



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

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Mercher, 18 Mehefin 2014
Wednesday, 18 June 2014

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynndi 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**

David Gauke	Ysgrifennydd y Trysorlys Exchequer Secretary to the Treasury
Ben Pearce	Pennaeth Datganoli Cyllidol, Trysorlys Ei Mawrhydi Head of Fiscal Devolution, HM Treasury

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

Claire Griffiths	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Meriel Singleton	Ail Glerc Second Clerk
Dr Richard Bettley	Y Gwasanaeth Ymchwil Research Service

*Dechreuodd rhan gyhoeddus y cyfarfod am 11:00.
The public part of the meeting began at 11:00.*

**Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions**

[1] **Jocelyn Davies:** Welcome, everyone, to this meeting of the Finance Committee. We have no apologies today, but I remind everybody, if you have a mobile phone with you, to check it to make sure that it is off, because it does interfere with the broadcasting.

**Papurau i'w Nodi
Papers to Note**

[2] **Jocelyn Davies:** Before we move on to our substantive item today, there are a couple of papers to note. Are Members happy to note those? You are. Thank you.

Bil Cymru: Goblygiadau ar gyfer Prosesau'r Gyllideb yn y Dyfodol **Wales Bill: Implications for Future Budget Processes**

[3] **Jocelyn Davies:** We will move on to our substantive item today. This morning, we are taking evidence from the UK Government. Gentlemen, would you like to introduce yourselves for the record? Then it is up to you: you can make an opening statement or we can go straight into questions.

[4] **Mr Gauke:** I am David Gauke, Exchequer Secretary to the Treasury. With me here is Ben Pearce, also from the Treasury, who deals with devolution matters. As far as I am concerned, I am happy to go straight into questions, Chair. I am grateful for the opportunity to appear before your committee and I hope to be able to answer any questions that you have. If there are any very difficult questions, I am delighted that I have Ben here with me as well. *[Laughter.]*

[5] **Jocelyn Davies:** Okay, and if there is anything that you cannot tell us today, we are always happy to have a note from you, anyway. Perhaps you would tell us what the UK Government's primary aims for devolving the particular tax and borrowing powers that are contained in the Wales Bill are.

[6] **Mr Gauke:** I think that the main purpose is about increasing the accountability of the Welsh Government and the Welsh Assembly to the Welsh people. It means that the Welsh Government will be responsible for funding more of its spending. It is also the case that the nature of the devolution will mean that successful policies that grow the economy will also be reflected in the finances of the Welsh Government. So, principally, I think that what we are looking at here is about improved accountability to the Welsh people.

[7] **Jocelyn Davies:** So, do you think that the portion of the Welsh budget that will be raised by the Welsh Government is the bit that it is responsible for, in terms of the growth in the economy?

[8] **Mr Gauke:** Well, what I would say is that, clearly, the Welsh Government has a number of powers, whether they are already existing ones or the new tax powers that we are talking about today. The opportunity for the Welsh Government to pursue policies that will help economic growth in Wales increases. There is greater flexibility and, with that greater flexibility, comes greater responsibility. However, to the extent that the Welsh economy can grow strongly over the years ahead, there is more in it for the Welsh Government, because it should be able to see its income tax revenues grow, for example, thus giving it further flexibility as to the policies that it wants to pursue.

[9] **Jocelyn Davies:** Obviously, you will be aware that there has been criticism from the Welsh Affairs Committee and from the National Assembly here that the Bill is too restrictive in the way that tax and borrowing powers can be used, for example, the lockstep on the tax bands and the low borrowing limit. So, do you accept that the fiscal arrangements proposed in the Bill will need to be reconsidered, perhaps in a few years' time?

[10] **Mr Gauke:** I think that, with all these matters, there is a case for looking at things as circumstances change. To give an example, reference is made to the borrowing numbers. I think that there has to be a relationship between the borrowing numbers and the level of fiscal devolution. The £500 million cap is, compared with Scotland, higher than it would be if one was looking at the amount of revenue that can be independently raised by the Welsh Government. However, if there is devolution of income tax, the borrowing cap is likely to increase fairly substantially. So, there is a relationship between the two, so, if you like, automatically, that borrowing cap is something that could well be reviewed in future years.

[11] In terms of the lockstep, which you mentioned, I think that there is an issue, and I am sure that we will dive into the details of this later on this morning, and there continues to be an issue, about whether there could be a degree of unfair tax competition for the higher and additional rates without lockstep. The approach that we have taken consistently in terms of devolution of income tax is that the progressivity of the income tax system is a matter for the UK Government, rather than for devolved authorities. That is a matter that may change in future, but I think that that is a perfectly reasonable position.

[12] **Jocelyn Davies:** Mike is next, and then Julie.

[13] **Mike Hedges:** You talked about needing an income stream to support borrowing, but you do not need one for PFI, and you do not need one for leases. You could pick up £1 billion of PFI and you would not need borrowing powers, although it would be exactly the same as borrowing powers in what it is actually achieving. You could have a £1 billion lease, and you do not believe that you need an income stream for that, but you need one for borrowing. Why do you see such a big difference? The end result is that you are paying a certain sum back over 30 years except, with borrowing, it is slightly less in terms of the cost.

[14] **Mr Gauke:** The argument that I would make—and we have consistently held this approach in terms of borrowing—is that there is a relationship with income streams. It is also the case, just sort of stepping back for a moment, that I think that it is important for the UK Government overall to be able to set a cap when it comes to borrowing because it is important that we maintain our fiscal credibility. I think that straightforward borrowing by a devolved authority has particular issues in terms of public finances and maintaining credibility, perhaps to a greater extent than PFI does, and I think that it is a reasonable position. I do not know, Ben, whether there is anything that you would want to add to that.

[15] **Mr Pearce:** Not really. I think that what we are talking about here is additional borrowing beyond what the Welsh Government can currently do through its block grant. Therefore, the position that we have taken is to look at whether it has sufficient additional independent revenue streams to support that.

[16] **Mike Hedges:** However, it would not need it if, for example, you did the M4 out of PFI. It would probably cost more, but you would not worry about that. However, if you wanted to borrow it, you would.

[17] **Mr Gauke:** Well, this is additional; this is an additional power.

[18] **Mike Hedges:** Yes, but PFI is also additional, is it not? It is over and above the capital allowance.

