

## Speaking note for meeting with Owen Smith 23 April

### Objectives

- to update Owen Smith on progress of Part II
- to ascertain what his views on Part II are.

### Speaking notes

- thank you for meeting
- we published our Part I report in November and were generally pleased with its reception in Cardiff and London. We await HMG's response in the spring and the Opposition's response to HMG. Hope we can maintain spirit of consensus
- we are now undertaking Part II. Wide terms of reference. Looking at both changing the devolution boundary and other ways of making the devolution settlement work better such as improved cooperation
- committed to same consensual, evidence and principle based approach as Part I
- asked for written evidence by 1 March. Have received over 100 but door is still open. We will visit all parts of Wales, hold oral evidence sessions and opinion poll. We can send you our programme of visits for you to circulate to party members if you would like.
- the evidence so far has suggested a fairly wide range of views
- not much call for returning powers to Westminster, although some disappointment expressed at performance of devolved services so far (eg, health, schools)
- and not much call for transfer of core UK functions such as defence and foreign policy or welfare system
- but fair amount of support for a settlement along lines broadly similar to Scotland eg on law and order and reserved powers model. WG favours this sort of approach staged over time
- and some support for something close to status quo, notably HMG
- also calls for institutions to work better together
- UK Labour Party has not given evidence
- But would welcome your observations [explore any differences of emphasis from WG evidence].

### Background

The Shadow Welsh Secretary's speech in the Welsh Grand Committee Debate on Part I is attached below, in which he suggested some scepticism of the Commission's remit.

With regard to Part II, he was interviewed by the BBC at the Welsh Labour Conference on 24 March 2013 (<http://www.bbc.co.uk/news/uk-wales-21916501>). He made the following points, which may be helpful to explore further:

- Devolution is in flux across the UK, with Scotland's referendum and a greater sense of an English political identity. A robust debate is needed.
- Devolution can ebb and flow, meaning one side is not always right – doesn't really believe powers ought to be returned to Westminster
- Westminster needs to engage better, including on the implications of non-devolved policies for Wales
- Did not give a view on the possible devolution of policing, except that it would be difficult to separate from the criminal justice system. Welsh Government's evidence was driven by the Commission's timetable, and Welsh Labour won't agree a view until it sees the Commission's report (implying won't even consider a manifesto commitment to devolve policing unless we recommend it)

## Owen Smith's speech to Welsh Grand Committee Debate on Part I report

23 January 2013

**Owen Smith:** It is a pleasure to serve once more on Welsh Grand Committee under your chairmanship, Mr Havard. You said earlier that it was a return to a normal Welsh Grand Committee. I heard somebody say “a plain vanilla” Welsh Grand Committee. I beg to differ, because we have all these new members of the Welsh Grand Committee—the serried ranks of our English cousins who have come along, I am delighted to say, to join us today in deliberating on the Silk commission. I do not know whether it is testimony to the power of new media; I saw this morning that there is a Twitter hashtag for the Welsh Grand Committee. Perhaps they spotted that and decided to come along, but I suspect it has more to do with the fact that there is significant and genuine interest on both sides of the border on a set of issues that will have significant implications not just for Wales but for the whole UK.

I put it to the Secretary of State that the attendance of his colleagues from the English shires today suggests that we ought to be debating the matter on the Floor of the House, able to have full scrutiny and enabling Members from right across the Palace of Westminster to engage in what is clearly an important debate.

**Stephen Mosley:** The hon. Gentleman is quite correct. The north-east Wales-Chester border runs through an urban area. One side of the street is in Wales and the other is in England. People work either side of the border every day, and what we are discussing is an important issue, affecting thousands of people, their jobs and their prosperity. Loads of us on the English side of the border are interested in what the Welsh Government decide to do.

**Owen Smith:** I take the hon. Gentleman at his word. As I said a moment ago, I am sure that his interest is genuine. I urge him to sign the early-day motion calling for a full debate on the Floor of the House—

**The Parliamentary Under-Secretary of State for Wales (Stephen Crabb):** How many people have signed it?

**Owen Smith:** I think it is about 30-odd, from all parties on both sides of the House.

I am delighted that the English Members are here today. However, I must say—I do not say this lightly, because I normally have a sunny disposition—that I am a bit disappointed with the Secretary of State's response today. It has been 66 days—more than two months—since the Silk commission produced its report, but we have not seen even a puff of white smoke from the Government as to what they think about the content. Today we have heard a run-through of what is in the report, but not a single word about whether the Government think its proposals are good or bad, or whether they are indifferent. If anything, we saw a slight rowing back by the

Secretary of State from some of the earlier commitments made by his junior Minister in the other place, which I will come on to later.

