Devolution in Wales: between economic constraint and political opportunity

The UK experience and in particular the case of Wales, raises doubts regarding any mechanical effect of re-centralization through the economic crisis. Drawing on an interview panel of 26 stakeholders interviewed between October 2012 and July 2013 (representing three main groups, namely devolved government, professional and policy communities, and elected representatives at the devolved level), the paper examines devolution in Wales in relation to the key themes identified in the foreword: the experience of fiscal discipline related to the crisis; the impact of the European Union; State restructuring and the major challenges identified by the regional decision makers. The UK's position outside of the Eurozone has meant that Wales has not been subject to the "hard" convergence pressures which have increasingly constrained sub-national actors across Europe. Although Wales has faced increasing economic constraints and fiscal pressures akin to "hard" convergence due to the UK Government's austerity programme, it was able to shelter local public services in the short term. Further, the economic crisis has acted as a catalyst for the opening of policy windows in terms of both the development of devolution and the reform of public services. Welsh decision-makers attempted to make good use of the crisis and to demonstrate that the devolved authorities could manage change.

Introduction

The rescaling of responsibilities and functions from the national level to the regional or sub-national level via processes of devolution or decentralisation has been characterised as a global phenomenon (Rodriguez-Pose and Gill 2003; Lidström 2007; Lobao et al. 2009). These processes have unsurprisingly attracted interest from across disciplines, perhaps most notably in geography via debates around state rescaling and the interplay of territories, places, scales and networks and in political science via the analysis of territorial politics and the influential, yet slippery, concept of multi-level governance (Brenner 2004; Jessop 2007; MacLeod & Jones 2007; Jessop et al. 2008; Mitchell 2009; Bradbury 2010; Birrell 2012; Bache and Flinders 2005; Piattoni 2010). In the UK, the introduction of devolution by the Labour government in the late 1990s significantly recast territorial governance. Increasingly the traditional caricature of the UK as a highly centralised, unitary state has been replaced by models such as a 'quasi-federal state' or 'state of unions' (Mitchell 2009; Bradbury 2006; Bogdanor 2003; Gamble 2006). Further, Jeffery (2007, p.101) notes that the piecemeal and asymmetric nature of devolution in the UK has meant that there has been no defined limits to 'constitutional tinkering' or where 'the boundaries of legitimate devolved aspirations lie in the context of a shared statehood.' The 18 September 2014 referendum on Scottish Independence, for example, exposed the political dynamics inherent within this and has driven reinvigorated calls for enhanced devolution in Wales and a desire to provide 'a decisive answer' to the English Question (Cameron 2014).

The key question addressed within this paper focuses on the extent to which the sub-national actors that have emerged from these wider global or European-wide processes of devolution or decentralisation, in this case Wales, have been able to pursue a distinctive policy response to the financial crisis. In many senses this question is related to the renewed interest in the ability of small states to survive and potentially thrive within the context of the global financial crisis (Moses 2013; Verdun 2013). Much of this literature draws on the work of Katzenstein (1985) which noted that although small European states are highly dependent on global markets and vulnerable to economic shocks, they are also potentially quite resilient through their ability to draw on different forms of democratic corporatism. He argues that this democratic corporatism has three core traits: ‘an ideology of social partnership expressed at the national level; a relatively centralised and concentrated system of interest groups; and voluntary and informal co-ordination of conflicting objectives through continuous political bargaining between interest groups, state bureaucracies and political parties’ (Katzenstein 1985, p.32). Verdun (2013, p.280) argues that the underlying assumption shared by Katzenstein and contemporary commentators, such as Bohle (2011), is that ‘small states are often more dynamic than large states in responding to a crisis’. However, early assessments of the response of small states to the financial crisis have highlighted the diversity of both experiences and responses and demonstrate that these ‘states do not have access to any sort of magic bullet or special ability to adjust by virtue of their size alone’ (Moses 2013, p.273).

This article examines these themes by applying the ‘States of Convergence’ typology proposed in the introduction to this special edition. In order to explore ‘hard’ and ‘soft’ forms of convergence and divergence, the paper focuses on the experience of fiscal discipline related to the crisis; the potential impact of measures at the UK and European Union levels; the ongoing processes of state restructuring and the specific challenges and opportunities identified by regional decision-makers. The paper draws on an analysis of official documents and semi-structured interviews with a panel of 25 stakeholders carried out between November 2012 and July 2013 (See Appendix 1). This panel was drawn from three main cognate groups: devolved government; professional and policy communities; and elected representatives at the devolved level. These interviews were all recorded, fully transcribed, analysed and quotes are used to identify key issues highlighted by this analysis.

The paper is divided into four sections. Part one introduces devolution in Wales and briefly explores key dimensions of territorial governance and political capacity which provide the context for the analysis of the territorial response to the financial crisis. Part two examines the impact of the financial crisis in terms of the economic constraints driven by the UK Government’s austerity measures and the response to these measures by the Welsh Government and other key policy actors in Wales. Part three analyses the political opportunities which have emerged following the financial crisis and focuses on two parallel reform agendas: the further devolution of powers to Wales and the reform of public services and local government within Wales. The article concludes by returning to the common question: ‘Is there a coherent territorial model, a repertoire of collective action to deal with the economic crisis’ and considering the implications of the recent 2015 General Election for the themes identified in the paper.

Territorial Governance and Political Capacity in Wales

The case of devolution in the UK provides a very different context for analysing territorial responses to the financial crisis when compared to the small states considered by Verdun (2013) and the regions examined elsewhere within this special edition. The UK’s position outside the Eurozone and status as a non-signatory to the Fiscal Compact has meant that many of variables identified as driving ‘hard convergence’ are simply absent or at least weakened for sub-national actors within the UK. However, the direction of travel within the UK has been broadly similar and the Conservative and Liberal Democrat Coalition elected in 2010 pursued an austerity agenda akin to that adopted in many Eurozone states. The ability of the Welsh Government and the wider range of actors engaged in policy-making within Wales to develop a coherent territorial model in response to this austerity agenda and the wider global economic crisis has clearly been shaped by the character of territorial governance and political capacity within Wales. There is a rich tradition of the measurement of sub-state territorial power and capacity in political science, most recently highlighted by the influential Regional Authority Index developed by Hooghe et al. (2010) and Hooghe et al. (2016). This paper briefly introduces three dimensions of territorial political capacity which provide the context for Wales’ response to the financial crisis: institutional resources, economic resources and finally intergovernmental and fiscal relations.

