Scotland’s Future: The constitutional report card

reform scotland

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About Reform Scotland

Reform Scotland is a public policy institute or 'think tank' which was established as a separate Scottish charity, completely independent of any political party or any other organisation and funded by donations from individuals, charitable trusts and corporate organisations. Its objective is to set out policies in Scotland that deliver increased economic prosperity and more effective public services based on the traditional Scottish principles of limited government, diversity and personal responsibility.

Reform Scotland has an Advisory Board to agree strategic goals and philosophical approach and a separate Board of Management (Trustees) to oversee its day-today running. Both boards are chaired by Ben Thomson.

Geoff Mawdsley is the Director of Reform Scotland and Alison Payne is Reform Scotland's Research Director.

Reform Scotland's Advisory Board

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i. Background

Reform Scotland believes that each tier of government should be responsible for broadly raising the money that it spends.

According to Government Expenditure & Revenue 2012-2013, published in March 2014, total public sector expenditure in Scotland in 2012-13 was £65.2 billion. Of this £38.6billion, or 59%, was spent by the Scottish Government and Local Authorities. During the same period, £53.1bn of public sector revenue was raised in Scotland, yet only £4 billion of this, or 7.5%, was raised by taxes controlled by the Scottish Parliament. Another way of looking at it is that the Scottish Parliament is only responsible for raising 10% of what it spends.

Reform Scotland believes that this imbalance is wrong. We believe that each tier of government, whether that is Westminster, Holyrood, or local authorities, should be responsible for raising the majority of what it spends. We believe that this is necessary to increase the accountability and fiscal responsibility of government. It would also ensure financial return for successful economic policies if revenues grow and give the Parliament sufficient levers to achieve higher economic growth.

This idea was developed further with the report '*Devolution Plus'* which we published in September 2011. The report called for a number of taxes and welfare powers to be devolved to the Scottish Parliament. The following are the main taxes and welfare powers the report argued should be fully devolved, including considering devolving some down to council level:

Taxes	Welfare
Income tax	Housing benefit
Oil revenue	Council Tax Benefit
Corporation tax	Carer's Allowance
Fuel duty	Disability Living Allowance
Vehicle excise duty	Employment & Support Allowance
Tobacco duty	Incapacity Benefit
Alcohol duty	Attendance allowance
Betting and gaming duties	Income Support
Air passenger duty	Winter fuel payments
Insurance Premium tax	Jobseeker's Allowance
	Severe Disablement allowance
	Child benefit

ii. Objective

For some time now, the unionist parties have appeared to concede that greater powers should be devolved to the Scottish Parliament. Now that each of the parties has set out their vision of further devolution, this paper compares each party's outline, including the nationalist parties, and how successful we believe they are in meeting our goal of raising what they spend. We have restricted our comments to areas where we have previously published research, and, as a result, have focused our report on taxation powers, expenditure powers and local government powers.

While obviously independence would mean the Scottish Parliament being responsible for raising what it spends and all of welfare, we will examine the nationalists' proposals for further devolution, to consider how successful they are in meeting our target for tiers of government below Holyrood. This would ensure that independence isn't simply swapping centralised powers at Westminster for centralised powers at Holyrood.

1. Devolution Plus

1.1 Background

Since Reform Scotland was established in 2008 we have made the argument that government, regardless of level, is more accountable and responsive if it is responsible for not just spending tax payers' money, but also raising it.

In 2011, before the Edinburgh Agreement and the confirmation of the number of questions, and what it would be, in the independence referendum, Reform Scotland published Devolution Plus. This report built on our earlier reports; including Fiscal Powers (2008) and Fiscal Powers 2nd Edition (2009) and showcased our evidence to the Scottish Parliament's Scotland Bill Committee, outlining a new tax and spending framework for Scotland.

The principle behind our framework was that each tier of government should be responsible for raising the majority of what it spends. While independence would certainly mean that the Scottish Parliament raised 100% of what it spent, we wanted to set out an option of how this could be achieved within the context of the UK.

And so we came up with Devolution Plus, which basically devolved to the Scottish Parliament enough taxes to cover its expenses (which we had expanded to incorporate about half of welfare spending). We did not set out how we believed those powers should be used, simply that they should be devolved, and we continue to argue that these powers should be devolved.

In February 2012, Reform Scotland then launched the Devo Plus group. The group was made up of high profile politicians from each of the unionist political parties, who themselves believed that more powers should be devolved to Holyrood. Up until his elevation to the House of Lords, former Lib Dem MSP Jeremy Purvis led the group, and it is now led by Ben Thomson, chairman of Reform Scotland. The MSPs are former Scottish Lib Dem leader Tavish Scott, former Presiding Officer and current Tory MSP Alex Fergusson and convenor of the Health Committee and Labour MSP Duncan McNeil.

The purpose of the group was to promote the idea of greater devolution within the parties in the hope that the public would have a clearer idea of exactly what would happen after the referendum. Both sides in the debate seem to have been influenced by the argument for more powers within a union, which is perhaps unsurprising given that polls consistently indicate that greater devolution within a union is the preferred option of voters. The SNP has moved to reinforce the concept of new union with the rest of the UK, recommending monetary union, social union and union of the crowns together with co-operation in a number of other areas as their policy after a Yes vote in the referendum.

All three of the Unionist parties have recognised the need for further devolution following a No vote. In October 2012 the Liberal Democrats, who have been the most progressive of the three unionist parties on this issue, published their Home Rule and Community Rule Commission report recommending significant proposals for further fiscal powers. Whilst in February 2012, the Scottish Tories had referred to the Scotland Act as "a line in the sand" and Scottish Labour seemed equally reluctant to embrace more devolution, since then both parties have moved significantly and set up and now published the findings of commissions on greater devolution. However, Devolution Plus is one of the few fully worked out models of greater devolution within the union.

1.2 The figures

As mentioned, Devolution Plus was published in September 2011, and is therefore based on the tax and spending figures for 2009/10 which were published in the Government Expenditure and Revenue Scotland (GERS) report from early 2011. The key elements of the Devolution Plus report are replicated below, but updated to take account of the GERS figures for 2012/13, which was published in March 2014, as well as the powers that have been devolved through the Scotland Act 2012, though these are not yet in force.

Current Position

Table 2 below is taken from the most recent Government Expenditure and Revenue Scotland (GERS) figures for 2012/13. Table 2 illustrates the imbalance looking at the current distribution of powers, and how this will be changed by the Scotland Act 2012.

The Scotland Act 2012 gives the Scottish Parliament the power over Landfill tax, Stamp Duty Land Tax and 10p of Income Tax. A SPICe briefing from February 2014 highlights the Office for Budget Responsibility estimating that 10p of income tax is roughly 40% of the Income Tax raised in Scotland. The same SPICe briefing also cited figures from HMRC for the breakdown of tax bands of Scottish and UK Taxpayers, outlined in Table 1.

Table 1: Tax payers

	Starting	Savers	Basic	Higher	Additional
Scotland	0.6%	1.5%.	86.8%	10.6%	0.5%
UK	0.8%	2%	84.2%	11.9%	0.8%

Table 2: Income and expenditure in Scotland 2012/13

£m	**Current**		**Scotland Act 2012**	
Total Scottish expenditure	65,205		65,205	
Scottish Government & Local Authority expenditure	38,546		38,546	
Scottish Government & Local Authority expenditure as a % of total Scottish expenditure	59.12%		59.12%	
Scottish controlled Taxes	Council Tax	2,006	Council Tax	2,006
	Non-domestic rates	1,981	Non-domestic rates	1,981
			10p income tax[1]	4,346
			Landfill tax	100
			Stamp Duty Land Tax [2]	236
Income raised from Scottish controlled taxes	3,987		8,669	
Scottish Parliament tax income as a percentage of Scottish Parliament expenditure	**10.34%**		**22.49%**	
Total tax revenue raised in Scotland	53,147		53,147	
Scottish Parliament tax income as a percentage of total tax raised in Scotland	7.50%		16.31%	

[1] SPICe FSU Briefing February 2014 : "For 2011-12, the OBR estimates that SRIT (10p) liabilities would have been £4.31billion, equivalent to roughly 40 per cent of income tax revenues in Scotland. " This estimation has been used in all subsequent tables for the 10p income tax.

[2] Reform Scotland has estimated that Stamp Duty Land Tax is roughly 50% of all Stamp duties collected in Scotland. We have justified this by using GERS figures for total Stamp Duties and figures published by the OBR- Forecasting Scottish Taxes, March 2012 (http://budgetresponsibility.org.uk/wordpress/docs/Forecasting-Scottish-taxes.pdf) which showed that SDLT raised £320m in Scotland in 2008/9, which was 54% of the £594m raised in Stamp Duties. In 2009/10 the OBR paper shows that £250m was raised in SDLT, 48% of the £517m raised; and in 2010/11, SDLT raised £330m, 58% of the total £573m raised. This estimation has been used in all subsequent tables for SDLT

These figures show that, at present, whilst Holyrood has devolved responsibility for nearly 60% of Scottish public sector expenditure it only has control over raising 7.5% of the tax revenue raised in Scotland, and is responsible for raising only 10% of the money which it spends.

Table 2 also indicates that there was a £12bn deficit between what was raised in taxes in Scotland and what was spent. Table 3 below illustrates the revenue, expenditure and deficit figures from 2005/6 to 2012/13 for Scotland and the UK as a whole.

