capital spending, we sought to focus the resource that we had on those areas of expenditure that we regarded as being most important for economic growth. For example, transport capital spending is actually going to be greater over the next four years than it was over the last four years, because, even within a much tighter capital budget, we felt that it was important, on the basis of all the economic evidence that we looked at, to continue to invest positively in the transport system. I would stand by that judgment as something that is genuinely about supporting economic growth across the whole country. If you look at page 25 of the spending review document, you will see a map that gives examples in every single part of the United Kingdom of capital expenditure in those parts of the country precisely to support economic growth.

[39] You listed projects in London, but you could quite easily have listed projects in any other part of the United Kingdom, from the Mersey Gateway bridge to the M4/M5 hard shoulder running and variable speeds north of Bristol, to the Leeds station improvement, to the A11, to superfast broadband pilot schemes in various parts of the country—

[40] **Chris Franks:** You will mention Wales in a minute, will you?

[41] **Mr Alexander:** Of course I will. First, in terms of rebalancing the economy, we sought to focus our investment on capital, and we sought to focus investment particularly on the environmental sphere. A substantial amount of money has been set aside for the green investment bank to invest in renewables, which has great potential to benefit Wales. We have maintained the Network Rail capital settlement, so that, over the next four years, there will be significant amounts invested in railways. For example, the rail signalling renewal programme between Newport and Cardiff will go forward.

[42] **Chris Franks:** With respect, that was agreed beforehand. You just have not cancelled it.

[43] **Mr Alexander:** It is part of the programme that we have maintained in response to what is the worst set of financial circumstances that we have experienced as a country since the second world war. The idea that that is not a positive choice for Wales is wrong. Many of these things are now devolved to the Welsh Assembly Government—choices about capital investment in roads, for example. We sought and found space within our spending approach to create a regional growth fund, the purpose of which was to focus additional spending in England on those areas that are most dependent on the public sector. The Welsh Assembly Government was entirely free to do the same, but decided not to create a regional growth fund to focus expenditure on supporting those areas within Wales that are most dependent on the public sector. My point is that there are choices available; we have made some of those choices, but there are other choices that are a matter for the devolved Government, and it is free to make those choices within the resource envelope that it has.

[44] **Angela Burns:** I will bring in Rosemary very quickly with a supplementary question. I will then come straight back to you, Chris.

[45] **Chris Franks:** All right.

[46] **Rosemary Butler:** It was very interesting to hear you say that the Welsh Assembly Government had choices. The figures that I have show that Wales has done worse than the rest of the UK. According to the figures, there was a 41 per cent real cut for Wales compared with 38 per cent for Scotland, and 37 per cent for Northern Ireland. The UK average was a 29 per cent cut. It strikes me that the Welsh Assembly Government's choices are cut off before we go any further. You talked earlier about fairness, but it strikes me—looking at it from this side of the Severn—that fairness seems to stop at the Severn bridge.

[47] **Mr Alexander:** I would not accept that at all. I think that I have already explained some of the choices that we have made that I think will help to support people in Wales and are fair. One of the reasons why capital expenditure is cut in the devolved areas more than across the UK as a whole is that, in certain reserved areas, such as defence, we have maintained capital spending. Therefore, for example, in continuing with the future strategic tanker aircraft, which is a significant investment, the wings are constructed in Wales, supporting jobs in Wales. Through our defence programme, we are also supporting jobs in Wales. Given that significant amounts of capital spending go through reserved departments, the cuts are perhaps greater to capital. However, we did say when we came into office that, although it was necessary and unavoidable to reduce the deficit further and faster than had been suggested by the previous Government, the cuts in capital spending would be no greater, and in fact are now slightly less, than that planned by the previous Government. Under the previous Government, you would have seen just as much reduction in capital spending, if not more. We have also said that we are open to switches from resource to capital from the devolved administrations. Again, the Welsh Assembly Government is free to make suggestions along those lines.

[48] **Rosemary Butler:** I do not wish to pursue it, Chair, but we would have had a Severn barrage, and we would certainly have had the investment in St Athan. It strikes me that your defence cuts are affecting Wales more than anywhere else.

[49] **Nick Ramsay:** Rosemary Butler just said that we would have had the Severn barrage—

[50] **Lorraine Barrett:** We would have had a chance of it.

[51] **Nick Ramsay:** I am sorry, there is a different view. That is quite different from saying that there would have been a Severn barrage.

[52] **Rosemary Butler:** Okay, I will withdraw that. However, we are definitely not having it now, so there is no debate.

[53] **Nick Ramsay:** We definitely were not having it in any case.

[54] **Angela Burns:** I think that the comment is that the Severn barrage was still up for discussion. There are still an awful lot of people who are for it, and a lot of people who are against it.

[55] **Mr Alexander:** Yes, and we have decided not to go forward with it. That is a fair point.

[56] **Angela Burns:** No consensus was reached.

3.30 p.m.

[57] **Mr Alexander:** However, on St Athan, which was mentioned—

[58] **Angela Burns:** It was very important to us.

[59] **Mr Alexander:** It is a very important issue and, sadly, we reached a position where we did not think that the company involved was able to develop an affordable solution. We still see great benefits in the co-location of defence training. We need to work through that in a way that ensures that what we are doing is affordable within the defence settlement, but it is fair to say that St Athan is still the preferred location for co-location. No doubt the Ministry of Defence will make announcements in the new year about how we take that particular issue forward.

[60] **Angela Burns:** Chris, do you have more to ask on infrastructure?

