



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

**Y Pwyllgor Cyllid
The Finance Committee**

**Dydd Mercher, 10 Rhagfyr 2014
Wednesday, 10 December 2014**

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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**

Mohammad Asghar	Ceidwadwyr Cymreig (yn dirprwyo ar ran Nick Ramsay) Welsh Conservatives (substitute for Nick Ramsay)
Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Christine Chapman	Llafur Labour

Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Mike Hedges	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Julie Morgan	Llafur Labour

**Eraill yn bresennol
Others in attendance**

Jeff Andrews	Cynghorydd Polisi Arbenigol Specialist Policy Advisor
Matt Denham-Jones	Pennaeth Rheoli a Chofnodi Cyllidebau Ariannol Head of Budgetary Control & Reporting
Nicola Evans	Rheolwr Cyllid, Swyddfa Archwilio Cymru Finance Manager, Wales Audit Office
Isobel Garner	Cadeirydd, Bwrdd Swyddfa Archwilio Cymru Chair, Wales Audit Office Board
Jane Hutt	Aelod Cynulliad, Llafur (Y Gweinidog Cyllid a Busnes y Llywodraeth) Assembly Member, Labour (The Minister for Finance and Government Business)
Andrew Jeffreys	Cyfarwyddwr Trysorlys, Gwasanaethau Corfforaethol Director Treasury, Finance and Corporate Services
Kevin Thomas	Cyfarwyddwr y Gwasanaethau Corfforaethol, Swyddfa Archwilio Cymru Director of Corporate Services, Wales Audit Office

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

Richard Bettley	Y Gwasanaeth Ymchwil Research Service
Bethan Davies	Clerc Clerk
Leanne Hatcher	Ail Glerc Second Clerk
Joanest Varney-Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser

*Dechreuodd y cyfarfod am 08:59.
The meeting began at 08:59.*

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

[1] **Jocelyn Davies:** Welcome, everyone, to this meeting of the Finance Committee. I just remind you, if you have mobile devices with you, to put them on silent. I would be very grateful. I know that Ann Jones is not able to be with us today. She has sent her apologies, and we are expecting Julie Morgan and Chris Chapman shortly. I am very pleased to welcome Mohammad Asghar today, who is substituting for Nick Ramsay.

09:00

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

[2] **Jocelyn Davies:** We have two papers to note and then we can move to the first substantive item. Are Members happy with those papers to note? Thank you.

**Ymchwiliad i'r Arfer Gorau mewn Prosesau Cyllidebol: Sesiwn Dystiolaeth 5
Best Practice Budget Processes Inquiry: Evidence Session 5**

[3] **Jocelyn Davies:** We move to our first substantive item, then, which is our best practice budget processes inquiry. This is evidence session 5. We have the Minister for Finance and Government Business with us this morning. Minister, would you like, as normal, to introduce yourself and your officials for the record? Then, if it is okay, we will go straight to questions.

[4] **The Minister for Finance and Government Business (Jane Hutt):** Thank you very much, Chair. Can I introduce Andrew Jeffreys, the director of treasury, finance and corporate services for the Welsh Government, Matt Denham-Jones, who is the head of budgetary control and reporting, and Jeff Andrews, specialist policy adviser?

[5] **Jocelyn Davies:** Thank you very much. Minister, the Secretary of State for Wales has announced that he would like to see cross-party support for a blueprint for a new Welsh devolution settlement by 1 March 2015. In what ways can the new budget process be made flexible enough to adapt to future devolved powers?

[6] **Jane Hutt:** Thank you very much, Chair. It has been very helpful—and the Secretary of State certainly recognised this—that we have cross-party agreement and that we have maintained cross-party agreement particularly relating to the future devolution of powers to Wales relating to fiscal matters, very much building on the Holtham report and then on the Silk report. So, that has been very helpful indeed and, of course, the leaders have met this week with him for initial talks on that process. Certainly, when I had the Wales Joint Exchequer Committee, which I chaired, which is the new committee that has been set up under the Wales Bill with the Chief Secretary to the Treasury and Financial Secretary to the Treasury and the Secretary of State for Wales, that was a big milestone in terms of moving forward towards our future devolution prospects. However, on how this links to our new budget process, we have really got to be flexible about how we adapt. Your inquiry is going to be very helpful, I think, to guide us on that. We have got to have a fit-for-purpose framework to ensure that our new fiscal powers clearly set out in the Wales Bill can be delivered in a transparent, open and engaged way, with the National Assembly engaging with the Welsh Government.

[7] I think that it is quite important that we went to Scotland last week and learned quite a bit from that visit. They have a written agreement between the Scottish Government and the Parliament. We have obviously worked together through Standing Orders in terms of the budgetary process. However, we also did instigate, if you recall, a protocol back in 2012, which we might wish to look at in terms of prospects for the way forward. From my understanding, in Scotland, they are still moving forward in terms of their new fiscal powers in the context of the way they are handling budgets at the moment. So, they are implementing the new fiscal powers on a non-statutory basis at this point in time.

[8] **Jocelyn Davies:** So, we could have written rules that are quite flexible and allow for changes, and then the protocol between you and the Assembly could be used when things crop up that have not been accounted for within the rules. So, we have a number of tools

available to us to ensure that it is open, fair and transparent but can also account for changing circumstances. Okay. Minister, would you like to put on the record whether you think the reform of the Barnett formula is likely to happen in the next Parliament?

[9] **Jane Hutt:** Well, you know that, in terms of Barnett reform, we have always been very clear as the Welsh Labour Government that we see it as outdated and in need of reform and that we should move to a needs-based formula. However, obviously, three political parties—Labour, Conservatives and Liberal Democrats—agreed to keep Barnett in terms of the approach to the Scottish referendum, before the referendum, with the vow. Of course, that is reflected in the Smith commission. So, as far as we are concerned, as a Welsh Labour Government, we are working for fair funding. That is critically important in terms of the background to the St David's Day process. As everyone knows, and it is in the motion that we all agreed, we feel that the instigation and implementation of a funding floor is critical to enable us not to be disadvantaged further in Wales by the Barnett formula. That is what I am working to, and I know, with cross-party backing, that we need to have that funding floor to fix Barnett for Wales.

[10] I think that the First Minister has talked about Barnett plus for Wales, but we will see whether the next Parliament or the next Government will address it. It will inevitably address the impact of the continued use of the Barnett formula, because, arguably, it is still going to have a huge impact on block grants, certainly but not just in terms of the Welsh position. In fact, one of the things I am going to do—I hope to do it either before Christmas or shortly after—is publish another Welsh treasury paper laying out what the impact on the block grant will be of the measures in the Wales Bill, and compare that with the issues if, say, you had the Smith commission apply to Wales and what that would mean in terms of the block grant. However, it is still considerable. It is still around 75% in terms of the Wales Bill and 60%—well, we are just firming the figures up, are we not, Andrew?

[11] **Mr Jeffreys:** Yes.

[12] **Jane Hutt:** However, I think it would be useful for everyone to know. It is still a big impact on our budget.

[13] **Jocelyn Davies:** So, there will be a number of scenarios laid out in the paper that you intend to publish. Before I bring Ffred in, what is the approach of the other devolved administrations?

[14] **Jane Hutt:** On Scotland, I met with John Swinney last week. The Barnett formula is there, as far as they are concerned, but they respect—. I was able to talk to him about the floor and I talked to him about the floor four years ago when we started on this process. We had a very good discussion about respecting each other's positions in terms of devolution. I respect the Smith commission and I told him about the St David's Day process and said that this was part of the motion agreed by the Assembly. He had sight of it, and he recognised that this is our position and that we will be pursuing it. I am shortly going to meet the Northern Ireland Minister for Finance and Personnel to talk to him about the implications of the Smith commission, and the implications for us as Ministers for finance in devolved administrations. I am sure that I will be feeding back to the Finance Committee about that.

[15] **Jocelyn Davies:** Okay, thank you. Ffred is next.

[16] **Alun Ffred Jones:** Just following on from that, have you asked the present administration in London for a written justification for the vast difference between the spending per head in Scotland and Wales?

[17] **Jane Hutt:** Well, that has obviously been very clearly revealed in more recent times

by the use of the Barnett formula. It is certainly explicit in both the Holtham report and the Silk commission report in terms of the comparisons. Of course, that has been our case, not only for reform of Barnett but for the funding floor, because it is the only way that we can address our disadvantage, if you like, compared with Scotland. The evidence is quite clear, and they have got it in Treasury.

[18] **Alun Ffred Jones:** I know that they have got it. I am just asking whether you have asked it to justify it. Surely, Governments should be able to justify whatever they do or whatever stance they take. So, I am just wondering whether you have asked it to justify it in writing.

[19] **Jane Hutt:** Sorry, Alun Ffred. Obviously, they are sticking to the Barnett formula.

