



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

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

**Dydd Mercher, 4 Mehefin 2014**  
**Wednesday, 4 June 2014**

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

**Eraill yn bresennol  
Others in attendance**

Ronnie Downes	Dirprwy Bennaeth yr Adran Cyllidebu a Gwariant Cyhoeddus, Y Sefydliad ar gyfer Cydweithrediad a Datblygiad Economaidd Deputy Head of the Budgeting and Public Expenditures Division, Organisation for Economic Co-operation and Development
Gerald Holtham	
Camila Vammalle	Dadansoddwr Polisi yn yr Adran Cyllidebu a Gwariant Cyhoeddus, Y Sefydliad ar gyfer Cydweithrediad a Datblygiad Economaidd Policy Analyst in the Budgeting and Public Expenditures Division, Organisation for Economic Co-operation and Development
Lisa von Trapp	Dadansoddwr Polisi yn yr Adran Cyllidebu a Gwariant Cyhoeddus, Y Sefydliad ar gyfer Cydweithrediad a Datblygiad Economaidd Policy Analyst in the Budgeting and Public Expenditures Division, Organisation for Economic Co-operation and Development

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

Bethan Davies	Clerc Clerk
Claire Griffiths	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Martin Jennings	Y Gwasanaeth Ymchwil Research Service

*Dechreuodd y cyfarfod am 09:05.  
The meeting began at 09:05.*

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

[1] **Jocelyn Davies:** Welcome, everybody, to the meeting. Can you all just make sure that your phones are turned off, please? That includes you, Martin. [*Laughter.*] We have not received any apologies.

### Papurau i'w Nodi Papers to Note

[2] **Jocelyn Davies:** Before we go to our first substantive item on the agenda, there are a few papers to note. Are Members happy to do that? I see that we are.

### Ymchwiliad i'r Arfer Gorau mewn Prosesau Cyllidebol: Sesiwn Dystiolaeth 3 Best Practice Budget Processes Inquiry: Evidence Session 3

[3] **Jocelyn Davies:** We are having an evidence session this morning via a video link with the Organisation for Economic Co-operation and Development. Obviously, Members have received the written information you sent us. I wonder whether you would mind introducing yourselves for the Record. Then, if it is okay with you, we will go straight to the first question.

[4] **Mr Downes:** Sure; thank you. It is very nice to join you this morning from Paris. My name is Ronnie Downes. I am the deputy head of the budgeting and public expenditure division. I am joined on my left by Ms Lisa von Trapp, who is our expert in parliamentary, among other, matters, and on my right by my colleague Ms Camila Vammalle, who specialises in the affairs of sub-national governments.

[5] **Jocelyn Davies:** Thank you very much. I found your papers very interesting. I note from those that you say that there are three main types of budgetary systems offering parliaments different degrees of legislative influence. Would you mind laying out for us the relative benefits and drawbacks of each of those?

[6] **Mr Downes:** Sure. I do not know whether you want to kick things off on this, Lisa?

[7] **Ms von Trapp:** There are three. Most of you probably know Norton's taxonomy of legislatures, what we describe as budget-making legislatures, budget-influencing legislatures and the budget-approving legislatures. The budget-making and budget-approving legislatures are sort of the outliers, and unfortunately those are the ones that are written about the most—the Westminster and the US systems—but most other parliaments fall in the middle, which means that they have some ability to influence the budget as part of the scrutiny process through amendments but that those amendment powers are contained. I think that what it may be important to think about, and what we often recommend, is that countries carefully engineer their institutions to force legislatures to fix prudent aggregates and then to focus the debate on allocative choices within those hard budget constraints.

[8] **Mr Downes:** I suppose that, if I can just add to what Lisa has said, along this continuum of different choices and models of parliamentary systems and how the parliament relates with the executive, there is a range of different benefits and pros and cons, which really come down to a choice about what works in a particular cultural context. At one end, parliament takes a standoffish view and leaves the primacy to the executive. I suppose that that leaves greater opportunity for the Government to govern, as they say. Whereas, if the parliament has a more proactive involvement in the affairs of budgeting, there is obviously greater freedom for parliamentary engagement, control and influence over the detail of

budgetary allocations. So, it will vary from country to country what the particular choice is about where the power should lie and what degree of flexibility versus executive control is appropriate in a given setting.

[9] **Jocelyn Davies:** For us then, can you see any difficulties in not following a Westminster system? As you probably know, Wales is dependent on the UK Parliament for the majority of its funding.

[10] **Mr Downes:** I suppose that the answer to that question will depend on the specificity of the funding model between the UK Parliament and the National Assembly for Wales. To the extent that there is a single, let us say, block grant from Westminster to Cardiff, it really comes down to a choice for the Assembly as to which model along the spectrum is most appropriate for you to follow. However, if the money comes with a lot of pre-allocations or some conditions attached to it, that will obviously put more constraints on what would work appropriately in the Welsh context.

[11] **Jocelyn Davies:** Shall we come to your questions, Christine?

[12] **Christine Chapman:** Good morning. My name is Christine Chapman. I have a few questions. First, we know that fiscal policy should be managed within clear, credible and predictable limits. Would you expect our Assembly's role to include scrutinising and monitoring annual borrowing requirements and, overall, the Welsh Government debt?

[13] **Mr Downes:** I think that in many countries, whether at national level or at sub-national and regional level, the parliament will have a role in monitoring the overall prudence and how well the Government is managing fiscal policy. I think that it would be unusual for a parliament not to have some role in exercising an accountability function vis-à-vis accounting officers—it is the fiscal policy, including the angle of fiscal policy that you mentioned: debt and deficit and so on. Of course, it is a challenge in many countries, particularly where there are devolved administrations, to make sure that the type of fiscal policy being run within the regions corresponds with the roles and is coherent with the overall fiscal policy requirements of the country as a whole. So, there needs to be that level of co-ordination and monitoring of how fiscal policy is run.

[14] **Christine Chapman:** Just to follow on from that, do you think that the National Assembly for Wales should have a role in scrutinising the debt levels of the public sector bodies taking on debt funded by the Welsh Government? As an example of that, in Wales we have the health boards, local government and housing associations.

[15] **Mr Downes:** I suppose that one of the things that we have learned generally in the international community over recent years is that the definition of what we mean by the public sector and public debt has evolved and perhaps expanded, relative to what was the understanding in the past, and that the types of bodies that you mentioned—the broader public sector and the whole of the public sector—can have an impact upon overall debt levels and overall borrowing levels and, indeed, the fiscal risks that may be associated with these particular other sectors. So, it is appropriate, in general terms, to have regard to these elements of the broader public sector as a part of the overall picture. I suppose that what goes along with that, and what should also be said, is that it makes sense to have a co-ordination of standards within the Welsh administration—the National Assembly for Wales—vis-à-vis what goes on in other parts of the United Kingdom, so that there is a matching or correspondence of figures and aggregates from one region to other regions, and to the country as a whole. So, that is just something to be borne in mind.

[16] **Jocelyn Davies:** Did you want to come in, Mike?

[17] **Mike Hedges:** Yes. I agree with what you just said, but do you see a difference between organisations such as health boards, which are directly responsible to the Welsh Government, which, if they fail, the Welsh Government would have to pick up their debt, and organisations such as housing associations, which, if they fail, they would just fail and the Welsh Government would not have a responsibility for their debt?

[18] **Mr Downes:** This comes back, I suppose, to one of the elements that we mentioned in our draft principles of budgetary governance. It deals with the question of fiscal risk in a little bit more detail. I think that you have given a good example of there being two different types of risk that can have different potential consequences for the budgetary outlook in Wales. On the one hand, there are circumstances where the Welsh Government is on the hook, so to speak, to make good something that has failed, and on the other there may be a reasonable and credible expectation that the Welsh Government will not be on the hook to make up for that shortfall. Once there is clarity about these different models, and there is identification and classification of what is on the agenda, on the horizon and on the landscape within the purview of the Assembly, I think that that is the most important thing. It is important to have clarity and transparency about what is appearing on the landscape, what is a potential direct risk, and what are indirect risks or risks that you can credibly repudiate, as we say in the jargon. So, yes, those are different circumstances that need to be treated differently, but they do need to be recognised and identified all the same.

09:15

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

[20] **Alun Ffred Jones:** In terms of forward-looking budgets, to ensure that the Welsh Government budgets are forward-looking and give a clear medium-term outlook, what timeframes would ideally be included in an annual budget?

[21] **Mr Downes:** Based on current practice within the OECD, it is normal for countries and, indeed, regions within countries to organise their budgets within a medium-term timeframe, a medium-term horizon, in the order of three to five years. That provides the appropriate type of context within which you can have a sense of how the budget is going to evolve and how the budgetary aggregates are going to evolve and if fiscal policy is going to respect fiscal rules or fiscal constraints that may be in place. However, of course, it goes back to the important linkage with the UK Parliament more generally and how the National Assembly for Wales receives funding from the UK Parliament. So, if the UK is making available funding for a three-year or four-year or five-year period, that will be, I would have thought, a primary determinant of what the most appropriate period is for your planning purposes within Wales.

[22] **Alun Ffred Jones:** As you may or may not know, the Welsh Government in future will have greater flexibility in terms of taxation powers, borrowing and holding cash reserves, although it will still receive most of its money directly from the Westminster Government. Will this, do you believe, enable Welsh Government to plan budgets in advance and give it further flexibility?

