



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

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Iau, 11 Mehefin 2015
Thursday, 11 June 2015

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol **Committee members in attendance**

Peter Black

Democratiaid Rhyddfrydol Cymru
Welsh Liberal Democrats

Christine Chapman	Llafur Labour
Llyr Gruffydd	Plaid Cymru (yn dirprwyo ar ran Alun Ffred Jones) The Party of Wales (substitute for Alun Ffred Jones)
Mike Hedges	Llafur Labour
Ann Jones	Llafur Labour
Julie Morgan	Llafur Labour
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives

**Eraill yn bresennol
Others in attendance**

Alan Bermingham	Sefydliad Siartredig Cyllid Cyhoeddus a Chyfrifyddiaeth The Chartered Institute of Public Finance and Accountancy
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**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance**

Dr Richard Bettley	Gwasanaeth Ymchwil Research Service
Bethan Davies	Clerc Clerk
Yr Athro/Professor Gerald Holtham	Cynghorydd Annibynnol Independent Adviser
Tanwen Summers	Dirprwy Glerc Deputy Clerk
Joanest Varney-Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser

*Dechreuodd rhan gyhoeddus y cyfarfod am 10:00.
The public part of the meeting began at 10:00.*

**Penodi Cadeirydd Dros Dro o dan Reol Sefydlog 17.22
Appointment of Temporary Chair under Standing Order 17.22**

[1] **Ms Davies:** Unfortunately, Jocelyn Davies is unable to attend today's meeting. In accordance with Standing Order 17.22, I invite nominations for a temporary Chair for today's meeting.

[2] **Mike Hedges:** I nominate Peter Black.

[3] **Ms Davies:** Any further nominations? In that case, I declare Peter Black has been appointed as temporary Chair for today's meeting.

*Penodwyd Peter Black yn Gadeirydd dros dro.
Peter Black was appointed temporary Chair.*

Cyflwyniadau, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[4] **Peter Black:** Thank you very much. I'll just go through the various formalities. Can I start by welcoming members of the committee and the public to the Finance Committee? I remind everyone to ensure that any electronic devices are on 'silent'. Apologies have been received from Jocelyn Davies and Alun Ffred Jones. I welcome Llyr Gruffydd, who is substituting for one of those two. I'm not sure which one, but he's definitely substituting.

[5] **Llyr Gruffydd:** One for the price of two.

[6] **Peter Black:** Can I start by inviting Members to note the minutes of the meeting of 21 May 2015, if that's okay?

10:01

Ariannu yn y Dyfodol: Sesiwn Dystiolaeth 1 Future Funding: Evidence Session 1

[7] **Peter Black:** We move on to evidence session 1, which is with the Chartered Institute of Public Finance and Accountancy. Can I welcome Alan Bermingham? Could you just introduce yourself for the record, Alan, if that's okay?

[8] **Mr Bermingham:** Yes. Thank you, Chair. Alan Bermingham, as you said. I'm the policy and technical manager for CIPFA. Primarily my role is to look after the regions, so the devolved regions and Ireland.

[9] **Peter Black:** Lovely; thank you. If it's okay with you, we'll go straight into questions—we will have read your submission—if I can find the questions, which I've lost. Thank you. Can I start off by asking: in general, do you believe that the current mechanism for financing the UK's devolved administrations is sustainable in the long term?

[10] **Mr Bermingham:** In the long term, CIPFA would say 'no', they're not—particularly the Barnett formula as it is. I suppose CIPFA has advocated a change to a needs-based approach based on certain principles in the past. We probably see that as not just a devolved regional issue, and in the context of there being further devolution across England as well, that would probably make the Barnett formula even less relevant. So, we do see a need to have a link between the taxes raised and the accountability for the spending of those taxes raised, and having any kind of central redistribution of the disproportionate levels of tax in the UK that are raised in the regions redistributed on a needs basis, of some form, to be agreed.

[11] **Peter Black:** Has the recent period of austerity highlighted any particular problems for how devolved administrations are funded?

