



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

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

**Dydd Iau, 26 Mehefin 2014**  
**Thursday, 26 June 2014**

**Cynnwys**  
**Contents**

Cyflwyniadau, Ymddiheuriadau a Dirprwyon  
Introductions, Apologies and Substitutions

Papurau i'w Nodi  
Papers to Note

Ymchwiliad i'r Arfer Gorau mewn Prosesau Cyllidebol: Sesiwn Dystiolaeth 5  
Best Practice Budget Processes Inquiry: Evidence Session 5

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**

Laurie Davies	Rheolwr Gwasanaethau Busnes, Swyddfa Archwilio Cymru Business Services Manager, Wales Audit Office
Don Peebles	Pennaeth y Sefydliad Siartredig Cyllid Cyhoeddus a Chyfrifyddiaeth yn yr Alban Head of Chartered Institute of Public Finance and Accountancy Scotland
Ian Summers	Cynghorwr Arbenigol Special Adviser
Kevin Thomas	Cyfarwyddwr Gwasanaethau Corfforaethol, Swyddfa Archwilio Cymru Director of Corporate Services, Wales Audit Office

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

Bethan Davies	Clerc Clerk
Claire Griffiths	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Martin Jennings	Y Gwasanaeth Ymchwil Research Service
Meriel Singleton	Ail Glerc Second Clerk

*Dechreuodd y cyfarfod am 10:33.  
The meeting began at 10:33.*

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

[1] **Jocelyn Davies:** Welcome, everybody, to the committee. I have not received any apologies, but I understand that Julie Morgan is about to join us. She is on the train at the moment. I usually ask people to turn their mobiles off. Apparently, it does not interfere with the broadcasting, but could you check that they are on silent? If your phone rings, it is very embarrassing for you.

10:34

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

[2] **Jocelyn Davies:** Before we get to our first substantive item, we have a paper to note, namely the minutes of the previous meeting. Is everybody happy to do that? I see that you are.

**Ymchwiliad i'r Arfer Gorau mewn Prosesau Cyllidebol: Sesiwn Dystiolaeth 5  
Best Practice Budget Processes Inquiry: Evidence Session 5**

[3] **Jocelyn Davies:** We move to our first substantive item, which is our best practice budget processes inquiry. This is our fifth evidence session. We have Don Peebles with us from the Chartered Institute of Public Finance and Accountancy. We will ask him to introduce himself in a moment and then we will go straight into questions. Don, thank you very much for sending us a paper in advance. Of course, Members will have read that. Do you want to introduce yourself for the record? Then we will go straight into questions.

[4] **Mr Peebles:** Good morning, everyone. My name is Don Peebles; I am the head of CIPFA Scotland.

[5] **Jocelyn Davies:** For the record, could you summarise the recommended principles for designing a budget system and how your whole-system approach of performance financial management can assist public bodies?

[6] **Mr Peebles:** Yes, certainly. First of all, may I say that I welcome the opportunity to contribute to the inquiry? I also commend the committee for undertaking this inquiry; it is a significant piece of work that, as an institute, we are definitely interested in and, as I said, are very keen to support. The evidence that we provided to the committee relied quite significantly and heavily on a document that we produced a number of years ago that identified public financial management—. Sorry; can the committee hear what I am saying?

[7] **Jocelyn Davies:** Yes, we were just wondering whether the sun was in your eyes, Don, or are you comfortable?

[8] **Mr Peebles:** No, I am okay.

[9] **Christine Chapman:** We always treat our witnesses like this.

[10] **Mr Peebles:** With a spotlight, is it?

[11] **Jocelyn Davies:** It might be, Don, that you have a halo that you cannot see, but we can see.

[12] **Mr Peebles:** It follows me around. No, I picked this up in Cardiff.

[13] **Jocelyn Davies:** Yes, we can hear you.

[14] **Mr Peebles:** It relied heavily on the document, 'Public Financial Management', which looked at the wider system of budgetary control in a more rounded context. Typically and traditionally it is normal for Governments and public bodies to look at the budgetary process as a very narrow process. Quite simply, it is the allocation of funding on a one-year basis, followed by expenditure, again on a one-year basis. There are, however, a number of areas that impact upon that, ranging from legislation all the way through the standards to the actual execution of it. There is a range of other factors as well, notwithstanding the political context and the environmental context, all of which have to be captured to enable a process to

be designed that is fit for purpose for any particular country or body.

[15] What we do not do is prescribe what a budget process should look like. What we do is to recognise the factors that should be in place to enable the best budget process to be developed, specific to an organisation, country or specific body.

[16] **Jocelyn Davies:** Are there any examples where this model has been applied and it has led to improvements that you would like to put on the record for us?

[17] **Mr Peebles:** There is a range of positive examples. I am quite taken with the international budget survey, which is undertaken on a two-yearly basis. It gives an indication of the best performing countries based on around 92 questions. One hundred countries are surveyed and the countries incorporate the bulk of western European countries, including the United Kingdom and the United States. The consistent best performer is New Zealand. It is the highest scoring, on a score that ranges from zero to 100. New Zealand typically comes out around the mid-90s or so. To benchmark that against the UK, we come in around about 90 or so. The lowest performing country is Qatar with zero, in effect. So, that is the scale.

[18] Generally, over the last number of years, the country that we have looked at as best practice has usually been New Zealand. That is for a number of reasons. Over the last 20 years, it has undertaken a lot of work to reorganise not only its fiscal system, but also its performance management system, to align quite closely the priorities of Government with the fiscal responsibility that it actually has. So, there is quite an alignment, perhaps more so in New Zealand than there is in any other country, and a high expectation that there will be public participation as well.

[19] **Jocelyn Davies:** When you say ‘UK’ and ‘we’, you are describing the UK Parliament, are you?

[20] **Mr Peebles:** I am talking about the United Kingdom, rather than the individual devolved administrations.

[21] **Jocelyn Davies:** So, is that all of us combined?

[22] **Mr Peebles:** No, that is the United Kingdom Government.

[23] **Jocelyn Davies:** Okay. Could you estimate how things are in Scotland at the moment and in Wales as we currently stand? Where would we come on this spectrum?

[24] **Mr Peebles:** As an estimate, without scoring against every question, because, despite being devolved nations, we are part of the wider UK framework and we adhere to the elements of good practice there, my expectation, without scoring specifically, is that the devolved nations are likely to score quite highly on that—in the upper quartile, I would expect. But, that is not scientific. That is just an estimate on my part.

[25] **Jocelyn Davies:** Okay. We still have some way to go. Peter, shall we come to your questions?

[26] **Peter Black:** What are the key weaknesses in the current budget system in Wales and the other devolved parliaments?

