



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

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Mercher, 13 Mai 2015
Wednesday, 13 May 2015

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Mae hon yn fersiwn ddrafft o'r cofnod.

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

Mark Drakeford	Aelod Cynulliad, Llafur (Y Gweinidog Iechyd a Gwasanaethau Cymdeithasol) Assembly Member, Labour (The Minister for Health and Social Services)
Robert Lloyd Griffiths OBE	Cyfarwyddwr Cymru, Sefydliad y Cyfarwyddwyr Director Wales, Institute of Directors
Rob Hunter	Cyfarwyddwr Cyllid, Adran yr Economi, Gwyddoniaeth a Thrafnidiaeth, Llywodraeth Cymru Director of Finance, Department for Economy, Science and Transport, Welsh Government
Yr Athro/Professor Dylan Jones-Evans OBE	Cadeirydd y Grŵp Gorchwyl a Gorffen ar Fanc Datblygu i Gymru Chair of the Development Bank for Wales Task and Finish Group
Alison Machon	Pennaeth Rheoleiddio ac Arolygu, yr Is-adran Deddfwriaeth a Chefnogi Cyflawni—Gwasanaethau Cymdeithasol, Llywodraeth Cymru Head of Regulation and Inspection, Legislation and Supporting Delivery Division—Social Services, Welsh Government
David Pritchard	Pennaeth Rheoleiddio a Datblygu'r Gweithlu, yr Is-adran Deddfwriaeth a Chefnogi Cyflawni—Gwasanaethau Cymdeithasol, Llywodraeth Cymru Head of Regulation and Workforce Development, Legislation and Supporting Delivery Division—Social Services, Welsh Government
Doug Stoneham	Uwch Gynghorydd Polisi, Datganoli, Cyllid a Thollau EM Senior Policy Adviser, Devolution, HM Revenue and Customs
Dr Marie-Claire Uhart	Cyllid a Thollau EM HM Revenue and Customs

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

Dr Richard Bettley	Uwch-ymchwilydd Senior Researcher
Bethan Davies	Clerc Clerk
Leanne Hatcher	Ail Glerc Second Clerk
Helen Jones	Uwch-ymchwilydd Senior Researcher
Tanwen Summers	Dirprwy Glerc Deputy Clerk
Joanest Varney-Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser

Dechreuodd y cyfarfod am 09:02.
The meeting began at 09:02.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **Jocelyn Davies:** Welcome, everybody, to a meeting of the Finance Committee. Will you just check, if you've got any devices with you, that they're on 'silent'? You don't have to turn them off, but if they're on 'silent', that would be helpful. We don't have any apologies, and I know that Ann Jones is here today and will be joining us shortly.

09:03

Papurau i'w Nodi
Papers to Note

[2] **Jocelyn Davies:** As we are bringing the Minister in, perhaps Members would be happy to note the minutes of 23 and 29 April? Yes—all happy with that? Fine.

Bil Rheoleiddio ac Arolygu Gofal Cymdeithasol (Cymru): Sesiwn Dystiolaeth 1
Regulation and Inspection of Social Care (Wales) Bill: Evidence Session 1

[3] **Jocelyn Davies:** Good morning, Minister.

[4] **The Minister for Health and Social Services (Mark Drakeford):** Good morning.

[5] **Jocelyn Davies:** We come to the first substantive item on our agenda today, which is our examination of the Regulation and Inspection of Social Care (Wales) Bill. This is evidence session one. Minister, would you like to introduce yourself and your officials, just for the record, and then, if it's okay with you, we'll go straight into questions.

[6] **Mark Drakeford:** Absolutely. Diolch yn fawr; thank you very much. So, I'm Mark Drakeford, and with me this morning, I have two senior officials who've been involved in the preparation of the Bill—David Pritchard and Alison—

[7] **Ms Machon:** Machon.

[8] **Mark Drakeford:** Machon. Sorry.

[9] **Jocelyn Davies:** Okay. Thank you very much. Minister, obviously, we're not examining the policy intent of the Bill, as you know—we're just looking at the financial aspects. But, just for the record, if you would briefly outline the main aims of the Bill before we go on to the financial aspects, we'd be grateful.

[10] **Mark Drakeford:** Well, thank you, Chair. It's important to start by saying that this Bill is a companion Bill to the Social Services and Well-Being (Wales) Act 2014. At one point, in that Act's history, this was part of the original Bill and was severed from it at a relatively early stage, given the size and complexity of the Bill itself. So, this puts in place a regulation and inspection regime to support the policy changes of the 2014 Act, now on the statute book. So, amongst the key purposes of the Act, as you know, is to shift the system in favour of prevention, so that earlier services are provided to support people to be as independent as possible for as long as possible. It changes the relationship between the user and the provider of services so that services are built around people's strengths, not around people's weaknesses, and the aim of services is to support people in maximising their own strengths, their own 'voice and control', as the Act says—and this provides a regulatory and inspection regime to support those main ambitions.

[11] **Jocelyn Davies:** Lovely. Thank you, Minister. How do you respond to the concerns that have been expressed in consultation responses that the current financial and resources pressures are the biggest barriers, then, to implementing the Bill?

[12] **Mark Drakeford:** Well, in general, Chair, I don't think anybody would deny that the age of austerity and its likely, now, continuation over the next five years, forms the backdrop to anything that we try and do in public services. So, those people who will be charged with the implementation of the Bill and those services on which the Bill will have an impact, social services and so on, I absolutely understand why they will be concerned about any resource implications that the Bill has for them. So, I start by recognising the seriousness of the point they make. However, I still think it's important for me to say that our assessment of this Bill is that, while the current system of regulation and inspection cost £34 million a year, the new system will cost £35.5 million a year; £1.5 million, or 4 per cent, more than the current system. In the global sense of the health and social services main expenditure group, that is less than a twentieth of a tenth of 1 per cent of the budget as a whole. So, while I recognise the point that's been made, I don't think the costs involved in this Bill are unmanageable.

[13] **Jocelyn Davies:** And you certainly wouldn't see that as a justification for delaying doing this, in order to wait for the, you know, financial climate to be different.

[14] **Mark Drakeford:** I don't intend to delay the Bill in the hope that something in the long term will turn up. I would have to say—because this is the position that any Minister would be in—that there are some parts of the Bill where, if we were in a very tight spot indeed, we would have to weigh up whether we could afford to bring those parts of the Bill onstream earlier or whether we would have to push them a bit further back until we could afford them.

[15] **Jocelyn Davies:** You know that local government and the directors of social services have said that culture, and culture change, is needed in order to implement the changes that you want. Did you attempt to cost how much culture change would add up to, in terms of your regulatory impact assessment?

[16] **Mark Drakeford:** I don't believe that we did. I'd struggle, probably, to think about how you could monetise the impact of cultural change, although I think that the broad thrust of the Act—the social services Act, which this a companion to—is a cultural shift in order to contain costs and allow the system to go on being sustainable into the future. So, you could

attach some monetary value to some aspects of that, I imagine. For example, we are going to spend £1 million this year through the care council in making sure that training of front-line staff responsible for implementing that Act is, you know—that they are accustomed to the new culture that I attempted to describe a little earlier. Another of the big cultural changes that that Act and this one, therefore, implement is a shift from local authority to regional footprints. That will be a cultural shift for many local authorities making decisions on the regional footprint alongside local health boards, but we think that that will actually drive out efficiencies in the way that things are done, rather than making them more expensive.

[17] **Jocelyn Davies:** Okay, thank you. Julie, shall we come to your questions?

[18] **Julie Morgan:** Yes. Thank you very much, Chair. The regulatory impact assessment says that it's difficult to compare the costs and benefits in an objective way, so do you think that it does present an accurate view of the total additional cost of the Bill?

[19] **Mark Drakeford:** Thank you, Julie. I think it provides as accurate an account as we have been able to derive. The RIA is work we are always keeping under review and will be updating as the Bill makes its way through the Assembly to take account of facts and factors that are identified by people who will contribute to the scrutiny process. But it is very important, Chair, I think, to be clear that the RIA is the product of a wide range of expert contributors. It draws very extensively on the views of stakeholders—so, local government but also people in the care home sector: the United Kingdom Homecare Association, for example, is very closely involved in helping us to derive the costs that the Bill produces from the perspective of those people who are providing the services now. It's not our view of the costs; it's what we have been told by the people who are doing the job.

[20] The second strand is the regulators themselves. So, lots of the figures that we quote here are the figures that CSSIW and the care council themselves have told us the Bill would engender for them. We've extensively used those services external to government, like the Office for National Statistics, the Personal Social Services Research Unit to test our conclusions with them.

[21] Finally, in a fourth strand, we have all the internal checks and balances of Government. The RIA is not just devised in my department; it's then tested by other people in the system and, finally, it's signed off by the chief economist. I think, by taking all those different strands, relying on what people who are doing the job tell us that the costs will be, we've got as good an estimate as it is possible to make of the costs that the Bill will engender.

[22] **Julie Morgan:** Thank you very much. I think you said that you do revise the estimates; so, how often would you do that?

[23] **Mark Drakeford:** Well, we will produce a new explanatory memorandum at the end of Stage 2. It's become the convention, really, in the way that we do things here, and we will definitely aim to do that. But we will update it more often than that in between. For example, I wrote to the Chair of the committee on 5 May, identifying three places where, as a result of comments we've had in already, we know that we needed to update the RIA. Where that information comes in to us, then we will update it as we go along.

[24] **Julie Morgan:** Right, so it's—

[25] **Mark Drakeford:** Yes, a continuous process.

[26] **Julie Morgan:** That's fine. How you would respond to the Auditor General for Wales's view that the RIA is potentially misleading in the way it displays monetised benefits alongside cash costs in the summary table?

[27] **Mark Drakeford:** Well, I think I've got two answers, really: one is that, as a Government, we will always take the observations of the auditor general seriously, and stand back from them and look to see whether we think there is a better way in which we could provide the information. In the specific instance here, I don't think I did share his conclusion. It's an absolutely standard way of doing things, that you monetise costs and benefits. So, quite a lot of the costs that fall within the Bill are actually using the time of people who are already in the system to do things in the future that they will not have done in the past. So, you monetise that. You say, 'Well, how much would that time have cost?', and you provide a figure for it. Then, you look to see whether there will be some things they've done in the past that they will not have to do in the future, and you provide a cost for that. They won't be cash costs, as the auditor general says, but we provide cash equivalent figures in our tables so that a lay reader can get an overall grasp of where the costs and benefits of the Bill fall. I think that the table that the auditor general points to is a fairly standard way of doing things. There's certainly absolutely no intention to mislead, but we will look at it and we will look at his comments, and if there's a better way of doing it in future, then we'll be, obviously, happy to try to do that.

[28] **Jocelyn Davies:** Before we move on, has anybody else expressed the same view as the auditor general about that particular way of presenting monetised costs?

[29] **Mark Drakeford:** Not that I'm aware of, and this particular table would quite definitely have gone through our chief economist's office and would have been signed off as the standard way in which costs and benefits of all Government Bills are presented.

09:15

[30] **Jocelyn Davies:** Okay. Thank you. Julie.

[31] **Julie Morgan:** In your letter, and you've got two tables—. Table 28 in your letter doesn't include the benefits. I just wondered why that has been taken out of that table.

[32] **Mark Drakeford:** Well, in the letter that I sent to the Chair of the committee, there were three ways in which we needed to update the RIA. There was a figure for the total budget of the Care Council for Wales, which was inaccurate in the original table. We've corrected that. There were two tables: the due diligence of key providers was one and then table 28, which Julie has referred to, where there was some double counting and where we had both costed—. We'd included both the reduction in the costs that would fall. In table 28, it's to do with dual registration. Up until now, care home managers have had to register with both the care council and with CSSIW. In future, when this Bill passes through the National Assembly, managers will have to register only with Social Care Wales. So, we counted the benefit twice and we should only have counted it once. What we've done in the table is to correct that by taking out the double counting.

[33] **Julie Morgan:** Thank you. I can understand it now.

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

[35] **Christine Chapman:** Minister, further to the points you've already made, can I just press you on the auditor general's views? He did assert that, again, the RIA understates the cash cost of the due diligence of key service providers section of the Bill by £276,900. So, I just wonder whether you could clarify that.

[36] **Mark Drakeford:** We agree with that. That's the second point I made in the letter I sent to the Chair. We've corrected that. He correctly saw that we had double counted that.

[37] **Christine Chapman:** Right, okay. And then what about the—. He also talked about—you know, raised concerns about why the costs and benefits in the RIA are shown over a five-year time period.

[38] **Mark Drakeford:** Well, the five-year time period has become conventional in the way that we set these things out. I've seen the auditor general's observations on this. He refers to five years as being an arbitrary period. I don't know that it's any more arbitrary than four years or six years. You know, in a way, if you're trying to set out for people what the costs and benefits of the Bill may be, you have to think of a period where you have some reasonable certainty over those costs. I think the convention has been that a five-year horizon is about as far as you can go before the level of uncertainty begins to creep in and the costs become too unreliable to account for in that way. So, in this Bill, we've simply followed what has been done in previous Bills.

[39] **Jocelyn Davies:** So you're not aware of something that's going to happen in year 6 that would make it look drastically different.

[40] **Mark Drakeford:** No, absolutely not.

[41] **Jocelyn Davies:** It's just that you—. Mike, did you want to come in on this particular point?

[42] **Mike Hedges:** On this point. Surely five years has got a lot to be said for it, because it's actually one election cycle. So, that would fit in so everything would be looked at again at the beginning of or sometime in the next election cycle. Surely that has some logic to it.

[43] **Mark Drakeford:** Well, I think, partly, five years is taken because it fits with the length of an Assembly term. Fewer than that and I think people might have a legitimate reason for saying, 'Well, surely you could tell us a bit more than that. You can see a bit further into the future than three years.' Once you go beyond five years, then I think your crystal-ball gazing a bit too far.

[44] **Christine Chapman:** There's no problem—[*Inaudible.*]

[45] **Jocelyn Davies:** No, probably not, and I don't think the auditor general has said what his arbitrary number would be, but what you're saying is that, any further than that, you wouldn't really be in a position to be saying what the costs are. It would be questionable, then, whether that would be accurate.

[46] **Mark Drakeford:** It becomes less and less reliable the further ahead you go.

[47] **Jocelyn Davies:** Peter, did you have a point?

[48] **Peter Black:** That was my question.

[49] **Jocelyn Davies:** Right, okay. Have you finished, Chris?

[50] **Christine Chapman:** Yes.

[51] **Jocelyn Davies:** We'll come to your questions then, Peter.

[52] **Peter Black:** I was going to say that coterminosity with your five-year election period depends on when you start.

[53] **Mark Drakeford:** Yes, of course.

[54] **Peter Black:** But, on my particular questions, around the age-old problem of subordinate legislation, do you think the main provisions in the Bill to make subordinate legislation are likely to give rise to significant costs and/or benefits that aren't detailed in the RIA?

[55] **Mark Drakeford:** Well, the starting point for me to say, Chair—as I've said in front of other committees, particularly the Constitutional and Legislative Affairs Committee—is that I believe it's one of the characteristics of this Bill that it moves a lot of things that in the past were in subordinate legislation onto the face of the Bill itself. It's the point that Andrew R.T. Davies made in the first debate we had on the Bill, that there is a lot more on the face of this Bill than in many other Bills that have come before the Assembly. So, actually, there is less left to regulations here than there's been in the past.

[56] **Peter Black:** But there are still regulations.

[57] **Mark Drakeford:** But there are. So, the approach that we've taken in the RIA is this, Chair: where we have a stated intention to move ahead with a policy, we provide a detailed account in the RIA of what the costs of the subordinate legislation would be, if we were to. So, to give you an example—quality ratings. The Bill introduces a power for CSSIW to publish quality ratings for residential care homes. We will do it carefully, we will do it with the sector, and we will introduce it when we are confident that those quality ratings will tell you something reliable about the quality of care at a setting. But it is the Government's intention to introduce that power, and we provide a detailed account, therefore, of what we think the cost will be.

[58] There are a second group of secondary powers in the Bill, where we don't have an immediate intention to move on those things, but to move on them would be consistent with the overall thrust of the policy. So, we give Social Care Wales the potential, in future, to extend its oversight of education and training. At the moment, it has oversight of education and training of social workers, but it doesn't have oversight of education and training of social care workers. The Bill will allow that to happen in the future. We're not going to do it in the first tranche, but, because it's consistent with our policy, we provide a cost and benefit analysis of it in the RIA, and we say it would cost £90,000. Where we take powers that we don't have an intention to use—so, the introduction of prohibition Orders, which are there in the Bill, because the Law Commission advise very clearly that we should take the power, but we have no intention as a Government at this point to proceed in that direction—we haven't set out an RIA. However, if we were to introduce prohibition Orders, it would be via the affirmative procedure, and we would produce an RIA at that point.

