



Commission on Devolution in Wales
Comisiwn ar Ddatganoli yng Nghymru



Blavatnik School Presentation

June 2014

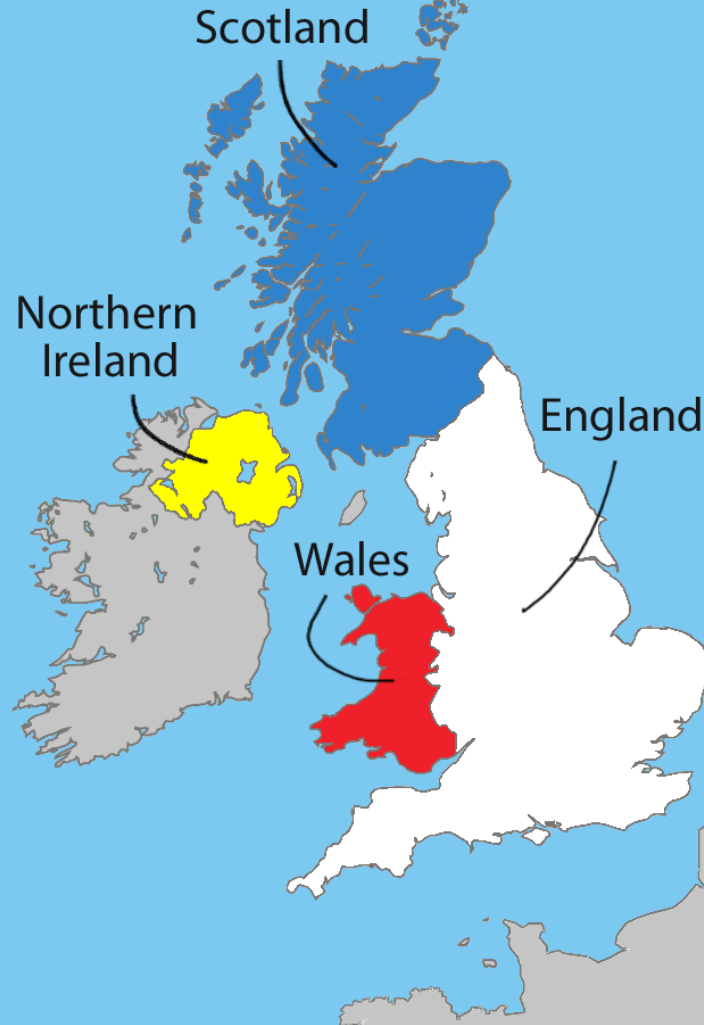


| The United Kingdom

- No written constitution
- Concept of a sovereign Parliament
 - But Europe
 - But devolution
- Not a federation but a quasi-federation
- No balance
- Scottish referendum

The United Kingdom

on Devolution in Wales r Ddatganoli yng Nghymru





| What is Wales?

- Wales one of four nations of United Kingdom – all except England now have some self-government
- Wales population is 3m (UK is 60m)
- Two official languages
- Many migrants into Wales from 19th century
- Economic prosperity declined since 1910
- No separate legislature in Wales from 16th century until 1999



Half a millennium of history in one slide.....

- Conquest of Wales by English kings in 14th century
- Abolition of separate Welsh laws in 16th century
- Self-government movement in Wales in 19th century
- Plans abandoned when World War I broke out



Administrative devolution

- Welsh Department in UK Board of Education in 1907
- UK Minister with responsibility for Wales from 1950s
- Welsh Office established in 1964 as UK Government Ministry



Constitutional change

- Kilbrandon Commission in 1973
- Wales Act 1978
- Referendum 1979– rejection by 79.7% to 20.3%
- Conservative Government 1979 to 1997: perception of English bias
- Scotland better prepared than Wales
- 1997 referendum– a yes vote, but only 50.3% to 49.7%



Devolution: model 1

- Government of Wales Act 1997
- “Corporate body” model
- Secondary legislative powers only
- Breakdown of corporate body model, with *de facto* emergence of government and legislature
- Richard Commission 2002-4



| Devolution: model 2

- Government of Wales Act 2006
- Formal separation, with creation of Welsh Ministers (First Minister as Chief Minister)
- Legislative powers – but limited: powers to make Measures; parliamentary control of legislative competence
- Possibility of primary powers



| Devolution: model 3

- Jones-Parry Commission 2006-7
- Referendum in 2011 – 63.5% in favour of primary powers, 36.5% against
- 20 devolved subjects, but subject to many exceptions
- Conferred powers (different from Scotland/Northern Ireland)



What is devolved and what isn't?

