HOUSE OF COMMONS

Liaison Committee

Oral evidence: Evidence from the Prime Minister, HC 683

Thursday 20 November 2014

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Watch the meeting

Members present: Sir Alan Beith (Chair); Mr Graham Allen; Dame Anne Begg; Mr Clive Betts; Mr Ian Davidson; David T. C. Davies; Mrs Louise Ellman; Margaret Hodge; Andrew Miller; Mr Laurence Robertson; Mr Andrew Tyrie; Mr Charles Walker and Dr Sarah Wollaston

Questions 1-81

Witness: **Rt Hon David Cameron MP**, Prime Minister, gave evidence.

Q1 Mr Davidson: During the referendum campaign, the three party leaders made a clear commitment that, in the event that Scotland voted to remain in the United Kingdom, additional powers would be given to the Scottish Parliament. Shortly after the result there seemed to be the suggestion that additional powers to Scotland would be linked inextricably to some reorganisation of powers for England, Wales and Northern Ireland. Do you accept that the pledge made to the people in Scotland was that these would be entirely separate matters and that the pledge of additional powers to Scotland was freestanding and should not be tied to anything else?

Mr Cameron: Effectively, yes. The pledge that was made by the party leaders is important and I am very confident we will meet the terms of that pledge in full, which are that there should be further—particularly fiscal—devolution to Scotland: the power to raise taxes and spend money.

There is a programme for delivering that. We have already had the Command Paper and next week we will get the Smith report and that will be turned into draft clauses in January next year. All the parties have said that, whoever forms the Government after the next election, that will be legislated on. So Scotland has a guarantee of further devolution.

What I have said is that I think it is right that, at the same time, there should be a solution to what has become the English question: shouldn't there be a way of making sure that, when things solely affect England or England and Wales, then English or English and Welsh MPs should have to give their consent? I want that settled as well, but one is not dependent on the other.

If I win the next election, you will get both Scottish devolution and a proper answer to the English question. It is for the other parties to say what they will do. In my view, they ought to make that clear, but I am very clear that if you get me, you get both. And I think that we need to settle both these issues.

Q2 Mr Davidson: You started your answer by saying, "Effectively, yes". Is that the same as yes?

Mr Cameron: If you take my answer, you can see exactly what you will get. One is not dependent on the other.

Q3 Mr Davidson: Fine. Will the Smith commission's recommendations be accepted by the Government, or will there be some process of further consultation and discussion?

Mr Cameron: What we have said is that we will receive the Smith report—obviously, all our parties are involved in the Smith commission, and let's thank Lord Smith publicly for the work that he is doing, which is very important work—and I do not see any reason why we will not receive and accept those heads of terms and turn them into draft clauses in January.

Every party has to speak for themselves, but during the referendum campaign—we all record that it was a very long campaign—the Conservative party published the Strathclyde report which set out the case for further fiscal devolution. I cannot prejudge exactly what Smith is going to say because I do not know, but I am very happy with the way it seems to be progressing and I am very confident, as I say, that we will meet both the timetable and the substance.

Q4 Mr Davidson: Can I seek clarification? Will the draft clauses be based on Smith?

Mr Cameron: Yes.

Q5 Mr Davidson: Will you, as a Government, reserve the right to seek to make amendments if there are some elements of Smith with which you are not happy or less than totally enthused?

Mr Cameron: I hope that that will not be the case, because what we are trying to do here is reach consensus between the parties. A good thing about this process is that all the parties in Scotland are taking part—SNP included—and what Lord Smith is trying to do is bring together a consensus that everyone can accept and go ahead with. That is what I anticipate happening.

Q6 Mr Davidson: Fine. If there is not a consensus among the people on the Smith commission, what happens then? Do the Government table the majority view from Smith?

Mr Cameron: I hope that does not happen, and I do not think that that will happen. I do not want to speculate, because I think that that would be unhelpful. This has been a process of trying to bring different parties together to deliver a common outcome. I do not want to speculate about what would happen if that was not possible. I think it will happen; I am pretty confident.

Q7 Mr Davidson: Right. The final point I want to clarify is on who in Government will be responsible for taking forward the proposals from Smith and seeing them through.

Mr Cameron: Well, ultimately I take responsibility for that, because you have to bring different parts of the Government and the coalition together to deliver it. In terms of who has had the lead responsibility, William Hague has been chairing a Cabinet Committee, which is examining not only the issues around Scotland, but also the issues around greater devolution to neighbourhoods and cities and the question of English votes for English laws. He has a big responsibility in the Government and you of course have the Scottish Secretary as well, but lead responsibility will sit right here in ensuring that we take this forward.

Q8 David T. C. Davies: Prime Minister, with Scotland set to receive devo max now, is it inevitable that Wales will also get further powers, such as welfare or policing?

Mr Cameron: I think before we dive into all the detail, perhaps it is worth standing back for a second and asking, "What are we trying to do here? What is the aim of the whole process?" To me, the aim is simple: we want to ensure that our United Kingdom of our four nations finds a good settlement, where there is respect for the devolved institutions and the nations of our United Kingdom and we feel happy, contented and together in our United Kingdom. We have not reached that yet. There have been various pieces of devolution. It is good that we have a well established Scottish Parliament and a well established Welsh Assembly and the devolved institutions of Northern Ireland, but I do not think we have reached the point where it is a settlement that people really buy into, and I think that that matters.

It is a bit unhealthy, in a way, whether in Welsh politics, Scottish politics, Northern Irish politics, or, indeed, English politics, if we spend a lot of time having the discussion we are having today. We ought to be talking about jobs, growth and how we make the health service work properly and all the rest of it, rather than endlessly trying to change and get right these constitutional arrangements. The aim is a settlement that settles down and makes the United Kingdom happy—where we feel there is a good resting place, if I can put it that way. *[Interruption.]* Sorry, I am giving a long answer to your question; I promise I will not give lots of long answers.

In Wales, there is a process for examining more devolution, and as you know there are two parts to it. There is the idea of Wales having the sort of tax-raising powers and tax devolution that Scotland has already had. We are legislating for the Welsh Assembly Government to have a referendum on that, should they so want in the future. That is stage 1 in enhancing the Welsh Assembly. Stage 2 is to look at whether there are more powers over such things as policing, justice and transport that should be devolved to Wales. As you know, the Secretary of State has got a process—I think he will report back in March—to see what is appropriate there.

Q9 David T. C. Davies: Can you see those powers being given to Wales before the English situation is resolved?

Mr Cameron: As I have said—I do not want to be too partisan about this—if I am Prime Minister after the next election, what you will get is a solution to English votes for English laws, which I am sure we will come on to, and further Scottish devolution with the draft clauses turned into a Bill. In my view, I hope that there will be some further moves on Welsh devolution, but that will very much depend on the Welsh Assembly Government. I personally believe that it would be good to have a referendum in Wales on the tax-raising

powers. I am, if you like, a double yes man: I say yes to a referendum, and then let's vote yes, so that Wales has those powers. I would like to see that happen, but because that depends on the Welsh Assembly Government requesting that referendum, I am not in control of the timing.

As for further devolution to Wales of some of the powers I mentioned—policing, justice, transport and other powers—there is a process by which the Secretary of State is bringing parties together to examine that. I can see arguments on both sides. I have some concerns about things such as policing. There is such a connection between England and Wales over policing issues because of the nature of the border, so it is a slightly different issue, but I am open to argument.

I think we have to keep defaulting back to the big picture, which is, what is going to make the United Kingdom a strong, cohesive political entity with respect for the devolved nations in a system that works, coheres, makes sense and with which people feel comfortable? In the end, the aim of this debate is to have it, complete it, complete the bits of devolution and spend more time on the other things that matter.

Q10 David T. C. Davies: The new Secretary of State for Wales—by the way, I think he is a very good choice—said he will remove the lockstep mechanism, as far as tax-raising powers in Wales are concerned. Given that we strongly support the lockstep—I certainly do—do you not think that might be a little premature?

Mr Cameron: I can see the strong argument for it. Given that our party had the Strathclyde commission report that recommended not having a lockstep in Scotland, it makes sense not to have one in Wales, so I am comfortable with that.

I understand people's concerns about high marginal tax rates. The whole argument here is about whether we think giving the devolved institutions tax-raising powers, spending powers and some borrowing powers will answer my question about how to settle down the United Kingdom. I think it will, for the good reason that at the moment the system does not work because the devolved Assemblies and Parliaments are responsible for spending, rather than raising, money. If they have that extra responsibility for raising and spending, that enhances the respect agenda and makes for more responsible political institutions. I think removing the lockstep is a good part of that.

