

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Welsh Grand Committee

SILK COMMISSION

Wednesday 5 February 2014

(Morning)

CONTENTS

Silk Commission

General debate in progress when the Committee adjourned till this day at Two o'clock.

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The Committee consisted of the following Members:

Chairs: MARTIN CATON, † ALBERT OWEN

- | | |
|--|---|
| † Bebb, Guto (<i>Aberconwy</i>) (Con) | Iriranca-Davies, Huw (<i>Ogmore</i>) (Lab) |
| Brennan, Kevin (<i>Cardiff West</i>) (Lab) | † James, Mrs Siân C. (<i>Swansea East</i>) (Lab) |
| Bryant, Chris (<i>Rhondda</i>) (Lab) | † Jones, Mr David (<i>Secretary of State for Wales</i>) |
| Buckland, Mr Robert (<i>South Swindon</i>) (Con) | Jones, Susan Elan (<i>Chwyd South</i>) (Lab) |
| † Cairns, Alun (<i>Vale of Glamorgan</i>) (Con) | † Kawczynski, Daniel (<i>Shrewsbury and Atcham</i>) (Con) |
| Clwyd, Ann (<i>Cynon Valley</i>) (Lab) | † Llwyd, Mr Elfyn (<i>Dwyfor Meirionnydd</i>) (PC) |
| † Crabb, Stephen (<i>Parliamentary Under-Secretary of State for Wales</i>) | † Lucas, Ian (<i>Wrexham</i>) (Lab) |
| David, Wayne (<i>Caerphilly</i>) (Lab) | Moon, Mrs Madeleine (<i>Bridgend</i>) (Lab) |
| Davies, David T. C. (<i>Monmouth</i>) (Con) | † Morden, Jessica (<i>Newport East</i>) (Lab) |
| Davies, Geraint (<i>Swansea West</i>) (Lab/Co-op) | Morris, David (<i>Morecambe and Lunesdale</i>) (Con) |
| † Davies, Glyn (<i>Montgomeryshire</i>) (Con) | Mosley, Stephen (<i>City of Chester</i>) (Con) |
| † Doughty, Stephen (<i>Cardiff South and Penarth</i>) (Lab/Co-op) | † Murphy, Paul (<i>Torfaen</i>) (Lab) |
| † Edwards, Jonathan (<i>Carmarthen East and Dinefwr</i>) (PC) | † Newmark, Mr Brooks (<i>Braintree</i>) (Con) |
| † Evans, Chris (<i>Islwyn</i>) (Lab/Co-op) | Ruane, Chris (<i>Vale of Chwyd</i>) (Lab) |
| † Evans, Jonathan (<i>Cardiff North</i>) (Con) | Smith, Nick (<i>Blaenau Gwent</i>) (Lab) |
| † Flynn, Paul (<i>Newport West</i>) (Lab) | † Smith, Owen (<i>Pontypridd</i>) (Lab) |
| Francis, Dr Hywel (<i>Aberavon</i>) (Lab) | Tami, Mark (<i>Alyn and Deeside</i>) (Lab) |
| † Griffith, Nia (<i>Llanelli</i>) (Lab) | † Williams, Hywel (<i>Arfon</i>) (PC) |
| † Hain, Mr Peter (<i>Neath</i>) (Lab) | † Williams, Mr Mark (<i>Ceredigion</i>) (LD) |
| † Hanson, Mr David (<i>Delyn</i>) (Lab) | † Williams, Roger (<i>Brecon and Radnorshire</i>) (LD) |
| Hart, Simon (<i>Carmarthen West and South Pembrokeshire</i>) (Con) | Willott, Jenny (<i>Cardiff Central</i>) (LD) |
| † Havard, Mr Dai (<i>Merthyr Tydfil and Rhymney</i>) (Lab) | |

Neil Caulfield, Fergus Reid, *Committee Clerks*

† attended the Committee

The following also attended (Standing Order No. 102(4)):

Brake, Tom (*Deputy Leader of the House of Commons*)

Lansley, Mr Andrew (*Leader of the House of Commons*)

Welsh Grand Committee

Wednesday 5 February 2014

[ALBERT OWEN *in the Chair*]

Silk Commission

[*Relevant document: Oral evidence taken before the Welsh Affairs Committee on 30 January 2014, on the pre-legislative scrutiny of the draft Wales Bill, HC 962.*]

9.30 am

The Chair: I welcome non-members of the Committee who are here to observe us today. It might be helpful if I remind Members of the timing of the debate. From now, we will sit until 11.25 am and we will meet again at 2 pm, when the debate will continue on the motion until 4 pm.

The Secretary of State for Wales (Mr David Jones): I beg to move,

That the Committee has considered the matter of the Government Response to Part 1 of the Commission on Devolution in Wales.

I welcome you to the Chair, Mr Owen; it is always a huge pleasure to serve under your chairmanship. I am pleased to open the debate, which is the 11th meeting of the Welsh Grand Committee in this Parliament. I hope that all parties will support my proposals to hold further meetings of the Grand Committee to consider the Budget and the fourth Session legislative programme later this year.

Since the general election, the Wales Office has made rebuilding the Welsh economy through investment in infrastructure its principal priority. The Government have already committed more than £2.25 billion to new infrastructure that will benefit Wales, directly or indirectly. Almost £2 billion will be invested in modernising the rail network, including electrifying the Great Western main line to Swansea and the railways serving the south Wales valleys.

We are investing £250 million to build a new prison in north Wales, which will create up to 1,000 new jobs and require a supply chain that will bring an estimated £23 million a year more into the local economy. We have committed £57 million to bring superfast broadband to Wales: a key element of a modern infrastructure network. Alongside that, Hitachi's £20 billion investment in the UK, including the proposed nuclear development at Wylfa, will create up to 6,000 construction jobs in Wales and provide excellent opportunities for Welsh businesses to be part of the supply chain.

Mr Peter Hain (Neath) (Lab): On a point of order, Mr Owen. Is the Secretary of State in order to talk about the macro-economic picture that he claims represents Wales when we are meant to be talking about part 1 of the Silk commission?

The Chair: I am listening carefully to the Secretary of State and his small introduction to the motion. I am sure that he will come on specifically to consider part 1 of Silk.

Mr Jones: Thank you, Mr Owen. If the right hon. Gentleman can contain himself for another paragraph, he will indeed hear about Silk.

We also confirmed in November that we will enable the Welsh Government to use their existing borrowing powers to start work as soon as possible on the sorely needed upgrade to the M4 around Newport, tackling the congestion that my right hon. Friend the Prime Minister rightly described as

“a foot on the windpipe of the Welsh economy”.

It is in that context, and that of the need to make the Welsh Government more accountable for raising a significant part of the money they spend, that we considered the Silk commission's recommendations. It was crucial for the Government to get their response to Silk part 1 absolutely right. We analysed the recommendations rigorously, tested the potential effects of each of them and undertook public consultation. I am sure that the package of tax and borrowing powers we propose to devolve, as a result of our consideration of the Silk recommendations, will strengthen Welsh devolution and Wales's role within a strong United Kingdom.

Mr David Hanson (Delyn) (Lab): Will the Secretary of State explain what discussions have been had with business on the proposed income tax devolution? As he knows, my area—and his—has many businesses that employ people from all parts of the United Kingdom on a cross-border basis and, indeed, many of my constituents work in England. Will he explain the mechanics of that devolution so that we can be clear about it?

Mr Jones: We will indeed go into the mechanics of the proposals in a moment. We did consider what business had to say and, as the right hon. Gentleman will know, we carried out a further consultation, primarily with business, on stamp duty land tax. We believe that both the Silk process and what followed amounted to a significant consultation with both business and other stakeholders.

Mr Hanson: The Secretary of State said that he has undertaken a wide-ranging consultation on stamp duty land tax, yet, as far as I am aware, he has not done a secondary in-depth consultation on business rates, which is a key issue for businesses who employ thousands of people on both sides of the border.

Mr Jones: We will discuss business rates in due course, but the right hon. Gentleman will know that there have been variations across Wales, in rates, council tax and so on. People who live in Wales—I understand his point—especially those who live close to the border on either side, are very familiar with differences in taxation, rates and so on. I look forward very much to hearing what he has to say.

Owen Smith (Pontypridd) (Lab): Further to the point raised by my right hon. Friend the Member for Delyn, will the Secretary of State confirm that no consultation has been undertaken with business or anybody else on income tax variation, which greatly concerns the Labour party, as we think it could have serious unintended consequences?

Mr Jones: That is not the case at all. The commission carried out an extensive consultation with business right across Wales and clearly, we gave serious consideration to what it found. We agree with the commission's key recommendation: that the funding model of a block grant and some devolved taxes best meets sound principles for funding the Welsh Government, and that part of their budget should be funded from devolved taxation under their control.

We demonstrated our commitment to those principles by publishing the draft Wales Bill before the Christmas recess, one month after we announced our response to the Silk recommendations. We wanted pre-legislative scrutiny of that important measure to take place in this Session of Parliament and, as several hon. Members here today know, the Select Committee on Welsh Affairs has already made significant progress. I would like to put on record my thanks to all members of the Select Committee for their hard work.

I believe that if used wisely, the package of tax and borrowing powers included in the draft Bill can help grow the Welsh economy, give Wales a competitive edge and make Wales a more prosperous place. Subject to the Bill's successful parliamentary passage, I hope to see the new tax and borrowing powers devolved well before the next Assembly elections in May 2016.

Turning to the detail of the Government's response, we intend to devolve responsibility for taxes on land transactions and taxes on disposals to landfill, as the Silk commission recommended. That will put new economic levers in the hands of the Assembly and the Welsh Government, while also providing the independent revenue streams to facilitate borrowing by the Welsh Government. We will also fully devolve business rates by amending current funding arrangements, so that the Welsh Government benefit directly from revenues raised by that tax in Wales. Devolving those taxes not only puts important levers in the hands of the Welsh Government to grow the Welsh economy, but ensures that they benefit directly from that growth through increased tax revenues.

