HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Ms Jocelyn Davies
Chair of National Assembly for Wales' Finance Committee
Cardiff Bay
Cardiff
CF99 1NA

10 May 2012

Dear Jocelyn,

NATIONAL ASSEMBLY FOR WALES'S FINANCE COMMITTEE AND DEVOLVED FUNDING

Thank you for your letter dated 27 March and subsequent email from the Clerk to the Finance Committee and my officials on the 26 April.

2. With thanks for your understanding on the time it has taken for me to come back to you, please see below for further detail in response to each of the queries you raised.

3. **A comparison of the existing borrowing powers of the three devolved administrations under the existing Statement of Funding Policy**

Currently, local authorities in Wales and Scotland have borrowing powers under the Local Government Act 2003. The Northern Ireland Executive has borrowing powers under the Northern Ireland Loans Act 1975 and the Northern Ireland Miscellaneous Provisions Act 2006 in lieu of its local authorities. This is limited at £200m p.a. which can be used to fund capital expenditure and is agreed with the Treasury at every Spending Review.

All three of the Devolution Acts – Scotland Act 1998, Northern Ireland Act 1998 and Government of Wales Act 2006 make provisions to enable the Devolved governments to borrow to manage short term cash flow. They also all benefit from UK Government borrowing that is undertaken to fund capital investment throughout the UK.

The current situation in respect of borrowing powers is therefore one of parity across the devolved administrations.

The Scotland Act 2012 introduces a new borrowing regime for Scottish Ministers from April 2015. It breaks the status quo described above on the basis that:

- Scottish Ministers will be responsible for raising around £6bn of devolved taxes from April 2015 onwards. This provides an independent source of revenue which Scottish Ministers can adjust as necessary to support Scottish borrowing;

- Volatility associated with tax raising powers which were previously managed at a UK level will, over time, be transferred to the Scottish Parliament in order to increase the accountability of the Parliament. Borrowing powers form part of the suite of tools available to Scottish Ministers to manage any errors in forecasting devolved Scottish taxes.

4. The extent to which the Welsh Government could be granted borrowing powers, taking account of any lessons learnt from the experience of local authority current borrowing powers

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Future borrowing powers for the Welsh Government are being considered by the Silk Commission alongside tax raising powers. As part of this process I expect the extent to which the Welsh Government could be granted additional borrowing powers to be considered.

5. The borrowing powers proposed to be devolved to the Scottish Government in the Scotland Bill and any controls or limits over how they should be exercised

Holding levels of taxation and spending constant, Scottish borrowing will increase UK borrowing. The Scotland Act and its non-legislative framework therefore places controls and limits on Scottish borrowing to ensure it is affordable for the UK. The Command Paper published alongside the Scotland Bill available at: www.scotlandoffice.gov.uk/scotlandoffice/.../Scotland_Bill_Command_Paper.pdf sets out the controls on p.38 and p.39.

6. Any protocol which exists between the Treasury, the relevant devolved administrations and local authorities regarding arrangements for limits to be applied to local authority borrowing

There is no formal protocol governing prudential borrowing regimes for local authorities in England, Scotland and Wales, though paragraph 7.4 of the Statement of Funding Policy sets out the arrangements. This can be found at:

http://www.hm-treasury.gov.uk/spend_sr2010_fundingpolicy.htm

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7. **Any innovative funding mechanisms for capital infrastructure being explored by the UK Government**

The Budget announced a number of innovative funding mechanisms that the Government is considering or facilitating.

The Government will carry out a feasibility study into opportunities to increase the role of private investment in the strategic road network, with a progress update by Autumn Statement. The Budget announced a short list of options to improve capacity on the A14 which could be part-funded through tolling.

In addition, the Government has supported the establishment of a new Pension Infrastructure Platform, including up to a dozen of the UK's largest public and private sector pension schemes, which will make the first wave of its initial £2 billion of investment in UK infrastructure by early 2013.

References to the Budget are 1.219 (p39) for roads points and 1.225 (p42) for pension funds. The document can be found at: http://www.hm-treasury.gov.uk/budget2012.htm

8. **If the Welsh Government were given power to issue a bond, what control mechanisms would the Treasury wish to see put in place?**

The case for a devolved administration borrowing from the bond market is not clear cut, and has potential implications that extend further than for other sources of borrowing. The Scotland Bill does not provide the power for the Scottish Government to borrow by way of bonds, but allows for Treasury ministers to grant this power in the future where this does not undermine the overall UK fiscal position or have a negative impact on total

UK borrowing. The Government has committed to issue a consultation to explore the issues around Scottish bond issuance shortly.

9. The Scotland Bill consultation has focused considerably on the volume of permissible debt. The borrowing will be undertaken through the purchase of specific debt products. What products of debt are being considered as part of the consideration of giving borrowing powers to the Scottish Government as a result of the Scotland Bill, and will consideration be given to restricting the bodies from which the Scottish Government will be able to borrow?

The Scotland Act 2012 enables Scottish Ministers to borrow from the National Loan Fund and for capital purposes, commercial banks in addition to the National Loan Fund. The question of access to the bond market will be subject to a forthcoming consultation.

10. As you will know, a protocol exists between the Welsh Government and Welsh local government in terms of the procedures to be following if a national limit on local authority borrowing is required. If the Welsh Government were granted borrowing powers, would you envisage a similar protocol being introduced between the Treasury and the Welsh Government?

Future borrowing powers for the Welsh Government are being considered by the Silk Commission alongside tax raising powers. As part of that process I expect borrowing limits and controls including any protocols to be considered.

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11. If the Welsh Government were granted borrowing powers, and a national borrowing limit was set, how would you envisage that borrowing limit being shared between local and central government?

Future borrowing powers for the Welsh Government are being considered by the Silk Commission alongside tax raising powers. As part of that process I expect borrowing limits and controls to be considered.

12. Local government in Northern Ireland has recently been granted powers to undertake prudential borrowing. How is local government borrowing going to be taken account of within the limit for Northern Ireland Executive borrowing?

The new local government borrowing is in addition to the £200m limit placed on borrowing by the Northern Ireland Executive.

13. Securitisation has been used by at least two Scottish local authorities as a means of raising money based on the security of assets. Have you given any consideration to the use of securitisation as a method of raising finance in Wales?

No consideration has been given to the use of securitisation as a method of raising finance in Wales.

14. I hope this aids your inquiry and let me know if I can be of further assistance

Best wishes

DANNY ALEXANDER