[12] **Mr Bermingham:** Well, I suppose it has in the sense that there's only a certain number of fiscal levers that you would have; so, for example, the ability to hold reserves and therefore the ability to plan longer than the current spending reviews that we've had—some of those being literally for one year—and things like that, so your ability to plan and hold reserves for the longer term—. Obviously, with things like the demand-led spend you've been affected by welfare reform and other things like that. As far as Barnett funding goes, I get the feeling that that's probably protected you a little bit, in terms of the way that operates, from perhaps some of the more severe cuts, in that sense. So, there's a view, and I'm sure Gerald Holtham would support this, that the mechanism would, in the longer run, lead to convergence; so per capita spending would converge with England, but that's assuming

there's some kind of growth in that spending. Where it's kind of flatlined, probably since 2010, that convergence has probably stopped if not benefitted the Barnett formula-based funding administrations. So, it's a mixed bag, really. You've benefitted in one way, or certainly departmental expenditure limits had some benefit, but in terms of other areas of funding, obviously you don't have the fiscal levers to medium-term plan. You can't hold reserves, things like that, so it's left you struggling in that sense.

[13] **Peter Black:** Okay; thanks. Mike, did you have some questions?

[14] **Mike Hedges:** Yes. You did some work on a suitable fiscal framework that you provided to the Scottish Parliament's Finance Committee recently. How applicable are those principles to Wales?

[15] **Mr Bermingham:** I think very applicable. I know that part of your inquiry is looking at consistency and transparency across the devolved regions and I would bring that fiscal framework into that area, in the sense that, yes, I think Scotland's fiscal framework needs to have some consistency with the UK's fiscal framework, but in my mind, that doesn't necessarily mean it has to be the same thing. We're advocating that, yes, you should have something on a legislative basis; you should have a fiscal mandate, but within that, you can kind of devise a fiscal framework that suits your own circumstances. So, like the Smith commission has advocated borrowing based on a prudential regime, we would say that should be in the fiscal framework and things like that.

[16] **Mike Hedges:** The same prudential regime that local authorities have got.

[17] **Mr Bermingham:** Yes, a similar regime to that.

[18] **Mike Hedges:** A question with which I've probably bored everybody else in this room but not you, as yet, is on the failure to provide Wales with consistent, certainly capital funding based on very large capital schemes in England. I keep on thinking of the London Olympics and I always think that the title gives away where the money was spent, and Wales didn't get its 5.4 per cent of that. And HS2, which doesn't seem to come anywhere near Wales at all, but almost certainly, as things stand, we're not going to get the money from that. So, the question I've got is—I've almost begged the question, really, haven't I?—do you think that legislative changes are required by the UK Government to improve the consistency and transparency of devolved funding arrangements?

[19] **Mr Bermingham:** Certainly we do, yes. We think that the issue of regional funding and devolved funding across the UK probably should be put into the hands of an independent body rather than Treasury. I agree with you that the kind of formula bypass and things like that do seem to be done behind closed doors in Treasury and there are some issues with that, naturally.

[20] **Mike Hedges:** The cynical amongst us see the Treasury as saying, 'Look, it's going to cost a lot of money; let's not include it'.

[21] **Mr Bermingham:** I suppose you could take that view, but, yes, in order to get transparency of it, definitely we would say it should be legislatively put in the hands of an independent body. Now, whether that's the Office for Budgetary Responsibility, or whether that's somebody else is a matter for debate, but that's the view.

[22] **Peter Black:** Okay. Christine.

[23] **Christine Chapman:** Thank you. Just following on from this issue of consistency, do you think there should be more consistency in the way that different parts of the UK are

funded? I mean, we see this in other federal countries. Would you agree with that?

[24] **Mr Bermingham:** We would agree that the fiscal settlement, if you like, or the policy that supports that funding should have some consistency. The pace that it's rolled out at, I suppose, is a matter for debate. I wouldn't say that the pace it needs to be rolled out at needs to be exactly the same, because people have different appetites—you know, there's nothing to say that the north-west or the north-east of England have the same appetite for devolved powers as Scotland and Wales, but we think that the settlement itself should be consistent in that sense. So, if they want devolved powers, this is the sort of framework that usually operates and that should be consistently applied.

[25] **Christine Chapman:** I understand. CIPFA's got four principles for funding devolved Government. I wonder if you would just outline those for us—you know, how you could achieve that.

[26] **Mr Bermingham:** In terms of accountability and transparency and things like that, really, some of it we've touched on, so having the appropriate fiscal framework and providing yourself with more fiscal levers. For example, your borrowing powers are kind of limited at the moment, so we would advocate moving that fiscal framework towards that prudential-type regime. We would say that overseeing your forecasts and overseeing the funding should be done by an independent body—that should be enshrined in legislation—and should make some kind of transparent and consistent approach.

[27] **Christine Chapman:** And, what are the key steps towards introducing a needs-based formula within the UK?