The draft Wales Bill also delivers new borrowing powers to the Welsh Government, as the Silk commission recommended. The Welsh Government will be able to borrow up to £500 million to manage fluctuations in their revenue, such as the volatility that devolved taxes introduce, and we are providing the Welsh Government with the ability to borrow a further £500 million to invest in capital infrastructure in Wales.

Owen Smith: Will the Secretary of State confirm or explain to the Committee how that figure of £500 million has been derived? It does not seem to relate either directly to the volume of tax receipts that will now potentially be available to Wales, or to the capital departmental expenditure limit, as is the case in Scotland.

Mr Jones: The hon. Gentleman is right. In fact, the Treasury has been extremely generous in what they have put in the Bill and also in the £500 million of advance borrowing powers that it has already granted for the upgrade of the M4 and A55 expressway.

Paul Murphy (Torfaen) (Lab) *rose*—

Owen Smith *rose*—

Mr Jones: May I just deal with this point, then I will happily take an intervention? Had the income stream been all that we were considering, the figure would have been closer to £100 million.

Owen Smith: The Secretary of State will know that the template recommended by the Silk commission was what this Government have provided for Scotland, which is a percentage of the capital DEL. Were that the case, Wales would be able to borrow £130 million each year up to a ceiling of £1.3 billion. The Secretary of State says that he is being generous with £500 million, but he has not explained where that figure comes from. I fear that it seems simply to be an arbitrary carry-over of the previous figure that related to the Welsh Development Agency.

Mr Jones: Indeed, it is not. To repeat: we were extremely anxious to see the upgrade of the M4 at Newport. That is why we accelerated the borrowing powers. There will potentially be further borrowing powers as and when income tax is devolved, but we will deal with that shortly.

Paul Murphy: The dead hand of the Treasury lies upon these proposals. Does the Secretary of State agree that Northern Ireland, which has half the population of Wales and is half the size of Wales, has a much better borrowing facility of up towards £2 billion than Wales with just half a billion? I cannot understand why that is the case.

Mr Jones: I acknowledge the right hon. Gentleman's experience as a former Secretary of State both for Wales and for Northern Ireland. To repeat: if one has reference to the income stream that will come from the landfill tax and the stamp duty land tax, the settlement is extremely generous and has the potential to be even more so, as and when income tax is transferred.

Mr Hain: The Secretary of State mentioned the Treasury's generosity. In my experience as a Cabinet Minister, the Treasury never displayed any generosity and I cannot believe it has changed its spots.

The devolution of these minor taxes, which along with the borrowing facility is welcome, will mean that the Welsh block will be reduced by an equivalent amount. In the negotiations over that, will he press the First Minister's case that the Barnett formula has disadvantaged Wales by up to £300 million? Therefore, the slice of that that is allocated to these taxes as a deduction from the Welsh block ought to be less than the result of a straightforward arithmetical comparison.

Mr Jones: It is remarkable that we got 10 minutes into the debate before Barnett was mentioned. Clearly, the Government recognise that Barnett has not got an indefinite life span. However, we regard it as important to stabilise the finances before we look at Barnett reform.

Nevertheless, the right hon. Gentleman will be aware that in October 2012 an agreement was achieved between the Wales Office, the Treasury and the Welsh Government that addressed the Barnett squeeze. It was very similar

[Mr David Jones]

to the deal that he struck. Before every spending review, convergence would be addressed. That was accepted by the Welsh Government at the time. I do not think that anyone is saying that Barnett has an indefinite life span, but this is not the time to address it, given the state of the public finances.

Mr Hain: I am grateful for that clarification and I take the Secretary of State's point. I am making an additional point to the convergence one that he has acknowledged, which is good. In the negotiations on the figure by which the Welsh block will be reduced in return for devolving these taxes, will the Secretary of State ensure that it is not squeezed beyond what would be fair? It is a smaller proportion of what it should be in the first place, given the way that Wales has suffered in recent times.

Mr Jones: I seem to recall that when the right hon. Gentleman was in government he also acknowledged the need to maintain the Barnett formula in its current form. I do not think there is any question of any unfairness to Wales. I can assure him and the rest of the Committee that the Treasury and the Wales Office will do their utmost to ensure that fairness is allotted to the Welsh Government.

Owen Smith: I am afraid that the Secretary of State has not explained how the £500 million has been arrived at; nor has he explained why in Wales a direct link is being drawn between potential tax receipts, if taxes are devolved, and the quantum of borrowing. That is not the case in Northern Ireland and was not the case when similar powers were extended to Scotland. Why is Wales being treated differently?

Mr Jones: Northern Ireland is an entirely different scenario. The Northern Ireland Executive exercise many of the powers and responsibilities that in other parts of the UK are exercised, for example, by county councils. It is far too simplistic to suggest that a one-size-fits-all approach can be arrived at.

Owen Smith: That does not explain Scotland.

Mr Jones: To continue, capital borrowing powers provide a further means for the Welsh Government to invest in infrastructure and drive forward economic growth. Again, I hope that the Welsh Government will use these new powers wisely. Wales has too many key transport arteries that are in desperate need of upgrading, particularly the M4 around Newport in south Wales and the A55 north Wales expressway. The new borrowing powers, along with the early access to borrowing we are providing to upgrade the M4 in south Wales, give the Welsh Government the tools to get on with the job of renewing Wales's infrastructure in the areas for which they are responsible. There can now be no excuse for not doing so and Welsh motorists will be looking for early improvements to Wales's long-neglected road network.

Mr Hain: I am not seeking to make an adversarial point because we are at one on this tax devolution and in respect of the minor taxes and the borrowing that

comes with them, but can the Secretary of State clarify this for the Committee? When these tax changes come in, let us say on 1 April, in the spending review leading up to that, the Welsh block will have been reduced by an equivalent amount to the revenue that is generated under those taxes. That kicks in from 1 April—let us say that it is reduced by £500 million, for want of a better figure—but the revenue comes back into the Welsh Government later in the year. It depends on how many houses are sold and how much landfill tax activity there is, what aggregates levy activity there is and so on. In fact the Welsh Government in that situation will experience a shortfall. They have already been badly squeezed. Has he considered that, and, if not, could he address it?

Mr Jones: Indeed, it has been considered and it is proposed to introduce a modulating mechanism. The right hon. Gentleman's point is fair. There is no intention, obviously, for the Welsh Government to be disadvantaged as a consequence of the proposals.

The draft Wales Bill also provides for there to be a referendum in Wales, if the Welsh Government and Assembly decide that that should happen, on the devolution of a portion of income tax. The Silk commission recommended that income tax devolution should be subject to a referendum, as it was in Scotland in 1997, and we agree with that recommendation. I would support a yes vote in such a referendum as it would make the devolved institutions in Wales more truly accountable to the people who elect them.

Mr Elfyn Llwyd (Dwyfor Meirionnydd) (PC): On the referendum point, why does the Secretary of State disagree with his National Assembly Tory leader, Mr Andrew R.T. Davies, about the lockstep procedure, which is a ridiculous procedure to adopt? The Secretary of State is in favour of it. All the Welsh Tories in the National Assembly are not. Who speaks for Wales on this?

Mr Jones: I am not entirely sure whether all the Welsh Tories in Wales agree with that. I, for one, do not. We are here to debate the Government's response to the Silk commission. The Government are certainly in favour of the lockstep but if the right hon. Gentleman can contain himself I propose to deal with the lockstep more fully shortly. I look forward to hearing what he has to say.

Several hon. Members rose—

The Chair: Order.

Mr Hanson: Would the referendum on income tax be based on residence in Wales or workplace? They are two different things. Many workers in factories in my constituency live in England. On what basis will the tax base be determined?

Mr Jones: That is an extremely pertinent question. I can fully understand the right hon. Gentleman's point, coming from the part of Wales he does. Wales has a very porous border and people regularly travel in each direction across it to work. The referendum would be based on the electoral roll and therefore on the place of residence.

Mr Hanson: What income tax would an individual who worked in Wales but lived in England pay: the English income tax rate or a Welsh income tax rate? And vice versa?

Mr Jones: Again, it would be based on residence. The right hon. Gentleman's point is a pertinent one, and that is why we need a referendum before these powers are devolved. It is important that the electorate of Wales should be fully informed as to the consequences of tax devolution and that there should be a proper national debate. Once the electorate of Wales have been properly informed they can make up their mind in a vote.

Paul Flynn (Newport West) (Lab): The new laws that have been introduced by the Welsh Government go through the filter of the Attorney-General, who has referred a number of them to the Supreme Court, which is made up of 12 judges—there are two from Scotland, one from Ireland, but none from Wales. In effect, Wales is now judge-ruled, because they have the say, contrary to our long tradition of parliamentarians making laws, not judges. What will the Secretary of State do about that?

Mr Jones: I am not sure that this figures in the Silk commission's deliberations. Wales and England are a united jurisdiction and conceptually there is no reason at all why all the English and Welsh judges should not come from Wales. The Lord Chief Justice at the moment is John Thomas, who is a Welsh judge.

Jonathan Edwards (Carmarthen East and Dinefwr) (PC): As the Secretary of State is aware, the Silk commission recommended a referendum based on an income tax-sharing proposal which enabled the Welsh Government to vary the bands. Everybody knows that they cannot vary those bands because of the lockstep measure that he has imposed. What is the point of having a referendum on a measure that they cannot use?

Mr Jones: I shall go into that in detail, but clearly variability is not the only issue to be taken into account in the devolution of income tax. Accountability is extremely important. At the moment there is no accountability at all. Secondly, there is the issue of incentive: the Welsh Government would have an incentive to grow the Welsh economy because it would have a direct income stream from taxation. I think that those who suggest that the issue of variability is the only argument are indulging in a facile argument. For the first time, this would give the Welsh Government access to a direct income stream that would fund borrowing, and I believe that that is highly desirable.

