



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

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

**Dydd Mercher, 22 Hydref 2014**  
**Wednesday, 22 October 2014**

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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)

Mike Hedges	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Ann Jones	Llafur Labour
Julie Morgan	Llafur Labour
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives

**Eraill yn bresennol  
Others in attendance**

Yr Athro/Professor Max Munday	Cyfarwyddwr Uned Ymchwil Economi Cymru, Ysgol Fusnes Caerdydd Director of Welsh Economy Research Unit, Cardiff Business School
Don Peebles	Sefydliad Siartredig Cyllid Cyhoeddus a Chyfrifyddiaeth Chartered Institute of Public Finance and Accountancy
Mike Usher	Arweinydd y Sector, Iechyd a Llywodraeth Ganolog, Swyddfa Archwilio Cymru Sector Lead, Health and Central Government, 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
Tanwen Summers	Dirprwy Glerc Deputy Clerk
Joanest Varney-Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser

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

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

[1] **Jocelyn Davies:** Welcome, everyone, to this meeting of the Finance Committee. I have received no apologies and we are expecting Julie Morgan to join us shortly. May I remind you to check that your devices are on silent, please? If you hear a fire alarm, it might be a genuine emergency, so follow the directions of the ushers.

**Ymchwiliad i'r Arfer Gorau mewn Prosesau Cyllidebol—Rhan II: Sesiwn  
Dystiolaeth 3  
Best Practice Budget Processes Inquiry Part II: Evidence Session 3**

[2] **Jocelyn Davies:** We will go to our first substantive item on the agenda today, which is our best practice budget processes inquiry part II. This is our third evidence session, and

our witness today is the director of the Welsh economy research unit at Cardiff Business School. Would you like to introduce yourself for the record and then we will go straight to questions, if that is okay?

[3] **Professor Munday:** Okay. I am Max Munday and I am with the Welsh economy research unit at Cardiff Business School.

[4] **Jocelyn Davies:** Thanks very much. Just for the record, one of the auditor general's specific—. Sorry, I have gone to the wrong questions, because we changed the order around. I reminded everybody about that—. I have them now. I was reminding people earlier that we changed them around and then I switched them back myself. Do you want to summarise briefly the work that you do at Cardiff Business School in relation to researching the Welsh economy and public spending? Would I be correct in assuming that the work that you do in this sphere is normally commissioned by others?

[5] **Professor Munday:** By way of background, I am in the economics section at the Cardiff Business School. We have had a Welsh economy research unit since 1992, so it is quite a longstanding unit within the business school. It is fairly interdisciplinary. Most of my staff in the unit are economists, but we have a few on the social side. We are quite a small unit. Within the economics section of the business school, we have a number of people who are undertaking research on the Welsh economy outside of the Welsh economy research unit, but we do a lot of specific research within the centre. Our expertise historically really reflects, I guess, the personal interests of some of the constituent members, so, in my own case, I am very interested in foreign direct investment and inward investment. I have colleagues who specialise in the tourism sector and I have other colleagues who are very interested in economic modelling.

[6] As a unit, for many years, we have produced what we call the input/output tables for Wales, which is a set of accounts for the Welsh economy that can be used for modelling purposes. We have undertaken that work since—. Well, I guess that we started that work in the early 1990s. That has gone through several iterations. The latest sets of accounts that we have are for 2007, but we tend to try to update these through time. We have used those tables for various evaluations, some of which have been funded by Welsh Government and organisations that are now under the hands of the Welsh Government. We have had some sponsorship to develop those accounts. For example, the last substantive iteration was assisted with moneys from the Environment Agency Wales, as then was, because we were trying to develop an environmental module to sit on top of the economic accounts, so that we could show, for example, how changes in economic activity in one sector might have environmental consequences, but they led on that. However, as I say, we developed those accounts for a large number of years now.

[7] **Jocelyn Davies:** Do you do specific pieces of work for organisations? I seem to recall the housing association sector commissioning work so that you could show what the effect of its spend was on the economy as a whole.

[8] **Professor Munday:** Yes. Just for example, for Community Housing Cymru, I think that we are in the sixth iteration now of works for that organisation, where we try to model the impact of its spending on the Welsh economy, to try to assess how much employment is supported directly by its activity—and indirectly by its activity. Similar pieces of work in terms of evaluation include work we have undertaken for the Aneurin Bevan Local Health Board, looking at the impact of its spending. One of the interesting things there was to try to discover what would be the impacts of slight or very marginal changes in health sector spending in Wales: for example, on the greater local sourcing of food, what would be the local economic impacts? The frameworks within the tables have also been used to support evaluations of the structural funds in Wales. That goes back to the Objective 1 programme,

where we tried to assess some of the indirect effects of the spending with Objective 1. So, they have had a wide application for many years.

[9] **Jocelyn Davies:** Ann, shall we come to your question?

[10] **Ann Jones:** The Wales Bill plans to devolve new tax collection and borrowing powers to Wales from 2018. How significant will those powers be to the Welsh economy?

[11] **Professor Munday:** Well, potentially very significant. I think the issue would be that the significance is going to depend upon the quality of the decisions that are made. That would be my main concern. If good decisions are made, whatever that tax may be—whether it is income tax sometime in the future, or the other components of the tax system where there is interest, such as stamp duty, landfill tax or whatever it may be—the significance of the change will be related to the quality of the information that the Ministers and the civil servants have to actually make good decisions. That would be my concern. It is very early doors, really, to talk about significance.

[12] **Ann Jones:** Okay, thanks. How do other regional Governments forecast their fiscal position and measure the impact of their activities?

[13] **Professor Munday:** I can talk in a little bit of detail for Scotland only. If I start with the second part on the impact of Government spending and of changes, the Scottish Government does make extensive use of the Scottish input/output tables to assess the impact of potential tax changes. It also works quite extensively with the university sector to develop models to assess changes. So, I think that the other thing would be that what helps that position in the Scottish case is that its input/output tables, on which its more complex models are based, are actually official statistics; whereas, in Wales, our input/output tables are not official statistics but are produced by the university sector. So, our colleagues in Scotland make great use of IO tables to measure the impact of policy and to examine the impact of changes in the Scottish economy, in new industrial openings and closures, changes in the tourism sector, and changes in environmental legislation.

[14] **Jocelyn Davies:** How long have they been collecting the official statistics in Scotland?

[15] **Professor Munday:** I would have to check this, but the Scots have been in possession, I think, of official input/output tables for over 20 years. I would have to double check, but they have a long time series of tables going back many years. The Scots have also been producing, if you like, macroeconomic models of the Scottish economy through the likes of the University of Strathclyde since the late 1970s. I think that these have been more integrated into the policy framework during the 1990s, so it has been an academic exercise that has gradually found policy relevance.

[16] **Jocelyn Davies:** Mike, we shall come to your question.

[17] **Mike Hedges:** You say an input/output account for Wales came into existence in 1995, but it has been updated infrequently. I have two questions, actually. Do you know why we have not had an official input/output status for Wales? The other question is this. Are there difficulties in doing that, especially in south-eastern, or even more in north-east, Wales, with such a huge amount of cross-border movement? Actually, people could during one year be living in both England and Wales, and that probably happens quite regularly in the Wrexham and Chester area, for example, or in Connah's Quay and Merseyside.

[18] **Professor Munday:** Okay. On constructing input/output tables, the easiest way to think about this is to think about an Excel spreadsheet where you have all the industries. In

our tables, we have 70 or 80 industries, so we are looking at all the trade between these industries on this spreadsheet. You have the Government sector, you have components of final demand, whether that is our consumption, expenditure, tourist expenditure, investment, or government spending. So, it is quite a complex spreadsheet with all these inter-industry transactions. That is what I am interested in. We have been fascinated by the inter-industry transactions in Wales. It is an extensive survey exercise to develop these tables, so that adds a little bit to the cost. It is not an easy exercise.

[19] One of the real difficulties of doing this exercise for Wales, or for any smaller economy, is trade—and this relates to the second part of your question. We have extensive trade with other parts of the UK and, obviously, overseas, and you have to track that as accurately as possible in your input/output tables. That adds to cost and adds to the time in construction. When we undertake a survey of Welsh industries, that is the crux information, really: what would we be asking businesses for? Well, I am asking for basic economic data, maybe about their sales, and how many people you employ, and what sector you are in. Also, what we need to construct these tables is quite a detailed account of what you spend your money on by sector. We would also need an estimate of where you think those goods and services come from, how much comes from Wales, how much comes from the UK, and how much comes from overseas. That is the most complex element, really: the survey side of developing and constructing the tables. Of course, it gives you a very, very rich dataset. That is why they are not updated very often, and that is why there is a time lag. For the latest Scottish tables—and I should have double-checked this—I think there is a lag of two to three years. They are never produced in anything like real time; there is normally a delay.