Table 3: Scotland and UK revenue, expenditure and deficit figures[3]

£m	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13
Westminster taxes	38,230	44,405	46,091	48,758	51,653	43,950	47,912	52,398	49,160
Scottish taxes	3,285	3,509	3,603	3,659	3,696	3,783	3,861	3,917	3,987
Total revenue raised	41,515	47,914	49,694	52,417	55,349	47,733	51,773	56,315	53,147
Westminster expenditure (inc non-identifiable)	18,683	19,488	19,878	20,897	23,408	24,596	26,186	26,533	26,659
Scottish Government & Local authority expenditure	25,835	28,189	30,214	32,308	36,032	37,491	37,909	38,336	38,546
Total expenditure	44,518	47,677	50,092	53,205	59,440	62,087	64,095	64,869	65,205
deficit/surplus	-3,003	237	-398	-788	-4,091	-14,354	-12,322	-8,554	-12,058
deficit as a % of revenue	7.23%	-0.49%	0.80%	1.50%	7.39%	30.07%	23.80%	15.19%	22.69%
UK revenue	452,509	486,533	518,983	548,452	536,271	516,109	555,506	576,933	586,925
UK expenditure	471,136	501,180	522,904	555,652	635,626	673,402	694,705	694,315	701,681
UK deficit / Surplus	-18,627	-14,647	-3,921	-7,200	-99,355	-157,293	-139,199	-117,382	-114,756
UK deficit as a % of revenue	4.12%	3.01%	0.76%	1.31%	18.53%	30.48%	25.06%	20.35%	19.55%
UK deficit as a % of revenue applied to Scottish revenue level	1,709	1,442	375	688	10,255	14,547	12,973	11,458	10,391
If UK deficit as % of revenue applied to Scottish revenue figures: Scottish deficit/surplus	-1,294	1,679	-23	-100	6,164	193	651	2,904	-1,667

Table 3 illustrates that in four of the last nine years, the Scottish deficit has represented a higher proportion of revenue than that of the UK as a whole.

In addition, Scotland contributes towards paying for debt interest payments through non-identifiable expenditure. Reform Scotland, therefore, believes that Scotland is entitled to its fair share of the borrowing that is currently done by the UK. It would be wrong to expect revenue to cover expenditure for Scotland, when it doesn't for the UK as a whole and Scottish tax payers, like UK ones, contribute towards paying the cost of borrowing. Therefore, the last line in Table 3 illustrates what the Scottish Government's deficit would be if Scotland was allocated a share of borrowing based on the UK's deficit as a proportion of revenue.

[3] Figures for 2004/5 to 2007/8 are taken from GERS 2008/9 published in June 2010. Figures for 2008/9 to 2012/13 are taken from GERS 2012/13 published in March 2014

It is worth noting that between 2004/5 and 2012/13 although total revenue raised in Scotland increased by 28.5% while total expenditure increased by 46.0% (Scottish expenditure increased by 49.0%), this is on a par with the UK figures, where total revenue increased by 29.7% and total expenditure increased by 48.9%.

Reform Scotland proposed a solution whereby the expenditure of the Scottish Government and local authorities was funded from devolved taxation and a Scottish share of any UK borrowing. Any spending over this would have to be met from other means, such as separate Scottish borrowing or using the economic levers available.

Reform Scotland's proposal on expenditure

The one significant item of further expenditure which we believed should be devolved was the element of welfare within social protection expenditure which we considered had an effect on policy to alleviate poverty.

Social protection expenditure is made up of welfare benefits and the state pension. In 2012/13, £21.9bn was spent on social protection in Scotland, of which £16.4bn was spent by Westminster**,** and £5.5bn was spent by Holyrood & local authorities. Social protection expenditure accounted for 95% of identifiable spending by Westminster in Scotland.[4] Therefore, if any further meaningful expenditure powers were to be devolved they would come under this heading.

The main aim behind spending on social protection is to alleviate poverty. However, many of the other areas associated with welfare and reducing poverty, for example social inclusion and housing, are devolved. This split in programmes between Westminster and Holyrood means that policy in relation to alleviating poverty is unfocussed and inefficient. Over the years since devolution, a number of Scottish Governments have unveiled different proposals to address poverty and inequality in Scotland. Regardless of the merits of those programmes, the ability of the Scottish Government to address this problem is seriously hampered because the main levers by which to address it are held by Westminster, leaving the Scottish Government tinkering. Devolving the majority of welfare provision to Scotland would enable a more coherent approach to be adopted.

Table 4 below lists the benefit categories which were spent by Westminster from 2004/5 to 2011/12. These figures are based on the DWP report, "Benefit Spending by local authority". Table 5 then lists which benefit categories we believe should be left to Westminster, and which should be devolved to the Scottish Parliament. (While we may believe that some of these benefits should actually be devolved further to local government, for the purpose of this exercise, and to mirror how spending is illustrated in the GERS series of publications, we have simply split expenditure into either Westminster or Holyrood).

[4] Scottish Government, 'Government Revenue & Expenditure Scotland 2012/13', March 2014, Table 5.11

Table 4: Westminster's social protection expenditure, Scotland, 2004/5 - 2011/12[5]:

£million	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
State Pension	4,221	4,441	4,631	4,965	5,302	5,745	5,964	6,324
Housing Benefit	1,188	1,214	1,259	1,296	1,392	1,556	1,661	1,728
Disability Living Allowance	914	974	1,034	1,109	1,179	1,276	1,312	1,372
Pension Credit	602	644	686	735	759	787	785	752
Income Support	991	904	872	894	856	817	760	670
Incapacity Benefit	809	799	780	784	759	706	634	564
Attendance Allowance	360	381	398	421	444	475	481	481
Jobseeker's Allowance	242	229	228	204	251	407	428	461
Council Tax Benefit	358	368	373	366	363	380	387	384
Employment & Support Allowance	-	-	-	-	14	130	224	381
Statutory Maternity Pay	114	107	119	137	184	178	188	197
Winter Fuel Payments	219	273	178	182	236	240	240	188
Carer's Allowance	106	110	112	120	125	135	141	153
Severe Disablement Allowance	102	100	100	99	98	100	98	97
Industrial Injuries Benefits	81	81	81	82	85	88	94	93
Bereavement benefits	95	90	82	74	67	65	61	59
Over 75 TV licences	36	38	40	42	44	46	48	49
Maternity Allowance	12	13	14	21	24	28	26	24
Total identified expenditure	**10,449**	**10,765**	**10,986**	**11,532**	**12,181**	**13,158**	**13,532**	**13,976**

Table 5: Reform Scotland's suggestion for splitting current Westminster benefit expenditure between Holyrood and Westminster.

Benefit expenditure in Scotland, £ million, nominal	2011/12	Reform Scotland's proposals	
		Westminster	Holyrood
State Pension	6,324	6,324	
Housing Benefit	1,728		1,728
Disability Living Allowance	1,372		1,372
Pension Credit	752	752	
Income Support	670		670
Incapacity Benefit	564		564
Attendance Allowance	481		481
Jobseeker's Allowance	461		461
Council Tax Benefit	384		384
Employment and Support Allowance	381		381
Statutory Maternity Pay	197	197	
Winter Fuel Payments	188		188
Carer's Allowance	153		153
Severe Disablement Allowance	97		97
Industrial Injuries Benefits	93	93	
Bereavement benefits	59	59	
Over 75 TV licences	49	49	
Maternity Allowance	24	24	
Total identified expenditure	**13,976**	**7,498**	**6,479**
% of total Westminster 11/12 benefit expenditure	**100.00%**	**53.65%**	**46.36%**

Of the £7.5bn of benefit expenditure left at Westminster, 94% of it is the state pension and pension credit.

The proposals set out in Table 5 would add roughly an additional £6.5bn to the Scottish Government's budget, meaning that if these powers were to be devolved and we wanted the

[5] DWP, "Benefit spending by local authority" , September 2013, https://www.gov.uk/government/publications/benefit-expenditure-by-local-authority

Scottish Parliament to have the powers to raise the majority of what its spends, we would be basing this on expenditure of £45.0bn.

Reform Scotland's proposals for income

We believe that in order to encourage Holyrood to use its current powers to their fullest potential it must be fully responsible for raising the money it spends. Taking into account the new social protection powers Reform Scotland believes should be devolved, this means Holyrood has to have significantly increased powers to raise its own revenue.

We started from the basis that we believed further tax powers should be devolved, irrespective of how future Scottish Governments might use them since that would be a matter for the Scottish electorate.

As outlined, we believe that each layer of government needs to be responsible for raising the majority of the money it spends, which applies to Westminster as well, since this enhances accountability (Unlike Devo Max which would devolve all tax powers then pay a grant to Westminster, removing any financial accountability between Scotland and the Westminster Parliament).

Instead of starting by considering which taxes should be devolved, we began by examining which taxes could not or should not be devolved.

Due to EU rules regarding VAT, this tax could at best only be given to Scotland as assigned revenue, i.e. the money that the tax raises is passed on to Holyrood, though control of the tax remained at Westminster. As a result, we believed VAT should remain a tax controlled by Westminster. The only other tax category we ruled out of contention was "Other taxes and royalties". Other taxes and royalties comprise a number of relatively small public sector revenue sources, including revenue from the National Lottery, passport fees and TV licences.[6] Given that these are very much UK responsibilities, we felt that this revenue stream should stay at Westminster.

Therefore, other than these two revenue streams, we were open to considering devolving any of the others. However, we believe that it is vital that if a tax is to be devolved to Holyrood, ideally it should be devolved in full so that the Scottish Government has the full range of options at its disposal including changing the bands and who it applies to, not just whether to increase or decrease the tax.

We also felt that it was important that the government at Westminster had an ability to tax Scottish taxpayers directly, and not just indirectly though VAT or other duties. As a result, we chose to leave National Insurance as a Westminster tax. Whilst Reform Scotland has concerns about National Insurance, believing it to be simply another form of income tax which we would rather see merged with Income Tax, for as long as it continues to exist we believe it provides a useful way for two different administrations to be able to have full control over the tax at their disposal without having an impact on the other administration. For example, if you were to split income tax between Westminster and Holyrood, Holyrood's ability to use the tax is limited because control over the base is retained. However, by devolving income tax in full and reserving National Insurance in full, both parliaments have complete control over an income tax.