[61] **Chris Franks:** I am disappointed, Chief Secretary, that when you come to the National Assembly for Wales's Finance Committee, you give us examples of what is happening in Leeds and Merseyside. I do not begrudge them their investment, but in answer to my question you could only grasp at a programme that has been committed to and is well under way, namely the improvements to the track to Cardiff. That has been on course a substantial amount of time. In addition, you go no further than Cardiff. Part of the *raison d'être* of the CSR is to grow the economy throughout the UK. You have not said anything about the Valleys, Swansea, Ceredigion or Anglesey. Where is the spread?

[62] **Mr Alexander:** Part of the *raison d'être* of devolution is that we have a Welsh Assembly Government that is responsible for delivering in a whole range of authorities, many of them in areas that you have listed. So, it is not for me to list all the things that are happening in every area, but in Anglesey, for example, we are maintaining RAF Valley in the context of significant defence cuts. I mentioned in answer to another question the rail-signalling improvements that we are carrying out. We have sought to make big investments in roads elsewhere in the country. You asked me as a UK Minister to explain our approach across the whole of the UK, and I was trying to refute your suggestion that our plans were biased towards London, which they are not. However, roads are a devolved matter, so it is clearly for the Welsh Assembly Government within its budget to determine its approach to investing in roads and other devolved matters. I, unfortunately—perhaps you would say fortunately—cannot take those decisions for it, nor would I wish to.

[63] **Andrew Davies:** I echo the Chair's welcome to you, Chief Secretary. I am glad to see the Treasury and the UK Government accepting at least one of the Holtham commission's recommendations with your being here this afternoon. Can I ask you about end-year flexibility—

[64] **Mr Alexander:** I would have come whether it had been recommended or not.

[65] **Andrew Davies:** Thank you, and we look forward to a continuing dialogue with the Treasury on all the Holtham recommendations. In the CSR announcement, you said that end-year flexibility and accumulated stocks of EYF were to be abolished by the end of this financial year. Can you explain the rationale behind that decision and say more about it, please?

[66] **Mr Alexander:** Certainly. We are looking at replacing the system of EYF with a stricter system of allowing underspends to be carried forward from one year to the next. It is basically part of our trying to have tighter financial control over what happens in public spending across the whole of the UK. People think that when EYF stock is built up, the money somehow sits in a bank account. It does not. It is money that has to be found if it needs to be drawn down. When the EYF system was created, it was not created as a savings account

for Government departments to build up stocks over a large number of years, but as a way of trying to deal with the problem that, quite rightly, was highlighted, which was that in an annualised budgetary framework, people would try to get the money out of the door in the last few weeks of a financial year, as they were not able to carry any of it over into the next year. We do not want to go back to that problem, which is why we will have a system of flexibility to carry underspends forward from one year to the next. The EYF system will end at the end of this financial year and we are honouring all the requests for draw-downs that have been made, including those made by the Welsh Assembly Government and, exceptionally, for the devolved administrations, we will allow the new flexible system for carrying underspends forward to apply from this year to next year, although that particular flexibility will not apply to departments within the UK Government. It is really about ensuring that we have as tight a control over our public finances as we can.

[67] **Andrew Davies:** I understand how the EYF system works. Indeed, it was introduced precisely to stop what you said was happening about getting money out of the door. I listened carefully to what you said about the requested draw-downs from Wales and the other devolved administrations. Does that mean that the Assembly Government will have access to the full accumulated stocks?

[68] **Mr Alexander:** The Welsh Assembly Government made requests earlier in the financial year for draw-downs, and we agreed those some time ago. We said at the time that we were not accepting further requests from any Government department for further draw-downs and we are now saying that we are seeking to move to a new system that does not allow stocks to build up, but still allows flexibility between financial years, precisely to avoid what you talked about. We have also said that, exceptionally, if there is an underspend this year, which there may be, the Welsh Assembly Government and the other devolved administrations will be able to carry that underspend forward into the next financial year, but there will be no further access to accumulated stocks across the whole of the Government.

[69] **Andrew Davies:** My understanding is that the accumulated stocks, including non-cash, amount to some £400 million. What is the value of the draw-down request from the Assembly Government? Does it equate to the whole of that £400 million?

[70] **Mr Alexander:** I do not have the numbers with me, but I am happy to write to the committee with the details, if you like.

[71] **Andrew Davies:** The reason I ask this is that this was money that was voted by the House of Commons and Parliament for the Welsh Assembly Government. It is not the Treasury's money, it is Welsh Assembly Government money. My concern is that, unless the Assembly Government has access to the full accumulated stocks of EYF, which allows the Assembly Government to manage budgets prudently—that includes capital, which, as my colleagues have pointed out, has been slashed by 41 per cent—the alleged flexibility that the Treasury claims is available will be reduced.

[72] **Mr Alexander:** The money was also voted on for departments. However, the position is that the overriding objective of our financial policy is to reduce the deficit. This year, we have a deficit of £150 billion. That means that, for every £400 we are spending as a country, we are raising only £300 in tax. That is a situation that we have to sort out. We cannot have a system going forward that would necessitate significant additional borrowing; that is why we have brought it to an end and are moving forward with a system that I think still offers considerable flexibility that will be of value to departments and to devolved administrations. However, given the scale of the problem of the deficit and the risks that that poses to the economy as a whole, I think that the decision that we have taken is right and fair.

[73] **Andrew Davies:** Chair, we are not a Whitehall department in Wales, we are a

separate jurisdiction. I wonder how the Chief Secretary would reply to the Scottish Parliament if he were asked the same question by a Scottish MP.

[74] **Mr Alexander:** What I said was that it was voted on for departments as well. So, all of the money to devolved administrations and Government departments are voted for by Parliament. What I am saying is that the overriding objective for United Kingdom financial policy is to reduce the deficit to meet the fiscal mandate that we have set out. I submit to the committee that, if we fail to do that, the problems for the Welsh economy, particularly for people on low incomes in Wales, would be considerably greater than they are at the moment.

