



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

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Iau, 25 Mehefin 2015
Thursday, 25 June 2015

Cynnwys
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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.

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)
Ann Jones	Llafur Labour
Julie Morgan	Llafur Labour
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives

**Eraill yn bresennol
Others in attendance**

Jeff Andrews	Cynghorydd Polisi Arbenigol, Llywodraeth Cymru Specialist Policy Adviser, Welsh Government
Yr Athro/Professor Gerald Holtham	Cynghorwr Arbenigol Exper Adviser
Jane Hutt	Aelod Cynulliad, Llafur (Gweinidog Cyllid a Busnes y Llywodraeth) Assembly Member, Labour (The Minister for Finance and Government Business)
Andrew Jeffreys	Cyfarwyddwr y Trysorlys, Cyllid a Gwasanaethau Corfforaethol, Llywodraeth Cymru Director Treasury, Finance and Corporate Services, Welsh Government
Ed Sherriff	Head of Fiscal Strategy, Welsh Government Pennaeth Strategaeth Cyllidol, Llywodraeth Cymru

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

Richard Bettley	Y Gwasanaeth Ymchwil Research Service
Bethan Davies	Clerc Clerk
Tanwen Summers	Dirprwy Glerc Deputy Clerk
Joanest Varney-Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser

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

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

[1] **Jocelyn Davies:** Good morning, then, and welcome to a meeting of the Finance Committee. I've had some apologies, from Alun Ffred Jones and from Mike Hedges, and I know Chris Chapman is about to join us. Before we start, will Members check, if you've got a mobile device, that it's switched to 'silent'? You don't have to switch it off, but if you switch it to 'silent', that would be most helpful.

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

[2] **Jocelyn Davies:** Before we go to our first substantive item, we've got some papers to note, which are minutes of previous meetings, and, of course, we've got a letter there from Treasury that I thought, perhaps, we could discuss later in the private session. Are Members happy to note those?

**Ariannu yn y Dyfodol: Sesiwn Dystiolaeth 4
Future Funding: Evidence Session 4**

[3] **Jocelyn Davies:** We'll move to our first substantive item and our future funding inquiry. This is evidence session 4. I'm delighted that we've got the Welsh Government with us this morning. Minister, would you like to introduce yourself for the record, and then perhaps we'll go straight to the questions?

[4] **The Minister for Finance and Government Business (Jane Hutt):** Thank you very much, Chair. Yes, I'm Minister for Finance and Government Business. I've got Andrew Jeffreys, who's the director of the Welsh Treasury, Ed Sherriff, who's head of fiscal strategy, and Jeff Andrews, specialist adviser.

[5] **Jocelyn Davies:** Thank you. In general, then, Minister, do you believe that the current mechanisms for financing the devolved administrations in the UK are sustainable in the long term?

[6] **Jane Hutt:** Certainly not. They're not sustainable in the long term, and I think many have said that outside of this Assembly and the Welsh Government, including, of course, the Holtham commission, but also the House of Lords and the House of Commons' Justice Committee. I think one of the most useful recent bits of evidence was the review undertaken by the Bingham Centre for the Rule of Law, which was really looking, importantly, at the implications of devolution for the UK as a whole, and particularly focusing on the fact that the Barnett formula does not provide or deliver equity between the various parts of the UK, and is not appropriate for the union's decentralised constitution.

[7] **Jocelyn Davies:** Okay. Thank you, Minister. Has the recent period of austerity highlighted any particular problems as to how devolved administrations are funded?

[8] **Jane Hutt:** It's very difficult in terms of reducing budgets and the difficulties with the 8 per cent cut in real terms to our budget over the last five years. Of course, we've now had, only in recent weeks, another £50 million off our current budget in-year, and we await, of course, the 8 July budget to see how we will fare there in terms of further possible budget reductions. Hopefully, we'll get some indication of the spending review timelines and impact, but I think, for us in Wales, it's absolutely clear. Although we've had tough decisions, we've had to be clear about priorities and we've had to mitigate UK Government cuts, but we know this underpins the need for our fair funding issue to be resolved. Of course, that's the most important thing in terms of protecting and funding our public services.

[9] **Jocelyn Davies:** Okay, thank you. Ann, shall we come to yours?

[10] **Ann Jones:** Thank you, Chair. The Scotland Bill proposes a range of additional revenue spending powers for Scotland, and Northern Ireland is also receiving additional powers over corporation tax and welfare. Do you believe any of the proposed powers could have a financial impact on Wales?

[11] **Jane Hutt:** Well, I'm looking carefully at the implications—and have been, indeed, since the Smith Commission, before the Scotland Act and then the Stormont House agreement—and also looking at the implications and the impact of the Scotland Act now. With that coming to fruition in terms of legislation, what would the impact be? What would be the implications for us in Wales? Well, you know that the First Minister and I have said that we should be offered anything and everything—even if we don't want to take them on—so all that's been offered particularly to Scotland but also to Northern Ireland. I think one of the concerns that we have is if you look at areas that we've been calling for, like APD. The fact that air passenger duty is being fully devolved to Scotland and long haul to Northern Ireland does have, we would argue, an impact on us, but it's clear that we have to look at all the implications and also recognise, back to my earlier point about our position, that we need a fairer funding deal.

[12] **Ann Jones:** Okay. Thanks. What legislative changes are required by the UK Government, then, to improve the consistency and transparency of devolved funding arrangements?