Q11 David T. C. Davies: Finally, Prime Minister, you said in the past that reform of the 30-year-old, and frankly rather out-of-date, Barnett formula will have to await the stabilisation of public finances. Given that public finances seem to be stable, do you not think the time has come, especially in the light of the Scottish referendum, to look at funding and at the Barnett formula in particular, which appears to underfund Wales by £300 million a year?

Mr Cameron: First of all, although public finances have been stabilised, there is still a lot more work to do to eradicate the deficit and start paying back money in the good years. That will require further public spending efficiencies and reductions. The work is not complete.

Secondly, if we go for this process of devolving tax-raising powers to the Scottish Parliament and the Welsh Assembly, the importance of Barnett will reduce. Obviously,

those institutions will have smaller block grants and larger tax bases, so the importance of Barnett will be less.

What I have said is that I do not think reform of Barnett is on the horizon. I said that in 2013, and I stick by that. I always say, in particular to English colleagues but also to Welsh colleagues who complain about the effect of Barnett, that there is no magic formula for working out distribution between the nations of the United Kingdom.

I always tell English colleagues not to expect a massive pot of gold in Barnett reform—I don't think there is one, because you have got 55 million people in England, 5 million in Scotland and fewer in Wales. I think the best thing to do is to press ahead with fiscal devolution, which reduces the significance of the Barnett formula, and build the institutions of Wales and Scotland in that way.

Q12 Margaret Hodge: I think we all want to see something that is sustainable. Therefore, it has to be fair. I want to draw on some evidence that Nick Macpherson gave to my Committee. He said: "To take the simplest example, let us say that a tax is fully devolved, and let us say that the rest of the United Kingdom decides to increase income tax to pay for more spending on health. If income tax were fully devolved, the income tax in the country where it is devolved—let us say, for example, Scotland—would be completely unaffected." So we—England—raise the income tax. "However, if you have still got a Barnett formula, the increased spending on the health service…would feed through into more money going to Scotland."

In effect, he is saying that if we give the Scots control over income tax and we keep the Barnett formula, we then raise tax in the UK to pay for, let us say, extra health care, the Scots could be said to be gaining an unfair advantage and therefore it would not be a sustainable settlement. They would benefit from the increased income for health raised from English taxpayers, through the Barnett formula, without having to pay for it themselves through increased tax.

We have a difficulty in taking forward the commitment that you all made on both maintaining the Barnett formula and giving a commitment to tax-raising powers, without disadvantaging either English taxpayers or English service users. I do not know how you are going to square that circle.

Mr Cameron: I think I followed all that. He is right technically because the way that Barnett works is that, if you decide to spend more money on the health service in England that has a knock-on Barnett consequential for Scotland and Wales, and they get extra money. Once you have devolved income tax that is something that will be raised and spent in Scotland.

Your point is that you increase health spending, that gives Scotland more money and they have not had to raise taxes to pay for it. I totally understand that point. The only thing I would say is that if you did not have Barnett, you would have to have another formula for working out how much money to give England and to give Scotland. It would perhaps be a needs-based formula. Scotland has needs so would get money for those needs.

For all its faults, Barnett has sort of worked, in that when you are addressing the need to spend more money on the health service, it has a consequence in Scotland of more money for their health service.

Q13 Margaret Hodge: I take the point.

Mr Cameron: I would answer it that way, but also remember that as you devolve tax-raising powers, so the importance of Barnett gets less, because the share of total spending in Scotland funded from the block grant will get smaller. There is not a perfect answer.

Again, we have to get out of the detail for a second into the big picture, which is why is it so complicated to get this right? One reason it is complicated is because our United Kingdom, unlike some systems, is a very large England and quite a lot smaller Scotland, Wales and Northern Ireland. You cannot do the logical thing, which is to have a sort of federal state of four equally sized nations, because the four nations are not the same size. We are living in a world where you have to try to find a solution that works for the way that the United Kingdom is shaped and its different sizes.

My argument is, working off Barnett, having the tax devolution, with these new devolutionary powers, we can make our United Kingdom work, but it is not a perfect world.

Q14 Margaret Hodge: I think the big picture will be met only if the detail is seen to be fair.

Mr Cameron: Yes, but I think it is fair to say that the size of the block grant is going to get smaller because the size of the tax-raising powers will get bigger.

Q15 Margaret Hodge: Let me ask you two other questions. Let us say that the Scots decide to increase Scottish income tax to pay for some services that they want in Scotland. That will not add to our deficit but it will add to our UK public expenditure totals. If you therefore wish to stay within the UK public expenditure totals, English taxpayers may have to take a further cut in public spending, while their Scottish counterparts will have the freedom to raise money and protect their Scottish citizens. How are you going to cope with that potential dilemma?

Mr Cameron: I think that is much easier to solve. I understand the point. If you believe in devolution, you have to believe that the Scottish Parliament is able, if it wants, to spend more and raise more money in taxes. The consequence of that will be to put up total spending across the UK. It would be very perverse then to say, "As a result we have to cut English public spending." No Government would do that. You would just say that the consequence of Scotland raising more taxes and spending more money is to add to public spending in the total United Kingdom.

There would be more of a problem if the Scottish Parliament was simply able to spend and borrow lots and lots more money, because you would then be changing the fiscal position of the whole of the United Kingdom, possibly putting pressure on interest rates or what have you, because borrowing would go up. What we have decided through the Scotland Act is that yes, Scotland should have more borrowing powers but there are limits to those borrowing powers. The borrowing should be, for instance, for capital spending. I do not think that that is a problem. If Scotland decides to spend more and tax more, that is a Scottish decision. It has a consequence for the whole of the United Kingdom, but it is not costing my constituents—English taxpayers—any money. It is not causing them any

problems and it is not adding to borrowing in an irresponsible way. I really do not think that that is a problem.

Q16 Margaret Hodge: Well, on the current settlement, they can raise taxes to borrow for capital. I assume that in the forthcoming settlement, they will be able to raise taxes to pay for both capital and revenue spending—health services or something like that. It is a change. If you are saying to us that, actually, public expenditure totals do not matter to the Government any more because it will not add to borrowing, that is fine. I do not see how else you are going to limit it.

Mr Cameron: Well, first of all—that is a very good point and this is an important discussion—they can only add to borrowing in as much as the Scottish Parliament exercises its power to borrow some money, which is under a limit. But it is a consequence of fiscal devolution that if Scotland wants to tax more and spend more, that adds to total public spending. The answer is that that is part of the new settlement. I do not think that that is a problem. It comes back to this scale thing. The scale of the additional public spending, which is all paid for through extra Scottish tax—

Q17 Margaret Hodge: So there may be a limit on how much they can raise through their income tax.

Mr Cameron: That will depend on—the Smith report will obviously look at how this will work, but the principle is relatively simple. There will also be limits in political actuality. If a Scottish Government or, indeed, a Welsh Assembly Government decided to spend huge amounts more money and raise huge amounts more taxes, that would be damaging to their economy and you would start to get businesses thinking about relocation and all the rest of it. There will be constraints, but I think we should say to the Scottish Parliament, "You have the power to raise some of the money that you spend. If you want to spend more, you can raise more and that won't affect overall matters in the United Kingdom." Come back to the big picture—why are we doing all this? It is to try to find a settlement of respect and understanding which makes the United Kingdom even stronger in the future than it has been in the past.

Q18 Margaret Hodge: In Northern Ireland, you are about to give them powers to have a lower corporation tax rate. In that context, are you looking at Scotland potentially having a lower corporation tax rate? My own personal view is that—

Chair: I think that we will come to that a little later.

Margaret Hodge: I'm sorry.

Q19 Mr Tyrie: What you have said so far is that you are not going to tear up Barnett and that we would need some other form of needs assessment formula, in any case, if we did not have Barnett. You used the word "need". Everyone is agreed that the Barnett formula is over-generous at the expense of the English. Not a single analysis of it has concluded otherwise. Do you not therefore think that there is at least a need for a grand commission of some sort, for all the nations to look into the question of how best to allocate resources between them according to need?

Mr Cameron: Well, it is something that I am sure does get examined by experts and commissions. I am very happy for that to continue. I am just saying that I have made a

commitment that it is not something that is on my horizon; I am sticking to that commitment. The most important thing is to deliver this fiscal devolution, which is important in and of itself but also decreases the relevance of Barnett. I am sure that people will go on arguing about it.

