

## Agenda – Finance Committee

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Meeting Venue:

**Committee Room 2 – Senedd**

Meeting date: 17 September 2015

Meeting time: 08.45

For further information contact:

**Bethan Davies**

Committee Clerk

0300 200 6565

[SeneddFinance@Assembly.Wales](mailto:SeneddFinance@Assembly.Wales)

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### **1 Introductions, apologies and substitutions**

(08.45)

### **2 Papers to note**

(08.45 – 08.50)

(Pages 1 – 3)

**Letter to the Chair of Finance Committee from Presiding Officer**

(Page 4)

**Letter to the Chair of Finance Committee from Minister for Economy, Science and Transport**

(Page 5)

### **3 Tax Collection and Management (Wales) Bill: Evidence session 1**

(08.50 – 10.15)

(Pages 6 – 32)

Jane Hutt AM, Minister for Finance and Government Business

Sean Bradley, Senior Lawyer, Welsh Government

Richard Clarke, Tax Administration project manager, Welsh Government

Jeff Andrews, Specialist policy adviser responsible for Finance & European matters

[Tax Collection and Management \(Wales\) Bill, as introduced](#)

[Explanatory Memorandum](#)

Paper 1 – Letter to the Chair of Finance Committee from Minister for Finance and Government Business

Research briefing



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Wales

**4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**

(10.15)

Item 5

**5 Tax Collection and Management (Wales) Bill: Consideration of evidence**

(10.15 – 10.30)

(Pages 33 – 34)

Research briefing

**Break**

(10.30 – 10.45)

**Public**

**6 Future Funding: Evidence session 5**

(10.45 – 11.45)

(Pages 35 – 88)

David Phillips, Senior Research Economist, Institute for Fiscal Studies

Paper 2 – Institute for Fiscal Studies consultation response

Paper 3 – Letter to the Chair of Finance Committee from Minister for Finance and Government Business

Paper 4 – Letter to Chair of Finance Committee from Chief Secretary to the Treasury

Research briefing

**7 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**

(11.45)

Items 8, 9, 10 and 11

**8 Future Funding: Consideration of evidence**

(11.45 – 12.00)

## **9 Environment (Wales) Bill: Consideration of draft report**

(12.00 – 12.15)

(Pages 89 – 120)

[Environment \(Wales\) Bill, as introduced](#)

[Explanatory Memorandum](#)

Paper 5 – Letter to Chair of Finance Committee from Minister for Natural Resources

Paper 6 – Draft report

## **10 Draft Wales Bill**

(12.15 – 12.25)

(Page 121)

Paper 7 – Letter to Chair of Finance Committee from Presiding Officer

## **11 Public Health (Wales) Bill: Consideration of draft report**

(12.25 – 12.40)

(Pages 122 – 152)

[Public Health \(Wales\) Bill, as introduced](#)

[Explanatory Memorandum](#)

Paper 8 – Letter to Chair of Finance Committee from Minister for Health and Social Services

Paper 9 – Draft report

## Finance Committee

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Meeting Venue: **Committee Room 2 – Senedd**

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Meeting date: **Wednesday, 15 July 2015**

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Meeting time: **09.01 – 10.53**

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This meeting can be viewed on [Senedd TV](#) at:

<http://senedd.tv/en/3033>

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### Concise Minutes:

#### Assembly Members:

**Jocelyn Davies AM (Chair)**  
**Peter Black AM**  
**Christine Chapman AM**  
**Mike Hedges AM**  
**Alun Ffred Jones AM**  
**Ann Jones AM**  
**Julie Morgan AM**  
**Nick Ramsay AM**

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#### Witnesses:

**Mark Drakeford AM, The Minister for Health and Social Services**  
**Chris Tudor-Smith, Welsh Government**  
**Sue Bowker, Welsh Government**

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#### Committee Staff:

**Bethan Davies (Clerk)**  
**Leanne Hatcher (Second Clerk)**  
**Tanwen Summers (Deputy Clerk)**  
**Martin Jennings (Researcher)**  
**Richard Bettley (Researcher)**  
**Gareth David Thomas (Researcher)**  
**Joanest Varney-Jackson (Legal Adviser)**

## **TRANSCRIPT**

View the [meeting transcript](#).

### **1 Introductions, apologies and substitutions**

1.1 The Chair welcomed Members to the meeting.

1.2 No apologies were received.

### **2 Papers to note**

2.1 The papers were noted.

### **3 Public Health (Wales) Bill: Evidence session 1**

3.1 The Committee took evidence from the Minister for Health and Social Services.

3.2 The Minister agreed to provide additional information to the Committee.

### **4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**

4.1 The Motion was agreed.

### **5 Public Health (Wales) Bill: Consideration of evidence**

5.1 The Committee considered the evidenced received.

### **6 Consideration of powers: Public Services Ombudsman for Wales: Consideration of draft Bill structure**

6.1 The Committee agreed the draft Bill structure.

6.2 Members also noted the letter to the Chair of Finance Committee from the Minister for Public Services.

### **7 Tax Collection and Management (Wales) Bill: Agreement of approach to scrutiny**

7.1 The Committee agreed the Terms of Reference.

### **8 Approach to Budget Scrutiny: Welsh Government Draft Budget 2016–17**

8.1 The Committee agreed the approach to budget scrutiny.

### **9 Wales Audit Office**

9.1 The Committee noted the correspondence in relation to the Auditor General for Wales and Wales Audit Office Annual Plan 2015–16.

9.2 Members also noted the update provided on the Fleet Report.

## **10 Future Funding: Update on inquiry**

10.1 The Committee noted the correspondence and agreed to write to the Chairperson of the Committee for Finance and Personnel at the Northern Ireland Assembly.

**Y Fonesig Rosemary Butler AC  
Dame Rosemary Butler AM**

  
**Llywydd  
Presiding Officer**

To: Committee Chairs

15 July 2015

Dear Committee Chair

In order to maintain the momentum generated by the Assembly's visit to Wrexham earlier this year, and building on the lessons we learned, I am eager to deliver another Senedd@ event in the autumn term in Swansea as it had the lowest turnout of all in the 2011 elections.

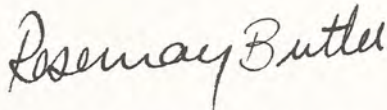
The week 12-18 October 2015 is ideal as it coincides with European Local Democracy Week and we are therefore planning activities to take place at that time.

One of the key findings of the Senedd@Wrexham evaluation was the need to enable committees to consider their potential involvement earlier in the planning process. Therefore, I am inviting any suggestions your committee may have about how you can be involved in the Senedd@Swansea initiative.

Both the Deputy Presiding Officer and I took an active part in the comprehensive programme of events, visits and workshops at Senedd@Wrexham which directly engaged over 2,000 people in the Assembly's work. We, and the Members who were able to be involved received extremely positive feedback and this was also reflected in the local media. The Swansea event could provide your committee with an opportunity to forge new working relationships with many local organisations and local media.

Should this be of interest to you or your Committee I would be grateful if you could ask your Committee Clerk to liaise with my office to discuss further.

Thank you in advance for your co-operation.



**Dame Rosemary Butler AM  
Presiding Officer**

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New e-mail: [Private.Office@assembly.wales](mailto:Private.Office@assembly.wales) / New telephone number: 0300 200 6232

Croesewir gohebiaeth yn y Gymraeg a'r Saesneg/We welcome correspondence in both English and Welsh

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Minister for Economy, Science and Transport



Llywodraeth Cymru  
Welsh Government

Jocelyn Davies AM  
Chair  
Finance Committee

21 July 2015

Dear Jocelyn

Thank you for your letter of 24 June regarding your follow up scrutiny of Finance Wales and a Development Bank for Wales.

I am grateful to you for setting out your thoughts and sharing the issues the Committee has identified. I appreciate your concerns in regard to the efficiency savings that might be associated with the external management of funds and that further analysis of the funding options should be undertaken. I also note your view that the skills and knowledge of Finance Wales and its staff should be utilised to take forward the development bank model.

On 15 July, I issued a letter to all AMs in which I acknowledged the issues raised by your Committee, the Enterprise and Business Committee and the Financial and Professional Services Panel. I explained that given this advice and following further discussions with Professor Jones- Evans, I would be taking work forward on a phased basis through discrete but related strands of work. I will provide a further update in September.

Finally, your letter referred to scrutiny arrangements for Finance Wales and any future Development Bank. I accepted the Finance Committee's recommendations for improved scrutiny into Finance Wales, particularly with regard to the publication of its annual report and accounts and presentation to an Assembly Committee each year. I see no reason why this arrangement would not continue for any future Development Bank.

*Edwina Hart*

Bae Caerdydd • Cardiff Bay  
Caerdydd • Cardiff  
CF99 1NA

*Wedi'i argraffu ar bapur wedi'i ailgylchu (100%)*

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Jane Hutt AC / AM  
Y Gweinidog Cyllid a Busnes y Llywodraeth  
Minister for Finance and Government Business



Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref: LF/JH/0499/15

Jocelyn Davies AM  
Chair, Finance Committee  
Ty Hywel  
Cardiff  
CF99 1NA

14 July 2015

*Dear Jocelyn,*

**TAX COLLECTION AND MANAGEMENT (WALES) BILL**

To support the Committee's scrutiny of the Tax Collection and Management (Wales) Bill which I introduced into the National Assembly for Wales on 13 July, please find attached a statement of policy intent. This document provides information on the policy intent for the delegated powers within the Bill, if enacted.

I trust Members will find this document helpful and I look forward to providing evidence to the Committee in due course.

A copy of this letter and the attachment referenced is also being sent to David Melding, Chair of the Constitutional and Legislative Affairs Committee,

*Best wishes*  
*Jane*

**Jane Hutt AC / AM**  
Y Gweinidog Cyllid a Busnes y Llywodraeth  
Minister for Finance and Government Business

CC: Chair of the CLA Committee



Llywodraeth Cymru  
Welsh Government

# **TAX COLLECTION AND MANAGEMENT (WALES) BILL**

Policy intent for regulations, directions and  
guidance

July 2015

## **TAX COLLECTION AND MANAGEMENT (WALES) BILL 2014**

### **POLICY INTENT FOR SUBORDINATE LEGISLATION, DIRECTIONS AND GUIDANCE**

This document provides an indication of the current policy intention for the subordinate legislation, directions and guidance that the Welsh Ministers are empowered or required to make under the provisions of the Tax Collection and Management (Wales) Bill ('the Bill'). It has been published in order to assist the responsible Committee during the scrutiny of the Bill and should be read in conjunction with Chapter 5 of the Explanatory Memorandum and Explanatory Notes.

The Tax Collection and Management (Wales) Bill is the first of three anticipated bills to establish devolved tax arrangements in Wales. This Bill will be followed by tax specific legislation establishing new Welsh taxes - Land Transaction Tax and Landfill Disposals Tax. The provisions in this Bill will ultimately need to be considered as part of this wider legislative programme.

The purpose of this Bill is to put in place the legal framework necessary for the future collection and management of devolved taxes in Wales. In particular, the Bill provides for:

- the establishment of the Welsh Revenue Authority (WRA) whose main function will be the collection and management of devolved taxes;
- the conferral of appropriate powers and duties on WRA (and corresponding duties and rights on taxpayers and others) in relation to the submission of tax returns and the carrying out of enquiries and assessments so as to enable WRA to identify and collect the appropriate amount of devolved tax due from taxpayers;
- comprehensive civil investigation and enforcement powers, including powers allowing WRA to require information and documents and to access and inspect premises and other property;
- duties on taxpayers to pay penalties and interest in certain circumstances;
- rights for taxpayers to request internal reviews of certain WRA decisions and to appeal to the First Tier Tribunal against such decisions; and
- the conferral of criminal enforcement powers on WRA.

Apart from some technical provisions, the Bill will be commenced by Order.

