

## Agenda – Finance Committee

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Meeting Venue:	For further information contact:
Committee Room 3 – Senedd	Bethan Davies
Meeting date: 5 June 2019	Committee Clerk
Meeting time: 09.00	0300 200 6372
	<a href="mailto:SeneddFinance@assembly.wales">SeneddFinance@assembly.wales</a>

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**The Committee resolved on the 15 May 2019 to exclude the public from the start of the meeting (Item 1)**

### **1 Welsh Revenue Authority: Tax technical briefing**

(09.00–10.00)

Dyfed Alsop, Chief Executive, Welsh Revenue Authority

Adam Al-Nuami, Head of Data Analysis, Welsh Revenue Authority

### **10.00–10.15 Break**

### **2 Introductions, apologies, substitutions and declarations of interest**

(10.15)

### **3 Paper(s) to note**

(10.15)

(Pages 1 – 5)

Minutes of the meeting held on 15 May 2019

Minutes of the meeting held on 23 May 2019

#### **3.1 PTN1 – Letter from Minister for Finance and Trefnydd – Improving Public**

**Transport White Paper – Draft Regulatory Impact Assessment – 29 April 2019**

(Pages 6 – 10)

#### **3.2 PTN2 – Letter from Jim Harra, Second Permanent Secretary, HMRC – Welsh**

**Rates of Income Tax: Welsh tax codes – 14 May 2019**

(Pages 11 – 12)



**3.3 PTN3 – Letter from Minister for Finance and Trefnydd – Welsh Rates of Income Tax: Welsh tax codes – 22 May 2019**

(Page 13)

**3.4 PTN4 – Reply from the Counsel General and Brexit Minister on the Finance Committee's recommendations on the Legislation (Wales) Bill – 30 May 2019**

(Pages 14 – 17)

**4 Inquiry into the Welsh Government's capital funding sources:**

**Evidence session 5**

(10.15–11.15)

(Pages 18 – 33)

Jon Rae, Director of Resources, Welsh Local Government Association

Chris Moore, Director of Corporate Services, Carmarthenshire County Council

Paper 1 – Written evidence: Welsh Local Government Association

Research Brief

**5 Inquiry into the Welsh Government's capital funding sources:**

**Evidence session 6**

(11.15–12.15)

(Pages 34 – 45)

Tim Jones, Director, Financial Advisory, Deloitte LLP

Alan Bermingham, Policy Manager, Governments, Chartered Institute for Public Finance and Accountancy

Research Brief

**6 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting**

(12.15)

**7 Inquiry into the Welsh Government's capital funding sources:**

**Consideration of evidence**

(12.15–12.25)

(Pages 46 – 78)

Paper 2 – Written evidence: Confidential

## **8 Senedd and Elections (Wales) Bill: Consideration of draft report**

(12.25–12.30)

(Pages 79 – 118)

Paper 3 – Draft report

## Concise Minutes – Finance Committee

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Meeting Venue:

Committee Room 1 – Senedd

Meeting date: Wednesday, 15 May 2019

Meeting time: 10.05 – 12.05

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/5497>

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### Attendance

Category	Names
Assembly Members:	Llyr Gruffydd AM (Chair) Rhun ap Iorwerth AM Alun Davies AM Mike Hedges AM Rhianon Passmore AM Nick Ramsay AM
Witnesses:	Stuart Pearson, Capital Law Gwyn Llewelyn, KPMG
Committee Staff:	Bethan Davies (Clerk) Leanne Hatcher (Second Clerk) Ryan Bishop (Deputy Clerk) Martin Jennings (Researcher) Christian Tipples (Researcher)

## 1 Senedd and Elections (Wales) Bill: Consideration of draft report

1.1 The Committee agreed the report, subject to amendments.



## **2 Inquiry into the funding of directly funded bodies: Consideration of correspondence**

2.1 The Committee considered the responses from the Minister for Finance and Trefnydd and the directly funded bodies and agreed the proposed changes.

## **3 Public Services Ombudsman for Wales first Supplementary Budget 2019–20**

3.1 The Committee considered and noted the First supplementary budget request from the Public Service Ombudsman.

## **4 Wales Audit Office and Auditor General for Wales first Supplementary Budget 2019–20**

4.1 The Committee considered and noted the First supplementary budget requests from the Wales Audit Office and the Auditor General for Wales.