In recent contributions by the Secretary of State on the issue, we have heard more about the white flag than the white smoke. In the Select Committee on Welsh Affairs, he was quick to suggest that it would not be his decision regarding the Silk commission but, as he put it, the fiat of the Treasury would run. That is a peculiar statement, not least because I believe that the Secretary of State for Wales should be the Minister who takes the principal interest and makes the principal decisions about a matter that would impact on the livelihoods and future of the people of Wales. If it was a Labour Secretary of State sitting in the ministerial chair, it would be the Labour Secretary of State making those decisions, and not abdicating responsibility to the Treasury.

**Mr Jones :** May I gently point out to the hon. Gentleman that if it were a Labour Secretary of State, we would not even be considering fiscal devolution?

**Owen Smith:** I do not know how the Secretary of State can say that. How can he have the temerity to suggest that, given that it was the Labour party that campaigned for 100 years for devolution to Wales in the face of opposition from the Tory party? It was a Labour Government who delivered devolution in 1997 in the teeth of opposition from the hon. Gentleman's party; indeed, in the teeth of his—I would suggest—continuing deep-down opposition and antipathy to devolution.—[ *Interruption.* ] The Secretary of State is muttering from a sedentary position, “Fiscal devolution.” It is good that we are discussing fiscal devolution right now. The Labour Government decided in 1998 not to offer the prospect of fiscal devolution to Wales because there was no appetite for it. It was offered to Scotland, of course, and accepted.

**Mr Jones:** Perhaps the hon. Gentleman will indicate whether, in the course of his contribution, he will clarify whether the Labour Front Bench is in favour of or against fiscal devolution. In any event, why did Labour not introduce or even consider that when it was in power?

**Owen Smith:** Unlike the Secretary of State, I intend to do exactly that and explain what the Labour Front-Bench position is regarding fiscal devolution. We have not got a clue what his position is; we have not heard anything in the half hour for which he spoke this morning, or, indeed, in any of the other minimal utterances he has offered. Silk is vital—it is about crucial issues.

**Jesse Norman** (Hereford and South Herefordshire) (Con): I am sure that Members will join me in waiting with bated breath to hear the Opposition's position on devolution of powers. However, I am a UK taxpayer—indeed, an English taxpayer as a resident of Herefordshire. Does the hon. Gentleman feel that there is something wrong with UK taxpayers who are not resident in Wales having some say through the Treasury on how UK tax is raised and money spent?

**Owen Smith:** No. In no way, shape or form do I think that there is something wrong with that. I am a Unionist. I believe in devolution, but I also believe in Wales being part of the Union and the ability to distribute resources across the UK equitably, in order to try to achieve for people some equality of outcome and possibilities.

**Jesse Norman:** I am grateful to the hon. Gentleman for his direct and frank response. Does he therefore think that it is entirely appropriate for the Treasury to have a direct interest in the outcome of these discussions?

**Owen Smith:** Of course I do. I merely think it is strange that the Secretary of State for Wales should have shown such alacrity to divest himself of any responsibility. For him to suggest that, on this issue pertaining directly to Wales—indeed, the only prospect of Welsh legislation in this Parliament rests on the Silk commission—the Treasury's fiat will run, rather than its being debated in conjunction with the Wales Office and decided principally by the Secretary of State, is a curious abdication of responsibility. Silk is about two things that are at the heart of any political system: power, where it lies and by whom it is exercised, and money—who holds the purse strings. On that basis it seems essential that the Secretary of State should play a part.

Silk is important, but it is predicated on a falsehood that we heard repeated by the Secretary of State today, which is that the Assembly is currently unaccountable. Opposition Members do not accept that. The Assembly is of course entirely accountable to the Welsh people through the ballot box. However, I agree that it is anomalous among international comparators in that it has the power and capacity to spend resources, without the capacity to raise them. It does not have powers over taxation, as we heard the Secretary of State explain. In that respect, the age-old link first coined by the founding fathers of the United States of America between taxation and representation is relevant to the debate in Wales.