Section	Description	Policy intention
<b>PART 2: The Welsh Revenue Authority (WRA)</b>		
Part 2 s3(3)	The Welsh Ministers may by regulations substitute any of the numbers in section 3(1) - that provides the Welsh Revenue Authority is to consist of a chairperson, no fewer than 3 and no more than 8 on-executive members, the chief executives and 1 or 2 members of WRA staff.	It is intended that this power would generally only be used if the number of people on the board is considered to be limiting or detrimental to the successful running of the WRA. It is the policy intention that the board of the WRA will always have a majority of non-executive members.
Part 2 s4 (k)	Section 4 sets out the offices that disqualify a person from becoming a non-executive member of the Welsh Revenue Authority (WRA). Section 4(k) provides that the Welsh Ministers may prescribe, through regulations, additional holders of an office, or members of staff of a body that may be disqualified.	<p>The offices that disqualify a person from becoming a non-executive member are listed on the face of the Bill.</p> <p>It is intended that this power would generally only be used to change the list if there is a significant change of circumstance, such as the creation of a new public office.</p>
Part 2 s13(1)	The Welsh Ministers may by regulations, under section 13(1), prescribe persons to whom WRA may delegate any of its functions.	We anticipate that this power will be exercised to allow WRA to delegate tax collection and management functions from the point of its establishment. The bodies that could be prescribed in regulations to which WRA might then subsequently delegate its functions were set out in a written statement on the 30 June 2015.
Part 2, s.14(1)	The Welsh Ministers may give to WRA directions of a general nature.	<p>It is intended that this power could be used, for example, by the Welsh Ministers to set out an annual remit for WRA to specify policy priorities. Any such remit would be published.</p> <p>In exceptional circumstances, the Welsh Ministers might direct the WRA where they consider an intervention is necessary to ensure the efficient and effective collection and management of devolved taxes.</p>

Part 2 s17 (2)	<p>Section 16 prohibits the disclosure of taxpayer information by a relevant official (as defined at section 16(2)) unless it is expressly permitted. Breach of this requirement is a criminal offence under section 19.</p> <p>Section 17(1) sets out the circumstances in which it is permissible to disclose protected taxpayer information. Section 17(2) provides that the Welsh Ministers may, by regulations, amend subsection (1).</p>	It is intended that this power would be used to enable information sharing between bodies for the purpose of supporting wider public service delivery.
Part 2 s26(7)(a)	Section 26 provides that the Welsh Revenue Authority must prepare a corporate plan. The corporate plan must be made by reference to a planning period and section 26(7)(a) gives the Welsh Ministers a regulation making power to prescribe the first planning period.	<p>The power allows the Welsh Ministers to set the planning period that WRA's corporate plan will cover. The corporate plan will set out WRA's main objectives, the outcomes that would demonstrate achievement of these objectives and the activities that WRA expects to undertake.</p> <p>WRA will be responsible for the collection and management of devolved taxes from 1 April 2018. WRA will need time to prepare, consider and consult on its first corporate plan. Section 26(9) requires the plan to be submitted for the approval of the Welsh Ministers not later than 6 months after the establishment of the WRA. The regulations provide that the Welsh Ministers may set a first planning period and this will be exercised in readiness for the establishment for WRA's establishment.</p>
Part 2 s26(8)	Section 26(7)(b) provides that when the Welsh Ministers have specified the first planning period (for the corporate plan), each subsequent planning period will be for three years after the first planning period. Section 26(8) provides that the Welsh Ministers may by regulations substitute for this three year period such other period as they consider appropriate.	It is intended that this power would generally only be used if there was a strong rationale for amending the planning period, related to the efficient and effective running of the WRA.

**PART 3: TAX RETURNS, ENQUIRIES AND ASSESSMENTS**

Part 3 s36 (6)	Regulation making power to specify particular records or supporting documents for tax returns that do or do not fall within the duty to be kept and preserved.	This power is intended to be used from time-to-time to bring the provisions up to date. For example, new technology may mean that records or supporting documents for tax returns take a different form.
Part 3 s37 (b)	Section 36 sets out taxpayer duties to keep and preserve records. Section 37 provides that the duty under section 36 may be satisfied by preserving the information contained in the records in any form and by any means, subject to any conditions or exceptions prescribed by regulations made by the Welsh Ministers under section 37(b)	This power is intended to be used from time-to-time to bring the provisions up to date. For example, new technology may mean that records or supporting documents for tax returns take a different form, and therefore different provisions are required for their preservation.
Part 3 s39 (3)(b)	Regulation making power to allow the Welsh Ministers to amend the relevant date for filing a tax return.	It is intended that this power would generally only be used if there was a strong rationale for amending the date for filing a tax return, related to the efficient and effective running of the WRA.
Part 3 s50 (7)	Section 50 makes provision for the WRA to make a determination of tax chargeable if no tax return made.  Subsection (6) provides that no WRA determination may be made more than 4 years after the relevant date. Subsection (7) provides that the relevant date is either the relevant filing date, or such other date as the Welsh Ministers may by regulations prescribe.	It is intended that this power would be used if, in the operation of the collection of devolved taxes, it was found to be necessary to amend the relevant filing date to ensure that tax owed was paid.
Part 3 s64 (1)	Section 62 provides a defence to a claim to the WRA for repayment of overpaid tax.  The defence is that “repayment or, as the case	The provisions are designed to prevent repayments of overpaid tax where the cost of the overpaid tax has not actually been borne by the taxable person. This is on the basis that any repayment would be a windfall to (and so would unjustly enrich) the taxable person. In other words, there is no repayment where the cost of the tax has

	<p>may be, discharge of the amount would unjustly enrich the claimant.”</p> <p>The Welsh Ministers may by regulations make provision for reimbursement arrangements made by any person to be disregarded for the purposes of section 62, except where the person complies with the arrangements required by those regulations.</p> <p>Regulations under this section, among other things, may impose obligations on persons specified in the regulations to make repayments to WRA.</p> <p>Regulations under this section may also make provision for penalties.</p>	<p>been passed on (normally, to the customer). However, loss or damage suffered by the taxable person because of the passing on may mean that repayment of overpaid tax will not result in a windfall. In these circumstances, repayment to the extent it compensates the taxable person for his loss or damage is allowed.</p> <p>Currently, the equivalent regulation-making power under UK legislation is used to provide for the reimbursement ‘scheme’. The scheme is not compulsory as it gives those registered landfill site operators who accept they would be unjustly enriched by receiving a tax refund a choice. They can either:</p> <ul style="list-style-type: none"> <li>• do nothing; or</li> <li>• claim the refund. If they do they must abide by the terms of the scheme and reimburse consumers in a set manner.</li> </ul>
Part 3 s67(3)	<p>Section 67 places a duty to keep and preserve any records enabling a person to make a claim to recover overpaid tax.</p> <p>The regulation making power in s.67 (3) provides Welsh Ministers with the power to specify particular records or supporting documents that must be kept and preserved to enable a person to make a correct and complete claim.</p>	<p>This power is intended to be used from time-to-time to bring the provisions up to date. For example, new technology might lead to records or supporting documents for tax returns taking a different form.</p>
Part 3 s68 (b)	<p>Section 68 provides that the duty under section 67 to preserve records may be satisfied by preserving the information contained in them in any form and by any means, subject to any conditions or exceptions prescribed by regulations made by the Welsh Ministers under</p>	<p>This power is intended to be used from time-to-time to bring the provisions up to date. For example, new technology might lead to records or supporting documents for tax returns taking a different form, and therefore different provisions are required for their preservation.</p>

	section 68 (b).	
<b>PART 4: INVESTIGATORY POWERS OF THE WRA</b>		
Part 4 s83 (2)	<p>Section 83 sets out what is meant in Part 4 by references to the 'carrying on a business.'</p> <p>Section 83(2) enables the Welsh Ministers to specify by regulation what activities are or are not to be treated as the carrying on of a business.</p>	This power would be used if a broader definition of 'carrying on a business' was required for the fair and efficient collection of taxes, for example to encompass a broader definition of landfill business.
Part 4 s94 (2)	<p>Section 93 sets out the conditions for complying with compliance notice. Section 94 (1) sets out that unless original documents are required in the notice, a copy may be used to comply.</p> <p>Regulations made by the Welsh Ministers under section 94 (2) enable the Welsh Ministers to make conditions and exceptions relating to subsection (1).</p>	This power is intended to be used from time-to-time to bring the provisions relating to copies of original documents up to date.
Part 4 s99 (3)	Regulations to make provision for the resolution by the Tribunal of any dispute as to whether any information or a document (requested in an information notice) is legally privileged.	Administrative matters relating to resolutions by the Tribunal in relation to information notices (and whether the documentation that supports the notices is legally privileged) may need to be updated from time to time.
<b>PART 5: PAYMENT OF PENALTIES</b>		
Part 5, s154	Power to make regulations about the amounts of penalties and the procedure for assessing them under Part 5.	It is intended that the power would only be used to make adjustments to the amounts of penalties or the mechanism for their application, for example, to encourage compliance in Wales or to ensure comparability with the rest of the UK.
<b>PART 6: INTEREST</b>		
Part 6, s161 (1)	Regulations to enable the Welsh Minister to set the rate of interest that applies to late payment interest.	It is intended that the power would only be used to make adjustments to the amounts of interest, for example, to ensure comparability with the rest of the UK.
Part 6, s161	Regulations to enable the Welsh Minister to set	It is intended that the power would only be used to make adjustments to the



(2)	the rate of interest that applies to repayment interest.	amounts of interest, for example, to ensure comparability with the rest of the UK.
<b>PART 7: PAYMENT AND ENFORCEMENT</b>		
Part 7, s165	<p>The Welsh Ministers may by regulations provide that where a person pays a relevant sum in respect of tax, interest or penalties to WRA using a method of payment prescribed by the regulations, the person must also pay a fee prescribed by, or determined in accordance with, the regulations.</p> <p>Regulations under this section may make provision about the time and manner in which the fee must be paid.</p>	<p>The WRA expects that it, or the person authorised by it, will be required to pay a fee in connection with the use of certain payment methods used by taxpayers. For example, a fee in connection with amounts paid where internet authorisation is given for payment by credit card.</p> <p>This power is intended to be used from time-to-time to bring the provisions relating to a fee for payment (for example a fee to accompany payment by cheque or credit card) up to date.</p>
Part 7, s167 (6)	<p>Section 167(1) sets out that where a relevant sum of any one of the descriptions specified in section 162, (e.g. interest on a devolved tax) is payable by a person, and it does not exceed £2,000; it is recoverable summarily as a civil debt.</p> <p>Under subsection (6) the Welsh Ministers may by regulations increase the sum specified in subsection (1).</p>	<p>The power relates to the amount that can be summarily recovered as a civil debt, which may need to be amended from time-to-time, for example, as a result of inflation.</p>
<b>PART 8: REVIEWS AND APPEALS</b>		
Part 8, s 170(7)	<p>Sections 170(2) and (3) set out the decisions by the WRA that are appealable decisions and those that are not respectively.</p> <p>The Welsh Ministers may by regulations add or remove a decision from subsections (2) or (3) or vary the description of a decision in those</p>	<p>This provision provides the Welsh Ministers with power to modify or amend the appeals provisions to reflect, for example, the circumstances of the specific devolved taxes as they are developed. Any amendment to the provisions would be subject to public engagement and consultation with taxpayers.</p>

	<p>subsections.</p> <p>Section 170(5) limits the grounds upon which a review or appeal of specified appealable decisions can be made.</p> <p>The Welsh Ministers may by regulations amend Part 8 to make provision about the grounds on which a review or appeal can be made.</p>	
<b>PART 9: INVESTIGATION OF CRIMINAL OFFENCES</b>		
Part 9, s183 (1)	<p>The Welsh Ministers may by regulations direct that any provision of the Police and Criminal Evidence Act 1984 which relates to investigations of offences conducted by police officers or to the detention of persons by the police is to apply to investigations conducted by WRA. They may also make provision permitting a person exercising a function conferred on WRA by the regulations to use reasonable force in the exercise of such a function.</p>	<p>Section 183 amends the Police and Criminal Evidence Act 1984 (“PACE”) to provide the Welsh Ministers with the power to make regulations to apply certain provisions of PACE to the investigation of criminal offences conducted by the WRA.</p> <p>This would enable WRA to use specified PACE powers during the investigation of various criminal offences relating to devolved taxes, such as the offences created in this bill, as well as those established by the Fraud Act 2006, or the common law offence of cheating the public revenue.</p> <p>The powers provided by PACE include the standard tools of criminal investigations, such as search warrants, the power to arrest and detain a person in connection with an investigation; and orders requiring the production of certain information.</p> <p>Section 114 of PACE provides HM Treasury with a similar power to apply certain provisions of PACE to the criminal investigation of offences conducted by HMRC.</p> <p>Any proposed additional powers would be subject to public engagement and consultation with taxpayers before regulations would be made by the Welsh Ministers using this power.</p>
Part 9, s183 (2)	<p>The Welsh Ministers may by regulations direct that any provision of the Criminal Justice and Police Act 2001 is to apply to investigations</p>	<p>Section 183(2) provides the Welsh Ministers with a power to make regulations to apply the provisions in Part 2 of the Criminal Justice and Police Act 2001 (“the CJPJA”) to investigations undertaken by WRA, which give investigators certain</p>