4.2 The Committee noted that the Wales Audit Office's supplementary budget included a revised accounting approach, and agreed to question the Minister for Finance and Trefnydd further at her appearance before Committee in June.

## **5 Assembly Commission First Supplementary Budget 2019–20**

5.1 The Committee considered and noted the First supplementary budget request from the Assembly Commission.

## **6 Introductions, apologies, substitutions and declarations of interest**

6.1 The Chair welcomed Members to the meeting.

6.2 Apologies were received from Neil Hamilton AM.

## **7 Paper(s) to note**

7.1 The Committee noted and agreed the minutes of the meeting held on 9 May.

## **8 Inquiry into the Welsh Government's capital funding sources: Evidence session 4**

8.1 The Committee took evidence from Gwyn Llewelyn, Director, Infrastructure Advisory, KPMG LLP and Stuart Pearson, Senior Associate – Construction, Energy and Projects, Capital Law on the Welsh Government's capital funding sources.

**9 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting, the meeting on 23 May 2019 and the start of the meeting on 5 June 2019**

9.1 The motion was agreed.

**10 Inquiry into the Welsh Government's capital funding sources:  
Consideration of evidence**

10. The Committee considered the evidence received.

# Concise Minutes – Finance Committee

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Meeting Venue:

Committee Room 2 – Senedd

Meeting date: Thursday, 23 May 2019

Meeting time: 09.00 – 09.30

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

<http://senedd.tv/en/5541>

## Private

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### Attendance

Category	Names
Assembly Members:	Llyr Gruffydd AM (Chair) Alun Davies AM Mike Hedges AM
Committee Staff:	Bethan Davies (Clerk) Leanne Hatcher (Second Clerk) Georgina Owen (Second Clerk) Ryan Bishop (Deputy Clerk) Owen Holzinger (Researcher) Martin Jennings (Researcher)

## 1 Consideration of proposals to amend the Public Audit (Wales) Act 2013

1.1 The Committee agreed to the proposed witnesses for oral evidence sessions and agreed to write to the Minister for Finance and Trefnydd and the Assembly Commission, seeking additional information.



## **2 Welsh Government Consultation – Proposals to amend the Government of Wales Act 2006 (Budget Motion and Designated Bodies) Order 2018**

2.1 The Committee considered the Welsh Government's consultation on proposals to amend the Government of Wales Act 2006 (Budget Motion and Designated Bodies) Order 2018.

2.2 The Committee agreed to respond to the consultation.

## **3 Forward work programme**

3.1 The Committee considered and agreed its forward work programme for summer 2019.

## **4 Scrutiny of the Welsh Government's Draft Budget 2020–21**

4.1 The Committee discussed a range of options for stakeholder engagement in relation to scrutiny of the Welsh Government's Draft Budget 2020–21.

## **5 Assembly Commission First Supplementary Budget 2019–20**

5.1 The Committee noted that the previous version considered on 15 May 2019 was submitted in error and agreed the correct version of the Assembly Commission's First Supplementary Budget 2019–20.





Llywodraeth Cymru  
Welsh Government

Eich cyf/Your ref MA-L/KS/0336/19

Llyr Gruffydd  
Chair  
Finance Committee  
National Assembly for Wales  
Tŷ Hywel  
Cardiff Bay  
CF99 1NA

29 April 2019

*Dear Llyr,*

### **Improving Public Transport White Paper – Draft Regulatory Impact Assessment**

I attended the Economy, Infrastructure and Skills Committee on 13 March 2019 to give evidence as part of the Committee's inquiry on 'The Future Development of Transport for Wales'. During that session my officials and I responded to questions from Members regarding the publication of a draft Regulatory Impact Assessment (RIA) relating to the White Paper 'Improving Public Transport'. I am writing to you to share with you the same information, given your committee's remit and interest in the financial elements of legislation.