[19] **Mr Gauke:** I think that the challenge here is that the nature of PFI, and the various contractual obligations and such, to some extent impose certain pressures on the Welsh Government that it would need to recognise in entering into it. I do not get the impression, from your questions, that you would be encouraging the Welsh Government to enter into a PFI in these particular circumstances. I do think that, when it comes to borrowing and the flexibility that exists there, it is necessary for there, first, to be a cap, and, secondly, that that cap should be based upon income stream, which means that there is the potential to significantly increase the cap, as I said, if income tax is devolved in the future—or an element of income tax is devolved in future.

[20] **Jocelyn Davies:** So, it is based on the income stream, rather than the overall resources that are available to the Welsh Government. Julie, did you want to come in on this question?

[21] **Julie Morgan:** I am just seeking clarification. You mentioned Scotland. How does the borrowing limit compare to that of Scotland?

[22] **Mr Gauke:** If one looks at the income stream that is currently devolved in Wales, if you like, the £500 million cap is significantly higher than it would be under the ratio used in Scotland. If we applied the Scotland ratio, it would be more in the region of £100 million. However, we recognise that there is a particular issue with regard to the M4. As a consequence, we have shown additional flexibility here. So, that is why the cap is at the level that it is.

[23] **Julie Morgan:** So, you have put additional money in, basically, in order to address the M4 issue.

[24] **Mr Gauke:** Yes. The borrowing cap level is higher than it would have been had we simply applied the same ratio to the income stream that exists in Scotland to Wales.

[25] **Julie Morgan:** That is because of the M4.

[26] **Mr Gauke:** Yes, that is because of the M4.

[27] **Jocelyn Davies:** So, it is a priority project for yourselves.

[28] **Mr Gauke:** Well, it is very much a priority project for the Welsh Government and we are keen to show flexibility to allow the Welsh Government to proceed on that.

[29] **Jocelyn Davies:** Is the Treasury considering any amendments to the Bill as it stands?

[30] **Mr Gauke:** No. I think that, as it stands at the moment, we are satisfied that it is in the right place. Obviously, we have gone through House of Commons proceedings, and although there are areas, which we have touched upon already today, where there is still discussion, I am conscious of and struck by, both within the House of Commons, and indeed in conversations that I have had with the Welsh Government, that, although there is not complete consensus and uniformity on everything, the degree to which all parties want to progress this, implement the Bill and take it forward.

[31] **Jocelyn Davies:** Do you think that there will be a need for a second Wales Bill?

[32] **Mr Gauke:** I think it depends on what time frame we are talking about. It is often said that devolution is a process not an event, so I am not sure that I can say forever more that this is the final settlement. However, I think that the focus at the moment, certainly from the perspective of the UK Government, and I also think elsewhere, is implementing the Wales Bill.

[33] **Jocelyn Davies:** Paul is next.

[34] **Paul Davies:** Thanks, Chair. I just want to ask you some questions about the specific fiscal limits in this Bill. Obviously, the UK Government has decided to devolve 10p of income tax. I just want to understand why that rate of 10p has been decided upon. Why not 5p or 15p? Our Conservative colleagues in Scotland have now recommended that income tax should be fully devolved to Scotland, so I want to understand from you why 10p was decided upon. What evidence did the Treasury use to come to that conclusion?

[35] **Mr Gauke:** It is a fair question, and, largely, it is a question of judgment as to what is the right level. As I said earlier, our principal objective is about increasing accountability. The

vast majority of taxpayers are basic rate taxpayers and 10p, half of the basic rate, seems a reasonable sum. I think that it is a question of judgment and people will argue over it, but it strikes me that 5p seems too small and 15p a little great. I do not think that there is anything necessarily magic about it, but I think that 10p is a very simple message to get across; we are talking about accountability and I think that is substantial enough to increase the accountability of the Welsh Government and the Welsh Assembly.

[36] **Paul Davies:** So, no specific evidence was actually used to support that conclusion.

[37] **Mr Gauke:** I think that it is difficult to produce evidence that suggests that 10p versus 9p, 11p, 5p or 15p has some kind of magical effect. However, when you are looking at accountability, I think that it is helpful for it to be a fairly straightforward number and 10p does that. It is, as I said, for basic rate taxpayers, half of the income tax level. That is the same approach that we have adopted in Scotland, so I think that it is a reasonable sum given what our objective is, which is about improving accountability.

[38] **Paul Davies:** You have already touched upon the borrowing limits. The Wales Bill command paper indicates that the UK Government will support limited early borrowing by the Welsh Government in advance of the devolution of tax powers in 2018. You have mentioned the M4 and you want to see improvements to the M4. Could you tell us how this process will operate in practice?

[39] **Mr Gauke:** On the technical work, I might ask Ben to come in.

[40] **Mr Pearce:** The early access to borrowing powers will be through the Welsh Development Agency borrowing powers that the Welsh Government inherited when the WDA was subsumed into the Welsh Government in 2006. So, it already has the power to do so. Historically, the Treasury has not enabled it to borrow over and above its departmental expenditure limits.

11:15

[41] **Paul Davies:** Do you think that the Treasury would have approved these sorts of limits if we were not seeing a Wales Bill at all? In other words, would the UK Treasury be giving the Welsh Government the additional powers to actually deal with this particular project or are you suggesting that it has those powers already?

[42] **Mr Gauke:** I suppose that the view of the UK Government is that we recognise the case for greater flexibility for Wales and we recognise the case for increasing the level of accountability for Wales. I suppose that, to some extent, it is the same mindset that brings us the Wales Bill that also brings us the borrowing powers. I think that it is best to look at them across the piece and it is a sense of giving that responsibility to the Welsh Government and the Welsh Assembly.

[43] **Paul Davies:** Just to clarify, then, you just mentioned that the Welsh Government already has some of these limited powers, but are you going to grant the Welsh Government additional borrowing powers before some of these taxes are devolved to actually deal with the M4? Is that what you are saying?

[44] **Mr Pearce:** What we are doing is basically giving it early access to its £500 million of borrowing. So, because there is a desire to proceed with the M4, we are saying that you do not need to wait for tax devolution and we will let you get on with this now and the tax devolution will come later.

[45] **Jocelyn Davies:** Without having a detrimental effect on the block grant as it stands.

[46] **Mr Pearce:** Exactly.

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

[48] **Peter Black:** Yes. Is this access to borrowing powers dependent on a particular solution for the M4? So, if the Welsh Government decided that it was not going to build another road, but would go for public transport improvement instead and borrow the money for that, that would be fine with regards to the agreement that you have got with it, would it?

[49] **Mr Pearce:** We have an agreement that it can have early access to improve the M4. The precise nature of those improvements is up to the Welsh Government.

