



Cynulliad Cenedlaethol Cymru
The National Assembly for Wales

Y Pwyllgor Cyllid
The Finance Committee

Dydd Mercher, 14 Mai 2014
Wednesday, 14 May 2014

Cynnwys
Contents

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

Papurau i'w Nodi
Papers to Note

Bil Cymru: Memorandwm Cydsyniad Deddfwriaethol
Wales Bill: Legislative Consent Memorandum

Ymchwiliad i'r Arfer Gorau mewn Prosesau Cyllidebol: Sesiwn Dystiolaeth 1
Best Practice Budget Processes Inquiry: Evidence Session 1

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

Ymchwiliad i'r Arfer Gorau mewn Prosesau Cyllidebol: Sesiwn Dystiolaeth 2
Best Practice Budget Processes Inquiry: Evidence Session 2

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

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
Ann Jones	Llafur Labour
Julie Morgan	Llafur Labour

Eraill yn bresennol
Others in attendance

Jeff Andrews	Cynghorydd Polisi Arbenigol Specialist Policy Adviser
Jane Hutt	Aelod Cynulliad, Llafur (y Gweinidog Cyllid) Assembly Member, Labour (the Minister for Finance)
Andrew Jeffreys	Dirprwy Gyfarwyddwr Buddsoddi Cyfalaf Strategol, Llywodraeth Cymru Deputy Director Strategic Capital Investment, Welsh Government
Matt Denham Jones	Pennaeth Rheoli a Chofnodi Cyllidebau, Llywodraeth Cymru Head of Budgetary Control & Reporting, Welsh Government
Gareth Morgan	Dirprwy Gyfarwyddwr Diwygio Ariannol, Llywodraeth Cymru Deputy Director Financial Reform, Welsh Government
Dr Joachim Wehner	Ysgol Economeg a Gwyddor Gwleidyddiaeth Llundain London School of Economics and Political Science

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

Bethan Davies	Clerc Clerk
Gwyn Griffiths	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Martin Jennings	Y Gwasanaeth Ymchwil Research Service
Kath Thomas	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 09:01
The meeting began at 09:01

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Jocelyn Davies:** Welcome to this meeting of the Finance Committee. We have no

apologies today, and we are not expecting a fire drill, so if you hear the alarm, please follow the directions of the ushers.

Papurau i'w Nodi Papers to Note

[2] **Jocelyn Davies:** We have papers to note. Are Members happy with those? I see that you are, so we will move on to our first substantive item.

Bil Cymru: Memorandwm Cydsyniad Deddfwriaethol Wales Bill: Legislative Consent Memorandum

[3] **Jocelyn Davies:** We have the Minister with us today. I understand that you have some opening comments to make before we go to questions, Minister.

[4] **The Minister for Finance (Jane Hutt):** Thank you very much, Chair. I am very pleased to be here, appearing in front of the committee this morning for this very important opportunity in terms of the progress and scrutiny of the Wales Bill and the legislative consent motion. I just want to say in my opening remarks that you know that I am a strong supporter of the Bill. It takes forward most, though not all, of the recommendations of the cross-party Silk commission. It represents a major step forward for devolution, and I want to make the point that I very much valued our cross-party consensus on Silk's first report, because I think that it has given Wales a very strong voice on financial reform. Colleagues across parties know that I am keen to maintain that consensus as we take forward this agenda, and to maintain the shared understanding, which, obviously, through scrutiny, will be strengthened, to build a better financial settlement for Wales. Progress is being made. In Westminster, it has already cleared the Second Reading and the Committee Stage. Those are my opening remarks, because it is really hopeful that we will gain Royal Assent before the end of this Parliament, if not earlier. Of course, work begins then. The job is not done until the Bill is passed. However, securing the legislative consent of the Assembly is an important part of that journey.

[5] **Jocelyn Davies:** Thank you. We are considering the legislative consent motion because some parts of the Bill modify functions of the Assembly or of Welsh Ministers. So, that is what we are focusing on in the first part of our session today. However, I understand that we will of course be asking you questions later on another matter in relation to the broad thrust of the Bill. So, Minister, are you still in discussions about changes to the Wales Bill?

[6] **Jane Hutt:** Well, I am in ongoing discussions with the Chief Secretary to the Treasury about how we prepare for the devolution of, particularly, for example, non-domestic rates, which is the first key responsibility, as well as the practicalities of implementing the fiscal reforms that would be introduced by the Wales Bill. Our officials and Welsh Government lawyers are now closely in contact with their equivalents in the Wales Office and the Treasury and looking at the details. There are still technicalities that we have sought to clarify in terms of the Bill. So, we are having very close working discussions in terms of progressing positively with the Bill.

[7] **Jocelyn Davies:** Are any of those likely to require any more legislative consent motions?

[8] **Jane Hutt:** There is an issue, quite apart from our engagement, as the Bill progresses through Parliament. The next opportunity for any changes would be at Report Stage, which I believe should be around the second half of June. Clearly, if there were further amendments that came at Report Stage, although there is nothing at the moment—nothing from last week

has changed the legislative consent motion that I have put before you, as you will be aware—we would then have to issue a further legislative consent memorandum and a legislative consent motion. That would be the case if there were further amendments that would modify our existing consent. However, we are not aware of any planned changes at the moment.

[9] **Jocelyn Davies:** Okay. Thank you. I now call Julie.

[10] **Julie Morgan:** Obviously, if it is going to the Third Reading and then to the House of Lords, would you be looking for any changes to the Bill? Is there anything that you feel that you, if you could get the support of the Government, would want to be in the Bill that is not there?

[11] **Jane Hutt:** I do not think that there is any secret about our views. We wanted the entirety of the Silk commission report to be reflected in the Bill. Of course, it was not reflected in the draft Bill. Changes have been made from the draft to the Bill that actually has been taken through, introduced and scrutinised. I continue to highlight my views in terms of what we would like to see in terms of the full implementation of Silk, but we now have to watch how it progresses through Parliament.

[12] **Julie Morgan:** So, you have been given no indication that there will be any change.

[13] **Jane Hutt:** No. I have not at this stage.

[14] **Jocelyn Davies:** Obviously, Minister, the committee is looking at the wider issues, and we may very well have ideas for changes. Would we do that via you?

[15] **Jane Hutt:** I would be very interested to hear from you, and then we would have to have the opportunity to discuss how we would handle that. I do not think that there is anything new for me in terms of the issues that we feel could have been reflected, but if it comes from you, as a committee, we would want to discuss how we handle that together. We may come on to issues further on in scrutiny this morning that have a bearing on where we go next. However, obviously, it is the Bill that we are talking about today.

[16] **Jocelyn Davies:** I now turn to Mike.

[17] **Mike Hedges:** I am thinking about the practicalities. On devolved taxes, if we have them, what process will there be to determine the rates?

[18] **Jane Hutt:** We have to start with deciding how we design new devolved taxes. That is the start of the process. Obviously, we have the opportunity to replace the UK stamp duty land tax and UK landfill tax. So, policy starts first, obviously, in terms of what we want to do in terms of taking on the responsibilities, in terms of reform and opportunity for our economy and people. The setting of tax rates does come at a much later stage, of course, but I think that it is a matter of setting the policy first, and then the setting of tax rates is very much based on how we would evaluate risk and opportunity.

[19] **Mike Hedges:** Yes, because all taxes come with risk. You may get more or less than you expected. That is why we have a treasury function at Westminster and within local authorities to manage some of this risk. Is creating a Welsh treasury, in whatever form, part of the considerations?

[20] **Jane Hutt:** Yes. May I say, in response to the earlier question, Mike, that we have identified four key principles in terms of our future approach to tax policy? I have identified those, but I have realised today that it might be helpful if I circulate them again. This is very key in terms of policy and tax rates in the future. It is a matter of being fair to business or

individuals who pay taxes, being simple with clear rules that seek to minimise compliance and administration costs, supporting growth and jobs, which will, in turn, help to tackle poverty, and providing stability and certainty to taxpayers, with changes subject to proper consultation with stakeholders. If I could make sure that the committee has that on record, that would be helpful. We have to move forward in terms of the opportunities that we have, but the treasury function is key to all of this. I mean, to deliver that, you clearly need that treasury function identified.

[21] **Jocelyn Davies:** Peter, you wanted to come in on this point?

[22] **Peter Black:** Yes. In terms of the collection of taxes, obviously, the principle in collecting any taxes is that the cost of collection should be lower than the money that you actually collect. Gerry Holtham has published a very interesting paper today, under the Institute of Welsh Affairs, in which he suggests that landfill tax and stamp duty could be collected by local government, and pooled and redistributed in the same way as business rates. I was just wondering what your view is on that particular issue, and whether you are thinking along the same lines.

[23] **Jane Hutt:** It is quite fortuitous that Gerry Holtham has issued this very important Senedd Paper today, and, obviously, I very much look forward to considering that more carefully. I think that we are at the early stage in terms of how taxes should be collected. We are looking very closely at how they progressed with this in Scotland. There are a number of approaches that could be taken forward. Indeed, there are different collectors of taxes, clearly, and different collection methods for each tax, which could be considered. However, I think that the important thing about the Wales Bill, if we recognise it, is that it enables us to enter into agreement with Her Majesty's Revenue and Customs to collect and administer devolved taxes. It does not require us to do so, but it is there in the command paper, so we have to acknowledge that.

[24] In Scotland, they have decided to establish a new body—Revenue Scotland—which is overseeing the process of tax administration. I think that it is too early to say what would be the best option. This clearly goes back to my principles that we must progress in full and open consultation on this with our stakeholders, as well as with experts who we have brought together through the tax advisory group, and the tax forum—we have senior legal partners, experts in finance, tax, and policy, as well as our wider group of stakeholders across social partners as well as business. So, I am sure that Gerry's views will go into that for consideration at that point. However, we have to consult widely.

[25] **Peter Black:** I know that it is early days, but will you also be taking the opportunity of the Wales Bill to review issues such as how council tax operates, how business rates operate, et cetera, as part of that process?

[26] **Jane Hutt:** I think that this just demonstrates—as does Gerry's paper today—a whole new opportunity for thinking and progress. We have to look beyond, have we not, just getting these powers, to what the opportunities are? I think that it is a very stimulating paper that we need to look at very carefully. I do not think that we need to spend time on it today, but I think that one opportunity—

[27] **Jocelyn Davies:** What would be interesting then is whether the Bill gives you enough discretion so that you have choices to make? Which choice you take is one thing, but would the powers that are contained in the Bill allow you to take that sort of thing into consideration? I think that that is a matter of interest.

[28] **Jane Hutt:** Yes, certainly in terms of tax collection, that is an opportunity.

[29] **Jocelyn Davies:** Mike, did you want to come back to your questions?