09:15

[20] **Mike Hedges:** I want to come back to comparing Wales and Scotland. In Scotland, for example, the vast majority of the population does not live anywhere near the border, but in Wales, especially in the north-east, most of the people in north-east Wales live fairly near the border. There is a lot of cross movement. I would guess that Airbus employs a large number of people from England. I know that the Vauxhall plant in Ellesmere Port employs large numbers of people from Wales. I assume that the Toyota plant in north Wales employs a large number of people from England. You have a lot of this movement going on. Anybody who has driven up to north Wales is well aware that the border is a little interesting, in that you move between Wales and England about five times as you make your way up.

[21] **Alun Ffred Jones:** You are going the wrong way. [*Laughter.*]

[22] **Mike Hedges:** I should be going up the west, yes, but, it depends on where I am going. Does that create any problems in collecting the data?

[23] **Professor Munday:** Oh, yes, very much so. If you have people living on one side and working on the other side, that will create problems. That is why you need a very good survey. That is always going to be a problem of any economic modelling for a small economy. This trade and movement of people in and out will always create problems. It is why you need good-quality survey data.

[24] **Jocelyn Davies:** But you are satisfied with the sophistication of the work that you do, and you take this into account.

[25] **Professor Munday:** Yes. For example, if you took somebody like Airbus at Broughton or Toyota, when you actually survey a company like that, you have to ask where its workforce actually lives, because where it lives influences how much people spend and where they are likely to be spending the money—the extent to which it is in supermarkets on the west side of the border or Deeside. So, that is important. I am not, by any means,

depreciating the challenge of assessing that. It is not easy.

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

[27] **Peter Black:** Yes, thank you, Chair. The devolved taxes will become effective in 2018 with income tax being devolved at a later date, subject to a referendum. When should the Welsh Government begin collecting economic data so as to provide a sufficient historical record?

[28] **Professor Munday:** I guess it depends on what data. We have some good time series of economic data already. Wales certainly has a richer stock of economic data than some of the other regions of the UK, some of the English regions, for example. So, a cursory glance at the Statistics Wales website will reveal some very long time series of things, like our short-term output indicators and our indices of production and construction. We even now have indices of market services and transport. I think that we are probably a little bit ahead of the game there with those regional short-term output indicators. We need that sort of information, because, for example, for forecasting, a lot of forecasting techniques need historical time series to actually project forward. My conclusion there is to identify economic data sets, and one should start collecting as much information now. Whether or not these tax options are taken up in the future, you should be starting to collect the necessary economic data straight away. Indeed, there may be a challenge with some data sets to go back in time and try to estimate values going back, if that makes sense. It is not just collecting data in 2014-15, as it may be necessary to go back in time and estimate data for previous years to support future forecasting exercises.

[29] **Peter Black:** What sort of resources will the Welsh Government need to start adding to the data sets that are already there, to get the necessary base?

[30] **Professor Munday:** Again, that would vary by data set, but I would make the point that I believe that, to some extent, it is digging into existing data sets. Some of these data are already collected for Wales but they are presented in aggregated form within UK statistics. The resource requirements may not be as great where you have to just dig around in existing files to actually pull out the—

[31] **Peter Black:** So, stamp duty data, for example; are those disaggregated to Wales? Will we have to start digging through Land Registry records?

[32] **Professor Munday:** It would not be a complicated exercise to actually dig out decent stamp duty data for Wales. I do not think that one would be talking about extensive resources to collate and collect new information.

[33] **Peter Black:** Okay, thanks. The Wales Audit Office has suggested that single Welsh public sector accounts should be published. Could this be used as a basis for a national account for Wales, incorporating wider economic data?

[34] **Professor Munday:** My understanding of a set of public accounts—. Basically, we would be trying to consolidate, I suppose, the accounts of a lot of public sector institutions in Wales; we would go down to schools, colleges and Government departments, and I would certainly welcome that. That would be a very valuable exercise if it was all consolidated into one basis showing Government receipts in Wales and Government spending in Wales.

[35] Importantly there, if it was a comprehensive set of public accounts, it would also give a statement of Government assets and liabilities in Wales, which I think would be valuable. A set of public sector accounts for Wales would be useful for me, personally, as a researcher, but also for the wider public. You would be adding to transparency and giving people more

information so that they can see a little bit more of the efficiency with which the Government is spending money. So, for me, that would be a very welcome development. I believe that much of the data are already there; it is just about reorganising them into accounts, and that, in my opinion, would be a valuable step forward.

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

[37] **Mike Hedges:** It very much follows on from this. Do you agree that there are two different types of taxes? There are the easy ones to disaggregate to Wales—stamp duty, landfill tax, aggregate tax and air passenger duty—that are fairly straight forward and you know where they are happening. But, do you see any difficulties with things like corporation tax and identifying what is Welsh corporation tax and what is not, especially when companies are partly in Wales and partly not, which vast numbers are? On income tax, are there difficulties realising exactly where around the border some people are living? There are people who are contracting. A lot of people from Wales do that; they live in Pembrokeshire or Swansea and they contract to projects—it was to Wembley stadium, but now a lot of electrical contracting goes on with the national grid. Do you see any difficulties with that?

[38] **Professor Munday:** Do I understand that the concern is with actually estimating a Welsh share—

[39] **Mike Hedges:** Yes, a Welsh share of corporation tax and a Welsh share of income tax.

[40] **Professor Munday:** To start with corporation tax, yes, there would be real difficulties. Actually getting the apportionment basis right for how much value is added in Wales by some of our multinational companies here, I think would be quite a challenging exercise. Also, there have been plenty of research papers on this. Some of our foreign subsidiaries and some of our UK subsidiaries here act more like cost centres, so they do not declare so much profit here. They may not declare—I have to be careful what I say and how I put it—an appropriate level of profit here. We have seen this in the press. It is a real problem and it is well documented. When you look at company accounts in Wales, you see this. So, I think that the challenge for getting that apportionment percentage right would be quite significant with corporation tax.

[41] **Mike Hedges:** If you forget the multinational companies and those that have a double Irish arrangement and all those sorts of actions, there are a lot of what are called British national companies, such as some of the large supermarket chains, which are, effectively, British national companies, but they would have to apportion their own corporation tax between Wales and England, et cetera, would they not?

[42] **Professor Munday:** Yes, I do not doubt that the accountants of those companies could make an estimate of that, but, as I say, I think that if you are an outsider looking in, getting that apportionment basis right for all of these supermarkets and banks would be very complicated. That is not an easy exercise. I am not discounting the difficulty of the task.

[43] **Peter Black:** Just following on from that, clearly Mike is highlighting an issue in terms of you trying to devolve the tax to Wales. However, it would be easier to apportion the tax to Wales if you could get that calculation right, so that you would not have to rely on where the headquarters were, but you would get a percentage of the tax apportioned and then you would have them send it to generate economic activity.

[44] **Professor Munday:** I think that the difficulty is that if you look at the HMRC website and the way that it actually—. I do not know how many groups of taxes that we have, but I think that it is a generic group of around 37 different tax groups. You will see that the

apportionment basis is different for a lot of them. It is not an easy exercise.

[45] **Peter Black:** It is easier to apportion than to devolve in terms of taxes, like corporation tax.

[46] **Professor Munday:** Yes, but whether it would be fair or not I do not know. For example, you could apportion corporation tax and you could just make an argument about Welsh sales, Welsh employment or something like that, but would it be fair? Would it actually reflect the amount of value that is added to operations in Wales? I do not know.

[47] **Peter Black:** That is what they are planning to do in Scotland, is it not—effectively, apportionment? Okay.

[48] **Jocelyn Davies:** That was interesting. Julie, shall we come to your question?

[49] **Julie Morgan:** Yes. If you had all of the data available, what types of economic modelling of the Welsh economy are the most appropriate?