i) Institutional resources

The approach to devolution adopted by successive UK Governments has lacked a clear, coherent vision and has instead been characterised by ad-hoc reform and incrementalism (Jeffrey 2007; Birrell 2012). This incrementalism has been exemplified in the Welsh case, which has more than matched the oft-quoted observation by Ron Davies (1999), the former Secretary of State for Wales, that Welsh devolution is ‘a process not an event'. The model of Welsh devolution evolved from a limited form of 'executive devolution' established by the Government of Wales Act 1998, to the ability to make primary legislation within the twenty devolved policy areas without reference to Westminster following a referendum in March 2011 (Stafford 2011; Navarro and Lambert 2007). However, the post-referendum arrangements continued the limited conferred powers model or 'devolution by inclusion' rather than the reserved powers model or general legislative competence which has characterised devolution in Scotland and Northern Ireland (Miers 2011, p.32). Therefore the model of devolution that has evolved within Wales has remained comparatively weak in terms of both of the self-rule – 'the authority that a subnational government exercises in its own territory' – and shared-rule – 'the authority that a subnational government co-exercises in the country as a whole' - dimensions identified by the Regional Authority Index (Hooghe *et al*. 2016, p.23 – see Tables 1 and 2). The relative weakness of devolution in Wales, specifically in relation to 'shared rule' indicators, suggests that we might expect it to be potentially prone to being shaped directly or indirectly by 'hard' convergence factors, for example, top-down controls on public expenditure.

Table 1: Regional Authority Index: Self Rule in Wales

	Institutional Depth (0-3)	Policy Scope (0-4)	Fiscal Autonomy (0-4)	Borrowing Autonomy (0-3)	Representation		Self-rule
					Assembly (0-2)	Executive (0-2)	
1964–1998	1	0	0	0	0	0	1
1999–2010	2	3	0	1	2	1	9

Source: Hooghe et al. (2016), P.417.

Table 2: Regional Authority Index: Shared Rule in Wales

	Law-making (All 0.5)						Executive Control (0-2)		Fiscal Control (0-2)		Borrowing Control (0-2)		Constitutional Reform (Both 0-4)		Shared - rule
	L1	L2	L3	L4	L5	L6	M	B	M	B	M	B	M	B	
1964–1998	0.5	0	0	0	0.5	0	0	0	0	0	0	0	0	0	1
1999–2007	0.5	0	0	0	0.5	0.5	0	1	0	0	0	0	0	4	6.5
2008-2010	0.5	0	0	0	0.5	0.5	1	1	0	0	0	0	0	4	6.5

Note: National legislature has: L1=regional representation; L2=regional government representation; L3=majority regional representation; L4=extensive authority; L5=bilateral regional consultation; L6=veto for individual region. Total for shared rule is either multilateral (M) or bilateral (B).

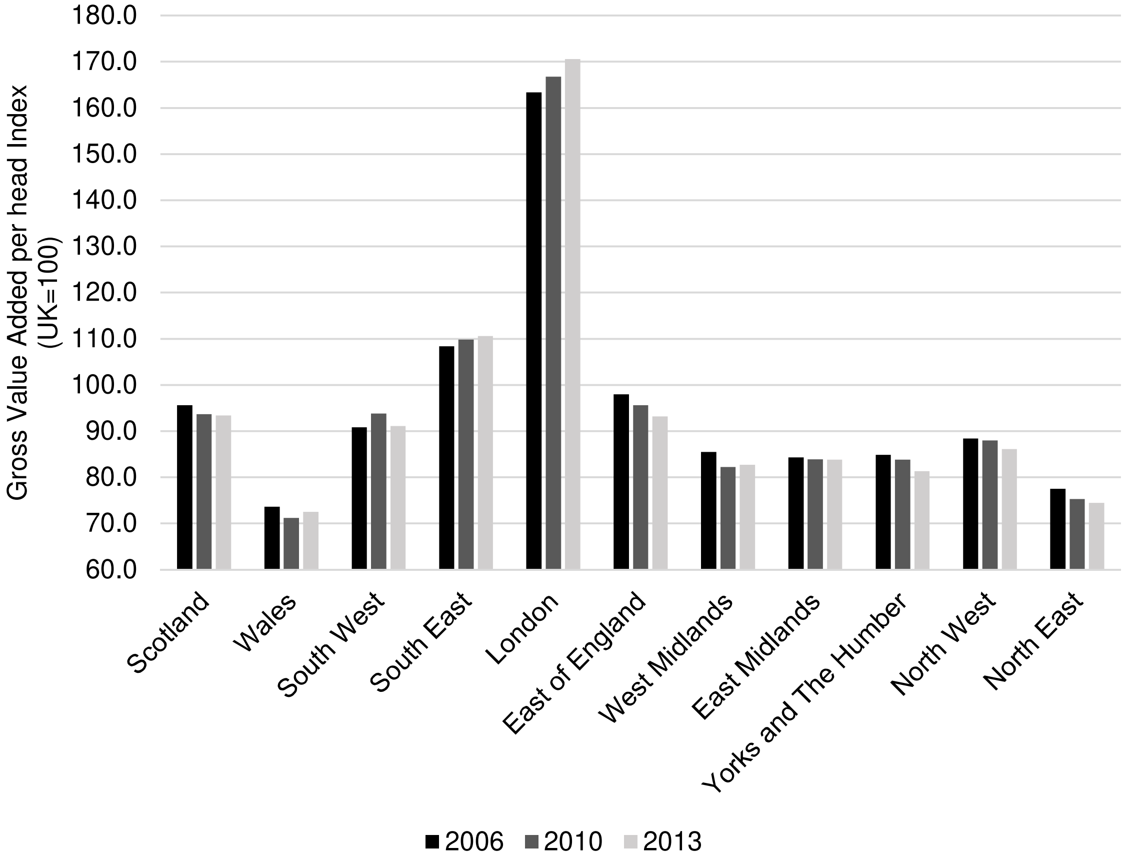
Source: Hooghe et al. (2016), P.418.

Perhaps somewhat surprisingly, the introduction of full party political incongruence following the 2010 General Election did little to slow the development of the devolved settlement in Wales and in many senses the pace of change actually accelerated. In October 2011, for example, the Coalition Government established the all-party Commission on Devolution in Wales – or the Silk Commission as it became known - to explore the case for the devolution of fiscal powers and the transfer of further legislative powers to the Assembly. In response to the recommendations made by the Commission in its two reports (2012, 2014) the UK Government transferred several minor taxes (stamp duty, business rates & landfill tax), agreed in principle to a future referendum on the transfer of income tax powers and a move to a reserved powers model. These reforms were characterised as providing ‘a more coherent, stable and better functioning devolution settlement for Wales: one that works in the interests of Wales and of the United Kingdom as a whole’ (HM Government 2015, p.12). However, Cole and Stafford (2015, p.13) observe that although the trajectory of devolution suggests that the ‘self-rule’ dimension in Wales may shift upwards, the ‘shared rule’ dimension will remain relatively weak unless there is a systematic overhaul of the UK State.