[30] **Mike Hedges:** Yes. I think that some taxes—. Landfill tax is a classic example that is easy, because it is only going to be in one place, it is going to be collected by that one organisation, at one time, and it is unlikely to move, and, if it does, it will move as a whole. The difficulty of stamp duty tax in Wales is that, sometimes, it will cover cross-border areas: land may well be on the Neath Port Talbot and Swansea border, which is a very difficult one to find as you are travelling along. So, there would be problems of allocation with some of that if it was collected locally.

[31] So, what I am really asking is this: will you be producing a paper at some stage, not just with the principles, but with the method that you are going to use for collecting the different taxes? Furthermore, what is going to happen to them afterwards? Will they end up in the Welsh consolidated fund? Will they be kept for specific projects? Something like the landfill tax is fairly standard and you know how much, roughly, you are going to get in for it. For stamp duty, it is something that varies dramatically from year to year. While it is not very large, would that be used to support borrowing, for example, which means that you could manage both sides—the income and the expenditure—within one year, using it as part of the main fund where you possibly end up with either surplus or loss?

9:15

[32] **Jocelyn Davies:** Obviously, Minister, in the next session we will question you on the budget process, so some of this will no doubt be repeated there. However, will this legislative consent motion give you broad enough powers to allow these things to be taken into consideration?

[33] **Jane Hutt:** I consider—although I can be advised otherwise—that everything that Mike Hedges has said is possible in terms of options for the future.

[34] **Jocelyn Davies:** Okay. In terms of the receipts, will they end up in the Welsh consolidated fund or go directly to Ministers?

[35] **Jane Hutt:** Obviously, in terms of the Assembly's position, it is important that the receipts are in the Welsh consolidated fund.

[36] **Jocelyn Davies:** Ann, shall we go on to legislation to be brought forward?

[37] **Ann Jones:** Yes. Thank you, Chair. What options are you considering at the moment in terms of legislation that may be brought forward on the management of taxation and new individual taxes? Are you considering one Bill or several Bills? Any thoughts?

[38] **Jane Hutt:** We look forward to speedy progress with the Wales Bill and, once it gets Royal Assent, then—. Clearly, we are preparing and paving the way for legislation and looking at the options for it, but the decisions will lie ahead once we have got Royal Assent. Again, I know that I refer to Scotland a lot in terms of seeing how it has got on, which is very relevant, but it has the same package of fully devolved taxes as we will get, namely stamp duty and landfill tax. It has taken three Bills through Parliament: one on landfill tax, one on stamp duty and one on tax collection and management. So, that is useful, and I know that the committee is aware of that.

[39] I am clarifying with my officials the appropriate time for when we can feel constitutionally, if you like, confident to say, 'Right, we need to progress with this or that piece of legislation'. I understand that that would be around the time of the Second Reading in the House of Lords. That is the usual place, and we hope that will be in the not-too-distant

future—maybe even within a few weeks, in terms of the programme. I am sure that the committee will want to look at that. I think it is very important that you know that we are looking at this very carefully, particularly as we have to start with tax collection and management.

[40] **Ann Jones:** You mentioned that Scotland had looked at taking three Bills through, so are you working on—I do not want to call it the Scottish model; it is like saying ‘the Scottish play’, is it not—similar things or will you look at learning some lessons, so that it may possibly be fewer than three Bills? How are we going to know if, for example, you do an all-encompassing Bill, that that is not right and that we will have to come back and revisit it? It is about being able to programme effective legislation into what is already a very tight schedule for the Welsh Government at the moment.

[41] **Jane Hutt:** Yes. As I said, we have set up this tax advisory group. In fact, I issued a statement on 12 February on the tax advisory group. Clearly, they are external stakeholders. In a sense, your engagement is first and foremost, but we need to get this advice, as do you. We need to see what we need in Wales. This is about policy directions that will help, not only in terms of stamp duty land tax and our housing and construction sector, but also our economy in terms of landfill tax and clear policy links to that. So, you have to look at this in terms of the policies and how those would lead to reforms through legislation. However, there is no doubt that we will need a tax collection and management Bill—I do not think that anyone would be surprised to hear me say that—and we will need to get on with it.

[42] **Ann Jones:** So, we will need that, and I know that we are going to discuss budget processes a little later in the second session, but I was just wondering whether you are considering legislation for a new budget process.

[43] **Jane Hutt:** That is something that I think we need to talk through with you. I have been looking at how this is—. There are issues around the use of Standing Orders in terms of the budget process and, clearly, we need to look at timescales. Whatever we do would result in a change for Standing Orders, and, in terms of legislation and budgetary procedures, that is something that I think that we need to discuss together.

[44] **Jocelyn Davies:** Ffred, did you have a question?

[45] **Alun Ffred Jones:** You mentioned Scotland there, and Scotland is certainly leading the way and, indeed, changing UK politics, so how are you engaging with the Scottish Government to learn from its experience?

[46] **Jane Hutt:** I have obviously worked very closely with Scottish Ministers for finance since I have been in this role, not only through the work that we do together in our finance quadrilaterals, but through bilateral meetings as well. This does not relate just to preparations in terms of our Wales Bill, but to tracking through with them the implementation of the Scotland Act. I remember observing the Finance Committee in the Scottish Parliament, where the work of our Gerry Holtham was acknowledged and recognised by the chair of the Scottish Finance Committee, because, of course, it had got to the stage where it had decided and the UK Government had decided that it wanted to use Gerry Holtham’s method in terms of the impact on the block grant of income tax. So, we have worked very closely on the progress of devolution through these fiscal powers and, indeed, I have discussed with John Swinney, the Minister for finance, on many occasions how things are developing and progressing in terms of their engagement with their wider stakeholders as well as learning the lessons, where they are ahead of us, in terms of the Scotland Act, but we are getting close to them in terms of implementation.

[47] We have got to remember also, just in terms of timescales, with things like stamp

duty land tax, we have secured a switch-off in 2018; that is acknowledged in the command paper. That is very important. We have got quite a while to go before that switch-off and before we get our legislation through. It certainly took them in Scotland at least that much time, and even a bit longer, to get to that point—and we have got two elections in between—that they will get to in terms of switch-off. So we are learning lessons, but we are also involved in very useful consultations.

[48] **Jocelyn Davies:** Chris, you wanted to come in on this point.

[49] **Christine Chapman:** On learning the lessons from Scotland, Minister, are there any things in Scotland that you would not want to do?

[50] **Jane Hutt:** I think it is—. Well, on these matters—

[51] **Alun Ffred Jones:** Apart from the obvious one. [*Laughter.*]

[52] **Jane Hutt:** I will leave the others. I think that we need to look very carefully at things like, going back to tax collection and management, whether we need—. What is the purpose of something like Revenue Scotland, for example? It has oversight of the administration. This is where we, I hope with you, and our stakeholders and experts, are going to have to look at what works for Wales.

[53] **Jocelyn Davies:** Paul, you wanted to come in on this point.

[54] **Paul Davies:** In terms of learning lessons, apart from looking at Scotland, are you looking at any other models across the world in terms of helping you to introduce these new taxes?

[55] **Jane Hutt:** This is something, also, that I think is very relevant to the budgetary process. I look forward to hearing from you how you are looking more widely. I am certainly very interested in the Organisation for Economic Co-operation and Development and the work that it has done. Last week, I met with the Institute of Chartered Accountants in England and Wales, which also, for example, suggested that I might meet the Minister for finance from Sweden, I think it was. I can assure you that I am not going to be going around the world; I might invite the Minister for finance of Sweden to come to Cardiff. [*Laughter.*] Seriously, however, our officials are looking at every source of advice and specialism, and we also have to look at how much we are constrained within our settlement in terms of the UK Government framework and Treasury frameworks, and, you know, at what is realistic. Also—it is no secret or surprise—we had a lot of discussions last year with housing construction about stamp duty land tax, because, if you recall, we were still trying to make the case and press the UK to get on with it in terms of responding to Silk. There was an issue about stamp duty land tax, and were we able, and were we capable, and did we know what we were doing. We had them round the table, the key private housing constructors, as well as social housing partners, to talk about the need for reform of stamp duty land tax. We have expertise here on the doorstep, but we will certainly look beyond as well.

[56] **Jocelyn Davies:** Mike, did you have a question?

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

[58] **Jocelyn Davies:** Is it about the legislative consent motion?

[59] **Mike Hedges:** I hope so.

[60] **Jocelyn Davies:** We all do. [*Laughter.*]

[61] **Mike Hedges:** Many other countries in Europe and North America, to name just two areas, have gone through a similar process of having regional Assemblies, Parliaments, Länder, or whatever they are called in different places, collecting some of their money. Is there anything that has been learned from that? Is there anything more that can be learned from it? It is not just ‘for Wales, see Scotland’, I think, but ‘for Wales, see what has happened in an awful lot of the world’.

[62] **Jane Hutt:** I certainly want to reassure the committee that I am looking way beyond Scotland and Wales.

[63] **Jocelyn Davies:** The tax management Bill: is that likely to come in this Assembly term?

[64] **Jane Hutt:** Again, we are not far off being able to come to a view on that.

[65] **Jocelyn Davies:** Okay. Peter did you have any other questions?

[66] **Peter Black:** Obviously, there are a lot of far-reaching changes, both to the Assembly’s own procedures and in terms of legislation. What will the consultation process look like in terms of how you engage with the wider world, and how you take these changes forward?

[67] **Jane Hutt:** I think we need to discuss that with you, in terms of what your expectations would be. We would want to go out for consultation as soon as possible in terms of tax management and collection. Some of this will be for those who are specialists and are interested, as well as you being able to scrutinise effectively the options and opportunities. I would want to move, as soon as we feel confident, and constitutionally it is appropriate for us to say so, to come to you with an outline of how we would consult.

[68] **Jocelyn Davies:** Have you finished, Peter?

[69] **Peter Black:** Yes, thanks.

[70] **Jocelyn Davies:** Do you have room within the Government’s legislative programme to accommodate these if needs be?

[71] **Jane Hutt:** This will be for the First Minister, obviously, when we get to the point of clarity.

[72] **Jocelyn Davies:** Thank you. Minister, we have covered everything that we wanted to ask you about the legislative consent motion, so I think that we can now move on. Obviously, we have strayed into this a little bit anyway, but we will move on to budget best practice.

9:28

Ymchwiliad i’r Arfer Gorau mewn Prosesau Cyllidebol: Sesiwn Dystiolaeth 1 Best Practice Budget Processes Inquiry: Evidence Session 1

[73] **Jocelyn Davies:** I apologise, Minister, as I did not ask you to introduce yourself and your officials for that last session. We did have another official at the table then. Would you like to name the official who has now left the table, and then introduce the rest of them?

[74] **Jane Hutt:** I thank Gareth Morgan, who is the head of financial reform, and welcome Matt Denham Jones, who is my adviser on the budgetary process.