[50] **Peter Black:** So, if it decides that it does not want to build a new road, that is fine because you have given the access to borrowing.

[51] **Mr Pearce:** We have.

[52] **Peter Black:** Okay. Thank you.

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

[54] **Julie Morgan:** Yes. So, on the early access to borrowing, does that mean that that will be out of the £500 million? It is not additional.

[55] **Mr Gauke:** No, it is part of the £500 million cap.

[56] **Julie Morgan:** Right. Thank you.

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

[58] **Christine Chapman:** I just want to better understand how HM Treasury will approve and regulate the devolved tax and borrowing powers. Could you tell me what experience HM Treasury has developed in implementing and monitoring the powers in the Scotland Act 2012 that would be of relevance to Wales? There were some practical steps highlighted, so I just wondered what experience you have had from that.

[59] **Mr Gauke:** I suppose, in part—. Obviously, the Treasury has a responsibility in terms of ensuring that the borrowing caps apply and so on. I am sure that this committee will play a very active role in monitoring and scrutinising what the Welsh Government does in terms of the additional powers that it has. In terms of the Scotland Act, those powers were granted when the Scotland Act was passed, but, at the moment, what we are focusing on is implementing those powers; they have not taken effect yet. We are in discussion with the Scottish Government on adjustments to the block grant and so on in terms of stamp duty land tax and landfill tax and so on, so, to be fair, the process at the moment is about implementing those powers as opposed to monitoring the use of those powers. Ben, is there anything that you can add to that?

[60] **Mr Pearce:** No. I think that, in terms of monitoring, as we have discussed, we have set borrowing limits. Other than that, however, we are, essentially, transferring responsibilities and powers to the Welsh Government and Welsh Assembly to do with as they see fit.

[61] **Christine Chapman:** Would there be any particular requirements from you that the National Assembly would need to adopt in designing a new budget process?

[62] **Mr Gauke:** No, I do not think that we would demand particular requirements from you. Indeed, I think that it would be presumptuous for us to do so. We would be keen to assist, and obviously there is work that the Office for Budget Responsibility is doing in terms of monitoring Welsh taxes and so on to help provide you with the information that you would want in order to monitor this. However, principally, it is a matter for the institutions in Wales to monitor, save for the fact that there are certain borrowing limits that are in place and we would need to ensure that those limits were adhered to.

[63] **Christine Chapman:** May I ask how you are working or liaising with the Welsh Government to plan for the eventual devolution of powers in the Wales Bill? Are there specific things that you are doing at the moment?

[64] **Mr Gauke:** Yes, we are establishing a joint committee to look at these matters around putting in place the Wales Bill and then implementing it. Indeed, I had a conversation with Jane Hutt earlier this week about that joint committee. We have not finalised a date as to when the first meeting will be, but it will be a meeting consisting of her, the Secretary of State for Wales, the Chief Secretary to the Treasury and me, as the Minister responsible for tax, if you like. So, that is at the ministerial level. However, there is also a lot of dialogue and communication between officials from the UK Government—whether from the Wales Office or the Treasury—and the Welsh Government, to ensure that we can implement this properly. So, there is a lot of work under way.

[65] **Christine Chapman:** Finally, does HM Treasury believe that the devolution of financial powers must be done on a consistent basis across the UK?

[66] **Mr Gauke:** No. It has never been the case that devolution necessarily follows some sort of symmetrical pattern. There are cases where more powers or fewer powers are devolved to different nations within the United Kingdom, depending upon particular circumstances. There are different circumstances with Northern Ireland, for example, because of its land border with the Republic, that make the case for devolution of some things stronger in Northern Ireland. There are different demands and circumstances with Scotland and Wales as well. It is not the position of this Government, nor was it the position of previous UK Governments, that devolution necessarily has to work in a symmetrical way.

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

[68] **Ann Jones:** Yes. Moving on from that, how would the Welsh Government seek approval from HM Treasury to create any new taxes, and how would HM Treasury decide whether to approve them or not?

[69] **Mr Gauke:** Again, within the areas that are being—. If we are talking about the areas that are being devolved, so, for example, SDLT and landfill tax, those are areas where the devolved authority has significant flexibility. Scotland, for example, is developing a replacement for SDLT that is a differently designed tax. That is, essentially, a matter for Scotland. As long as it is in the same area and is trying to do the same thing—that is, it is a tax on property transactions—the flexibility lies, essentially, with the devolved authority. When it comes to entirely new taxes, this is a longer standing issue than just the Wales Bill, because of issues we have on plastic bags and so on. I do not know, Ben, whether you have anything—.

[70] **Mr Pearce:** We have put in place a process in Scotland whereby, if the Scottish Government wants to introduce a new tax, it puts together a case setting out what the tax would be and what the impacts are likely to be and then it would ask the Treasury to approve it. Essentially, our role is to check that it complies with all of the various EU regulations and

that it will not have a detrimental impact on taxes that already exist. Other than that, it is essentially up to the devolved administration to see what taxes it wants to implement.

[71] **Ann Jones:** The command paper makes it quite clear that the Welsh Government must provide full details of the impact of any such proposals for a new tax on the UK tax revenue. So, what UK-wide data and information will the UK Government make available to the Welsh Government to enable and assist it to prepare a case for new taxes?

[72] **Mr Gauke:** I suppose the main point that I would highlight is one that I touched upon earlier: the Office for Budget Responsibility will, in future, set out details of the Welsh element of tax receipts, which will provide more information. Obviously, we would want to have a dialogue with the Welsh Government to work through it. To some extent, it is quite difficult to answer that question, because it depends upon the nature of the proposal and it can be quite specific, but obviously we want to work constructively to see what the wider impacts on the UK Exchequer would be of a particular policy.

[73] **Ann Jones:** Okay. Could you clarify the definition of the ‘no detriment principle’ and how HM Treasury will measure whether any new Welsh taxes could reduce overall UK tax revenue?

[74] **Mr Gauke:** I do not know whether this quite constitutes a definition, but I suppose the way that I think of it is that there can be a change in tax whose principle effect is more to move revenue from one part of the United Kingdom to another than either creating a new revenue stream or bringing, say, investment or economic activity in from outside the UK. Certainly, I do not know whether this quite constitutes a technical definition, but I think what we are talking about here is, as I said, something whose principal effect is simply moving revenue from one part of the UK to another, and that is where we are talking about detriment.

[75] **Ann Jones:** Thank you. To move on, then, we have established that the Welsh Government must apply to the Treasury for its borrowing, but there is no formal power within the Wales Bill for the National Assembly for Wales to approve any borrowing. So, how will the Treasury require Welsh Government to demonstrate that it has liaised with the actual National Assembly for Wales before considering any borrowing applications?