[20] **Alun Ffred Jones:** I know that they are sticking to it, but I am just wondering whether it would be worth asking them to justify it.

[21] **Jane Hutt:** I have spent many a meeting and many an hour saying that this is unfair to Wales.

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

[23] **Mike Hedges:** Yes. Barnett is complicated by the fact that different things are devolved to Scotland and to Wales. It is also complicated by its being based on population, and Scotland's population for a long time was dropping, and is still not rising at anywhere near the speed of Wales's. Have you had any discussions regarding taking in-year populations for the Barnett formula, which would take into account the relative increase in population in Wales, rather than having this going-back formula, where Scotland ends up with more per head because its population at one time was dropping but now is increasing substantially less than Wales?

[24] My other question is has anybody done any calculations? Just multiplying Scotland's population per head, so how much goes to Scotland, and doing the same for Wales does not compare like for like, does it, because of things like policing? Have there been any calculations taking off the nominal amounts for policing and for other services that are devolved in order to calculate the difference?

[25] **Jane Hutt:** I have not directly raised those key points, Mike. In a sense, it goes back to Alun Ffred's points, as well. We could go back, as could this committee, and start unravelling Barnett again, jointly, and looking at it in terms of the impacts and the unfairness of it in terms of those points, but I think that a lot of that is in the Holtham commission report, is it not, Andrew?

[26] **Mr Jeffreys:** The Holtham commission report does not have any formal comparisons per head on equivalent functions in Wales and in Scotland. There are various factors that complicate doing that kind of comparison very robustly, but it is feasible to come up with a number. I have not got the number, but you could probably do that. However, I think that the published evidence shows very clearly that the spend per head in Scotland is much higher than it is in Wales, which is a generally accepted fact, as it were.

[27] **Mike Hedges:** Yes, but that is because Scotland is on a higher level, because Scotland has managed to get things counted as Barnett consequential or added into the system where Wales has been less successful at getting things added in, and because of the relative population change. The only thing that can affect Barnett is where you start and population and things that are added in afterwards. One thing that people like about Barnett is that it is a very simple formula.

[28] **Jane Hutt:** I think that we would want to query that comment about our being less successful in adding things in, compared with Scotland. Also, the issue is that—and I made this clear when I met with John Swinney last week—we are where we are with Scotland, and they have the Smith commission, which is progressing and which is based on keeping the Barnett formula for their element of block grant. It is important to see the figures about what that element of block grant still is, which of course will be determined by Barnett. I want to give that information in my next treasury paper, because, obviously, it is still quite significant in terms of the Scottish allocations via block grant for Barnett, is it not?

[29] **Mr Jeffreys:** It is about 50%. If all of Smith is implemented, it will still be 50% block grant, roughly, in Scotland.

[30] **Jocelyn Davies:** Do you not envisage your treasury paper having a comparison of like for like with Wales and Scotland on just the devolved matters? Do you not expect to have that kind of comparison in your paper?

09:15

[31] **Jane Hutt:** No. Obviously, there is a lot of work to be done. It is still the fact that, unless there is a change in the Barnett formula, going back to your first question, Chair, this is where we are going to be disadvantaged in Wales, but we have been pragmatic and practical, and Gerry Holtham gave us a mechanism. We got as far as having, in 2012, an agreement with the UK Government and recognition—which we have not had before—that there had been convergence as a result of the Barnett formula and that we would agree on a mechanism at each spending review to assess whether convergence was going to impact as a result of the spending review announcement and settlement. So, from my point of view, I am working to achieve that practical resolution of getting a funding floor to halt convergence, and I think that that is where I should put my energies.

[32] **Jocelyn Davies:** Yes, okay. Julie, shall we come to your questions?

[33] **Julie Morgan:** Could you tell us what progress has been made on resolving the block grant adjustment mechanism for the new devolved taxes? Have you had any discussions with the Treasury about this because, certainly when we were in Scotland, I think that this was quite an issue?

[34] **Jane Hutt:** Yes, and, as far as I understand, as yet in Scotland, there is no offset mechanism and, of course, they are way ahead in terms of their legislation going through with their devolved taxes for Scotland. It is obviously quite a technical issue in terms of the block grant offsets, but we have to have it calculated in a fair and open way and it has got to take into account the properties of the relevant tax base. So, I started the conversations with the chief secretary at the beginning of this year, to say that we want to start considering the offsets. I think that that is where we are with that in terms of our smaller taxes.

[35] **Julie Morgan:** There does seem to be a great deal of concern in Scotland about the inability to agree. Do you have any idea what the gap is in the Scottish situation?

[36] **Jane Hutt:** It is a matter of negotiation, and what comes out of Scotland—we have common cause with Scotland now, because what comes out of Scotland is very likely to be reflected in negotiations for Wales. I raised this at the joint exchequer committee in October. That committee is overseeing the transfer of financial powers. We are very clear that we need to agree these block grant adjustments. I think that this is a matter where the Scottish situation has not been resolved, has it, Andrew?

[37] **Mr Jeffreys:** No. Of course, last week's announcement on the form of stamp duty land tax had quite a significant effect on what the block grant adjustment should be for that tax. So, if you had been doing a block grant adjustment before that reform, you would perhaps have come up with one estimate of what the adjustment should be, but now that you have made that significant change in SDLT, which has reduced the effective tax rate quite significantly, arguably, that block grant adjustment should now be smaller. Of course, the Scots have introduced their new tax in the meantime, the rates of which are somewhat higher than the reformed SDLT rates are. All of that just illustrates how complex this actually is. The principles are quite easy to agree, but the actual practical application of those, in any given case, is really tricky.

[38] **Julie Morgan:** So, is there even more of a case for having some independent body to look at these disputes when they arise?

[39] **Jane Hutt:** Yes, and I think that that is one of the things that Gerry Holtham did recommend. I suspect, as Andrew said, it has been complicated by the autumn statement for Scotland, to be fair, on the position now; if they were coming towards an agreement, this is going to be a setback in terms of those practicalities. However, this is also an issue, I think, that the Treasury has got to grasp in terms of devolution and the way forward. Certainly, this is a point that we would discuss at a quadrilateral meeting between all of the finance Ministers, because there will be a new statement of funding policy as a result of the Scotland Act and now the Wales Bill. We have not had a quadrilateral meeting for nearly a year, or 10—it is the longest period without one, put it like that; obviously, we have had the referendum. These are issues that should be discussed between the devolved administrations. In fact, we have common cause with Scotland to get this sorted out.

[40] **Julie Morgan:** Thank you. To go on to the autumn statement, could you summarise the details of the agreement regarding the devolution of business rates?

[41] **Jane Hutt:** As far as that is concerned, I feel that we did have a major gain for Wales, and I did mention this in outline yesterday in my final budget remarks in the debate. Basically, the Treasury did agree what we were proposing, and it is a fair deal, so what it means is that we have secured for the non-domestic rates, £98.5 million, which is basically cash for us in terms of our budget. In 2015-16, we will build up a cash reserve—the £98.5 million. If we had not done this, we could not devolve the taxes in April, so it is absolutely critical. Subsequently, we will get a baseline uplift at the same level, and that does give Wales the equivalent treatment to Scotland.

[42] **Julie Morgan:** Thank you. The Wales Bill command paper states that the UK Government will hold the Welsh Government's cash reserve for dealing with the volatility in tax returns. Have you had any response from the Treasury about whether that can change?

[43] **Jane Hutt:** That is what happens with our cash reserves. The Treasury does hold the cash reserve because we do not have the ability to hold cash at that level and carry it over.

[44] **Julie Morgan:** So, you would not see any change in that.

[45] **Jane Hutt:** This is the same position as in Scotland. It is just a situation that we are in and, as you say, it is in the command paper. Basically, it is our money, but it is held in the Treasury. *[Laughter.]*

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

[47] **Mike Hedges:** Would that money be invested and would we get a return on that, or would you just get it back as straight cash? What I can see, as we go through the cycle, when

we have to borrow to cover revenue deficit, is that we will paying interest on that, and when we have more money in than we spend during that part of the cycle, we will not get interest, in which case, we will have an interest deficit.

[48] **Jane Hutt:** It is straight cash held in the reserve.

[49] **Mike Hedges:** So, we will have an interest deficit in that part of the cycle.

[50] **Jane Hutt:** Well, we will have to handle that in our own ways. In terms of the Treasury, it is not exactly in a bank account raising interest. However, it is a good point.

[51] **Mr Jeffrey:** It is probably worth saying that all of this is new, so there is not a kind of—. It has not done this yet with Scotland, so exactly how the money flows will work is still to be determined. The Treasury, I imagine, will have its idea about how this should work; we might have a different idea and the committee will have ideas about how it should work. We will see where we end up.

[52] **Jane Hutt:** I think that it is a very fair point for us to raise, and perhaps you will reflect on it in the committee report.

