



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cofnod y Trafodion The Record of Proceedings

[Y Pwyllgor Cyllid](#)

[The Finance Committee](#)

03/11/2016

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Lle y mae cyfranwyr wedi darparu cywiriadau i'w dystiolaeth, nodir y rheini yn y trawsgrifiad.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mike Hedges Bywgraffiad Biography	Llafur Labour
Steffan Lewis Bywgraffiad Biography	Plaid Cymru The Party of Wales
Eluned Morgan Bywgraffiad Biography	Llafur Labour
Nick Ramsay Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Mark Reckless Bywgraffiad Biography	UKIP Cymru UKIP Wales
David Rees Bywgraffiad Biography	Llafur Labour
Simon Thomas Bywgraffiad Biography	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)

Eraill yn bresennol
Others in attendance

Natasha Davies	Arweinydd Polisi ac Ymchwil, Chwarae Teg Policy and Research Lead, Chwarae Teg
Gary Doherty	Prif Weithredwr, Bwrdd Iechyd Prifysgol Betsi Cadwaladr (yn cynrychioli pob un o Brif Weithredwyr GIG Cymru) Chief Executive, Betsi Cadwaladr University Health Board (representing all NHS Wales Chief Executives)
Mark Drakeford Bywgraffiad Biography	Aelod Cynulliad, Llafur (Ysgrifennydd y Cabinet dros Gyllid a Llywodraeth Leol) Assembly Member, Labour (The Cabinet Secretary for Finance and Local Government)

Isobel Garner	Cadeirydd, Swyddfa Archwilio Cymru Chair, Wales Audit Office
Andrew Hewitt	Rheolwr Polisi, Llywodraeth Cymru Policy Manager, Welsh Government
Gareth McMahon	Cyfreithiwr y Llywodraeth, Llywodraeth Cymru Government Lawyer, Welsh Government
Anne Meikle	Pennaeth WWF Cymru Head of WWF Cymru
Steven O'Donoghue	Cyfarwyddwr Cyllid ac Adnoddau Dynol, Swyddfa Archwilio Cymru Director of Finance and Human Resources, Wales Audit Office
Toby Roxburgh	Arbenigwr Economeg Gymhwysol, WWF UK Applied Economics Specialist, WWF UK
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales
Kevin Thomas	Cyfarwyddwr Gwasanaethau Corfforaethol, Swyddfa Archwilio Cymru Director of Corporate Services, Wales Audit Office
Steve Webster	Cyfarwyddwr Cyllid / Dirprwy Brif Swyddog Gweithredol, Bwrdd Iechyd Prifysgol Cwm Taf Director of Finance /Deputy Chief Executive Officer, Cwm Taf University Health Board
Eifion Williams	Cyfarwyddwr Cyllid, Bwrdd Iechyd Lleol Addysgu Powys (yn cynrychioli Cyfarwyddwyr Cyllid GIG Cymru) Director of Finance, Powys Teaching Local Health Board (representing NHS Wales Directors of Finance)
Vanessa Young	Cyfarwyddwr Conffederasiwn GIG Cymru Director of the Welsh NHS Confederation

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

Bethan Davies	Clerc Clerk
Gemma Giford	Dirprwy Glerc Deputy Clerk
Martin Jennings	Y Gwasanaeth Ymchwil The Research Service
Cath Hunt	Ail Glerc Second Clerk
Lakshmi Narain	Cynghorydd Adviser
Georgina Owen	Dirprwy Glerc Deputy Clerk
Christian Tipples	Y Gwasanaeth Ymchwil The Research Service
Joanest Varney- Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser

Dechreuodd y cyfarfod am 09:01.

The meeting began at 09:01.

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest

[1] **Simon Thomas:** Croeso, felly, **Simon Thomas:** Welcome, therefore, to the Finance Committee. Before we turn to our witnesses this morning, we have a couple of things for the committee to do, if you could just wait a couple of minutes, if you're content to do that. First of all, could I remind everyone that headsets are

pryd? Mae'r cyfieithu ar sianel 1, a gallwch newid y sain ar sianel 0. A all Aelodau a thystion dawelu unrhyw ddyfais electronig, os gwelwch yn dda? Ac, ar ddechrau'r broses, a oes gan unrhyw un fuddiant i'w ddatgan? Pawb yn hapus, felly. lawn.

available for interpretation, and that's on channel 1, and amplification is on channel 0? Members and witnesses, please mute any electronic devices. And, at the start of the process, does anyone have any declarations of interest? Everyone is content, therefore.

09:02

Papurau i'w Nodi Papers to Note

[2] **Simon Thomas:** A gaf i ofyn i aelodau'r pwyllgor i nodi'r papurau sydd gennym ni? Mae yna nifer o bapurau ychwanegol, tystiolaeth yn benodol, ynglŷn â'r Bil Treth Trafodiadau Tir a Gwrthweithio Osgoi Trethi Datganoledig (Cymru), ond mae hefyd yn cynnwys canlyniad y ddeialog, y sgwrs ar-lein roeddem ni wedi ei chynnig i aelodau'r cyhoedd, ac mae yna ambell syniad diddorol yn fanna, ac efallai bydd Aelodau eisiau cydio ynddyn nhw, yn hytrach na'r pwyllgor a'r Llywodraeth, efallai. Ond mae yna fwy o dystiolaeth. Ydy pawb yn hapus i nodi'r papurau, felly? Diolch yn fawr.

Simon Thomas: Could I invite Members to note the papers that we have? There are a number of additional papers, evidence mainly, in terms of the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill, but they also include the outcome of the dialogue, the online conversation that we offered to members of the public, and there are a couple of interesting ideas there, and maybe Members will want to pursue those, rather than the committee and the Government, perhaps. But there is more evidence. Is everyone happy to note those papers, therefore? Thank you very much.

09:02

**Amcangyfrif o Incwm a Threuliau Swyddfa Archwilio Cymru ac
Archwilydd Cyffredinol Cymru: Sesiwn Dystiolaeth
Wales Audit Office and the Auditor General for Wales Estimate of
Income and Expenses: Evidence Session**

[3] **Simon Thomas:** Gwnawn ni droi at brif waith y bore yma, sef archwilio amcangyfrif o incwm a threuliau Swyddfa Archwilio Cymru. Hoffwn groesawu Huw Vaughan Thomas, ac Isobel Garner, cadeirydd y bwrdd, hefyd, a gofyn yn gyntaf i'r tystion ddatgan eu henwau a'u swyddogaethau, jest ar gyfer y cofnod, os gwelwch yn dda.

Simon Thomas: We turn now to the main task this morning, which is an audit of the Wales Audit Office and auditor general estimate of income and expenses. I'd like to welcome Huw Vaughan Thomas, and Isobel Garner, the chair of the board, as well, and just ask the witnesses to state their names and roles for the record, please.

[4] **Mr K. Thomas:** Kevin Thomas, director of corporate services and board member at Wales Audit Office.

[5] **Ms Garner:** Isobel Garner, chair of the Wales Audit Office board.

[6] **Mr H. Thomas:** Huw Vaughan Thomas, Archwilydd Cyffredinol Cymru.

Mr H. Thomas: Huw Vaughan Thomas, the Auditor General for Wales.

[7] **Mr O'Donoghue:** Good morning. Steve O'Donoghue, director of finance and human resources.

[8] **Simon Thomas:** Diolch yn fawr. Rydym ni wedi derbyn, ar yr un pryd, nifer o bapurau, achos rydym ni wedi derbyn adroddiad cynnydd a phob dim gyda'i gilydd, felly mae digon o dystiolaeth, yn sicr, ger ein bron. Awn yn syth at gwestiynau, os yw hynny'n iawn gennych chi. A gaf i jest ofyn i chi, fel y corff sy'n arolygu ac archwilio'r holl gyrff cyhoeddus yng Nghymru, beth sydd gennych chi i'w ddangos ar hyn o bryd o ran y

Simon Thomas: Thank you very much. We have had a number of papers all at once, because we've had the progress report, and so forth, so we have enough evidence, certainly, before us. We'll go straight into questions now, if that's okay with you. Could I just ask you: what do you, as the body that audits all public bodies in Wales, have to show at present in terms of the progress you've made in terms of performance

cynnydd rydych chi wedi ei wneud o ran perfformiad, o ran llywodraethiant, ac ambell un o'r KPIs nad oeddent wedi eu cyflawni'n llwyr y tro diwethaf?

[9] **Mr H. Thomas:** Os caf i, efallai, jest edrych yn ôl. Dyma'r seithfed tro i mi gyflwyno cyfrifon y swyddfa archwilio ac, yn y cyfnod yna, rydym ni wedi gwneud dros £36 miliwn o arbedion, sef gostyngiad o chwarter yn ein gwariant ni. Mae hynny, rwy'n credu, ar y sail ein bod ni, ar yr un pryd, wedi bod yn cyflawni ein gwaith a, hefyd, rwy'n credu ein bod ni wedi bod yn llawer iawn fwy agored yn y ffordd rydym yn cyflwyno ein cyfrifon ni, fel rwy'n gobeithio y bydd cyrff eraill yng Nghymru yn ei wneud. Er enghraifft, os ydych chi'n edrych yn ôl at yr un cyntaf, roedd bron popeth roeddem yn ei chael o'r *consolidated fund* mewn un pennawd, a dyna i gyd oedd. Nawr, mae dadansoddiad gennych chi, ac rydych chi'n gallu gweld yn fwy agored beth rydym ni'n ei wneud.

[10] Ar ben hynny, mae gennym nawr fwrdd sy'n gwneud archwiliad o'r hyn rwy'n ei wneud, hefyd. Felly, pan fyddwch chi'n cael y cyfrifon, maen nhw eisoes wedi cael eu harchwilio. Fel rwy'n siŵr y bydd Isobel am ychwanegu nawr, mae gwaith sydd wedi cael ei wneud nad oedd yn cael ei wneud yn y gorffennol.

[11] **Ms Garner:** Yes, if I could add to that, I'm particularly proud that, in

and governance and some of the key performance indicators that weren't delivered last time?

Mr H. Thomas: If I could, perhaps, just look back, this is the seventh time that I have presented the accounts of the audit office and, in that period, we have made £36 million of savings, which is a reduction of a quarter in our expenditure. That, I think, is on the basis that we, at the same time, have been achieving and delivering our work and also, I think, have been much more open in the way we present our accounts, as I hope other bodies in Wales will be. For example, if you look back to the first one, nearly everything that we had from the consolidated fund was in one heading, and that was all. Now, there is analysis and you can see more openly what we're doing.

On top of that, we now have a board that conducts an audit of what I'm doing as well. So, when you have the accounts, they have already been audited. As I'm sure Isobel will want to add now, work has been undertaken that wasn't being done in the past.

the three years that the board has been in existence, we've managed to implement extremely good governance arrangements. So, as well as the board, we have the audit and risk committee and we have the remuneration and HR committee, not only fulfilling the requirements of the Public Audit (Wales) Act 2004, but following all the good practice in the UK Corporate Governance Code.

[12] Some of the highlights in the last three years are: I think there is a much greater clarity about the strategic direction of the Wales Audit Office, which is demonstrated through our annual plan; there is far greater scrutiny not just on performance, with the introduction of key performance indicators and priorities, but also considerable scrutiny and challenge around all the financials that go on within the organisation; we've also brought in more focus on developing the workforce, understanding the skills of the workforce and making sure that the workforce is fit for the future and that we understand where the pressure points are going to be and the shape and size of organisation. The board also takes an interest in how we interact with our stakeholders, not just the Finance Committee, but our audited bodies and others who have an interest in our work.

[13] Our key role, as any other board, is about scrutiny, challenge, holding to account and support. We fully embrace that role, which should give you, as Finance Committee, confidence that we are, in part, holding the resources and Huw's work programme to account, as always—

[14] **Simon Thomas:** I just wanted to come in on that aspect. As the chair of the board, do you feel that the organisation, and also the auditor general himself, are now at that leadership position on this in the Welsh context or do you still feel that there are a couple of things that you'd like to address in the forthcoming year?

[15] **Ms Garner:** I'm always ambitious, so there is always more that I want to see done. I think we've reached a level of maturity, where the board fully understands how its key role is to provide resources for the auditor general, and the relationship that Huw and I have, and the complexity of that, which is outlined in the relationship code, is mature. Actually, we are now able to work even better together to support each other as we go forward. You'll see in the annual plan that there are continual challenges. The delivery is pretty sound, as you'll see throughout those documents, but some of the challenges are that we know that our audited bodies want to see key reductions overall. You'll see in our request in the estimate that we want to

invest in longer term change to streamline the audit approach.

[16] Through Huw's work, looking at transformation and looking at new approaches to the Well-being of Future Generations (Wales) Act 2015, we need to change the way we audit to continue to add value and to bring the overall cost of audit down. That's very much Huw's, but we really support and are excited by the steps that are being taken.

[17] **Simon Thomas:** Diolch am hynny. A gaf fi jest gofyn yn benodol ynglŷn â'r gwaith rydych chi wedi ei wneud yn ystod y flwyddyn ddiwethaf, ac yn mynd ymlaen i'r flwyddyn hon, gyda'r staff? Roedd yna ryw fath o arolwg arbennig wedi ei gynnal eleni, fel rwy'n deall. Beth oedd y gwahaniaeth rhwng yr arolwg hwnnw ac arolwg staff mwy arferol, fel petai? A yw hwnnw'n rhywbeth rych chi'n parhau i'w wneud neu a oedd yn *one-off* er mwyn llywio'r gwaith yma?

Simon Thomas: Thank you for that. Could I just ask specifically about the work that you've done over the last year, and going on to this year, with the staff? There was some sort of specific survey that was undertaken this year, as I understand it. What's the difference between that survey and a more normal staff survey, as it were? Is that something you're going to continue to do or was it a one-off in order to steer this work?

[18] **Ms Garner:** I'd like Huw to answer that.

[19] **Mr H. Thomas:** Rŷm ni wedi gwneud arolwg o'r staff bob blwyddyn. Y gwahaniaeth eleni oedd bod un o'n hundebau llafur ni, Prospect, wedi sôn eu bod yn defnyddio prifysgol Coventry i wneud gwaith efo nifer o gyrff. Roeddwn i'n meddwl y gallem ni ddefnyddio'r gwaith hwnnw i wneud arolwg mwy manwl o beth oedd ein staff yn ei deimlo. Mae'n rhaid dweud bod rhai pethau yn dangos rhwystredigaeth ynglŷn â'r ffordd yr oedd penderfyniadau yn cael eu gwneud a'r ffaith eu bod yn meddwl eu bod yn cymryd llawer iawn yn rhy hir.

Mr H. Thomas: We have conducted a staff survey every year. The difference this year was that one of our trade unions, Prospect, mentioned that they were using Coventry University to undertake work with a number of bodies. We thought that we could use that work to undertake a more detailed survey of how our staff felt. I must say that some things showed frustration about the way decisions were being taken and the fact that they thought decisions were taking far too long. There was more of a desire to see the body working as one rather than one

Roedd ganddynt fwy o awydd i weld y corff yn gweithio fel un yn hytrach nag un yn edrych ar ôl y gwaith cyllid, yn y *finance audit*, a'r llall ynglŷn â'r gwaith perfformiad. Felly, rŷm ni yn trio ymateb i'r rheini yn y gwaith yr ydym yn ei wneud yn awr.

looking after the finance audit, and another looking at performance work. Therefore, we are trying to respond to that in the work that we are doing now.

[20] Bydd arolwg arall yn cymryd lle eleni, tua mis Rhagfyr, ond, o flwyddyn nesaf ymlaen, rŷm ni wedi penderfynu ein bod ni eisiau cymryd rhan yn yr arolwg sy'n cymryd lle dros y gwasanaeth sifil er mwyn inni allu cymharu sut yr ydym ni'n ei wneud efo cyrff eraill. Mae'n rhaid i hynny gael caniatâd Swyddfa'r Cabinet, ond rwy'n gobeithio y byddwn yn cael hynny. Felly, bydd hynny'n ei wneud yn well oherwydd, hyd yn hyn, rydym wedi bod yn gwneud ein arolwg ein hunain a chymharu â blynyddoedd y gorffennol efallai.

Another survey will be undertaken this year around December, but, from next year on, we've decided that we want to take part in the survey that happens across the civil service so that we can compare how we're doing with other bodies. That needs the permission of the Cabinet Office, but I hope that we will get that. Therefore, it will be an improvement because, so far, we've undertaken our own survey and compared it with past years, for example.

[21] **Simon Thomas:** Felly, bydd yna feincnodi yn dod i mewn.

Simon Thomas: So, there will be benchmarking this time.

[22] **Mr H. Thomas:** Ie, a dyna beth yr oeddwn yn gobeithio ei gael o'r gwaith yr oeddem yn ei wneud efo Prospect, ond nid yw hynny wedi bod yn llwyddiannus. Gyda llaw, byddaf yn siarad yr wythnos nesaf yng nghynhadledd CIPD yn genedlaethol ynglŷn â'r gwaith yr oeddem yn ei wneud efo Prospect.

Mr H. Thomas: Yes, that's what we were hoping for from the work we were doing with Prospect, but that hasn't been successful. By the way, I will be speaking next week in the CIPD conference on a national level about the work that we were doing with Prospect.

[23] **Simon Thomas:** Diolch am hynny. Un o ddiddordebau'r pwyllgor blaenorol oedd y ffordd yr oedd yr

Simon Thomas: Thank you for that. One of the interests of the previous committee was the way in which staff

aelodau staff ar y bwrdd yn members on the board were gweithredu, ac a oedd yna ddiffiniad operating, and whether there was a clir o'u rôl nhw fel aelod bwrdd, clear definition of their role as a aelod staff ac ati. Efallai bod hwn yn board member and as a staff member and so forth. Maybe this is a specific gwestiwn penodol i'r cadeirydd erbyn question for the chair by now. How hyn. Sut mae hynny wedi datblygu yn has that developed over the year, and ystod y flwyddyn, ac a ydych chi nawr are you now comfortable that the yn gysurus bod y cyfrifoldebau yn glir responsibilities are clear to everyone? i bawb?

[24] **Ms Garner:** Yes, I'm very comfortable, and I think that if they were in front of you, they would say they're comfortable as well. Just to give you some of the ways in which they're supported in that role, inevitably, like all board members, they go through an annual appraisal with me. Although it is a formal process, it allows for any informal discussions of any concerns they've had. Also, at the end of every board meeting we take five minutes to just reflect—all of us—on how that went, and if there were any tensions that we need to understand.

[25] I also have a meeting with both elected employee members just on my own, a bit like occasionally I also meet with the non-executive directors on their own. That gives them the opportunity for them to tell me if they are experiencing any difficulties in fulfilling their role, if they're having any feedback that they want to pass on to me, and it also gives me an opportunity to sort of do a bit of mentoring and coaching of them. We use those elected employee members well because all board members go out to staff meetings throughout the year, and we really like to do that with an elected employee member and give them the opportunity to demonstrate the value they're adding at the board back to the staff.

[26] We know this is an area of particular interest both to this committee and the wider public sector about the role of elected employee members, and we have commissioned a piece of work, which we're calling 'Our Story', which tells the story of the three years of the board. In particular, that will be playing up and focusing on the role of the elected employee members. Of course, this committee will be seeing that 'Our Story' in due course.

[27] **Simon Thomas:** Okay. Diolch. David Rees.

[28] **David Rees:** Following that theme of the recommendations of the previous committee, it also highlighted the possible barriers for employees

to reach senior levels. Have you done anything to look into that area?

[29] **Mr H. Thomas:** Yes, we have, following the concerns that the committee expressed last year. We have, first of all, done another equal pay audit, and it's clear that there is, actually, a barrier in terms of a particular pay grade beyond which we don't have sufficient women at present. We've established a—. Well, I haven't established; we've encouraged the establishment of a women's network so that they're able to develop themselves. We're also looking at using a speed mentoring scheme, which the Driver and Vehicle Licensing Agency have brought in quite successfully. So, there's work taking place there, built on the work that the women's network and the focus group has done. Coincidentally, though I don't actually claim that this therefore shows that things have been solved—it doesn't—but just recently we now have two women on our management committee, whereas the last time there was only one. But the problem is that opportunities are few and far between at the senior level, and we really need to be addressing that and the confidence of women to progress.

[30] **Ms Garner:** Can I just add to that? The women's network is all about understanding if there are any real or perceived barriers. Those barriers can either be organisational barriers or they could be internal barriers—lack of confidence. So, the focus groups are very much looking at how they can understand what those real or perceived barriers are. From all I'm hearing and seeing, that is really taking off, and real, actual ideas about action are already coming through. Like Huw said, speed mentoring is one of them.

[31] **David Rees:** Who does that network report to?

[32] **Ms Garner:** It's a staff network. It doesn't need to report to anybody. That would lose its—

[33] **David Rees:** I understand that, but if you want to understand the issues, how do you find out?

09:15

[34] **Mr O'Donoghue:** If I can come in there, chair, the mechanisms we have in place are an equality interest group, again made up of staff representatives and chaired by a member of staff. I sit on that group, and I in turn sit on the equality steering group, which is the management response to that, which is chaired by Kev Thomas. That's the official mechanism for

reporting up and effecting change. I think, just to give an example of how that happens, the equality interest group identified, for example, that we needed to do more about LGBT matters and we've now signed up to Stonewall's diversity champions programme and are participating in the workforce equality index this year.

[35] **Mr H. Thomas:** Can I also add that the women's network also includes the women members on the board? So, there's a flow of information through to management and the board.

[36] **David Rees:** That's important. Thank you for that. The audit and risk assurance committee report highlighted that, in April 2015, you introduced a new risk-management system. Can you just give us an indication as to how you've monitored that? Has it been effective? Has it actually achieved what you wanted it to achieve?

[37] **Ms Garner:** I'll let Kevin lead on that one.

[38] **Mr K. Thomas:** As you say, we introduced a new system in April 2015, and that followed on from an internal audit report that we had a few months before that, which identified scope for improvement in the way in which we manage risk. As a result of that we developed a new approach that involves setting a risk strategy and developing a risk-appetite statement, and alongside that, rolling out a new system with guidance for staff on how to identify, measure and monitor risk.

[39] I think one of the key metrics of success that we identified from the start was that we wanted to see a dynamic process for managing risk, so that risks are identified, they're actively managed and, ideally, they are removed from the risk register at some point because we have reduced the risk to an acceptable level. That doesn't mean we've eliminated risk, because that's not the game that we're in, but we're looking to reduce it to an acceptable level so we can use our resources most effectively.

[40] In order to manage that, we've developed a number of mechanisms to monitor the effectiveness of the approach. What we have is an online risk register, which is a single system that all risk owners use to record both operational and strategic risks. It's maintained in the centre of the organisation and I can see who has made entries on that register and when they've been done. In addition, the risk registers are scrutinised regularly by practice committees, by our management committee and by our board. We

can see from there, not just the risks that are identified and the mitigating actions and the future plans for further action, but we can also see where risks have escalated, where they have been reduced and where they've been removed from the register entirely or potentially downgraded from strategic to operational level. So, there are a number of different groups looking at the risk register as part of the day-to-day business of the organisation, but also to ensure that there is that dynamic process happening.

[41] Those, I suppose, are the internal mechanisms. We also ask internal audit to look at our risk-management arrangements. They reported during the year and they gave us substantial assurance on both the design and operation of the controls in place for risk management. So, we feel it's a system that's matured well and certainly the feedback from the board has been positive. One other thing that we do, as well as reviewing the risks themselves, is that our audit and risk assurance committee, each quarter, carries out what we call a deep dive on a specific strategic risk. So, the risk owner—and a risk owner is assigned for each risk and held to account for managing that risk—they are called to the audit committee at a fairly detailed session where we examine what action has been taken to actually manage and mitigate the risk. Again, that process is working well. You'll see in our governance statement the sorts of areas that have been looked at by the audit and risk assurance committee over the past 12 months. More recently, we've looked at things like the risk associated with complying with the new Welsh language standards.

[42] **David Rees:** Thank you for that. It's interesting to understand the way in which you're now working. I did try to find the risk register, but I couldn't see it anywhere.

[43] **Mr K. Thomas:** There is a summary of the heat map from the risk register within the governance statement.

[44] **David Rees:** Yes, it just gave me numbers and it didn't give me details to those numbers, that summary. One of those it identified, obviously, was—. It said that there were 'significant and persistent resourcing shortages'. That was one of them. How has that actually been dealt with, because that's a clear concern, particularly as you highlight policies on Brexit and other issues following on from that? How are you assessing that risk to ensure that you are actually able to resource the challenges ahead of you?

[45] **Mr H. Thomas:** That risk rose substantially last year, and we really had

to work hard to solve it. It arose around the financial audit arrangements. In previous years, if I can describe the pattern, when we reached a peak—. We only staff for, if you like, a steady state in financial audit terms. When we'd reached a peak, we'd gone out to the market—usually to firms—and said, 'Can we have a temporary person or persons for a period?' We weren't able to, so the pressure rose on our financial audit staff to meet the statutory deadlines that I have to discharge in terms of audit. That's when we escalated that risk right up.

[46] What we have done since then to take advantage is that we've revisited the number of trainees that we have so that we are able to look ahead and do that. We've restructured the financial audit teams so that they're able to absorb more work, and we've tried to get in extra people from outside. I wouldn't say it's been an easy task—it's actually been something that has kept that risk really at the forefront of our work over the whole of the year.

[47] Looking ahead, that risk remains, because I am having to close audits earlier as a result of the Treasury urging faster closing in local government terms, which means that, instead of at present, where currently, if you like, central Government closes in the June or July period and then I do the audit, and in September, October and November I do local government, they're all coming together. That creates a real peak and that's been at the heart of the workforce planning that the board has overseen to make sure that, looking ahead to two or three years' time, we are able to actually cope with that.

[48] That has also meant that we're revisiting the kind of skills that we have within the organisation, so that, perhaps, we can bring internal transfers on a short-term basis to help financial audit in their work. Also, it's causing us to revisit the nature of our audit work: 'Is there a way in which I can make this easier with greater use of technology, hence transformation? Am I really having to do work that I need to do?' That has particularly affected, for example, the certification of grants work: 'Do I need to do it, as an auditor?' I know that people would like to be comforted that the auditor general has looked at certain things, but what is it that I am adding—that my staff are adding—by that process? So, each time, we're really revisiting and saying [correction: asking] how we're going to do it. But it'd be fair to say that it does remain a high risk, but it is not as critical as it was a year ago.

[49] **Simon Thomas:** Jest ar y pwynt **Simon Thomas:** Just on that point, yna, ym mha ffordd a ydych chi'n how do you think you'll go forward to meddwl mynd ymlaen i bwysu'r balance the requirements of external

gwahanol ofynion o ran staff allanol, staff mewnol, dod â phobl mewn dros dro a secondio? Mae'n amlwg eich bod chi'n delio â'r pwysau yma mewn nifer o ffyrdd gwahanol, ond y perygl gyda hynny—y risg gyda hynny—yw bod costau yn mynd allan o'ch dwylo chi, a bod perygl, efallai, o golli rheolaeth dros y sefyllfa. Ym mha ffordd y mae hynny'n cael ei reoli yn y sefydliad?

staff, internal staff, bringing temporary people in and secondments? It's clear that you're dealing with this pressure in a number of different ways, but the danger or risk with that is that costs will be out of your hands and that you may, perhaps, lose control of the situation. How is that managed in the institution?

[50] **Mr H. Thomas:** Rydym ni'n gorfod edrych ar batrwm lle mae yna hyfforddeion gyda ni. Rydym ni wedi, fel rwyf wedi dweud, cynyddu nifer yr hyfforddeion sydd wedi dod ymlaen pob blwyddyn. Hefyd, wrth gwrs, rwy'n rhoi contractau y tu allan, i'r cwmnïau. Bydd yn rhaid inni ailedrych ar y nifer yr ym ni'n rhoi allan i weld a ydym eisiau ychwanegu neu leihau, yn dibynnu ar y pwysau. Mae hynny'n rhywbeth yr ydym ni'n gorfod ei wneud pob blwyddyn, a dyna pam y mae hi mor bwysig bod gennym ni gynllun sydd yn edrych ar ba fath o weithlu sydd angen arnom ni at y dyfodol. Nid yw'n rhywbeth statig lle rŷm ni'n gwybod ein bod ni wedi cyrraedd ateb. Mae'n rhaid inni dal i edrych arno'n rheolaidd, ac mae'n rhaid i'r bwrdd sicrhau ei fod yn helpu yn hynny o beth.

Mr H. Thomas: We have to look at a pattern where we have trainees. As I've said, we have increased the number of trainees that we bring forward every year. Of course, I give external contracts to companies. We will have to look again at the number of contracts we put out in order to see whether we want to add to those or reduce them, depending on the pressure. That's something that we have to do every year, and that's why it's so important that we have a plan that looks at what kind of workforce we need for the future. It's not a static situation where we know that we have found the solution. We have to look at it regularly and the board has to ensure that it helps with that.

[51] **Ms Garner:** If I may add to that, I think it's testament to the fact that our risk-management arrangements are working that we've identified those issues early on. You said that that could mean costs go out of control. I want to give you assurance that's not the case. There are two important things here. First of all, the quality of audits, which is very firmly Huw's prerogative, has to be absolutely spot on. So, quality comes first. The way that the board

monitors finances, with the aid of the finance director, is very tight. Every month, we get detailed micro and macro financial information and we can see very early on if there are any tensions in the system and then the board is advised and we can make recommendations on remedial action. So, this conversation is absolutely right, it's about looking to the future, but I don't want to give the impression that we're out of control. It's because we're preparing for the future that these issues have come up.