[13] **Jane Hutt:** Well, it'd be hard to argue against legislation to make sure that we're very clear about our funding arrangements. Of course, at the moment, everything rests in HM Treasury. You know, they are judge, jury and executioner in terms of our fiscal arrangements, so it's hard to argue against putting this funding arrangement into legislation. I have, in terms of my negotiations, said that the first step, for example to reflect the commitment to a funding floor and the implementation of it, could be put in a revised joint statement following the joint statement we secured in 2012 with the UK Government. We could revise that in line with the forthcoming spending review because, of course, that was part of the agreement, that we should visit this at each spending review time. It definitely would have to go into the statement of funding policy, and that, of course, is for all devolved administrations. That needs updating for everybody. I think what we need to do is be very clear about getting our fair funding and seeing legislation, but the starting point is a joint agreement and a statement of funding policy change.

[14] **Ann Jones:** Okay. Are there any potential financial impacts on the devolved administration of a move to an English rate of income tax, or English votes for English laws?

[15] **Jane Hutt:** The situation is that anything that happens in terms of tax, really, we need to look at implications for Wales. Of course, in Scotland, they are going to be moving to a Scottish rate of income tax, but I think it's very important that we acknowledge any changes. At the moment, we are all part of the England and Wales tax regime, and, indeed, Northern Ireland as well. We need to look at the impact of any changes, and that does relate to laws, and then spending impacts. It is the spending impacts that have the major impact, really, in terms of Wales, and we need to be very careful about this. This is why the complexity now, which has been identified by Bingham and all the other inquiries, shows that we have got to be very clear that, with any changes that will have an impact on Wales, we have to identify them and stand up for Wales.

[16] **Ann Jones:** Okay. Thank you.

[17] **Jocelyn Davies:** Minister, you mentioned air passenger duty. Are there any other taxes under consideration? Is the Government carrying out any work at the moment to underpin that?

[18] **Jane Hutt:** In terms of APD, I did raise this last week when I met with the Chief Secretary and the Secretary of State for Wales. As you know, that was one of the key recommendations that we were taking forward. As part of the St David's Day process as well,

we consistently were pushing for a commitment to a funding floor and APD, following the Silk commission recommendations, saying, well, you know, long-haul APD as a minimum. We even started to talk about intra-Wales APD. As you recall, in the St David's Day command paper there was an agreement that the Treasury should undertake a review of APD, but that obviously brings into play not just Wales's needs, but regional airports' needs. We did have a response from the Treasury last week that they are going to publish that review in the summer. I don't think we've had any more since then, have we?

[19] **Mr Jeffrey:** No.

[20] **Jocelyn Davies:** Okay. Putting air passenger duty to one side, are there any other taxes under consideration by yourselves? Because you could request other taxes to be devolved if you wanted to. Is the Welsh Government considering any other taxes other than air passenger duty? If so, is there any research or anything that's underpinning that?

[21] **Jane Hutt:** We're still awaiting— Apart from what is already under way in terms of consultation in terms of land transaction tax and landfill disposal tax, we still await, for example, the devolution of the aggregates levy that, in fact, has been held up in Scotland, in terms of the devolution, as well as in Wales. But, we will have the powers within the 2014 Act to look at new tax opportunities, and that is obviously something now that, as a Welsh Government, we are beginning to see what could be ahead of us in terms of opportunities. My absolute focus at the moment really is on the funding—securing the funding floor and securing what we asked for in terms of the St David's Day process. That was the funding floor and APD, very much reflecting what came from the Silk commission.

[22] **Jocelyn Davies:** So, the consideration of any new taxes— So, for example, on the carrier bags, that's a levy at the moment. I assume that it's not beyond the realms of possibility that that could be a tax in the future rather than a levy. These things are not a priority for you, then, any new taxes or—?

[23] **Jane Hutt:** I think they are a very important new opportunity and it is important that we have got those new powers. I'm sure that, in the Assembly and all parties, ideas for new taxes are already being mentioned. I think, just non-governmentally, there is discussion, which is very important regarding the prospects for new taxes. Of course, there are caveats about that in terms of Treasury, as usual. We have to get that. It's interesting to look at the Scottish situation, in that they're ahead of us and they've got the powers and they're not progressing with new taxes at this point in time. So, I think we've got quite a lot—

[24] **Jocelyn Davies:** So, this isn't a priority for you, and there's not a piece of work being done now considering new possible taxes.

[25] **Jane Hutt:** Where I'm taking it at this stage is to raise the question with colleagues in the Welsh Government and officials and say, 'In terms of future prospects, we need to start scoping for new taxes in terms of policy needs'.

[26] **Jocelyn Davies:** Okay. All right, then. Peter, shall we come to your questions?

[27] **Peter Black:** Yes; thanks, Chair. Minister, to what degree have recent developments such as the St David's Day agreement addressed the weaknesses in Welsh funding?

[28] **Jane Hutt:** I've probably commented already in terms of response to the St David's Day announcement and process. I mean, very clearly, very positive first step in terms of the introduction of a funding floor for Wales. Of course, we now press for implementation of that. Again, we've mentioned APD and the fact that Treasury has made a commitment to introducing a paper on that, and we're pressing for that. But also, I think one of the important

things to say, in terms of the St David's Day process, for which I was involved in discussions with the former chief secretary and the Secretary of State for Wales, in terms of what we were seeking, was that we were also seeking more funding flexibilities for Wales. Something that certainly was part of the Stormont House Agreement was to give them more funding flexibilities. That's something that is very important to us in terms of managing our budgets in the future. I think the key thing for me in terms of the St David's Day announcement was the funding floor.

09:15

[29] **Peter Black:** Is the move to a reserved powers model going to have any financial impact?

[30] **Jane Hutt:** It shouldn't directly impact on the financing model in terms of reserved powers. It's interesting that this came up yesterday in the debate in terms of questions about the reserved powers and what this would mean. I know the First Minister is engaged with this in very early discussions with the UK Government to assess the entire Wales Bill in terms of the movement to a reserved powers model. But, it should not have a direct impact on the financing model.