[53] **Jocelyn Davies:** These will be significant sums of money, and if it did earn interest, then that is to your benefit, is it not? However, we certainly do not see—and I think this is Mike's point—why you should be the loser, otherwise you might just as well keep it under the mattress, as it were, if it is not working for you. Julie, did you want to come in?

[54] **Julie Morgan:** Yes. Are there any outstanding issues to be resolved with the Treasury on the new borrowing powers?

[55] **Jane Hutt:** On the borrowing powers, there are no issues in terms of what is being made available in the draft Wales Bill in terms of the borrowing limits. There are no technical borrowing powers. Obviously, we made the case that there should be higher borrowing powers in terms of the £500 million ceiling and, actually, this is another part of our motion, which we debated last month, and it certainly forms part of our intergovernmental discussions. However, the command paper acknowledged this, because we had made this point regarding the draft Wales Bill, so there is a process for reviewing it. However, there are no issues around accessing it; it is the level that we want to improve.

[56] **Julie Morgan:** Thank you, I think that we are moving on now—

[57] **Jocelyn Davies:** Yes, to the budget process.

[58] **Julie Morgan:** You noted that the Welsh Government budget is often agreed before the UK Government's budget but that other public bodies need to plan their budgets earlier. Is there any way that this could be resolved?

[59] **Jane Hutt:** The issue, I suppose, about the Welsh Government and the UK Government budgets is that the UK Government budget is in March. I know that we have the autumn statement, often way into December, as it was this time, but the UK budget is in March for the forthcoming financial year, and I think that, in a sense, our timelines in terms of our budget provide the way that we manage it. I think that it is important for other public bodies that depend upon the decisions. It is interesting that, in Scotland, again, the budgetary proceedings seem to be going right into the new year. I do not think, necessarily, that changing—I think that it would be quite difficult and a big upheaval if we were to change the timetabling. However, of course, we are so dependent on the UK Government block grant that we have to work within the timescales that we have. It is an opportunity for us, through your

inquiry, to look at where we should be making our decisions in the fiscal framework.

[60] **Jocelyn Davies:** I suppose, Minister, that this has become more evident with a declining budget, whereas, in the past, there was generally an uplift in the budget and it was easier for you to make predictions. However, I suppose that a declining budget and the cuts that you are passing on to others make it difficult, because of the changes that people have to make very quickly.

[61] **Jane Hutt:** Yes, and it is crucial that we have that scrutiny period. Obviously, this year we brought the budget forward by a week, so we have been engaged, and we knew, with the declining budget, the difficult decisions that we were going to make in this budget. It is also quite difficult that you have an autumn statement in December that actually puts more money back into what would be next year's final budget. I could not reflect that in the papers that you got for the final budget this week. Obviously, the consequential and how we have spent them will have to be scrutinised in next year's first supplementary budget. That is not helpful. We are very constrained by the decisions that are made at UK Government level.

[62] **Jocelyn Davies:** Julie, is that okay?

[63] **Julie Morgan:** Yes.

[64] **Jocelyn Davies:** Peter, shall we come to your questions?

[65] **Peter Black:** Yes, sure. Minister, the committee has noted that many countries have a specific Act covering their financial frameworks and providing a statutory authority for public spending. Does the Welsh Government foresee any difficulties in introducing such an Act in Wales?

[66] **Jane Hutt:** Through the Wales Bill, we will have the competence to legislate if that is what we feel is the right way forward for our budgetary procedures, and, obviously, that would be within the framework in which we want to implement the reforms. However, I think that this is something where, again, it is very important that we work with you and through this inquiry—as we did in visiting Scotland last week and finding out how they are managing this—and, regarding the earlier questions, whether we need as much flexibility at the moment to see what we need to do and whether and when we would legislate.

09:30

[67] I think that, clearly, we have to look at our Standing Orders, do we not? Also, a very important point goes back to our budget protocol, which I mentioned. In Scotland, they have not made changes as a result of the Scotland Act, but, since 1999, they have had the Finance Act 1999 procedure that they use. However, from discussing it with Scottish colleagues last week, we heard that it is their written agreement, which is a bit like our protocol, and their Standing Orders that steer it. It is not very different from what we do, but it may be that we need to look at this as a result of your inquiry and as we acquire the new powers.

[68] **Peter Black:** So, at what stage would you consider legislating, as opposed to relying on the protocol under Standing Orders?

[69] **Jane Hutt:** I think, once again, that we need to consider this carefully together. However, it certainly would be into the next session of the Assembly that we would be looking at this. That is very much for the National Assembly for Wales, working with the Welsh Government. It is a shared responsibility. I would not presume to make those decisions as the Minister for finance and from the Welsh Government perspective.

[70] **Peter Black:** Okay. Obviously, the shape of the budget is changing quite dramatically with the additional borrowing powers and all of the various taxation powers. Will you be looking to include future borrowing plans in the draft budget in the forthcoming session?

[71] **Jane Hutt:** We do already, at this stage, lay out what we have been able to facilitate in terms of borrowing through innovative finance particularly, but it is essential that it is part of the scrutiny—that is, that our borrowing plans and long-term commitments would be part of the budgetary process.

[72] **Peter Black:** How transparent will that be in the budget document in terms of stating how much you have borrowed, how much you will repay in that year, et cetera?

[73] **Jane Hutt:** Absolutely, the long-term borrowing commitments that we are entering into as the Welsh Government should form part of the spending plans. Obviously, in terms of the detail of the information, I will be looking at what is appropriate and how transparent it can be, and this will be something that I am sure, once we have done it the first time through scrutiny, we will probably improve and be able to expand upon. However, it would be good to get it right or to get the best level of transparency and as much information as we could in the first instance.

[74] **Peter Black:** Perhaps we need to review the protocol together and make sure we get it right.

[75] **Jane Hutt:** That is probably a good way of doing that.

[76] **Jocelyn Davies:** So, currently, the Welsh Government has no position on the structure of the future budget process. You are waiting to see the outcome of this review to form an opinion on what the position will be in the future, but you do not have a position as yet.

[77] **Jane Hutt:** No, I think that this is something on which we work well together. Obviously, in the Bill and the command paper, there are high-level controls that will be operated by the Treasury within its UK fiscal framework, so we have to operate within that. However, as I have said, my commitment today is to be open and transparent, to learn from others as well, in terms of the Scottish experience and that of Northern Ireland, and to make sure that we can move forward so that we get it right as early as possible and use our protocol, and update our protocol, to enable that to happen.

[78] **Jocelyn Davies:** Mike, you have a question on this point.

[79] **Mike Hedges:** Would it be possible to produce, as you did for invest-to-save, the same for borrowing? That is, how much is borrowed and then how much is being paid back over the next five years, as you did for invest-to-save. That makes it easy for some of us, at least, to follow what is happening.

[80] **Jane Hutt:** I cannot see there being any difficulty. Obviously, it is a changing pattern, is it not, in terms of borrowing indications? However, I would have thought that we could provide that kind of information.

[81] **Jocelyn Davies:** I think that the point is that it is accessible for other people to look at it and understand it.

[82] **Peter Black:** I have just one more question. What flexibility does the Welsh Government need over borrowing levels?

[83] **Jane Hutt:** We want to maximise the flexibility that we have over borrowing, because we need to maximise it for any short-term deficits and tax revenues, and also to enable us to use it and make decisions about investing in infrastructure. We want as much flexibility as the Treasury has.

[84] **Peter Black:** So, in terms of managing your budget, will you be looking at short-term borrowing, long-term borrowing and that sort of variance?

[85] **Jane Hutt:** Yes. I think that we need to use this in order to boost our economy and the powers that we have as a Welsh Government. This is not a fiscal matter; this is a matter of economic and financial management.

[86] **Peter Black:** Yes. Okay.

[87] **Jocelyn Davies:** Mike, shall we come on to your questions?

[88] **Mike Hedges:** Yes. In Scotland, the Parliament's final budget debate is focused on its finance committee's budget report and the Scottish Government's response to that report. How do you see the final budget report of the Finance Committee fitting into the system?

[89] **Jane Hutt:** I was very conscious, actually, that I had only just responded to the Finance Committee report. It would be useful to look again at how we manage the whole process, because I made an initial statement, then we had a draft budget and the Finance Committee Chair responded to the draft budget, and then the Finance Committee report and I only responded in full just before the final budget debate. I think that there would be merit in looking at how I could more formally respond to the budget. Actually, we are giving the budget quite an airing in the Chamber now throughout the whole process.

[90] However, perhaps it is at the draft budget debate stage that we should consider this. This is something that we could look at together. Obviously, it is also a matter for the Business Committee, I would imagine, as well as the whole Assembly. We have looked at this in the past in terms of Standing Orders, so this is something on which, perhaps, you might come up with suggestions. It would be helpful if our officials could talk about it as well.