[52] **Simon Thomas:** Un o'r **Simon Thomas:** One of the aspects in agweddau yn yr adroddiad hefyd lle, the report where, perhaps, there is a efallai, mae yna *gap* rhwng yr hyn gap between what you're trying to rydych chi'n ceisio ei gyflawni a'r hyn achieve and what is happening at the sy'n digwydd ar hyn o bryd yw moment is sickness absence, if I absenoldeb salwch, os rwy'n cofio'n remember rightly. You have a target iawn. Mae targed gyda chi, ac nid that you haven't quite reached yet. ydych cweit eto wedi cyrraedd y Are you happy that that is a risk that targed yna. A ydych chi'n hapus bod is being managed as well, because hynny'n risg sy'n cael ei reoli hefyd, it's clear that sickness absence achos mae'n amlwg bod impact impacts on these costs and the need absenoldeb salwch ar y costau hyn ac for contracting out from time to ar yr angen i gontractio o bryd i'w time? gilydd ac ati?

[53] **Ms Garner:** I'd like Steve to lead on that one.

[54] **Mr O'Donoghue:** Happy to. Yes, sickness levels have been a concern. I think they peaked at about nine days' average per person two years ago. They now are around 7.2, which is below the public sector benchmark but just above our 6.5 days target. We have just introduced, through the support of the remuneration and HR committee of the board, a health screening service for all staff. That is assessing staff's physical and mental health, and we're hoping that that's going to help as part of the mix of making sure our workforce is happy and healthy and here, but not here if they're unwell. We're very clear to everyone that works with us, if you're unwell, we don't want you coming into work and spreading those germs. So, it's definitely on a downward trajectory at the moment.

[55] **Simon Thomas:** Océ, diolch. **Simon Thomas:** Okay, thank you. Cyn i ni ddechrau mynd mewn i rai Before we start getting into some o'r agweddau ar gyfrifon yn fwy aspects of the accounts in a more manwl, roedd yn amlwg bod detailed manner, it was clear that

gostyngiad sylweddol y tro yma yn y ffioedd ar gyfer archwilio llywodraeth leol, gan gynnwys grantiau llywodraeth leol. A ydy hynny'n mynd yn ôl at y pwynt yr oeddech chi'n ei wneud, Mr Thomas, ynglŷn â'r ffaith nad ydych chi nawr yn ardystio pob dim mae'r awdurdodau lleol yn ei wneud?

[56] **Mr H. Thomas:** Ydy, mae'n mynd yn ôl at rywbeth ddaru mi ei wneud yn fy mlwyddyn gyntaf fel archwilydd cyffredinol pan ddes i allan â dogfen yn dadlau, 'Pam ydych chi'n gofyn i gael ardystiad?' Yr unig beth y mae staff yn gorfod ei wneud yw dweud, 'Ydy, mae'r swm priodol wedi cael ei dalu i mewn i'r cyfrif banc iawn'. Beth sy'n bwysig yw, 'Pam ydych chi'n rhoi grant allan? Beth rydych chi'n cyflawni am y grant?' Efo Llywodraeth Cymru, rydym wedi bod yn symud i batrwm lle rydym yn gwneud hyn nawr.

[57] Ar yr un pryd, rydym ni'n gwneud datblygiad efo llywodraeth leol sy'n union yr un fath, yn edrych ar, yn enwedig, Wrecsam a Neath Port Talbot yn ystod y flwyddyn yma i ganolbwyntio ar pa ddefnydd sy'n cael ei wneud o'r grant a beth mae'n ei gyflawni. Rwy'n credu bod hynny yn sgil priodol i'r archwilydd ei wneud. Hefyd, o dan yr un peth, mae WEFO nawr wedi cymryd nôl y gwaith roeddwn i'n ei wneud ar eu rhan nhw i wneud arolwg o'r grantiau Ewropeaidd. Felly, nid ydym yn gwneud hynny ac mae hynny wedi

there was a significant reduction this time in the fees for auditing local government, including local government grants. Does that go back to the point that you were making, Mr Thomas, about the fact that you're now not certifying everything that local authorities do?

Mr H. Thomas: Yes, it goes back to something I did in the first year I was auditor general when I brought out a document arguing, 'Why are you asking for a certification?' The only thing that staff have to do is say, 'Yes, the appropriate sum has been paid into the right bank account'. What's important is, 'Why are you putting a grant out? What are you delivering through that grant?' With the Welsh Government, we have been moving to a pattern where we're doing this now.

At the same time, we are developing with local government exactly the same kind of thing, looking particularly at Wrexham and Neath Port Talbot this year, to focus on the use that's made of the grant and what it delivers. I think that that is an appropriate skill for the auditor. Under the same heading, WEFO has now taken back the work that we were doing on their behalf in terms of auditing European grants. So, we're not doing that and that has led to a reduction in costs for us.

creu gostyngiad yn ein costau ni.

[58] **Simon Thomas:** A oedd perig yn y gorffennol bod pobl yn gallu dweud, 'Wel, mae'r grant yma wedi'i ardystio gan yr archwilydd cyffredinol, felly, '*Nothing to see here*'?

Simon Thomas: Was there a danger in the past that people could say, 'Well, this grant has been certified by the auditor general, therefore, 'Nothing to see here'?

[59] **Mr H. Thomas:** Oedd. **Mr H. Thomas:** Yes.

[60] **Simon Thomas:** Ocê, diolch. Fe wnaif droi at Eluned, oni bai bod—.

Simon Thomas: Okay, thank you. I'll turn now to Eluned, unless—.

[61] Mike, do you want to come in on this point?

[62] **Mike Hedges:** Well, I'll come in on a point you raised earlier.

[63] **Simon Thomas:** Please do then, before we go to Eluned.

[64] **Mike Hedges:** Talking about sickness, have you got a median sickness level? Mean can be affected by two or three people with cancer or heart conditions. I think most of us have worked in organisations where people have had that and they've had sympathy and we didn't really think they were responsible for us having a sickness problem; they were seriously ill. Do you keep a median one?

09:30

[65] And the second question is that I think I read somewhere, or heard somewhere, so, if I've got this wrong, please correct me, that you were looking at local authorities and you were deciding if the level of internal audit was such they needed a lighter touch than others. Did I read that somewhere, or did you say that somewhere? And, therefore, the cost would be reduced. And, if you didn't say it, are you considering it?

[66] **Mr H. Thomas:** Perhaps it might arise out of the consideration the Public Accounts Committee will hopefully be giving to the report I've done on income generation at local authorities and other aspects of their work. But I'll think through a bit further about that point you're raising, Mike.

[67] **Mr O'Donoghue:** If I answer on the median point, no, we don't at the moment. But, now you've asked that, I'll go back and look at what difference it would make. I think, partly, the benchmarking is important to us, and everyone else does it on averages. So, it's useful for us to compare with that. But what I would say is that you're quite right in terms of the longer-term absences have a disproportionate effect, and our short-term absences are quite steady.

[68] **Mike Hedges:** It is really what you want to manage, your short-term absences, isn't it? You want to try and reduce those. If somebody's seriously ill, then nobody would want them to be in work, and I think they would have the sympathy of the senior management there, and I think they'd certainly have the sympathy of this committee if they had that level of serious illness, which distorts your numbers quite considerably. With one person off for a year, was that 0.3 per cent?

[69] **Mr H. Thomas:** We do look at the two levels of sickness absences. One the general one, which includes, as you said, that kind of distortion, and the other one, removing the longer-term absences, so we're clear in monitoring the shorter-term issues. But we don't actually maintain a median figure.

[70] **Mr O'Donoghue:** It's probably worth adding as well that, in the trust survey report, it pulled out how staff value the support that we give them in times of hardship.

[71] **Simon Thomas:** Diolch. Eluned Morgan.

[72] **Eluned Morgan:** Thanks. You've stated in your report that there's a relationship between the estimate that we're going to approve and the fee rates. I wonder if you could talk us through how you prepare that estimate—if you could talk us through the mechanics of that, and also the internal mechanism that you use to gather exactly where you're going to pitch that.

[73] **Ms Garner:** This is going to be a bit of a double act between Steve and me about Steve's role, and then the board's role. Do you want to kick off with what you start with?

[74] **Mr O'Donoghue:** I think I'll start by saying that it's not a one-off process. It's ongoing over the years, and it links very much to our medium-term financial plan, which looks across three financial years. And, then, as we

come into around May time of 2016, we say, 'What have we got to do now to get ready for the estimate in October?' And our starting point is that medium-term financial plan. It then goes through a detailed process through our business areas to look at the resource requirements they need based on their estimated workload for next year—a lot of attention around where we can drive out further efficiency and make savings in the budgets. I sit at many meetings, with other directors of finance, getting a lot of hassle around audit fees and what we are doing around our own efficiency and effectiveness, so it's vital we have a strong story to say on that.

[75] The management committee then gives scrutiny and supports proposals or not, and then the first interaction with the board for this budget before you today was in June. The board give quite separate challenge and scrutiny, but Isobel will explain some more about that.

[76] **Ms Garner:** Okay. So, when we first see the proposals coming through, there will be a combination of looking at the rates, and whether we can freeze them again, is there any scope to reduce them, or, because of the pressures on employee costs, are we going to have to raise them? And, whilst management committee might say, 'Oh, I think we can freeze them' the board will say, 'Okay, what would be the impact if we raised them, if we reduced them?' and we really challenge the thinking that's gone on around that. And, of course, to get to those fee rates, it's a complex formula that involves how much time an auditor can actually spend on audit, and you have to make allowances around the productivity, for sickness, management and training. And, again, the board will look at every line of that and say, 'Is that right? Can it be reduced? How does that compare with other audit institutions, other public bodies?' So, we go through all of those lines in the budget. We also seek assurances that the savings that had to be delivered in-year are likely to come out. We look at outturns from last year; we look at the volume of work that's expected to be done. All of that, which is encapsulated in the medium-term financial plan, goes through a board briefing process, which is done outside the formal board. We usually allow about two to three hours, and this was the July session, whereby all board members—I can be quite strict about this—have to really understand what they're putting into the estimate and fees scheme. So, it's the opportunity for a lot of questioning and understanding to grow.

[77] Aside from those fee rates, there is the request that we're making to you today for use of the Welsh consolidated fund. I think my colleagues will back up that I'm terrible; I ask, 'Exactly what is that money going to be spent

on? What have you delivered so far? How is that going to help the longer term?' And what that process does is give us confidence that, when we come to you for that, we know that every line, we think, is vital for the effective running of the Wales Audit Office, yet has due respect for the austerity climate we're in. And so, this year, we're actually requesting £152,000 less than last year. So, over the summer, it's a very deep process, it's an iterative process, but it was finally signed off—the proposal that we were bringing to you—in September.

[78] **Mr O'Donoghue:** As part of that, then, we consult with public bodies around the fee rates we're proposing. And the reason why we're clear about it—it links really back to the estimate and the approval of this committee—is that, if this committee wants changes to our estimate, then we have to relook at the impact on hourly rates.

[79] **Eluned Morgan:** Okay. I understand there's an issue about the way that you have to charge. You're not allowed to make a profit, and there's an issue about actually needing to change the law in order to do that. I was just discussing briefly, before you came in, how can we do this—is it possible to do it without a Bill? Have you got any ideas on that, Huw? Sorry, I know I'm going off the point, slightly, but I think it's quite important for you.

[80] **Simon Thomas:** No, this is their chance for a pitch.

[81] **Mr H. Thomas:** Yes, this is a pitch by me.

[82] I think it would be fair to say that, if you look at the fee legislation that we have to deal with in Wales and compare it to all the other countries of the UK, we have the most complex of the lot, and that's partly due to the history of how the Wales Audit Office came together. You can measure the complexity by the number of column inches of legislation. We also have a difficulty in that the way in which the 2013 legislation was drawn up, at least as the lawyers are advising us, has created additional complexity, because it introduced the word 'function' into the fees, and the lawyers tell us that, for example, my certification of grants is a separate function, whereas I think it was intended that perhaps the fees, in respect of an audited body as a whole, should have been linked, so you had a bit of checks and balances, if it cost a bit less on the grant. It does mean that we're having to engage in quite a large paper chase of money, which is often doing the rounds, because other bodies are getting their funds out of the consolidated fund as well.

[83] I'm proposing to issue a consultation document in the early part of next year putting forward how other audit offices in the UK are funded, comparing Wales to it, and raising some questions for discussion about, 'Are there different approaches?' I think, particularly when you compare us with, say, the National Audit Office, which has only a small amount of its money from fee charging—actual fee charging—but a lot from the consolidated fund, though each department of central Government has a notional fee attached to it so it knows, for its accounts, how much is being spent on audit. So, I think that we can actually reduce the cost to the public purse of the whole way in which the Wales Audit Office is funded. One of the things I'd like to do before I leave office is at least to have sketched out what I consider to be a lighter funding regime for the future.

[84] **Eluned Morgan:** I understand all of that. I come back to my question, which is: is it possible to do this without a Bill?

[85] **Mr H. Thomas:** No, I'm afraid not, because the key to that is the 2013 legislation.

[86] **Eluned Morgan:** Okay. It's a big ask; that's the problem, really—

[87] **Mr H. Thomas:** It's a big ask, but, perhaps, depending on if the Wales Bill is eventually passed, the Assembly will have greater power to do things in terms of an audit and accounting regime. The other bit that I do think needs to be addressed is the fact that, as I said, the historical nature of the WAO coming together means what I have to do in various bodies has been set out in different legislation. Over a period, the terms have changed in that legislation, so is it exactly the same thing? Currently, for example, as we are setting up a Welsh Revenue Authority, there needs to be a separate audit clause inserted for the Wales revenue authority. It would be nice to think that there is an Act of the Assembly that has an appendix 1 and, when you create a new body, you add that body to appendix 1, instead of having, each time, to rethink what the audit clause should be.

[88] **Eluned Morgan:** Okay. Thank you.

[89] **Simon Thomas:** Steffan Lewis.

[90] **Steffan Lewis:** Diolch, Gadeirydd. You've touched on it a little, but I wonder if you could talk us through whether you set out to reduce the overall funding ask this time. Can you talk us through how you assessed the impact

operationally on your organisation?

[91] **Ms Garner:** Do you want to—?

[92] **Mr O'Donoghue:** Absolutely, yes. We look at different scenarios around levels of income and what impact that would have on resourcing. I think, coming back to Isobel's earlier point about why the Wales Audit Office is here—and it exists purely, really, to support the auditor general in the delivery of his work—and that has to be quality work. I don't know if you've picked up from some of the documents, but we were achieving 100 per cent quality standards, which is excellent.

[93] That said, we're not complacent about the resources that we've got, so we set out in the document how, since the board's creation in 2013–14, we've delivered cost reductions in the order of 10 per cent. That followed on from 20 per cent in the previous five years. So, there is this constant drive to work as efficiently as we possibly can and not to have budgets sitting round that simply aren't needed. If I can give an example of that, last year, we rationalised the audit platform that we use to record audit work. We were able to introduce a new timesheet system as part of that, as an add-on. That saved us £45,000 a year, by doing that. Huw mentioned the key skills assessment that's going on at the moment. We've upskilled a member of our own staff to do that, using our own HR system. That's saving us something like £1,000 a day in consultancy. So, these aren't one-offs. It's a constant question around how best we use the resources we've got.

[94] **Steffan Lewis:** Thank you. In terms of specific items, an additional £80,000 is requested for the trainee secondment scheme. I wonder if you could talk us through your keenness to build upon that scheme and how it's worked out.

[95] **Ms Garner:** Do you want to lead on that, Huw?

[96] **Mr H. Thomas:** Yes, certainly. I mentioned earlier trainees—there are a number of reasons why I think that we ought to be taking on more trainees. One is that I think that we do give a very good training to people who want to start off their career in public finance. Secondly, I think it is important that those skills are not lost to the public sector in Wales. I've seen over the last few years that there's been a decline in people who are really well versed in public finance. Particularly, this becomes important in terms of internal audit in the audited bodies I audit, because I need to rely on them. If there's this a

weak internal audit, I need to spend more money on external audit to satisfy myself. So, we need to improve that.

[97] That then brings us into why we've added to the funds that we need for our trainees. Because, as part of their time with us, I want them to go on secondment to other public sector bodies in Wales. That helps, I think, convince them that they need to stay and work. We've, over the years, spent a lot of time talking to other public bodies in Wales and bringing them together into an agreement that we need to work together for our trainees. That has included the non-devolved areas, the mint, the DVLA, Companies House and the Office for National Statistics as well. So, we're looking wider, but they're staying in the Welsh public sector, and I think that that is important. That's why we've looked for more money to enhance the number of secondments that we're offering and to better manage it with others.

09:45

[98] **Steffan Lewis:** Thank you for that. Finally from me, the reasoning for the reduction in funding related to the well-being of future generations—it's a terrible bloody name for an Act—what is the reason for the reduction there and how has the development work gone so far?

[99] **Mr H. Thomas:** The development work has had a knock-on impact. What did we reduce? Well, actually, we lost a key member of staff to the commissioner. So, if you like, WFG in Wales is still on course, but I needed to replace a fairly skilled individual.

[100] **Simon Thomas:** My ex-boss, by the way, but you carry on.

[101] **Mr H. Thomas:** I didn't realise that, Simon. That's why there's been a reduction this year. Of course, it does mean we need to spend the money next year to catch up. But we're still on reasonable course. I issued a consultation document earlier in the year setting out how I wanted to approach the well-being of future generations audit work that I've got to do, which, essentially, is to try to bring it into one and the same set of work that I'm doing with each body, as opposed to simply adding on yet another audit exercise—I thought that that's the last thing we need.

[102] I needed also to coincide that work with what the future generations commissioner wanted to do. Later on this month, on 22 November, we're holding a conference, both of us, setting out what our actual approach is

going to be. I will be piloting that approach with a range of bodies, including central Government bodies that previously have not been subject to any kind of performance audit work, in the course of next year. So, the money that you voted for last year, I would like to see next year—hence it's gone into estimates—but that's why there's been a slight underspend this year.

[103] **Steffan Lewis:** So, to confirm, you see that as being a recurring—

[104] **Mr H. Thomas:** I see it slowing down. It's needed next year—gradually, it needs to slow down afterwards. I'm seeking WCF funding in order to do the upfront design of that system. From then on, it needs to become part of our standard fee regimes.

[105] **Steffan Lewis:** Thank you.

[106] **Simon Thomas:** Nick Ramsay.

[107] **Nick Ramsay:** Diolch. Turning to the capital funding, in 2017–18 you're proposing capital funding expenditure of £380,000. How will this money be deployed and how are your systems being implemented to represent value for money?

[108] **Mr K. Thomas:** There are a number of elements within the capital programme. You'll see in the estimate that we've got a rolling three-year programme of investment in capital. Some of the ongoing areas are in terms of things like our rolling programme of laptop and IT replacement. We work on a three-year cycle for the replacement of IT equipment for our auditors, and we work on the basis that we want to replace those devices before they actually fail, because failure is very costly to us as an organisation—it means downtime for auditors and that's something we want to avoid at all costs. So, we feel that a three-year replacement programme is really important to ensure value for money and continuity of service.

[109] We've also got a number of other elements on an ongoing basis within the programme, such as network infrastructure renewal to ensure that the routers, switches, cabling et cetera within the organisation not only do not fail but are able to cope with ever-increasing demands in terms of activity. As we make improved use of things like video to maximise the impact of our work, we have increasing demands on our network infrastructure, so we need to continue to invest in that. Alongside that, we're exploring the use of cloud technology to improve the resilience of our systems. For example, we're now

looking at moving our e-mail system into the cloud as part of Office 365 to give greater resilience and also improved service. We've also invested in video-conferencing, not just in the standard large video-conferencing units that we have within our main meeting rooms, but also in PC-to-PC and laptop-to-laptop video-conferencing, which is something that has helped us to reduce our travel costs, reduce our impact on the environment, and also improve the work-life balance of our staff.

[110] Looking to the future, there are a couple of new areas of capital investment that we're looking to make next year. One of them is a follow-on from previous investment in our Insight system, which is the financial audit recording system that this committee has previously looked at. The next stage of that is to look to what extent we can use that for our performance audit work. The current system looks very much at the recording and storage of our financial audit work, but we're now looking to see if we can use elements of that system for our performance audit work.

[111] We don't think we can use the system in its entirety, and so we're looking at developing a hybrid system using the Insight functionality for project recording, for document management, and looking at using the SharePoint system for project management. So, that is an investment that will help us, not only to ensure high standards of document management and record keeping, but also to improve the efficiency of our audit delivery.

[112] The final thing I thought might be helpful to highlight in our capital programme is around the replacement for our telephony system. The current system that we have is a number of years old. We want to ensure continuity of service, so it does need replacing, but there are two key enhancements that we're looking to make that will improve service delivery. One of them is around automation within the system, with automated options for callers to Wales Audit Office. But a key element alongside that is to ensure that we are able to comply with the new Welsh language standards, which investment in a new system will allow us to do. The current system will not allow us to comply with the new standards when they come in.

[113] **Nick Ramsay:** ICT is generally considered to be obsolete in three to five years, isn't it? I found this out recently. My assembly laptop was nine years old and the system finally rejected it. I was told nine years is three times longer than its life.

[114] **Mike Hedges:** But was it still working?

[115] **Nick Ramsay:** It was still working until recently, yes.

[116] So, your capital budget, is it £130,000 higher than 2016–17? What percentage of the 2017–18 capital funding is going to be ICT? The majority of it—

[117] **Mr K. Thomas:** The vast majority of it is ICT related, yes. Even things like the replacement financial system—of course, it's supporting the finance team, but it's an IT-based system.

[118] **Nick Ramsay:** But I assume that, once the new systems are up and running, then that would see a reduction in the need for that capital expenditure in future financial years.

[119] **Mr K. Thomas:** Yes, I think the idea there is that there's an investment in 2017–18 for a new system that we would then get several years' worth of use out of. With things like the laptop replacement, it's a three-year rolling programme to replace, which is something that we would envisage going on year on year.

[120] **Nick Ramsay:** Okay, thanks. Can you tell us the reasons why the national fraud initiative will cost £50,000 this year—£130,000 less than last year—and confirm providing this service at no cost will be sustainable in 2017–18, and future years?

[121] **Mr H. Thomas:** It's a cycle. So, every second year you have a peak, and then it goes down again. This is because the main programme of the national fraud initiative is run every two years, and therefore the cost is high in the year that it's run. The £50,000 represents the standard amount in a year when the project won't be run.

[122] **Mr O'Donoghue:** To give some context of that, for the last NFI report, it identified savings of £4.4 million through fraud or overpayments being recovered. The cost of that, of us running that, was £230,000. So, for that upfront spend, it then identifies that level of fraud and overpayments. In terms of whether offering it as a free service is sustainable, I think that's in this committee's hands, in terms of whether you're supportive of it in the estimate, or not.

[123] **Nick Ramsay:** It's down to us. [*Laughter.*]

[124] **Mr O'Donoghue:** Yes.

[125] **Mr H. Thomas:** Because it's a free service that the previous Finance Committee agreed to, we have had greater uptake from public bodies in Wales. Therefore, we're able to operate it on a better basis.

[126] **Simon Thomas:** And greater uptake means greater recovery of costs, as well.

[127] **Mr H. Thomas:** You have a greater chance of identifying fraud, and so on. Currently, we're talking with the Assembly Commission as well as the arts council, the national library and the national museums about bringing them in in future years.

[128] **Simon Thomas:** Good news on the Assembly Commission side, I would say, looking at some past experience.

[129] **Nick Ramsay:** Coming back to what you were saying about the two years, the cycle for the national fraud initiative, so although that's £50,000 this year, in a couple of years' time, then, there'll be another peak.

[130] **Mr H. Thomas:** Yes, there'll be another peak in two years' time. So, you'll see the £130,000 each alternate year.

[131] **Nick Ramsay:** Yes. Okay, thanks.

[132] **Simon Thomas:** Mike Hedges.

[133] **Mike Hedges:** My point would be, on the national fraud initiative, would it be true to say that, if you asked people to pay, some of the people who would be paying would not be the people who would be getting the financial benefit from it? Fraud will be found, but it may not be the people who are paying for it who would actually be the beneficiaries of the additional money, and that's the advantage of having everybody involved—you're not paying money to get some back; you're paying money to stop fraud against the public service as a whole.

[134] **Mr H. Thomas:** As a whole, yes, and I think the last exercise produced something like £1.3 billion across the whole of the UK.

[135] **Mike Hedges:** Can I turn to the fees system? Turning to a question asked by Eluned Morgan earlier, you said you need a Bill, et cetera. What sort of savings would you envisage having if you had a Bill and you could just charge a local authority for a local authority service, as opposed to having to split it down?

[136] **Mr H. Thomas:** Can I say that I hope that the consultation document I produce will give all those necessary figures? Clearly, I'm in your hands as to when the Finance Committee would like to discuss that, but I am commissioning research to get that range of figures into the document.

[137] **Mike Hedges:** If it's in the hundreds of pounds, then you'll probably find very little interest in this room for it to be done; if it's in the hundreds of thousands of pounds, you may well find huge enthusiasm in this room. So, I think the amount is going to be of great importance there.

[138] Could I ask another question on the fee rate? It's been frozen again this year, and local authorities would say that, as their income has been frozen as well, it's not unfair. Are there efficiency savings being made by using ICT, et cetera, which mean that, in the long term, you can continue to freeze it? You talked about having video-conferencing, et cetera, which reduces your travel costs, which are considerable, which is inevitable for an all-Wales organisation, so that's not a complaint, but if you could have some of these things done by video-conference, that could reduce travel costs and, more importantly, travel time. We haven't got anybody in this room, but when people from north Wales are present, they normally explain exactly how long it takes to travel from one end to the other, and I'm sure Huw can tell us that in great detail.

[139] **Simon Thomas:** Aberystwyth is just as bad, I can assure you.

[140] **Mike Hedges:** Aberystwyth is a mere two hours away.

[141] **Simon Thomas:** Not by train. [*Laughter.*]

[142] **Mike Hedges:** But the point I'm asking about is, are there efficiency savings coming into the system that mean that the freezing of the fee rate is sustainable in the medium to long term?

[143] **Ms Garner:** I'll lead off on this, and then you come in. First of all, the consultation that we do has shown that our audited bodies are primarily

concerned with the total cost of audit that they have to pay, which, of course, is a combination of the fee rates x the volume of work. Many of the items that we're requesting in our estimate, both including IT and transformation, are all designed to look at streamlining the audit approaches to deal with the volume of work, which will hopefully go down, and therefore the total cost of audit goes down.

10:00

[144] Given that our overall budget is set by this committee through the estimate on a yearly basis, it is very difficult for us to give any promises about the sustainability of managing to have a fee freeze going forward, because there are quite a few elements, as I tried to indicate, that come into play in setting what those hourly fee rates are. But we are, as a board, always looking at those two elements, both the costs of the people and the volume of the audit. Huw, did you want to come in and add to that?

[145] **Mr H. Thomas:** There are just two extra points that I think I'd want to make. One is that I'm still concerned that the amount of work I'm required to do by way of performance audit at local authorities is higher than the standard, if you like, for public bodies. That's a product of the local government Measure. It was intended in the last Assembly that there would be some reductions in that, and I wait to see what the Welsh Government proposes, because I am required to deliver, if you like, what the legislation says, but it is a heavier approach on local government.

[146] Secondly, I am looking at the use of technology. Particularly, we've set up an internal group of, basically, younger people in the organisation to examine how we can actually use some of the more modern data-mining techniques and other arrangements, and that will save staff time in terms of audit costs. So, we are looking to take advantage of more modern technology and technological advantages to try and hold the cost of audit down.

[147] **Mike Hedges:** Thank you.

[148] **Simon Thomas:** Just to conclude, therefore, in summary, the overall savings that you expect to make in these estimates, which is something like £405,000, that's down to the IT that you've given evidence to the committee around and some of the other administrative arrangements. It's not down to staff losses or voluntary redundancy or anything like that. Is that correct?

[149] **Mr H. Thomas:** We do hold—I wouldn't say 'regular'—periodic exercises of voluntary early severance. Each one has to be approved by the Cabinet Office separately. We do that in order to keep our skill mix at the right level. We may need to bring in people when others, their skills, are perhaps no longer required. So, we do hold that, but the savings that you have, the totality of that—and it's also, as Steve would mention, built on a fairly consistent reduction in expenditure of the Wales Audit Office during my tenure.

[150] **Simon Thomas:** Iawn. Diolch **Simon Thomas:** Thank you very yn fawr. Felly, a gaf i ddiolch i chi am much. I thank you for the evidence y dystiolaeth y bore yma, gan this morning and say that we will be ddweud y byddwn ni'n darparu sending you a transcript of the trawsgrifiad o'r dystiolaeth i'w wirio. evidence for you to check. Thank you Diolch eto am eich amser. Diolch i for your time again. Thank you very chi. much.

10:03

Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod

Motion under Standing Order 17.42 to Resolve to Exclude the Public from the Meeting

Cynnig:

Motion:

bod y pwyllgor yn penderfynu that the committee resolves to gwahardd y cyhoedd o eitemau 5, 9 a exclude the public from items 5, 9 10 yn unol â Rheol Sefydlog and 10 in accordance with Standing 17.42(vi).