[76] **Mr Gauke:** I think it is an interesting point, but, again, principally, I think it is for the Assembly to make the case to the Welsh Government and to place political pressure on the Welsh Government if the Assembly feels that there is insufficient scrutiny. So, again, I am not sure that this is one where it is necessarily the case that it is for the UK Government to interfere or intervene. It is a matter for the Welsh institutions.

[77] **Ann Jones:** So, you would not, as a Treasury, seek to inform the National Assembly for Wales that the Government has put in a request for borrowing. You do not see that it is necessary to inform the wider body.

[78] **Mr Gauke:** I think that that question, or a variation of that question, is probably one best put to the Welsh Government, as to how it considers that it should be accountable to the Welsh Assembly.

[79] **Ann Jones:** Okay, thank you. What principles will the Treasury use to decide whether or not to approve the Welsh Government’s borrowing limit?

[80] **Mr Gauke:** The first point to make is that we would need to take into account the overall fiscal position for the UK economy. It comes back to the question: why is there a cap on borrowing? It is to ensure fiscal credibility and so on. So, again, it is difficult to give a specific answer to what would happen under specific circumstances, but I think that it would

be on the basis of ensuring the UK's fiscal credibility.

11:30

[81] **Ann Jones:** So, it is just around the UK's fiscal credibility. What about debt levels and the wider public sector within Wales? Would you consider those?

[82] **Mr Gauke:** Well, we have the cap in place and, as I touched on earlier, there is also the point about revenue streams and the relationship there. So, that is important. As for the circumstances in which the Treasury would agree to an increase in the overall cap, I think it would be a question of revenue streams and the UK's fiscal credibility, and you are right to touch upon the position of the Welsh Government but, of course, the cap is the cap—it is the accumulation of borrowing over a number of years; to some extent it is a debt cap rather than a borrowing cap.

[83] **Jocelyn Davies:** Peter, you wanted to come in on this, and then Mike is next.

[84] **Peter Black:** I just want to turn that question on its head for a minute. What evidence would the Welsh Government need to put to the Treasury to justify an increase in the spending cap?

[85] **Mr Gauke:** You are right that that is turning the question on its head but the answer is still quite similar, which is that we would look at the UK fiscal position and the revenue stream that was available to the Welsh Government, and then there is the question about, if you like, the sustainability of the public finances in the broadest sense within Wales.

[86] **Peter Black:** You have allowed early access to borrowing for the M4 project. Would you expect the Welsh Government to have to make a case for a specific project to increase the borrowing powers or would you be happy for the Welsh Government to just say to you, 'We have a number of things we want to do, which are up to us. Can you just give us extra money because we think that the UK economy can cope with it?'

[87] **Mr Gauke:** No, I think that the point I would make here is that we have provided a higher borrowing level in the particular circumstances we are in—first, with the very strong desire to improve the M4 and, secondly, in advance of a new settlement being in place with additional revenue streams and so on. So, I do not want to be giving the impression that it is only a matter of time before those borrowing numbers will be up. I think that we have made a particular case in the circumstances—

[88] **Peter Black:** I understand that—

[89] **Mr Gauke:**—and I understand that, in future, there may be another particular project that the Welsh Government is particularly keen to progress, but I think that we will have got to the position where we can say, 'Well, look, you've got the revenue streams, you've got the greater flexibility, you've got some significant borrowing powers'. So, I do not think that we will be in a rush to revisit those caps.

[90] **Peter Black:** I understand that, given that you have been so generous upfront. If the Welsh Government came to you for more money, would you expect it to have a specific project to apply that money to?

[91] **Mr Gauke:** I think that the Welsh Government can make that case, but, as you put it, I think that we have been generous or, to use another word, 'flexible' when it comes to the cap in place now. Once various taxes have been devolved and where there is the opportunity to devolve income tax and so on and therefore increase the borrowing cap very significantly,

whether we would be persuaded to go beyond that ratio, if you like, in future is a matter for a future Government. However, the point I would stress is that there were particular circumstances to have a higher borrowing cap at this early stage that might not apply in future. However, as I say, I think this will be a question for some time in the future.

[92] **Jocelyn Davies:** Mike, did you have something to add on this?

[93] **Mike Hedges:** Yes, I have two points. The borrowing cap for local authorities was not reduced when they lost a substantial amount of money when the business rates were centralised and when they then lost a substantial amount of money when the poll tax turned into the council tax plus VAT. Local authorities did not lose their borrowing power. They have the power to borrow against what they consider to be a prudential limit. The overall prudential limit is set—and local authorities are nowhere near it, so it is probably not a matter of any concern to you—why can the Welsh Government not access some of that prudential limit?

[94] **Mr Gauke:** You make an important point about what local authorities do in practice as opposed to what the limits are. The situation that we are in at the moment is a creation of the history of this, as opposed to necessarily someone sitting there with a blank piece of paper considering the best overall position we should have. When it comes to what we have now for devolved authorities, I believe that we have the balance right. It is right that there is a cap, and it is right that that cap takes into account what the income streams are. Whatever the position may be with local authorities in theory, I do not think that that undermines what we are putting in place now with, if you like, a new arrangement or new settlement that, I think, is perfectly sensible.

[95] **Alun Ffred Jones:** Byddaf yn gofyn fy nghwestiwn yn Gymraeg. Rwyf am ofyn cwestiwn ynglŷn â chronfa wrth gefn Llywodraeth Cymru. Yn ôl y papur gorchymyn **Alun Ffred Jones:** I will ask my question in Welsh. I want to ask a question regarding the Welsh Government's cash reserves. According to the command paper

[96] 'Rhaid i'r gronfa wrth gefn gael ei chadw gyda Llywodraeth y DU a bydd yn gweithredu ar wahân i'r system cyfnewid cyllidebau.' 'The cash reserve must be held within the UK Government and will operate separately from the system of budget exchange.'

[97] A allwch chi esbonio i ni beth fydd hyn yn golygu mewn gwirionedd? Could you explain to us what this will mean in reality?

[98] **Mr Gauke:** I might pass that one straight to Ben.

[99] **Mr Pearce:** There will be a pot of cash held within the UK Government, rather than in a bank account, that the Welsh Government will be able to access. Well, initially, it will be able to pay money into it if tax revenues are high, and it will then be able to access that revenue if tax revenues subsequently come in below the forecast.

