

Much ado about nothing: Fiscal accountability in Wales and the Silk Commission

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*Last Friday, the government held a press conference responding to the Silk Commission's recommendations for devolution in Wales. When one strips back the political drama of the unexpected announcement and the rhetoric of goodwill and support for fiscal accountability expressed by the UK government, it is difficult to find much evidence of a significant move to Welsh fiscal accountability, writes **Adam Evans**.*



On the 19th November 2012, the Commission on Devolution in Wales, usually referred to 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 commission produced 33 recommendations on how fiscal accountability of the devolved institutions could be enhanced, recommendations that in total would represent devolved control of 25 per cent of the Welsh government's budget, raised from the devolution of a variety of taxes, including landfill and stamp duty land taxes and the devolution of borrowing powers for the national assembly. Most controversially of all, the Commission also recommended 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).

These proposals were the product of a cross party, independent Commission, reached with a unanimous consensus and, unsurprisingly, were warmly welcomed by politicians across the political spectrum in Wales. Indeed, the Welsh Conservative finance spokesman in the national assembly, Paul Davies, commended Silk's report as representing a "[comprehensive package of reforms to make the Welsh government more accountable for its decisions](#)". Davies' remarks were hardly surprising given that the conservative party's economic outlook had been at the heart of the Commission's report, to the extent that not only was fiscal accountability given priority status for Silk (by being placed as the first stage of the two phases of the Commission's work), but that the first stage's [terms of reference](#) actually insisted that a package of reforms to make the Assembly more fiscally accountable be recommended:

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

The secretary of state for Wales, David Jones, was rather less effusive in his response than his conservative colleague in the assembly, yet he too pledged action and at the very least a full government response by Spring 2013. Amid [claims of political hijinks](#) by a secretary of state for Wales ideologically opposed to devolution, week after week, month after month, excuse after excuse for the delay went by (see [this](#) rather useful timeline of reports on the story) until finally, nearly a year after the report's publication, Welsh spring time officially ended on Friday 1st November. At the Senedd building in Cardiff Bay, the prime minister and deputy prime minister (the Secretary of State appeared to be curiously camera shy) announced the UK government's response to the Silk Commission... and like with so many things, the creation of an almost tortuous period of anticipation rarely results in a sensation of satisfaction.

As has been somewhat evident in [a previous post written](#) on Silk part one, I have been rather sceptical about the prospect of the Commission's recommendations on fiscal accountability. While the Jeremiah tone of my previous article may not have been entirely prophetic, the government's announcement was equally not a moment for political optimists. It is only fair to acknowledge that a response to all 33 of Silk's recommendations has not yet been made, the [Secretary of State and Wales Office claim](#) that this will be made before the end of the year, however Friday's press conference was a presentation of the 'highlights':

- “We will give the Welsh Ministers borrowing powers, so that they can borrow money to invest in Wales;
- We will devolve certain taxes, as the Silk Commission recommended to ensure the Welsh Government has an independent funding stream to pay back the money it borrows:
- We will devolve Landfill Tax and Stamp Duty Land Tax in Wales;
- And we will provide for a referendum to take place so that people in Wales can decide whether some of their income tax should be devolved, in the same way as it is in Scotland.”

When one strips back the political drama of the unexpected announcement and the rhetoric of goodwill and support for fiscal accountability expressed by the UK government, it is difficult to find much evidence of a significant move to Welsh fiscal accountability. Yes Landfill Tax and Stamp Duty Land Tax (SDLT) will be devolved, but neither of these taxes amount to a significant amount of revenue as a proportion of the Welsh government's budget (SDLT for example raised £115 million in 2010-2011, with landfill tax revenues that year estimated at £50 million). Furthermore, other smaller taxes recommended by Silk were not mentioned or were explicitly ruled out in the coalition statement, with the aggregates levy appearing to be waiting for a resolution of proceedings in the European courts and of state aid issues and long haul Air Passenger Duty (APD) opposed by the UK government on the grounds of potential market distortion. A decision that must be rather galling to the first minister Carwyn Jones following the Welsh government's nationalisation of Cardiff airport.

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.

As for income tax, 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. Again it is perhaps my cynical mind at work, but it does appear that the most unsatisfactory aspect of the Silk process is that the future of meaningful fiscal accountability lies in the hands of the those with the least incentive to want it. At present the Welsh Government, which has hitherto been (and in all likelihood will continue to be) Welsh Labour, has the luxury of spending a budget without the responsibility of raising any of that money itself. Expecting a government to willingly deprive itself of fiscal unaccountability is like sentencing a man to death, but then giving him the gun.

Indeed, Welsh Labour has been firm in stating its reluctance to accept income tax powers, with Carwyn Jones [responding to the government's 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.

In sporting terms, Welsh Labour and the Welsh Labour government therefore appear to be the big winners of Friday's announcement, leaving David Jones in a far more ignominious position of having to shortly defend in the Commons a package, however limited, that he appears to have spent months frustrating. How well Wales and the Welsh devolution settlement has done out of this process is less clear cut.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.

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