[28] **Mr Bermingham:** Well, you could obviously fiddle with the Barnett formula itself, because there are benefits in that—you know, it's reasonably simplistic and things like that. So, I know that you've got this situation where there is potential for a floor being put in place, which again makes me think, because I work across the regions, that's going to put Wales in a different place to Northern Ireland and Scotland. As a general observation, I would say that any study that I've seen previously would probably suggest that Wales is the one area that's, perhaps, underfunded through the Barnett formula. Obviously, Scotland are fairly protective of it. So, I would imagine that having that floor there would create some tension, just on what I've picked up from the other regions. There would be a bit of, 'Why is that happening? Why have we not got that?' But, I think the issue of changing Barnett to a needs-based formula is further compounded by devolution in England. If they get tax-raising powers locally, and things like that, we just wonder how you can you sustain that formula. What the needs basis needs to be is a different matter. I'm not really a statistician, but obviously it needs to reflect certain measures of, perhaps, deprivation, unemployment, and so on and so forth. We would certainly believe that those measures are available; it's just agreeing the right kind of combination that would be a suitable assessment—not perfect, but a suitable assessment—of need across those regions.

[29] **Peter Black:** Julie, did you want to come in on this point?

[30] **Julie Morgan:** It was just to pick up something. You mentioned tensions in the other regions and I just wonder if you could expand on that—where, and about Wales having a different sort of—

[31] **Mr Bermingham:** It's probably a personal view, rather than a CIPFA view; we certainly don't put out a policy on tensions in the regions. [*Laughter.*] But, I would say, having talked to the Scottish Finance Committee and their Devolution (Further Powers) Committee, and obviously having talked to the Northern Ireland Assembly on the operation of the Barnett formula, I would see that the situation you have here of putting a floor in the

formula, or the ability to put a floor in the formula through the St David's Day agreement, is unique. So, that's something the others haven't got. I suppose I'm interpreting that as meaning that there's a level below which your funding wouldn't go in terms of its comparability with English per capita spending. Therefore, Northern Ireland and others would obviously like that floor as well, but don't have that being suggested to them at the moment. So, I think that would maybe create tension, particularly if you get back to a growing economy. There's an element of convergence in the formula, so perhaps there's a long-term view that, at some point, Wales could reach that floor, if you like, and Northern Ireland could well go below it. Would that be fair?

[32] **Julie Morgan:** So, you think there would be tensions, basically, rather than already perceiving tensions.

[33] **Mr Bermingham:** Yes, and I think there is an element, certainly from Northern Ireland, anyway, that they want a fair settlement and, obviously, somebody getting something different to them is maybe moving into an area where it's not going to be fair.

[34] **Peter Black:** Those two countries have got their own differences in terms of the way Barnett applies to them, anyway; they've got exceptional treatment in other ways, haven't they?

[35] **Mr Bermingham:** Yes, absolutely. Northern Ireland's quite unique in a lot of respects, yes.

[36] **Peter Black:** Mike.

[37] **Mike Hedges:** Leaving aside that Northern Ireland is substantially better funded than Wales, it also has capital rules that it can just ignore. It has an amount of capital that it's allowed to spend, but it can quite substantially breach that without the Treasury blinking an eye.

[38] **Mr Bermingham:** Yes, I mean, obviously, they're taking it to the brink at the moment; I would take that view. I'm not sure that the Treasury would not step in at some point and do something.

[39] **Mike Hedges:** They haven't, and they've gone substantially over their capital allocation, of their borrowing limits.

[40] **Peter Black:** That wasn't a question. [*Laughter.*]

[41] **Mike Hedges:** Do you agree? [*Laughter.*]

[42] **Peter Black:** Christine.

[43] **Christine Chapman:** Following on, I just wonder what could be done if the UK wanted to move from the current devolution arrangements to a much more uniform approach. Do you think that is feasible? If so, what would be the steps to do it?

[44] **Mr Bermingham:** I think there's a fair amount of uniformity at the moment, and if you move to a reserved-powers model, obviously, the three regions would effectively be on a similar basis. Obviously, there are bits and pieces within that that are different, and you're at different stages, but that's why I'm saying that you would have a devolution policy framework that had a set number of powers or set policies and, within that framework, the devolved Assemblies could move at a different pace, but you would have a framework like a pick-and-mix-type approach of what you could achieve within that framework, depending on

what the appetite was for it.

10:15

[45] I do detect, particularly in the English regions, that there's maybe less of an appetite for some of the powers that the devolved assemblies, as they are now, would have. So, I think that's the type of approach we would look at. It may mean that you're not totally consistent, but in theory, if you went to the full extent of those powers, you would be.