[59] **Jocelyn Davies:** So they're things that may or may not be done sometime in the future, but you've used the opportunity of this Bill to include them, should a future Government choose to do that. So, you wouldn't have to bring another Bill.

[60] **Mark Drakeford:** The Law Commission says exactly that, Chair. They say, prohibition Orders, the evidence for them is too slight to recommend them for use now, but there is some emerging evidence that they could be useful in the future: Governments ought to take the power to introduce them, should they turn out to be a useful tool in the armoury.

[61] **Jocelyn Davies:** Okay. Peter.

[62] **Peter Black:** Yes. So, you've got this five-year cost window. Do you have a five-year plan as to when you're going to introduce these additional regulations, along that, and how the costs are going to span out over that five-year period?

[63] **Mark Drakeford:** Well, I think the RIA does attribute the costs over the five-year period. What I'm happy to say this morning, though, in answer to Peter's question, is that, during the passage of the 2014 Bill, we set out a timetable for the introduction of the regulation-making powers that that Bill sets out, and, just last Friday, launched a consultation on the second tranche of them. During the passage of this Bill, I will set out a similar timetable for the order in which we intend to use the regulation-making powers that this Bill provides for Government, and the sequence in which we would intend to bring those in front of the Assembly.

[64] **Peter Black:** And you'll identify any additional costs as you go along.

[65] **Mark Drakeford:** We will do. And any ones that we have an intention to use, those costs are already in the RIA, but we would refine them and publish them separately, alongside any regulations, after bringing them in front of the Assembly.

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

[67] **Jocelyn Davies:** Okay. Ann.

[68] **Ann Jones:** Yes. Many thanks. Could you detail a little bit more discussion you've had with colleagues across Welsh Government on how you're going to fund the increased cost to CSSIW?

[69] **Mark Drakeford:** Thank you, Ann. You're quite right to point out the fact that a range of Ministers have an interest in CSSIW. I imagine that, in a way, I have the major interest in it because of its work in adult social care, but the Minister for Public Services has the administrative oversight of CSSIW in order to have separation between the Minister whose work is being scrutinised and the person who has the budget. But the Minister for Education and Skills and the Minister for Communities and Tackling Poverty, Lesley Griffiths, has an interest in CSSIW because of its work in childcare and child minding. So, officials have been in contact across Government about the impact of the Bill. We will work with others to see how costs are best absorbed within the Government as a whole. But I am confident, Chair, that, if those costs fell exclusively to the health and social services main expenditure group, we would manage them in one of two or three ways. As I said to you earlier, if we were in a very tight spot, we would have to think of a timetable, as I just mentioned to Peter, in terms of how we would introduce the new powers. But £1.5 million—. Those of us who were in the Chamber yesterday in the debate on the liver disease plan, the cost of sofosbuvir that we were talking about there, for fewer people than would be on the fingers of one hand, in one year is more than the entire cost of this Bill. So, within the health and social services field, we are juggling costs of this order on a daily basis, not an annual basis.

[70] **Ann Jones:** Okay, thanks. Stakeholders have expressed reservations on the estimated transitional costs provided by CSSIW. How confident are you that CSSIW's transitional costs are robust enough?

[71] **Mark Drakeford:** We believe that they are as robust as we can make them. There are three major components in the transitional costs for CSSIW. There is the move to a service model of registration. That is important, and it will have some transitional costs because it will involve a re-inspection of large numbers of settings, but we've accounted for those. There is nearly £500,000 set aside in transitional costs for training and for information across the whole sector so that people are aware of the change and there is some smaller amount of money there for some IT changes that will be needed to update systems and so on, although CSSIW is already, from its own resources, absorbing some of those costs in advance of the

Bill. So, our belief is that the £2.1 million—I hope I’ve got that right—figure that we identify for transitional costs is as accurate as we can make it at this point, but, as in all of these things, this is a continuing dialogue with the regulator and we will be refining those costs as the Bill proceeds through the Assembly and is changed as a result of the scrutiny process.

[72] **Ann Jones:** Okay, thanks. CSSIW told us how they have made efficiency savings of £2.1 million over the last three years and they went on to explain that, if there are two different regulatory systems, they would need to change their models—their business and delivery models—and, therefore, could not be as efficient. What discussions have you had with CSSIW in terms of operating the two different regulatory systems and can you see any potential—I suppose it’s like saying, ‘How long is a piece of string?’, but can you see any potential for them to reduce current efficiency savings?

[73] **Mark Drakeford:** Can I start, Chair, by agreeing with the first point that Ann made? I think that CSSIW has been a very successful organisation in making efficiency savings over the last four years. It’s had a flat-cash budget and, within that, it has managed to move money to new priorities and it’s been able to do that by reducing its costs in other parts of what it does. So, I agree with you that it’s got a good record in this. I’m not sure that I’m quite grasping the point about two systems.

09:30

[74] I’m very happy to talk more to CSSIW about it. They have two systems now. They have a system that deals with its childcare responsibilities, and they have a system that deals with its adult responsibilities, and in fact, in its adult social care responsibilities, at the moment, it has one way of dealing with domiciliary care and one system for dealing with residential care, and we are bringing those two systems together into one. So, I think, in some ways, that there are some new opportunities for efficiency gains, rather than fewer. But I meet regularly with the chief inspector—I met her yesterday—and I’m very happy to put that matter on my next agenda with her, so that I can understand the point that’s being made a bit better.

[75] **Jocelyn Davies:** I suppose that what you’re telling us is that you stand by the estimates, but if you’re presented with evidence that that could be refined, you’re very open to that.

[76] **Mark Drakeford:** Absolutely.

[77] **Jocelyn Davies:** Okay. Ann, are you happy?

[78] **Ann Jones:** Yes, I’m fine.

[79] **Jocelyn Davies:** Nick, shall we come to your questions?

[80] **Nick Ramsay:** Thank you, Chair. Morning, Minister. Are you confident, in terms of the Social Care Wales transitional costs, that the transitional cost of £100,000 for the introduction of Social Care Wales is realistic, given that it was based on an example from the education sector?

[81] **Mark Drakeford:** Well, we are, and that’s partly because we were lucky to have that example from the education sector, and it was a very recent example: a move from the General Teaching Council for Wales to the general education council for Wales, and the moves are quite close in the way that we are doing these things, because the General Teaching Council for Wales didn’t cease to exist. In law, it continued, but it morphed into this new body, and that is true of the Care Council for Wales. The Care Council for Wales in law is not

going to be abolished and re-established. It is going to be recreated by extending its range of responsibilities and its budget in much the same way as the education example. So, we have relied on it, because of its recency and because of parallels with what we are doing, and we think that £100,000 is a reasonable estimate of what the transition costs will be.

[82] **Nick Ramsay:** The regulatory impact assessment stated that it wasn't possible to provide detailed estimates. Would you be able to provide us with some more detail—a breakdown—of the £100,000 transitional costs?

[83] **Mark Drakeford:** Yes, I am happy that we will do that. It might be slightly later in the process. The previous Deputy Minister set up a group to assist her in deciding between different models for the move from the care council to Social Care Wales. Now that that decision has been made, we're creating a slightly different expert group to set out a more detailed transition plan, and when we have that more detailed transition plan, then we will publish the costs alongside it that will break down the £100,000 and show it in a bit more detail.

[84] **Nick Ramsay:** And if it does cost more than that—I know that you don't think that it will, at this point—but if something happens and it does end up costing more than that, will you be able to access additional funding?

[85] **Mark Drakeford:** Well, Chair, we have provided originally £1.5 million a year to the sector for the implementation of the 2014 Act. I've been able to double that transition grant this year to £3 million, and my ambition for that is that, in another year or so's time, I would like to put that money into the revenue support grant to continue to support the 2014 Act in perpetuity. But I've made no commitment to doing so, and if transition costs for this Bill were to be in excess of what we estimate, although we don't think that that will be the case, I do have a budget line there that I can go to in order to meet some of those costs. Now, we stand by our estimates, but, in the sense that the Chair summed up earlier, if new facts emerge, we'll have to change our plans, then—.

[86] **Jocelyn Davies:** And you've identified the budget line that gives you that little bit of headroom that would allow you to do that.

[87] **Mark Drakeford:** That budget line will have been available by then for a number of years for the implementation of the 2014 Act, and it would not be unreasonable to use a small amount of that for the implementation of its companion Act, if we needed to, but that's not my intention. My intention is to allow that money to stay with the 2014 Act, but it's there in reserve if we absolutely needed to do so.

[88] **Nick Ramsay:** Thanks. Finally from me, the CSSIW advisory board have said that it'll take years for Social Care Wales to become fully effective. What do you make of their view?

[89] **Mark Drakeford:** Well, I don't dissent from it in one way, in that our plan for Social Care Wales is definitely an evolutionary one. I'm not expecting it on day 1 to emerge fully formed, with all its new responsibilities. It will take some time for it to build up into being the body it will be in the long term, and that's partly important because it has very significant statutory responsibilities that the care council very successfully discharges now, and I don't want Social Care Wales to take its eye off that important part of its business while it builds up the new responsibilities it will inherit through the Bill. So, it says 'years', and I probably think of that as being about two years, but the general point that it is not going to be all-singing and all-dancing on day 1 has always been our policy as well as the view of the advisory group.

[90] **Jocelyn Davies:** Okay. Mike.

[91] **Mike Hedges:** The cost of producing most things, like these reports, fall mainly on staff costs and printing costs. Are you prepared to accept these being produced wholly online, in which case there would not be the printing costs associated with it?

[92] **Mark Drakeford:** I don't think I probably would, in a number of cases, because one of the things that we are trying to do through this Bill is to make sure that there is better information available to members of the public in making very difficult decisions that they may have to make only once in their lives, and that's very much what people who end up making a decision about residential care, for example, tell you: when they're suddenly faced with it, there's nobody else that they know who has gone through the same thing. People often make the contrast between schools. When you're at a point with children where you're thinking about schools, you probably know other parents at the same stage in life who've gone through the same process and you can talk to them and gain their experience. When you're choosing a residential care home, other people who you know are very unlikely to have had to do the same thing. You feel very much on your own. Part of what this Bill is about is making better information available to people in a way that they can use to help them make better-informed decisions. I wouldn't want to say today that making everything available only online would be consistent with our ambition to allow members of the public to be better informed. So, with some reports that are essentially for professionals, I see the case is very clear, but where you want the public to be able to use them, I think you've got to be more flexible.

[93] **Mike Hedges:** You talk about a regional basis—and I can talk about Swansea in detail, but very few other places. In Swansea, the health board area and the region of social care are entirely different. Bridgend is part of the health board, but it has nothing much to do with Swansea and Neath Port Talbot in terms of social care, whereas eastern Carmarthenshire and even southern Powys do tend to fit into this. You may say this is nothing to do with this committee and that it should be for another one, but has any thought gone into the costs that might be involved when somebody living in Hendy, for example, may well want to use somewhere in Pontarddulais, and somebody in Pontarddulais might well want to use somewhere in Hendy? Quite often, the boundary, apart from the river, is quite difficult to find.

[94] **Mark Drakeford:** Well, Chair, inevitably, whenever you draw lines on a map, there will be some arbitrary components to it. The regions for the Social Services and Well-being (Wales) Act 2014 are set out in the Act itself, so they are statutory boundaries, not advisory boundaries, and they are the health board boundaries. The way in which individuals have been given extra power to move across boundaries is in the way that we have quite considerably liberalised direct payments under the 2014 Act. So, even for residential care, which you couldn't before, you can take the money from the local authority—and some of you may remember a case that Kirsty Williams talked about on the floor of the Assembly of one of her constituents, who wanted to go to a care home that was about 200 yards from his house but lay in a different local authority, outside Powys, and Powys wouldn't pay for that person to go there because they had a place in a Powys home. Well, under the 2014 Act, that person will be able to take a direct payment and just pay it themselves. So, there are extra capacities for some individuals, to address the point that Mike has made.

[95] **Mike Hedges:** How do you address the concerns expressed by the Association of Directors of Social Services Cymru and the Welsh Local Government Association that the proposed annual statements and local stability reports will duplicate work? And, would you accept linking to other reports rather than just reprinting and putting them out, and actually having, 'This links to another report' rather than duplication?

[96] **Mark Drakeford:** Absolutely. It is 100 per cent not my intention for this Bill to

result in bureaucratic handle-turning of a sort that adds nothing, but creates extra work for people to do. I'm very happy to be clear this morning and with ADSS that the report that we are requiring is instead of the annual report that directors of social services are currently legally obliged to publish, not as well as. Because we will set out a national template for that report, I think that, actually, it will reduce costs for local authorities, not increase them. Every local authority director of social services provides an annual report; they are very different across Wales in scale and in scope. We will devise a report format that is fit for the purpose we want, slimmed down and focused on the things that need to be reported on, and I think, for many local authorities, this will be less of a burden than the current system.

[97] Where there are other documents that local authorities are having to publish—let me give you an example: the 2014 Act requires local authorities and health boards on the regional footprint to produce a population needs assessment. Well, it seems to me that the market stability report that they will be producing will draw very heavily on that, because it will, inevitably, have to assess the needs of people in the locality for residential and domiciliary care. I don't want them just to repeat the same exercise twice; they can refer to the work they've done in the other document as part of what they will be required to do under this Bill.

[98] **Mike Hedges:** I'm sure they'll be very pleased to hear that.

[99] **Mark Drakeford:** I'm very committed to that.

[100] **Jocelyn Davies:** Ffred, shall we conclude, then, with your questions?

[101] **Alun Ffred Jones:** Diolch yn fawr. Mae fy nghwestiynau i ynglŷn â chostau ychwanegol ar gyfer darparwyr gwasanaeth. A ydych chi'n hyderus na fydd costau parhaus ychwanegol uwch ar gyfer darparwyr gwasanaeth?

Alun Ffred Jones: Thank you very much. My questions relate to additional costs for service providers. Are you confident that there will not be higher additional ongoing costs for service providers?

[102] **Mark Drakeford:** Na. Fe fydd costau ychwanegol i'r bobl sy'n darparu gwasanaethau. Rydym ni wedi eu rhoi nhw yn yr RIA. Nid ydym yn meddwl y bydd y costau'n uchel—tua £25 y flwyddyn. Ond fe fydd rhai costau sy'n mynd i gwmpo ar bobl sy'n darparu gwasanaethau. Rydym wedi siarad â'r sector ac rŷm ni wedi cytuno gyda nhw ar y ffigurau sydd yn yr RIA, ac nid ydym ni'n meddwl eu bod yn afresymol.

Mark Drakeford: No. There will be additional costs for those who provide services and we've put them in the RIA. We don't believe that the costs will be high—about £25 per year. But there will be some costs that will fall on service providers. We have spoken to the sector and we've agreed with them on the figures that are in the RIA, and we don't believe that they're unreasonable.

[103] **Alun Ffred Jones:** A ydych chi'n credu y bydd effaith anghymesur ar ddarparwyr gwasanaeth llai yn sgil y costau cyffredinol o weithredu'r Bil, er enghraifft trwy newid offer casglu data?

Alun Ffred Jones: Do you think that smaller service providers will be disproportionately affected by the overall costs of implementing the Bill, for example when changing data collection tools?

[104] **Mark Drakeford:** Rwy'n cytuno bod hwnnw'n bwynt pwysig. Pan fydd un adran, er enghraifft, yn rhedeg mwy nag un lle, bydd y costau am bob lle yn llai iddyn nhw na phan mae'r un costau'n cwmpo ar rywun sydd jest yn darparu un lle gofal preswyl. Felly, rŷm yn fodlon gweithio

Mark Drakeford: I agree that that's an important point. When one department runs more than one place, the costs in all those places will be smaller for them than when the same costs fall on a provider that just runs one residential setting. So, we are content to work with the sector and we're willing to

gyda'r sector ac yn fodlon gweithio gyda Care Forum Wales, er enghraifft, i weld a oes rhywbeth rŷm ni'n gallu ei wneud i helpu'r bobl yn y sector sydd ddim yn rhedeg lot o bethau. Felly rŷm yn ymwybodol am y pwynt ac yn gweithio gyda'r sector i drïo gwneud pethau i helpu pobl yn y sefyllfa yna.

work with Care Forum Wales, for example, to see whether there's anything we can do to help those people in the sector who don't run multiple settings. So, we are aware of the point and we're working with the sector to try and do things to help people in that situation.