[23] **Mr Downes:** Camila, maybe you might want to say a word on this.

[24] **Ms Vammalle:** No.

[25] **Mr Downes:** No? Okay, well I think that the general answer to this question is that, to the extent that there is greater power and latitude with the Welsh authorities to have control over the revenues that are coming in, obviously this gives greater planning power and indeed planning responsibility to the Welsh authorities. Of course, it will depend upon what

proportion of these revenues is within the regional control, within the Assembly's control, relative to the expenditure that needs to be managed by the Assembly. However, to the extent that you have greater revenue-raising powers and greater discretion over how this revenue can be used, yes, of course this is going to give more power and responsibility to the Assembly. This is, I suppose, a trend in other regional administrations across Europe, across the OECD, as more discretion is allowed to particular regions or autonomous regions or provinces as the case may be. This allows these regions to develop more of the characters of budget-forming entities.

[26] **Alun Ffred Jones:** Would you expect the risks that accompany those borrowing powers or new taxation powers to be reflected in the budget and the forward planning as well?

[27] **Mr Downes:** Absolutely. Yes, indeed. Going back to the point I raised previously about the need to have a clear sense for what the range of various risks is on the horizon, what the fiscal risks are on the horizon, the nature and the structure of the tax base and the stability of the tax base will be something to be borne in mind in that context. As greater power and responsibility are devolved to the Assembly to manage its budgetary affairs, including having regard to these fiscal limits and fiscal co-ordination with the rest of the UK, the risks that come with different types of revenue need to be borne in mind. Absolutely.

[28] **Jocelyn Davies:** Ann, do you want to come in?

[29] **Ann Jones:** Yes, thanks. Do you agree that—[*Inaudible.*]—risks such as the impact of demographic change would be identified, assessed and managed?

[30] **Mr Downes:** I missed the first half of that question, but if I understand you right, you are asking whether long-term demographic risks should also be taken into account—is that right?—

[31] **Ann Jones:** Yes.

[32] **Mr Downes:** —in the context of budgetary planning and budgetary management.

[33] **Jocelyn Davies:** Yes.

[34] **Mr Downes:** If that is the question, the answer is 'yes'. Again, in our principles of budgetary governance, we do mention that alongside fiscal risks in the general sense about different sectors of the economy perhaps having to be bailed out, forecasts being mistaken, or even natural disasters. Of course, there is longer-term risk arising from demographic trends. In many OECD countries, a demographic imbalance is potentially developing in the longer-term horizon, and many countries are facing up to the challenges that this poses for near-term policy as well as longer-term policy and structural policy about how to adapt themselves. As I mentioned, as the Assembly develops this broader budget-making responsibility is an important dimension that very much needs to be kept in mind. Some countries do so already, but the same will apply for regions that have a greater degree of responsibility. Some countries have regular reports and assessments on long-term sustainability and the challenges that are posed by long-term demographic issues. You can see how that would potentially be an issue within the Welsh context as well. Of course, again, you would, in turn, be cognisant of what is happening within the UK more generally. Part of the responsibility and the remit of the UK Office for Budget Responsibility is to keep an eye and make an assessment of long-term sustainability issues, and I am sure that there will be messages and relevance in those studies for the work that you are doing in the Assembly.

[35] **Ann Jones:** I want to ask you about the frequency and where you would expect the

legislator to have long-term forecasts updated.

[36] **Ms von Trapp:** In most of our countries, those are produced every three to five years, or following a new Government coming into power, and then linked to the medium-term expenditure framework or to the budget process. So, you typically see those long-term 30-year or more projections every three to five years.

[37] **Mr Downes:** The real challenge with these projections, and something that we come across in our countries from time to time, is that, sometimes, long-term challenges and issues can be seen as long-term problems that need to be dealt with in the long term when, in fact, they speak to short-term issues that need to be addressed. The earlier that you deal with some of these problems the more effective your approach is likely to be. So, that is something to be borne in mind by policy makers. Having these regular reports every three to five years or so, or once every parliamentary term at least, should allow for these messages to be brought to the fore.

[38] **Jocelyn Davies:** I now call Peter.

[39] **Peter Black:** The OECD's budgetary principles recommend that budgets should be closely aligned with Government-wide strategic priorities. What, in your view, is the best way to ensure that that happens, while ensuring that sufficient detail is available to the legislature to ensure that draft budget scrutiny is meaningful?

[40] **Mr Downes:** One of the challenges that many countries face is precisely this challenge of making a match or bridge between the strategic priorities of Government, which, typically, are over a medium term or perhaps a parliamentary horizon, and matching this with the budget, which is typically an annual affair on a strict annual cycle. Many countries find it effective to have a medium-term expenditure framework that does a number of things. On the one hand, a medium-term expenditure framework, if properly designed, can allow for correspondence to be made. If you were to choose expenditure ceilings, for example, or expenditure envelopes for particular areas, blocks and sectors of spending, it would allow for a realistic assessment to be made for what can be achieved within each year of the medium-term horizon with the resources that are actually planned to be available. Any mismatches or lack of realism between the resources that are there and the strategic plans that may be articulated will have to be confronted in that context, and perhaps a more realistic perspective will be brought to bear in that context. What other countries have done also, which has proven to be effective, is to perhaps reconfigure some of the traditional budgetary documentation. Some of the budgetary documentation that is used in OECD countries has been around and has been more or less unchanged for many decades—centuries in some cases—and it can be very detailed. There are a lot of detailed minutiae of budgetary line items, which can be hard to match up and correspond with the strategic objectives, the high-level objectives, totals, and so on that a Government will set out from time to time in its medium-term plans. So, it is perhaps about some restructuring of the budget documents to allow clarity and correspondence between the annual allocations and the multi-annual allocations. That is another way in which this bridging can be made.

[41] Lastly, and importantly, what countries around the OECD have been attempting to do over recent years, and over many years in some cases, is to make sure that the budget documentation includes not just a perspective on the financial allocations, but also a perspective upon what is supposed to be achieved with these financial allocations, namely the outputs, the outcomes and the impacts—in other words, the performance information that will inform the expenditure allocations and so on. Countries that are successful and effective in making this correspond—having a performance-informed approach to making the annual budget in a way that lines up and corresponds, as I say, with the medium-term statements that Governments make about strategic plans—are generally happy with the results that they can

achieve through the budget process.

[42] **Peter Black:** Do you have a view on how the Assembly can ensure that performance evaluation and value for money is integral to the budget process?

[43] **Mr Downes:** I think that the most important role that the Assembly can play in that regard is to demand, or ask for, and use budgetary information. We have found that some countries that make an effort to generate performance information, perhaps within the administration, the civil service or at particular different levels, make an effort to generate lots of performance information. That will not have an impact on resources allocation policy, unless it is actually something that is used, demanded, critiqued and debated within the Assembly context and within the parliamentary context. So, if you really want to have a results-oriented approach to the budget, I think that the people who are most influential about making that happen are the people like yourselves in the Parliament and Assembly context who can demand that information and give your views freely and frankly about the quality of the information itself and what it says about how well results are being achieved or not by the public sector. That will give life to the process. That is, I suppose, the single biggest lesson that we can learn.

[44] As a small rider to that, we found that other countries, which in the past have tried to generate lots of information about outputs and so on, and perhaps have dumped this information onto the lap of the Assembly or the Parliament, have not been very effective in making good use of that information. If there is an information overload, it is, of course, going to be counterproductive, so there needs to be a focused approach to identifying the key objectives of what each area of spending is supposed to achieve, perhaps linking that into the medium-term objective and the strategic priorities that the Government has already articulated, so that you can track and monitor progress towards the achievement of those objectives. If you have real information that comes alive in an Assembly context, you give yourself the best chance of an effective system.

09:30

[45] **Ms von Trapp:** We noted in our paper the example from the Swedish Parliament, which had a sort of typical experience where it received a lot of performance information that it did not find very useful and did not use. It then decided to create these informal working groups between civil servants and people in the Assembly, or in the Parliament in the case of Sweden, and they worked together to find the information that they thought was most useful for the Parliament and that they would want to have. They got rid of some of the things that they did not find particularly useful. So, I think that the Assembly has a responsibility also not just to ask for information but to think about and ask for the specific types of information that it finds most useful. So, I think that the Swedish example is an interesting way of working. It does take a little bit of extra work, but many parliaments complain about the information overload or that they are getting information that they do not find particularly useful in making decisions.

[46] **Julie Morgan:** Good morning. The committee received evidence from Dr Wehner suggesting that performance-based budgeting leads to less detailed, less transparent budgets and that performance information should be outside of the actual budget tables. We have talked a bit about that already. You have already mentioned the experience of Sweden. Do you have a view on international experience in terms of outcome or output-based budgeting?

[47] **Mr Downes:** I suppose that, as perhaps Dr Wehner may have referred to, the international experience on performance budgeting is mixed. You may have detected from what we were saying earlier that we have examples of poor practice, or practice that the countries themselves will admit has been ineffective, and there are also examples of practice



where it has proven to be effective. I think that what we can say at this stage is that there is no settled consensus among OECD countries on what is the best way to design a performance framework that works. It is something that countries have to try for themselves. Perhaps there is a degree of trial and error and a degree of taking some international examples that look promising for transplanted or adapted into your own national or regional context, and seeing what works for you.