[46] **Christine Chapman:** Okay. Thank you.

[47] **Peter Black:** Okay. Llyr.

[48] **Llyr Gruffydd:** Thanks, Chair. I'm just wondering maybe if you could tell us to what extent you think recent developments, such as the St David's Day announcement, might address some weaknesses in Welsh funding.

[49] **Mr Bermingham:** I think it's—

[50] **Llyr Gruffydd:** If at all. *[Laughter.]*

[51] **Mr Bermingham:** Obviously, we've mentioned the floor in the Barnett formula, so that's a good thing, I would say—

[52] **Llyr Gruffydd:** You touched on reserved powers as well, but specifically for Wales, what do you think the financial impacts would be of moving to a reserved-powers model?

[53] **Mr Bermingham:** That you'd have more discretion, I suppose, over what you spend your money on, particularly. It would avoid, obviously, any kind of legal confusion about what exactly you're responsible for because it's either a reserved power or it's not, and therefore, you have responsibility for it. It probably moves you a bit more to the position like the Northern Ireland Assembly, where they can get their block grant and allocate it more freely across what their priorities are. So, I think that's a clear benefit.

[54] **Llyr Gruffydd:** One of the things that we've been reminded of in our deliberations earlier today is that there's no statutory basis for the Barnett formula and its associated procedures really. What value do you think would there be in having a clear statement, maybe in the Wales Bill, around general procedures in relation to Barnett and other things, in terms of both Governments signing it off and the arbitration process and all that kind of thing? Would having that in the Wales Bill prove valuable in your view, because at the moment it's all at the whim of the Treasury, isn't it?

[55] **Mr Bermingham:** It is, yes. I certainly think it would be of benefit to you, yes. If that could be in the legislation, it would avoid some of the issues that your colleagues just pointed out over things like the Olympics and the way that was handled. I'm sure that you did incur some costs in supporting Olympic teams and things like that, but as a result of Barnett, you probably didn't get any funding for that. So, I think, yes, there is a case to say that there should be some mechanism for review or agreement or whatever, before the Treasury's funding policy statement is finally agreed.

[56] **Llyr Gruffydd:** You've spoken a bit about the funding floor already and there would be issues, I'd imagine, of consistency across the UK then. But in a Welsh context, clearly a funding floor is something that many of us feel is a minimum. Do you think that that would create practical difficulties in relations with other parts of the UK if that was the case here in Wales?

[57] **Mr Bermingham:** I'm not sure it would create practical difficulties; maybe I laboured it a bit. But, I do think it raises a few eyebrows in other areas really, and obviously it's a break from the norm. Therefore, I suppose Northern Ireland particularly may want to see a crack in that, and therefore exploit that and say, 'Well, we should have something different'. They do quite regularly make themselves a special case and I could quite well see them pursuing that type of approach. But, that's another matter; that's a political kind of decision.

[58] **Llyr Gruffydd:** Sure. Moving on to borrowing then, the Wales Act 2014 allows the Welsh Government limited borrowing, up to arbitrary fixed limits, clearly. Should borrowing powers instead be linked to tax and spending plans through a system of prudential borrowing?

[59] **Mr Bermingham:** Yes. When you say linked to tax and spending plans, the way I see prudential borrowing working is that it's linked to the revenue that's not only raised, but also any other kind of revenue—your total revenue, if you like. So, you begin to look at the affordability of what you're borrowing and what you're paying in terms of that debt, in terms of its impact on that revenue. Are you spending 20 per cent of that cake financing your debt or whatever it happens to be? So, the Assembly itself decides what is affordable in that sense. So, it's not a limit on the amount of debt you can have; it's your judgment about what's affordable in terms of the impact on the revenue streams that you have. So, there is a relationship with taxes raised, but I'm talking about the totality of the revenue.

[60] **Llyr Gruffydd:** And given that local authorities across the UK already can borrow, would it be just a matter of maybe implementing a similar system for the devolved administrations? Is it that straightforward?

[61] **Mr Bermingham:** I think it would be a similar system, yes. There probably are one or two tweaks to it, in terms of the measures that you'd want to see and the processes that support it, but, yes, it would be a fairly similar system. So, there'd be a legislative requirement for the Assembly to say what's an affordable limit, effectively, that you couldn't go above. I think that would probably fit in quite nicely with Treasury's framework, give them some comfort. But, having that kind of fiscal approach, if you ever got to the stage of, say, raising bonds for finance or anything like that from an external commercial market, then you probably would need something like that for them to be able to say, 'Yes, the Welsh Assembly are creditworthy', or whatever, and therefore that would impact on the interest rates you could attract and things like that. So, that's the kind of basis of all that.

