Flirting with Federalism - Materially Greater Fiscal Autonomy through Welsh Devolution

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Executive Summary

Since the establishment of the National Assembly for Wales in 1999 and the separation of powers in between legislative arms and Government in 2006, Welsh devolution has accelerated its pace quite significantly—most notably through the Wales Act 2014 and Wales Act 2017. These more recent legislative milestones granted the Government of Wales a limited share of devolved fiscal powers, including control over SDLT and landfill tax, as well as the ability to source and borrow from small-scale sources of up to £1bn for infrastructure investment. The 2017 Act further marked a constitutional shift to a "reserved powers" model, providing clearer boundaries around the legislative competencies of the Senedd. The Wales Act 2014 granted the Government of Wales the authority to borrow up to £1 billion for capital investment in infrastructure projects, with an annual borrowing cap of £150 million. This borrowing power became effective in 2018. The Wales Act 2014 granted the Government of Wales the authority to borrow up to £1 billion for capital investment in infrastructure projects, with an annual borrowing cap of £150 million. This borrowing power became effective in 2018.

Flirting with Federalism explores the trajectory of Welsh devolution, particularly in the context of fiscal autonomy and infrastructure investment since the establishment of the Senedd. The paper evaluates the impact of the Wales Act 2014 and Wales Act 2017, which granted limited borrowing powers to the Government of Wales and transitioned the constitutional framework toward a reserved powers model. This research also studies whether these developments have meaningfully enhanced the Government of Wales's oversight of its levelling-up agenda or if they have improved the Government of Wales's fiscal autonomy from Westminster.

Drawing comparisons with more fiscally empowered subnational governments, such as Quebec and U.S. states, the paper questions whether current borrowing limits—capped at £150 million annually and £1 billion in total—can genuinely support a long-term levelling-up agenda. Without sovereign-style borrowing, an independent credit rating, or full tax-setting authority, Wales remains tethered to Westminster's fiscal envelope.

The research calls for a critical reassessment of fiscal devolution, positing that materially greater autonomy—characterised by independent treasury functions, full tax powers, and international capital market access—is essential if Wales is to sustainably finance infrastructure and drive regional growth. The central question remains: is the UK Parliament prepared to cede further power?

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Flirting with Federalism: Wales Act (2025) and Fiscal Autonomy.

Among modern economists and constitutional theorists alike, the concept of **fiscal autonomy** holds a prominent place in discussions concerning federal governance and devolved administration. It refers not only to the capacity of a subnational government to raise and allocate revenue, but also to its ability to access capital markets independently—free from the intermediation or underwriting of a central authority. In this regard, fiscal autonomy is often seen as a cornerstone of genuine federalism.

Many constitutional scholars argue that the capacity for direct borrowing from international capital markets is an essential criterion for assessing a subnational entity's fiscal independence. This borrowing ability is closely tied to eligibility for an independent credit rating—a critical step toward broader fiscal sovereignty. The literature supporting this view is well established. Oates (2005), for instance, argues that economic union offers substantial benefits through the provision of "national public goods," such as defence, while political scientist William Riker (1964) posits that the presence of an external diplomatic or military condition is often a prerequisite for the emergence of federal structures. These theoretical frameworks underscore the rationale for federal systems in which constituent units act with a high degree of fiscal and political autonomy.

Justice Louis Brandeis's oft-cited dictum from 1932—describing individual states as "laboratories of democracy"—is particularly instructive in this context. His observation captures the spirit of federal arrangements that allow constituent governments to test innovative policy solutions without exposing the entire union to risk. However, it is important to note that in advocating for greater fiscal autonomy for Wales, this paper does not question the independence of the judiciary in either England or Wales. Concerns raised by commentators such as Bowman, Ackerman, and Levinson regarding judicial federalism, while relevant in other jurisdictions, are not the focus here.

Beyond the practical considerations of tax collection and rate-setting, the notion of **materially greater fiscal autonomy** demands closer definition. It encompasses far more than administrative competence; it implies the institutional and legal capacity to borrow, invest, and manage public finance at a sovereign level. A case in point is the Canadian province of Quebec.

In January 2025, Quebec issued a £750 million GBP-denominated international bond. While the stated purpose of the issuance was general financing, the broader implication was clear: Quebec enjoys direct access to international capital markets and holds a standalone AA- credit rating. This status grants the province significant strategic flexibility and credibility, both of which remain out of reach for the Government of Wales under current legislative constraints.

Despite meaningful progress under the **Wales Act 2014** and **Wales Act 2017**, Wales remains fiscally subordinate to the UK Treasury. These Acts permit borrowing of up to £150 million annually, with a total ceiling of £1 billion. This limited capacity is modest in comparison to the fiscal powers exercised by subnational governments in federations such as Canada or the United States. Crucially, Wales lacks an independent credit rating from any major ratings agency—a direct result of its borrowing being underwritten by the UK Government, which retains its own sovereign rating.

Section 122A of the **Government of Wales Act 2006**, as amended, codifies these limitations:
"The Welsh Ministers may, with the approval of the Treasury, borrow by way of loan [or by the issue of bonds (but not bonds transferable by delivery)] any amounts it appears to them are required by them for the purpose of meeting capital expenditure."

Furthermore, while individual Welsh entities such as **Dŵr Cymru Cyfyngedig (Welsh Water)** have secured credit ratings—its long-term Corporate Family Rating was downgraded by Moody's from A3 to Baa1 in February 2025—such ratings are granted at the corporate rather than governmental level. In contrast, for the Government of Wales to obtain market access akin to that enjoyed by Quebec or California, a broader shift in fiscal authority is required.

Achieving materially greater fiscal autonomy would involve the following structural reforms:

- **Full tax control and rate-setting authority**, including over income tax, corporation tax, value-added tax (VAT), and national insurance or its social security equivalent.
- **Sovereign-style borrowing powers**, including legal provision to issue bonds in domestic and international capital markets.
- **An independent treasury function**, guided by transparent and credible fiscal rules.
- **Elimination of the sovereign guarantee** from the UK Government, enabling independent credit assessments.
- **Regular engagement with international debt capital markets** and the development of a sovereign credit profile.

Without such reforms, Wales's ability to finance long-term infrastructure projects and lead on regional development will remain tethered to decisions made in Westminster. The promise of devolution will be limited not by political will alone, but by the absence of the fiscal instruments necessary for genuine economic self-determination.

A Final Word

Brexit has afforded the Government of the United Kingdom and its Cabinet Ministers an opportunity for frank realisation. GDP isn't the economic grail it has been made to seem. For all tense and purposes, despite what many Eurosceptics will pitch in their commentaries and columns, an economy still needs to borrow—especially to finance capital expenditure that stimulates productivity and drives regional equity. This is as true for Whitehall as it is for Cathays Park. Yet, while Westminster retains the lion's share of fiscal levers, including full sovereign access to bond markets, the Government of Wales must navigate a constrained fiscal space. If the levelling-up agenda is to hold water, then devolved administrations like Wales require materially greater autonomy—power not only to spend, but to strategise, to borrow, and to plan over a generational horizon. Anything short of this is mere decentralisation without depth.

END

References

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