[75] **Andrew Davies:** This is an issue of trust. This money was voted by Parliament to the National Assembly for Wales and the Welsh Assembly Government. The Treasury is unilaterally changing the rules. As a former Minister for finance, I have some familiarity with this. That money was voted for the people of Wales and the Welsh Assembly Government, and it is a constitutional issue if the Treasury is now withholding any of the money—I will not say all—that was voted by Parliament to Wales.

[76] **Angela Burns:** Can you to drop us a note saying how much it is?

[77] **Mr Alexander:** I will write to you with the precise numbers. It is part of the fiscal framework that, under devolution, is owned by the UK Government, as set out in the statement of funding policy, which we published again alongside the spending review and which, though not subject to approval, was subject to considerably more discussion at official and ministerial level between the UK Government and the devolved administrations in an effort to resolve as many of these sorts of issues as possible.

3.40 p.m.

[78] **Angela Burns:** I will write to you on this matter, because I would be interested to know what the sum is, and what is being held back or reabsorbed.

[79] **Mr Alexander:** I will gladly write to you on that point. I just do not have the numbers with me.

[80] **Angela Burns:** I would also like to know what the figures are for Scotland and Northern Ireland, and how much of their EYF they are able to retain or not.

[81] Brian, did you have a quick supplementary question? I am conscious of the time, and we have other areas to cover.

[82] **Brian Gibbons:** Yes. Andrew made a point in passing about capital. As the capital budget is so small, it is clear that we have to maximise all of it. Capital projects, as you realise, are subject to slippage. You have not said what the new system will be; will it be cognisant of the particular pressures that capital slippage can create? In the case of big capital programmes, for example, the consequences of not being able to draw down funds to cover slippage could be that they would end up being postponed indefinitely. Are you taking that into account? Can you provide assurances on that?

[83] **Mr Alexander:** Yes, very much so. It is an important point. We have not set out in full detail how the new system will work. We will do that in due course, and you will have a chance to look at that. The idea is to have a system in which underspends will be carried forward from one year to the next. For UK Government departments, that will be done by agreement with the Treasury; for devolved administrations, it will be done automatically. That will apply to underspends in the capital sphere also.

[84] **Brian Gibbons:** You said in relation to the policy framework that it is easier to convert revenue to capital. As part of your new policy, would you be willing to make special provision for that as well, if you were going to take a tough line?

[85] **Mr Alexander:** For converting revenue to capital?

[86] **Brian Gibbons:** Yes.

[87] **Mr Alexander:** Yes, we have said to the devolved administrations in the past that we are willing to consider those requests. That has existed in the past and we—

[88] **Brian Gibbons:** No, as part of the end-of-year flexibility package—

[89] **Mr Alexander:** You mean to convert an underspend in revenue into a future spend in the following year in capital.

[90] **Brian Gibbons:** Yes, for the reasons that Andrew mentioned. He said that the money was devolved, and that the capital budget is severely constrained. So, any slippage in capital can mean that major projects will never go ahead.

[91] **Mr Alexander:** The ability to convert revenue to capital is an automatic one, so I would see no problem in taking that into the context of the new framework as it applies to the devolved administrations. I will take that away and look at it.

[92] **Angela Burns:** Peter, did you have a quick question?

[93] **Peter Black:** I was just wondering by how much the Assembly Government was aiming to underspend this year. Brian has asked the question that I was going to ask.

[94] **Mr Alexander:** I do not know the answer to that question.

[95] **Chris Franks:** What are your views regarding the potential ability of the Welsh Government to borrow?

[96] **Mr Alexander:** I think that we will be coming on to that. That fits into to the answers to some of the other questions, and I will make sure that I address it.

[97] **Angela Burns:** Rosemary, did you have two quick questions to ask with regard to the budget process at present?

[98] **Rosemary Butler:** Yes. The Office for Civil Society has been funded to provide support for growing the big society. There has also been funding for a pilot scheme for the national citizen service initiative, which will aim to encourage young people to become engaged in social action in the community. You have also announced the £100 million transition fund to provide support for those organisations that deliver front-line services that will be affected in the short term by the spending cuts. It is unclear to me whether such support will be available in Wales. Can you reassure me that it will?

[99] **Mr Alexander:** I believe that those areas of spending are subject to Barnett consequential. So, the appropriate proportion under the Barnett formula is part of the spending allocation. I know that that is true in relation to the Office for Civil Society, and I am pretty sure that it is true in relation to the transition fund for the voluntary and community sector. I will double check that and include it in my letter when I write back to the committee.

[100] **Rosemary Butler:** What about the 25 per cent reduction in the funding for S4C?

[101] **Mr Alexander:** What about it?

[102] **Rosemary Butler:** As that funding will come from the BBC licence fee, I just wondered whether it was rolled up into anything that we on the Finance Committee are not aware of.

[103] **Mr Alexander:** It is obviously a saving to the DCMS budget, because the money has been taken on by the BBC, which I very much welcome. I hope that that will be a successful arrangement for S4C. So, it fits in within the overall spending framework and the way in which the departmental allocations are then prioritised. I do not think that it has any particular additional financial consequence other than the change that it means for S4C itself.

[104] **Angela Burns:** Before we leave the issue of immediate funding, I want to ask you a quick question that is quite topical at the moment. As the Chief Secretary to the Treasury, you are responsible for the delivery of public expenditure throughout the United Kingdom. On the southern Irish crisis, what impact, if any, will that have on the sums that are available to be spent and therefore the consequentials of those sums for Wales? Welsh people would like to hear your answer to that question, given its topicality. It has been on the news over the past few days and some people are saying that it is absolutely right for us to support our Irish colleagues, but others are saying that we need to put our own house in order first and are worried that it will mean less money, somehow, for Wales. So, I would like your overview on that, for the record, for the people of Wales.