[75] **Jocelyn Davies:** You also have—

[76] **Jane Hutt:** Andrew Jeffreys and Jeff Andrews, whom you know well.

[77] **Jocelyn Davies:** Yes, they are usually with you. If you like, we will just go straight into questions on this one, Minister. I was going to ask you to summarise the progress of the Bill and ask you when you expected it to be passed, but I think that you have covered that in the last session. Ann, shall we come straight to yours?

[78] **Ann Jones:** It is back to the budget process, really, and how we see legislation. You said that you wanted to look at what the committee would have to say, so I take it from that—. You mentioned consultation, but I was just wondering, again, in a very crowded legislative programme, how are we going to get legislation, if there a need for legislation to implement the new tax and borrowing powers, and how we also do that along with the new budget processes being talked about.

09:30

[79] **Jane Hutt:** Clearly, we have to ensure that we have the—. We have the opportunities, obviously, and we await Royal Assent. I have gone through what we think could be the legislation that we might need. It is important to note that—. We will have these powers conferred on us by the Wales Bill, and, at this stage—picking up on the last point that was made—we need to look at the opportunities in our legislative programme. So, we are already planning; we have our tax advisory group and our tax forum. They met on 7 April and they have a lot of expertise. So, it is about how we progress this.

[80] **Ann Jones:** Okay. Do you foresee any Bills being led by the Assembly, as opposed to the Welsh Government? Is it possible that the Assembly could put some legislation forward?

[81] **Jane Hutt:** As far as the Bills or the legislation to reform stamp duty land tax and landfill tax are concerned, the powers that are being devolved relate to those smaller taxes. Clearly, in terms of tax management and collection, this would have to be a Welsh Government responsibility. Also, in terms of reforming stamp duty land tax and landfill tax, if that is the way we progress, it would again be a Welsh Government responsibility. Just in terms of the timings, I can foresee that we will be consulting over election periods and leading up to our election—I am talking about 2018 for the switch-off. So, I have said that we want to try to progress with as much cross-party consensus as possible, but we will be straddling election periods, and there will be different views, and they may be reflected, and there may be opportunities to reflect those. However, I would see this as a Welsh Government legislative reform programme, scrutinised by this Assembly.

[82] In terms of the budgetary process, that, again, goes back to the questions about Standing Orders, how we think we can manage this most effectively, and whether it needs legislation.

[83] **Jocelyn Davies:** Okay. Paul, shall we come to your questions?

[84] **Paul Davies:** Minister, you have mentioned that you have created a tax advisory group and initiated internal Welsh Government projects to implement a treasury function and administer tax collection. Can you update the committee on the progress made by these projects?

[85] **Jane Hutt:** Yes. The tax advisory group met with me in March, and then, as I said,

the tax forum met in April. We have a programme of activity and we have been preparing this on the basis of the Silk commission's first report. It is also very important that we develop those networks and that they are engaged with us. On the tax forum group, you have lawyers, accountants and experts on tax policy administration. So, it is very much a two-way conversation at this stage between Welsh Government and experts, to brief them on what the new opportunities are. One of the important things about the tax advisory group is its membership—you will know that the membership includes business, but we also have the TUC, the Bevan Foundation and the third sector, and that gives a very good, rounded view on the economic and social policy needs of Wales.

[86] **Paul Davies:** As a Government, you have indicated that you have begun work on a Bill to revise stamp duty. What initial conclusions have been reached about how stamp duty will be amended?

[87] **Jane Hutt:** We had some very good discussions last year with housing, construction and social housing partners. In terms of a work programme on this, we are already beginning to say, with our tax forum and our tax advisory group, that we would want to come to them with some outline options. Chair, I could bring back a timetable to you imminently in terms of how we take this forward. There are no surprises in terms of what we have been discussing; I have been asked the question publicly and openly in the Chamber about looking at reform in terms of getting rid of the slab nature of stamp duty land tax. That is just one option. We are starting to be able to look at that. We also look at the Scottish legislation. They have a new land and buildings transaction tax. It is very relevant for us to look at that as well. However, these are very early days. This is going to be made in Wales.

[88] **Paul Davies:** Have you reached a decision on the method for reducing the block grant, following the devolution of some of these taxes?

[89] **Jane Hutt:** This is something on which we are in close consultation with the UK Government, and the Treasury is key. We have ongoing discussions. In fact, I discussed this with the Chief Secretary to the Treasury back in January when I met him after the draft Bill had been published. We have not yet come to final conclusions on that, but it is progressing well. It is very important to us and the UK Government that we get this right. It is about the practicalities. I would also say that we have not yet, at this point, come to an agreement on the size of the reduction to the block grant baseline, alongside the devolution of non-domestic rates. That is the next thing in terms of April 2015. So, in terms of offsets on smaller taxes and, most importantly, non-domestic rates, the discussions are ongoing.

[90] **Jocelyn Davies:** Peter, do you want to come in on this point before Paul comes back in?

[91] **Peter Black:** You say that you are looking at getting rid of the slab nature of stamp duty. Are you working on the assumption that any changes would be cost neutral, or do you have an open mind on that?

[92] **Jane Hutt:** This comes back to our principles about risk and opportunity in terms of reform. We are going to have to take clear responsibility in terms of our budget and the impact on our budget as a whole in terms of these discussions. I can assure you that you will be fully engaged in looking at what those risk options and opportunities are.

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

[94] **Paul Davies:** At this stage, Minister, is there a clear timetable showing the steps necessary for implementing each new tax?

[95] **Jane Hutt:** There is no clear timetable at this stage. We are still awaiting the full progress of the Wales Bill, but I would foresee and hope—unless I am advised otherwise—that by the summer and the end of this session, we should be able to be much clearer about a timetable. However, we must remember that we are talking about four years. We have a good amount of time in terms of that timetable. I mentioned non-domestic rates; that is the first thing that is going to happen. In terms of April 2015, we need to get on with looking at the implications of that with the UK Government.

[96] **Paul Davies:** Do you think that the scale and timing of the devolution of future financial powers to Wales is independent of the results of the Scottish independence referendum? I suppose what I am asking is this: whatever the referendum result is in Scotland, do you think that it will have a further impact on the scale of devolution in Wales?

[97] **Jane Hutt:** We are working with what we have at the moment in terms of the package that is on offer for Wales in terms of the Wales Bill. We have to secure the best funding arrangements for Wales, and I want to make that point again today to the committee. We have a very clear set of proposals. Silk delivered a clear set of proposals for us, and I have sought to have all of the Silk proposals implemented. It is important, as Minister for Finance for Wales, that I say that I will continue to press for the full Silk reform to be implemented. I think that it provides the best set of financial powers for Wales, but I also believe that—and I have said this to the UK Government Ministers, quite clearly and positively—this shows how we can have progressive devolution within a strong, devolved United Kingdom.

[98] **Jocelyn Davies:** Minister, you mentioned non-domestic rates and 2015. Does that mean that we will see something in this year's budget?

[99] **Jane Hutt:** In terms of non-domestic rates, it will not be reflected in the budget that I will bring before you later this year, but there will be a change in the supplementary budget. Andrew, would you like to clarify that point?

[100] **Mr Jeffreys:** There is a public commitment to full devolution by April 2015; I think that that is in the command paper. We are in discussions with the Treasury about exactly what that means in practice and what the timings of various administrative changes will need to be. The key event is likely to be the UK Government's budget in March 2015; that is probably when the changes will be reflected in the public expenditure totals. We will then reflect those changes as we need to in the Welsh Government's budget at the earliest opportunity after that.

[101] **Jocelyn Davies:** Thank you. Chris, shall we come to your questions?

[102] **Christine Chapman:** Minister, are you going to use Her Majesty's Revenue and Customs as an agent for devolved taxes, or are you thinking of creating a new organisation?

[103] **Jane Hutt:** As I said, it is mentioned in the command paper that we could use HMRC, and I think that that would be important if we chose to use HMRC. However, there are other options; we have already touched on some of the other options, including the Gerry Holtham options. We have touched on the Revenue Scotland approach. There are other options in terms of tax collection—relating to landfill tax, for example. It is at a very early stage, so I would not want to commit myself at this stage in terms of HMRC. Clearly, this has to be taken forward with consultation and the advice that we are getting from our tax forum.

[104] **Christine Chapman:** What about the value-for-money argument? Have you looked at that at all, in terms of choosing which one to go for in the end?

[105] **Jane Hutt:** Definitely; we have looked at value for money, engagement and commitment to Wales. There are also very important issues around our tax collection and

management, which include things like whether we are going to ensure that there are robust measures to deter tax avoidance; for example, there are the cross-border issues. There is a range of issues. However, we also, clearly, need specialist expertise. Those are all of the issues that we need to address in terms of—

[106] **Christine Chapman:** Has the analysis started on that?

[107] **Jane Hutt:** We have started.

[108] **Christine Chapman:** What legislation would be required to create a new tax collection body?

[109] **Jane Hutt:** Again, we will have to make a final and formal decision on that, but I think that I have said already today that we anticipate that there will be a Bill.

[110] **Jocelyn Davies:** Before we move on, Ffred, did you want to come in on this point?

[111] **Alun Ffred Jones:** Just a point of clarification, in terms of Revenue Scotland—is it proposed that Revenue Scotland will be collecting the money, or will it be a body that oversees that process?

[112] **Jane Hutt:** I said that this was one of the issues about Revenue Scotland—it is more of a kind of arm's-length body, is it not?

[113] **Mr Jeffreys:** In Scotland, they are taking a different approach to the two new devolved taxes. Registers of Scotland, which is the Scottish land registry, will be collecting and administering the new Scottish land and buildings transaction tax, and I think that it is the Scottish Environment Protection Agency that will be collecting and administering the new Scottish landfill tax. Revenue Scotland will sit behind those two organisations and will have the powers on behalf of the Scottish Ministers, and will be doing some of the more high-level compliance-type activity, I suppose, around those taxes. It is a different picture for the different taxes, with Revenue Scotland running across the two, if that makes sense.

09:45

[114] **Christine Chapman:** In the command paper, it says that the Welsh Government's cash reserve to deal with fluctuating tax revenue

[115] 'must be held within the UK Government'.

[116] Could you tell me how that is going to work?

[117] **Jane Hutt:** The command paper is very helpful in terms of how we manage the budgetary volatility that is going to arise as a result of tax devolution. What is important is that we have these revenue borrowing powers of up to £500 million in total to help manage that. Along with that comes the cash reserve, so if there are any receipts that are in excess of forecasts you can save those to meet any future shortfalls in tax receipts. It is very technical and detailed in terms of how this system is going to operate in the future. My understanding is that a cash reserve would be held by the UK Government, but it would not restrict our access to it. That is where it would be located.