[91] **Mike Hedges:** The Wales Bill will transform the way in which the National Assembly for Wales considers economic policies and how it funds itself. To ensure that Assembly Members compare alternative budget policies on taxation, the committee has identified that there will need to be access to underlying transaction data on taxes, which will be held by the Welsh Government or the Welsh revenue authority. Will the Welsh Government make a commitment to share this data with the National Assembly for Wales, so that people can come up with alternative strategies?

[92] **Jane Hutt:** Well, this will very much reflect what the Welsh revenue authority can do in terms of sharing that information. It will legally hold the powers of the Welsh devolved tax collection and management and, as you say, the data on Welsh devolved taxes. What we would expect of the Welsh revenue authority is for it to be as transparent and open as possible and that it publishes data on Welsh taxes on a regular basis. So, we would want to be as open as possible and—obviously, you cannot disclose taxpayer information—look for ways in which we can provide that information.

[93] **Mike Hedges:** It is the global figure that people are more interested in, rather than how much or how little tax each one of us is paying.

[94] **Jane Hutt:** Absolutely.

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

[96] **Peter Black:** Yes. To what extent will the data that the Welsh Government will be using be validated by the Office for Budget Responsibility?

[97] **Jane Hutt:** That is a question for Andrew.

[98] **Mr Jeffreys:** The OBR's role at the moment is forecasting the economy and future tax receipts and various variables that determine those. The verification of the data is more of an Office for National Statistics function, and there is an interesting question as to whether Welsh revenue authority data and data on the Welsh devolved taxes will be national statistics and those kinds of things. It will be important that the quality assurance and standards that are applied to those data are in line with best practice, definitely.

[99] **Peter Black:** Obviously, you will be working with the ONS, but also the OBR in terms of—

[100] **Mr Jeffreys:** The OBR has already started forecasting tax receipts in Wales for the taxes that will be devolved. We are talking to it about what the relationship is post tax devolution. The way that that is probably going to work is that the Welsh Government, or some combination of the Welsh Government and the WRA, will forecast receipts from devolved taxes and the OBR will look at that and factor that into its overall macro-level forecasting.

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

<p>[102] Alun Ffred Jones: Yn rhan gyntaf adroddiad y pwyllgor ar broses y gyllideb, dywedodd y pwyllgor ei fod yn hoff o'r syniad o gysylltu dyraniadau adnoddau gydag allbynnau tymor byr. Nodwyd bod peth tystiolaeth bod y broses hon yn gweithio yn Seland Newydd. Beth yw barn Llywodraeth Cymru ar symud i drefniant o'r fath?</p>	<p>Alun Ffred Jones: In part 1 of the committee's report on the budgetary process, the committee said that it liked the idea of linking resource allocations to short-term outputs. It was noted that there was some evidence that this process works in New Zealand. What is the view of the Welsh Government on moving to that kind of arrangement?</p>
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[103] **Jane Hutt:** Well, I think we have done good work, and very much good work together with the Finance Committee over how we can improve our budgetary process to ensure that the budget is linked to a programme for government and to outcomes for the longer term and the shorter term. When we look at our programme spend, and perhaps if you look at policy areas like education, and the budgetary decisions to protect budgets for schools in terms of the 1% protection, we will want to know what the outcomes are, what that would mean and the impact in terms of educational attainment. I think also that when we have discussed and made decisions about funding programmes and initiatives like the pupil deprivation grant, of course we want to see what the impact and the outcome of that is in terms of breaking the link between educational attainment and poverty. So, we have to move forward in terms of improving the ways in which we can demonstrate the link to resource allocation and to outcomes. Evaluation has a key part to play in that as well, in terms of understanding and being clear on what the evidence is on what is working and what the outputs and outcomes are.

[104] I know that you have looked at this evidence and it is interesting that, in terms of the New Zealand experience, the indicators and targets seem to have been stepping stones for longer term outcomes. We do provide an awful lot of information already in terms of the

budget, in terms of action tables, and the strategic context of our decisions in the narrative of the budget. However, I think that what is very important is that we do learn from other countries, and I was very interested in Scotland to learn a bit about the Virginian experience, and that, looking closer to home—and maybe the committee is going to follow this up—they have this programme called Scotland Performs, which seems to be very valuable.

[105] Just in terms of the point, Alun Ffred, about stepping stones and outputs, we have a separate annexe now, showing year-on-year changes affecting each main expenditure group. We have a separate reconciliation about budget proposals aligning with programme for government outcomes. We have a greater level of detail on the invest-to-save information in the budget MEG action tables. We have budget information leaflets for children and young people on accessible information. Also, we clearly see that there are opportunities to move forward in terms of how we demonstrate the impact of our budgetary decisions.

[106] **Alun Ffred Jones:** I raddau, rydych chi wedi ateb y cwestiwn atodol, achos fe glywsom gan John Swinney yn yr Alban fod y Llywodraeth yno wedi mabwysiadu 16 o ganlyniadau cenedlaethol lefel uchel, sy'n debygol o gael eu mesur dros gyfnod o 10 mlynedd, ond bod ganddi hefyd 50 o ddangosyddion cenedlaethol. A ydych chi'n credu y dylem ni yng Nghymru fabwysiadu proses—neu drefn—ffurfiol fel hynny, er mwyn ceisio cysylltu'r gyllideb â chanlyniadau, a deilliannau?

Alun Ffred Jones: To an extent, you have answered the supplementary question, because we heard from John Swinney in Scotland that the Government there has adopted 16 high-level national outcomes, which are likely to be measured over a period of 10 years, but that it also has 50 national indicators. Do you believe that we in Wales should adopt a formal process—or system—like that, in order to try to link the budget with outcomes, and outputs?

9:45

[107] **Jane Hutt:** Yes. I did start to consider the impact of the Scottish regime. I think that we also have to look at the Well-being of Future Generations (Wales) Bill, in terms of legislating for national wellbeing goals, and that is progressing now. Wellbeing indicators are going to be set alongside the goals. That, of course, will also mean that many major public bodies also will be subject to those duties. I think that what is important—and what is interesting about the Scottish performance—is what impact this has on the bodies that deliver on many of the budgetary decisions that we make, because that is obviously key to local government, and the health service, and other public bodies.

[108] So, this is obviously wider, I think; just in terms of budgetary issues, it is about opportunities through legislation, and through the devolved services reform programme of the Welsh Government as well. To try to have this kind of all-Wales approach to budgetary decisions and longer-term outcomes, in terms of social and economic progress, and then being able to link that to performance and delivery, is crucial.

[109] **Jocelyn Davies:** Minister, I do not know whether you have a view on how long this has been embedded in Scotland, but have you noticed any impact at all on the behaviour of outside organisations, or even on the political debate there, because it did appear to us that the debate was still around how many people are employed in the health service, and how many beds there are, which might not be related to outcomes and outputs? So, the debate appeared to us to be similar, even though the measurement should have been something else.

[110] **Jane Hutt:** Yes. I think that that is where—. How much detail do we want in terms of indicators? The New Zealand experience, I think, includes a huge amount of data, which we probably, collectively, do not think would be necessary to help us improve the way that we deliver our public services in relation to the budgetary decisions that we make. I think that

this is something—. We, obviously, have to follow this up in terms of the impact in Scotland.

[111] **Jocelyn Davies:** Yes, or maybe Virginia. However, if you decided that that is what you wanted to measure, you would expect that to change behaviour in spending commitments.

[112] **Jane Hutt:** Well, I think that it would demonstrate where there are failures and weaknesses—I mean, there would be comparative data, of course, in terms of outputs and outcomes. So, it would be a real measure of what is happening, and what is being delivered, and where there is need to take action.

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

[114] **Christine Chapman:** Thank you, Chair. Minister, I just wanted to ask you a bit about the Well-being of Future Generations (Wales) Bill. This is a new piece of legislation, which will, hopefully, really make a difference. It is going to introduce national indicators for wellbeing in Wales, so it is very important. Do you have any plans to ensure that the indicators in this Bill could be directly linked to budget headings within the annual budget?

[115] **Jane Hutt:** I have mentioned the opportunities that the Well-being of Future Generations (Wales) Bill could offer in this direction. Obviously, it is early days, and it is a complex area. So, if we perhaps think of some examples, in relation to public health, for example, ‘a healthier Wales’ has indicators, but it also has national goals. However, on ‘a resilient Wales’, there are going to be such a lot of cross-cutting issues that it is going to be difficult to know how you score that in a budget in terms of achieving those bigger goals in terms of the Bill. However, what we cannot do is turn this into another technical exercise, where people cannot engage in this and see, ‘Well, this amount of money...’. I think, on the point that the Chair made earlier, particularly in terms of forecast, we are talking about a declining budget and declining public finance. We may then be having to use our tax revenues—hopefully, in an important, proactive way—but we are talking about a constrained budgetary exercise and how we can make this meaningful, I think. That is the challenge of the Well-being of Future Generations (Wales) Bill: to make it meaningful, so that we can then get people involved in these discussions, and other public bodies, and communities. So, I think that we can test it out, for example, in things like the public health budget in terms of a healthier Wales. It does link a bit back to this thorny question of prevention and the points that we discussed in terms of scrutiny on what does this mean in terms of prevention, and whether the whole of the health budget is a preventative budget or whether it is just the things related to public health that are particularly preventative. So, we are certainly working very closely in preparation for the opportunities to have indicators and these bigger goals for Wales in terms of the Well-being of Future Generations (Wales) Bill.