Order 17.42(vi).

Cynigiwyd y cynnig.

Motion moved.

[151] **Simon Thomas:** A gaf i jest **Simon Thomas:** Could I ask the droi at y pwyllgor a gofyn i chi committee now to approve, under gymeradwyo o dan Reol Sefydlog Standing Order 17.42, that we meet 17.42 i gyfarfod yn breifat yn awr ar in private now for items 5, 9 and 10? gyfer eitemau 5, 9 a 10? Hapus? Everyone content?

[152] Everyone's happy. We'll go into private session.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 10:03.

The public part of the meeting ended at 10:03.

Ailymgynullodd y pwyllgor yn gyhoeddus am 10:16.

The committee reconvened in public at 10:16.

Cyllideb Ddrafft Llywodraeth Cymru 2017–18: Sesiwn Dystiolaeth 2

Welsh Government Draft Budget 2017–18: Evidence Session 2

[153] **Simon Thomas:** Welcome back to public committee and the next set of witnesses around the budget will be—. I should say, we'll be using both languages here, so translation is available on channel 1, and the sound, just to hear the original language, on channel 0.

[154] Croeso, felly, i'r tystion ar gyfer y sesiwn nesaf ac a gaf i, jest ar y dechrau, ofyn i'r tystion ddatgan eu henwau a'u swyddogaethau ar gyfer y cofnod, os gwelwch yn dda? Anne.

Welcome, therefore, to witnesses for this next session. May I just ask you at the beginning to state your names and roles for the record, please? Anne.

[155] **Ms Meikle:** I'm Anne Meikle. I'm the head of WWF Cymru.

[156] **Ms Davies:** I'm Natasha Davies, policy and research lead for Chwarae Teg.

[157] **Mr Roxburgh:** Good morning. I'm Toby Roxburgh. I'm economics adviser at WWF UK.

[158] **Simon Thomas:** Diolch yn fawr i chi. Croeso mawr i chi i gyd. Rŷm ni wedi derbyn tystiolaeth ysgrifenedig yn ogystal, a thystiolaeth ysgrifenedig yn y maes yma gan swyddfa comisiynydd cenedlaethau'r dyfodol hefyd. Os caf i ddechrau yn syth felly gyda'r cwestiynau, gan

Simon Thomas: Thank you very much. Welcome to you all. We've received your written evidence as well, along with written evidence from the future generations commissioner's office. If I could start straight away, therefore, with questions and ask: to what extent do

ofyn: i ba raddau ydych chi yn teimlo you consider this draft budget
 bod y gyllideb ddrafft yma yn represents the functions of the Well-
 adlewyrchu swyddogaethau Deddf being of Future Generations (Wales)
 Llesiant Cenedlaethau'r Dyfodol Act 2015 and is there any change in
 (Cymru) 2015 ac a oes yna unrhyw this draft budget, comparing it with
 newid yn y gyllideb ddrafft yma, o budgets of the past, that reflects the
 gymharu â chyllidebau y gorffennol, impact of the Act?
 sy'n adlewyrchu effaith y Ddeddf?

[159] **Ms Meikle:** So, it's actually quite difficult to tell, if I'm honest, because in the way it's set out, none of the spending relates to any of the goals or indeed to the objectives, which I think will be published tomorrow.

[160] **Simon Thomas:** Which are not yet published.

[161] **Ms Mickle:** Yes, they've not been published yet, so I think it's quite difficult. That's probably, I'm going to say, my area of disappointment. What I really wanted from the budget—not about the detail of it—was that this is the first budget created since the Act came into place and we wanted to make sure it was an exemplar of how you want things to happen in future for other public bodies who'll be doing this over the coming year, I suppose. I understand all the constraints of time, and we weren't expecting perfection by any means, but actually having a little more narrative and a little more clarity about how that spending is going to be applied to delivering those outcomes, I think, would have been a rather good way forward. There are some explanations about some of the principles, about how they see that they've applied the long term or the integrated approaches, but in the overall sense of, 'How is it delivering those goals and how much money is being spent to deliver them?' it's quite difficult to work that out.

[162] **Ms Davies:** I would agree. I think a move to align it with the strategic themes of the programme for government is useful and does allow to see how some of the goals might be delivered on. But things like a more equal Wales, for example, which obviously is a key area focus for us, I don't see that that comes through quite as strongly as it could do in the way that it's been set out in the budget narrative or in the impact assessment.

[163] **Simon Thomas:** Are you able to point at all to anything that you think is a good signal for the future?

[164] **Ms Meikle:** I think it's useful that the Minister—there's some narrative

in here—certainly in his evidence to you, gave much more detail of how he sees the preventative principle in particular, under the long-term spending, happening. I think that's what we would like to see expanded, really, because I think there are some—. I think it's just so difficult to tell from the detail of this and, as you say, it's very difficult to relate it to the strategies. There is obviously an increase in spending in some areas, on health et cetera, which you would expect to see as preventative and a good impact for the long term, and there are some—I noticed from yesterday's evidence—new pieces of funding around green growth and a resource-efficient Wales, which are very welcome, because they look to be trying to improve sustainability in the longer term. But, overall, I have to say, from a very quick look, we're looking for changes towards more equal weight being given to different aspects of what will impact on future generations across economic, social, cultural and environmental—and yet, where we can see trends going forward, there are reductions in budget on things environmental. I find it very hard to reconcile that with a proper application of the Act, I have to say.

[165] **Simon Thomas:** Did you want to come in, Mr Roxburgh?

[166] **Mr Roxburgh:** Shall I, briefly? Again, my area of expertise within WWF is on the economic agenda. We do an awful lot of work—and we're delighted to be here; it's a fantastic opportunity, so thank you—we work a lot with the ministries of finance and agencies around the world, trying to progress the agenda around the economic gains that one can secure by taking a long-term approach to investing and protecting and restoring natural assets, which, of course, is one area of the, sort of, indicators' suite within the future generations Act. I think that's one of the areas of, picking up on Anne's point—. In the future, there's a huge opportunity, going forward, that the annual budget could look at trying to understand, and recognise and build into the process through which allocations are made, this sort of understanding of the interlinkages between economy and the environment. Some of these benefits take quite a long time to generate returns, which is an inherent issue, but this all points towards lots of return that could be gained from taking the more preventative, long-term approach to spending on the environment, which, as you say, is quite hard to reconcile with some of the downward trends in investment in natural protection.

[167] **Simon Thomas:** Just looking back to the way the Act itself, the future generations Act, was put together, there was a lot of stakeholder involvement, as the term would have it, in that Act. Since then, has there been an ongoing engagement around how the budget might be structured to

reflect that Act? Has there been a consultation with you or are you aware of anything like that that's gone on?

[168] **Ms Meikle:** Well, I'm not aware of it from my sector and I'm not aware of it from members of the Sustainable Development Alliance. I'm not aware that anybody's told me that. You had a point on that—.

[169] **Ms Davies:** Yes. I'm not aware of anything. I know that, in previous years, from an engagement perspective, there's been a budget tour to engage the wider public and, for a number of years, there'd been a budget advisory group for equalities. To the best of my knowledge, that group hasn't been reconvened post election. We'd obviously be very keen to see that. I think that group had a really important role because it had quite a formal role in the budgetary process and helped to make sure that the equalities agenda stayed high on the agenda. I think, within the framework of the well-being of future generations Act, it's even more important that that continues.

[170] **Simon Thomas:** Okay, thanks for that. I think, Eluned Morgan—yes?

[171] **Eluned Morgan:** You touched on some of the points in relation to preventative spending, I just wondered—specifically I wanted to ask Chwarae Teg—whether you think there's anything specifically in terms of the preventative spend that will address the issues relating to women's economic disadvantage. We've heard again, this week, that women are 9 per cent behind in terms of earnings and things. Is there any comfort you find here at all?

[172] **Ms Davies:** I think there is. I think implementation remains key and I'll probably end up referring to the impact assessment quite a lot today because I think it really has an important role to play, and this really demonstrates the importance of a comprehensive and robust impact assessment. There are a number of pledges and spending commitments in the budget that I would say have the potential to deal with some of those issues.

[173] Apprenticeships, if they are delivered in a way that deals with the gendered nature in which men and women still tend to choose pathways there, could help to get more women into growth sectors and science, technology, engineering and mathematics sectors. The same with the money that goes towards the STEM engagement work through the National Science

Academy and funding to further education and higher education, with a focus on part-time learning again. All these things, if implemented in a gender-sensitive way, have the potential to deal with some of those underlying issues, but I would say that, because the impact assessment in this budget doesn't have a great amount of detail, it's difficult to know whether that thought process, or that consideration, has been had. And then to reflect back on the impact that that spend has had will also be difficult because we're not sure, quite yet, what consideration has been given to those things at the moment.

[174] **Eluned Morgan:** A lot of the things you've just highlighted, like trying to get women into STEM subjects and things—a lot of that is being funded currently by European funding, which is likely to come to an end at some point. Should the Government be preparing for that time in reallocating resources to prepare for the fact that we will not be receiving that funding in that way in future?

[175] **Ms Davies:** Potentially—I mean, I imagine that a lot of thought has to be given to the potential shortfall that we could face. Again, coming back to the Act, a focus on trying to look long term, investing preventative spend, because it's more important—so, from Chwarae Teg's perspective, that would be perhaps doing some more additional work around engaging with schools and the education sector to try and help tackle gender stereotyping and that kind of thing. It's about looking back to the root of the problem. That might involve additional spending; it might be about changing things that are already happening, but, yes, that thought process, obviously, does have to start now, I would say.

[176] **Eluned Morgan:** One of the issues with budgets is that they're always allocated a budget line, so that means that people are protecting their empires and, actually, what we would like to see, obviously—and I'm sure you'd like to see it in particular in relation to the themes that you're looking at—is more cross-departmental work. Is there any evidence of that collaborative approach, that integration, that perhaps you might like to see and how that, in practice, can be done whilst we have these specific budget lines? How can we overcome that particular problem?

[177] **Ms Meikle:** I think there are two sides to it. You could be using some pooled budgets. I don't see that in the way that this is laid out—

[178] **Eluned Morgan:** There's very little in terms of pooled budgets, isn't

there?

[179] **Ms Meikle:** I can't see that in particular. But, then, the other way of looking at it, which I think might be more realistic, given that this is the first budget, is where there are, particularly large programmes, say, like the city deals or the metros—big programmes—can we interrogate whether they are actually set up and seeking to maximise the contribution to all those goals or are they being set up with a very focused remit on one aspect? Because that might mean that, internally, there have been some transfers of budget, say, from environment to economy. If some of that city deal was going to deliver some environmental outcomes, you might expect it that way. There are some transfers in this budget from the economy and energy budget into the environment budget because, obviously, energy's now been moved across to a different Minister's portfolio. So, you can see transfers and, presumably, I don't know—.

[180] I think, in reality, there is cross-departmental discussion between those Ministers, but it's not reflected in the way the budget is set out—I think that's the way to say it. It's quite hard to see—. If you look at the united and connected budget, 75 per cent of that is going on road transport, so to what extent is that contributing to other goals? Obviously, we have some social and economic impact, but to what extent is that helping anything in the environment portfolio? But also, the other way around, because the integration principle, which I think is really important, and we need to interrogate a lot here, works the other way. What the integration principle actually says in the Act is that you should also be looking to check that your objectives are not causing negative impacts on other objectives or goals. So, one of the questions is: has the way this has been set up actually had assessments that tell you what is the impact on the health budget of the transport portfolio, because, in some ways, your spend can be causing further costs in another budget? And, actually, the way of saving money is not doing that spend in the first place in that way, because, then, you've got another department, or another public body, potentially, picking up the cost of, say, your economic policy, which might be picked up by the health authority locally if it's making air quality poorer. But there's no recognition of that integration, so the way to get more efficient and more effective is actually to look at that cross-departmental or cross-body impact, really.

10:30

[181] **Eluned Morgan:** And so, what you'd be looking for, ideally, is that

there is some kind of checklist that they have to go through to ensure that they are not having an adverse impact.

[182] **Ms Meikle:** Yes. And we were talking about it before we came in—the impact assessment that’s here should be the end result of a long pipeline, shouldn’t it? That somewhere, at the beginning of this, there’s a process of policy coherence and looking at impacts across different policy areas, and then some evidence that, actually, they’ve made some changes to the programmes in an integrated way. Then, it may be slightly less important where the budget is sitting if you can be fairly sure that the programmes themselves have been designed in a way that has taken account of that, and mitigated where there are going to be additional costs, and found a different way to do it to save some money further down the line.

[183] **Mr Roxburgh:** Briefly, to pick up on that, I was going to make a similar point—and this is a situation that’s by no means unique in Wales whatsoever, of course; it’s a fundamental issue that all Governments are facing. But it does feel like that there’s relatively little evidence of the budget being made with an integrated, collaborative approach. And, as Anne said, there are two dimensions to it from an environment perspective. One is, obviously, considering the environmental impacts of policies, and, crucially, the consequent economic and social impacts of those environmental changes. There’s a cause and effect link there as well, and yet we’re part of a system here where, if you like, nothing happens without an effect. So, for example, investments in high carbon infrastructure, or other sectors such as intensive agriculture, often have a knock-on effect on the environment, which then, in turn, have potentially undesirable, sometimes unforeseen, consequences and costs elsewhere in the economy. So, the ultimate overall societal value delivered through a particular policy spend area can obviously not necessarily be as initially intended.

[184] One of the things that seems to be gathering pace to help tackle that issue is that the budget itself, as an annual process, could, if you like, benefit from drawing on some other ongoing processes and bodies of evidence that the Welsh Government could instigate or initiate, potentially, as part of a UK-wide effort, on things like a register of UK subsidies. Many other European countries have information, a sort of rolling database of information, about where public spend, through subsidies and infrastructure investments, has environmental and social consequences. We don’t have anything like that in the UK. In fact, we’re having a very similar discussion with the UK Treasury and they recognise that issue. There are very little data.

[185] There's also a strong link there between the budget and the national infrastructure plan and pipeline. At the UK level, Infrastructure UK within the Treasury as well has a similar Excel database of national infrastructure projects, and one of the things that they're trying to do, and are very interested in trying to do, is trying to generate more information at the strategic level early on, on the potential environmental and social consequences of those projects, to start bringing this all together. This is all part and parcel of a good and robust evidence base that helps Government with joined-up decision making. So, that's the impact side of it.

[186] And, briefly, to finish, I was just going to say that, on the flip side, as Anne's pointed out, there's a huge opportunity to take more of a cross-departmental approach to tackling environmental issues, because one of the unique—and I'm talking about the environment here—attributes of an intervention that can generate, protect and restore natural assets, whether that be through improving catchments, forests, wetlands, fish stocks or air quality—these are all assets that generate value to the economy—is they tend to generate multiple environmental benefits. That's one of the fabulous reasons why they provide such good value for money. So they necessarily tend to trigger and meet, if you like, many of the outcomes or indicators under the Well-being of Future Generations (Wales) Act 2015, and multiple Government objectives. That's one of the things, I think, that could be looked at in more detail, and perhaps through other questions later we could expand on that and I can give you some examples.

[187] **Eluned Morgan:** Okay.

[188] **Simon Thomas:** Just on that, while we're there, because we've talked a little bit so far about the impact of some decisions, there's also, of course, the potential resource profit, if you like, or gains that we might get from the natural environment or other resources. You talked a little bit about a register of subsidies, but just to give an example here, I asked a question of the Government as to whether they knew how much business rates were raised from windfarms in Wales, and we don't have a central database that tells us even that. So, when we're looking at the budget, we're not looking at the positive side of some decisions that could be made either. That was a statement more than a question, but if you've got examples—. I don't know whether you have any examples of where that's been used in other jurisdictions as a way of budgeting for these kinds of approaches—or we're in very early days, by the sound of it.

[189] **Mr Roxburgh:** Well, early days—again, there are moves being made in many, many countries to generate this kind of information that's updated annually, year on year, which, if you like, the budget draws on. I've referred to the national infrastructure pipeline planning process, but another analogous example here is: you might be aware of the Natural Capital Committee, which obviously has a remit for England at the moment, which is progressing substantially in this area as well. So, I think there's a lot that we could in Wales learn from some of the ideas and the proposals put out over their three-year term. They've now been reappointed to advise Government on the status of natural capital stocks, the natural environment being something one can, if you like, look at as a set of assets that provide value. All economic activity, productivity and jobs growth is ultimately dependant on them to a degree.

[190] One of the things that's happened is that they've, in their third report last year, generated a set of investment priorities in the natural environment. I call them priorities; we could call them opportunities, picking up your point there, in terms of, for example, where targeted public policy action and investment would generate substantial economic gains, comparable to typical infrastructure projects, if you like—you know, the sort of conventional infrastructure projects. We're not saying they are a direct replacement in all cases, but there's increasing appetite in seeing the environment as a critical part of the asset base, just like railways, roads, transport links and so forth, because they provide critical public services, and they provide them for free, if we maintain them in an intact state. So, going back to the future generations Act principle, if you like, which is perhaps that the natural assets stock that we've got, by definition, if we're developing sustainably, we leave intact—if not try and set it on an upward trajectory, but the trends are at the moment downward.

[191] So, the Natural Capital Committee, just to finish off, has set out a really compelling idea that there's a set of really discrete obvious areas where, through multiple Government policies, we could redirect investment. That doesn't necessarily mean the cost has to hit the public purse. There are investment opportunities that could appeal to multiple investors from the private sector, civil society, and so forth. So, there's perhaps an answer later I could give on an opportunity around how you mobilise that finance. But getting that evidence base on where the economy could benefit is really important, I think. Thank you.

[192] **Simon Thomas:** Thank you for that. Nick Ramsay.

[193] **Nick Ramsay:** Thanks, Chair. The Cabinet Secretary gave evidence to the committee on 19 October on how the five ways of working have influenced individual budget allocations. To what extent do you agree with his conclusion that the Welsh Government has taken the five ways of working seriously in forming the draft budget? Who wants to come in on that?

[194] **Ms Davies:** I can start. I think there is some indication, in the way that the budget narrative talks about issues, that they are in the thinking that's going on. I would say, compared with, perhaps, last year's, there's less, I suppose, detail about how each of those has been applied. In the impact assessment that accompanied the budget last year, it was literally set out how each of those approaches had been applied, which I thought, actually, as an external stakeholder trying to engage with it, was really useful to try and understand.

[195] Going back to what we said earlier on, I suppose, just a potential area of concern, I guess, for want of a better word, around engagement is the lack of—yes, appearing to be a lack of—. No budget tour to engage with the wider public or the groups that were in existence trying to help and advise, because bringing in that specialist expertise to help with the engagement process—I guess we haven't seen that this year, which, next year, we'd want to see coming back through, really.

[196] **Ms Meikle:** I think I'd like to preface this by just saying I'm always slightly alarmed when the sustainable development principle gets reduced to five ways of working. The five ways of working are there to meet what the principle says, which is that you will act in a manner that ensures the needs of the present are met without compromising the needs of future generations. It gets a bit shorthanded into, 'Oh, that's the long-term principle.' No, all five of those are intended to stop disbenefit, if you like, and create benefit for future generations, as well as the current ones. With that in mind, whenever anyone talks about, 'Well, this shows we've applied the long-term principle,' there's a little voice in my head that goes, 'Do you just mean that's long-term investment or do you mean you have considered and worked out exactly how that is going to benefit future generations or make sure that they're not compromised?'

[197] The example we had earlier of the reduction in capital spend on environment, climate change and sustainability—I would say, 'In what way

is—?’ Considering that, probably a month and a bit ago, Natural Resources Wales produced their state of natural resources report, which says there is not one single ecosystem in Wales that is currently resilient and that biodiversity is in decline, and, if you look at the climate change risk assessment, that we’re more at risk of flooding as time goes on—the reduction of 50 per cent in that capital budget, I kind of go, ‘Well, is that actually long-term thinking in the sense of preventing harm for future generations or not compromising their ability to meet their needs if you’re not changing the way you are managing natural resources at this end?’ So, I’m slightly concerned about that.

[198] You had a point, I think, from the National Audit Office about the long-term value for money, didn’t you? I think they may have taken that into account.

[199] **Nick Ramsay:** Are you saying you think that the budget works in the short term, but, in terms of longer term well-being goals, that the evidence isn’t there that this is going to contribute to long-term well-being?

[200] **Ms Meikle:** Yes. Because it’s very hard to see. There’s very little information to that effect. There’s clearly some of what I would call investment for the long term. I’m not disputing that at all, and some of the investments in social care and lots of those other things clearly do have benefits for future generations, but you have to sit alongside that some of the ones where there is clearly, as far as I can see, going to be a disbenefit to future generations. So, I think it’s a bit of a mixed picture.

[201] **Simon Thomas:** Mr Roxburgh, you wanted to come in here.

[202] **Mr Roxburgh:** I was just going to expand. I think, again, the issue is around—. These are very complex issues, and I guess part of the answer is that it’s very hard to tell, because, as you say, the evidence from an environmental perspective is pointing towards persistent and deepening environmental risk. Allied with the climate change context, these issues are only going to become exacerbated in future. With forecasts for the level of infrastructure investment, we’re going to have to make some very, very difficult choices about where we prioritise effort, investment and money to deliver societal benefits. Without an understanding about, again, the status of our stocks, which we’re just starting to nibble away at through Natural Resources Wales evidence—they’re starting to build up a picture of these trends. But, ultimately, I think we’d like to see the budget speaking to and

drawing on evidence on more of a comprehensive natural capital accounting approach. I mean, in the UK more broadly, there's a commitment to having mainstreaming of natural capital accounts within the UK environmental accounts by 2020. So, we wonder whether there is an opportunity for Wales, with the situation in Wales, to develop something bespoke and unique that works for Wales, drawing on and coherent with that approach. That's one aspect.

10:45

[203] **Nick Ramsay:** Does carbon budgeting come into that?

[204] **Mr Roxburgh:** Well, it does in the sense that our investments in infrastructure and the carbon—. The carbon implications of all the sorts of investments and developments are very relevant to mitigating all of the risks. So, as part of the suite, absolutely. But I think I was going to finish—

[205] **Mr Meikle:** I was going to say that, in the context of the environment Act, they would be separate, because there is a separate carbon budget required by the environment Act.

[206] **Mr Roxburgh:** Yes. That's right. No, it's natural capital accounts, if you like. Two dimensions to it: one is that we need to understand the condition of our stocks—you know, what do we have? What condition are they in? Are they declining? Are they improving? We don't do that for our railways and our roads. We don't have a comprehensive database of the condition of our assets at the moment. So, you know, at the UK level—most countries don't have this yet; we're really at the forefront of the developments here. But then I was going to say that the other dimension, and once you have that better information on your stocks, is we need to start developing a more coherent approach about, 'Well, so what for the economy and people as well?' Because, in answering your question, I guess, about how the budget is delivering against the wider suite of goals and objectives within the Act, clearly it's perhaps not clear but it feels like it's not necessarily going to deliver against the environmental attributes. But, without an understanding about the implications for society and the economy, which look pretty bad—you know, if the environment declines further the outlook is not looking good.

[207] **Nick Ramsay:** Well, that was the reason for my last question, which was: has sufficient progress been made in investing in programmes that

could make a major contribution to meeting multiple well-being goals? I think you've just hinted that you don't think it has.

[208] **Mr Roxburgh:** But I'm glad that you interjected, because I feel like that my tone was becoming negative. Because, as Anne pointed out, there's an awful lot to applaud. The investments that are being made are, of course, heading off and managing all sorts of critical issues and saving costs in many other areas. But the question is: are they the best investments? Are they delivering the greatest return on investment? So, I think there's a sort of—. If I'm not—unless you want to come in, I was just going to make one more point, I think, about—. And this is where we might—. We could talk further about some of the work that the Natural Capital Committee are doing, which I think is really influential. We talk about developing, if you like, an improved evidence base and the budgetary process having access to that, and developing, if you like, improved tools and approaches to help develop joined-up thinking. It's embodied within the Treasury's green book and processes used in Wales. The architecture is there, but we need to start sort of putting in place better evidence and using that in a more mainstreamed way within the tools and approaches we use, to sort of, if you like, look across the suite of investments on a level playing field, with a long-term approach that takes into account the environmental and social cost and risk of these investments. If we do that, we'll start looking—. What might fall from that is that some of the investments in the environment are actually incredibly good value for money, but that doesn't necessarily mean—. They're part of the tool box, but they generate a huge return.

[209] **Ms Davies:** I was going to say—[*Inaudible.*] Again, for me, this is where a quality, robust impact assessment comes into its own. It's that process that will allow a proper evaluation of how these spending commitments can deliver across multiple goals. I would make the argument that delivering on a more equal Wales is absolutely integral to delivering a more prosperous Wales, and a more resilient Wales as well. It's that step back and assessment of what the impact will have on what approach might need to be taken in terms of implementing these spending commitments that will help us to understand whether or not the budget is effectively delivering across all of the well-being goals, and perhaps if there are areas where we need to put a bit more focus on.

[210] **Ms Meikle:** I think, in that regard, the impact assessment really needs to catch up with the legislation, because strategic and integrated is exactly what it does need to be, but I think there's one paragraph in it on

environmental impact, which I wouldn't say is a great impact. And I think it is pertinent to your question because I think the other thing that I think would be quite useful is, actually, if you're going to keep those main expenditure groups as the budget structure, then, at the very least, can we have some assessment of what goals they're contributing to? Because, if you're trying to look at the impact of that money, and how well it's been spent and how effective it's been, do you know how much money has been spent on delivering a prosperous Wales? Because a prosperous Wales on its own is a complex goal: it's got a low-carbon economy, it respects environmental limits, it's resource efficient and has a highly skilled workforce. You've got four quite big cross-cutting things in one goal, so you would expect quite a lot of different budgets to be going towards that one goal. At the moment, it's very hard to see—back to your point about—. So then, it's quite likely that there are bits of this budget that are contributing to multiple goals, but, actually, you can't see it. So, it would be really good in a development, going forward, to see that split out better, I think.

[211] **Simon Thomas:** I'll just bring in Steffan Lewis here.

[212] **Steffan Lewis:** I just want to strip this back down to a basic point. In looking at the draft budget, would anybody be able to tell that there's a future generations Act on the statute book at all? Has it made a blind bit of difference to—? Just by looking at this draft budget, does it look like the Cabinet Secretary and civil servants have sat down and included a thread that is consistent? Because, you've implied that it might not even be compliant with the Act—some elements of it—or that it's at least inconsistent. So, has there been a difference? Has this Act made any difference to budgeting, as far as you can see from the draft budget?

[213] **Ms Meikle:** Well, I think it's hard to see from the way it's laid out.

[214] **Steffan Lewis:** Is that a shared view?

[215] **Ms Davies:** Yes, I think it's difficult because of the information, we're kind of left inferring quite a lot from what's provided. It's not set out, and if it's not set out crystal clear, you don't want to be making assumptions about what has or hasn't been considered. If a process has been applied, tell us about it, because we want to engage with that, and commend where it's good and support where, perhaps, it can be strengthened.

[216] **Ms Meikle:** You have to relate it back to the programme for

government for some detail because you won't find it in—really, that detail is not in the budget statement. So, you could make some further inferences from that, but, again, that didn't specify that it was delivering particular goals, et cetera. But if I look in there on the bit that is—I've forgotten what it's called now—prosperous and secure, it does have some environmental objectives in it, it's got some training objectives in it, and it's got some economic objectives in it. I think there's another question as to whether they are sufficient to be delivering those goals, and that's something that needs further scrutiny.

[217] I would say that I'm really pleased that this Finance Committee is giving this this level of inquiry. But I think it needs a follow-through in the departmental ones because, actually, the place to find out, 'So, is this money going to multiple goals?' is going to have to be asked to those Cabinet Ministers, I think, because there's not enough detail here for us to be able to comment, really.

[218] **Mr Roxburgh:** I was just going to briefly expand there, I think it's such an important question, it's fantastic to have the opportunity to try and respond. I think I'd echo what colleagues have said. I think the future generations Act is an opportunity, if you like, to demonstrate value for money. It's a way of operationalising an approach to delivering better value for money across multiple objectives. That, in its essence, is why it's such a good idea and why it's good for the economy, good for the environment and good for people. But it isn't clear that—. Without that impact assessment, if you like, and a sort of demonstration of how it delivers against these objectives in terms of spend, it's hard. It also feels like, possibly, a slightly missed opportunity. Picking up on what you said, that if discussions have been had within the process of arriving at the allocations about opportunities to take a more collaborative approach, then it would have been fabulous to have seen those. Because if that's happening, then credit to the decision makers involved. I think, going forward, there are some practical, simple ideas, opportunities to start nudging decision making in this direction, for example, around pooled funding. Is it possible for an element of competition to be introduced, to generate an incentive for Government departments to collaborate early on to formulate joint programmes to access a pool of money that's made available specifically for that point? I think that's something they could—

[219] **Simon Thomas:** Just on that, because we'll be coming on to public services with Mike Hedges now, so I think that's quite a good place to move

on to that.

[220] **Mike Hedges:** I have experience of funding, and my experience of pooled funding is that organisations have thought, 'It's in a pool now. Let's see how much of it we can get for us', rather than how they can use it and share it. I take you back to 2000–01, when Jane Hutt came up with the brilliant idea of having shared funding—pooled funding—between health and social services. All you had was competition between the two of them in order to get as much of it as they possibly could. So, pooled funding itself, would you agree, is not 100 per cent the answer? You have to have pooled funding with objectives that both sides sign up to. Would you agree that just putting it in a pool and letting people fight over it is no better than just allocating it in the first place?