ii) Economic resources

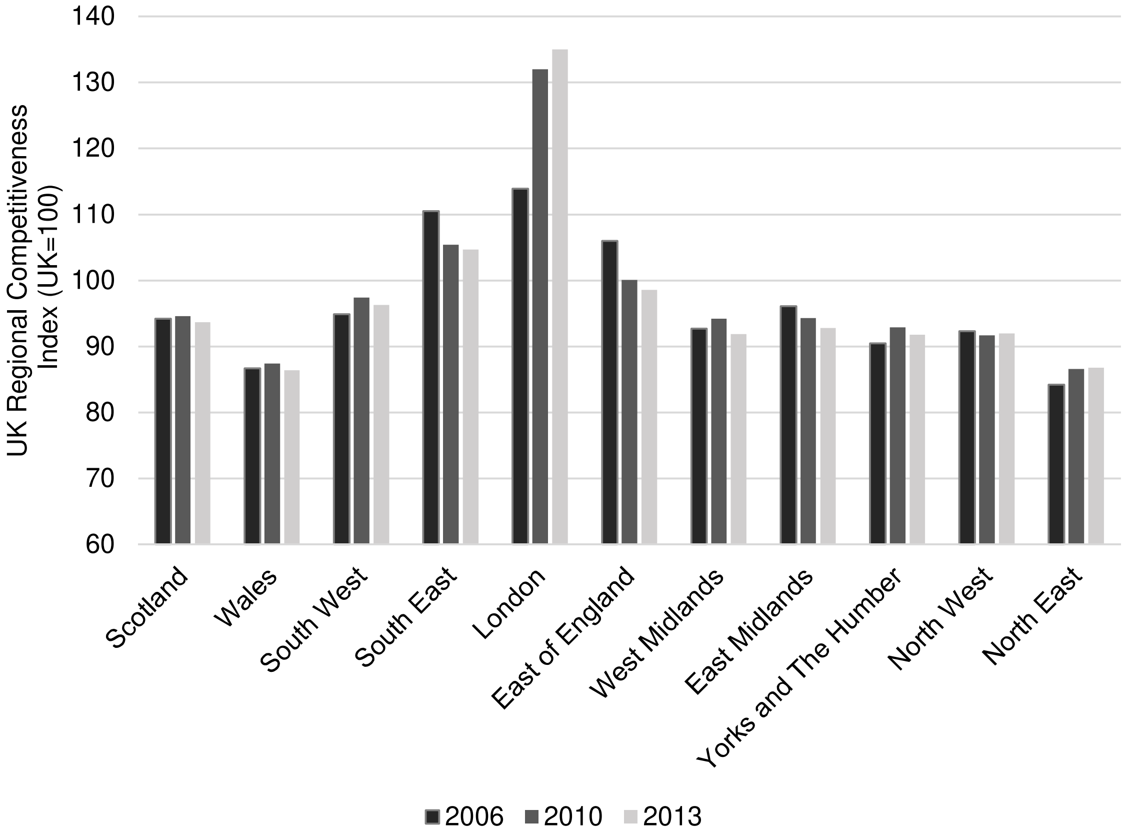
The relative economic resources of a territory can be seen as a key element of the ‘material’ dimension of territorial governance and political capacity (Cole and Stafford 2015, p.15). In common with many similar regions across Europe, the story of the Welsh economy over the past decades has been one of transition from an economy heavily dependent on heavy industry and raw materials, primarily coal and steel, to a more diversified manufacturing and service-based economy (Pickernell 2011). Perhaps unsurprisingly given the significant challenges created by this transition, the economic performance has continued to struggle despite decades of assistance via the creation of development agencies, the introduction of devolution and Objective One funding from the European Union. Ball (2008, p.2), for example, argues that the truth is that Wales ‘is a stagnant, backward, failed part of the British regional economy’ and only a radical shift in policy will break this ‘vicious circle of decline and decay.’ The relative performance of the Welsh economy can be illustrated via simple performance indicators such as Gross Value Added (GVA) per head (Figures 1). Whilst Wales outperforms several English regions in some indicators, such as unemployment rates, it is important to note that Wales remains disproportionately reliant on public sector employment and therefore at risk in terms of further austerity-driven reforms. Furthermore, Huggins and Thompson’s (2013) analysis of a range of input, output and outcome factors related to competitiveness appears to indicate that over the past decade Wales has failed to close the gap between itself and the majority of the UK (Figure 2). Therefore the economic challenges facing Wales and its relative dependency on public spending demonstrates its limited economic resources which potentially constrain public and private actors from pursuing divergent public policy underpinned by a distinctively Welsh territorial model. Indeed, one of the criticisms of the Welsh Government’s policies in the early years of devolution was its tendency to adopt a precautionary approach to economic development (Cooke and Clifton 2005).

Figure 1: GVA per head index (UK=100)



Source: Regional Labour Market Statistics, May 2014

Figure 2: UK Competitiveness Index 2006-2013



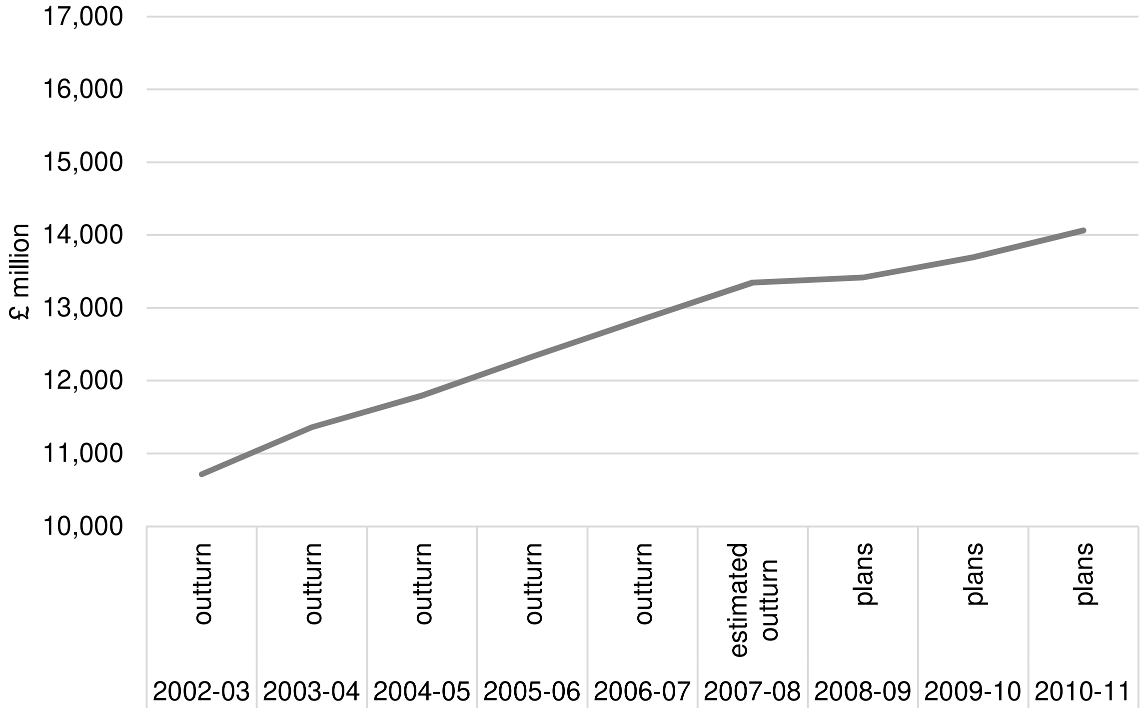
Sources: Huggins and Thompson (2013); Huggins and Day (2006)