[6] GERS detailed revenue paper 2012/13: http://www.scotland.gov.uk/Resource/0044/00446037.pdf

Table 6 illustrates the amount and percentage each tax has raised in Scotland between 2004/5 and 2012/13.

Table 6: Scottish revenue 2005/6 to 2012/13[7]

	2004-05		2005-06		2006-07		2007-08		2008-09		2009-10		2010-11		2011-12		2012-13	
£m		% of total		% of total		% of total		% of total		% of total		% of total		% of total		% of total		% of total
Income tax	8,788	21.2%	9,605	20.0%	10,444	21.0%	11,266	21.5%	10,547	19.1%	10,277	21.5%	10,589	20.5%	10,776	19.1%	10,865	20.4%
Corporation tax (excl North Sea)	2,463	5.9%	2,910	6.1%	3,217	6.5%	3,432	6.5%	2,816	5.1%	2,535	5.3%	2,787	5.4%	2,762	4.9%	2,872	5.4%
CGT	119	0.3%	175	0.4%	230	0.5%	305	0.6%	568	1.0%	164	0.3%	202	0.4%	278	0.5%	292	0.5%
Other taxes on income and wealth	180	0.4%	221	0.5%	262	0.5%	252	0.5%	249	0.4%	210	0.4%	354	0.7%	261	0.5%	271	0.5%
NIC	6,533	15.7%	6,925	14.5%	7,304	14.7%	7,873	15.0%	7,987	14.4%	7,912	16.6%	7,967	15.4%	8,284	14.7%	8,521	16.0%
VAT	6,778	16.3%	7,074	14.8%	7,599	15.3%	7,883	15.0%	7,377	13.3%	7,161	15.0%	8,143	15.7%	9,136	16.2%	9,347	17.6%
Fuel duties	1,924	4.6%	1,945	4.1%	1,967	4.0%	2,079	4.0%	2,095	3.8%	2,234	4.7%	2,324	4.5%	2,276	4.0%	2,258	4.2%
Stamp duties	519	1.3%	543	1.1%	709	1.4%	893	1.7%	594	1.1%	517	1.1%	573	1.1%	511	0.9%	472	0.9%
Tobacco duties	1,041	2.5%	1,023	2.1%	964	1.9%	896	1.7%	842	1.5%	1,024	2.1%	1,064	2.1%	1,168	2.1%	1,128	2.1%
Alcohol duties	717	1.7%	723	1.5%	722	1.5%	750	1.4%	814	1.5%	892	1.9%	910	1.8%	978	1.7%	980	1.8%
Betting & gaming & duties	89	0.2%	95	0.2%	106	0.2%	110	0.2%	105	0.2%	106	0.2%	98	0.2%	122	0.2%	120	0.2%
Air passenger duty	74	0.2%	77	0.2%	94	0.2%	164	0.3%	168	0.3%	162	0.3%	183	0.4%	227	0.4%	234	0.4%
Insurance premium tax	200	0.5%	198	0.4%	195	0.4%	194	0.4%	167	0.3%	165	0.3%	173	0.3%	205	0.4%	207	0.4%
Landfill tax	62	0.1%	68	0.1%	78	0.2%	89	0.2%	82	0.1%	85	0.2%	98	0.2%	96	0.2%	100	0.2%
Climate change levy	68	0.2%	65	0.1%	63	0.1%	65	0.1%	64	0.1%	61	0.1%	62	0.1%	64	0.1%	62	0.1%
Aggregates levy	50	0.1%	50	0.1%	50	0.1%	57	0.1%	50	0.1%	49	0.1%	55	0.1%	48	0.1%	45	0.1%
Inheritance tax	164	0.4%	198	0.4%	227	0.5%	269	0.5%	245	0.4%	206	0.4%	175	0.3%	229	0.4%	243	0.5%
Vehicle excise duty	365	0.9%	389	0.8%	400	0.8%	425	0.8%	458	0.8%	466	1.0%	470	0.9%	477	0.8%	481	0.9%
NDR	1,622	3.9%	1,736	3.6%	1,741	3.5%	1,724	3.3%	1,736	3.1%	1,822	3.8%	1,892	3.7%	1,933	3.4%	1,981	3.7%
Council tax	1,663	4.0%	1,773	3.7%	1,862	3.7%	1,935	3.7%	1,960	3.5%	1,961	4.1%	1,969	3.8%	1,984	3.5%	2,006	3.8%
Other taxes, royalties and adjustments	536	1.3%	485	1.0%	524	1.1%	578	1.1%	717	1.3%	806	1.7%	837	1.6%	988	1.8%	1,082	2.0%
Interest and dividends	537	1.3%	602	1.3%	554	1.1%	766	1.5%	634	1.1%	276	0.6%	410	0.8%	454	0.8%	623	1.2%
Gross operating surplus	2,103	5.1%	2,492	5.2%	2,505	5.0%	2,566	4.9%	3,416	6.2%	2,897	6.1%	2,936	5.7%	3,012	5.3%	3,247	6.1%
Rent and other current transfers	388	0.9%	413	0.9%	382	0.8%	395	0.8%	81	0.1%	64	0.1%	46	0.1%	47	0.1%	128	0.2%
North Sea revenue Geographical share	4,532	10.9%	8,128	17.0%	7,496	15.1%	7,450	14.2%	11,577	20.9%	5,679	11.9%	7,454	14.4%	10,000	17.8%	5,581	10.5%
Total current revenue	**41,515**	100%	**47,914**	100%	**49,694**	100%	**52,417**	100%	**55,349**	100%	**47,733**	100%	**51,773**	100%	**56,315**	100%	**53,147**	100%

[7] Scottish Government, "Government Expenditure & Revenue Scotland 2012-13", March 2014 for figures 2008/9 to 2012/13 and Scottish Government, "Government Expenditure & Revenue Scotland 2008-09", June 2010 for figures 2005/6 to 2007/8

Table 7 illustrates how we would split the tax raising powers between Westminster and Holyrood.

Table 7: Devo Plus split of tax raising powers

£m	Westminster	Holyrood
Income tax		10,865
Corporation tax (excl North Sea)		2,872
Capital gains tax		292
Other taxes on income and wealth		271
National insurance contributions	8,521	
VAT	9,347	
Fuel duties		2,258
Stamp duties		472
Tobacco duties		1,128
Alcohol duties		980
Betting and gaming and duties		120
Air passenger duty		234
Insurance premium tax		207
Landfill tax		100
Climate change levy		62
Aggregates levy		45
Inheritance tax		243
Vehicle excise duty		481
Non-domestic rates		1,981
Council tax		2,006
Other taxes, royalties and adjustments	1,082	
Interest and dividends		623
Gross operating surplus (Split 30:70 to reflect expenditure)	974	2,273
Rent and other current transfers	128	
North Sea revenue Geographical share		5,581
Total current revenue	**20,052**	**33,094**
% of current revenue	37.7%	62.3%

Table 8 illustrates how the Devo Plus proposal would compare with the current situation and the Scotland Act 2012.

Table 8: Current situation, Scotland Act 2012 and Devo Plus[8]

£m	**Current**		**Scotland Act 2012**		**Devo Plus**	
SP expenditure 12/13	38,546		38,546		38,546	
Additional spending powers					Housing Benefit	1,728
					Attendance Allowance	481
					Carer's Allowance	153
					Council Tax Benefit*	384
					Disability Living Allowance	1,372
					Employment & Support Allowance	381
					Incapacity Benefit	564
					Income Support	670
					Jobseeker's Allowance	461
					Severe Disablement allowance	97
					Winter Fuel Payments	188
New SP expenditure level	**38,546**		**38,546**		**45,025**	
SP Taxes	Council Tax	2,006	Council Tax	2,006	Council Tax	2,006
	NDR	1,981	NDR	1,981	Non-domestic rates	1,981
			10p Income tax	4,346	All income tax	10,865
			Landfill tax	100	Landfill tax	100
			Stamp Duty Land Tax	236	All Stamp Duty	472
					Aggregates levy	45
					Corporation tax	2,872
					Capital gains tax	292
					Air passenger duty	234
					Inheritance tax	243
					Other taxes on income & wealth	271
					Fuel duties	2,258
					Tobacco duties	1,128
					Alcohol duties	980
					Betting and gaming duties	120
					Insurance premium tax	207
					Climate change levy	62
					Vehicle excise duty	481
					Interest and dividends	623
					Geographical. share of North Sea revenue	5,581
					Gross operating surplus (70% to reflect 70% of total spending)	2,273
Income raised from SP taxes	**3,987**		**8,669**		**33,094**	
SP tax income as % of SP expenditure	**10.34%**		**22.49%**		**73.50%**	
Total tax revenue raised in Scotland	53,147		53,147		53,147	
SP tax income as % of total tax raised in Scotland	7.50%		16.31%		62.27%	

*Council tax benefit was replaced with a council tax reduction scheme and devolved to the Scottish Government in April 2013. However, because the data in the table under 'current' refers to 2012/13, the council tax reduction scheme is not included. Responsibility for assisting those who need help to pay their Council Tax in Scotland now sits with the Scottish Government and Scottish Local Authorities. In line with this transfer of responsibility, and to fund the new arrangements, the UK Government has added the total amount of CTB payments in Scotland, less 10%, to the Scottish budget. However, in order that those who previously received CTB could be protected from this 10% cut in funding, the Scottish Government and the Convention of Local Authorities in Scotland (CoSLA) provided an extra £40m of additional funding for a transitional year in 2013-14. Although the Scottish Government has overall responsibility for making the regulations for the new CTR scheme, it is for each Local Authority to administer it for their area.[9]

[8] Benefit levels taken from DWP, "Benefit spending by local authority" , September 2013
[9] http://www.scotland.gov.uk/Topics/Government/local-government/17999/counciltax/CTR

1.3 Local government

Devolution and decentralising power should not end at Holyrood. The principle behind Devo Plus is that all tiers of government should raise the majority of what they spend, and this includes local government.