[62] **Peter Black:** Okay, Nick.

[63] **Nick Ramsay:** Thanks, Chair. In answer to Llyr's question, you've kind of suggested that whilst we see the Barnett floor as being the simplest way of addressing some of the problems when funding starts to take off and convergence starts to happen—which we don't want—that could actually cause problems with Northern Ireland and Scotland. Well, could that set up a chain reaction whereby what we see as a quick fix actually does put the whole Barnett formula under pressure in the longer term?

[64] **Mr Bermingham:** I think a combination of that and further devolution to English regions and English cities, particularly if you start giving them tax-raising powers and so on, really makes the formula irrelevant. I can't see how that's equitable, in that situation, to continue on that basis. So, there are a couple of things really that, if they happen in the longer term, I do think will put direct pressure on the Barnett formula, yes.

[65] **Nick Ramsay:** So, I'll go for the jugular: do you think that, ultimately, a new formula would be the easiest option in order to—?

[66] **Mr Bermingham:** I do, yes, and I think the institute would support that view. We would support the withdrawal of it and completely replacing it with a needs-based formula, but I'd imagine you could tinker—instead of having a floor, have a floor and some needs-based measures—you know, you can tinker with the existing arrangements to come to something that is still relatively simple, but reflects a needs-based approach.

[67] **Nick Ramsay:** I assume that would keep what we were talking about earlier as the 'historical block', where we are now, and that would alter future additions to it. You're not talking about starting completely from scratch.

[68] **Mr Bermingham:** No, and as I've said, I suppose any evidence I've seen before, through Treasury and evidence to other committees and so on, would suggest that a needs-based formula approach is something that probably would benefit Wales rather than have an adverse impact. Scotland would perhaps be the area that's most concerned by that; Northern Ireland is probably reasonably okay. That's anecdotal, and it's not particularly up to date or anything like that, but any evidence out there does suggest that type of view.

[69] **Nick Ramsay:** We're sitting here saying that Northern Ireland is reasonably okay, but I'm sure if we were a committee in Northern Ireland, the moment that Wales gets more, we'd be saying, 'Well, relative to Wales we're doing worse, so we need more'.

[70] **Mr Bermingham:** Well, absolutely, but that's why you'd need some kind of independent, transparent approach. If you had needs-based formula within that type of scenario, you need it out of the hands of Treasury, to an independent body that you can take those issues up with. At the moment, I think it's behind closed doors in Treasury, and that is what it is.

[71] **Nick Ramsay:** It's interesting trying to unlock those closed doors. Thanks. Okay, second question: what inter-governmental arrangements should be adopted to negotiate and manage the framework of devolved spending and tax arrangements? [*Laughter.*] That's a bit of a mouthful.

[72] **Mr Bermingham:** Well, that's why, I suppose, Scotland have—I'm sort of comparing and contrasting, but it's worth learning from what other regions are doing—Scotland's fiscal commission; I see that as playing that sort of role, and obviously they're out to consultation on the powers of the fiscal commission at the moment. In terms of being able to, perhaps, negotiate with the Office for Budget Responsibility, Treasury and so on on those funding arrangements, I think the fiscal commission have that role of independently reviewing what Scotland's forecasts are, but also, perhaps, overseeing and advising the Scottish Government on whether the funding settlement is appropriate or not.

[73] **Nick Ramsay:** Are you suggesting that we should have a similar fiscal commission here?

[74] **Mr Bermingham:** Well, at the end of the day, I think that's an appropriate approach. If we went to devolution across the UK, and across the devolved administrations, in a much wider sense, I think there's a question mark in my mind about whether you need a fiscal commission in every area; I'm not sure you would. You'd have one independent body that oversaw—like in Australia, where you've got a kind of funding commission that allocates that funding centrally and agrees all of that and agrees the basis of application and so on.

[75] **Nick Ramsay:** So, the different devolved nations of the UK, and, possibly, the regions, ultimately, could share a fiscal commission or fiscal framework that would negotiate for them.

[76] **Mr Bermingham:** Absolutely, yes, but, at the moment, I'm suggesting that, if you were looking at some way of making sure that you were getting the appropriate level of funding, I would still strongly suggest it should be taken out of the hands of the Treasury, and an independent body that you have, or that you can feed into, helps make that decision and has a process for arbitration or whatever.