iii) Intergovernmental & Fiscal Relations

A key area of territorial political capacity highlighted by the Regional Authority Index (Hooghe et al. 2016) and wider studies of regional political capacity (Cole 2006; Cole and Pasquier 2015; Pasquier 2015) has been the relations between levels of government and in particular the fiscal capacity of regional actors. In terms of the latter, Wales has been historically weak, both in terms of fiscal autonomy (the extent to which a regional government can independently tax its population) and fiscal control (the extent to which regional representatives co-determine the distribution of national tax revenues). The Welsh Government receives a block grant made up of the Departmental Expenditure Limit (DEL), a fixed budget calculated by the UK Government over a three year spending review period, and Annually Managed Expenditure (AME), generally ring-fenced funding for programmes which are demand-led – such as welfare, tax credits or public sector pensions. The system for allocating the DEL rests on the Barnett formula, which calculates changes to the Welsh DEL on a population-based proportion of the changes in planned spending on comparable government functions in England. For example, a hypothetical £100 million increase in spending for a UK Government department which had 75 per cent of its functions devolved to Wales would lead to an increase in the DEL of £4.28 million, based on Office for National Statistics population estimates of the Welsh population being 5.71 per cent of the English population.

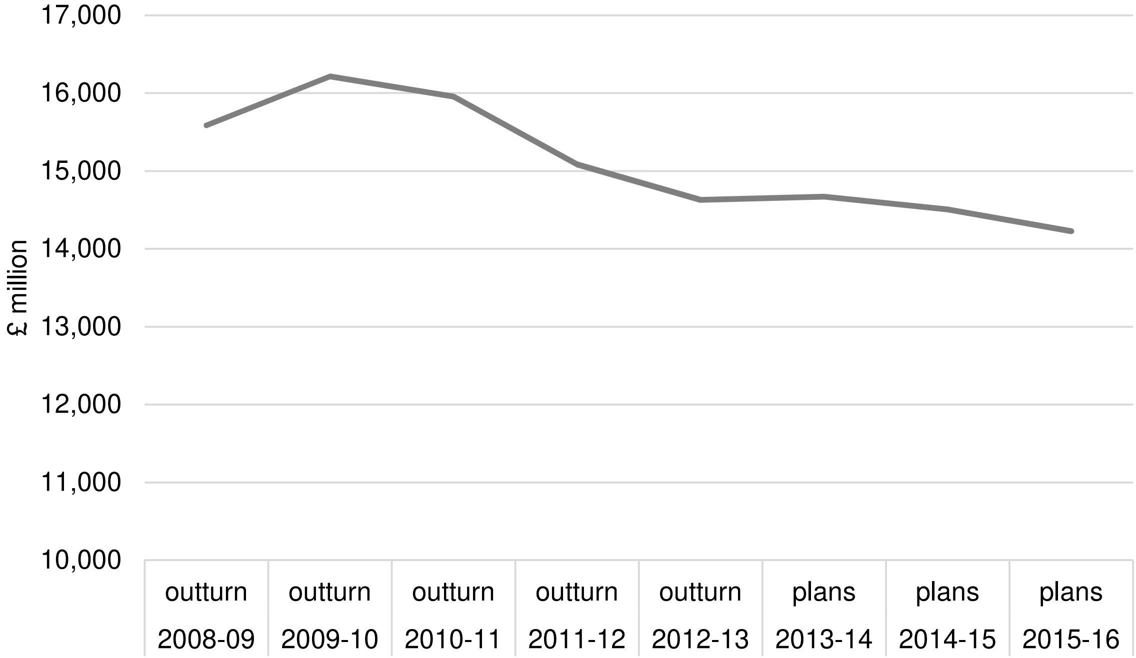
These arrangements have been the subject of a wide range of reviews at both the devolved and UK levels and prompted much academic debate (House of Commons Treasury Select Committee 1997; Commission on Scottish Devolution 2009; Independent Commission on Funding and Finance for Wales 2009, 2010; House of Lords Select Committee on the Barnett Formula 2009; Commission on Devolution in Wales 2012). Trench identifies three main strands of criticism that have emerged within these debates, firstly, that the calculation of resources has little to do with relative need or equity, secondly that funding levels are decided unilaterally by the UK Treasury and finally that the devolved administrations are relegated to being 'not much more than spending agencies, rather than autonomous governments' (Trench 2010, p.573). However, the UK Government has continued to be hesitant in reforming the Barnett Formula. In November 2014, for example, David Cameron stated that reform was not 'on the horizon' and that 'the best thing to do is to press ahead with fiscal devolution, which reduces the significance of the Barnett formula, and build the institutions of Wales and Scotland in that way' (House of Commons Liaison Committee 2014). Regardless of the strengths and weaknesses of the Barnett Formula and the continued debate regarding fiscal arrangements, what is clear is that the absence of significant fiscal autonomy and control within Wales has left decision-making around funding in the hands of the UK Government. Whilst providing a single set of data for the Welsh block grant is difficult, it is clear from the allocation of the Welsh DEL that Wales experienced a sustained growth in funding in the pre-crisis period and a fairly dramatic decline in funding driven by the UK Government's austerity agenda (Figures 1 & 2). Although these fiscal pressures are slightly different from the 'hard' convergence factors identified in the Eurozone, they provide the context for the attempts of policy actors in Wales to pursue a coherent and potentially distinct territorial model.

Figure 3: Total Departmental Expenditure Limits in real terms (2005-06 price levels), 2001-02 to 2007-08



Source: HM Treasury (2008) Public Expenditure Statistical Analyses (London: TSO)

Figure 4: Welsh Departmental Expenditure Limits in real terms (2012-13 price levels), 2008-09 to 2015-16



Source: HM Treasury (2013) Public Expenditure Statistical Analyses (London: TSO)

Economic Constraint: Delaying the inevitable or weathering the storm?

