

Don't expect meaningful fiscal devolution for Wales any time soon

By Democratic Audit

*The debate about the appropriate level of fiscal autonomy for Wales in the wake of the publication the Silk Commission rumbles on. But while it once looked likely that the Welsh Assembly Government would gain meaningful tax raising and spending powers, the prospects are now less bright. **Adam Evans** argues that a deadly concoction of political incompetence and partisan self-interest have combined to make meaningful substantial tax devolution an increasingly distant prospect.*

In [recent articles](#) I have argued that the fiscal devolution envisaged by the Silk Commission and the UK Government's eventual response would not amount to any meaningful measure of fiscal accountability. In this article I will outline why I have argued this previously and reflect on why it seems highly unlikely that the partial devolution of income tax powers to the National Assembly for Wales will happen any time soon.

To recap, on the 19th November 2012, the Commission on Devolution in Wales, otherwise known as the Silk Commission due to the chairmanship of former Parliamentary and Assembly clerk Paul Silk, published the report of its first stage of inquiry on the fiscal accountability of the National Assembly for Wales and the Welsh government (the second to be published in 2014 is a more general look at the assembly's powers and responsibilities, see [here](#) for the report).

The report included 33 recommendations on enhancing the Welsh Assembly's fiscal accountability, representing devolved control of 25 per cent of the Welsh Government's budget. These taxes would involve the devolution of smaller taxes: landfill, stamp duty land tax, long haul air passenger duty and, subject to a clarification of state aid rules, the aggregates levy. However, the most significant recommendation was for the part-devolution of income tax, reducing the income tax brackets by 10 pence in the pound (with an equivalent amount reduced from the block grant; however this tax would only be devolved subject to an affirmative vote in a referendum).

The UK Government's delay in responding formally to these recommendations has been commented on previously and would be grace the programme of any music hall farce, however it has, after redefining 'Spring' to include November, finally responded in full (the full UK Government response is available [here](#)).

After a year of deliberation and dither, one could be forgiven for asking why so much time was spent on devolving so little. The National Assembly for Wales and Welsh Government will only be certain of fiscal responsibility and accountability for three forms of taxation: the landfill tax, stamp duty land tax and business rates (the latter was already partially devolved). Long haul air passenger duty (dearly prized by the Welsh Government after their nationalisation of Cardiff Airport) was ruled out on grounds that it could 'distort' the market. That potential market distortion should be used in this way is rather intriguing, particularly when the UK government had not been reticent in using such grounds to hold a consultation, earlier this year, on the potential devolution of SDLT.

While that consultation was seen by many in Cardiff as a further attempt by the secretary of state to delay further devolution, it is rather ironic that such a manoeuvre over APD would be welcomed by devolutionists, rather than the carte blanche rejection of this tax being devolved. Indeed a cynic might ponder the different fates of both these taxes, particularly when the airport that would in all likelihood be most affected by the devolution of long haul Air Passenger Duty, Bristol, lies in a far more politically competitive and rewarding area for both the Coalition Partners.

Unsurprisingly the coalition has endorsed the main Silk recommendation, the partial devolution of income tax powers, subject to a successful referendum being held. However, as I have [argued before](#), the prospects of a referendum on “Yes to Tax” are particularly bleak. Indeed, the chances of getting that proposition to the ballot paper are similarly weak, when one considers that it would take the Welsh Labour party to agree to such a move. After all what person, let alone Government, would turn down free money for money they have to raise themselves. That is the reality of what Silk and the UK Government are proposing: optional accountability and the optional increased unpopularity that goes along with fiscal responsibility.

Unsurprisingly, Welsh Labour has been firm in stating its reluctance to accept income tax powers, with Carwyn Jones [responding to the government’s initial announcement](#) with an insistence that the Barnett formula be replaced with a fair funding formula before it could support income tax devolution. It does not take much in the way of political genius to see that any such change in the Barnett formula is not going to be forthcoming before or any time soon after a referendum on Scottish independence. Furthermore, whatever leverage could be placed on Labour to accept and more important support an income tax referendum seems to have been lost by the apparent concession of the one thing they truly prized, borrowing powers, for the limited funding stream provided by SDLT and the landfill tax (though the UK Government has implied that higher borrowing limits would be provided if the Welsh Government’s revenue stream increases in the future).

I have been fairly critical of Welsh Labour in the past for their position on income tax and while I am loath to break the habit of a lifetime, I will for once say something rather more sympathetic. The model of income tax devolution outlined by the UK Government is a lockstep model, as has been devolved to Scotland with the 2012 Scotland Act, unlike the free, independent band setting approach envisioned by Silk. Expecting Welsh Labour to not only choose to be accountable, but fiscally responsible in a system which makes any form of tax rises politically impossible (because if one band, i.e. the higher band, pays more, the lower and middle band payers have to pay more) is naivety bordering on political insanity.

The lock-step is almost ideologically designed to incentivise smaller Government, through across the board tax cuts or the fiscal status quo at a time where the public purse is struggling to maintain services. While Conservatives may welcome such a tax system, it would be completely unacceptable to Welsh Labour.

We are therefore left with meaningful Welsh fiscal accountability being as distant a prospect as before the Silk Commission was established. A deadly combination of political incompetence and partisan interests makes a referendum on income tax devolution a distant prospect, in its stead we will become the Principality of peanut taxes.

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