The White Paper, published on 10 December 2018, sets out that a draft RIA seeking to identify the costs, benefits and impacts of the proposed legislative changes would be published in January 2019. However, during the development of the RIA it became clear that consultation on the RIA during this period would not be as meaningful as expected. As such the draft RIA was not issued for consultation alongside the White Paper.

The proposals set out in the White Paper provide a range of legislative tools to empower local authorities to work collaboratively with each other and with bus operators to respond flexibly to local community needs. The cost implications of the legislation could vary considerably depending on which of the options local authorities decide to use to address the circumstances and challenges within their communities. It is therefore difficult at this stage to provide a meaningful assessment of the impact of all of the potential combinations in which these tools could possibly be used.

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[Correspondence.Ken.Skates@gov.wales](mailto:Correspondence.Ken.Skates@gov.wales)

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

The Welsh Government recognises that effective stakeholder engagement is essential in order to develop robust RIAs. However, it is my view that such engagement should be based on clear information to allow stakeholders to provide considered responses. I will therefore be publishing a draft RIA in the summer, once my officials have analysed the White Paper responses

I trust the Committee will find this information of use.

A handwritten signature in black ink, appearing to read 'Ken Skates', written in a cursive style.

**Ken Skates AC/AM**

Gweinidog yr Economi a Thrafnidiaeth  
Minister for Economy and Transport



## Agenda Item 3.2

**Jim Harra**  
**Deputy Chief Executive and Second**  
**Permanent Secretary**

2/75  
100 Parliament Street  
London  
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Llyr Gruffydd AM  
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**Date** 14 May 2019

Dear Mr Gruffydd,

Thank you for your letter of 2 May 2019.

As you know, Welsh taxpayer status is determined by residency. Identification of Welsh taxpayers starts from postcode information. If a HMRC customer lives in a Welsh postcode, as determined by Office of National Statistics postcode data, they will be flagged on our systems as a Welsh taxpayer. We have learned lessons from the devolution of income tax to Scotland in identification and assurance of taxpayers, and we are confident we have a robust approach.

When a customer is identified as a Welsh taxpayer on HMRC's systems they are given a 'C' code. HMRC then issues tax codes to employers for them to make the relevant deductions on their employees' behalf. It is therefore important both that the correct code is issued and that it is correctly applied by the employer.

We are confident that HMRC sent correct 'C' codes to employers for Welsh taxpayers. It is possible that some taxpayers resident in Wales have not yet received a 'C' code, where they have only recently moved to Wales or where they have not updated their address details with HMRC. This will always be true for new Welsh taxpayers and HMRC systems will pick them up and apply the correct code as soon as possible.

However, we have been made aware that some employers have not correctly applied the 'C' codes that HMRC has provided. HMRC has engaged with extensively employers and payroll software providers throughout preparations for the introduction of Welsh rates of income tax (WRIT), using our established communication channels and bespoke presentations. We provided technical specifications and test services to ensure employers and payroll software providers had all the information they needed.

Our experience from the introduction of the Scottish rate of Income Tax was that some employers did not initially operate the S-code correctly. We therefore put plans for further mitigation activity in place for WRIT, which include running a scan in early June to test how

well employers are applying the 'C' codes issued to them by HMRC. Where there is a discrepancy between the code issued by HMRC and the code applied by the employer, HMRC will re-issue the 'C' code to the employer. This mitigation was discussed and agreed at the WRIT Project Board, which includes colleagues from the Welsh Government.

It is disappointing that despite the engagement we had with employers, some have not applied codes correctly. In some cases, individuals have had the wrong amount of tax deducted. I understand that this was due to issues with the payroll software used by some employers and that employers affected in this way are correcting their systems and explaining the error to their employees.

You will appreciate that there is a limit to what HMRC can do to ensure employers correctly apply the codes they are given for their employees in these circumstances. We believe we have a comprehensive programme of engagement and assurance and will keep this under review.

I can also reassure you that any discrepancies in the codes applied by employers will be corrected in year or at end of year reconciliation. This will ensure that the Welsh Government receives the correct revenue.

I am copying this response to Rebecca Evans AM, Minister for Finance and Trefnydd.

I hope this response is helpful.