[100] **Alun Ffred Jones:** Iawn, diolch yn fawr. Yn adolygiad gwariant 2010, collodd Llywodraeth Cymru gronfeydd yr oedd wedi eu casglu o ryw £385 miliwn pan gyhoeddodd Llywodraeth y Deyrnas Unedig bod hyblygrwydd diwedd flwyddyn yn dod i ben. A oes unrhyw sicrwydd na fydd sefyllfa debyg yn digwydd eto ac y bydd yr arian yn **Alun Ffred Jones:** Fine, thank you very much. In the 2010 spending review, the Welsh Government lost accumulated reserves of about £385 million when the UK Government announced that the end-year flexibility would be coming to an end. Is there any assurance that this kind of situation will not happen again and that the money will

ei golli?

be lost?

[101] **Me Pearce:** The cash reserve is slightly different from the end-year flexibility system in as much as there will be an amount of cash that is held, whereas the end-year flexibility system was a notional arrangement. Therefore, there is no prospect that this will not be available to the Welsh Government in the future.

[102] **Alun Ffred Jones:** Felly, pwy fydd yn gweinyddu'r arian hwnnw? Ai Llywodraeth y Deyrnas Unedig fydd yn gyfrifol amdano?
Alun Ffred Jones: Therefore, who will be administering this money? Will the UK Government be responsible for it?

[103] **Mr Pearce:** Yes.

[104] **Alun Ffred Jones:** Iawn, diolch yn fawr. Mae Llywodraeth yr Alban wedi cael yr hawl i gronni cronfa wrth gefn rhwng 2011-16, cyn datganoli'r pwerau trethu, hyd at uchafswm o £125 miliwn. A fydd trefniant tebyg o ran cronfa Cymru?
Alun Ffred Jones: Fine, thank you. The Scottish Government has had the right to build up its cash reserve between 2011-16, in advance of the devolution of tax powers, up to a limit of £125 million. Will similar arrangements apply to the Welsh cash reserve?

[105] **Mr Pearce:** It is not something that we have discussed, but I do not see any reason why there should not be some kind of similar arrangement put in place.

[106] **Alun Ffred Jones:** Iawn, diolch yn fawr. Mae'n debyg fy mod yn gofyn yr un cwestiwn a ofynnodd Mike Hedges ynghynt: pam na all Lywodraeth Cymru feddu ar yr un pwerau i wneud cronfeydd eraill—yr un pŵer ag sydd gan awdurdodau lleol yng Nghymru? Beth yw'r broblem, felly?
Alun Ffred Jones: Fine, thank you very much. I am probably going to ask the same question that Mike Hedges asked earlier: why can the Welsh Government not have the same powers to generate other reserves—the same power held by local authorities in Wales? So, what is the problem in that regard?

[107] **Mr Gauke:** The point that I would make, if I may initially respond, comes back to the point that I made earlier that what happens with local government is, to some extent, somewhat different in practice than in theory, and that the theory is as a consequence of a number of historic reasons. It is also the case that the nature of local authorities and their sources of revenue and so on are somewhat different from devolved authorities, so that the parallel between the two is perhaps not that helpful.

[108] **Alun Ffred Jones:** Y cwestiwn olaf sydd gennyf yw: a yw Trysorlys Ei Mawrhydi wedi gwneud penderfyniad ar addasu'r grant bloc ar gyfer y dreth stamp a'r dreth dirlenwi?
Alun Ffred Jones: The final question I have is: has the Treasury made a decision on block grant adjustment for stamp duty and landfill tax?

[109] **Mr Gauke:** On that issue, our approach here is that there are two objectives that we need to meet in terms of that block grant adjustment. The first is to reflect the revenue that is currently raised from stamp duty land tax and landfill. The second element is to take into account what is likely to happen in the future with those taxes. They are likely to go in different directions. With stamp duty land tax, the yield is likely to increase in future years, whereas landfill tax is likely to fall in future years. However, as stamp duty land tax is the bigger tax, the overall impact is that those taxes are likely to increase in aggregate over the next few years. So, the approach that we are taking—and we are currently in discussion in this context; this time last week I was in Edinburgh having a conversation with an equivalent

committee in the Scottish Parliament, so we are in discussions with the Scottish Government as to this—is that there is a block grant adjustment that reflects the current position, and then an adjustment to the Barnett consequential for future years, to reflect the likely growth in revenue from SDLT.

[110] **Jocelyn Davies:** Mike, do you have a supplementary question on this?

[111] **Mike Hedges:** I have two supplementary questions on this. You talk about people being able to keep reserves, but schools are able to keep reserves. The Welsh Government is actually being treated less favourably than the smallest primary school in Wales in its ability to keep reserves. If a primary school underspends, it just carries that forward into its general reserve. Why should the Welsh Government be treated less favourably than a primary school?

[112] **Mr Gauke:** Ben, do you know?

[113] **Mr Pearce:** That is one of the reasons we have created the cash reserve.

[114] **Mike Hedges:** The primary school can actually keep it in its own bank account.

[115] The other point is stamp duty. As you know, it is cyclical; it depends on where in the cycle it is that you decide to devolve it. If you take it now, we might be generally on a slight rise in the cycle, but had you taken it two years ago, we were probably at the bottom of the cycle. If you wait three years, we will probably be towards the top, higher up the cycle. It will vary. I know it is a relatively small tax, but I think that the general principle is, are you going to take a five-year rolling average, or a 10-year average, before you devolve it, or are you going to devolve it at the point it was at in the previous year? Stamp duty is not going to make a great deal of difference; it is only a relatively small tax. If you did it on income tax, it would have a huge effect.

[116] **Mr Gauke:** Well, it is the case that—. You know, I accept that stamp duty can be volatile. To some extent, dealing with volatility is in the nature of having greater responsibility and power over taxes, although I think that there are a number of things that we have done that, to some extent, protect the devolved authorities in these circumstances. I think that there would be a difficulty in taking the last five-year average, because, as you say, stamp duty is cyclical, and the last five years have been very much at the bottom of the cycle. So, what we would do is to take the position as it currently stands, but also I think that we would want to look into the future as to the likely yield from stamp duty. The Office for Budget Responsibility, which is obviously an independent body, signs off on any projections as to likely yield in that area, and taking into account both where we are now and what the yield is likely to be in future years, we need to work out what we do with a block grant adjustment. As I say, the approach that we are taking is a block grant adjustment on the basis of yield at the moment, but also considering what is likely to happen in the future and amending that through Barnett consequential.

11:45

[117] **Mike Hedges:** I would say that what is likely to happen in the future is that it is likely to go up and then to go back down again, is it not, assuming that you accept that the economic cycle has not disappeared?

