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**WELSH PROPOSALS OFFER OPPORTUNITY FOR FRESH THINKING
ON SCOTTISH FISCAL DEVOLUTION**

The Campaign For Fiscal Responsibility today [fri] welcomed the findings of the Holtham Commission, the independent body set up to consider new ways of funding the Welsh Assembly.

'This is certainly a move in the right direction and goes a lot further than the proposals put forward by the Calman Commission for Scotland,' said CFFR spokesman Ben Thomson.

He said it brought a 'step change' in the quality of the debate on the future funding of the UK's devolved administrations and provided more detailed analysis of why devolving taxes, such as corporation tax, might benefit the Scottish economy.

'However, it still falls short of genuine fiscal responsibility and we remain convinced that this is what Scotland needs not only to address the current financial crisis but to grow and prosper in the future' he added.

The Holtham Report, published this week, follows the Calman Commission report last year on alternative methods of financing the Holyrood Government and which is now being considered by UK Government Ministers ahead of draft legislation expected in the autumn.

Critics of the Calman Commission proposals, including the CFFR, say they do not go far enough and have been largely overtaken by events.

The Holtham Commission's recommendations go further than Calman and would give the Welsh Assembly greater financial powers than the Holyrood Government, even though devolution is more advanced in Scotland. As one example, Holtham calls for consideration to be given to the Welsh Assembly

having a mechanism to control - either partly or wholly - corporation tax, whereas Calman rules this out for Holyrood.

Like Calman, the Holtham report recommends that the Welsh Assembly should have control over one-half of the rate at which income tax rate is levied in Wales, and that the block grant would be adjusted to reflect this new own-source revenue flow.

But there are two crucial differences between the Holtham and Calman schemes for income tax. First, under Holtham the Welsh Assembly would be able to vary by one-half the rate of income tax levied in each separate income tax band and not, as under Calman, be restricted to varying the rate applying in each band by a flat 10p.

Another advantage of Holtham over Calman is that the annual adjustment to the block grant to reflect the revenue accruing from the Welsh segment of income tax would be calculated to eliminate the impact, say, of an unexpected economic shock or policy change decided upon by the UK Government.

But although the Holtham blueprint would be a step in the right direction were it to be adopted for Scotland, it still does not deliver the financial tools Holyrood really needs to be fully fiscally responsible.

Mr Thomson said: 'The real attraction of the Holtham report is that its objective was to look at the economic arguments for achieving greater tax devolution and how this could provide levers to a region to stimulate growth.

'The report looks at ways to match the current Welsh devolved powers with fiscal powers. It suggests that it should be done over a phased period starting with a more needs based formula for the block grant and moving over time to more devolved taxes.

'In doing so, it has avoided the trap that both the Calman Commission and the Scottish Government's National Conversation fell into of looking at the solutions to the unpopular Barnett formula as political compromises between Unionism and Independence.

'The report also provides some solutions to problems that have been identified in Calman's proposals, such as providing a reconciliation between estimated and actual receipts from income tax assigned to the devolved administration, though it still fails to explain how any subsequent deficit or surplus would be dealt with.'

In common with Calman, Holtham recommends that limited powers to borrow for capital spending should be devolved. However unlike Calman, Holtham proposes that repayment should come from future years' revenue flows and not

required to be repaid from an immediate increase in the devolved element of the rate of income tax.

'This is an eminently sensible proposal in that the restrictions imposed by the Calman Commission on borrowing powers make no economic or financial sense,' said Mr Thomson.

He added: 'In welcoming the Holtham recommendations, we remain convinced that the principle of fiscal responsibility should continue to drive the debate in Scotland. The Holtham report offers new thinking on key issues such as enhancing the borrowing powers of the devolved administrations and, potentially, giving the devolved administrations competence over corporation tax.

'These are among the key economic policy reforms that we consider would greatly enhance the capacity of Scotland's devolved administration. Ultimately to be able to match devolved taxes with the devolved powers that Scotland already has would provide the economic levers in Scotland to target how best to protect the most vulnerable in our society, create structural reform to improve our public services and attract new business to grow our economy.'

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