Q20 Mr Tyrie: So the answer to that is no; you are not prepared to set up that commission.

Mr Cameron: I have said very clearly that it is not on my horizon.

Q21 Mr Tyrie: Okay. I would just like to ask one question about a proposal that I think Lord Strathclyde has shown an interest in as well, and that you are rejecting. There is one other issue that needs picking up at this stage, which is borrowing. I presume that you would agree that if more fiscal devolution is granted, there is the likelihood of more volatility in tax and spend—or tax, at least—as most of the evidence suggests that there will be, whatever you devolve. In which case, is there a case for increasing the scope for Scottish borrowing, a point to which Margaret alluded a moment ago?

Mr Cameron: Well, what we have done—first of all, the short answer is yes. When you devolve tax powers—

Q22 Mr Tyrie: Okay, that is all I need.

Mr Cameron: No, this is important to understand because we sometimes have this debate as if nothing has happened. Actually, under this Government, there has been the biggest act of fiscal devolution to Scotland in 300 years. I think that people have sometimes forgotten that. It is important for people to know that 10p of income tax is being devolved to Scotland. Stamp duty, land tax, landfill tax—those things are being devolved to the Scottish Parliament. The limits on borrowing are being increased to an overall cap of £2.2 billion. That is already happening.

Q23 Mr Tyrie: So the short answer is yes and, in any case, it is already in train, so the point of principle is yes and in practice you are already acting on it. In which case, for the purposes of Scottish borrowing that may result—the increase in Scottish borrowing—would you agree that in practice the UK Government will end up as the lender of last resort?

Mr Cameron: Effectively, in a unitary system with devolution and limits on borrowing, in the end the sovereign entity is the UK Government.

Q24 Mr Tyrie: So we will remain the lender of last resort, in which case—

Mr Cameron: I think it is important to understand that we are not creating a system in which the devolved Parliaments can spend and borrow without limit. That would be, in my view, a dangerous and bad idea. This is taking greater responsibility for raising and spending money with some additional borrowing powers to give that sort of flexibility—to make the system make sense and cohere—but it is not borrowing without limit.

Q25 Mr Tyrie: In which case, is that not accepting that to the extent that the markets view the risk of that increased borrowing leading to that lender of last resort facility being activated—to the extent that the markets conclude that the risk is non-negligible—there will be an increase in UK borrowing as a whole as a consequence of any increase in Scottish borrowing?

Mr Cameron: Yes, but within the limit, as I said.

Q26 Mr Robertson: On the issue of devolving corporation tax to Northern Ireland, you indicated a number of months ago that you would look at that again after the Scottish referendum. I know that we touched on it very briefly during Prime Minister's questions yesterday but could you give some indication as to what you are considering doing in that respect?

Mr Cameron: Well, what I've said and what the Government have said is that in the sort of economic pact that we came to with Northern Ireland to devolve more powers and to seek greater economic resurgence in Northern Ireland, we said that we would set out a path on this in the autumn statement, which is coming up in a couple of weeks' time. I remain committed to that.

I think that it is worth trying to ask why this is an issue and what the right way is. The case that the Northern Irish parties make, which I think is strong, is that there is a difference in Northern Ireland on two grounds. One is that there is a land border with the Republic of Ireland that has a very different rate of tax. That makes it unique in the United Kingdom so this is different to devolving corporation tax in Wales or Scotland. The second thing that they say is that, because of the troubles and the difficulties over many, many years, the public sector in Northern Ireland is absolutely huge and the private sector is too small. We need to find ways to regenerate the private sector. What is interesting is that you get this as strongly from Martin McGuinness as you do from Peter Robinson. It is absolutely right for the Government to consider this. Obviously, there are all sorts of considerations to take into account but I think that their argument that Northern Ireland is different is one that we should properly engage with.

Q27 Mr Robertson: You have made a number of good reasons to do it. Creating jobs through inward investment is obviously one of the big issues that you have touched on in your more general points, but I am not quite sure that you have given any assurance as to whether and when it's going to happen.

Mr Cameron: We've said that there was a process, which was to set out our thinking in the autumn statement. That is what's going to happen, and I think that it is important that we stick to that approach.

Let's be clear about these issues of tax devolution, because sometimes it just sounds like the Westminster Government are sitting there throwing things out—"You have this tax power and you have that tax power"—but devolving a tax power has very serious consequences for the devolved authority, because of course you have to work out how much grant you take away as you give the power, and what the future consequences are, so a lot of very difficult work has to be done. Nevertheless, as I said, this Government, in good faith, have been discussing with the parties of Northern Ireland just how important they think it is, and they make the very strong case that it is different in Northern Ireland.

Another thing is that the Republic of Ireland currently has a 12% corporation tax rate, but the problem is that a lot of businesses actually pay 2% because they have done a double Irish deal funnelling profits through God knows where. Through this international tax exchange, all these treaties we are signing and the work that I have been doing on G20 and

the G8, as well as through the EU, we need to sort this issue out. In our case, 20% should mean 20%, and in the Irish case, 12% should mean 12%.

Q28 Mr Robertson: It is a difficult thing to consider for all the reasons you have given.

In your answer yesterday, you said that we need to look at Northern Ireland to see that "the budget is working and that the Government of Northern Ireland are working". In Westminster, of course, we have a very different system, with a Government and an Opposition. In Northern Ireland, for historical reasons, we do not have that situation. As you well know, the system there was set up to bring about peace, not efficient decision making. I hope that getting agreement on very many issues in the Northern Ireland Assembly is not going to be the kind of thing that prevents any devolution of corporation tax because, as I said, the Assembly is not set up to make decisions efficiently; it is set up to bring people together. It is very different from Westminster, as you well know.

Mr Cameron: Laurence, you have a long record of working with and supporting the devolved institutions of Northern Ireland, and I know how much you care about this. As Prime Minister, I obviously want Northern Ireland to be a successful, prosperous part of the United Kingdom, but we do need responsible government. At the moment, there have been real issues in Northern Ireland, as you know, with sorting out the budgets. It is difficult to argue that you should have more responsibility in terms of tax raising powers if you are not adequately sorting out the current budgets for Northern Ireland and ensuring that the Government are delivering for people in Northern Ireland. We should be discussing with them how best to do that. There is a link between these things.

Mr Robertson: Thank you very much.

Q29 Mr Betts: We move on now, from discussing Scotland, Wales and Northern Ireland, to England. I think that there is general agreement that devolution should happen in England and that we do not want to create another level of political organisations, so devolution is going to happen to local authorities or combinations of local authorities—hence the recent deal among the Manchester authorities. So far, the Manchester deal—like, I assume, the Sheffield and Leeds deals that are going to follow shortly—has all been about devolving spending powers, but for Scotland, we are talking about devolving spending and taxation. Why are we appearing to rule out devolving fiscal powers in England as well?

Mr Cameron: I do not want to get too party political, but I would say, Clive, that you have missed out a piece: there should be devolution to Scotland and Wales, and then you need equivalent devolution in terms of the English votes for English laws issue. I do not think that we can have a situation in which we for ever ignore that question.

Chair: We are going to turn to that.

Mr Cameron: Good; I hope that we are. I was just checking, because I thought we were jumping, and that otherwise you were missing—

Chair: No.

Mr Cameron: Okay. On whether we should give lots of new tax-raising powers to local authorities—

Mr Betts: Or combinations of authorities.

Mr Cameron: In the interests of candour—I have tried to give straight answers so far—my answer to that would be no. I think we have enough taxes in our country; I do not want to see reams of more taxes. Nevertheless, I am very proud of the work that this Government have done to devolve real spending power and real powers to local authorities through the city deals, and on the devolution of some decision making and spending to local enterprise partnerships through the local growth deals—those are really good moves. I am delighted that we are going to see a new Greater Manchester metro mayor, as it were. That is great news, but I do not see the need for a lot of extra tax powers. I am a bit sceptical about that.

Q30 Mr Betts: Well, it's not necessarily about extra tax, but about who controls the tax. The reality in England is that less than 5%—around 2%—of total taxation is controlled by local councils. That is the council tax, and it is effectively capped. Can we have real devolution of powers to local communities that lets those communities, in the end, have some say over the taxation that is raised in their areas—the rates of it and the amounts? Can the people of England be treated like the people of Scotland?