[105] **Alun Ffred Jones:** Diolch yn fawr. Mae'r cwestiwn arall a oedd gen i wedi cael ei ateb.

Alun Ffred Jones: Thank you. The other question I had has been answered.

[106] **Jocelyn Davies:** Okay, thank you. Minister, we've run out of questions, you'll be delighted to hear.

[107] **Mark Drakeford:** I am.

[108] **Jocelyn Davies:** We've come to the end of the session. Many thanks for attending. We're very grateful, and I see that you didn't need your officials with you this morning, but I'm sure that they've enjoyed themselves, as well. [*Laughter.*]

[109] **Mark Drakeford:** Talked too much as usual.

[110] **Jocelyn Davies:** As usual, we'll send you a transcript. If you'd just check it for factual accuracy, then we'll be able to publish it. Thanks very much.

[111] **Mark Drakeford:** Thank you very much.

09:44

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

Cynnig:

Motion:

bod y pwyllgor yn penderfynu gwahardd y cyhoedd o weddill y cyfarfod yn unol â Rheol Sefydlog 17.42(vi).

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

*Cynigiwyd y cynnig.
Motion moved.*

[112] **Jocelyn Davies:** I now propose then, committee, that we go into private session under 17.42 to discuss the evidence. Happy? Lovely, thank you.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 09:44
The public part of the meeting ended at 09:44.*

Ailymgynullodd y pwyllgor yn gyhoeddus am 10:02

The committee reconvened in public at 10:02

**Cyllid Cymru—Sesiwn Dystiolaeth Ddilynol
Finance Wales—Follow-up Evidence Session**

[113] **Jocelyn Davies:** Welcome back, everybody, to the meeting of the Finance Committee. We're now on item 4, which is Finance Wales follow-up session. We have a number of witnesses with us, and we've received information and plenty of papers in advance for this. Would you like to introduce yourselves for the record? Then we'll go straight to questions. Shall I start with you?

[114] **Mr Hunter:** Rob Hunter. I'm the director of finance for the Department for Economy, Science and Transport.

[115] **Jocelyn Davies:** Thank you.

[116] **Professor Jones-Evans:** I'm Dylan Jones-Evans. I'm professor for entrepreneurship and strategy at Bristol Business School and chair of the task and finish group for the development bank for Wales.

[117] **Jocelyn Davies:** Thank you.

[118] **Mr Griffiths:** I'm Robert Lloyd Griffiths. I'm the director of the institute of directors in Wales. I also chair the access to finance review for the Minister.

[119] **Jocelyn Davies:** Lovely. Thank you. Before we go on to discuss the recent report, I wonder if you could update the committee on how business conditions have changed for small companies in Wales since last year's inquiry.

[120] **Professor Jones-Evans:** Right, okay. I thought the questions were going to be on Finance Wales. Are we talking in terms of the lending conditions on business—

[121] **Jocelyn Davies:** We're just setting the scene at the moment.

[122] **Professor Jones-Evans:** Well, certainly, what we've seen is, if you're looking at it from an economic point of view, that, certainly, with the research that we've done as part of this review, if you're looking specifically on finance, what we undertook was probably the most comprehensive piece of research that has been undertaken on the regional impact of bank lending to small businesses, where we actually compared Wales, England and Scotland. If you look at the report, what that particular research shows—. Let me stop there. The reason I say it's the most the comprehensive review is that we were recently at a symposium in Portmeirion that had been organised by the Learned Society of Wales and we had a specific session on regional finance. Somebody was saying that this work had never been done before. As part of the research, and I'll mention it earlier, we actually undertook this by looking at all the detailed statistics from the SME monitor. The SME monitor is the main instrument that is actually used by Government and banking to look at the differences in lending to small businesses. So, we took all those data. So, what we've shown, using that, is that essentially Welsh SMEs are still not getting access to funding relative to Scottish businesses and English businesses. More importantly, I think—and this is at the crux of the reports that we did on the development bank—it is specific types of business that are not getting access, and those are new businesses and small businesses.

[123] **Jocelyn Davies:** Okay. Your report notes a range of estimates for this funding gap—somewhere between £240 million and £749 million.

[124] **Professor Jones-Evans:** Yes.

[125] **Jocelyn Davies:** So, how did you produce that estimate? Is that your own calculation?

[126] **Professor Jones-Evans:** No. As I said, as part of the process, we appointed a specialist researcher from the University of Stirling, who is an economist specialising in microeconomics and banking. That research was carried out in a number of ways. We used the BBA data to look at one element and one estimate, and then we used the SME monitor data, which I mentioned before.

[127] **Jocelyn Davies:** I see. Okay.

[128] **Professor Jones-Evans:** If the committee would like a copy of the paper that we used—we didn't put it in the report itself, because it's a comprehensive econometric analysis, which would probably send you to sleep, because it did for me—we can provide that for you.

[129] **Jocelyn Davies:** So, when I said 'your own calculation', I didn't mean your own personal calculation, but this was work that you—

[130] **Professor Jones-Evans:** Yes. This was work undertaken by the—

[131] **Jocelyn Davies:** You're not just using somebody else's estimate. You have actually—

[132] **Professor Jones-Evans:** No. Interestingly enough, if you look at other estimates that have been done, it's approximately around the same level. If you remember from the first review, we estimated then, using another sort of analysis of the BBA data, that it was about £0.5 billion. So, we're roughly in the same area. But it is difficult because it depends on the data source that you use. So, you have to take a sort of median view of this. But we've estimated the gap to be about £0.5 billion. More importantly there, that's in terms of banking. So, if you then add what Finance Wales supply in terms of funding, and if you then add the alternative sources, that probably adds up to another £100 million. So, if we assume that the total banking gap is £500 million and other sources are coming in with about £100 million, there's still a gap of about £400 million between what small businesses want and what the finance industry is supplying to them.

[133] **Jocelyn Davies:** Okay. Thanks very much. Julie, I know that you had a question on this.

[134] **Julie Morgan:** Yes; I just wondered whether it's possible, really, to measure this funding gap in any meaningful way when the ranges are so wide. You know, from the £240 million and the £749 million that the Chair mentioned. It seems to be such a huge range that I just wondered if there's any purpose in doing it.

[135] **Professor Jones-Evans:** Well, I think it is useful in trying to estimate it. Like anything else, you know, there's what the minimum and the maximum is. Then it gives Government some sort of idea what needs to be done to actually fill this gap. Like I say, the interesting aspect about this is that other studies since have been looking not only at the gap now but trying to estimate what the gap will be in the future. If I remember, from the report, I think Deloitte did a study of this, trying to estimate this in 2017 and 2020. What we found is that, if you forget what the quantitative issue is, and look at the qualitative data that we gathered, when we talked to the banking sector about this, what they said was that conditions were not going to change over the next four or five years. So, the real issue there is that

everybody is saying, ‘Well, we might go back to 2008. Banks will start lending again.’ Banks will say, ‘Well, actually, we can’t’. You know, the Basel III agreement makes absolutely clear what they have to do in terms of maintaining money and not putting it out, and not to take risks. The issue there is about the portfolio risks that a bank has to take. So, the riskiest sort of investment they can make is into small businesses. So, as a result, they’re going to basically carry on to put sort of investment into large businesses, but this will probably still have the funding gap that we have now. Remember, of all the money that goes from the banks into small businesses, only a third of that amount actually goes to SMEs. Two thirds of that funding goes to large firms.

[136] **Jocelyn Davies:** And you and others don’t envisage anything in the foreseeable future that will alter the size of this funding gap, or the range of this funding gap.

[137] **Professor Jones-Evans:** No. I think the issue is whether the banks will change their policies or not. What we have actually been looking at very carefully is whether they’ve been doing this. We did have on our panel a member of the board of Santander, and his view was very, very clear: if you’re talking about new businesses, small and micro businesses and, in particular, even those businesses that are low-to-medium risk, banks will think twice before going into those, unless they have the right collateral conditions, affordability conditions and, more importantly, the sectors. We were talking just before coming in and one of the areas that the Welsh Government has succeeded in is through its property fund, but why has it succeeded? Now, property is seen as a far safer bet than it was six years ago, but the banks will still not invest in property, because the decision has been made that it is a sector that they do not want to invest in.

[138] **Jocelyn Davies:** Ffred, did you want to come in?

[139] **Alun Ffred Jones:** No, sorry, I’d be intruding on—

[140] **Jocelyn Davies:** Okay, then. Mike, shall we come to your questions?

[141] **Mike Hedges:** You did say that Scotland and England were performing better. Are we narrowing the gap? Has it improved over the last few months or over the last year in that more money is going in via Finance Wales?

[142] **Professor Jones-Evans:** Yes, but are you speaking specifically about Finance Wales now or are you talking about the overall financial situation?

[143] **Mike Hedges:** I was doing both, actually. I was talking about the overall financial position to start with and then I threw Finance Wales in at the end.

[144] **Professor Jones-Evans:** No, that’s fine. What we’ve seen is that there has been an improvement in terms of lending by banks over the last year. But, like I say, the real issue is not the amount of funding that is being put out by the banks, but where it’s going. What we’ve identified within the report, and we’ve identified elsewhere, is that there are a number of target audiences in Wales that are not actually getting the access to funding that they need. I won’t go into—. I can talk about microbusinesses now, for example—

[145] **Jocelyn Davies:** I think what Mike was asking was whether there have been any developments since we were reviewing Finance Wales.

[146] **Mike Hedges:** Has it got any better? It doesn’t matter if it’s got better because the banks are funding it or Finance Wales are funding it. But if it hasn’t got better, are Finance Wales getting any better?

[147] **Professor Jones-Evans:** We finished the report in January, so obviously it's been four months since. I was up at 5 a.m. this morning and I saw that Finance Wales had released their annual results last night. So, as far as I can see, they've invested £48 million into 164 companies. But what's interesting about that is that, while the amount has actually increased, what we've seen is that the average investment is about £300,000 and, like we say, what we see is that it's not that size of investment where the problem is; the real issue is in new companies and, particularly, microbusinesses.

[148] The second one was, again, an interesting point about *xénos*, which we've raised. If you ask most entrepreneurial ecosystems across the world, 'What's the most critical aspect of getting funding to high-growth businesses at the beginning?', that is business angels—informal investment. What we've seen there is that Wales has been performing—. I think in our first report, we said that Scotland was performing and that about £30 million was going out from business angels to businesses, even though Scotland only has 50 per cent more businesses than Wales, and *xénos*, our business angel network in Wales, was bringing in £2.2 million; it brought in £2.2 million last year. I just looked at LINC Scotland's results: they've actually generated £16 million in six months. So, they've brought in £16 million-worth of informal investment into growth businesses. In Wales, over a year, *xénos* brought in £2 million. So, the answer, Mike, is—. Yes, there is more money going out there, but the question is: is it going to the right places?

[149] That is why, within the actual paper, one of the weaknesses that can be addressed is what one of our members called a 'spray-and-pray approach', in that you're putting money out and you're hoping that it will create jobs in the economy. Most equity funding, particularly in business angels, would focus on specific sectors. We did think initially, and we still feel the same, that there is a disconnection between the Welsh Government's policy in terms of sectors and where the funding is going through Finance Wales in particular. So, if you could align that far better, particularly in terms of the way that a lot of innovation support is going to these key sectors, then you'll have a bigger bang for your buck, as most people would say.

10:15

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

[151] **Alun Ffred Jones:** Rydych chi'n cyfeirio at y sector busnesau bach a *microbusinesses*, ond mae yna gronfa *microbusiness loan fund* gan Gyllid Cymru, ac mae yna hefyd *small loan fund* gan Gyllid Cymru. A ydych chi'n dweud nad yw'r rheini yn effeithiol? Nid wyf yn gwybod, ond efallai bod yna sylwadau gan rai o'ch cyfeillion chi ar hynny.

Alun Ffred Jones: You referred to the small business and microbusiness sector, and Finance Wales has a microbusiness loan fund and also a small loan fund. Are you saying that those aren't effective? I don't know, but maybe the other witnesses might have comments on that.

[152] **Yr Athro Jones-Evans:** Wel, i fod yn onest, mae wedi bod yn effeithiol iawn; dyna'r pwynt. Beth welon ni oedd y ffaith, ers 2001, ac yn arbennig ers 2008, rydym ni wedi gweld Cyllid Cymru yn canolbwyntio ar y busnesau micro yma. Beth rydym ni wedi gweld, os ydych yn edrych dros y dirwasgiad, beth oedd yn ddi-ddorol dros y dirwasgiad oedd y cwmnïau micro yma a greodd 85 y cant o'r swyddi newydd yn yr economi yng

Professor Jones-Evans: To be honest, it has been very effective; that's the point. What we saw was the fact that, since 2001, and especially since 2008, we've seen Finance Wales concentrating on the microbusinesses. What we've seen, if we're looking during the period of the recession, what was interesting during that period was that these microbusinesses created 85 per cent of new jobs in the economy in Wales. They did that

Nghymru. Gwnaethon nhw hynny heb unrhyw fath o gronfa i'w helpu nhw i dyfu ymhellach. Felly, mae'n rhan hanfodol ac yn rhan bwysig o'n heconomi ni, ond nid oes cymorth.

[153] **Alun Ffred Jones:** Ond mae yna gronfa—

[154] **Yr Athro Jones-Evans:** Na, na, fe wnaeth y gronfa yma cael ei chreu oherwydd—. Bydd Robert yn sôn mwy am hyn. Mae Robert wedi gwneud ymchwiliad i mewn i'r cwmnïau micro yma, ac roedd y gwaith roedd e wedi'i wneud wedi dweud yn blaen fod yn rhaid creu cronfa. Felly, mae'r gronfa yna wedi dod o fath o bwyllgor y tu allan, nid tu fewn, i Gyllid Cymru.

[155] **Alun Ffred Jones:** Ond, os felly, yr unig beth sydd eisiau ei wneud ydy cynyddu'r gronfa, felly.

[156] **Yr Athro Jones-Evans:** I ryw raddau, ie, ond hefyd y ffordd mae'n cael ei reoli. Os ydym ni'n gweld sut maen nhw wedi creu *start-up fund* newydd, yn y *report* cyntaf, gwnaethom ni ddatgan nad oedd busnesau newydd yn cael digon o arian ychwaith. Roeddem ni'n dweud, yn Lloegr, roedden nhw wedi creu'r *start-up loan fund* yma, a'r syniad oedd sut allem ni ei chreu yng Nghymru. Wedyn, gwnaeth Llywodraeth Cymru ddweud, 'Grêt, rŷm ni am wneud hyn', ac mae hynny wedi bod yn hynod o lwyddiannus. Rwy'n meddwl bod yna—hwyrach y bydd Rob yn gwybod—rhywbeth fel 700 o fuddsoddiadau sydd wedi mynd i mewn, ac wedi creu hyn a hyn o swyddi, ac wedi helpu pobl i ddechrau busnes. Ond y ffordd maen nhw yn gweithio ydy maen nhw'n gweithio efo mentor wrth eu hymyl nhw, ac maen nhw'n gweithio wrth ddefnyddio Busnes Cymru, sef y system cymorth busnes sydd gennym ni yma yng Nghymru, a nhw sy'n rhoi hyn allan. Felly, rwy'n meddwl bod yna ffordd well a ffordd llawer mwy *efficient* ac effeithiol i wneud hyn, a dyna un o'r pwyntiau rydym yn eu gwneud yn y *report*.

[157] Robert, I don't know if you'd like to talk about the microbusiness taskforce and how you came to your conclusions.

[158] **Mr Griffiths:** Certainly. In terms of our conclusions, access to finance is one of the

without any sort of fund to help them grow further. So, it is an essential part and an important part of our economy, but there is no assistance.

Alun Ffred Jones: But there is a fund—

Professor Jones-Evans: No, no, this fund was created because—. Robert will talk more about this. Robert conducted an inquiry into these microbusinesses, and the work that he undertook said clearly that there was a need to create a fund. So, that fund has come from a committee outside, not inside, Finance Wales.

Alun Ffred Jones: But, if so, all you need to do is increase the fund, then.

