



Finance Committee  
Y Pwyllgor Cyllid

Cardiff Bay  
Cardiff  
CF99 1NA

28 March 2014

### Invitation to provide evidence – Inquiry into Best Practice budget processes

Following the publication of the Commission on Devolution in Wales report on Part 1 of its remit, *Empowerment and Responsibility: Financial Powers to Strengthen Wales*, the UK Government published *Empowerment and responsibility: devolving financial powers to Wales*. The key points of the UK Government announcement are:

- **Income tax:** subject to a referendum in Wales, the Assembly and Welsh Government would be granted the power to vary the basic, higher and additional rates of income tax up or down in tandem. This would mean that 10 percentage points of each UK tax rate would no longer be due to the UK Government but to the Welsh Government.
- **Stamp duty land tax (SDLT)** and landfill tax to be devolved to the Assembly, with a corresponding deduction to the block grant.
- **Non-domestic (business) rates.** The UK Government will work with the Welsh Government to fully devolve non-domestic (business) rates (While Welsh Ministers already set these rates in Wales, under current arrangements the revenue generated does not directly affect the level of funding available to the Welsh Government).
- **Capital borrowing powers** The UK Government has accepted in principle Welsh Government capital borrowing powers for infrastructure investment, subject to the

availability of an appropriate independent stream of revenue to support borrowing costs.

••The power for the Assembly to legislate, with the agreement of the UK Government, to introduce **new taxes and associated tax credits**.

Following this the Draft Wales Bill was published in December 2013, and the Wales Bill was introduced on 20 March 2014. The Committee inquiry will be considering best practice budget processes to ensure that effective budget processes are in place for the scrutiny of these financial powers.

The inquiry will be undertaken in two parts but it would be helpful if your response to this call for evidence could address both part 1 and part 2 of the inquiry.

### **The inquiry's Terms of Reference**

To consider:

Part 1 – Budgetary best practice and its applicability to Wales

- International best practice for financial accountability and budget processes, particularly in devolved administrations
- Opportunities for the budget processes to incorporate new concepts – such as preventative spending, less restrictive annual budgeting, and programme/outcome-based budgets.

Part 2 – Planning and implementing new budget procedures

- Financial control –outlining the budgetary mechanisms which will control the new tax and borrowing powers, and how these impact on the Welsh block and the Welsh economy. In particular, how the Holtham Commission recommendations will be met.
- The implementation of new budget procedures to reflect the additional powers.

### **Your View**

The Committee would like your view on the following areas:

#### ***Part 1***

- **International best practice** – What are the principles of fiscal accountability? How do other countries achieve devolved financial accountability while retaining central fiscal control?
- **Are the devolved powers tailored to the Welsh devolution settlement** – as the powers in the Wales Bill are based on those in the Scotland Act, does this create unforeseen problems in Wales?

- **Linking budgets to outcomes.** What new budget procedures are needed to improve the links between policies, spending programmes and outcomes? How would outcomes generated by the UK Government and the global economy be identified separately from those generated by local Welsh Government policies?

## *Part 2*

- **Tax and borrowing issues** identified in the Holtham Report; e.g. the impact on the block grant and the 'indexed method' for adjustments; the basis of the devolved taxes; the lack of a needs based floor; no clear resolution of 'convergence' issues; what is the tax yield and what borrowing could be made against this income; what would be the basis of any new taxes and will they be governed by principles or rules?
- **Managing budgetary risk** – what additional budgetary risks are introduced by the new powers and how will these be monitored and managed (e.g. how are shortfalls in revenue managed)?
- **How can the new budget processes be made transparent and understandable** to all stakeholders, and how can stakeholders engage and participate in the budget process.
- **UK budget planning** – how does the Assembly work with Welsh Government, UK government and other public bodies under the new arrangements; how should the budget process be timetabled to meet Welsh and UK Government requirements (e.g. UK spending reviews)
- **Implementation** – how does the Assembly formally implement the devolution of the financial powers; how does the Assembly scrutinise, approve and monitor the Welsh Government's annual tax, borrowing and expenditure requirements; how does Welsh Government seek approval for new tax and borrowing powers from HM Treasury, and what role should the Assembly have in agreeing such changes.

## **Providing information to the Committee**

You are invited to submit written evidence to the Clerk of the Finance Committee at the above address, to arrive by **Friday 2<sup>nd</sup> May**.

If possible, please send your response by e mail to [FinanceCommittee@wales.gov.uk](mailto:FinanceCommittee@wales.gov.uk) by **Friday 2<sup>nd</sup> May**.

## **Disclosure of Information**

The Assembly's policy on disclosure of information can be accessed [here](#), please ensure that you have considered these details carefully before submitting information to the Committee. Alternatively a hard copy of this policy can be requested by contacting the Clerk (02920 898120).

Further information about the Finance Committee can be found at [here](#).

Yours sincerely

A handwritten signature in black ink that reads "Jocelyn Davies". The signature is written in a cursive style with a large initial 'J' and 'D'.

**Jocelyn Davies**  
**Chair**  
**Finance Committee**