Hywel Williams (Arfon) (PC): Before the Secretary of State gets into the detail of the lockstep, the prospect of which I am sure we all relish, will he answer the point made by Gerry Holtham and a number of others that the tax referendum should be a general one, as it were, giving the Welsh Government permission to vary taxes, or whatever, in future, so that we do not have repeated referendums at substantial public cost on an issue that has already been decided by the Welsh public?

Mr Jones: No, I think that we should have a very discrete referendum on this particular issue. The issue is whether or not the Welsh Government should have access to an income stream afforded to it by the transfer of 10p in the pound.

Hywel Williams: In passing, the principle of minor taxes has already been conceded and I do not see why we should have a referendum. However, given that we all relish the detail of the lockstep, will the Secretary of State suggest a question that would be comprehensible to the Welsh public, and even to me, specifically on the lockstep? I think that would be quite a performance.

Mr Jones: I think that that is for some time in the future, but I will say that it is for that very reason that there should be a national debate in Wales on the whole issue of tax devolution. If the hon. Gentleman believes that it is right to impose something on the people of Wales that was not imposed on the people of Scotland, I think he does a disservice to the people of Wales.

Owen Smith: The Secretary of State is being very generous with his time. Far be it for me to suggest that this is an ill-thought-through set of proposals, but there does seem to be an enormous number of questions unanswered today. Does he not accept that, while the referendum will take place only within Wales, there may be many thousands, possibly hundreds of thousands of people, on the English side of the border who, through residency tests, might subsequently benefit from having a lower rate of tax within Wales? Is that not rather anomalous?

Mr Jones: I am not sure whether the hon. Gentleman is suggesting that the referendum should be UK-wide, but that was certainly not what happened in Scotland, and it was his Government who introduced the Scottish referendum arrangements.

Owen Smith: Will the Secretary of State give way?

Mr Jones: With great respect, I will make some progress.

I shall proceed to the lockstep, but no doubt there will be further interventions. We do not agree with the recommendation that the Welsh Government should be able to vary income tax independently in each band. We believe that the lockstep is the right system for Wales. It applies in Scotland, where there is a single devolved rate for all bands, and I believe that it will work equally well in Wales. Clearly, income tax, if devolved following a referendum, would provide a powerful incentive for the Welsh Government to grow the Welsh economy. If they are bold, as I believe they should be, they will deliver lower taxes.

Jonathan Edwards: The Select Committee on Welsh Affairs held a detailed investigation into the draft Wales Bill. Can the Secretary of State name one witness, apart from himself and the Treasury Minister, who supported the lockstep?

Mr Jones: Given that I was not present at the deliberations of the Select Committee, no I cannot. I am not going to second guess the Select Committee's report. The hon. Gentleman is a member of that Committee, and it is necessary for it to deliver its report before we respond.

[Mr David Jones]

The lockstep would provide an income stream that would deliver enhanced borrowing powers over and above the £500 million set out in the draft Bill. Stronger economic growth in Wales could deliver a real boost in tax revenues, providing the Welsh Government with more resources to invest in devolved services and infrastructure across Wales. The obstacles that hon. Members have cited against a referendum on income tax devolution are illusory. We are giving the Welsh Government an incentive to increase their revenues by growing the Welsh economy.

Paul Murphy: I am interested in the Secretary of State's point about extra revenue going to Wales from the devolution of income tax, but what would be its effect on the block grant? Would it mean that if X amount were raised in Wales from income tax, minus X would be removed from the block grant?

Mr Jones: Let us be clear about this. The proposal is for 10p in the pound to be devolved to the Welsh Government. The Welsh Government will then have the right to decide what they do with that 10p band. Clearly, the block grant will be adjusted to take account of the 10p devolution. Beyond that, the incentive for the Welsh Government is to grow the economy so that their tax take increases. That is not referable to the block grant at all.

We have made it clear since the publication of our response to the Silk commission that income tax devolution should not benefit one part of the UK at the expense of another, as could happen if bands were varied independently. Critics of the lockstep are taking a narrow view.

Mr Brooks Newmark (Braintree) (Con): I have been listening carefully to the Opposition. On a point of clarification, is my right hon. Friend saying that by devolving a certain amount of taxation to the Welsh Government, notwithstanding the adjustments that may be made to the block grant, if they grow the economy they and the Welsh people will be much better off?

Mr Jones: That is an important part of the argument. If there were a lower tax regime in Wales, there would be every incentive for people to invest in Wales, and the Welsh Government would have huge potential for growing the economy. It is important that the Welsh Government depart from the mentality of always being a supplicant and always relying on the block grant. It is important that, in a more mature form of devolution, they take more responsibility for growing the Welsh economy. This is a huge opportunity for the Welsh Government.

Owen Smith: I am very grateful to the Secretary of State for giving way—it is the last time I shall seek to intervene, I promise. He said that he favours a competitive advantage being afforded to Wales by the reduction of taxes in Wales, and he has said that repeatedly over recent weeks. However, will that competitive advantage be to the detriment of another part of the UK, and is he comfortable with that? Which parts of the UK would he like to see lose out through Wales's lower tax threshold?

Mr Jones: It would not be like that. The proponents of variable individual bands are effectively saying that the whole of the UK should be weakened as a consequence of the devolution of variable bands to Wales. The devolution of the competence across the three bands by the means of the lockstep gives that small competitive edge. [Interruption.] Can we concentrate on this particular point? The Welsh Government will not be compelled to vary the bands. If they believe it is not desirable to do so, they could leave the bands exactly where they are, as, for example, happened in Scotland. The point is that the direct income stream gives a huge incentive to the Welsh Government to grow the economy. It makes them accountable and, of course, it gives them additional borrowing powers.

I recall very clearly that at a previous Grand Committee the hon. Member for Pontypridd and the right hon. Member for Torfaen expressed concern at the lack of borrowing powers in Wales—quite rightly—and that is why we have accepted the Silk proposals. This gives the Welsh Government the borrowing powers that were rightly identified by both the hon. Gentleman and the right hon. Gentleman as necessary.

Mr Newmark: Again, I find the Opposition spokesman's logic a little perplexing. Is not my right hon. Friend trying to say that, by giving more power to Wales with respect to taxation, the Welsh Government have every incentive to encourage people and businesses in Wales to grow even more, and that taxation does not necessarily need to be a zero sum game? Giving the ability to collect more tax to Wales does not mean anywhere else in the UK loses out.

Mr Jones: My hon. Friend is entirely right.

Mr Llwyd: The Secretary of State knows of the discussion within Silk about devolution of air passenger duty. He acknowledged that that would give Cardiff airport a slight competitive advantage, but he ruled it out, because it might disadvantage Bristol. Does he speak for Wales or for England?

Mr Jones: I did not rule it out because of the disadvantage to Bristol. The right hon. Gentleman is wrong to put those words into my mouth. I will deal with air passenger duty in a moment.

Jonathan Edwards: Will the Minister give way?

Mr Jones: No, I will not.

The Government have a responsibility to take a UK-wide view, to consider the interests not only of Wales, but of the whole of the United Kingdom, including Wales. That is why we have decided that the lockstep mechanism is the best way to devolve a portion of income tax to Wales, if it is supported in a referendum. We do not want a system that could promote a damaging race to the bottom, with different parts of the UK undercutting each other at the expense of UK tax revenues overall. Variation by band would allow that, and that is why we are not implementing it.

Turning to other recommendations made by the commission, in our response last November we made it clear that we were not convinced by the case for devolving

air passenger duty to Wales. As we announced in the 2013 Budget, we have no plans to vary APD rates by levels of airport congestion. In 2012, Her Majesty's Revenue and Customs published a report highlighting the fact that different rates either side of the Wales-England border would be likely to redistribute passengers between airports, rather than significantly increase the overall demand within the UK.

It is of course the case that we have devolved APD in Northern Ireland, but that was to take account of its unique position. It is the only part of the UK that shares a land border with another EU member state, and the Republic of Ireland has a lower rate of aviation tax. That of course does not distort the wider UK market.

Mr Hain: I am trying to follow the logic in what the right hon. Gentleman is saying. If the Welsh Government decided to impose a lower threshold for stamp duty, it might be that people would want to move to Wales, meaning that more houses would be bought. What is the logic of denying that same principle in relation to air passenger duty?

Mr Jones: The difference is that a house is, by its very nature, immobile—[HON. MEMBERS: "So is an airport."] Passengers can decide where they want to fly from, and the fact is that Cardiff is in competition with many other airports—not only Bristol, but Birmingham. It is the only international airport in Wales, so what was effectively being suggested was that we favour a single airport at the expense of others. We did not believe that that was right, because we believe—I repeat—that it would distort the wider UK market.

Mr Hain: The Secretary of State presents himself as a great tax devolutionist, but beware of Tories bearing gifts on devolution—let us leave that aside.

Airports are fixed. Passengers can move, but home owners can also move, as can those wishing to deposit items in landfill. I do not understand the Secretary of State's logic, unless he actually wants to disadvantage Wales in respect of air passenger duty.

Mr Jones: I know that the right hon. Gentleman has been a frequent flyer. People frequently decide which airport to fly from solely for the reason of price. That is why Liverpool, for example, has done extremely well, but that is not a consequence of an unfair tax advantage. Liverpool has grown because it has improved its operation; Cardiff similarly can improve its operation. The right hon. Gentleman says, "Beware Tories delivering devolution," but I am astonished that he is not welcoming what we propose and that he insists on looking a gift horse in the mouth.

Glyn Davies (Montgomeryshire) (Con): Does the Secretary of State agree that to accuse the Conservative party of not being supportive of the development of Welsh devolution is utterly ridiculous? The referendum was delivered by the Conservative party a couple of years ago, and this coalition was set up by the Conservative party with the agreement of hon. Members. No one can

have given greater encouragement to the development of the Assembly and moving it forward than the Conservative party.

Mr Jones: Yes, we have done really well.