[221] **Mr Roxburgh:** I couldn't agree more. Absolutely. I think there are some principles here that could be drawn—again, I'm trying to pull in examples that might be useful—from an approach that's now being taken forward through the UK's 25-year plan for the environment, as they're calling it. I don't know if committee members are aware, here, the UK is committed to developing a generational plan over 25 years and they're developing four pathfinder projects, one of which is looking, again, at opportunities for improving the alignment in existing Government spend to deliver outcomes. Take spend on environmental management, the agricultural sector, water quality, land management, particular catchments—multiple funding streams all going in to delivering sometimes competing outcomes in a particular place. Whereas, there's a huge opportunity to be gained from those funding streams being brought together through some kind of mechanism to look at synergies and opportunities to maximise outcomes. But I think, yes, there's some work to be done, but it's that kind of discussion that needs to happen.

[222] **Ms Meikle:** I think what maybe the Act sets up a structure to be able to do—. One of the things that is important for what Government does here and what it does with this budget is setting the conditions for the other public bodies to operate in a different way in future, to enable that collaboration or that pooling of resources. I guess the structure of the Act, with its public service boards, et cetera, and their common objectives, is maybe one structure that might help do that more effectively in future. I haven't looked in detail at how they're working, but there's a structure there that might help that collaboration, at least locally. You kind of want to see, in the way that they take this forward, that they're enabling that or, indeed, nudging it forward a bit more for the public bodies.

[223] **Mike Hedges:** I think probably there are an awful lot of public bodies that get an uplift every year against a position where we've got, basically, a flat budget, everybody else is actually, at best, flatlining or, at worst, losing in cash terms and certainly losing in real terms. What one thing would you like to see happen to use the future generations Act to transform services? What one thing would you like to see happen?

[224] **Ms Meikle:** That's a good question. One thing—

[225] **Simon Thomas:** I'll allow two.

[226] **Mike Hedges:** Or one each.

[227] **Simon Thomas:** Yes, one each.

[228] **Ms Davies:** I suppose, from my perspective, especially within the context of the Welsh Government budget, I'd like to see it influence the way we think about how we procure services through our public bodies. I think, from a gender perspective, if you think about services like childcare or social care that, quite often, are contracted out at the local level, those are sectors of our workforce where, generally, pay is quite low and there's not really a great opportunity for progression and it certainly has an impact on things like the gender pay gap and the ability of women to reach their full potential, essentially, which I would argue, in terms of a more prosperous or more equal Wales, is really important. That tracks back to the amount of money, essentially, that is coming down to commission those services, and I think it's that kind of thought process the Act should be encouraging us to think about, how that should feed right through down to that level, to make sure that Wales has got a labour market that is based on well-paid, decent work for everybody.

11:00

[229] **Ms Meikle:** I think, in a way, one's line is what we were talking about before—that, actually, the way to save money is to look at where there is money being spent now, in one area, whether by health or social services or Government or anybody else, that, actually, is bringing costs somewhere else and how you stop that happening. Because I agree with you: one of the biggest problems here is we're all in constrained budgets, and there's a difficulty here, but if you've got one bit of public spending producing

something that another bit—. Say, if you think of pollution and stuff, you're paying Natural Resources Wales to try and fix a problem that's sometimes caused by incentives from public funding somewhere else. So, it's kind of like, actually, if you start looking for your cost savings in a way that's about preventing having to fix a problem later as a result of what you're spending on in the first place. It's that integration, I think, that is the thing, for me, that would help.

[230] **Mike Hedges:** Like no planning permission in floodplains.

[231] **Ms Meikle:** Correct. Absolutely. I couldn't agree with that example more. Exactly those sorts of things where you can see what's going to happen later on—there's going to be a cost somewhere else.

[232] **Simon Thomas:** I'll bring in Steffan Lewis here, if I may.

[233] **Steffan Lewis:** Thank you, Chair. WWF Cymru has suggested setting up an advisory group for embedding the Acts into the budget and the budget process. How can you persuade a committee/task and finish group/sub-committee/advisory panel sceptic like me of the value and benefit of that?

[234] **Ms Meikle:** I'm going to give this to Toby, in a way, because I think where our thinking was going—and then I think you've got a very good example from before—is back to this—. To be fair, this is a new piece of legislation, and, for me, it's trying to make things happen in a different way, and that's not an easy thing to do, particularly if you think about budgeting. It's an enormous tanker of a thing that takes forever. If you want to change the way you do it, it seems to take forever to restructure it and agree different ways of doing it. So, it doesn't seem like a simple thing to do, and to try and attack that in a different way to properly fulfil the Act, it seems like you need some expertise and some evidence base that you probably don't have now, which I think goes back to—. You know, in England, you were saying they have a natural Cabinet committee to advise the Government. They have a committee on climate change, which advises on their plans and whether they're sufficient to hit their carbon budgets. We don't have either of those in the same way in Wales, so I think our thinking was, 'Where's the expertise to help Government and public bodies come up with the changes?' Because they're not simple and, as you've heard from our answers, there's not a simple answer to some of this, and some of it's quite cutting edge.

[235] **Steffan Lewis:** There are big problems in terms of how the objectives

and the spirit of the Act can be implemented. Different countries have taken different approaches, so, for example, in Scotland they have a set of national objectives, many of them are similar to the objectives of the well-being of future generations Act here, but, side by side with those national objectives are national performance indicators. So, there's full transparency. It's updated—some aspects are updated weekly, most monthly—so, there's full transparency. That's a non-statutory basis to begin with, until they can see, 'Look, there's an issue here. Certain performance indicators are showing that certain objectives are not being met fully.' As a step before an advisory group or panel or committee or task and finish group or what-have-you, don't we need the performance indicators and, maybe, clarity first on the objectives, before we—? Or are you suggesting that, maybe, we need a panel or a committee to decide what the indicators should be?

[236] **Ms Meikle:** So, I sat on the ministerial advisory group for the future generations Act, and one of the sub-groups actually was looking at performance frameworks, not just for the Government but across public bodies, and how they're not fit for purpose in terms of delivering on this and will need to be reviewed and amended. That's a massive task on its own, so I don't disagree with you at all that you want to amend the way we do performance indicators now and the way we do them for Government. I absolutely agree with you. Whether that is sufficient on its own, I don't think I can comment, really. Perhaps you have more experience of that advisory group.

[237] **Ms Davies:** No, I don't.

[238] **Ms Meikle:** Oh, sorry.

[239] **Ms Davies:** We did have a budget advisory group for equality. The benefit of that group was it had a formal role in the budgetary process, and I suppose the danger is that, if you don't tap into that sort of expertise, if it's out there, you risk being in a scenario where you publish your draft budget and everybody goes, 'Oh, hang on a second, we're not really happy with this, we're not really happy about that', and by that point you're too far into the process to really make significant changes, if there need to be significant changes. I'm not saying there necessarily do with this one. So, I think the benefit of having some sort of advisory board would be to try and—because it is about changing the way that you do things, isn't it? You need to bring in those different perspectives and make sure that, when the draft budget is published, it's already in a place where it's fully assessed what

needs to happen in order to deliver on the well-being goals and progress against the national indicators.

[240] **Steffan Lewis:** Out of interest, and for information for us as a committee, what was the outcome of that sub-committee that looked into performance indicators? Did that body identify gaps or did it identify data that would be useful for this body and for others to scrutinise the process, especially the budget process?

[241] **Ms Meikle:** It may well have done. I didn't sit on that particular sub-group. It certainly started that work, and its conclusion was that that needed to happen. What has happened since and whether that work has been taken forward, I don't know, I'm afraid.

[242] **Steffan Lewis:** Do you know whether it concluded that more work was needed before the Act was enacted, therefore—i.e. was it a prerequisite of the Act?

[243] **Ms Meikle:** No, it wasn't a prerequisite. I think it was a recommendation as to what—. There was a discussion about whether there should be national indicators in the Act, which there were, but those are Wales-wide, population-level indicators, and this was then saying that, at the next level, are the performance—so, going back to what are the barriers to implementing the Act. It was almost that way round and saying that if, for instance, Government are asking public bodies to report against a certain set of performance frameworks, and those are not aligned to these new goals and new ways of working, then they're in a bind, aren't they, those public bodies. They're being asked to go one way and comply with an Act by going a different way. So, it was actually recommending, I think, that they look harder at that, and try and make sure there's a coherence between them. I don't know what's happened to that piece of work.

[244] **Steffan Lewis:** In addition to the idea of perhaps looking at having an advisory body, what do you think of the process itself? Because you mentioned, rightly, that by the time we get the draft budget position, because of the way the Welsh constitution works, it can be more or less too late to change it. Do you think that we should be looking at drastically changing the budget process in this country, whereby the budget might be along the lines of a Bill, so that amendments can be put afterwards, and we have a longer process? Is that something you've given any thought to?

[245] **Ms Meikle:** I must admit I haven't given any thought to it, no. Sorry.

[246] **Mr Roxburgh:** My initial reaction is that it's difficult to see that there wouldn't always tend to be benefit in seeing the budget as an annual process that builds on and starts from the base from the previous year, and looks at the potential advantages of varying spend given new developments. I don't know if that partly responds to what you've said.

[247] But I think one of the key things, to go back to your earlier point, sorry—if you don't mind me taking the opportunity to do that—is this idea of the fact that, whatever the process, one of the things that would enhance budgetary decision making immeasurably is having access to the right advice and evidence on both the evidence base required to enhance decision making and the processes themselves. There's no doubt about it: given the scarcity of public funds, and the fact that that's only going to go one way, and given the broader trends we're looking likely to face, it's just going to be ever more important, as time goes on, to adopt this long-term preventative integrated collaborative approach. The sooner we do it, the greater the returns on that effort will be. So, there's never been a better time, a more important time, to ask that question, but I think the answer is a resounding 'Absolutely'. And many other countries are doing it—appointing similar committees that help facilitate these joined-up ways of thinking and access to evidence.

[248] It's partly about joining up some of the good work that, from an environment perspective, Natural Resources Wales are doing, and giving them access to part of the conversation in the wider UK, and what they're doing on natural capital accounting. But there's definitely an opportunity for a carefully appointed team to add huge value.

[249] **Steffan Lewis:** Thank you for that. I just want to move on to Chwarae Teg and the fact you've highlighted the need to use gender-responsive budgeting tools. Could you elaborate further on how that could work and international best practice? I've looked, for example, at what they're doing in Sweden at the moment, which isn't just restricted to budgeting. They apply gender-responsive tools to all aspects of public policy, including diplomatic work and foreign affairs. Everything, now, they're looking to gender-proof. Are there examples of how we could implement that for the budget process here?

[250] **Ms Davies:** Yes. Gender budgeting is something that's kind of been on

the agenda internationally for quite a while and some countries have done it quite well, like Sweden. Other countries—I think Australia was doing something for a while but then a change in the political situation there meant that it fell off the radar again. From our perspective, it's the next step on from what we aim to do now with impact assessments. It's a little bit more in depth and it's about embedding that sort of gender analysis into every single element of the budgetary process. You think about it at the planning stage, you think about it at the development stage, you think about it at implementation and then, crucially, you also consider it when you're thinking about the impact that your budget has had as well. I think, from our perspective, it should help to deliver a more gender-responsive budget, which in itself would be good, but I think it fits quite neatly with the well-being of future generations Act as well. It is about having a long-term perspective, it is about making sure that there's policy coherence—that you're not deciding on a policy here and then not giving it enough resources or resourcing this and accidentally undermining an objective over here. It kind of just embeds that thought process all the way through the budgetary process and, ideally, would be part of a wider gender-mainstreaming strategy, an approach that is what Sweden have reached. That's the point they've reached.

[251] **Steffan Lewis:** Specifically with this draft budget, how do you see the gender-proofing so far?

[252] **Ms Davies:** I feel that the impact assessment is a little light on detail. I think there are some areas where what I would say are quite obvious gender impacts aren't necessarily noted—around childcare and apprenticeships. I think the concern is: has consideration been given? But also, it's doing a disservice to some of the work that the Welsh Government is doing. I know for a fact that the Minister is very aware of the fact that work needs to be done to deal with the gendered nature of apprenticeships, that a review is being carried out by Estyn and that they've put an equality and diversity champion in place to try and address that. That's the kind of information that I would expect to see in an impact assessment, because not only does it demonstrate that that thought process has been taken, but when it comes to a point of looking back on the value of that spend, it helps to know what helped it to deliver value for money, if that makes sense.

[253] **Steffan Lewis:** Yes, absolutely.

[254] **Simon Thomas:** Sorry, can I just be specific about the equalities

advisory board, which didn't meet for this budget—?

[255] **Ms Davies:** That's my understanding.

[256] **Simon Thomas:** Have you had an indication that that isn't going to be reconvened, or is it simply open-ended?

[257] **Ms Davies:** We don't know. It's actually WEN Wales that hold the gender seat on that group. Having spoken with them, they haven't met since the election and as yet I don't know what the plans are.

[258] **Simon Thomas:** Okay. I just want to be clear about that. Mike Hedges.

[259] **Mike Hedges:** Just very briefly, we have these discussions with you after the budget is produced and any changes to it are—being pessimistic—likely to be fairly minor. Would it be beneficial if we had a discussion before the budget is produced on the general principles that you wish to see imparted into the budget, which we could then send to the Government, as a committee, as recommendations before it happens? Because you're going to raise points here and we're going to raise some of those with the Minister, probably this afternoon, but the likelihood of any major changes to the budget is—maybe I'm being pessimistic—fairly miniscule. There may be some slight tweaking, which we've seen in the past, but major changes are unlikely. Should we actually be having this discussion at an earlier stage so that we can try and influence what is actually in the budget as opposed to responding to it?

[260] **Ms Meikle:** We certainly responded to the consultation by your committee in August—

[261] **Simon Thomas:** We did have a consultation over the summer, of course, yes.

[262] **Ms Meikle:** Yes, as I'm saying, we responded to that, which was exactly that—about the principles of the budget. That seems like a good way of engagement, I think.

[263] **Ms Davies:** That's in keeping with the principles of the future generations Act as well, to be honest, to bring in that collaborative involvement.

[264] **Mr Roxburgh:** I think it would be a great step forward and a really proactive demonstration of a collaborative approach, which I would be very keen to take back to Westminster and suggest that they replicate there, because—

[265] **Simon Thomas:** We often do things better than Westminster here, as Mark Reckless will now demonstrate.

11:15

[266] **Mark Reckless:** In Wales, we have the equalities advisory board, we have the commissioner for future generations, and we have a process where the Finance Committee looks at the top-line numbers and then the subject committees look at the budget expenditure lines. How does it assist to add yet another advisory board to that process?

[267] **Ms Meikle:** Please don't take this as a key ask from me about an advisory board, but I think I'd just go back to my point that that may not be the answer, but I think there needs to be something that enables everybody to change the way they're doing this. The Chair will know that I've been having discussions with the Assembly themselves, as well as with Government, ever since June about how is scrutiny happening and how are things changing in order to apply the Act. That's a culture change over five to 10 years that we all need to think about differently, and I'm simply saying that there are sources of expertise and advice certainly that are used in England that I don't see their equivalent of in Wales. I'm not sure where the assistance is going to come from—maybe Government have enough of that in house; maybe you do. I'm just saying there seems to be new ways of working that we're not yet discussing and taking forward. It might not be a formal advisory body; I'm not wedded to such an idea. I'm just saying that I think there needs to be some discussion about different ways of working.

[268] **Mark Reckless:** So, if we don't yet see the processes working differently in light of the well-being of future generations Act, isn't it for Assembly Members to enforce that by checking whether it is working, and if it's not working in line with the legislation they pass, they're not voting for the budget that ignores that legislation?

[269] **Ms Meikle:** It's definitely the role of the Assembly to do scrutiny, and I think that's my key point. That's why I'm delighted that this committee is asking these questions, and I've had discussions with committee clerks from

other committees about what sorts of things should you be asking to find out if that department is applying that. And many of the questions that we are talking about now—‘Where is the evidence of integration or collaboration?’—those are exactly the questions you would expect to be asking of those individual Ministers to be able to push this along, because if the Assembly doesn’t do good scrutiny, there are not really any other sanctions in that Act that are going to force Government or somebody else to do it. So, I think it’s a really important role.

[270] **Mark Reckless:** But the Act is there. Doesn’t that change the situation? To take the most, perhaps, apposite example, we have the reduction in the capital budget for climate change projects from £77 million to £49 million, and through the Finance Committee and through the Climate Change, Environment and Rural Affairs Committee, which I chair and which the Chair here is a member of, we learnt more detail about that. We’ve had letters from the finance Minister and we’ve had letters from the Cabinet Secretary for the relevant area, and they set out why they’ve taken those decisions. As far as that reduction in capital spend is concerned, there’s a quite general paragraph about—‘Well, times are tough and I’ve had to reprioritise capital within my department in line with my priorities’, I think is what Lesley Griffiths said. Shouldn’t that actually, given the law, be with reference to the objective and ways of working of the well-being of future generations Act?

[271] **Ms Meikle:** I think that’s right. I did have a quick look at her answer yesterday, and I think she also made reference to the fact that in terms of carbon, it wasn’t just her department’s responsibility, which is, again, true, which is why I’m saying that that question needs to be asked of all those Ministers, not just of her. If I could just say, because we talked briefly before about carbon impact assessment of these budgets, we’ve already commissioned what I would consider a very high-level overview of where there is investment in policies and programmes that deliver emissions reductions and has it gone up or has it gone down from previously. So, is this budget likely to reduce emissions or not? Now, that’s not the kind of detailed assessment that they do of carbon impact in Scotland, which is quite a different thing, but it’s the sort of level that you might expect—. You will need to have something when the environment Act 2016 comes in, because Government has to respond to how are they going to meet their carbon budget, and you have to be able—. So, there’s going to have to be some impact assessment of policies and programmes by whenever that comes in—2018, 2019—anyway. So, we thought, ‘Well, we’ll just give it a quick go’.

[272] I think the overarching look, just on carbon assessment, is that, really, there's little net contribution at all to changing carbon emissions from the overview of this budget, not just that piece from Lesley Griffiths, and the only real bits that are probably doing it are the bits that are renewing the built environment—some of the stuff that's on schools and houses. So, if you look at it overall—.

[273] **Mark Reckless:** I'm surprised you say there's no sanction, because we have this Act now that's primary legislation; it's susceptible to judicial review. There's a lot of documentation of the budget process, and in both the Finance Committee and the CCERA committee, you can look at the justifications, and if those justifications don't appropriately refer to weight given to the Act but give other reasons instead, then it is open to your organisation to seek a judicial review. Is that something you'd consider?

[274] **Ms Meikle:** I remember inputting to the Act and saying, 'So you really think it's the role of a charity collecting public money to do effective scrutiny of this Act and implementation; I don't'. I agree with you—it is possible to do it. The likelihood of winning a judicial review on this, I would suggest, is quite low, because most judges do not like to interfere in social policy of Governments. It is, perhaps, possible, due to the lack of documentation, but I'm not sure whether that's the right way to get a benefit, going forward, at this stage.

[275] **Mark Reckless:** So, how about the office of the commissioner for future generations? She's come in ostensibly, we're told, as an independent figure. Given that, would it perhaps be for that office to look to enforce the law through appropriate judicial processes if there's not proper evidence of it being done by the Government?

[276] **Ms Meikle:** She certainly has the ability to make recommendations to public bodies, so that is one of the things she can do.

[277] **Mark Reckless:** And the ability to take action as a judicial review, also. No?

[278] **Ms Meikle:** I guess so; I don't know. I guess she could.

[279] **Mark Reckless:** Thank you, Chair.

[280] **Simon Thomas:** I think we'll, on that very interesting idea, have to

leave the committee, because we have slightly overrun already and we do have other budget scrutiny to do. But I'd like to thank you for your evidence and for contributing to our scrutiny of the Welsh Government's draft budget, and to say there will be a transcript, which you can check for veracity, shortly available.

[281] So, diolch yn fawr iawn i chi. Thank you very much.

[282] The committee will take a short break, but we will reconvene at 11.30 a.m. to take further evidence.

*Gohiriwyd y cyfarfod rhwng 11:22 a 11:34.
The meeting adjourned between 11:22 and 11:34.*

Cyllideb Ddrafft Llywodraeth Cymru 2017–18: Sesiwn Dystiolaeth 3 Welsh Government Draft Budget 2017–18: Evidence Session 3

[283] **Simon Thomas:** Galwaf y **Simon Thomas:** I call the Finance Pwyllgor Cyllid yn ôl i drefn felly, gan Committee back to order therefore, groesawu'r tystion ar gyfer yr ail and I welcome the witnesses for the sesiwn ar y gyllideb ddrafft—tystion second session on the draft budget—o'r gwasanaeth iechyd yng Nghymru. witnesses from the NHS in Wales. I Croeso mawr i chi i gyd. A gaf i ofyn i welcome you all. I ask you just to chi jest ddatgan eich enw a'ch state your name and your role for the swyddogaeth ar gyfer y cofnod, ac os record, and if I could start with Mr caf i ddechrau gyda Mr Williams, plîs? Williams, please.

[284] **Mr Williams:** Eifion Williams, finance director for Powys teaching health board.

[285] **Mr Webster:** Steve Webster, director of finance for Cwm Taf health board.

[286] **Ms Young:** Vanessa Young, director of the Welsh NHS Confederation.

[287] **Mr Doherty:** Bore da. Gary Doherty, chief executive of Betsi Cadwaladr.

[288] **Simon Thomas:** Croeso mawr i **Simon Thomas:** I welcome you all. chi i gyd. Os caf i ddiolch am y Could I just thank you for the dystiolaeth yr ydym ni wedi'i derbyn evidence that we've had from many gan nifer ohonoch chi. Os gallwn ni of you? If we could go straight into

fynd yn syth i ofyn cwestiynau felly, byddai diddordeb gyda fi i wybod, reit ar y cychwyn, sut ydych chi'n meddwl mae'r ffordd y mae Deddf Cyllid y Gwasanaeth Iechyd Gwladol (Cymru) 2014, sef y Ddeddf a oedd yn gosod y gallu i gael cynllunio tair blynedd gyllidol—pa effaith y mae'r Ddeddf honno wedi'i chael ar gadernid y system cynllunio? A ydych chi'n gallu dangos i'r pwyllgor—achos y pwyllgor yma wnaeth gymeradwyo'r Ddeddf a mynd â'r Ddeddf drwyddo yn y gorffennol—? A allwch chi ddangos i ni sut mae'r Ddeddf honno wedi'ch galluogi chi i wella'r ffordd yr ydych chi'n perfformio yn gyllidol ac yn ariannol? Nid wyf yn gwybod pwy sydd eisiau mynd yn gyntaf.

questions, I'd be interested to know, just at the outset, how you believe that the National Health Service Finance (Wales) Act 2014, which sets the three-year planning horizon for budgets—what impact has that Act had on the robustness of the planning system? Could you show the committee—because this committee approved that Act and took it through in the past—? Could you show us how that Act has allowed you to improve the way in which you perform in budgetary and financial terms? I don't know who wants to go first.

[289] **Mr Williams:** The planning regime before the introduction of this approach meant that we had very short timescales and horizons, in a sense, in terms of the actions that we tended to actually take. Having a three-year horizon for our planning and also, more importantly, that the plans are actually integrated between capacity planning, workforce planning, clinical services planning and finance—trying to get that integrated into a single integrated plan—allows us to actually look beyond the in-year horizon and, therefore, to look at schemes that not just need to start in the current year and that pay off in the current year, but actually would benefit in future periods as well. It undoubtedly has extended our horizon beyond the in-year planning to three-year plans, and we are now looking to try to get even more medium-term thinking and plans together, for which the integrated medium-term three-year plan would be just the first three years of that view. So, we are on a journey with it. I think it's actually helping us make the right decisions, not just the short-term expedient decisions, and to actually consider issues landing within the year.

[290] **Simon Thomas:** Mr Webster.

[291] **Mr Webster:** Could I add to that? I absolutely agree with that, and I

think the integration of service, workforce and financial plans is, maybe, the more important change, in a way, than the three-year plans, but they're both important. I think, certainly in our organisation—I think it's happening in all organisations—there's a much greater recognition by the boards that the financial outcome of all of that is a reflection of our ability to change, modernise and develop services. The finance is the outcome of all of the rest, rather than you going straight to the finance.

[292] I think the second point I'd make is that because a lot of the changes we're trying to make, around efficiency but also service improvement, because they're very much related, are deeper changes to models of care. They are, by their very nature, programmes over periods of time, and you can't really look at those changes. So, if we're looking at the balance between primary and secondary care, for instance, you can't look at those on a one-year basis—you've got to look at those on a longer term basis. So, that's another driver for doing it. So, I think the development of planning, in its broader sense, is really key, and I think that the Act, by placing the requirement and the three-year nature of that, really supports that.

[293] **Simon Thomas:** A gaf i jest ofyn, yn dilyn hynny, a byddai diddordeb gen i glywed, efallai, gan Betsi yn benodol yn y fan hyn: mae'r cynlluniau yma ar draws cyrff iechyd, ond os ydym ni'n edrych yn benodol ar y byrddau iechyd, dim ond dau, fel yr wyf i'n ei ddeall, sydd wedi'u cymeradwyo, neu sydd wedi cael eu cymeradwyo'n llawn, ar gyfer eu cynlluniau tair blynedd—mae Betsi'n un o'r rheini sydd heb gael cymeradwyaeth. Beth yw'r rheswm, felly, fod y syniad yma, fel yr ydych chi'n ei ddweud, sydd yn eithaf allweddol ar gyfer cynllunio tymor hir, a'r gwahaniaeth rhwng gofal sylfaenol, gofal eilradd ac ati, heb gydio mewn ambell un o'r byrddau iechyd ac nid yw, bellach, yno fel rhan annatod o'r ffordd yr ydym ni'n cyllido ar gyfer byrddau iechyd yng

Simon Thomas: Could I just ask, following on from that, and I'd be interested in hearing from Betsi specifically here: these plans are across the health bodies, but if we look specifically at the health boards, only two, from what I understand, have been approved fully for their three-year plans—Betsi is one of those that hasn't been approved. What is the reason, therefore, that this idea, which you mentioned as being key in long-term planning, and changes in primary care and secondary care and so on, hasn't caught on in a number of the health boards and is not there as an integral part of how the funding of health boards happens in Wales?

Nghymru?

[294] **Mr Doherty:** Thank you. If I could pick that up—and I'll try to talk about Betsi and I'll try to talk about a more general message—I think we would welcome the kind of advantages that you've heard about in terms of a longer planning horizon. I think, in terms of the numbers that are signed off, as I understand it, it's three, although I don't claim to be an expert on the detail of those other plans. I guess why we are where we are in that regard is that, always, I think, we're planning a product of two things—one is where you've come from and where you start from, and, obviously, from the point of view of the NHS in Wales, the last few years have been challenging in terms of the financial settlement, which has been, compared to many areas, a very generous one, but, equally, is below the level of the general average real-terms growth that the NHS has had for many years. That's obviously been a period of increased demand. It's been a period of increased quality in many ways. So, we start from that position and where we are today, and, obviously, from a Betsi perspective, you've also had a quite substantial amount of turnover of senior leaders, which, I think, again, doesn't give you a good long-term kind of perspective. So, that's where people are starting from, and, obviously, each of those health boards will have their own local circumstances.

[295] I think, then, going forward, to put that plan together, it is a large and complex creation. It's obviously got to reflect health; it's got to reflect an economy—a society; it's got to involve people; it's got to get staff on board; it's got to do some really complex number-crunching. There are lots of interdependencies in there that you've got to model. I think the bar is set high in terms of what people expect from that plan, and people are not going to get assurance unless they've got a really robust plan in front of them. So, I guess that that level of sign-off that we have reflects, I think, in summary, where people have started from, and that's not the place they probably want to start from. The complexity of doing that forward look and making it robust, and then the bar being set high in terms of expectations and evidence. I think those would be my personal views as to why we start from where we start from. What I do know, from speaking to people, and obviously from a Betsi scenario, is that we want to get into that position of having that agreed, signed off three-year plan, both for our own assurance, but obviously for the assurance of our population and the people who rely on us, and we want to get that as quickly as possible.

[296] **Simon Thomas:** Okay. Mr Williams.

[297] **Mr Williams:** There's a danger that we're going to go down in a little bit of detail in terms of the planning approach, but it is worth recognising that, in any one year, there will be three [correction: up to three] three-year plans in play. So, for example, in the first year of the introduction there's a 2014–17 plan, of which this year is the last year, there's a 2015–18 plan, of which this year is the second year, and so on. So, there are two organisations that didn't get their new integrated medium-term plan approved for the three years looking forward from this year, but those organisations still have IMTPs in play, and therefore the responsibilities that come through the planning and delivering of those plans are there for another two organisations, on top of the three that had new plans approved this year. So, in essence, there are probably five organisations working through their IMTP regimes.