The Assembly is anomalous, yet not strange. It is not curious that we should have this situation in Wales, because devolution, and governance in Britain more generally, has always been anomalous. It has always been asymmetric. One could look right back to the Act of Union with Scotland in 1707 and see that aspects of the state in Scotland were retained, whether in relation to the Churches, the courts, or certain aspects of tax. The Union has never implied and certainly never insisted on absolute homogeneity of powers in its different parts. In my view, it is part of its strength that it has not been a one-size-fits-all Union. However, it is not static either; the Union has always changed and will change in the future. The ways in which it changes are invariably brought about through the interplay between the constituent parts of the Union—the nations and regions—and by different events. We have seen that recently with an SNP Government in Scotland, coalition in Wales, coalition in England, and consequently Calman, Holtham and Silk. All those events have moved forward the debate, and thus we have shifted from a point where we were delivering devolution to now talking about, as the Secretary of State has reminded us, fiscal devolution.

All these things move us on and we get to Silk, which is where the rubber hits the road for Wales right now. What is in it? There are 33 recommendations. At this point I would like to thank the Silk commission for all the work it has done and continues to do. It is a significant body of work and a very thorny question with which they are grappling. We should all be please that they have invested so much time in it.

We can boil down those 33 recommendations to three key recommendations, the most pressing of which should be done within the lifetime of this Parliament. Silk is clear that power should be devolved to Wales to raise the so-called minor taxes, such as the stamp duty land tax, aggregates levy, landfill tax and air passenger duty for certain aspects of flights.

Secondly, Wales should have assigned to it, also as soon as possible, about £2 billion of income tax. That is £2 billion of the £4.8 billion that it currently raises, were there a separate Welsh-domiciled collection of taxes. Again, it was suggested that that could be done without delay. Thirdly, and for the longer term, we would have to know whether Wales was better off under such a change and the reform of Barnett and the introduction of a Barnett floor, which my right hon. Friend the Member for Neath rightly referred to, and that the Welsh people had agreed to it at a referendum. When we had seen those three parts of a triple lock and those three tests met, there might be a case for devolving income tax to Wales, and physically seeing that income tax collected in Wales.

**Mr Hain:** On my hon. Friend's point about speedy legislation on the minor taxes, after quite a long time in Parliament I am struck by how little work we have to do at the moment. We have one-liners all over the place, and the big hole in the Government's legislative programme caused by dropping House of Lords reform will allow plenty of opportunity to bring in such legislation and to proceed, and allow the Welsh Government to have the borrowing powers for which they are asking.

**Owen Smith:** I am grateful to my right hon. Friend for his intervention. He is completely right, of course.

**Stephen Crabb:** He is not right.

**Owen Smith:** The Whip is chuntering. He would know, of course.

My right hon. Friend is entirely right that there is plenty of time to legislate for the changes recommended in Silk. It was entirely implausible of the Secretary of State to suggest, as he has done publicly and privately, that the only reason we cannot legislate for such matters is that the legislative programme is so packed during the next couple of years that it is almost impossible to see where he might find a little slice of time to slip in a little Welsh Bill. I put it to him that we could.

I want the Secretary of State, perhaps through the Minister/Whip who will respond later on in our proceedings, to clarify two matters. First, might some of the measures that we are discussing, in particular those minor taxes, be legislated for under a

Finance Bill and not require separate Welsh legislation? That is certainly a view held by Silk. Secondly, to quote what Lady Randerson said in the other place, can the Secretary of State tell us whether those minor taxes constitute, in his words,

“the sufficient revenue stream to trigger borrowing”?

That is at the heart of whether we on this side of the House support unequivocally the devolution of minor taxes. Baroness Randerson said that the Labour Government agreed on 24 October

“that the principle of borrowing powers for the Welsh Government to fund infrastructure investment”

should be subject to

“an appropriate independent revenue stream being put in place”—

the crucial bit being that,

“in general terms the minor taxes that are suggested would be considered to be a sufficient income stream to support borrowing”.—[*Official Report, House of Lords*, 11 December 2012; Vol. 741, c. 310.]

If that were the case, we will support devolution of the minor taxes. The Welsh Government have had £2 billion cut out of their revenue during the spending period and 40% cut out of their capital budget, which will devastate their ability to invest for infrastructure and growth in Wales. Those borrowing powers are fundamentally important to allow the Government to invest for growth in Wales. It is for the Secretary of State to confirm today whether it is his view that that will trigger borrowing or whether, as seen to be the case from his remarks earlier, he was backing off from that position.