[31] **Peter Black:** Would you, for example, envisage the creation of a distinctive legal jurisdiction and would that have an impact on the funding that we have?

[32] **Jane Hutt:** We don't think that that would be necessary; it doesn't have to be accompanied by a separate legal jurisdiction.

[33] **Peter Black:** Okay. It seems to be accepted that the devolution of tax and borrowing powers will require the strengthening of the finance function within the Welsh Government, and, of course, there has been talk of a Welsh Treasury. Can you describe the changes that have been made and progress towards having the right institutions in place, and what gaps still remain?

[34] **Jane Hutt:** We do have our new Welsh Treasury and our director of the new Welsh Treasury is sitting beside me here. I think it would be appropriate perhaps, Andrew, if you said a few words about how you're developing the Welsh Treasury and the capacity.

[35] **Mr Jeffreys:** Sure. Yes, you're right: we definitely need some additional capability within the Welsh Government in light of these changes, particularly in relation to tax policy, operational policy for tax collection and management, and fiscal analysis so that we can produce high quality forecasts of tax receipts. So, there are some new things that we're going to have to be doing in the future that we haven't done in the past, and so that means we need some additional capability.

[36] But, we're probably talking about a relatively small additional requirement here. It's difficult at this point to say exactly how many people we'll need in steady state if we ever get there, but we're talking about a relatively small new unit within the Welsh Government. Probably a bigger implication is that there'll need to be collection and management arrangements for the devolved taxes that will be outside the Welsh Government. You've probably got more numbers of additional people required to make sure that the money comes in and making sure there's proper customer service, and all that kind of thing. Again, by the standards of public sector organisations, you're talking about relatively small numbers. Revenue Scotland is about 40 people and I would expect the Welsh collection and management function to be probably a bit smaller than that perhaps, or a similar kind of size. So, yes, we do need some new capability, but we're talking about relatively small numbers. The challenge will be finding the right kind of people to do this work—making sure they've

got the right skills and that they fit into the other bits of Government in Wales in the right kind of way.

[37] **Jane Hutt:** It might be helpful just to say, in a very positive way, that we have got staff in the Welsh Treasury working on innovative finance, economic analysis and advice, invest-to-save, the new tax policy and legislation programme, and fiscal analysis and forecasting. So, we're already able to use this expertise, but obviously this is going to develop. As Andrew said—and I think later on you'll be hearing more about the Welsh revenue authority—the development of a Welsh Treasury is a core priority of the Welsh Government.

[38] **Peter Black:** And you're confident that any gaps are being plugged in terms of what you need, or is there anything you still have to do that you haven't got round to doing yet?

[39] **Jane Hutt:** I think we're fortunate in that I set up a very robust tax advisory group. There is a tax experts group as well. So, we've got plenty of experts, often from the tax, legal and financial world. It's very important as well that we try and help enable this Welsh Treasury and understanding of its functions to be widely understood, so that, on the tax advisory group, we've got the Bevan Foundation and we've got business representation and we've got the third sector and the Law Society and the Trades Union Congress. You will have seen my more recent Welsh Treasury paper updating on the role and function and developments. But, one of the things that's going to be very important about us developing with our new powers is that it's not seen to be some remote, inaccessible and technically focused regime in Wales; that we've got to make it open, accessible and transparent. I think it's going to be very important when we make appointments to the Welsh revenue authority that it's representative of Welsh society and it doesn't have to be lawyers, accountants and tax experts—there may be some of those. *[Laughter.]*

[40] **Peter Black:** It strikes me, Minister, that an open and accessible tax collection system is an innovation where Wales will be leading the way. *[Laughter.]*

[41] **Janet Hutt:** We may make it; you never know. *[Laughter.]*

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

[43] **Nick Ramsay:** Yes, thanks, Chair. You talk about being representative of society, and I was just listening to some of the groups you mentioned—the TUC, the Bevan Foundation et cetera. What about businesses? Will you be having any representation from the Federation of Small Businesses or similar organisations?

[44] **Jane Hutt:** Oh yes. I said business, but that does include, in the tax advisory group, the Confederation of British Industry, the Institute of Directors and the FSB. Also, they've been very proactive in inviting me to come and talk to groups of businesses, so I've talked to the CBI north Wales committee. Recently, the IoD had brought together some of their members for a business breakfast to talk about the impacts of new tax powers in Wales and I think that went down very well. The Law Society is also bringing in a wider range of businesses that perhaps will be more engaged in this, but there's plenty of engagement and commentary with business. I think, actually, when we go on to looking at the tax collection and management Bill and then the new devolved small taxes Bills, you'll see that, in the responses to consultation, there was a strong response from business, particularly to the land transaction tax and to landfill disposal tax, and on the tax collection and management—that has had an influence. But, we have got to make sure it is rounded and balanced and that we do try—. I think you're probably aware that the Bevan Foundation has got some funding from the Rowntree Trust to look at the social impacts of the new tax powers for Wales, which is a useful project I'm sure.

[45] **Nick Ramsay:** From our discussions here, I think we're all aware that treasuries don't necessarily have the most approachable of images always. I choose my words carefully, so I would imagine you've had some interesting feedback from some of these organisations, such as CBI, as to how you might want to form the Welsh Treasury in a different sort of way.

[46] **Mr Jeffrey:** It's an interesting point you make because I'm just thinking of an event we went to recently with the National Association of Estate Agents, where they said very explicitly to us that the Treasury and Her Majesty's Revenue and Customs have never turned up for anything like this before. The message we've been getting very clearly from the Minister is to get out there and talk to people, and people are very interested in talking to us, which is great—there's lots of expertise and knowledge out there that we need to help us make sensible policy here.