Indeed, while the Scottish Parliament may end up raising 100% of what it spends under independence, there is no guarantee of any improvement in the situation facing local authorities.

By agreeing to freeze council tax in return for additional central government funding, local authorities have no real control over the tax revenue raised in Scotland, despite two taxes being “local taxes”. Non-domestic rates, although collected by councils, are centrally set by the Scottish Government and are sent to the centre then re-distributed.

Council tax was effectively centralised by the Scottish Government in 2007. Following the election of the SNP, it announced a new relationship with local authorities which would see greater freedom given to them through the reduction in the level of ring-fenced expenditure in return for a freeze on council tax. In November 2007, Finance Secretary John Swinney and the President of the Convention of Scottish Local Authorities (COSLA), Pat Watters, signed a new concordat. Councils would also be allowed to retain any efficiency savings. In December 2011 a new agreement was reached to maintain the freeze.

So although council tax is collected and spent locally, local authorities cannot change the rate, and matters regarding how and to whom it applies are also set centrally by the Scottish Government.

Government Expenditure and Revenue Scotland publications do not separate out Scottish Government income and expenditure from local authority income and expenditure, making it difficult to compare like with like. **Reform Scotland would recommend that future editions of GERS separated out these two different tiers of government income and expenditure. For example ‘sales, rents, fees and charges’ contribute roughly the same as council tax and non-domestic rates,[10] but are not featured in GERS. It should be possible to set out clearly the total income streams for both the Scottish and local authority levels as well as total expenditure streams, although this is not currently the case.**

The Accounts Commission’s report “An overview of local government in Scotland 2014”[11], provides a basic breakdown of the total income and expenditure levels of local authorities in Scotland in 2012/13 and is illustrated in Tables 9 and 10

[10] Scottish Local Government Finance Statistics 2012/13. In 2012/13 sales, rents, fees and charges raised £2.34bn, council tax & benefit £2.32bn and NDR £2.26bn. http://www.scotland.gov.uk/Resource/0044/00444846.pdf

[11] Accounts Commission, “An overview of local government in Scotland 2014”, March 2014, http://www.audit-scotland.gov.uk/docs/local/2014/nr_140327_local_government_overview.pdf

Table 9: Local authority income 2012/13[12]

General revenue funding from government	£7.8bn
Service fees, charges, other revenue government grants and housing rents	£5.5bn
Council Tax	£2.3bn
Non-domestic rates	£2.3bn
Capital grants & contributions	£0.7bn
TOTAL	**£18.6bn**

Table 10: Local authority expenditure 2012/13[13]

Education	£5.4bn
Social work	£3.9bn
Housing	£3.4bn
Roads, environment, culture & planning	£3.3bn
Other services and operating expenditure	£1.7bn
Police & fire rescue services	£0.8bn
Capital expenditure	£2.3bn
TOTAL	**£20.8bn**

In order to calculate the percentage of expenditure raised by local authorities themselves, it is necessary to separate out "Service fees, charges, other revenue government grants and housing rents", which can be done using the Scottish Local Government Finance Statistics.[14]

Table 11 is based on figures from the Scottish Local Government Finance Statistics 2012/13 and the information in the Accounts Commission report.

Table 11: Scottish local authority income 2012/13[15][16]

	£million	Percent of total income	Percent of total £20.8bn expenditure
General Revenue Funding	7,782	41.73%	37.41%
Council Tax	1,947	10.44%	9.36%
Council Tax Subsidy	371	1.99%	1.78%
Non-Domestic Rates	2,263	12.13%	10.88%
Sales, rents, fees & charges	2,342	12.56%	11.26%
Other income	3,244	17.40%	15.60%
Capital grants & contributions	700	3.75%	3.37%
Total income	**18,649**	**100%**	**89.66%**

'Sales, rents, fees and charges' refer to income local authorities receive as a result of providing services. 'Other income' is mostly composed of grant and subsidies received from central government and other parts of the public sector.[17]

As a result of the centrally imposed council tax freeze and centrally controlled non-domestic rates, the only income stream that councils control directly is 'sales, rents, fees and charges', amounting to only 12.6% of all local government income and only 11% of their expenditure.

It is worth noting the Chartered Institute of Public Finance and Accountancy's (CIPFA) submission to the Scottish Parliament's local government and regeneration committee from

[12] Accounts Commission, "An overview of local government in Scotland 2014", March 2014, http://www.audit-scotland.gov.uk/docs/local/2014/nr_140327_local_government_overview.pdf
[13] Accounts Commission, "An overview of local government in Scotland 2014", March 2014, http://www.audit-scotland.gov.uk/docs/local/2014/nr_140327_local_government_overview.pdf
[14] Scottish Government, Scottish Local Government Finance Statistics 2012/13, February 2014, http://www.scotland.gov.uk/Resource/0044/00444846.pdf
[15] Scottish Government, Scottish Local Government Finance Statistics 2012/13, February 2014, http://www.scotland.gov.uk/Resource/0044/00444846.pdf
[16] Accounts Commission, "An overview of local government in Scotland 2014", March 2014, http://www.audit-scotland.gov.uk/docs/local/2014/nr_140327_local_government_overview.pdf
[17] Scottish Government, Scottish Local Government Finance Statistics 2012/13, February 2014, http://www.scotland.gov.uk/Resource/0044/00444846.pdf

March 2014 where they highlighted the problem of a lack of local control over, and accountability for, local taxation:

> "We recommend: That as part of a revised system of funding, there should also be a review of the proportion of resources which can be raised locally; as part of this:
>
> • Responsibility for, and control of local taxation should sit clearly at the local level; and
> • The level of resources raised from local taxation should promote accountability to local citizens for local choices and incentivise growth of the local economy, attract investment and deliver positive outcomes for the local area"[18]

Reform Scotland believes that council tax and non-domestic rates should be devolved to local authorities in full. This would allow local authorities to vary how and to whom the tax applies based on their own circumstances. Currently, there are net winners and losers in the central redistribution of Non-domestic rate revenue. To ensure that devolving business rates did not create a situation where some councils suddenly receive more money and others less, Reform Scotland recommends that, in the first year of operation, the Scottish Government grants to each council should be based on the grant they received the previous year, less the business rates collected from the council area in that previous year. Councils would then receive the revenue raised from business rates in their area, with the remaining part of their revenue grant adjusted to ensure no council was better or worse off. Each council would then have to decide whether to retain the business rates inherited or to seek to increase or reduce business rates for their area.

Councils would have an incentive to provide an attractive economic environment, but the decision would be up to them. For example, a council could seek to increase business rates which might have the effect of increasing income in the short term but is likely to lead to poorer economic performance and lower income from business rates in the longer term. However, the increase in local financial accountability is more likely to give councils an incentive to design business taxation policies and broader local economic development strategies to support the growth of local businesses, encourage new business start-ups and attract businesses to invest since this will benefit the council directly by increasing its income from business taxes.

In addition to devolving these taxes, we believe there is merit in devolving further taxes, as well as some welfare powers to local authorities. With regard to tax powers, once further devolution to Holyrood has occurred, we believe there is merit in initially considering devolving stamp duty land tax, landfill tax and air passenger duty.

We believe that there is an argument to devolve air passenger duty to local authorities, which would enable the rural and urban councils with airports to use the tax differently based on the different circumstances they face. For example, although currently APD, as set by Westminster, is not applied to flights *from* airports in the Highlands and Islands, it is due on flights *to* these areas[19]. As such, it may be that Highland and Island councils may wish to scrap the tax, whereas councils such as Edinburgh and Renfrewshire may be less inclined to do so.

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[18] CIPFA, Scottish Parliament, Local Government and Regeneration Committee: Flexibility and Autonomy of Local Government', March 2014
http://www.cipfa.org/-/media/files/regions/scotland/cipfa_submission_flexibility_and_autonomy_of_local_government.pdf
[19] http://www.hmrc.gov.uk/air-passenger-duty/briefing-note-feb2013.pdf

Landfill tax is a tax on the disposal of waste and, since waste disposal is a matter for local authorities, we believe it is logical to devolve this to local authority level.

Stamp duty land tax is charged on land and property transactions. The value of land and property varies considerably across Scotland, which is why we believe it would be useful to devolve this to local authority level so that greater account can be taken of local circumstances. For example, at present there is a zero rating on property under £125,000, 1% on property between £125,000 and £250,000, and 3% on property between £250,000 and £500,000. In terms of helping first time buyers, what £125,000 can buy can vary significantly by local authority. For example, according to Registers of Scotland's Quarterly House Price Report for October to December 2013, published in February 2014, the average price of a property in Scotland varied from £103,248 in East Ayrshire to £222,906 in East Renfrewshire. Indeed, in five local authority areas the average price of a flat was higher than the threshold for zero rating.

While we are aware Stamp Duty Land Tax is being devolved to Holyrood as a result of the Scotland Act, and that the Scottish Parliament has passed the Land and Buildings Transaction Tax (Scotland) Act to change how the tax operates in Scotland, we would argue that this is a tax which local authorities should and could be controlling, rather than Holyrood.

Council tax, Non-domestic rates, Landfill tax, Stamp Duty Land Tax and Air passenger duty accounted for £4.6bn of Scottish tax revenue in 2012-13,[20] about 8.6% of the total Scottish tax revenue.

We would argue that these taxes are devolved and, in the first year of operation, the grant to each local authority is reduced by the amount that those taxes raise. From that point on it is up to the local authority how the tax is used and they would not be compensated, or penalised by the Scottish Government through their grant to take account of any differences in the tax take.