	conducted by WRA. They may also make provision permitting a person exercising a function conferred on the Welsh Revenue Authority by the regulations to use reasonable force in the exercise of such function.	<p>powers to seize and retain material found during the course of a search.</p> <p>Any proposed additional powers would be subject to public engagement and consultation with taxpayers before regulations would be made by the Welsh Ministers using this power.</p>
Part 9, s184(4)	The Welsh Ministers may by Order provide that a specified reference in the Proceeds of Crime Act 2002 to an accredited financial investigator includes a reference to a person exercising a function of the Welsh Revenue Authority who falls within a specified description.	<p>Section 184 provides for various amendments to the Proceeds of Crime Act 2002 (“POCA”) to give WRA access to certain powers contained in POCA.</p> <p>Subsection (4) will insert a new Order-making power into POCA so that the Welsh Ministers are able to specify those staff of WRA able to exercise certain functions under POCA, which will enable WRA to recover the proceeds of criminal conduct relating to devolved taxes.</p>
Part 9, s185 (2)(b)	The Welsh Ministers may make an Order under the Regulation of Investigatory Powers Act 2000 to prescribe persons exercising WRA functions as persons designated for the purposes of sections 28 and 29 of that Act.	<p>Section 185 amends the Regulation of Investigatory Powers Act 2000 (“RIPA”) so as to give WRA access to certain powers to undertake directed surveillance (as defined by section 26(2) of RIPA), and covert human intelligence surveillance (as defined by section 28(2) of RIPA, subject to necessary safeguards provided by RIPA.</p> <p>Subsection (2)(b) will insert a new Order-making power into RIPA to enable the Welsh Ministers to prescribe the persons within WRA that are able to grant authorisations for directed surveillance or covert human intelligence under sections 28 and 29 of RIPA.</p>
<b>General</b>		
Part 10, s.186 (1)	The Welsh Ministers can make supplementary, incidental, consequential, transitional or saving provisions in order to give full effect to a provision of the Bill	<p>This power would only be used for such matters as making changes to other legislation needed in consequence of the provisions of this Bill, or to deal with unforeseen details arising out of the implementation of the new system.</p> <p>Transitional, saving and consequential elements are designed to cater for the process of moving from one regime to another, so that the process is as “seamless” as possible and that the new law works.</p>

By virtue of paragraph(s) vi of Standing Order 17.42

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Y Pwyllgor Cyllid / The Finance Committee  
Future Funding For Wales Inquiry / Ymchwiliad i Ariannu Cymru yn y Dyfodol

FIN(4) FF06  
Ymateb gan Y Sefydliad Astudiaethau Cyllid  
Response from The Institute for Fiscal Studies

## Response to Consultation on Future Funding

David Phillips

### 1. Introduction

This is a response by David Phillips, a senior research economist at the Institute for Fiscal Studies (IFS). David has led the IFS's work on devolved finance issues. He is also a member of the Welsh Finance Minister's Tax Advisory Group. However, the views and opinions expressed here are those of the author only. The IFS has no corporate views.

This earlier work may also be useful to the committee's work. Please see the following publications:

<http://www.ifs.org.uk/publications/7711>

<http://www.ifs.org.uk/publications/7484>

<http://www.ifs.org.uk/publications/7442>

Please note this response focuses on the following areas:

- The trade-offs between different types of funding arrangements
- The practical issues involved in moving from

As a result, responses are not provided to all questions. And it does not make recommendations about which funding system should be used. Ultimately, that is a political question, involving bargaining between the nations and governments of the UK, and political views on the appropriate degree of redistribution across the UK and how to trade-off risk-sharing/insurance versus fiscal incentives.

### 2. What are the main weaknesses in the current financial settlement for Wales?

The Welsh Government currently receives the bulk of its money from the UK Government in the form of a block grant. This block grant is calculated each year as the prior year's grant plus (or minus) an increment calculated using the Barnett formula and based on changes in "comparable" budgets in England. In addition, the Welsh Government receives income from non-domestic rates (NDR), and Welsh local authorities receive money from council tax. Non-devolved spending (such as welfare) is the responsibility of the UK government.

From 2018-19, powers over and revenue from Stamp Duty Land Tax (SDLT) and Landfill Tax (LT) will be devolved to Wales, and the block grant will be reduced accordingly. There is also the potential for income tax to be partially devolved, subject to a referendum, which would necessitate similar adjustments to the block grant. As shall be discussed later, adjusting the

block grant is a complicated issue which has profound implications for the level of funding the Welsh Government will see in future, and the financial risks and incentives it will face. At the same time, the Welsh Government will acquire some borrowing powers (for both capital and current purposes) subject to strict rules.

A number of elements of this framework attract criticism:

- 1) That the Barnett formula is arbitrary and takes no account of relative needs (or revenue contributions for that matter).
- 2) That the result of the use of the Barnett formula is an underfunding of Wales, and in the long term, a “Barnett squeeze”.
- 3) That the specific way in which the Barnett formula treats devolved NDR revenues is flawed (<http://www.ifs.org.uk/publications/7442> ) and has what appear to be unintended consequences. Whilst these flaws benefit Wales (from this year), Scotland and Northern Ireland during periods in which the Local Government budget in England is doing poorly relative to overall “comparable” departmental spending, the flaws would cost Wales (and Scotland and NI) if the Local Government budget were to do relatively well from budget settlements.
- 4) That information on the application of the Barnett formula is not readily available, and that application of the formula is controlled solely by the Treasury (which makes decisions about what spending is deemed ‘comparable’, for instance).
- 5) That a system largely based on block grant funding gives little financial incentive for the Welsh Government to boost economic performance, and hence boost revenues (or reduce welfare costs). Proposals for tax devolution will address this concern to some extent.
- 6) That the proposed borrowing powers are too limited and highly constrained, both on the capital side (see CIPFA’s submission) and on the current side (where borrowing will be available only for forecast errors).

There is disagreement about some of these issues.

For instance, the UK Government says that it thinks that Wales’ level of funding is within the appropriate range suggested by the Holtham Agreement, and has said it will consider a ‘funding floor’ to prevent any further convergence if agreement is reached on devolving income tax. It is also pointed out that the Barnett squeeze does not operate (at least to the same extent) when spending is being cut, and when there is lower population growth in Wales (as is currently the case).

But each is an issue worth considering by the Committee.

### **How can these be resolved?**

Some issues can, in principle, be resolved relatively easily. For instance, further information about the application of the Barnett formula (or any replacement formula) could be published alongside each fiscal event (such as Budget or Autumn Statement). In addition, the Barnett formula (or any replacement formula) and associated Statement of Funding Policy could be managed by an independent body, rather than the Treasury.

Similarly, the flaws in the way the Barnett formula treats devolved NDRs can be corrected for by a simple change to the technical workings of the formula.<sup>1</sup>

However, some of the issues reflect trade-offs between different objectives. For instance, a needs-based approach to funding would cushion Wales from any adverse budgetary effects from increases in its relative needs – such as weaker economic performance or a more rapidly ageing population –, but would also mean Wales would not gain from any reduction in its relative needs. The latter would blunt the incentives the Welsh Government has to take action to reduce relative needs and to boost economic performance. Depending on whether the needs based formula also took into account revenue-raising capacity, it could also blunt incentives to boost revenue growth from devolved taxes.

Addressing one issue (making the funding more responsive to changes in relative needs) may therefore make other problems worse (lessening the incentive of the Welsh government to take action to reduce spending needs). These trade-offs between risks and incentives are at the core of any funding arrangement for sub-national governments.

### **How will upcoming changes in relation to: a reserved-powers model for Wales, and the St David's Day devolution proposals and Smith Commission recommendations, impact on future funding arrangements of the Welsh Government?**

The response to this question focuses on adjusting the block grant as a result of further devolution, and draws on work being undertaken as part of assessing the Smith Commission proposals.

Clearly when additional revenues or spending are devolved, adjustments have to be made to the block grant.

In principle at least, the *first year* adjustments to the block grant are relatively straightforward to implement, although the calculations involved may be complex. When devolving a tax, the block grant is reduced by the amount of revenue being transferred. When devolving responsibility for an additional area of spending, the block grant is increased by the amount the UK would have spent in Wales on that area.

Given the complex calculations that may be required in order to estimate these quantities, it would be preferable if the UK Government and Welsh Government agree on a methodology, and publish detailed information on the calculations. This will allow proper external scrutiny. If agreement on a single method cannot be reached, then both parties should publish detailed information on their methods, and resulting calculations. The OBR and an equivalent Welsh fiscal commission should assess and, if appropriate, sign off these calculations. Information should also be published on the mechanism by which ultimate agreement is reached (and what that agreement entailed). Consideration should be given for an independent institution to act as an arbiter.

Calculating the adjustment to the block grant in *subsequent years* is more conceptually complex. One cannot simply continue to deduct or add an amount equal to the revenues or spending devolved. Doing this would remove any incentive for the Welsh Government to boost tax revenues or limit expenditure growth (including through discretionary tax rises, or spending cuts): any change

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<sup>1</sup> Again see <http://www.ifs.org.uk/publications/7442>.



in revenue or spending would simply be cancelled out by an offsetting change to the block grant adjustment.

There are a number of methods for adjusting the block grant, and each has different properties. The attached presentation sets out three possible mechanisms, and their advantages and disadvantages (including worked examples of how they perform under different scenarios).<sup>2</sup>

The following summarises the findings (with advantages in green, and disadvantages in red):

- Fixed % adjustment to block grant (i.e. block grant reduced by the same % in each year as in 1<sup>st</sup> year)
  - Easy to understand and can be implemented using Barnett formula
  - But Wales bears risk of UK-wide shocks it is ill-equipped to bear
- Index to % change in rUK revenues
  - Insulates Wales from UK-wide shocks but still growth incentive
  - In spirit of “no detriment simply from devolution” as Wales is left no better off or worse off in the long term if revenues grow at the same % rate as in rUK
  - Wales affected (a bit) by rUK decisions on taxes that in Wales are the responsibility of the Welsh Government
- Index to £s p.p change in rUK revenues
  - Also insulates Wales from UK-wide shocks while still proving growth incentive
  - Wales in principle unaffected by rUK decisions on taxes that in Wales are the responsibility of the Welsh Government
  - But Wales loses out unless its revenues grow more quickly in % terms than rUK

From a Welsh Government perspective, the last option would worsen the Barnett Squeeze. Indexing block grant adjustments to the percentage change in rUK revenues has attractions in general.

However, if yield from a particular tax were expected to grow less quickly (or more quickly) in Wales than in the rest of the UK due to underlying economic factors, indexing the block grant adjustments to revenue growth in the rest of the UK may not be appropriate. This may be the case for Stamp Duty, where the lower property prices in Wales mean that revenues might be expected to grow less quickly in Wales (as fewer properties will be subject to the highest tax rates even if property price growth kept up with growth in England). This issue has prevented agreement on the method to adjust the block grant after the 1<sup>st</sup> year of devolution of Stamp Duty (and Landfill Tax) in the case of Scotland. This suggests two options:

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<sup>2</sup> The presentation is also available at: <http://www.ifs.org.uk/publications/7711>.

- 1) Assess each tax on a case-by-case basis to decide what method should be used to adjust the block grant. However, this risks a zero-sum bargaining approach by the devolved and UK governments where each side pushes for a system that is likely to benefit them for the particular tax in question.
- 2) Combine revenue from all taxes and make a single adjustment. Because the bigger taxes (like Income Tax) are not so prone to such problems of differential revenue growth, doing this may make it easier to use a single principles-based adjustment mechanism.

It is also worth discussing the 'no detriment' principles suggested by the Smith Commission for Scotland to see if they are relevant for Wales.

The ideas behind the two 'no detriment' principles seem sensible at first glance:

- Neither government should gain nor lose simply as a result of the decision to devolve revenues or spending responsibilities (1<sup>st</sup> no detriment principle);
- Each government should bear the risks and reap the benefits of their own policies, and not win or lose from knock on effects from the other government's policies. Related to this, it seems reasonable that changes in taxes in rUK for which the Welsh Government has responsibility in Wales, should *not* impact the amount spent for the benefit of Wales (together, the 2<sup>nd</sup> no detriment principle).

The difficulty arises in practice, when considering how to implement the principles.

It does not seem possible to design a block grant adjustment mechanism that satisfies the need for transparency and 'automaticity', and at the same time, satisfies both of these no detriment principles. For instance, indexing the block grant to the % change in equivalent revenues/spending in rUK seems to satisfy the spirit of the 1<sup>st</sup> no detriment principle, but does not fully satisfy the 2<sup>nd</sup> no detriment principle. Conversely, indexing the block grant the £s p.p change in equivalent revenues/spending in rUK satisfies the 2<sup>nd</sup> no detriment principle, but does not seem in the spirit of the 1<sup>st</sup> (as it has an effect similar to the "Barnett squeeze").