[116] **Christine Chapman:** May I just take that further because I think that it is about being precise, really, is it not, if you want people to be signed up to this idea? So, are you saying that you would not want the budget allocations to be part of the indicators or that there is further work to be done on that?

[117] **Jane Hutt:** Certainly, we would want to steer the budget in this direction and use it. We can use those indicators for wellbeing in Wales very positively, I think, to help to steer the budget because it is about impact, is it not? It is the longer-term impact that we want to have. I think that it is a very positive opportunity in terms of the Bill.

[118] **Christine Chapman:** Minister, you obviously touched on the preventative spending aspect of the Bill and, as you said, it is a bit of a thorny question because, when we discussed it as a committee, I think that it is still not really understood sometimes what exactly we are looking for and, of course, that does not help when we are trying to communicate this to the

wider public. However, if this spending were to be reported in the annual budget, would you be able to ensure consistent reporting across Welsh Government and public bodies?

[119] **Jane Hutt:** I think that I gave my commitment yesterday, in the final budget debate, to wanting to improve the way in which we present the spend on preventative interventions. I know that that was a clear recommendation of the Finance Committee report. I positively responded yesterday again, and I did in response to the committee report and your scrutiny, and, obviously, this is something now that I am working on with colleagues in the Welsh Government so that we can improve presentation, transparency and clarity, which is key, in terms of prevention and impact.

[120] **Jocelyn Davies:** Mohammad Asghar is next.

[121] **Mohammad Asghar:** My questions are on alignment of accounts and budget to understand this area. The committee's evidence has shown an inconsistency between the boundary used by the Treasury for setting the Welsh block budget and the Welsh Government's budget motion. The Welsh Government's accounts at present are a bit different, as they incorporate the results of health bodies, but not other bodies that are within the Welsh block. It is important that these inconsistencies are resolved in the new budget process. How would the Welsh Government implement a better alignment of budgets and accounts in this case?

[122] **Jane Hutt:** Well, certainly, I think that this is part of the wider budgetary reform programme that we are undertaking. I think that Matt is very involved in the early stages of this. I do not know whether you would like to say something, Matt, about how you are trying to make that alignment more helpful for the Assembly.

[123] **Mr Denham-Jones:** Just on alignment, as the Minister says, it is early days work. We are looking at this and how we can look at an issue that I think the committee has touched on over the last year or two on the alignment of our accounts and budgets. Reworking the budget process seems a good opportunity and time to look at this again, but we need to consult with the bodies that will be affected by that. We are starting off the process to look at that and I am sure that we will return to the committee to update you.

[124] **Mohammad Asghar:** Will the Welsh Government be able to achieve—

[125] **Jocelyn Davies:** Excuse me. Can you explain what the impact on those bodies would be?

[126] **Jane Hutt:** That is what we have got to explore.

[127] **Mr Denham-Jones:** That is one of the things, of course, we are looking into. It would not be simply a change to their annual accounts, but also to the governance and how that all maps into our own budget. Realigning the budget and accounting boundaries, effectively, would change the way that some of the expenditure of the bodies is controlled, because they become part of, under the basic principle, the budget, which the Assembly would then vote. So, rather than vote the funding of some of the bodies that we bring in, you would actually be controlling their spend and how they actually spend it.

[128] **Jocelyn Davies:** I see. Sorry, Mohammad.

[129] **Mohammad Asghar:** Thank you, Chair. Would the Welsh Government be able to achieve an alignment of budget boundaries before the new budget process is fully in place in 2018?

[130] **Jane Hutt:** I think that that picks up, really, on what Matt has been saying in terms of that we have to agree the treatment for all the bodies that are funded from the Welsh block. So, obviously, we are talking about the Commission, which should not be such an issue, but also the Wales Audit Office and the Public Services Ombudsman. So, we have to have a new process in place before we present a budget on an aligned basis. Eighteen months before, we would prepare accounts on that basis. We are working on this, so perhaps we could feed back, Chair, on progress on this in terms of making sure that we can get this in place before 2018.

[131] **Jocelyn Davies:** Okay, before I call Mohammad Asghar back in, Mike Hedges wants to ask one supplementary question.

[132] **Mike Hedges:** Is there not a difference between those bodies that are wholly funded by the National Assembly or the Welsh Government and those that are partially funded? Effectively, we give partial funding to Wales Audit Office, but we give full funding to the ombudsman, do we not? So, the ombudsman is wholly dependent on the Welsh Government or the National Assembly for Wales's budget process in order to be funded. Surely, with those that are wholly funded, we would have no difficulty in incorporating them in.

[133] **Jane Hutt:** There should not be any difficulty. Really, it is about the work that has to be done to align the process with their budgetary processes. I do not think that there is any difference whether they are funded wholly or partially by us.

[134] **Mr Denham-Jones:** No, I do not believe that it makes a huge difference. I think one of the more important differences for those bodies is the fact that their budgets are separately voted for by the National Assembly, so there are separate votes and they are separately considered by this committee, as opposed to say budgets for various Assembly-sponsored bodies or the health bodies.

[135] **Mohammad Asghar:** We know, Minister, that departmental budgets are set by the Government, estimates are approved by Parliament and the accounts prepared by the National Audit Office. How would the Welsh Government produce a single national account covering the entire devolved Welsh public sector? What difficulties would the Welsh Government foresee in producing such an account?

[136] **Jane Hutt:** I think that a preparation of a single set of financial accounts would be a very complex prospect for the whole of the public sector in Wales. There is not a mechanism at the moment for consolidating information made available by public sector bodies. In fact, you can look at the whole-of-Government accounts that are produced by the Treasury on a UK-wide basis; it does not actually identify Welsh bodies separately. So, I think that we could look at this, but what would the purpose be, really? We would need to justify it, and look at whether there is another way. What is the best way to get that kind of information, whether you are thinking of this in terms of the purpose of it, in terms of a single, national account? So, it would be a lot of new work to do.

10:00

[137] **Mohammad Asghar:** Is there any shared responsibility from Scotland in this prospect?

[138] **Jane Hutt:** Well, I am not aware of any, but we could look into that.

[139] **Mohammad Asghar:** Thank you.

[140] **Jocelyn Davies:** Okay. Mike, will you cover the points that Ann was going to make?

[141] **Mike Hedges:** Yes. On the volatility of income, or the volatility of revenue, one problem of having devolved taxes, especially those like stamp duty, which are cyclical, is that you have good years and bad years, shall we say? How would you manage the risk, how do you intend to report it, and how do you ensure that, in good years, we do not spend to the maximum, and then, in bad years, we say, ‘Oh, dear’?

[142] **Jane Hutt:** Well, we do have to have, obviously, robust methods, first of all, for forecasting the tax revenues, and we are working on that, as you know, and we have already said today, on the tax forecasting, that we already have expertise available. Looking at the Holtham commission, we have actually kept the people on who did the work for us—the officials who did the work to support Gerry Holtham and his team. Working forward with the Silk report, and the draft Wales Bill, there is expertise available, but we have to develop that further. Also, there are implications for local government, and for HM Revenue and Customs, as well. We must develop our information sharing, particularly with HMRC. In fact, only a couple of weeks ago, I met the lead official in HMRC, who is very keen to develop this work, in terms of information sharing. They are already working very closely with the Scottish Government in this respect. So, it is building our expertise, I think, and sharing the information.

[143] **Mike Hedges:** Well, when we build economic data models for the Welsh economy—and I have two questions on this—how will you support the academic sector in doing so, and are you in favour of having a Welsh fiscal commission?

[144] **Jane Hutt:** It was interesting to talk a bit to the Scottish Minister for finance, John Swinney, about the Scottish Fiscal Commission. We are already working very closely with academic and other interests, really, in terms of generating that economic data. I think that our treasury team is all ready, in terms of the fact that we have our own economists and statisticians, as well as policy advisers, and I have my tax advisory group, and a tax forum, which includes a lot of expertise, including academic expertise. Actually, we are sponsoring a PhD student at Cardiff Business School, for example, to investigate whether a macroeconomic modelling approach would bring a useful perspective to policy development on devolved taxes. So, you know, we are very engaged, and, hopefully, that will be a useful source of expertise.