- Devolved subjects
 - Agriculture
 - Culture and sport
 - Economic development
 - Education
 - Environment
 - Health
 - Local Government and Housing
- Non-devolved
 - Taxation
 - Macro-economic policy
 - Policing and Justice
 - Social Security
 - Defence and Foreign Affairs



Devolution: model 4?

- Silk Commission
- First Report in November 2012: limited taxation powers – being enacted
- Second Report in March 2014: for General Election 2015?
- “Process not an event”



How is Wales funded?

- Barnett formula
- Devised in 1970s as quick fix
- Any public expenditure rise in England on services that are devolved is reflected , on a population basis, by rises in central government grant to Wales (and Scotland and NI)
- No hypothecation – so a rise in health spending in England could be spent on roads in Wales
- No recognition of need
- Unfair to England? Too generous to Scotland?
- Reform would be politically incendiary
- Holtham Commission



Commission on Devolution in Wales

- October 2011 to March 2014
- Remit set by UK Government with agreement of four main political parties in Wales
 - “Calman-like process for Wales” – but Wales is not Scotland
- Two Parts
 - Tax and borrowing powers
 - Non-financial powers
- Diverse group
 - But senior enough to depart from orthodoxies
- Unanimous = authoritative



The process...

- Open, transparent, consensual
- Consulted extensively across Wales
- Evidence-taking – formal and informal
- Opinion-polling
- Visited other parts of the United Kingdom
- International Experience
- Important to gain wide degree of support



Part I

“To review the case for the devolution of fiscal powers to the National Assembly for Wales and to recommend a package of powers that would improve the **financial accountability** of the Assembly, which are consistent with the **United Kingdom’s fiscal objectives** and are likely to have a **wide degree of support.**”

Excluded from remit:

Barnett formula

Existing Borrowing powers



Principles-based

- Accountability
- Empowerment
- Efficiency
- Economic Incentivisation
- Equity
- Do benefits outweigh costs?



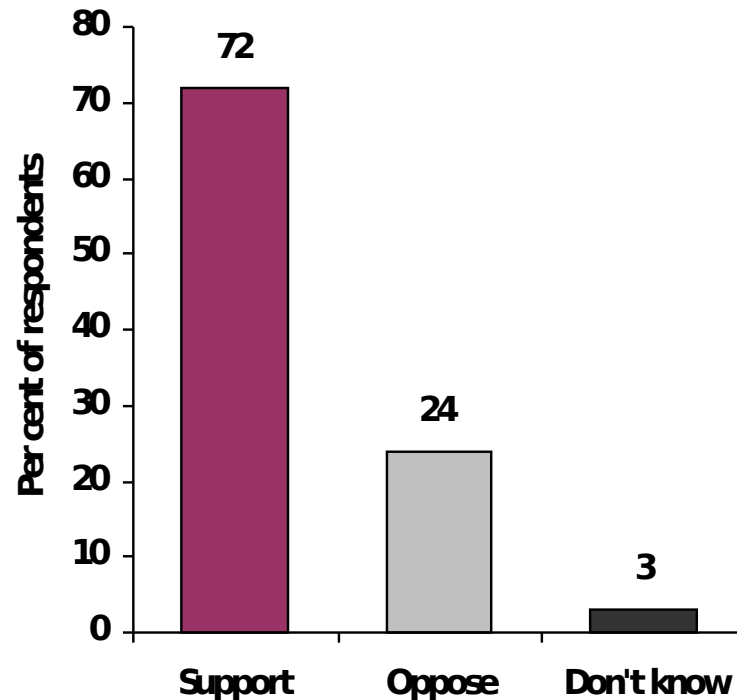
We proposed...