Mr Cameron: If you take the way the system works now, what we have tried to do as a Government is to make sure that there is a better connection between decisions made locally and finance. For instance, with things like the new homes bonus, if you build homes, you should get the money that goes with those homes to help to provide the infrastructure. If you attract business to your area, you keep a greater share of the business rates. Also, obviously, councils are still responsible for setting the level of their council tax, so I don't accept that there's no connection between decisions made locally and the money that local councils get.

Q31 Chair: Just to be clear, we have moved from a situation years ago, when a very large proportion of councils' expenditure was met from the revenue they raised, to the situation Mr Betts has described, when it is a tiny proportion.

Mr Cameron: Yes, but what I am saying is that over the last four and a half years, we have moved to a situation in which the consequences of local councils' decisions and the money that flows to them are better linked than they have been in the past.

Q32 Mr Betts: Well, Prime Minister, if we take that example of the new homes bonus, the reality is that that is a tiny fraction—even now—of the reduced council expenditure that is actually raised and controlled in any way by councils themselves. Do you accept that cities—our major cities in this country—are in a far more constrained position than any of their counterparts in Europe, which have much more power to determine at local level the taxes they raise and how they are spent? Isn't that the real freedom and real devolution we should be looking for?

Mr Cameron: I think what we should be looking for is what we are doing, which is city deals. They have been welcomed up and down the country by Labour leaders of local authorities, Liberal leaders of local authorities and Conservative leaders. Everyone says—cross-party—that these city deals, which have devolved real money and real power to cities, are thoroughly welcome.

Q33 Mr Betts: Apart from the power to raise taxes. And talking about welcoming, we did a Select Committee report on devolution in England and the case for local government with regard to fiscal devolution. That was welcomed by the Mayor of London, the leaders of the London boroughs—cross-party—and all the leaders of the core cities, who all said that to enable them to have the powers to develop growth in their areas and to enable their cities to grow in the future in the way that we want them to, they need the same taxation powers as their counterparts in Europe have. This is cross-party agreement on our report; it just seems that the Government are the odd one out here, resisting.

Mr Cameron: I think you're being a bit churlish. I think this Government have done more than any of their predecessors to go through Whitehall and say, "What money can we find and what powers can we find—over skills, over transport—to devolve to local authorities?" If you listen to the city leaders of Birmingham, Manchester, Liverpool or Leeds, they will say that this Government have really engaged with them, in a time of austerity with difficult budgets, and at least have transferred powers and money for these city deals to go ahead.

If you have a whole different plan for how you want cities to whack up council tax bills and all the rest of it, fine—put it on the table; put it in your manifesto. I am telling you what this Government have done, which I think is good.

Q34 Mr Betts: No one is saying, Prime Minister, that we don't welcome the transfer of spending powers. What we're saying is that that is only half the story, and the leaders of our major cities, including the Mayor of London, have concurred with that. What are you saying in the end? Is it that the communities in England, the people of England and the voters in the cities in England can't be trusted with their own taxation, as the people of Scotland are going to be trusted? Is that what you're saying?

Mr Cameron: No. What I'm saying is that I seem to be, at the moment, the only party leader who is prepared to say to the people of England, "You should have some of the rights, in terms of rights over legislation, that are being given to Scotland and Wales." If I might say, Mr Betts, your party is very happy to have discussions with other parties about devolution in Scotland, you're very happy to have discussion with other parties about devolution in Wales, and you're very happy to have discussions about devolution in Northern Ireland, but somehow, when it comes to England, the Labour party seems completely unwilling to have any discussion about English votes for English laws, and I think what's important is—

Chair: Order.

Mr Cameron: What's important is that what Mr Betts is saying—

Chair: Order. I think those remarks belong in a different venue.

Mr Cameron: They don't, actually; I totally don't accept that.

Chair: Because they're not an answer to the question.

Mr Cameron: They are an answer to the question.

Chair: The question is about—

Mr Cameron: Mr Chairman, I don't accept that at all. What Clive is saying is, "Why don't you give to the cities of England what you're giving to the people of Scotland and Wales?", to which the answer is, "The people who should be getting that are the people of England." That is the comparison. Anyway, I don't accept the argument he's putting.

Chair: Mr Betts.

Q35 Mr Betts: All I would say is that if we talk about agreement and cross-party, of course the Select Committee report was cross-party. I come back to this again: it is the Mayor of London, as well as the Labour leaders of the major cities, who are all saying that real devolution has to involve fiscal devolution as well as the devolution of spending powers. The idea that somehow devolving powers to English MPs at Westminster is any devolution as far as the major cities of England are concerned—

Chair: We will turn to that issue later.

Mr Cameron: No, that's not the point I'm making. The point I'm making is that you want equivalence for England as you have for Scotland and Wales, which is something that the Labour party doesn't seem to accept. That is a relevant point for this Committee because we ought to be trying to get cross-party agreement in England as we have in Scotland, Wales and Northern Ireland. I find it rather mysterious why the Labour party won't engage in this debate.

Q36 Mr Allen: In 2016, Scotland will retain 10p of income tax, although that might change through the Smith process. It is not a new tax, but a reallocation of existing funding. It will mean a reduction in the block grant to Scotland, so it is a balance, as it were. All parties passed the Scotland Act in the House, the Treasury seemed quite happy with it and obviously you were quite happy with it. If the Hague process and the Lord Smith process indicate that this could be possible as part of a broader solution on devolution on England, would you accept income tax assignment as part of the answer on English devolution?

Mr Cameron: It's a very good question. I think that is quite difficult. I am sure we will come on to the whole English votes for English laws issue. I think the wrong answer would be an English Parliament and an English Executive so that we effectively had a sort of fully federal system. I think the last thing, frankly, that any of our constituents want is another Parliament full of MPs and all the rest of it. I think we ought to try to make the Westminster Parliament work better so that we can address the English question. I don't think assignment is the right answer.

Q37 Mr Allen: For England.

Mr Cameron: For England. I think the right answer is to address the issue of legislative powers, which I am sure we will come on to. I think we need to address the issue of how we vote on financial issues. For instance, with the local government block grant, once it's decided for England, it should probably be English MPs who play the leading role on that. Then you have the question of how you handle budgets, which I think is very difficult. I would simply put it like this: if you give the power to the Scottish Parliament to change income tax rates, I think you need to have, in the Westminster Parliament, a way for English MPs to be able to avoid tax rates being set by Members of Parliament whose constituent parts have already voted for Scottish tax rates, if I can put it that way.

Q38 Chair: Do you need a way of enabling people representing England, or parts of England, to decide how much tax they want to raise in order to spend the money they think needs to be spent?

Mr Cameron: Look, I think it is a very good question. I think assignment, in a system where you are not going to go to an English Parliament, is quite difficult to deliver. I think this question of English votes for English laws—and English and Welsh votes for English laws, where appropriate—is soluble. I think there has been lots of work done over recent years—

Chair: We will come to that.

Mr Cameron: We will come to that. I think these are soluble. To answer your question, I don't think assignment for England is the right answer.

Q39 Mr Allen: So I think we are as one on not having an English Parliament to do this, but it can be done through the normal, existing mechanism of the Department for Communities and Local Government. All you would be doing would be reducing the block grant to local government and increasing, or allowing them to see transparently—

Mr Cameron: Oh I see. Sorry, I think I got the wrong end of the stick about what you were saying.

Mr Allen: —that an element of all our income tax actually does currently go to local government, but it would just be honest, open and transparent, and indeed on your income tax slip.

Mr Cameron: I'm sorry; I thought you were asking whether we should have an assignment for England of income tax in the same way as we have given an assignment of income tax to Scotland. I think what you are saying is, "Why not give an assignment to local authorities of what they eventually get in income tax?" Is that what you are saying?

Q40 Mr Allen: But properly equalised through DCLG, as now, without any changes in the numbers. All that would be happening, since you wouldn't be changing the numbers for the local authority—it would still be getting the same amount of money—is that people would see that this was actually their income tax. It is rather like Scotland in 2016: there will be no change—unless Smith changes it—but Scottish people will see that an element of their income tax is retained in their country. English local government as a whole would see that an element of income tax was retained through DCLG—not done by the local authority.

Mr Cameron: I'm not quite sure that I see the point of that.

Mr Allen: Clarity and transparency.

Mr Cameron: If you can't change it, why are we devolving? I will certainly go away and look and think more about this—there are some complicated issues in front of us this morning—but the point about what we are doing in Scotland is that we are saying not only, "Here is an assignment of income tax revenue," but, "Here is the power to raise or lower that, depending on the decisions you want to make in Scotland."