[298] **Simon Thomas:** Okay. Thank you for that sort of clarification, if you like, but if we look at the overall budget allocation now, before we start to go into detail, obviously there's been, in this draft budget, an extra allocation of something like £240-odd million for the NHS as a whole in Wales. We've also seen, just this week, an extra allocation to two health boards of some £63 million or £64 million—Hywel Dda and Betsi—to deal with, I assume, historic overspending. How, in your view, do the two match now—the extra resources—or the additional resources, I should say—in the draft budget, the fact that there have been some additional resources just in this week as well? Does this mean, putting it in the context of the three-year planning, going forward, that we would expect this draft budget and further budgets—although we only have one year—to be paying off those historic overspends now, or are we still going to be looking at a pattern of additional money before Christmas, which seems to be a sort of feature of financial planning in the NHS over the last five to six years?

[299] **Ms Young:** In terms of the funding that we had announced yesterday—the additional £68 million, I think, in terms of this financial year for those two organisations—that's recognition of the impact that that's likely to have on the overall NHS position and the health and social services MEG, and also recognition that both those organisations are in escalation and are working through the detail of how to come out of that escalation process with Welsh Government. So, the use of the reserves is to help manage that process without having an impact on the other NHS organisations. In terms of the funding going into the budget for next year—the £240 million—that is growth funding for all of the organisations, and the challenge will be, for

those that are in escalation, how long it will take to go through the process of implementing their plans to get them out. And, at this point, that's something that is ongoing—the discussions are going on between the individual health boards and the Welsh Government.

[300] **Simon Thomas:** But I suppose the question is: is the allocation—the additional £240 million—sufficient to deal with that problem, which we are still trying to deal with with in-year allocations from reserves? Is that likely to solve the problem in those two health boards?

11:45

[301] **Ms Young:** I think, in terms of the overall £240 million, it's too early to say in terms of the detail, because the individual health boards haven't had their individual allocations. So, we're still working through those details with Welsh Government, and that will be ongoing over the next few months. That will be a question of also looking at all of the pressures that are on all of the health boards, and also their plans in terms of improvement as well. So, it's just a bit too early to say, because the announcement of the draft budget was—

[302] **Simon Thomas:** But a lot of that £240 million is swallowed up by pay increases, pension and so forth, isn't it? Mr Webster.

[303] **Mr Webster:** Yes, I'll try and help you with that—not with any one health board, but just the general picture we're trying to grapple with. So, my health board is projecting we're going to break even this year, but that be won't be on a recurrent basis; there are some one-off factors behind that. So, all health boards, even those such as ours that are breaking even this year, have got an underlying imbalance as we go into next year. If we look at the Health Foundation report, then, I think that's saying that the pressures of, as you say, pay rises, demand increases and so forth are about 3.2 per cent in real terms. So, to stand still—we've all got a problem going into next year, coming out of this year, and then we've got a new pressure of something like 3.2 per cent. The £240 million is about 2.5 per cent in real terms. So, depending on different health boards' overhang, if you like, coming out of this year, they've got different levels of efficiencies needed just to stand still. Now, clearly that will be bigger in Betsi than it would be in Cwm Taf, but it's a challenge for all of us.

[304] The other thing the Health Foundation has said is that the long-run

efficiency in practice across the UK in health is about 1 per cent. So, we would need to deliver quite a bit more than 1 per cent to stand still. At the same time, we want to modernise and improve services, ideally. At the same time we want to invest in activities that won't pay back in the short term, but they will in the longer term, like prevention. At the same time we will probably have some backlog of elective patients waiting. So, that's the equation we're all trying to deal with, which requires efficiency above what's historically been achieved, and it requires prioritisation, at the margin, of the investments that we make, between waiting times and between prevention and so forth. So, that's broadly the equation we're trying to deal with.

[305] **Simon Thomas:** Would it not be fair to infer from that, therefore, that the additional resources—the £240 million that the Government's allocated in this draft budget—could well be sufficient to deal with—with the right level of effectiveness savings and so forth—the ongoing challenges within the national health service, but are probably not sufficient to deal with some of the underlying escalation problems that the in-year additional resources—just for this year—have been allocated to? I know we're talking about two different budgets here, but I'm trying to understand whether the £240 million is going to allow us to address that historic problem, or is it really a steady-state kind of allocation.

[306] **Mr Webster:** If I can just add to the answer: how that effects individual health boards will be totally determined by how that's allocated, but, on the whole—

[307] **Simon Thomas:** I'm inferring it so far, and you're not challenging me too hard on it. That's all I'm saying for the moment. But we need to see what the individual health board allocations are, and we don't do that in this committee, obviously. But anyway, David Rees.

[308] **David Rees:** Thank you, Chair. Just to continue on with that theme, I assume the Townsend formula is still going to be applied this year to the allocations of the health boards, or has it changed now?

[309] **Mr Williams:** My understanding is that the new allocations will come out on the—. The proportion of it that will be a general allocation would come out on the Townsend—. The increase, the bulk of the allocation that comes out, comes out on the historical basis in terms of what's there in there in the allocations. So, whatever proportion of the £240 million that is a general uplift to allocations, as I understand it, that proportion would come

out on the Townsend formula.

[310] **David Rees:** So, you've got a rough idea now as to what you can expect, but not the details of it.

[311] **Mr Williams:** Yes.

[312] **David Rees:** Following on from one of the Chair's points on the programme, historically, the projection, from the figures I've seen, is a lot worse than has been in the past, where several boards will be in projected deficit at the end of the year. Is the extra allocation being given in year—I know we're talking about next year—going to be sufficient to put you in a position next year to actually be where you started off, because most of the boards, other than Betsi—sorry, Betsi and Hywel Dda tend to have a problem—tended to break even last year. The projection this year is that there are going to be far more boards with a deficit. Are we going to be in a position by the end of the financial year where the majority of boards will be breaking even again, or is that deficit going to be a problem as we go forward? You moved from ABMU to Powys and ABMU is now projecting a deficit of £19 million; they didn't have one last year.

[313] **Mr Williams:** The allocation that's been received in year is a one-off allocation in year that will deal with costs that are being incurred in year. As we cross boundaries into the new year, the cause of that deficit in year, which was covered, non-recurring in year, re-emerges as a brought-forward deficit in terms of what my colleague was mentioning in terms of what is their brought-forward underlying deficit into the new year. So, balancing—

[314] **David Rees:** Are the causes of that underlying deficit going to be continuing? That's the question.

[315] **Mr Williams:** The bulk of those reasons for the deficit would be the growth in demand for services, the costs being incurred in staffing, in covering the vacancies at premium rates with the use of agencies and so on. The causes of that deficit, which is covered in year from the additional allocation, will emerge again as issues in the new year. And the £240 million, in terms of the previous question, will have to attempt to cope with that—the brought-forward underlying deficit—and the new challenges that emerge next year as well.

[316] **David Rees:** Let me therefore ask, based upon the increase you've

received—the concept of it—based upon that understanding that the underlying causes are still going to be ongoing, effectively, and based upon the Health Foundation’s consideration that it’s likely that a £700 million efficiency saving is required, is the allocation that’s been given going to be sufficient for you to actually deliver the services you are required to deliver, particularly where you’ll be with service change?

[317] **Mr Williams:** One, we’ve got to see the detail of what comes through, but hard choices will still have to be made. There’s action that’s needed to see what we can do to address the causes of the underlying deficit. For example, where there are vacancies because we can’t appoint to posts, what’s the workforce strategy to go out and actually recruit additional staff into those posts, so we can start addressing the underlying causes of the deficit that’s carried forward? Those actions need to be taken to see if we can actually reduce the brought-forward deficit through actions and strategies. We’ll need to actually see what the additional requirements are that are badged with how the resources come out. Some of that resource could well be specifically badged for initiatives. So, until we see the detail of the whole allocation, it’s difficult to see if it’s one general allocation that comes to the health boards for us to actually deal with the existing issues, or if the general allocation will be a lower amount and more specific allocations will be given out of that £240 million to do new initiatives. Until we see that detail, it’s difficult for health boards individually to actually say what the picture will be in the new year.

[318] **Simon Thomas:** Mr Webster, just on this.

[319] **Mr Webster:** Two lenses on it, really, in terms of whether it’s adequate. In the context of the overall UK and then Wales access to public funding generally, considering the impact on all services, because, clearly, there are choices there between services, then it is more than the UK increase in health budgets, what’s been allocated in Wales. So, I think looking at it from that perspective, I don’t think that we can say anything else other than it’s a very reasonable settlement in relation to the challenge that there is across the public sector.

[320] If we then ask the second question: does that then mean it’s enough? I go back to the point I made at the start. Different health boards will be in different positions in terms of their brought-forward deficit, but we will all, to varying degrees, need to achieve efficiency and redesign, as I like to call it, savings that are well above what the NHS has achieved across the UK as a

whole. That's what we're here to do, that's our job, isn't it, as managers, as leaders in the health service. That's our job, and we need to be held accountable for that.

[321] But I think you need to know that, for us to achieve that, our organisations will have to go at a much faster pace than we have done. I'm not saying that we've been going at a worse pace than other areas of the UK or anything like that, but all of the UK, including health boards in Wales, will have to change at a greater rate than before for that funding provided, which is, I think, reasonable in the context, as I've said, to meet the demands and for health boards to break even. So, I would put it in those two lenses, if you like.

[322] **Simon Thomas:** Sorry, before I bring in—Mr Doherty wants to come in, but, before I do that, can I just clarify one thing? David Rees referenced the £700 million, I think, of efficiency savings that have been recommended or asked for—I'm not quite sure how—

[323] **David Rees:** The Health Foundation report.

[324] **Simon Thomas:** Yes, that's right. Was that based on that average of savings that had been achieved or was it based on a different formula?

[325] **Ms Young:** The £700 million in the Health Foundation report talked about £300 million of it coming through pay restraint and maintaining pay policy and the remainder coming through efficiency savings. They said that the NHS would need to make efficiency savings of 1.5 per cent each year for the next three years to bridge that £700 million—

[326] **Simon Thomas:** Thank you. That's what I wanted to clarify.

[327] **Ms Young:** —and the trend over time has been 1 per cent at—

[328] **David Rees:** I think the challenge will be with the pay restraint, based upon the possibility of inflation coming in in the years ahead of us. It's going to be a serious challenge.

[329] **Simon Thomas:** I think Mr Doherty wanted to respond to—

[330] **Mr Doherty:** I was going to make that point about workforce being crucial, and I do appreciate the desire to get to the bottom of, 'What's this

allocation going to do? Is it enough?' I was going to broaden the thinking slightly around—clearly, for us, there's our allocation, and, as has been said, I think in many respects, in relative terms, it's a very good one. Clearly, the health service, in that respect, has to take account of the allocations of other organisations. Local plans need to work together. If you look at where we have been over the last five years or so in Wales, as I understand it, we've delivered around about £1 billion efficiency savings. The amount that will have been looked at to do, going forward, is going to be higher, and workforce—the only way efficiencies get delivered is through people making them happen, and it is not easy.

[331] Equally, I was going to give you a slightly more positive reason why it's difficult to say, 'Is that going to be enough of an allocation?', which is that every set of clinical staff that I tend to sit with in the NHS, and I've been sitting there with them for a long time now, have a level of ambition to improve the quality of their services and to do new things. A number of them are looking around the world at what it is that they want to do in their service, going forward. That underlying ambition means that I can never remember a time in my 20 years in the NHS—20-plus—that we have had enough, because, whenever we get anywhere near that point, in a sense, we want to do more. So, if you look at interdependencies and if you look at our ambitions, it's all—. But, having said that, I come back to my colleague's point: that's the job. The job is to try to make that add up and to give that balance to the taxpayer, but also to the patient, which is a good one.

[332] **David Rees:** Everyone can assume we'll never have enough to be able to ensure we deliver the care and services that people expect of us, but the question of service change, clearly, is a direction we need to move forward in and the public services boards might be a means of doing that. Do you see the introduction of the public services boards as assisting you to deliver some of those targets to ensure that that balance is there?

[333] **Ms Young:** I think both the public services boards, but also the regional boards for social care and health, in particular, are going to be very relevant and important. But picking up on Gary's point that, in terms of addressing the future health needs of the population, we can't just look at the NHS budget in isolation, because all of the other public services that support health and well-being need to be working as well to improve those outcomes, it's not just about looking at what we're going to be doing as the NHS next year, but also how are we going to work with our colleagues in local government and the third sector to try and make the best of the

services that we can offer the population.

12:00

[334] **David Rees:** Just a final point.

[335] **Simon Thomas:** Sorry?

[336] **David Rees:** Just a final point.

[337] **Simon Thomas:** Yes, go on.

[338] **David Rees:** Tier 1 priorities clearly are a focus there. Is there a problem? Do you see that the settlement will still give you difficulties in some of those tier 1 targets? Because we know some of the tier 1 targets are challenging. Do you see those tier 1 challenges to be still difficult to meet as a consequence of this settlement, or are you going to prioritise those to make sure you are now improving tier 1 figures? I'm not criticising, but it's just the reality.

[339] **Ms Young:** There's certainly an expectation that we will see an improvement in performance as well as being able to maintain the level of service that we currently provide. But I think it is also important to recognise that the Health Foundation report, in their assumptions, when they came up with the figure of £700 million, that was on the basis of there being no change to the level or range of services provided, and, as Gary said, that doesn't tend to happen in the health service. Every year we have new developments, we have new technological advances, new drugs, new medical advances, all of which add further pressure. So, yes, that's the aspiration, and the NHS have worked very hard to do that, but there are a number of pressures that will make that difficult.

[340] **Simon Thomas:** Mr Webster.

[341] **Mr Webster:** I just wanted to add to the point about social services and social care. In our area—I can only speak for my area—we have a very good relationship with Rhondda Cynon Taf and with Merthyr Tydfil and we work very closely together. We have one partnership board across the two, which is fantastic. So, I think we work very well together, but that level of mutual interdependency is such that it needs to move ever closer. That shared understanding and that shared prioritisation of how to use that health and

social services pot of money to best effect is going to become more and more important in the future. The Acts that have been passed there are spot on. So, that's a really key feature, and I think we very much do recognise that in the NHS.

[342] **Simon Thomas:** Mike Hedges.

[343] **Mike Hedges:** Two very quick points. The agency staff costs: they were a serious problem when I served on Swansea NHS Trust back in the 2000 to 2006 period. I assume they're still a major problem. What progress are you making on that?

[344] Second thing: there was another Nuffield report, the one that never gets mentioned, which talked about efficiency within health and the number of patients per doctor, and that showed a 40 per cent reduction between something like 2000 and 2010 in Wales, at a time when health budgets were rising rapidly. Are you able to provide patients-per-doctor-within-a-hospital-setting information as it currently is, and how it's changed over the last few years?

[345] **Simon Thomas:** Mr Doherty.

[346] **Mr Doherty:** Yes, starting with the first point, agency, locum, bank, overtime and flexible premium staffing is a major challenge, and I think it's a major challenge for some of the reasons that we've said. But, just briefly, to repeat, as that demand has gone up—if you take the last five years, demand has gone up. If you look at the average age of the person coming into the accident and emergency departments in Betsi, if I graph it for you over five years, it's gone up substantially. I think the expectations for staffing levels, that the fact that—I think it is a fair criticism of the NHS. I'm not criticising Swansea, but five, 10 years ago I'm not sure we were focusing on numbers of nurses per bed in the way that we do now. Obviously, some of that is because of some things that have happened that have made us do that, quite appropriately. So, I think, as demand has gone up, as we've focused on the number of doctors and nurses per bed that you need, that's also increased, and then there is that issue of whether or not supply has kept up, but that then has left us with a situation where, in order to run the services, you need to go out.

[347] I also think, talking to staff, that there is a slightly different view among health service staff now, certainly to 10 years ago. What you wanted

10 years ago is you wanted to get into your first substantive post as quickly as possible, and then you wanted to generally stay in it for a long, long time. That was the way it tended to work in the NHS. I think people now, especially younger people, view it a bit differently. So, I think there's been a change there as well.

[348] The outcome of all of that is that that is a major quality and also financial challenge for us. So, yes, you're absolutely right—it is a problem now, absolutely. In terms of what we're doing about it, there are a lot of things that we are doing about it. Clearly, there are all the conversations that you know of nationally around supply and how we can maybe change that, and different models. So, we started training our physician associates up in north Wales; we are looking at advanced nurse practitioners. What we do need to do as well is change services so that the increase in admissions that we've seen we can slow off, so we don't have to constantly have more and more nurses and doctors, because, if you just graph that out for the next 10 years, it's just not going to work. So, it is a major challenge.

[349] In terms of that second point, you're absolutely right: there needs to be a focus on productivity. Where I would just caution on some of the interpretation of numbers is—. I'm not as familiar with the situation in Wales as I would be over where I was during the period that you outlined, but there were so many things that changed in that period. So, for example, cancer multidisciplinary teams: at the start of that period, you would not have got whole groups of doctors and other staff—specialist nurses—sitting down on a weekly basis, sometimes for half a day, to review all the diagnostic information, to go through all of their cancer patients, to jointly make better decisions about their care. Now that was intended to improve, and has improved, quality and outcomes. You don't get any extra patients seen as a result of that, quite the opposite, as there are no patients being seen, physically, while you're doing that. So, I think there are lots of things that make that productivity per head and workload change.

[350] In terms of the numbers, what you also then get into are the numbers that you could get off my general hospital patient administration system, so, my general computer system. They don't really lend themselves to that analysis, because what they will show you is the number of people who've been seen in a clinic, new and follow-up. When you look from one clinic to another, a respiratory clinic can be very, very different to a dermatology clinic, so you start to get into some of those things, but, even comparing dermatology clinics, different people have different levels of supporting

teams. That's not always—in fact it isn't generally recorded on the system. So, have they got an advanced nurse practitioner in with them? How many junior doctors have they got? Are they middle grades? Are they new middle grades or are they very experienced middle grades? What you need is that information to then be able to put the activity per head into context. So, we can do it, we do look at it, we look at it certainly around some of the job-planning conversations that we have, but it isn't easy to press a button and get it, and it's also not easy always to put it into context, especially when you compare time series over it.

[351] **Simon Thomas:** Mr Williams, I think, next.

[352] **Mr Williams:** In terms of the staffing levels in Swansea, the gap between the establishments that we established for our boards and our ability to recruit into that, there was a gap, and therein lay the need, actually, for temporary staff, which, for a period was done through expensive agency nursing. Therein lies the need to actually have effective strategies that actually look at how we actually bridge those gaps in different ways. And our progress in Swansea in addressing that has led to the position whereby, other than for theatres, we do now not use the very expensive agencies. We're able to actually cover those gaps through using our own staff, who work in our banks and come back to do additional sessions for us as shifts for us, and actually other agency staff who are on contracts, rather than in the very expensive agencies. So, the cost spent on agency nursing in the area has actually come down over the last 12 months to 18 months, but it is a constant struggle to actually be in that position, and we are looking to actually have strategies whereby we recruit overseas whilst we're actually seeing the increased number of commissioned nurses come out from our schools. So, it's entirely dependent on having effective strategies and we're learning and adapting those strategies as we go on.

[353] One of the other points to add to Gary's response in terms of the productivity, in a sense, of our medical staff, is that probably the work-life balance that medical staff had 15, 20 years ago would not be the work-life balance of a post that would attract people into doing those roles currently. So, in a sense, over the last 15 years, we've addressed the work-life balance that we expect our clinicians to have.

[354] **Simon Thomas:** Also, the working time directive has had an effect.

[355] **Mr Williams:** Yes. Yes. So, in a sense, some of that, those additional

doctors coming in, was to actually make sure these jobs are sustainable and healthy jobs for the individuals undertaking them, in terms of going forward.

[356] **Simon Thomas:** David Rees.

[357] **David Rees:** That's just reminded me, I should declare my wife is an employee of ABMU.

[358] But the concern I have, and I understand the strategies and I'm very grateful that you've got strategies coming into place, but the concept of using bank nurses all the time means your staff will get exhausted and as a consequence there could be (a) illnesses and sicknesses increased as a consequence, or perhaps mistakes happen because of tiredness. I would like to see strategies that actually support the staff and don't put them in the difficult position of being tired and exhausted. I'm not going to ask you to comment upon that, but I'd like to see those strategies take place.

[359] **Mr Williams:** Yes, I agree.

[360] **Simon Thomas:** Both items duly noted, I think, is the thing. Before we move on, it might be an appropriate time to just ask you about the decision to leave the European Union, while we're taking about the effect on staffing, and so forth. Obviously, we'll be looking at a draft budget next year, and we're not actually leaving the European Union next year, but are you making provisions as health organisations for the impact of that, that could impact on your use of resources in this next financial year in terms of the fact that some European citizens may decide to return, and not to perhaps stay in Wales in the new context? Do you have any sense of what impact there might be on your financial allocations following this decision? Mr Webster.

[361] **Mr Webster:** I'll pick that up. We don't know enough about it; frankly, it won't help. We are dependent to varying degrees on people working in the NHS from overseas, and this is probably not going to be positive for that, both in terms of the uncertainty at the moment and then whatever the outcome is, when we know what it is. So, I don't think it's going to be positive, and that will affect the conversation we've just been having about the balance between permanent and agency. But there are limited things we can we do about that.

[362] **Simon Thomas:** Okay, so it's too early to factor that into the budget, yes?

[363] **Mr Webster:** Yes.

[364] **Simon Thomas:** Okay.

[365] **Ms Young:** The only thing I'd add to that is that, as the confederation, we are part of a coalition of 29 organisations across the health and social care organisations across the UK, and we're working to ensure that considerations around workforce are taken into account through the Brexit discussions.

[366] **Simon Thomas:** Just one small factual thing: I've heard different figures that 3 per cent, I'm told, and 5 per cent, I'm told, of people working in health and social care in Wales are citizens of other EU countries. Are you able, off the top of your heads, to confirm either of those figures, or is it something that we should—? Perhaps if you've got that to hand, the confederation, perhaps, could help us just to understand that.

[367] **Ms Young:** The 5 per cent figure, I think, is more familiar to me, but I'm not sure whether that's health and social care, or just health. So, we can come back to committee and confirm that.

[368] **Simon Thomas:** That would be useful, I think, just for our own—. Thank you. I think this is—. Oh, sorry, if Eluned Morgan wants to come in, yes.

[369] **Eluned Morgan:** It's a follow-up. It's related in the sense that the value of the pound has gone down significantly. Inflation rates are set to increase—the Bank of England has just said so. To what extent is—. You import, presumably, a lot of medicine, so presumably the price of those drugs are going to go up. Is that something that you've started to factor in? And, obviously, if the value of what people from abroad are earning, if they want to go home, they won't be taking as much money home. So, that presumably will also push people who currently are EU citizens working in our NHS, and it may also be a reason for them returning to their home countries.

[370] **Simon Thomas:** Mr Williams.

[371] **Mr Williams:** I'd come back that I think it's too early to actually say in terms of any evidence of the impact so far in terms of where we are in terms of our experience. We have a very effective national procurement service that

negotiates contracts for the procurement of our supplies on behalf of all the NHS in Wales. We could probably ask them in terms of whether they are seeing any impact of increased prices through either the exchange rate changes or in terms of inflation in terms of that. We could ask them for a comment and come back to the committee if they're seeing any impact—

[372] **Simon Thomas:** That would be useful, yes. Sorry, I'll just let Mr Doherty come in.

[373] **Mr Doherty:** It's only just to add that, as I understand it, quite a few of those contracts, as you would imagine, have got some length of time to run.

[374] **Eluned Morgan:** So, we're okay for now; it's next year—

[375] **Mr Doherty:** It will be in contract renegotiations that you might see, and obviously—

[376] **Mr Webster:** I was going to make that very point. What we're hearing in the world out there generally is that suppliers are looking at their prices post Christmas. I mean, we've got a lot of forward contracts on energy that are going to come to the end, and I'm sure we're going to see something. It's one of the moot points that we need to make an assessment of, but we haven't got a figure at the moment.

[377] **Simon Thomas:** No, but if you've got further information, that would assist us in the scrutiny of the overall budget. We'll move on to Nick Ramsay.

[378] **Nick Ramsay:** Thank you. Back to the issue of transformation and leadership, is the progress being made towards new models of care sufficient and swift enough to meet the challenges and rise in demand for healthcare services?

12:15

[379] **Mr Doherty:** Putting my Betsi hat on first, if you like, if you look at where we are now, I would find it hard to say to you that we've made the progress that we'd want to make. Therefore, projecting into the future, looking at some of the demographics that I talked about, that is obviously a big concern and goes back to, as I've said, that need for that three-year plan to show how we would do that.

[380] Equally, having said that, there are—. If I then look at the NHS as a whole, as I mentioned earlier, there's the £1 billion or so saved over the last five years or so and significant increases in activity in each of those areas. Where there aren't increases in head-count activity, as I've said, in terms of case mix and age of patient and complexity of patient, we've dealt with a significant increase in demand over that time. That has been done by a combination of doing what we were doing before better, but also new models of care and new ways of working.

[381] So, if I look across, going back now to Betsi, there are some really good examples where people have been introduced to new models of care, whether that be in therapists taking over in orthopaedics, for example, with a circa 30 per cent reduction in terms of the number of patients who are then going on to orthopaedic surgery and good patient satisfaction as well, in terms of people reporting on the impact of that. We've got some new models of care in areas like Prestatyn, with a more multidisciplinary primary care approach. I think that is very positive.

[382] If you look at some of the ways we work with general practitioners who call and have got concerns about patients and want to admit them to hospital, in some parts of the patch, we're seeing, again, in something like 25 per cent of those calls, we're able to give that patient a more rapid response in the community, which then means they don't need to come in to a bed in an acute unit with all the risks that come with that in terms of falls and disorientation and other things.

[383] So, I think there's plenty there and there's been plenty there over the last five years. Where I don't think we can say we're where we want to be and it's happening quickly enough and we can be assured—hence we come back to plans being signed off or not signed off for the future—that we can be sure, going forward, it will be the service we want it to be, partly that is because—. And it will clearly sound like an excuse to some extent, but when you talk to the people who are doing it and doing it well, you do appreciate how difficult it is to do. You need that combination of ambition, of leadership, of partnership, often with other agencies, sometimes some resource, and sometimes some very good project management. Often, the risk that you need to take on and that you need to manage in introducing any new model into a clinical service needs to be very carefully done because, clearly quite rightly, clinicians' focus is to avoid harm and to keep that quality up and not make it worse. Change always brings risks on that. So, I think doing it quickly and doing it at scale are a challenge. We're not where

we want to be because, if we were, I'd be able to give you better performance figures and better satisfaction ratings from patients.

[384] But, equally, I think we need to highlight those successes, because it's building on those successes and trying to scale that up that will mean that, going forward, we can be where we want to be.

[385] **Mr Williams:** From a Finance Committee point of view, the specific allocations that were made for the intermediate care fund, the ICF funds, facilitated us establishing new models of care as well, particularly working with partners—with local authority colleagues—in setting up teams. Those teams, in terms of how they work and what they do in helping to support people to stay within their communities, were not there five to 10 years ago. They're there now and we're actually scaling those up so they've become—. They're not, kind of, the add-on teams, they're the business-as-usual teams in terms of being in there. So, there is a lot being done. We need to do more to actually keep pace with how the demand is growing on the health service. So, that fund was a great help in actually helping us with that transformation.

[386] What I would also say as well is that we're actually finding new roles and developing new roles with partners in universities and colleges. For example, the physician associate is an example of that. It's a new post that comes into the health service that actually will help us to undertake the work that we need to do. Because we can't secure all the professional staff that we need to in terms of the models that we're running, we're developing new roles. So, there is a lot of transformation being undertaken. The task is to actually make sure that the breadth of what's required has got enough of our attention and management effort behind it to make sure that they're embedded at scale across the organisation.

[387] **Nick Ramsay:** And should that transformation, that leadership role, be left to you, well, to the health boards, or should the Welsh Government play more of a radical role in transformation in the delivery of services?

[388] **Mr Doherty:** The one bit I would just emphasise, because it didn't come out as much—I didn't bring it out in my previous answer—was that that kind of change and transformation—I talked a lot about service provision—you know, when people access a service, what kind of service it is and who provides it for them. I think we equally need that transformation in health promotion and prevention, and well-being and the way people—if you like, the avoidance of illness. We need a transformation there, not just a

transformation in the way we actually provide it when people do need a service.

[389] I just wanted to make that point, because that then leads me into, to some extent, the answer to the last question, which is: I think it is a responsibility on everybody—whether that be education, whether that be all elected Members, whether that be Welsh Government, whether that be me and my team—to achieve those transformations. Specifically, the areas where Welsh Government, certainly in my experience having been here six months now—. There's a lot that can be done and is done around sharing good practice, around bringing people together, around driving expectations up, around giving expert advice and help, around actually resourcing specific projects and introducing non-recurring funding to get things going—I think those are some of those—and also, you know, in conversations with the public, obviously, and also policy decisions that have driven improvements in transplants and other things. So, I think there is a role for Welsh Government. There's a role for all of us, to be frank, because, as I said, by broadening it in the way they have done, I think it does emphasise that, if we're going to get the transformation of public health and avoidance of illness, as well as dealing with illness better when it is unavoidable, then that's such a major role for everybody that I think it's certainly, 'Many hands make light work' on that one.

[390] **Simon Thomas:** Is it on this, specifically, Mr Webster?

[391] **Mr Webster:** Yes, Gary's said it now, but I was just going to emphasise the public engagement part. I think that politicians have got a role there too, because sometimes what is a better service and a more cost-effective service with better outcomes is not the service that, at first, thinking about it, the public think is the best service. So, there's role for everyone there to step up around supporting better outcome models. Clearly we need the evidence and clearly we need to talk to the public. That public engagement is key.