Paul Flynn: Timeo Torieos et dona ferentes. Perhaps I should translate that for those Conservative Members who are victims of the public school system, although it is clear to those who went to good comprehensives in Labour areas that I am saying, "I fear the Tories bearing gifts." It is not looking a gift horse in the mouth; it is looking a Trojan horse in the mouth.

Mr Jones: I must beg to differ. I think that the hon. Gentleman is quoting from Virgil's Aeneid book II. Was it Laocoön who said that? The hon. Gentleman does not know.

The Silk commission also recommended that competence over budgetary procedures should be devolved to the Assembly, which is an issue that has been raised several times during pre-legislative scrutiny of the draft Wales Bill. As I confirmed to the Welsh Affairs Committee last week, we are giving further consideration to that issue in discussions with the Welsh Government. We will look carefully at any recommendations that the Select Committee makes about that.

The Government believe that devolution should be used to give a competitive advantage to Wales, and that powers devolved should be used to grow the Welsh economy and to make Wales a more prosperous place. Through the draft Wales Bill, we propose to empower the Assembly to take control of devolved taxes. We will hand to the Welsh Government responsibility for increasing those tax revenues by delivering strong economic growth in Wales. We are committed to delivering an ambitious package for Wales. In turn, the Welsh Government will need to seize the opportunity to drive forward prosperity across Wales by taking full advantage of the powers we are devolving. Jane Hutt, the Welsh Finance Minister, described our response to Silk part 1 as a "good deal for Wales" and a

"big step forward for Welsh devolution".

I fully support that assessment, and I look forward to hearing similarly strong support from the hon. Member for Pontypridd.

10.9 am

Owen Smith: It is, as ever, a great pleasure to serve under your chairmanship, Mr Owen.

I begin by giving the Secretary of State my commiserations. My wife, who is a newly qualified teacher, is having to endure the hardship of undergoing an Estyn inspection. It must be difficult for the right hon. Gentleman to have to perform in front of the parliamentary equivalent of the Estyn inspectorate, who have clearly come to check out how he is doing and whether we are all behaving ourselves in Committee, as of course we are. It felt rather like an inspection when the Secretary of State was talking about Virgil's Aeneid; at that point, we really were back in the sixth form.

The debate is hugely important because it is Welsh Members' first chance properly to look at the Silk commission part 1 and the draft Wales Bill, which is

[Owen Smith]

effectively the Government's response to it. Crucially, we have the chance to seek some clarity about the Government's motive for pursuing these reforms. In the overall debate, there has been a lot of heat, especially from the Secretary of State, the Exchequer Secretary and the leader of the Tory party in Wales, but precious little light, so today gives us an opportunity to try to shed a little light on what the Government are about.

By now, we should have learned that the devolution debate is about not simply how endless reforms to the constitutional settlement impact on one part of the UK, but how those reforms interact with one another. We need to think about how the devolution debate plays out across the whole of the British isles. For those of us who value the Union as much as we cherish the individual identities of the nations that make it up, that is a particularly important point to remember. It is also important to seek stability and sustainability as much as we seek the accountability of individual institutions, or indeed as much as nationalist Members seek greater autonomy for those institutions.

Tax sits at the heart of the debate—that has been the case for any consideration about any democracy, even from the time of Virgil—and Silk part 1 is a crucial aspect of that. It is important that we try to observe the long-standing parliamentary tradition of seeking consensus across the House when we consider constitutional matters. We must try to reach a collective view and make constitutional changes in the national interest of the whole of the UK, not in the narrow self-interest of any party. It is a matter of regret for me and many Opposition Members that the coalition Government have not always gone about constitutional reform in such a way. We saw that in particular during the passage of the Parliamentary Voting System and Constituencies Bill, and I fear that we may be seeing something similar in how the Conservative party is attempting to extract political capital for itself from the debate about devolution in Wales.

Glyn Davies: I agree with the hon. Gentleman that we must search for consensus, but does he not think that it was hugely admirable that the coalition Government set up the Silk commission and included all four parties in it? I have never seen a better example of a search for consensus than the inclusion of all four political parties in a process.

Owen Smith: I welcome the fact that the coalition Government did that, although in so doing they merely followed the lead of the previous Labour Government in respect of the Calman commission and the constitutional convention in Scotland. The coalition Government followed a standard pro forma, and I do not propose to take lectures from the Tory party about its enthusiasm for devolution. Although the hon. Gentleman may have an honourable record of support for devolution, the same cannot be said of everyone in his party.

Mr Newmark: I have been listening to the hon. Gentleman, whom I would like to call my hon. Friend, because I view him as a friend—

Owen Smith: Steady, now.

Mr Newmark: I am curious. The hon. Gentleman is yet to say whether he welcomes the Silk commission's recommendation on the devolution of income tax to the tune of 10p as a good thing. Is it?

Owen Smith: I would now like to address two specific issues: borrowing and income tax devolution—

Mr Newmark: Yes or no?

Owen Smith: I will therefore come precisely to the question asked by the hon. Gentleman, who has such a deep knowledge of and profound interest in Wales. We are always grateful that he attends our Committee because he is, I know, a great friend to Wales.

The Government said in their response that they would give the Welsh Government up to £500 million to spend on capital projects in Wales, and Labour Members welcome that borrowing commitment. It is necessary to upgrade aging infrastructure in Wales and, crucially, to make up for the £1.6 billion that the Conservative-led coalition have cut from Welsh budgets since 2010. Capital budgets have been especially hard hit, with a cut of a third in Wales, so that £500 million will go some way to making up the shortfall. However, it is unclear—the Secretary of State offered no clarity today—how that £500 million has been calculated, and how it relates to devolution of the so-called minor taxes, such as stamp duty, landfill tax and the aggregates levy, which would be implemented immediately, and the income tax powers that will be subject to a referendum.

Will the Minister clarify in his winding-up speech how that £500 million was derived, because we did not hear an adequate response from the Secretary of State? It does not represent a multiple of the volume of receipts that might be derived from the minor taxes, it does not represent, as the Exchequer Secretary acknowledged in his evidence to the Welsh Affairs Committee last week, a multiple of the amount that might be derived through the devolution of up to 10 points of income tax, which would be a far higher sum, and nor does it derive from any extrapolation of the amount in the departmental expenditure limit for Wales. That is the case for Scotland and it was proposed for Wales. In Scotland, 10% of the capital DEL is devolved, which is up to £220 million, with a ceiling of £2.2 billion. The amount to be afforded to Wales, which has a population that is not enormously smaller, is a quarter of that afforded to Scotland. If the proposal for Wales was similar to that for Scotland, as Silk recommended, the amount would be £130 million each year with a ceiling of £1.3 billion.

Labour Members will be grateful for the Minister's explanation of why a different yardstick is applied to Wales. Will he further explain why any link is being drawn between receipts—especially income tax devolution—and borrowing powers? That is not the case in Northern Ireland nor, more pertinently, in Scotland, where there was no connection from the inception of borrowing powers many years ago with the original 3p policy, nor the current 10p policy. Nor, indeed, is there any reference in any Government response to the far lesser burden of the private finance initiative borne by Wales. One tenth of the volume of debt that will be borne by Scotland is borne by Wales in respect of PFI, and that should be reflected in any consideration of the quantum that can be borrowed by the Welsh Government.

I shall make a few remarks about income tax. Let me make it clear that Labour has never sought to devolve income tax-varying powers to Wales. The previous Labour Government did not see that as a priority and nor do the current Welsh Assembly Government. Carwyn Jones, the First Minister in Wales, when submitting evidence to the Silk commission, did not request that income tax-varying powers be afforded to Wales and nor did the Labour party in Westminster. We have not changed our minds. There is not—there never has been—a public clamour for tax devolution to Wales. It was not a priority for Plaid Cymru when it first debated the next stages of devolution. It has been debated only since Silk published his paper.

Mr David Jones: I hear what the hon. Gentleman says. He acknowledges that the Labour party does not seek the devolution of income tax, but does he not think that a better way forward would be, as happened in Scotland, to put the issue of income tax devolution to the people of Wales in a referendum? If the Labour party feels it appropriate, it could argue against the proposal, but why should not Wales have the voice that Scotland had?

Owen Smith: The Secretary of State is right. We do not object to holding a referendum on the powers. We welcome the fact that the Government are putting in place a mechanism to look at this at a later stage. I am merely making the point that there is no public demand for tax devolution, and more importantly—I will come to this in a moment—there are myriad reasons why we should be extremely wary about the prospect of income tax-varying powers and the Conservative party's motives, given that it is so keen about the powers.

Mr Jones: For the record, given that the hon. Gentleman says he is not averse to a referendum, will he confirm that the Welsh Government will hold a referendum and that they will campaign for a no vote?

Owen Smith: We are getting into the realm of profound hypotheticals. The First Minister and I have been clear that several hurdles would need to be cleared before we got to the point of wishing to hold a referendum. First, we would need to be certain that income tax-varying powers would be good for Wales in the short term, which is why Silk recommended a period of assignment to test the mechanism that the Secretary of State proposes, about which we have grave reservations. Secondly, and most importantly, we would need to be certain that the powers would not undermine the Union in Britain and our ability to pool risk and share rewards between the peoples, regions and nations of Britain. In a country in which we spend far more money than we generate in taxes, the honest thing to say to the Welsh people is that the proposal may carry significant risks for Wales. We will not risk the prosperity of the Welsh people to score party political points.

Mr Jones: Just cutting through that verbiage, is the Labour party opposed to the devolution of income tax? It is a simple question.

Owen Smith: Far from being verbiage, it was a clear enunciation of the principles that will underpin our analysis of the question. Unlike the Tory party, we will not glibly call for tax devolution and make false promises

about the prospect of reduced taxes for the people of Wales without any clear insight about which services would be reduced. We will consider the benefits for the whole of Wales and the whole of the UK. Only the Tory party has pushed for tax devolution in recent years. [HON. MEMBERS: "Silk did."] The Silk commission was set up by the Tory party. Its rationale for pushing tax devolution is that only tax devolution would confer economic benefits.

