



Commission on Devolution in Wales
Comisiwn ar Ddatganoli yng Nghymru

Empowerment and Responsibility: Financial Powers to Strengthen Wales



| Our Commission...

- Launched October 2011.
- Seven strong team.
- Remit set by Secretary of State with agreement of four main political parties in Wales - divided into two parts.
- Part I (Oct 2011 – Nov 2012) reviewed tax and borrowing powers for NafW.
- Part II (to be launched next week) will review non-financial powers of NafW.



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



Evidence and Public Opinion

Took expert advice, consulted the public, stakeholders and businesses to hear their views:

- Visited every local authority area in Wales holding 28 events;
- Called for Evidence – received 78 written submissions and took oral evidence;
- Commissioned an in-depth ICM opinion poll;
- Over 200 responses to our questionnaire; and
- Looked at UK and international experiences.



| Our recommendations...

- Would develop devolved responsibility by giving Wales its own tax and borrowing powers.
- Would empower the Welsh Government and the Welsh people
- Have been built on consensus and will have wide support.
- Will strengthen Wales and its economy.



Our principles

The following main principles have underpinned our recommendations:

- Accountability;
- Empowerment;
- Efficiency;
- Economic Incentivisation; and
- Equity.



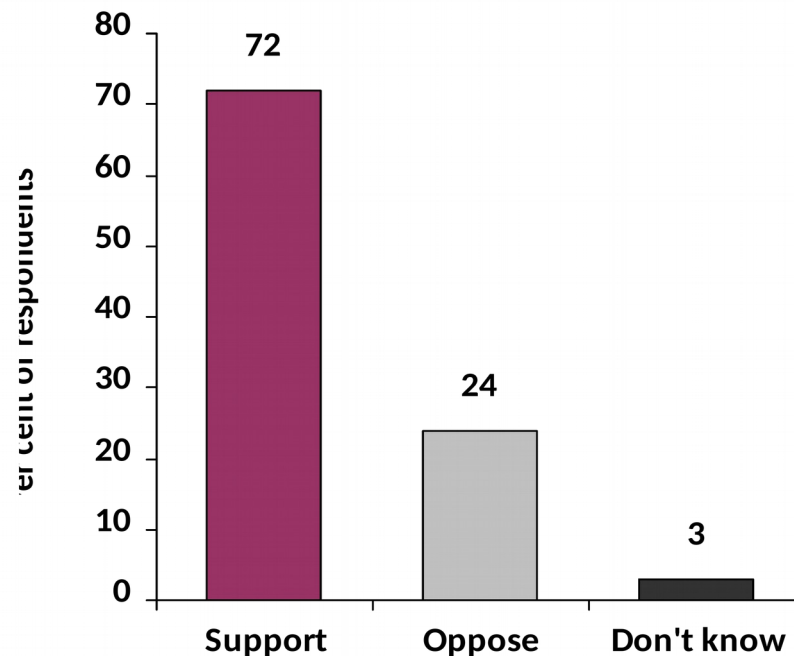
We propose...

- Welsh Government should be empowered to take tax decisions in devolved policy areas.
- 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 propose...

- The Welsh Government should have some responsibility for the money it spends.
- VAT and NICs not suitable for devolving.
- Due to its mobile and volatile nature, devolving Corporation tax could be problematic but should be kept under review.