On the expenditure side, we believe that consideration should be given to devolving a number of welfare benefits to councils. Housing and council tax are local authority responsibilities, so we believe it is logical to devolve housing benefit and council tax benefit fully to councils.

Similarly, we believe that it would make sense to consider devolving attendance allowance and carer's allowance to local authorities. Local authorities should already be working with individuals in receipt of these benefits through social work departments and we hope that by devolving these benefits, more innovative work can be achieved.

Devolving these four benefits would devolve roughly £2.7bn of expenditure responsibilities to local authorities.

[20] GERS 2012-13, assuming SDLT accounts for 50% of stamp duties

These proposed changes in the income and expenditure powers of local government are outlined in Table 12 below.

Table 12: Local government controlled income and expenditure

	Status quo		Devo Plus	
Locally controlled income	Sales, rents, fees & charges	2,342	Sales, rents, fees & charges	2,342
			Council Tax	1,947
			Council Tax Subsidy	371
			Non-Domestic Rates	2,263
			Landfill tax	100
			Stamp Duty Land Tax	236
			Air passenger duty	234
Total locally controlled income	2,342		7,023	
Total local government income	18,649		18,649	
Locally controlled income as % of total income	12.56%		37.66%	
Council expenditure 2012/13	20,800		20,800	
Additional council expenditure powers	-		Housing Benefit	1,728
			Attendance Allowance	481
			Carer's Allowance	153
			Council Tax Benefit	384
Total expenditure	20,800		23,546	
Locally controlled income powers as percentage of total expenditure	11.26%		29.83%	

We believe that the situation outlined in Table 12 would be a significant step towards reaching a situation whereby local authorities in Scotland were responsible for raising about 50 per cent of what they spent. Our initial proposals would see an increase from the current 11% to 30%.

2. Critique of Unionist proposals

2.1 Scottish Labour

On 18 March 2014, the Scottish Labour Party announced the findings of its Devolution Commission. The membership of the committee was as follows[21]:

- Sarah Boyack MSP (Shadow Cabinet Secretary for Local Government & Planning)
- Jackson Cullinane (Regional Political Officer & Regional Coordinating Officer, Unite and Chair, Scottish Labour)
- Margaret Curran MP (Shadow Secretary of State for Scotland)
- Victoria Jamieson (Former Chair, Scottish Labour)
- Johann Lamont MSP (Leader, Scottish Labour)
- Gregg McClymont MP (Shadow Minister for Work and Pensions)
- Duncan McNeil MSP (MSP for Greenock and Inverclyde)
- Anas Sarwar MP (Deputy Leader, Scottish Labour)
- Catherine Stihler MEP (MEP for Scotland)
- Councillor Willie Young (Aberdeen City Council)

The Commission was supported by an Academic Advisory Panel made up of Professor Jim Gallagher and Professor Arthur Midwinter.

It is worth highlighting that the leader and deputy leader of the Scottish Labour Party were members of the Devolution Commission. This was not the case with either the Scottish Conservatives' Devolution Commission, nor the Scottish Liberal Democrats' Home Rule and Community Rule Commission.

This final report followed up an earlier interim report which had been published in April 2013. It is worth noting that the interim report suggested a number of taxes could be devolved to the Scottish Parliament[22]:

- "in our view, a strong case exists for devolving income tax in full, and we are minded to do so"
- "we believe that there is a strong case that air passenger duty should be devolved."
- "We are of the view that vehicle excise duty should be devolved"
- "There is also a case for devolving some other personal taxes, such as inheritance tax or capital gains tax (CGT), but these raise relatively small sums of money, and any administrative challenges would need to be addressed."

On the basis of the five taxes mentioned above, this would have increased the amount the Scottish Parliament was responsible for raising from £8.7bn (based on 2012/13 figures and taking into account powers devolved under the Scotland Act) to £16.4bn and making it responsible for raising 42.6% of existing Scottish Government expenditure levels. However

[21] Scottish Labour Devolution Commission, "Powers for a purpose - Strengthening Accountability and Empowering People", March 2014
[22] Scottish Labour Devolution Commission, "Powers for a purpose - strengthening devolution: Interim Report", April 2013

the proposals in the final version were significantly reduced resulting in proposed control over only £10.7bn of tax (26.2% of proposed Scottish expenditure)

<u>The final proposals</u>

The main policy recommendations of the Devolution Commission in the categories we are focusing on were as follows[23]:

Scottish Parliament

- The Scottish Parliament should become permanently entrenched in the constitution and indissoluble.
- The Scottish Parliament should be responsible for the administration of its own elections and the "Sewel convention" should be given a statutory basis
- Enforcement of equalities legislation should become a devolved matter
- A Scottish Health & Safety Executive to set enforcement priorities, goals and objectives in Scotland should be established
- The administration of employment tribunals and the procedural rules associated with them, including charging arrangements, should be devolved.

Taxation powers

- The Scottish Parliament should be able to control 15p of Income tax
- There should be new Scottish Progressive Rates of Income Tax, so that the Scottish Parliament can increase the rates of tax in the higher and additional bands.
- In principle, support for a derogation to allow a lower rate of fuel duty to be charged in remote rural areas of the Highlands and Islands.
- Responsibility for the delivery of the DWP Work Programme should be devolved to local authorities

Expenditure powers

- Housing Benefit should be devolved to the Scottish Parliament.
- Attendance Allowance should be devolved in full to the Scottish Parliament
- Railway powers that could facilitate consideration of a "not for profit" option in terms of the Scotrail franchise should be devolved

Local government

- Skills Development Scotland's responsibilities to be devolved to local authorities
- Three principles should underline local government funding: These are as follows:
    - It should be the aim to establish a system which commands cross-party consensus, to deliver a long term solution to funding local government services so that local finance is no longer a political football.
    - A system should be put in place that establishes a clearer distinction between the roles of central and local government in determining council budgets.
    - A system should be created which ensures that an updated and fairer system of property taxation continues to play an equitable part in supporting public services in the long run.
- Work to establish a constitutional guarantee of powers for local government

[23] Scottish Labour Devolution Commission, "Powers for a purpose - Strengthening Accountability and Empowering People", March 2014

In terms of the revenue and expenditure powers of the Scottish Parliament, according to the DWP publication ‘Benefit Spending by Local Authority 2011/12’, published in September 2013, Housing Benefit accounts for £1.7bn of expenditure in Scotland and Attendance Allowance accounts for £500million. Therefore, the proposals would increase the expenditure powers of the Scottish Parliament by £2.2bn, as illustrated in Table 13.

According to the Commission’s report, the additional 5p of Income Tax would increase the Scottish Parliament’s revenue powers by £2.0bn. As a result, as demonstrated below, the proposals of the Scottish Labour Devolution Commission would see the Scottish Parliament responsible for raising 26.2 per cent of its own budget and 20.1 per cent of all tax revenue raised in Scotland.

Table 13: Labour’s devolution proposals

£m	**Current**		**Scotland Act 2012**		**Labour proposals**	
Scottish Parliament's expenditure 12/13	38,546		38,546		38,546	
Additional spending powers					Housing Benefit	1,728
					Attendance Allowance	481
New SP expenditure level	38,546		38,546		40,755	
SP Taxes	Council Tax	2,006	Council Tax	2,006	Council Tax	2,006
	Non-domestic rates	1,981	Non-domestic rates	1,981	Non-domestic rates	1,981
			10p Income tax	4,346	10p Income tax	4,346
			Landfill tax	100	Landfill tax	100
			Stamp Duty Land Tax	236	Stamp Duty Land Tax	236
					5p Income tax (According to Labour Devolution Commission)	2,000
Income raised from SP taxes	3,987		8,669		10,669	
Scottish Parliament tax income as a percentage of Scottish Parliament expenditure	**10.34%**		**22.49%**		**26.18%**	
Total tax revenue raised in Scotland	53,147		53,147		53,147	
Scottish Parliament tax income as a percentage of total tax raised in Scotland	7.50%		16.31%		20.07%	

As is indicated in Table 13, the Labour party proposals would only increase the proportion of the Scottish Parliament’s budget that it raised itself from 22.5 per cent under the Scotland Act to 26 per cent.

In the report, it is suggested that the additional £2billion of tax powers would mean that the Scottish Parliament “raises about 40 per cent of its present budget”[24], as indicated in the recommendation below: [25]

[24] Scottish Labour Devolution Commission, “Powers for a purpose - Strengthening Accountability and Empowering People”, March 2014

[25] Scottish Labour Devolution Commission, “Powers for a purpose - Strengthening Accountability and Empowering People”, March 2014

“RECOMMENDATION: Labour will give the Scottish Parliament the power to raise around £2 billion more in revenues beyond the recent Scotland Act, so that it raises about 40 per cent of its present budget from its own resources.”

Reform Scotland would dispute this 40 per cent claim, because the Scottish Parliament expenditure level for 2012/13 was £35.5 bn. If you take into account the additional spending powers over welfare that Labour would devolve, this would increase the Scottish Parliament’s budget to £40.8billion. The Commission clearly indicates that their proposals would only increase the tax raising powers by £2bn. £2bn is only 5 per cent of what the Scottish Parliament’s budget would be. Therefore, throughout this report we refer to these proposals as raising 26.2% of the budget.

Endorsement

Scottish Parliament: In the Devo Plus Group’s ‘A New Union’, published in November 2012, it argued that the Scottish Parliament should be a permanent feature that could only be dissolved by its own decision and that Legislative Consent Motions (also known as the Sewel Convention) should be recognised in statute. As a result, Reform Scotland welcomes the Labour Party’s recommendations in this regard.