- Welsh Government should be empowered to take tax decisions in devolved policy areas.
- Tax base should be shared, but grant aid should continue
- Devolving landfill duty, stamp duty land tax, aggregates levy and what remains to be devolved of business rates
- Air passenger duty should be devolved on long haul flights initially
- Powers to introduce new levies and revenue to reflect Welsh priorities and circumstances
- Devolution to be considered when UK Government changes tax policies



Support for powers to introduce taxes along the lines of the plastic bag levy

Do you support or oppose the Welsh Government being able to introduce a new tax or charge to try and change people's behaviour?



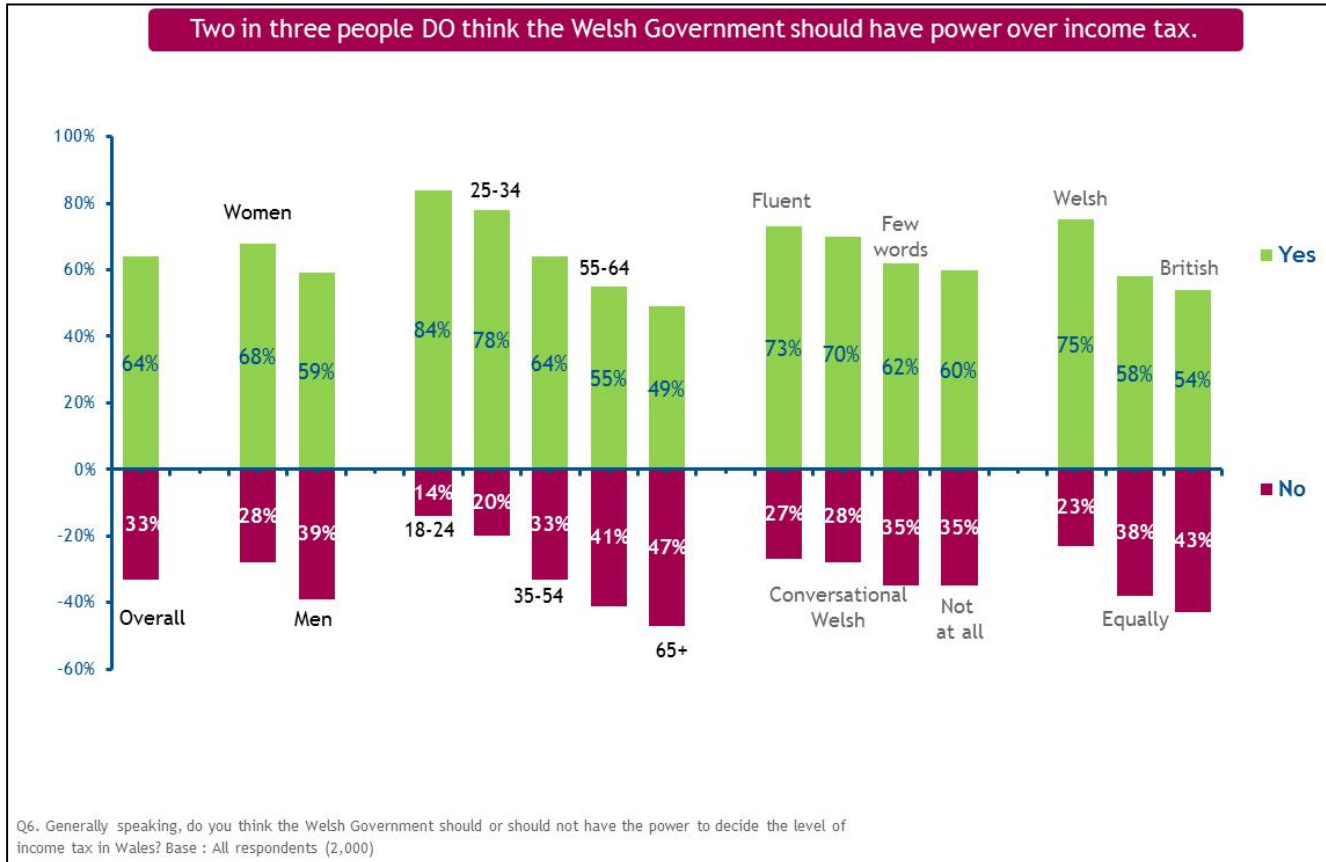


We proposed...