[27] **Mr Peebles:** Did you say ‘in Wales’?

[28] **Peter Black:** Yes, and in the other devolved parliaments.

[29] **Mr Peebles:** What tends to be identified as an area of weakness—and this is going to be different across the devolved administrations and the UK Government—is the extent to which legislation determines exactly what should happen, and the clarity of that legislation. Secondly, I would point to the availability and clarity of financial information—usually, the translation of that into something that is understandable, which, for some, is transparency. Thirdly, I would point to public engagement. There are different approaches to public engagement, which is seen as a key element of a good financial management system. Public engagement tends to be pre-budget engagement, and it tends to be limited to interest groups. It tends to be a system or process that not everyone feels that they are participating in. There are elements of good practice out there that can be built on, but we will probably go on to that later. So, it is those three areas to which I would point.

[30] **Peter Black:** How is Scotland in particular planning to revise its budget system to meet its new devolved powers?

[31] **Mr Peebles:** The budget system is presently undergoing development to do that. There is a series of proposals that are in place. What is happening, in the wider context, is that, rather than just simply being a body that spends money, the Scottish Government has become a body—as will be the case in Wales—that taxes and borrows as well. So, there are three elements: the tax, the borrowing and the spending. The process that has been designed since 1999, in effect, has been towards spending. What is going to happen as a consequence of that is that, as the phased requirements of the Scotland Act 2012 come into being, the budget process will be modified to enable the legislature and then the scrutiny committees to be able to identify what their role is and to have an opportunity to look not only at spending but at tax and borrowing as well so that they would take an approval role on all of that. It is a phased development rather than one significant modification to the system as it stands at the moment. The point that I would make is that it is still within the UK Treasury framework as well. So, there is not the wider opportunity to develop because there is no further legislation other than the legislation that is defining the specific taxes.

[32] **Peter Black:** I think that Mike wants to come in on this issue.

[33] **Mike Hedges:** On budgets and expenditure, I have a general question. My experience of local government here is that the more you spend, the more you are likely to get in the future. If you identify pressure, that works against being more efficient. With regard to social services in local government and health here, if we gave health another 5% of the Assembly budget, it would probably come very close to overspending next year, if not overspending, and it would claim that it was still not enough. In local authorities, social services are exactly the same. How do you get out of the situation where one service area puts a huge amount of pressure on the total budget and, however much it gets, it will never be enough?

[34] **Mr Peebles:** I guess that what you would have to start to look at would be what the priorities of the Government are, and then align the priorities of the Government to the funding that is available. I suppose that there is a responsibility for politicians in this regard, in that while research tells us that increasing funding specifically does not necessarily enable or support improved service delivery, we are all aware of the extent to which, politically, it can be attractive to protect a budget, perhaps most notably health and education. It would be, I suppose, for politicians to determine and to underline the rationale for that, but perhaps we will go on to talk about outcomes later on in the session. To answer your question specifically, as to how we get out of that situation, I would first of all point to the legislative requirements, and what the service is there to do. There will be a core requirement for that. Secondly, there will be additional expectations that will be aligned specifically with the priorities of the Government. Thirdly, there will be local expectations, priorities and outcomes that will have to be addressed. The result of all of that should be a process that aligns the requirements underlying that with the available funding, supported by an extensive scrutiny

and audit function, which enables difficult, hard and objective questions to be asked on the extent to which the funding, and the subsequent expenditure, actually adheres to the requirements for which the funding is being provided.

10:45

[35] **Peter Black:** That takes me to my next question, because we have talked about international comparisons, and those countries that follow the Westminster model tend to give less weight to the legislature and more to the Government and, as a result, the scrutiny function is not as strong. How can more balance be achieved between the Assembly and Welsh Government in setting the budget and improving that scrutiny function, particularly when you have these massive budgets like health, which is just one line in the budget, but is something like two thirds of the Assembly's budget?

[36] **Mr Peebles:** There are two points on that. Interestingly, the United Kingdom, in terms of budget transparency, comes out as moderate rather than strong, which is perhaps an interesting dynamic. Secondly, the point that I would make on that is that the information that is needed to undertake scrutiny is usually held within Government. What would be required is a developing relation with Government to enable the recognition, and it may well be legislative-based, of the information that is needed to enable effective scrutiny to take place. You cannot determine that by legislation alone; relationship comes into that to a massive extent. However, it should be feasible for the legislature and scrutiny function to be able to identify and to define what is needed to enable that function to take place. Improved transparency would bring that.

[37] **Peter Black:** In terms of examples of best international budget practice, we have mentioned New Zealand. Is that the best model that we should be looking at, or are there other models?

[38] **Mr Peebles:** It is worth looking at New Zealand, but Canada also tends to come up and, although it is a federal system, the United States is still to be looked at—not 100%, but certainly elements of the United States have good examples.

[39] **Peter Black:** Does the United States not go too far the other way? It tends to get budget paralysis rather than—

[40] **Mr Peebles:** It depends on what element or part of the United States you look at. If you go into specific states, what you can see, for example, in the state of Virginia, is a fairly tight mechanism whereby there are actually explicit objectives of the state that are aligned specifically to the budget and that is related directly then to the information that is needed to scrutinise on an ongoing basis. The set objectives are not actually cast in stone—they redefine them over time and they get an opportunity to re-examine, and the oversight body has a key role to play in all of that. However, I accept that there is a mixed picture there depending on what part you are looking at.

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

[42] **Christine Chapman:** Yes. Sorry, I think I misheard you. Did we talk earlier about the worst example? I did not understand because I did not hear that properly. What is the worst country or area?

[43] **Mr Peebles:** In the index that I was referring to with New Zealand at the top, the worst-scoring country is Qatar.

[44] **Jocelyn Davies:** Which scores zero.

[45] **Mr Peebles:** Yes, that is right.

[46] **Jocelyn Davies:** Peter, had you finished? You have. Ann, shall we come to your questions?

[47] **Ann Jones:** Right. What key areas of financial management performance information do you believe are required to improve the accountability of the Welsh Government's budget?

[48] **Mr Peebles:** I think that, over time—I would perhaps point to research that was undertaken in Scotland on this—we found that the budget process, which was not necessarily aligned to outcomes specifically, which is what was being looked at, actually identified performance information that was extensive and significant, but it was also complex and it was very difficult to get through. What we would be looking for in a redesigned system, I suppose, would be performance information that is as understandable and achievable locally as it is understandable on a national basis. So, it takes you all the way through, from the defined set national priorities on a series of integral parts to identify exactly what needs to be done in each area in order to determine and to identify performance. For example, on the wider strategic element, it may well be that performance is identifiable and can only be looked at over a period of 25 years, say. To get to that, however, you would need performance information and a set of performance indicators or suite of performance measures that identify where we are along the path at three, five, 10 or 15 years, say, to enable those who are undertaking scrutiny and who are managing the process to identify the extent to which progress is actually being made.