Taxation powers: We would agree with a lot of the background research contained within the report that highlights the high fiscal gap that exists in Scotland between the level of expenditure that is devolved and the level of taxation. As a result, we would also agree with the sentiment expressed that more taxation powers need to be devolved, and agree that there is a broad consensus in favour of “some further devolution, particularly in the areas of taxation and welfare”.[26]

Expenditure powers: In our Devolution Plus report we argued that Housing Benefit and Attendance Allowance should be devolved, and we therefore agree with the Commission’s recommendations on these issues. We also welcome the recommendation that the DWP work programme should be devolved.

Local government: Reform Scotland also welcomes the emphasis the Commission places on strengthening local authorities. We would also agree with the suggestion that there is a need for a clearer distinction between the roles of central and local government. This is not only needed for budgeting matters, but to help provide clearer accountability to the electorate.

We further welcome the Commission’s comments regarding localising business rates. It states “allowing local authorities to set and retain business rates raised locally would counter local government’s overdependence on central funding and allow discretion to promote local economic development. This would allow councils the power to set different business rates within their local authority area and the freedom to promote business growth through targeted reductions in business rates.” However, we also note that, regrettably, there was no specific recommendation to devolve business rates to the local authority level.

[26] Scottish Labour Devolution Commission, “Powers for a purpose - Strengthening Accountability and Empowering People”, March 2014

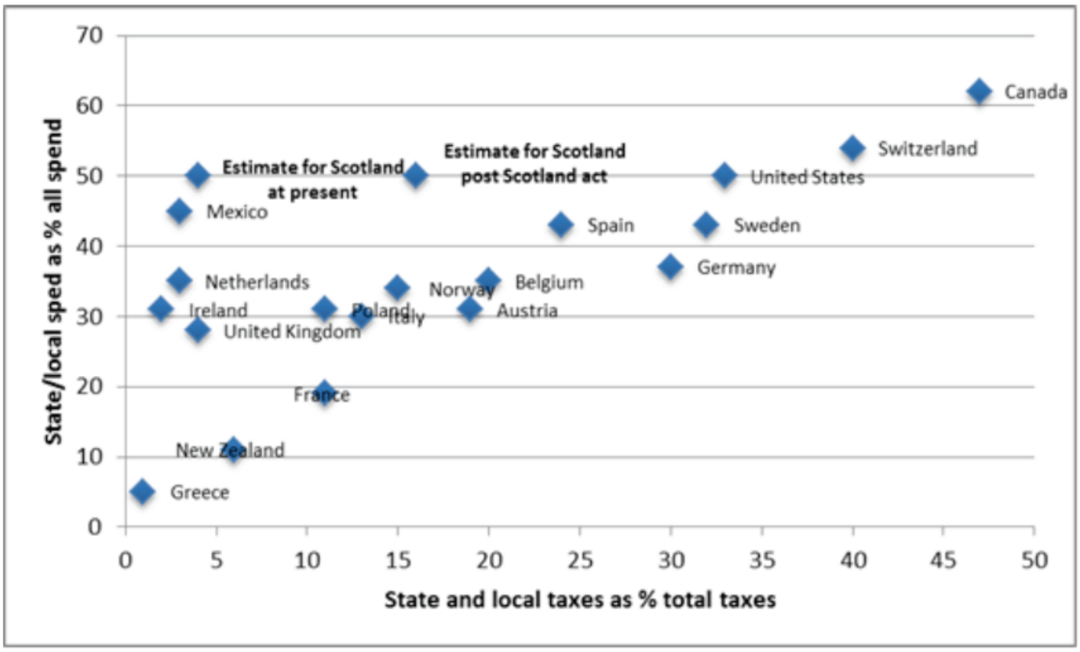
Criticism

Taxation powers: The Commission notes the large fiscal gap that exists in Scotland between the control over expenditure and control over taxation, as indicated below:

> "The result of this current degree of spending decentralisation and tax centralisation is that there is a "fiscal gap" (or, what is sometimes called, a "vertical fiscal imbalance") between taxation and public expenditure decisions taken by the Scottish Parliament. Some degree of fiscal gap inevitably exists in any devolved or federal system of government: it is true in all countries, and there are no systems where the sub-central government raises all of the money it spends. In Scotland, however, the size of the "fiscal gap" is unusually large. This limits the autonomy and ability of the Scottish Parliament to determine the size of its Budget."[27]

The report also features a chart based on OECD figures which illustrates the level of spending and taxation devolved to states and local authorities. The chart, copied below, clearly illustrates the high level of expenditure devolved to the Scottish Parliament alongside the low level of taxation powers.

Chart 1: Comparison of "fiscal gap" between expenditure and taxation in select OECD countries[28]



Despite identifying this problem, correctly we would argue, the Commission's recommendations do nothing more than tinker with the Scotland Act in terms of trying to correct this imbalance and would take Scotland from control over just 16 per cent of all taxes to control over 20 per cent.

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[27] Scottish Labour Devolution Commission, "Powers for a purpose - Strengthening Accountability and Empowering People", March 2014

[28] Scottish Labour Devolution Commission, "Powers for a purpose - Strengthening Accountability and Empowering People", March 2014

However, given that £2.2bn of expenditure powers would be devolved compared to only a £2.0bn increase in taxation powers, the report's recommendations would actually increase the fiscal gap.

We believe that this was a missed opportunity. Despite arguing in favour of devolving air passenger duty, vehicle excise duty, capital gains tax and inheritance tax in its interim report, the final report argued against devolving any of these taxes, often using what we would describe as flimsy arguments. For example, the final report contains three paragraphs examining Inheritance Tax (406-408), and then reverses its previous position due to "the potential adverse consequences". No such adverse consequences are referred to in the report.

The report appears to recognise that there would be merit in having a different level of fuel duty in remote areas, arguing "we do support, in principle, a derogation to allow a lower rate of fuel duty to be charged in remote rural areas of the Highlands and Islands." Yet, despite this recognition, does not want the tax to be devolved.

How powers are used: We would criticise the report for arguing for taxes only to be devolved if they are used in a certain way. In our work with regard to Devolution Plus we have made it quite clear that our concern is first and foremost to devolve the powers, regardless of whether they are used to lower or raise taxes, or lower or raise welfare payments. The report appears to argue in favour of devolving tax powers only if they are used to put up taxes, suggesting that the Labour Party does not accept the principle of devolving taxation in the first place.

For example, the report proposes Scottish Progressive Rates of Income Tax, which can only be used to increase, not decrease the rates of tax in the higher and additional bands. Similarly, in the Commission's interim report, it argued in favour of devolving Air Passenger Duty. However, it then makes clear in its final report that as it looked like devolution of the tax would be used to cut the tax, they decided against devolving it, as indicated in the paragraph below: [29]

> "Given the pressure to reduce this tax from airlines and others and the risk of tax competition which would be created, we are not now convinced that devolution should be progressed until further consideration is given to the environmental impact and how else this tax might be reformed"

Local government: Whilst we welcome the emphasis given to local government within the Labour report, we were disappointed that this reaction against centralisation did not come up with more concrete solutions. For example, Reform Scotland has argued that local authorities should have full control over business rates and council tax, which are local taxes. It would then be up to local authorities to use these taxes in the way which they felt addressed their local circumstances best.

[29] Scottish Labour Devolution Commission, "Powers for a purpose - Strengthening Accountability and Empowering People", March 2014

The Commission, despite criticising the centralisation of business rates, only appears to argue that there should be greater flexibility in this area[30]. The report talks of the "challenge of regenerating our town centres and shopping parades". We would argue that one of the best ways to help local authorities address the different issues they have in this regard is to give them full control over business rates. Unfortunately, there is no mention of business rates within the report's recommendation covering local authorities and economic development.

RECOMMENDATION: Local authorities should have increased scope to influence economic development. We support in principle increased flexibility for local authorities to generate more economic investment to develop local economic resilience, extending Tax Incremental Funding to fund public sector investment in infrastructure, and empowering local authorities to introduce initiatives such as tourist levies, and other funding vehicles to enhance accountability.

Similarly, the Commission argues "local taxation should be primarily based on property". We believe that each local authority should be able to apply the type of local taxation that best meets its local needs and circumstances.

Railway quango: While we would welcome a wider range of bidders to be able to tender for the ScotRail franchise, we have some concerns that the option outlined suggested that it could lead to the creation of another quango in Scotland. The report comments that the new type of bidder would "*operate as an arms-length enterprise with close and supportive relationships with the Scottish Government (its principal funder) and Transport Scotland which would specify the core outputs required from the operator while allowing a degree of commercial flexibility in developing new, additional services"*[31]. Reform Scotland has no objection to the principle of not-for-profit bidders or social enterprises bidding for the rail franchise and competing on a level playing field. However, we believe that these organisations would either need to be totally independent of government, or totally part of government so that there were no blurred lines of accountability.

Conclusion

Reform Scotland believes that more powers need to be devolved to the Scottish Parliament. We are not arguing for more powers so that they can deliver certain policies, but because we believe that in order for the Scottish Parliament to be more accountable and transparent, it needs to be responsible for raising the majority of what it spends.

In contrast, there appears to be no point of principle running through Labour's Devolution Commission. Although it argues on the one hand that there is a sizeable gap between the level of expenditure devolved and the level of taxation powers, and it acknowledges there is public demand in Scotland for the Scottish Parliament to have greater powers; the report itself does very little to respond to these issues. In fact, with regard to the first issue, the report's recommendations actually increase the fiscal gap in Scotland.

[30] Although the Commission acknowledges that local government finance was not within its remit, it does make specific arguments elsewhere, such as arguing that property taxation should be the main form or local taxation. As a result, we would argue that it is fair to refer to its lack of clarity over exactly what powers over business rates it would devolve.
[31] Scottish Labour Devolution Commission, "Powers for a purpose - Strengthening Accountability and Empowering People", March 2014

It appears that powers have only been devolved where they would enable a particular policy -– for example, devolving housing benefit in order to scrap the 'bedroom tax', or the Scottish Progressive Rates of Income Tax which can only go up, not down.