Kind regards



**Jim Harra**  
**DEPUTY CHIEF EXECUTIVE AND SECOND PERMANENT SECRETARY**

Llyr Gruffydd AM  
Chair  
Finance Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff, CF99 1NA

22 May 2019

Dear Llyr,

Thank you for your letter of 2 May.

In Jim Harra's response to you on 14 May, he outlined details of the recent issue with the application of the Welsh 'C' tax code. This occurred as a result of some employers not correctly applying the codes, provided by HMRC, to their employees.

I have been assured by HMRC that mitigating action to help employers fix this error are well underway. A scan will be undertaken in June to assess the scale of the problem, and again in September to ascertain to what extent the issues have been rectified.

If you would find it helpful, officials from HMRC and Welsh Treasury would be happy to provide the Committee with a technical briefing to take Members through the end-to-end income tax process, including roles and responsibilities of HMRC, employers and employees. They could also provide you with further details of the taxpayer identification work that has been undertaken to date and business-as-usual plans to maintain the database of taxpayers living in Wales.

I am copying this letter to the First Minister, Jim Harra, Deputy Chief Executive and Second Permanent Secretary, HMRC and Debbie Alder, Director General of Human Resources, DWP.

Yours sincerely,



**Rebecca Evans AC/AM**  
Y Gweinidog Cyllid a'r Trefnydd  
Minister for Finance and Trefnydd

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

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Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref: MA-L/CG/0379/19

Llyr Gruffydd AM  
Chair, Finance Committee  
National Assembly for Wales

30 May 2019

Dear Llyr,

### LEGISLATION (WALES) BILL

Many thanks for your letter of 17 May 2019. Please see the attached revised response clearly stating where I have accepted or rejected the Committee's recommendations.

Yours sincerely,

**Jeremy Miles AM**  
Y Cwnsler Cyffredinol a Gweinidog Brexit  
Counsel General and Brexit Minister

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Ein cyf/Our ref: MA-L/CG/0379/19

Llyr Gruffydd AM  
Chair, Finance Committee  
National Assembly for Wales

3 May 2019

Dear Llyr

## LEGISLATION (WALES) BILL

During the Stage 1 debate on 2 April, I said that I would write to the Committee responding in detail to your report on the financial implications of the Bill. This letter sets out the Government's response to the four recommendations made in the Committee's report.

### Recommendation 1 – Rejected

The Committee recommended the Government undertakes further work on analysing and costing the efficiencies in the Bill.

As you acknowledged in the Stage 1 debate although the impact assessment by the Law Commission was used as a starting point, the main driver for the Bill is to improve social justice by ensuring the public can have easier access to Welsh law, and you accept that cost savings are not the main driver for the Bill.

We continue to consider the rule of law demands law which is accessible, and this underpins our approach to both this Bill and the wider programme. We also recognise there are likely to be economic benefits, both at an individual project level and from the programme as a whole. The Law Commission's evidence to the Constitutional and Legislative Affairs Committee during Stage 1 gave the example of planning law. They considered that it was:

*"...the sort of measure that, if simplified, if it succeeds in creating legal certainty, can stimulate inward investment. It can accelerate planning decisions that mean that people are more likely to invest in Wales than elsewhere. So, we are very interested in the fact that good legislation can have positive economic benefits."*

I believe this is a notion that will also apply in other subject areas we will be consolidating and codifying, and will be enhanced by the associated projects such as the improvements to the Cyfraith Cymru/Law Wales website. Having clear and accessible information on the law, as well as access to up-to-date copies of the legislation, available free of charge to users will result in time saved and improved confidence in decision making processes and interactions with the state more generally.

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The RIA to the Bill sets out the Government's rationale for noting, but not further testing, the Law Commission's impact assessment. Although the Government could undertake a similar exercise to estimate lawyer time spent researching inaccessible law, and comparing this with estimated savings in time, we do not consider it would provide any more concrete or definite findings than currently available. It would also be problematic to test whether these savings in time had actually been achieved at the end of the overall programme (which will take a generation or more to deliver). This is partly because of the timescales involved and partly because it will be difficult to identify which savings are directly attributable to the Bill.

### **Recommendation 2 – Accepted**

In the Stage 1 debate, I set out that the Government accepts recommendation 6 of the Constitutional and Legislative Affairs Committee, namely that a review be undertaken of the legislation part way through the next Assembly term.