[118] **Jocelyn Davies:** So, they would be minding it for you.

[119] **Jane Hutt:** I suppose that they would be banking it for us.

[120] **Christine Chapman:** What about the size of the cash reserve? Has that been discussed yet?

[121] **Jane Hutt:** We have not discussed whether there will be limitations. We are not aware of any plans to limit what the cash reserve could be or any time periods over which we could build it up. Obviously, this depends on whether we have a cash reserve or not; it is about our decisions on tax rates and the performance of our devolved taxes. It is still very important that we understand that that would be available in the context of your question about fluctuating and volatility in terms of tax revenue.

[122] **Jocelyn Davies:** Are you content that the UK Government will hold it for you—mind it for you, bank it for you or whatever?

[123] **Jane Hutt:** At this stage it is not a problem for us, because we are in control of how we use it.

[124] **Jocelyn Davies:** Mike, you wanted to come in on this point?

[125] **Mike Hedges:** Yes, please. One thing that I can guarantee is that you will not collect what you expect. You might collect more, you might collect less, but you definitely will not collect what you expect. The Treasury never has done. That is inevitable, because all you are doing is putting in predictions. I have two questions on that. Would you get paid interest by the Treasury on your cash reserve, as you would if it were held by you? Can you have a negative cash reserve—that is, could you borrow from it, or would you have to borrow at market rates, or would you be borrowing from the Public Works Loan Board in order to deal with short-term differences that are negative?

[126] **Jane Hutt:** I am certainly not aware of whether there would be interest on our cash reserves.

[127] **Mr Jeffrey:** The command paper provides all the detail that is currently available on this. There is a huge amount of detail behind what is set out in the command paper that needs to be worked through. The short answer is that we do not know yet. That needs to be sorted out as we progress towards practical implementation in 2018.

[128] **Mike Hedges:** Can I carry on with this, because it really is important?

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

[130] **Mike Hedges:** If we get £100 million more than we expected and we put that into the cash reserve that we do not get interest from, then we will just have £100 million. However, if we have £100 million less than we expect, we would have to borrow to fill that gap. So, if we are ahead we lose because we do not have any interest, and if we are behind it costs us money. That is something that is really important to sort out well before we have tax devolution, do you not agree?

[131] **Jane Hutt:** Yes. The command paper gives us an outline and Mike Hedges has now given me more work to do on clarifying this position. [*Laughter.*]

[132] **Jocelyn Davies:** Peter, shall we come to your questions?

[133] **Peter Black:** Yes, sure; thank you, Chair. Minister, the Assembly's budget system is based on that in Westminster. What are the main weaknesses of the current budget system, and what problems does this situation create?

[134] **Jane Hutt:** I welcome your review—and it is all very appropriate in terms of timing—because we are partially modelled on Westminster, although I think that there is more opportunity for scrutiny, and you have strengthened that opportunity. Our budget documents are more transparent; they give greater detail than UK budgets. We know that there are issues around timing, and that is very topical at the moment in terms of the time for scrutiny in the Assembly timetable. There is an issue about how we operate in the overall UK public expenditure framework. That has an impact because it is annual, and we are constrained by spending reviews, autumn statements and budget timetables. We are inevitably caught up in that. However, we want to progress. Hopefully, we can work together on this.

[135] **Peter Black:** Does the current budget process focus too much, for example, on annual periods and incremental changes, with less emphasis on strategic issues? How could that be improved?

[136] **Jane Hutt:** That is the point that I was just making. I feel that we are partly constrained by the UK Government's framework. However, there are opportunities. It is interesting. I have been looking at the Organisation for Economic Co-operation and Development principles on budgeting, which I think are really important in terms of the purpose of the budget and where we go. Some of the discussions that we have been having are about being more outcome-focused and more strategic and whether there are opportunities for us to try to have a longer term view and approach. It is interesting now, because we have moved to the three-year financial planning process for health. Across public services, it is with our partners as well that we need to have a more strategic approach. I hope that your committee's review of this will help us.

[137] **Peter Black:** Does the Welsh Government have sufficient administrative capacity to consider moving to a fully outcomes-based budget?

[138] **Jane Hutt:** I certainly make my case for that. We have to. This is going back to the earlier question about the treasury function. We have to build the capability and capacity, as well as the expertise. We are actively looking at how we can secure that.

[139] **Peter Black:** Have you carried out any assessment of how long that is going to take?

[140] **Jane Hutt:** It is ongoing. Working with you on the budget-setting process, we have already built that into our systems. It is also an interesting part of responding to the Williams commission, for example, in terms of the wider aspects of performance and performance management and engagement with our partners in delivering public services. The capability needs to be with us in Welsh Government and then it needs to be reflected in terms of the delivery partners.

[141] **Peter Black:** One of the big issues of achieving an outcomes-based budget is information. What capacity do the various departments of Government have to feed performance information through to you so that you can start linking policies to budgets?

[142] **Jane Hutt:** As I have just mentioned, some of the recommendations coming from the Williams commission is very relevant to this in terms of performance information. That is actively the way that we are looking now at principles for budget setting, as well as for the reform and development of public services generally.

[143] **Peter Black:** Do you think that the new financial powers will give you more capacity for strategic planning and decision making?

[144] **Jane Hutt:** We have to shape them to deliver that.

[145] **Peter Black:** Okay. We have already referred to the emerging international best practice for devolving fiscal powers within federal states. Of course, we have a rather unique devolution settlement in the UK—an asymmetric one, if you like. How much change to the current budget system is feasible within that constitutional settlement?

[146] **Jane Hutt:** The Wales Bill gives us the competence to legislate for our own budgetary procedures. We have to ensure that we can deliver that in an innovative and progressive way. I think that that goes back to the fact that I believe that we work closely and constructively together in terms of Government and the Assembly, and particularly the Finance Committee, to make sure that we make this—. The settlement is for Wales. It is important that we learn from others, but we should also progress with your scrutiny and advice.

[147] **Julie James:** Picking up on some of Peter's earlier questions, how can we ensure, in the fifth Assembly, that budgets will be more forward looking, and how can we be less dependent on UK spending reviews?

[148] **Jane Hutt:** It is early days, really, for us, to see how we can do this. I have mentioned the OECD; I feel that there is a lot to be learnt from international advice, guidance and expertise. We are constrained by the annual budgeting process—there is no question about it—but we are looking, like in health, local government and education, to three-year planning. We also work, as a Government, to our programme for government in terms of a more strategic approach to budgeting. However, we are very constrained, and this does have an impact. If we think about our block grant, and the fact that we have a spending review round, then we will know that, obviously, that gives us a clear indication for longer-term planning. However, cuts, changes, additions and reductions come all the way through that spending review. So, I think that we have to start looking at it in a more imaginative way and I hope that the committee can help us do that. I think that the settlement enables us to, but we will have to take some risks as well as opportunities as we go along.

[149] **Julie Morgan:** We know that there are academic studies that show a wide variance in how budgets are approved. We are going to be interviewing somebody in the next session about this—an academic. What those studies show is that the Westminster model gives less weight to the legislature, relative to the Government, in the budget process. How could we get more balance in terms of that?

[150] **Jane Hutt:** Well, I will also be very guided by the advice and evidence that you get—and I look forward to hearing about that—as well as the work that we are doing. I think that there is an opportunity. This goes back to Peter's first question—whether we have done things differently and whether we could we have done things better, even after this point, over the last 15 years in terms of our budgetary process, engaging not just the Assembly but outside partners more effectively as well.

[151] One of the issues that we have, of course, is that our partners, particularly in local government, Welsh Government-sponsored bodies and the health service need to know where we are. They are very dependent on the way that we deliver in terms of our budgetary procedures—at the moment on an annual basis. The legislature should be able to—and does, I believe—have a huge impact on the way that it progresses its budgetary process. So, I hope that we can do something unique and different in Wales that, perhaps, will be more strategic and long term. One has to take into account, of course, other issues like the fact that we are a minority Government. That is a very important factor. Also, as I said, we are constantly facing uncertainties about the state of our budget from the UK Government. Of course, that does not take into account the fact that we can do other things, such as the announcement that I made last week. That is about saying that, quite apart from all that, we have the power to make decisions to borrow, for example, from innovative not-for-profit, non-dividend

investment vehicles for Velindre and the A465. So, we just have to grasp the powers that we have and make decisions and be held to account for them in terms of the way that we use our budget.

10:00

[152] **Jocelyn Davies:** Okay. Ffred, shall we come to you?

[153] **Alun Ffred Jones:** Iawn. Fe wnaf ofyn yn Gymraeg. Rwyf eisiau gofyn ynglŷn â monitro a chraffu. Rydych wedi cyfeirio at yr OECD a'i argymhellion o ran rheoli polisi cyllidol o fewn terfynau clir, credadwy a rhagweladwy. A ydych chi'n credu y dylai'r Cynulliad gael mwy o rôl o ran monitro a chraffu ar ofynion benthyca blynyddol, yn ogystal â'r ddyled gyffredinol?

Alun Ffred Jones: Yes. I will ask in Welsh. I want to ask about monitoring and scrutiny. You have referred to the OECD and its recommendations for managing budget policy within clear, credible and predictable limits. Do you believe that the Assembly should have more of a role in monitoring and scrutinising the annual borrowing requirements in addition to overall debt?

[154] **Jane Hutt:** Clearly, the major role that you have and that the Assembly will always have is to approve our budget, the spend. In terms of the opportunities that you have to scrutinise borrowing, as well as how we are using our block grant and indeed our tax revenues, obviously, that is clear in the context of the budgetary process. So, I want that to be as rigorous as possible.

[155] **Alun Ffred Jones:** Roedd eich cyhoeddiad yr wythnos diwethaf ynglŷn â gwerth £1 biliwn o brosiectau cyfalaf yn ddiddorol iawn. O gofio bod y Bil yn gosod, ar hyn o bryd, gyfyngiad o £500 miliwn ar eich hawl chi i fenthyg ar gyfer cynlluniau cyfalaf, a yw'r £1 biliwn rydych chi wedi'i chyhoeddi yn cynnwys y £500 miliwn hynny, ac a fydd yn cyfyngu ar eich gallu i fenthyca yn y dyfodol?

Alun Ffred Jones: Your announcement last week about the £1 billion-worth of capital projects was very interesting. Bearing in mind that the Bill, as it stands currently, sets a limitation of £500 million on your right to borrow for capital projects, does that £1 billion that you have announced include that £500 million, and will that restrict your ability to borrow money in the future?

[156] **Jane Hutt:** As far as the £1 billion that I announced last week is concerned, clearly, £0.5 billion of that was made up of the non-dividend investment route for the completion of the A465 and the development of a new cancer centre for Velindre NHS Trust. The £500 million—again, it was very important that I made that statement—is the opportunities that we have in terms of the borrowing powers that will come into effect when tax devolution begins. Of course, those new borrowing powers will come into operation at the same time in April 2018, when the switch-off of stamp duty and landfill tax takes place.