The extent to which the Welsh Government and other policy actors in Wales have been able to pursue a coherent territorial model within the context of the economic crisis reflects wider questions regarding the role of sub-national and regional actors within the crisis and the influence of 'soft' and 'hard' forms of convergence and divergence. On the wider European scale, the sub-national level has been identified as both a potential cause and solution to the crisis (European Commission, 2012, 2013; Eyrand and Moreno Badia, 2013; Vammalle and Hulbert, 2013). Perhaps most notably, the crisis in the Eurozone, and the signing of the Treaty on Stability, Coordination and Governance or Fiscal Compact, has hardened the direct controls exercised by Brussels over the functioning of devolved and local governments across Europe. These controls, defined as 'hard' forms of convergence, have significantly reduced the financial flexibility and 'room for manoeuvre' of sub-national governments (Vammale and Hulbert 2013). Given that Wales lies outside of the Eurozone, it is questionable as to whether these mechanisms of 'hard convergence' can be seen to the same degree in the UK and specifically in terms of the relationship between the Welsh Government and UK Government. However, Cole and Stafford (2015, P.21) argue that due to the Conservative and Liberal Democrat Coalition Government's response to the crisis, the 'direction of travel' within the UK and Wales has been similar to the Eurozone experience. The tightening of fiscal rules across the EU was matched by a fiscal tightening in the UK as a consequence of the early decisions taken by the Coalition government in the 2010 Comprehensive Spending Review which committed to £81 billion of savings by 2014-15 (HM Treasury, 2010). Indeed, Gamble (2015, P.50) notes that in his June 2010 emergency budget, George Osbourne, the new Chancellor of the Exchequer, 'proposed imposing as severe a package of cuts on the UK as the Troika (the European Commission, the European Central Bank, and the IMF) was to impose on Greece, Ireland and Portugal.'

The Coalition Government's commitment that 'the main burden of deficit reduction be borne by reduced spending rather than increased taxes' has clearly had a significant impact on Wales and the ability of the Welsh Government to pursue its policy agenda (HM Government 2010, P.15). In response to the UK Government's Budget in March 2015, for example, Jane Hutt, the Welsh Government's Finance Minister, argued that the cuts introduced by the UK Government had been 'too fast and too deep' and since 2010 had led to a cut of 8 per cent or £1.5bn in the Welsh Government's budget. Further, the Minister warned that Osbourne's commitment to pursue even deeper spending cuts following the 2015 General Election 'would devastate our public services in Wales' (Welsh Government 2015a). The severity of the UK Government's austerity programme led to significant cuts across Whitehall Departments and via the Barnett Formula, the Welsh block grant. Crucially, as noted in the previous section, this austerity programme contrasted with the 'milk and honey' of the first decade of devolution, characterised by high levels of economic growth and even higher levels of public spending (Drakeford, 2012). Bell (2010, p.60) notes that devolved institutions across the UK 'enjoyed significant increases in public spending' in areas such as health, education and transport and therefore 'did not have to take unpopular spending decisions seriously.' Indeed, a Welsh Local Government Association (WLGA) official interviewed in late November 2012 reflected that prior to the crisis there was 'lots of money flying around' and funding was often allocated in the Local Government settlement 'without thinking about what outcomes it was trying to achieve' (UW10).

The UK Government and devolved administrations in Scotland and Wales diverged sharply in terms of the relative distribution of cuts across policy fields.[1] The Institute for Fiscal Studies (IFS) (2015, P.153-164), for example, noted that cuts to UK Government departmental expenditure limits (DEL) were 'distributed very unequally between departments'. This unevenness of departmental cuts was characterised as being driven by a range of interlinked factors. Firstly, the Coalition Government identified key policy areas where spending was to be protected, notably the Coalition Agreement pledges to increase real spending on the National Health Service (NHS) in each year of the 2010-2015 Parliament and to increase spending on overseas aid to 0.7% of Gross National Income (GNI) from 2013 (HM Government 2010). The IFS (2015, p.158) noted that the protection of these areas effectively dictated bigger cuts in 'unprotected' departments, for example, a real cut of 9.5 per cent in overall departmental spending resulted in a cut of 20.6 per cent for unprotected departments. Secondly, the creation of departmental 'winners' and 'losers' was exacerbated by the Coalition Government's approach to resource and capital spending. Although the relatively low levels of inflation since 2010 effectively made the real cuts to DEL smaller, the Coalition Government increased nominal spending on capital DEL in some departments, such as the Department for Transport and the Department for Business, Innovation and Skills (the 'winners'), whereas other departments saw either resource or capital DEL cuts increase, such as the Home Office, the Ministry of Justice and the Ministry of Defence (the 'losers'). The most severe cuts could be seen in the Department of Communities and Local Government, for example, the 'Local Government' budget element including general and specific grants to local authorities was forecast to be cut by 45.5 per cent (IFS 2015, P.161). Lowndes and McCaughie (2013, P.546) argue that in responding to these cuts, Local Government in England displayed an impressive capacity to 'reinvent its institutional forms to weather what amounts to a perfect storm.'

[1] Comparing the distribution of spending cuts across departments within the context of devolution in the UK is difficult given the different definitions of expenditure adopted by the UK Government and devolved administrations and the contrasting character of different departments at the UK and devolved levels. For example, the policy areas and funding streams controlled by the Department of Communities and Local Government at the UK level are not matched like-for-like with a single department within the Welsh Government. The analysis of departmental expenditure limits and spending priorities in this section are intended to provide an indication of the broad trends in decision-making.

In stark contrast to the picture in England, several interviewees noted that Wales, and in particular local government in Wales, had been sheltered from the worst of the cuts. In April 2013, a senior official within Cardiff Council explained that Wales was effectively '2 or 3 years behind the curve in terms of having to deal with serious cuts' but that a rebalancing was inevitable (UW20). Despite the Welsh Government's relatively weak range of fiscal powers, it's almost complete discretion in the allocation of the block grant enable it to manage the potential impact of spending cuts across a range of public services, including local government budgets. In marked contrast to the UK Government and counterparts in Scotland, the Welsh Government rejected the model of 'protected' or increased spending in health (Drakeford 2012; Deaner and Phillips 2013 – See Table 3). A Wales Audit Office official (UW01), interviewed in January 2013, provided an overview of the process:

> "Given the position that we have, we have a Welsh Government which receives a block (grant). That block will shrink. It is no good railing against the darkness. You have to make a decision. They will be uncomfortable decisions because politically you will not necessary agree with the basis on which those decisions started but that is all the money you've got. There is no present extra source of funds…England has reigned back much more on Local Government than in Wales. Decisions have been made to divert the budget for all kinds of good reasons. It is not my role, and I would not comment on the choices that the Government makes but I do observe this difference. The result is that the NHS is facing a squeeze."