[47] **Jocelyn Davies:** Sometimes, it's the culture of an organisation that's difficult to change later. So, you're starting off with a different culture right at the beginning. Is that what we are hearing, Minister?

[48] **Jane Hutt:** Yes. I hope you're already experiencing the quality, range and character of the Welsh Treasury officials who are coming, and you'll be meeting more shortly when you have your technical briefing. I think it's a very exciting time, but I think you're absolutely right, it's a strong message—

[49] **Nick Ramsay:** He doesn't look excited; he looks terrified. [*Laughter.*]

[50] **Jane Hutt:** I've got a message for Andrew, he's got to get the right—[*Laughter.*]

[51] **Jocelyn Davies:** Well, if you're very conscious of that at the beginning, I think it probably does help because I agree with Nick's point. Peter, have you finished your questions?

[52] **Peter Black:** No. I've got another question, if that's okay, Chair. The UK Government has claimed that Wales has now received 116 per cent of UK average funding for devolved functions. That's the approximate level that the Holtham commission identified was required. Do you agree with the UK Government's calculations, which indicate that we're no longer underfunded?

[53] **Jane Hutt:** Well, of course, we agreed, as I'm sure we all do around this table, with the Holtham commission findings that, in the past, Welsh Government has been underfunded compared to its need, but, obviously, there has been some divergence in relative funding since the commission's report. And we know why: because of the regime of cuts over the past five years. So, as you recall, I mentioned the 2012 joint Government statement in which we said that we would take stock at each spending review period. Well, the last spending review period was 2013, and, in fact, Danny Alexander and I met to look at the Treasury analysis, and it did put our budget then within the range of comparability with needs that had been identified by the Holtham commission between £115 and £117, and we did, actually—although I don't think anyone perhaps noticed it at the time—issue a written statement acknowledging that we were not in a position of convergence at that spending review point. But I think the main point is that convergence will occur once spending increases, and I think that's where we now need to look to our future, and why we need to get the floor in place.

[54] **Peter Black:** So, your priority now, having established that we have parity, is to keep us there.

[55] **Jane Hutt:** Well, you know, once spending starts to rise—. And I think that's where

the forthcoming spending review is very important, because, if you look at the Conservative manifesto predictions, then spending is likely to start rising within this spending review cycle before 2019-20. That's why we've got to have the floor in place. What's so important is that Gerry—and it's great to see Gerry here today—was able to provide us with the analysis and then put it in the right place and give us the mechanism to address the prospect of future convergence.

[56] **Jocelyn Davies:** So, obviously, this is something where, okay, you might accept the analysis at the moment, but, in the future, as you've mentioned, that could change. So, what procedure is going to be in place to review that, and how often should it be reviewed?

[57] **Jane Hutt:** Well, we did get that agreement in 2012, and recognition that there has been convergence. In fact, it is useful actually to look back at the words again in terms of that statement. The UK Government accepted

[58] 'that there has been convergence in Welsh relative funding since the start of devolution'—

[59] it was very hard to get those words on a piece of paper from the Treasury—and that

[60] 'the overall trend of convergence is very likely to reassert itself once spending starts to increase.'

[61] That was accepted by Treasury in 2012, and accepted that we should then, at each spending review period, revisit the situation. It may be worth, for the committee, just circulating the words in that statement again, because it also talks of—I think it's that the two Governments should look for a mechanism to address this. We couldn't get them to use the words 'funding floor' at the time, but I think those were the words, weren't they?

[62] **Mr Jeffrey:** I think so, yes.

[63] **Jane Hutt:** Shall we circulate that again? You've probably got it.

[64] **Jocelyn Davies:** Yes, because it would be good to know: what happens then—so, what would the outcome be?

[65] **Jane Hutt:** Yes. The key point of getting that recognition that convergence has an impact on Welsh relative funding was the major breakthrough, but the next major breakthrough is to get the Government—and it was in all the manifestoes—to agree that the funding floor is the mechanism. So, that's why it's such a critical point now that we're in, to say that we're into—. And my meeting last week with the Chief Secretary was to say: I would like to see, in the autumn, a new statement that tells us and everyone how we're going to implement the funding floor.

[66] **Jocelyn Davies:** Okay, Peter? Julie.

[67] **Julie Morgan:** Yes, thanks. I was going to ask you about what progress had been made in agreeing the operation of a funding floor, but I think you've probably answered that. I don't know whether you've got anything else to add to that.

[68] **Jane Hutt:** Only just to say that we did have a very constructive and good meeting, and what was important is that I met with the Chief Secretary and the Secretary of State together, so that we can progress on this. The next step is to have a joint exchequer committee. It is part of the Wales Act 2014 that we have this joint exchequer committee. In fact, that consists of the Chief Secretary, the Financial Secretary to the Treasury, myself and

the Secretary of State for Wales. I'd like to have that next meeting before recess, so that we can take the next step forward, because the spending review is not far off.

[69] **Julie Morgan:** Then, if the floor is agreed, and, hopefully, we're moving on, would the Welsh Government then support the devolution of income tax?

[70] **Jane Hutt:** I think the key point—and Silk was really very important about this in terms of their recommendation, very clear, and, of course, that was a cross-party commission, and the quote, the recommendation, which I carry around with me from Silk is:

[71] 'the transfer of income tax powers to the Welsh Government should be conditional upon resolving the issue of fair funding in a way that is agreed by both the Welsh and UK Governments.'

[72] I do think, and it's very clear, that if we can secure a funding floor that's fair and halts future convergence, then a fundamental concern about the devolution of income tax will have been addressed.

[73] **Julie Morgan:** Do you think that the argument for income tax, of accountability, is a very thin argument?

