

Scotland Bill

Reform Scotland

The level of responsibility devolved to Holyrood

For too long there has been a lack of clarity as to who is responsible for economic development in Scotland. When there is good news both parliaments try to take credit, but when there is bad news, both blame the other. This situation has led to a lack of transparency and accountability. The Scottish Parliament is responsible for a number of the policy areas affecting business growth in Scotland, yet has no control over a number of key taxes, including corporation tax and income tax. Reform Scotland has been arguing from its inception that more powers needed to be devolved to the Scottish Parliament to give it greater responsibility for the Scottish economy.

There have now been numerous reports from sources based in England which recognise the link between devolving more powers over taxation and spending, and increasing economic growth. The following are some examples:

- In October 2014 a report by the Royal Society for the Encouragement of Arts, Manufactures and Commerce claimed that if UK cities were granted greater power over local taxation and spending, it would boost economic growth by £79bn by 2030 as productivity would increase by 5%. The report commented that *"Our centralised political economy is not 'fit for purpose'"* and that *"In a world in which cities are the new drivers of growth, decentralising our political economy will boost GDP and enable our major metros to achieve their social and economic potential."*¹
- In September 2014, IPPR North published 'Decentralisation Decade'. The report stated that *"the guiding principle behind the whole approach is that decentralisation will lead to higher economic growth"*.² The report also highlights the contrast between the UK and other European countries where there are greater fiscal powers devolved – *"Economically, seven of the eight English 'core cities' outside London have consistently performed below the national average in terms of GDP per capita. This is atypical. In Germany, Italy, Sweden and even France, so-called second-tier cities have been at the forefront of economic growth, wielding clear regional policies and devolved economic development powers to outperform their capital cities"*.
- In July 2014 the House of Commons Communities and Local Government Committee published its report 'Devolution in England: the case for local government'. The report considered the link between economic growth and devolving fiscal powers. The report stated *"We conclude that there is evidence of at least an indirect connection between fiscal devolution and growth. There is also evidence that fiscal devolution—as part of a package of wider decentralisation—would encourage greater economic growth across England. The Government has, through its own business rates retention*

¹ Brinded, L. "UK City Devolution Could Boost Economic Growth by £79bn by 2030", International Business Times, 22 October 2014

² IPPR North, Decentralisation Decade, September 2014

scheme, accepted the logic behind this. Putting a wider range of tax and borrowing powers into the hands of local politicians simply extends this logic. London, already in the vanguard of UK growth, would not be pressing for devolution if it was not to its advantage. Placing power in the hands of other areas, too, would provide an opportunity to contribute to a more balanced economy. Cities and their wider regions have the most potential to drive growth”.³

Reform Scotland believes that the ultimate goal has to be that Holyrood is responsible for raising the money that it spends. There are a number of ways that this can be achieved, as have been set out in previous Reform Scotland reports including ‘[Fiscal Powers](#)’, ‘[Fiscal Powers – Second Edition](#)’, ‘[Devolution Plus](#)’, as well as the work of the Campaign for Fiscal Responsibility and the [Campaign for Scottish Home Rule](#), both of which we set up.

However, Reform Scotland believes that the post-Smith settlement goes nowhere near far enough towards achieving this goal. Only one major tax has been devolved to Holyrood, but even then that tax is not devolved in full. As the [Institute for Fiscal Studies](#) has pointed out:

“because the Scottish income tax would not apply to dividends (or savings) income, if Scottish tax rates were higher than UK tax rates, some could respond by shifting their income into dividends, on which the UK rate will apply. This tax avoidance would reduce the amount Scotland could raise from higher tax rates”

As illustrated in the Table below⁴, the Scottish Parliament will control only 37% of the money that it spends. We have not included assignment of VAT in the table as the responsibility and control for this remains at Westminster.

	Scotland Act 1999		Scotland Act 2012		Smith Commission/ Scotland Bill 2015	
Total Scottish Expenditure 13/14	66,388		66,388		66,388	
SP expenditure 13/14	40,813		40,813		40,813	
Additional spending powers (13/14)					Discretionary Housing Payments	29
					Attendance Allowance	481
					Disability Living Allowance	1,473
					Carer's Allowance	182
					Industrial Injuries Benefits	91
					Severe Disablement Allowance	91
					Benefits in the Regulated Social Fund (Mainly Winter Fuel Payment)	202
New SP expenditure level	40,813		40,813		43,362	
SP Taxes 13/14	Council Tax	1,941	Council Tax	1,941	Council Tax	1,941
	NDR	1,927	NDR	1,927	Non-domestic rates	1,927
			10p Income tax	4,564	Income Tax	11,410
			Landfill tax	105	Landfill tax	105
			SDLT	319.5	Stamp Duty Land Tax	319.5
					Air passenger duty	251
					Aggregates Levy	50

³ Communities and Local Government Committee, “Devolution in England – the case for local government”, July 2014.

⁴ Figures based on the GERS series and <https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014>

Income raised from SP taxes 13/14	3,868	8,857	16,004
Income raised from Westminster taxes	50,086	45,098	37,951
SP tax income as % of SP expenditure	9.48%	21.70%	36.91%
Total tax revenue raised in Scotland 2013/14	53,954	53,954	53,954
SP tax income as % of total tax raised in Scotland	7.17%	16.41%	29.66%

Reform Scotland believes that more taxes must be devolved, in full, to give the Scottish Government control over a wider basket of taxes and enable the Scottish Government to be responsible for raising the money that it spends.

We believe that the principle of raising what is spent is more important than the specific taxes which are initially devolved. However, within this, it is important that the fiscal levers are sufficient to support distinct economic and social policy choices here in Scotland.

Both Westminster and Holyrood should have the powers to change, create or abolish taxes for which they are responsible. Therefore, we would expect over time the nature of the taxes raised by each parliament could and might change to reflect emergent social patterns.

We also believe that this principle should not be influenced by how political parties wish to use the powers. It will be the responsibility of future Scottish Parliaments, and the parties that control them, to determine how the powers are used making them properly accountable to the electorate.

Where taxes are devolved, they should be devolved in full, giving the Scottish Parliament the ability to vary bands and rates as well as being able to replace them should it wish. We do not believe that simply assigning revenue is the most effective way of ensuring greater accountability.