[50] **Professor Munday:** I think that the problem for the academic community in Wales has been that, over the last 20 years, we have spent a lot of time trying to develop the accounts rather than being able to use them to model applications. So, my staff have spent many person-years of time actually developing input/output tables, developing the accounts, rather than actually using those as a foundation for more complex economic modelling. In Scotland, that has been different. They have had input/output tables that are official statistics. Those input/output tables become the building block for more comprehensive economic models. Input/output tables are useful as a statement of account, but the economic modelling that you can do with input/output tables is quite limited because of the limitations within the framework. So, with a set of official IO tables you could use that as a building block to develop econometric IO tables and computable general equilibrium models, but overcome some of the limiting assumptions that you have with input/output models. That is what has happened in Scotland. That is what tends to happen in the United States. We work with colleagues in Chicago. They have IO tables as a base, but then they develop more complex economic models on top of that. That work is starting to happen. I have a colleague and, together, we just wrote a brief submission for this inquiry. My colleague Andrew Crawley is currently in receipt of a Marie Curie grant from the European Union. He is actually trying to extend the IO tables that we have to develop more complex modelling approaches. He is working with colleagues in the University of Illinois at the moment to do that. In an ideal world, for me, we have those IO tables now to free us up to develop better quality applications.

[51] **Julie Morgan:** So, there is a lot of work still to be done on that.

[52] **Professor Munday:** There is a lot of work still to be done.

[53] **Julie Morgan:** If you were able to develop these models, that would then be of great use to the Welsh Government.

09:30

[54] **Professor Munday:** Well, I think so, yes. I think that, for many years, I have had this concern that, as a nation, we might be getting these tax-varying powers, but where are the models that we are going to use to try to explore the impact? I am not for one moment saying that complex economic models are going to be a panacea, but at least it gives one some sort of idea of what the impact might be and where we might expect to see the effects of tax changes in terms of, I do not know, changes in household consumption patterns and things like that.



So, I think that economic models allow you to shine a bit of a light on those sorts of things.

[55] **Julie Morgan:** So, do you think it is likely that some of these taxes will be devolved before a model has been developed that would be able to evaluate those taxes?

[56] **Professor Munday:** I think that that is a distinct possibility, which is a little bit alarming.

[57] **Julie Morgan:** You find that alarming.

[58] **Professor Munday:** Yes. I think that, before one starts changing the tax structure in a region, a lot of thought needs to be given to what the implications of those changes might be.

[59] **Julie Morgan:** You do not think that we are in a position to do that at the moment, really.

[60] **Professor Munday:** No, I do not. I think that there is a little way to go here. I think that a little bit of investment needs to be made.

[61] **Julie Morgan:** Thank you.

[62] **Jocelyn Davies:** Chris, did you have a question?

[63] **Christine Chapman:** Yes. Professor Munday, you have talked about modelling exercises, so could you point to any really excellent practice in other countries or regions where they seem to be doing much better? You have mentioned the work in the States with the universities, but I just wonder whether there are any other areas that you think have good practice.

[64] **Professor Munday:** I go back to my earlier example. I think that Scotland is a very, very good exemplar of the way that things might be done. I am not saying that the modelling frameworks they use are perfect, but the way that they are trying to do things there and the way that the Scottish Executive tries to work with the academic community across the Scottish universities and more widely to bring in expertise to understand things is good practice. I think that that is the model that Wales ought to be looking at and learning from. It might not be straight followership, but it is certainly something we should be learning from. Just in reading up, I notice that the Northern Ireland Statistics and Research Agency has committed to developing input/output accounts by March 2015, covering the year 2012. So, several of the other regions are actually moving ahead quite quickly with this.

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

[66] **Nick Ramsay:** Yes, thanks, Chair. I just want to pick up on your comment from a few minutes ago about your alarm, or potential alarm, at the fact that the modelling is not going to be in place. If we are going to have the devolution of some of these taxes before you think that we have the adequate modelling, how long do you think it will take before that side of things is up and running and we can have faith in the decisions that are being made on the evidence that we have?

[67] **Professor Munday:** There is a whole suite of economic models that you could develop for forecasting, and not just based on an input/output framework. Indeed, there are forecasting models out there for Wales. There are academics who have done that. However, I think that, in terms of developing the input/output framework and building economic models on that framework, to get things going, I think that you would be talking about two years.

[68] **Nick Ramsay:** Just on that, in the meantime, then, is there not a danger that we are in a bit of a hit-and-hope situation and that then we will—

[69] **Professor Munday:** Well, the fall-back position is to use UK models to try to assess things, but then you have got to ask yourself the question of how suitable relationships you would find in economic models for the UK would be for Wales. That is an open question. I think that, if one is talking about tax varying in Wales, that ought to be done as far as possible with regional economic models, not national economic models, but the national models would be the fallback position if one wanted to know a little bit about the effects of changes in tax.

[70] **Nick Ramsay:** That is interesting.

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

[72] **Mike Hedges:** [*Inaudible.*]—I tend to look at it, to a degree, as big taxes and little taxes. If you look at the little taxes such as stamp duty, which are easy, you know where the land is—

[73] **Jocelyn Davies:** Do not be too surprised if there is no question.

[74] **Mike Hedges:** There will be a question at the end. [*Laughter.*] There is also landfill tax. Are you convinced that you need an economic model to deal with those relatively small taxes that are fairly fixed? Landfill tax is almost a circular tax, in that the Government gives it to local authorities, which then pay it back in, so that 90% of landfill tax comes from local authorities' expenditure. It is that sort of circular tax, as opposed to things like corporation tax and income tax, which would need to be modelled. So, is the problem not when those bigger taxes get devolved, rather than smaller fixed taxes?

[75] **Professor Munday:** I see the point in respect of big-hitting taxes, but making changes to stamp duty can have quite radical impacts on housing markets, housing prices and the use of land. I certainly would not want to depreciate the importance of getting our thinking right on some of those smaller taxes before we start looking at those big-hitting taxes like income tax and corporation tax.

[76] **Mike Hedges:** Some of us believe—I do not know whether you would agree—that you have a situation with stamp duty and land tax that, if you dropped that to zero, all that you would do is increase the price of the land to the level at which it currently is for land and stamp duty. I do not know whether you would go along with that.

[77] **Professor Munday:** That is open to debate.

[78] **Mike Hedges:** Would you agree with it or not?

[79] **Professor Munday:** I am sorry, can you—

[80] **Mike Hedges:** Say that you have a piece of land that is worth £1 million, you are paying stamp duty on it; if stamp duty was reduced to zero, what would happen to the value of the land? Would it go up to the cost of the land plus the current value of stamp duty?

[81] **Professor Munday:** It is a possible—

[82] **Jocelyn Davies:** It is possible. We do not have time to go into that debate, really.

[83] **Mike Hedges:** Fine, I am sorry.

[84] **Jocelyn Davies:** No, that is okay. When you said that you would find that quite alarming, earlier on, you had a little smile while you said ‘alarming’, but I get the impression that you are not somebody who alarms very easily. Would that be fair to say? We do not know you very well yet, so we are not quite sure where your benchmark for alarm is, but I get the impression that you are probably not an alarmist.

[85] **Nick Ramsay:** [*Inaudible.*]

[86] **Jocelyn Davies:** No.

[87] **Professor Munday:** I think that I am just keen, as an observer, to see it work well and properly. There are some steps that we can take now in Wales that are not going to cost a great deal of money or require a great deal of resources that would really help us along the track of having a better understanding of the impacts of those changes. However, as I say, I think that what really alarms me—. I have been making this point about a more comprehensive set of Government accounts for the Welsh economy since the early 1990s—that is probably on record in various places—and our need for official input/output tables and the value of those. As I say, I have been making that point for over 20 years and now we are there. We are getting near to a place where we are realising, ‘Oh, we do need some more complex economic models’. We are still waiting for these foundation blocks. So, I do not think that it would take a lot of resource to develop these tables. I think that a lot of the data are sitting there. It is a matter of pulling it out, applying it and using it.

[88] **Jocelyn Davies:** Chris, shall we come to your question?

[89] **Christine Chapman:** Yes. This committee is looking at whether a new budget process could be developed that links budget allocations to the eventual outcomes. How do you think that the data and modelling that you recommend could be used by Welsh Government to evaluate this impact and the outcomes of public spending?