[77] **Nick Ramsay:** Are you saying that the Treasury wouldn't be looking to give us the best deal? [*Laughter.*]

[78] **Mr Bermingham:** Not always, no. [*Laughter.*]

[79] **Nick Ramsay:** Okay; thanks.

[80] **Peter Black:** Julie, do you want to come in?

[81] **Julie Morgan:** It was just to query, if you had one independent body deciding for the different countries in the UK, where, then, would you, if you didn't agree with that independent body, appeal to? I don't know whether you've thought this through, but—

[82] **Mr Bermingham:** I haven't really thought that through, to be honest.

[83] **Julie Morgan:** You would need some process where the individual country may feel aggrieved with the settlement—they would need somewhere independent to appeal to.

[84] **Mr Bermingham:** As I said, I think that process of arbitration or whatever—appeal—would need to be decided, but, yes, I haven't really thought that through, in all honesty, to say what that would look like.

[85] **Peter Black:** How does that operate in Australia?

[86] **Mr Bermingham:** I don't know how that kind of position operates in Australia. I just know that the framework there is like a commission that allocates the funding. It is pretty much on a kind of needs basis. It's quite complex, the set-up, but it works quite well.

[87] **Julie Morgan:** Some of us have called for an independent appeal process for the decisions that the Treasury has made, basically, but, if the decisions were being made by an independent body, I think you've still got to take that issue into account.

[88] **Mr Bermingham:** Yes.

[89] **Peter Black:** Mike, you wanted to come in.

[90] **Mike Hedges:** Could we turn to borrowing? You talked about borrowing a few moments ago, and you talked about bonds. Am I right in saying the only use by local authorities of bonds in recent times was for the part-funding of Crossrail, and that almost all of the funding comes from the Public Works Loan Board? Do you think that the Welsh Government, if they're borrowing, should have access to the Public Works Loan Board?

[91] **Mr Bermingham:** Well, I suppose it's, really, what's going to provide you with the best value for money, in that sense. So, at the moment, I'd imagine you're getting very good deals from the Public Works Loan Board. So, stick with it, is my view. With the Public Works Loan Board, maybe the only drawback would, perhaps, be some of the flexibilities that they have around it. For example, I've worked with some local government bodies in Northern Ireland about refinancing and other Treasury issues, and that's difficult with the Public Works Loan Board in terms of the way they operate and the penalties they have for

refinancing and things like that. So, there's less flexibility there. Having said that, it's providing cheap loans, so, in that sense, it's fine.

[92] **Peter Black:** Ann, shall we come to your questions?

[93] **Ann Jones:** Yes, thanks, Chair. You've mentioned that the Barnett floor is okay at the moment, but as devolution, or devolving fiscal powers in England, takes place, that would be a disadvantage to us. Would you just like to expand a little on that, please?

[94] **Mr Bermingham:** Well, I'm not saying it's a disadvantage; I'm saying that the formula becomes, perhaps, less relevant. What we're saying is that we'd certainly like to see a clear link between the taxes raised and the spending and, therefore, that the local assembly has more of an accountability to its electorate. If you maintain Barnett, this block grant, not based on any needs principles, but based on this comparability and population-type approach, there's no clear link there. So, as you get more spending powers, we think that that transparency and accountability issue becomes more important. So, it's less relevant as a suitable funding mechanism in those circumstances.

[95] **Ann Jones:** Okay. Do you think there should be a similar devolution of fiscal powers to Welsh local authorities?

[96] **Mr Bermingham:** I suppose CIPFA would always take the view that local is better, so, if you can devolve those powers down as closely as you can to where the decision really has an impact, then all the better.

[97] **Ann Jones:** Okay. On city deals, the UK Government's stated an interest in negotiating city deals, including a potential deal with Cardiff. Should these devolved funding arrangements with local government be managed more consistently?

[98] **Mr Bermingham:** The answer would be, 'Yes, I think they should'. Now, I suppose I'm not 100 per cent clued-up on city deals, but my view is that they're more about generating growth and employment, and issues like that.

[99] **Ann Jones:** But, under the devolution settlement, those are things that are tasked to the Welsh Government, whereas, in a city region in England, central Government has a role to devolve it out. Will that cause problems? Does that cause problems?

[100] **Mr Bermingham:** Not that I can see, really; not necessarily, no. And I suppose it's probably better in a devolved region to have something coming through yourselves, rather than directly through Treasury to Cardiff, for example. I would imagine there is an important point for yourselves as the local Assembly to have sight of what kind of proposition it is and what the proposal is that they're seeking this funding for.