[105] **Mr Alexander:** If you will forgive me, Chair, but the Chancellor is due to make a statement to the House of Commons on this in three-quarters of an hour, so I am not sure that it would be right for me to go into detail on this subject to this committee, before the Chancellor has had a chance to account to the House of Commons. As has been said, the situation is that the Irish have asked for support, and as a friend and neighbour of Ireland, we will potentially be involved in that. I do not think that there is much more that I can say, other than to reassure the people of Wales that our support to Ireland will not somehow reduce the amount of money that is available for public expenditure. It will not affect the envelope that has been set out in the spending review. Public expenditure has been set out for the next four years, and those numbers stand; they are unaffected by this situation.

[106] **Angela Burns:** Thank you. Those were the queries that were being raised on radio this morning, so I feel that the people of Wales might be reassured by your answer. Nick, may I ask you to take us into the next set of questions?

[107] **Nick Ramsay:** Yes, thank you, Chair. As you have probably guessed, this committee spent a fair bit of time looking through Holtham's report and his reasoning on where we are with regard to the current devolved financial settlement and where we might go in the future. We have already touched on borrowing, but I would like to ask you some more questions on potential borrowing powers. The Assembly is currently unable to borrow money, unlike some other bodies in Wales, for example local authorities, which have the ability to do prudential borrowing, if necessary, and even community councils, and other bodies in Westminster, although borrowing powers at a UK level is probably not a good point to raise—

[108] **Mr Alexander:** Too much—[*Inaudible.*]

[109] **Nick Ramsay:** Yes. [*Laughter.*] The Holtham review identified it as being rather anomalous, certainly in terms of capital projects, that beyond the block grant money given to the Assembly, we are unable to borrow any money. Have you considered whether the current situation is as it should be, and, putting aside the fact that at the moment, nationally, we have a massive borrowing problem, which is no fault of the current Government, whether it would

aid the future of devolution in Wales if a borrowing power were given to this institution in some way?

[110] **Mr Alexander:** I would see that in the context of some of the issues that were raised in the second Holtham report, and I have discussed some of those issues with Gerry Holtham, when he came to see me at the Treasury. In the context of the potential for greater fiscal freedom and the ability to raise taxation, for example, borrowing would potentially be a very sensible part of that package. That was part of the Calman recommendations for Scotland, in the context of a series of reforms, which were about giving the Scottish Parliament and Government additional financial powers and some sort of borrowing power that should sit alongside those. That was an anomaly that would need to be addressed, but in the context of giving the institution some sort of revenue stream that it would control itself and against which it could borrow. I would be very interested in having that discussion.

3.50 p.m.

[111] If there is a consensus within Wales, and across the parties within the National Assembly, that would welcome those sorts of greater financial freedoms in relation to taxation and borrowing, along the sorts of lines that we are shortly to start legislating for in relation to Scotland, then I would respond positively to that. There is a strong case to look at those issues of fiscal responsibility positively in the context of a strengthening devolution settlement, which will potentially be strengthened further by the referendum that has been mentioned by other members of the committee. However, it is very much a matter for you to come forward with proposals, either now or in the future. I, for one, would respond positively to that discussion being opened up.

[112] **Peter Black:** To follow on from that, you are taking through legislation as a result of the Calman report on Scotland and if you were to get cross-party consensus in Wales on fiscal responsibility and borrowing powers, would the timetable enable us to be included in that, or would you be looking for separate legislation?

[113] **Mr Alexander:** I think that it would need to be separate legislation, because there will be specific issues; there may be things that you would want to do differently and there would then need to be a process of discussion and debate. These are matters where there is a great deal of complexity for our officials to deal with about precisely how these things will operate in practice, and it will take time to work through those. I do not think that there will be any prospect of adding Wales to the Calman legislation, but, equally, a lot of the work on how to operate tax powers in a devolution settlement is being done in the context of preparing the ground for the Calman legislation, so this will not be virgin territory—it is an area to which a lot of thought has been given. As I say, it is not for me to promote a consensus in Wales; that is for you to do. However, I would say that responsibility is a big part of the agenda of the Government in Westminster—promoting responsibility is one of our core values—so if there is a strong demand here for a greater degree of financial responsibility, perhaps in order to allow borrowing powers, or for other reasons, and if that message comes forward loud and clear, then we will receive it and respond positively.

[114] **Janet Ryder:** Calman addressed two issues, did he not? He addressed constitutional issues and he addressed financial issues. Holtham addressed purely financial issues. Why are you linking financial issues to our referendum, which is purely constitutional? You said earlier that the Irish have asked for support, so you are giving the Irish support. We made our plea for support in Holtham very clear: Wales needs to have its funding base looked at. However, we are being told that we have to wait for the referendum. Why?

[115] **Mr Alexander:** I am sure that you are not suggesting that the financial situation in Wales is similar to that in which Ireland finds itself; I hope that you are not. As I understand

it, the purpose of the referendum is to cement and win public support for additional powers for the National Assembly for Wales—

[116] **Janet Ryder:** No. That is not what the question asks.

[117] **Mr Alexander:** The purpose of your referendum is to secure the devolution settlement. The purpose of Calman—which was a report with both constitutional and financial elements, as you say—is to secure the next step of the devolution settlement in a Scottish context. This is not a new point; previous Governments have taken the same view, that the devolution settlement evolves step by step. What I am saying to you today is that, if there is a demand—and I do not know whether there is a consensus; you can tell me—in relation to the additional financial powers that Holtham has suggested, and which we are providing for Scotland through the Calman process, then I would respond positively to that; of course I would.