[157] So, those new borrowing powers will enable us to invest in any capital project that falls within our devolved responsibilities. I think that it is important to make it clear that there is no borrowing by the Welsh Government with the non-dividend route. We would not score, in terms of innovative finance, against the £500 million ceiling.

[158] **Alun Ffred Jones:** Mae gennyf un cwestiwn arall. Mae cyfrifon cenedlaethol y Deyrnas Unedig, erbyn hyn, yn dangos cyfanswm rhwymedigaethau ac mae'r Alban hefyd, mae'n debyg, yn ystyried mantolen genedlaethol. A ydych yn credu y byddai'n ddefnyddiol paratoi rhywbeth tebyg yng

Alun Ffred Jones: I have one further question. The national accounts of the United Kingdom by now show total liabilities and by all accounts Scotland is also considering a national balance sheet. Do you believe that it would be useful to produce something similar in Wales that would include all of the Welsh

Nghymru gan gynnwys holl fenthyca'r sector public sector borrowing as well as other
cyhoeddus a'r rhwymedigaethau eraill? liabilities?

[159] **Jane Hutt:** Yes. I think that it would be useful if we had a Welsh summary of balances. We would have to consider how much it would cost to produce a Welsh version. We can see what happens in terms of the Scottish commitment. There is quite a lot of data that does not exist in terms of what would be required for a full national account, so we would have to look at that in terms of costs and accessing those data. Also, you could think about whether we could perhaps produce a Welsh public sector balance sheet—that is a different approach—in terms of building on a whole-of-Government accounts exercise. Again, these are very important issues that we would want to discuss with the committee and stakeholders.

[160] **Jocelyn Davies:** Minister—. Sorry, go on, Ffred, and then I will come in.

[161] **Alun Ffred Jones:** Fodd bynnag, **Alun Ffred Jones:** However, I assume that
byddech chi'n cytuno, mae'n debyg, ei bod you would agree that it is very important for
hi'n bwysig iawn i'r Cynulliad gael gweld the Assembly to see what the implications of
beth ydy oblygiadau'r benthyciadau o the borrowing are in terms of the annual
safbwynt y *commitment* arian refeniw yn revenue commitment.
flynyddol.

[162] **Jane Hutt:** Yes, I think that it is very important in terms of being very clear and transparent on that front—very clear.

[163] **Jocelyn Davies:** It may be clear and transparent, Minister, but do you not think that you should seek the approval of the Assembly to take on significant debts?

[164] **Jane Hutt:** I think that this goes back to—and I was very clear—my statement last week, just in terms of the costs, for example, of borrowing for the innovative finance routes that I was taking. It is vital that all of that is open to scrutiny, as part of the budget process.

[165] **Jocelyn Davies:** But you do not think that you should need to seek the approval of the Assembly to take on debt. Telling somebody that you have done something might be open and transparent, but seeking their approval is completely different.

[166] **Jane Hutt:** It is interesting to look at what happens with the UK Government in terms of Parliament. It certainly does not go to that level—

[167] **Jocelyn Davies:** No, it certainly does not, but then we know that scrutiny of financial issues at Westminster is paltry compared with the scrutiny here.

[168] **Jane Hutt:** Yes, yes.

[169] **Jocelyn Davies:** We certainly would not want to model ourselves on that.

[170] **Jane Hutt:** No. Obviously, the crucial point for the Assembly is to approve our budget as a whole and to scrutinise how that is made up. It is the Government taking responsibility for risk in terms of debt. Transparency is important for you to be able to even start to raise the questions, obviously, in terms of the liabilities. However, we cannot spend money that is borrowed or otherwise without your approval. So, I think that that is a very important point to put, and you have a very central role to play, as far as this is concerned.

[171] **Jocelyn Davies:** I think that we probably have to agree to differ on whether you should seek approval or not, but it is not just this Government that might have to take responsibility for debts that you take on, for future Governments will have to pay it back.

Mike, shall we finish on your question?

[172] **Mike Hedges:** Yes, I have got two questions. One carries on from what Alun Ffred just asked. If you are going to produce a balance sheet, surely you should have assets on one side of it, for it to make sense. Secondly, if you are showing borrowing, should you not be showing the rate of debt and the length of time that you are borrowing over?

[173] **Jane Hutt:** I think that that is all to be considered in terms of how we would present our summary of account. That is something that it would be very useful for us to reflect on and come back to the committee on. Obviously, as I said, it is about what information we have got access to. However, obviously, if it is a balance sheet, it is a balance sheet.

[174] **Mike Hedges:** Okay, and the other question is will we now be getting a budget in two parts: one on tax and borrowing and one on revenue spending, for clarity?

[175] **Jane Hutt:** I do not know whether we can answer that at this point.

[176] **Mr Jeffreys:** That is one of the things that we would be interested in the committee's views on. At the moment, we produce something that seeks the Assembly's approval to a level of expenditure and items of expenditure. The fiscal policy of the Welsh Government will be more complex in future because of tax and borrowing, and the Assembly ought to have a close look at that. It is an interesting question.

[177] **Mike Hedges:** I have been used to the local authority way of treasury management reports on an annual basis, where you set limits to borrowing, and you set a whole range of parameters, so that while it does not constrain the executive in what it does massively, it does set the limits within which it can work. Do you see anything similar coming out?

[178] **Jane Hutt:** Well, again, we can look at that as an opportunity. One of the points that we need to build on is that, if you recall, we did progress with a budget protocol back in 2012, and, in a sense, I am sure that probably your inquiry into budget-setting processes will take us a way on from that protocol that we agreed, which was a milestone in terms of Assembly process and Government engagement. But, you know, we are providing that written report at final outturn to the Finance Committee, which was a very important step forward. It is a commitment to working openly and transparently. I think that the points that have been made by the Chair and Mike are very valuable for us in thinking about how much further we need to go in terms of presentation, the budget and the outturn—and not just the outturn, but the account as well, because, in a sense, that takes us on from our final outturn reporting—and also about the responsibilities of the Assembly in terms of what you should approve.

[179] **Mr Jeffreys:** It is worth referring back to the Wales Bill, just to say that it will confer legislative competence on the Assembly in future to determine its own budgetary procedures, and so it will be for the Assembly, once the Wales Bill achieves Royal Assent, to determine exactly what form the budget procedure takes. In the past, that has been specified in the Government of Wales Act and we have been constrained by that. In the future, it will be for the Assembly to decide exactly how it thinks it should be done.

[180] **Jocelyn Davies:** Yes, that is why we are doing the review, but thanks for that information, Mr Jeffreys. Right, is there anything else from any Members? I see that there is not. Okay, thank you, Minister, and your officials. That was very useful. A transcript will be sent to you as normal for checking before it is published, and I think that you said that you would send us one or two pieces of information, so we look forward to receiving them.

10:12

**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**

[181] **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(ix).

[182] Are all Members content? I see that you are.

*Daeth rhan gyhoeddus y cyfarfod i ben am 10:12.
The public part of the meeting ended at 10:12.*

*Ailymgynullodd y pwyllgor yn gyhoeddus am 10:32.
The committee reconvened in public at 10:32.*

**Ymchwiliad i'r Arfer Gorau mewn Prosesau Cyllidebol: Sesiwn Dystiolaeth 2
Best Practice Budget Processes Inquiry: Evidence Session 2**

[183] **Jocelyn Davies:** Welcome back to a meeting of the Finance Committee. We are undertaking an inquiry into best practice budget processes. This is our second evidence session, and the first with an expert witness. Would you like to introduce yourself and tell us a little bit about yourself for the record? We will then go into the first questions.

[184] **Dr Wehner:** My name is Joachim Wehner. I am an associate professor in public policy at the London School of Economics, and I teach public budgeting. I have written a book on legislatures and the budget process, so I am particularly interested in the role of legislatures and legislative oversight. My interest in budgeting started in South Africa in the 1990s, at a time when provincial governments were given very substantial financial authority for the first time, following the democratic changes. So, I have a bit of a background also engaging in decentralisation debates from that time. I work very broadly comparatively. I am not a Welsh expert at all. I have read a little bit in preparation. I am on the Organisation for Economic Co-operation and Development's advisory group on budgeting and public expenditure, and I work mainly across OECD countries, on budgets.

[185] **Jocelyn Davies:** You have produced for a number of publications this index of legislative budget institutions. I think that we have a copy of your graph there. Obviously, that shows the United Kingdom in the lower quarter. Can you explain this graph to us? I am not entirely convinced that being in the lowest quartile is a bad thing, or whether it is a good place to be. If somebody is in the top quartile, it does not mean that they are doing well, does it? It just means that they are doing better than others. Can you explain the graph and the thought processes behind it?

[186] **Dr Wehner:** Sure—with pleasure. I think that your introduction and the way that you pitched your question is exactly the right approach. So, I am not saying here that high scores are good and low scores are bad. This is a very normative choice. If you want a lot of legislative influence in the budgetary process, there are certain ways that you can design your institutions to achieve that. If you would like to have more contained, constrained legislative input in the budgetary process, you can design institutions that achieve that. What I am measuring here are institutions that either facilitate legislative control or constrain it in such ways. So, there are six variables that I scored numerically when I constructed the index. They look at the formal powers of the legislature to amend the budget proposed by the Executive.

They look at the reversionary budget provisions—what happens when the budget is not approved on time at the beginning of the fiscal year. I look at Executive flexibility during the execution of the budget—to what extent the Executive can spend more than is authorised, less than is authorised or spend money on different things than was authorised by the legislature. Then I look at three organisational variables that relate to the internal organisation of legislatures and the structure of the budget process. One is how much time the legislature has to look at budgets prior to the start of the fiscal year. One is how extensive the committee infrastructure is for the budget process—the idea being that more specialised committees is a good thing because you bring expertise into the process. Lastly, I look at access to independent research capacity on the budget.

[187] So, looking at countries that get a high score, the US, for example, always comes out as a very special case. It has unlimited powers to make changes to the budget; there is Government shutdown when the budget is not approved; Congress very tightly controls the execution of the budget at a very, very detailed line-item level; there is a plethora of committees engaged in the budget process; Congress gets the presidential budget eight months prior to the start of the fiscal year; and there is the Congressional Budget Office with 230 budget analysts attached to the legislature. So, it comes out very high. On Westminster—I could tell you how Westminster scores, but it is almost the exact opposite of what I have just outlined.

[188] **Jocelyn Davies:** So, the line across the bottom from 0 to 100 shows scores for the principles that you have just mentioned to us. We all understand the issues around the budget process in the United States. So, that is why it scores so highly—because of the control that the legislature has over—

[189] **Dr Wehner:** Yes.