[74] **Jane Hutt:** That's something that the Silk commission spent much time considering, in terms of the issues around accountability. Within the scope of our powers, we feel that we have had a level of accountability and transparency in terms of how we manage our block grant and how we're scrutinised and held to account for it. But, clearly, we need to think about having the tools for the job and the powers that we need at every level, in terms of managing our public finances, which is a slightly different point of the argument about tax-varying powers. Because I think this is where we've had to be absolutely clear, and I will repeat this: unless we get fair funding, having tax-varying powers could put us at a great disadvantage, because, even with the tax-varying powers that are recommended by Silk, 80 per cent of our budget would still be through the block grant. So, we've got to sort the block grant. But, in terms of accountability, as we develop and progress through devolution, I think we must embrace as much accountability and openness as possible, so that the people of Wales can really see and feel that we are representing them in terms of budgetary decisions.

[75] **Julie Morgan:** I find it hard to imagine the Welsh Government actually lowering or raising taxes, because there doesn't seem to be much incentive really to do that, because we've got such a small middle class, relatively, that I wonder—. I don't know whether you've got any comment on that, because I do find it hard to imagine anything actually being done in terms of varying income tax.

[76] **Jane Hutt:** Yes, Scotland has had powers since 1999 and hasn't done anything with them. So, the question about accountability and then using those powers I think is tied-up, actually.

[77] **Julie Morgan:** To go back to the funding floor, will the introduction of a funding floor for Wales, but not for other countries, lead to more difficulties in terms of operating the Barnett formula?

[78] **Jane Hutt:** Over the years—and it has been five years of working towards a funding floor—I have discussed this on many occasions with colleagues: finance Ministers in Scotland—well, the same finance Minister in Scotland indeed, John Swinney—and finance Ministers in Northern Ireland. I think the important thing is to recognise that the funding floor is a tweak of Barnett for Wales. It doesn't have an impact on the other devolved administrations. It's part of the mechanics; it's about how they implement the Barnett

formula, in terms of the mechanics and consequential. Indeed, that's something that the Holtham commission and others have looked at carefully, in terms of impacts. It is an adjustment for Wales. I don't know if you wanted to say anything, Andrew.

[79] **Mr Jeffreys:** I suppose the only thing to add is that there have always been differences in the way that the Barnett formula operates between the different parts of the UK. There is a common core, I suppose, but there have always been exceptions for the different regions, the different countries, of the UK. So, for example, the way that non-domestic rates have been treated in the Barnett formula has been different between Wales and Scotland and Northern Ireland. And there are other quite significant differences in the way Barnett operates, and so, this would just be one additional difference on top of the many existing ones.

[80] **Julie Morgan:** So, you think it would work.

[81] **Mr Jeffreys:** It could.

[82] **Jane Hutt:** One of the questions that was raised in the St David's Day process, actually, was this question about, 'What does this mean—your call for the funding floor for everyone else?' I met with John Swinney, I remember, during that period. It was after the Scottish referendum. There is a question of, 'As long as you don't take money away from us', but, you know, it was respect. There is a recognition that Wales has been disadvantaged—an authoritative recognition, as a result of Gerry's commission. I think that has put us in very good stead to have that authority for our needs, and the fact that we've been disadvantaged. Of course, in the end, that has resulted in cross-party commitment to address it.

[83] **Julie Morgan:** Then, to go finally on to borrowing powers, obviously, we've got some borrowing powers, but they are pretty limited. So, what sort of amount would you be aiming for?

[84] **Jane Hutt:** Well, we have consistently said—and again I said that as part of the St David's Day process—that we should have greater borrowing powers. I think it was part of the debate with the Wales Bill. I think there were amendments calling for higher levels of borrowing powers. In fact, when I was making my representations as part of the St David's Day process, I said that our capital borrowing ceiling should be increased to £1.5 billion, and the annual limit on capital borrowing would rise to £250 million. I said that because I felt that this put us in accord with the Scottish borrowing limits, but also that we need this to invest in our infrastructure.

[85] **Julie Morgan:** So, any further borrowing powers you would see going to infrastructure.

[86] **Jane Hutt:** Yes. We've got our Wales infrastructure plan, and I made a statement, of course, this week about that with the annual report. The fact that we haven't had borrowing powers is probably—and we've been here for 16 years—the biggest sort of deficit in terms of devolution. We have had to turn to all the others who have borrowing powers—local government and registered social landlords—to support them in our borrowing powers. Obviously, we've got our £500 million, but we know that we need more and we think we should be entitled to more.

[87] **Julie Morgan:** Yes. And what about a system for prudential borrowing? Would you think that that would be appropriate?

[88] **Jane Hutt:** That's something where, obviously, we can understand that—local authorities have had prudential borrowing powers, and, in fact, the Smith Commission also

recommended a prudential borrowing arrangement for Scotland. It's not in the Bill, is it, the Scottish Bill, I don't think?

[89] **Mr Jeffrey:** No. I don't think so.

[90] **Jane Hutt:** But I think they're negotiating that and it's worked well for local government, so we could see a similar system working well for Welsh Government.

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

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

[93] **Peter Black:** Thank you, Chair. The Scottish Government has set up a fiscal commission to consider aspects of tax policy, including relations with local government and reforms of local taxes, such as council tax and non-domestic rates. I know that the recent local government White Paper effectively deferred any further consideration of that particular issue. Does the Welsh Government have plans to review these and other taxes, and would you be doing it privately or through public consultation?

[94] **Jane Hutt:** I think it is important that we look to what Scotland is doing in terms of the Scottish Fiscal Commission. Just in terms of our current fiscal position, we do look to the Office for Budget Responsibility, and, for example, it's publishing forecasts of taxes to be devolved in Wales, as you know, in line with the Wales Act 2014. And we do need to—and we've just been talking about the role of the Welsh Treasury—establish robust methods for accurately forecasting tax revenues. But I think, in terms of developing the expertise and looking also at the work that we've developed following the Holtham commission—that was helpful in terms of the first Silk report and the Wales Bill.