However, the extent to which this approach could be sustained in the face of further cuts to the Welsh block grant driven by the UK Government's austerity agenda was questioned by other interviewees. A Plaid Cymru AM (UW04) acknowledged, for example, that 'devolution to a certain extent has been sold to the public as a kind of protective device around public services in Wales' and delivering on this promise would likely become increasingly challenging as the UK Government's austerity programme continued.

The Welsh Government's decision to not ring-fence health spending clearly sheltered local public services in Wales from the most severe of the UK Government's cuts but in many senses this strategy can be characterised as simply delaying the inevitable rather than representing a coherent territorial response to the crisis. Unsurprisingly the WLGA has been particularly vocal in highlighting the potential adverse consequences of significant reductions in local government spending (WLGA 2014a). In response to the UK Government Autumn Statement in December 2014, the WLGA Spokesperson for Finance observed that local government in Wales had been 'no stranger to austerity' with some local services experiencing budget cuts of over 30 per cent but that further cuts would force local authorities to 'make difficult decisions about withdrawing from some services in a way that does least harm to the well-being of our citizens' (WLGA 2014b). This point was made in an interview two years earlier by a WLGA official (UW10) who observed that the real 'nasty stuff' was still to come and that projections provided by IFS suggested that spending power would be reduced by almost 20 per cent by 2020-21 (Crawford et al. 2012). The official argued that this level of cuts would dictate 'a radical rethink about of what you have got to deliver' and the need to engage citizens in a dialogue 'about radical tactical withdrawal from key strategic public services.' However, the difficult choices driven by the UK Government's austerity measures were also shaped by the statutory services that the Welsh Government and particularly local authorities were required to deliver. For example, in responding to a Welsh Audit Office report on the state of Welsh public services, the WLGA's spokesperson for Regulatory and Frontline Services pointed out that 'over 60% of the local government budget is tied up in protected services like education and social care, and this is forcing councils to make further savings in those smaller services that have already borne the brunt of public sector austerity in Wales' (WLGA 2014c). Therefore the cuts in local public services have been felt primarily within areas like the arts and leisure and preventative health services.

Overall, the Welsh Government and wider policy community within Wales have been able to pursue a limited form of 'soft' divergence in response to the economic crisis by sheltering local government and local public services from the austerity measures introduced by the UK Government. However, the relative weakness in political capacity, outlined in the previous section, suggests that Wales will increasingly struggle to maintain this distinctive policy agenda in the face of 'hard' convergence factors in the form of the UK Government's continued cuts in public spending, for example, the 2016 Budget announced further savings of £3.5 billion in 2019-20 (HM Treasury 2016). Furthermore, in the medium to long term the increasing funding gap driven by spending cuts promises to be exacerbated by an aging population, relatively low productivity and high public expectations (Jeffs 2013; Roberts and Charlesworth 2014). Therefore the disjuncture between the cost of public services that have underpinned the territorial model that has emerged in Wales following devolution and the level of funding being provided appears to be widening, not narrowing.

Table 3: Total Welsh Government departmental expenditure, 2010–11 to 2013–14 (current MEG structure, 2013–14 prices, £ millions)

Main Expenditure Group	2010-11	2011-12	2012-13	2013-14	2014-15 (plans)	% change (2010-11 to 2013-14)
Health and Social Services	6,387	6,207	6,156	5,941	5,845	-7.0%
(Health alone)	6,205	6,129	5,992	5,838	5,755	-5.9%
Local Government	4,694	4,474	4,474	4,493	4,348	-4.3%
Communities and Tackling Poverty	148	157	160	188	180	27.1%
Economy, Science and Transport	619	581	540	535	529	-13.6%
Education and Skills	1,800	1,718	1,726	1,659	1,666	-7.9%
Natural Resources and Food	314	335	299	327	319	4.1%
Housing and Regeneration	190	183	176	176	172	-7.2%
Culture and Sport	125	130	127	125	123	0.1%
Central Services and Administration	385	352	304	319	318	-17.2%
Council tax benefit	-	-		222	-	-
Total (including council tax benefit)	14,662	14,138	13,961	13,985	N/A	-4.6%
Total (excluding council tax benefit)	14,662	14,138	13,961	13,763	13,500	-6.1%

Source: B. Deaner and D. Phillips (2013) P.30.

Political Opportunity: Never let a good crisis go to waste!

The financial crisis and associated 'hard' convergence factors have clearly had a major impact on public services and the direction of policy in Wales but somewhat paradoxically the combination of the crisis and other exogenous factors, notably the debates around Scottish independence, have opened up a range of political opportunities for the devolved administration which may facilitate increased divergence in the future. To an extent these exogenous factors can be seen as reflecting Kingdon's (2003) characterisation of 'policy' and 'problem windows'. There are at least two main political opportunities that have emerged, firstly the potential strengthening of the devolution settlement in Wales and secondly the reform of public services and more specifically the reorganisation of local government. However, in marked contrast to Kingdon's characterisation of policy windows as being short in duration, the exogenous factors which have provided these opportunities for reform have been relatively stable. For example, the wider constitutional questions raised by the September 2014 Scottish independence referendum show little sign of leaving the political agenda. These political opportunities provide scope both for the strengthening of political capacity and potentially the further development of a distinctive territorial model.

The paradoxical relationship between the economic crisis and the resulting austerity measures on the one hand and the continued development of political capacity and devolution in Wales on the other, was reflected in the responses of interviewees. In the 2012-13 fieldwork the majority of interviewees across the three cognate groups (devolved government or state actors; representatives of professional and policy communities; and elected representatives) argued that in fairly broad terms the crisis had strengthened the case for the further devolution of responsibilities to Wales. A Trade Union official, for example, observed that devolution had provided 'the opportunity to put in place strategies…that would address the worst excesses of the economic crisis' (UW14) Therefore the further transfer of powers and in particular the devolution of fiscal powers to the National Assembly for Wales were partly seen as providing the devolved administration with greater resources to respond to the crisis.

For example, a Welsh Government official noted that the devolution of taxation and borrowing powers would provide the Welsh Government with a wider range of policy levers and that ‘having more tools in your box seems like a good thing in principle’ (UW08). Whether the record of Welsh devolution supported such optimism was implicitly questioned by others. A WLGA official contended that the shift to devolve further powers could be better understood as part of much wider global process of decentralisation and ‘shifting decisions about how services are provided and how funding is allocated to as near to the point of delivery as possible’ (UW10). Therefore the support for the further devolution of powers had ‘happened irrespective of whether or not people actually think that the National Assembly and the Welsh Government is particularly effective or good at those interventions, or has had a positive impact on alleviating some of the pressures and the impact of the global crisis’ (UW10).