[101] **Ann Jones:** I was just going to ask you: did you think that devolved parliaments should have a say in the city deals, given that the additional funding is outside of the block grant, or should they just go, 'It's outside the block grant'?

[102] **Mr Bermingham:** No, no, I think you should, in the sense that you want to co-ordinate locally what those services are and how it may impact on other things that you're locally providing. I think there is a big case to look, rather than in silos, across the piece about how services are provided, like integrated health and social care and things like that. So, I think it's very important that you have sight of that.

[103] **Ann Jones:** Okay, thanks. Thanks, Chair.

[104] **Peter Black:** I think I heard this morning that the Welsh Government have actually been a party to the city deal anyway, and actually put some money in, but we'll see. Llyr, do you want to come in?

[105] **Llyr Gruffydd:** Yes, I'm just wondering, on city deals: do you think that the whole concept of city deals reflects everything that's wrong about an ad hoc, disjointed, inconsistent system of devolving fiscal responsibilities and powers?

[106] **Mr Bermingham:** I do a little bit, yes. That's why, when you asked about consistency earlier, I'd say there should be an overall position, like a policy position, which says, 'This is the framework within which devolution can be rolled out'. I did mention a kind of pick and mix approach—[*Inaudible.*]—only because the appetite for it might be different. But, yes, I do see that there should be a menu, if you like of: this is what it should look like—if you have these powers, you have this funding arrangement, and you can go all the way to this, almost towards full fiscal autonomy, if you like, and how that would work.

[107] **Peter Black:** Julie.

[108] **Julie Morgan:** Just on that city deal point, obviously, because it would bring more money into Wales, I think it's to be welcomed. But I don't know if you have got any information about how this happened in Glasgow.

[109] **Mr Bermingham:** I don't know, in all honesty.

[110] **Julie Morgan:** You don't know that information. Because, obviously, the Scottish Government—. And I think that's probably—. I don't know whether that that deal has been agreed or not, but obviously Glasgow is—.

[111] **Peter Black:** I think we've got the Scottish Government coming to give evidence to us, so we can ask them about that.

[112] **Julie Morgan:** We can ask Scottish Government, yes.

[113] **Peter Black:** Do you want to move on to your questions?

[114] **Julie Morgan:** Yes, thank you very much. My questions were about collecting fiscal information and making sure we've got the information we need, and I think that's something you've recommended to the Scottish Government. I think that it's certainly been something that's come up in our inquiry in the Finance Committee—that we need more of this data. I don't know whether you want to expand on that.

[115] **Mr Bermingham:** Well, I suppose it's like if you were managing, dare I say, a commercial business or something like that: you would pay close attention to the financial information that you're getting, and obviously that would cover the whole entity. Simply what we're proposing, and what we did for Scotland prior to the referendum, was—. Obviously, with the whole of Government accounts, they can get a Scottish position on spending at a central Government level. What we did was go further than that and say, across the whole public sector, including local government, and so on, 'This would be your position'. Now, that raised some interesting figures for them in terms of their debt position and various other things like that, some of which was quite favourable when compared to England. But what we're saying is that, if you want to implement something like a prudential regime, borrowing powers—all that sort of thing that we talked about—you need that kind of information to manage it. So, having a kind of across-the-piece, public sector balance sheet, where you can look at the level of debt and what's affordable, and you've got that type of information to drive that and see how that's working—. Without that, I would say that those powers—you'd

be kind of managing them in the dark, in effect. So that's really the angle we're coming at. If you have those powers, you need the supporting financial information at that kind of level to do that.

[116] **Julie Morgan:** So, you think there should be a public sector balance sheet produced for Wales.

[117] **Mr Bermingham:** Yes, certainly.

[118] **Julie Morgan:** And how should the borrowing and taxes that are raised by local authorities be managed within the wider Welsh borrowing and tax system?

[119] **Mr Bermingham:** Well, I suppose they're already under a prudential regime. They're kind of used to running that. If you've got the total public sector balance sheet level there may be some impact in the sense that, if their borrowing levels are so high, it's limiting what you can actually add on to that as affordable borrowing. So in that sense there would need to be some way of their coming under the umbrella of whatever that fiscal framework that you put in place is. So, I could see that happening. I don't see much change, though, in terms of central Government saying to local government in Wales, 'You need to cap your borrowing at this level'. You just need to be assured that the prudential arrangements are in place and they're working fine. Usually that legislative arrangement does have a fall-back, where you can impose a borrowing limit if somebody does really get out of hand or anything like that, or gets into serious difficulty. There's usually always that fall-back. Aside from that, it is a self-managed system in that sense.