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

[50] **Mike Hedges:** Yes, it is exactly on this point. I will call it the M25 question or the knee surgery question. You talk about meeting demand et cetera, but, if you build a new road, you increase demand. Knee surgery is a classic example. There are lots of people like me who have minor cartilage problems and have not done anything about it, but if I thought that I could go to my doctor tomorrow and pick a date in the summer holidays to have it done, I would probably have my cartilage dealt with. The difficulty is that when you try to match it up, what you get is new demand. I am not going to have anything done to my knee for probably another 20 years, but if could book it in for the fourth week in July and go in and have it done, I would do that now. The point I am trying to make is that you try to match it to demand, but demand can increase when capacity increases.

[51] **Mr Peebles:** I suppose that within that, again, I would go back to the overarching requirement about why we actually make funding available for specific things. This is maybe the part when we actually come to talk about outcomes, which is about why we actually do certain things rather than what we actually do. So, on health expenditure generally, we would be looking to increase the wellbeing and the health of the nation and it is not necessarily to undertake x number of operations or y number of operations, which is actually where we are going. I think that that comes to the heart of your point that, when you become target-driven to that extent, more actually appears to be better in effect. That is when there is a disconnect between what is happening locally and the service that is being 'demanded' and the overarching outcome that Government is seeking to achieve.

[52] **Mike Hedges:** The point that I was trying to make was that the more you make some things available, the more demand increases; you do not meet the demand, you just get new demand added. The M25 is the road example, but knee surgery is the health example.

[53] **Jocelyn Davies:** Okay. Ann, shall we come back to you?

[54] **Ann Jones:** Yes. If I come back to performance information, what is the most relevant to the Government here, to the legislature here, and also to the public? What type of performance information is required, do you think?

[55] **Mr Peebles:** Performance information, in itself, may not necessarily be financial. There will be a whole host of types of performance information that you are actually going to need. The information that will enable you to plot progress against Government objectives will come from not just simply budget monitoring, but staffing records; it will also come from statistical records on service delivery. All of that will have to be captured to enable you to undertake an assessment of the extent to which progress has either been made against budget or that Government priorities are actually being met.

[56] **Ann Jones:** How can we make public finances more transparent for the Assembly without creating that unmanageable volume of data that we would all have to carry around?

[57] **Mr Peebles:** I guess, with transparency, there are maybe two elements to it. There is the transparency that is needed for those who are undertaking the scrutiny, but there is also the wider transparency and understandability for the public who do not necessarily engage in the process. To do that, it may well be that there has to be a redefinition of the type of information that is provided. I am quite taken with the notion of what is called—and this is research done in another country—a ‘citizens budget’ which actually breaks down the complexity of all of the financial information in the format that we currently prepare and makes it a shorter document that is more readable, and, dare I say it, more understandable, to the public here, who, generally, as I said earlier, do not necessarily or normally engage in the process.

[58] **Jocelyn Davies:** Julie, did you have any further questions on this? I know that you wanted to ask about transparency.

[59] **Julie Morgan:** Yes. Which country would you say is the best at transparency?

[60] **Mr Peebles:** At being transparent, at the risk of mentioning New Zealand again—

[61] **Julie Morgan:** New Zealand, is it? [*Laughter.*]

[62] **Mr Peebles:** As it comes so high in all the scoring, we tend to look quite well on that country. It tends to be a bit of torch carrier for all.

[63] **Julie Morgan:** Does it produce the sort of information that the public can easily understand?

[64] **Mr Peebles:** It does. I came into contact with New Zealand a number of years ago in another role, and one of the things that it had championed was an understandable version of the financial accounts, which, generally, for most people, are fairly complex. It cut that down into what was called ‘a summarised version’ and reduced it from something like 45 to 50 pages to around 2 to 3, which were written in a manner that people could understand and then identify the extent of the public funding being used, what it was being used for and what that meant overall in relation to the objectives of Government.

[65] **Julie Morgan:** Does it produce a children’s budget?

[66] **Mr Peebles:** I do not know.

[67] **Julie Morgan:** There is a version that we put out here of the budget that it is intended

for children to understand. You do not know about that, or if that happens anywhere else?

[68] **Mr Peebles:** No, I do not have any information on that.

[69] **Julie Morgan:** Shall I go on, Chair?

[70] **Jocelyn Davies:** Yes, please.

[71] **Julie Morgan:** What role do you see for the Wales Audit Office if there was a new budget process? How would you see it operating and what do you believe it should do?

[72] **Mr Peebles:** In the budget process itself, typically, auditors will not have a role in the process, other than to look at the system. The auditors will not seek to be certifying the budget as such; there would never be a role for them to do that, if I have understood the question correctly. The role for the auditors—and this is where their interest would be—would be the extent to which the system that is in place, all the way from legislation and adherence to that legislation to effective delivery through government and to individual public bodies is being adhered to, which is called a systems audit. That is the role that I would see for them.

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

[74] **Mike Hedges:** Yes. I have two questions. The first follows on completely from what Julie asked, and the other is tangential. I will ask the one that follows on first. Do you not see a role for audit to feed in to finance? That is, if audit is finding issues relating to how money has been spent, should that not be feeding in to questions and the way in which it will be spent in the future?

[75] **Mr Peebles:** My expectation is that that is probably what should be happening anyway. Studies would be undertaken that identify the relevance of the current spend against the programme for government, and that would be reported.

[76] **Mike Hedges:** However, it does not tend to inform us. Do you think that it ought to inform us more? We look at the budget in isolation on a yearly basis, without being informed by the audit committee or the auditor general's work that has taken place in the previous year. Do you think that that should be informing us?

[77] **Mr Peebles:** I think that what we are getting at here is the extent to which, perhaps, the budget process at the moment is seen in isolation. There is the publication of the budget, and then that is it. Beyond that, of course, there is a significant number of sub-processes, not all of which are transparent to the committee and the relevant subject committees. On an ongoing basis, the audit process will, and indeed should, be undertaking the report and that should come to the committee and be informing the scrutiny. Yes, absolutely.

[78] **Mike Hedges:** Too often, things just seem to stop after the report is written. It is filed somewhere and we move on and it is thought that we do not need to do anything more with it.

[79] **Mr Peebles:** If I may add to that, maybe central to that is a role for the Government, in that there should be a mid-year report as well as an end-year report about progress against the budget and on the finances. That should incorporate any adverse or, indeed, positive comment from outside agencies, including audit.