I don't quite see the point of assigning revenue to an organisation unless you give it the power to alter it in some way. You could argue it could be dangerous because if you

assign income tax revenue to, say, Birmingham city council, and the economy has a bad year and income tax revenue goes down, Birmingham's revenue would be reduced, and you would get into all sorts of other problems.

Q41 Mr Allen: All I am suggesting is assignment. You currently assign income tax to the block grant and then give it to local government. Why don't you just do it directly so that the elector can see that they pay quite a large element of their income tax to fund local government in England? That is transparency.

Mr Cameron: We've done this thing on transparency of sending every taxpayer a chart of where the money goes, and that shows how much goes to local government, welfare and what have you. I think I favour that over what you are suggesting, but this is a two-way exchange of ideas, so I am happy to take that away.

Q42 Dame Anne Begg: You just happened to mention welfare, and there have been a number of suggestions about aspects of welfare that would lend themselves to being devolved to Scotland. Which areas of welfare do you think could or indeed should be devolved?

Mr Cameron: It is difficult to answer that because we are in the middle of the Smith commission process. I don't want to say things that make the lives of my team—or indeed your team—on Smith more difficult. I think the basic principle is right. It comes back to how we try to settle the United Kingdom into a settlement that we feel is working for every part of the country.

I think you want to try to work out which of those parts of welfare are UK-wide and about the solidarity of being part of the United Kingdom. I would identify the pension system. I would say that everyone in our United Kingdom knows they have the right to a basic state pension when they retire and that they have all United Kingdom taxpayers behind them. That is something that I would not want to see devolved. In the referendum campaign and debate, that element of solidarity on the UK-wide pension came through strongly I can't get particularly religious about other aspects of welfare. With the arguments about housing benefit and what have you, there is a strong case for saying you could devolve those and allow greater local decision making.

Q43 Dame Anne Begg: If you were to devolve housing benefit, which is due to go into universal credit when it is rolled out, that would mean that the roll-out of universal credit in Scotland would take a different form from that in the rest of the UK. Are you quite relaxed about that?

Mr Cameron: This is where we have to let Smith do the work on this issue. Given that universal credit is taking within it so many different benefits—that is the whole point of it—you cannot rule out anything. You can't say that anything involved in universal credit cannot be subject to devolution.

Dame Anne Begg: So the six working-age benefits going into it—

Mr Cameron: If you are saying, "Might universal credit work differently in Scotland from the rest of the United Kingdom?" that would be a consequence of that, but I don't want to go any further or I will put stones in the pond and create problems.

Q44 Dame Anne Begg: You mentioned pensions. Is there anything else about welfare that you would say is sacrosanct and should be a UK-wide responsibility?

Mr Cameron: To me, pensions are the most fundamental. You could make arguments about others both ways.

Q45 Dame Anne Begg: And you would be quite relaxed if your welfare reform agenda was slightly derailed if some of these aspects get devolved.

Mr Cameron: I hope not, because I think that welfare reform is necessary and that it is being successful. The number of people on out-of-work benefits has radically reduced in Scotland and in the rest of the United Kingdom. The country is getting back to work; unemployment numbers are down in Scotland and the rest of the United Kingdom. It is important that we get the welfare bill under proper control. Working-age welfare is still a very large bill and there are still ways we can better allow people to keep more of their own money to spend as they choose, rather than taking if off them and giving it back to them in various welfare payments, but we have to let Smith do his work.

Q46 Dame Anne Begg: That is an argument for keeping everything at Westminster and not devolving anything.

Mr Cameron: I'm trying to answer your question by saying that, to me, the pension is the absolute cornerstone. What does it mean to be British? There are the shared institutions, the shared history, our place in the world and the things that we do together. There is this solidarity aspect to the Union which is terribly important. If Scotland has a bad year, the whole of the United Kingdom is behind Scotland, and the same if England has a bad year. That solidarity particularly attracts itself to the argument about pensions.

Q47 Dr Wollaston: Identifiable spending per head on health is £203 higher in Scotland than in England. You set out in an earlier answer to Margaret Hodge that, as result of Barnett consequentials, that gap could actually get wider, yet you have told us that reforming Barnett is not on your horizon. Could you set out how it could possibly be right that if someone is living with heart disease, dementia, arthritis or cancer on one side of the border, there is so much less of a pot to spend on their health care than there would be if the same person lived on the other side of the border?

Mr Cameron: I don't think there is so much less of a pot. As I said in answer to earlier questions, if we did not have the Barnett formula, we would have to come up with some other formula that would distribute money according to need, and we would sit around and have a debate about that. What we have with Barnett is a system whereby if we spend more in England, it has a consequence for Scotland, which affects the overall level of health spending money that is available in Scotland. Of course, the Scottish Government have the complete power to spend less than that amount of money, more than that amount of money or exactly the same—they have that choice. Again—I am repeating myself—as you increase the amount of tax and revenue that Scotland raises, you decrease the scale of the block grant, so you decrease the relevance of the Barnett formula.

Q48 Dr Wollaston: But surely the problem with Barnett is that it comes as an accident of geography whether you are living five miles south or north of the border. It doesn't actually distribute that funding according to need, deprivation or rurality. All of the things that are

really important for health have nothing to do with it. It is purely an accident of geography, and that is what seems so unfair.

Mr Cameron: That is a good point. My answer to that would be that what Barnett determines is how much block grant goes to Scotland and how much stays in England. It is then up to the Scottish Government, particularly on health, to decide not only how much to spend on health overall, but how to distribute health spending as per need within Scotland. That is a decision that they rightly make. It is a devolved decision, as is public health. There is of course a difference between England and Scotland, because you need to have a formula between the two nations, as it were. Within the two nations, however, we have devolved authorities, such as the Department of Health and Public Health England here in England, that decide how to spend the money, and Scotland has the equivalent authorities that decide how to spend its money.

Q49 Dr Wollaston: I absolutely agree that there needs to be a fair formula for how it is distributed, but the issue with Barnett is that the size of the cake is so different. If you have a much larger cake per head to spend, that is something that you cannot get around. You are always going to have that. That is purely an accident of geography.

Mr Cameron: Well, the distribution of money between England and Scotland, and England, Scotland and Wales, is determined by the Barnett formula. As I say, if you did not have that formula, you would have to have something else, and it would still then be an accident of geography if you were living just one side of a border or just the other side of the border as to which pot your money was coming from. You have the national distributions and then the distributions within each nation, which should be done by the relevant authorities.

Q50 Dr Wollaston: Of course, but I keep coming back to the fact that if you have a larger cake per head of population to distribute in the first place, it is difficult to make adjustments for that which seem fair across borders. I think that £203—

Mr Cameron: No. That's really important, because—

Chair: You've already answered this question.

Mr Cameron: I want one more go, because it's really important.

If Scotland and England were of exactly the same size and scale and there was a radically different distribution, that would have more power. I often say to English colleagues who say, "The Barnett formula is so unfair; it is too much extra money," that if you took all the extra money that Scotland gets from the Barnett formula and distributed it among the 55 million people in England, it would not be pot of gold. If you believe in the United Kingdom as passionately as I do, you have to find arrangements that seem fair between the countries. We shouldn't kid our constituents that there is some pot of gold called the Barnett formula, and that if we only got rid of the Scots having all that money, we could distribute it in England and we would all have lots more money. That is not true, because there are 55 million English people and only 6 million Scots. Don't overestimate the size of this thing, and, as I have said, recognise that it will shrink in its significance as we devolve fiscal powers.

Q51 Dr Wollaston: I take your point that it will shrink in significance. Could you also—this came up during the referendum campaign—set out to what extent the UK Government are actually able to influence health policy in Scotland?

Mr Cameron: This is really important. It is a pity that there isn't someone from the SNP here, because we could have a really good fight about that, as we did earlier—although, of course, we are not here to be political.

Look, it is very clear that the block grant that Scotland gets is dependent on the Barnett formula, but once that money has gone to Scotland, it is absolutely up to the Scottish Government—health is entirely devolved—to decide whether to spend all of that money, less than that money or more than that money. It is their decision, and it is also their decision how to spend it—which hospitals get the money, which doctors and what public health programmes. That is devolved, so the idea that the continuation of the United Kingdom could damage the Scottish health service is nonsense. I think the SNP knew it was nonsense when they said it, but they went ahead and said it anyway, because they thought it would win them votes. Ultimately, I think the Scottish people saw through that. It is up to Scotland.