**Several hon. Members** *rose* —

**Owen Smith:** I give way to my right hon. Friend the Member for Torfaen.

**Paul Murphy** (Torfaen) (Lab): I see the Secretary of State beckoning to intervene on this issue. Perhaps he will do so, because my hon. Friend the Member for Pontypridd is right. The single most important issue for the Welsh Government and the Welsh people is borrowing. It happens in Scotland, it happens in local government and it apparently depends on smaller taxes. It is simple for those smaller taxes to be legislated for in the Finance Bill, so will the Secretary of State intervene after me to indicate that that will be the case during the lifetime of this Parliament?

**Mr Jones** *rose*—

**The Chair:** Mr Smith is giving way.

**Mr Jones:** I am glad to have the opportunity to intervene on the hon. Member for Pontypridd, but in response to the point of the right hon. Member for Torfaen, some smaller taxes could be dealt with under a Finance Bill. The detail has to be considered, but primary legislation will be required for most if not all of the changes proposed by the commission. However, some of them could certainly be covered by a Finance Bill.

We indicated on 24 October that, subject to there being an income stream, borrowing powers would be made available, but borrowing powers will of course be commensurate to the income stream. The right hon. Gentleman is again making something out of nothing, because his colleagues in the Assembly appear to be quite satisfied with the position.

**Owen Smith:** Indeed, although I still did not hear any real clarity as to whether stamp duty land tax, landfill tax, the aggregates levy and APD were the taxes that would constitute the trigger for the borrowing. If that is the case, colleagues in the Assembly and on this side of the Committee will be satisfied, but if so, get on with it. Why on earth are we waiting and not pressing ahead? The people of Wales need growth in the economy. To get investment into our economy, we need to be able to access the finance that has been cut out of Welsh budgets by the right hon. Gentleman's Government.

**Mr Jones :** It is all very well for the hon. Gentleman to grandstand. The Silk commission reported on 19 November, and we are considering it two months later. We had 13 years of Labour Government during which fiscal devolution was not even on the agenda, and he is complaining about what he calls a "delay" of 66 days.

**Owen Smith:** I am complaining about it—[ *Interruption.* ]

**The Chair:** Order. Before we go much further, I must say that all the interventions are elucidating certain parts of the debate for the public who are watching. However, we need to make some progress in the debate, so I remind the Committee of the time and that some things can be catered for later on.

**Owen Smith:** I am grateful, Mr Havard—

**Mr Llwyd:** Will the hon. Gentleman give way?

**The Chair:** Can we have proper interventions, please?

**Mr Llwyd:** I never make improper interventions.

**The Chair:** I can rely on you.

**Mr Llwyd:** I am a little disappointed in how the hon. Member for Pontypridd predicates the full package of Silk being implemented by legislation on the reform of Barnett. We have argued for reform of Barnett for the past 20 years. His Government denied it until recently. When the right hon. Members for Torfaen and for Neath



were Secretaries of State, they said that it was delivering for Wales, so it should not be interrupted. Wales is losing £400 million a year, but we can move forward on the full package of Silk and Barnett at the same time. One should not be predicated on the other. Otherwise, that will be seen outside this place as a blocker.

**Owen Smith:** I am grateful to the right hon. Gentleman for his intervention, which was as proper as they always are.

The reality is that Barnett was delivering for Wales during the vast majority of the previous Labour Government. There was no divergence until around 2009, as identified by Gerry Holtham. For most of that period, Barnett continued to deliver a spending differential for Wales over England, and rightly so, because the relative needs of Wales are greater than those of England. What Gerry Holtham identified in his excellent report was that divergence began to occur in the latter days of the Labour Government, which is an arithmetic aspect of the Barnett formula.

As a consequence of that, as my right hon. Friend the Member for Neath reminded the Committee earlier, the Labour part committed in its last manifesto to introduce a Barnett floor to ensure that that divergence would not happen in future. I think we need to go further and think about what substantive reforms we would make in future. In Opposition, the Labour party is actively thinking about that and will come forward with proposals in the fullness of time. We already know that it has to be secured that Barnett would be dealt with and divergence could not occur if we were to accept income tax.