[90] **Professor Munday:** Okay. At a very basic level, very simple economic models, like input and output tables, can be used to assess the marginal changes in public spending, such as of a health authority or marginal changes in grant funding. You could link that through to a set of economic indicators. In terms of a framework, my preference would be that you try to assess the economic outcomes from the spending, but then you link that through to a series of, maybe, headline economic indicators, such as employment activity rates, unemployment, gross domestic product growth, and what have you. So, I think that should be the chain—public spending impacts, but that you report those in terms of a set of headline economic indicators, similar to the ones we already have. We have a set of sustainable development indicators in Wales, do we not? If we had an extended set of economic indicators, you would link the outcomes from the economic model to those. Sorry, have I made that clear?

[91] **Christine Chapman:** Mike Hedges always comes up with the very good example of the Designed to Smile initiative from Welsh Government, which encourages young children to clean their teeth in schools, et cetera. However, we cannot judge the value of that for many years. Do you have any thoughts on trying to get a process that will help the funding allocations now so that we get results—or do not get results—maybe 10 or 15 years down the line?

[92] **Professor Munday:** It is a complex calculation. If you put that into a full cost-benefit framework, you are looking at health benefits maybe 20, 30 or 40 years down the track. Placing all of that in one big cost-benefit framework is actually quite difficult to do. You could have your short-term indicators, such as fewer visits to the dentist. It was said on Radio 4 this morning, and I did not realise this, that one of the main causes of children having to go into hospital is dental problems. So, you could measure that in the short term, but the long

term consequences—. Even with the Designed to Smile initiative, the longer-term implication is that, for the kids who look after their teeth, it is more likely that their children will look after theirs. So, it spills over for many years. Encapsulating that in a set of indicators would be quite difficult.

[93] **Christine Chapman:** So, is there an element of uncertainty that you cannot do anything about? You just have to accept that there is uncertainty.

[94] **Professor Munday:** Yes. There are some things, inevitably, that you have to describe in words, rather than numbers, in terms of the outcomes.

[95] **Christine Chapman:** If I can just follow on from that, you mentioned earlier the problems, or challenges, of cross-border movement when you are looking at the economic modelling of Government spending for an economy such as Wales. Are there any other limitations that you think we should be aware of, in addition to cross-border movement?

[96] **Professor Munday:** If one is developing forecasting models for Wales, if you are wishing to forecast tax receipts going forward, and such like, one has to recognise, aside from any economic assumptions underpinning the models, we are a very small economy, so we are subject to events that are outside our control. If you go back 15 or 16 years to 1997 and some of the initial economic strategies for Wales, they set targets for our gross value added per capita coming within 10% of the average for the UK. That is really dangerous, because we do not have any control over what happens outside Wales. We have no control over what happens in the south-east. We are a very small economy, and we are subject to macro events outside our control. That is on top of any implicit limitations of the various economic models.

09:45

[97] **Alun Ffred Jones:** Byddaf yn gofyn yn Gymraeg. Rydych wedi ateb y cwestiynau hyn, ond rydych wedi cyfeirio at yr Alban a'r cysylltiad rhwng Llywodraeth yr Alban a'r sector academiaidd sydd wedi datblygu'r modelau hyn. Rwy'n cymryd y byddech yn croesawu gwell perthynas yng Nghymru rhwng y Llywodraeth a'r byd academiaidd, sef y maes rydych yn gweithio ynddo. Sut mae cyflawni hyn ac ar bwy mae'r bai nad ydyw wedi datblygu yng Nghymru?

**Alun Ffred Jones:** I will ask my questions in Welsh. You have answered these questions, but you have referred to Scotland and the link between the Scottish Government and the academic sector that has developed these models. I assume that you would welcome a better relationship in Wales between the Government and the academic world, which is the field that you work in. How do we achieve that and who is to blame that that has not developed in Wales?

[98] **Professor Munday:** I do not think that there is a blame game here. There are good relationships with the economists in the Welsh Government in the economic advice division. Cardiff Business School and Swansea University have had a role in training many of the economists that Welsh Government uses. Over the last 15 or 20 years, the number of economists in Welsh Government and the allied institutions has increased quite markedly, which I welcome—that is an important first step. When I first came to work in Wales, there were only a handful of economists within the old Welsh Office. You might not welcome that, but the number of economists within the institution has increased quite markedly. That is a good foundation to work on.

[99] I also welcome that the Welsh Government is already taking steps to develop new capacity. For example, the Welsh Government supports some PhD training opportunities in Wales. Supporting those PhD training opportunities is one way of developing the skill sets locally that you will need to assess the significance of these tax-varying powers.

[100] **Alun Ffred Jones:** Ond rydych o'r farn bod angen datblygu capasiti annibynnol y tu allan i Lywodraeth er mwyn i'r Llywodraeth gael gwell data i ragweld beth sy'n mynd i ddigwydd yn y dyfodol o ran yr economi ac o ran trethiant.

**Alun Ffred Jones:** However, you are of the opinion that independent capacity needs to be developed outside of Government for the Government to have better data to predict what will happen in future in terms of the economy and taxation.

[101] **Professor Munday:** I think that the spirit of what you are saying is maybe to have some sort of independent assessment panel to referee or peer review. I think that that would be valuable. I see no reason why that should be limited to economic expertise in Wales. In the Scottish case, I believe that there is a panel of economists of international renown that provides advice. My only caveat there would be that if you have an independent panel advising on fiscal matters, it is great having big names and it might tick the boxes as far as the press is concerned—some of these people are very eminent—but you need them on the ground. It is helpful that these people have a genuine interest in the progress of regional economy. It is very important that such people know where Bridgend and Swansea are and are aware of local issues. However, if you bring in an international expert—

[102] **Jocelyn Davies:** You should not have mentioned Swansea—you have started Mike off.

[103] **Mike Hedges:** And Peter. [*Laughter.*]

[104] **Professor Munday:** An independent panel like that is useful; many eyes looking at the same problem would be useful, but with that you need to get people who are prepared to be hands on rather than just big names.

[105] **Alun Ffred Jones:** Fodd bynnag, rydych wedi gwneud dadl gref y bore yma fod angen ystadegau ffeithiol o ran y tablau mewnbwn/allbwn yma rydych wedi cyfeirio atynt, ac y dylai'r rheiny fod yn eu lle er mwyn bod yn sail i waith y Llywodraeth yma, a'r Cynulliad a ninnau hefyd.

**Alun Ffred Jones:** However, you have made a strong argument this morning that we need factual statistics in terms of these input/output tables that you referred to earlier, and that those should in place in order to be the basis of the work of the Government here, and the Assembly and us as well.

[106] **Professor Munday:** Yes.

[107] **Jocelyn Davies:** Is it possible to remain independent if you advise Government, from an academic's point of view?

[108] **Professor Munday:** Sorry, could you—.

[109] **Jocelyn Davies:** Is it possible to remain independent if you are an adviser to Government? There is a difficult line there, is there not?

[110] **Professor Munday:** Yes, that is a difficult line to draw. Most academic economists will have their own agendas and their own political interests. It is difficult to stand aside. I think that is why, if one has an independent panel of advisers, one gets a mix, maybe from within the region, outwith the region, from different political perspectives and departments of economics with different political perspectives.

[111] **Jocelyn Davies:** Okay. Nick, shall we come to your question?

[112] **Nick Ramsay:** Yes. My question is quite straightforward. What degree of internal economic expertise will Welsh Government need to develop, particularly in the planned

treasury function?

[113] **Professor Munday:** Okay—

[114] **Nick Ramsay:** I say it is a straightforward question, but maybe the answer is not quite so straightforward.

[115] **Professor Munday:** I have made the point already that, in terms of the economics profession, Welsh Government, I think, has invested. There are more economists within the confines of Welsh Government now than there were. I was at an event last week, the Government Economic Service at 50, which was a Wales and south-west meeting, and I was amazed at how many people were there. Many of those were not just from Welsh Government, but from the Office for National Statistics and the Patent Office. So, there is quite a body of economic skill here. Having said that, while economists—. I do not want to prejudge the skills of economists in the Welsh Government—many of them have PhDs; many of them have modelling expertise; and many of them, I think, have worked on tax problems when they have been undertaking PhDs or postgraduate qualifications—however, never ask an economist how many more you need: you can never have enough economists. [*Laughter.*] You may be looking down the barrel of having to hire some more in a specific treasury function, but I do not want to take away from the existing body of expertise that you have, dotted around Welsh Government in economics.