Q52 Chair: What is it like in your position in general elections, as a party leader—not just you, but the others as well—when you say a lot about health and the direction that you want to health service to go in, but what you say does not apply to Scotland, Wales or Northern Ireland, yet is often central to election campaigning?

Mr Cameron: There is a problem we all have, which is that we need to explain better to people which powers are operated where and by whom. I think that because it is a national health service, people think that somehow all the levers are pulled in Westminster, but when you are talking about the health service in Scotland, that is simply not the case. Reversing out again into the big picture, that is part of the reason for trying to get the constitutional settlement clearer, so then people in Scotland know, when they pay their taxes, where their taxes go and who is responsible for spending the money.

At the end of the day, there is no harm. We have a lively debate about the health service in Wales and the health service in England. We should not shy away from comparing our systems and how we are doing—how much money we are spending, the decisions we take, the transparency we have, and the performance of the health service in England versus in Wales, or in Wales versus in Scotland. Indeed, we should do that for education. In our United Kingdom, our politics should be robust enough that we can have a lively debate about the performance of public services in different parts of the United Kingdom.

Q53 Chair: And for those who live in border areas, presumably you would expect the management of various services to make it as easy as possible for people still to cross borders.

Mr Cameron: Yes. That is absolutely right. It is perhaps probably even more of an issue in Wales than it is in Scotland because of the nature of the border. In all the things we do, we need to make sure that we reflect that, because a lot of Welsh MPs will have an interest in the English health service because their constituents use it. That applies across the board.

Chair: Margaret Hodge has a supplementary to ask.

Q54 Margaret Hodge: I am all for comparing our systems. The UK system, particularly for England, is the most centralised system I have come across in relation to how you raise tax: 100% of tax for an English resident is controlled by Government, because, as Clive Betts, said, even if you look at council tax, that is capped and frozen. Everything is controlled. If you want a sustainable and fair settlement that everybody can buy into over time, one of the arguments is the devolution of tax-raising powers.

As the London MP at the table, I look at, for example, Crossrail. That was an issue when I first got involved in politics over 40 years ago. We needed to build Crossrail 1. Everybody now recognises that you need Crossrail 2—now; it cannot be another 40 years until that is implemented—yet the ability to raise the money in London to pay for that infrastructure simply is not there. I don't know how you think we can sustain a fair and transparent system. It is not solely about who votes on laws. It is also about who decides and votes on taxes, and where they are raised and how they are spent. You have really got to grasp this nettle and think about devolution of tax-raising powers in property taxation—a lot of work has been done around that—so that decisions can be taken in big city regions such as London without the need to wait for agreement across government and without the massively centralised system that we currently experience in the UK.

Chair: I think you should take it away and think about it.

Mr Cameron: No, let me give an answer. I am very proud of the fact that as Prime Minister, I gave the green light to Crossrail, and it is on time and on budget and is going to be a fantastic piece of infrastructure for our nation.

Q55 Margaret Hodge: It took 40 years.

Mr Cameron: Yes, I agree with that, Margaret, but the point is that in the end it was funded. Remember that Crossrail is the biggest construction project anywhere in Europe today. The idea that, in any system, London would be wholly able to invest in that literally on its own, without the rest of the UK—no one would say that. What you need is a sympathetic Government that understands the long-term needs of infrastructure and London authorities that have ability and financial muscle. I would argue that that is exactly what we have had with the Mayor of London, who has the ability to help bring together that money, and that is why it has gone ahead.

Of course there are arguments for further powers in London, as in other cities, but London is doing extremely well. The model of a successful, hard-working, effective Mayor and a Government that understands the significance of our capital city not just for itself but for the whole country is delivering. London is growing. Its economy is doing well. The infrastructure going into London, like Crossrail, is superb, and we are about to extend the Northern line. It is working.

Chair: I do not want to deprive you of your opportunity to answer Mr Walker's question.

Q56 Mr Walker: Prime Minister, how do you think things are playing out at the moment as far as the discussions are going? Expectation was very high post-referendum. We have to remind ourselves that the SNP were on the losing side, although on occasions it seems they forget that. We are at the tail end of a Parliament. These are really big issues. This is the

future of the United Kingdom that we are talking about. I hope you don't feel any need to rush things. We want to get the right settlement and not something that ticks the boxes in advance of a general election but proves to be unsustainable.

Mr Cameron: There is no need to rush, but we have a timetable. It is a timetable for setting out the steps for Scotland, with draft clauses in January. The legislation is always going to be for the next Government, but it is good that all the parties have committed to taking it forward.

I do not feel uncomfortable with it at all. For our part in the Strathclyde commission, Tom Strathclyde's work was excellent, and it is very centre-ground about what the devolution should look like, so I feel very comfortable with it. I have increasingly come to the view that the devolved settlements will only work if they have responsibility for raising more and spending more of their own money.

As for the English question, again, no need to rush, but a lot of work has been done over a lot of time on how to answer the West Lothian question and come up with an answer that works. Andrew Tyrie and Ken Clarke did some very good work in opposition, and we have had the McKay report since then; Lord Norton did a very good report. So there is a menu of options out there to make the system fair. We have got to make some decisions about the right combination of items, but I think it can be done.

Q57 Mr Walker: You said earlier that you don't want to create an English legislature; you don't want another tier of government. There are lots of ideas out there about how you could allow English Members of Parliament to make up their minds on English laws. One of the suggestions made, I think, by our party a year ago was the idea of a fourth reading of a Bill, which would mean a Bill would be voted on finally by English Members of Parliament to make sure that they were happy with the content of the legislation before the House. How would you feel about that?

Mr Cameron: The way I would describe them—I will try not to take too much time over this—is that Lord Norton's proposal was perhaps the purest and simplest: you designate a Bill, if it applies only to England or to England and Wales, and then every stage of that Bill is carried out in this Parliament only by English and Welsh MPs. That is probably the purest form. McKay is probably the gentlest form. McKay introduced the principle that you just enunciated: matters that affect England or England and Wales should not be done without the consent of English or English and Welsh MPs, so you have the concept of a legislative consent motion. That is McKay.

I think the middle ground—he is here, so he can correct me if I have it wrong—is the Tyrie-Clarke proposals, which were to have a Second Reading of a Bill by the whole of the House and then, if it only really applies to England or England and Wales, to have a Committee stage and a Report stage where the MPs affected discuss, debate and amend it. Then you would give the whole House of Commons a sort of lock at Third Reading, because everyone would then vote. You would sometimes end up with quite a lot of negotiations between English MPs, who might take a particular view, and the Government of the day before Third Reading. That has a lot of attractions.

My view is that there are three good models. We might want to take a look at taking elements from each of them, but there is a way of comprehensively answering this

question while maintaining the integrity of our Parliament and our system that I think can build popular support.

Q58 Mr Walker: Finally, are you satisfied that all parties are playing a constructive part in these discussions? I know that you are fully committed to finding a way forward, but are you happy that other party leaders are engaging as fully in this process as you are?

Mr Cameron: As I said to Mr Betts, when we all got a bit heated, no, I am not really satisfied with that. I would understand it if I thought this question did not have an answer, but I think it really does. There is a Cabinet Committee that has Conservative and Liberal Democrat members and it is working well and doing good stuff. We invited Labour to take part, but they didn't want to take part; I hope they will still engage in this debate. I think decision time is coming pretty soon. If we are going to have something available on a similar time scale to Scottish devolution, we need to set out proposals. Just as we are going to have draft clauses for Scotland, we are going to need proposals for how we answer this before the election in the early part of next year. Every party will have to put in its manifesto what it is going to do, but I am very convinced that I will have a clear plan for how to address this issue on a similar time scale to what is happening in Scotland.

Q59 Mr Tyrie: You've described the McKay proposals as requiring English consent to legislation, but that is not correct, is it? The McKay commission did not propose that.

Mr Cameron: The proposal provides for MPs from England and Wales to voice their consent to the final Bill, after Report but before Third Reading. It is not quite as we were discussing. It is like that.

Q60 Mr Tyrie: So, in fact, it is not consent but to provide a voice, which may then be overruled by the UK Parliament. Just to be clear. That is what the McKay proposals mean.

Mr Cameron: That is right, but my understanding—you can correct me—is that the proposals that you and Ken Clarke—

Mr Tyrie: I just want to clarify.

Mr Cameron: I want to make sure that I understand your proposals, too.

Mr Tyrie: Let's come back to my proposals in a moment, if you want. Let's just clarify what McKay says.