[392] **Nick Ramsay:** Okay. Turning to prudential healthcare and prevention, which you've already mentioned, what evidence is there of progress on the impact of the prudent healthcare initiative?

[393] **Ms Young:** There's a huge amount of work going on in individual health boards and trusts around prudent healthcare. There are lots of examples of initiatives and there's work going on as well in terms of changing the culture and trying to embed the principles in everyday working.

My colleagues can give specific examples, but in terms of some of the cultural change, you may be aware of the core principles that have just been issued to all NHS staff, and they draw on the prudent healthcare principles. It is seen by all the health boards as a mechanism for helping to achieve transformation. It was referenced again in the Health Foundation report that there is an opportunity for us to do more around prudent healthcare to get that shift of service from secondary into primary and community services. I'm sure my colleagues can give you lots of examples from their own organisations.

[394] **Simon Thomas:** The examples are probably best left to the health and social services committee. We want a general overview—that's fine. Thanks. Before I move on to Mr Hedges, I'll just note that we don't have an awful lot of time left. We've still got a good 20 minutes or so, but we want to get through our questions. So, if you find that somebody's answered your question, then we don't need to hear all the voices, that's all. Mike Hedges.

[395] **Mike Hedges:** Just to start off, I think that one of the things we have is that health is not working in isolation—it works with local authorities, the third sector, et cetera. If I talk somebody through, they're medically fit for discharge from a hospital—you've got plenty of those in your hospitals at the moment, unfortunately—but you may need care and repair in order to make sure they have a handrail and other minor adaptations; and you need social services to arrange a social care package. The most difficult bit is that you'll need the ambulance service to take them home, which from my experience has been the more difficult part of those three. What can be done to make sure all those work more closely together, so that we don't have people lying in beds in hospitals who don't need to be, and consequently, we can then have more patients coming in at the front end?

[396] **Mr Webster:** I've got an example there. As Eifion was saying, we've done a lot of good things with the intermediate care fund pot of money. So, the big change that we're going to be bringing in over the rest of this year and into next, very much in partnership with our local authorities, is an integrated assessment and response service. That is, really, partly addressed at avoiding admission, but probably the bulk of it is addressed at really speeding up discharge. So, we're going to have more hospital social workers on site, we're going to have health and social care teams assessing patients, and we're expanding our community capacity. I think both us on the health side and our local authority partners think this could make a really big change to the area you're talking about.

[397] I think there's more to go at—have we got the right balance between hospital-bed capacity, continuing care capacity and community capacity? Those are the sorts of questions we really need to ask ourselves really tough questions on, but the example I just gave you is something that we feel locally in Cwm Taf is really going to move the service on quite significantly.

[398] **Simon Thomas:** Mr Williams.

[399] **Mr Williams:** If I look at ABM's position, in terms of section 33, whereby both organisations pool their resources, there's £20 million-worth of section 33 agreements between our organisations, which actually helps facilitate that single-team concept, in terms of how we're actually supporting people to stay out of hospital when we can keep them safely out of hospital, but also to in-reach and help them get the earlier discharge and supported discharge as well.

[400] **Mike Hedges:** Neither of you addressed the ambulance problem. Is there a specific reason why you haven't addressed it? Can I just highlight it? I won't ask you to do it, but there is an ambulance problem in getting people out of hospital. I think I've sent examples to ABMU of three or four people who've waited between three and seven days to get an ambulance to take them home when they were medically fit to be discharged. I won't ask you to answer that, but it's a point that I wanted to highlight.

[401] **Simon Thomas:** You'll have a try at answering it anyway.

[402] **Mr Webster:** We're looking at whether we should have greater [*Inaudible.*] to discharge capacity. Should it be locally provided or should it be provided by the trust?

[403] **Simon Thomas:** Provided by the boards, rather than the ambulance trust, yes?

[404] **Mr Webster:** Possibly, because it can be more responsive then. These are early days, but we are looking at that.

[405] **Eluned Morgan:** Can I ask—?

[406] **Simon Thomas:** Yes—Eluned Morgan.

[407] **Eluned Morgan:** On the intermediate care fund, the budget—. Were you going to ask about this?

[408] **Mike Hedges:** No, you go ahead, please—you know more about it than I do.

[409] **Eluned Morgan:** No, I don't, really—that's why I wanted to ask about it. So, it's £60 million. You've mentioned section 53.

[410] **Mr Williams:** Thirty-three.

[411] **Eluned Morgan:** Thirty-three. That's in addition to the £60 million. So, that's something you've decided to do within your own budget area.

[412] **Mr Williams:** Going back to ABM, the intermediate care fund pot of about £5 million, which we share between us and the local authority, is a part of that £20 million agreement that we—the section 33 total. So, there are more resources than the ICF fund in the section 33 agreements, because they've been going a bit longer than the ICF funds, but it's an increasing feature of how we're working together.

[413] **Eluned Morgan:** Has all that been spent—the ICF fund? Is that all gone?

[414] **Mr Williams:** Yes.

[415] **Eluned Morgan:** Did you make a case for increasing that £60 million? Sixty million pounds in the context of a £7 billion budget is a drop in the ocean, really. Is that something that should be looked at?

[416] **Mr Williams:** The ICF fund was a means that the Minister used to facilitate and put moneys behind the joint working initiative that he wanted to have in place. The discussions that we've had about having new models of care will inevitably mean that we will need more joint working with local authorities, and new models of care will actually depend on that joint working. So, we will need to put more money behind those initiatives like the ICF fund. So, in a sense, I'm saying that it has to come through the ICF funding mechanism. I think it should be a part of our day-to-day work of joint working, then, really.

[417] **Eluned Morgan:** Okay.

[418] **Simon Thomas:** Are you okay, Mike? Well, it was Eluned's question.

[419] **Eluned Morgan:** Sorry. I was going to move on to primary care, if you don't mind. There's been huge pressure on primary care, and I should probably declare an interest, as well—my husband's a general practitioner. I was interested in the way we use primary care professionals' time. Have you got any evidence that this move towards bringing in pharmacists—is that working?

[420] **Mr Williams:** Yes.

[421] **Eluned Morgan:** It is, is it?

[422] **Simon Thomas:** Mr Williams first.

12:30

[423] **Mr Williams:** It's been a major initiative, and, again, going back to ABM, it's been a major initiative within ABM whereby we've traditionally had pharmacists out there working within primary care and GP practices. They've been then going through their prescribing and their medicines management, but what we've done in the last 18 months is to actually embed pharmacists full time, working within clusters. There are 10 pharmacists that have been embedded. They have their own clinics, they review medicines, they actually make sure that where individuals are on polypharmacy—you know, with up to 10 different types of medicines being taken every day—they will review that. The special expertise that they've got means that that work is done better and it then also lightens the burden on primary care colleagues who would have had to do it in their absence. We're seeing that impact coming through more and more in terms of our caring, in terms of overseeing. It might be fortuitous. It could well be for other reasons as well, but we're not seeing the same cost pressure this year on our primary care prescribing budget—the growth in cost—that we've seen in the last two or three years. I'm not saying it's entirely due to the pharmacists that have been embedded in there, but they're making their contribution.

[424] **Simon Thomas:** It's the same in north Wales?

[425] **Mr Doherty:** Yes, a lot of good work going on. Some of the questions that I've been asked is, 'Why aren't we doing more of it?' I think there are some good reasons for that, and, as has been emphasised back to me that,

as I said earlier, there is a risk. If you take repeat prescriptions, there is a process to go through that would say, 'Well, do you know what? Having looked within a practice where people are having repeat prescriptions from a GP, a significant number of them could have that either from a community pharmacist or some other member of the primary care team if there does need to be a review'. But you have to do the work; you have to. I met with our community pharmacy leaders a few weeks ago, and what we want to start doing is ask, 'Can we kind of start at the community pharmacy end, and could they start to suggest?', because someone's got to take the first step of saying, 'Out of this list of patients, I think we really don't need to see all of them, or, if we need to see them, it's once a year as opposed to once every couple of months'. That piece of work that needs to be done, unfortunately, when you are incredibly busy, is a difficult thing to do. So, the more I can find ways to make it easier for GPs, if you like—'What do you think of this as a suggestion?', 'Oh, yes, that looks very sensible'—that's an easier way to do it than saying to a really busy GP, 'Can you not sit down and go through your patients and find some that the community pharmacists to see?'. Because the answer would be 'yes' in theory. So, I think we've got to make it easier for people to do.

[426] **Eluned Morgan:** Sure.

[427] **Mr Doherty:** Obviously, you do get into some governance issues and other things, but we are doing it. I think, as part of the future, we'll been doing it a lot more.

[428] **Simon Thomas:** Mike Hedges.

[429] **Mike Hedges:** I have constituents who tell me it's easier to have all of the repeat prescription, even if you don't want it all, than to try and reduce it down by two or three items.

[430] **Mr Doherty:** Sorry, say it to me again.

[431] **Mike Hedges:** It's easier to have the whole repeat prescription, which may be seven or eight items, than it is to try and get two of them taken off because you don't want them or don't need them anymore. It's so complicated. They've got a difficulty in doing that. When some people have them delivered and they just deliver them, they just help fill landfill and waste resources. I don't think it's an easy answer but I think it's an answer that needs addressing—it's how we can ensure that people are only getting

what they most want and need.

[432] **Mr Doherty:** I think that that partly comes into it, because, clearly, when a patient comes to the GP—as has been mentioned, in terms of polymedicine, for some patients, 10 would be quite a low number—and when you have a significant number of different comorbidities and medicines attached, it may be that a couple of them are absolutely suitable for people to pick up, but you've got another eight or 10. For you, obviously, at the moment, what you get when you go to see your GP is everything dealt with holistically. So, there's a balance to be struck there, to say, 'Is it really a good idea to save five of those medicines that community pharmacists will give you, but you'll have to keep seeing your GP every whenever for the other five?' That's the balance that you have to do, and it's hard work. But if you put the time in and you make the right judgments to do it, the patient gets a better service and primary care feel happier about it. It's a very, very effective service, as we've outlined.

[433] **Mike Hedges:** And you cut waste.

[434] **Mr Doherty:** Yes, absolutely.

[435] **Mr Williams:** And a number of our initiatives are targeted at doing that. We have cluster pharmacists. We've also got initiatives whereby we're asking community pharmacies themselves to actually undertake those reviews of patients they're actually seeing, to review the number of medicines that they're actually dispensing to patients.

[436] **Eluned Morgan:** Just one more, on the locum GPs. There are 634 locum GPs in Wales, which is quite a lot. Of course, there are a number of GPs who like that lifestyle, but there is a huge financial incentive to remain a locum GP. How on earth do we get out of that situation? Have you got any plans?

[437] **Mr Doherty:** Shall I answer that? Lots of plans, I guess. One of the key ones, and what I would like to see us doing a lot more of, is working with primary care, listening to them about what their frustrations are, what gets in the way, what would make people who currently working at service feel that it's a better place to work in. Because the more we treat the people in it now better, the more they will—obviously, in terms of retirement and other plans or indeed, as you say, going off to work in a locum sector—choose not to do that. Other roles that might come out, in terms of physician's associates, things like that; using their time better, as we just said, so you don't feel that

you're wasting your time. I think there is something about the supply, and trying to make—looking at those numbers, because, clearly, in terms of the number of people going into GP training, from a personal perspective, I'd like to see that increased. There's also something about getting opportunities for primary care and GPs. So, we have our outstanding GP scheme, we have opportunities where we could maybe try to expand. If you are a GP with a special interest in something, you could be working with some colleagues so you get that professional career development and you can have those ambitions met within a primary care world.

[438] So, I think the challenge is that there won't be one thing; there'll be lots of things. There are different circumstances, obviously, across my patch. Different primary care practices face very different challenges. Some of their accommodations, to be honest, from the ones that I've gone to, really need some improvement. So, there's probably a very long list of things that we need to do that would improve that, because the number, as you've said, is high. I'm sure, as you say, for some of those people that works very well for them, but, for us as a service, I'd like to see that service rely slightly less on that kind of workforce.

[439] **Simon Thomas:** I think we'll have to make progress, so we'll leave that one for another committee, probably, as well. But, Mark Reckless, please.

[440] **Mark Reckless:** To the NHS confederation, initially in your written evidence you identified a shortage of capital funding as a very real barrier to service change and, I think, called specifically for transformation and transition funding. Is that more than a plea for more money generally? Are you saying either that we've got the balance wrong between capital and revenue spending, or that the transition between those is too inflexible?

[441] **Ms Young:** Two things really. In terms of transition funding, it's not necessarily talking just about capital. So, colleagues have talked about ICF funding, for example. In the health foundation report, they refer also to some work the King's Fund have done, which recognises that one of the barriers to transformation is the need to be able to fund new models while you're currently funding existing models, so that you can actually move to new service provision. The other aspect is about having a workforce that can be dedicated to that change. Now those, potentially, are revenue costs, so transition funding isn't all about capital. But, in terms of capital, there is huge pressure on the NHS in terms of their capital requirement not just in terms the physical infrastructure and maintenance costs, but also in terms of

service reconfiguration where we're talking about physical assets and also around digital technologies too. So, the call that we were making in terms of transition funding was potentially a combination of both capital and revenue. But it is about recognising the pump-priming needs of moving to new models of care.

[442] **Mark Reckless:** I don't know who, if any of you, have a perspective that would assist us on this, but, obviously, one very significant announcement in the past week, and of particular interest to members to this side of the table, is the specialist and critical care centre in Aneurin Bevan health board. In the particular context, while that announcement has been made after the budget and during the budget round, and the length of time it's taken to get to this point, do you think that the capital budgeting and decision-making process around that is appropriate?

[443] **Ms Young:** I think there is a challenge for the NHS and Welsh Government together to look at strategic capital investment planning. So, there are challenges, both at individual organisation levels, but there are also services, potentially, in the future that we need to provide on a sub-regional, regional or national basis. So, having the additional investment of £1 billion over four years, I think, in capital is certainly very welcome, and over the next period, that's what we'll be doing as an NHS to work out how best to prioritise and allocate that.

[444] **Mr Williams:** There's a danger that my comment will be from outside the SCCC project, but in a sense, that was such a major investment. It's a different model for providing care for that area. I wasn't that surprised that it took quite a bit of time to ensure that the case that justified the investment, and therefore the assurance that needed to be gained, was the right model going forward. Because, when you invest £350 million, it's expected to then actually serve the needs for 40 to 50 years in terms of that. There is a bit of recognising that that will take time, because it wasn't a straight replacement hospital; it was providing a new hospital with a new concept in terms of its model of care for that area.

[445] **Simon Thomas:** David, did you have specifically—?

[446] **David Rees:** Not on the SCCC. It was on capital.

[447] **Simon Thomas:** Okay. Do you want to come in now, then?

[448] **David Rees:** Just one quick question on capital, because obviously, capital is the infrastructure aspect, but also the equipment aspects. On the additional funding for the equipment aspects, particularly diagnostics, which has been identified, are you satisfied that you have sufficient resources to staff any additional equipment you get, rather than replacing equipment? It's wonderful to say we can have new equipment, but of course, to actually operate the equipment, you need to spend the revenue to get staff. Are you sufficiently happy that you have the resources to actually deliver on that?

[449] **Simon Thomas:** I think we're back to the question we asked at the start of the meeting, but there we are.

[450] **David Rees:** It's a very simple—

[451] **Simon Thomas:** No, no, I appreciate—

[452] **Ms Young:** I think it is back to the challenges that we've talked about already about workforce, but the important thing about making choices around capital investment is looking at the whole business case and understanding not just the capital costs, but also the workforce costs that go with that—and not just necessarily for the immediate workforce, but also the knock-on impact that has on other parts of the hospital or the primary care service. So, it's just important that we look at all of those things before making decisions and prioritising how we're going to spend that additional capital investment that's been provided.

[453] **Mr Webster:** Certainly in our case—and I think it's replicated in several health boards—we are using mobile scanners and those are expensive. Having fixed capacity—new scanners—is better for patients and, frankly, it's cheaper than outsourcing, provided we can get the staff. But radiography is one of the areas where we have got workforce challenges. So, we need the diagnostic capacity, but we also need to—it's one of our priority areas for recruitment and retention in all health boards.

[454] **Mr Williams:** From a capital planning point of view, health boards, in putting forward their business cases for this expensive equipment, need to not just do the capital investment, but the ongoing running investment and actually, underpinning that, then, we've got to have workforce strategies that actually look forward sufficiently far for people to say, 'What are our staffing requirements, going forward? Are we able to recruit to that level? If not, what kinds of models are we then building in? How do we change the models of

our service provisions to fit in with the needs and how we're then investing?'—so that we're not investing looking backwards, but we're investing looking forwards and saying, 'What's the equipment that's needed? What are the facilities that are needed? What are the staffing models that are needed?' and not relying on our old models of staffing to be able to actually provide sustainable services, going forward.

[455] **Simon Thomas:** Okay. Steffan Lewis with the last question.

[456] **Steffan Lewis:** Just quickly if I might ask a cheeky question on capital. Obviously, there would be great potential for the NHS estate in terms of capital investment to look at energy efficiency further, and even, if we wanted to be very ambitious and look at what other countries do in their health services, look at opportunities for energy generation on the NHS estate. My understanding is that the NHS in Wales is prohibited from approaching the UK Green Investment Bank for financing for such schemes, but in England, I understand that NHS trusts there have applied and been successful in obtaining financing. Is that the case? Am I correct in being told that?

12:45

[457] **Mr Williams:** I haven't tried to progress a case in that field, so I haven't come across that barrier. What I would say is: in terms of where we do see cases for investing in energy conservation measures that would actually pay for themselves within a reasonable period, we're able to find the resource to do that within the capital allocation that we've got. So, personally, we've tended to progress those with our own resources. That's why I don't know if we've got access to the bank that you asked about, really. I'm not aware of that.

[458] **Steffan Lewis:** Okay; thanks.

[459] **Mr Webster:** I'm not sure about that specific one, but there are private finance sources of energy investment, but quite often, the cost of finance and risk within those deals means the net saving you're making from that energy saving is much less because a big chunk of it is going into the financing. So, we try to invest as much as we can internally, as Mr Williams said.

[460] **Steffan Lewis:** Okay.

[461] **Mike Hedges:** Also, there's the Welsh Government's invest-to-save.

[462] **Mr Williams:** Yes.

[463] **Mr Webster:** Yes.

[464] **Steffan Lewis:** Finally, then, what do you think the likely impact financially will be on preparing for the new Welsh language standards, and other bits and bobs of Welsh Government legislation, like the—what is it called—the well-being of future generations Act 2015, et cetera? I feel terrible just saying that.

[465] **Simon Thomas:** He does know what it's called. [*Laughter.*]

[466] **Ms Young:** First, just thinking about the Welsh language standards, the Welsh Government is currently out for consultation, or has just finished, and we did provide a response to that. I think individual organisations haven't estimated exactly what the financial implications might be, because that would depend what the final standard requirements are for each organisation. But there are some key issues that would have financial implications and are of concern to our members, and they are a lot around workforce, as you might expect. So, how many Welsh speakers do we currently have within the workforce, and how much would it cost to train others, and also what would the translation costs be if we were to bring in simultaneous translators and also the written translation costs, too? There are also concerns about supply, actually—so, where there's a shortage in their own workforce, is there a sufficient supply in the marketplace to be able to buy those translation services; and also concern around ICT systems and the extent to which they could be made bilingual and the costs associated with that; and finally, concerns around the requirement for third parties that health boards contract with to be bound by the standards, and the implications that that might have—the financial consequences of that on contracts. So, there are a range of financial concerns, but, as I say, it is early days, because we are in a consultation period at the moment.

[467] **Steffan Lewis:** Do you happen to know how many front-line NHS staff want to learn Welsh?

[468] **Ms Young:** Not off the top of my head.

[469] **Mr Doherty:** Want to learn Welsh?

[470] **Steffan Lewis:** Yes.

[471] **Mr Doherty:** I don't know about 'want to'.

[472] **Ms Young:** No.

[473] **Steffan Lewis:** Have you consulted with staff to ask them if they would like to become fluent in the Welsh language?

[474] **Mr Doherty:** Well, certainly, from a Betsi Cadwaladr perspective, we have some really good schemes, which I'm availing myself of, although I won't let you in on that experience today, from a personal confidence perspective.

[475] **Steffan Lewis:** Go on. [*Laughter.*]

[476] **Mr Doherty:** No. [*Laughter.*] But we have a variety of ways and we have some really, really fantastic stories of people who have come into the health board from all parts of the world, actually, and have become proficient and fluent enough in Welsh to be able to have clinical consultations in it. Clearly, in different parts of our patch, our workforce substantially is Welsh speaking in terms of their first language, and certainly from the perspective I've had of speaking to people about it, having your care given in your first language—having my care given in my first language would always be my preference. I have travelled the world and had healthcare experiences, and it stands to reason that you can get a better quality communication if it's in your first language. There are challenges in doing it, as has been outlined. We've got some really good success stories, I think, in Betsi; equally, I think, in some of the health boards, it may not be as big a part of their agenda. For us, I think seeing the final consultation and then really being able to get to grips with the detail of exactly what it will mean for clinical consultations in particular, I think, is one of the biggies, but we certainly have really good schemes in Betsi that will give people access either to CDs, DVDs, or indeed, obviously, face-to-face tuition, if that's what people are able to do, and we encourage people to do that, as I said.

[477] **Simon Thomas:** We'll need to end on that very positive note.

[478] Felly, a gaf i droi at y Gymraeg Therefore, could I turn to Welsh to

i ddiolch i chi am ddod yma i roi thank you for coming here to give
tystiolaeth i'n helpu ni i graffu ar y evidence to help us scrutinise the
gyllideb ddrafft? Fe fydd yna draft budget? There will be a
drawsgrifiad i chi ei wirio a sicio transcript for you to check that
eich bod chi'n hapus gyda'r hyn a you're happy with what's been
oedd wedi cael ei gofnodi. Felly, reported. So, thank you again for
diolch eto am ein helpu ni yn y helping us with this process. Thank
broses yma. Diolch yn fawr iawn i chi. you very much.

[479] For members of the committee, we'll be back at 1.30 p.m. to look at the land transaction tax. Diolch yn fawr.

*Gohiriwyd y cyfarfod rhwng 12:50 a 13:33.
The meeting adjourned between 12:50 and 13:33.*

**Y Bil Treth Trafodiadau Tir a Gwrthweithio Osgoi Trethi Datganoledig
(Cymru): Sesiwn Dystiolaeth gydag Ysgrifennydd y Cabinet
Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales)
Bill: Ministerial Evidence Session**

[480] **Simon Thomas:** A gaf i alw'r **Simon Thomas:** I call the Finance
Pwyllgor Cyllid nôl i drefn, felly, a'ch Committee to order and welcome you
croesawu chi i gyd nôl ar gyfer back for this afternoon's session,
sesiwn y prynhawn yma pan fyddwn when we'll be looking at the final
ni'n edrych ar y sesiwn olaf o session of evidence regarding the
dystiolaeth ar y Bil Trafodiadau Tir a Land Transaction Tax and Anti-
Gwrthweithio Osgoi Trethi Avoidance of Devolved Taxes (Wales)
Datganoledig (Cymru) gyda'r Bill, with the Cabinet Secretary, Mark
Ysgrifennydd Cabinet, Mark Drakeford? Er ein bod wedi cwrdd â
chi i gyd o'r blaen, byddem ni'n you before, I'd appreciate it if you
gwerthfawrogi eich bod chi unwaith once again state your name and your
eto yn datgan eich enw a'ch role for the record, please.
swyddogaeth ar gyfer y cofnod, os
gwelwch yn dda.

[481] **Ysgrifennydd y Cabinet dros The Cabinet Secretary for Finance
Gyllid a Llywodraeth Leol (Mark and Local Government (Mark
Drakeford): Diolch yn fawr, Drakeford): Thank you very much,
Gadeirydd. So, gyda fi, fel y tro Chair. As before, I have with me**

diwethaf, mae Andrew Hewitt, Andrew Hewitt, policy manager in the rheolwr polisi Llywodraeth Cymru, a Welsh Government, and Gareth Gareth McMahon, cyfreithiwr y McMahon, Welsh Government lawyer. Llywodraeth, Llywodraeth Cymru.

[482] **Simon Thomas:** Diolch yn fawr iawn. Cyn inni fynd mewn i holi ynglŷn â'r Bil a'r dystiolaeth y mae'r pwyllgor wedi'i derbyn ynglŷn â'r Bil, a gaf i jest ddechrau drwy ofyn cwestiwn mwy eang ynglŷn â'r cyddestun ar gyfer y Bil, achos fe fyddwch chi'n gwybod bod yna ohebiaeth wedi bod rhwng y pwyllgor a chithau ynglŷn â'r fframwaith cyllidol, ac ynglŷn â sefydlu Awdurdod Cyllidol Cymru ar gyfer darparu ar gyfer y Bil hefyd? Rwy'n deall eich bod chi wedi cwrdd â'ch cydweithiwr, os dyna'r gair—nid 'gelyn', efallai, ond beth bynnag—yn San Steffan yr wythnos hon, rwy'n meddwl, os ydw i'n cofio'n iawn—yn ddiweddar, beth bynnag. Beth yw'r diweddariad ynglŷn â'r trafodaethau, os gwelwch yn dda?

Simon Thomas: Thank you very much. Before we start to ask about the Bill and the evidence that the committee has received, could I just start by asking a more general question to place the Bill in context, because as you know there has been that correspondence between the committee and yourself regarding the fiscal framework and establishing a Welsh Revenue Authority to provide for the Bill? I understand that you have met your colleague, if that's the word—not 'enemy', perhaps—in Westminster this week, I think, if I remember correctly—recently, anyway. What is the update about those discussions, please?

[483] **Mark Drakeford:** Diolch, Gadeirydd. Rwyf wedi cwrdd â'r *Chief Secretary* ddwywaith nawr: unwaith ar ddiwedd mis Medi ac unwaith ar ddydd Llun yr wythnos diwethaf.

Mark Drakeford: Thank you, Chair. I have met with the Chief Secretary twice: once at the end of September, and once on Monday of last week.

[484] So, I'm happy to report in general on where those discussions have got to, because they do indeed provide an essential context for the devolution of taxes to Wales. So, my first meeting on 28 September was essentially an agenda-setting meeting, agreeing the issues that will be in and out of the scope of the discussion that we will be carrying out on the fiscal framework. We agreed that, obviously, block grant adjustment mechanisms were clearly within scope, capital borrowing limits will be part of the discussion and wider budget management arrangement will be part of the

discussion as well. We agreed an allocation of leads between officials on those topics and we agreed a working mechanism in which officials would attempt to draft papers with the greatest degree of common ground and, wherever possible, using agreed data sets. This is an area where it is possible to have a lot of arguments about which information you are using. So, we tried to set—

[485] **Simon Thomas:** That was the case in Scotland, I understand.

[486] **Mark Drakeford:** Yes, indeed. So, we will do our best to minimise disagreements there by officials agreeing on the data sets that were most relevant. So, that was the first meeting. At the second meeting on Monday of last week, we took a couple of those issues in detail. So, we looked at options for adjusting the Welsh block grant—my starting point for that being that the adjustment must reflect income foregone to the Treasury. That should be our starting point—that if the current system had continued the Treasury would have collected a certain amount of revenue, which in the future they won't, and the block grant must reflect the fact that that revenue no longer flows to them. That's how we should begin to approach the Welsh block grant adjustment mechanism.

[487] We looked at how the different approaches would interact with Barnett and with the funding floor, because you can't take the block grant adjustment in isolation—it has knock-on implications for other parts of the funding arrangements. We also spent time at the second meeting looking at what are called spill-over effects, the way in which decisions made in England or in Wales might have a knock-on effect on tax raising on either side of the border and the circumstances under which these might warrant a transfer of funding between Governments.

[488] So, those are the two main issues that we addressed in that second meeting. We will meet again once 23 November is out of the way. The Chief Secretary will be understandably focusing on the autumn statement very heavily. Once that's out of the way, we will have a third meeting. We are open to the possibility that there will be a fourth meeting required, while still hoping that an agreement before Christmas remains a possibility.

[489] **Simon Thomas:** A ydych chi'n **Simon Thomas:** Are you confident, hyderus, felly, fod yr amserlen a'r therefore, that the timescale and the trafodaethau hyd yma yn eich discussions so far enable you to go galluogi chi i gyd-fynd â'r fframwaith along with the fiscal framework and

cyllidol a Bil Cymru, a phan ddaw'r the Wales Bill, and when the Cynulliad i benderfyniad ar Fil Cymru Assembly comes to a decision on the bod dealltwriaeth o'r fframwaith Wales Bill that there's an cyllidol yn gallu bwydo mewn i understanding of the fiscal benderfyniad y Cynulliad? framework that can feed into the decision of the Assembly?

[490] **Mark Drakeford:** Chair, the position that I have taken, and I've relayed this directly to the Chief Secretary, who I think understands this point, is that I would not expect the Assembly to be able to vote on an LCM in relation to the Wales Bill without knowing the colour of the fiscal framework agreement. So, the two timetables have to run together and I have to be able to come to the floor of the Assembly with an agreement, which the Assembly is then able to take a view on and take into account, on any way that Members will wish to vote on the LCM.