There is a further issue with the 2<sup>nd</sup> no detriment principle: taken at face value, it implies that where there are knock-on effects from one government's decisions on the revenues or spending of the other, compensating transfers should take place. The calculation of such transfers would be difficult, however, involving complex calculations and modelling; seemingly minor and technical differences in assumptions may lead to very different answers. This aspect of the no detriment principles therefore leaves much scope for disagreement – which could cause difficulties for inter-governmental relations. Difficult negotiations would likely be required in such circumstances, which would mean the system was not "mechanical", and may lead to a lack of transparency.

This would suggest restricting the circumstances in which such transfers take place to the most significant and obvious examples of "knock on" effects; and requiring full information to be published by both the UK government and Welsh government on assumptions and modelling undertaken during negotiations about what compensating transfers should take place. Again, assessment and sign off of costings by the OBR and an equivalent Welsh fiscal commission seems worthwhile; as does investigation of whether an independent body can act as an arbiter.

It is also worth noting that while the “no detriment” principles may seem intuitively appealing, they are not a central feature of the fiscal frameworks of other countries, perhaps because of the difficulties of implementing such principles in practice.

**What financial and economic information is needed by the UK and Welsh Governments to provide support for future funding arrangements?**

The data requirements to implement future funding arrangements will depend upon precisely what those are.

Tax devolution will require forecasts and outturns data for revenues from devolved taxes in Wales and equivalent taxes in the rest of the UK (or England). The forecasts of those revenues will require improved data and forecasts on the Welsh economy – housing volumes and prices, landfill volumes, employment, earnings, profits and other incomes etc. It would also be useful to have more detailed statistics on the devolved taxes (e.g. income tax collected by income range or tax band; housing market transactions by stamp duty band, and revenue per band).

Any move to a needs-based formula for allocating the block grant will require data on the indicators that enter that formula. The Holtham Commission showed that it is possible to base a formula on a relatively small set of indicators which would reduce data requirements.

As discussed above, information on how the Barnett formula (or any replacement formula) has been applied at each fiscal event (and the resulting budgetary consequential) should be published to allow proper oversight and scrutiny.

**Are there any issues the Committee should be aware of in relation to developments on the issues of convergence, underfunding and Barnett reform?**

I would suggest the Committee examine two contributions to these issues.

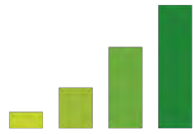
First, a recent paper by myself, which looks at the Barnett Formula’s treatment of devolved NDRs:

<http://www.ifs.org.uk/publications/7442>

Secondly, a paper by Jim Cuthbert (actually from 2001) which provides some analytical results on the extent to which the Barnett formula leads to convergence at given levels of nominal spending growth, and different levels of relative population growth:

<http://strathprints.strath.ac.uk/52628/>

The proposal to put operate a funding floor for Wales by adjusting the Barnett formula so that Wales gets 115% of any increase in per-person comparable spending in England (if needs were assessed to be 115% of those in England) should be seen in the light of the paper by Mr Cuthbert. In effect, if population growth were slower in Wales, such a mechanism would lead to funding in Wales moving quite away above that floor.



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## The Smith Commission proposals: the unresolved issue of the “fiscal framework”

David Phillips

CIPFA Scotland Conference 2015, March 26<sup>th</sup> 2015

# Coming up

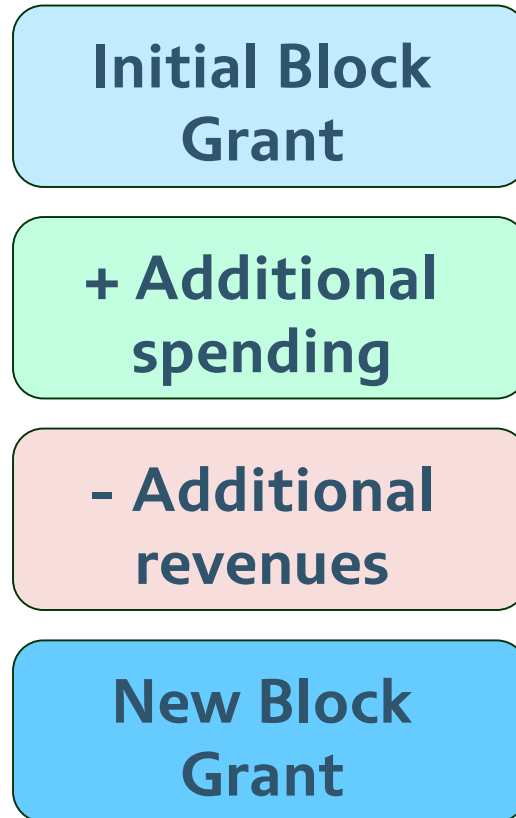
- The Smith Commission and the fiscal framework
  - The big unresolved issue
  - The Commission's principles for the framework
- Assessing the options for adjusting the block grant
  - Do any of them satisfy all the Commission's principles?
- Borrowing powers
  - What about a prudential borrowing regime?
- Beyond the Smith Commission proposals
  - The financial implications of 'full fiscal autonomy'
- Concluding thoughts

# The Smith Commission proposals

- Significant devolution of tax powers and revenues
  - ~ £10 – 11bn of income tax, ~£4 bn of VAT, and others
  - Devolved or assigned revenues will make up >50% of Scottish Government spending
- Partial devolution of welfare
  - ~ £2.5bn of mainly disability benefits
  - Powers to top up benefits and vary housing elements of UC
- Need to adjust the block grant given to Scottish government to account for additional revenues and spending responsibilities
- And changes to the wider ‘fiscal framework’ are needed given additional budgetary risk

# Adjusting the Block grant in year 1

- Adjusting the block grant in year 1 is conceptually simple:



- But what about in subsequent years?

# Adjusting block grant in subsequent years

- Cannot just keep making the same cash-terms adjustment
  - Need to account for inflation and economic growth
- But cannot adjust based on how much is raised from devolved taxes and spent on devolved welfare each year
  - Remove incentive for Scottish govt. to grow tax revenues and limit expenditure growth
  - Changes in block grant would neutralise such efforts

Pack Page 45

**Revenues up  
£500m**

**Block grant  
cut £500m**

**= no net  
change**

- Smith Commission recognises importance of issue
  - Adjustment should be “indexed appropriately”
  - But what would be an appropriate method?



# The Smith Commission's fiscal principles (I)

- Smith Commission also sets out a number of principles the new fiscal framework (including block grant adjustments) should meet:

Pack Page 46

## 95.1 “Barnett Formula”

The block grant from the UK Government to Scotland will continue to be determined by the Barnett formula

## 95.2 “Economic Responsibility”

The Scottish budget should benefit in full from Scottish Government policy decisions increasing revenues or reducing expenditures, and bear the full cost of policy decisions that reduce revenues or increase expenditures.

# The Smith Commission's fiscal principles (II)

## 95.3 “No detriment as a result of the decision to devolve further powers”

The Scottish and UK Governments' budgets should be no larger or smaller simply as a result of the initial transfer of tax and/or spending powers, before considering how these are used.

## 95.4 “No detriment as a result of UK or Scottish Government policy decisions post-devolution”

Where policies of either government affect spending or revenues of others, compensating transfers should take place.

Changes in rUK to taxes devolved to Scotland should not affect government spending in Scotland

# The Smith Commission's fiscal principles (II)

## 95.5 “Borrowing powers”

Need to be consistent with the mechanism by which block grant is adjusted to account for tax and spending devolution

## 95.8 “UK economic shocks”

The UK Government should continue to manage risks and economic shocks that affect the whole of the UK.

## 95.6 “Implementable and stable”

Once a revised funding framework has been agreed, its effective operation should not require frequent ongoing negotiation.

# Assessing block grant adjustment options

- There are a number of ways block grant adjustment can be calculated in subsequent years
- Adjust the block grant by a constant %
- Index the adjustment to what happens to revenues from equivalent taxes (or spending on equivalent welfare) in rUK
  - In % terms
  - In £s per person (p.p) terms
- We need to assess the various methods
  - How do they perform under different scenarios?
  - Do they satisfy Smith Commission's principles?

# Adjusting by a constant percentage (I)

- Suppose year 1 block grant is £30bn and income tax revenues of £10bn is being devolved\*
  - Block grant is therefore reduced by £10bn to £20bn
  - Reduction is equivalent to 33% of initial block grant
- In future years reduce block grant by 33% compared to what it otherwise would be
  - e.g. if grant otherwise £33bn:  $£33bn - 33\% = £22bn$
- The good...
  - Can adjust for rUK policy changes using Barnett formula
  - Simple & a similar system already operates for business rates

\* We abstract from devolution of other taxes and welfare only to keep examples simple.

# Adjusting by a constant percentage (II)

- The bad...
  - Scottish budget would end up bearing risk of shocks that affect the whole of the UK, contrary to Smith Commission

Following devolution, Scotland's budget is £20bn (grant) + £10bn (revenues)

e.g. Income tax revenues fall by 20% in Scotland and rUK (UK-wide shock)

UK govt leaves spending unchanged so underlying block grant still £30bn and adjusted still £20bn

Scotland's budget is now £20bn (grant) + £8bn (revenues): a shortfall of £2bn due to 20% revenue fall

- And the ugly...
  - Scotland isn't well placed to bear such risks
  - Fewer mechanisms to compensate
  - Borrowing is likely to be more expensive for Scotland

# Indexing to % change in rUK revenues (I)

- Keeping with example of 20% revenue fall in Scotland and rUK
  - Block grant adjustment is reduced by 20% from £10 to £8bn
  - Scottish Govt budget is now £22bn (grant) + £8bn (revenue) = £30bn
  - Scottish Govt budget is insulated from UK-wide shocks
  - Need less additional borrowing powers to smooth shocks
- If Scottish and UK revenues change at same % rate, Scotland's overall budget is same as without devolution
  - In the spirit of the first “no detriment” principle (95.3)
- But does gain/lose if its revenues do better/worse than rUK
  - Ensures incentives to grow economy and manage fiscal risks

## Indexing to % change in rUK revenues (II)

- rUK revenues also affected by UK government policy changes
- Suppose UK government cuts income tax in rUK by £10bn.
  - This is equivalent to about 8%, so block grant adjustment reduced by 8% (£0.8bn) to £9.2bn
- Further, imagine this is funded by cutting spending in rUK
  - Barnett formula means £10bn cut in spending in rUK reduces underlying block grant to Scotland by about £0.92bn
- Net effect is to reduce Scottish Govt. budget by £0.12bn
  - £0.8bn - £0.92bn
- So Scottish Govt sees its budget cut to fund a tax cut in rUK
  - Violates second “no detriment” principle (95.4)



# Indexing to £s p.p change in rUK revenues (I)

- Problem arises because revenues per person differ between Scotland and rUK
  - Barnett formula works on £s p.p changes not % changes
- Indexing block grant adjustment to £s p.p change in rUK revenues solves this problem
- But introduces another problem
  - Scottish revenues would have to grow quicker in % terms to keep up £s per person growth in rUK revenues

## Indexing to £s p.p change in rUK revenues (II)

- Scottish income tax revenues in 2013-14 were £11.4 billion
  - £2,140 per person, compared to £2,460 in rUK
- Suppose devolved at that time, and thereafter revenues grow 5% in Scotland and rUK
- 10 years after devolution, the amount taken off block grant would increase to £19.7 billion, but Scottish revenues would only grow to £18.9 billion.
  - Shortfall of £1.1 billion
  - Shortfall would continue growing over time
- Scottish revenues would have to grow quicker than those in rUK to avoid such a fate
  - Does not feel in the spirit of 1<sup>st</sup> “No Detriment” principle (95.3)

# Summarising the options

- Fixed % adjustment to block grant
  - Easy to understand and implement using Barnett formula
  - But Scotland bears risk of UK-wide shocks it is ill-equipped to bear
- Index to % change in rUK revenues
  - Insulates Scotland from UK-wide shocks but still growth incentive
  - In spirit of “no detriment simply from devolution”
  - Scotland affected (a bit) by rUK decisions on devolved taxes
- Index to £s p.p change in rUK revenues
  - Scotland unaffected by rUK decisions on devolved taxes
  - But Scotland loses out unless its revenues grow more quickly in % terms than rUK – not in spirit of 1<sup>st</sup> “no detriment” principle

# Can any mechanism satisfy all Smith principles?

- Clear trade-offs between different Smith Commission principles
- Our ongoing analysis suggests that there is **no method that will satisfy all the principles**
  - Fiddly fixes would increase risk of political deadlock
- Need to prioritise principles and choose method accordingly
- **Indexing to % change in rUK revenues looks best to me**
  - Insulates Scotland from UK-wide shocks
  - Taxes in rUK go up and down and the (relatively small) increases and reductions in Scotland's budget this method causes would balance out
- Problems under other methods larger & likely to grow over time
  - e.g. after 20 years, loss to Scotland at 5% revenue growth under £s p.p indexation would increase to £2.8bn.