**Roger Williams** (Brecon and Radnorshire) (LD): It is encouraging to hear a commitment from the Labour Front Bench to the principle of the Welsh Assembly Government borrowing on the basis of the income stream generated by the smaller taxes, but all that is proportional. Has the hon. Gentleman made any assessment of the total borrowing that could be supported by the income streams from the smaller taxes?

**Owen Smith:** No, I have not made that assessment. It would obviously be contingent on the nature of the gearing that that debt would have attached to it. I would think that £210 million, which is the sum total per annum that would come from the minor taxes—the four that I mentioned earlier—ought to be adequate to allow a reasonable amount of borrowing by the National Assembly. It certainly ought to be adequate to allow a similar amount of borrowing as that allowed under the Scotland Act 2012.

**Jesse Norman:** I am sure that the Committee is enjoying, as I am, the contradiction between the hon. Gentleman's dislike of Treasury fiat and his desire to place the taxes in a finance Bill. I want to ask him about borrowing. First, is he prepared to commit the Labour party to merely restricting borrowing to the levels raised by the taxes? Secondly, may I press him on how the borrowing will actually work? If interest rates are at 10%, £200 million of taxes will pay for £2 billion of borrowing. If interest rates are at 5%, it is £4 billion. If, as is likely, interest rates start at 5% and therefore

£4 billion is borrowed, and then under a Labour Government interest rates go up to 10% and therefore their borrowing cap is at £2 billion, what will happen to the remaining £2 billion that will then fall to the rest of the country?

**Hon. Members:** Answer that!

**Owen Smith:** I have no intention of answering that gibberish. *[Interruption.]* I am being unkind to the hon. Gentleman. It was not gibberish; it was hypothetical. The crucial point is that we do not know precisely how the Silk Commission is proposing that borrowing ought to be arranged. We know that it is suggesting that the borrowing be conducted through the national loans fund, so the borrowing would be exactly the same as any borrowing undertaken by the British Government in the UK, and on the same terms. There would be no divergence in the terms under which that borrowing was undertaken, and it would of course be subject to whatever the interest rates were at the time.

We do not know how much money the Welsh Government would need to borrow, of course. We know that they are short to the tune of 40% of their capital fund as a result of the cuts made by the Government, and we know that we need to invest to grow our economy, as our economy is tanking on the Government's watch.

**Jesse Norman:** The hon. Gentleman is being generous in giving way. I apologise if a relatively straightforward mathematical example was gibberish to him. Perhaps he will remind the Committee of his own professional qualifications, which I believe are in the financial area.

**Owen Smith:** I am extremely grateful to be treated as having expertise in the financial area. Perhaps the hon. Gentleman surmises that from the fact that I previously served as the shadow Exchequer Secretary to the Treasury. However, I am an historian, not a mathematician. I do not suggest that I need to be a mathematician to understand that it is anomalous that Wales—unlike Northern Ireland, councils in England, and Scotland—uniquely does not have the capacity to borrow. That is a further anomaly—a wrinkle—in our devolution system. In an era in which other parts of our country, including perhaps the Government, ought to be contemplating prudent borrowing to stimulate growth in our economy, which is certainly the view of the Labour Front Benchers shadowing both the Treasury and the Wales Office, a similar measure ought to be extended to Wales.

**Geraint Davies:** A moment ago, my hon. Friend seemed to say that because the Conservative Government have woefully under-invested in capital and revenue in Wales, with us not getting our fair share, we therefore need to borrow to make up the deficit. Is that not falling into the trap that Silk has posed for us; namely, that if we need more money, we have to raise it ourselves? That is a complete distraction from the real issue of getting a fair share of capital and revenue in Wales.

**Owen Smith:** My hon. Friend is right that we would be better off if the Government had not decided foolhardily to cut capital spending in Wales by 40%. In England, the

Government have had to adopt what is, in effect, a plan B and spend money on infrastructure and capital spending in recognition of the fact that, in cutting it, they cut demand out of our economy. We would be far better off if they had not been so foolish as to cut that in the first instance.

However, given that that is where we start from, and that it is anomalous that Wales does not currently exercise the capacity to borrow, it seems sensible that we extend that capacity, not least because that is the expressed demand and desire of not just the Labour party, which governs in Wales, but the other parties in the National Assembly as well.

**Jonathan Edwards:** Does the hon. Gentleman not recognise that the Treasury is broadly following the same spending commitments to Wales that were allocated by the previous Government, and that the cuts in capital expenditure are less than those proposed by the previous Government?