Mr Llwyd: I thank the hon. Gentleman for giving way—[*Interruption.*]

The Chair: Order. There is too much noise coming from sedentary positions. I cannot hear the right hon. Gentleman.

Mr Llwyd: Thank you, Mr Owen. The point is that the Silk commission comprises all political parties and its recommendations were unanimous.

Owen Smith: I am grateful to my right hon. Friend for that intervention. I maintain that the principal reason for the agenda that the Tory party has pushed, which is purportedly about accountability, is its view that the only way the Assembly can become accountable to the Welsh people is through exercising tax-varying powers. We have always rejected that. We have always maintained that the National Assembly Government are as accountable to the electorate as any Government through the ballot box at every election. We fear that the Tory Government want an extra degree of accountability for the National Assembly for Wales and the Welsh Government not to the Welsh people but to a Tory party in Westminster. That is what concerns us, and I will flesh that out in a minute.

Glyn Davies: Does the hon. Gentleman believe that there should be fiscal accountability for the Welsh Government?

Owen Smith: I have just made the point that I do not believe for a moment that having additional responsibility for tax-varying powers would confer any extra degree of accountability on the Welsh people. Many bodies that exercise expenditure responsibilities are accountable. The Welsh Government are as accountable as the Westminster Government to the people at the ballot box at each election. The notion that they get an extra level of accountability as soon as they take responsibility for raising taxes—

Alun Cairns (Vale of Glamorgan) (Con): Will the hon. Gentleman give way?

Owen Smith: I will make some progress, and then I will give way. I am going to answer the question I set up a moment ago about why we are wary of tax devolution. The cause for concern is twofold. First, we fear that the additional accountability of the Welsh Government that the Secretary of State desires is not to the Welsh people but to himself and his colleagues at Westminster. That is a political accountability that would allow a Conservative Administration set on shrinking the state and dramatically cutting the proportion of GDP spent

[Owen Smith]

on public services, as this Government surely are, to say to a Welsh Government, with different values and attitudes to collective provision and public services, that if the Welsh people want better services they can simply raise taxes themselves. That is what we fear, and that is what is coming down the pipe from this Tory Government.

Alun Cairns: Is not the conclusion to that point that the hon. Gentleman simply does not trust his colleagues in Cardiff bay not to increase taxes?

Owen Smith: That is an absolute load of nonsense. I am making the point that I do not trust the hon. Gentleman and his colleagues not to use the availability of tax-varying powers to Wales—one of the less well-off parts of Britain—as an excuse further to cut provision for Wales from central coffers. They would tell the Welsh people and Welsh Government that if they want better services, they can pay for them out of their own pockets. That is the agenda that sits at the back of this. That is why we are fearful of Tories bearing gifts.

Mr David Jones: There is significant degree of confusion around the Committee. We were told by Jane Hutt that the proposals were a “good deal for Wales”. Is the hon. Gentleman now saying that, since that moment, there has been a change in Labour party policy? Or was Jane Hutt simply deluded at the time?

Owen Smith: I would never say something derogatory of one of my colleagues in the National Assembly. I would not dream of so doing. The Under-Secretary asked from a sedentary position a moment ago, “Doesn’t he pick up the phone to them? Doesn’t he talk to them?” Dare I ask the same question of the Secretary of State for Wales? We heard some interesting comments again from the Secretary of State today as to whether his views reflect those of colleagues in the National Assembly. As he and the Committee will know, there was a little furore last week when the Secretary of State for Wales suggested that his party’s leader in Wales, Andrew R. T. Davies, had a personal view on raising taxes—or rather lowering taxes—only in respect of the wealthiest people in Wales.

Mr Jones: Will the hon. Gentleman give way?

Owen Smith: No, I am not giving way.

Mr Jones: Because he does not want to answer the question!

Owen Smith: I am going to read you a nice little letter in a moment. Mr Davies, a man who I know enjoys a great amount of respect in Welsh politics, felt so miffed that his words had been taken out of context by the Secretary of State, who suggested that his was only a personal view, that he chose to write to the Chairman of the Welsh Affairs Committee to make clear that the recommendations issued by the Silk commission part 1 were supported by the entire membership of the Welsh Conservative group in the National Assembly. He quoted someone, without actually mentioning by name the

person he was quoting—that tells us something interesting about the relationship between the two gentlemen in question—who suggested that it certainly did not represent the policy of the Welsh Assembly group. So we will take no lessons from the Tories on their attitudes to devolution, or on personal relationships.

Mr Jones: The hon. Gentleman is studiously trying to avoid answering the very simple question I asked him. The Labour party’s response, immediately after the Government’s response to the Silk commission report, was that it was a good deal for Wales. I understood that to mean that it was supportive of it. Is he now suggesting that Labour party policy has since changed, and that it does not think that the Government response is a good deal for Wales?

Owen Smith: When we said we thought it was a good deal for Wales, a view with which I entirely agree, we were talking principally, of course, about what the fundamental point that we asked for, which was for borrowing powers to be held in Cardiff Bay. The First Minister has been extremely clear that he did not ask for income tax-varying powers. He does not think them a priority for Wales and does not think they will necessary benefit Wales, and we will not seek them in future. We fear that there is a trap being laid for the Welsh people by the Conservative party. [HON. MEMBERS: “What trap?”] I have explained the trap, but I will explain it again for the slow-to-catch-on.

The trap is that a Tory Government would use this as an excuse to tell Wales, “If you want higher-value services in Wales, and if you feel you have to provide better provision for the Welsh people, pay for it yourselves out of your shallower pockets”. That is what we fear. We fear that the Tory party cares little for Wales, where there is little support for it.

Mr Hain *rose*—

Mr Newmark *rose*—

Owen Smith: I shall not give way to the hon. Member for Braintree, I shall give way to my right hon. Friend the Member for Neath, a Member from Wales.

Mr Hain: I strongly support my hon. Friend’s position. I very much applaud his phrase, which I think should resonate across Wales, about pooling the risks and sharing the rewards of being part of not just a political union but a fiscal union. There is a major deficit in the amount of money that is contributed to Wales compared with what we raise in Wales. The last figure I saw was around £9 billion: it may have varied since then. That is a serious impediment to this manic policy of tax devolution, which I think reflects a *laissez-faire*, free-market approach in which people want not active government but cut-down government—as, indeed, the Prime Minister has said. [Interruption.]

The Chair: Order. There are far too many contributions from sedentary positions, and it is slowing up debate. We have been going for 64 minutes now, and we have only had one and a half speeches from the Front Benches. We have another Front-Bench contribution to

come, and I am keen to hear Back Benchers, many of whom are making a number of interventions and will be hoping to catch my eye later. Please bear that in mind.

Owen Smith: I am grateful, Mr Owen.

My right hon. Friend the Member for Neath is exactly right that this is a right-wing set of proposals from a right-wing Government. They do not care for a level playing field across Britain and are in favour, I fear, of tax competition.

Hywel Williams: In response to the Government's proposals, the Minister of Finance, Jane Hutt, said that "I also believe that the UK Government should have adopted the model of income tax devolution that was set out by the Holtham and Silk commissions."

Owen Smith: She did indeed.

Secondly, and most importantly, we fear that these changes risk creating destructive tax competition between the nations and regions of the UK and, thereby, fundamentally undermining the Union that binds and strengthens us. The Secretary of State and his colleagues in the National Assembly are already undermining that Union with the ill-judged and ultimately false promises of lower taxes in Wales under a fictional Conservative Administration.

Does the Secretary of State think that it goes unnoticed in Scotland or London or Manchester or Liverpool when he proposes, as he did last week and again today, lower taxes for Wales to derive what he calls a competitive advantage for Wales? That prompts the crucial question, which is at the heart of my remarks: a competitive advantage over whom—Chester and Cheshire, or Shropshire and Shrewsbury, or Newcastle, or Yorkshire? In a competition there are winners and losers, so if he proposes to give Wales an unfair competitive advantage by having lower taxes, who does he suggest will be the losers?

Mr David Jones: Perhaps the hon. Gentleman will tell the Committee why he thinks it such a thoroughly bad idea for Wales to have income tax devolution when the original settlement for Scotland conferred that ability on the Scottish Parliament.

Owen Smith: That is indeed true, but the previous Labour Government in Scotland chose never to exercise those powers. I also suggest that we are a long way on from 1997. We operate now in a period in which I fear that national identities, national competition and regional competition is a far more dangerous threat to the Union in Britain than it was then. That is why a sensitive and serious Government, and a Secretary of State for Wales who was acting in the interests of the Welsh people, would think very hard before proposing these changes for Wales.

The Secretary of State has not explained how he expects Wales to derive a strong competitive advantage if not through attracting taxpayers or businesses from other parts of Britain to Wales to pay a lower level of taxation. If that is his suggestion, he must accept that that will be at the expense of the other local economies where those taxes are currently paid. As the Exchequer

Secretary said when sat next to him last week, that tax competition can be only to the detriment of UK plc coffers.

Mr Jones: I fully accept that the hon. Gentleman is concerned about the prospect of varying the rate of tax, but does he not accept that there would be no compulsion on the Welsh Government to make a change if they did not think that was appropriate, and that there would be a huge advantage in accountability, incentive and the income stream against which they could borrow that they do not have at the moment?

Owen Smith: The Secretary of State gives the game away with that response. Effectively, he concedes that he does not think that tax competition across Britain is really a good idea, because he would have concerns about it—[*Interruption.*]. Oh, he does think that tax competition is a good idea.

Mr Jones *indicated assent.*

Owen Smith: I find that extraordinary. The Secretary of State disagrees with the view of the Treasury Minister who said last week that it was not a good idea, and disagrees with his own Bill, which says that tax competition would be a bad idea. Does he think tax competition is a good or a bad idea?

Mr Jones: The point that the Exchequer Secretary was making was about variable bands, and he said that in order to maintain progressivity it had to be done at a UK level. We are not advocating variable bands, we are advocating a lockstep. I believe that a small reduction in the rate of income tax for Wales would give a small competitive advantage that would be entirely beneficial.