# Should the “no detriment” principles be ditched?

- More generally, not clear “no detriment” principles are sensible
  - Devolution necessarily increases budget risk (& possible “detriment”)
- Consider “compensation” for knock-on effects
- Suppose Scotland increases top rate of tax to 50%
  - Scots work less, so pay less NICs –Scottish govt compensate UK govt?
  - Scots shift income from earnings to dividends; or Scots move from Scotland to rUK – UK govt compensate Scottish govt?
  - How do you measure these effects?
- Such an approach necessarily require lots of negotiation
  - £millions at stake , so lots to argue about – political chaos?
- Better to accept there may be some detriment to either govt?
  - Other countries (e.g. US, Canada, Australia) do

# Borrowing powers

- Scotland would need borrowing powers commensurate with the fiscal risks it faces under devolution
- By insulating Scotland from UK-wide shocks, indexing block grant adjustment to % change in rUK revenues reduces necessary scale of extra borrowing powers
  - Reduces Scotland's debt interest bill
  - Less risk of UK govt. having to bail out Scotland?
- CIPFA has argued for a system of prudential borrowing
  - Argue it has worked well for local authorities
  - Central government can intervene if local authorities over-borrow
  - But politics with Scotland is difficult – intervention by UK govt could cause a political and constitutional crisis
  - Could be in some groups' interests to cause such a crisis

# Beyond Smith: full autonomy (I)

- Smith proposals not necessarily the end of the devolution journey
  - SNP has argued for “full fiscal autonomy”
- Full fiscal autonomy normally interpreted as Scotland raising all its own revenues and controlling all its spending
  - Includes contribution to UK govt for defence, foreign affairs, and servicing Scotland’s share of UK’s existing debt
  - No more Barnett formula
- Latest GERS figures for 2013-14 show:
  - Scottish deficit of 8.1% of GDP, compared to 5.6% for UK as a whole
- Oil price falls mean Scotland’s relative position likely worsened
  - In 2015-16 deficit of 8.6% of GDP (4.0% UK)

## Beyond Smith: full autonomy (II)

- At the moment full fiscal autonomy would therefore entail
  - Very high borrowing (not feasible?) or
  - Substantial tax rises or spending cuts
- Oil revenues need to be about £8bn a year to make up for loss of funding under Barnett formula
  - Currently forecast at £0.6 billion a year
  - May rebound, but volatile, and longer term decline
- Faster growth in onshore economy would help close the gap
  - Easier said than done
  - Main policies suggested involve taxing less or spending more – make the gap bigger, not smaller
- Full fiscal autonomy would entail significant fiscal challenges



# Conclusions

- Updating the fiscal framework to account for further devolution is important – for responsibility, fairness, and incentives
- But it looks like cannot satisfy all Smith Commission principles
  - And “no detriment” principles not so sensible in practise as on paper
- Devolution necessarily involves budget risks
  - Policymakers should focus on ensuring the system is workable and risks shared sensibly between UK and Scottish govt
  - Politics is key: Will two governments design and operate a system in good faith? Or will it be used a battleground for point scoring?
- Borrowing is another key issue – not sure prudential borrowing is the right approach
- Smith Commission may only be start of the journey
  - Full fiscal autonomy presents a big fiscal challenge

Cynulliad Cenedlaethol Cymru / National Assembly for Wales  
Y Pwyllgor Cyllid / The Finance Committee  
Future Funding For Wales Inquiry / Ymchwiliad i Ariannu Cymru yn y Dyfodol

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Response from The Institute for Fiscal Studies – Annex A

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## The Smith Commission proposals: the unresolved issue of the “fiscal framework”

David Phillips

CIPFA Scotland Conference 2015, March 26<sup>th</sup> 2015

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## Coming up

- The Smith Commission and the fiscal framework
  - The big unresolved issue
  - The Commission’s principles for the framework
- Assessing the options for adjusting the block grant
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## The Smith Commission proposals

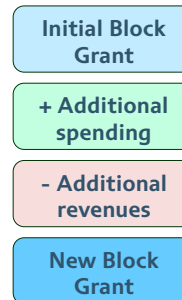
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### 95.6 “Implementable and stable”

Once a revised funding framework has been agreed, its effective operation should not require frequent ongoing negotiation.

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## Assessing block grant adjustment options

- There are a number of ways block grant adjustment can be calculated in subsequent years
- Adjust the block grant by a constant %
- Index the adjustment to what happens to revenues from equivalent taxes (or spending on equivalent welfare) in rUK
  - In % terms
  - In £s per person (p.p) terms
- We need to assess the various methods
  - How do they perform under different scenarios?
  - Do they satisfy Smith Commission's principles?

## Adjusting by a constant percentage (I)

- Suppose year 1 block grant is £30bn and income tax revenues of £10bn is being devolved\*
  - Block grant is therefore reduced by £10bn to £20bn
  - Reduction is equivalent to 33% of initial block grant
- In future years reduce block grant by 33% compared to what it otherwise would be
  - e.g. if grant otherwise £33bn:  $£33bn - 33\% = £22bn$
- The good...
  - Can adjust for rUK policy changes using Barnett formula
  - Simple & a similar system already operates for business rates

\* We abstract from devolution of other taxes and welfare only to keep examples simple.

## Adjusting by a constant percentage (II)

- The bad...
  - Scottish budget would end up bearing risk of shocks that affect the whole of the UK, contrary to Smith Commission

Following devolution, Scotland's budget is £20bn (grant) + £10bn (revenues)

e.g. Income tax revenues fall by 20% in Scotland and rUK (UK-wide shock)

UK gov't leaves spending unchanged so underlying block grant still £30bn and adjusted still £20bn

Scotland's budget is now £20bn (grant) + £8bn (revenues): a shortfall of £2bn due to 20% revenue fall

- And the ugly...
  - Scotland isn't well placed to bear such risks
  - Fewer mechanisms to compensate
  - Borrowing is likely to be more expensive for Scotland

## Indexing to % change in rUK revenues (I)

- Keeping with example of 20% revenue fall in Scotland and rUK
  - Block grant adjustment is reduced by 20% from £10 to £8bn
  - Scottish Gov't budget is now £22bn (grant) + £8bn (revenue) = £30bn
  - Scottish Gov't budget is insulated from UK-wide shocks
  - Need less additional borrowing powers to smooth shocks
- If Scottish and UK revenues change at same % rate, Scotland's overall budget is same as without devolution
  - In the spirit of the first "no detriment" principle (95.3)
- But does gain/lose if its revenues do better/worse than rUK
  - Ensures incentives to grow economy and manage fiscal risks

## Indexing to % change in rUK revenues (II)

- rUK revenues also affected by UK government policy changes
- Suppose UK government cuts income tax in rUK by £10bn.
  - This is equivalent to about 8%, so block grant adjustment reduced by 8% (£0.8bn) to £9.2bn
- Further, imagine this is funded by cutting spending in rUK
  - Barnett formula means £10bn cut in spending in rUK reduces underlying block grant to Scotland by about £0.92bn
- Net effect is to reduce Scottish Govt. budget by £0.12bn
  - £0.8bn - £0.92bn
- So Scottish Govt sees its budget cut to fund a tax cut in rUK
  - Violates second “no detriment” principle (95.4)

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## Indexing to £s p.p change in rUK revenues (I)

- Problem arises because revenues per person differ between Scotland and rUK
  - Barnett formula works on £s p.p. changes not % changes
- Indexing block grant adjustment to £s p.p change in rUK revenues solves this problem
- But introduces another problem
  - Scottish revenues would have to grow quicker in % terms to keep up £s per person growth in rUK revenues

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## Indexing to £s p.p change in rUK revenues (II)

- Scottish income tax revenues in 2013-14 were £11.4 billion
  - £2,140 per person, compared to £2,460 in rUK
- Suppose devolved at that time, and thereafter revenues grow 5% in Scotland and rUK
- 10 years after devolution, the amount taken off block grant would increase to £19.7 billion, but Scottish revenues would only grow to £18.9 billion.
  - Shortfall of £1.1 billion
  - Shortfall would continue growing over time
- Scottish revenues would have to grow quicker than those in rUK to avoid such a fate
  - Does not feel in the spirit of 1<sup>st</sup> “No Detriment” principle (95.3)



## Summarising the options

- Fixed % adjustment to block grant
  - Easy to understand and implement using Barnett formula
  - But Scotland bears risk of UK-wide shocks it is ill-equipped to bear
- Index to % change in rUK revenues
  - Insulates Scotland from UK-wide shocks but still growth incentive
  - In spirit of “no detriment simply from devolution”
  - Scotland affected (a bit) by rUK decisions on devolved taxes
- Index to £s p.p change in rUK revenues
  - Scotland unaffected by rUK decisions on devolved taxes
  - But Scotland loses out unless its revenues grow more quickly in % terms than rUK – not in spirit of 1<sup>st</sup> “no detriment” principle

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## Can any mechanism satisfy all Smith principles?

- Clear trade-offs between different Smith Commission principles
- Our ongoing analysis suggests that there is **no method that will satisfy all the principles**
  - Fiddly fixes would increase risk of political deadlock
- Need to prioritise principles and choose method accordingly
- **Indexing to % change in rUK revenues looks best to me**
  - Insulates Scotland from UK-wide shocks
  - Taxes in rUK go up and down and the (relatively small) increases and reductions in Scotland's budget this method causes would balance out
- Problems under other methods larger & likely to grow over time
  - e.g. after 20 years, loss to Scotland at 5% revenue growth under £s p.p. indexation would increase to £2.8bn.

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## Should the “no detriment” principles be ditched?

- More generally, not clear “no detriment” principles are sensible
  - Devolution necessarily increases budget risk (& possible “detriment”)
- Consider “compensation” for knock-on effects
- Suppose Scotland increases top rate of tax to 50%
  - Scots work less, so pay less NICs – Scottish govt compensate UK govt?
  - Scots shift income from earnings to dividends; or Scots move from Scotland to rUK – UK govt compensate Scottish govt?
  - How do you measure these effects?
- Such an approach necessarily require lots of negotiation
  - £millions at stake, so lots to argue about – political chaos?
- Better to accept there may be some detriment to either govt?
  - Other countries (e.g. US, Canada, Australia) do

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## Borrowing powers

- Scotland would need borrowing powers commensurate with the fiscal risks it faces under devolution
- By insulating Scotland from UK-wide shocks, indexing block grant adjustment to % change in rUK revenues reduces necessary scale of extra borrowing powers
  - Reduces Scotland's debt interest bill
  - Less risk of UK govt. having to bail out Scotland?
- CIPFA has argued for a system of prudential borrowing
  - Argue it has worked well for local authorities
  - Central government can intervene if local authorities over-borrow
  - But politics with Scotland is difficult – intervention by UK govt could cause a political and constitutional crisis
  - Could be in some groups' interests to cause such a crisis

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## Beyond Smith: full autonomy (I)

- Smith proposals not necessarily the end of the devolution journey
  - SNP has argued for “full fiscal autonomy”
- Full fiscal autonomy normally interpreted as Scotland raising all its own revenues and controlling all its spending
  - Includes contribution to UK govt for defence, foreign affairs, and servicing Scotland's share of UK's existing debt
  - No more Barnett formula
- Latest GERS figures for 2013-14 show:
  - Scottish deficit of 8.1% of GDP, compared to 5.6% for UK as a whole
- Oil price falls mean Scotland's relative position likely worsened
  - In 2015-16 deficit of 8.6% of GDP (4.0% UK)

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## Beyond Smith: full autonomy (II)

- At the moment full fiscal autonomy would therefore entail
  - Very high borrowing (not feasible?) or
  - Substantial tax rises or spending cuts
- Oil revenues need to be about £8bn a year to make up for loss of funding under Barnett formula
  - Currently forecast at £0.6 billion a year
  - May rebound, but volatile, and longer term decline
- Faster growth in onshore economy would help close the gap
  - Easier said than done
  - Main policies suggested involve taxing less or spending more – make the gap bigger, not smaller
- Full fiscal autonomy would entail significant fiscal challenges

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## Conclusions

- Updating the fiscal framework to account for further devolution is important – for responsibility, fairness, and incentives
- But it looks like cannot satisfy all Smith Commission principles
  - And “no detriment” principles not so sensible in practise as on paper
- Devolution necessarily involves budget risks
  - Policymakers should focus on ensuring the system is workable and risks shared sensibly between UK and Scottish govt
  - Politics is key: Will two governments design and operate a system in good faith? Or will it be used a battleground for point scoring?
- Borrowing is another key issue – not sure prudential borrowing is the right approach
- Smith Commission may only be start of the journey
  - Full fiscal autonomy presents a big fiscal challenge

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Jane Hutt AC / AM  
Y Gweinidog Cyllid a Busnes y Llywodraeth  
Minister for Finance and Government Business



Llywodraeth Cymru  
Welsh Government

Jocelyn Davies AM  
Chair, Finance Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

22 July 2015

*Dear Jocelyn,*

Thank you for your letter following the meeting of 25 June 2015. I hope the Committee found the session helpful as you undertake your inquiry into Future Funding.