The intention is that the review the Counsel General will undertake in 2023 will include details of the resourcing and financial implications of delivering the first programme aimed at improving accessibility of Welsh law, and other costs arising from implementing the Act. We therefore accept Recommendation 2 of the Finance Committee's report.

The Government would also support the National Assembly reviewing the legislation at any time it considered it appropriate to do so.

### **Recommendation 3 – Accepted**

The Committee recommended that the Government provides further information on the financial implications for policy staff not costed in the RIA and costs to other bodies. You have asked for this to be included in a revised RIA.

I confirm that any revised RIA prepared at the end of Stage 2 will include example costs to the Welsh Government of preparing a consolidation Bill, but I must stress these will be indicative or sample costs and should not be considered definitive or representative of all consolidation projects. This is because we anticipate there will be a wide range in the size, complexity and duration of individual drafting projects, and a range of differing inputs from policy staff depending on each project's needs.

In relation to Part 1 of the Bill, the Committee considered there are likely to be costs to the Assembly Commission to develop a Standing Order for consolidation Bills. Developing a Standing Order is not contingent on the Bill being passed, and work has already been undertaken (by the Assembly Commission and the Welsh Government) following Business Committee's decision to prepare a suitable procedure. As such we do not agree the RIA should reflect this cost as it does not arise from the Bill itself.

The Committee was also of the view that there will be costs for private sector organisations in terms of learning what the new law says (in respect of Part 1 of the Bill). My evidence to the Committee on this point (quoted at paragraphs 24 and 29) was specifically in relation to Part 2 of the Bill. However my position remains that such organisations, and private sector lawyers, will not need to do more than note there are new interpretation provisions in place for Welsh law made after the commencement date (currently 1 January 2020). We therefore continue to maintain this would be 'normal business' activity for lawyers in the private sector. We recognise the implications for public sector lawyers, particularly those who draft subordinate legislation, is slightly more significant. We are therefore providing them with advice and guidance, to reduce any burdens on them (as set out in the RIA to the Bill).



## Recommendation 4 – Accepted

The Committee has asked for further information on how the Welsh Government intends to publicise the Bill, if enacted – I accept this recommendation and provide more information below.

The Committee has expressed concerns that there are only limited publicity activities planned, as it considers wider public engagement would be required to generate the benefits we anticipate. Normally we would agree that wide engagement with those affected by the legislation is a vital part of the implementation of any new legislative scheme. However the approach we are taking, set out below, reflects the somewhat unusual and perhaps unique nature of this Bill.

Part 1 of the Bill is aimed at the Government, rather than the public. The benefits we see developing from the programmes of accessibility will be the consolidated and codified bilingual laws of Wales, which will be clear and certain in their effect, as well as being easily available and navigable. It is those new laws that will need to be widely promoted, and we will ensure that there are clear arrangements in place for each new Act to ensure the public are aware of the codified legislation and its implications. Promoting Part 1 of the Bill more widely is therefore considered to be of limited effect, as it is the mechanism by which improvements will be achieved rather than the improvements we all hope for.

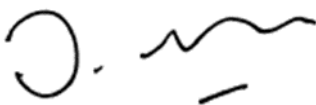
However, we will be placing details about the Act (if passed) on the Cyfraith Cymru/Law Wales website, and the intention is to engage with stakeholders on the development of each programme of accessibility. As I have mentioned above we also intend to report annually to the Assembly on progress in delivering each programme (see recommendation 10 of the Constitutional and Legislative Affairs Committee, and amendment 3 which I tabled on 4 April). These reports will further serve to highlight Part 1 of the Bill.

As set out in the Explanatory Memorandum, Part 2 of the Bill (like most interpretation Acts in Commonwealth jurisdictions) is intended to exist in the background, as part of the machinery of law that the average reader will not regularly need to have recourse to. But the RIA also acknowledges that Welsh Government drafters, legal professionals, the judiciary and Welsh law schools will benefit from being made of aware of the changes brought about by Part 2 if enacted. For that reason, we have set out that we will be placing information on the Cyfraith Cymru/Law Wales websites about interpretation Acts generally, and specifically about this Act. We will draw that information to the attention of the Law Society, the Bar Council, and CILEX. Similar information will be provided to the Welsh Training Committee of the Judicial College and the Heads of the Law Schools in Wales.