[48] We have positive examples. Austria is an example of a country that has made significant moves over the years to streamline the very detailed budget documentation, to streamline the number of programmes that appear in the budget and to append or associate with those programmes a fixed, limited number of strategic outcome indicators. The Austrian experience has been quite positive in terms of promoting a focus on what can be achieved and what the public sector should be achieving. We have mentioned Sweden, but the Netherlands is another example of a country that, in the past, has provided a lot of information to parliamentarians, but more information than they could realistically expect to use, so it has been streamlining the nature of the information that it provides. Ireland is another example of a country that has moved from a very traditional budgeting system to one that attempts to be more programmatic and more streamlined and associated with performance information in a way that helps the Parliament to understand the full context of the financial allocations, with a perspective on what is supposed to be achieved. So, perhaps I would not be quite as sceptical as to say that there are no successful models. I think that there are successful models for how performance information can be used, but the proof of the pudding will be in the eating.

[49] I think that it is perhaps no longer acceptable for parliamentarians just to look at financial allocations and to be left to their own devices, so to speak, when it comes to getting a sense of how well the financial allocations are translating into real improvements and real quality services for citizens. The model for making sure that both sides of the equation are represented and presented before parliamentarians is something that we are studying within the OECD. As I say, there are examples—I have mentioned some—of good practice and of developing good practice, and there are some examples, from the past, perhaps, of practice that has not worked out quite so well. I would not give up on performance-based budgeting or performance-informed budgeting as something that could be quite worth while in the future.

[50] **Ms von Trapp:** May I just add a comment on the Austrian situation? One of the trade-offs that Austria had for the Parliament was that while it is receiving less detailed financial information, it also established a parliamentary budget office that is fairly well staffed and is there to give Parliament additional analytical capacity and support. So, it has gained capacity to scrutinise the budget even though it has slightly less detailed budget documentation. So, a trade-off was made there.

[51] **Jocelyn Davies:** Ffred, you wanted to come in.

[52] **Alun Ffred Jones:** In the introduction to best practices, you mention that:

[53] ‘Comparative information on actual revenue and expenditure during the past year and an updated forecast for the current year should be provided for each programme.’

[54] Is that common practice among those countries that you mentioned? As a secondary question, how important is it for the budget to be presented in a consistent format from year to year in order to facilitate scrutiny?

[55] **Mr Downes:** To deal with the second point first, if I may, comparability and consistency is crucial. It is hard enough for any lay person to look at what is sometimes a very detailed budget document that contains a wealth of information, some of which is very technical, so, of course, it makes sense for parliamentarians to become familiar with this

document, and perhaps the budget committee to specialise in probing it in a little more detail. Of course, it makes life more difficult for people if the nature of the information, the type of information and how it is structured changes from year to year. That will make your job of scrutiny more difficult; you will be trying to chase a moving target, so to speak. So, having a stable basis for how the budget is structured lends itself well to a consistent and enduring process of accountability, such as any Assembly or Parliament should aim for.

[56] As regards the first part of your question, as to the extent to which countries across the OECD present these comparable reports, it is common practice across the OECD to have reports in these comparable formats. The extent to which the information in these reports is used or is actionable will vary from country to country. Different countries have different models, as we heard earlier, for perhaps how proactive the Parliament may be in engaging with this information and responding to it. However, as regards the basic point of having this consistent, comparable information, I think it is indispensable.

[57] Of course, from time to time, you will want to improve the information, perhaps as a result of the interaction that you have with the Executive about the type of budgetary information that you are getting. You may have views about how it can be improved or streamlined and so on and how it can be supplemented as new information. So, improvements make sense, but radical restructuring and reconfiguration from one year to the next will be counterproductive from an accountability point of view.

[58] **Paul Davies:** I want to ask you some questions regarding how we can ensure that future budget processes are sufficiently transparent. Over recent years, as a committee, we have been working with the Welsh Government's Minister for Finance to make budget data and documentation more open, more transparent and more accessible. I know that you have already mentioned examples of how countries have streamlined their information, but do you have examples of countries that have provided transparent and accessible information? Can you give us examples of where that is happening?

[59] **Mr Downes:** I do not know that I have specific examples that I can call to mind at the moment, but I will say, first of all, that the general point about transparency is that it is something that certainly has achieved greater, or heightened, focus over recent years. About 10 years ago, the OECD produced a document called 'Best Practices for Budget Transparency', which advocated a range of practices that can promote transparency in the interest, primarily, of citizens and Parliament in holding the Executive to account, and that document laid down a number of provisions, I suppose, ranging from the nature and the quality of the budget documentation that should be produced during the course of the year, in advance of the budget, and the budget document itself, and the execution reports, to the type of information that should be produced within the budget document, including contingent liabilities, and assets, and so on, and also some qualitative aspects of transparency, including a role for the Parliament, a role for the audit function, both internal audit and external audit, through the National Audit Office, for example, and the role of the public more generally—public engagement in and public understanding of the budget process.

[60] So, there are all these different dimensions of transparency, which have been, I think, well understood and well accepted now for some time. In more recent years, of course, the matter has come to the fore because I think that we have understood that where perhaps we thought we were being transparent, or countries thought that they were being transparent, perhaps they were not fully acknowledging all of the dimensions, including the risks to budgetary outlooks, that they could have. There is also perhaps a greater understanding of the role of citizen involvement in, citizen engagement in, and citizen understanding of the budget process. So, these are some of the parameters, I suppose, of the debate on budget transparency.

[61] However, what we have seen in terms of good practices generally focuses upon a comprehensive accounting—this is something that we have mentioned again in our budget principles—within the budget documentation, or in the context of the budget documentation, for all aspects of revenue and expenditure, including the revenue and expenditure in special purpose funds, and so on, so that they are all fully accounted for. We had the discussion earlier with regard to the broader public sector, the full public sector, including state-sponsored, or implicitly state-backed, bodies, which would not have been acknowledged as readily in the past as something that should feature within the budgetary documentation. Also, of course, within a national context, you need to have transparency about national and sub-national and regional finances and revenues, expenditures and risks, and so on. So, transparency is something that needs to permeate all elements of the budget process and all different dimensions. There are so many different countries, and so many different practices, that we can certainly come back to you with more information, if you like.

[62] What I will say, and I am not sure whether this has made its way to you in our earlier documentation, is that, in the last couple of weeks, we produced in the OECD and published our survey of budget practices and procedures, which is available online. There is an online database, and we can certainly send you the link. That shows, for each OECD country, and, indeed, for many non-OECD countries, and gives details as to how exactly they go about organising their budgetary process—everything from how the annual process is structured, how they go about identifying and managing fiscal risks, how they handle their performance-based budgeting, which we talked about earlier, and what different dimensions of transparency are accounted for. So, there is a lot of information available that we can point you to if you want to get some very specific examples of what works in different countries.

[63] **Paul Davies:** That will be useful—thank you very much. Now, in your view, would it be beneficial in terms of transparency and efficiency for the Assembly to recommend a budget process that would actually scrutinise the Welsh Government’s spending, taxation, and borrowing plans at the same time?

[64] **Mr Downes:** That would depend upon the level of detail at which you are talking about exercising the scrutiny. Of course, these three elements—spending, taxation and borrowing—all form part of the equation of the aggregate budgetary position, and, to the extent that your remit would involve scrutiny of the aggregate budgetary position within Wales, then of course you will need to look at all three of these as part of the overall package of what is being proposed and what is being delivered. However, of course, at the level beyond that, you want to talk about, or perhaps scrutinise, particular spending plans, or particular ministries, or particular departments, and particular taxation policies perhaps for how the revenues over which there is discretion are going to be managed and what decisions are made there.

9:45

[65] I suppose that there is no real necessity for those particular detailed points of scrutiny to be dealt with together. They can be dealt with in a staggered format over different times in the budgetary cycle. I suppose that if your scrutiny is intended to be, let us say, an ex-ante engagement with a budget proposal or a draft budget, of course, by their nature, these exercises are all going to be within the same kind of time period. Likewise, if your scrutiny is ex-post—perhaps an accountability exercise for how expenditure plans have gone, how the year has progressed and how tax policies have developed, again, those scrutiny exercises will fall within the same time period in the calendar. However, logically, there is no particular reason why you need to look at the detailed spending policies at precisely the same time as you are looking at taxation policies, I would say.

[66] **Mike Hedges:** The committee currently has five weeks to report on the Welsh

Government's draft budget. Do you think that that is an adequate length of time, and, if not, how long do you think that it should be?

[67] **Mr Downes:** In our 'Best Practices for Budget Transparency' document, which I referenced, which has been around for 10 years or so, we recommended that three months is good practice in terms of allowing time for a draft budget to be submitted to an Assembly or a parliamentary body and to allow for engagement and debate and to allow time also for the results and the fruits of that debate to be reflected in the final budget proposal. So, three months is what is good practice in our view. Of course, it would depend on how that time is used. You mentioned five weeks. One can envisage, I suppose, if you have five weeks of intense engagement, that it may be something that works for you. It is something that you will see yourselves as you put it into practice. However, as I said, the OECD recommendation is three months.

[68] **Mike Hedges:** May I talk about in-year budgetary information? I have been used to quarterly reports showing income and expenditure against profile and looking at how performance is occurring against that. At the Assembly, we have two supplementary budgets and the only time that we know about performance against profile or against total expenditure is at the end of the year. Do you think that quarterly reports are useful?