Mr Cameron: McKay says that England or England and Wales MPs would voice their consent to the final Bill, or the relevant parts of it, after Report but before Third Reading. A motion will be put immediately after Report to agree without debate those measures relating only to England or England and Wales, which could be voted on by England and Wales MPs only. That is the way that McKay would work.

Q61 Mr Tyrie: So it is a voice. He provides a voice for the English that can then be overruled on Third Reading.

Chair: Any of us can go back and find the answer to that question in the documents.

Mr Cameron: What I was trying to say is that Norton is the most full-throated, Tyrie-Clarke is in the middle, and McKay is probably the least strong but introduced some important principles. I am sure that we can come to a combination.

Q62 Mr Tyrie: I want to get on to the principle, Prime Minister. I want to establish the principles that should guide where on the spectrum—as you described it, whether or not it is a spectrum—of all these measures you would want to end up. Do you agree that the phrase "English votes for all English laws" will be taken by English voters, and probably Scottish voters, Welsh voters and everyone else too, to mean that the English can ultimately veto or prevent the imposition of a piece of legislation that affects only them?

Mr Cameron: Basically, yes. *[Interruption.]* Hang on. I want to get this right. I would say that the principle is that, where there is a separate and distinct effect on England, the consent of English MPs should be required. To answer your question, I think that, yes, you have to be able to put that principle into practice.

Q63 Mr Tyrie: It might be helpful, and much quicker, if we just photocopied the very good guide that you clearly have in front of you.

Mr Cameron: If you can read my handwriting. You would be pushed to understand my scribbles.

Q64 Mr Tyrie: In that case, what is required to deliver that consent? That is the question. Whether we use what are called legislative consent motions or just give a simple power to the English at Report stage—it may be the English and the Welsh, for certain Bills—do you agree that the decision about that and the Fourth Reading proposal that was made a moment ago has to be taken at least on or after Report? It cannot occur before Report, because if it does, the Bill can be amended back to its original form using UK votes.

Mr Cameron: I think that there is a very strong argument for that. That is the effect that you want to achieve. Trying to stand back from the detail for a second—

Q65 Mr Tyrie: When you say, "you", is that you or me? Is that the effect that you want?

Mr Cameron: It is the effect that I believe we should achieve.

Q66 Mr Tyrie: Excellent.

Mr Cameron: I hope that we are on the same side.

Q67 Mr Allen: Prime Minister, my Select Committee is obviously very involved in all these devolution issues. We can send you lots of papers, including one on income tax assignment which I think you would find quite interesting. Many of us, and perhaps millions of people out there, thought that the brilliant democratic adventure in Scotland would be a springboard and an opportunity for serious devolution throughout the Union. That would include things like attacking the sclerotic and frankly hated over-centralisation that Mrs Hodge referred to, giving freedom to English localities by devolving to English councils and perhaps even doing something on the second Chamber by bringing in elected elements from the four nations of the Union. It would probably also mean clarifying or even, dare I say, codifying the relationships within the Union so that this could last for 100 years. Do you think that we, or

perhaps you and the other party leaders, have missed a tremendous opportunity to bottle that enthusiasm and go forward with a serious programme of devolution throughout the Union?

Mr Cameron: No, I don't think so. We have to take this in stages. We have very important pledges made to the people of Scotland that must be delivered, and that will happen. We have the process of Welsh devolution, which we should not underestimate. In this Parliament, we have gone from a Welsh consultative Assembly to a law-making body, having had a referendum. We are now legislating for the option of a tax-raising Assembly in Wales. We have all the things that we have already done in terms of local authorities, but we need to sort out the English votes issue together with Scotland and Wales. There is then a process—I talked about a process of civic engagement to look at how we empower our great cities and improve governance across the UK. There is an opportunity to look at some of the questions that you raise, but I do not think that we are missing—we have to take it in stages. There is this England-Scotland-Wales issue that we need to sort out first, and then there are other issues that we can come on to.

Q68 Mr Allen: You seem very chilled and relaxed, Prime Minister. Nine weeks ago, we were within 400,000 votes of the Union dissolving. Twenty-three million people did not participate at the last general election. An extreme party of the right has come from virtually nowhere and is on about 25% in opinion polls. Is devolution not part of the answer to some of those questions? Engaging people, letting people own their own democracy locally, clarifying some of the rules so that people understand where we are—do you not see that devolution presents that opportunity? Will history not judge you quite harshly if you miss this opportunity?

Mr Cameron: I will make a couple of points. First of all, I was anything but relaxed about the referendum in Scotland. I care passionately about the United Kingdom. I could not have been more clear about my own views on how much I cared about this. I could have taken the view of standing back and saying, "Well, it's nothing to do with me. I'm not going to get involved." I went up and said that it would break my heart if Scotland left the United Kingdom. I felt incredibly strongly about it and I was obviously not relaxed for a moment about it. I played every part that I thought I could in that campaign. I think that it was the right thing to do; I do not regret for one moment holding that referendum. Scotland voted for a Scottish National Party Government. If you have a system of respect, you have to respect that. It was right to have that referendum.

Q69 Mr Allen: But you are almost breathing a sigh of relief, rather than capitalising on that momentum.

Mr Cameron: I don't accept that. If we were breathing a sigh of relief, why would we be preparing further Scottish devolution? Why would we be legislating for Wales to have tax-raising powers? Why would we be signing city deals with 27 cities in our country to give them powers and money? Why would we be considering some of the issues that you raise? I do think that giving people more power and influence locally can make a difference to civic engagement and voting, but I would say that the real argument that comes out of Scotland is that when there is an incredibly important decision, people do turn up and vote.

We have to explain in our own ways for our own parties how important the next election is and what a difference voting makes. I argue that this Government have been a Government of extraordinary devolution. We have made the biggest act of fiscal

devolution in 300 years to Scotland and there is the referendum on Wales. There has been a huge amount of devolution to our cities and there are more powers to come for Wales and Scotland, quite apart from the other kinds of devolution. Often, we talk about devolution to politics and politicians, but there is all the devolution with neighbourhood plans. People can draw up plans for their area. There is also the devolution involved in allowing people to set up free schools and run academies. Devolution to people is as important as devolution to sets of politicians.

Chair: Final point from Mr Allen.

Q70 Mr Allen: I do not demur from any of the achievements and congratulate the Prime Minister on them, but history has delivered a moment where we can take this further in a way that many of us never thought was possible. There are threats now, which are highly significant, to our democracy. Do you feel that a constitutional convention, starting to meet before the general election or, indeed, something looking at codification, might be one of the ways in which we can capitalise on the opportunity and oppose some of the very serious risks that I listed?

Mr Cameron: First, on codification, I have never been a great—look, I think there are arguments for written constitutions and all the rest of it, but I do not think that that will light the blue touch paper of public participation in politics. In terms of conventions, what I have said is that we should have wider civic engagement on improving governance, and I am happy to look at different ideas and models. I hope we will not write Parliament out of this. Sometimes, when we talk about these conventions, we forget that we have an organisation where the country is divided into 650 parts. We all stand; we have elections; people choose representatives and they send them to somewhere, and it is called Parliament. I hope we will not write out Parliament's role in discussing how we improve governance. I am all for ways of engaging people.

Q71 Mr Allen: So you would like my paper from my Select Committee on how you can run a constitutional convention and involve civic society.

Mr Cameron: I can hardly wait. My Christmas reading is backing up.

Q72 Mrs Ellman: Transport is a key part of existing devolution and the devolution being offered. It is well established in Scotland, Wales and Northern Ireland, and referring to what you said, it might be extended there. London has Transport for London, which is much admired. When we look at what is being offered within England, it is piecemeal and unclear. Transport for the North, Rail North and the combined authorities are all being offered something different. In some places, it is not at all clear what is being offered. It is totally piecemeal and disjointed. Is there a policy on devolution with transport in England?

Mr Cameron: Yes, there is. We are in favour of it, and we are doing it. You do not have to do everything exactly the same in every part of the country, but what we are proposing in the north of England is significant. You have a new body—it is like Transport for London, which has done such a good job in London—with Transport for the North, and that is a big change. You have the concept of the northern powerhouse and high-speed rail across the Pennines to link our big cities. You have got the changes in Greater Manchester, which will be moving to a metro mayor, with significant powers and funds under their command to drive progress in that vital city. This goes back to Clive Betts's argument: a lot of

devolution and decentralisation is taking place, including of powers and money, and transport is absolutely key to that.