[190] **Jocelyn Davies:** Okay. Do Members have any specific questions on this graph or are we content? I see that we are content. So, how would you view the power of legislatures within the UK, and, in particular, Wales of course—that is our primary focus here—to scrutinise and influence the Governments' budgets?

[191] **Dr Wehner:** Historically, in the UK, looking at Westminster, the entire process is almost designed to sabotage parliamentary scrutiny. I am putting it a bit provocatively, but that is certainly my view. There is a Standing Order that dates back to the eighteenth century that essentially says that Parliament can only reduce existing items in the budget, that it cannot introduce new ones or increase lines in the budget. So, the powers are very constrained. You have budgets being executed prior to their approval by Parliament. There is a vote on account early in the year, which gives the Executive the right to spend money before the appropriations are actually approved in the summer, and the appropriations are so highly aggregated—which is something that we might return to in your particular context as well, because I looked at the motion that gives authority to the Government to spend—that, in some cases, you have a single line for big departments with many billions of pounds being authorised in a single line, so there is almost unlimited Executive flexibility.

[192] Then there are the other variables that I talked about earlier. The budget arrives in March and the fiscal year starts in April, you have very little research capacity in the Parliament, and it is one of the very few Parliaments that does not have a dedicated appropriations committee in the budget process. Westminster has the Treasury Select Committee, but it is a departmental committee. There is no specialised committee to look at public spending and to scrutinise appropriations. That is why Westminster comes out at the bottom of the index.

[193] From the little bit I read in preparation for the hearing, I think that you have a rather

different set-up in several respects here, which gives you more potential to actually influence the budget. So, you have a process where you get a draft prior to a final budget, so that provides scope for some negotiation. Your timing is very different. If I understand it correctly, your process takes place between October and December. In terms of scrutinising public spending, that is well ahead of the start of the fiscal year, and you have more authority to actually suggest changes to the budget, as long as they do not increase total expenditure. So, all of these are elements where you have made changes that make you quite different from the Westminster setting, I would say.

[194] **Jocelyn Davies:** We would come somewhere else on your graph, I think, and not be with the UK Government.

[195] **Dr Wehner:** Yes, certainly.

[196] **Jocelyn Davies:** We would probably be a bit further up in terms of the balance there. Some people would say that, in relation, for example, to the United States, there is too much control taken away from the Government, because people do not get paid if this does not get approved and things just stop. What is the appropriate balance between government and the legislature with regard to budgets?

[197] **Dr Wehner:** I think that that is a question that is completely normative, so I cannot give you an answer. If you go to the US and say that Congress should have fewer powers over the budget—

[198] **Jocelyn Davies:** I was not intending to go there and say that. [*Laughter.*]

[199] **Dr Wehner:** No, but for me to say, ‘The best thing is this’ would be very hard to do. In some places, there is a very strong preference for legislative control. That is expressed in these institutions. The one thing that I would say, however, is that powerful legislatures are very often also associated with quite poor budget outcomes—so, spending that has deficits that might be higher than they otherwise would be.

[200] **Jocelyn Davies:** I see.

[201] **Dr Wehner:** However, in your particular case, one thing that I tend to be in favour of—so, here I am being normative—is to say that it makes sense for amendment authority to be constrained in such a way that the legislature should focus more on the prioritisation of the budget within a fixed aggregate constraint; so, not necessarily giving the legislature the power to increase spending, but certainly the power to look across the allocation of spending. That is something that I am strongly in favour of.

[202] **Jocelyn Davies:** Yes, okay. Mike, shall we come to your questions?

[203] **Mike Hedges:** My first question, pressing on with what the Chair has just asked, is: if I had to ask you if you would give an example of what you think is the best country for achieving devolved financial accountability while retaining central fiscal control, where would you choose? It might be a group of countries.

[204] **Dr Wehner:** Again, I think that with devolution and the extent to which you devolve public financial authority, there are some very fundamental principles of fiscal federalism theory that essentially suggest, on the expenditure side, that there is substantial scope to decentralise responsibility because devolved bodies can better allocate spending in a way that matches preferences that are not uniform across the country. So, on the spending side, I think that there is a strong theoretical case for decentralisation. However, when it comes to tax-raising powers and so on, it is much less clear what the theoretical case is. There are some

theoretical principles, but again it soon becomes very normative. I would say that this reflects politics. In order to make sure that a decentralised system functions, I think that you need borrowing powers at the sub-national level that are constrained in a sensible way. The powers envisaged here, that you say that you can borrow to invest, are quite sensible constraints, I think, on sub-national borrowing authority. You need a high degree of transparency. I think that if you have those in combination, you have the constraint on borrowing authority combined with a high degree of transparency, which I believe is generally the case in the UK.

10:45

[205] **Mike Hedges:** We are moving now into tax-raising powers, which will give the Welsh Government and the Assembly the opportunity to agree new budget processes. I am going to mention three things and ask you whether you agree with those three and, if you would like to add any more, please do so. Do you think that the splitting of borrowing and tax-raising from revenue expenditure in terms of reporting would help? Do you think that the Welsh Government should produce a balance sheet on an annual basis, which would include its total debt and its assets? Is there a benefit to having a treasury-management model that would set limits?

[206] **Dr Wehner:** I have to be honest with you, especially on the tax side of the questions that you are considering, that my preparations were on particular elements of your inquiry and somewhat less on the tax side of it. I have prepared some inputs on linking budgets to outcomes, which is a topic that I worry about a lot. So, I am a bit hesitant to engage too much with those questions, if that is okay.

[207] **Jocelyn Davies:** Fine. Paul, shall we come to your questions?

[208] **Paul Davies:** Yes. Thank you, Chair. I just want to ask you some questions on the scrutiny of Government plans and Government borrowing. Of course, as a committee, we believe that fiscal policy should be managed within clear, credible and predictable limits. Would you expect the Assembly's role here to include scrutinising and monitoring annual borrowing requirements and also overall Welsh Government debt?

[209] **Dr Wehner:** Absolutely, yes. In scrutinising the annual budget, these are the core components. You need to understand what the debt is for and what the nature of the capital expenditure that is being financed in that way is, whether it makes sense to you, and whether these are wise investments. All of that should fall under the annual scrutiny, I think.

[210] **Paul Davies:** When I say 'debt', do you believe that the Assembly should have a role in scrutinising the debt levels of other public sector bodies that are taking on debt funded by the Welsh Government, such as health boards, local government, housing associations and such bodies?

[211] **Dr Wehner:** If there is one thing that we have learned in the crisis, it is that there is a need to think about the public sector widely and not just to look at Government, but to try to understand the exposure of Government to fiscal risks, and so even debt that is implicitly backed by the Government and may have to be guaranteed in some way or where possible bail-outs might be involved. That would always suggest that having as wide as possible a perspective is a good idea.

[212] **Paul Davies:** Okay. Do you agree that budgetary plans should identify risks in terms of the longer term sustainability of Government policies, including how risks such as the impact of demographic changes are being identified?

[213] **Dr Wehner:** Sure. In general, looking at the Organisation for Economic Co-operation

and Development best practice for budget transparency, for example, or the International Monetary Fund's code on fiscal transparency, they recognise that long-term fiscal projections, which can include the impact of demographic changes on the budget, are all good things to look at, as are, for example, debt scenarios under different assumptions of policy developments or different policy choices, and thinking through what that means in terms of debt sustainability over the long term. So, looking at a longer period of maybe 50 years or so, is increasingly something that Governments do in the OECD.

[214] **Paul Davies:** How do you think the budget process can be amended to focus on longer term issues and the bigger funding pressures? Sometimes, when we look at budgets, we tend to look at the short-term issues. How do you think we can change that?

[215] **Dr Wehner:** That is the exact limitation that you have in the electoral time horizon, which is understandable. The long term can be played as well, because you can make something look good in the long run even if, in the short run, it is not looking so good. So, you can also play with the time period over which you describe the financial impact of something you are doing. This happens a lot in the United States budget process, for example. It is very easy to show that something is going to be quite good in 10 years' time, but a lot of how you construct your estimates hinges on so many assumptions that the further you go into the future, the more uncertain you are and the more assumptions you have to make about how the world is going to impact on what you are doing.

[216] So, I think this information is very valuable, but I do not necessarily think that a shorter, compact focus is a bad thing. It is good to make these long-term costs visible so that they become part of policy debates, but the window of certainty in budgeting is much more narrow—it is the annual budget—and even there you have lots of uncertainties. You have annually managed expenditure, which is often hard to predict. So, extending it too far is not necessarily the best thing to do, and I think that there are political limits to it as well.

[217] **Ann Jones:** We have looked at performance, evaluation and value for money—well, we attempt to do it, I suppose—as an integral part of the budget process. Do you have a view on how the Assembly can be sure that the budgeting system that is in place would include performance information for each policy or programme? How would that be linked into the wider Government strategic objectives?

[218] **Dr Wehner:** I have written a small note to give you some thoughts on that. I am on a particular side of the argument here, but it is partly based on observing for a few years now and participating in debates at a cross-national level at the OECD, where you have seen a lot of enthusiasm for performance budgeting, but also a lot of disappointment. If I were to sum it up, the history of it is one of continuous disappointment. [*Laughter.*] To make it more relevant and specific for you, I am not going to say anything about the concept of it, but, looking at what it means for you as a legislative body scrutinising public spending, if you put the budget on a performance orientation, particularly on an outcome basis—which I think is the most problematic—it means you need to look at bigger spending categories. That means that you lose a lot of financial detail, and then there are the whole problems of not being able to attribute effects of particular interventions by particular organisations in rigorous ways to many of the outcomes that we care about. My favourite example—although these no longer exist—is the public service agreements with the climate change target for 2050. I always wonder who in 2050 is going to hold whom to account for meeting the target or not.

[219] **Jocelyn Davies:** Yes, that is a good point.

[220] **Ann Jones:** May I just ask—

[221] **Jocelyn Davies:** Yes, sure.

[222] **Ann Jones:** We have looked, or some of us have looked at, issues around equality impact assessments of budgets and of policy programmes, such as children's budgeting and gender budgeting. Is there a place for those and how do we link all that in, or are we going into a cul-de-sac that we are not going to be able to get out of, and we will have to come out and, as you say, be disappointed?

[223] **Dr Wehner:** No, I think all of what you mentioned—that is, incidence analysis, looking at who benefits from the budget, who pays for it, and trying to understand whether we consider that that impact is fair—is very important. It is an important analytic exercise. So, I think there is a place for doing that, whether it is looking at gender or incidence distribution in terms of age or other vulnerable groups in society. I think these are really important questions. Whether all that is driven through the annual budget process, however, is a very different question. So, you can do all these things—and you should be doing them—but not as part of an annual budget process. I think that is an important point. In general, with all of these questions of performance, the annual budget is a financial document and, when you start losing financial information, you start losing control and oversight very quickly.