[95] **Peter Black:** But in terms of inheriting these taxes and some blue-sky thinking about whether these taxes appropriate for Wales in the twenty-first century, and whether we can change them to doing things better and differently—is that on the Government's agenda?

[96] **Jane Hutt:** We've got to look at all options, haven't we, and I'm sure the committee is going to have a strong view on this as well?

[97] **Peter Black:** Well, I have.

[98] **Jane Hutt:** We've got to be able to validate and scrutinise tax forecasts, you know, because this is all about informing our budgetary plans. We've got to look at the prospects of establishing our own fiscal commission.

[99] **Peter Black:** Okay. Well, the First Minister's done a bit of blue-sky thinking himself; he talked about the need for an independent needs assessment in a recent speech as part of a fair federalism funding model. How does the Government envisage that—

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

[101] **Peter Black:** I'm not going to say it again. [*Laughter.*] How does the Government envisage that funding system operating?

[102] **Janet Hutt:** I think it's very important. That speech on fair federalism I'm sure struck a chord with many, as, certainly, there was a very good response. This does go back, doesn't it, ultimately, to the reform of Barnett, and the fact that we do need to move towards an independent needs assessment? And I think one of the important things about what he was saying is that he was saying, 'We want to be fair to Wales, but we want to be fair to the rest of

the United Kingdom as well.’ He was suggesting that the devolved administrations should retain revenues from devolved taxes and then combine pan-UK taxes to share and fund public services to meet people’s needs. But it does go back, and it’s a very clear link, to what revenues are being raised and where and how you then can equalise resources in relation to need. In fact, he said yesterday, I think, in summing up in the Queen’s Speech debate, again, that Barnett should go and we should move to a needs-based assessment.

[103] **Peter Black:** But, of course, the Welsh Government has also been at the forefront in saying, ‘We need a constitutional convention’, and this fair federalism funding model is going to be a key part of that, isn’t it? So, has the Welsh Government done any work in terms of what its input into such a constitutional convention would be?

[104] **Jane Hutt:** I think the First Minister can be credited for starting the whole discussion and the proposal for the convention—

[105] **Peter Black:** Is he going to finish it?

09:45

[106] **Jane Hutt:** Clearly, he’s made a number of speeches and he’s also discussed this and presented this to the UK Government, and discussed it with the Prime Minister as well. I think that others also, now, have come on board in terms of the opportunities for a constitutional convention, and I think it’s very important that Wales and the First Minister have led the way on this. But I think it’s very clear, and I think it goes back to—and it’s in my written evidence—the fact that, you know, we’ve got the House of Lords constitutional committee inquiry looking at these issues as well and recognising that there has to be—. This cannot just be a fix for each of the four nations, as the Prime Minister said. This has got to be a whole-UK approach.

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

[108] **Nick Ramsay:** Thanks. In answer to Peter Black’s question, you touched on the issue of a fiscal commission—potentially having a fiscal commission for Wales. Obviously, they are going down that line in Scotland. What are your thoughts on that? Do you think it’s likely that Wales will end up with a fiscal commission, or would we do something different?

[109] **Jane Hutt:** I think it’s useful to see how, you know—who is involved at the moment or who can play a part in terms of the future, in terms of understanding where we need to be, particularly in terms of forecasting. I know you’ve had evidence from the Office for Budget Responsibility to this committee. So, I mean, it’s important just to take note of the fact, again, that the UK Government’s asked the OBR to forecast Welsh receipts for the taxes that are going to be devolved in 2018, and that it publishes its forecasts of those taxes. In fact, that started last year—the first forecast. They are going to be updated as well with the March 2015—. They were updated then. So, I mean, we’re also forecasting revenues, of course, from the taxes, and we’re working with the OBR in terms of how we can have confidence in those tax forecasts. So, I think the OBR is an important body to work with, in terms of the arrangements. But we can also see—

[110] **Nick Ramsay:** There has been a—

[111] **Jane Hutt:** What role is the Scottish Fiscal Commission going to play? Are they doing that because—

[112] **Nick Ramsay:** There has been a suggestion you could have a UK-type fiscal commission. I mean, we could all pool into it, rather than having individual commissions,

particularly with the expansion of devolution within the English regions.

[113] **Jane Hutt:** Well, Scotland have made their pathway quite clear, haven't they?

[114] **Nick Ramsay:** They often do.

[115] **Jane Hutt:** I think Scotland wants to have its own fiscal commission. I don't think it was very happy with some of the forecasts, for example. They weren't very happy with the independent Institute for Fiscal Studies, if you recall, back during the referendum time. So, I think they want their own body. But, actually, the OBR is playing that kind of role, isn't it, in terms of a UK-wide fiscal body?

[116] **Mr Jeffrey:** That's certainly the intention of the OBR. It's a UK institution, not a Treasury creature. It's supposed to be a UK institution. But, as the Minister said, the Scottish Government doesn't see the OBR as independent of the UK Government.

[117] **Nick Ramsay:** Is that because they don't like the OBR's forecasts?

[118] **Mr Jeffrey:** I suppose you'll have to ask the Scottish Government that. Forecasts are—. You know, it's an important area of work, obviously, and it's not a science. There's a high degree of subjectivity involved in making forecasts. It's very easy to disagree with the assumptions that underlie forecasts, and having your own independent thing—there's a certain attraction to that. There are couple of different attractions, probably, one of which would be: well, you've created that thing so you can't rubbish its forecasts, whereas it's quite easy for the Scottish Government to disagree with the OBR because it's not their creation. So, I think there are some technical issues but also political issues there, I suppose.