[491] **Simon Thomas:** Diolch am hynny. A gaf i jest droi at un peth arall sydd wedi datblygu ers inni gyfarfod ddiwethaf hefyd? Mae'r Llywodraeth wedi gosod memorandwm cydsyniad deddfwriaethol ynglŷn â'r Bil Cyllid Troseddol, ac er nad yw'r memorandwm hwnnw wedi cael ei drosglwyddo i unrhyw bwyllgor eto, rwy'n sylwi bod y memorandwm yma yn rhoi'r hawl i San Steffan ddeddfu ym maes twyll trethi, mewn ffordd, ac roeddwn i jest yn tybied beth oedd y berthynas rhwng y penderfyniad yna a'r ffaith ein bod ni'n trafod heddiw Bil eang ar gyfer gwrthweithio osgoi trethi yng Nghymru.

Simon Thomas: Thank you for that. Can I just turn to one other thing that's developed since we met last? The Government has laid a legislative consent memorandum on the Criminal Finances Bill, and even though that memorandum hasn't been transferred to any committee so far, I do note that this memorandum gives Westminster the right to legislate on tax fraud, in a way, and I was just wondering what the relationship was between that decision and the fact that we're discussing today a broad Bill on tax avoidance in Wales.

[492] **Mark Drakeford:** Chair, my recollection of all this is that the powers that the Assembly might be asked to allow to be exercised through Westminster in this area are very specific and defined and don't have a general implication as far as the wider devolution of taxes is concerned. However, our view has been that there is a decision here for the National Assembly to take. That has not been the view of the Home Office in relation

to this Bill. They believe this is an entirely non-devolved set of decisions. We have not taken that view. So, we have informed the Home Office that we will be bringing an LCM to the floor of the Assembly, although on the substantive issue, I think we conclude that it does make sense to allow the legislation to proceed as proposed, but that's an argument that will have to be made on the floor of the Assembly to see if others agree.

[493] **Simon Thomas:** So, it would be fair to conclude that though you agree that this is a Westminster matter for legislation, because we are having devolution of certain tax powers and because we have a wider tax avoidance rule proposed in this Bill, we have an interest in these matters.

[494] **Mark Drakeford:** We have a legitimate, devolved interest in it, which means we think the Assembly ought to have that decision put to them. Gareth, do you—?

[495] **Mr McMahon:** Yes, if I can just give perhaps little bit more context—. The Criminal Finances Bill that you're referring to, that will make it an offence for advisers, so lawyers, accountants et cetera, to facilitate tax evasion—so, importantly, not tax avoidance—and where that happens then there'll be prosecution and the company in question will be liable to a fine. The UK Government have drafted that offence so it applies to any tax around the UK, so it would in theory include the Scottish devolved taxes. I think the view that we took when we looked at that and when we were initially told about it by the UK Government was that, whilst criminal enforcement in relation to devolved taxes is devolved, it's something this Assembly can make provision in relation to, this is something that, to a certain extent, it makes sense to be dealt with across the UK. It makes sense for there to be a single offence so that all corporations are familiar with what's expected of them.

[496] **Simon Thomas:** Diolch am hynny. Mae'n bwysig bod y pwyllgor yn deall y cyd-destun wrth fynd ymlaen. A gaf i droi at y Bil ei hunan nawr yn fwy manwl a jest gofyn, yn gyntaf oll—un o'r pethau amlwg a ddaeth drwy'r dystiolaeth oedd bod y rhai sy'n ymarfer a'r proffesiwn yn y maes yma yn hynod awyddus i weld canllawiau drafft, eu bod nhw'n cael

Simon Thomas: Thank you for that. It's important that the committee understands the context going forward. If I could turn to the Bill itself now in more detail and just ask, first of all—one of the clear things that came through the evidence was that practitioners and professionals in this field are keen to see draft guidance, that they're consulted on

eu hymgynggori ar y canllawiau drafft yna, a bod yna broses o ddeall y canllawiau wrth inni drafod y dreth trafodiadau tir. Mae yna ohebiaeth wedi bod—rŷch chi wedi ateb pryderon y pwyllgor o'r blaen; diolch am hynny—ond beth yw'r sefyllfa ddiweddaraf ynglŷn â pharatoi canllawiau o'r fath?

that draft guidance and that there's a process of understanding the guidance as we discuss the LTT. There's been correspondence and you have answered the committee's concerns previously—thank you for that—but what is the latest position regarding preparation of such guidance?

[497] **Mark Drakeford:** Diolch am y cwestiwn a diolch am y llythyr a'r cyfle i ymateb yn gyffredinol yn y maes yma.

Mark Drakeford: Thank you for the question and for the letter and the opportunity to respond in general terms on this area.

[498] We entirely agree that guidance will be very important in making sure that stakeholders and those who operate in this field will be properly informed about the way that the new legislation will operate and that there's transitional guidance available as well, which we will prepare jointly between HMRC and the Welsh Revenue Authority as the old system moves into the new one. In the letter that the Chair sent to me, there were three particular areas that had been highlighted where guidance will be important. In my reply, I said—and this is the latest position still—that our general ambition to craft a Bill where there was continuity between the old system and the new system means that there will be some areas where extant guidance will still be a very good guide to the way that the system will operate.

[499] **Simon Thomas:** But we will need to tell people that explicitly.

[500] **Mark Drakeford:** We will indeed. Part of my answer in the letter was to identify that, of the three areas that we'll raise, two of them are areas where the extant guidance will be reliable, albeit that there are things, even in the extant guidance, that can be improved and that we would want to do better. So, of those areas, 'Linked transactions' in section 8 and 'Meaning of residential property' in sections 71 and 72, the Bill very closely reflects the provisions in stamp duty land tax and in the Scottish law and we think extant guidance will be the starting point for the Welsh Revenue Authority. It is important just to begin in this general way by emphasising that the Act—the Tax Collection and Management (Wales) Act 2016—is clear that it is the WRA's responsibility to provide guidance, not the Welsh Government's responsibility.

13:45

[501] In relation to the third aspect raised in the letter—reliefs and anti-avoidance measures in section 31 of the Bill—the position is a bit more complex there, and our approach remains, as I said in the letter, that based on that that’s adopted in the number of targeted anti-avoidance rules developed under SDLT, we will take the guidance that is relevant there, but we recognise the need for additional practical guidance on this aspect of the Bill. Pages 81 and 82 of the explanatory note provide additional information on the terminology used in this aspect of the Bill, including an explanation of how the anti-avoidance rule is intended to apply in practice. The general commitment that I can make is that we remain convinced of the need for guidance to be developed by the WRA for it to be available in a timely fashion for practitioners, and I believe that it is an important opportunity for the WRA to cement its relationship with stakeholders so that that guidance is developed in conjunction with them and provides the level of practical guidance that practitioners themselves will be saying they require for the new law.

[502] **Simon Thomas:** A ydych chi’n dweud, felly, taw yr awdurdod cyllid fydd yn gyfrifol, nid yn unig am ddatblygu’r canllawiau ond hefyd nhw fydd yn gyfrifol am y dull o ddatblygu’r canllawiau? Hynny yw, y ffordd maen nhw’n ymwneud ag ymarferwyr yn y maes, y ffordd maen nhw’n delio â rhanddeiliaid, a’r ffordd maen nhw’n ymgynghori ac ati. Nid ydych chi, fel Llywodraeth, yn bwriadu gwneud dim o hynny nes i’r awdurdod ddod i’w llawn dwf, fel petai.

Simon Thomas: Are you saying, therefore, that it is the WRA that will be responsible, not only for developing the guidance but also that they will be responsible for the approach to the development of the guidance? That is, the way that they involve practitioners and deal with stakeholders and how they consult. As a Government, you’re not intending to do any of that until the WRA comes into full force.

[503] **Mark Drakeford:** Chair, I don’t think it is quite as binary as that in the sense that we, as a Government, already have a network of advisory mechanisms that we have drawn on in the development of the Bill, a tax advisory group, a tax forum, a technical experts group. So, we get advice through all of those ways about the need for additional guidance in relation to the Bill, which we then will use to shape the work that the WRA will do.

They are the executive. They are the doing end of this. That doesn't mean that we don't have a view about where guidance will be needed and how that guidance should be developed. So, we will use the networks of advice that we have to form our view of that, which we will then use to shape the work that the WRA will carry out.

[504] **Simon Thomas:** You've already acknowledged in your letter, and in the evidence now, that the one area where there's quite a new development here is around the anti-avoidance and the reliefs, and this could be distinctly Welsh. You've introduced, since the Bill was published, the second residential property decision as well. So, there are some additional and distinctly Welsh provisions there. I'm just trying to understand, really, if the Bill is to go to the next stages and for the Assembly to do that, whether there'll be ongoing work that the Assembly or wider stakeholders will be able to see and examine as we take the Bill through the next stages.

[505] **Mark Drakeford:** Well, there certainly will be work ongoing; and, for example, we will agree with the WRA that a user group will be established as a sort of successor to some of the groups that we've had to make sure that it will have, as part of its job, to test the guidance prior to the land transaction tax going live. How much of that work will emerge at the different stages that the Assembly will be considering the Bill, I think I'm less able to be definitive about that. But the work will certainly be going on as the Bill proceeds through the National Assembly. We've got to be right about the proprieties of all of this. There isn't a Bill to advise on until the National Assembly agrees there is a Bill, but, on the other hand, you don't want to lose the opportunity to carry on thinking and working on some of these important areas as the Bill proceeds.

[506] **Simon Thomas:** Okay. Nick Ramsay.

[507] **Nick Ramsay:** Thank you, Chair. Cabinet Secretary, the Welsh Government's intended approach to implementing higher rates on additional properties is what I'd like to ask you about. Can you give us the rationale for what you're thinking in terms of additional properties and how you're going to approach it?

[508] **Mark Drakeford:** Thank you for the question. I think it's important just to be clear, as a starting point, that this already exists in Wales; this is happening already, this is not something that the Bill intends to introduce as a new or novel feature of the way that the law will operate in Wales. This is

now part of the SDLT landscape. So, going back to the questions that the Chair asked me about the fiscal framework and revenue forgone, if we were not to proceed with this in Wales, the Treasury would proceed on the basis that, had their way of doing things continued, they would've had a flow of revenue from Wales and they will take that off the block grant. So, the first imperative for me is to make sure that I don't act inadvertently in a way that would lead to a significant loss of revenue for Welsh public services.

[509] So, the way I intend to approach it, Nick, is consistent with the way that we've constructed the rest of the Bill, which is to try and make sure that, on the day that this Bill comes into effect, the system in Wales closely reflects the system that is already in existence. A higher rate on additional properties will already be part of that landscape. We're lucky that we are going second on it, in the sense that we can learn from the way that Scotland and the Treasury have approached all of this. They've already had to introduce some additional reliefs to the way that they first envisaged it. I will replicate all of those in Wales in the amendment that I will hope to bring in front of this committee at Stage 2. The way we will go about it will be to have a reserve regulation-making power, so, if there are further changes between now and when the Bill becomes law in Wales, we will be able to continue to bring our system into line with the system across our border, if we chose to do so, but we'll also be able to go on having discussions with some of the organisations that have provided written and probably oral evidence as well to the committee about ways we might want to calibrate this for Wales.

[510] If I can just take one moment just to emphasise the first point that I started with, however: the loss of revenue to Wales if we don't move in this direction. In Scotland, the Scottish Fiscal Commission forecast that the additional higher rate in Scotland would raise £23 million in the whole of this financial year. By the end of September, it had already raised £46.1 million. So, actually, the tax take in this area is turning out—and that's true on the England and Wales basis as well: £625 million forecast for the whole of the year, £670 million collected by the end of September. So, the tax take is turning out to be significantly higher than forecast and therefore the loss to Wales, if we decided not to proceed in the same direction, would be even larger than originally anticipated. That's not a risk I'm willing to run.

[511] **Simon Thomas:** Have you estimated that risk, however, taking into account that some of the tax might be repayable or, you know, doesn't actually arrive at the Treasury in the fullness of time, as it were? What's the estimate for Wales?

[512] **Mark Drakeford:** Well, there is an estimate that the Office for Budget Responsibility produced, but it's prior to the actual experience.

[513] **Simon Thomas:** Prior to the experience, okay.

[514] **Mark Drakeford:** Ten million pounds to £14 million a year, I believe, is what the OBR predicted.

[515] **Mr Hewitt:** Indeed, but, based on the figures, the Scottish experience and the current HMRC experience, we're anticipating the amounts would be larger. I do recognise, obviously, as well that there will be some repayments, but the types of event that lead to repayment are largely where someone is replacing their main residence, and so you have a—

[516] **Simon Thomas:** There's a period of time.

[517] **Mr Hewitt:** There's a period of time. Most people, I think it's fair to say, manage to marry the two together. So, it's at the moment difficult to say, and that again—as the Cabinet Secretary says, going second sometimes has its advantages. So, when we are setting our rates next year, we'll actually have a far better understanding of what the first year's worth of higher rates—HMRC higher rates—have produced.

[518] **Nick Ramsay:** So, you're going to learn from the experience of the other parts of the UK.

[519] **Mark Drakeford:** Well, I think we already have in the sense of looking at the levels of take in this tax just in the first six months. It's been so different to what was anticipated. On the period-of-time issue and the repayments, I'm intending at the moment to allow a 36-month period, in line with stamp duty land tax, rather than 18 months, as is allowed in the Scottish legislation, to try and avoid money being taken and handed back when we couldn't conclude arrangements within the time allowed.

[520] **Nick Ramsay:** So, when the Residential Landlords Association say—well, they request—that Welsh Government doesn't apply a surcharge on additional properties, are they barking up the wrong tree? Because, as you say, these sorts of changes—if you didn't go ahead with this, then we'd be worse off through the Barnett block grant.

[521] **Mark Drakeford:** Well, certainly we would be worse off. Any reliefs that we provide in tax that we don't collect, that will be money that we would have to find, because the Treasury will take it away from us.

[522] What I think the Residential Landlords Association are doing is they are making a particular pitch for an exemption or a relief. It's one of a lengthy list of potential reliefs that could be provided. We did carry out a technical consultation over the summer, Chair, as you know; there were 100 responses, so there are many voices who are saying, 'Well, you shouldn't charge this in those circumstances', 'You shouldn't charge it where parents are buying a property for a child', 'You shouldn't charge this when a house isn't available for occupation all year round', 'You shouldn't charge this' and so the list goes on. What I was trying to suggest earlier was that, in the initial stages, reliefs that have been agreed elsewhere will be reflected in the amendment that I put before the committee. We then have some time. We're lucky. In this case, we have that little luxury of time to reflect on those cases in a bit more detail, to see whether they are accepted elsewhere, and, if we choose to do so, to come in front of the Assembly and propose additional mitigation measures.

[523] **Nick Ramsay:** Okay. My last question: in terms of the definitions in the Bill, could the term 'residential' be clearer for conveyancers and taxpayers?

[524] **Mark Drakeford:** Well, Chair, I've seen the evidence that the committee's heard on that. The counter argument to it is that the weight of opinion in the consultation carried out prior to the Bill, although it pointed to some problems with the definition of residential property in the SDLT legislation, still came down in favour of continuity and consistency. They'd rather have the problem they know than inventing a different definition and providing a different sort of problem. Now, HMRC, we understand, are carrying out work on this definitional issue at the moment. So, it's a problem that is being attended to. So, it depends which issue you think has primacy. In the end, my view has been that continuity and consistency override the case that is there to be made—and I'm agreeing that there is a case there to be made—for trying to refine the definition of residential terms in this Bill. But we will watch the HMRC work to see whether there's anything that we would be able to take from that.

[525] **Mr Hewitt:** I also think it's not just about the wording in the legislation; it's actually about the guidance as well. I think that the people who've been before you have made criticisms—maybe not at the Finance

Committee here, itself, but at other events—about the guidance that currently exists in HMRC for the definition of ‘residential property’. And again, going back to the Cabinet Secretary’s point, whilst it is the WRA’s responsibility, clearly there are some areas that have been flagged up as needing—not only the areas that the Finance Committee has flagged up, but clearly if the guidance related to residential properties is inadequate in some way then, hopefully, the WRA will be in a position to correct that in good time for going live in 2018.

14:00

[526] **Simon Thomas:** But doesn’t this have implications for the earlier discussion around the 3 per cent as well, because of some of the issues that you’ve mentioned, Cabinet Secretary, around, if you can’t live in it all year, is it a residential property, even? Is there a way of trying to avoid some of these difficulties by having a better definition of ‘residential property’?

[527] **Mr Hewitt:** Potentially, but I think the case still isn’t strong enough to change it. Certainly, a restricted-use property is a dwelling, that is recognised and accepted widely, and therefore it is caught within it. The areas where, I think, the definition struggles most is with the definition of where a garden changes into being something else. I think it’s around that.

[528] **Simon Thomas:** Yes, so mixed-use rural properties and places like that.

[529] **Mr Hewitt:** Well, whether it becomes mixed use, whether acres and acres of grouse land, if you’re living in Scotland, whether that is part of the land that subsists for the enjoyment of the property or not is a wider topic, and I think that’s where the guidance is needed, rather than necessarily seeking to change the legislation and be more restrictive. There are arguments that have been presented that the definition of ‘residential property’ should match the capital gains definition, but I think most people would probably not think that was the right place to end up.

[530] **Simon Thomas:** Some disagree, as you can see, but I think we’ll have to come back to that and reflect on that in our report in due time. Mike Hedges.

[531] **Mike Hedges:** When you talk about two different types of transactions, one is of a property that straddles the border, and the number that exist has

increased dramatically since we've started this investigation. It's gone from a handful up to possibly 1,000, so it isn't an unimportant issue. And also linked transactions, where one property in England, or more than one property in England, and one or more properties in Wales are sold, and the values are apportioned. Now, if the land transaction tax and the SDLT are exactly the same, that would help, and it would not be in anybody's interests to do anything apart from have them dealt with on real value. Once they become different, there may well be a benefit to doing it, to use your valuations to reduce taxation. The two questions I've got are: one is that, on transactions where a property straddles the border, is there any way that it can be treated as a single transaction, and then you get the Welsh tax bit for the Welsh transaction, and the English tax bit for the English transaction? The other one is: how do we ensure that we get treated fairly when properties in England and Wales are sold jointly?

[532] **Mark Drakeford:** Chair, I'll have a go at at least the first of those two questions, and then see if there are any views that can be shared on the second. So, Mike is absolutely right to make a distinction between cross-title properties, properties that straddle the border, and cross-border transactions, where there can be properties in Cardiff and in Bristol both being sold as part of a single deal. They are cross-border transactions, but they are not cross-title transactions. So, I think your first question, Mike, was mostly about cross-title transactions.

[533] **Mike Hedges:** Yes, it was.

[534] **Mark Drakeford:** And, if I've understood it rightly, you are picking up the point that, if there are two separate transactions, then there are two separate treatments for tax, and this can be distorting the amount of tax that would be otherwise paid. Well, Chair, I suppose I've got to start by saying what I think I said the first time I appeared before the committee on this, that we are, to an extent, bound by the rules set out in the 2014 Wales Act. It tells us how we are to approach this issue and that there is to be a just and reasonable apportionment of taxation, depending on how much of a property belongs either side of the line. So, our hands are not entirely free in it.

[535] However, I recognise the point that Mike has made. I've asked my officials to see whether there is a proportionate solution to the issue, and some discussions have happened with HMRC as well to see whether they can find a way in which—. If this were a single transaction, in the way that Mike has suggested, that might be a way of trying to make sure that there is a

more level playing field. I can't at the moment be confident that there is a solution that is proportionate to the number of times that this would be a real issue. I'm definitely interested in reading what the committee concludes on this point and whether there are some practical answers to the problem that you will have come across in taking evidence, and so on, that we will be able to learn from.

[536] So, I'm alert to the issue. I recognise that it is a genuine issue. We have some work going on ourselves and involving HMRC to see if there is a way that it can be resolved, and I'm keen to go on thinking it through with the committee's assistance.

[537] On the second issue, I'll just see if anybody wants to pick it up for me first. Go on, then, Andrew.

[538] **Mr Hewitt:** Cross-border, I think, is a slightly more complicated issue and raises wider issues about what we would want to capture within that. Because at the moment, obviously, as you point out, properties in England and properties in Wales would be treated as part of a single transaction. And then, following 2018, we'd need to split that into two transactions—one that would be taxed in Wales and one that would be taxed in England. So, a shop in Bristol would be taxed solely as a shop in Bristol, and a shop in Cardiff would be taxed solely as a shop in Cardiff, each to separate tax authorities. There may, as a result of that, be less tax paid, because, obviously, for exactly just the same reasons with cross-title, you'd have a 0 per cent band that would apply in Bristol and a 0 per cent band that would apply in Cardiff.

[539] The difficulty comes, though, as to where you would stop, as the WRA, saying that those properties are all part of the same transaction. So, if you extend your scenario so that there's a shop in Bristol, a shop in Cardiff, a shop in Scotland, a shop in Belfast and a shop in Dublin all sold as a single transaction, would we include all of those? Would we include only the ones in England? Would we include the ones in Dublin? It's just part of the journey, I think, to devolution and to the WRA having responsibility for taxation of Welsh land.

[540] **Mike Hedges:** Can I give you a practical example of something that actually happened? During the airport sale, when the Spanish company bought Cardiff Airport, they bought six other airports in England at the same time. And that would have had a value. So, these linked transactions—. If I call them linked transactions, I know what I mean—so, I mean transactions

that are dealt with at the same time and are linked, but they actually fall into different jurisdictions. Now, there will also be people who will sell shopping centres, and they may divest themselves of three or four major shopping centres. In fact, Morfa Shopping Park in Swansea was one of three or four that were sold off by the people who owned it at the same time as the other two or three, which were in England. So, this is not an abnormal situation, and I think it's one that perhaps—. I haven't got an answer, but I think it's a question worth raising and discussing.

[541] **Mark Drakeford:** Chair, I'm not sure we have anything—. You know, I think it's a genuinely interesting point, and I think those examples are very illuminating in identifying the problem for us to think about. And I'm very happy that we will take that away and give it some thought, and if there's any observations that we can usefully provide to you during this part of the committee's scrutiny, then I'll write and set out—.

[542] **Simon Thomas:** Thank you for that, Cabinet Secretary. Just to follow up on Mike's points, just a couple of things and whether you've had an opportunity to consider them. Firstly, on the first point where you have cross-title, we've had a lot of evidence since the Bill was published from the Land Registry, which shows that, in many cases, we are talking of very narrow margins and potentially just a yard of a garden is in England or Wales or whatever. 'Just and reasonable', as I think the wording is—does that allow for de minimis? That's the first question that I would ask.

[543] **Mr McMahon:** 'Just and reasonable' is a concept and it's a test that's used in various pieces of tax legislation. It's something that practitioners will be familiar with. As to whether there's a de minimis test as such, no I don't think there would be. It would go on, if there's a very small plot of land in Wales, as you suggest, and huge amounts in England then it would be apportioned accordingly, because that would be just and reasonable, but, of course, it turns on the facts of every particular transaction, doesn't it? There could be some cases where it wouldn't be taxed in the same way, purely on the amount of land falling in Wales or the amount of land falling in England. The point is, I think, it turns on the facts of every case.

[544] **Mark Drakeford:** I've seen the Land Registry evidence and looked at some of those maps that show those tiny slivers of land that may be on one side of the border or the other. Given that a taxpayer would have to provide two different sets of information too, then you would expect that the WRA and HMRC would come to some sort of working rule about that that would

prevent people from having to carry out really nugatory work.

[545] **Simon Thomas:** It's also about futureproofing legislation, because, at the moment, there may not be a reporting need even, but of course we may decide in Wales to have a reporting need sometime in the future, so there might be then.

[546] **Mike Hedges:** Wouldn't it also matter if that land—a small portion of land about the size of this room, for example—because of de minimis, and if it happened to be at the bottom of somebody's garden and if it happened to be in the local development plan as part of a housing development, in Nick's constituency, for example, may well, all of a sudden, be worth a substantial sum of money?

[547] **Mr Hewitt:** I think that's the point that Gareth was making—that every case depends on the facts. So, in that fact scenario, then, yes, that plot of land would be worth more.

[548] **Mr McMahon:** It's worth bearing in mind as well that, by apportioning the property into two, if you like, in those cases, the Welsh transaction, as would happen with the English transaction, would be subject to the particular rules. That includes whether that is exempt if it falls below £40,000, or whether, depending on the thresholds of tax, of course, whether it would be liable to tax at all. So, whilst there's not a de minimis rule built into it there may actually end up being one because of the tax rates.

[549] **Simon Thomas:** The second element on the actual cross-border, and perhaps looking more at the higher rate and large transactions, is there not a requirement at the moment to take into account properties owned elsewhere—widely owned in the world or whatever, thinking more of the London market at the moment. So, doesn't that give us a kind of way of working when this situation arises where somebody's got a portfolio of England and Wales and are trying to divest it in a way that potentially would avoid Welsh tax, for example? Yes, it would be avoiding Welsh tax, yes, I'm sure it would—or reducing it, at least.

[550] **Mr Hewitt:** Sorry, are you talking about the residential or the commercial—

[551] **Simon Thomas:** I'm talking in principle for both really, because I think what Mr Hedges was asking was that these are one transaction and, by

organising it in a certain way, you're reducing your tax liability. Now, that makes perfect sense for the taxpayer, but it's not so good for the Welsh Government who's trying to recover what would have been an England-and-Wales tax system and is now apportioned just to Wales.

[552] **Mr Hewitt:** The Bill allows us to tax Welsh land. Using linked transactions into other people's land seems to be a slightly difficult place. It's something, as the Cabinet Secretary said, that we can explore to see whether that's possible, but obviously we need to make sure that we remain in competence, and our competence is to tax land in Wales.

[553] **Simon Thomas:** So, that could be another area where the Wales Bill is actually tying your hands—even though it's not land in Wales, but it's linked to the transaction in Wales. That's the difficulty.

[554] **Mr McMahon:** The Assembly's competence allows the Assembly to impose a tax on land transactions in Wales. It would be—

[555] **Simon Thomas:** What I'm asking, I suppose, is: does it allow us to take into consideration that the land transaction in Wales is associated with other land transactions?

[556] **Mr McMahon:** One example of that is in relation to the higher rate. I'm not sure if that's what you're referring to, but the UK Government's higher rate scheme allows you to take into account whether that person has a second home anywhere in the world. Now, yes, in theory, you could do that in Wales and that's one of the things that we will need to look at—whether there could be a different rate, for example, for someone who's buying a property and that property straddles the border. That's one of the things we're looking at. It's a bit like a linked transaction, I suppose you could say, or it could be a slightly different rate for those transactions. There are a number of different ways you could work it, really, and it's just a case of making sure, at every point, that we are only taxing land in Wales. That's a key thing, I think.

14:15

[557] **Simon Thomas:** Okay. Steffan Lewis.

[558] **Steffan Lewis:** Sorry to continue this cross-border, as I do think we've spent a disproportionate amount of time looking at it, although I take that

it's an issue that needs to be done properly. I asked in the previous evidence session about the lessons you could take from other countries that share a land border with another. One obvious example is Ireland—the Irish state. There's been an agreement between the Irish state and the United Kingdom since 1922. It was consolidated in the Stamp Duties Consolidation Act of the Oireachtas in 1999. That states that if a property spans two jurisdictions, separate deeds of transfer may be drawn up in order that registration of title could be recorded in two jurisdictions, but that is up to the individual to declare whether there are any interests to both the Revenue in Ireland and in the UK. The bilateral agreement that's in place: an instrument that is liable to duty in both Ireland and the UK, which has been stamped in one of the two countries, is deemed to be stamped in the other country to the extent of the duties so stamped upon the instrument. If the liability to duty is higher in one country, then the excess must be paid. That system's been in existence since 1922 and it's very difficult to find any problems that have arisen from that arrangement. I haven't been able to find any problems in terms of transactions of that nature along that border. So, is that something you would consider?

[559] **Mark Drakeford:** Yes. Well, it was a useful suggestion at the last committee and, as a result, my officials have been in contact with the Irish authorities to explore with them how that system is working. There's more work to be done in concluding those discussions. As a result of the last committee we've been alert to the way things are happening there, and if there are lessons that we can apply to the way we do this in Wales, we're keen to do that. As ever, in some of this, it's important to speak to people who are familiar with the detail of the way that it works and to make sure that, if there are lessons that we learn, they are genuinely applicable in the wider context that we will be operating within. But we're keen to do that, and that's already started.

[560] **Steffan Lewis:** Thank you.

[561] **Simon Thomas:** We'll return to the Wales proper now, and Eluned Morgan.

[562] **Eluned Morgan:** Yes. First of all, can I apologise? I was a little late in arriving; I had a previous engagement. I wanted to ask you about reliefs. A lot of the witnesses we've had before us are a bit concerned about clarity and the guidelines, which are problematic even in England. Many of them suggested that it may be an idea to have some kind of statement of purpose

in terms of reliefs on the Bill. Is that something you've considered?

[563] **Mark Drakeford:** It's not a course of action that I'm attracted to, Chair, in exactly those terms. I think there is a lot of information available already that I think anybody wishing to better understand the policy intention behind any relief will be able to go to to establish the policy intent. We already publish an explanatory memorandum; we publish a statement of policy intent; we publish explanatory notes; and then there is the text of the relevant Schedule itself. So, if you went, for example, to Schedule 17, which deals with relief for charitable purposes, I don't think you'd be left in any doubt, reading through it, what the policy intent behind that relief would be.