Professor Jones-Evans: Yes, to some extent, but also the way it's managed. If we see how they've created a new start-up fund, in the first report, we stated that new businesses also didn't have sufficient funding. We said, in England, they'd started this start-up loan fund, and we discussed how we were going to start it in Wales. Then, the Welsh Government said, 'Great, yes, we'll do that', and that's been extremely successful. Perhaps Rob will know, but I think that 700 investments have gone in, and have created so many jobs, and have helped people to start businesses. But the way they work is that they work with mentors by their side, and they work by using Business Wales, which is the business support system that we have here in Wales, and they put that out there. So, I think there's a better way, and a more efficient and effective way of doing this, and that is one of the points that we make in the report.

key issues, and that's led indirectly to the establishment of Business Wales, and Business Wales has been hugely successful in advising businesses on how to access finance. Out of my review on businesses becoming lending ready, it's quite clear that we need to do a lot more, and so the recommendations, which you've seen, in terms of outlining the necessity of improving the skillset of Business Wales advisers to ensure that they give the best possible advice to businesses to make them lending ready as well. It's a two-way process. It's both proactive and reactive, and some of the banks have come to us and said, 'Yes, what we'll do is, if we reject any applications for funding, we will then go back to Business Wales and enable them to prepare the right methodology for going again'. So, it's a two-way process, and that's one of the key findings that we have. Business Wales now, since the review has taken place, is upskilling all of its advisers to ensure that they're able to give the best possible advice that they can give, working with organisations like the Association of Chartered Certified Accountants to ensure that there's a real concentration on having the requisite financial skills to be able to make these decisions and to help businesses right across Wales.

[159] **Jocelyn Davies:** Rob—Mr Hunter, isn't it? Rob Hunter.

[160] **Mr Hunter:** That's right, yes.

[161] **Jocelyn Davies:** Did you have a comment to make before we go back to—

[162] **Mr Hunter:** Yes, please. It's really just on the size of the fund. You made the comment about why don't we put more money into this, and that's absolutely correct. In the original JEREMIE fund, of around £150 million, only £6 million was actually allotted to microbusinesses. The Minister set up a separate microfinance fund about two or three years ago, which had the advantage that it didn't have the restrictions that the European-funded elements had. So, for example, the European-funded pot couldn't fund retail, for example; this can do business-to-consumer businesses, so it's much more wide-ranging. But the point on the size of the fund and the fact that the gap in that particular sector is so large is noted. We are looking at the viability of increasing that fund quite substantially in the near future. So, there are discussions going on in the background. The other thing is to look at the elements of the new JEREMIE fund, which is being currently worked up by the Welsh Government and the Welsh European Funding Office to include a microfinance element as well. So, work is ongoing and, actually, the need to increase the overall quantum of that fund is fully taken on board.

[163] **Jocelyn Davies:** Okay. Thank you. Mike, shall we come back to you?

[164] **Mike Hedges:** Two points really. Would we be better off having a set of specific funds, like we've got for life sciences, rather than having one general fund? There's also a variation in the costs of setting something up. I mean, as you are aware, HP was set up in somebody's garage and became very successful. Life sciences are much more expensive businesses to start off. I'll just end by saying I believe in retail equilibrium; so every retail shop or retail unit you fund, unless there's a huge—. They will only just take business off another retail unit somewhere else.

[165] **Jocelyn Davies:** You don't have to answer; that wasn't a question.

[166] **Professor Jones-Evans:** No, I think it was a comment.

[167] **Jocelyn Davies:** We're always grateful that Mike shares his views with us. What about the set-up specific fund, though?

[168] **Professor Jones-Evans:** Yes. Let me go on to that because, obviously, one of the things that we discussed—. I hope it will be taken up. Nelson Gray, who is on our panel—just

to tell you—is one of the most experienced business angels in Europe. He recommended that there should be a Welsh angel capital association established, and that would have individuals within that who would invest specifically in sectors. The other person—as I say, we were very fortunate with the panel that we had—was a gentleman by the name of Roger Maggs. Roger, basically, has held directorships on over 30 public and private boards; he chairs a NASDAQ technology company; he also chairs a company in Canada—a technology-based firm. He looked at this in real detail. Because I think it was one of the weaknesses of our original report that we didn't go into too much depth on equity investments, which we probably should have done. Roger, being a venture capitalist himself, looked at this and particularly at the role that Finance Wales were playing. What was interesting about this was that he said that the problem was that, within Finance Wales, the ethos is different, because an ethos of a venture capital organisation has to be very different to that of a bank or a lending organisation. What you found was that there was a lot of mixture going on. So, there was a very weak ethos.

[169] The second one was performance measurement. The problem that you have is if you have to basically measure performance; if you're a venture capitalist, you live and die by what you invest in and the return that you get. The problem is that there was no measurement of real performance against that. So, if you look at what Finance Wales have done, they've invested £114 million in equity and the return on exit has been £42 million. So, if that was a venture capital organisation, that would never have attracted any further funding because they weren't performing. There's a different rule for this; it was public sector-funded. So, that's an issue.

[170] The other one was this whole idea about financial incentives. There's a model called the 2 plus 20 model that all venture capital organisations follow. So, you get a 2 per cent management fee and 20 per cent of what's left over after you pay back the initial investment. Surprisingly, what we found in Finance Wales was that they were being paid on every investment. So, the minute they made an investment, they were paid a bonus—the managers—which, is again, as Roger said, 60 years of venture capital ethos. So, what needs to change there is not only the fact that you need to basically focus, as you've said, on key sectors, which is what we recommend within the report, and to get key funds—one ICT, which would be very different to life science, which would be different to environmental and to creative industries—but to change the particular ethos. What we question, or rather what Roger questioned, is whether that can be done within the public sector or whether you need to bring in specialist fund managers to do that externally. As you know, Mike, the Welsh Government has already subcontracted its life sciences fund to—I can't remember all these; it's Arthurian, isn't it, not Excalibur? It's Arthurian, because Excalibur was the previous one. So, it's already subcontracted that. I see no reason, going forward, why venture capital groups couldn't do the same.

[171] **Mr Hunter:** Can I just follow on from that?

[172] **Jocelyn Davies:** Okay.

[173] **Mr Hunter:** There is a point to this, though, because a lot of the funding that's gone into equity—in fact, almost all of it—has come through the JEREMIE fund. So, it's European funded; it's heavily restricted funding and it's got lots of strings attached to it. Actually, I think what the professor says is right: one of the key measures, if you're spending European money or you're investing European money, is actually being able to invest it; so, it's money out of the door. It's one of your key performance indicators, and it's not an ideal one at all. So, we've got this absolutely heavily restricted sector there with an awful lot of bureaucracy that goes around the management of it and the reporting of it to the European Commission. So, given what they had to do, it's not really surprising they've ended up with the portfolio that they've got.

[174] **Professor Jones-Evans:** Absolutely.

[175] **Mr Hunter:** But the point made about non-European-restricted funds to be focused on specialists in particular sectors, I think, is absolutely right and it's something that we're looking at.

[176] **Mike Hedges:** I have a few more questions. Could I just ask: do you agree that we really need to pick on sectors that are growth sectors and in which the Welsh economy is under weight?

[177] **Jocelyn Davies:** One-word answer to that or pass.

[178] **Professor Jones-Evans:** Yes and no. There are we. Is that okay?

[179] **Jocelyn Davies:** Lovely. That's fine. Chris, I think your question is relevant at this point and then we'll come on to Peter.

[180] **Christine Chapman:** Yes. You've talked about the different business ethos of the two models. Obviously, we've got Finance Wales. Can you explain why you believe that Finance Wales couldn't evolve into delivering the types of investment required? Why would we need a new set up? What's wrong with evolving Finance Wales?

[181] **Jocelyn Davies:** Why can't you just change the ethos of Finance Wales? You said that it was a very weak ethos in terms of some of its approach, especially to equity.

[182] **Professor Jones-Evans:** If you look at what—. We're probably jumping ahead to the recommendations now, but when we looked carefully at this—. Like I say, this, unlike the previous report, was not my paper; this was basically all the panel producing different elements of the report because of their expertise in equity, angel, banking, et cetera. When we brought everything together, and we looked very carefully, what we had done is that we'd looked at, for example, what development banks do around the world, so we basically benchmarked Finance Wales against what we'd expect a development bank, on average, to do somewhere else. What we found, quite clearly, was that there were some key differences there. Most notably, and I know this is an issue that you've touched upon before, is the fact that I think that the first one was that Finance Wales didn't actually know what it was supposed to be doing. I think that's been appreciated by the Welsh Government, it's been appreciated by this committee and also, I think, by the enterprise committee that looked at this. So, having that mandate is absolutely clear.

[183] The second one—I think this is a struggle—is that Finance Wales has been running at a deficit since it began. Most development banks actually run at a surplus. In Canada, with the development bank for Canada, it's actually enshrined in Canadian law that it cannot make a loss. That may change the way it actually operates, but I think it is a key issue there in terms of, if you have a board that thinks it can make a loss every year, then it changes the way that board makes its investments going forward. So, there are elements like that.

[184] The other one that is more important is that we believe that, as happened with the British Business Bank—. Just to give you a short potted history, there was a very similar organisation to Finance Wales, but doing quite different things, called Capital for Enterprise at a UK level. Capital for Enterprise managed things, such as, shall we say, the enterprise finance guarantee, so it managed these big public intervention programmes for UK Government. It was decided, because of the evidence showing that small businesses were not getting access, that they would essentially create the British Business Bank. What it could have done is that it could have just left the Capital for Enterprise there—'You just carry on

doing your work and we'll set up a separate British Business Bank'—but what it did, and this is what we've recommended here, is look at what they did well and say, 'Okay, you're very good at distributing loans through the banks, through the enterprise finance guarantee scheme, we'll continue to do to that, but much more needs to be done'. So, the whole point about what they did was they said, 'We'll build, essentially, the British Business Bank around Capital for Enterprise'. So, by doing that, they retained the best of what was in Capital for Enterprise, but they brought in new expertise and new experience to be able to do the sort of work that was required of the British Business Bank. In our recommendations, we took on board what this committee actually said last time, as part of our review. Obviously, clearly, there is a skillset there within Finance Wales in key areas, particularly like risk management, which would be lunacy for any new development bank to lose.

10:30

[185] So, what we're proposing is looking at what skills you need within that, which are already within Finance Wales, but build around them. The reason we're saying that is because we believe that a lot of this can be outsourced. We believe that with a lot of the loans, we can work with the banks to actually fill the gap. Microloans can be done through business support, to a large extent, and a lot of the equity stuff can be done through specific funds. So, you're going to be left with, essentially, an organisation that will not only be giving out funding, which I know the Welsh Government wants to do, but more importantly, will be an advocate for small business. It will be a real pro-business organisation within Wales that will be there, going out and trying to identify where the gaps are and encouraging the rest of the community to fill those gaps. The problem is, at the moment, that isn't there. You could argue that you believe that Finance Wales could evolve. We're not talking about evolving; we're talking about building on what they've got now, but you can't just do that from Finance Wales itself.

[186] **Jocelyn Davies:** I know that a number of Members will want to come in on this. Julie, did you have a specific question?

[187] **Julie Morgan:** Yes. I'm just slightly confused by what you've said now. Are you saying that the development bank should evolve now from Finance Wales, using the key skills that there are in Finance Wales?

[188] **Professor Jones-Evans:** We actually make that recommendation very strongly. What we have is a key number of skills there within Finance Wales and, as happened with the British Business Bank and Capital for Enterprise Ltd, the idea is that the bank is built upon those skills. We can't have two organisations in Wales—well, you could, if you want to have Finance Wales competing with a development bank, but I don't think that's the best use of public funding.

[189] **Julie Morgan:** I think when we had our previous evidence, we had some very good evidence about the performance of Finance Wales. We felt that we certainly didn't want to lose those experience and skills. But it just seems to me that what you're saying is that you're proposing that we build on those skills.

[190] **Professor Jones-Evans:** No, absolutely. I mean—

[191] **Jocelyn Davies:** I think that, on this point as well, so if you could take both questions—

[192] **Professor Jones-Evans:** Yes, by all means.

[193] **Nick Ramsay:** Yes, just picking up on what you said—

[194] **Jocelyn Davies:** And, eventually, Peter, we will come to you, I promise.

[195] **Peter Black:** You're using up all my questions.

[196] **Nick Ramsay:** Is there a danger or risk that some banks may see the development bank for Wales as a competitor, far more than they did with Finance Wales?

[197] **Jocelyn Davies:** So, if you could cover both—

[198] **Professor Jones-Evans:** This is why we're talking about—. I'll come to this question. What we wanted to look at was—. We had a fantastic session with the British Business Bank and what was great about them was—. We were initially thinking, 'Do they see a possible development bank as a rival?' What was really important, I think, from that, was that they said that they would help us develop a new development bank. That was a very positive response from them. To be fair, some of the banks have said the same. But what we found, when we went through how they— We managed to get access to their confidential documents on how they have developed this, so they have done very similar work, except theirs were confidential and ours are public. On how to put something together, how to put a British Business Bank together, what was really emphatic, and which the whole panel felt was something very important, was that it was building on the expertise already within. It was trying not to throw the baby out with the bathwater. So, there is this element, but the approach that we want to have is different. It won't necessarily be that a new development bank will be like Finance Wales now. Finance Wales, at the moment, offers loans and equity. We may make a decision, or the development bank may make a decision, that equity is not managed by the development bank anymore; it'll just have an overarching view on it. It may decide that microloans are best delivered through business support, but there are key individuals within Finance Wales, like I said, particularly on the risk management side and on the programme management side, who would have to be retained within that. So, in the end, what will have to happen, as happened when the Welsh Development Agency was merged into Welsh Government, I suppose, is that you'll have to look at what skillsets you need to move forward and what other skillsets are required to do that.

[199] On to Nick's point about threat, that's the last thing that any public development bank should be. It should be complementary to the private sector and not in competition. At the same time as we were doing our review, Sir Andrew Large was doing a detailed review of NatWest, and what he found, which we found as well, was that, basically, a lot of deals weren't going ahead because, say a business was applying for £0.5 million, the bank would look at its collateral affordability and offer it £300,000, and they would turn it down. As a result, because of that £200,000, what would happen is that deal wouldn't go ahead, jobs weren't created, technology wouldn't be developed, et cetera. So, the way we looked at it is that we said, 'Can we close that gap?' So, rather than what would happen—they would go to Finance Wales and Finance Wales had given the £0.5 million when the bank had already given £300,000 just because they can't get the £200,000—why not have the bank come in and close that gap? We've consulted with a number of banks about this and they're saying that that is where the gap is in terms of funding low-to-medium-risk businesses. So, if we can actually work alongside the banks to actually supply that, that means the Government's funding will go further because, basically, rather than having to give the whole £0.5 million, they're only giving a proportion of it. So, that means it'll go further and, certainly, the way that there'll be restrictions on public expenditure going forward, that's the sort of approach that's needed.

[200] **Jocelyn Davies:** Peter, I know that everybody's being diving in on the questions that you wanted to ask, but have you got anything left?

[201] **Peter Black:** Yes, I just wanted to clarify what happens to Finance Wales. What

happens with the rump of Finance Wales? Are we talking about winding it up? What's left of Finance Wales, once you've taken the best elements into the development bank? What happens to the equity and loans part of that?

[202] **Professor Jones-Evans:** That will depend. One of the things that, during the research, and Rob may want to come on this—. I know that banks are very interested in actually buying the loan books, because the role of Government is to take that risk where there's market failure, but if you've got a loan book that's three or four years old, when they've gone over the first two years of risk, that is actually quite a valuable loan book. So, the question is: do you retain it yourself or do you actually sell it on and, basically, get that money back in now and reinvest it? So, there are real questions there about these different funds. One of the options, of course, is that the team within Finance Wales could bid, for example, to run one of the equity funds. So, at this stage, it's uncertain what would be retained internally and what would be outsourced, but, certainly, I would see that there are real opportunities there for people within, who want to stay and develop the bank, to do that, and for others to actually look for real opportunities in the sort of outsourcing model we're talking about.

[203] **Peter Black:** But, just to be clear, the recommendation is that you take the best parts of Finance Wales and you build a development bank on top of those.