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

[225] **Christine Chapman:** May I just ask you why would you not do that? You said that they are interesting, I think—I am not sure of the exact word you used—but why would you not want to do that and look at children's budgeting and equality budgeting?

[226] **Dr Wehner:** Personally, I would want to do it. So, I have worked with colleagues who did exactly that some time ago. So, I see the value in it and you can certainly think of performance information that could be presented with the budget that is based on such a type of analysis. So, I am not necessarily against that, but I just think that making it an annual exercise very often makes it into a routine that produces a large amount of information that then loses its purpose and impact very quickly because it is routinely produced. I do not know whether that makes sense to you.

[227] **Jocelyn Davies:** Julie, did you want to follow up on that?

[228] **Julie Morgan:** Yes. It is just on that issue. The danger is that it is not done at all, really. So, having this annual routine is the opportunity to bring it forward, I would have thought. How can you separate the budget, figures and the money from what they are used for? That is the whole purpose, is it not?

[229] **Dr Wehner:** Yes. Certainly when you think about outcomes, and so how the budget impacts on society, I think that these are really important questions, but the only thing that I would query is whether you should use the budget to scrutinise this information or whether these are not things that should be done through programme reviews, for example, and other types of analyses and value-for-money audits that then inform budgetary decisions. Very often, when I see budget documents that are outcome-based, they have these problems; they are very high-level and you no longer understand what goes on at a programme level. You start to lose sight of economy and efficiency questions, which are really crucial for value for money and, through that, you lose a lot of important information that you need in order to retain control or, at least, oversight of public spending.

[230] **Julie Morgan:** So, you are basically saying that the information should be gathered in another setting and then be used to set the budget.

[231] **Dr Wehner:** Yes. I just think that the budget, as a document, is the wrong place in which to put a lot of this information. I think that it is much better handled through

programme reviews, which could be, not necessarily annual, but periodic, or through separate inquiries by subject committees that have relevant portfolios under their jurisdiction and so on. I think that they are better processes to try to feed such analyses into the budget than the annual budget motion and the attached documents.

[232] **Jocelyn Davies:** Ffred, shall we come to your questions? You had finished, Ann, had you not?

[233] **Ann Jones:** Yes.

[234] **Alun Ffred Jones:** I have a question on a different issue. I want to come back to something that you said about highly aggregated budgets. Could you explain—I presume that you think that that is bad practice—a bit more what you mean?

[235] **Dr Wehner:** If you look at the implications of performance budgeting, they mean that you focus either on outputs or on outcomes. If you really go for such a system, you need to appropriate money in a way that links the money to outcomes or to outputs. Outputs are far less problematic because they are more detailed and I could say more about that. However, certainly, if you look at different budgets that have different orientations, then input control budgets are highly detailed and often have many thousands of line items: the United States Congress budget or the German federal budget are typical input control budgets with many thousands of line items. When you move to an output basis, you need to aggregate a lot of these—you are no longer interested in what was purchased in terms of inputs with the money that you appropriate, but you are interested in what is produced. So, you might put money towards financing breath tests for motorists, or something like that; that could be an output that you put money against. When it becomes an outcome, it might be something like safe communities, which is something very large—a large category, below which you have lots of outputs that you produce, as Government organisations, into which you feed many inputs that are purchased by the money that you authorise. The categories become larger and larger the further you move down the performance chain, essentially.

11:00

[236] One of my favourites is that, a few years ago, the entire transport budget of the UK—of the central Government—was appropriated under the line ‘transport that works for everyone’. That is an outcome—that you have £12 billion or something in that area appropriated in a single line means that, for legislators, it is a blank cheque to any Government department. What strikes me here, looking at your budget documentation, for example, is that you actually have a very good budget structure: you have the expenditure groups, you have programmes and then you have activities below that. However, the budget motion focuses on the totals for the expenditure groups, if I understand it correctly, so that would also be the level to which you would, probably, attach outcomes, whereas if you were to focus on outputs, there would be much more of a role for the programmes and even for the activities, because you could associate them with particular outputs that are produced by specific organisations in the Government.

[237] **Alun Ffred Jones:** Can I just give you an example within the present budget pattern or structure? In health, for example, there is just one figure in the budget, but you know nothing about how it is spent. Is that good or bad?

[238] **Dr Wehner:** Certainly, if you are concerned about keeping the oversight of public spending as a legislature, then that is the last budget that I would want to see. I would advocate a budget motion—your equivalent of appropriations, if I understand the system correctly—that incorporates, for example, at least the programmes. So, you would have, below the departmental level, lower subtotals within different departments, against which you

authorise. Otherwise, it means that you have a very broad category, and how the money is shifted around in that category is up to executive discretion, to a very large extent. Maybe there are some political limits or norms that emerge around that, but all that binds them is the one big total.

[239] **Alun Ffred Jones:** However, most of that money is spent by health boards. We know nothing, in the budget, about how they propose to spend the money. Again, is that good or bad practice?

[240] **Dr Wehner:** You should have a lot of programme-level detail in the budget, ideally. So, the best budget documents are those where you have a good narrative describing what each individual programme does. Even below that level, if you have activities that might be called sub-programmes in other places, I would, ideally, like to see a very careful description of what is being done in this particular activity. So, for each programme and each activity, there would be some narrative information—what the objective is here and what is being delivered—and to that you might attach some performance information—ideally, I would say output-based performance information. You can talk about outcomes, but they are, very often, very problematic when it comes to holding people to account for the achievement of the outcomes or not.

[241] **Alun Ffred Jones:** Thank you.

[242] **Jocelyn Davies:** Chris, shall we go on to your questions?

[243] **Christine Chapman:** Dr Wehner, over recent years our committee has been working with the Minister for Finance to try to make the budget data more transparent and accessible. Do you have any views on what building blocks that we would need to achieve this goal and any advice around systems that work in other legislatures? You have talked about some of them, so I just wondered whether there are any principles that we should follow, or things that we should be doing or looking for with the Government on this.

[244] **Dr Wehner:** A good guide for me would always be—. I personally prefer the OECD best practices for budgetary transparency over the International Monetary Fund code. The IMF is currently doing some revisions to its fiscal transparency standards, some of which apply to issues such as fiscal risk and adequately capturing that, which has often been a rather neglected area. I would look at, in particular, the financial information that is presented to you—that, and how you design that, is very important. So, to go back to what we touched upon earlier, rather than having a broad policy statement and then some financial information that is a little bit divorced from that, it would be much more useful, maybe, to have a clear description about each programme area and then activities. So, a short paragraph that really describes what is going on at that particular level. Here, I think that there might be some room to build on that a bit. Also, in the budget documents, what is often very important is to have past spending information next to the current spending and the suggested spending going forward, and, in addition to that, some out-years. That is sometimes quite hard because of the spending review process and the fact that here it is periodic—it is not rolling. So, the spending review does not get extended every year, so that you always have a full time period ahead of you. Nonetheless, it might be useful to integrate some forward-looking estimates into the budget documents that say, ‘If we continued our current policy, what would the spending information be for two further years?’ So, on the one hand you would have the programme level narrative information quite carefully integrated into the financial information, together with programme level historic spending data and proposed budget data and then also some forward estimates based on current policy. That would be very, very good. The other element where legislative oversight often falls short is in-year oversight. So, when it comes to executing the budget, I would say to try to match programme level information, maybe even activity level information, to what was in the budget documents initially, because

very often that is where it gets interesting. You will see, if you have read the papers in recent days about education expenditure, for example, how things can be moved.

[245] **Christine Chapman:** Are you saying that before there is a problem we need to hear from the Minister during the process well?

[246] **Dr Wehner:** A neglected aspect—. Normally, there should be at least quarterly updates on expenditure, not only against the authorised amounts, because then you would be stuck with very highly aggregated information, but ideally at a much more detailed level.

[247] **Christine Chapman:** Turning to another issue, do you think that it would be useful for us as a committee to recommend a budget process that would scrutinise the Welsh Government's spending, taxation and borrowing plans at the same time?

[248] **Dr Wehner:** Absolutely. The UK budget process at a central Government level is quite unique in OECD terms. By having the autumn statement and the spring statement the distinction between the two has become a little bit blurred. Initially, the idea was to deal with spending more in the autumn and to have more of a tax focus in the spring. Most other countries have a single unified budget process where the spending and revenue plans—. Hence, you are looking at the balance and the borrowing that needs to take place to finance any deficit. To me, that is a unified process, and ideally, I think that it should be.

[249] **Christine Chapman:** At the same time, okay. It was mentioned earlier that this committee currently has five weeks to report on the Welsh Government's draft budget. What would be your views on whether five weeks is adequate to scrutinise the spending taxation borrowing plans of the Welsh Government?

[250] **Dr Wehner:** The OECD best practice says that the legislature should receive the budget no less than three months prior to the start of the fiscal year; that is the case in your set-up. However, it still seems that the process is quite compressed. The intention in putting it that way was to say that the legislature has about three months to scrutinise the budget. It is probably not the most compressed budget process that I have seen, but there seems to be some scope to maybe extend that time period a little bit. I do not know to what extent that is possible, given the scheduling of your activities in the Assembly, but the three-month figure is because it is the median in the OECD. If you look across OECD countries, you will see that the middle legislature from that index would get the budget three months prior to the start of the fiscal year.

[251] **Jocelyn Davies:** Peter is next.

[252] **Peter Black:** I want to go back to outcome or performance-based budgeting. What are the chief benefits and drawbacks of that approach?

[253] **Dr Wehner:** If you take performance budgeting as something other than just adding some performance information to the budget, like what the IMF would call the presentational approach to performance budgeting, where you just add some targets and indicators, but they do not really matter—they are a bit like a garnish on a good plate of food—then there is not much harm done, but I still think that a large number of indicators can clutter—they can obfuscate and clutter documents that should be an important source of clear financial information.

[254] If you use performance information and put it more centrally at the heart of the budget process, you run into the problem of aggregation, which is problematic for legislatures. You would have to approve budgets at a fairly high level of aggregation. You already do that in the budget motion here, but I would argue that it should rather be the other

way around. With outcomes, you always have the problem of attribution. There are all kinds of exogenous factors that impact the outcome that you are interested in. It is very hard to say, ‘This particular organisation of the Government, through this particular intervention, had this effect on the lives of people’, because there are all these other exogenous factors that impact the lives of people. It is crucial to think about outcomes and what outputs will make the biggest impact, but the connection is so loose between outputs and outcomes because of these other factors that impact on outcomes. It is a very poor basis for accountability. My recommendation would always be to focus on the programmes in the budget. I would advocate putting them into the budget motion, because you already have a fairly good programme structure in the budget documents. Why not put them into the budget motion? You can have a general mechanism that allows a little bit of flexibility, without having to come back just when you want to spend £2 or £3 more on one programme than on another. You could say that 5% can be moved or vired between different programmes, for example.