As I highlighted to the Committee, the joint statement on funding reform in 2012 represented an important step forward in negotiating a fair funding settlement for Wales. The UK Government, for the first time, recognised that there had been convergence in relative funding in Wales and that convergence is very likely to reassert itself once spending starts to increase. I have attached a copy of the joint statement. I have called on the UK Government to agree a new joint statement ahead of the UK Spending Review that outlines the details of a fair funding floor for Wales.

In addition to a fair funding floor, I have also been pressing the UK Government to introduce a number of specific changes to our budgetary arrangements that would provide useful additional flexibility. As part of the St. David's Day process I requested:

- a change to the budget exchange system to ensure that the Welsh Government would not be subject to any restrictions in carrying forward either planned or unplanned underspends;
- the ability to draw forward capital budgets, including borrowing, across the period of a Spending Review, to provide a smoother capital budget profile and allow capital investment in excess of the arbitrary allocation via the Barnett formula;
- being able to switch between capital and revenue budgets; and
- like Northern Ireland, the public sector in Wales would benefit from capitalising the costs of reorganisation, including any Voluntary Exit Schemes, were such schemes to be taken forward.

Bae Caerdydd • Cardiff Bay  
Caerdydd • Cardiff  
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*Wedi'i argraffu ar bapur wedi'i ailgylchu (100%)*


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I will again be making the case for greater budgetary flexibility as part of wider changes to our funding arrangements in an updated Statement of Funding Policy to be published alongside the UK Spending Review.

With the new devolved taxes becoming active in Wales from April 2018 there will need to be changes to the fiscal framework to account for the new revenue stream from those taxes. The issue of block grant offsets is a very important aspect of how the financial settlement will operate in the future. The detailed arrangements for the block grant offsets have not yet been agreed with the UK Government. However, it is important to ensure that offsets to the block grant are calculated in a fair and transparent manner which takes into account the properties of the relevant tax base. I am thankful to the Holtham Commission for the detailed analysis on the block grant offset mechanisms. Their work will form the starting point in my negotiations with the UK Government.

I look forward to reading the findings of the Committee's inquiry and I have provided responses to the additional questions from the Committee in Annex A.

Bert Hisher,  


**Jane Hutt AC / AM**  
Y Gweinidog Cyllid a Busnes y Llywodraeth  
Minister for Finance and Government Business

## **Annex A – Finance Committee additional Questions**

### **City Deal**

*The UK Government has stated that it is interested in negotiating individual City Deal's, including potentially a deal with Cardiff. How would funding for a City Deal operate in relation to the block grant?*

*Given that economic development is a devolved issue, should HM Treasury be encouraged to provide all funding for city deals through the block grant for allocation by the National Assembly?*

The City Deal for Glasgow and Clyde Valley attracted new investment from the UK Government and I expect this to also to be the case for the potential Cardiff Capital Region City Deal. The Glasgow and Clyde Valley City Deal included funding from the UK Government in areas that are not devolved to the Scottish Government. It is my expectation that any funding from the UK Government to support a City Deal proposal for Cardiff Capital Region would, therefore be additional to, and sit outside of the block grant.

### **Funding arrangements for local government**

*Should the devolution of funding from central government to local government which is happening in England also occur in Wales?*

The vast majority of the funding provided by the Welsh Government to local authorities in Wales is unhypothecated, enabling authorities to allocate resources according to local needs and priorities, taking account of their statutory duties and functions. The White Paper, Reforming Local Government: Power to Local People, set out the Welsh Government's plans for reviewing the local government finance framework for Wales.

*How should the borrowing and taxes raised by local authorities be managed within the wider Welsh borrowing and tax system?*

There are long-standing frameworks in place to govern the borrowing and taxation arrangements of local authorities in Wales. The devolution of tax and borrowing powers to the Welsh Government will not impact on those arrangements. However, there may be opportunities to look at the system of taxation and borrowing across Wales as a whole to make the most effective use of the powers that are available.

### **Public sector balance sheet**

*The Committee has heard that Wales is the only devolved administration which doesn't publish information on the balance between its revenues and spending. How important is it to calculate and forecast the overall fiscal position of the Welsh public sector?*

The Welsh Government already publishes data relating to its own finances and those of local authorities in Wales. These will be developed to take account of devolved taxes. The UK Government publishes estimates of public spending in Wales and UK taxes raised in Wales.

The Welsh Government does not publish an estimate of Wales' overall fiscal position as this is a hypothetical construct. Wales is integrated into the tax and expenditure regime of the UK, most of which is non-devolved. There would be little point in putting resources into such an exercise; we have no plans for Wales to become independent or to adopt full fiscal autonomy.

*Do you believe that a public sector balance sheet should be produced for Wales?*

The preparation of a balance sheet for the public sector in Wales is complex given that there is currently no mechanism for consolidating the information made available by public sector bodies in Wales. Such an exercise will require the co-operation of all parts of the public sector in Wales.

As it is unclear what the purpose for a public sector balance sheet for Wales is I am happy to consider whether there are more appropriate alternative methods to producing any specific information that the Committee is seeking.

### **Greater certainty over funding**

*How can the UK Government give devolved administrations greater certainty of their likely future funding?*

In times of falling budgets, it is more important than ever that we have maximum certainty on likely future funding. As long as the majority of our funding comes from the UK Government, we will continue to be dependent on their timescales for their decisions. In the evidence session on 25 June, I said that even with the tax varying powers that are recommended by the Silk Commission, the block grant would still account for 80 per cent of our budget which is why it is important that we continue to press for fair funding. However, as I highlighted in the debate on the First Supplementary Budget on 14 June, the successive reductions to our Budget over this Spending Review period, including the in-year incremental cuts we have received this year, make proper financial planning, and the ability to invest strategically, harder.

Within the limitations of the current fiscal framework, providing greater financial flexibilities for Wales is, of course, one way in which the UK Government can help us to manage our budgets in the future so we maximise the funding we have available to deliver our priorities for Wales.

## Funding reform: joint statement of progress

### Introduction

The UK Government and Welsh Government have jointly agreed the next steps following inter-governmental talks on funding reform. These cover devolved funding, borrowing powers and wider reform.

### Devolved funding

The Welsh Government strongly believes that there is no case for further convergence in Welsh relative funding. The UK Government recognises that there has been convergence in Welsh relative funding since the start of devolution, and that this is a significant concern in Wales.

Both Governments accept that, on the basis of present UK Government spending plans, there is unlikely to be further convergence over the current budgetary planning horizon. A small amount of divergence is likely to occur over the remainder of this spending review period, but the overall trend of convergence is very likely to reassert itself once spending starts to increase.

In future, in advance of each spending review there will be a joint review of the pattern of convergence by the two Governments. If convergence is forecast to occur over the course of the spending review period, both Governments will then enter into discussions on options to address the issue, based on a shared understanding of all the evidence available at that time.

Both Governments commit to negotiating to achieve a sustainable arrangement for Welsh devolved funding and the UK public finances, that each can accept as being fair and affordable.

The Welsh Government believes that a mutually acceptable outcome to those discussions is an essential precondition for any significant devolution of taxes and the UK Government will only implement such changes with the consent of the National Assembly for Wales.

### Borrowing powers

In principle, the UK Government accepts the case for the Welsh Government to have access to borrowing powers in order to finance infrastructure projects, subject to an appropriate independent stream of revenue being in place to support it.

Decisions on the devolution of taxes – which could provide an appropriate revenue stream – will be made after the Silk Commission reports.

It has been agreed that the UK Government and Welsh Government should continue to explore the options for financing specific infrastructure projects, including the case for early access to borrowing powers in anticipation of a future independent revenue stream.

Both Governments agree that any borrowing powers should operate within the UK Government's responsibility for delivering its fiscal mandate.

Wider reform

The Silk Commission is currently considering the case for devolving additional fiscal powers to Wales, including the options for the devolution of certain tax-varying powers.

Both Governments commit to giving the Commission's proposals serious consideration, with a view to agreeing jointly a package of reforms that delivers fair and accountable funding for Wales and that commands a broad consensus.



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

Jocelyn Davies AM  
Chair, Finance Committee  
National Assembly for Wales  
Cardiff Bay,  
Cardiff  
CF99 1NA

19<sup>th</sup> August 2015

Dear Mr. Davies,

INQUIRY INTO FUTURE FUNDING

Thank you for your letter of 21 July on the National Assembly's Finance Committee inquiry into future funding.

Please find attached my response to the questions you included in your letter.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'G Hands', written in a cursive style.

GREG HANDS



Annex – response to questions

1. A number of Parliamentary and other inquiries have concluded that there is a need for an independent body to monitor the application of the Barnett formula. Please can you confirm whether this option is currently being considered?

The government has committed to maintaining the Barnett formula, which is a fair, transparent and simple mechanism for determining changes to the devolved administrations' funding allocations. The UK Government is not currently considering the option of introducing an independent body to monitor the application of the Barnett formula.

2. Is it possible to regularly release full calculations of the operation of the Barnett formula to identify how spending decisions in England impact on Wales?

The outcome of the application of the Barnett formula to UK Government departmental allocations is announced both at Spending Reviews and at individual fiscal events. These figures are then represented in the Estimates laid before Parliament. HM Treasury's *Statement of Funding Policy* contains the relevant detail on the factors used when the Barnett formula is applied.

3. Does HM Treasury accept that there is sufficient evidence that the Barnett formula should incorporate a needs-based component, at least in relation to Wales?

The UK Government has agreed to introduce a floor in the level of relative funding it provides to the Welsh Government, in the expectation that the Welsh Government will call a referendum on income tax powers in the next Parliament. The precise level of the floor, and the mechanism to deliver it, will be agreed alongside the next Spending Review, as set out in the St David's Day Command Paper. Outside of the funding floor, we are not considering any other options to introduce further needs-based components in to the Barnett formula.



4. An initial block grant adjustment has been agreed for the taxes devolved under the Scotland Act 2012. Is it expected that the same block grant adjustment mechanism will apply to Wales?

We have agreed a one-off adjustment with the Scottish Government for 2015-16 in relation to stamp duty land tax and landfill tax. An ongoing mechanism will be agreed as part of the wider fiscal framework for Scotland, alongside the Scotland Bill 2015. We have also agreed an adjustment mechanism for the Scottish rate of income tax, although this will be superseded by the full devolution of income tax rates and thresholds. We will therefore also need to revisit these arrangements as part of the fiscal framework. We will be taking forwards discussions with the Welsh Government on block grant adjustments related to devolved Welsh taxes in due course.

5. How will the 'funding floor' for Wales which was announced alongside the St David's day agreement operate?

The St. David's Day Command Paper committed to introducing a funding floor with the details agreed at the next Spending Review. The Chancellor has indicated that the Spending Review outcome will be announced in November 2015. The Command Paper also set out that the funding floor would be introduced in the expectation that the Welsh Government will call a referendum on income tax powers in the next Parliament.

6. The Wales Bill Command Paper outlines certain conditions which must be met before new Welsh taxes could be approved. Please can you explain how the full approval process would operate in practice and the tests which must be met?

The Command Paper, published in March 2014, set out a clear list of the criteria against which any proposals for new taxes from the Welsh Government would be assessed by the UK Government. The paper set out that the criteria would include the extent to which the new tax:

- affects UK macro-economic or fiscal policy and/or the single market;





- may be non-compliant with EU legislation;
- increases tax avoidance risks; or
- creates additional compliance burdens for businesses and/or individuals;
- is aligned with devolved responsibilities.

Consistent with the process set out alongside the Scotland Bill, any proposal from the Welsh Government for a new tax would need to include full details on the following:

- the tax base (i.e. taxable activity);
- estimated revenue and economic impact;
- estimated impact on UK revenue or interaction with UK-wide taxes;
- expected impacts on business and individuals (including a distributional impact);
- assessment against all relevant legislation and directives, including the Human Rights Act, EU State Aid rules, Equality Act etc; and
- collection and compliance plans.

The UK Government will work with the Welsh Government to assess any such proposals in a timely manner. If at the end of that process the UK Government decides not to grant powers to the Assembly to create a new devolved tax, it will explain its reasoning.

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted

Ein cyf/Our ref: LF CS 0704 15

Jocelyn Davies AM  
Chair of the Finance Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

 28 July 2015

Dear 

**Environment (Wales) Bill**

At my evidence session at the Finance Committee held on 9 July, I agreed to provide further information on a number of issues in relation to the Environment (Wales) Bill. I have set out below a response to each.