Owen Smith: The right hon. Gentleman says that, but he has never clarified what he means by "small". Does he mean 1p, 2p or 10p? He will know that for every penny, £200 million is cut off the block grant for Wales. That is £200 million that could not be spent on public services in Wales, so there is a massive, immediate risk associated with that. More importantly, does he not accept that even if the lockstep is applied, there is a risk that we would see tax competition if we had a basic rate of 15p, a top rate of 35p and an additional rate of 40p? Does he not see that it would incentivise the movement of people and business within Britain? Does he not accept that is what would happen?

Mr Jones: Does the hon. Gentleman not understand how unambitious what he is saying will make him appear? Does he not understand that the people of Wales will come away with the firm view that the Labour party expects Wales to be a supplicant nation for ever more?

Owen Smith: With respect, what utter nonsense from the Secretary of State. It has nothing to do with a lack of ambition. It has nothing to do with a counsel of despair or the notion of us being a supplicant nation. It is about having sensible government, with hard thought and analysis of the likely result of serious changes to some of the most important functions of Government— income tax raising and variability. I fear that the Secretary of State is not taking proper cognisance of that.

Several hon. Members *rose*—

Owen Smith: I shall give way in a moment.

What does the Secretary of State imagine would happen if Wales were to exercise tax-varying powers and have a significant cut in taxes? Does he not imagine that the parts of England that were being out-competed, and seeing their taxes at a higher level while Wales enjoyed lower taxes, might demand that they too should exercise those powers? If he wants some proof as to what might happen, he need only look at what his colleague the Mayor of London said about stamp duty. The Conservative, *laissez-faire*, right-wing Mayor of London wants London to retain stamp duty. He wants London to retain Londoners' taxes for London. That is precisely what we should be concerned about: a race to the bottom on taxation across Britain. That would damage Wales far more than it would damage London.

Guto Bebb (Aberconwy) (Con): I am at a loss as to why tax competition seems to be a bad thing in relation to income tax, but from earlier comments made by Opposition Members, it would seem that air passenger duty needed to be devolved for precisely that purpose.

Owen Smith: Dare I say the Opposition Front Benchers did not make an argument about air passenger duty? Nor have we made an argument in respect of stamp duty land tax, save for the fact that the Government have made it clear that it is the only way in which they are prepared to extend vital borrowing powers to Wales. As a means to get those borrowing powers, it is something that we can put up with. There is also the crucial factor that stamp duty land tax, landfill tax and aggregates levies are rooted in the soil and are removable, much like airports, whereas income tax is rather more fluid.

Mr David Jones: The hon. Gentleman is spreading even greater confusion. At one moment he criticises the Mayor of London for wanting SDLT devolution for London, but in his last breath he said that he was willing to accept SDLT devolution for Wales. What is his position? Why is he on the one hand critical of the Mayor of London for wanting SDLT, but on the other willing to accept it for Wales?

Owen Smith: I do not think I can be much clearer: I am opposed to tax competition. I think it is bad for Britain, especially those parts of Britain with lesser GDP per capita. The British Union is about a common set of labour standards, taxation standards, benefits and social security, and we unpick part of that crucial fabric at our peril. The real danger is in what we have seen in respect of stamp duty. It is not just London that is looking at Wales and Scotland and thinking, "Well, if stamp duty is devolved for them, why isn't it for us?" but Leeds, Manchester and Sheffield.

Mr Hanson: Is not the point also that public services are used by our constituents on both sides of the border? People from my constituency use hospital services in Chester and in Gobowen. Constituents of the hon. Members for Shrewsbury and Atcham and for Montgomeryshire use public services in Wales. Does my hon. Friend agree that we disaggregate the tax base at our peril?

Owen Smith: I agree absolutely with my right hon. Friend, and that is why I am so worried about the Conservative party's headlong rush to drive tax competition across Britain.

Several hon. Members *rose*—

Owen Smith: I shall take one last intervention, and it will be from the hon. Member for Carmarthen East and Dinefwr.

Jonathan Edwards: I must say that I am struggling to understand the hon. Gentleman's line of thought. Is he essentially arguing that there should be not 22 rates of council tax in Wales, but just one? Is he even saying that there should be only one rate of local tax across the whole of the British state?

Owen Smith: No. Income tax is clearly a different type of tax from council tax. Income tax is part of the system that ties us together in respect of benefits and common standards throughout the UK.

Guto Bebb: Will the hon. Gentleman give way on that specific point?

Owen Smith: In a moment.

We should tread very lightly where those common standards are concerned, although I do not expect the hon. Member for Carmarthen East and Dinefwr to agree with me for one minute, as he is entirely comfortable with the debate becoming destructive and with the disaggregation of the British tax base, because he is entirely comfortable with the disaggregation of Britain. The *raison d'être* of his party is to disaggregate Britain and bring about an independent Wales. Since he takes that view and I am in favour of the Union—of a British nation state, with Wales's identity cherished, reflected and supported within that—there is no surprise that there is a disagreement between us, so why he should be surprised by my view is beyond me.

Guto Bebb: I am surprised that the hon. Gentleman says that income tax binds the Union together because the Labour party supported regional variation in benefits payments.

Owen Smith: No, we did not; that is the long and short of it. Housing benefit is already disaggregated across Britain, so there is a different argument about that, but the hon. Gentleman is misleading us if he is suggesting that the Labour party supports such a policy.

The Chair: Order. I am sure that the hon. Gentleman did not mean to say that.

Owen Smith: The hon. Member for Aberconwy has got his facts wrong, Mr Owen.

Mr Hain: On the point made by the hon. Member for Carmarthen East and Dinefwr, may I remind the Committee that most local authority revenue is provided centrally? If we reduce the ability to fund that centrally, local authorities are disempowered. The heart of the

Conservatives' agenda is to cut public spending and services, and to reduce Government intervention in supporting social provision, so I am surprised that a party such as Plaid Cymru, which poses as being on the left of British politics, is aligning with a right-wing Tory agenda to cut public provision in Britain.

Owen Smith: As is so often the case, my right hon. Friend is absolutely right. He demonstrates that Plaid Cymru's nationalism or concentration on Wales trumps all social democratic inputs. Our view is that we need to concentrate throughout the whole of the UK.

Jonathan Edwards: Will the hon. Gentleman give way?

Owen Smith: No. I am going to finish my speech, because we need to get to the Plaid Cymru Front-Bench spokesman, who will have the chance to reply. I am not giving way any more.

I am not entirely certain that the Government and the Secretary of State have forsaken the Union. However, if they did believe in the Union, they would not be playing party political games and they would have engaged in the debate with more seriousness. They cannot be serious about cutting taxes in Wales, however, because apart from anything else, the prospect of the Tories holding power in Wales seems pretty far fetched to me. If they were serious about it, surely to goodness they would have done some sort of work on the possible net effects on either side of the border.

Several hon. Members *rose*—

Owen Smith: I am going to make some more progress.

This is not Scotland, where only 4% of the population lives within 25 miles of the border; this is Wales, where fully 47% of the population lives within 25 miles of the border, as does 4% of the English population. That is a grand total of 6.5 million souls.

If the Secretary of State was serious about introducing measures that would introduce differential income tax rates for 6 million people on either side of that very populous border, he would surely have done some work on it. However, a written answer I received from the Chief Secretary to the Treasury yesterday confirms that no such analysis has been done—nothing; not a single piece of behavioural analysis conducted by the Government. This is words on a piece of paper and political point scoring. It is an attempt to use Wales to beat the Labour party, which is what we have seen throughout this reckless Tory Government's period in office.

Mr David Jones: Will the hon. Gentleman give way?

Owen Smith: I give way, one last time, to the Secretary of State.

Mr Jones: I have a short question. Are there any parts of the Silk recommendations with which the hon. Gentleman agrees?

Owen Smith: Absolutely. We are in favour of borrowing powers for Wales.

The notion that the Labour party and I are anti-devolution is frankly risible. A Tory party that did not support either of the Government of Wales Bills and never actively supported devolution in the House has

undergone a damascene conversion. Those Tory Front Benchers who collectively referred to devolution as constitutional vandalism are the reality of the Tory party. The Tories are not serious but they are reckless.

Wales needs a competitive and progressive tax base, but we need one for the whole of the UK, not simply the 3 million people living within our borders. We certainly do not need more tax cuts for the wealthiest few in Wales. We do not need a reduction in the 45p rate or a tax policy that affects only 89,000 people in Wales but leaves behind 1.83 million basic rate taxpayers. That policy gives the lie to the Tories and reveals their real priorities: tax cuts for 80,000; benefits cuts for the rest. That is the truth of a Tory Government. This Government are about only entrenching and increasing division. A one nation Tory party would have understood that; this Tea party version just does not get it.

10.53 am

Mr Llwyd: After that lack of ambition, I feel that I have to start from scratch. Never mind.

Thank you for calling me, Mr Owen. It is a great pleasure to serve under your chairmanship.

At long last, we are able to discuss the draft Wales Bill. We have waited a long time for the Government's response to the Silk commission part 1. Once they had decided where they stood, the Prime Minister and his deputy swept into the Senedd in Cardiff with a great deal of razzmatazz and talked about what they wanted to do in the draft Wales Bill. They did not, however, reveal the full detail of their proposals, because that would have spoiled the occasion and the razzmatazz. It later emerged that the Government had in fact cherry-picked the original cross-party Silk commission recommendations.

From the outset, I say that Plaid Cymru welcomes the use of the draft Wales Bill as a vehicle for implementing greater financial powers for Wales, but we are disappointed that the cross-party Silk commission recommendations have been cherry-picked by the UK Government. They were agreed by all parties as a package. For us, the Silk recommendations themselves were a compromise. There were many other areas that we would have liked to have seen devolved, including corporation tax, VAT, and the ability of the Welsh Government to issue bonds. Therefore, the fact that the draft Wales Bill is a result of the Government cherry-picking recommendations is very disappointing.