It is also disappointing that so many of the taxes that the interim report argued should be devolved were ruled out in the final report.

Unfortunately, this leads us to the conclusion that the report is motivated more by short-term referendum politics rather than a real desire for significant further devolution

2.2 Scottish Conservatives

On 2 June 2014, the Scottish Conservatives published the Commission on the Future Governance of Scotland. The Commission was asked to look at the issues facing the Scottish Parliament, devolution and the relationship with Westminster and to produce ideas for the future governance of Scotland that could be brought forward in a Conservative manifesto for Scotland in the General Election of 2015 and beyond to the Scottish Parliamentary elections in 2016.

The Commission was chaired by Lord Strathclyde, former Scottish Office Minister and former Leader of the House of Lords. The other members were:

- Tom Allison, Chairman of Peel Ports and director of Celtic FC
- Rt Hon Alex Fergusson MSP, Former Presiding Officer of the Scottish Parliament
- Baroness Goldie MSP, Former Leader of the Scottish Conservative and Unionist Party
- Roy Martin QC, Former Dean of the Faculty of Advocates
- Nosheena Mobarik, Former Chair of CBI Scotland

With the following independent advisors:

- Professor Adam Tomkins FRSE, John Millar Professor of Public Law, University of Glasgow
- Professor Alan Trench, Honorary Fellow, School of Social and Political Science, University of Edinburgh

The proposals

The main policy recommendations of the Devolution Commission in the categories we are focusing on were as follows:[32]

Scottish Parliament

- A Committee of all the Parliaments and Assemblies of the United Kingdom should be created to consider the developing role of the United Kingdom, its Parliaments and Assemblies and their respective powers, representation and financing.
- Convenors of mandatory committees such as Finance and Public Audit should be elected by committee members from one of the opposition parties.

Taxation powers

- The Scottish Parliament should be responsible for setting the rates and bands of personal income tax in Scotland.

  The definition of 'income' for the purposes of the Taxes Acts should remain consistent across the United Kingdom, for example. Likewise, income tax on investments, dividends and savings should remain a matter for UK Ministers, for practical reasons and in order to safeguard the integrity of the UK's single market in financial services. The Commission also consider that allowances such as the personal allowance – i.e. the threshold at which income becomes taxable – should continue to be set for the whole of the UK by the UK Government.

[32] Scottish Conservatives, Commission on the Future Governance of Scotland, June 2014

- Serious examination of the case for a share of VAT receipts raised in Scotland being assigned to the Scottish Parliament.
- Air Passenger Duty should be devolved
- Scottish versions of the Personal Tax Statements should be issued by HMRC, highlighting taxes under the control of the Scottish Parliament

Welfare powers

- There is a case for building greater flexibility into the way the Scotland Act 1998 deals with social security schemes and welfare benefits to enable the Scottish Parliament to have the power to supplement existing welfare benefits legislated for at the UK level.
- Where a particular cash benefit is closely related to a devolved policy area there is a stronger case for its devolution. Examples include housing benefit and attendance allowance. The Commission felt that the creation of the Universal Credit may make it difficult to disentangle some benefits, though if it could be done, housing benefit should be devolved.
- Given that attendance allowance is closely related to these devolved functions, it should be considered for devolution.

Local government

- The report notes that it was not in its remit to offer detailed proposals for reform of local government in Scotland, but believes the issue must be examined under a clear set of principles. If the relationship between Westminster and devolved legislatures is to be based on responsibility, transparency and accountability, so should the relationship between devolved legislatures and local tiers of government.

As a result, as demonstrated below in Table 14, the proposals of the Commission would see the Scottish Parliament responsible for raising 37.8 per cent of its own budget and 29 per cent of all tax revenue raised in Scotland. When the report was published it was claimed that the proposals would see the Scottish Parliament responsible for 40 per cent of its expenditure. Our figure of 37.8 per cent is marginally lower because the Scottish Parliament's expenditure levels would be higher due to the devolution of housing benefit and attendance allowance.

Table 14 does not include VAT as that is only assigned and cannot be devolved due to EU legislation, however the sentiment that VAT would give Scotland the power to raise over 50% of its expenditure is welcome.

The Conservative proposals would not devolve control over income tax payable on investments, dividends and savings, nor over the personal allowance. For the purpose of this report we have allocated the full amount of income tax collected in Scotland to the Scottish Parliament. However, we would call on the Scottish Conservatives to publish figures explaining exactly what percentage, and how much revenue; the party believes its income tax proposals would devolve.

Table 14: Conservative devolution proposals

£m	Current		Scotland Act 2012		Conservative	
SP expenditure 12/13	**38,546**		**38,546**		**38,546**	
Additional spending powers					Housing Benefit	1,728
					Attendance Allowance	481
New SP expenditure level	**38,546**		**38,546**		**40,755**	
SP Taxes	Council Tax	2,006	Council Tax	2,006	Council Tax	2,006
	Non-domestic rates	1,981	Non-domestic rates	1,981	Non-domestic rates	1,981
			10p Income tax	4,346	Income Tax	10,865
			Landfill tax	100	Landfill tax	100
			Stamp Duty Land Tax	236	Stamp Duty Land Tax	236
					Air passenger duty	234
Income raised from SP taxes	**3,987**		**8,669**		**15,422**	
SP tax income as % of SP expenditure	**10.34%**		**22.49%**		**37.84%**	
Total tax revenue raised in Scotland	53,147		53,147		53,148	
SP tax income as % of total tax raised in Scotland	7.50%		16.31%		29.02%	

Endorsements

Taxation powers:

- Devolution of income tax will make Holyrood much more accountable for raising the money it spends and is a positive development.
- Proposals to devolve air passenger duty are also to be welcomed.

Expenditure powers:

- We welcome proposals to devolve housing benefit and attendance allowance.

Local government:

- We welcome and agree with the sentiment that the relationship between the Scottish Parliament and local authorities should be based on responsibility, transparency and accountability.

Criticism

Scottish Parliament

- The Commission report states "Devolution has been a core Tory value for decades." This is an odd statement to make, given that it is less than 20 years since the Scottish Conservatives campaigned against devolution in Scotland, and until the publication of this report, the Scottish Conservatives had not been arguing for greater devolution in Scotland.

It is disappointing that the Scottish Conservative proposals were the only unionist set of proposals not to include a recommendation on the permanence of the Scottish Parliament, to ensure that the Scottish Parliament could only be dissolved with its own consent.

Taxation Powers:

- Like the Labour report, the Scottish Conservatives highlight the fiscal gap that exists in Scotland, and why this is not good for transparency or accountability. While they are right to do so, we believe that the proposals could have gone further in attempting **t**o close this gap. The Conservative proposals would lead to a situation whereby the Scottish Parliament was responsible for raising nearly 40 per cent of what it spends, which we don't believe goes far enough.
- The report notes that Capital Gains Tax and Inheritance Tax raise a low amount in Scotland and would do little to help the fiscal gap. It rules out devolving them for "these and other related reasons". However, the other reasons are not noted. We also believe that just because a tax has a low yield that does not mean it is not worthy of devolution.
- The report argues against devolving corporation tax for the following reasons "*Numerous studies have noted that Corporation Tax is the least suitable of all taxes for devolution: it is not economical to collect on a small scale; it relates to activity that can easily be transferred across borders; it is highly volatile; and it does not generate a reliable yield. In any event its devolution would be complex in law*". However, the report fails to note that work is being done by the Conservative-led government at Westminster examining the case for devolving the tax to Northern Ireland.[33] If the tax can be devolved to Northern Ireland, surely it can be done for Scotland.
- It is disappointing that income tax was not fully devolved, including powers to change the personal allowance and tax on investments, dividends and savings.

Expenditure powers:

- Although we welcome and agree with the principle that where a particular cash benefit is closely related to a devolved policy area there is a stronger case for its devolution, the report seems to backtrack from this sentiment. Although it argues that housing benefit, if it can be done, and attendance allowance, should be devolved, we would argue that there are many more benefits which relate to devolved policy areas and we believe the party could have gone further in this regard.

Local government:

- It is disappointing that there are no specific recommendations for devolution to local government, though the report states that it was not in its remit to look at local government. Although statements like "*we consider that the future of devolution should embrace not only devolution to Scotland, but also devolution within Scotland*" are to be welcomed, it would have added to the weight of the argument if specific examples of "devolution within Scotland" had been included. Ending the centrally imposed council tax freeze or devolving business rates would have been two welcome first steps.

[33] The Irish News, 'Corporation tax – we've got it', 11/3/14 http://www.irishnews.com/business/corporation-tax-we-ve-got-it-1341666

Conclusion

This report is a welcome addition to the range of proposals being offered by the pro-UK parties to advance devolution.

The sentiment expressed in the report that “it is clear that empowering the Scottish people to shape their own nation within the security of a United Kingdom is not just something we are willing only grudgingly to accept, it is something that sits at the very heart of what it means to be a modern Scottish Conservative” is certainly welcome and encouraging.

However, while this as a step in the right direction; we believe there is a long way to go to make Holyrood truly accountable in the eyes of the public. As part of a journey it is a good start, but this should not be the final destination.

2.3 Scottish Liberal Democrats

In October 2012, the Scottish Liberal Democrats published their Home Rule and Community Rule Commission report. The Commission was asked to "set out the details of 'home rule' for Scotland within the United Kingdom where we would have control over most aspects of our domestic affairs, but still enjoy the protection and strength that come from being part of the United Kingdom." This echoes the party's long held belief that the constitutional arrangement should be home rule for Scotland within a federal United Kingdom.