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

[146] **Alun Ffred Jones:** Os caf. Efallai ein bod yn siarad gormod am yr Alban, ond, gan ei fod yn gyfnod cyffrous, mae'n werth dweud hefyd ein bod wedi clywed bod trefniant mwy ffurfiol yn yr Alban, lle mae'r Llywodraeth yn defnyddio arbenigedd y prifysgolion mewn ffordd, fel rwy'n dweud, mwy ffurfiol a chreadigol er mwyn cymryd mantais o'r wybodaeth a'r arbenigedd sydd yn y prifysgolion hynny. A ydy hi'n fwriad gan y Llywodraeth hon i ddefnyddio yr un math o drefniant yma yn y dyfodol?

Alun Ffred Jones: If I may. Perhaps we talk too much about Scotland, but, as it is an exciting time, it is worth saying also that we have heard that there is a more formal arrangement in Scotland, whereby the Government uses expertise within universities in a more, as I say, formal and creative way, in order to take advantage of the information and the expertise within those universities. Is it this Government's intention to use the same kind of approach here in the future?

[147] **Jane Hutt:** Well, I believe that we are already engaging in that way with our academic community. I have mentioned just one example of sponsoring a PhD student at Cardiff Business School, but we also, of course, have engaged in funding the Public Policy Institute, which is undertaking work for us. The tax forum includes academic interest and expertise as well as financial accountants and lawyers. Only a few weeks ago, I went to the tax forum. The meeting was held in Bangor University, in the school of management. It has

been very involved in developing our exhibition on taxes. They are interesting, obviously. Some of them are interesting from a historical perspective, which, in itself, has relevance, quite clearly. In fact, I should say that our exhibition is up in the Senedd. I do not know whether anyone has seen it. Is it in the Oriel?

[148] **Mr Jeffreys:** I assume so.

[149] **Jane Hutt:** If you have a moment, it is worth having a look at the exhibition about the history of Welsh taxes.

[150] The academic community in Wales is interested from a historical, social and political perspective, but we need the expertise to help us, and that is obviously much more focused in particular departments of universities. I certainly feel that we are doing that. Would it be helpful, Chair, if I wrote to you telling you about the different academic links that we already have?

[151] **Jocelyn Davies:** I think that that would be helpful.

[152] **Jane Hutt:** I certainly will, again, learn from—. We can also possibly make use of some of the work that is being done by Scottish universities. It might be useful for us here in Wales. It is not just for the Scottish Government. They might be interesting for us in Wales, in the Welsh Government, too.

[153] **Jocelyn Davies:** Yes, I think that they were setting out the commission, and that it would be statutory. I think that it consisted of three academics—it was not a huge institution—and that it would be on a statutory basis. I think that that would be very helpful, Minister. Does anyone have any other questions? No? Well, thank you, Minister. That has been very helpful, I think, in assisting us in our inquiry into budget best practice. Obviously, we will send you the transcript as normal. If you check that for factual accuracy, we will be able to publish it.

[154] **Jocelyn Davies:** I now propose that we break, and we will resume our public meeting at 10.40 a.m.

*Gohiriwyd y cyfarfod rhwng 10:07 a 10:40.
The meeting adjourned between 10:07 and 10:40.*

Swyddfa Archwilio Cymru: Adroddiad ar y Fflyd ac Ystyried Cynllun Ffioedd Wales Audit Office: Fleet Report and Consideration of Fees Scheme

[155] **Jocelyn Davies:** Welcome back, everyone, to this meeting of the Finance Committee. We are now on items 4 and 5 of our agenda, which we will be taking together. We have with us this morning representatives of the Wales Audit Office, and we will be discussing the fleet report and the consideration of the fees schemes. Shall we go straight into questions, or do you have a short introduction to make?

[156] **Ms Garner:** If I may, I would like just 30 seconds, Chair. I would like to thank the committee for your report following our attendance here when we presented the estimate, and to reassure you that the board has seen the recommendations that you made, and they will be incorporated into our business planning processes.

[157] **Jocelyn Davies:** Lovely, thank you. I will start off with the fleet report. Do you have any idea of the reasons why this report was published in September this year, although the fieldwork was intended to be carried out, I think, over the summer last year?

[158] **Ms Garner:** If I may, Chair, I will let Kevin explain the history behind the report.

[159] **Jocelyn Davies:** Okay, thank you.

[160] **Mr Thomas:** The history behind the report was that it was commissioned originally two years ago, specifically to look at our fleet management arrangements. After that date, it was expanded to cover our arrangements for travel and subsistence. As you rightly point out, the fieldwork was carried out—or started, at least—around about a year ago, and we found that, with the initial drafts of the report, there were a number of factual inaccuracies, which had led to some misleading comments and recommendations, and we carried out a great deal of work with the auditors to address those points. It is probably fair to say that the level of experience of some of the audit team was perhaps insufficient for the complexity and sensitivity of some of the issues that were being looked at. That is an issue that was recognised by the auditors, and we had some very helpful intervention from other members of the audit team to bring the report that you have in front of you today.

[161] **Jocelyn Davies:** I see. So, this originated, I think, in the Public Accounts Committee some time ago, and it has expanded into a larger piece of work, and then there were issues around it. Right, that explains that then. Can you tell us what the latest estimate is for the current overall costs, that is, the fleet management plus transport and mileage allowance? Do you think it will be possible to routinely supply that information to the committee? Who wants to answer? Kevin, do you want to?

[162] **Mr Thomas:** Yes, I think that the overall costs of the scheme are around £1 million per annum. It is something that is set out in our annual report and accounts, so, certainly, that is something that we are happy to provide to the committee, with any additional detail that the committee might wish.

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

[164] **Alun Ffred Jones:** Pa newidiadau i'ch polisiau sy'n ymwneud â milltiroedd blynyddol staff sy'n ymddangos yn eich adolygiad parhaus mewn ymateb i argymhellion Baker Tilly yn y maes hwn?
Alun Ffred Jones: What changes to your policies relating to annual mileages for staff, can be found in your ongoing review in response to the Baker Tilly recommendations in this area?

[165] **Mr Thomas:** In terms of the Baker Tilly recommendations, what we thought was very important was to carry out a full review of the eligibility of staff for the scheme. There are a number of references to threshold mileages within the report, which you will see from the management response we had some concerns about. What we thought was most important was to look at the recommendations of the report in their entirety, at the issues that have been raised throughout, and to carry out a root and branch review of eligibility, which we are looking to complete by February or March next year.

[166] **Alun Ffred Jones:** Felly, nid oes newid wedi digwydd hyd yn hyn yn dilyn yr argymhellion.
Alun Ffred Jones: Therefore, no change has happened so far as a result of the recommendations.

[167] **Ms Garner:** There have been some specific changes so far. First of all, the board decided that it would start consultation on withdrawing the car lease scheme for future participants. So, we will let the current car scheme end naturally, but we will not renew it. That decision, to start consultation, has been made by the board, and I am happy to report that management committee and union negotiations have already started on that. Then, there are a number of other recommendations around management oversight of mileages, and time taken

to process mileage claims. There are some things that are already in place, but, as Kevin indicated, the root-and-branch review is the one major piece of work that will give the board confidence that we are getting the balance right between value for money and our social responsibility for the wellbeing of our staff.

10:45

[168] **Alun Ffred Jones:** Yn atodol at hynny, sut fyddwch chi'n gwneud yn siŵr na fydd y newidiadau arfaethedig hyn yn effeithio'n andwyol ar y graddau cyflog is—yr hyfforddeion a'r technegwyr?

Alun Ffred Jones: As a supplementary to that, how will you ensure that any proposed changes do not adversely impact on the lowest pay grades—the trainees and the technicians?

[169] **Mr Thomas:** That is certainly a point that was raised by the auditors—the eligibility of trainees and technicians to the scheme. It is something that was reviewed in full by the management committee, which decided that, at this stage, we should retain that entitlement. It is certainly something that we will need to consider as part of the root-and-branch review, looking at the impact on the staff, particularly those staff who are required to travel significant distances for work purposes. The report quite rightly highlights the fact that we as an organisation have predominantly mobile staff—they are required to be mobile so that they can carry out audit work at any of the sites across Wales. We need to look at the business need for staff, as well as the impact on individuals, as part of that root-and-branch review.

[170] **Alun Ffred Jones:** Yn olaf, pa ymdrechion ydych chi'n eu gwneud i ddefnyddio technoleg newydd i leihau costau teithio a nifer yr ymweliadau?

Alun Ffred Jones: Finally, what efforts have you made to use available and emerging technologies to reduce travel costs and the number of visits?