[116] **Nick Ramsay:** The danger here really—you spoke about potential alarm earlier—is that this is all uncharted territory, so developing a treasury function is no easy task. Do you think that because of the lack of expertise, and the lack of effective Welsh statistics for the next couple of years, the danger is that we will sit here, or our successors will sit here, in 10 years' time and look back and say, 'Great opportunity for Wales; great to have that localism of taxation, but actually we weren't quite ready at that point to have it and if only we'd known this then'? In other words, are you more optimistic about it than you are pessimistic, or do you really think that the jury is out on whether we have that expertise at the moment?

[117] **Professor Munday:** I am more optimistic now than I would have been five or 10 years ago, because there seems to be a gathering of momentum on the need to improve economic intelligence in Wales generally. So, I am far more optimistic now than I was, but there is another step change required in the quality of the economic data that we have. So, I think that another step change is required, but I guess that I am a little more optimistic because I am here now, talking to you all about it, and I have spoken about this to AMs from various political parties independently as well. So, I think that there is an interest in this and I do not think that that was there five or six years ago. I think that there is that general interest in the need to improve and in the possibilities of improving the economic data modelling infrastructure for Wales. I think that there is a perception now that we need to push forwards with that. So, maybe I am a bit more optimistic now.

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

[119] **Mike Hedges:** It is just a quick question. Would I be right, if I were to try to summarise what you are saying, in thinking that the key thing for us to do is to make sure that we get data?

[120] **Professor Munday:** We need to improve the quality of data, to develop input/output—I do not want to use techy stuff—and to institute a process, maybe similar to that in Northern Ireland, where they are moving ahead to produce supply-and-use tables. We need to develop input/output tables for the economy, on which we can start to build better models to help.

[121] **Jocelyn Davies:** In order to make better decisions. You have mentioned Scotland several times. Can you offer any explanation as to why this has been developed longer in Scotland? What was the driver there for that, if it is going back—did you say—probably more than 20 or 30 years? You did mention the personal interests of colleagues within the unit that you are in; was that the case in Scotland?

[122] **Professor Munday:** It would be an interesting evolutionary exercise to look at it. AMOS—the macroeconomic model for Scotland—started in the academic sector through the 1970s, 1980s and 1990s, but I think that some of the people who would have gone through the Scottish doctoral training programme in economics have actually ended up in the Scottish Executive. So, these people have been trained by academia in places like Strathclyde, Dundee and St Andrews; they have been trained in the use of economic models and have gone to work in the Scottish Executive as economists, and have maintained that link with academia long term. So, there has been quite a lot of to and fro. I am not saying that that does not happen in Wales; I have regular contact with the economists in Welsh Government, but we do not tend to talk much about economic modelling issues because we do not have the underlying infrastructure yet.

[123] **Jocelyn Davies:** Okay. Is everyone happy? I see that you are. Thank you very much; that was very interesting. We will send you a transcript. If you could check it over for factual accuracy before we publish it, we would be very grateful.

[124] As several Members have gone, we will have a five-minute break and come straight back so that we can go into our next session.

*Gohiriwyd y cyfarfod rhwng 09:59 a 10:03.  
The meeting adjourned between 09:59 and 10:03.*

**Ymchwiliad i'r Arfer Gorau mewn Prosesau Cyllidebol—Rhan II: Sesiwn  
Dystiolaeth 4  
Best Practice Budget Processes Inquiry—Part II: Evidence Session 4**

[125] **Jocelyn Davies:** I welcome everybody back to the meeting of the Finance Committee. We are now on our best practice budget processes inquiry, part 2, and this is evidence session four with evidence from the Wales Audit Office. Would you like to introduce yourself for the record, and then we will go straight to questions, if that is okay?

[126] **Mr Usher:** Certainly, thank you, Chair. I am Mike Usher; I am sector lead for health and central Government for the Wales Audit Office and I am also the technical director.

[127] **Jocelyn Davies:** Okay, thank you. Just to get it on the record, what are the Auditor General for Wales's specific roles in relation to the audit of the Welsh consolidated fund and the approval of the draw downs from the fund?

[128] **Mr Usher:** With the Welsh consolidated fund, the auditor general has two quite separate functions. First of all, he is the external auditor of the fund and the annual account it prepares. In undertaking that audit, he has to ensure that all payments out of the fund are in accordance with the requirements of the 2006 Act. The second function is the 'comptroller' function, which is quite an odd word. That is about ensuring that all the money that is paid out of the fund is paid in accordance with the budget motion that has been authorised by the Assembly. So, there are two quite distinct functions there.

[129] **Jocelyn Davies:** Is the comptroller function the same as the comptroller function in relation to the UK?

[130] **Mr Usher:** Yes. ‘Comptroller and auditor general’ is the UK term and the comptroller function involves the funds coming out of the Exchequer.

[131] **Jocelyn Davies:** I see; it is exactly the same function; it is just on a Welsh level.

[132] **Mr Usher:** Essentially, yes.

[133] **Jocelyn Davies:** Okay. Ffred, shall we come on to your questions?

[134] **Alun Ffred Jones:** Diolch. Beth yw gwendidau a chryfderau proses gyfredol y gyllideb o ran awdurdodi amcangyfrifon Llywodraeth Cymru? **Alun Ffred Jones:** Thank you. What are the weaknesses and strengths of the current budget process for authorising the Welsh Government’s estimates?

[135] **Mr Usher:** The auditor general does not actually audit the budget or the budget scrutiny process, so I think I would have to characterise these as observations rather than audit findings, if that is okay. However, certainly, I think that there are a number of strengths in the current system. Since the enhancements in 2012, I think there is now a very robust arrangement whereby, co-ordinated by this committee, you have the individual subject committees looking at individual parts of the process and liaising in a very tight timeframe to get all of that done.

[136] However, the process can only really be as good as the information that comes into it. So, the issue there, I think, is what information is in the budget motion itself and what appears on paper, and then, when your committee and other committees are scrutinising Welsh Government and officials, how good are the verbal responses and the extra information that you get. How fulsome is it? Is it complete? Is it sufficiently detailed to enable you to scrutinise effectively? I think that there are some real challenges around the linkages, when you are looking across budget lines, around common objectives. So, you have different departmental ambits all supporting a common policy, say on tackling poverty, and trying to see how that plays across I think can be quite hard. You have different subject committees looking at those topics.

[137] Lastly, there is also the challenge of timing, given the Westminster budget timetable, and I know that that is a particular complication in terms of what you are able to do here with Welsh Government knowing what funding it is going to get and preparing its budget process. You then have additional announcements made in Westminster that cut across the process; that one is probably outside our control here, but that timing can be a complication.

[138] **Alun Ffred Jones:** Ar ôl i Fil Cymru ddod yn Ddeddf, sut y bydd yr archwilydd cyffredinol yn adrodd ar y trefniadau trethu a benthyca newydd? Os ydych chi’n gwybod, hynny yw. **Alun Ffred Jones:** After the Wales Bill comes into effect, how will the auditor general report on the new tax and borrowing arrangements? If you know, that is.

[139] **Mr Usher:** In terms of the Welsh Government’s own accounts, I think things will be fairly straightforward, because the tax collection will feature in the trust statements that the Welsh revenue authority will produce, and the auditor general will be the auditor of that. Then, the costs of tax collection will appear in the accounts of the Welsh revenue authority. Within the Government’s accounts, the borrowing and the repayment of borrowing will feature there. The auditor general, as well as auditing those accounts, may of course decide to produce value-for-money studies and these can look at aspects of the tax and borrowing arrangements. We could look at things such as collection rates, measures to tackle avoidance and how effective those are and the robustness of forecasting. So, there are a whole range of



areas that we could look at using our value-for-money study powers, as well as the audited accounts themselves.

[140] **Jocelyn Davies:** Chris is next.

[141] **Christine Chapman:** Thanks. Are there any issues specific to Wales that may impact on how devolved taxes are collected and accounted for?

[142] **Mr Usher:** Specific to Wales, there are probably relatively few. One would be that in Scotland—we have been working with Audit Scotland to understand what is happening up there—there is the Registers of Scotland and we do not have an equivalent body in Wales. So, that immediately rules out one potential way of operating things. Other than that, I am not sure I would point to anything specifically Welsh as being a discrete problem or issue.

[143] **Christine Chapman:** Following on from that, I wonder whether you have a view on whether the system for collecting stamp duty, land value tax and landfill related taxes would be better administered and collected by local government or the Welsh Government.