[69] **Mr Downes:** When quarterly reports are well-designed and when they are available, then yes, of course, they can be useful—if there is a use to which they can be put. What we find in many OECD countries is that—. Excuse me while I take a drink of water. What we find is that countries can tend to be quite good at producing a lot of technical information throughout the year about trends in expenditure, and developments in expenditure, but that it can be more of a challenge to make good use of this information during the course of the year—in-year, as you say—in terms of exercising accountability or bringing people in to ask what is going on. The dimension that you mentioned, particularly in the area of performance information, is something that many countries struggle with during the course of the year. Some countries do it quite well: for example, the United States, in its more recent budgetary reforms through the budgetary modernisation Act. One of the innovations that it developed was to put a strong focus on performance and a strong focus on the development of performance metrics that are available at quarterly intervals during the course of the year. They do allow for successful engagement by oversight committees and so on about what is being achieved and, of course, that promotes an internal management culture of performance. However, for this type of approach to be effective, it does require well-developed and well-specified quality performance information to be developed within the ministries and within the departments so that real-time information can be generated during the year. Not many countries do it very well, in our experience.

[70] **Ms von Trapp:** That is on the performance side. I think that if we look at the practise of our countries, just reporting on revenue and expenditure, and any significant diversions from what was expected, we ran a survey a few years ago—not of all our member countries, but a set of them—and most of them did provide a monthly update to the legislature. Maybe that was just looked at briefly by the budget or finance committee, and it did not necessarily entail a very detailed scrutiny, but they would receive a monthly report, or at least a quarterly one, and that was in about two thirds of the countries that we surveyed. However, not as many included performance information in those reports. I think that if you look at the OECD best practices for providing transparency, you will see that we do have a recommendation around interim reporting in a monthly and a quarterly report.

[71] **Ann Jones:** Do you have a view on what capacity is needed in Wales in terms of economic and tax forecasting, modelling and research expertise to scrutinise the quality of the Welsh Government's budgetary forecasts, its fiscal plans and its implementation?

[72] **Mr Downes:** It is an interesting question. Of course, you do have within the UK the Office for Budgetary Responsibility, which has a role in economic forecasting for the UK as a whole. I am not quite sure what the proposals are for the extent to which the OBR will play a role in assisting the Assembly to devise those forecasts that would be relevant for your budgetary planning. I suppose that, in many countries, there is this balance, this trade-off, to be made in having access to very technical forecasting skills. Sometimes, the pool can be quite narrow and quite small, and of course the smaller you go in terms of regions and localities, the more difficult it can be to have the appropriate level of expertise. So, it may be the case that, if there is an arrangement or an understanding, the service that the OBR provides at the UK level can be leveraged to assist the Assembly, and that may be a model that could work. Of course, there is also a parallel consideration, which goes back to a point that Lisa made earlier about making sure that there is adequate capacity and information available to the parliament itself, and to the Assembly itself, to critique and exercise an accountability function in respect of the forecasts that come from these bodies. Lisa, you might want to say a word about some international experience in that regard.

[73] **Ms von Trapp:** One of the things that we are seeing more and more is parliaments or assemblies enhancing their analytical capacity and bringing in some of these kinds of specialists. As Ronnie said, there is an issue sometimes in terms of the available expertise in small countries and in small regions. I do think that Ronnie is correct, in that you will have an incredible resource in the Office for Budget Responsibility. I do not know that it makes sense to create a separate institution to do the same thing that the OBR would potentially do for you, but you might want to consider the capacity for the analytical staff that you have to look at the information being produced by the OBR to give you some of that additional and specific analysis on the situation in Wales and whether or not it makes sense to increase that capacity in your parliament.

[74] We have seen a huge rise in the number of parliamentary budget offices across OECD countries, but also a sort of strengthening of resource units in parliaments to give them access to real budget specialists. So, that is something to consider.

[75] **Jocelyn Davies:** A final question, then. Are there any of the OECD principles that may not apply to sub-national governments?

[76] **Mr Downes:** I suppose that one of the points that we make in the preamble, or foreword, to the budget principles is that budgeting is not just the preserve of central—so, national—Governments; budgeting is increasingly becoming a task and a role for all levels of government, sub-national Governments included. The principles have been designed with a view to being applicable, with the necessary modifications, at all levels of government. So, there should be something useful and relevant, hopefully, for the Assembly in each of the principles that we have set out.

[77] Some of those are key elements of the principles. If you think about it, we are talking about having clear fiscal objectives, having a medium-term perspective, having a performance dimension and alignment with strategic priorities, and so on. These are just as applicable for regional governments as for national. Likewise, when we talk about participation, openness and transparency, and an awareness of fiscal risks, these are issues where topics can arise at a regional level and can be identified, perhaps, more closely at a regional level. So, in short, they are all applicable.

[78] There are a couple of points that I would add to that, and, once again, this goes back to something that we raised at the outset. Of course, it makes good sense to make sure that the type of system that you devise in Wales and the type of budgetary information and aggregates that you come up with are comparable, consistent and can be linked in with the figures throughout the rest of the UK, so that policy co-ordination on a UK-wide basis can be

facilitated and there is a coherence generally with what is done at the national level.

[79] The other point that should not be underestimated is that one of the advantages of having a strong sub-national structure—a strong regional structure—is that there is great potential for innovation in different aspects of the budgeting process. The learning about the way in which budgets should be done does not always go from the centre to the regions; sometimes practices and standards can be developed by regions, which can have lessons for other regions and other states, and so on. So, that is something that I would encourage you to keep an eye on. For example, one of the cutting edges of budgetary practice at the moment is how to make sure that there is adequate citizen participation or engagement in budgeting. There is a range of different practices in different OECD countries with regard to how this can work: overcoming the gap of trust or understanding that can develop in some countries. Striking that balance between the proper prerogatives of the Assembly, of the parliament, on the one hand versus having open engagement with citizens, non-governmental organisations and civil society organisations on the other is something where different countries and different regions have found their own way. This may be something on which the Assembly may have something to teach us as you find your own way to the future.

[80] **Jocelyn Davies:** Ronnie, on behalf of the committee, I would like to thank you very much for the evidence that you have given us this morning. It was extremely helpful. You have given us a lot to think about, and we seem to have a lot of work to do on this. We will send you a copy of the transcript, and we would be very grateful if you would check it for accuracy before we publish it in final form. Thank you very much.

[81] **Mr Downes:** Thank you very much; it has been a pleasure.

[82] **Ms von Trapp:** Thank you.

[83] **Jocelyn Davies:** We shall now have a short break and come back at 10.15 a.m.

*Gohiriwyd y cyfarfod rhwng 09:59 a 10:13.  
The meeting adjourned between 09:59 and 10:13.*

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

[84] **Jocelyn Davies:** Welcome back, everyone, to a meeting of the Finance Committee. We move on to receiving evidence from our next witness, who is Gerry Holtham. We are delighted to have you with us today. Is it okay with you if I just go into the first question, or do you have some introductory—

[85] **Mr Holtham:** No, that is fine; please carry on.

[86] **Jocelyn Davies:** I wonder whether you will tell us how well the Wales Bill reflects the funding and finance issues that your commission identified.

[87] **Mr Holtham:** There are some similarities. The same range of small taxes that were thought to be reasonable for Scotland are the ones in the Wales Bill, except for air traffic passenger duty, which the British Government is reluctant to devolve, although it has devolved it to Northern Ireland for long-haul flights, so it is not entirely consistent. Of course, the aggregates tax is subject to a legal challenge. The big difference is income tax, where we proposed a sharing of the income tax base. However, we suggested that the Welsh Government should have control of the different tax bands and would be able to change these differentially. The Calman commission had not suggested that for Scotland, and that was the

basis of the Scottish legislation that has been copied in the Welsh case. We made the point that it was not a wonderful arrangement for Scotland but that it is even worse for Wales, just because of the different geographies.

10:15

[88] We have this one tax, 10p, and if you change it you are changing the marginal rate for everybody. You cannot discriminate and change the marginal rate of different tax bands, so that is the big difference. I am not entirely surprised, but they did not take up our suggestions on corporation tax. Basically, what they have done is given us what Scotland has got—or what Scotland got in the first round—and to the extent that that is similar to what we said, it is the same, and to the extent that it is different, they have not taken any notice of any arguments that we made that said, ‘Wales needs to be a bit different from Scotland’. You can more or less say that those arguments have been ignored. So, the overlap is there, and any differences we proposed, on the whole, are not there. The borrowing is consistent with us not having income tax yet. If we got income tax, the scale of allowable borrowing would not be much different from what we were expecting and what we suggested.

[89] **Jocelyn Davies:** Ann, shall we come to your questions? Sorry—before you do, Mike has a supplementary.

[90] **Mike Hedges:** There is something I do not quite understand, and perhaps you could explain this to me. You need an income tax stream in order to borrow, so if you want to borrow £1 billion you need an income tax stream, but you could enter a PFI project with a 30-year payback and not need a guaranteed income stream from income tax. It has exactly the same effect on borrowing. The only difference is that the PFI is going to cost you more, so I am not quite sure why income tax is so important for borrowing but not for PFI.