11:15

[255] However, then you should attach output information to individual programmes, of course always with the theory of how they connect to broader outcomes and some big objectives that you have as a Government. I am very worried, however, about attempts to make outcomes a basis for accountability in Government. Certainly, if you look across the OECD—I will stop; I have probably talked for too long—the history of these ideas is so long. If you think back to the United States and to the 1940s, the initiatives have been so many, and they have almost always failed, that we should really be very cautious about that. One of the last countries that had a major outcome-based budget reform, the Netherlands, is now undoing it. It started undoing that reform a year ago, because the legislature said the budget documents had lost their purpose as financial documents with concise financial information about what Government is doing. I think these are the reasons why: high aggregation, the problem of attribution. You will not get away from that, I do not think.

[256] **Peter Black:** You have stopped where I was going to pick up. In terms of international examples of outcome and performance budgeting that would best fit the Welsh context, do you have any particular thoughts as to where we might look?

[257] **Dr Wehner:** If you are looking at performance budgeting, my strong recommendation would always be to look at an output-focused system. That will mean that you still have to think about outcomes, but you do not put them at the centre of legislative approval, control and accountability. The prime example, the country that has taken this furthest, is New Zealand, where you have output-based appropriations in the budget documents. Australia has chosen an outcome-based approach. They have become better by breaking departmental appropriations down into slightly less grand categories of outcomes. So, they have certainly improved. Some departments now have three, four or five outcomes against which money is appropriated. That is better than some years ago, when you had just a single department; the department of defence, for example, had a single appropriation for all its spending. However, that would be the approach that I favour less. If you go for a very strict connection between performance and authorising spending, then New Zealand is the model. It is an output-based model. A slightly less rigid connection between performance in terms of outputs and money would be if you just authorise money against programmes that have clear performance information attached to them, which, ideally, in my view, should be mainly output-based performance information. That would be less mechanical than in the New Zealand case. In the New Zealand case, they would literally say what the product is that you are producing. I was talking earlier about policing, for example. If you look at the police vote in the New Zealand budget, the number of breath tests conducted gets multiplied by price, and that is your budget. So, you have $P \times Q$ —price x quantity—and that gets voted and appropriated.

[258] **Jocelyn Davies:** Chris, you wanted to come in on this point.

[259] **Christine Chapman:** Yes. I must say that I am still a bit puzzled. You do not seem to be prioritising the output, the performance part of the budget. Why would we just want a budget without knowing what it is going to lead to? Why would we want to have this exercise? Obviously, it would be to scrutinise Government, but surely we are scrutinising Government on what is happening. This Government has said it wants delivery. I just wondered why we would not want to prioritise that.

[260] **Dr Wehner:** I think it is important; I would prioritise outputs over outcomes. I think that is important, at the expense of repeating myself a lot. Why is that? It is because the production of outputs is internal to an organisation. Outputs can be very clearly attributed to an organisation, with an annual time frame on top of it. So, the process of budgeting lends itself much more to thinking about the production of outputs than it does to the achievement of outcomes. An example would be climate change in 2050. It is just that the connection between what will be the state of the world in 2050 and what we are authorising this year is so tenuous that it becomes irrelevant.

[261] **Jocelyn Davies:** It is being clear about what an output is and what an outcome is, I think. Mike, do you want to come in on this point?

[262] **Mike Hedges:** Yes. May I take you back to the point that you raised about breath tests for drunk driving, for example? You could do 100,000 at a cost of £10 each, which would cost £1 million. That is your outcome, that you have done 100,000, but if the outcome is that nobody has failed the test, is that necessarily a good thing to do? You have your output, that is, you have done 100,000 of them, and you have your cost, £1 million, but, actually, the achievement is zero, because nobody has failed it.

[263] **Dr Wehner:** I think it is really important to think about what the connection is between the outputs that are being produced and the outcomes that we care about. We care about the outcomes; we do not care about the outputs, necessarily—we want to have safer roads. So, we all agree and I agree with you. I am just saying that these are questions that are quite hard to interrogate in the framework of the annual budget process, so you need to ask, ‘How do I best get safer roads? Is it by doing breath tests? Is it, maybe, by having a media campaign or something else altogether, such as a school programme where you talk to children?’ It could be so many of a number of things. You might know about the crime statistics and how they are moving at the moment and crime seems to be going down everywhere. People have a really hard time understanding why that is the case, and to make that connection between what goes on in society and the very specific interventions that you make, I think, within the framework of the annual budget process—. I am not saying that you should not do it; I am just saying do not make this the core of the budget.

[264] **Mike Hedges:** I just want to raise one last thing. Talking about car accidents and car theft, for example, both of those have been affected not by legislation, but by making cars safer with air bags, et cetera, and by making them more difficult to break into and steal. It has nothing to do with legislation or Government expenditure. It is all to do with things that have taken place somewhere else.

[265] **Jocelyn Davies:** That was not a question, so you do not have to answer that. *[Laughter.]*

[266] **Mike Hedges:** No, but do you not agree that, sometimes, you can have outcomes that have no bearing on what has actually being done by the people who we are—

[267] **Jocelyn Davies:** I think that that is your point, is it not?

[268] **Dr Wehner:** Absolutely. You are illustrating it beautifully.

[269] **Jocelyn Davies:** So, you have another example that you can use, courtesy of Mike Hedges. Ffred, do you have a question on this?

[270] **Alun Ffred Jones:** Yes. Am I right in saying that, if you believe that Governments should be concerned about outcomes in general, they should have clear ideas about what they are trying to achieve, but, in terms of the budget process, we should be concentrating on outputs that are specific to the budget, because they are more measurable? Is that your argument?

[271] **Dr Wehner:** They are certainly more attributable and their time horizon is much more aligned with the nature of the annual budget process than the achievement of outcomes will ever be.

[272] **Alun Ffred Jones:** Do you think that it is possible that a Government might be able to hide behind more general outcomes, because, obviously, in their very nature they are less specific to the budget?

[273] **Dr Wehner:** Yes, essentially. They always leave you loopholes. If things are going well and crime is going down, you might claim that there is a connection between the programmes that you have implemented and the crime reduction. When things are going badly, you will end up blaming some exogenous factors, maybe immigration, the weather, or, I do not know, the economy, or something that went wrong in the United States and affected unemployment—factors that are completely out of your control. Those are things that are much harder to do when the question is, ‘We gave you this money, what did you produce with it and why did you produce less than last year? Why did you spend it on this and not on this other programme?’ I think that, in the context of budgeting, these are much more relevant questions and questions that give you more accountability.

[274] **Jocelyn Davies:** You are more likely to achieve your outcomes, is the irony, if you focus on the outputs.

[275] **Dr Wehner:** Yes.

[276] **Jocelyn Davies:** Julie, we have come to your questions.

[277] **Julie Morgan:** These two questions are on the same sorts of issues, basically. Is there any advice that you could offer to us, in looking at the budget process, which you think would improve the situation that we have at the moment, bearing in mind that we want to have the outcomes there, but we want them in a way that is effective? Is there anything, looking at our process, that you would recommend that we should do?

[278] **Dr Wehner:** I think that some of the conclusions that I would like to advocate are—. Very often, the budget processes in legislatures that work well manage to bring expertise from the subject committees into the budget process. I know that, in your particular case, from what I have read—I do not fully understand how exactly that works—you do have the opportunity for the policy committees or the subject committees to feed into your deliberations on the budget. However, one could also take that a step further, and, as in some countries—Sweden, for example—make that a clear two-step decision-making process, where your concern is to look at the aggregates, and, by that, I mean revenues, expenditures, the deficit, and borrowing, when that becomes effective, and then how spending should be divided across different policy areas, but then give perhaps more of a role to subject committees in terms of scrutinising the prioritisation within individual policy areas. So, the

education committee might look at how the education spending is prioritised within the available envelope, and it might have some power to say, ‘Well, we think there should be more money shifted to this programme or maybe to this activity within a particular programme.’ So, it is looking at these more detailed prioritisation issues within fixed sector totals or policy area totals. That is, in my view, a very strong legislative review process, where you also have the space for all that expertise and knowledge that might emerge through programme reviews or other information about how programmes are performing in the real world and can be brought to bear on budgetary decisions. So, that might be something to consider: what the best role is for subject committees in the decision-making process.

[279] **Julie Morgan:** Could you give us an example of where that happens?

[280] **Dr Wehner:** Sweden would be a prime example. You can do it in other ways. Some finance committees have a very centralised process, but they have rapporteur structures that try to do something a little similar. In the German budget committee, for example, sub-groups of the budget committee take charge of different spending areas, and they report back to the main committee. That would be a mini version of that. However, I think that going to the subject committees, being clear about the fact that the idea is not that they come back with a long wish list for additional spending, but that they say something about the prioritisation of spending within their total, could be an interesting possibility to pursue. It is a process that I think has potential.

[281] The other thing that I would advocate—. I am not sure how audit findings are reviewed in the Assembly, but I find that many countries have a very poor connection between audits and budgets. In fact, the budget people usually despise auditors and think very lowly of them—

[282] **Jocelyn Davies:** I am developing that, definitely. *[Laughter.]* Actually, we have a Public Accounts Committee that does audit, and we have a crossover of membership. We have a number of Members who sit on both, but there is no official link between the two.

[283] **Mike Hedges:** Chair, were you not a member of that committee?

[284] **Jocelyn Davies:** Yes, I used to be a member.

[285] **Dr Wehner:** Then that informal mechanism is already quite good. There are ways of making it more formal. So, in some countries, the audit committee is a sub-committee of the finance committee—

11:30

[286] **Jocelyn Davies:** I like the sound of this. *[Laughter.]*

[287] **Dr Wehner:** The idea is that, especially if you have value-for-money reports, you can look at a lot of the issues that came from you and some of those concerns, and you can actually bring them to bear on budgetary decisions, on annual budgets.

[288] **Mike Hedges:** I feel a recommendation coming.

[289] **Jocelyn Davies:** I can also feel a recommendation coming. *[Laughter.]* Julie, do you have any further questions?

[290] **Julie Morgan:** That has covered my questions.

[291] **Jocelyn Davies:** Okay, well, thank you very much for your evidence. I think that it

has been extremely useful and you have got our review off to an excellent start, so I really thank you for that. Obviously, we will send you a transcript so that you can check it for accuracy. Thank you very much for the paper that you sent, as well. I know that we will make good use of it.

11:30

**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**

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

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

[293] I see that everyone is in agreement, so we can move into private session.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:31.
The public part of the meeting ended at 11:31.*