[144] **Mr Usher:** I think I would have to say that that is a policy choice for Ministers and it probably would not be appropriate for me to comment on the merits of different options. I do know that all of the options are being very carefully examined by the Welsh Government at the moment. There is obviously a consultation out as well. There are pros and cons to different routes, but it probably would not be appropriate for me to say one or the other is better.

[145] **Christine Chapman:** Obviously, I understand that it is a policy decision, but, on the merits and the pros and cons, is there any weight either way, do you think?

[146] **Mr Usher:** Well, certainly, local government has a deal of experience in revenue collection, admittedly not on the types of taxes that we are talking about with devolution, but there is a range of experience there in collection and enforcement, following through on non-payment and those sorts of things. So, there is some real experience there. Within the Welsh Government I know that it is discussing with HMRC and others options for using its expertise or drawing on its expertise. So, you could use—. Either route could work quite easily.

[147] **Jocelyn Davies:** Before you go on, Chris, I know that Mike wanted to come in on this particular point.

[148] **Mike Hedges:** I thought I knew something, but I might be wrong. Who collects landfill related taxes now? I thought that local authorities did so, but I am obviously wrong, from your last answer. So, I just wondered who did it.

[149] **Mr Usher:** I believe that it is HMRC, but I am not entirely sure. I would need to put a note in, if that is okay, please, Chair. Sorry, Mike.

[150] **Jocelyn Davies:** From your experience of local government you do not see any great difficulties in local government collecting something additional that is related to property. I suppose that that is what we are asking.

[151] **Mr Usher:** In terms of the property taxes, obviously there is quite a role there, through solicitors and things as well. In principle, there is no reason why things could not be done at a local authority level and then aggregated up into a national trust statement with the Welsh revenue authority.

[152] **Jocelyn Davies:** So, these are probably, whatever the option—. They are all viable

options, but we are not asking you to say which one that you would think is better. Chris, have you finished?

[153] **Christine Chapman:** Just on another point, would there be any changes to the current comptroller function over the Welsh consolidated fund when approving tax and borrowing transactions?

[154] **Mr Usher:** There would be, I think, a very slight change. There is no requirement for payments into the fund to be approved, so, the taxes that are collected would simply be paid in. There is no need for an authorisation or comptroller function there. The auditor general is signing off on expenditure. So, he would have to authorise the expenditure incurred in the tax collection process, for instance. It is relatively marginal, but that would be there. He would have to authorise withdrawals also around the Welsh Government's repayment of borrowing and payment of interest on borrowing because, again, that is expenditure. The only other suggestion is that I guess that it might be helpful for the auditor general to be asked to keep an eye on the balance in the fund around cash-flow management, because the fund cannot go overdrawn. So, at the moment, we do keep an eye on it but there is no actual requirement, technically, for us to do so. I think that that will become important, clearly, going forward with the volatility around revenues and timing and things.

[155] **Jocelyn Davies:** May I ask you this? I think that the Welsh Government does have a small income now, I suppose. It owns properties and things. Does that go into the fund, or is it collected into the Welsh Government rather than into the fund that then—?

[156] **Mr Usher:** The budget motion at the moment, as well as authorising expenditure, also allows for accruing resources. So, what happens there is that rental income, say, is collected by the Welsh Government, and it already has the authority to recycle that back out into expenditure. So, in effect, it is only the net that is working through the consolidated fund. Generally, it is payments out of the consolidated fund. There are some payments in, but that is only where the receiving body does not have the authority to retain it. Those are then surrendered to the fund, but that is relatively small scale.

[157] **Jocelyn Davies:** Okay. Thanks for that. Peter, shall we come to your question?

[158] **Peter Black:** Thanks, Chair. Is the auditor general aware of any changes to audit arrangements in Scotland in advance of the devolution of similar tax and borrowing powers from 2015?

[159] **Mr Usher:** Yes, there is quite a lot of thought, obviously, going on between Audit Scotland and the National Audit Office in terms of arrangements once the Scottish taxes go live. The Scottish Parliament, actually, has looked in some detail at this. I do not know whether the committee is aware that its Public Audit Committee produced a report earlier in the year that looked expressly at the audit arrangements in the 'go live' world for them. That talks in some detail about the roles of HMRC, the Comptroller and Auditor General, the National Audit Office and the Auditor General for Scotland. We have discussed those arrangements with both the NAO and Audit Scotland. It seems to us that that seems a very sensible arrangement, and one that could well readily be replicated here, I think.

[160] **Peter Black:** So, you are looking to draw on those experiences in Wales as we get those powers.

[161] **Mr Usher:** Absolutely. There is an advantage to it. As we have stated in our written evidence, we are a couple of years behind the Scots in all of this, and we can learn from what is working well for them and also from the things that they are saying to us, with hindsight, that they wished that they had done a little bit differently. So, there is a real advantage there, I

think.

[162] **Peter Black:** What specific changes would you be looking to do in Wales, drawing on that experience?

[163] **Mr Usher:** In terms of the audit arrangements, it looks as though things are working quite smoothly. There will be a memorandum of understanding between the C&AG UK and the Auditor General for Scotland. That is being worked up at the moment, and they have both promised that we will have sight of that as soon as it is available. We will want to have a look at that to see whether a similar arrangement would work between us and the National Audit Office in terms of taxes for Wales. However, the principle that is being established in Scotland is, I think, a very sound one and one that I think we can build on.

10:15

[164] **Peter Black:** Do you audit the tax take? Say we collect stamp duty; would you actually audit that or would that be done by HMRC or the UK Government?

[165] **Mr Usher:** The arrangement that we are discussing with the National Audit Office is that anything relating to HMRC activities themselves will remain with the National Audit Office. We, the NAO and, indeed, HMRC have no desire to have two sets of auditors crawling over HMRC. So, anything HMRC-related will be done by the NAO. If, for the landfill and stamp duty taxes, we go for collection arrangements other than HMRC, those are things that the auditor general here would be auditing, and we would look at those arrangements ourselves.

[166] **Peter Black:** Of course, we are setting up our own taxation authority—I cannot remember the proper name—

[167] **Mr Usher:** The Welsh revenue authority.

[168] **Peter Black:** Right. Is that going to come within your ambit?

[169] **Mr Usher:** Yes.

[170] **Peter Black:** Does that clash with the HMRC stuff?

[171] **Mr Usher:** No, that is fine. The Auditor General for Wales will audit the Welsh revenue authority and report to the Assembly on the results of our audit work. That is something that the NAO would not be involved in. We would obviously liaise with it around things like the mechanics of HMRC's effectiveness of its operation. So, we would be working on those sorts of things with it.

[172] **Peter Black:** Do you need any additional resources or skills to carry out this work?

[173] **Mr Usher:** On resource impacts, it is early days, but I think that it is going to be pretty marginal in terms of additional resource. I am sure that the auditor general and my chair will be coming to this committee downstream with estimates. However, at the moment, I think that it will be a relatively marginal change in the quantum of cost. Skill sets is an interesting issue. The audit of revenue is slightly different to the audit of expenditure. There are different audit objectives. We are assessing at the moment what training and tools we need to develop for our auditors, but we have also got the benefit of some in-house experience as well with a number of colleagues. Before I joined the Wales Audit Office, I was the engagement lead for the NAO for the audit of the Driver and Vehicle Licensing Agency for five years. Vehicle excise duty is £5 billion of revenue. So, we do have experience in-house

of auditing revenue already.

[174] **Peter Black:** Okay, thanks.

[175] **Jocelyn Davies:** Okay. Mike, did you want to come in on this particular one?

[176] **Mike Hedges:** I think that I will just carry on from there; people have covered most of what I was going to ask. However, there are two bits that I will come in on. HMRC will come to a view, if we devolve income tax, on how much income tax will be devolved to Wales. That is likely to be contentious. Would you have a role in auditing HMRC's view or would we be in a position where we would accept what we were told by the auditor general in England?

[177] **Mr Usher:** In terms of the identification of the Welsh tax take, that is a matter, I think, for HMRC and the National Audit Office. That would involve HMRC going through its records and identifying—particularly in the context of local income tax, subject to a referendum—Welsh taxpayers. That is HMRC business and the NAO would be all over that, I am sure. We would certainly want to be discussing with the NAO what work it had done on that, and if we had any concerns or issues we would raise it with the NAO and, if necessary, draw it to the attention of the Assembly ourselves. However, the total quantum, in terms of principle, will be for HMRC to go through its system to identify.