**Owen Smith:** No, I do not accept that. We can trade figures later on, but I do not accept that the previous Labour Government would have cut spending by the volume proposed. In fact, here we can point to history—here my expertise as an historian may come into play. The Labour Government increased spending and expenditure in Wales year in, year out for all of our 13 years in office. The first instance when the budget for Wales was cut was under the Tory Government. That is the reality.

The Opposition are in favour of the Welsh Assembly Government borrowing to invest in the economy and to create growth, the absence of which is damaging the prospects of a whole generation of Welsh people. We are in favour, too, of that borrowing being triggered by the devolution of the minor taxes.

On income tax more generally, our view is, rightly, more finely balanced. We agree with Silk that there ought to be, effectively, a triple lock on income tax being devolved to Wales. The three aspects of that lock are: first, Barnett reform, with a Barnett floor at the very least. Secondly—this is absolutely crucial—we are certain that Wales would be economically better off were income tax to be devolved to Wales. That is at the absolute heart of this question. Perhaps some Members on the Opposition Benches—though not on the Labour Benches—feel that the real test for Wales is how many powers we exercise, but it is about whether those powers are exercised well and allow Wales to offer a better future for our people that matters. The third element is a referendum.

On the key question of whether Wales would be better off, the honest answer from all parts of the House is that we cannot know. We cannot be certain right now whether Wales would be better off were we able to exercise some measure of fiscal autonomy. We know that Wales cannot currently cover its outgoings, because Silk tells us that we currently spend around £35 billion per annum and that, if Welsh taxes were ring-fenced, we would gather in £18 billion to £19 billion, so there is a significant shortfall between Welsh receipts and expenditure. We must be honest with ourselves and the Welsh people about that.

Do we know whether affording Wales income tax-varying powers would stimulate the economy and allow us, effectively, to double the size of the Welsh economy, double the receipts and be more like Scotland, where there is a closer match between income and outgoings? Maybe; it is a bold ambition, and one that I might subscribe to, that we seek to double the size of our economy. However, we cannot be certain that income tax-varying powers would incentivise that, or that there would not be a worse outcome for Wales.

The way in which Silk calculates how Wales would be treated in the event of a deduction from the Welsh block grant commensurate to an increase in the receipts ring-fenced for Wales makes a big assumption. It assumes an indexed reduction would be applied, much as it has been in respect of Scotland. That implies that if the current trajectory were maintained—or rather, the trajectory over the past 10 years of income tax receipts in Wales, compared with those in England—and Wales did better than England and increased its receipts at a faster rate, as we have done for a significant period thanks largely to Labour party-inspired investment, Wales would be better off. That is clear. However, it is not clear whether that trajectory would be maintained. Indeed, if we look at recent numbers, we see convergence between the increase in the relative rate of receipts in Wales and England. It is clear that the overall tax base for the UK and for Wales is declining, because our economy is shrinking and because the Tories are messing up our economic prospects.

It is equally clear that public sector job losses in Britain, a million of which we expect to see over the coming years and a disproportionate amount of which will be in Wales, because of the greater volume of public sector jobs there, will further erode our Welsh tax base. We also know that the growth in low-paid part-time workers—many of whom, I am pleased to say, are being taken out of tax—will reduce the overall tax take in Wales. Silk tells us that the dependency ratio in Wales is worse, partly because of retirement and people coming to Wales, and partly because we have a slightly older age profile in Wales. The ratio between those in work and those out of work is therefore worsening compared with England's. Many things therefore suggest that there might be a worse outlook than Silk blithely suggests.

We also know that there would be a significant cross-border impact. For all the hard work put in by Silk, it is not sufficient to look at the Swiss cantons or the migration of people between US states and draw conclusions about what impact different income tax rates in Chester and Flint would have on people's ability or desire to move, their desire to game the system or their desire to migrate for benefit.

**Alun Cairns** (Vale of Glamorgan) (Con): The hon. Gentleman mentioned the greater dependency in Wales and offered a whole host of reasons, such as demographic issues, an ageing population, and so on. How much does he attribute that greater dependency to the relatively poor economic performance in Wales in comparison to the rest of the UK, over, say, the last 15 years?