- The Welsh Government should have some responsibility for the money it spends
- A major tax needs to be shared
- VAT and National Insurance Contributions not suitable for devolving
- Due to its mobile and volatile nature, devolving Corporation tax could be problematic but should be kept under review
- Income tax – the only remaining tax that affects everyone and raises large amounts



Support for income tax devolution?



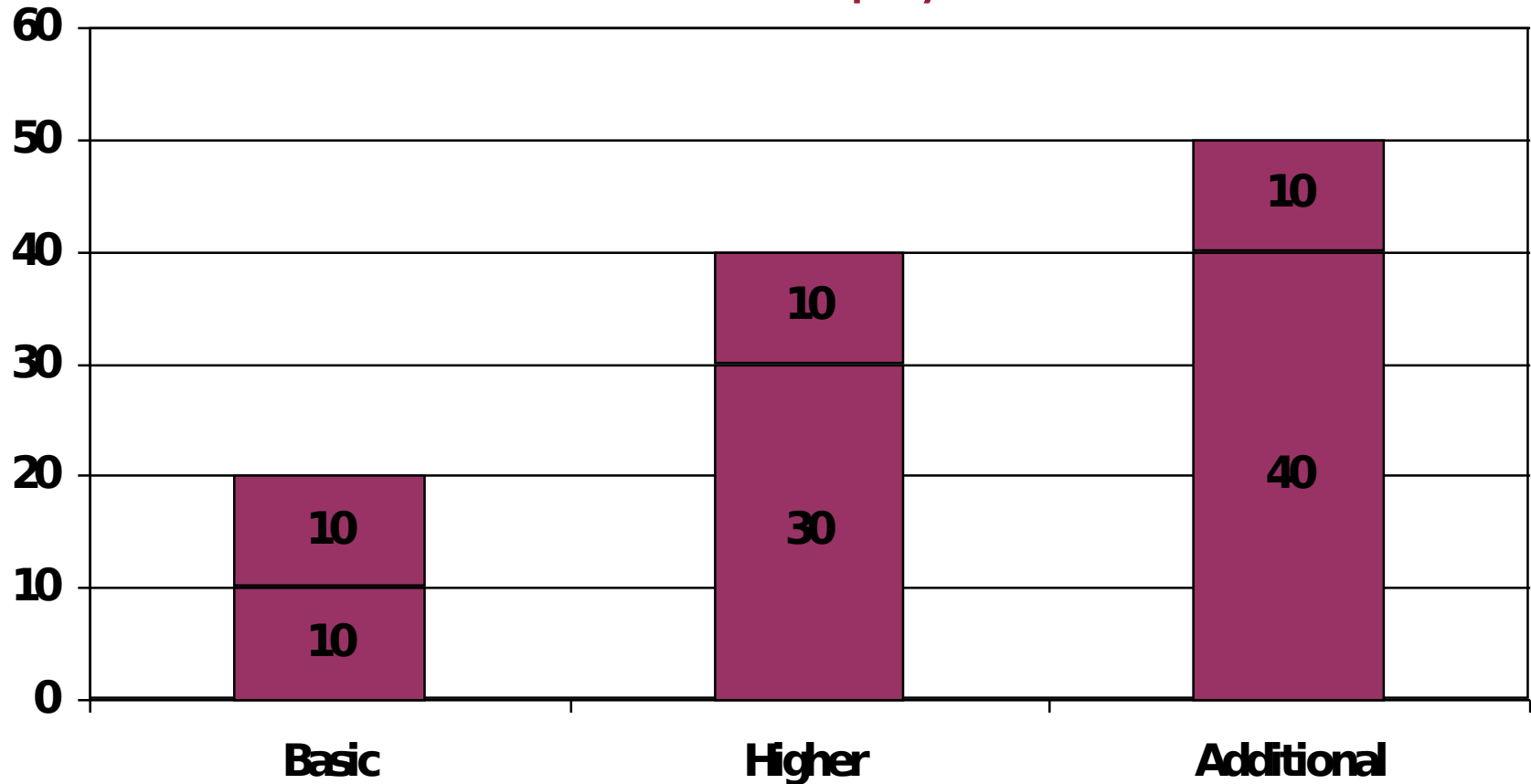


On income tax, we proposed...