[80] **Mike Hedges:** My next question is slightly tangential, so I hope that I am not ruled as being out of order. It used to be, in terms of data, that there were lists of unit costs for doing things. I have not seen that in recent years. It has probably fallen out of use, because if you were low, it was obviously because you are highly efficient and doing things so much better

than everybody else, but if you were high, it was not quite comparing the same things and you were doing more difficult tasks and that is why it was higher. So, people were good because they were good, but bad because of external factors. Do you think that there is a role for unit costs?

11:00

[81] **Mr Peebles:** What we are describing is probably benchmarking, and I see a role for benchmarking. I believe that it would be right not only for Governments but public bodies to benchmark against each other to do that. A range of information and, maybe, additional information is necessary, not least unit cost. I would caution against using unit cost in isolation as a measure of success. I would also caution against a narrow use of benchmarking for success or failure. Benchmarking typically enables public bodies to utilise the data as what are sometimes colloquially described as ‘can openers’, in that they allow them to understand where they are on the current spectrum and understand better the type of service that they actually provide. Public bodies, it is likely, will be designing a service that is specific to their locale, and so, local choice will actually come into that, and that may well be reflected in the benchmarking cost, whether it be indicators or unit costs.

[82] **Mike Hedges:** On something like obstetrics, of course, you have only one outcome, and everybody is having exactly the same experience, hopefully.

[83] **Jocelyn Davies:** Ffred, shall we come to your questions?

[84] **Alun Ffred Jones:** Byddaf yn gofyn yn Gymraeg. **Alun Ffred Jones:** I shall be asking my questions in Welsh.

[85] Rwy'n gofyn ynglŷn â phroses y gyllideb. Rydych chi wedi rhyw gyffwrdd â'r ateb i'r cwestiwn cyntaf yn barod, ond pa gamau ymarferol y gall y Llywodraeth eu cymryd i ddangos y cysylltiadau rhwng ei gwaith cynllunio strategol a'r gyllideb? I want to ask about the budget process. You have sort of touched on the answer to the first question already, but what practical steps can the Government take to demonstrate the connections between its strategic planning and its budget?

[86] **Mr Peebles:** This comes back to transparency, I would say, and the requirement of reporting. If we have linkage between the set programme for government, which, in effect, is an expression of priorities, and then an ongoing demonstration through a series of mid-year reports and end-year reports, that should enable the linkage to be identified and become more transparent.

[87] **Alun Ffred Jones:** Mewn tystiolaeth flaenorol, clywsom un tyst yn sôn y dylem fod yn mesur *outputs* ond nid *outcomes*. Rwy'n cymryd mai'r hyn a oedd ganddo dan sylw oedd bod *outputs* yn gamau ymarferol y gallwch eu mesur a bod *outcomes* yn aml iawn yn bethau hirdymor a allai gymryd degawd neu fwy i'w cyrraedd. A ydych yn cytuno yn fras â'r diffiniad hwnnw? **Alun Ffred Jones:** In previous evidence, we heard one witness say that we should be measuring outputs but not outcomes. I take it that what he meant was that outputs are practical steps that you can measure and that outcomes are longer term things that could take 10 years or more to deliver. Would you agree with that definition?

[88] **Mr Peebles:** I would broadly agree that outcomes, when we talk about them, are likely to be of the longer term. An outcome in itself might be something that is not time specific, but is an admirable ambition or expectation that could take a generation or more to actually achieve. To do that, along the line, it may well be necessary to undertake and identify a series of outputs to get there on the road. So, yes, I would probably broadly agree with that

definition.

[89] **Alun Ffred Jones:** Rydych yn cyfeirio at yr angen i gael mwy o amser ar gyfer y craffu. Pa newidiadau y bydd eu hangen i amserlen y cylch cyllidol i ganiatáu i hynny ddigwydd?

**Alun Ffred Jones:** You refer to the need to have more time for scrutiny. What changes would be needed to the annual budget cycle to allow that to happen?

[90] **Mr Peebles:** I think that what I would point to is that information should be available after the financial year end to enable committees and any other scrutineers to identify performance against budget. I would also expect the budget process, as it currently stands, to incorporate further information, as we go into the new powers, on taxation and borrowing, which will come before committees. In times of the timescale, what tends to be recommended is budgets coming before the legislature for between two and four months, and you can benchmark Wales against that and find that you will probably come out quite well. Where there is probably scope for development is in the availability of information and the flow of information from the Government to the Assembly.

[91] **Alun Ffred Jones:** Mae CIFPA wedi argymhell hefyd y dylid creu proses gyllidebol yng Nghymru sy'n annibynnol ar gylch adolygiad o wariant y Deyrnas Gyfunol. Pa mor hawdd a fydd hynny yn ymarferol?

**Alun Ffred Jones:** CIFPA has recommended that we should create a Welsh budget process that is independent of the UK's spending review cycle. How easy would this be in practice?

[92] **Mr Peebles:** I think that what we recognise is that, while part of the UK framework, you cannot disengage entirely from it, but the impact that the spending review will have is that it ties you specifically to funding considerations over periods of three years rather than the longer term. What is entirely feasible is for a new Welsh system to be designed that enables adherence to that within the current framework, but enables you to undertake longer-term financial planning—or medium to longer-term financial planning—within that restriction, to get the information that you need more quickly and also to understand the progress that you are making towards your objectives in a different way.

[93] **Alun Ffred Jones:** Yn olaf, beth ddylai rôl y Cynulliad fod o ran craffu a monitro gofynion benthycu blynyddol a'r ddyled gyffredinol hefyd—pethau nad ydym yn draddodiadol wedi'u gwneud yma?

**Alun Ffred Jones:** Finally, what should the Assembly's role be in scrutinising and monitoring annual borrowing requirements and the general debt—things that we have not traditionally done here?

[94] **Mr Peebles:** The role generally—this is the same for most of the devolved administrations—is to scrutinise and to understand the extent to which spending is being undertaken. Taxation powers and borrowing powers bring a different discipline, but you cannot disconnect the three, in effect. I would see no difference between the oversight role of the Assembly and of its scrutiny committees over borrowing and taxation to the one that you have currently for spending. The interconnectedness of the three is that to adhere to, and to require, the determination of what the objectives are may require an element of taxation that may well be spent and you may have to borrow to do that as well. Borrowing will actually have to be repaid over a period of time. You will need to understand the extent to which that is sustainable and actually affordable. So, the role that I would see for you is an approval role, but also in receiving appropriate information to let you know the affordability of the borrowing that has been proposed—not only that it is sustainable but that it fits with the strategic objectives. I think that the important thing to remember about borrowing is that it will not be providing any organisation or Government with any additional money. What is happening is that you are rescheduling tax receipts, in effect.