[204] **Professor Jones-Evans:** Yes, around it, basically. Because, the thing is, Peter, some of the elements we're talking about now—. Ffred talked about this whole idea of microloans; that is a fantastic fund. They've managed it extremely well, but, remember, it was something that was really out of their comfort zone, and they've gone in and, if you look at the results here and how much money they put out, because there were demands there—. Previously, it took Robert's report to actually push that, but, once they took it on board, they've been managing it very well. But the real issue is: what do we need to do? So, we need to really push forward with microbusinesses, for example. If we're talking about, at the moment, the number of businesses that have been funded, it's a very small number. What I'd like to see is 4,000, 5,000, 6,000 microbusinesses funded. The demand is certainly there, so it depends whether they would do that or not, Peter.

[205] **Peter Black:** Correct me if I'm wrong, but doesn't Finance Wales rely on European funding for a large part of this?

[206] **Mr Hunter:** Shall I answer?

[207] **Professor Jones-Evans:** Yes, please.

[208] **Mr Hunter:** That's a very good point. In fact, in terms of the future of sort of the main part of Finance Wales in the short run, they've got lots of existing funds to manage. We've created quite a few funds over recent years, not least of which is the Help to Buy fund, which is over £170 million. So, there are teams that are going to be working on that for an awful lot longer. On European funding, while the existing JEREMIE is coming to an end now, it's pretty much spent all of its money, a replacement fund is being worked up. Those, under European rules, have to be competed, but should Finance Wales be successful in their bids to actually manage those funds, then that's another seven or eight years and another £140 million of funds, and they're looking at, under this new round of funding, increasing the amount of private sector leverage that comes in. So, that should at least double the investment that we're going to actually generate from the £140 million. So, on the European stuff, that's very, very specialist, and they've got a very good track record of actually managing all of the complexities around the European stuff. So, I think the future is looking pretty good for us.

[209] **Peter Black:** If you're winding up Finance Wales, effectively, are you envisaging the

future European funds being managed by the development bank, or are you looking at another vehicle to do that?

[210] **Mr Hunter:** No. At the moment, if you look at the development bank and the actual full creation of the development bank, that's a long-term piece of work. In the short run, we have to get the replacement JEREMIE funds up and running before the end of this year. So, in effect, it would be Finance Wales that would be bidding in to manage these funds as an entity in its own right. That, potentially, is what would then be subsumed into a development bank at some point in the future.

[211] **Jocelyn Davies:** Can I just make a very brief point that you might want to include in this? I don't know if other Members feel the same as me, but Finance Wales, as we discovered, is a very strong brand. So, will you be keeping the brand 'Finance Wales', because, on the whole, it was highly regarded? I'll come back to you then, Peter.

[212] **Peter Black:** I've finished.

[213] **Jocelyn Davies:** You've finished. Okay. So, are we talking about ditching the brand of Finance Wales, because it seems to me that you were talking about keeping the specialisms of individuals within Finance Wales, rather than Finance Wales as an entity?

[214] **Mr Hunter:** Well, I think, as the professor said, there are several models you could use, going forward. You could keep the Finance Wales brand, absolutely, as a subsidiary of the development bank. You could call the development bank an enhanced Finance Wales—I'm not sure what you would do. We haven't worked through the full branding, yet, in terms of the way that would look.

[215] **Professor Jones-Evans:** But to an extent, Chair, I think that would reflect what the business community of Wales would want a bank to look like and what it would want from it. As you say, if you're saying it's a strong brand, that would probably be reflected in any branding or marketing exercise—

[216] **Jocelyn Davies:** Well, I'm saying it because that was the evidence that we received, and we weren't actually expecting to find that. During our evidence sessions, we were surprised how highly regarded it was. Can I ask you, before I bring Chris back in, on your comparators you mentioned Canada. Did you have any comparators with economies that were similar to Wales, because I wouldn't have thought that comparing Wales with Canada would be a particularly good comparator—I could be wrong—but with any similar economies to Wales?

[217] **Professor Jones-Evans:** If you want to look, for example—we use this as an example in the report—at what's happening across the water in Ireland, and clearly, we know the issues that have been going on in the Irish economy, but they've essentially developed what they—. They're not calling it a development bank, because the Bank of Ireland objected to them using the term 'bank', so it's the Strategic Banking Corporation of Ireland. They have already developed products that they're putting into the market, which is, basically, reducing the costs of borrowing to SMEs. So, they've done what, essentially, we recommended in the first report, which is to reduce the cost of borrowing using public money. They've done the same in Bulgaria, which is also slightly below Wales, but in receipt of a considerable amount of European funding.

[218] **Jocelyn Davies:** So, you made valid comparisons with other economies.

[219] **Professor Jones-Evans:** Yes. There are valid comparisons.

[220] **Jocelyn Davies:** Chris, you wanted to come in as well.

[221] **Christine Chapman:** Yes. I'm still not clear about whether we're talking about a completely new organisation or whether Finance Wales will be incorporated. I just wondered about the staff costs. Have you considered this, or is this too early, whether staff could be transferred over, for example? Obviously, I'm thinking in terms of the costs of redundancy payments. Is that something that's featured in your discussions?

[222] **Professor Jones-Evans:** Absolutely. I think the Welsh Government, obviously, has previous experience of merging organisations and looking at the costs of those. So, we can build on that experience, but also, I would say, looking at the British Business Bank and the experiences they've had in merging—I wouldn't say 'merging'; it's basically looking at what you have and building on it—. What's notable, of course, is that, like I said to you before, Finance Wales are running at a £2 million or £3 million deficit every year. It's been higher, but it's been brought down in recent years. But 75 per cent of the costs of Finance Wales—administrative costs—is staff and professional fees. Last year, Finance Wales spent well over £1 million on professional fees, for example.

[223] So, it's not a matter of—. Will there be a question on how it's going to be funded, because we were asked that, or do I bring it in now?

[224] **Jocelyn Davies:** If you want to. We've completely lost our agenda on this session, so if you want to bring it in now and Members can—

[225] **Professor Jones-Evans:** That's fine. Like anything else, it's not about how much money you bring in; it's also about expenditure and how you set that. But what's interesting—. Sorry, Ffred.

[226] **Jocelyn Davies:** I know we're all over the place, but we shouldn't be—[*Inaudible.*] Ffred, I'll bring you in straight away, as soon as—. So, if you could make your answer brief to Christine and then Ffred wants to come in.

[227] **Professor Jones-Evans:** Yes. Basically, the experience is there, Chris, and we can look very carefully at how that's done. The most important thing, I think, is, going forward, like when the decision was made to bring the Welsh Development Agency in, because the Government at the time felt, 'This is the best way to develop the economy of Wales'—. When that decision was made, obviously, there are going to be issues around it. The same here. If the Welsh Government believe that a development bank for Wales is the best way forward to provide funding for business, then that will have to be dealt with at the time.

[228] **Christine Chapman:** Obviously, I don't think anybody's disagreeing with that, but it's just that I think, when you merge organisations or, you know, you get rid of organisations, there is a cost there, there's a hidden cost, isn't there, of possible redundancies, low morale—I mean, it all needs to be factored in.

10:45

[229] **Yr Athro Jones-Evans:** No, absolutely.

[230] **Christine Chapman:** I've got no disagreement with the organisations changing, if it's thought it would be better.

[231] **Jocelyn Davies:** Perhaps we could—[*Inaudible.*]—the Minister if there are any definite plans that are—. Ffred, did you want to come in on this point, or did you want to go on to your questions?

[232] **Alun Ffred Jones:** Rwy'n meddwl ein bod ni i gyd yn stryglu dipyn bach ar siâp y corff newydd yma rydych chi'n ei argymhell. Un o'r elfennau, rydych chi cyfeirio ato fo sydd wedi bod ydy bod yna elfennau o arian cyhoeddus yn cael eu dosbarthu, â rheolau arbennig ynglŷn â hynny—rydym ni wedi clywed hynny'n barod, a bydd hynny'n parhau, ac wedyn rydych chi hefyd yn sôn am ryddhau'r corff newydd i fod yn fwy entrepreneuriaidd, am wn i, ac mae'n anodd gweld yn union ai un corff ydy hwn, neu a ydy o'n ddau, neu a ydy o'n gallu gwneud y ddau beth, ond mae yna elfen sy'n ymwneud â chwestiynau sydd gen i, sydd yn berthnasol, rwy'n credu. Rydych chi'n credu y gallai'r banc datblygu cyflawni arbedion effeithlonrwydd pe bai'r gronfa neu'r cronfeydd, neu rai ohonyn nhw, yn cael eu rheoli'n allanol. A allwch chi esbonio sut rydych chi wedi dod i'r casgliad hwnnw, y byddech chi'n gwneud arbedion effeithlonrwydd wrth wneud hyn?

[233] **Yr Athro Jones-Evans:** Wel, mae'n cael ei wneud yn barod, wrth gwrs, efo'r *life sciences fund*—yr un £100 miliwn mae'r Llywodraeth yn ei reoli'n barod, felly mae'r system yn ei le.

Alun Ffred Jones: I think that we're all struggling a little bit with the shape of the new body that you are recommending. One of the elements that has been referred to is that there are public money elements being distributed, with particular rules about that—we've heard about that already, and that will continue, and then you've also mentioned freeing up this new body to be more entrepreneurial, as far as I know, and it's difficult to see exactly whether this is one body, or whether it's two bodies, or whether they can do both things, but there is an element, which is to do with my questions, that is relevant, I think. You believe that the development bank could make efficiency savings if the fund or funds, or some of them, were managed externally. Could you explain how you've come to that conclusion, that you'd make efficiency savings through doing that?

Professor Jones-Evans: Well, it's being done already, of course, with the life sciences fund—the £100 million one that the Government is managing at the moment, so the system is in place already.

[234] Rob, I don't know if you want to come in on how the life sciences fund is actually managed, because there was this question about how you would manage that externality process.

[235] **Mr Hunter:** With that one, that's been, in effect, subcontracted, so Finance Wales went out to competition to choose a fund manager, and the fund manager is managing that on a full commercial basis. In terms of efficiencies, on the scale of the efficiencies that we've already achieved since 2010, we've taken their operating costs from around 5.5 million or 5.6 million down to about 2.3 million last year, so it's come down quite dramatically. I think that there's going to be a mix, anyway, because you do have this sort of public administration thing, particularly around the European funding, where it's very sensible to have that expert organisation managing that stuff. There could be efficiencies if the funds are subcontracted, but, of course, these fund managers don't do it for free. What you're actually working off is the assumption that they'll manage the funds very effectively to create profits that more than cover the cost of the funds, so that's kind of the assumption that you make in the background.

[236] **Alun Ffred Jones:** Ond, o fynd i lawr y llwybr hwnnw, lle rydych chi'n, fel y dwedwyd rwan, disgwyl i'r rheolwyr cyllid fod yn dod â *returns*, yna rydych chi'n mynd â'r corff yma'n debyg iawn i unrhyw fanc arall, felly, sydd yn gorfod gwneud elw, ac felly mi fyddech chi, o bosib, yn cyrraedd yr un pwynt lle nad ydych chi'n benthyca i'r

Alun Ffred Jones: But, in terms of going down that path, where, as you said, you'd expect the managers to be bringing returns, then you're making this body similar to any other bank, therefore, that has to make a profit, and, possibly, therefore, you'd reach the same point where you're not lending to the very people that you want to lend to.

union bobl rydych chi eisiau benthycu iddyn nhw.

[237] **Yr Athro Jones-Evans:** Mae'n dibynnu ar ba *fund* rydych chi'n edrych arno fo. Fel enghraifft, os ydych chi'n edrych ar— a dyma un o'r problemau rydym ni wedi ei gael i ryw raddau, oherwydd, os ydych chi'n edrych ar JEREMIE, mae JEREMIE yn mynd o ecwiti i fenthyg i'r *microbusinesses*, ac felly mae yna rhyw *mix* wedi bod yn y fan honno yn lle canolbwyntio. Yn y diwedd, os ydym ni'n edrych ar ble yr ydym ni eisiau—. Os ydy banc newydd yn cael targedau newydd, er enghraifft, buaswn i'n edrych ar ble yr ydym ni am greu'r swyddi yn y targedau yna. Mae'r swyddi yna yn dod o'r busnesau micro. Mae yna *market failure* clir o ran benthycu iddyn nhw, felly mae'n rhaid i ni ganolbwyntio ar y rheini. Os ydym ni'n edrych ar y busnesau sydd am greu technoleg, sydd am allforio, sydd am fod yn tyfu'n gyflym, bydd y rheini'n fusnesau ecwiti. Bydd y math o reolaeth rydych chi eisiau efo hynny yn hollol wahanol i'r grŵp yma. Ar y funud, mae o i gyd o dan yr un ymbarél, ac, oherwydd hynny, mae yna broblemau efo gwneud yn siŵr bod y nifer a'r maint o gyllid yn mynd yn uniongyrchol i'r math iawn o fusnes.

Professor Jones-Evans: It depends on what fund you're looking at. For example, if you're looking at—and this is one of the problems that we've had to some extent, because, if you look at JEREMIE, JEREMIE goes from equity to lending to microbusinesses, and therefore there's been a mix there instead of concentration. In the end, if we look at where we want—. If a new bank has new targets, for example, we would be looking at where we want to create the jobs in those targets. Those jobs come from the microbusinesses. There is clear market failure in lending to them, so we need to concentrate on those. If we look at the businesses that want to create technology, that want to export, that want to grow quickly, those would be equity businesses. The sort of management that you would need there would be completely different from this group. At the moment, it's all under the same umbrella, and, because of that, there are problems with ensuring that the number and the amount of funding is directed to the right sort of business.

[238] **Alun Ffred Jones:** Rwy'n ei chael hi'n anodd i gael fy mhen rownd y syniad yma bod—. Nid yw'r farchnad ar hyn o bryd yn cyflenwi'r angen, yn enwedig ym maes y busnesau bach iawn yma sydd yn cychwyn.

Alun Ffred Jones: I find it difficult to get my heard around this idea that—. The market at present is not meeting the need, particularly in the area of these microbusiness start-ups.

[239] **Yr Athro Jones-Evans:** Nac ydy.

Professor Jones-Evans: No.

[240] **Alun Ffred Jones:** Os nad ydy'r farchnad yn gwneud hynny, rydych chi eisiau i'r corff newydd yma ymddwyn fel banc—

Alun Ffred Jones: If the market's not doing that, then you want this new body to behave like a bank—

[241] **Yr Athro Jones-Evans:** Na, na.

Professor Jones-Evans: No, no.

[242] I don't think that you were saying that, were you, that, basically, every fund would be looking at making returns?

[243] **Mr Hunter:** No. I think that there will be elements, particularly in microbusinesses, start-ups, and things like that, where, in effect—and this comes back to the remit question for Finance Wales—when you give them a fund, currently many of the funds are not tolerating high degrees of losses. Therefore, they have to set their interest rates to actually cover the costs of the fund to make sure they make a return. That doesn't necessarily need to be the case if you want to specifically go into an area where the market won't touch it. It would be of value in the sort of wider economy, and you might be willing to say, 'Well, actually, we'd be

quite happy to take 15 per cent to 20 per cent losses in that particular area'. The professor mentioned the Irish model. Now, that's quite new and it's an interesting one there, because they're going to face a big problem. They're basically funded through German banks—about €150 million—and €400 million from the European Investment Bank. Now, the EIB don't give the money away; they will want to charge interest. Now, at the same time, this investment vehicle that they've created has said that they will charge low interest rates and have longer repayment periods. You know, there is a real challenge because these funds have to make a profit in order to pay back the loans from which they're funded. With us, I think there are several different elements we can use. If we can use private sector money to sit alongside us at fund level we can have certain funds where we target and we want to make profits—and that's absolutely right—and other funds where we recognise and we put the money in alongside European money, but Welsh Government money, and we say, 'Okay, we expect whatever the return is on those', and then Finance Wales can treat that appropriately. Is that okay?

[244] **Jocelyn Davies:** Before I come to Nick with the last couple of questions, you'll know that, last year, one of our recommendations was that this committee wanted to scrutinise Finance Wales. Now it seems we'll have virtually nothing to scrutinise. I hope it wasn't because we said we were going to be casting a torch and a spotlight into the workings of Finance Wales that it seems as if it might not even be there to—. Looking back, you mentioned the Welsh Development Agency, and making those people civil servants, some people have said, hardly made them more entrepreneurial.

[245] **Professor Jones-Evans:** I can't possibly comment. [*Laughter.*]

[246] **Jocelyn Davies:** Yes. Okay. I know we've only got about 10 minutes, so I suppose we don't have time to go there, but, obviously, this is something that the committee would take extreme interest in.