[118] **Janet Ryder:** Holtham also asked for a new needs-based formula. The Holtham report made a very clear case that Wales is underfunded for the needs that it has. That is not linked to the devolution process at all. Wales has those needs, full stop. Those needs should be met by the Treasury. Why does Wales have to wait for a ‘yes’ vote in a referendum to get England to respond to our needs?

[119] **Mr Alexander:** What we have said is that at the time when the most important spending priority for the UK is to tackle the deficit, restore some order to our public finances, and deal with a difficult fiscal consolidation, it is not the time to open up a debate about reforming the Barnett formula. I am bound to say that the previous Government, which was in office for 13 years, had numerous opportunities to do so. The previous Secretary of State for Wales, as recently as 26 November 2009, made the statement that the Barnett formula has served Wales well over the years. We have been in Government for six months; the previous Government was in office for 13 years, and chose not to do anything at all about the Barnett formula in that entire period. Therefore, our principal priority in terms of economic and fiscal policy is the need to tackle the deficit, to get public spending under control, and to ensure that the country has financial stability going forward over the next few years. I do not believe that this is the time to open up what would be a technical, detailed and lengthy discussion about replacing the Barnett formula.

[120] **Janet Ryder:** So, what you are saying is that this discussion will not be opened up even if we get a ‘yes’ vote in the referendum.

[121] **Mr Alexander:** What I have been saying, as I said in answer to the earlier set of questions, is that there is a discussion going on, which was put forward in Gerry Holtham’s second report, about additional financial powers or potential fiscal devolution, if you like. If there is a consensus in Wales that you would want to take that forward, I would respond positively to that. However, in the context of public expenditure and having to make serious reductions in public spending—not just in Wales, but across the United Kingdom—which will command great effort and attention, this is not the right time to open up a debate about renewing the Barnett formula. That is what we said in the coalition agreement, in fairness.

[122] **Angela Burns:** Many Members want to come in on Barnett specifically.

[123] **Andrew Davies:** Chief Secretary, you referred to securing the devolution settlement—I thought that it was secure, unless you know something to the contrary. You also talked about opening up a debate. You obviously represent a Scottish constituency, but I must say that there has been a vigorous debate in Wales for many years, which has been led by your party leader and has included Members around this table. Therefore, the debate has already started. There is almost unanimous support, across all parties, for this issue, so I am

perplexed that the Treasury seems to be unaware of that. I must also point out that the former Secretary of State for Wales, the MP for Neath, together with the Assembly Government, negotiated an agreement with the Treasury so that it would recognise the Barnett squeeze or convergence. There was also an agreement that the Treasury would consider this, if convergence was going to affect funding in the future. Therefore, even the Treasury has acknowledged that the Barnett formula is flawed. However, it seems that the Conservative-Liberal Democrat administration in London is now going backwards, not forwards, as we did.

[124] **Mr Alexander:** You mentioned a few different issues there. First, there were benign economic circumstances for much of the last 13 years, and during that time—

[125] **Andrew Davies:** How about since 26 November 2009?

[126] **Mr Alexander:** During its time in office, the previous Government chose not to address the Barnett formula and took it off the table. We are faced with the most challenging set of financial circumstances that this country has seen for many a long year, and are having to introduce some tax rises and make significant reductions in public spending. That is challenging for the Welsh Assembly Government, for other devolved institutions, for the UK Government, and, most importantly, for the people who receive the services to which we are having to make changes. It is right that, when we are making changes on that scale, and with that impact, we devote all our time and attention to getting that process right. Therefore, I do not believe that this is the right time to open up a discussion about a fundamental review of the funding formula.

[127] On convergence, I believe that it is well understood that, over the next four years, we are not expecting to see further convergence, because of the direction in which public expenditure is going. I am happy to have discussions—as I have done—with Welsh Ministers for finance over the next few years on that subject of convergence, and I am not going to be close-minded on that subject, but I would observe that, given the direction of funding over the next few years, we are not going to see further convergence. That is something that could be taken on board in discussions over the next four years.

4.00 p.m.

[128] **Nick Ramsay:** On the issue of the Barnett floor, it is right to say that there is general agreement among members of the Finance Committee that it would be good if this could be looked at. I take on board your point that, over the next four years, because we do not have the Barnett squeeze operating, a floor would not necessarily be that helpful in the short term. Nonetheless, if you could still consider it as a potential for the future, we would be very grateful.

[129] As a member of this committee, Chair, I lament some of the tone in which this debate has been held. I wish to distance myself from Janet Ryder's earlier comments when she spoke about Wales getting the money it is owed by England. Let us be clear that when we talk about the UK Government, we are talking about the UK Government, and I do not believe that inflammatory language setting up differences between Wales and England is particularly helpful.

[130] **Janet Ryder:** I do not think that those were my words.

[131] **Chris Franks:** I will focus on the question of non-devolved capital expenditure—I will bring it to Barnett. For a number of years, I have tried to work out how something is determined to be non-devolved and therefore not subject to Barnett and how something is Barnettised. You are familiar with the concerns about the Olympic expenditure, which is generally recognised to be a huge economic regeneration project. That is fine, but I feel that

the people of Wales are making an unacceptable contribution to the regeneration of parts of London in that respect. Also, there is the question of Crossrail, which I have mentioned, and the science development at Cambridge, Oxford and London. The arguments that you and others are using might be sound, namely that they should be treated as UK expenditure and therefore not devolved. My argument may be sound, and the evidence, on balance, is with me. Who decides in the end? It is my understanding that the Treasury—perhaps that means you, these days—is judge and jury. What you say goes, and the reality is that there is no independent arbitrator to say, ‘Well, actually, Mr Alexander, Wales is being short-changed and should have its 6 per cent or whatever’. How can you reassure us that in the event of a dispute, fairness will prevail?