[95] **Jocelyn Davies:** You mentioned the financial year-end information, and you think that we should have that at the time when we are considering the budget for the following year.

[96] **Mr Peebles:** Yes, I think that it is important to understand performance in the previous year so that you can identify what was proposed to be spent, what was actually spent and what the deviations were. Within that, I do not just think that that should happen at the year's end; I think that that should be an ongoing process for the scrutiny committees to understand, so that you can monitor progress throughout the year. However, before you can go into the next financial year, it will be important to understand exactly what the picture was for the previous financial year. So, yes, you should have that.

[97] **Jocelyn Davies:** Mike, did you have a question at this point?

[98] **Mike Hedges:** It is just another one of my little bugbears. One of the problems with that is if you tell people that they must spend all their budget—I have been there—come March, it is a case of, 'Buy computers, buy something, get money out of the door'. Your next year's budget is going to be based on this year's, so if you underspend this year, there is a danger of being penalised for underspending, so you just get money out of the door. One of the things that I worked on at the City and County of Swansea council, which my successors stopped, was allowing people to carry underspends forward so that you gave people the benefit of underspending, rather than penalising them. If you penalise people for underspending, they will do their utmost to get the money out of the door. Do you agree?

[99] **Jocelyn Davies:** That was not really a question.

[100] **Mike Hedges:** It was; I said, 'Do you agree?'

[101] **Jocelyn Davies:** It was a cheeky little statement. Do you agree with that, Don?

[102] **Mr Peebles:** I am happy to respond to that. I am happy to say something on that, because I recognise the budget behaviour that you are describing. Unfortunately, it is identifiable within the public sector. There is a mindset among some, not all, that budgets and the size of budgets are representative of importance, somehow, and that reduction to budgets is something to be wary of. One of the means whereby budget protection takes place is by budget spent and a characteristic of that, usually, is spending at the end of the year. You are absolutely right; it is usually because the process of budgeting is what we call incremental, which means that next year's budget is entirely based on what you have spent in the current year. What that fails to identify, however, is that there are inefficiencies associated with that. To maintain spend and design budget on the previous year's spend, what you are actually doing is locking in the inefficiencies from the previous year, in effect. The way to address that is a behavioural shift, necessarily. The more inter-governmental bodies collaborate and where there is greater understanding of budget, that should start to break that down to address that. The point was made earlier about a single line budget. That level of information does not allow you to scrutinise that appropriately. However, again, that will come back to improved and greater transparency.

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

[104] **Alun Ffred Jones:** Surely, if you are measuring outputs compared with the spend, that should get over the problem of merely looking at whether they have spent all the money or not. Surely, it is the outputs that will give you traction on whether the spend has been successful or not.

[105] **Mr Peebles:** Yes, if you can get it to that level. It depends what we mean by the

outputs. With some of the outputs, it may well be that more is better and less is somehow perceived as actually being worse, if it is at that level that I think he is talking about.

[106] **Jocelyn Davies:** However, the point about the sort of rush at the end of the year to spend the money so your budget does not get cut is a slightly different point from having financial end-year information, is it not?

[107] **Mr Peebles:** Agreed. Yes.

[108] **Jocelyn Davies:** Okay. That was a cheeky question from me then, Mike, matching yours. [*Laughter.*] Ffred, have you finished with your questions?

[109] **Alun Ffred Jones:** Yes.

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

[111] **Christine Chapman:** We know, Don, that the credit crisis showed us the problems faced by banks and Governments in not recognising off-balance-sheet liabilities and commitments. Do you think that the Assembly should have a role in scrutinising the debt levels of other public sector bodies taking on the debt funded by the Welsh Government, and do you think that it would be useful to create a Welsh Government balance sheet showing the overall financial position?

[112] **Mr Peebles:** I suppose that what that is representative of and what it sounds like is what is similar to what is published in the United Kingdom. There is a United Kingdom balance sheet that is produced on an annual basis. For those who are interested, you can actually see, at a glance—certainly for one day at the point it is actually produced, which is 31 March—what the level of UK indebtedness is. That is designed exclusively and specifically for the United Kingdom. The individual devolved administrations do not have that. We are in the developing debate within at least two of the devolved administrations about the extent to which that should be replicated in some way. Where that actually does get traction is the fact that, when you are moving from being a body that is spending money to being a body that is actually raising funding as well and, potentially, borrowing, there has to be a different expression of what your financial position actually is.

[113] As a finance professional—if you were to ask me what that is—I would say that that is a balance sheet, in effect. Also, for fiscal control, should that take into account other bodies? Yes, it would. It would take into account local authorities that also engage in indebtedness. What you would be describing would be a Welsh public sector balance sheet. I can see the benefits of that. I think that you would have to be clear about what you actually wanted to use it for. You would also have to be clear about the limitations of a balance sheet and what it can actually tell you. However, importantly, you would have to use it in association with a whole host of other elements of information, including forward sustainability of public services. However, it would be an important starting tool to enable you to get information as you move into a different devolved financial settlement.

[114] **Christine Chapman:** Are you supporting the Scottish Government in creating a Scottish balance sheet? Are you involved with that work?

[115] **Mr Peebles:** As I understand it, the Scottish Government does not have any proposal to prepare a Scottish balance sheet. The Government itself produced a document just over a year ago that spoke about a Government balance sheet, but that was in the context of constitutional debate. Separately, and in the past, we have advocated the benefits of a balance sheet for Scotland. Before the Scotland Act 2012 came into force, we recognised that there would be different financial requirements on Government and that a different means of

expression was necessary for the financial position. We advocated a devolved Scottish balance sheet at that time.

[116] **Christine Chapman:** Okay. So, we could look at that evidence as well. I think that it was with Peter that you talked about time frames earlier. Obviously, this is a question about making sure that Welsh Government budgets are forward-looking and that they give a clear medium-term outlook. Could you tell us what time frame should ideally be included in the annual budget? I know that you referred to it earlier, but this is for the record.

11:15

[117] **Mr Peebles:** Again, this comes back, I suppose, to the characteristics of all UK Government budgets, which tend to be focused on a single year. However, in reality, the decisions that are actually being made by politicians are intergenerational. I suppose what constrains it is the underlying legislation that is there at the moment that enables the UK vote to be taken on an annual basis, and then the spending reviews over a period of three years or so means that the time frame, financially, tends to be short, whereas the decision-making time frame tends to be fairly long. What that actually does—and this is the impact that it actually has—is to constrain any demand or desire for medium to long-term financial planning, in effect, notwithstanding the fact that when you are undertaking decisions on schools and hospitals, they will be in place for perhaps a generation or more. So, if you actually moved to medium-term financial planning, you would probably be looking at around five years. A longer term than is 10 years and beyond, in effect. As I say, that tends to constrain or be constrained by the spending review periods, which have been different over a number of years but tend to be every three years or so.