[178] **Mike Hedges:** I think that, if we are talking about the simple taxes that are physically in Wales, like stamp duty, you know that the land is not going to move and the landfill site is not going to move and, if we had airport duty, the airport is not going to move, so that is straightforward. However, with things like income tax and corporation tax, which, if they were devolved, would also have to be reallocated, the National Audit Office would have one view and the British Government would have a view, and I am sure that the Welsh Government would have a view. I am sure that some would want more coming here and some would want less. Would you play any part in that or would you just be an interested observer from the outside?

[179] **Mr Usher:** I think that we would probably be in a similar position to the National Audit office, actually. It would not be so much that we have a view ourselves as auditors. We would look to see what agreement is reached between Westminster and Wales. We would then look to ensure that what has been agreed is then applied correctly. So, once the principles had been established, the NAO would be looking to see that HMRC had robust systems in place to ensure that all the taxpayers defined as Welsh were correctly identified in its systems and that the right amount of tax was levied—was assessed and collected—and then paid over alongside the block grant.

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

[181] **Nick Ramsay:** Yes. In terms of the budget process, the UK Government's alignment project has improved the way that public finances are presented. Are there further steps that could be taken in Wales to ensure that Welsh Government estimates, budgets and accounts are presented on a consistent basis?

[182] **Mr Usher:** Right. The alignment project is particularly complicated. I will try to avoid jargon if I can. If I do use it, please stop me. Yes, I do think further alignment is possible in Wales. If you look at the budget motion at the moment, particularly at the explanatory notes to the budget, you will see that there are some quite complicated tables there. To get the reader from the Welsh Government's administrative budget, where you have the resource and capital DEL, the departmental expenditure limit, and AME, the annually managed expenditure, which gives the total managed expenditure, to the actual resources

requested in the budget line, there are a whole load of reconciling items. It should be possible, with further work on alignment, to eliminate some or most of those reconciling items. One example would be that, at the moment, the Welsh Government-sponsored bodies lie outside the consolidation boundary for the Welsh Government. That is unlike the position in England. Departments in Whitehall have non-departmental public bodies, and these are consolidated into their accounts. So, there is scope for some further alignment, and that is an example of one of the things that could be done, but it does get horrendously technical.

[183] **Nick Ramsay:** I introduced that question by saying that it has improved the way that public finances are presented. I could see your eyes go then, and I thought we were going to get into this whole discussion. [*Laughter.*]

[184] Okay. The AGW's consultation response notes that a single whole-of-Government-of-Wales account should be produced, including public bodies such as local government and NHS trusts. Can you give us some detail on how you believe this could be produced?

[185] **Mr Usher:** Yes, certainly. I think we are quite strong advocates of the usefulness of such an account, were it to be produced, and we noted in our response that there is statutory provision for it. It would be a fairly straightforward process, we think. Each of the relevant public bodies in Wales is already required to produce and have audited—we audit it—a consolidation pack, which takes its accounts into a common format. That pack then goes to the Treasury, which enables it to produce the UK whole-of-Government accounts. That process has been running for well over a decade now. There have been live published accounts for the last two or three years. That process improves year on year, but it is pretty robust already.

[186] So, you have already got the information on the intra-Government balances that would need to be eliminated within a Welsh account. The information is already there. You know, the hard work, really, is done. It would, I think, enable you to have a set of accounts that produces, if you like, the accounts for the Welsh public sector in totality, not just expenditure but also the income. I think, actually, it is the move to devolved taxation that strengthens the case for having something like this. It is no longer the case that the income simply is the block plus European funding and other bits and pieces. You now have tax and borrowing, and you can see how all of that works through to then finance all of that expenditure that is happening—to see the whole thing, along with a balance sheet, with the assets and liabilities.

[187] **Jocelyn Davies:** Mike is next and then Peter.

[188] **Mike Hedges:** I ask this question because the Welsh Local Government Association would certainly ask you this: if you had local government consolidated in there, as well as health, would the Welsh Government be able to net off health overspends against local government balances?

[189] **Jocelyn Davies:** Local government reserves.

[190] **Mike Hedges:** Local government reserves and balancing reserves. Would a £200 million health overspend be able to be netted off within the consolidated account, against a sort of health underspend of £200 million?

[191] **Mr Usher:** In essence, no, it would not. The accounts would be a bringing together of what is there. So, things like local government reserves would be shown as an item. The position in health would be reflected with its assets and liabilities. There would be various notes to the account, then, giving breakdowns. So, it would not be a case of simply netting things off to come to an overall position, in that sense.

[192] **Peter Black:** Would these consolidated accounts include capital assets, for example land and property?

[193] **Mr Usher:** Yes, they would include fixed assets as well as current assets.

[194] **Peter Black:** Okay. I think there is an issue about whether we can actually get that information consolidated at the moment across Wales in the public sector.

[195] **Mr Usher:** Sorry, I did not catch that last bit.

[196] **Peter Black:** I was not sure whether you can access that information in a consolidated form across Wales at the moment—the assets.

[197] **Mr Usher:** There are couple of differences at the moment in the way that local government accounts for certain of its fixed assets—network assets and infrastructure. The accounting rules are changing over the next 18 months, and so, by the time all of this goes live, everything should be on a pretty much consistent international financial reporting standards-compliant basis. So, on the consistency, they should have pulled together a balance sheet showing all of the fixed assets—land and buildings—whether it is local government, health or central Government, on a consistent basis. It cannot be done easily at the moment but give it a couple of years and it will be.

[198] **Jocelyn Davies:** Is that the reference you made earlier to the fact that all the difficult work has already been done or is in the process of being finalised so that this would be possible?

[199] **Mr Usher:** Essentially, yes, Chair. On the consolidation packs, it has been quite a long haul to get each public body to the position where it can do that in a consistent way. Each year, more gremlins are ironed out and, over the last couple of years, the production of whole-of-Government account material from Welsh public bodies has actually been a relatively straightforward process. We are actually in quite a good position here in Wales on this project compared with some other bits of the UK.

[200] **Nick Ramsay:** That is positive. When you said that there is great ease there and it is getting an easier task to do, that is good news. My last question, which you have touched on anyway, is whether this new Welsh account would be comparable with the UK's whole-of-Government accounts.

[201] **Mr Usher:** Broadly, yes. It would not include things like long-term pension liabilities for civil servants. That is in the UK account. It is not devolved. The things that are devolved functions will be picked up into the accounts. So, there is not an exact comparison with some of the UK liabilities, but, in broad terms, yes, it gives you a picture of the Welsh public sector.

[202] **Nick Ramsay:** Okay, thanks.

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

[204] **Julie Morgan:** I want to ask you about some of the risks associated with the devolution of more taxation and borrowing powers. The consultation response says that anticipating volatility in future revenues is a key budget risk, so could you expand on how you think this risk should be managed and how it would be reported?

[205] **Mr Usher:** Yes, certainly. Again, this is probably quite a complex topic to break down, but rather than being a single risk I think that there is a whole range of risks here. The

first step to managing those effectively is to identify and understand them. That sounds simple; it is not necessarily simple in the absence of a track record and previous experience. Clearly, there is scope to learn from the Scottish experience and indeed to learn from HMRC's existing practice. However, in the absence of a distinctly Welsh track record around taxes, going back to the issue of the identification of Welsh taxpayers and things, the data quality would be an issue. I think that the previous witness was touching on this as well. Certainly in the early days, data quality and the absence of meaningful trend information will make it quite hard to manage risk to begin with. As people get more comfortable with it and as the systems become established over the first few years, I would imagine that, once we get into a steady state, it should be relatively straightforward.

[206] However, the first few years, I think, will be crucial, particularly around the volatility of tax. There is the issue about what deduction to the block is made to balance out the tax take in that first year. However, beyond that, there is the sheer volatility of things like the Welsh property market in terms of stamp duty and, indeed, to some extent landfill tax; there is a predication there on economic activity. So, it is a little different perhaps to, say, council tax collection, where you have a stable housing stock—you know what it is, you know what it is worth, you know what your precept charge is going to be, and you know what revenue you are going to get, pretty much. With the property market, you do not know which houses are going to be sold, at what value and when, so there is much more volatility there. So getting those data will, I think, be the key to managing the risk, but the first thing is to identify the risks and to understand them.