The strengthening of the devolution settlement has therefore perhaps been driven more by the ongoing debate within Wales and the wider constitutional debates within the UK than the specific policy problems highlighted by the economic crisis. A useful illustration of the interaction between these different pressures can be seen in the case of the proposed transfer of taxation and borrowing powers. The Holtham and Silk Commissions, established in July 2008 and October 2011 respectively, examined the introduction of taxation and borrowing powers and the reform of the Barnett formula, the latter recommending the partial devolution of income tax powers subject to a referendum and a range of smaller taxes (Independent Commission on Funding and Finance for Wales 2009, 2010; Commission on Devolution in Wales 2012). The work carried out by these two Commissions framed the trajectory of devolution but references to Scotland were far away. Gerald Holtham, the chair of the Holtham Commission noted that the work of the Commission around the Barnett Formula had ‘really strengthened the self-confidence of the Welsh administration in its dealings with Whitehall’ (UW03). However, he explained that the parallel developments in Scotland centred on the Calman Commission’s review of Scottish devolution and notably financial accountability had benefited his Commission’s work in Wales:

> ‘I think we were lucky in that in following Calman, a lot of the initial thinking and ground clearing they had done. We had the advantage of being able to look at it and say yes its right, or where are the holes? And then we were able to focus

> and fill in the holes in a sense, you know, there were certain aspects where their analysis just stopped short and they just hadn't done it, but that in a sense enabled us to focus on the areas they hadn't worked on, and take some of the technical aspects a bit further. So that was helpful' (UW03).

Similarly, Paul Silk, the chair of the Silk Commission, portrayed the Commission's proposals around the further transfer of borrowing powers as being cast in the wider UK and European setting:

> 'Our borrowing recommendations, to use the great Gordon Brown, were prudent and really set in the sort of context of what Scotland has already got, what Northern Ireland has already got and what Local Authorities have already got. We did not think that that was an extravagant sort of free-for-all rampaging Welsh Government delving into the difficulties…as Spanish regions have done' (UW16).

Furthermore, exogenous factors refocused attention on territorial politics and therefore opened up a political window for the reform of the devolution settlement in Wales. In his speech in the immediate aftermath of the narrow 'no' vote, the Prime Minister David Cameron, stated that 'a new and fair settlement for Scotland should be accompanied by a new and fair settlement that applies to all parts of our United Kingdom' and that Wales should be 'at the heart of the debate on how to make our United Kingdom work for all our nations' (Cameron 2014). Although not the strongest supporters of devolution in its first decade, the Conservative Party's 2015 General Election Manifesto included a tranche of reforms empowering the Assembly and the Welsh Government, notably a commitment to devolving taxation powers in order 'to make the Welsh Government responsible for raising more of the money it spends so the Welsh people can hold their politicians to account' (Conservative Party 2015, P.70-71).

Although there was a widely held perception among interviewees that the appetite for greater devolution had not been fundamentally underpinned or undermined by the economic crisis, several interviewees pointed out that the crisis had weakened any desire to follow Scotland's path towards independence. A Wales Office official argued that the economic crisis had highlighted that 'smaller economies would have great difficulty' in responding to the crisis and therefore an independent Wales would have struggled to cope (UW17). Perhaps unsurprisingly a report co-authored by the Plaid

Cymru AM, Adam Price, provided a more optimistic picture for Wales and other small countries within the global economy (Price and Levinger, 2011). Price and Levinger (2011, p.62) argue that rather than being at greater risk of 'capsizing' during the storm, 'small countries can be said to behave more like the woodchip – tossed about on the waves – but difficult to sink.' However, a fellow Plaid Cymru AM observed that due to the crisis 'it's going to be even more difficult to try and persuade the public to approve of powers coming through to Wales, particularly around tax or borrowing…if the public as a whole feel that member states are not coping very well - in the Euro zone certainly not coping very well with the recession' (UW04). Therefore, perhaps unsurprisingly, the primary response within Wales to the economic crisis and associated austerity measures was not an increased appetite for independence but rather the far-reaching reform of the delivery of public services. Wallace *et al*. (2013, p.9) provide a useful reference point for this reform process, identifying four potential strategies that could be adopted by countries comparable in size to Wales in response to the crisis:

1. Rethinking – new, whole-systems approaches to public services
2. Reforming – new ways of delivering specific public services
3. Restructuring – new ways of organising public services
4. Retrenching – reduction or removal of public services

Wallace et al. (2013, p.11) developed a similar argument to Katzenstein (1985), hypothesising that 'smaller jurisdictions should find it easier to develop a coherent, whole-systems plan for future public services' defined by a 'golden thread' linking different aspects of public service reform to a holistic strategy. However, they concluded that it was difficult to locate 'a system that was fully integrated and delivering more than the sum of its parts' in any of the case studies considered in their analysis (Wallace et al. 2013, P.12).

Whilst the economic and fiscal crisis can be characterised as a relatively weak factor in driving the constitutional development of devolution in Wales and the austerity measures introduced by the UK Government have been softened in the Welsh context, the crisis acted as a catalyst in terms of the debate regarding the need to reform public service delivery. A Welsh Government official observed that the crisis had 'accelerated the pace of change in terms of public service delivery in Wales'. The official explained that 'political parties in general have talked big about public service delivery reform since devolution began but the changes have been relatively modest' (UW15). The Welsh Labour Party's 2011 Assembly manifesto stressed that that 'delivery will be Welsh Labour's watchword in the fourth Assembly term' and put forward a range of organisational reforms including the creation of a First Minister's Delivery Unit, a pan-Wales Public Policy Institute and an Independent Review of the Governance of Wales to explore a model of improved public service delivery in Wales. (Welsh Labour, 2011, p.22). The latter was fulfilled via the creation in April 2013 of the Independent Commission on Public Service Governance and Delivery, chaired by Sir Paul Williams. A Welsh Government official explained that the explicit role of the Commission was to get 'more bang for our buck against the backdrop of declining budgets' (UW15). The Commission's final report, published in January 2014, recommended the creation of larger local authority units, arguing that it provided 'the best option for addressing the risks of small scale and indeed the only one that is both viable and deliverable in the short to medium term' (Commission on Public Service Governance and Delivery 2014, p.88). However, it is one thing to recommend the reorganisation of local government and quite another to deliver it.

The Welsh Government's initial response to the Commission's report highlighted its readiness to engage in rethinking, reforming and restructuring strategies in relation to public services and local government in Wales (Welsh Government 2014a, 2014b). The Welsh Government (2014a, p.9) stated that:

> 'Doing the same things as we do now is not sustainable in the face of changing demands and the deep and prolonged cuts to public sector budgets across the UK. We must act to change the way public services work – individually, collectively and with people.'