**Owen Smith:** I do not attribute it to that at all. I attribute it to 150 years of history, industry, the legacy of change, the demographics of our country, the distance from

London and the simple truth that Wales has a greater relative need than many parts of England, which requires a greater degree of expenditure. A sensible, compassionate Government would understand that and continue to fund that through more equitable redistribution of funds across the UK. I hope that the newly-compassionate Conservatives will recognise that and continue to do so. However, I have my doubts.

**Alun Cairns:** Will the hon. Gentleman give way?

**Owen Smith:** I will not give way any more.

**Alun Cairns:** *rose* —

**Owen Smith:** The hon. Gentleman goads me, so I will give way.

**The Chair:** Order. The discussion about the general economy is one thing, but we are talking about a particular piece of potential legislation. If this were the last intervention, that would be very helpful, Mr Smith.

**Alun Cairns:** Thank you, Mr Havard. Obviously, I accept all the points that you make. However, in relation to the points made by the hon. Member for Pontypridd, it is a bit rich to complain about the distance from London in talking about relative poverty, and it is a bit rich to complain about the relative financial settlement and blame the relative poverty of Wales compared with the United Kingdom as a whole on a 150-year history. Other parts of the United Kingdom that were the poorest parts in about 1997 are not the poorest now, Wales is. The relative performance of Wales has therefore been much worse than that of other parts of the UK that are further away from London.

**The Chair:** I call Mr Smith so that we may make some progress.

**Owen Smith:** I am grateful to you, Mr Havard, and to the hon. Member for Vale of Glamorgan for his intervention, but it does not change the fact that the biggest uncertainty of all that we face in respect Silk is simple: can we trust the Tories? We cannot trust them on the NHS, we cannot trust them on the economy, and we cannot trust them on Europe. Can we trust the Tories on Wales? I for one suggest that we cannot.

**Jesse Norman:** Will the hon. Gentleman give way?

**Owen Smith:** I shall give way one more time.

**The Chair:** Order. I caution hon. Members again. We have until 11.25 am, and while all of this is very important in terms of political difference, in terms of making progress in our discussion about the Silk commission things are getting a little tenuous, because the discussion is getting very broad.

**Jesse Norman:** I am sad that the hon. Member for Pontypridd has ignored your request to stick to the issue in hand, Mr Havard, especially since the performance of the previous Government is hardly irrelevant to the economic situation we find ourselves in today. I am the MP for Hereford and South Herefordshire, as the hon. Gentleman will be aware, and I am concerned by his support for some of these taxes being moved to Wales, because it raises the possibility of tax competition. In and of itself, that is not a problem—indeed, it is often rather desirable—but tax competition subsidised by an unfair allocation of resources between border counties and Wales is a serious issue.

In Herefordshire, we face many of the same challenges as just over the border in Wales—I am sure that the hon. Member for Brecon and Radnorshire will support that—but on a radically lower level of public funding. Will the hon. Member for Pontypridd set his face against subsidised tax competition and say that it should have no part in a future Labour Government's plans?

**Owen Smith:** I contest the term “subsidised tax competition”. I throw the Secretary of State the challenge that he disagree with the hon. Member for Hereford and South Herefordshire that Wales is unfairly subsidised. Our view is clear: the level of expenditure in Wales is commensurate with the relatively greater needs of Wales, for all the reasons that I enumerated earlier. If the Secretary of State wants to intervene, I challenge him to repudiate the remarks made by his hon. Friend.

**Mr Jones :** The hon. Gentleman seems to be saying that he is content with the Barnett formula, which I am pleased to hear. On income tax, which he seems to be getting around to discussing, would he not agree that the central proposition advanced in the Silk commission's report is accountability on the part of Government? Is it not right that a Government who are spending taxpayers' money should be accountable to the taxpayers for that money? Similarly, would he not welcome what appears to be a relatively modest proposal that 10p in each band should be devolved to the Assembly Government?

**Owen Smith:** The first thing I would say is that we as the Opposition have at least made some substantive comments on Silk, whereas we have heard absolutely nothing of substance from the Government. Secondly, we accept that what Silk says on income tax is significant and would require significant changes.