[91] **Mr Holtham:** Indeed. Why is any tax required for borrowing? Basically, the view I took is that income is income. If you are getting it from the British Government in the form of a grant, there is a certain prudent level of gearing that you can allow yourself. You would not want to go beyond that, unless you were taking big risks. But why not? It certainly was not any part of our argument that you need a specific tax in order to be able to borrow. We reviewed taxation possibilities, we supposed there would be a certain income for the Welsh Government, and we said, ‘Okay, what is a very prudent debt stock to take on with that income stream?’ That was how we proceeded. We did not link it to a specific tax. The Treasury has done that in an inconsistent manner. As usual, do not look for consistency in the way the British Government organises fiscal affairs or you will go mad. So, I think it was just a device to first delay, and secondly restrain the total amount of borrowing that was being allowed to sub-UK Government. The Treasury is basically very nervous about losing control over the fiscal situation, so it is belt, braces and anything else you can think of.

[92] **Julie Morgan:** You are saying that what happens is determined by what Scotland had, really, because a lot of it was just copying what Scotland had. Do you think that pattern would continue if, for example, there is a ‘no’ vote in the Scottish referendum and a different kind of income tax is recommended? If it ends up with that, do you think that Wales will end up with that?

[93] **Mr Holtham:** That is a very interesting question. In general, there is a tendency for the Treasury to resist anything that causes it to lose control and anything that involves it in very complicated work, or a whole lot of extra work, shall we say. Once it has been conceded to Scotland for political reasons, the resistance to giving it to Wales is much less because, first, they have done the work already, and just plugging it in for somebody else is not that big a hassle. Also, Wales is very small in economic terms, so once they have ceded this bit of control, the extra loss involved in giving Wales the same facilities is not very great. I do not

think it is absolutely automatic. If we did not want it, or did not push for it, or did not ask for it, they would not just give it to you. However, if there were pressure here for a particular power, if it has been conceded to Scotland then there is much less resistance than there is otherwise. In fact, if it has not been conceded to Scotland, you can forget it, it seems to me.

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

[95] **Ann Jones:** What international examples of tax and borrowing systems did your commission consider?

[96] **Mr Holtham:** Well, we looked pretty broadly. I think the one that was most relevant for income tax was the Canadian system, which is the one place where they have implemented a similar sharing of the income tax base between different levels of Government—the provincial Government and the Commonwealth, or Federal Government—with the same tax administration. So, that was the example that told us that what we were considering could work, because there was somewhere where it was working. Of course, we talked to Calman as well. That commission reported first, but our research was going on in parallel at much the same time, and so we were in touch with it, and it knew about Canada as well. So, I think that that was the particular example, but we did look at other countries. Bernd Spahn was on our commission, and, of course, he is a great expert on Australia and Germany, so we looked at those two.

[97] **Ann Jones:** Okay, thanks. What new risks will be faced by the Welsh Government's budget once tax and borrowing powers are devolved, do you think?

[98] **Mr Holtham:** Well, with the existing powers, very little, because the taxes that are being devolved are very small—I do not think that stamp duty has ever yielded more than about £200 million or £250 million, even in a boom year, and it is more like £150 million at the moment. With the landfill tax, you are talking about £20 million or £30 million. So, the combined revenue is probably less than £200 million. So, if it goes up or down, it is not going to make a huge difference to the budget. Of course, every million counts, but it is not first order.

[99] If we got income tax, there would be a risk, because it depends how they offset the block grant. If they give you a tax base, they are going to reduce the block grant, obviously. The question then is how they treat that reduction of the block grant. However, there is a general risk that, if, for example, the Welsh income tax base grows more slowly than the tax base for the UK as a whole, or the expenditure of the British Government as a whole, which is what the block grant is based on, then you could have fewer resources in the future than you do at the moment, but that is the risk. Of course, the thing is that, if you get the tax base to grow faster, then you are going to be better off, but there is a risk involved in having that degree of control. I do not think that the risk is significant with the existing taxes.

[100] **Ann Jones:** Okay, thanks.

[101] **Jocelyn Davies:** Peter Black has the next questions.

[102] **Peter Black:** The Welsh block grant is going to remain the largest component of the Welsh Government's financing, yet that is subject to annual review by the UK Government—or certainly the review of its expenditure leads on to changes in the block grant. Is there any way that the Welsh Government can attempt to prepare budgets for longer periods within that constraint?

[103] **Mr Holtham:** Yes; I think that it has to. Although you do not know exactly what the block grant will be, the UK Government itself produces three-year expenditure projections,



and you know broadly what is happening in terms of public expenditure. So, I think that you can budget, within reasonable tolerances—you do not know exactly, but you know whether it is going to be growing at 1% or at 5%; you do not know whether it is 1.2%, but there is a certain degree of predictability, I think.

[104] **Peter Black:** Okay. In terms of external influences, our medium-term finances are dependent on external issues, such as the Scottish independence referendum, the Barnett formula review, the UK general election, et cetera. Is there any way that, when we are budgeting from 2017-18 onwards, we could incorporate those external risks and uncertainties, or are we just working within tolerances again?

[105] **Mr Holtham:** Well, I think that you need to start thinking about reserves, basically. You are going to have a central projection, and central expenditure plans—well, the Welsh Government already maintains a contingency reserve, but I think that you have to review whether it is of the appropriate size, as new factors come in, which increase the variability of your revenue. I mean, the thing about plans is that you can always change them, of course—you have not written a contract that says that you are going to spend x. So, if you have to reduce, you have to reduce. However, I think that reviewing the size of the contingency arrangements is the obvious thing to do.

[106] **Peter Black:** Will that require a new compact with the Treasury in terms of how much we are going to be able to carry forward from year to year?

[107] **Mr Holtham:** That would be very good, if we could achieve that. I think that this is one area where I do regret the developments that have taken place. At the time that the commission that I chaired reported, we were arguing strongly that the existing carry-over was not adequate. Given that we cannot borrow, or can borrow only a limited amount, the restrictions that enforce spending within the same year mean that you cannot save either. You can neither save nor borrow. So, you are really stuck if you are trying to do large investment projects. So, we did argue very strongly that once cash had been agreed for Wales, it be lodged in an account in escrow, if you like, and it was then there. If we did not spend it, then it was still there. In other words, it was just as though they gave you the money and you spent it when you liked. The Treasury, far from doing that, actually went the other way and reduced the scope for end-year carry-over. I think that if there is one thing to batter away at, it would be that—that you cannot really run your affairs properly, if your borrowing is limited and you are really restricted to spending money within a very tight time frame. You should be allowed to save. The reason the Treasury does not like that is down to this question of control again. It is afraid that you might pile up a lot of money and then just when it has decided that the economy needs austerity, you suddenly start to spend all of the money. You could make the arguments that Wales is so small that that would not matter, but it is better to make the arguments from principles rather than from the fact that Wales is tiny, if possible. However, it is certainly a hole in the current arrangements.

[108] **Jocelyn Davies:** Mike, you wanted to come in on this point.

[109] **Mike Hedges:** Local authorities are not constrained in the same way. They can build up reserves and use them as and how they like, and I would guess—in fact, I am fairly certain—that whatever reserves the Welsh Government would end up with would be less than the total reserves held by the 22 local authorities.

[110] **Mr Holtham:** Yes. The control, or the lack of control, on local authority spending was quite startling. When we established the commission, we went to see them. We went to the debt management office and said, ‘How do you control what local authorities borrow?’, and they looked blank and said that there was a global ceiling of £70 billion and as long as they were all within that, it was okay. However, I asked if they looked at the debt or leverage

that an individual local authority carried and they said, 'No'. The attitude seemed to be that the auditors would catch up with them eventually, but as long as they were under the ceiling, they could do what they liked. That caused me to think that if the Welsh Government were on better terms with local authorities, there is a source of borrowing for agreed projects that could be tapped. On the whole, finance officers in local authorities are quite cautious. They do not go at it like drunken sailors; on the contrary, they are rather cautious—some of them to the point of being nervous, so they need a lot of reassurance if you are going to get them to borrow for some sort of project. That is an opportunity in certain areas, and education is the obvious one because they are responsible for that. A lot of investment is needed, so corralling them and saying, 'Let us have a national borrowing programme for education and we will support the revenue side', is an obvious thing to do.

[111] **Jocelyn Davies:** In terms of local authorities, some felt that having control of the overall debt level and the prudential framework that governs how local authorities spend was enough of a control. I am not aware of any drunken sailors that have got local authorities into terrible debts. I do not think that that has happened, has it? I think that there are very few examples. Julie, shall we come to your question?

[112] **Julie Morgan:** One of the problems with the present devolution settlement is, obviously, the very strong control that the Treasury has and in particular about deciding whether the UK spending benefits apply to England and Wales or just to England. There have obviously been issues relating to that and it seems as if some of these decisions appear to be arbitrary. How do you think that this situation could be improved?

10:30

[113] **Mr Holtham:** I do not know how it could be improved. In our report, we made a suggestion of how it should be improved, which is that there should be an independent group—not within the Treasury; it could be within the Office for Budget Responsibility or within the Office for National Statistics, some body that is notionally independent of Government—that would simply manage the spreadsheet and apply the agreed criteria for deciding whether something was devolved or not and applying the consequentials. The problem is that the Barnett formula and that whole thing are not on any statutory basis whatsoever. There is no legislative or statutory basis for the Barnett formula at all, so nothing the Treasury does is illegal. You cannot take it to court because there is no law. So, ideally, you would have legislation that said, 'Okay, it works like this' with appropriate degrees of flexibility and you would give it to an independent public body to decide upfront whether the Olympics were London or the UK and whether Crossrail was London or the UK or whether HS2 was benefiting north Wales but not south Wales and therefore whether it was half devolved or whatever. So, I think that that is how it would work ideally. That is how it would work in a properly federal structure where the relations between different tiers of Government were based on legislation. That is how it should work. On how you get to that point in the UK context I am afraid I cannot help you; I have no idea. That is what we suggested and there was just no interest.