[118] **Mr Gauke:** I fully accept that no-one has managed to eliminate boom and bust, but these will be assessments based on an independent body's views of the likely yield over the next few years.

[119] **Jocelyn Davies:** Do you want to ask your questions now, Mike—on the budget

process?

[120] **Mike Hedges:** Yes, on the budget process, there is currently limited disaggregation of UK tax and expenditure data as they relate to Wales. This is a clear limitation on the Welsh Government's ability to model its fiscal policies. How does HM Treasury plan to improve the quality of relevant data for Wales?

[121] **Mr Gauke:** I touched on this earlier, in terms of the Office for Budgetary Responsibility starting to look at yields from a Welsh perspective, which provides more data for the Welsh Government and the Assembly. So, we want to do what we can, wherever possible, to ensure that the data are of the most accurate quality.

[122] **Mike Hedges:** That is a very helpful answer. Again, with stamp duty and with the other tax, landfill tax, it does not really matter, because everything is in Wales, and we have a reasonable chance of collecting that; income tax, on the other hand, is much more complicated. I do not need to tell you that north-east Wales and the north-west of England, in some cases, run into each other and you are not quite sure when you go over the border. There is a lot of movement of people backwards and forwards, and lots of small firms, for very good reasons, do not necessarily keep the most accurate of addresses for staff, for example. There is a level of inevitability about it. People also, because places are so close together, quite often move across the border. Do you see any difficulties in collecting that kind of accurate data on income tax being paid by people who reside in Wales?

[123] **Mr Gauke:** I think that we should be able to do it. You have got to remember, of course, that HMRC has records of where people live. It is a very fair point that the Welsh-English border, certainly in some places, is pretty densely populated. I lived in Chester for a year, and you are very close to the Welsh border there, and it is quite a built-up area. Nevertheless, I think that there is a clear definition of what constitutes a Welsh income tax payer, and there should be sufficient information to ensure that that is properly applied. I think that, increasingly, the use of payroll software, for example, which is used by the overwhelming majority of employers, is such that it should be able to deal with some of the practical issues from an employer's perspective. You are right to raise it as an issue. We believe that this is something that will be manageable.

[124] **Mike Hedges:** Okay, I hope that you look at it again, because I think that, for an employer, most of the time, you only need to know the address of somebody's bank, rather than the address at which they are actually living. So, I hope that you will give that some further consideration.

[125] The other question is: will the OBR produce a forecast on Welsh taxes in the 2014 autumn statement and will we have an opportunity as an Assembly to talk to HMRC and OBR to discuss some of the issues that will come out of it? If they have to come up with a view on how much stamp duty ought to be or is considered to involve, will we have a chance to discuss with them how they come to that conclusion?

[126] **Mr Gauke:** I can certainly say that I am sure that HMRC would be more than happy to talk to this committee about the practicalities of a lot of these matters, including your previous question as to the practicalities of Welsh income tax. In terms of the OBR, I am not sure that I am—. It is, of course, an independent body, so I am not in a position to direct it, but I am sure that the OBR would want to engage, provide as much support as it can to the Assembly and have a dialogue with the Assembly.

[127] **Mike Hedges:** Thank you.

[128] **Jocelyn Davies:** Peter, shall we come to your question?

[129] **Peter Black:** Thank you, Chair. What incentives will HMRC have to collect the Welsh rate of income tax fully and to keep its administration costs down if its client, the Welsh Government, is prevented from seeking an alternative provider?

[130] **Mr Gauke:** I think that HMRC would be determined to provide a good service. There would be significant reputational risk for HMRC were it, in any way, failing to perform the role that is placed upon it. HMRC also, of course, will have responsibility in terms of the Scottish rate of income tax. I know that it is putting in a huge amount of work and effort in terms of making sure that that all works smoothly. I know that as an organisation, at the very highest levels, it is determined to perform this role. It is clearly important not just to the Welsh Government and the Assembly, but also to the UK Government that this works effectively. It strikes me that the reforms to the PAYE system, for example, the introduction of real-time information, and the increasing use of digital within the tax system all create, if you like, flexibility and the capacity to deal with these changes in a way that should not have an adverse impact.

[131] **Peter Black:** Okay. The command paper states that the HMRC can charge the Welsh Government for the additional costs of administering the Welsh rate of income tax. So, what work is being done to identify the current costs of collecting income tax in Wales, and has this work been shared with the Welsh Government?

[132] **Mr Gauke:** The first point to make is that it is a principle that I think is reasonable. It is long established and not particularly controversial that the cost of devolution is borne by the relevant authority. In terms of the work that is under way, obviously, it has been working on the Scottish rate of income tax and devolution for some time. The estimate of costs has come down from between £40 million and £45 million to between £35 million and £40 million. I would hope and expect that the experience in terms of working on the Scottish rate will prove to be very helpful and beneficial in terms of work on the Welsh rate. One would hope that that may enable costs to be reduced below what they would otherwise be. There is a lot of work on that. In terms of engagement with the Welsh Government, again my experience of the joint committee with Scotland is that that is an issue and that those practical points are very important for any joint committee. I suspect that the joint committee for Wales will certainly want to focus on HMRC's delivery and ensuring that costs are kept to a minimum.

[133] **Peter Black:** Okay. Thank you. The Assembly will receive a report from the Comptroller and Auditor General on HMRC's administration of Welsh income tax. Will we be able to direct the Comptroller and Auditor General on how this work is carried out?

[134] **Mr Gauke:** As far as directing goes, I am not entirely sure, but I have no doubt that the C&AG would want to take account of the views of the Assembly.

[135] **Peter Black:** So, there will be a dialogue.

[136] **Mr Gauke:** Yes, I would expect there to be a dialogue.

[137] **Peter Black:** In terms of the UK and Welsh Government financial accounts, how do they need to change to reflect the Welsh rate of income tax and the devolved taxes? This may be a technical question.

[138] **Mr Pearce:** Certainly, HMRC is changing the presentation of its accounts to reflect the Scottish rate of income tax. We have not looked specifically at the Wales situation, but I would expect that it would do exactly the same thing if we end up introducing a Welsh rate of income tax. So, there will be a transparent box stating, 'This is how much we have raised from the Welsh rate, and these are the associated administration costs'.

[139] **Peter Black:** Finally, obviously we will now be engaging with the OBR, HMRC and the C&AG, what arrangements are in place to make sure that the public information that they produce, particularly on their work on Welsh taxes, will be available in both official languages—Welsh and English?