[118] **Christine Chapman:** Do you agree that budgetary plans should identify risks, including the longer-term sustainability of Government policies, including how these risks are being identified, assessed and managed?

[119] **Mr Peebles:** I think that it would be essential for any system here to identify what the risks of any decision are. I think that that is particularly true, and an example may be in the consideration of borrowing and the extent to which borrowing can and will be repaid over a longer period of time. A risk-based approach to a capital contract would be absolutely essential.

[120] **Christine Chapman:** So, you have identified the risks in that. What new information would be needed to manage these risks in terms of the Welsh Government's budget once tax and borrowing powers are devolved?

[121] **Mr Peebles:** There are two elements to that, I suppose: there is the tax side, and then there is the borrowing side. I will focus on those two. The requirement will be to forecast the level of tax receipts to generate a level of income to enable you to actually undertake expenditure. One underlying risk, of course, could be volatility or change in the taxation income. It will have to understand the extent to which that is movable over time.

[122] On the borrowing side, one of the big risks, of course, is interest-based risk and the movement on interest rates, either up or down. The information that you will actually need to enable you to address those risks will necessarily be undertaken by officials, but should be translated into a manner that enables you to get an assurance that the risks have actually been identified and answered, and that there is a plan there to manage each individual risk.

[123] **Christine Chapman:** Thank you. Mike, did you want to come in on this point?

[124] **Mike Hedges:** Yes. One question is on tax. Tax is volatile. I have never known

anyone to get exactly the amount of tax that they expected. It has either been higher or lower. It is almost impossible to get what you plan because you have a year of things happening. Would you agree with that? The other thing is that I have seen some budgets—I cannot remember where, now—where fixed and variable costs are split. Do you have any views on that?

[125] **Mr Peebles:** On tax, looking ahead, the answer is ‘yes’ and that is because we are forecasting and looking ahead. You can do many things, irrespective of who you are, but you cannot foretell the future. The best that any professional can actually do, based on the information that they actually have and on likely estimates and the expected position, is to come up with a reasonable forecast of what the tax position will actually be. What you actually get will undoubtedly be different to that specific figure. However, the issue is about managing the different issues, identifying what the parameters are and being clear that because you are forecasting you can never be exact.

[126] Secondly, fixed and variable costs will be elements of any cost profile. Rarely do budgets get expressed, certainly for politicians, in that format, but, usually, when we are actually undertaking a costing exercise, we would be looking at things in terms of fixed and variable costs. So, you are absolutely right to identify those two as being critical to any overall costs.

[127] **Mike Hedges:** I have just remembered where that comes up—school budgets.

[128] **Jocelyn Davies:** Individual school budgets.

[129] **Mike Hedges:** When you look at individual school budgets, you see that they do not actually use the words ‘fixed’ or ‘variable’ but they do split it in such a way that they have the fixed and the variable in there.

[130] **Jocelyn Davies:** They are identifiable. Okay. You know that the Holtham commission recommended that Welsh Government borrowing should be governed by similar principles to the prudential borrowing code for local authorities.

[131] **Mr Peebles:** Yes.

[132] **Jocelyn Davies:** That is certainly a system that we, on this committee, favour as well, but the Wales Bill, instead, has this fixed borrowing limit of £500 million. Are there any aspects of the prudential code that could still be incorporated into the budget process to monitor that borrowing?

[133] **Mr Peebles:** Yes. I think that when we talk about the implementation of a control framework, I suppose that one of the disappointing elements—and this is as true in Scotland as it is here—is that what we tend to revert to is a cap and we tend to set a fixed sum. It tends not to be related in any way to strategic priorities or to affordability. Setting a specific figure can have the impact of undermining what you are actually looking to do. That said, because it is set by someone else, we have to adhere to that, but what this means is that we can look to build in other elements from the prudential code. The prudential code was never just intended to be about the control of borrowing. What the prudential code was intended to do was to actually drive an improvement in practices, which was to better align the need for borrowing and for an access to assets with available resources and also to demonstrate an improvement in the extent to which options were appraised. So, that meant that the information that was going to come before decision makers would be better in nature and would enable a direct link to be made between the affordability of a specific project and the requirements of the project itself. By just introducing a cap, you can tend to lose those elements of it. So, what I would say is that you could then potentially be looking to introduce, as a proxy for all of that,

a greater focus on option appraisal and an improved development of the mechanisms whereby capital schemes come before either individuals, public bodies or, indeed, committees for approval.

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

[135] **Mike Hedges:** Yes. Sorry; I come back to one of my hobby-horses, I am afraid. You set it up at how much you can borrow and there are fixed limits, but if you have a fixed limit—. There is no fixed limit on the amount of PFI that you can have, or on the amount of leasing, so you can borrow £1 billion, or have £1 billion-worth of expenditure under PFI without any need for an income stream. You can have £1 billion lease and there is no need for an income stream. If you need £1 billion of borrowing, you cannot have it because your income stream is not high enough, whereas borrowing would almost certainly, if it was from the Public Works Loan Board, be the cheaper option of the three. I do not understand that. Can you explain it to me?

[136] **Jocelyn Davies:** This is another ploy to get a statement in as a question. *[Laughter.]* Would you like to attempt to explain it?

[137] **Mr Peebles:** What I am prepared to say about that is that there are a number of ways to actually gain access to assets, and PFI is one and borrowing is another. Should there be transparency of all? Yes. Should they all be properly accounted for? Yes, I would say that. I think that whether something is borrowed and is on the balance sheet, or whether it is something that is accessed by a different financing method, what it actually is is a liability—a forward liability that has to be taken into account when you are assessing affordability. That is the key point that I would make.

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

[139] **Paul Davies:** You have referred to outcomes in some of your earlier answers and in your paper you recommend that, as a committee, we should explore the potential for a more outcome-based approach to budgeting and financial management. Can you give us examples from your experience of outcome-based approaches that have been successfully incorporated into budget processes? I presume that you will give us New Zealand as an example, so if that is the case, can you tell us what New Zealand is doing to make it successful in that particular area?