Q73 Mrs Ellman: But none of the things that you have spoken about are clear in what they actually mean in terms of powers. Let's take Rail North. That started off as a grouping of local authorities across the north having devolved responsibility to work out the best rail service for their areas. That has now changed. It is now described as a partnership where the Department for Transport will take the final decision. It is not really devolution at all. Everything seems very unclear about just what powers are being offered. Are we satisfied with that situation?

Mr Cameron: If you are saying, "Why don't you scrap all the existing organisations and bodies and come up with a complete shiny new set that makes perfect logical sense?", I do not think that that is the right way to run things. It is better to build on what you have, to devolve and to give greater power. To me, Transport for the North is exactly in line with that, as is what we are doing with the Manchester metro mayor and city deals that we are doing across the country. When I talk to the leaders of Manchester, Liverpool or Birmingham, none of whom are in my party, they all welcome the city deals, the greater powers that they have over transport, the greater ability they have to help put forward the transport projects that they want and the greater funding that they are getting. I don't really recognise the picture. It may not be perfectly neat and symmetrical in every sense, but our cities are very different.

Q74 Mrs Ellman: But Rail North is something new, and it has changed from the way it was presented to the way it is now. How are your policies going to affect the gross differentials and disparities in spending on transport and investment in transport in different parts of the country? London has greater needs—now preparing for Crossrail 2, which I know there is a very strong argument about—but already Government figures show that spending on transport in London is at least three times as much per head as other parts of the country. The recent IPPR report shows that planned infrastructure spending, including transport, is about 24 times higher per head in London than in other regions. How is that going to be addressed? You don't seem to have any—

Mr Cameron: Well, we do have a plan. If you look at the city deals, you will see that the city deals in Birmingham and Manchester are, in some cases, two or three times larger than the city deal in London. If you look at the investment plans— HS2, HS3, electrifying the trans-Pennine line, electrifying the midlands main line—they are all about trying to shift the balance in our country and rebalance between London and the rest of the country. But, of course, the London figures are affected by Crossrail, which, as I said, is the biggest infrastructure project anywhere in Europe. It is not surprising that the figures tell the story that they do because of the scale of Crossrail, which is so large. The whole impetus of this Government on the long-term infrastructure plan—you will hear more about it in the autumn statement—and in the city deals, is to devolve that power and spending, and to build the other regions and great cities of our country.

Q75 Mrs Ellman: The city deals are certainly very much to be welcomed, but they do not address this gross imbalance of spending. You have spoken about Crossrail, but London always has needs and they are continuing. These figures are not just plucked out of the air, referring to one year; it is a trend that has been there for a very long time. Are you saying that

city deals, on their own, are going to correct that? By definition, the city deals are separate entities—

Mr Cameron: I see your point. It is a combination of things. If you look at the Government's infrastructure plan, first of all, the city deals start to address the issue because we are devolving money and powers to those cities. If you look at the infrastructure that we are planning—things like the completion of the Northern hub, the electrification of the trans-Pennine line, HS2, particularly as it goes north of Birmingham, and the Mersey crossing—you're going to see very large projects built in the north-east, north-west, Yorkshire and Humberside, which I think help to rebalance our country. The plan is pretty clear there.

Q76 Mrs Ellman: I think that all of those projects are very much welcome, but they do not correct the imbalance that is there. While this is going on, greater spending is happening elsewhere and that has an impact on the economy, on regional economies and on having a stable entity in the way that you describe that you wanted it to be.

Mr Cameron: Well, London is not just a city; it's the capital city. The transport needs are huge and that has an enormous effect on the rest of the country. With projects like Crossrail—and, obviously, the Tideway tunnel is huge, too—and the issues that we have over river crossing, it is in the interests of the whole economy that these things are progressed. I would say to you: look at the overall programme, which is the biggest road spending programme since the 1970s, the biggest investment in railway infrastructure since Victorian times. A huge amount of that is concentrated outside of London. That will help to rebalance the economy, and that is the aim. The aim of all this is an economy that is not so reliant on London and the south-east. The whole concept of the northern powerhouse is linking cities, which on their own are significant entities but together can be even stronger. That has cross-party support and will make a real difference to our country.

Q77 Mrs Ellman: It does have cross-party support and enthusiasm, but are you looking again at the way that spending and money are assessed, and giving as much weight to potential economic regeneration powers as to pressure of population? That is an underlying issue.

Mr Cameron: I completely agree with that. The way these city deals are supposed to work—and to an extent they do work—is that Whitehall works out where the money is that we could put into the pot with Birmingham or with Manchester and Leeds. Then, in response, Manchester, Birmingham and Leeds are supposed to go through these questions: "What are the projects we need funded? What is the brownfield land we can make available? What are the skills that we can increase? What are the needs of the local area?" You put that together in a deal that results in massive investment, growth, jobs and land supply being made available. We have been talking today about mechanisms to make things work. In our system, this is quite a good mechanism for building a proper partnership between central Government and city government that can make a real difference to the local areas.

Q78 Chair: I think Mrs Ellman was drawing a rather important distinction there between following growth, as in London, and promoting growth. We have to wait for the autumn statement to see how far that applies.

Mr Cameron: I have taken enough flak over HS2. As a signature project, that is about trying to link our country up, linking eight of the 10 biggest cities—a massive public infrastructure project that can really have an impact on the economic geography of Britain, and funding that at a time of difficult national decisions, I would argue that we are absolutely putting the rebalancing of the country first.

Q79 Andrew Miller: During the independence campaign a huge amount of concern was expressed by the science community about how things would work out should the vote have gone the other way. Developing this discussion this morning about further devolution, I am absolutely with you that jobs and growth should be at the centre of our discussion in the science areas where we will create a lot of our future jobs. There are some structural problems within this area: research council allocation; if you have various levels of company tax, R and D tax credits will vary up and down the country. How do we fund international projects, CERN, astronomy, oceanography and so on? What is your vision for solving those problems?

Mr Cameron: I was very struck in the independence debate by how strongly the science community came out and said, "Look, the current system works on a UK basis and works well. The UK research councils and the way they fund research at different universities is an effective system. It would be tragic if that were broken up." I think in their own way they made a very powerful argument for keeping the United Kingdom together. Added to that, the devolved authorities can back science, projects and universities in their own way as well. I don't see this system as fundamentally broken. I think it is fundamentally quite strong. I think we should try and build on it rather than replace it. If you have particular suggestions about how we could make it better, I am happy to entertain them.

Q80 Andrew Miller: In the context of just looking within England, there have been some attempts—the Chancellor has been quite outspoken on this, which is welcome—to try to get some of this significant science investment across England and across the UK rather than focusing everything in the golden triangle. Within a devolved environment, how would you see that happening?

Mr Cameron: If you think of some of the things the Government—

Andrew Miller: It has to be led by good science.

Mr Cameron: Yes, it has to be led by good science, but I am trying to think of—

Andrew Miller: It also has to balance the economy.

Mr Cameron: Look, if you think of how the Government have been approaching investment in science, as well the UK research councils, you have that part of scientific endeavour that is closer to the market—things like the catapult centres, which are about taking vital technology and turning it into inventions and growth and jobs. Those we very consciously have distributed in different parts of the country. Imperial College is an absolutely vital part of our science infrastructure, but we really do want to back other things, whether it is Daresbury Science Park, Jodrell Bank, the expertise there is in Oxford and Cambridge, the brilliant work that is being done in life sciences in Newcastle and elsewhere. So there is an understanding of that through the catapults. There is an understanding of that through the UK science funding. Again, with these city deals, we

have been hearing from cities where they see a great coming together, for instance, of medicine, science and research and how they can back that. The structures that we have—catapult, city deals, UK research councils—should deliver science investment in the regions, rather than having it in London.

Q81 Andrew Miller: So you don't see a Welsh research council?

Mr Cameron: I think that the Welsh Assembly Government should look at how they can back further what the UK research councils do. So, for instance, if you go to Cardiff University—there are universities in Wales that have particular expertise in particular parts of science. There is some very good work on renewable energy, for instance. The Welsh Assembly Government is absolutely free to think how it further wants to support that science and research work. But I don't think we should scrap the UK research councils and devolve it all. I would keep them together and then see if the devolved authorities want to do more, which in many cases they do.

Chair: Thank you Prime Minister. We look forward to questioning you again on different subjects on Tuesday 16 December.

Mr Cameron: Excellent.

Chair: It's in your diary.

Mr Cameron: So soon.