[140] **Mr Gauke:** I am sure that we would want to comply with all relevant obligations in this area.

[141] **Peter Black:** Thank you.

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

[143] **Julie Morgan:** Yes, thank you. You mentioned the committee, but I do not know whether that has been set up yet or is going to be set up.

[144] **Mr Gauke:** We have not met yet. We are still finalising dates, but I think that we know who the constituent parts of the committee are.

[145] **Julie Morgan:** So, who will be on it?

[146] **Mr Gauke:** As I mentioned earlier, from the UK perspective, the Secretary of State for Wales will be on it, as will the Chief Secretary to the Treasury and I, as Exchequer Secretary with responsibility for tax. From the Government of Wales side, I think that the Minister for Finance will be part of it.

[147] **Mr Pearce:** There is a question as to whether there will be an additional member from the Welsh Government. In Scotland, they have two representatives on the equivalent committee.

[148] **Julie Morgan:** Is that two Ministers?

[149] **Mr Pearce:** Yes. We have not yet got down to the detail of whether the Welsh Government's Minister for Finance will be accompanied by a colleague.

[150] **Julie Morgan:** What position is the other Minister in Scotland?

[151] **Mr Pearce:** It is the Deputy First Minister.

[152] **Julie Morgan:** Thank you. As tax powers will be devolved to all the nations, do you see any role for a forum for all the nations to discuss fiscal issues?

[153] **Mr Gauke:** I think that there is already—

[154] **Mr Pearce:** There is a finance quad committee.

[155] **Mr Gauke:** There is a finance quad meeting, which meets from time to time. I am not sure I can tell you what the frequency of the meetings is, but there is already that capability.

[156] **Julie Morgan:** Who would be on that committee?

[157] **Mr Gauke:** As I say, the Minister for Finance—

[158] **Julie Morgan:** It is not ministerial.

[159] **Mr Gauke:** Yes, it is ministerial.

[160] **Julie Morgan:** It is ministerial.

[161] **Mr Gauke:** Yes. I think that I remember attending one of them in the run-up to the Olympics, if I remember rightly, but the Chief Secretary to the Treasury chairs that and it is made up of the Ministers of finance of the various devolved authorities.

[162] **Julie Morgan:** Does that look at disputes as well?

[163] **Mr Gauke:** Yes, it does.

[164] **Julie Morgan:** You mentioned the Olympics. Obviously, there was a dispute about how much should come to Wales as a result of the Olympics. So, is this a dispute resolution sort of body?

[165] **Mr Gauke:** It is, but I am not sure that it is necessarily restricted to being a dispute resolution forum. There may be other circumstances—I would not like to think of the other circumstances—not involving disputes, where it may well be helpful for Ministers of finance to meet.

[166] **Jocelyn Davies:** Before you move on, Julie, on the issue of the number of representatives from the Welsh Government, if you have two from Scotland, what are you debating now then? I thought that you liked to treat us the same as Scotland. So, why are there not just two from Wales as there are from Scotland?

[167] **Mr Gauke:** I am not sure that there is any particular dispute. I think that we are just in discussions finalising who—

[168] **Jocelyn Davies:** You are finalising who it will be, but it is highly likely to be two.

[169] **Mr Gauke:** If the Welsh Government would wish there to be two, I certainly do not have any objections.

[170] **Julie Morgan:** Finance planning in Wales is very dependent on UK spending reviews. To plan forward is limited by the availability of spending commitments from the UK Government. How can you ensure that there is less reliance on that?

[171] **Mr Gauke:** There will always be issues in terms of the UK Government having to set out its spending for obvious reasons, in terms of ensuring fiscal credibility and ensuring that Government finances are in a good position, and that has been very much a priority for the UK Government over the course of the last four years. So, that element will always continue to be in place. I am not sure that I have fully understood the question; my apologies.

[172] **Julie Morgan:** The Welsh budget cannot be forward looking because they are waiting for information from the UK Government. I wondered whether there was any way that that could be made easier.

[173] **Mr Gauke:** Clearly, when it comes to spending reviews, as a Government we have tried to set out our plans some years in advance and that will continue to be the case. However, clearly the UK Government will want to continue to have flexibility to have those significant spending reviews and to make decisions depending upon the fiscal situation.

[174] **Julie Morgan:** Okay, thanks. I will just go on to the Scottish referendum that is

looming large before us. Whatever the results, do you think that the devolution settlement is going to be changed?

12:00

[175] **Mr Gauke:** The point that I would make here is that, as far as I am concerned and as far as the Treasury is concerned, our focus at the moment is on implementing the Scotland Act and proceeding with and legislating for the Wales Bill and ensuring that the significant changes, as a consequence of those two items of legislation, are implemented properly. As the Prime Minister has made clear, there may well be some further debate once we have clarity as to Scotland's constitutional future. However, that is a matter for after September this year. I think that, at the moment, our focus is making sure that, as I say, the substantial items of legislation are properly implemented.

[176] **Julie Morgan:** Do you anticipate, as you do this, that you may very soon be doing something else?

[177] **Mr Gauke:** I am not sure that it is helpful at this stage to be speculating as to what the future may hold. I think that we obviously need to have clarity as to Scotland's future constitutional position and, as far as speculating about what the future may hold, I think that it is better to wait until—

[178] **Jocelyn Davies:** I do not think that Julie was asking you to speculate, because there are two scenarios and I am sure that you are not going to wait until after the referendum before you consider the impact of either of those scenarios.

[179] **Mr Gauke:** The point that I am simply making is that I think that the debate on the future, in terms of whether there is further devolution and so on, is clearly ongoing. There have been contributions from my party and other parties as to all of that, and I fully accept that. I think that, from the point of view of someone here representing the Government, our focus is on implementing what has already happened or is in the process of happening, but clearly there is going to be a debate as to what the future holds. No-one is arguing that everything is going to be frozen and that there will be no further devolution and so on, but rather than be drawn into what the future may hold, I think that, as a Government Minister, I should be waiting until we know what is going to happen.

[180] **Jocelyn Davies:** It does seem as though all political parties seem to be promising something in the event of a 'no' vote, but I am sure that you have got an eye on that.

[181] **Mr Gauke:** Indeed; of course.

[182] **Jocelyn Davies:** At the minute, you are just focused on the reality of the current legislation.

[183] **Mr Gauke:** Yes.

[184] **Julie Morgan:** Finally, the Welsh Affairs Committee has recommended that the issues of fair funding and reform of the Barnett formula should be resolved before the general election in 2015. What is the Treasury's view on that recommendation?