[119] **Jocelyn Davies:** But surely, if you are going to disagree with the forecasts, you have to do it other than saying, 'I don't like who set you up.' You have to say, 'I'm disagreeing with you because of the evidence you're using. I don't agree with that because of—.'

[120] **Nick Ramsay:** That's very progressive of you, Chair.

[121] **Jocelyn Davies:** Well, otherwise, who's going to take any notice of your disagreement, unless you can give some sort of evidence—? And the OBR welcome people questioning the way that they've carried out their forecasts, don't they?

[122] **Mr Jeffrey:** Yes, absolutely. They're very—. I mean, the degree of transparency now around fiscal forecasting, compared to five or six years ago—. Significantly more information is published about how forecasts are arrived at and all that kind of thing, so I think that's right.

[123] **Jocelyn Davies:** You can soon tell if somebody's forecasts are any good, because sooner or later, you've got to stand by your forecast, because whatever you were forecasting has happened.

[124] **Mr Jeffrey:** Yes.

[125] **Jocelyn Davies:** And you were either right or you were wrong.

[126] **Mr Jeffrey:** Well, forecasts are always wrong, one way or another, but—

[127] **Jocelyn Davies:** Well, that's true if it's the weather.

[128] **Mr Jeffrey:** —the question is 'Where do the errors arise from?' and the OBR are

pretty transparent about that, I think.

[129] **Jane Hutt:** I think one of the important things, as you say, Chair, is that the OBR welcomes challenge and checking and if we're using OBR, Welsh Government should check and challenge what their forecasts are. Equally, if we were doing the forecasts, they'd be certainly checking and challenging ours.

[130] I think there is an issue about when, about pace and capability, and expertise and credibility. And, at this point in time, what I think we're saying is that the OBR should be able to play this role effectively for us, in terms of the early days of further powers of tax devolution. But then, you know, we're open to considering this in the future in terms of a Welsh fiscal commission.

[131] **Nick Ramsay:** What inter-governmental arrangement should be adopted to negotiate and manage the framework of devolved spending and tax arrangements?

[132] **Jane Hutt:** Well, this goes back, I think, to earlier on, when I was talking about the statement of funding policy and the fact that we've got—. Actually, this is a very interesting question, because we haven't had a quadrilateral since, I think—

[133] **Mr Jeffreys:** 2013.

[134] **Jane Hutt:** —2013, because of the pace of change in terms of devolution and fiscal devolution—. Finance Ministers have been meeting regularly with the Chief Secretary, and since the Scottish referendum, there has not been an opportunity for us to come together. The statement of funding policy is very out of date and, clearly, I've asked, in my representations to the former Chief Secretary, for us to now reconsider a UK fiscal framework, because it's not clear now—and it does go back to some of the earlier questions that we've had this morning—and it is unravelling. There isn't that kind of fundamental statement of funding policy about the devolved administrations and their fiscal arrangements.

[135] **Nick Ramsay:** Thanks.

[136] **Jocelyn Davies:** Just to clarify that. Did you say one of the reasons that you haven't been meeting is because change has been happening quickly—because of the pace of change? That would seem to be an argument for meeting more frequently, not less frequently.

[137] **Jane Hutt:** Absolutely. But what is happening is that it's becoming a bilateral arrangement. I know, for example, that I was meeting the Chief Secretary on Monday, I think the finance Minister from Scotland had met him the week before, and he is meeting the Northern Ireland finance Minister next week, and it's started to emerge that there are bilateral arrangements between the UK Government and each devolved administration. Quite understandably, we're all going to want to be there and make sure that our representations are made. But I think that future funding and fiscal arrangements, for us, now, in Welsh Government, have to be basically with the UK Government. I've mentioned the joint exchequer committee—that is our forum—and Scotland's got one. So, those inter-governmental arrangements, really, have become very bilateral. But, I think, going back to the sort of constitutional convention and the way forward—all of these questions—it just points more and more to the fact that we're unravelling with no regime of understanding and respect in terms of the fiscal arrangements.

[138] **Nick Ramsay:** That ties in with the call for a constitutional oversight.

[139] **Jane Hutt:** Absolutely, yes, and because, tomorrow, for example, I'm meeting with the new Northern Ireland finance Minister because I've sought a meeting with each of the

finance Ministers as early as possible after the election. She's coming over from Belfast, and I'm going up to Scotland in August to meet the finance Minister. Probably, the three of us will meet together to discuss issues of common interest and purpose, and then we're all bilaterally meeting with the UK Government.

[140] **Nick Ramsay:** Have the quadrilateral meetings disintegrated, for want of a better word, because the different areas, the different nations, are moving at different rates fiscally? Or is it more that it's just too awkward to have them all in the same room with competing plans?

[141] **Jane Hutt:** No, you can always find a date in the diary to get people together if a meeting is going to be important. Obviously, there are a number of joint ministerial committees going on. The joint ministerial committee on Europe, which I sit on, meets regularly; it's timetabled and it happens. So, my call for a quadrilateral has been—and all my letters for the last two years, because I do believe that—. This is where the UK Government, I would say, Nick, has really got to now take this forward and take ownership of the fact that we haven't got—you know, that this is in danger of disintegrating without those intergovernmental arrangements, which did work. At quadrilaterals, we talked to the chief secretary about forthcoming budget statements, spending review arrangements, we talked about disputes, we spent some time talking about the impacts of UK Government fiscal policy on us all separately and jointly. They were very valuable meetings.

[142] **Nick Ramsay:** In view of what you've just said, do you have any concerns over the financial consequences for the rest of the UK—Wales—of further devolution to English regions and local authorities? I know that's at an early stage, but we're seeing significant devolution proposals now for areas like Manchester. So, what you've just described as a complexity with the current situation could become far worse if you've then got competing demands from regions and cities in England as well.