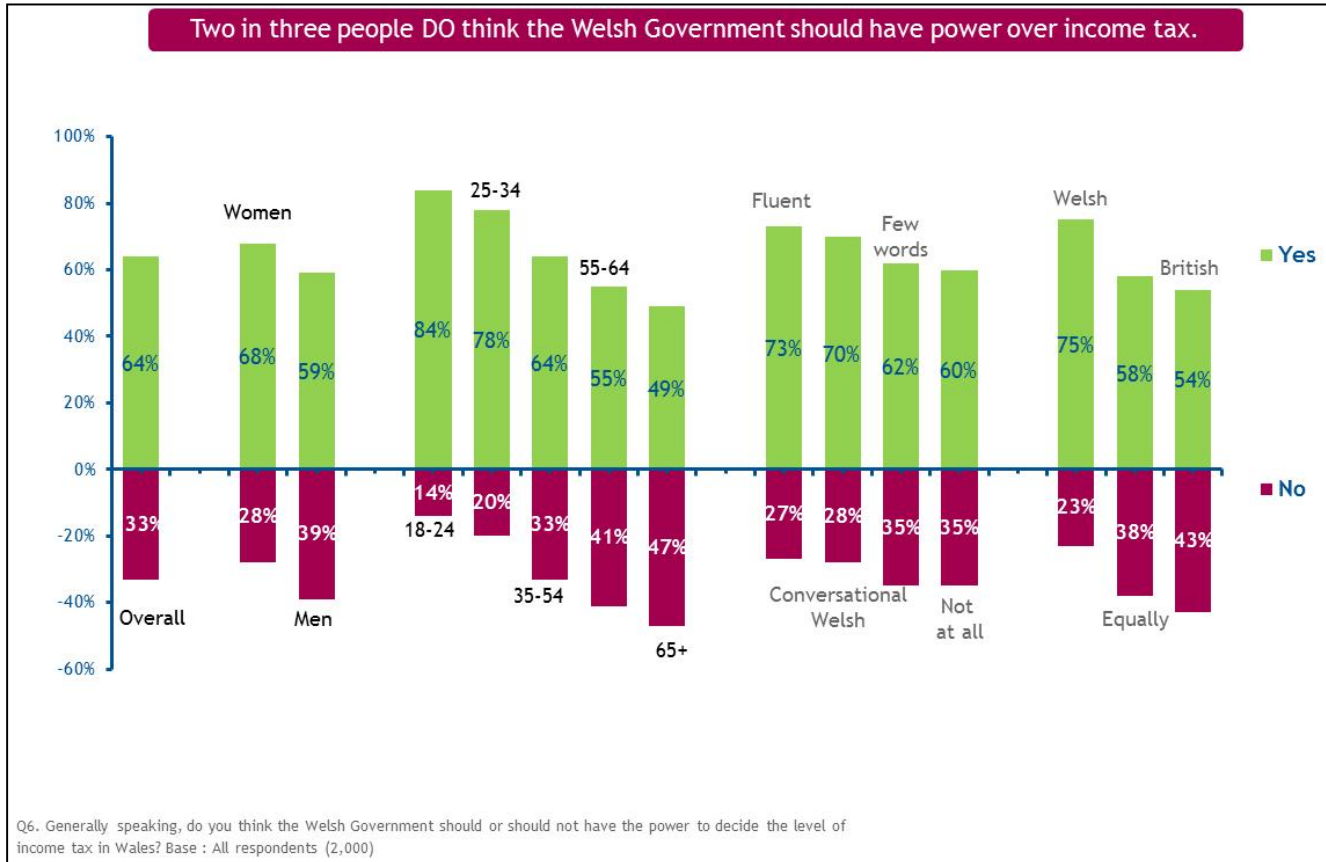


We propose...

- Responsibility for income tax be shared between Cardiff Bay and Westminster, with Welsh Government setting income tax rates.
- This will 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.
- Follow Holtham's recommendations on how tax devolutions should interact with the block grant.



Wide public support?