[132] **Mr Alexander:** There are quite a lot of things in that. The basis of the Barnett formula is set out in the statement of funding policy. All of the spending headings in each department are set out, and the comparability factor that is attached to them is set out so that people can see very transparently which elements of expenditure are subject to Barnett consequentials and which are considered to be reserved. Anyone can look at that, and there was considerable consultation and engagement between Treasury officials and officials from the Welsh Assembly Government and other devolved administrations in the preparation of that document. I am not aware of any disputes, apart from the one you have mentioned, having originated from that process in this spending review, although I am happy to be enlightened if you know of something. As I said earlier, the Treasury owns the fiscal framework within the United Kingdom, so ultimately, we determine public expenditure across the UK, but the Barnett formula is well understood by officials, not just in the Treasury, but in the devolved administrations as well. We have recently instituted a new dispute resolution procedure within the context of the arrangements that exist for the devolved administrations to formally link up to the UK Government, and that provides a process for the devolved administrations to raise disputes and for those to be discussed and, it is hoped, resolved.

[133] **Chris Franks:** So are you saying that, if the Welsh Government says, ‘No, we think that scheme should be Barnettised’, there is a process? That is what you are saying now. Who makes the final decision?

[134] **Mr Alexander:** As I have been clear with the committee, the UK Government owns the fiscal framework within the UK, so ultimately, you are quite right: it is a Treasury decision.

[135] **Chris Franks:** So, there is no change.

[136] **Mr Alexander:** However, in the spirit of the respect agenda, we have sought to have regular conversations and discussions about it. It is not as though we are deciding these things in secret. Certainly, at official level and ministerial level, we are trying not to cause surprises in that sense.

[137] With the Olympics, which you mentioned, there is a genuine dispute. One of the things that I sought to do early on in relation to the in-year spending cuts exercise was to ensure that the reductions in Olympic expenditure were not subject to Barnett consequentials. So, I put that matter right. It is well understood—certainly in my view—that the Olympic Games project is of importance to the UK as a whole. That was the view taken by the previous Government, and that is the view that we are continuing. It is also worth saying that post-Olympic expenditure, with the legacy campaigns and so forth, will be subject to Barnett consequentials. So, there is a big difference between the expenditure that is necessary to ensure that the games happen and are a great success, as I am sure we would all like them to be, and the expenditure that will take place afterwards to redevelop that part of London. There is a difference between those two things, and that is something that I set out at the quadrilateral meetings of Ministers for finance and in discussion with my ministerial

counterparts here in Wales.

[138] **Chris Franks:** Okay. You have given the committee an example of how an error was made with regard to £1 million or £2 million. You very generously gave us our money back. Do you have any other examples of where there has been a dispute and the judgment has been in Wales's favour?

[139] **Mr Alexander:** I have been Chief Secretary to the Treasury for five or six months, so I do not have any other examples from my time in office. I do not have access to the previous Government's papers. You may know of some things better than I do, but I dare say that, in its 13 years, there was plenty of time for mistakes; there were certainly plenty made in other forms of economic management.

[140] **Angela Burns:** I turn to Brian now. Committee, we have been quite well behaved till now. *[Laughter.]*

[141] **Brian Gibbons:** Yes, we will not respond to that throwaway remark.

[142] **Angela Burns:** You have made a few yourself.

[143] **Brian Gibbons:** There is a very interesting phrase in 'The Coalition: our programme for government'. It states:

[144] 'Depending on the outcome of the forthcoming referendum, we will establish a process similar to the Calman Commission for the Welsh Assembly.'

[145] There is a similar, almost verbatim, statement in the CSR. However, the wording is slightly changed, so I would like to explore what the wording means. When you say 'depending on the outcome of the forthcoming referendum', what are the implications?

[146] **Mr Alexander:** I guess that the implication is that it depends what the result of the referendum is.

[147] **Brian Gibbons:** Yes, so what—

[148] **Mr Alexander:** The view that you, as an Assembly and the Government—either the existing one or any new Government that takes office—would then take us to the route you want to pursue. This is not just a UK Government thing. If, in the light of a decision by the people of Wales to say 'no', it was nonetheless a matter of consensus across the entire Assembly that it wanted to continue the discussion about the sort of fiscal devolution that the second Holtham report is talking about—taxation and borrowing powers and so on—as I said, I would be willing to respond positively. However, it would be a matter for you and your colleagues in the Assembly to decide how you wish to respond to a decision of the Welsh people to vote 'no' in a referendum. It seems reasonable to allow space and time for that discussion to take place.

4.10 p.m.

[149] **Brian Gibbons:** So, that 'depending' really means, in the light of the result of the referendum, whether or not things like tax and so forth come into play.

[150] **Mr Alexander:** The reference in that section—

[151] **Brian Gibbons:** Hold on, let me just put my point—

[152] **Mr Alexander:** One thing that I meant to say is that that part of the coalition agreement refers explicitly to a Calman-like process, which was a commission that was established to take forward the question of fiscal devolution, tax powers, and so on. In a sense, as you quite rightly observed, the language in the spending review had evolved slightly. Given the second Holtham report and the work that has taken place in this area, some people took the language of ‘a Calman-like process’ to imply that we would somehow require a new commission to be established to do the same work again before this issue could be addressed. Given the work of the Holtham commission, I do not think that that is a requirement that we would put on at all, which is why the language has evolved slightly.