[114] **Julie Morgan:** Did you look at the Australian example?

[115] **Mr Holtham:** Yes. The Australian system, in my opinion, is too heavy. The Australian system really works out in prodigious detail what the needs of each territory are and makes recommendations. Australia also has a loan council that does something similar on the borrowing side, but it is a very big organisation. It is a very big bureaucracy, and it is interesting that it is only advisory. It does not have the powers to compel the Government to do it, but it just finds it much more convenient to avoid—. Just as Barnett was set up to avoid political arguing, the Australians just find it easier to do what their body—I have forgotten the name for now—says they should do. So, its recommendations, I think, have always been

accepted, but it is a very heavy procedure. It goes into great detail and I do not think that there is any body in the UK on that scale that has the resources to do what it does. If they will not do what we suggested, I certainly cannot see them setting such a body up in the UK.

[116] **Julie Morgan:** Thank you. How do you feel the borrowing powers should be monitored and reported, and should they be part of the budget process?

[117] **Mr Holtham:** Yes, I think so because they are the difference, if you like, between expenditure and receipts, so I think that they are intrinsically part of the budgetary process. Similarly, as Mr Hedges was saying, any PFI deals are part of the budgetary process as well because they will result in a flow of servicing costs over time, which you have to keep your eye on. In my experience, the Welsh Government is quite cautious about this. It is not keen to incur debt servicing costs.

[118] **Julie Morgan:** There have been examples, I think, in other countries of excessive white elephant projects, such as in Spain with airports, that have been well publicised. Do you know whether they were scrutinised, and whether they went through a budget scrutiny process?

[119] **Mr Holtham:** I am not an expert on that, I am afraid, but Spain was the location of a fantastic boom in property in particular, and it is just amazing how people get caught up in those things. If the developers are running up lots of houses, it is easy for the public authorities to say, 'Well, perhaps we need an airport to service them' and the thing sort of spirals away. Also, if you get examples of successful development, such as in Bilbao, where they built an art gallery and it triples the number of visitors, other towns think, 'Gosh, we'd better do that'. So, you can get white elephants, because, in a boom, where everybody is very optimistic and they see successes, they try to emulate it without looking at the overall picture, perhaps. However, I do not know a great deal about the budgetary processes carried out in Spain.

[120] **Julie Morgan:** I just wondered whether there was a process in place that checked whether that sort of thing happened, that was all.

[121] **Mr Holtham:** The thing about Spain is, we had a look at its system, and it is in some ways the closest to the UK, in that it has responded to individual pressures, as and when they have arisen, and an asymmetric system has grown up that has no particular internal logic, and it is always possible for somebody to start moaning and to say, 'They are getting this, we're not, and we cannot see any principle that would say that, so we want it as well'. If you do not have a set of principles, it is difficult to resist that kind of thing. So, the Spanish system has grown higgledy-piggledy and it is very diverse.

[122] The Basque country has its own tax collection agency. The Basque country collects its own taxes, spends them itself and remits something to the centre for central services, so that the Spanish army is protecting it or whatever it is, and there are foreign affairs and other things that are not under its control. It sends a sum of money to Spain to pay for those, and it keeps all the rest of the dough itself.

[123] Catalunya, on the other hand, does not do that. It pays its taxes into the central tax collection agency and gets them back. Other Spanish provinces are more like the situation in the UK; they do not have such extensive powers. So, it is a very diverse system, and I would not be at all surprised if it gets out of control every now and again.

[124] **Julie Morgan:** Finally, you recommended £2 billion of borrowing. Do you think that anything could be done to persuade the Treasury that we could go up to that amount here?

[125] **Mr Holtham:** In some circumstances, I would have thought 'yes'. The trouble is that we have run into this period of austerity, after our report came out, where the Government is very sensitive to the need to restrict borrowing. The UK was running a budget deficit of 11% of GDP at one stage, and it is still about 6% or something. So, at the moment, it is very difficult to make that case, because it is looking for ways to not borrow, rather than ways to let people borrow.

[126] In calmer circumstances, when we are not in that situation, it should not be difficult to say, 'Come on, £2 billion is not at all excessive'.

[127] **Jocelyn Davies:** Chris, shall we move to your questions?

[128] **Christine Chapman:** Okay. We know that the credit crisis showed that there were problems faced by banks and Governments in not recognising off-balance-sheet liabilities and commitments. Do you think that it would be useful to create a Welsh Government balance sheet, showing the overall financial position?

[129] **Mr Holtham:** Yes, I think that it would. I do not know how the Treasury would take that, because it would set a rather ugly precedent for the rest of the UK. There are also questions about what you regard as liabilities that should go on the balance sheet. For example, with regard to public sector pension liabilities, and public sector pensions, there is no pension pot there unfunded for central Government, although there is for local authorities. So, in a sense, that is an unrecognised liability, as well as all the PFI stuff. Wales does not have that problem. So, we could do it. Maybe it would be a salutary thing to do for the rest.

[130] **Christine Chapman:** What about reporting the total borrowing and other liabilities of all Welsh Government funded bodies, if we were going to go down that route?

[131] **Mr Holtham:** I think that you have to be careful here, because what you are really concerned about, I would argue, is the potential burden on future taxpayers of borrowing and expenditure now. In the UK, as long as a body is in the public sector, we do not make any distinction between bodies that are tax financed and bodies that have their own revenue source and their own balance sheet. It is very ironic that the Labour Government in the 1940s nationalised the railways because it said that the private sector was not prepared to invest in them, and the only way to get more investment in them was to nationalise them, but they were then privatised in the 1990s on the grounds that budgetary rules meant that the public sector could not possibly invest in them enough, and we had to privatise them to get the investment in. Those rules are totally arbitrary. In most countries, if you have a public sector body that has its own revenue source and its own balance sheet, it can issue its own debt. EDF Energy issues bonds, as does SNCF. They are not regarded as part of the French Government's borrowing. To the extent that there is a Government guarantee on those debts, that should be on the public sector accounts. However, it is just the value of the guarantee. It is like saying, 'Okay, we are going to insure your debt. That is worth something. What is the premium that you would have to pay to insure your debt? Okay, that premium is going on the public account because that is an estimate of the risk that we are running by your being in the public sector, and we are ultimately responsible for your debt'. If you do what the UK does, however, and put everything into the public sector borrowing requirement, what you are saying is that, 'These companies are going bust with 100% probability, they're going to pay out nothing on the pound, and the state's going to pick up the whole tab', which is not sensible. It is that peculiar restriction on borrowing by public entities that has meant that any public entity in the UK is starved of investment finance. I do not think that we have such bodies in Wales, but, if we were to create them, I think that we should treat them in a slightly more sensible way. So, yes, by all means, look at all of the liabilities of the Government, but do not exaggerate them. That is what I would say. Make sure that you are putting in an appropriate estimate of what the true liability is worth.

[132] **Christine Chapman:** Just to follow on from that, I know that your commission recommended that Welsh Government borrowing should be governed by principles similar to those in the prudential borrowing code for local authorities. We know that the Wales Bill instead sets a fixed borrowing limit of £500 million. Do you think that there are any aspects of the prudential code that could still be incorporated into the budget process to monitor borrowing?

[133] **Mr Holtham:** Well, I think that the limits that they have set are sufficiently tight that other criteria that you would apply would be redundant; £500 million is quite a small amount, relative to the £15 billion or £14 billion-odd annual budget that the Welsh Government gets. So, it is a very low debt-to-income ratio, and I cannot think that there would be any other criteria that would say, 'Oh, we daren't spend £500 million'. They have set the noose sufficiently tight that any other considerations would be redundant. If the question is whether we should have arrangements based on appropriate—. Rather than just an arbitrary £500 million, say, would it be better to have an arrangement that said, 'Look, there is a target debt-to-income ratio, there is a limit on how much of your annual receipts you should spend on debt servicing; these two things together would constrain how much borrowing that you do'? Would driving off some ratios like that be more sensible? Yes, it would, I think.

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

[135] **Mike Hedges:** Yes, I have two points on it. One is that who you borrow from, and the rates and the variability of the rates are probably equally as important. Local authorities borrow almost exclusively from the Public Works Loan Board because it is fixed for a period of time and you have certainty, whereas borrowing from banks et cetera can generate more uncertainty. Would you think that the Welsh Government should be looking to borrow from the Public Works Loan Board, rather than another methodology?

10:45

[136] My second question, once again, relates to local authorities, which I know slightly more about than the Welsh Government's budget. Local authorities have a meeting every year on the budget and they set their borrowing limits as a local authority and identify who they will borrow from. If we were able to move forward to a situation where the Welsh Government had prudential borrowing powers, do you see that as a methodology that would be useful?