Each of the parties had its representative on the commission, and we entered into that work in good faith. I congratulate each and every one of them, because a lot of effort and a great deal of work was put into researching the recommendations. However, each of the parties knew from the beginning what was being discussed, and agreed, during long evidence sessions and negotiations, to come up with a unanimous report. Wilfully to ignore, or to accept only in part, the package of the Commission's recommendations is really to ignore the interests of the people of Wales.

Mr David Jones: Does the right hon. Gentleman agree—I know we have a difference on this—that, at the very least, accepting part of the Silk commission's recommendations is a lot better than dismissing nearly all of them?

Mr Llwyd: Absolutely so. I have to say with great respect to the hon. Member for Pontypridd that his lack of ambition for Wales is quite astonishing. Time and time again, he says it has got to be about the whole of the UK—everything has got to be in favour of other parts, rather than Wales. He is probably just there for a short while until he gets promoted to another brief. Some of us have been co-operating for Wales' interests for the last 21 years, and that is why we are here. He says to me that we concentrate too much on Wales, but I am proud of that.

Owen Smith: I show no lack of ambition for Wales. What I show is an understanding of the fact that Wales currently expends double what we raise in tax. That fact cannot be glossed over with rhetoric about the bright sunlit uplands of an independent Wales, which I know he wishes for.

Mr Llwyd: I thought that we were debating the Silk recommendations as contained in the draft Wales Bill. I agree with him—there are things in the Bill that need careful consideration. To say that this is suddenly a vehicle for independence is a little bit ridiculous. We are given to hyperbole, but that is a great exaggeration.

The Chair: Order. Before the right hon. Gentleman continues, I remind hon. Members that we are debating the motion on the consideration of the Government's response to part 1 of the commission, not the Bill itself.

Mr Llwyd: I am grateful to you, Mr Owen, and I will certainly confine myself to that area.

Glyn Davies: Does the right hon. Gentleman agree that, today, we have seen the Labour party completely demolish the Silk commission recommendations and declare itself to be the anti-devolution party?

Mr Llwyd: That intervention stands on its own and it is for everybody to judge from reading the speech that the hon. Member for Pontypridd made whether that is a good point.

It is astounding that some of the other parties have now sought to put up deliberate barriers to greater financial powers that would strengthen and empower Wales. The Bill contains some of the provisions that Silk recommended. However, perhaps it should come as no surprise that other parties are doing that. The Conservatives remain divided on whether the lockstep is a good idea or not. Within their group in the Assembly they are fully in favour; in London they are not. The noted and widely respected economist, Gerry Holtham, has said that

“you are asking Welsh politicians to fight a highly losable referendum. Tax is not popular, and, to be frank, neither are politicians at the present time. It is most unfair, but there it is. You are asking them to fight a losable referendum for a tax power they can't use. It doesn't look like a high-odds proposition to me.”

Mr David Jones: The right hon. Gentleman quotes Mr Holtham with approval, but is it not the case that in Scotland there was a yes vote for variable tax powers

back in 1997? Why does he think that the Welsh people would not want to have the opportunities afforded by tax devolution?

Mr Llwyd: It has been conceded—[*Interruption.*] It is not—[*Interruption.*] We do not believe a referendum is necessary, and neither does Mr Holtham. Nor do many of the people who have given evidence to the Committee.

The Chair: Order. Does the Secretary of State wish to intervene again?

Mr David Jones: As a matter of clarification, is the right hon. Gentleman saying that he does not want a referendum, and that he does not want to give the people of Wales a vote on whether there should be income tax devolution?

Mr Llwyd: With lockstep involved, there is no point. That is the truth. That is a clever device to stop any progress.

The Chair of the Political and Constitutional Reform Committee recently urged members of the Welsh Affairs Committee to amend the legislation so that the lockstep is removed. He said that the requirement for a referendum on the limited income tax powers was “ridiculous”. It was also interesting to hear the Secretary of State sing the praises of the lockstep in an interview. He said that it could be used to vary rates and would put Wales at a competitive advantage, but that the devolution of long-haul air passenger duty would put Bristol airport at a competitive disadvantage. Such incoherence again shows that the cherry-picking of the Silk recommendations tends to fall apart unless they are seen as a whole package. That perhaps underlines the fact that the Secretary of State is the Cabinet's voice in Wales, as opposed to the Welsh voice in Cabinet. As anyone who has been following the Welsh Affairs Committee pre-legislative scrutiny sessions will know, almost all the independent witnesses, as well as the political ones, have lined up to express their disappointment with the lockstep. They say that it cannot realistically be used to vary rates.

I turn my attention to Labour's new-found conversion to the need for reform of the Barnett formula. We in Plaid Cymru have been pointing out the consistent underfunding of Wales through the block grant for more than three decades, and several Labour Secretaries of State, including my friends behind me—the right hon. Members for Neath and for Torfaen, who were sticking to their briefs—have said there was nothing wrong with the way in which Wales was funded. Even the esteemed Lord Barnett himself was hugely embarrassed about it, because it was not meant to be there for long, and it is certainly not a formula.

Mr Hain: The right hon. Gentleman might have a fair point in relation to years gone by, but will he concede that more recently—certainly when I was Secretary of State in 2009-10—I negotiated with the Treasury a new commitment to ensure that there was underpinning of the Barnett formula, because, as public spending increased, Wales was converging to a point with the English average spending, which would go below the average, and that was going to damage Wales.

Mr Llwyd: I acknowledge that; that was a useful thing to do. I remember saying at the time that I agreed that that was the proper thing to do, so I am not throwing insults around.

After we discussed the “One Wales” agreement with Labour colleagues in Cardiff in 2007, the Holtham commission was set up to examine the matter. It concluded that Wales loses out by an average of £300 million to £400 million per annum. Now, unfortunately, we have a roadblock situation in which, if I understand it correctly, the Labour party is saying it will not proceed any further with income tax powers unless and until the Barnett problem is sorted out. It is a difficult problem, it needs sorting out, and we need a needs-based formula in due course. However, at the moment, it seems that the matter is being used as a barrier by anti-devolutionists within Labour, although I do not mean the right hon. Members I mentioned earlier.

Jonathan Edwards: My right hon. Friend is making an important point about the roadblocks being put in place by the Welsh First Minister and his colleagues on the Labour Front Bench here. Does he agree that for them to hold such a line with any credibility, they would have to have a commitment to reform the Barnett formula in their next Westminster manifesto?

Mr Llwyd: My hon. Friend is absolutely right, because otherwise we are completely wasting time discussing what is in the draft Bill. However, it appears that Labour may be running scared of committing to reforming Barnett and making it a needs-based formula, because it fears the independence campaign in Scotland being fuelled by any commitment to withdraw funding. To state the blindingly obvious, if I was Scottish I would be voting yes later this year, but Scotland is at a different point in the devolution journey and I wish the Scottish people the best of luck with whatever they decide.

We are left with a Labour party that says we need to reform Barnett but is scared of saying that it will commit to reforming it. Which is it to be? Unfortunately, we have a Labour party in government in Wales that is deliberately putting up barriers to avoid taking some responsibility for developing the economy, and a Tory-Lib Dem Government in Westminster who are seeking to water down certain Silk recommendations to appease their own anti-devolutionist, London-centric and Whitehall view that Wales could not possibly have anything that Scotland has not had already. I should warn people that the Silk recommendations and the Bill will not come into effect until very late in this decade anyway, and by that time events could well have surpassed this offering.

Mr Mark Williams (Ceredigion) (LD): May I reassure the right hon. Gentleman on one point? In the Welsh Liberal Democrats’ submission to the Welsh Affairs Committee’s pre-legislative scrutiny inquiry, we emphasised that our preferred option would not involve a lockstep on variable income tax.

Mr Llwyd: I am grateful to the hon. Gentleman for that assurance. Of course, the representative of the Welsh Liberals who appeared before the Select Committee gave evidence to that effect. That is perfectly consistent with what the hon. Gentleman says.

Hywel Williams: May I reinforce the point that my right hon. Friend made earlier? Some people accuse MPs, and sometimes my own party, of indulging in constitutional obsession. However, the point that he made earlier is surely an important one—every year that Barnett reform is delayed, Wales loses £300 million that will never be seen again. It will be £400 million if we delay until next year; £300 million the year after that; then £600 million; then £800 million; and, if we delay until 2017, when income tax proposals will perhaps be put forward, another £1 billion. Does he share my despair at the lack of reform of the Barnett formula?

Mr Llwyd: I do, and I sincerely hope that we are not debating this issue now only to find that we will be unable to implement anything sensible for a long time to come, because with the best will in the world, we are already talking about the situation later in this decade.

I will try to be brief, because I know many other Members wish to speak. We should move to a reserved powers model as swiftly as we can. It is therefore important that we proceed with speed and are ever mindful of the situation in Scotland, because whatever happens, with the result in Scotland there will undoubtedly be change. That means that we should revisit the Welsh settlement in due course.

Although some elements within the other parties play games, it is none the less important that we move forward. Even though the lockstep means that income tax cannot realistically be varied, as has proved to be the case in Scotland, it is important that Wales gets this power as soon as possible, so that it can access the borrowing and investment powers that will be unlocked. I agree entirely with the hon. Member for Pontypridd that borrowing powers are crucial, to boost the Welsh economy, invest in the infrastructure and so on. Many things need to be done, and many things could have been done with the £300 million or £400 million per annum shortfall during the past 20 years or so. In any event, I definitely agree with him on that point.

That is really where I am coming from on income tax: it would release further borrowing, because the income stream would be increased. We are still not clear as to whether that money would be chipped off the Barnett block, and that is of great concern. If money is chipped off, there could be some kind of a trap there, and we need to be wary of it. However, I see the change as a way to boost the Welsh economy, create jobs and improve infrastructure.