The Welsh Government's (2014b) strategic vision for the future of public services encompassed a wide range of initiatives designed to respond to the Commission's findings, including the integration of public services into 'one public service' (P.17), a revised model of public services 'delivered **with** rather than **to** the public' (P.21 – bold in original) and a reorganisation of local government to be pursued via 'a series of local authority mergers within the context of a wide-ranging programme of local government reform' (P.12). Historically local government reform has been slow, costly and highly politicised, creating winners and losers – the latter who 'retreat sulking to their tents and prepare to fight for the reversal of their losses' (Elcock 1998, p.191). Therefore the Welsh Government faces a major challenge in avoiding the same pitfalls of the 1996 reorganisation (Thomas 1994; Pemberton 2000). Unsurprisingly the WLGA has stressed the costs of reorganisation, including up to £158m in people change and redundancy costs, up to £54m in the rationalisation of property, systems and other change management costs and £57m of income that will be forgone due to council tax harmonisation (WLGA 2014d). However, the Welsh Government has demonstrated a clear commitment to take advantage of the policy window that has been opened up by the combination of the austerity programme sparked by the financial crisis and increasing demands on public services.

Overall, the economic crisis has clearly provided, either directly or indirectly, a range of political opportunities for devolution in Wales. On the one hand it has added to the momentum around the further development of devolution via the Silk Commission and more fundamental debate regarding the future shape of the UK, and on the other it has provided a key underpinning rationale for the reform of public services and local government. The different dimensions considered in this section appear to tie into different elements of the 'states of convergence' typology. The reform of public services within Wales can be characterised as a form of 'soft' convergence, primarily driven by the Welsh Government's search for best practice, but this reform agenda also displays characteristics of 'soft' and 'hard' divergence, shaped by the specific challenges and needs of Wales and a reluctance to pursue alternative models, notably England. However, what is clear is that Wales' experience of the economic crisis is not simply a tale of 'hard convergence' characterised by 'top-down' intrusive measures implemented by the UK or EU levels.

Conclusion: Towards a Welsh territorial model?

The key overarching question explored within this paper has been the extent to which devolved actors in Wales have been able to pursue a distinctive policy response to the financial crisis or whether factors, potentially exogenous or endogenous, have driven policy convergence. Further, there is a significant strand within the existing literature that suggests that not only can small states or sub-national actors, such as Wales, pursue their own distinctive territorial models but their size and character may actually provide an advantage in responding to crises (Katzenstein 1985). Katzenstein (1985, p.11) argues that 'small corporatist states can continue to prosper – not because they have found a solution to the problem of change but because they have found a way to live with change'. This argument has been examined in recent research exploring the experience of small states in the global economic crisis and attempts to justify a specific Welsh response (Verdun 2013; Thorhallsson and Kattel 2013; Price and Levinger 2011; Wallace et al. 2013). The UK's position outside of the Eurozone has meant that Wales has not been subject to the 'hard' convergence pressures which have increasingly constrained sub-national actors across Europe and although Wales has faced increasing economic constraints and fiscal pressures akin to 'hard' convergence due to the UK Government's austerity programme, it was able to shelter local public services in the short term. Further, the economic crisis has acted as a catalyst for the opening of policy windows in terms of both the development of devolution and the reform of public services.

The future of devolution in Wales is perhaps even more difficult to gauge following the 2015 General Election and ongoing debates around the constitutional future of the UK. On the day after securing a narrow majority, David Cameron stressed his intention to implement reforms to devolution across the UK as quickly as possible and that 'the governments of these nations will become more powerful, with wider responsibilities' (Cameron 2015). Although this provides a relatively optimistic picture of the future strengthening of devolution in Wales and therefore a greater ability to explore a Welsh territorial model, the delivery of this agenda and other elements of the Conservative Party's 2015 Election Manifesto provide a gloomier picture. The draft Wales Bill, published in October 2015, was widely criticised during pre-legislative scrutiny, for example, the former Presiding Officer of the National Assembly and Plaid Cymru AM, Dafydd Elis-Thomas stated that 'of the five attempts to re-write the constitution of Wales in my time in public life, going back to 1978, this is the worst' (Wales Online 2015). A revised draft Wales Bill was reintroduced in June 2016 and the process is effectively due to start again. In addition, the in-out referendum on the UK's membership of the EU due to take place in June 2016 and significant further cuts to departmental spending and social security could significantly impact Wales and the

Welsh Government's ability to pursue policy divergence or a holistic 'rethinking' of public services (Crawford et al. 2015). Therefore using Katzenstein's terms whilst it could be argued that actors in Wales have worked hard to 'live with change' and counter the worse effects of the economic crisis, the scope to pursue a Welsh territorial model may become increasingly constrained by exogenous factors.

Appendix 1: List of Interviews – November 2012-July 2013

UW01 Welsh Audit Office Official, Cardiff, 15 January 2013
UW02 Federation of Small Businesses Official, Cardiff, 11 January 2013
UW03 Gerald Holtham, Chair of the Independent Commission on Funding and Finance for Wales, Cardiff, 13 December 2012
UW04 Plaid Cymru AM, Cardiff, 16 January 2013
UW05 The Chartered Institute of Public Finance and Accountancy (CIPFA) Cymru Official, Cardiff, 16 January 2013
UW06 Liberal Democrat AM, Cardiff, 23 January 2013
UW07 Welsh Joint Education Committee (WJEC) Official, Cardiff, 3 December 2012
UW08 Senior Finance Official, Welsh Government, Cardiff, 19 February 2013
UW09 Conservative AM, Telephone Interview, 27 February 2013
UW10 Director of Resources, Welsh Local Government Association, Cardiff, 29 November 2012
UW11 Plaid Cymru AM, Cardiff, 5 February 2013
UW12 Leighton Andrews, Minister for Education and Labour AM, Cardiff, 24 January 2013
UW13 Councillor Ali Thomas, Neath & Port Talbot Council leader and WLGA spokesman for education, Port Talbot, 29 January 2013
UW14 National Association of Schoolmasters Union of Women Teachers (NASUWT) Wales Official, Cardiff, 12 February 2013
UW15 First Minister's Principal Private Secretary, Welsh Government, Cardiff, 10 May 2013
UW16 Paul Silk, Chair of the Commission on Devolution in Wales, Cardiff, 21 March 2013

UW17 Senior Official, Wales Office, Cardiff, 4 March 2013

UW18 National Union of Teachers (NUT) Official, Cardiff, 13 March 2013

UW19 Conservative AM, Cardiff, 25 April 2013

UW20 Chief Operating Officer, Cardiff Council, Cardiff, 23 April 2013

UW21 Labour AM, Telephone Interview, 26 July 2013

UW22 Institute of Directors Official, Cardiff, 8 July 2013

UW23 Liberal Democrat AM, Cardiff, 18 July 2013

UW24 Undeb Cenedlaethol Athrawon Cymru (UCAC) Official, Cardiff, 20 May 2013

UW25 Director of Lifelong Learning, Leisure and Information, WLGA

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