[247] **Professor Jones-Evans:** Maybe you can do another inquiry into that, Chair.

[248] **Jocelyn Davies:** Yes. Maybe we will. Nick, did you want to—? Have you got any further questions?

[249] **Nick Ramsay:** I'd love an answer to that last question, but I—[*Interruption.*] No, no. A final question from me. State aid: the Finance Committee's report recommended that Finance Wales ensure they have more flexibility over state-aid considerations when managing funds. How do you propose that the development bank achieve that flexibility?

[250] **Professor Jones-Evans:** Well, the fact is that there is an enormous amount of flexibility over state aid already. In our original report, if you look at the exemptions that are already there under GBER—the general block exemption regulation—and if you look under de minimis, probably the vast amount of businesses that Finance Wales or the development bank will invest in are already exempt in different ways in terms of the cost of borrowing and reducing it. That's the case we made very, very strongly. The second one is that JEREMIE, as far as I'm aware, already has a special regulation for exemption from state aid.

[251] **Mr Hunter:** Yes.

[252] **Professor Jones-Evans:** Even more interesting is that—and, as far as I'm aware, nobody has taken advantage of this yet—the rules over state aid for equity have changed in the last year. Previously, you'd have what's called a pari-passu basis. So, for every penny that the public sector would put in, the private sector would have to put in another penny, as such. So, it balances out. So, there's no disadvantages. Now, those rules have changed. So, now, in what we call pre-revenue stage, for technology business that aren't making anything, but

developing the product, the public sector can put up to 90 per cent in. That changes the whole game plan. The reason they've done that is because they realise that, in places like Wales, which are on the periphery of Europe and are poor regions and can attract investment, you need more Government funding. So, there are opportunities there to be very creative, I feel, in moving forward. So, that's in terms of state aid. The other thing we found was that, if you're going to create—and, as far as I'm aware, Finance Wales, as an organisation, is not state aid-exempt, is it?

[253] **Jocelyn Davies:** Sorry, it's not—.

[254] **Professor Jones-Evans:** It's not state-aid exempt, right. It doesn't have, as an organisation—. This is why the British Business Bank was slightly delayed, by a year, because they wanted exemption as an organisation to be able to make any sort of investment that they liked. Again, we've spoken to the British Business Bank. They've gone through the process. This is the very first time, I think, this has happened at that level for that sort of organisation. So, that experience is there: if a decision was made that, rather than relying on single exemptions, you wanted the whole organisation to be state aid-exempt, that could happen.

[255] **Jocelyn Davies:** Okay. I've got another question for you before we come to Julie's final question, which I think is going to be on the timetable. Mr Hunter, there are no implications here, are there, for the disadvantage to the block grant or any need to worry about Treasury rules and so on with what's being proposed?

[256] **Mr Hunter:** No, not at all. Not through the state aid, no.

[257] **Jocelyn Davies:** Okay. All right, as long as—. Okay, then. Julie.

[258] **Julie Morgan:** Just to say, what comments have Welsh Government and Finance Wales made on your proposed sort of timetable?

[259] **Professor Jones-Evans:** I think we should have started three months ago, but—. [*Laughter.*] There is no commitment, yes. If Rob can come in to talk about that—. I think the Minister will be making an announcement soon.

[260] **Jocelyn Davies:** Okay then. Mr Hunter, are you able to enlighten us as to that?

[261] **Mr Hunter:** Yes. We are working it up, and the Minister's aiming to make an announcement pre-summer recess on the way forward. One of the things I think she's been very clear on is that, actually, the full creation of the development bank is a long-term aim but what's really important is that we address the needs of SMEs now. So, a number of the recommendations that are contained in the report will be carried forward immediately. So, that's something we're looking at.

[262] **Professor Jones-Evans:** One final observation in terms of that and the general sort of questions we've had: I was up in Scotland a month ago, giving a lecture to the European Policies Research Centre at Strathclyde University about this report. The Scottish Government have already started the process of establishing a Scottish development bank. Interestingly enough, it is believed it will be the main business and economic policy that the Scottish Government will take forward to the 2016 election, and they're already, which we're not doing, and this is very early-stage—. In terms of the agreement over the constitutional changes, it is believed that the Scottish Government will be asking for specific borrowing powers for financing small firms. So, basically, they can go out to the markets to borrow. Obviously, there is a limit for the Scottish Government, as the Welsh Government have now, but, as part of that new settlement that is being discussed now, that will form part, we believe,

from what I've been told, of the discussions that the Scottish Government will be having with the UK Government about the powers that they want to have following the constitutional settlement. So, that puts Wales in a very interesting position as to whether Wales should also ask for those powers, because, if we do, some of the issues that Alun Ffred discussed about the limitations over Europe—. If we can go to the market and borrow that money, many of those limitations that we currently have to operate under, and which, to be fair, Finance Wales have had to operate under the last 12 years, most of those would not exist anymore, and you could create a public development bank that would be there to support businesses in Wales.

[263] **Jocelyn Davies:** Okay. Everybody happy? Well, I think that this session took a turn that we weren't expecting, I have to say, and you've brought us more news, I think, than we were anticipating. We are very grateful for that.

[264] **Alun Ffred Jones:** Should we congratulate you on this close connection with the SNP Government? [*Laughter.*]

[265] **Jocelyn Davies:** Well, it is nice to have an—

[266] **Professor Jones-Evans:** I very much doubt it, but—

[267] **Jocelyn Davies:** It is nice to have an insight into what's happening elsewhere—

[268] **Professor Jones-Evans:** As we say, watch this space.

[269] **Jocelyn Davies:** —to see what's possible for us. We're very grateful for your time this morning. We'll send you a transcript. If you would check it just for factual accuracy, we'll then be able to publish it. So, thank you again.

[270] **Professor Jones-Evans:** Diolch.

[271] **Jocelyn Davies:** Rather than having a break now, shall we go straight into the next session? We'll just give the witnesses an opportunity to get to the table.

Casglu a Rheoli Trethi Datganoledig yng Nghymru: Sesiwn Dystiolaeth 6 Collection and Management of Devolved Taxes in Wales: Evidence Session 6

[272] **Jocelyn Davies:** So, we are now on item 5, which is the collection and management of devolved taxes in Wales. This is our sixth evidence session, and we have officials from HM Revenue and Customs with us. Would you like to introduce yourselves for the record? And then, if it's okay, we'll go straight to questions. Shall we start with you, Marie?

[273] **Dr Uhart:** Good morning, committee. My name is Marie-Claire Uhart. I am the director of central policy in HMRC, and I'm responsible for the devolution team.

[274] **Jocelyn Davies:** Okay. Thank you.

11:00

[275] **Mr Stoneham:** I'm Doug Stoneham. I'm a senior policy adviser on devolution, working in the devolution team that Marie-Claire mentioned.

[276] **Jocelyn Davies:** Lovely. Thank you. I think I can tell from your titles what you do, but, perhaps, just for the record, if you could summarise your role in relation to the devolution of tax powers to Wales and Scotland, we'd be grateful.

[277] **Dr Uhart:** Certainly. My role is a wider role than simply devolution. I have a role across the policy partnership with Her Majesty's Treasury and cover a number of policy areas. One of my teams is the team of which Doug Stoneham is a member, and that team is led by my deputy, Sarah Walker, who, unfortunately, couldn't be here today because of a family matter. Our role is to co-ordinate all issues on devolution for HMRC as a whole. We also bring in our colleagues from the specialist areas, such as the specific taxes that are devolved to help support. So, that's my overall role. Doug, do you want to give more detail about the team?

[278] **Mr Stoneham:** As Marie-Claire says, the team has two broad functions. Looking at devolution firstly, we oversee the programme that is working to implement the changes in the Scotland Act 2012, so the introduction of the Scottish rate of income tax and stamp duty land tax and landfill tax devolution, which has obviously happened now, working with the individual business areas involved in those taxes. Then, separately, we also lead on policy matters. So, that's been, for example, supporting the Scotland Bill and the Wales Bill as they've gone through Parliament, and working on the new legislation that was published in January following the Smith commission proposals, and those sorts of areas.

[279] **Jocelyn Davies:** Okay. So, you've got some experience there in Scotland. Do you expect the HMRC strategy for managing the devolution of taxes to Wales to be similar to that that's been followed in Scotland?

[280] **Dr Uhart:** I think the best way to answer that is to say we have the advantage, obviously, of having already successfully devolved two taxes to Scotland, so we would certainly want to look to benefit from the learning from that experience. It will, of course, be up to the Welsh Government to decide on the form of those devolved taxes. So, we would want to make sure that we were working, as we are indeed already doing, very closely with the Welsh Government to determine what is going to be similar and what is going to be different. Our general approach has worked. We work very closely with the Scottish Government and with Revenue Scotland. We've made very close connections, which continue there, and we do think that that's exactly the approach that we should be following.

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

[282] **Ann Jones:** I wonder if you could just outline some of the main challenges that you faced in transferring the devolved taxes to Scotland and also in preparing for them to go live with the Scottish rate of income tax in April next year?

[283] **Dr Uhart:** I guess, because we have, we believe, successfully implemented those taxes, it is a question of learning from what has gone well. The two areas I would point to—and I will ask Doug to come in because he's been involved very much in a lot of the detail, working with Revenue Scotland and the Scottish Government—in particular are the absolute importance of making sure that both Governments—us for HMRC for the UK Government, and the devolved Government—communicate very much with the people who are going to be subject to the taxes, both the taxpayers and their representatives, particularly in relation to taxes such as stamp duty land tax, UK landfill tax. That is very largely collected by agents, solicitors, on behalf of customers. So, it is extremely important that we have the right arrangements in place, so that we understand what their issues are. The second point was the one I made earlier, which is that very close working with the other Government. We have had staff on secondment to Revenue Scotland to support, and we have also had staff on secondment here in Wales as well to support. That sort of close working, we believe, is the secret of success.

[284] **Mr Stoneham:** I think, looking beyond that, in terms of the Scottish rate of income

tax, the main challenge there has really been working out our strategy for identifying Scottish taxpayers, and while, obviously, we have addresses on our systems for people, it's trying to work out how we can best use third party data, and which third party data to use, as a way of enhancing the data that we hold, to make sure that we have as comprehensive a degree of coverage as possible in terms of taking that forward.

[285] **Ann Jones:** Okay. Thanks. How did you incorporate the views of stakeholders and taxpayers themselves during this implementation period?

[286] **Mr Stoneham:** I think, for the Scottish rate of income tax, at a sort of general level, we've had a number of consultations with employer groups, representative bodies, and so on, to get their views on how best to take forward the implementation work. In some specific areas, for the Scottish rate of income tax, we also set up a series of consultation groups looking at particular issues where there were consequential changes required. So, for example, in relation to charities with the gift aid system, pensions tax relief and general income tax issues, including things like trusts taxation, we've worked with representative bodies and interested parties in those areas to really get a handle from them on what, from their point of view, would be the best way forward to implement the particular changes, and then obviously factor that against our own opinions, and then put recommendations to Ministers and announce the way forward there. So, it's been a very helpful process, I think, actually getting groups focusing specifically on different areas. That's really meant we could get the relevant experts in the room rather than getting general views.

[287] **Ann Jones:** Okay. You mentioned communication as being key, and I suppose it is that nobody knows what's happening until they go to fill that form in, or they suddenly find something's changed. So, what forms of communication have you used to raise awareness amongst UK taxpayers of the transfer of devolved taxes in Scotland? Then, I suppose, really, what will you be using that would then assist us here in Wales?

[288] **Dr Uhart:** So, in terms of Scotland at the moment, the main thing is we have 'frequently asked questions' on gov.uk, which is obviously one of our main means of communicating with people. We also have quite a lot of face-to-face interactions, predominantly with agents and representative bodies, and it's a big part of our normal process to have those interactions, and we have made sure that we've been very clearly setting out what the changes will mean. Talking about the Scottish rate of income tax for the future, obviously that is something that may or may not be relevant in Wales, and we will have to particularly make sure that we do an extensive communication to make sure that people are keeping us up to date on their address information, and that will be something for later this year. But, as I say, that is something that may or may not be relevant.

[289] **Ann Jones:** So, have you relied heavily on the web rather than what I would call Luddite forms of communication—because I'm not a web expert, so I quite like my pen and my paper? Have you gone out into those harder-to-reach communities and explained the problems there, other than just using the web or pointing them to a web many of them won't have access to?

[290] **Dr Uhart:** It is an issue. It is difficult by definition to get in touch with the less easy-to-reach communities. One issue around both of the devolved taxes is that, in both cases, you are largely dealing with the professional community, and it's actually a very small community that you're dealing with for landfill tax. So, there, the representative bodies in particular are a very efficient and effective way of getting your message across. We obviously need to think about the relevant audience, depending on the particular tax, and, again, the issues are different and have been different in our consideration of what we will do for the Scottish rate of income tax, and in relation to the Scottish rate of income tax we are also considering paper, in the old-fashioned world, as well as the online information. But, increasingly, our customers

are looking to us for online information, so we do think that is likely to continue to be the primary way in which we communicate with customers.

[291] **Jocelyn Davies:** Okay. Peter.

[292] **Peter Black:** Just for background, could you summarise the current HMRC systems for collecting stamp duty land tax and landfill tax in Wales?

[293] **Dr Uhart:** Shall I start, and then Doug can tell me if I've got it wrong? So, for stamp duty land tax, it's very largely an online tax. I think that 96 per cent of all returns come in online, and, as I've explained, it's largely collected from professional solicitors, usually, and it is run out of our office in Birmingham. HMRC in general doesn't operate in a local way. For example, we have staff here in Wales who operate services for the whole of the UK, and the Birmingham office therefore administers stamp duty land tax for Wales as well as for the rest of the UK. Landfill tax is very much a smaller body of taxpayers. I think there are, in total, 158 taxpayers for landfill tax, and they are the operators of the sites. In Wales, there are 22, of whom 11 are only based in Wales and so wouldn't have responsibilities across the border. Again, for our own efficiency, we run that out of one office, and that office is in Southend.

[294] **Peter Black:** So, there are no staff in Wales, actually based in Wales, collecting those taxes from Welsh taxpayers.

[295] **Dr Uhart:** The operation is run out of those two centres. I should say, just with reference back to the old-fashioned technology, the landfill tax is a paper operated system, still.

[296] **Peter Black:** Okay. It's interesting that you just said that 11 of the 22 in Wales operate in England and Wales. Is that going to be a problem in terms of devolving that tax, in terms of separating those two out?

[297] **Dr Uhart:** Well, it shouldn't be. It should be a question of them—. The sites in Wales are clearly in Wales, none of them is on the border, and it should be a question simply of whatever form of tax that the Welsh Government designs, you just ensure that, when the return comes from those sites, for that tax, that is the tax that is the responsibility of the Welsh Government.

[298] **Peter Black:** We'll just try not to create a landfill site that straddles the border, then. *[Laughter.]*

[299] HMRC produced an estimate of £22.3 million for the Scottish Government for continuing to administer the devolved taxes. Can you explain how you calculated that estimate?

[300] **Dr Uhart:** I think I'll hand over to Doug for this because he was involved in that, and also we are talking to the Welsh Government about estimating what they would want us to take into account for estimating for these taxes.

[301] **Mr Stoneham:** That was an estimate of the set-up costs for continuing to administer the two taxes on a like-for-like basis for a period of five years, which we produced at the request of the Scottish Government. So, that was, really, based on looking at the sort of changes we need to make to our IT systems and the likely staffing levels that would be involved. As Marie-Claire said, we're in discussions with the Welsh Government around what estimates we may produce for them in terms of our costs for possibly administering their devolved taxes. So, again, I think we'll be looking there to work out what sort of assumptions

we should make in producing those costings, and we'll produce figures for them in due course.

[302] **Peter Black:** So, that estimate was based on the concept that both those taxes for Scotland would be administered from Southend and Birmingham as well.

[303] **Mr Stoneham:** I think so, yes.

[304] **Peter Black:** Okay; I'm sure they'll love that.

[305] Would you be able to benefit from the economies of scale from your existing systems if you managed the devolved taxes in Wales, or would you need to implement new systems?

[306] **Mr Stoneham:** I think it would depend on the degree of difference from the existing systems. We're keen to work with the Welsh Government in taking this forward, and we're keen to avoid putting any constraints on them, but, as for the degree of difference from what is currently there to what they're proposing, I think we'll have to see whether we can accommodate that flexibility within our existing systems or whether we need to do something separate. But, I think, obviously, there are economies of scale to be derived from using existing systems and existing staff as far as possible, but we need to discuss with the Welsh Government what their requirements are and what they want to do, balancing, obviously, the costs against other considerations.