[137] **Mr Holtham:** This is an area where I have changed my mind. When our report came out, we said that the Welsh Government should have borrowing powers and it should borrow from the Debt Management Office, which is the same thing as the Public Works Loan Board, really. When we spoke to the debt office, we asked, 'Can we borrow floating rate?' 'Yes', it said. 'Can we borrow fixed rate?' It said, 'Yes'. 'Can we borrow on an annuity basis, paying it down like a mortgage, or paying it all back at the end?' 'Anything you like', it said, 'whatever you want to do, we will do it, as long as you borrow in sterling. You're not allowed to borrow in foreign currency—we won't have that—but if you borrow in sterling, we will structure it any way you like'. We said, 'Well, you're issuing gilts at five years and 10 years, but what if we wanted to borrow for seven and a half years?' It said, 'That's okay, we'll lend it to you for seven and a half and we'll issue the gilts at five and 10 years and we'll sort out the difference'. So, we said, 'Oh well, that's great; okay, fine, we'll borrow from you'.

[138] However, since then, there has been a period when the Public Works Loan Board has been pushing up its spread over gilts—the interest rate that it was charging to local authorities—and the spread got sufficiently wide that it started to become interesting for local authorities to issue their own bonds. A couple of them started to talk about doing it,

whereupon that spread collapsed quite dramatically. So, the ability to borrow from somebody else is a good discipline on the DMO. It cannot take you to the cleaners, because, if it gets too obstreperous, you can go and borrow from somebody else. So, the restriction that we should be able to borrow only from the DMO is unnecessary. I think that that is what Silk said, and it is one of the few areas on which Silk departed from what we said and, on the whole, I think that Silk was right. So, I would say that we should not have fewer borrowing powers than local authorities. If we wanted to issue our own debt, on the whole, it would not be sensible to do so; as a practical matter, you would want to borrow from the DMO 99 times out of 100, but it is that hundredth possibility that helps to keep the cost down.

[139] **Mike Hedges:** Transport for London did that, did it not? It set its own bonds and raised around £200 million, or something like that.

[140] I will move on to my next questions. First, in your recent paper, you said that local authorities should be the main agents for collecting all devolved taxes. I can understand why business rates and landfill tax would be collected by local authorities, but could you explain why you think that stamp duty and income tax should be collected by them?

[141] **Mr Holtham:** I do not think that income tax should be collected by local authorities. I was speaking only about the small taxes that are currently in the Wales Bill that do not require a referendum, which are the only taxes that we know we are going to get. The point about these is that, first, they are small, as we have already said. In the case of stamp duty, it is a tax on property transactions, and property taxes, such as council tax and so on, are currently handled by local authorities. It does not seem to me that landfill tax causes any great problems, as it is related to business rates, in a sense. So, these are taxes that it is hard to avoid. Most of the work is done by conveyancing solicitors, in the case of stamp duty, so they are not particularly onerous to collect. Here, we have bodies in existence that are used to the administration of collecting taxes. The Welsh Government does not have any such body. So, it could create it, duplicate the capability that is already out there, but why bother? There are people in Wales who know about these things, are doing the job, and they can handle these extra taxes.

[142] The other thing to say about that is that it would be very surprising if the tax collection administrations at different local authorities were equally efficient. We know that they are not. It would be quite surprising if they were as there is nothing else equal among local authorities, so why should that be? We also know that, where there is a strong case for doing so, local authorities are perfectly capable of pooling their activities. There are 22 local authorities and there are only 10 local authority pension funds, for example—the last time I looked. Are you going to correct me?

[143] **Mike Hedges:** I thought that the eight county council pension funds continued.

[144] **Mr Holtham:** Ceredigion does not have a pension fund. It is run by Carmarthenshire, I think.

[145] **Mike Hedges:** The old Dyfed.

[146] **Mr Holtham:** So, there are precedents for the local authorities getting together spontaneously or the Welsh Government could surely apply a bit of constructive pressure and say, ‘Let us look at whether we need 22 separate tax collection agencies’. Perhaps we need six, seven, eight or 10, I do not know, but whatever the number is, they would be based on the most efficient of the existing organisations and I do not see why those could not collect those smaller taxes. Instead of saying, ‘We had to impose another new administrative facility to handle these new taxes’, we could be saying, ‘We’ve actually reduced the administrative overhead and we’re still collecting these new taxes’. I think that would be a very good story

for the public.

[147] **Mike Hedges:** May I move on to the collection of them? I think that you are right about collecting them. As you know, business rates are collected by local authorities on behalf of the Government and then they are netted off against the rate support grant so that money does not go backwards and forwards—all they do is make up the difference. Would you see the same thing happening with these smaller taxes, that is, rather than them giving money to the Government and then having it sent it back, that the smaller taxes would actually be netted off against the rate support grant?

[148] **Mr Holtham:** Yes, precisely. That is exactly what should happen. Just as the rates support grant is collected by individual authorities, but the distribution depends on a different formula, that could apply here. These are small taxes. What it would mean is that the total of the revenue support grant from the centre would be reduced, but they would be getting the same resources and just collecting the taxes. I think that that is the right model.

[149] **Mike Hedges:** If I may, I will move on now to income tax, which is by far the most complicated of the proposals. As you know, income tax is cyclical and there is no certainty of income with it. You recommend that the Welsh Government should have a memorandum of understanding with HMRC and other UK Government departments on how the tax system will work. What information do you believe will be needed from UK Government departments for Welsh Government to be able to manage effectively devolved income tax? Also, a question that I raised on a couple of other occasions, and I will ask it of you as well, is with regard to the problem of not having adequate information about where people live and work in the border regions to be able to do income tax against their postcode. More importantly, there is a problem regarding the number of people in Wales who go into England on short contracts for two, three or four months. In Pembrokeshire and Swansea, you see all the cars travelling up early on a Monday morning and coming back on a Friday. It is about the difficulty of allocating them. I have seen what Calman tried to do and it is pages of complicated working out of whether somebody is a Scottish taxpayer or not, but if somebody registered for living in Bristol for three months, for example, are they a Bristol taxpayer for those three months?

[150] **Mr Holtham:** If somebody is making a tax return, then they would be making the tax return to the authority where their permanent residence is. So, I think, in that case, if there are disputes whether you are a resident, you have to have certain rules about how many days a year you are resident and the usual hassle that you get with that sort of thing. However, in principle, I think that the argument would be that if you are making a tax return, you make the return to the authority which is your primary residence and they collect and keep the tax. So, in that case, the guy might go into digs in Bristol for three months, but it is neither here nor there. Primarily, he is a Welsh resident. Will people try to evade or avoid? Yes, they will and it will not be an easy or a cheap tax to police. So, I think that you have to face the fact that whatever you thought you were collecting, multiply it by 0.9 or something, because there will be leakage and the Revenue will not devote the resources to trying to pick that up.

[151] I think that the real problem comes with PAYE where it requires each company that is making PAYE returns to have an extra box or an extra code—you know, is this person C for Cymru or E for England?—and that goes into the return. Now, again, there is going to be room for slippage, because if somebody makes a false declaration to the company, and says, 'I am living in Lydney', when he is really living in Chepstow, that company is going to fiercely resist any suggestion that it is liable for his statement. That is one thing that the business community will get at. They do not mind—. Well, they mind, but they are prepared and, certainly, they can be obliged to fill it in and notify the authority what the residence status of all their workers is, but they will resist being told that they are then liable in law if any of those declarations are false. They will say, 'It's a good faith return and we rely on the

guys to tell us the truth, and if they don't, then they don't'. I cannot see that that will be at all easy to police. So, I think that, again, there could be slippage in border areas if tax rates are very different. If tax rates are the same, then, you know, who cares?

[152] If tax rates become very different, then there will be considerable slippage, and I think that that is one reason why one has to think in advance of the nature of the contract that you want to write with the Revenue. I do not know whether this is sensible, but I would start from this position, in that I would even say, 'Listen, instead of us paying you the fee that you want for collecting these taxes, why don't we pay you three quarters of that fee and then a pro rata for all the tax that you collect for us?' You know, give them some incentive to make sure that any Welsh taxes really are being collected for Wales. It sounds a bit like tax farming, but if it was good enough for Colbert, it should be good enough for us.

[153] You really want them to want to get it right. Wales is quite small, and their future careers will not depend on Welsh tax returns. Are they going to be bothered enough? I would have a concern. I would want a contract that specified their obligations to us, our obligations to them, what any penalties were and what any rewards were if we could introduce some sort of incentive system. So, I think that it should not be the usual British fudge; I think that we should get it cut and dried, if we can.

[154] **Alun Ffred Jones:** Byddaf yn gofyn fy nghwestiwn yn Gymraeg. **Alun Ffred Jones:** I will ask my question in Welsh.

[155] Wrth edrych ymlaen at baratoi ar gyfer datganoli trethi, pa newidiadau y bydd eu hangen o fewn Llywodraeth Cymru ar gyfer hynny? In looking forward and preparing for devolving taxes, what changes will be needed within the Welsh Government for that?

[156] **Mr Holtham:** Byddaf yn ateb yn Saesneg. **Mr Holtham:** I will reply in English.

[157] There is not at the moment a policy tax unit within the finance department. They have set up a panel of advisers. The Minister for Finance has done that, but there is not at the moment a dedicated unit looking at tax policy. I think that that would be something that would be required. If my suggestion for how you handle the administration of tax collection were followed, you would not need a big administration to do that; you would devolve the small taxes to local authorities and you would contract for income tax with the Inland Revenue, with HMRC. However, you certainly would need people to manage those relationships, and you would need people to be thinking about tax policy in the context of the economy and what incentives you wanted to create, and what things you wanted to do. That capability, currently, is not present.