[140] **Mr Peebles:** I am going to depart from that and rather than mention that country, I will mention that there are various international examples. One of the simplest and easiest examples that explain it, which appeals to me, is the United States. They have a four-step process that looks at price, which is the revenue that is available to them. They then look at the price of Government, and they look at the price of the priorities that it has. Then, they consider how that should be allocated and what that should mean in practice. I guess what this comes down to is a consideration of what we mean by outcomes generally. The concept of outcomes, in effect, is about why we are doing something, and that is what it is all about, and we referred to that earlier, when Mike asked that question.

[141] There are various examples throughout a number of countries. Generally, however, we find that it is easier if you come up against the barriers for outcome budgeting, rather than to find a clear pathway to implement outcome budgeting. Research was undertaken in Scotland a number of years ago, and they very quickly got to what the barriers were. Interestingly, they found that one of the early barriers was talking about outcome budgeting; they preferred the term ‘outcome planning’, because ‘outcome budgeting’ tends to refer narrowly to money. When you talk about outcomes generally, necessarily, what you are then looking at is a wider range of organisations that will be required to deliver, implement and

achieve success and outcomes.

[142] In the current set-up, it is probably true of all the devolved areas in the UK that they are not set up or financed in a way in which individual outcomes can be achieved easily. In the NHS, for example, the funding is provided to enable equal access, but that is different from outcomes, which will be a wider consideration of where we want to be. So, the current infrastructure and the processes that we have in place in the UK were never designed for that; they were designed for a different funding system and for specific different reasons.

[143] There are good international examples, and I can probably talk for too long about what the barriers are. However, interestingly, we have to understand the barriers before we get to where the successes are, because those countries that have done well have found their way over the barriers.

[144] **Jocelyn Davies:** Ffred, did you have a supplementary question on this point?

[145] **Alun Ffred Jones:** Yes. You seem to suggest that the desirable goal is a budget that has clear outputs but that it is almost impossible to obtain it, because there are barriers. Presumably, there are successful models that we could look at, if we wanted to. They have not all failed, presumably.

[146] **Mr Peebles:** Yes. There are numerous examples, and in the submission we refer to a number of them, and I have drawn out the United States example specifically for you. However, it would take two years to get to that. I think that you have to understand what the local issues are in order to address them, because there are behavioural and structural issues. If you look at a simple example, and this may answer your question, you would see that the wider outcome may be something that cannot be achieved for a generation or so. The outcome in itself may not necessarily be represented by inputs, but there may well be political pressure to determine what the inputs are, which may be class sizes or the number of police officers or teachers. It may well be, to achieve outcomes, that a different, modernised type of service may be necessary, which may well result in rationalisation of buildings. It may well result in a completely different look at how services are delivered. It may even mean that there are fewer schools rather than more, and it may well be that there are fewer hospitals rather than the current number. That then comes up against an immediate political barrier, because, locally and individually, people will associate schools and hospitals with success, rather than what the goal may be 25 years down the line.

[147] **Paul Davies:** I must admit that I am struggling a bit with the outcomes-based approach, because it is so long term. How would you make outcomes meaningful, as far as that particular budget in that particular year is concerned?

11:30

[148] **Mr Peebles:** You are right to draw attention to that. As it is long term, and everything else and the associated infrastructure is short term—four to five years in terms of the annual budget process and election periods—none of it would actually adhere to that. So, as to the decision that is made today, while it may well be that you are intending to achieve something down the line, there may well be 25 years before that is actually achieved. Meanwhile, democratically within all of that, there are questions to be answered and there are votes, I suppose, to be taken. What that actually means is that, in reality, the outputs that are necessary to achieve those outcomes have to be part of the journey. So, there has to be a recognisable means whereby you can progress all the way through to the outcome, so that at any point in time it is feasible for anybody to identify. That comes back, I suppose, to the performance management framework and saying, ‘That is what we want to achieve by way of outcome and this is where we are on the journey’.

[149] **Jocelyn Davies:** Mike has a supplementary, Paul. Do you mind?

[150] **Paul Davies:** No.

[151] **Mike Hedges:** A scheme that I am very favourable towards is Designed to Smile, which gets children cleaning their teeth within the school environment. The output of how many children doing it is quite straightforward, but the outcome appears quite a way down the line. It has been going on now for several years. I have a quick anecdote: I was talking to a group of children about it, and I said, 'You stop having fillings'. One little girl put her hand up and said, at 11 years of age, 'What is a filling?' What I mean is that it takes years for the outcomes to start coming through. How do you judge a scheme like that, where the money is being spent now, in competition with doing a whole range of other urgent health activities? I believe it is a really a great scheme and it is going to reduce things in the future, but we have had to wait five years or so for it to start coming through. Do you see a problem with that, if not least with us politicians, who like to see something happening immediately?

[152] **Mr Peebles:** I think that we would all like to see something happening immediately. The example that you have given is a good one. In terms of an increase in the dental health of children, the driving force is actually in schools, in effect, and is unconnected to the health budget. So, what that actually means for outcome planning and budgeting is recognition that the driver for that success is not where we actually expect it to be at the moment. While the budget may well sit within health, it may well be that, over time, there is a causal shift across to another part of the public sector. On your point about wanting to see results immediately, with outcomes, you are not going to get that. I think that is one of the issues; you are looking for something instantaneous, which I think is part of the wider system that we have at the moment, in which it is easy to see targets—targets either go up or down and you can make an assessment—but that does not tell you the long-term picture. I think this is where there is a completely different process and understanding, for everyone to expect and understand that a decision made on something like that may not necessarily provide you with the results and the certainty that you are looking for until sometime down the line. However, what that does not mean is that you do not have a right to expect reports on progress. What you can do is sub-design information that comes along to you so that you can challenge the progress or otherwise towards the achievement.

[153] **Jocelyn Davies:** Paul, shall we go back to your questions?

[154] **Paul Davies:** As a committee, we have received international evidence that attempts to structure budget tables so that allocations are based on outputs or outcomes have had some mixed success. What, in your view, is the best way to ensure that a system is in place that ensures that budget information is closely aligned to Government strategic priorities, while ensuring that sufficient detail is available to the legislature to ensure draft budget scrutiny is actually meaningful?

[155] **Mr Peebles:** First, there has to be clarity on what the priorities are and clarity on what that outcome actually is. Secondly, there also has to be a real understanding, when we are looking at outcomes and when we are considering what the wider ambitious outcomes are, that the individual delivery agencies through which they might be assigned probably will not be able to achieve them in isolation. The likelihood is that a range of various organisations will actually be achieving that outcome.