[185] **Mr Gauke:** Our position has been consistent in that our big focus in terms of how the public finances are concerned is dealing with what was a record deficit. We have brought it down significantly, but there is still some way to go. So, our priority is dealing with the public finances as a whole. I think that only once we have managed to essentially address that would we look at the Barnett formula. However, the point that I would make is that these matters are

very complex; they are very challenging. There is probably a reason why a formula has remained in place for as long as it has, which is because it is quite difficult to address some of these areas. So, as I say, our focus in this area at the moment is on dealing with the very large deficit and reducing that.

[186] **Julie Morgan:** So, it is unlikely that anything will happen before 2015.

[187] **Mr Gauke:** Yes; I think that it is very unlikely that the Barnett formula will be reopened in that type of time frame. That is not what we are focused on.

[188] **Jocelyn Davies:** Although, you accept that it does need revisiting, but that it is not a top priority.

[189] **Mr Gauke:** On whether there will be any reforms of it in future, that is not our focus. There is clearly a debate on it, but there is a whole range of views on it.

[190] **Jocelyn Davies:** However, at least you are not saying that it does not need any reform. You are just saying, ‘At the moment, it is not what we are focusing on.’

[191] **Mr Gauke:** As we have said, as a Government, our focus is not on the Barnett formula. There are those who will argue against it, and there are those who will argue in favour of it. The important point is that we have some big challenges there. I would rather downplay the view that there is some easy solution to this, and some easy reform. I do not think that there is.

[192] **Jocelyn Davies:** Julie, would you like to come in here?

[193] **Julie Morgan:** I would like to ask about the disputes again. Do you think that there has been a satisfactory dispute resolution on whether money applies to the whole of the UK, or whether it is for England only?

[194] **Mr Gauke:** Well, there is this forum. There will be disagreement from time to time, but, by and large, that system has held up pretty well, I think.

[195] **Julie Morgan:** Is there a case for an independent forum? Some countries have that with regional arrangements—possibly Australia, or somewhere like that.

[196] **Mr Gauke:** You may well be right; I am not sure. However, I think that the system as it works currently seems to be successful.

[197] **Julie Morgan:** Yes, though you referred to the Olympics, and I think that there is a view that Wales lost out quite considerably on the money from the Olympics.

[198] **Mr Gauke:** Whenever there are disputes, it is very often the case that not everybody is satisfied with the resolution.

[199] **Julie Morgan:** The Treasury usually wins the disputes. [*Laughter.*]

[200] **Mr Gauke:** As a Treasury Minister, I am tempted to say that I would like to think so. However, I am not sure that that is necessarily always the case.

[201] **Julie Morgan:** So, you do not see the case for an independent body to look at disputes.

[202] **Mr Gauke:** No. Ultimately, when it comes to public finances, the UK Government is

the body that is accountable. However, the experience of recent years is that there has been a willingness on all sides to engage and that there has been dialogue and reasonable people working together.

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

[204] **Mike Hedges:** Yes. The Olympics are never given to a country, are they? They are always given to a city. There is a winning city. So, how the Olympics being given to London is seen as an all-British project bemuses me, but I do not think that I am going to win that argument here. The question that I would ask is: would there not be a role for the Office for Budget Responsibility to come up with a recommendation or thoughts on whether something was an all-British project, a purely English project or, in the case of the Olympics, purely a London project?

[205] **Mr Gauke:** That would be outside the scope of the Office for Budget Responsibility as it has been constituted. My response to any suggestion of expanding the scope of the Office for Budget Responsibility is that it is a very good addition to our system, that it is acquiring a very good reputation, but that it is still a new body, and that we should be careful before imposing new burdens and obligations on the Office for Budget Responsibility outside its central role, which is making economic forecasts and scrutinising and validating the impact of policy measures.

[206] **Mike Hedges:** Coming back to the Olympics, surely that is something that would have an economic impact, would it not? You would work out where the economic impact was occurring, and the Office for Budget Responsibility certainly has done that, whether it is public or not. It probably is not. It would have worked out where the major benefits were, and that, in itself, would be expanding its scope from the collection of information, which it already does, into using it to inform something else.

[207] **Mr Gauke:** No, I think that this would be a somewhat different matter. As far as I am aware, I am not sure that the OBR has undertaken any specific work in the context of the Olympics. This would be a significant change in the OBR's responsibilities. As I say, it is important that the OBR continues to develop its reputation for performing its core functions independently and effectively.

[208] **Jocelyn Davies:** Possibly, another body could do that. You mentioned that the forum works well. It probably does work quite well for yourselves, but there is a lack of transparency there, because, obviously, there is a discussion or a dialogue and you might come to a compromise or you might not, or you just might reject what other administrations say. So, do you not think that there is an issue with the lack of transparency around these decisions?

[209] **Mr Gauke:** No, I am not sure that I would agree with that. The nature of it, where you have devolved environments, is that there will be occasions where there will be disagreements between the devolved authority and, in this case, the UK Government. However, as I say, I look back on the four years that I have been performing this role—and my role, to be fair, is more with regard to tax rather than public spending—and I am not sure that it is one that could be characterised by a sense of endless disputes and failure to reach resolutions. Of course, there will be differences; we all come from slightly different perspectives, but I would characterise it as a period in time in which various Governments have sought to work in a co-operative way. In terms of transparency and accountability, I do not think that there are any great little secrets held within that forum that are not within the public domain.

[210] **Jocelyn Davies:** If you were a member of the public or a member of this institution, it

would not be easy for you to see the workings out. Otherwise, we would not have Mike Hedges today still arguing about the Olympics and the fact that Wales lost out on the Barnett consequential. I am sure that we can all think of arguments where we have never been fully satisfied with the outcome, because we cannot see the workings out.

[211] **Mr Gauke:** Again, to some extent, it is the Welsh Government that is accountable to this committee and, no doubt, this is a matter that you have discussed with it.

[212] **Jocelyn Davies:** Yes. We are usually on its side. [*Laughter.*] Although, there you are.

[213] We have come to the end of our questions, and you have answered them all. I do not think that you agreed to send us a note on anything; you did not need to. So, thank you very much for attending today. I think that was very useful. We will have a draft of the transcript and send it to you, and perhaps you could check it for factual accuracy before we publish it.

[214] **Mr Gauke:** That is fine.

[215] **Jocelyn Davies:** We will perhaps now move into private session. Thank you very much.

12:13

**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**

[216] **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).

[217] Is everybody happy? I see that you are.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 12:13.
The public part of the meeting ended at 12:13.*