[171] **Mr Thomas:** I think one of the key areas where we have used new technology is the use of video-conferencing. We have some very sophisticated video-conferencing kit that we have expanded over the past four years, since the original new scheme that we introduced in 2011. What you will see from our annual report and accounts is that we have achieved a reduction in annual mileage of over 200,000 miles per annum, so, since the new scheme was introduced, we have got rid of just under 1 million miles of travel. That has had a corresponding impact on our carbon dioxide emissions, which have reduced by about 17%.

[172] **Jocelyn Davies:** Of course, this is not just about miles; it is about carbon footprint and so on. We take it then that the consultation—. So, no new members of staff would go into the leasing scheme. This is the consultation—

[173] **Ms Garner:** Yes.

[174] **Jocelyn Davies:** So, as people leave, then obviously the number of people who can benefit from that just naturally dwindles. It is not about seniority of staff. It is about the amount of travel that they have to do. Is that the sense that I am getting? So, I guess this kind of—.

[175] **Ms Garner:** You mentioned the word 'benefit' in relation to the car lease scheme. I want to make sure that the review—. We still have transport allowances as an alternative and that is in the review as well. So, car leasing is not necessarily a benefit plus—

[176] **Jocelyn Davies:** No. Sorry, I was not trying to give that impression.

[177] **Ms Garner:** Yes, I just wanted to say that it was not—

[178] **Jocelyn Davies:** Maybe the tax people might feel slightly differently about that. They probably would call it a benefit, actually. However, no new people can enter that scheme and that is out to consultation at the minute. We will have to see how that goes.

[179] **Ms Garner:** Yes.

[180] **Jocelyn Davies:** So, do you think this might change how the audit office looks at other bodies in relation to the way they organise their travel? This experience might actually influence the way you look at things, certainly when it comes to value for money. I know that you do not do the value-for-money projects yourself, but we might see a slight change.

[181] **Ms Garner:** I am very aware of current context around car leases, but I think it is important that the Wales Audit Office leads by example and constantly checks that it has the most appropriate value-for-money, sustainable and wellbeing approach to travel. Certainly, many of our audited bodies have to travel as part of their work as well. I have always said that we must be an exemplar of good governance and ensure that we have got good robust arrangements.

[182] **Jocelyn Davies:** Mike, shall we come to your questions?

[183] **Mike Hedges:** First of all, may I say that I was very keen to cut the number of—*[Inaudible]*. The question is: are you confident that the current structure of transport allowances does not encourage unnecessary travel? Is it not a benefit if I was working for you and living in Swansea and doing work in Newtown that I would go back on one additional day to get the additional 200 mile travel into it?

[184] **Mr Thomas:** I think that one of the principles that we adopted when we launched the scheme in 2011 was exactly to counter that issue, to reduce the unnecessary mileage. You will notice that the report talks about this perverse incentive created by having a threshold mileage. I think that getting rid of that has helped to avoid that particular issue. Certainly, the auditors have asked us to reconsider that, and that is something that we need to look at as part of this root-and-branch review, but in doing so, we absolutely need to avoid the creation of any perverse incentives to travel unnecessarily, for environmental and cost reasons.

[185] **Jocelyn Davies:** Yes, and while somebody is driving, they are not doing the skilled work that they are paid to do. Chris, shall we come to your question?

[186] **Christine Chapman:** Yes. I just wanted to follow up on the—. I know that the Baker Tilly recommendations talked about maximising savings on insurance costs. Have you identified any savings from the recent re-tendering of your insurance policy?

[187] **Mr Thomas:** We have not identified savings as a result of the Baker Tilly review. I think that we have discussed with the successful tenderer what the difference would be if we were to change the criteria for insurance cover, so, for example, if we were to disallow younger drivers—members of staff's children—from going on the scheme, it would make no real difference in terms of our overall premium.

[188] **Christine Chapman:** Okay; that is fine.

[189] **Jocelyn Davies:** Oscar, you are next.

[190] **Mohammad Asghar:** My question is on value for money and prioritisation. What did you have in place to measure the ongoing value for money of the fleet management scheme following the 2010 review and why was this inefficient?

[191] **Mr Thomas:** I think that the report rightly highlights that there were some gaps in our arrangements in terms of measuring the ongoing value for money of the scheme. Having said that, there are a number of measures that we have used. We have looked at the cost of the scheme, we have looked at the cost of the mileage that we have reimbursed for staff, the cost of public transport and we have calculated that the per head reduction, following the introduction of the scheme in 2011, is around £1,300 per member of staff per annum. The report highlights that there are some complexities in terms of the fact that things have not stood still. Our staff numbers have changed during the four years since the scheme was launched. We also have to be mindful of the rotation policy, where, so as to preserve our independence, we need to move staff from one audit to another after a particular period of time, as prescribed in our rules and policies. So, it is very difficult to compare like with like. We think that a really important metric, though, is comparing the per head cost of the scheme. As I say, it has reduced by about 27% since the scheme was launched.

[192] **Mohammad Asghar:** What were the inefficiencies in the previous system that allowed for the like-for-like savings that you claim of £200,000 per year gained following the 2010 review?

[193] **Mr Thomas:** There were a number of elements that we looked at as part of that review. One of the key changes that we made was to change the badges that staff were entitled to claim for under the scheme. Previously, staff could choose from about 20 different manufacturers, but we have reduced that to three, and we very carefully selected those three manufacturers based on the whole-life costs of those vehicles, which involved looking at maintenance and residual values. That has been a key way in which we have managed to reduce the cost of the scheme. As I mentioned earlier, there were other measures in terms of reducing those perverse incentives to travel unnecessarily, which has also helped us to reduce the overall costs.

[194] **Mohammad Asghar:** Finally, what plans are you considering in this area, going forward, as part of the task and finish group reporting in February next year?

[195] **Mr Thomas:** I am sorry, what—

[196] **Mohammad Asghar:** I will repeat that. What plans are you considering in this area, going forward, as part of the task and finish group reporting in February next year?

[197] **Mr Thomas:** Sure. I certainly do not want to pre-empt the outcome of that review. I think that, for me, some of the key things that we need to look at are how we ensure that the scheme continues to provide value for money. It is about ensuring that we can demonstrate that the scheme provides value for money, but it is also about retaining that balance that has been commented on by the auditors in terms of our corporate social responsibility, looking at staff health and wellbeing, looking at our commitment to the environment, and looking at the cost of the scheme.

[198] **Julie Morgan:** You mentioned the environment, and—[*Inaudible.*]—change; how do you measure the need to save money, the need for efficiency, corporate responsibility and environmental impact? How do you work out all of that when you decide to make a policy change?

[199] **Mr Thomas:** When we carried out the original review, which led to the scheme being launched in 2011, we came up with scoring criteria to try to balance those three often-competing criteria. That is something that we will need to revisit as part of this root-and-branch review, to ensure that we continue to have the right balance between the three.

[200] **Julie Morgan:** Do you feel that that way of scoring has been effective in the past?

[201] **Mr Thomas:** I think it was effective in terms of the way in which we introduced the current scheme. It is something that has certainly been commended by the auditors as representing a good balance between the three. Having said that, we did that four years ago and things move on, technologies change, all sorts of factors change, and I think that it is timely for us to refresh our approach and look at it again.

[202] **Jocelyn Davies:** Do you think that we could see what that looks like—how the scoring is done and what that looks like? Do you think that you could send us something so that we can visualise it?

[203] **Mr Thomas:** Yes.

[204] **Ms Garner:** I think, as that report comes forward, we can share bits of it in discussion that would be most helpful to you.

[205] **Jocelyn Davies:** Okay, fine. Mike, do you think you could cover Ann's questions?

[206] **Mike Hedges:** With regard to your fleet management good practice guide, do you follow it and publish your performance indicators in relation to fleet management, as you have suggested for others?

[207] **Mr Thomas:** Yes. When we carried out the review in 2011, it was shortly after we had launched our fleet management handbook on our website, through our good practice exchange. We thought that it was really important that we led by example and applied exactly the same methodology to ourselves as we have to audited bodies. I think that it has been extremely useful, and also we have learned from the good practice that we have identified at other organisations and either adapted or adopted that ourselves.

[208] **Mike Hedges:** You have decided that line managers should only have staff's mileage reported to them on a quarterly basis. Why should it not be done monthly, with a sort of rolling year, if you know what I mean? That is, in April, you would have the April report, but by the time you get to July, you would have not only the July report, but the April, May and June information added to it as well. So, you would see how it was going each month, but more importantly, you would see how it was moving through the year. Quarterly reports do not give you the option to follow it that closely. There is obviously a reason why you decided to do it that way; why?

[209] **Mr Thomas:** I think the report highlights the fact that we needed to extend the availability of management information more widely across the organisation, and that is certainly what we have done, and we started doing it during the course of the audit rather than waiting until the formal recommendations had been made. We took the decision to look at things quarterly because we wanted to provide sufficient management information so that people could look at trends, whereas on a monthly basis, we can often see some quite significant variances because of the timing and the cycle of audit work. Having said that, the point is well made and it is something that we need to keep under review and perhaps look at as part of that root-and-branch review early next year.