[120] **Julie Morgan:** Thank you. And the last question: how can the UK Government give devolved administrations greater certainty over their likely future funding?

[121] **Mr Bermingham:** Only if they move to longer-term planning, really. You'd expect the next spending review to cover at least the life of this Parliament, but certainly in the last couple it's been anywhere between a year and two years and so on. In that framework, I don't think you can have too much certainty. So, you do need a commitment to having longer-term financial planning. I would say five years would be a minimum to get some certainty.

[122] **Julie Morgan:** So you'd hope there would be a plan, say for the whole of the rest of this Parliament.

[123] **Mr Bermingham:** Absolutely, yes.

[124] **Julie Morgan:** At least five years.

[125] **Mr Bermingham:** Yes. I would suspect, with the Conservatives having a majority now, and after the Queen's Speech, their spending review probably would have that kind of timeline. But that's just a view.

[126] **Julie Morgan:** Yes. We'll wait and see.

[127] **Peter Black:** Just following on from that, we've got currently end-of-year flexibility arrangements that are slightly more limited than what we started off with. But, if you're going to have this multi-year planning system, what additional financial freedoms do the UK Government need to give us to make that possible for us?

[128] **Mr Bermingham:** Yes, they certainly need to look at end-of-year flexibility again, but I think the idea of you having reserve powers as well would be something to look at.

[129] **Peter Black:** Actually holding a reserve.

[130] **Mr Bermingham:** Yes, or the ability to designate reserves for certain purposes so they can be kind of justified, to an extent—you're not just having this huge pot in the general fund for Wales sitting there, but in order to facilitate long-term capital programmes or something else you can actually reserve moneys and set moneys aside. So, have that type of reserve power. Now, there may be a framework around that saying, 'Well, what's a reasonable size of a reserve to hold?'—so that you're not overtaxing your electorate and just swimming in money, as such—which I doubt you'd ever get to; that would be nice. So, there might be some kind of overall limit set on that or some kind of guidelines. I think the reserving idea is quite important to facilitate not only end-of-year flexibility but more longer-term planning.

[131] **Peter Black:** Would you say that's an essential part of any new financial settlement, or is it just a nice add-on?

[132] **Mr Bermingham:** No, I'd say it's fairly integral to it, yes.

[133] **Peter Black:** Okay. We've just passed an Act, the Well-being of Future Generations (Wales) Act 2015, which is a sentence in its own right, but one of the objectives of that is to set a policy framework that ensures that the needs of the present are met without compromising the ability of future generations to meet their own needs. Can that be incorporated into our Welsh fiscal system, do you think, that sort of principle?

[134] **Mr Bermingham:** I suppose the UK Government's attempt to do that is to say that debt will be falling over the cyclical lifestyle, that type of approach, in order to not burden future generations with excessive debt. I think the prudential regime does do that anyway. If you're setting an affordable limit, affordability is assessed on, really, what you can afford to pay. So, it's kind of built into that system anyway, and I think it does support that view that you've looked ahead, you've done longer-term planning, and you've assessed affordability. That fits in with that, I would say.

[135] **Peter Black:** Okay, thank you. Has anybody got any more questions? No? We've run out of questions, so can I thank you very much for giving evidence today? It's been very interesting and very helpful. You'll be given a transcript of what you said so you can check for any inaccuracies. Thank you, again.

[136] **Mr Bermingham:** Thank you, Chair.

10:42

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:

bod y pwyllgor yn penderfynu gwahardd y cyhoedd o eitemau 7, 8, 9, 10 ac 11 y cyfarfod hwn ac eitemau 1 a 2 o'r cyfarfod ar 17 Mehefin 2015, yn unol â Rheol Sefydlog 17.42(vi).

Motion:

that the committee resolves to exclude the public from items 7, 8, 9, 10 and 11 of this meeting and from items 1 and 2 of the meeting scheduled for 17 June 2015, in accordance with Standing Order 17.42(vi).

*Cynigiwyd y cynnig.
Motion moved.*

[137] **Peter Black:** We're going to move to private session now, so can I propose, in accordance with Standing Order 17.42(vi), that the committee resolves to meet in private for the remainder of today's meeting and also for items 1 and 2 of the meeting scheduled for 17 June 2015? Are Members content with that? Thank you.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10:42.
The public part of the meeting ended at 10:42.*