[143] **Jane Hutt:** Yes, this is one of the issues that is very important at a quadrilateral to focus on. There has been so much development. I would say some of that has taken place over the last two years and we haven't had the opportunity to comment on it. But, clearly, my response to this, as a Welsh Government finance Minister, is to say, 'Don't forget us. What about us?' and to focus on what our priorities are. So, you end up with this sort of bilateral engagement between each devolved administration, because I know John Swinney will be doing the same, as Northern Ireland will as well. We need to make sure that, if powers are given to the Northern Powerhouse and Manchester and fiscal powers are being considered—and I think London is raising its aspirations—we've got to make sure that our first-and-foremost priority, in terms of getting our fair funding settlement, is in place.

[144] I think the other thing is that, once, for example, a city deal was announced in Glasgow, I immediately wrote to Danny Alexander, at the time the chief secretary, and said, 'What about Wales? What about us? Are we going to get a consequential?', and he, as a result of that, then initiated meetings for myself and officials with the Cabinet Office, and, of course, we're moving on from that in terms of our engagement with the city deal that's hopefully developing with Cardiff and the south-east Wales authorities. So, you know, at the moment, the problem is that it's piecemeal. It's not coherent.

[145] **Nick Ramsay:** We took evidence from a—I can't remember his name, sorry—devolution expert in the session last week.

[146] **Jocelyn Davies:** Alan Trench.

[147] **Nick Ramsay:** Alan Trench—that's right—who described the different funding systems across Europe. He mentioned the German system, where you have transfers—rather

than through the federal Government, you have direct transfers between the Länder in Germany.

10:00

[148] **Jocelyn Davies:** Would you like to raise that with John Swinney—

[149] **Nick Ramsay:** You don't think there's any chance of a direct transfer from the Scottish Treasury to the Welsh one in the near future. [*Laughter.*]

[150] **Jane Hutt:** I shall take that with me.

[151] **Jocelyn Davies:** Julie, did you have a supplementary on this?

[152] **Julie Morgan:** On the city deal, which I welcome very much, do you think there's almost a case for having a city deal—it's not a city—for the whole of Wales, so that you have additional money for economic development, which—obviously there's not much Barnett consequential on that, is there? So, I just wondered whether that might be something that could be considered.

[153] **Jane Hutt:** I think it is important because when the Glasgow city deal did include new money on top of the Barnett formula, new money from the Treasury, it obviously also required new money from the Scottish Government as well, money to be—and the local authorities. But it's extra funding for Scotland. That's why it's so important that we get our city deal for Wales, so that we get—. For a purpose, it's got to be for a purpose.

[154] **Jocelyn Davies:** But it didn't go to Scottish Government, did it?

[155] **Jane Hutt:** No. On top of—

[156] **Jocelyn Davies:** It was money UK Government—which is UK Government—spent in Scotland.

[157] **Jane Hutt:** And Scottish Government money alongside it.

[158] **Jocelyn Davies:** Alongside it; committed Scottish Government—. We do have some questions for you on the city deal, but I think we're going to have to write to you with those, because we've slightly overrun. Chris, I know you had some questions. Shall we go straight to those?

[159] **Christine Chapman:** Yes, okay. I just wonder, Minister, what additional financial freedoms could be given by the UK Government to help with multi-year planning beyond the current budget exchange system?

[160] **Jane Hutt:** This is something that, as part of the St David's Day process—and learning also from the Stormont agreement—I pressed for: funding flexibilities. In fact, I could, if it would be helpful, Chair, share with you exactly what I asked for. It does include greater flexibility in transferring funds between capital and resource, provisions for budget exchange, the ability to draw forward capital budgets. Actually, Gerry, in the commission, also looked at the importance of these flexibilities. But would it be helpful if I forwarded it to you? Because that's what I'm continuing to negotiate for.

[161] **Christine Chapman:** What about reserves? Do you think that the ability to hold reserves would be essential if Welsh Government is to properly manage its own funding? Is that included?

[162] **Jane Hutt:** Yes, the ability to hold reserves and—. Also, we no longer have end-of-year flexibilities; we now have this budget exchange mechanism, and we feel there should be more carry-forward of unspent funds over time. That's one of the things I'm calling for in terms of funding flexibilities. We now have, through the command paper in the Wales Act 2014, a cash reserve, and that's vital to manage volatility, which will follow tax devolution. But, clearly, the reserve is vital to us.

[163] **Christine Chapman:** Can I just ask, finally, about the Well-being and Future Generations (Wales) Act 2015? Obviously, the basic principles of that are about the needs of the present being met without compromising the ability of future generations to meet their own needs. I just wonder how you feel this principle can be incorporated into a Welsh fiscal system.

[164] **Jane Hutt:** Very important—the Well-being and Future Generations (Wales) Act 2015 is now helping to steer our budgetary process. We're preparing for the spending review and we've got various cross-governmental working groups around the key spending areas, and we're asking them to look at the key indicators of the seven goals of the future generations Act to sort of underpin the way forward in terms of policy direction for fiscal decisions, and focusing on things, as you know, through the wellbeing Act. This committee is very interested in the preventative focus. So, I think it is going to be very useful.

[165] **Jocelyn Davies:** Okay, well we have run out of time, but not out of questions. So, we'll send those to you, Minister. We'll also send you a transcript, as usual, if you would check that to make sure it's accurate and then we'll be able to publish it.

10:04

**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.

[166] **Jocelyn Davies:** I now move the motion under 17.42 that we go into private session to discuss the evidence. Thank you.

Derbyniwyd y cynnig.

Motion agreed.

*Daeth rhan gyhoeddus y cyfarfod i ben am 10:04.
The public part of the meeting ended at 10:04.*