[207] **Julie Morgan:** I think that, going back to local authorities, local authorities do have some of this experience of managing risk. Do you think that there is anything we could learn from local authorities and how they manage risk?

[208] **Mr Usher:** Yes, absolutely. In particular, there are some things that can be learned there around treasury management with regard to enforcement and collection and tackling late payment and non-payment. There is a wealth of experience there among local authorities. Looking at council tax collection rates, some authorities are particularly good at that, so it would be worth looking at what they are doing well, in Wales and, indeed, more widely. So, there are some good things there. The Chartered Institute of Public Finance and Accountancy has produced some good practice material on treasury management, so that can certainly be drawn on. So, yes, there are certainly things to learn from the local government world. However, as I say, without that exact parallel, with the different nature of the tax base with council tax, the local authorities probably would not think so but it is probably easier in terms of council tax collection than it is with the more volatile economically-driven taxes. So, it is not an exact parallel.

[209] **Jocelyn Davies:** Before you move on, Julie, Nick, was your supplementary question on this specific point?

10:30

[210] **Nick Ramsay:** Yes, it was. Thanks, Chair. I am interested in what you just said—and it is very easy to say it in one sentence—which was that there will be a reduction in the block grant depending on the forecast of tax takes. It is easy to say that, but, of course, it is absolutely crucial that that reduction matches what we are going to get. Do you think that, at the moment, although it is technically possible and will happen on a Welsh basis, with something like stamp duty, for instance, if there is a fall-off in the houses that are being sold at any point, the UK as a whole is more able to deal with shocks like that but, within Wales, on a smaller basis, it could be more difficult for the Welsh Government to deal with?

[211] **Mr Usher:** Yes, absolutely, in economic terms, and the problem would be more acute

here than it is in Scotland because, again, our economy is smaller than that of Scotland. I know that the Scots are grappling with this. I do not think that they have reached agreement yet, but there is ongoing discussion around how the block adjustment is done for Scotland and, clearly, there are different sides to that argument. Should it be simply what was last year's number or should it be taken over a five-year smoothed position or whatever? However, getting to agreement between Wales and Westminster on the appropriate amount to come out of the block for that adjustment will be important. Beyond that, going back to the risk question from Julie, it is about that volatility, and that is where the borrowing powers come in, because part of that is designed to manage the shorter-term volatility effects, where you are expecting revenue but it does not quite come in in this year. So, there is a safety mechanism there, but it is a transfer of risk to Wales. There is a lot of responsibility coming here, but it does bring risks with it.

[212] **Julie Morgan:** The auditor general's consultation response recommends that the Welsh Government and the National Assembly increase the capacity for economic modelling and forecasting. Do you think that this capacity would be best developed internally within Wales?

[213] **Mr Usher:** Yes, we touched on this in our response, but I am conscious that your previous witness knows far more about this topic than I do. However, I think that there are two aspects here. One would be the Welsh Government itself developing its expertise, and, certainly, I know that it is alert to that and is thinking through actively ways in which it can do that. It will be important that there is a strong treasury function within the Welsh Government, and the finance department needs to make sure that it is equipped to discharge that in the period running up to go-live in 2018, and not just from there. Also, there is the challenge for the Assembly in terms of effective scrutiny and equipping Members with the support that they need to do that function effectively.

[214] I think that we referenced in our written evidence an office of budget responsibility, but, looking at the Scots, I think that the previous witness mentioned the Scottish fiscal commission that they have established as an independent commentator, which is primarily aimed at supporting the Scottish Parliament and its committees in providing expert advice to them, to enable them to scrutinise and challenge effectively. So, there are two sides to this: one is the Welsh Government gearing itself up, but there is also the need to think through what support Assembly Members will need to help you to do your jobs effectively. There is some specialist stuff here around macroeconomics and, as an external auditor, I am probably not best placed to get into the detail of it, I am afraid.

[215] **Julie Morgan:** Finally, what is your view of the current capability within the Welsh Government to forecast non-domestic rates for the coming financial year?

[216] **Mr Usher:** In terms of non-domestic rating, historically, it has worked reasonably well, I think. Obviously, it works with the UK pool arrangement, but I think that, historically—and I would probably need to check—the estimates of revenue for NDR have actually come in pretty close, because there is that long-term knowledge of historical trend et cetera, and things like collection rates. So, I think that, on the whole, NDR has been managed pretty well, but the devolution from 1 April next year, again, is a risk transfer to Wales because the volatility challenge comes to us. We are stepping out of the smoothing effects of the UK pool arrangements. We get the benefit if NDR receipts go up, but if they were to go down, then we would take the hit here in Wales.

[217] **Ann Jones:** You briefed the committee around examples of performance-based budgeting, which attempts to link budget headings to measurable outputs and then wider outcomes from that. Based on your expertise of measuring value for money as an office or organisation, do you believe that such an approach is feasible for the Welsh Government's



budget?

[218] **Mr Usher:** That is actually quite a big question. Linking budgets to outputs and to outcomes are two slightly different things. Linking to outputs, I would say, is certainly possible, and there are examples around the world of that being done. The committee may be aware of New Zealand and the way in which it works. In effect, it has output budget lines that describe what the funding is going to be spent on, in terms of deliverables. So, you can get some linkages there. Linking to outcomes is a good deal harder, and I would probably urge some caution with it, because trying to prove direct causation is incredibly difficult, other than at a very small scale. If you are looking at a programme level, to say that spending x has achieved a certain outcome can be particularly difficult, not least because outcomes can take many years to come through.

[219] I have had a look at some of the written evidence that you have received from other sources, and I think that a number of witnesses have advised that linking to outcomes is particularly tricky. However, in budget scrutiny, it probably is reasonable for a committee here to ask a director general in the Welsh Government ‘What do we get for our spending on your department?’ For that to be explained in terms of outcome would be reasonable, but to tie specific budget lines to it is, I think, quite problematic. However, linking to outputs can certainly be done.

[220] **Ann Jones:** Okay, thank you. How long do you think it would take to embed a system into a future Welsh Government budget process—budget performance?

[221] **Mr Usher:** I think that it would take quite a bit of preparatory work on the part of the Welsh Government, because it would require it to think about things in a rather different way. There is the programme for government, and it reports performance against that, but to take the budget lines within the budget motion and have a look at that in terms of outputs would be quite challenging. As part of the preparation for this session, I looked through the budget detail, and there is one line there that is something like £330,000 on a particular activity, and then you have the entire NHS as one line with £6 billion. So, to unpack that one line into even the outputs of NHS Wales, let alone the outcomes, is hugely challenging. So, there is a lot of preparatory work to be done there, and there would also be a lot of preparatory work to be done here to enable Members to scrutinise all that in a way that can be effective.

[222] **Ann Jones:** Would it be more effective, then, for the National Assembly, or committees, to expect to view information relating to performance and value for money as part of the budget itself, or should that be in supplementary documentation?

[223] **Mr Usher:** By supplementary information, do you mean information alongside the budget material?

[224] **Ann Jones:** Yes, rather than being in the budget itself.

[225] **Mr Usher:** There is, I think, merit in the budget motion that is voted on being as brief as it can be, but having good explanatory material alongside that aids the Assembly and, indeed members of the public and others, who want to understand this. Coming back to my original point around the quality of responses to scrutiny and things, as well, that is really important. However, to overload the budget motion itself with too much complexity almost becomes self-defeating. So, I think that the budget motion itself should be kept as simple as it reasonably can be, in terms of what you are voting on, specifically.

[226] **Jocelyn Davies:** Thank you. We have run out of questions for you. I thank you for being so flexible in accommodating the time of this session, because I know that you swapped your time with the earlier witness.

[227] **Mr Usher:** That is quite okay, Chair; not a problem at all.

[228] **Jocelyn Davies:** Okay, thank you. We will send you a copy of the transcript. If you could check that for factual accuracy as soon as you can, as soon as you receive it, then we will be able to publish it.

[229] **Mr Usher:** Okay, fine.

[230] **Jocelyn Davies:** Thank you very much. There were one or two things that you said you would send us a note on.

[231] **Mr Usher:** Yes, I will discuss those with the clerks.

[232] **Jocelyn Davies:** Thank you very much.

10:38

**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**

**Jocelyn Davies:** I move that

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

[233] Are Members content? Yes.

*Derbyniwyd y cynnig.*

*Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10:38.  
The public part of the meeting ended at 10:38.*