- Responsibility for income tax be shared between Welsh and UK Governments, with Welsh Government setting income tax rates
 - This would empower it to change the Welsh budget and incentivise economic growth
 - Political parties will offer the Welsh electorate a real choice on taxation and public spending
- Had to consider how tax devolutions should interact with the block grant
- Is Wales too poor to have income tax devolved?
 - income tax yield in Wales has been growing quicker than the UK average
- How would the recommendations work?

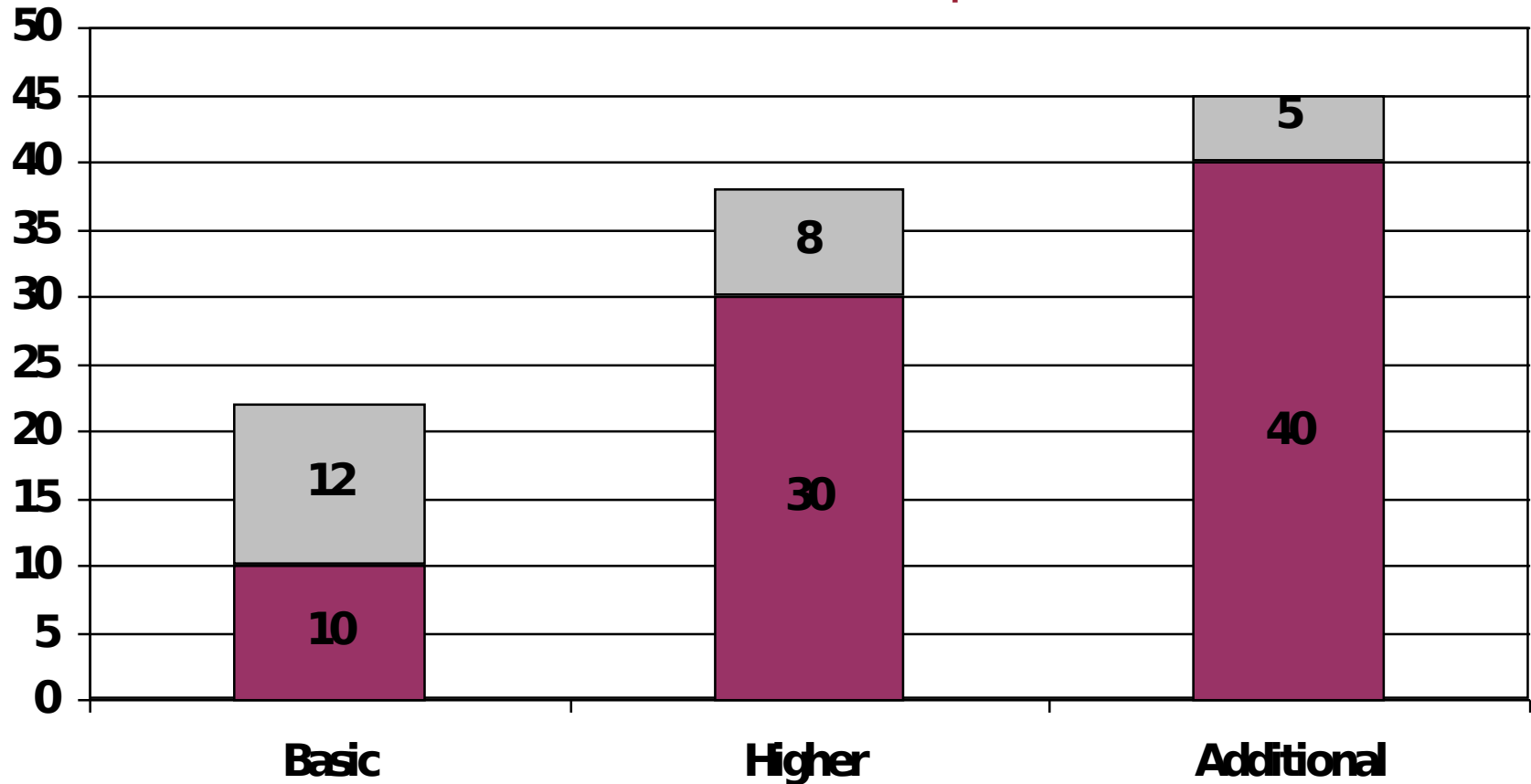


Step 1: UK Government reduces each rate by 10p for Welsh taxpayers



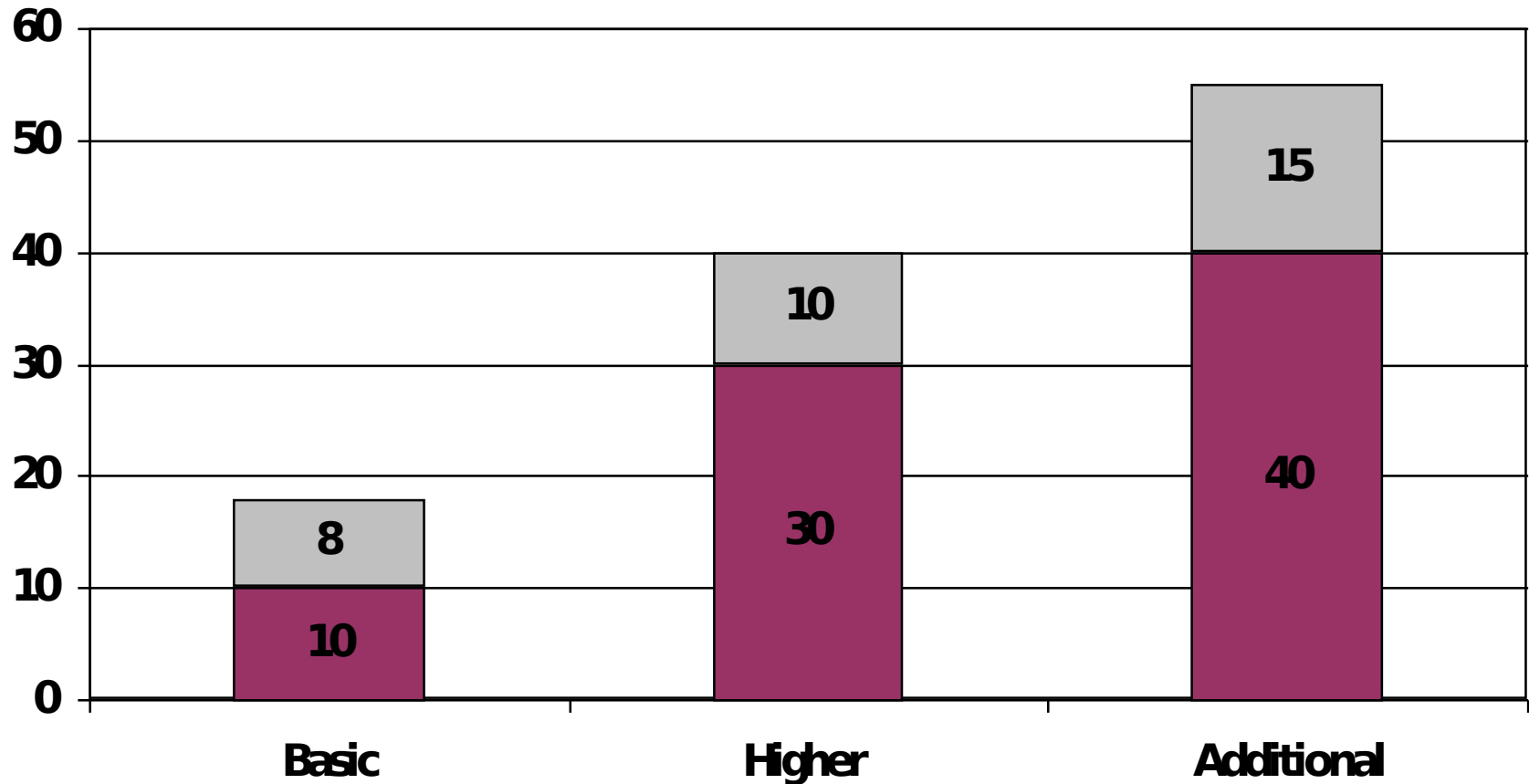


Step 2: Welsh Government has the power to separately set each rate in Wales - Example 1





Step 2: Welsh Government has the power to separately set each rate in Wales - Example 2





Why did UK Government not agree?