[153] **Brian Gibbons:** There is an absolute consensus across the political spectrum in Wales for a fair funding formula, as outlined by Gerry Holtham. I do not think that anyone in Wales disagrees with that, no matter what their political stripe. So, would it be fair to say that the wording of that phrase ‘depending on the outcome’ means that, regardless of the outcome of the referendum, we will get a fair funding formula? There is absolute consensus across the political spectrum in Wales. Would that be consistent with what is written there?

[154] **Mr Alexander:** No. As I explained earlier, the reference there is in relation to a Calman-like process—

[155] **Brian Gibbons:** Hold on—

[156] **Mr Alexander:** The reference in the coalition agreement, which is what you are asking me to explain, is in relation to a Calman-like process, which relates to the additional financial powers that I am talking about. Elsewhere in the coalition agreement, we also make clear that, as a Government, it is not our policy to re-open the question of the Barnett formula or the funding allocations within the United Kingdom while this very serious fiscal consolidation is happening. As I have explained in answer to earlier questions, we do not think that the time is right.

[157] **Brian Gibbons:** Quite honestly, that first phrase should really be scrapped because you are saying is, ‘Regardless of the outcome of any forthcoming referendum, until we’ve sorted out the UK finances, don’t bother knocking on our door because we’re not doing anything about it’. Unlike the two exceptions that you made for Scotland and Northern Ireland, the promise for Wales was on a wing and a prayer. You have just confirmed that the third, so-called exception really is on a wing and a prayer as it is conditional on the UK getting its global finances in place.

[158] **Mr Alexander:** I do not think that that is right. In answer to questions on the fossil fuel levy and the Presbyterian Mutual Society, I said that they were very specific, individual, exceptional issues. You are now saying that I should regard the entire funding allocation across the United Kingdom—

[159] **Brian Gibbons:** You did not—

[160] **Mr Alexander:** Hold on, may I finish the answer to the question? You are now saying that I should regard the entire funding allocation across the whole of the United Kingdom as an exceptional issue that, you would say, has a parallel in the Presbyterian Mutual issue in Northern Ireland. I would regard it as not being in that category at all. We have been clear about this from the very start of the Government that it is our collective view, across the coalition, that the funding formula is not a matter that we are seeking to re-open while this fiscal consolidation is happening. We do not think that that is the right time. Secondly and separately, we believe that there is a debate about greater financial powers of the tax sort, or the borrowing sort, which we are taking forward in Scotland, and where a consensus is reached in Wales that that is what you would like to do, we will respond very

positively. We are treating the two things separately for very good, sensible and prudent financial reasons.

[161] **Brian Gibbons:** I beg to disagree. If you look at 2.129 in the comprehensive spending review—I think that it is the part on devolved administrations—you will see that you do actually lump the three together. The first bullet point is the £250 million to the green investment bank; the second is the £175 million loan to Northern Ireland; and the third is Holtham. That is why I said at the very beginning that what you were offering us is a wing and a prayer in Holtham, whereas you were giving hard cash to Northern Ireland and Scotland. Now you are telling us that Holtham is very much on hold until the UK economy is sorted.

[162] **Mr Alexander:** I will not repeat the answers that I have given, because I have given the same answers to a number of questions. I am not sure whether that was a question—it was more of a statement. I could repeat myself again, if you want me to, Chair.

[163] **Angela Burns:** You have made your statement, so I might make the point to you on behalf of the Finance Committee. It may not alter what you intend to do, but as a committee and, in the main, as an Assembly, we believe that Barnett is unequal. Wales is not asking to be extra special compared with anyone else. We are one of the four nations that make up the United Kingdom, and we are simply asking for the same treatment as other areas. We have particular issues here and we seek a needs-based formula. The Barnett formula has run its course; that is acknowledged by experts up and down the United Kingdom. For you to say that the Government will not look at this over the next four years because you have greater priorities is acceptable in one sense, but in another sense it is unacceptable, because we have a shortfall. I do not want to use too strong a word, but there is a sense of Cinderella about the settlement that we get compared with the settlements that Scotland and Northern Ireland get. We talk a lot about the unity, cohesiveness and equality of the home nations. In fact, it would not just be Wales that would benefit from a needs-based formula. I understand that parts of England, such as the north-west, would also benefit. So, we are saying that there are areas of deprivation, in which people are really struggling with employment prospects, the quality of housing and the general package, and we have long sought and are urging—through you—the UK Government, while it is consolidating and trying to bring the country back on to a more even keel, to help to overcome this issue that we as a nation face. If anything, it merely emphasises the great difference or lack of parity between us and Northern Ireland and between us and Scotland. As I said, we are not asking for anything more, anything better or anything extra special. We are simply asking for parity and fairness, because the United Kingdom is a cohesive group of four nations going forward, but Wales feels on the edge on some issues.

[164] **Mr Alexander:** I am grateful to you for putting it in that way. I recognise that the argument that you have expressed is shared by the whole committee. I will take that away and reflect upon it. I would say in response that it is also important, given the scale of the changes that we are making to public finances over the next four years, that we maintain a degree of certainty for people across the entire United Kingdom about the funding allocations that they will receive, so that organisations, institutions and devolved administrations have the ability to plan over a four-year period. Given the savings that we have to make and the cuts that we have to impose in some areas, they need to be able to plan and take those plans forward with a degree of certainty. That is the balancing argument, but I will very much take away what you have said.

[165] **Angela Burns:** I am conscious that our time with the Chief Secretary to the Treasury is drawing to a close. Does any member of the committee want to raise a particular issue that we have not touched on?