**Mr Jones :** Accountability.

**Owen Smith:** I do not know whether the Secretary of State was listening earlier, but we completely reject the notion that underpins Silk, which is that the Assembly is unaccountable. That was the original motivation for the Tory party to commission Silk. Equally, we could ask an intellectual question: does the Secretary of State really believe that assigning £2 billion, a nominal amount of income tax, to the Welsh Assembly Government—

**Mr Jones :** Nominal?

**Owen Smith:** Yes, nominal. Silk uses that word. I wonder whether the Secretary of State has read the report, given the number of questions and raised eyebrows I get. Would assigning £2 billion nominal tax to Wales out of £35 billion or £18 billion, depending on which measure is taken, significantly change the nature of the accountability of the Welsh Assembly to the Welsh people? Or is it what I suspect it is, just another Tory stick with which to try to beat the Welsh Labour Government?

**Glyn Davies:** Pathetic.

**Owen Smith:** It is not pathetic. The motivation for Silk, the way in which Silk was set up in order to cast aspersions on the accountability of the Assembly, is born of a Tory scepticism about devolution, not shared by the hon. Member for Montgomeryshire, but shared by many of his colleagues, and by a desire to blunt the reality that the Conservative Government have cut budgets for Wales. For the first time since the inception of devolution, the Tory Government have cut Welsh budgets, jeopardising growth in the Welsh economy. That is the reality. If he wants to comment on that I will gladly let him.

**Glyn Davies:** I am grateful to the hon. Gentleman for allowing me to intervene, particularly on this point about financial accountability which he does not seem to recognise. Anyone who has served on a local authority, even Berriew parish council, will understand. The big debate of the year was the 1p we put on the rate. If there is to be a debate in the Assembly that really is meaningful, it has to be about that difference in finance. That is what financial accountability means, not the accountability that the hon. Gentleman seems to imagine the Government are challenging.

**Owen Smith:** I think the Assembly Government are entirely accountable to the Welsh people. I do not agree that they would be significantly changed or improved were there a greater degree of fiscal devolution. But I do accept that the Assembly Government are anomalous among international comparators. I accept that if they exercised greater fiscal accountability or had greater powers they might be able to do something to arrest the decline in the Welsh economy that is being brought about by the mishandling of the broader British economy by the Tory Government. I am coming to my conclusion—

**Mr Llwyd:** Before the hon. Gentleman does could I just pick up one point?

**Owen Smith:** I am going to come to my conclusion. I have three simple questions for the Secretary of State, which perhaps the Minister can answer later on. I suspect we will not get an answer, but it would be useful. Can the Secretary of State reassure us that when the Government eventually respond—several months after the Silk commission produced its report—they will not cherry-pick the recommendations, particularly those around information? If we are to judge accurately whether the Welsh exchequer is to be better or worse off as a result of the assignment of income tax, we will need the means to do so. Silk recommends that the Office for Budget Responsibility and the Office for National Statistics should produce Welsh-specific

data. Can he confirm that that will be afforded to Wales and that he will argue for those changes?

Secondly, if those data show that Wales might be worse off as a result of income tax assignment, will the Secretary of State commit right now to not forcing the Welsh Government to accept income tax assignment? If we know we will be worse off, can he reassure us that his Government, obsessed with this notion of unaccountability, will not impose further burdens on the Welsh Government and force them to accept it? In a similar vein and looking ahead ever so slightly to Silk part 2, can he reassure us that he is not still as anti-devolution as he once was and deny the rumours that in preparing the Government's response to Silk part 1, he may well recommend repatriation or rescinding of powers from the Welsh Assembly Government?

**10.44 am**

**Mr Llwyd:** I welcome the opportunity to debate the Silk part 1 report. It is important to all Members of Parliament for us to have the chance to discuss that important document and the points that it makes. I agree with the hon. Member for Pontypridd that perhaps the debate ought to have been held on the Floor of the House, so that all Members could have attended. At the end of the day, any proposal would require legislation and they will be called upon to vote on it. I do not, however, agree with how the hon. Gentleman characterised the Silk commission as some form of trap, predicated on various things that he sees as a trap. I cannot understand him saying that because—

**Owen Smith:** I did not say that.

**Mr Llwyd:** The hon. Gentleman did say that, and I cannot understand why he should do so when a Labour nominee was on the commission and the Labour party had agreed the terms of reference. That is not the way to deal with it at this stage.

**Owen Smith:** Just to clarify, I did not say that the commission was a trap—someone else on the Labour Benches said that. My view, however, is that it has produced a complex set of proposals, which ought to be considered very carefully. We should not blithely accept the assumption in Silk that Wales will necessarily be better off—that prosperity will follow greater autonomy—although I know that is not the right hon. Gentleman's view.