[156] What will be critical to understand is the role of each of the agencies that are involved in that and the extent to which they are planning jointly and are collaborating to achieve that. As to the example we just spoke about on dental health, we spoke about two agencies where it normally might just simply be one, and there may be others who are directly involved. To

come back to the research that was undertaken a number of years ago, what was identified was that one of the key roles is that you have to map spend across a whole range of agencies to enable you to identify what the level of necessary funding actually is. That would have to be the first thing that would enable that to come to you on an ongoing basis to identify that there is progress actually being made.

[157] **Paul Davies:** Reference was made to Scotland earlier, so how is information on outcomes being included in the budget process there?

[158] **Mr Peebles:** The switch to outcomes, I would say, has been matched by a change in the budget process. What you can now see, however—and it took some time for this—is an introductory text alongside each budget area that says what the outcome actually is and sets the underspend thereafter. Alongside that, of course, there is a performance management framework that sets the specific expectations and the specific outcomes. The subsequent expectation then is that the Government and all the subsequent public bodies will align budgets alongside that. It is work in progress, in all honesty.

[159] Everyone is looking for what the solution might be and what it should actually look like. What everybody is coming across, of course, is the fact that spend at the moment is directed towards areas that might not necessarily be directed towards the outcomes that have been specified at the moment. They tend to be historic. It tends to be reactive spend and it tends to be, in many cases, addressing areas for negative outcomes. What public bodies are finding in practice is a difficulty in shifting away from the necessary spend on the negative outcomes to actually being able to invest in what are the forward outcomes. That is a changing picture on an ongoing basis.

[160] What that means in practice, to come back to answer your question, is that the progress that is being made, whether it be a Government or an individual public body, is a recognition through various documents—the national budget and the single outcome agreements—that there has to be a description of the extent to the which progress has been made against each of the outcomes. In terms of the detail and how that is flowing through into the assessment of the resources that should be made available, I would say that it is a mixed picture in Scotland. We have community planning partnerships and the expectation going forward is that the community planning partnerships, which will almost certainly be responsible for adherence to and achieving local outcomes, will begin to jointly budget plan together, which is something that has not happened before. That is something new that I can tell you about and which, over the next couple of years, will almost certainly be happening in Scotland.

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

[162] **Mike Hedges:** Up until now, the Treasury has effectively treated Wales as just another department of Government. Now that we are moving to changes in legislation and we will be starting to generate some of our own income, things will be changing. What key issues need to be considered when preparing legislation to implement the devolved financial powers? What can we learn from Scotland for creating things like a Welsh treasury?

[163] **Mr Peebles:** There has been development in a number of areas in Scotland. There is a current separate debate that is ongoing. What I see in Scotland is that there has been development—where there has been a reduced skill set, we have imported, having identified where there is a shortage, and introduced a specific finance office and a specific tax collection office to support these necessary powers. You are absolutely right to draw attention to the UK Treasury. All of that was, in effect, done centrally. The major challenges ahead are not only identifying the skill set, but being able to identify the necessary individuals to fill the key posts for that.

[164] One of the examples I can give you is on borrowing. The Government, traditionally, outwith Treasury, does not have any skills and has not had to have any skills in operating with the market in borrowing large sums of money. It may well be that, if there is access to the market, it will have to do that. Comparing that to local authorities, local authorities have professionals who are skilled in accessing, and in speaking generally and on an ongoing basis to, the market. When the Scotland Act 2012 was being introduced a couple of years ago, we suggested to the Government that, rather than trying to buy in a whole raft of expertise and experience, it could collaborate with local government and that, in the spirit of shared services, perhaps it could utilise the expertise there. That is potentially a practical solution that may be worth thinking about.

[165] **Mike Hedges:** The other thing that local authorities do, of course, is invest balances and carry forward balances. However, local authorities are in a slightly different position, in that they are almost certain to get more money in their budgets because new buildings are put up during the year. Most years, in most local authorities, there is a greater income than they budgeted for at the beginning. With the Welsh Government, that is not likely to be the case. So, that creates a slight variation with local authorities.

[166] The question that I have is: do we need to look at the way that we do things? Up until now, what we have done is look at total Welsh Government expenditure. We have looked at it, the subject committees have looked at it within their areas, and then, after a series of political discussions, the money has been taken through the Assembly and been agreed. If we are going to have to do the two sides of it now, if we are going to have to do some of the income as well as the expenditure, should we be looking at the way we work in order to deal with that?

[167] **Mr Peebles:** Yes. You are right to point out—and I alluded to this earlier—that the focus for all the devolved administrations has been on spend, and spend only. Two additional dimensions come in now: tax-raising powers and borrowing powers, to varying degrees. Will that make a difference in what you do? Yes, it will because the information that will come before you will be different. The information that you will be looking for will be different necessarily. You are going to be looking for the linkage between all of those elements, in effect. So, yes, it will mean a change in what you do. In terms of the general scrutiny that you undertake, the overall spirit of that work will be the same, however, the dimensions that you look at will be different.

[168] **Jocelyn Davies:** Right, well, we have run out of questions. Even Mike has run out of questions. [*Laughter.*]

[169] **Mike Hedges:** I can ask some more if you want. [*Laughter.*]

[170] **Jocelyn Davies:** If he can think of any more, we will send them to you, and perhaps you would be so kind as to respond.

[171] **Mr Peebles:** Yes, I will do that.

[172] **Jocelyn Davies:** That evidence was very useful for us in relation to our inquiry. As usual, Don, we will send you a transcript, if that is okay with you. Perhaps you would check it for factual accuracy before we publish it. So, I propose that—

[173] **Alun Ffred Jones:** May I come in?

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

[175] **Alun Ffred Jones:** I wish to ask a specific question. Since we have heard a lot about New Zealand, do we have examples of how it goes about things?

[176] **Jocelyn Davies:** I think that we should go and see. [*Laughter.*]

[177] **Mr Peebles:** I would be happy to provide a summary note on New Zealand.

[178] **Jocelyn Davies:** Yes, so we would have a clear example of that. We will certainly do that.

[179] **Peter Black:** Chair, if we are having notes, Virginia was also mentioned as somewhere worth looking at.

[180] **Jocelyn Davies:** Yes, Virginia.

[181] **Mike Hedges:** If we are having summary notes, may I ask—

[182] **Jocelyn Davies:** I knew you would want the last word.

[183] **Mike Hedges:** Sorry. May I just ask for a note on what is happening with the creation of the Scottish treasury and what they are doing?

[184] **Mr Peebles:** Okay.

[185] **Jocelyn Davies:** Don, are you happy to send us that?

[186] **Mr Peebles:** Yes.

[187] **Jocelyn Davies:** Thank you very much. I therefore propose that we now go into private session.

11:44

**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**

[188] **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).*

[189] Is everybody content? I see that they are.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:44.  
The public part of the meeting ended at 11:44.*