[307] **Peter Black:** Okay. The Welsh devolved taxes will go live from 1 April 2018. By what date do the Welsh Government need to make a decision on whether to delegate tax collection to HMRC?

[308] **Mr Stoneham:** I think, on that one, the best indicator there is really what happened in Scotland. That's obviously the place where there are currently devolved taxes in place. I believe the Scottish Government announced in June 2012 that they were setting up Revenue Scotland at that point, which was just under three years from when the taxes would be switched on. So, I think that's a reasonable time frame to allow for that. So, I would expect, or hope, that the Welsh Government will announce something later this year.

[309] **Peter Black:** So, they have to make a decision this year.

[310] **Dr Uhart:** I think we need to be clear that it is up to the Welsh Government to decide when they want to make the decision. So, what we can do is point you to what happened in Scotland and, from our point of view, obviously, it depends what we might or might not be asked to administer in terms of getting ready. Nonetheless, on both sides of the equation, whoever ultimately ends up creating the tax and operating the tax, the complexity or lack of complexity of that tax will make a difference to how much time that takes, but, the more time you have to prepare, the better.

[311] **Peter Black:** So, practically, as opposed to who makes the decision, we are talking about at least a two-year run-in to actually get the systems sorted out to actually be able to start collecting on 1 April 2018.

11:15

[312] **Dr Uhart:** Our view is that the more time you have to run in, then the safer the handover is. We do have the benefit, as I set out at the beginning—

[313] **Peter Black:** Scotland, yes.

[314] **Dr Uhart:** —of having done something not exactly the same, but similar in Scotland, and we do believe that there is valuable learning from that, which will help us and take some of the risk out of that transition.

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

[316] **Jocelyn Davies:** Okay then. Chris.

[317] **Christine Chapman:** Thanks. The Wales Act 2014 allows HMRC to charge Welsh Government for its own costs associated with the switching off of the collection of stamp duty and landfill tax in Wales. I just wonder whether you could explain what these costs would be—the switching off.

[318] **Dr Uhart:** The costs of switching off?

[319] **Christine Chapman:** Yes.

[320] **Dr Uhart:** I don't think the costs of switching off per se are likely to be very significant, but I shall let Doug correct me if that's wrong. Looking at him, he's not—

[321] **Mr Stoneham:** Up to £1 million for switching off SDLT in Scotland—

[322] **Christine Chapman:** Sorry, could you—

[323] **Mr Stoneham:** Sorry. The cost of switching off SDLT in Scotland is currently estimated at up to £1 million. We're still doing work to finish off that. We didn't pass on any costs for the cost of switching off landfill tax because there's no need to make any systems changes to achieve that.

[324] **Dr Uhart:** Yes, and the system changes are to make sure that any transactions that occur after the date of change-over—. So, if a return came in to HMRC after the date then, obviously, that would have to be rejected and referred back. So, we have to make system changes to make sure that that happens.

[325] **Christine Chapman:** Okay. Thank you. Just following on from the earlier question, Welsh Government is currently considering whether a new Welsh revenue authority should collect taxes itself or delegate tax collection to other bodies, such as local authorities. How would HMRC need to interact with such bodies after the taxes are devolved?

[326] **Dr Uhart:** Well, the Wales Act does provide for us to share information between the Governments after the devolution, and we'd want to be doing that however we were operating. I think that each side of that equation would want to make sure that we were sharing information for compliance purposes, apart from anything else. So, that would continue and, depending on who ends up operating the tax, we would need to work out the mechanism. In Scotland, we have a memorandum of understanding about how we implement that exchange of information, and that is our normal way of proceeding.

[327] **Christine Chapman:** Okay. Is it fairly straightforward, would you anticipate, if you were working with these other bodies?

[328] **Dr Uhart:** You're asking me whether it's more or less—

[329] **Christine Chapman:** Would you envisage that it would be fairly straightforward, then?

[330] **Dr Uhart:** I would envisage that it would be fairly straightforward. Again, it is up to the Welsh Government to decide who wants to administer it. We will put in the most straightforward procedures we can to make sure that any information exchange that we need to have works very straightforwardly. As an organisation, HMRC already has a very large number of information exchange gateways with a number of Government bodies—a very large number of Government bodies. So, this is something that is our business as usual. So, we are very used to working within this environment.

[331] **Christine Chapman:** Okay. Following on from that, in the unexpected situation that Wales did not have the mechanisms in place to collect the devolved taxes in 2018, is it clear that HMRC would continue to collect the taxes in their current form?

[332] **Dr Uhart:** Well, to make the tax devolution happen, then the UK Government has to actually switch off the existing taxes that currently affect Wales as well. So, there is a piece of mechanism that has to happen before devolved taxes go live. I don't know, Doug, whether you want to say what we did in relation to Scotland.

[333] **Mr Stoneham:** Well, in relation to Scotland, we had regular meetings, obviously, with the Scottish Government and Revenue Scotland. They sat on our project and programme boards in relation to the switching off of the devolved taxes in the overall programme. Similarly, we had a representative on their tax administration programme board, just so both sides were aware, but there was an overall process in place with an exchange of ministerial letters and senior official groups meeting to agree that both Governments were in a position for the switchover to take effect. After that, we then laid an appointed day Order in Westminster to switch off the SDLT and landfill tax in Scotland. Similarly, the Scottish Government then laid an Order to switch on the replacement taxes in Scotland. So, we've set out the date when we expect it to happen, but, obviously, that's not enshrined in legislation, and it would be for officials and Ministers from both Governments to discuss nearer the time, to ensure both parties are ready for the switchover to happen.

[334] **Christine Chapman:** Okay; thank you.

[335] **Dr Uhart:** I suppose the straightforward answer to the question is: could we carry on doing what we're doing now? Yes, we can.

[336] **Christine Chapman:** Further to my questions, we did take evidence, the week before this, I think, where we heard that awareness of the devolved taxes will need to be raised amongst groups such as solicitors, who assist in the collection of stamp duty. Do you believe that erroneous payments of Welsh stamp duty to HMRC is a potential risk or do you think that that is just a concern? Do you think that there is a risk in that?

[337] **Dr Uhart:** That HMRC would receive payments from solicitors that we shouldn't have?

[338] **Christine Chapman:** Yes.

[339] **Dr Uhart:** It's a possibility. I wouldn't have put it as a particularly high-risk issue, but whether we get the communications right or not is going to determine that. But, again, because largely, with both the devolved taxes, we are dealing with professional groups, we would expect there to be a good understanding of what's happening and, therefore, good compliance with the processes.

[340] **Christine Chapman:** We did have evidence from them and I think there were some concerns there. If that did happen and if there were mistakes made, what arrangements would exist for transferring incorrect payments between HMRC and the Welsh revenue authority?

Would that be straightforward or would that be a problem?

[341] **Dr Uhart:** Well, we certainly need to work that out. Again, I guess we have arrangements in place already for Scotland. So, Doug, I don't know whether we've done something specific on that, but I think the return would be rejected because of the changes we've made to the system.

[342] **Mr Stoneham:** Yes, exactly. I think that we're very much trying to stop that happening by amending our systems. So, as Marie-Claire said, around 96 per cent of SDLT returns come in electronically and we have amended our systems in relation to Scotland so that if we get a return in relation to a Scottish property, that will get rejected before the return is accepted. So, for 96 per cent, that's rejected straight away and then the remainder would be paper returns. I think we do have arrangements in place for sorting out those payment-type issues, but I think we are really very much focused on preventing it from happening.

[343] **Christine Chapman:** You may have partly answered this. Will you be able to highlight links to the Welsh collection arrangements on your own online payments systems? Would that be a possibility?

[344] **Mr Stoneham:** Looking at what we're doing in Scotland already, I think we've got links to the Revenue Scotland web pages on our SDLT pages.

[345] **Christine Chapman:** So, you could do the same then for Wales, if that is the case.

[346] **Mr Stoneham:** Absolutely. Whether we could get that into our actual payments systems, I'm not sure, but certainly we'd have signposts in our guidance to make very clear that, obviously, payments for transactions in Wales would need to go to the Welsh revenue authority or whatever.

[347] **Dr Uhart:** Whatever the arrangements are because, obviously, this is something that still has to be decided, exactly what those arrangements are.

[348] **Christine Chapman:** Has that been discussed yet?

[349] **Dr Uhart:** The payment arrangements?

[350] **Christine Chapman:** The possibilities of communication between the two potential—.

[351] **Dr Uhart:** Absolutely. This is part of the discussions that we're having with the Welsh Government on exactly how it would operate and indeed who operates it and what they would be requiring from the operator. So, we would definitely want to sort out those details. We certainly would be looking to make sure that we have in place a process that works for all of these issues, so there's no bar on our side to signposting or making things as straightforward as we possibly can for customers on either side of the border.

[352] **Christine Chapman:** Okay; thank you, that's fine.

[353] **Jocelyn Davies:** Okay. Nick.

[354] **Nick Ramsay:** Thanks, Chair. Good morning. If there is a referendum on income tax powers and if people vote for it, then you will be expected to oversee that collection or there is a good chance of that. Have you made any preparations for that or have you started to think about how that process might go forward?

[355] **Dr Uhart:** It's a process that we would expect to very much mirror the process that we have been working through in relation to Scotland. What we have done in Scotland is to identify Scottish taxpayers by having a prefix before Scottish taxpayers and it would run through our normal self-assessment and pay-as-you-earn collection systems.

[356] **Nick Ramsay:** Have there been any major issues or obstacles in the Scottish situation?

[357] **Dr Uhart:** I think the main issue that we absolutely do need to get right, and that we're very much focusing on and have been focusing on throughout the project in Scotland, is the issue around making sure that we have the right address for people, and that's something where we expect to be ramping up our communication effort as we get closer to the implementation of the Scottish rate of income tax.

[358] **Jocelyn Davies:** So, when you say 'prefixed', people's tax number changed slightly, did it?

[359] **Dr Uhart:** Well, it's got an 'S' for Scotland.

[360] **Jocelyn Davies:** I see. Right. Okay. So, everybody that—

[361] **Nick Ramsay:** Original.

[362] **Jocelyn Davies:** Well, simple usually works, doesn't it? [*Laughter.*]

[363] **Nick Ramsay:** Don't look at me.

[364] **Jocelyn Davies:** So, everybody who lives in Scotland, their tax number has changed to—

[365] **Dr Uhart:** It has an 'S' in front of it, so—

[366] **Nick Ramsay:** Would it be a 'W' in Wales, or a 'C'?

[367] **Jocelyn Davies:** We'll have a whole debate about whether—

[368] **Dr Uhart:** I have to say, I was very careful to say 'prefix'—

[369] **Nick Ramsay:** Ffred's thinking this through.

[370] **Jocelyn Davies:** A prefix.

[371] **Dr Uhart:** A 'prefix', because I didn't quite know how to answer the question on a 'C' or a 'W'.

[372] **Jocelyn Davies:** Right, okay. Perhaps people will have a choice. Nick, shall we go back to—

[373] **Nick Ramsay:** Yes. Two things. First of all, we always refer to Scotland, don't we? I wonder what would have happened if there'd not been a Scottish situation to follow, but there we are, that's hypothetical. Costs incurred in Scotland on the introduction of the separated income tax there—what sort of level have those costs been at?

[374] **Dr Uhart:** I have them in front of me, and they have actually been published by the Scottish Government this March—

[375] **Mr Stoneham:** By both Governments.

[376] **Dr Uhart:** By both Governments, yes, this March. So, to just give you an estimate—I've got all the details, but you can look up the detail—£3.3 million spent to date, and we expect the total overall implementation costs to be in the region of £30 to £35 million. So, we expect to spend quite a significant amount of that, particularly on IT, but also on the communications that we talked about over the course of this year, 2015-16.

[377] **Nick Ramsay:** If you separate the initial costs and the ongoing costs of administration, how would these be recharged to Wales?

[378] **Mr Stoneham:** With the Scottish rate, the figures Marie-Claire gave were for the implementation costs. We've currently got an estimate of £4.2 million for the overall running costs, although we're looking to revise that during the course of this year. The arrangement we have with the Scottish Government—we have a memorandum of understanding with them—is that they pay the marginal costs that we incur in the work we're doing to implement and administer the Scottish rate. That's in line with the overall Treasury rules on funding arrangements. I think the key thing there is that, particularly once we get into the running costs, they're only paying the additional costs, so we won't be charging them a set fee for operating pay-as-you-earn on behalf of Scottish taxpayers. We'll only be charging them for additional work that we do as a result of the Scottish rate of income tax. So, it's really only the extra cost that's incurred. I can see no reason why we wouldn't take the same approach in relation to Wales.

[379] **Nick Ramsay:** Finally, and I've asked this of previous witnesses, on the border issue in relation to other taxes. You mentioned the issue of where people's addresses are, and clarifying that. In Scotland, clearly, you cross the border and there's very little there until you get to the central belt. In Wales, you cross the border and most of it is there straight away. Do you anticipate that causing any additional challenges in Wales that you didn't encounter in Scotland?

[380] **Dr Uhart:** It's probably worth saying that you're right; it is a bit more of an issue in Wales than in Scotland, but I think there are only something like—. It doesn't apply for the landfill tax, as we've explained, talking about the devolved taxes. There are properties on the border; I think there's something like 80 properties that we know about and that's—

[381] **Nick Ramsay:** Actually on the border?

[382] **Dr Uhart:** Which are on the border, yes. So, part of the property is in England and part of the property is in Wales. So, for stamp duty land tax, if you sell that property as it is—crossing the border—we would expect you to have to make two returns: one for the stamp duty land tax to England, to the UK tax authority, and the other—whatever the name of the new tax would be—to the Welsh Government.

[383] **Jocelyn Davies:** There you are.

[384] **Nick Ramsay:** Interesting. I always like the border questions.

[385] **Jocelyn Davies:** We're intrigued now by that. Did you want to come in on that one, Peter? Oh, no—I thought Peter did. Julie, shall we come to your questions then?

[386] **Julie Morgan:** Obviously, HMRC will remain responsible to the Westminster Government and will be accountable to the Westminster Government. How will you remain incentivised to collect the Welsh rates of income tax?

11:30

[387] **Dr Uhart:** That's an interesting question. I mean, obviously, if we were collecting—. Well, a Welsh rate of income tax, sorry—that still remains a UK tax, rather than a devolved tax, which would be a matter for the Welsh Government. But the Welsh rate of income tax, should it come in after a referendum—. It remains a UK tax.

[388] **Julie Morgan:** Right.

[389] **Mr Stoneham:** I think in terms of incentivisation, with the way the Welsh rate operates, the UK Government obviously still gets a portion of the income tax. Obviously, there's a 10 percentage point deduction on the rates paid by Welsh taxpayers. So, for a basic rate taxpayer, the UK Government would still get 10 percentage points, for a higher rate they get 30, and for an additional rate they get 35. So, clearly, the UK Government are still getting something back from Welsh taxpayers and, you know, we would treat Welsh taxpayers in the same way as we'll be treating Scottish taxpayers from 2016, and as we'd treat everyone else.

[390] **Dr Uhart:** Indeed. We would still see them as UK taxpayers.

[391] **Julie Morgan:** Yes, so that's not an issue, you don't think at all.

[392] **Dr Uhart:** I can't see how it could be, under the present arrangements.

[393] **Julie Morgan:** Okay. Thank you. What other additional information and data may HMRC require from the Welsh Government when collecting the Welsh rate of income tax?

[394] **Dr Uhart:** You mean in terms of setting up the systems.

[395] **Julie Morgan:** Any information at all.

[396] **Dr Uhart:** It would just be the rates that the Welsh Government has set.

[397] **Julie Morgan:** Right. So that's all the information you would need.

[398] **Dr Uhart:** Yes. We would have identified the taxpayers, with a suitable prefix and—

[399] **Julie Morgan:** Simple. [*Laughter.*]

[400] **Ann Jones:** I think everybody across the border should have an 'E', and we should just stay as we are. There we are. That's solved the 'W' and the 'C'.

[401] **Julie Morgan:** What would you see the interaction to be with the Welsh revenue authority on the administration of the Welsh rate of income tax? Would you see there to be any interaction?

[402] **Dr Uhart:** What's the interaction with Scotland?