[210] **Mike Hedges:** A lot of people would be very pleased to know that you have the same problems as other in getting people to submit claims on time. I am sure that the Commission here would be saying exactly the same thing about getting people to submit. You did decide that you would give staff three months to submit claims, rather than two; is there any particular reason for that? Is there not an advantage to getting them in in two months? I worked in an organisation in which you had two or three months to submit them, most of the time, but at the end of the year, if you were claiming for that year, they had to be in by two or

three weeks of the end of the year or they would not count, in order to get the accounts in on time. Do you have that problem as well?

[211] **Mr Thomas:** We do have a cut-off date for year-end claims that fits in with our accounts timetable. I think that we did take the view that we would allow up to three months for members of staff claiming their expenses, to allow for slightly more flexibility, because of the remote nature of much of our working, and the ability to get line manager sign-off on a timely basis. Three months, I think, was implemented before the review was concluded, and I think that it has certainly not caused us any difficulties, and it is a system that is now well embedded.

11:00

[212] **Mike Hedges:** The NHS—certainly in ABMU—has moved towards online travel claims. Have you given any thought to that?

[213] **Mr Thomas:** Yes, we have.

[214] **Ms Evans:** We are actually in the process of implementing the same system that the NHS is using. We procured it via the Government framework contract, so it is exactly the same system. We are testing it at the moment, with a view to rolling out in January, so it will hopefully speed up our expense processing.

[215] **Mike Hedges:** It will also save surrounding errors.

[216] **Ms Evans:** Yes.

[217] **Jocelyn Davies:** But you require line management sign-off of individual claims anyway, do you?

[218] **Ms Evans:** We require sign-off now, but it is by a signature. Once the new system is introduced, authorisation will be online as well, so it will make the whole system much more effective.

[219] **Jocelyn Davies:** If you give three months, which is quarterly, and then you look at it quarterly—. You are looking at trends, rather than—. It has already had line management sign-off, I guess.

[220] **Ms Evans:** Yes.

[221] **Jocelyn Davies:** I am fascinated. Are there any other questions on the fleet?

[222] **Mohammad Asghar:** In certain organisations, like ours, we are only allowed to have so many miles—say 10,000 miles—for x amount, and then, above that, there is a minor amount, in a year. That sort of thing, I think is pretty unfair, because regional and constituency Assembly Members have the same stake, whereas regional Members travel a lot, and constituency Members only travel within the constituency.

[223] **Jocelyn Davies:** Well, I think that Alun Ffred, living in north Wales, and who is sitting next to you, might have a slightly different view.

[224] **Mohammad Asghar:** What I am saying is—because they reduce it—is there a similar thing happening in all the other organisations, where you have a ceiling for the maximum mileage, and the maximum amount that they can claim?

[225] **Ms Evans:** The staff who have leased cars, or are in receipt of our transport allowance, receive a flat rate regardless, because we are just really reimbursing them for their additional fuel costs. For staff who travel using their own vehicles, yes, there is a 10,000-mile limit, above which they would receive a lower amount per mile.

[226] **Mike Hedges:** *[Inaudible.]*

[227] **Ms Evans:** Yes, it is in line with HMRC.

[228] **Jocelyn Davies:** You have started something now, Mohammad Asghar—substituting on this committee, and you have started something.

[229] **Mohammad Asghar:** Sorry. *[Laughter.]*

[230] **Jocelyn Davies:** Alun Ffred has a question.

[231] **Alun Ffred Jones:** May I just pick on something that you said? You talked about ‘the remote nature’ of much of your work. What do you regard as ‘remote’?

[232] **Mr Thomas:** The fact is that a number of our staff will be working at audit sites across Wales, quite often working on their own, carrying out audit work, so they would not necessarily be in a bustling office environment, where their line manager would be seen on a day-to-day basis.

[233] **Jocelyn Davies:** I think that it is ‘remote’ for that individual—not to be with their staff, and not in their headquarters, rather than being, you know, in a bird-watching tower on the Cardigan coast, or something. I do not think that you meant it in that way.

[234] **Mr Thomas:** No.

[235] **Jocelyn Davies:** So, explain again now, Kevin: how did you reduce the choice of 20 to three? How did you go about that?

[236] **Mr Thomas:** We went through fairly detailed scoring criteria, looking at the whole-life cost for the vehicles, taking into account insurance, end-of-lease value, and looking at maintenance costs, and repair costs. We also set criteria that each vehicle had to have NCAP 5 accreditation, which is the highest safety level, and each vehicle could have no more than a set number of emissions. At the time of the review, it was 140; it has since reduced to 125, and we are committed to reviewing that on an annual basis, and have reduced it by at least 5 per annum. Those three that we came up with met all the criteria—the most cost effective, but also allowing sufficient choice to staff in terms of having an estate car, a saloon car, or a mini car.

[237] **Jocelyn Davies:** Right, okay. Ffred, I think that you had some questions on the fees?

[238] **Alun Ffred Jones:** On the fees, yes. I have two questions. Did your consultation on the fee scheme extend to all organisations that use your audit service?

[239] **Ms Garner:** I think that it was extended to all of our audited bodies. There are a few bodies that choose to use us, but all of the statutory, audited bodies were consulted, yes.

[240] **Alun Ffred Jones:** What evidence led you to believe that the draft fee scheme, presented along with your 2015-16 estimates, should remain unchanged after the consultation done on the scheme in September?

[241] **Ms Garner:** We believe that three main themes came through from the consultation. First of all, fee breakdown transparency. We have addressed that by showing the graphs that show the median, maximum and minimum. We have also developed a tool that enables the engagement directors to talk to the audit body about the team mix, so, for example, how many days you might expect of the audit manager or an auditor or the engagement director. That will help them to understand exactly what their fee will be. So, that is the transparency agenda. Yes, we were urged to bring our costs down and that is obviously no surprise given the austerity that we are all in. The board was very strong about the fact that the rates—the hourly rates—had to be frozen and that is what we could do this year. As well as that, the board has asked that the officers save £800,000 of cost pressures and they are having to do that through a fairly tight efficiency and effectiveness programme.

[242] The third main comment that came through was about making sure that our audits were proportionate and based on risk. I know that the auditor general, when he has been in front of you before, talks about the Local Government (Wales) Measure 2009 preventing him, in some ways, from tailoring the audits to be of most benefit to the audited bodies. That, we see, very much as a work in progress that we have to continue to consider. The board has to make sure that we provide adequate resources to the auditor general for him to complete that programme to the required standard. That is why the estimate—. We felt that, because we had had those consultation responses before we came to you, that did address them.

[243] **Jocelyn Davies:** On that £800,000, I have to say that that is incredibly impressive to be able to—. You are to be congratulated on that, because that is very impressive, through internal savings and so on. You mentioned in the introduction that the fee charging arrangements are ‘complex, cumbersome and expensive’. So, it looks like this could be streamlined and that further savings could, perhaps, be made there and that you would like to explore further alternative mechanisms with us at this committee. Have there been alternative methods floated as ideas? Will you be proposing some for us?

[244] **Ms Garner:** We will in due course, yes. In our stakeholder survey—which was not the consultation—that we did this summer, a very high percentage of people did feel that it was cumbersome. As you know, our money comes from the Welsh consolidated fund and from fees and there is a lot of money just moving around the public purse on this. If the committee wishes, we could put some more definite proposals to you at a time to suit you, because Huw and I do talk about that quite a lot. So, are you inviting us to do so?

[245] **Jocelyn Davies:** I certainly am inviting you to do so. Looking at the graph, I think that it is very useful and easily understandable and thank you very much for that. Often when we are talking, especially in audit terms, things are very difficult to understand, but I like the look of this. I can see from the ‘medium’ down in all of the cases when I am looking at the unitary authorities—. This is what you mean by the savings that have been made in order to keep that down. I see, when I look at the police and crime commissioners, that from the previous year’s ‘medium’ to this year, they seem to be substantially down. How is that achieved? Do you know?

[246] **Ms Garner:** I think—. Nicola, do you want to answer that?

[247] **Ms Evans:** There has been a reduction in the amount of performance audit work that has been identified for the police and crime commissioners for this year as a result of the increase when the police and crime commissioners were introduced. We have now been able to reduce that.

[248] **Jocelyn Davies:** So, we would not expect it to go back up now, because the setting up of those offices and performance work and so on—

[249] **Mr Evans:** We would certainly expect it to stabilise.

[250] **Jocelyn Davies:** Do other Members have any questions on this? No. Thank you.

11:10

**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**

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

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Orders 17.42(vi) and (ix).

[252] I see that everyone is happy with that.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:10.
The public part of the meeting ended at 11:10.*