[564] So, I'm not completely persuaded that there is a gap here that needs to be filled because I think the information is largely available already. I think it's important to remember that the majority of reliefs in the Bill are very infrequently used. So, an awful lot of time could be taken up in devising paragraphs that would be purpose-less, in the sense that, in the practical world, they don't get taken up in any case. I do think that there is a distinction to be drawn if there is a case for setting out greater details of policy intent as to where you would put them, and I definitely would not be in favour of putting them on the face of the Bill, where they'd become sort of rigid—every time the policy intent was modified, you'd have to go back and revise primary legislation. So, if there is a case, then I think it would be to put it into the explanatory notes.

[565] If the committee has got particular examples, rather than any general proposition, of where the policy intent behind the relief is authentically unclear and could be clarified by further information in the explanatory notes, then I'm obviously open to what the committee would say on that. But a general omnibus approach in which we devise lots of new paragraphs and put them on the face of the Bill I don't think would be necessary, proportionate or practical, either, for addressing the issue.

[566] **Eluned Morgan:** I think, certainly, putting it on the face of the Bill would probably be a mistake, I must say, but I wondered if you could explain why reliefs for property authorised funds and authorised contractual schemes are not included in the Bill.

[567] **Mr Hewitt:** The relief for property authorised investment funds and co-ownership authorised contractual schemes came in in the Finance Act 2016, so when we were preparing the Bill it hadn't actually received Royal Assent

yet, and we wanted to move from a position of certainty. It now has received Royal Assent, so it's a matter that we can consider. Again, it's one of these areas, though, where we actually have an advantage, I think. The law in the UK has now been in force since September 2016, so we'll be able to use that, if the Cabinet Secretary receives a strong argument for it to be provided, because obviously, at the moment, nobody's actually approached Wales. We understand that Scotland has been lobbied to match this relief in Scotland, and if that case is made and that case is strong, then the Cabinet Secretary will consider it.

[568] There are two elements to it. There was a relief element, which I think stretched for about 20 pages, and there are also rules in order to say how CoACSs should be taxed, because at the moment they're taxed where everybody with an interest in the property and the CoACS is taxed as a joint purchase, whereas the UK rules have introduced the concept of treating it like a single company, so, rules not dissimilar to the unit trust rules that are already in our rules. CoACSs are, by and large, European investment vehicles. They don't have trust law, so these contractual schemes exist instead.

[569] **Mark Drakeford:** So, Chair, the issue is essentially one of timing. It's not in this Bill because circumstances had not moved so far in this direction that that allowed us to put it in the Bill at this point. If the committee come to the conclusion that the state of evidence is sufficiently mature that the case for bringing forward a Stage 2 amendment to include a relief for these purposes is the right thing to do, I would look very carefully at that. If your conclusion were to be that this is something that we ought to keep a close watch on, and move on it using the powers we will have when the time is right, then I think that's the balance of the debate at the moment. Are we sufficiently certain that we would want to do this to move it at Stage 2, or should we allow the system to mature a bit further and then make a decision as to whether or not it would be a useful part of the Welsh statute?

[570] **Eluned Morgan:** So, just to understand the timing, then, I think you're right: if this came in in September, it's had no time at all to bed in, so we can't test it at all. So, this is a draft Bill, so we'll get the Bill proper when?

[571] **Simon Thomas:** No, this is the Bill.

[572] **Mark Drakeford:** This is the Bill.

[573] **Eluned Morgan:** Oh, this is the Bill. Bloody hell. Sorry.

[574] **Simon Thomas:** But we're only discussing the general principles, we're not discussing the detail.

[575] **Eluned Morgan:** No. Okay. So, just in terms of timing, how much time—? When is the latest that we'll be able to put an amendment to the Bill, or you will be able to put an amendment to the Bill, to give it time to bed in?

[576] **Mark Drakeford:** Well, there'll be two further amendment stages, Chair. There'll be the Committee Stage, which will happen after Christmas, and there'll be a Stage 3 where amendments can still be moved on the floor of the Assembly itself. So, we've got months rather than weeks, but it is a limited number of months.

[577] It seems to me that you don't put reliefs into the system unless you are confident of a number of factors: first of all, that there is an evidence base for the relief; secondly, that you have a policy purpose that is aligned with the relief; and thirdly, that if the relief is granted, that the relief will reach the people that you intended to reach. So, you'd have to be confident of all those three things and confident that we know enough about them now to move an amendment. As Andrew said, there's been a lot of pressure in Scotland for them to move in this direction already, but that's the place we are at in the debate at the moment.

[578] **Mr McMahon:** It's also worth keeping in mind that the Welsh Ministers will have a power in the Bill—I think it's section 30—to introduce new reliefs.

[579] **Simon Thomas:** There's a process.

[580] **Mr McMahon:** Exactly.

[581] **Mark Drakeford:** So it can be done later on.

[582] **Simon Thomas:** Before you move on, if I may just ask specifically, because I think it's fair to say that the evidence we've had was alerting us to the fact that these reliefs were not in this Bill and were likely to be in UK legislation, but I don't think we've had evidence, as such, that says what difference they would make, if you like, in the Welsh context. On the other hand, the evidence we have had is that these are investment vehicles, so there is an economic question as to whether—you know, what is Wales looking for in terms of a tax structure that encourages people to invest in

property? I understand that's what, in effect, these vehicles are. Is that something you've given any—? I understand it's not coming in until September, but are you looking at that, perhaps with your colleague for the economy and infrastructure?

[583] **Mark Drakeford:** Well, Chair, you're absolutely right. When I said you have to have a proper policy purpose for a relief, then that's what we have looked at: why is this relief being given and would it be useful in the Welsh context? The evidence that has come in so far, as part of the original consultation and since the Bill, is there's been much—as you just reflected it—wanting to make sure that we are alert to the fact that this is happening, but nobody's really going to the next stage and saying, 'And wouldn't it be useful if we had this available in Wales?' I remain genuinely open-minded on it and if that case is there to be made and it would be useful, then, of course, we'd explore it in that way. But nobody yet has come to the Welsh Government and wanted to say, 'You should have this in the Bill.' They want to make sure we know about it and that we're thinking about it—and we are. I'm keen, as I say, to know whether the committee comes to a view as to whether the time is yet ripe to move on it or whether a watching brief while evidence matures is still our best course of action.

[584] **Eluned Morgan:** Can I ask you about conveyancers? Have you given any consideration to including provision in the Bill to allow conveyancers to submit different forms of evidence to the Land Registry for transaction purposes, which is allowed under SDLT?

[585] **Mark Drakeford:** Thank you, Chair. So, the question derives, I'm sure, from the fact that the Bill provides that the Land Registry cannot update the land register following a transaction liable to tax unless it has received a certificate issued by the WRA. We intend to maintain that position. The question then is: what is the nature of the certificates? The form of the certificate will be prescribed by the Welsh Ministers in regulations made under subsection 5 of the section that sets up the requirement to have a certificate. I think it is entirely conceivable that those regulations could prescribe that a receipt, for example, issued by the WRA confirming receipt of a return could be treated as a certificate. So, while we are clear that a certification system is required, we are not going to be rigid about needing it printed on vellum or any of the old-fashioned ways.

[586] **Simon Thomas:** The goats of Wales will be very encouraged by that.

[587] **Mark Drakeford:** They will be safe from this. When we come to doing it, we will be alert to the fact that there are new and smarter ways that you can demonstrate certification and we'll want to take advantage of that.

[588] **Eluned Morgan:** Okay.

[589] **Simon Thomas:** Mark Reckless.

[590] **Mark Reckless:** Cabinet Secretary, you wrote to the Chair in a letter dated yesterday, setting out some responses on various technical and complex aspects of the Bill, including ones that have been raised by stakeholders, with a view to being helpful to the committee. I just wonder, might it have more helpful if we had had this letter and detailed explanations with rather more notice?

14:30

[591] **Mark Drakeford:** Well, I'm sure it could be argued. What I was keen on was to make sure that we were following the evidence that the committee has received, being attentive to the points that are raised with you, and then to make sure that, before I appeared in front of the committee, we were able to give you some observations on some of those more technical matters. I'm not going to argue that, if we'd been able to do it earlier, you might have had longer to read it, but the key thing for me was to at least get it to you before I was here, and we succeeded in doing that.

[592] **Mark Reckless:** I haven't been able to be as attentive to your evidence so far as I would have liked, because I only received this letter as you entered the room, and to question you on the TAAR and the GAAR and a number of the tests—it's a pretty complex technical area. On the particular issues of the non-devolved taxes and having the TAAR applied to those, but then the GAAR does not apply to non-devolved taxes, you've given explanations in this letter, in paragraphs 4 to 9, and on my reading now, I find them broadly satisfactory, but I would have found it very helpful to have been able to run through them with our specialist adviser. I don't think there's much point asking you now to put in your own words or repeat what's here, but perhaps I could propose, maybe, that the committee might write to you, once we've been able to discuss these in more detail with our specialist adviser. Is that a—?

[593] **Mark Drakeford:** Can I say that I'm absolutely open to that,

recognising that there is complex stuff here, and that you'll want to get a view on it? If there are further questions then that arise from it that I could help to answer, I'm very, very happy to do it in that way.

[594] **Mark Reckless:** Thank you. On the Bill, and the reference in the Bill to the artificial avoidance arrangements—whether an arrangement has ‘any genuine economic or commercial substance’—is it your intention as the Minister responsible that that phrase equates to ‘lacking genuine economic or commercial substance’, which we’ve seen elsewhere—. Are you intending to change the height of that hurdle, or are you intending it to be the same, with the different phrasing?

[595] **Mark Drakeford:** I think the phrase does change the height of the hurdle, and does so intentionally, Chair, because if the Bill had simply said that a transaction that could make a claim to any economic or commercial substance would be acceptable, then you could still then, I believe, have devised a set of arrangements that were in essence designed to avoid paying tax, but to have introduced a small element where there is a commercial or economic purpose, and that would get you through the door and the whole thing would be clear. So, the term ‘genuine’ is in there to try to make it clear that the economic or commercial purpose must be more than just a marginal device to try to put yourself in a position where tax that the National Assembly would otherwise have expected you to pay could be avoided.

[596] **Mark Reckless:** It's helpful to have that on the record, Cabinet Secretary. A similar point, perhaps, and I do find your letter and the annex helpful on this: the shift from ‘the main purpose’ to ‘the main purpose, or one of the main purposes’—is that, again, intended to change the height of the hurdle in such a way as to mean at least some arrangements will fall foul of that which wouldn't previously? For example, if you have something that has a main purpose and there's another very important purpose that's not quite the most important one, it could still be caught. Is that your intention as the Minister?

[597] **Mark Drakeford:** Gareth will clarify for us.

[598] **Mr McMahon:** I think it depends on what you're referring to when you say it's changing it from something else. If you're referring to the UK GAAR—

[599] **Mark Reckless:** Yes; no, that is helpful. I'd understood there hadn't been cases in court on the UK GAAR, but you have given some examples here

of where there has at least been stuff at tribunal—

[600] **Mr McMahon:** Sorry, if I can just clarify that point, there haven't been any cases on the UK GAAR. What there has been are cases going back to the 1980s, I think, on tax avoidance generally, and what we've looked at in designing our general anti-avoidance rule is how the courts have approached those cases. One thing that is consistent in the cases—I think you'll note from the annex to the letter—is that the courts are taking into account situations where one of the main purposes of an arrangement is to avoid tax. There are various cases that are referred to there, in that annex. So—

[601] **Mark Reckless:** Can I just clarify for the record, on paragraph 16, and then you've got footnote 5, am I correct in understanding you're saying these cases have been judged against the 'main or one of the main purposes' test, as opposed to the 'main purpose' test?

[602] **Mr McMahon:** Yes.

[603] **Mark Reckless:** That's helpful.

[604] **Mr McMahon:** They're drafted either as 'main purpose' tests or 'main object' tests. We see that as meaning the same thing; it's just different language being used, really.

[605] **Mr Hewitt:** If I can add to that as well, when you asked about whether it lowered the bar by going from the 'main or one of the main purpose' tests, as opposed to the 'main purpose' test, the UK GAAR itself in its test—albeit the abusive and double reasonable test—refers to the 'main purpose or one of the main purposes'. So, that test of it being not just a single main purpose, but one of the main purposes exists in the UK GAAR, it exists in the Scottish GAAR, and we've replicated here as well.

[606] **Mark Reckless:** Albeit that neither of those GAARs have yet gone to court for ruling, but I take what you said just now.

[607] Finally, on these sorts of issues, I think, on the 'genuine' versus 'bona fide', I understand from paragraph 27 that you prefer not to use Latin phrases unless needed—I welcome that. You then say,

[608] 'For the purposes of the GAAR, we do not consider that this is a case where "bona fide" conveys anything more than we need to through

“genuine”.’

[609] So, you state that expressly for the GAAR; does that also hold for when the word ‘genuine’ is used in TAARs in the legislation?

[610] **Mr McMahon:** Yes.

[611] **Mark Reckless:** Thank you.

[612] **Simon Thomas:** Steffan Lewis.

[613] **Steffan Lewis:** Diolch, Gadeirydd. There were some comments that arose during evidence relating to whether Welsh Government should implement a DOTAS for devolved taxes. Can you expand on how the GAAR would work without a DOTAS and also whether there would be formal arrangements with HMRC to share information with the WRA relating to UK DOTAS and other avoidance mechanisms?

[614] **Mark Drakeford:** Thank you, Chair. I think I may have said, the first time I was here, that, in the consultation, opinion was pretty evenly split as to whether or not a DOTAS would be useful for Wales. If we don’t have a DOTAS, then how would evidence be gathered that a GAAR would be able to draw on? I think there are probably four sources of evidence. One, there would be the tax return itself, which would be scrutinised by the WRA, and they will look to see whether it has characteristics that would alert you to there being an avoidance purpose. There would be liaison with the Land Registry to be able to compare data, so you would be able to see whether the information contained in the tax return was verified by other sources of data. There would be knowledge of local markets. Do the proposed arrangements, for example, reflect prevailing prices for land and so on in the area in which the transaction was due to take place? So, there are those three sources of evidence that the WRA will be able to look at that it can use in the absence of DOTAS.

[615] But the second question that Mr Lewis asked was about HMRC, and HMRC are currently establishing the necessary legal gateways and processes for information sharing to enable HMRC to share with the WRA all relevant compliance information, including DOTAS disclosures relevant to LTT. I think this was confirmed by the HMRC, Chair, in a letter to you on 7 October. So, I think we feel that, with that in place, a considerable slice of the relevant information will be available to the WRA, which, on the whole, I think, tends

to sort of push the argument back over the line of not needing a separate system of that sort for Wales. It would be disproportionate to the two devolved taxes that we will be operating in the first instance.

[616] **Mr McMahon:** If I could just add to that, the legal gateway that's been referred to in the HMRC letter is actually going through in the Wales Bill at the moment. There was an amendment tabled by the UK Government quite recently—and I think it's being debated in committee over the next week or two—that would enable HMRC, as we understand, to share this information with the Welsh Revenue Authority. That's quite a new development that we've been informed about just recently.

[617] **Simon Thomas:** So, basically, you will get to see, through HMRC, any of these kinds of schemes that might be used in Wales because, again, we're probably back to a cross-border issue here as well.

[618] **Mr McMahon:** Well, obviously, HMRC has their DOTAS regime. The hallmarks and the tests in which disclosure must be provided to HMRC are met in relation to SDLT. The point at the moment is that our legislation is so similar to SDLT that, actually, where there's avoidance activity over the border, there probably would be avoidance activity here. So, at the moment, that kind of operation does make sense, but of course, as our legislation evolves over time in the future there may be less relevance to that.

[619] **Simon Thomas:** Okay. Steffan.

[620] **Steffan Lewis:** Diolch. Thank you. A range of witnesses were eager to see a clearance mechanism or opinion process, as is provided by Revenue Scotland for the LTT. Can you talk us through the reasons for not implementing a clearance system or opinion panel?

[621] **Mark Drakeford:** Well, Chair—and I'll be corrected now if I get this wrong—but I don't believe that we have concluded that there won't be a clearance system or opinion panel. It will be for the WRA to decide whether or not to provide such a service. That's another question open for them to rehearse. There will be some circumstances where an analogous service will be provided—in relation to generally prevailing practice, for example. The Bill provides that, where a practice has been accepted, then the WRA cannot then change its mind retrospectively and say, 'Well, we were happy for that to happen in the past, but we decided that we're not happy to endorse it now'. There'll be an advisory service to allow people to explore what a generally

prevailing practice is for the purpose of this tax.

[622] I think, as well, it's not an easy distinction to get right, but I think there is a distinction between a service that allows someone to ask, in general, for advice about the way that the law applies, which I think a pre-clearance service or an opinion service may well want to do in Wales, and a service where I get to dream up a scheme designed to avoid tax, and then I send it into the WRA to say, 'Will this pass muster?' so that, in effect, the WRA becomes a sort of tax adviser, forever having to do more and more of the work that the adviser themselves ought to have done. In Scotland, Revenue Scotland would not provide an opinion of that sort. I managed to get hold of Revenue Scotland's paper on this, which sets out, for example, on its opinion service, that Revenue Scotland will not provide views on speculative transactions or answer 'what if' type questions; it will not provide tax planning advice or approve tax planning products or arrangements; and it will not provide an opinion on the treatment of transactions that, in Revenue Scotland's views, are for the purpose of avoiding tax. So, there is an opinion service in the Revenue Scotland case. The WRA will want to decide whether or not it wished to replicate the service of this sort, which, as I say, gives you general advice about the way that the system operates, but does not cross the line into giving a 'Yes, that will be okay' or 'No, if you fiddled it a bit around here, you'll get away with it' sort of advice. I think we'd need to make sure we preserved that distinction in anything we did in Wales as well.

14:45

[623] **Steffan Lewis:** Presumably, then, the WRA would be able to charge for that service, would it? Would that be at the discretion of the WRA as well?

[624] **Mark Drakeford:** I don't believe there's anything in the rules that would preclude the WRA from doing so, if it decided that that was the way to be able to sustain such a service.

[625] **Simon Thomas:** Just on the prevailing practice that you mentioned there, is it fair to assume that the WRA will take previous prevailing practice, or a practice accepted by HMRC as the starting point for this?

[626] **Mark Drakeford:** Well, of course, Chair, you're absolutely right to say that on the first day there will be no prevailing practice because the WRA will be new. In providing safe advice to people, that's why I said there will be a difference, I think, in the way that it provides advice there, because it will

have to take a judgment as to what was prevailing practice in the period prior to its coming into existence, and it will need to rely on the way the landscape is currently configured.

[627] **Mr Hewitt:** Could I just return to the earlier point about the Scotland opinions service and the HMRC non-statutory clearance service? Whilst the Minister's right in highlighting the different aspects that they won't provide advice on—the Cabinet Secretary I mean, sorry—the advice isn't necessarily just about general enquiries, and that's a slightly different provision of advice. For the opinions service, it needs to relate to a specific transaction that is had in mind, and certainly in HMRC world, often, and in Revenue Scotland, they expect to see contracts and various other documents they'll use in relation to specific transactions that a taxpayer has in mind. But where there is uncertainty as to how the legislation operates, excluding, obviously, the various factors and other factors that the Cabinet Secretary highlighted—

[628] **Simon Thomas:** Okay, thank you. David Rees.

[629] **David Rees:** Diolch, Gadeirydd. Since we're on WRA, the Welsh Government appointed the interim director to, at the start of this year, set out some milestones it wanted to meet. Are you on schedule to deliver those milestones? And in light of the fact that it's going to be up and running in April 2018, and all the issues you've just said now, which you're going to be doing, are those milestones realistic?

[630] **Mark Drakeford:** I believe they are realistic, Chair. I met with Dyfed Alsop, the implementation director, on Monday of this week and went through the latest state of play in relation to the work programme that he has set out for the WRA. He was confident that it is on track to do all the things that it needs to do. You'll be aware, Chair, that one of the immediate things on the horizon is the appointment of the chair of the WRA. Nick Ramsay, certainly, was able to come to a breakfast meeting we held earlier in the year to get advice from—

[631] **Simon Thomas:** We released him from the committee for that, yes.

[632] **Mark Drakeford:** You did. He did say that. He said he had your permission to be there.

[633] **Nick Ramsay:** I just went. *[Laughter.]* It was good to represent you,

Chair.

[634] **Simon Thomas:** Thank you. [*Laughter.*]

[635] **Mark Drakeford:** I hope that he thought that it was a useful meeting where we had lots of advice from practitioners in the field as to the sort of person we would be looking for for this very important job, and we're about to go out to recruit for that post. I'm keen to have that person in place early in the new year, because I want that person to be part of the recruitment of the wider board, and then to oversee the further milestones that are there in the programme, and to have the WRA operating in shadow form in good time in advance of April 2018.

[636] **David Rees:** That's important, because we've discussed this afternoon the importance of guidance and the familiarisation of that guidance and the training that will be associated with all of that. Linked into that timescale that we require to do all of that work—there's obviously a cost associated with that. We heard evidence from Scotland that they actually underestimated their cost of set-up, but overestimated their cost of operations. Have you looked at your figures to ensure that you're not in the same position as Scotland found itself in?

[637] **Mark Drakeford:** Well, Chair, there are figures set out in the RIA for the Tax Collection and Management (Wales) Act 2016 for the Welsh Revenue Authority. For the first time, there is a budget line for the Welsh Revenue Authority in the draft budget for next year and that has £2 million identified for the authority for the next financial year. I believe that we are still within the broad ballpark figures, both for establishment costs and for running costs that are set up in the RIA for the previous Bill. But I did say the last time I was here that I will provide an update of those costs during the passage of this Bill, so that Members will be able to see how the original estimates are now being calibrated against the actual experience. In broad terms, I think those figures are commensurate with what happened in Scotland. We are able to learn a bit from their experience to try and avoid some of the reasons why their transitional costs were higher than they had anticipated and take some comfort from the fact that, in their actual day-to-day operation, their ability to design for digital from the very beginning has meant that some of the costs they anticipated have been lower than were originally thought.

[638] **David Rees:** Thank you for that. And when you're doing that, just make sure that your design for digital means the information technology

system, because, clearly, Scotland indicated that they made a mistake in their calculations as to how the IT systems would work, and therefore it's important that we get that right.

[639] **Mark Drakeford:** In terms of the work programme and the milestones that Mr Rees identified in the beginning, that is a very early priority for the WRA and lots of work is going on at the moment to try and make sure that we secure the best possible system from a digital perspective to be able to carry out these duties effectively in Wales.

[640] **Simon Thomas:** Jest i orffen—**Simon Thomas:** Just to finish—from gen i, beth bynnag—ar y pwynt rŷm me, anyway—on the point that we've ni wedi bod yn trafod ynghylch just been discussing relating to the Awdurdod Cyllid Cymru, rwy'n credu WRA, I think I'm right to remember fy mod yn cofio'n iawn, yn gynnu that, earlier in the evidence, you fach yn eich tystiolaeth, i chi sôn y mentioned that you'd expect the WRA byddech chi'n disgwyl i'r awdurdod to form some kind of partnership— ffurfio rhyw fath o bartneriaeth—wel, well, not a partnership but some kind dim partneriaeth, ond rhyw fath o of group with stakeholders. I'm not grŵp cyswllt gyda'r rhanddeiliaid. Nid sure in what way you're going to do wyf yn siŵr ym mha ffordd rych chi'n this—is there a remit letter going mynd i wneud hynny—a oes yna from you to the WRA? How will you lythyr cylch gorchwyl yn mynd i fynd ensure that the WRA works in the way i'r awdurdod gennych chi? Ym mha that you want as a Government? ffordd y byddwch chi'n sicrhau bod yr awdurdod yn gweithio yn y ffordd y byddech chi'n dymuno fel Llywodraeth?

[641] **Mark Drakeford:** Mae'r **Mark Drakeford:** The relationship berthynas rhyngom ni fel between us and the WRA is different Llywodraeth a'r WRA yn wahanol i'r to the other things that we're doing pethau eraill rŷm ni'n eu gwneud fel in the Government, because the WRA Llywodraeth, achos *non-ministerial* will be a non-ministerial department fydd y WRA, a bydd yn and we will have to keep that rhaid cadw'r berthynas yn y ffordd relationship in the best way and in orau ac yn ffordd rŷm ni wedi ei setio the way that we set out in the last mas yn y Ddeddf ddiwethaf. Ar hyn o Act. At present, when we're bryd, pan fyddwn ni'n sefydlu establishing everything—and I'm not popeth—nid wyf yn siŵr ein bod ni sure whether we've quite put cweit eto wedi rhoi popeth yn ei le, everything in place, as we're going to

fel rŷm ni'n mynd i'w wneud yn y dyfodol—rwyf yn glir ac yn gallu cadarnhau bod bwriad gyda'r WRA yn barod i sefydlu grŵp o bobl i'w helpu nhw a thynnu pobl i mewn i'w helpu nhw yn y gwaith sydd ganddynt i'w wneud yn barod.

[642] **Simon Thomas:** Diolch am gadarnhau hynny. Mae cwestiwn yn sgil hynny ynghylch perthynas y WRA gyda'r cyrff eraill rŷm ni wedi bod yn trafod yng nghyd-destun y Bil yma, so mae gennych chi'r Gofrestrfa Tir, Asiantaeth y Swyddfa Brisio a Chyllid a Thollau Ei Mawrhydi, wrth gwrs, ac mae'n dda clywed bod gwelliant i Fil Cymru i gryfhau'r berthynas yna. A fyddech chi'n disgwyl i'r awdurdod cyllid gael rhyw fath o femorandwm gyda'r gwahanol gyrff yma, rhyw fath o berthynas ffurfiol, neu a ydy'n mynd i fod yn berthynas fwy gweithgar, dydd i ddydd?

[643] **Mark Drakeford:** Y wybodaeth rydw i wedi cael ar hyn o bryd, Gadeirydd, yw y bydd perthynas ffurfiol rhwng y WRA a'r bobl sy'n gwneud gwaith gyda nhw. Beth rydw i wedi ei weld yw beth maen nhw'n ei alw'n *information sharing agreement*. So, nid *memorandum of understanding*—

[644] **Simon Thomas:** Na, nid yw cweit yr un peth.

[645] **Mark Drakeford:** —ond mae yn ffurfiol ac maen nhw'n gwybod beth maen nhw'n siarad amdano pan

do in the future—I am clear and I can confirm that the WRA already intends to establish a group of people to help them and to draw people in to help them in the work that they have to do already.

Simon Thomas: Thank you for confirming that. The question in the wake of that is about the relationship between the WRA and other bodies that we've been discussing in the context of this Bill, so you have the Land Registry, the Valuation Office Agency and HMRC, of course, and it's good to hear that there is an amendment to the Wales Bill to strengthen that relationship. Would you expect the WRA to have some kind of memorandum with these other different bodies, some kind of formal relationship, or is it going to be a day-to-day relationship?

Mark Drakeford: The information that I've had at present, Chair, is that there will be a formal relationship between the WRA and others who are collaborating with it. What I've seen is what they call an information sharing agreement. So, it's not a memorandum of understanding—

Simon Thomas: No, it's not quite the same thing.

Mark Drakeford: —but it is formal and they know what they're talking about when they use that term. So, of

maen nhw'n defnyddio'r term yna. So, wrth gwrs, bydd lot o bethau yn mynd ymlaen o ddydd i ddydd, ond hefyd bydd pethau fel yna'n cael eu gwneud o dan do rhywbeth sy'n fwy ffurfiol—cytundeb rhwng y cyrff.

course, there will be a lot of day-to-day things going on, but also things like that will be done under the auspices of something more formal—an agreement between the bodies.

[646] **Simon Thomas:** Ocê. Oes unrhyw gwestiynau pellach? A ydym wedi colli rhywbeth rŷch chi'n awyddus ein bod fel pwyllgor yn ei glywed, gan mai dyma'r sesiwn olaf? Rwy'n credu ein bod ni wedi bod yn eithaf cynhwysfawr, a dweud y gwir. Iawn.

Simon Thomas: Okay. Are there any further questions? Have we missed anything that you're eager for us as a committee to hear, given that this is the last session? I think that we've been quite comprehensive, to tell you the truth. Okay.

[647] **Mark Drakeford:** Iawn. Diolch yn fawr.

Mark Drakeford: Okay. Thank you very much.

[648] **Simon Thomas:** Felly, diolch yn fawr i'r Ysgrifennydd Cabinet a'i swyddogion am ddod i roi tystiolaeth. Rwy'n siŵr ein bod ni i gyd yn edrych ymlaen at gyflwyno adroddiad i chi, fel bod y Cynulliad yn gallu penderfynu a ydym ni'n bwrw ymlaen ai peidio gyda'r Bil yma. Diolch yn fawr iawn i chi.

Simon Thomas: So, I thank the Cabinet Secretary and his officials for coming to give evidence. I'm sure that we're all looking forward to presenting the report so that the Assembly can decide whether we will proceed with this Bill or not. Thank you very much.

[649] **Mark Drakeford:** Diolch yn fawr.

Mark Drakeford: Thank you.

[650] **Simon Thomas:** Rŷm ni'n mynd nôl i sesiwn preifat, fel rŷm ni eisoes wedi cytuno.

Simon Thomas: We will return now to a private session, as we've already agreed.

*Daeth rhan gyhoeddus y cyfarfod i ben am 14:55.
The public part of the meeting ended at 14:55.*