Part 3 of the Bill is particularly relevant to drafters of legislation, and the guidance we refer to in the RIA, and which the Committee noted in its report, will include information about this element of the Bill.

I would like to take this opportunity to reiterate my remarks in the Stage 1 debate, and thank the Committee for their scrutiny of the Bill and their helpful report, and the Committee's support staff.

Yours sincerely



**Jeremy Miles AM**

Y Cwnsler Cyffredinol a Gweinidog Brexit  
Counsel General and Brexit Minister

# Agenda Item 4

## WG's capital funding sources - MIM

29 April 2019



CLILC • WLGA

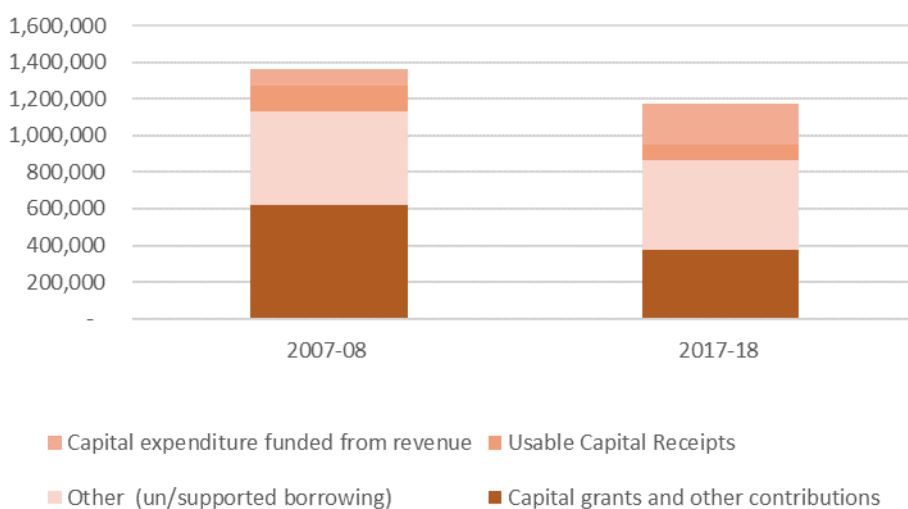
## **Introduction**

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales. The three national park authorities and the three fire and rescue authorities are associate members.
2. It seeks to provide representation to local authorities within an emerging policy framework that satisfies priorities of our members and delivers a broad range of services that add value to Welsh Local Government and the communities they serve.
3. The WLGA is pleased to be able to respond to the Committee's Inquiry into Welsh Government's Capital Funding Sources and the Committee Clerk has asked us to specifically comment on the Mutual Investment Model (MIM). We have consulted the Society of Welsh Treasurers and the Association of Directors of Education in Wales as part of our response. Individual local authorities may submit their own responses reflecting their own views.

## **Overview of capital funding and spending for local government**

4. We would refer the committee to evidence submitted to a previous inquiry launched by in 2012 around capital funding. One point we repeatedly make is that local government enjoys considerable freedoms to borrow and more could be made of this to fund local infrastructure.
5. The benefit of this kind of partnership working has seen successful and sustained investment through both the Highways Borrowing Initiative and the 21<sup>st</sup> Century Schools Programme. Both of these schemes have involved Welsh Government providing funding (in terms of capital grant and/or debt financing) alongside local government contributions.
6. If any borrowing has to be done, local government has done that in one of two ways: it has borrowed internally (from balances) or it has borrowed externally (from the public works loan board – PWLB).
7. Sustained additional funding, especially in the education sector, has been possible despite a drop in overall capital expenditure by local government. Figure 1 below shows Local Government capital expenditure has fallen by 14% over a ten-year period from £1.36bn to £1.74bn.