[166] **Chris Franks:** This goes back to the first half, but I think that it is fresh. Part of the strategy of the CSR is to enable the private sector to grow strongly and to boost employment. I know that the Government and Government advisers are giving different numbers in terms of the number of public sector workers to be made unemployed—Lord Young says 100,000, while the Government says that it is a touch short of 0.5 million people. I take it that you accept the figure of 0.5 million. Can you give an indication of the number of public sector jobs that will be lost in Wales over this period? On the more positive side, which sectors will create new jobs and where will they be located geographically? We have heard a lot about problems across the Valleys and, indeed, in this city. I would like to know not only that jobs will be created in the private sector, but whether these will be spread across Wales.

4.20 p.m.

[167] **Mr Alexander:** That is a very important question and I am glad that you have asked it. The forecast is not a Government forecast. One of our early decisions was to create the Office for Budget Responsibility so that the business of economic forecasting—the forecast upon which the Government bases its decisions—is made independently and taken out of the hands of Ministers, so that Ministers can no longer amend the forecasts to suit their policies, but have to base their policies around the objective forecasts. The labour market forecast that it published in June—it will publish a new forecast at the end of this month, which I am sure you will be interested to see—forecast two things over the next four years. The first was that the head count in the public sector would be 490,000 lower over the course of the spending review period. That does not mean that there will be 490,000 redundancies; it could mean that posts are not filled and so on, as you are well aware.

[168] It also forecast that 1.6 million jobs would be created in the private sector in the same period. The Government has taken some steps in addition to try to support job creation in the private sector. We have made some tax changes, for example, to set the path of corporation tax falling. We have reduced the small firms rate and we will reduce the headline rate by one percentage point per year over the next four years precisely to encourage businesses to invest in Wales and elsewhere. We have put in place a national insurance break, which will apply to areas of the country outside the south, south-east and east of England. In Wales, for example, there will be a national insurance break so that, if you set up a new business, you will not have to pay national insurance for your first 10 staff up to £5,000 per head. That is a significant boost to people who might want to set up a business and create jobs in Wales.

[169] We have taken steps to support green industries, for example, through the green investment bank, and I know that Wales has considerable ambitions and opportunities in that area. Otherwise, I am not sure that is for me to sit here to say that a certain job will be created in a certain location. We have taken some steps. We are also trying to reduce the burden of regulation, particularly on smaller firms. We have set up a one in, one out process for regulations, so for any new regulation that is introduced, one old regulation will have to be removed. All of this will help businesses across the whole of Wales, not just in Cardiff, to create jobs over the next four years.

[170] **Chris Franks:** I am grateful for that reply. However, is it correct that you intend to reduce capital allowances? If that is true, it will hit the manufacturing sector, which is a significant employer in Wales, and you will divert those resources to other sectors, which will help the banking sector—as if it has not had enough money from us over the last year or so—which is predominantly based in the south-east of England. So, your taxation policies—correct me if I am wrong—are affecting us adversely and benefiting more prosperous areas of the UK.

[171] **Mr Alexander:** I do not think that they are. I do not think that that is a fair analysis of our policies. In the budget, we announced relatively modest reductions to capital

allowances, but, at the time, it was shown that the net effect on manufacturing was positive, because manufacturing firms will benefit from the other reductions that I outlined earlier. So, the net effect on manufacturing of that process is positive. We are particularly keen to promote manufacturing exports from this country as a way of supporting economic growth. You will be aware that we have engaged in some major missions to China and India to try to promote, as a Government, trading links with those countries. The Foreign Secretary has given Britain's diplomatic presence across the world the mission to be more commercial in its activities to try to promote British exports, including exports from firms in Wales. So, there is much to commend the Government's policy from the point of view of Welsh manufacturing.

[172] **Angela Burns:** Chris, do you want to come back on that, or are you happy with that response? We are running out of time.

[173] **Chris Franks:** I am not happy, but I will leave it at that.

[174] **Angela Burns:** Brian, you have time for a super-quick question.

[175] **Brian Gibbons:** Following the referendum, if we get a 'yes' vote, one continuing anomaly is the devolution of running costs in line with those devolved powers. What is your view on that? Are you in favour of devolving running costs with the power, because, if that does not happen, the capacity to deliver will be compromised?

[176] **Mr Alexander:** Do you mean the devolution of administration budgets?

[177] **Brian Gibbons:** Yes. With the transfer of powers, there is no consistent pattern in terms of devolving running costs.

[178] **Mr Alexander:** I am happy to consider that further, if you are not satisfied with my answer. However, the devolution of powers normally includes a baseline transfer of the administration costs when that function is devolved. Therefore, if the referendum is successful, and you are not satisfied with the proposals that come forward, I am sure that you or your Minister for finance will come back to me.

[179] **Brian Gibbons:** I do not believe that it happens consistently, but you have given a fairly positive answer, and I am grateful for that.

[180] **Angela Burns:** Thank you for your time today. It has been good to be able to talk to someone who is at the heart of the Treasury—you could not get much more at its heart than you—about some of these issues. I believe that you understand the committee's, and the Assembly's, strength of feeling regarding Barnett. Next year, following the Assembly elections, and the referendum, we might ask you back; it will probably not be me, but another committee, and another Chair. However, the Assembly's Finance Committee might ask you back, in order to take this matter forward, because we would like to keep knocking on your door regarding this issue. To take on Brian's point, by then, we will hopefully have had a successful referendum, in which case we will be talking further to you about the money to administer our powers. I will write to you asking those specific questions.

[181] Thank you for your time, and please apologise to the Minister for Business and Budget—it is entirely our fault that you are late for your meeting.

[182] **Mr Alexander:** Thank you for inviting me. I will gladly return, at an appropriate time, to answer questions from your successor committee.

[183] **Angela Burns:** Thank you.

4.27 p.m.

Cynnig Trefniadol
Procedural Motion

[184] **Angela Burns:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 10.37(vi).

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

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 4.27 p.m.
The public part of the meeting ended at 4.27 p.m.