**1. Examples of the economic benefits**

During the evidence session you enquired about the approach taken in the Regulatory Impact Assessment (RIA), I believe the following information helps to respond to your queries.

The Committee asked about the presentation of the costs and benefits in the RIA and in particular, that benefits are displayed alongside the costs and also whether costs have been offset by benefits. I do not believe this is the case with the Environment Bill; the RIA clearly sets out the estimated costs and benefits separately. Both the research commissioned to inform the RIA and the RIA itself have been produced in accordance with HM Treasury 'Green Book' guidance on appraisal in central government.

In particular, the RIA sets out a summary of the costs and benefits included for each part of the Bill and also for the Bill as a whole. The RIA estimates the overall costs to be £291m with estimated benefits of £359m and therefore the net benefit is approximately £68m (all figures are given as present value over 10 years).

The Committee asked for details of how the benefits have been measured in the RIA. As requested, I have set out below some examples to explain how the benefits have been estimated, but this is not intended to be a full analysis.

## Part 1: Sustainable Management of Natural Resources

The main potential benefit that has been assessed as having a significant impact is the contribution towards the improved resilience of Wales' ecosystems.

Research<sup>1</sup> suggests that 'a targeted approach to land-use planning that recognises both market goods and non-market ecosystem services would increase the net value of land to society by 20% on average, with considerably higher increases arising in certain locations'. Although there is no comprehensive model of ecosystem services in Wales that can accurately value the potential changes resulting from improved natural resource management, there are studies that can give an indication of the level of values involved, these assessments are included in the RIA for illustrative purposes. However, attempts to calculate changes in value more precisely were not considered robust, therefore, were not included in the overall figure for the benefit of the Bill.

It is anticipated that the qualitative benefits expected as a result of the Bill will add to the figure estimated in the RIA for the Bill as a whole. The RIA sets out the way in which the proposals are anticipated to improve the resilience of Wales' ecosystems, including benefits for communities and the environment.

## Part 4: Collection and Disposal of Waste

In terms of monetised benefits, the benefits in relation to the collection and disposal of waste have been more precisely measured due to the availability of evidence at this stage (refer to pg. 238 to pg.244 in the RIA). As noted in the RIA, the assessment of costs and benefits for Part 4 is based on research undertaken by Eunomia Research & Consulting Ltd using their in-house waste flow model.

In present value terms, the estimated costs for the waste provisions of the Bill are £159 million over 10 years with benefits of £218 million.

The figures for the monetised benefits were derived as follows:

### Waste Management Businesses

*Materials revenue: £70.74m PV*

*Avoided Landfill Tax: £172.46m PV*

The Eunomia model compares the likely treatment of waste streams under the baseline ('Do Nothing') scenario with that under the proposed policy to generate estimates of the additional capital expenditure and ongoing operating costs associated with waste collection, waste treatment costs, revenue from the sale of recyclable materials and the volume of waste going to landfill (and therefore landfill tax).

As outlined in the RIA, waste management businesses are expected to benefit overall from the proposals, in the main due to cost savings from avoided landfill tax, residual treatment and revenue from recyclable materials. However, in a competitive market it would be expected that some of these cost savings would be passed to the waste producer, lowering the benefit to the waste management business.

<sup>1</sup> 52Bringing Ecosystem Services into Economic Decision-Making: Land Use in the United Kingdom  
<http://www.google.co.uk/url?url=http://www.environmental-economics.org/pdf/Bateman-2013>

I would ask the Committee to note that while the reduction in landfill tax represents a benefit to waste management businesses in Wales, there is a corresponding cost to the Exchequer. This figure is therefore not included in the £218 million figure above.

### Sewerage Authorities

*Avoided Water Treatment Costs: £7.08m PV*

The ban on the disposal of food waste to sewers is expected to generate savings to Sewerage authorities through:

- a reduction in the blockage of and damage to sewerage systems
- avoidance of costs of treating effluent from macerators

Based on current costs and the expected reduction in the volume of food waste entering the sewerage system, the benefits to sewerage authorities are estimated to be between £530,000 and £884,000 per annum

### Environmental Benefit

*Monetised Environmental Costs: £139.77m PV*

The figures for the monetised environmental benefits were derived as follows:

It is estimated that a ban on the incineration and landfilling of certain materials will see environmental benefits. The monetised environmental benefit presented above is based on the monetisation of emissions to air, including climate change and air pollution impacts, the latter being considered through a monetisation of the impact on human health.

The modelling estimates an additional 2.5 million tonnes of recycled materials over a ten year period and a CO<sub>2</sub> equivalent reduction of 2.1 million tonnes over a ten year period.

Additional research has shown that large reductions in greenhouse gas emissions can be achieved against the current baseline by diverting priority materials from landfill to recycling.

To give one example the carbon saving from improving the management of plastic from I&C waste from the baseline situation in 2007/8 to a high level of material recovery (largely by diverting landfilled waste to recycling) is 110 000 tonnes of CO<sub>2</sub> equivalent.

### Job Creation

The RIA also sets out a number of other benefits as a result of Part 4 of the Bill, including the potential for job creation. Further information is set out below, however, these have not been monetised for the purpose of the RIA.

High levels of recycling are predicted to result to increase employment in Wales. It is estimated, by the Skills Sector Council, that in Wales there are around 7,850 people employed in the waste management industry. Research shows that implementing a 70% recycling rate for all wastes by 2025 would potentially create new jobs in Wales in the order of:

- 3,600 new jobs across municipal, commercial and industrial (including construction and demolition) sectors.
- 2,600 new jobs in the municipal sector alone.

Many of the jobs created come from:

- The economic activity of the reuse, preparation for reuse and recycling industries.
- 'Indirect' employment (through other economic activity supporting the industry, for example from the industries' purchases of goods and services).
- 'Induced' employment (through industry employees spending their wages in the economy).

Data from the European Commission shows that the waste management sector for the EU-25 amounts to 1.2 to 1.5 million jobs. Recycling 100,000 tonnes of waste can create up to 250 jobs as opposed to 20-40 in the case of incineration and approximately 10 landfilling.

### Part 3: Charges for Carrier Bags

*Extending the Welsh Ministers powers to enable them to set a charge on other types of carrier bags:*

- Total costs are £123.75 million over 10 years compared to total benefits of £132.02 million. These figures are derived from the research undertaken by Ricardo AEA and the Welsh Government. They can be broken down as follows:
  - Costs: £8.25 million to manufacturers (reduction in the number of single use carrier bags being purchased) and £115.50 million to consumers (based on the preferred charging option for "bags for life").
  - Benefits: £37.66 million in retailer revenue, £80k to wholesalers and £66.76 million increase in charitable donations.
  - Other: £19.25 million through an increase in tax revenue and £8.27 million in environmental impact (for example a reduction in littering, carbon emissions and air pollution).

*A duty on retailers to donate the proceeds from the sale of carrier bags to good causes:*

- Quantified costs are £1.2million over 10 years compared to benefits of £8.7million. These figures are derived from the RIA work undertaken by Ricardo AEA and the Welsh Government. They can be broken down as follows:
  - Costs: £800k for businesses (in relation providing two "returns" per annum) and £400k for monitoring and enforcement (as a mandatory agreement is being introduced).
  - Benefits: This is made up of £4.79 million in increased revenues for environmental charities and £3.92 million in increased revenues for non-environmental charities.

The figures for the environmental benefits are based on 'bottom-up' modelling undertaken by Ricardo AEA which looked at the relative CO<sub>2</sub> and air quality impacts associated with manufacturing the different types of carrier bag and also the relative littering/disposal impacts associated with each type of bag.

These impacts were then aggregated up to reflect the number of the various bag types purchased under each option. The remaining benefits reflect the redistribution of the revenue from the additional carrier bag charge (which is a cost to consumers) between retailers, wholesalers, charities and the exchequer. Again, this is based on the modelling work undertaken by Ricardo AEA.

**2) The costs that may fall on local authorities and others if something goes into the recycling waste stream, but then ends up in landfill**

The Bill is aimed at businesses and the public sector rather than households.

The cost of disposal of contaminants from the recycling stream would not be incurred by either waste management companies, or by local authorities, who operate their commercial waste services on a full cost recovery basis. The cost would be passed to the business waste producers by the local authorities or waste management businesses that collect their waste. This will incentivise greater quality of recycling by waste producers in order to reduce business costs.

**3) What the 1 per cent inspection figure of business premises by Natural Resources Wales is based upon**

The 1% figure is an indicative estimate for modelling purposes.

NRW inspects premises on a risk and intelligence led basis. It is expected that it will target businesses producing larger amounts of waste, those producing priority waste materials or those that intelligence leads them to suspect are breaching legislative requirements. The 1% figure was discussed with NRW and settled on as an adequate and appropriate level of inspection for the modelling. The figure takes into account:

- the parallel duty placed on waste collection companies and local authorities to collect recyclable wastes from their business customers by means of separate collection, which will result in the collection agents themselves requiring their customers to segregate their wastes for collection;
- the reasonable expectation that the majority of businesses seek to comply with their legal obligations.

**4) A copy of the letter to the Chair of the Environment and Sustainability Committee in relation to a timetable for publishing the secondary legislation relating to the Bill**

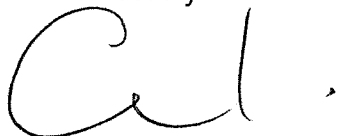
The timetable you requested is provided at **Annex 1**.

This table has been updated since it was originally provided to the Environment and Sustainability Committee in my letter of 17 June 2015. These changes are the result of emerging evidence and are as follows:

Indicative dates by which the Welsh Ministers make regulations on fees for the marine licensing regime, under sections 78 to 80 of the Bill, have been amended. The intended date for introduction of new fees, by which time the regulations will need to be made is April 2017, which is being driven by the ongoing marine licensing fees review. The rationale for this includes a number of factors; Royal Assent of the Bill, Assembly elections in 2016 and the fees review.

I hope that you find this helpful. If you would like any further information on the Bill, please contact me. I am copying this letter to the Chair of the Environment and Sustainability Committee.

Yours sincerely

A handwritten signature in black ink, appearing to be 'C. Sargeant', written in a cursive style.

**Carl Sargeant AC / AM**

Y Gweinidog Cyfoeth Naturiol

Minister for Natural Resources

CC: Alun Ffred Jones AM, Chair of the Environment and Sustainability Committee



## Annex 1

### *Forward look: Anticipated commencement and subordinate legislation dates*

This Annex sets out the dates by which it is expected that the provisions of the Bill will be commenced, and dates by which it is anticipated that powers conferred on the Welsh Ministers to make subordinate legislation would be exercised. It may be most helpful to read it alongside the Statement of Policy Intent.

<b>Date</b>	<b>Milestone</b>	<b>Notes</b>
<b>March 2016</b>	-- Anticipated date of Royal Assent, subject to the will of the Assembly --	
<b>May 2016</b>	Commencements two months after Royal Assent.	Part 1 (sustainable management of natural resources); Part 2 (climate change); Part 5 (fisheries for shellfish); Section 83 (repeal of publication requirements); Section 84 (appeals against special drainage levies); Section 85 (power of entry); section 86 (byelaws).
<b>May 2016</b>	-- Elections to the National Assembly for Wales --	
<b>Q3 2016</b>	The Welsh Ministers abolish the Regional Flood and Coastal Committee and establish Flood and Coastal Erosion Committee.	Under section 82 of the Bill and sections 26B, 26C, and 26D of the Flood and Coastal Management Act 2010, as inserted by section 82 of the Bill.
<b>September 2016</b>	NRW publish first SoNaRR.	Under section 8 of the Bill.
<b>January 2017</b>	Earliest time that the Welsh Ministers would consider making regulations for the separate collection of waste.	Under section 45AA of the Environmental Protection Act 1990, as inserted by section 66 of the Bill.
<b>January 2017</b>	Earliest time that the Welsh Ministers would consider making regulations prohibiting disposal of food waste to sewer.	Under section 34D of the Environmental Protection Act 1990, as inserted by section 67 of the Bill.
<b>January 2017</b>	Earliest time that the Welsh Ministers would consider making regulations prohibiting or regulating disposal of waste by incineration.	Under section 9A of the Waste (Wales) Measure 2010, inserted by section 68 of the Bill.
<b>March 2017</b>	The Welsh Ministers publish NNRP.	Under section 9 of the Bill.