[158] Also, one reason why borrowing could be a very good thing for the Welsh Government is that, up to now, the degree of co-ordination across departments for matters of investment—in my opinion, anyway—has not been sufficient. Individual departments get a budget, which is last year plus or minus, and they do what they want to do.

11:00

[159] As soon as you are going to finance part of your investment bill by borrowing, the borrowing has to be done centrally—you cannot have each department going out issuing its own debt—so this will be a Welsh activity and these will be resources available at the centre with no precedent for everybody getting Buggins's turn. The centre will be in a better position to ask, 'Which large projects are there on the stocks, which have the best cost benefit ratio and, even more important, which ones are consistent with the central policy strategy of the



Government?' So, you will be able to impose a degree of cross-departmental discipline that, frankly, is not adequately present at the present time. I think that that can only be a good thing.

[160] In my opinion, the Welsh finance department is certainly not as strong, politically, as the finance department is in any other Government that I have ever come across, and it is not as strong as it should be. To the extent that you are now mobilising new sources of funds, that should strengthen its ability to co-ordinate activities across the Government. I think that that would be a very good thing.

[161] **Alun Ffred Jones:** Os caf ofyn un cwestiwn arall, o ystyried effaith economaidd cyfyngedig y pwerau ariannol sy'n cael eu datganoli, a yw'n deg i ystyried targedau ariannol ar gyfer Llywodraeth Cymru? Wedi'r cwbl, rydych wedi dweud eich hun nad yw'r trethi hyn yn dod ag arian mawr i mewn, felly a yw'n newid sylweddol yn y ffordd y mae'r Llywodraeth yn rhoi cyllideb at ei gilydd?

**Alun Ffred Jones:** If I could ask one more question, given the limited economic impact of the financial powers that will be devolved, is it fair to consider fiscal targets for the Welsh Government? After all, you have said yourself that these taxes do not bring in a great deal of money, therefore is it a significant change in the way that the Government puts its budget together?

[162] **Mr Holtham:** No. The small taxes that we are talking about, as we have said, will not make a material difference to the total resources available and they will come into the Government in the same way that the block grant does, so I do not think that they will make a big difference. Borrowing could make a difference. As I say, you have to have a Cabinet consideration of what the total resources are that you want to mobilise. You have to make that into a generational decision. We could borrow like heck now and the debt service would be paid later, and if we could invest in the right things, maybe that would be a good idea, because they would have the infrastructure as well as the debt. However, if we waste the money, it is bad news for the future. You have to make those decisions about now against the future and investment plus borrowing against not. Essentially, that is not a decision for a single Minister. So, it forces a degree of strategic thinking and co-ordination, which has not always been there. That will make a change. They will need the right support in terms of economic impacts, plus just on framing the question: these are the trade-offs, these are the downsides, these are the upsides. They will need the support in order to make those collective decisions. I think that even the present amount of borrowing raises some issues, but if we decide to go for income tax and get it and get more borrowing powers, it will certainly require reinforcement of the civil service but it will also require some change of approach by the Government itself.

[163] **Alun Ffred Jones:** Would you agree that, in order to monitor and scrutinise that in the future, the Assembly itself will have to up its game?

[164] **Mr Holtham:** Yes. I think so. I will be honest: I think that having greater responsibilities for taxing and borrowing forces the Government to raise its game. That is a good thing and it means that the Assembly has to try to keep up. Absolutely.

[165] **Paul Davies:** As you know, the OBR's approach to Scottish taxes is to assume a fixed share of UK taxes, rather than using regional economic models. What issues should the Welsh Government and the Assembly explore with the OBR when it begins to forecast Welsh taxes later this year?

[166] **Mr Holtham:** I think that it is the case that the OBR has not given a great deal of thought in the past to this issue. I know Robert Chote quite well and, in fact, he went there from the Institute for Fiscal Studies, which is a very serious and highly regarded thinktank. It

has just done a huge study of taxation in the UK—the Mirrlees study—and it did not consider devolved taxes at all. It just was not on the intellectual radar. So, I think that the question that I would ask it is: ‘What are you going to do about it?’ It requires innovation from the OBR, and I do not know what it proposes.

[167] It does seem to me that if somebody is making a forecast for the UK, and you are prepared to accept that, it is much easier to make a forecast for Wales. If you are starting from scratch and you are trying to build up some kind of fiscal model of the Welsh economy, tax receipts and things like that, that is heavy duty; that requires a lot of work. It is much easier to build a sort of slave model that says, ‘Okay, we’re taking all this for granted and we’re just working up the implications for Wales’. That is not an impossible task. The OBR could do that, and should do that, I think.

[168] **Paul Davies:** We took evidence earlier on from representatives of the OECD, and they suggested that Wales should use the OBR. From your answer, you are suggesting that no separate Welsh institution should be created to provide impartial macroeconomic advice, monitoring and evaluation, and that the OBR should be used, given that it is there already.

[169] **Mr Holtham:** I think that that is a difficult question, and I do not want to shoot from the hip. It would be a ‘nice to have’. Whether you want to devote the resources required in the first instance, before seeing how it works with the OBR, I am less sure. I am pretty open-minded about it. This is not an impossible task. I ran the OECD forecast for some years and, if you paid me enough money, I would do it myself. [*Laughter.*]

[170] **Jocelyn Davies:** I think that the point that you are making is that there are not many of you, are there, Mr Holtham? There is a small pool of people on whom you could draw who would have the capacity to do this work. It was not just a matter of whether you wanted it or not. Would the capacity be there?

[171] **Mr Holtham:** It is more a question of money, frankly. If you have the money, you can get the people. You do need somebody in charge with some experience, but there are lots of technically adept young economists being churned out whom you could put to work and who, under the proper guidance, could produce this stuff. However, it would cost money, and the question is: do you need to spend that money?

[172] **Jocelyn Davies:** However, you would not think that it was a good idea or a bad idea at the moment. You would say—

[173] **Mr Holtham:** I think that my instinct would be to talk to the OBR and say, ‘Look, we think that it’s a bit crude just to say that UK receipts are  $x$  and, therefore, Welsh receipts are a twentieth of  $x$ . You can surely do a bit better than that. You know something about the structure of the economy. How do corporation tax receipts work relative to the UK? Is income tax different? What about VAT? Let’s break it down a bit. If we’re going to use ratios, at least use different ratios for different taxes and add them up.’ You can do anything, from being utterly crude, to slightly less crude, to building yourself a fantastic model. I would want to talk to the OBR and say, ‘You can do better than saying that it is one twentieth. What do you propose to do? What’s reasonable?’ You are getting into 80:20 territory, where you get 80% of the—you know what I am saying. You go so far, and you get most of the benefit, and you can go further, but then the returns are less. I would want to talk with it about what it thinks that point is, what we think that point is, and whether it is prepared to put the necessary work in, and then talk to some academics and other people and ask them how they would do it, and what they would charge if they were to be contracted to the Welsh Government to provide the forecast, and then see how it goes and act accordingly. I am sorry to be a bit vague, but I do not come at this with a strong prior; there are various considerations, and you just see what is working.

[174] **Paul Davies:** One final question from me: in your view, is it feasible to consider preparing a budget that links Welsh spending to wider social and economic outcomes?

[175] **Mr Holtham:** Yes. Government spending is supposed to be targeted at achieving wider social and economic outcomes. I listened to the debate that was being had earlier on about performance budgeting. I think that there is a case for making sure that the information is, as was said, kept separate—that you have clear compartmentalisation so that you can see clearly what has been spent in everyday pounds and pence terms. Then the information about whether it is supposed to have been effective is separate, so you are not getting confused. They do not apply some magic conversion that says, ‘We didn’t really spend £100 because, when you adjust for efficiency it was £110’, or something. Come on; what did you spend? Then we can look at what the effect was. I think that there is a lot to be said for trying to develop indicators of the success or otherwise of policy and making that information available to the Assembly along with the budget.

[176] In general—again, I am sorry if I am on a hobby horse—in Wales there is a tendency to be very binary. Either, ‘This is not devolved, and you are going to do exactly what I tell you’, or, ‘We’ve devolved this. It’s nothing to do with us. It’s them.’ The appropriate approach is to agree with subordinates ‘What are the targets, what can we achieve, and what is realistic? I do not want to set you something that you cannot possibly do, but I do not want you sitting on your backside, either’. What is a reasonable target? You agree that. ‘Okay, now that we have agreed the target, how do I know when you’ve got there? What are the KPIs for this? Let’s agree those now. Now go away and do what the hell you like. I don’t care—it’s your party, not mine—but you’re accountable to me for those KPIs’.

[177] I do not think that we do that enough. We are either one end or the other, and devolving day-to-day execution within a clear framework of accountability—we are not that great at it. Setting KPIs for some policies where it makes sense, where it is possible, would be a good thing, and a useful part of the budgetary process.

[178] **Jocelyn Davies:** Thank you, Mr Holtham. You have been very candid with us this morning, and that is always helpful. We are always grateful for your input. As normal, we will send you a transcript; if you could check that for accuracy before we publish it, we would be very grateful.

11:14

**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**

[179] **Jocelyn Davies:** I move that

*the committee resolves to exclude the public from the remainder of the meeting and for items 1, 2 and 3 of the meeting on 18 June, in accordance with Standing Order No. 17.42(ix).*

[180] I see that everyone is in agreement, so we can move into private session.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:14.*

*The public part of the meeting ended at 11:14.*