Figure 1 Local Authority Capital Expenditure by funding source, 2007-08 to 2017-18, £



Source: StatsWales & HMT (GDP Deflators)

8. There is a mixed picture depending on the source of funding. Funding from grant sources falling away by around 40% in real terms. This is the same rate of reduction from capital receipts as the value of disposals has plummeted over the period of austerity. Capital spend funded from revenue is the only source of funding that has increased, appreciating nearly 140% over a ten-year period.
9. Financing from 'other' sources mostly remained the same after adjusting for inflation. This mostly covers supported and unsupported borrowing, as well as the Major Repairs Allowance for housing spend. From a local government perspective, 'unsupported' means that the funding has to be found by the local authority. While externally supported borrowing has reduced by 49%, unsupported borrowing has risen by around 72% in real terms, over the same period.
10. While the sources of capital funding are complex, one of the most significant conclusions from analysing the data is that spending on education capital has almost doubled. Even taking account of inflation spending has increased by 90% after taking account of inflation. The first band of the 21<sup>st</sup> Century Schools Programme has been a successful partnership, especially set against nearly 10 years of reducing budgets.
11. However, councils are required to develop and approve long term capital strategies. With a significant element of grant funding being in the form of WG grants. The view of many of the officers involved in capital planning is that the current approach to annual allocations are not conducive to longer term planning and securing value for

money. Whilst grants for expenditure such as roads and school buildings are welcome, the deteriorating condition of assets requires sustained levels of investment (rather than periodic one-off amounts late in the year). This also applies to rent policy in terms of Housing Revenues Account borrowing. A more strategic approach has been requested by local government officers who sit on the joint Welsh Government-Local Government's Capital Finance and Investment Group.

### **Capital Funding and Mutual Investment Model (MIM)**

12. As the representative body for local government we have welcomed the announcement of next phase of 21st Century Schools for which a large proportion of the funding will come from the MIM model. The basic framework is similar to the Scottish "Non-Profit Distributing" (NPD) Model Form Project Agreement which itself is based on a Department of Health model dating from the late 2000s.
13. Although the MIM is a major part of the Schools Programme is also being used to finance the dualling of the A465 from Dowlais Top to Hirwaun and the new Velindre Cancer Centre in Cardiff and a significant tranche of the next phase of the 21st Century Schools Programme.
14. While we have no specific information about how many authorities are actively considering MIM funding as part of their Band B 21st Century Schools submissions, it is certainly being given serious consideration by many. The increase in the intervention rate from 75% to 81% is also helping to make it more attractive
15. Inevitably comparisons have been made to PFI arrangements and we certainly are picking up concerns from many elected members and senior officers around this. They know that local government can borrow at significantly lower rates than any organisation in a commercial environment. The Welsh Government suggests that lessons learnt from historical PFI schemes will be applied to MIM to ensure all potential Authority issues and concerns are addressed at a very early stage of the MIM project. The latest assurance was set out by the current Finance Minister in Plenary session to the National Assembly in February this year:

*"From the outset, our intention has always been to ensure that the Mutual Investment Model promotes the public interest in the widest possible definition of that term. To that end, the model will deliver positive, additional outcomes in relation to wellbeing, value for money, and transparency; and in so doing will avoid many of the criticisms*

*levied at historic forms of public-private partnership – in some cases, criticisms that the Welsh Government was among the first to raise.”*

16. Furthermore, contract management and the level of expertise required across a number of areas has been a challenge in the past. As Committee Members are aware, the MIM scheme proposes a central contract management team within the Welsh Government to support local authorities with this function.
17. One of the main drawbacks is a similar to the more generalised concern set out in paragraph 11. Local Government is committing future revenue resources into current day capital spend and without any assurance on the longer term funding arrangements. It does raise a potential scenario where local authorities may be struggling to find the money to run them as paying the capital charges (or equivalent for MIM) will take precedence.
18. Overall there has been good engagement with the Programme Directors and other senior civil servants responsible for 21<sup>st</sup> Century Schools Programme. There have been offers to deliver presentations to elected members around the benefits of MIM, the differences with PFI, and more technical engagement with Society of Welsh Treasurers. Continued engagement through the WLGA’s membership of the 21<sup>st</sup> Century Schools Programme Board has been good.

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# Agenda Item 5

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# Agenda Item 7

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