<b>April 2017</b>	Indicative date by which the Welsh Ministers make regulations on fees for monitoring, variation etc. of marine licenses.	Under section 72A of the Marine and Coastal Access Act 2009, as inserted by section 78 of the Bill.
<b>April 2017</b>	Indicative date by which the Welsh Ministers make regulations on further provisions for the payment of fees for marine licenses.	Under section 107A of the Marine and Coastal Access Act 2009, as inserted by section 79 of the Bill.
<b>April 2017</b>	Indicative date by which the Welsh Ministers make regulations on appeals against variation etc. of marine licenses for non-payment of fees or deposits.	Under section 108(2A) of the Marine and Coastal Access Act 2009, as inserted by section 80 of the Bill.
<b>May 2017</b>	Indicative date for publication by the Welsh Ministers of guidance about implementing area statements.	Under section 13 of the Bill. It is intended that the guidance would be provided as soon as possible after the Bill receives Royal Assent.
<b>May 2017</b>	Regulations to define the meaning of carbon units.	Under section 36 of the Bill. It is intended that these regulations would be made as soon as reasonably practicable after receiving Royal Assent, having received advice from the advisory body.
<b>December 2018</b>	Time by which the Welsh Ministers must publish the carbon budgets for the net Welsh emissions account for the period 2016-2020 and 2020-2025.	Under section 31 of the Bill.
<b>January 2020</b>	Time by which the Welsh Ministers must publish the carbon budget for the net Welsh emissions account for the period 2025-2030.	Under section 31 of the Bill.
<b>December 2020</b>	NRW publish second SoNaRR.	Under section 8 of the Bill.
<b>May 2021</b>	-- Elections to the National Assembly for Wales --	
<b>June 2021</b>	The Welsh Ministers begin first review of NNRP.	Under section 9 of the Bill.
<b>January 2025</b>	Time by which the Welsh Ministers must publish the carbon budget for the net Welsh emissions account for the period 2030-2035.	Under section 31 of the Bill.

- |                     |  |                               |
|---------------------|--|-------------------------------|
| <b>January 2030</b> | Time by which the Welsh Ministers must publish the carbon budget for the net Welsh emissions account for the period 2035-2040. | Under section 31 of the Bill. |
| <b>January 2035</b> | Time by which the Welsh Ministers must publish the carbon budget for the net Welsh emissions account for the period 2040-2045. | Under section 31 of the Bill. |
| <b>January 2040</b> | Time by which the Welsh Ministers must publish the carbon budget for the net Welsh emissions account for the period 2045-2050. | Under section 31 of the Bill. |



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Committee Chairs  
National Assembly for Wales  
Cardiff Bay

16 July 2015

Dear Chair

### **Draft Wales Bill**

As I'm sure you are aware, we expect the UK Government to publish a draft Wales Bill in the autumn with a period of consultation to follow, before the Bill itself is introduced sometime in spring 2016.

I have discussed the matter with the Deputy Presiding Officer in his capacity as Chair of the Constitutional and Legislative Affairs (CLA) Committee. We have agreed that that Committee provides the most appropriate vehicle for the Assembly to consider the draft Bill. I am confident that the Committee has the membership, expertise and capacity to formulate a comprehensive and authoritative response for me and the Assembly to consider and, hopefully, endorse.

Although the Bill falls within the remit of the CLA Committee, its scrutiny will be strengthened considerably if other Committees are involved. In particular, it will be important that CLA Committee and the Assembly as a whole can draw on the policy expertise of other Committees when examining the impact of replacing our current conferred powers model with a new reserved powers model.

I would be grateful if you could consider with your Committee how to make space in what I am sure will be a very busy Autumn programme to undertake a serious examination of the Bill in relation to your Committee's remit. Your clerking team will be able to advise on how to time your response to add value to the work of CLA Committee and to ensure that the Assembly can influence the debate at Westminster.

**Dame Rosemary Butler AM, Presiding Officer  
Chair, Business Committee**

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Croesewir gohebiaeth yn y Gymraeg a'r Saesneg/We welcome correspondence in both English and Welsh

Mark Drakeford AC / AM  
Y Gweinidog Iechyd a Gwasanaethau Cymdeithasol  
Minister for Health and Social Services



Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref: LF/MD/0688/15

Jocelyn Davies AM  
Chair of the Finance Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

30 July 2015

Dear Jocelyn,

### **Public Health (Wales) Bill**

I would like to thank you and the Committee for the opportunity to discuss the Public Health (Wales) Bill on 15 July 2015.

I am pleased to provide the Committee with further information on the following issues, which were raised during the session:

- a) the work carried out in relation to estimating costs to the health service and other services if the number of people who use e-cigarettes indoors return to smoking conventional cigarettes if the law changes; and
- b) information on the number of test purchases currently going on around Wales.

This information is presented below.

### **The work carried out in relation to estimating costs to the health service and other services if the number of people who use e-cigarettes indoors return to smoking conventional cigarettes if the law changes.**

There is no evidence that the proposal to restrict the use of e-cigarettes in indoor public places will cause e-cigarette users to return to smoking. There are also no studies currently available to measure the health effects of a current e-cigarette user returning to tobacco smoking following complete abstinence. In addition when considering this issue it is important to note that:

- Many premises in Wales already restrict the use of e-cigarettes in their indoor areas (around 50% according to surveys by the Welsh Government<sup>1</sup> and CIEH Wales<sup>2</sup>) and

<sup>1</sup> Welsh Government. E-cigarette policies: a survey of workplaces in Wales. 2014.

<http://gov.wales/statistics-and-research/e-cigarette-policies-surveys-schools-workplaces/?lang=en>

<sup>2</sup> Research into E-cigarette Policies in the Independent Hospitality Sector. CIEH Wales. November 2014. Not published.

given that use of e-cigarettes by adults in Great Britain has increased according to ASH UK surveys<sup>3</sup>, this does not appear to be having an impact on the use of e-cigarettes by adults; and

- The majority of e-cigarette users are dual users who continue to smoke conventional tobacco products (from three fifths of all adult users in 2015 according to an ASH UK survey<sup>4</sup> to 85% of all users according to the Smoking Toolkit Study<sup>5</sup>).

In light of the above uncertainty, the Explanatory Memorandum (EM)<sup>6</sup> provides an illustrative example to explore the hypothetical health effect of e-cigarette users returning to tobacco smoking using a study which looks at the Quality Adjusted Life Years (QALYs) gained by every smoker who quits smoking long-term. The example in the EM suggests a 0.1% increase in the smoking prevalence rate would mean an additional 2,450 people smoking tobacco in Wales. (2,450 is 0.1% of the ONS mid-year population estimate for those aged 18+, which was 2,452,000 in 2013.) Using the aforementioned study, this equates to a reduction of between 2,400 and 6,300 Quality Adjusted Life Years (QALYs), which represents a cost of between £146 million and £380 million.

The cost implications of this hypothetical scenario also need to be balanced against other variables which are difficult to quantify:

- The type of e-cigarette user who states they use e-cigarettes to circumvent the smoking ban arguably have the highest likelihood of reverting to tobacco smoking as a result of this proposal. It is also most likely that such users are dual users who use their e-cigarettes alongside conventional tobacco cigarettes. This assumption appears to be reflected in the latest ASH UK survey<sup>7</sup> which found that more dual users of e-cigarettes gave circumventing the ban as one of the reasons for e-cigarette use (25% of those surveyed) compared to ex-smokers who use e-cigarettes (11% of those surveyed). It is therefore assumed that the type of user most likely to stop using e-cigarettes as a result of this provision is a dual user who uses e-cigarettes only to circumvent the smoking ban. This type of user is still exposing themselves to the health harms of tobacco smoking.
- Continuing to smoke any conventional cigarettes confers essentially the full cardiovascular risk, and cancer risk may only be modestly affected, because smoking duration is more important than intensity.<sup>8</sup> Over the long-term, costs to the NHS in Wales associated with smoking related illnesses may therefore continue to be incurred by current smokers who have become dual users of tobacco and e-cigarettes.
- Evidence on the long-term health risks from use of e-cigarettes for the user and bystanders is not yet available. There is therefore a risk there may be additional costs

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<sup>3</sup> ASH factsheet 33: Use of electronic cigarettes in Great Britain. May 2015  
<http://www.ash.org.uk/information/facts-and-stats/fact-sheets>

<sup>4</sup> ASH factsheet 33: Use of electronic cigarettes in Great Britain. May 2015  
<http://www.ash.org.uk/information/facts-and-stats/fact-sheets>

<sup>5</sup> Smoking Toolkit Study. Trends in electronic cigarette use in England. Updated 23rd April 2015  
<http://www.smokinginengland.info/latest-statistics/>

<sup>6</sup> Paragraph 372 of the Public Health (Wales) Bill Explanatory Memorandum. June 2015.

<sup>7</sup> Use of electronic cigarettes (vapourisers) among adults in Great Britain. 21 May 2015.  
<http://www.ash.org.uk/information/facts-and-stats/fact-sheets>

<sup>8</sup> Background Paper on E-cigarettes (Electronic Nicotine Delivery Systems). Rachel Grana, PhD MPH; Neal Benowitz, MD; Stanton A. Glantz, PhD. Center for Tobacco Control Research and Education University of California, San Francisco WHO Collaborating Center on Tobacco Control. Prepared for World Health Organization Tobacco Free Initiative December 2013.



to the NHS in Wales associated with e-cigarette use, including use in enclosed public places, in the long-term.

- There is some evidence that ex-smokers who use e-cigarettes for smoking cessation may relapse back to smoking. For example, one study suggests that about 6% of former smokers who used e-cigarettes daily relapsed to smoking after one month, and also 6% after one year<sup>9</sup>. It is therefore arguable that there is already some fluidity in e-cigarette use among ex-smokers.

I recognise that definitive evidence as to whether or not e-cigarettes are re-normalising smoking behaviours, and will lead to an increase in smoking prevalence and uptake, does not exist currently. Therefore, all costs expressed are potential and any potential costs to the health service or other service in Wales associated with this provision need to be balanced against the potential cost savings as a result of this provision preventing smoking uptake, particularly among children and young people. The EM sets out how this provision would have to prevent a minimum of 36 people in Wales from taking up tobacco smoking over the five year period and a maximum of 237 to be cost neutral.<sup>10</sup> We estimate roughly 25,000 11-16 year olds in Wales have experimented with e-cigarettes, almost half of which have never tried tobacco.<sup>11</sup> Using these data, this provision would have to prevent the uptake of smoking by less than 2% of the 11-16 year olds in Wales who have experimented with e-cigarettes and who had not previously tried tobacco in order to be cost neutral.

The EM will be updated during the Bill process with the latest data as it becomes available.

### **Information on the number of test purchases currently undertaken in Wales**

Test purchasing in Wales currently covers a range of areas, including age restricted products, delivery of alcohol and rogue trading. As test purchasing is conducted by both local authorities and police forces, and is planned at a local level, there are difficulties in determining a complete overview of the number of test purchases taking place in Wales.

In 2012-13, the latest period for which data are currently available, there were 841 alcohol purchase attempts, with 73 resultant sales.<sup>12</sup> In 2013-14, there were 185 tobacco purchase attempts, with 13 resultant sales.<sup>13</sup>

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<sup>9</sup> Etter JF and C Bullen A longitudinal study of e-cigarette users. *Addict Behav* 2014. 39 (2): p 491-4

<sup>10</sup> See paragraph 414 of the Explanatory Memorandum to the Public Health (Wales) Bill. Based on an estimate that, on average, preventing the uptake of smoking results in an average one year life gain per individual which is valued at £60,000 per person.

<sup>11</sup> One of the key findings in a BMJ published paper on e-cigarette use among young people in Wales by DECIPHer was that whilst never smokers are much less likely to report e-cigarette use, as the group of never smokers is by far the larger, in absolute terms it included almost as many young people who had used an e-cigarette a few times than the smaller group of smokers. Moore G, Hewitt G, Evans J, et al. Electronic-cigarette use among young people in Wales: evidence from two cross-sectional surveys. *BMJ Open* 2015;5: e007072. doi:10.1136/ bmjopen-2014-007072 <http://bmjopen.bmj.com/> In press

<sup>12</sup> WHOTS Age Restricted Sales Update February 2014

<sup>13</sup> Information provided by WHOTS

In March 2013 South Wales Police conducted 9 online test purchases of alcohol, to be delivered to 15 and 16 year old volunteers over a three day period. These targeted major supermarkets and not smaller retailers. Out of the 9 attempts 4 were delivered.<sup>14</sup>

It is expected that local authorities will use the national register of retailers of tobacco and nicotine products to assist their enforcement planning, which will enable local authorities to carry out test purchasing from smaller retailers who offer delivery services.

I hope that the information provided in this letter answers the questions raised by Committee members.

Best wishes,

Mark.

**Mark Drakeford AC / AM**

Y Gweinidog Iechyd a Gwasanaethau Cymdeithasol

Minister for Health and Social Services

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<sup>14</sup> <http://www.bbc.co.uk/news/uk-wales-23124507>

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