[403] **Mr Stoneham:** There's very limited interaction, really, in relation to the—. Well, we will have a very limited interaction, particularly with Revenue Scotland. They're focused very much on administering the devolved taxes. You know, the key difference is, obviously, with the fully devolved taxes; Revenue Scotland and Welsh Government/Welsh revenue authority are responsible for the entirety of those taxes—how they're set up, how they're administered, how the penalties and interest and so on operate. Whereas, I think there's a clear distinction with the Scottish and Welsh rates of income tax where HMRC continues to operate the

income tax system and a rate is set, kind of, to go within that. So, you know, we've involved Scottish Government in our discussions around how we're setting up the Scottish rate and, I think, you know, if we implement the Welsh rate, then, again, we would work with Welsh Government on how we go about administering it and the decisions we take in the run-up to that. But, in terms of the day-to-day administration, then the key information that we need is the rate, or rates, in the case of the Welsh—

[404] **Dr Uhart:** And the addresses. Obviously, we need to know who the base is, but once we know that, it is operated through the national system.

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

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

[407] **Alun Ffred Jones:** Byddaf yn gofyn fy nghwestiynau yn Gymraeg. **Alun Ffred Jones:** I'll be asking my questions in Welsh.

[408] Rwyf eisiau gofyn rhai cwestiynau ynglŷn â chydweithio rhwng HMRC a Llywodraeth Cymru. Sut bydd Cyllid a Thollau Ei Mawrhydi yn gweithio gyda Llywodraeth Cymru i sicrhau bod ganddo ddigon o wybodaeth wrth gynllunio polisiau trethi? I want to ask some questions regarding co-operation between HMRC and the Welsh Government. How will HMRC work with the Welsh Government to ensure it has sufficient information when planning tax policies?

[409] **Dr Uhart:** We have already started talking to the Welsh Government. In fact, Doug is leading for us on those discussions. So, Doug, do you want to say what we've already done in terms of starting that co-operation?

[410] **Mr Stoneham:** Yes, I think our focus at the moment is very much on making sure the Welsh Government clearly understand how we go about administering landfill tax and stamp duty land tax, so that they've got a clear understanding of what we do in terms of those taxes, and also our work across the piece in administering tax, so they can have a clear understanding of what we do, to help them use that in terms of thinking about how they then go about designing their devolved taxes, which will take the place of SDLT and landfill tax.

[411] **Alun Ffred Jones:** Iawn. Diolch yn fawr. Bydd gan Lywodraeth Cymru ddi-ddordeb mewn agweddau amrywiol ar gyfradd Cymru o'r dreth incwm, fel osgoi effeithiau ar drethdalwyr a'r rhagolygon. A fyddwch chi yn gallu rhoi unrhyw gyngor i Lywodraeth Cymru o ran effeithiau'r dreth? **Alun Ffred Jones:** Okay. Thank you. The Welsh Government will be interested in various aspects of the Welsh rate of income tax, such as avoiding any impacts on taxpayers and forecasts. Will you be able to give any advice to Welsh Government on the impacts of the tax?

[412] **Dr Uhart:** In terms of forecasts—

[413] **Alun Ffred Jones:** Ie. **Alun Ffred Jones:** Yes.

[414] **Dr Uhart:** Okay. So, this is something we're working through at the moment. HMRC works with the Office for Budget Responsibility, which, itself, is the one that produces the tax forecasts, and these were published at the budget for the first time. We are working through, at the moment, how we do this in relation to Scotland. The Scottish Fiscal Commission has recently been created and we need to work with the OBR to understand how we work with those two organisations in relation to forecasts. But as I say, it is, really, us working with the OBR at the moment in terms of forecasting, rather than something that we are doing in our

own right.

[415] **Alun Ffred Jones:** Yn olaf, ers 2013, mae Cyllid a Thollau Ei Mawrhydi wedi dechrau dadelfennu derbyniadau treth yn ôl modelau gwledydd y Deyrnas Unedig a rhagdybiaethau eraill. A ydych chi'n bwriadu mireinio'r dull yma yn y dyfodol? Er enghraifft, rydych chi'n cynhyrchu adroddiadau blynyddol ar hyn o bryd; a fydd yn bosib cynhyrchu'r rhain yn fwy aml yn y dyfodol?

Alun Ffred Jones: Finally, since 2013, HMRC has begun to disaggregate tax receipts according to UK nations' models and other assumptions. Do you plan to refine this approach in the future? For example, you produce annual reports at the moment; will it be possible to produce these more often in the future?

[416] **Dr Uhart:** It's something we could look at. I don't think it's something we have any specific current intention to do.

[417] **Alun Ffred Jones:** Ocê.

Alun Ffred Jones: Okay.

[418] **Jocelyn Davies:** Okay. Mike.

[419] **Mike Hedges:** My first question is: we've talked about the selection of income tax. How accurate are your home addresses of people who are on pay as you earn?

[420] **Dr Uhart:** Well, we hope that they're accurate. One of the things that we do need to do is to make sure that people recognise that they do need to advise us when they move. It's less critical now, clearly. So, people may feel that there's not such an issue about either telling us, or when they tell us. If we move into a situation where the address matters for income tax, then it's much more important that they tell us at all, which I think most people recognise that they do need to. But we also need to know the date at which they move, because that will determine which country they've been in for the longest period of time. So, this is why this is an issue where we need to get the communications right and we need to make it easy for people to do it, as well.

[421] **Mike Hedges:** I'm sure you'll correct me if I've got this wrong, but for pay as you earn people, it's the employer who'll be giving you the address isn't it, rather than the individual themselves?

[422] **Dr Uhart:** It is actually the individual who gives us the address.

[423] **Mike Hedges:** How? I mean, when I used to be on pay as you earn, I never gave you any information at all. [*Laughter.*] I only moved within Swansea, so it didn't affect anything, but I didn't actually tell anybody apart from my employer and I assumed my employer passed it on.

[424] **Dr Uhart:** Yes. You make a good point. I think we do need to make it clear that that is what we will need people to do, but we do, as Doug has explained, intend not just to rely on our own records, but to cross check our records against other third party records of people's addresses, to get as accurate a database of addresses as we possibly can. Again, inevitably, we're looking at the Scottish rate of income tax, because we know that's going to be coming in and it's coming in next year. We do think that there is a reasonably high level of awareness that there is a change, but we want to build on that by making sure we do have a very strong communication to tell people why it matters to let us know what their address is.

[425] **Jocelyn Davies:** So, even though employers normally tell you, it is the responsibility of the taxpayer to tell you in the absence of the employer doing so.

[426] **Dr Uhart:** It is.

[427] **Mr Stoneham:** We do receive information from employers, but obviously that's information that the employee has given to the employer. So, you know, we wouldn't necessarily want to assume that, just because someone's told their employer a particular address, that's necessarily the address that represents their main place of residence. But there is clearly an educational issue for us in terms of—

[428] **Jocelyn Davies:** When you say, 'checking with third parties' that would be local authorities in terms of council tax. I think that's payable on a daily basis, isn't it?

[429] **Dr Uhart:** I don't know.

[430] **Jocelyn Davies:** The responsibility for that is on a daily basis, so they want to know what date and day of the month you move. Okay.

[431] **Mike Hedges:** I was going to say, for somebody like myself, who might be described as relatively well informed, not to know that it was my duty to tell HMRC, I'm sure the vast majority of my constituents don't know either.

[432] **Jocelyn Davies:** Well, it's not at the top of people's lists when they move.

[433] **Dr Uhart:** No.

[434] **Mike Hedges:** No. On devolved taxes and the Welsh rate of income tax, any of these devolved taxes, especially landfill tax, people could start making a decision on which landfill sites to use, especially when there are some relatively near the border. And, if there were huge variations in the cost of going, for example, to a landfill site, will you be looking at any unintended consequences of variations in taxes across the border?

[435] **Dr Uhart:** I think, inevitably, we would be wanting to make sure that the way in which people are making those decisions is within the law. So, if there were to be differences in rates or the way in which the taxes were operated to give people a choice, then we would want to make sure that they were doing things correctly and thinking about what that would actually mean. I mean, if it's a landfill tax, as we know, there are sites and they're either in England or Wales, effectively, so it would be a straightforward thing of where did you actually go and put the rubbish. For the SDLT, then the issue is around cross-border sites—relatively small cross-border sites—and we would want to make sure that people were not, for example, inflating the value of the property on one side of the border compared to the other side of the border, and making sure that people weren't simply pretending they were one side of the border when they should be the other. So, we would want to look at those cross-border issues. They matter, of course, if the rates and arrangements differ. They're not so likely to be something that people are interested in if those rates and arrangements don't differ, so it will depend on the way in which the Welsh Government decides to implement the tax.

[436] **Mike Hedges:** Yes. I think you have three taxes, don't you? You can't move the land, so that's—

[437] **Dr Uhart:** You can't move land.

[438] **Mike Hedges:** That's going to be where it is. You'll have a choice of where you take your landfill waste, and if you're relatively near the border, it becomes much easier to make that decision. On income tax, it becomes much easier when you have a number of options of using the family home or where you happen to be currently staying as a choice. I see

contractors, for example, who may contract in England for long periods of time; there are lots of them moving out of Wales, who will then probably be able to make a choice of where they decide they spend most of the year.

[439] **Dr Uhart:** We would expect to have, and under the Scottish rate of income tax we do have, arrangements for a straightforward way to decide where your residence is. You're right; people might have an element of choice and, as I say, the difference is when there is a difference in the rates in terms of the individual's point of view.

[440] **Mike Hedges:** The Scottish rules, which I read in great detail from the command paper, are very lengthy and quite interesting, but this majority-of-the-year situation does make life quite interesting.

[441] **Mr Stoneham:** Yes, I think we have tried to make the definition of a Scottish taxpayer and a Welsh taxpayer, by the same token, as straightforward as possible, in that we want people to look at where their main place of residence is for the majority of the tax year. So, we don't necessarily need—. If, for example, you live in Cardiff, but you work for an English haulier and you're a truck driver and you spend most of your nights driving around England, then we wouldn't want you to count where you're spending your nights. If you live in Cardiff, your main place of residence is there, so you wouldn't need to look beyond that. Similarly, if your main place of residence is in England, you may work as a night porter at a hotel on the other side of the border, but again, it's where your main place of residence is.

[442] **Mike Hedges:** If you're an electrical contractor—back in the day of the Channel Tunnel, lots of people were working there—and you take off a week to go abroad on holiday and you then decide how many nights you spend and it depends whether you go back on the Sunday night or a Saturday morning, which may well make—

[443] **Nick Ramsay:** It's not a standard example, though, is it, the Channel Tunnel?

[444] **Mike Hedges:** But loads of contracting—

[445] **Jocelyn Davies:** But can I just ask, on Mike's question, if somebody did have a choice—maybe they own a second home or something else—where they could say 'That is my main home', and they chose for advantage, what happens then? If they died under those circumstances, what happens to the value of the property that they are no longer claiming to be their main residence in Cardiff? Would there be a tax disadvantage in those circumstances, if they said, 'Oh that tiny, weeny little flat in Bristol, that grotty place, that's my main residence, not my beautiful mansion here in Cardiff', and they died under those circumstances? Isn't there an inheritance tax or a capital gains tax?

[446] **Dr Uhart:** It would make no difference to inheritance tax.

[447] **Jocelyn Davies:** But would it for capital gains purposes?

[448] **Mr Stoneham:** I think there's a key distinction here that the main place of residence for the purposes of the Welsh rate of income tax and the Scottish rate of income tax is not an elective regime in the same way that the principal private residence for capital gains tax is something you can elect, in that your main principal private residence is in a particular location, whereas your main place of residence for the purposes of the Welsh and Scottish rates of income tax is based on the facts of the case. We will produce guidance around that.

[449] **Jocelyn Davies:** Okay. So, you couldn't claim 'This is my main place of residence, this grotty place in Bristol'—I'm giving that as an example—for your income tax purposes and then claim, for say capital gains purposes, that the other place was your main residence?

It would have to be the same address.

11:45

[450] **Mr Stoneham:** I don't think you would necessarily—. I think, as I say, you can elect for your principal private residence for capital gains tax to be either property. But for the Welsh rate of income tax, we would look for it to be what your actual main place of residence is. Obviously, if there's a variation in the rates across the border, people may claim that their main place of residence is in one particular location, but if, for example, you had a situation where there was a significant difference in rates and suddenly an awful lot of people moved their address from being in England to being in Wales, far more so than would typically do so during the year, then I think HMRC would look to look at those particular—

[451] **Jocelyn Davies:** Would challenge that in terms of—

[452] **Mr Stoneham:** Exactly, and try to establish whether someone's holiday caravan on Anglesey is realistically their main place of residence, when they work in Bristol and live in Bristol.

[453] **Dr Uhart:** I think the thrust of the intention is to try and make it as simple as possible for the majority of people.

[454] **Mike Hedges:** But the point I was making is that there are tens of thousands of contractors moving from Wales to England each week who would spend four or five nights in England and then come back. Lots of people move up from Pembrokeshire, and, when there was a lot of work going on in Pembrokeshire in terms of development, lots of people were coming from England to work in Pembrokeshire. There's quite a lot of that. But, as I've highlighted it, I'll stop there.

[455] The next question I would like to ask is: how would you liaise with the Welsh Government to ensure that the interaction of UK tax policy with Welsh policies is fully understood?

[456] **Dr Uhart:** Well, 'we'll just continue to liaise' is the answer to that. Obviously the Welsh Government, with the devolved taxes, has the ability to make changes that are different. We are very happy to talk to them about how our policies work, and why they work in the way they work, but, for the devolved taxes, it is up to the Welsh Government to decide how they want to design that tax. I think your questions around cross-border issues illustrate that there are potentially impacts if those taxes are different, but that is devolved tax, and that's how that works.

[457] **Mike Hedges:** Okay. Thank you very much.

[458] **Jocelyn Davies:** I wanted to ask you about the new pilot project you've got to map the locations of tax prosecutions across the UK. This shows, of course, that there haven't been any recent prosecutions in Wales in relation to the devolved taxes. Is that because we're all very law-abiding in Wales, and you can't possibly prosecute us because nobody's breaking the rules? Or is it because you don't have any staff here, and maybe you haven't been able to detect any breaches?

[459] **Dr Uhart:** Well, I think the first thing to say is to go back to the start, and the way that we operate in relation to non-compliance is across the UK. So, we have risk systems that determine where the risk is likely to be, and we look at cases and we consider whether they were something that we should criminally investigate, and that is not done on a regional basis—that's done on the basis of the national risk. In terms of prosecution, just to be clear, it

is the Crown Prosecution Service that decides whether to prosecute or not. We have a criminal investigation directorate that carries out the criminal investigation; the analogy is that it's similar to the police. We would then refer cases where we think there would be an appropriate case for prosecution to the Crown Prosecution Service, and they then take the decision on whether to go ahead with the prosecution.

[460] **Jocelyn Davies:** So, were there any decisions by the Crown Prosecution Service not to prosecute in Wales?

[461] **Dr Uhart:** I don't have that information.

[462] **Jocelyn Davies:** Oh, you don't know. So, we still don't know whether we're all unblemished reputation-wise—

[463] **Dr Uhart:** Well, the way in which the cases are chosen is on a national basis, so nobody is particularly—

[464] **Jocelyn Davies:** So, there's no turning of a blind eye to avoidance of tax in Wales in these devolved areas. We're all treated equally, but it could be that either there were no cases or CPS decided not to prosecute.

[465] **Dr Uhart:** I don't have the information on particular cases. As you say, we're not talking about many cases. We would be talking about evasion rather than avoidance if we were talking about the potential for criminal prosecution.

[466] **Jocelyn Davies:** Oh yes, of course. Any other questions? Okay. Well, thank you very much. We've managed to get through all the questions that we had for you. We will send you a transcript; if you'd check that for factual accuracy we'd be grateful, and then we'll be able to publish it.

[467] **Dr Uhart:** Okay, thank you very much.

11:48

**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**

Cynnig:

Motion:

bod y pwyllgor yn penderfynu gwahardd y cyhoedd o weddill y cyfarfod yn unol â Rheol Sefydlog 17.42(vi).

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

*Cynigiwyd y cynnig.
Motion moved.*

[468] **Jocelyn Davies:** I think that we should go into private session now under Standing Order 17.42 to discuss the evidence we've received this morning.

*Derbyniwyd y cynnig.
Motion agreed.*

Daeth rhan gyhoeddus y cyfarfod i ben am 11:48.
The public part of the meeting ended at 11:48.