Owen Smith: The right hon. Gentleman is making a very thoughtful speech. With respect, I think we are clear that any increases in taxation that generated additional revenue in Wales would be knocked off Barnett and the block grant, so that money would be netted off. We would not, therefore, necessarily be any better off. Crucially, we have suggested that, unless there is some revision of Barnett to get a fair funding settlement, we will be locking in underfunding.

Mr Llwyd: I hear what the hon. Gentleman says and it makes perfect sense. We will probably deal with this measure on the Floor of House, given that it is a constitutional measure. It behoves all Welsh Members who have a deep interest in this to get stuck in and see

[Mr Llwyd]

where we can go. I do not know—I am merely speculating—whether it is possible, pro tem, to adopt a strengthened version, which the right hon. Member for Neath said that he introduced in when he was Secretary of State, so that we do not fall into the trap, to lead up to a reform of Barnett.

After adopting the income tax lockstep, which is essentially a tax-sharing arrangement, as it cannot be varied, there will be a possibility of developing it into a varying power in future. When the Bill is placed before the House, certainly Plaid Cymru Members, and, I suspect, others, will table amendments to attempt to preserve the integrity of the Silk report recommendations. Although the Government and the Labour party, both here and in the Senedd, insert caveats and preconditions that amount to roadblocks, Plaid Cymru will be working in the Welsh national interest, instead of putting party politics and self-interest first as, I am afraid, some elements in the other parties have been doing.

If we are unable to convince the other parties to stand by their original, agreed positions on Silk, and our bid to preserve the integrity of the commission's recommendations does not succeed, surely it would make more sense on the Silk part 2 recommendations to have a larger, more substantive referendum that considers both income tax-varying powers and wider policy powers.

Given that the principle of fiscal devolution has been conceded with the other tax-varying powers, surely there is no need for a referendum simply on an income tax-sharing model. Again, surely we can proceed with this as soon as possible, if all parties commit to it in their 2015 manifestos. Then, in the future, we could have a referendum on the power to vary income tax, along with the wider powers expected shortly as part of Silk part 2.

We would have liked an increase in the number of Assembly Members at the National Assembly, to provide greater scrutiny of legislation included in the draft Bill. The National Assembly has been fully able to pass primary legislation since 2011, but there has not been an increase in the number of AMs, which is a limiting factor, given that we expect to move towards an Assembly with fuller powers. Of course, I accept that the prospect of increasing the number of politicians is probably not particularly popular with voters at the moment. Perhaps a package might be agreed that takes into consideration current plans to reform local government in combination with future developed powers, meaning a possible reduction in our membership here and in local government and an increase in the number of AMs, thus able to give fuller scrutiny. That would better reflect the desire among the people of Wales for the National Assembly—the Senedd—to have greater powers.

The power to borrow in order to invest is immensely important. On that, I agree fully with the hon. Member for Pontypridd and other hon. Members. However, we will need the Government of Wales to move forward with all haste to ensure that they maximise borrowing. We would be disappointed if borrowing to invest was simply used to fund an M4 relief road. Although I appreciate that the M4 is a priority, the aims could be better achieved by investing in a south Wales metro system, taking cars off the M4, which acts as a local journey road in south Wales. A metro system could also

accrue revenue through ticket sales. Although the Government here, and the Cardiff-centric Labour Welsh Government, may intend to have an M4 relief road, other areas of Wales also need investment in infrastructure. It is important that any investment is spread throughout the country.

Mr David Jones: I take it that the right hon. Gentleman is aware that the borrowing powers already conferred extend to the north Wales expressway. I hope that he agrees that there is a dire need for improvement there.

Mr Llwyd: Yes, and that is an example of spreading the investment throughout Wales. As a person who resides in the northern part of Wales, I agree with the right hon. Gentleman.

We are glad that the dual candidacy ban has been lifted in the draft Wales Bill. The only other country in Europe that has a similar ban is Ukraine, which is not exactly a beacon of free participatory democracy.

We need to move forward with the package that is on offer in the draft Wales Bill, but we have reservations about the need for a referendum, given that the draft Bill offers an income tax-sharing model and not the Silk commission original. The Welsh economic recovery needs to be secured, and Wales needs job-creating and economy-boosting investment powers, so that we can have a greater effect on the economy as soon as possible. My hon. Friend the Member for Arfon referred to the £300 million or £400 million that is being lost per annum. We need to push on with the draft Bill, for the sake of the Welsh economy and because of the need for greater financial powers, which would unlock much needed borrowing.

I urge hon. Members to grasp the opportunity for more devolution. I end with a quote:

“I start from the premise that the UK is the most massively over-centralised of all the western democracies and I find that deeply unhealthy. I welcome this Bill very strongly because it is a step, not a leap—it is a step in the right direction.”

Those are not my words, but those of the hon. Member for Nottingham North (Mr Allen), the respected constitutional expert in this House, who chairs the Political and Constitutional Reform Committee. I could not put it any better myself.

11.16 am

Paul Murphy: It is a pleasure to serve under your chairmanship, Mr Owen.

The people of Wales would think we had gone completely bonkers if we held a referendum on the proposals that the Government have put into the draft Bill, which reflect their response to the Silk commission. They are not the solution, and they would not produce, as far as I can see, an extra penny in extra revenue for the people of Wales. The draft Bill is seriously and deeply flawed. If someone has the misfortune to read it, as I did yesterday, they will find themselves in a state of utter complexity and confusion. Worse, if we go to the people of Wales and start talking about locksteps and other such things, they will think we have lost our senses. We would spend literally millions of pounds on a referendum that no one would understand and proposals that give nothing extra to the people of Wales in services.

What is the point of extra revenue or Wales raising its own revenue? I accept the point about accountability. If a community or parish council in Wales can raise rates, there must be some sense in bodies such as the Welsh Assembly being able to raise revenue. I understand that, but most people would say that raising revenue means bringing in extra money—the Prime Minister said that in last week's Prime Minister's questions—to provide better services, and there is no guarantee that these income tax proposals will do that.

Some 15 years ago, when I chaired the Northern Ireland talks on setting up the Assembly there—I was a finance Minister at the time as well—we came to a point where we were talking about revenue raising for the new Northern Ireland Assembly. Those were the shortest talks that we had. They lasted barely an hour, and there was a reason behind that. Even though the Northern Ireland Assembly has traditionally had its own rates and can raise money, those in the talks knew that Northern Ireland has a population of 1.5 million, which is half that of Wales. The resource base was so low that however much they put on the people of Northern Ireland to raise money, they simply would not get enough for Northern Ireland to work.

Northern Ireland relied heavily, especially after 30 years of conflict, on the rest of us in the United Kingdom subsidising its people. That was without rancour or disagreement, because we knew it had to be done. In a different way, that is the case in Wales. The point that my hon. Friend the Member for Pontypridd made is that because we are part of the United Kingdom, we have an arrangement—I will come to the Barnett formula later in my speech—under which the money that comes to Wales should reflect its needs as a relatively poor part of the United Kingdom. Wealthy parts of the country, such as London and the south-east of England, effectively subsidise the less well off parts. The proposals on income tax would not make the slightest difference to the income of people in Wales. Worse, the chances are that the Treasury—I repeat that the dead hand of the Treasury is on the whole thing—would say “Aha! Wales has raised extra money through income tax, so we will cut the block grant.” For every pound that was raised in income tax, they might take a pound off the grant, which would leave us no better off.

Mr David Jones: Will the right hon. Gentleman give way?

Paul Murphy: I will give way in a moment, but I think I know what the Secretary of State is going to say. He will probably say that the chance of being able to raise extra money, because Wales is getting more prosperous and we will have some control over income tax, may offset that risk. It may, or it may not, but the proposal goes directly against the principle of wealthier parts of the country subsidising less wealthy ones.

Mr Jones: The right hon. Gentleman is making his argument with commendable clarity. To clarify still further, is he saying that he disagrees not only with the

Government's response to the Silk recommendations, but with the recommendations themselves in respect of income tax devolution?

Paul Murphy: I do not particularly favour the devolution of income tax to Wales. In the referendum on Scottish devolution, the people of Scotland voted first for the principle of the Scottish Parliament and secondly for taxation powers, and I can see the point of that. As far as I can see, the tax raised by an extra penny or two in Scotland would be properly extra, and the people of Scotland would be able to say, “We approved the principle, and if we do not like the fact that the Government have increased our taxes to bring extra money into the Scottish Revenue, we will vote them out at the next election.”

I can understand that, but I am convinced that this proposal is different. The Barnett formula and the block grant will not disappear; we will never get away from the need to give Scotland, Wales and Northern Ireland substantial block grants because of their nature. Scotland is better off than Wales, which may be why it favoured the Barnett formula perhaps more than we did. As my right hon. Friend the Member for Neath has said, however, that has changed over the years. The convergence altered dramatically during the last few years of the previous Labour Government, so it was necessary to look at the situation.

Mr Hanson: Does my right hon. Friend also agree that many of the pay packets that are generated in Wales end up in England, so there is an imbalance in the tax base that will pay for that level of expenditure?

Paul Murphy: I do indeed. My right hon. Friend has successfully made that point throughout the debate. There is a substantial difference between Scotland and Wales in that regard. There are only sheep on the Scottish border, but hundreds of thousands of people live within 20 or 25 miles of the border between Wales and England, including people in my constituency and certainly in that of my right hon. Friend. The inter-reaction of income tax changes is far more dramatic in Wales than in Scotland.

I am not convinced about the income tax argument, unless it means extra money because, ultimately, if we go to the people in a referendum, they will ask, “Are we going to be better off?” People may be prepared to pay more in tax if they get better hospitals and better schools. If that is not the case, the whole thing will become nothing more than an academic exercise. It is nonsense to suggest that the people of Wales will suddenly be far better off because all these entrepreneurs will come into Wales if we take a couple of bob off the tax. No, that is not going to work. I agree with the Government, although I do not think that they go anywhere near far enough, on the right to borrow. That is the most important thing in the Bill and the Silk proposals.

11.25 am

The Chair adjourned the Committee without Question put (Standing Order No.88).

Adjourned till this day at Two o'clock.