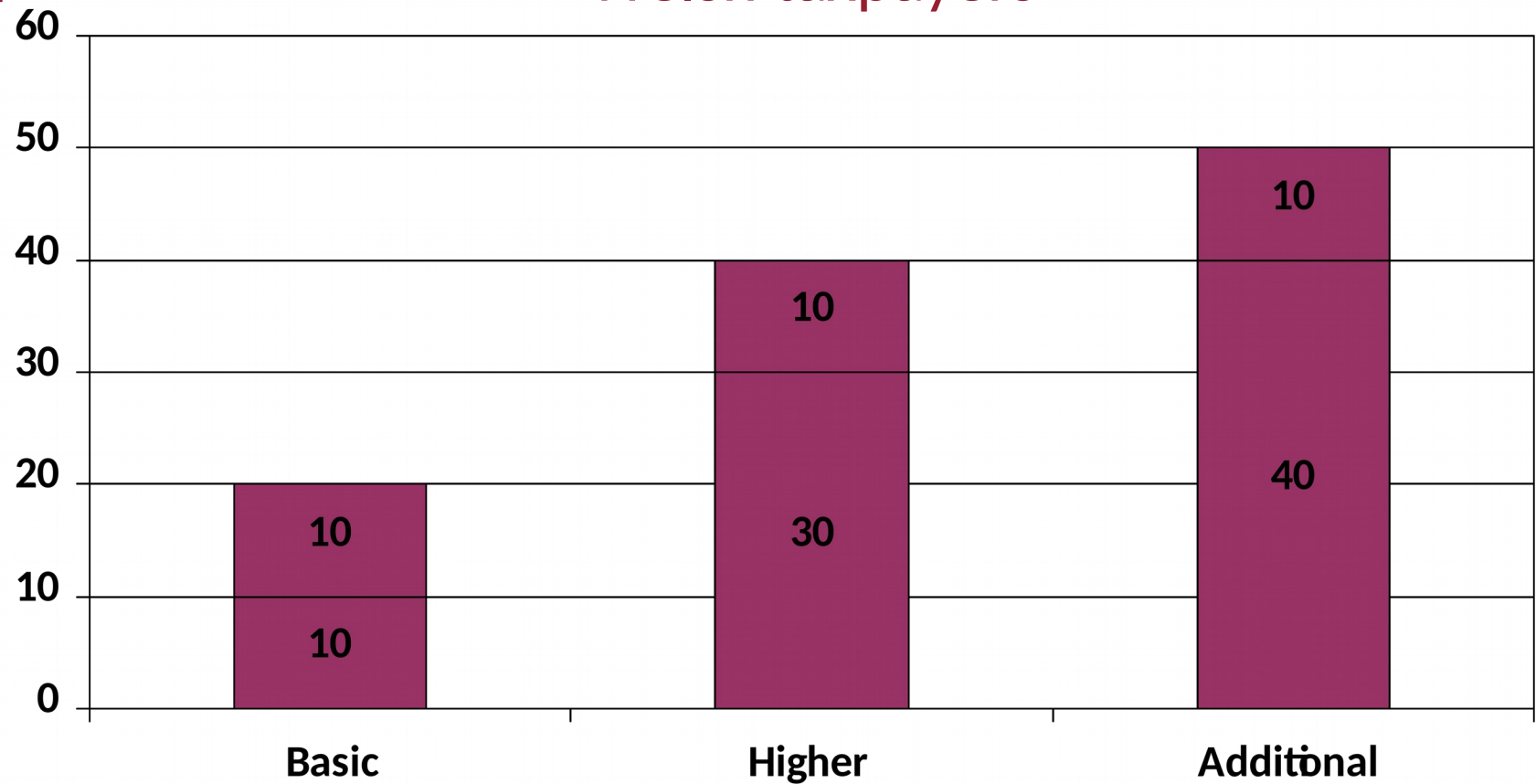




How our income tax recommendations would work

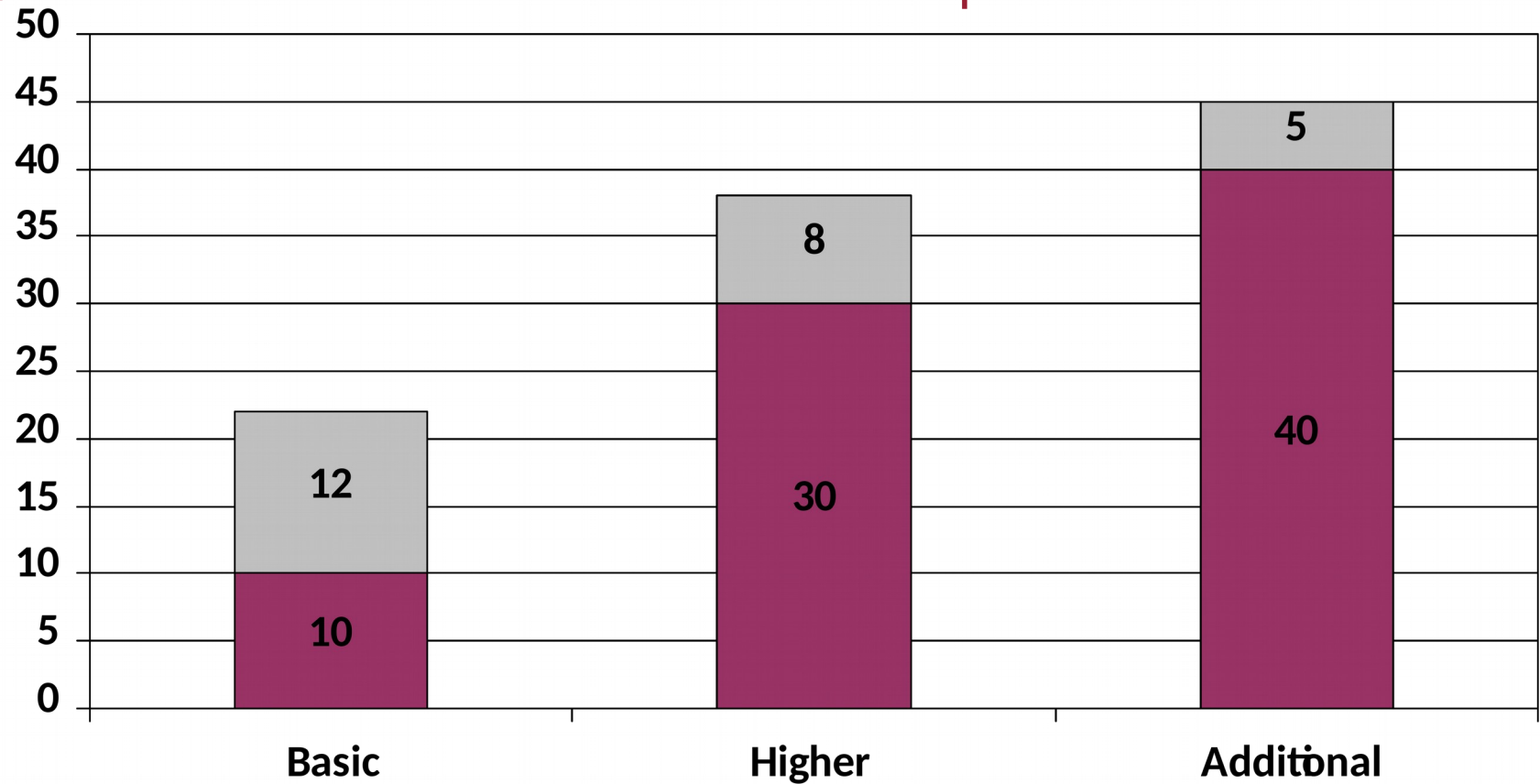


Step 1: UK Government reduces each rate by 10p for Welsh taxpayers



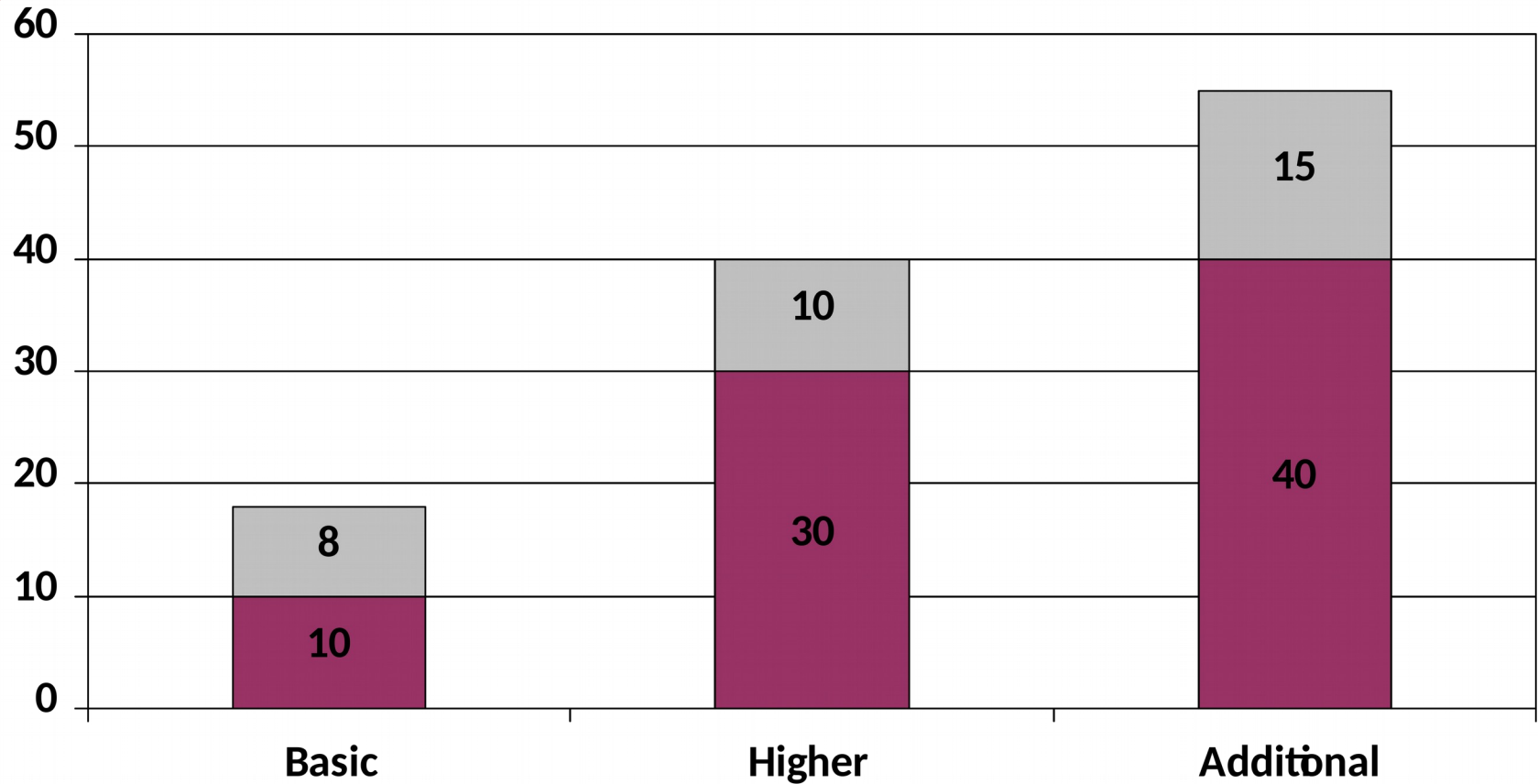


Step 2: Welsh Government has the power to separately set each rate in Wales - Example 1





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





We propose...

- Powers to borrow for capital and current spending, subject to prudent limits agreed with the Treasury.
- This will 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 to take forward our recommendations as soon as possible, with a Wales Bill in this Parliament.
- We hope the Welsh Government and National Assembly for Wales will start building their capacity, including developing Welsh Treasury.
- Reforms should be carefully phased.
- 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.



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Questions