- Ostensible reason – progressivity a matter for UK Government
- Real reason: concern about tax competition?
- Paradox of a Labour Government in Wales reducing higher tax rates – but clearly in their interests to do so



Other proposals

- Powers to borrow for capital and current spending, subject to prudent limits agreed with the Treasury
- This would allow investment in devolved infrastructure
- Reviewed a number of other useful mechanisms for increasing investment in Wales
- A range of measures to improve information and institutional arrangements



Comments on borrowing

“The current system has shown that it cannot provide the funds needed to create jobs and better infrastructure in Wales. If Welsh politicians feel borrowing powers will help in this cause then it is only just that they gain these powers. The Welsh Government should be free to choose suitable sources of funding. Improved infrastructure could help investment into Wales”

“But up to set limits related to the W G’s ability to repay loans. We do not want to get into the financial mess afflicting the UK at present”



Next Steps

- The UK Government has responded to most of our recommendations, with a Wales Bill in this Parliament.
- But some important exceptions
- The Welsh Government and National Assembly for Wales have started building their capacity, including developing Welsh Treasury.
- BUT: eventual devolution of income tax conditional upon resolving fair funding issues and should require endorsement via a referendum.



Impact on Wales

- Gives Wales its own tax and borrowing system for the first time.
- Around 25 per cent of devolved spending in Wales will be financed by Welsh taxes.
- Gives Wales part of the responsibility for setting its own budget for first time.
- Gives Wales a new set of economic levers incentivising a stronger Welsh economy.
- Brings Empowerment and Responsibility and ultimately strengthen Wales and its democracy.



Part II Terms of Reference...

To review the powers of the National Assembly for Wales in the light of experience and to recommend modifications to the present constitutional arrangements that would enable the United Kingdom Parliament and the National Assembly for Wales to better serve the people of Wales.



Vision and principles...

Vision:

We believe that the people of Wales will be best served by:

- a clear, well founded devolution settlement that allows coherent political decisions to be made in a democratic and accountable manner, and*
- political institutions that operate effectively and efficiently and work together in the interests of the people they serve.*

Devolution of power to Wales should benefit the whole of Wales and the United Kingdom.

Principles: accountability, clarity, coherence, collaboration, efficiency, equity, stability, subsidiarity.



Our findings...

- Devolution settlement complex, piecemeal, unclear and unstable
- Broad support for further devolution (53% in opinion poll)
- Governments and institutions should work together better
- Some sense of regional disengagement and concerns about performance



To clarify settlement...

- Move to a reserved powers model
 - Only State where there is a combination of reserved and conferred powers devolution models
 - Change would be clearer for the public, for the institutions and for civil society to understand: the National Assembly is responsible for everything unless Parliament has reserved it
 - Would allow more confident, effective government, and the public would better understand who needs to be held to account
- Different model does not itself change extent of powers
- Jurisdiction question



To align powers better...

- Further devolution of powers in:
 - transport
 - natural resources including energy and water
 - broadcasting
 - policing
 - Justice
 - Welsh jurisdiction issue
- But not social security...
- All controversial, so we were careful about balance



To improve how devolution works...

- More effective intergovernmental and interparliamentary relations
- Establishing a Welsh Intergovernmental Committee
- Formalising relations
- Cross-border issues
- Improving public sector capacity



To enhance scrutiny and accountability...

- increase in number of Assembly Members
 - hugely controversial and so difficult for politicians
- enhanced focus on UK bodies in Wales
 - for example, Department of Work and Pensions
- greater transparency and comparability of data
- sharing best practice across UK



Arguments against

- Competence
 - “matches to the arsonist”
 - Track record on health and education
- Capacity
- Ideology rather than practicality/what is sensible
- Slippery slope towards separation
 - There never will be enough



Next steps...

- phased implementation over ten years in three stages
 - Justice in long grass?
- primary legislation to come in the next Parliament
- fair transfer of funding when powers devolved
- reflection of our recommendations in party manifestoes for 2015 General Election
 - will Commission's consensus hold?
- some progress



Overall impact...

- a stable long term settlement
- more coherent and effective policy making
- a settlement bringing Wales more in line with other Devolved Countries of UK
- Institutions and Governance better serving the people of Wales
- Empowerment and Responsibility – fiscal and legislative powers to strengthen Wales – and benefit the UK as a whole



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Over to you:
Questions and case-studies