The Commission was chaired by Sir Menzies Campbell, former party leader and MP for North East Fife. The other members of the Commission were:[34]

- Robert Brown, a Liberal Democrat councillor on South Lanarkshire Council. From 1999-2011 he was MSP for Glasgow.
- John Barnett, a member of the Steel Commission and who works for a leading UK social finance institution.
- Fred Mackintosh, an advocate with a practice in the High Court of Justiciary Appeal Court and former Edinburgh councillor.
- Audrey Findlay CBE, former leader of Aberdeenshire Council and former convener of the Scottish Liberal Democrats from 2008-2010 and a member of the party's Executive Committee.
- John Edward, former head of the European Parliament's office in Scotland and who currently works in Scottish education.
- Hugh Andrew, founder and managing director of Birlinn Ltd, one of Scotland's largest publishers.
- Shabnum Mustapha, was a member of the Commission until her appointment as a special adviser to the Deputy Prime Minister in September 2012. She is a former Director of Amnesty International Scotland
- Matthew Clark who provided secretariat services.

The proposals

Scottish Parliament

- The status and functions of certain UK-wide institutions – notably Her Majesty's Revenue and Customs – should be given a protected and more independent constitutional position in recognition of the fact that they will be expected to serve all parliaments and jurisdictions within the UK.
- Some functions of government should constitute a third category – additional to 'reserved' and 'devolved' powers – namely 'partnership powers', which require the co-operation of both home rule and federal governments.
- Each tier of government should have a formal 'power of initiation', enabling it to request the other tier to take some specific action to facilitate policy objectives in an area where the other government has the policy lead.
- The strategic planning of welfare services should be considered for joint working combined with a constitutional duty to tackle poverty through efforts at every level of government.

[34] Scottish Liberal Democrats, "Federalism: the best future for Scotland", October 2012

- The UK Parliament should commit to a declaration that entrenches home rule and the Scottish Parliament in advance of a full federal settlement.
- Competition law should remain a UK responsibility, but the Scottish Government should be empowered, after similar consultation to that currently required by the UK minister, to request the Competition and Markets Authority (as it will be in 2014) to investigate an issue of failing markets or potential monopolies within Scotland.
- Control over the Scottish Parliament's electoral system and franchise should be allocated to the Scottish Parliament to entrench its equality and authority within the UK
- The Scottish Government should act as the agent for the UK Government in Scotland on much of the work of JobCentre Plus and the Work Programme

Taxation powers

- Income tax paid by Scottish taxpayers should be almost entirely the responsibility of the Scottish Parliament. However, income tax payable on savings and dividends should continue to be levied on a uniform basis across the UK, be deducted at source and a proportion of the UK receipts allocated to the Scottish Parliament.
- Powers over Capital Gains Tax should be allocated to the Scottish Parliament.
- Control of Inheritance Tax should be allocated to the Scottish Parliament.
- Responsibility for the Aggregates Levy should be allocated to the Scottish Parliament
- Responsibility for Air Passenger Duty for flights from Scottish airports should be allocated to the Scottish Parliament.
- Corporation Tax should continue to be operated and collected at the UK level, but the proceeds raised in Scotland should be assigned to the Scottish Parliament.
- The remaining funds required to fund the Scottish Government's annual programme should come from an equalising payment from the UK Treasury as recommended by the Steel Commission.
- The UK should move to an independent, transparent, needs-based formula to serve all parts of the UK well and allow fiscal federalism to be sustained in the long term, recognising that the Barnett Formula was only ever intended to be a temporary measure at the end of the 1970s. For transparency reasons, such a needs-based payment system should be based on recommendations by an independent fiscal agency separate from the UK Treasury.
- The borrowing limit available to the Scottish Government to cover cyclical variations in tax revenue should be extended to £1bn to cover shocks to the proposed revenue base of around £20bn. This money would continue to be borrowed from the Treasury, as under the Scotland Act provisions.

Local government

- Local authorities should raise around half of the money they spend locally in order to improve accountability and local power.
- New legislation should prevent Scottish ministers from linking local authority funding levels to the rates of council tax and other taxes and charges levied by councils.
- The Scottish Parliament should establish a 'One Scotland Fund', separated from current local government revenue grant, to enable Scottish ministers to award funding to local authorities that require support to tackle multiple deprivation. The 'One

Scotland Fund' should provide a separate funding stream from general Scottish Government funding to local government to address deprivation in each area.

- Local authorities should set the business rate poundage and retain the entire revenue from business rates in their areas.
- The operation of a new assessment for the allocation of funding between local authorities should be based on recommendations to Scottish ministers from a new Local Government Finance Commission.
- Single outcome agreements, currently subject to approval by ministers, should be replaced by true local community plans where every council takes responsibility for delivering a plan for its area that is generally aligned to what voters voted for in local elections, and what local people believe to be appropriate or relevant to their community.
- A mechanism should be established by which a community can bring forward a proposal for a burgh council to take over certain services provided by the principal local authority in the area. This could be funded by a precept on the council tax and/or business rates raised in the area, a proportion of the revenue support grant allocated to the existing local authority or by charges for the use of the services taken on by the burgh council. No new tax would be created.
- The protection for local authorities such as those envisaged in Scotland's Parliament, Scotland's Right to secure and maintain a strong and effective system of democratically elected local government should be enacted by the Scottish Parliament.

The report appears to have passed no new expenditure powers to the Scottish Parliament, though there is substantial devolution of taxation powers. We have modelled the Lib Dem proposal below.

As corporation tax is only assigned, the Scottish Parliament does not have control over the tax, so it is not included below. If corporation tax had been devolved, this would have raised the percentage of expenditure which the Scottish Parliament was responsible for raising from 41.5 per cent to 49 per cent.

The report states that income tax should "almost entirely" be devolved, though no precise figure is given. As with the Conservatives, the Liberal Democrat proposals would not devolve control over income tax payable on savings and dividends, nor over the personal allowance. For the purpose of this report we have allocated the full amount of income tax collected in Scotland to the Scottish Parliament. However, we would call on the Scottish Liberal Democrats to publish figures explaining exactly what percentage, and how much revenue; the party believes its income tax proposals would devolve.

Table 15: Liberal Democrats devolution proposals

£m	Current		Scotland Act 2012		Lib Dem	
SP expenditure 12/13	**38,546**		**38,546**		**38,546**	
Additional spending powers						
New SP expenditure level	**38,546**		**38,546**		**38,546**	
SP Taxes	Council Tax	2,006	Council Tax	2,006	Council Tax	2,006
	Non-domestic rates	1,981	Non-domestic rates	1,981	Non-domestic rates	1,981
			10p Income tax	4,346	Income tax	10,865
			Landfill tax	100	Landfill tax	100
			Stamp Duty Land Tax	236	Stamp Duty Land Tax	236
					Capital gains tax	292
					Air passenger duty	234
					Inheritance tax	243
					Aggregates levy	45
Income raised from SP taxes	**3,987**		**8,669**		**16,002**	
SP tax income as % of SP expenditure	**10.34%**		**22.49%**		**41.51%**	
Total tax revenue raised in Scotland	53,147		53,147		53,147	
SP tax income as % of total tax raised in Scotland	7.50%		16.31%		30.11%	

Endorsements

Scottish Parliament: We welcome the proposal to entrench home rule and the Scottish Parliament, something which Reform Scotland has also argued for through Devo Plus.

Taxation powers: The taxes that the Liberal Democrats would devolve represent a doubling of the Scottish Parliament's tax powers under the Scotland Act. It is clear that the Liberal Democrats believe in the principle of devolving taxation powers to the Scottish Parliament, rather than doing so simply out of political expediency.

Local government: We welcome and agree with the stated aim that local authorities should be responsible for raising about half of their expenditure.

Reform Scotland has been arguing for some time that business rates should be properly returned to local authority control and, therefore, welcome this proposal from the Lib Dems.

We welcome the suggestion of legislation to prevent Scottish Governments from centralising council tax by linking local authority funding levels to the rates of council tax and other taxes and charges levied by councils.

Criticism

Taxation Powers: The report recognised the importance of passing corporation tax to the Scottish Parliament, stating it was "*an additional incentive to improve the economic position of Scotland, add to the Scottish tax basket and reduce reliance on an equalising payment from* *the United Kingdom Government*".[35] We are, therefore, disappointed that the report only chose to assign corporation tax, rather than devolve it in full. The report suggested that devolution could "*disrupt the UK single market or add to the burdens on business*". However, we would argue that such issues would be for the Scottish Government to address, as opposed to a reason not to devolve it. It is also worth noting that corporation tax may soon be devolved in Northern Ireland.

Similarly, we are disappointed that income tax was not devolved in full. While we sympathise with the proposal to maintain a single administrative system for income tax across the United Kingdom, even if the rates of tax differ in different jurisdictions, this means that allowances and reliefs have to be the same across the UK. Such a proposal would certainly make a good transitional arrangement to move from the status quo, to income tax being devolved in full to the Scottish Parliament. However, we believe that the end-goal should be to devolve the tax in full.

Expenditure powers: While it may not have been in the remit of the report to consider whether any additional expenditure powers should be devolved, there are plenty of references to welfare and benefits within the report. We are disappointed that the report did not consider devolving some areas of welfare, especially when the policy area associated with it is devolved. For example, housing benefit is an obvious benefit to devolve. However, rather than pass jurisdiction to the Scottish Parliament, the report calls for "a process of formal consultation" with regard to changes.

> "In addition to a general constitutional obligation of mutual respect, policy functions in areas of 'partnership powers' should impose a legal duty on one government – more normally the federal government – to consult the other government on a partnership basis.
>
> "For example, changes proposed by the UK Government in housing benefit would require a process of formal consultation with the Scottish Government."

Conclusion

It is clear that the Liberal Democrats believe in the principle of devolving greater taxation powers to both the Scottish Parliament and local authorities. The recommendations put forward by the party, while falling short of Devo Plus, are still ambitious and would lead to a massive increase in the Scottish Parliament's, and local government's, role in raising its own revenue.

[35] Scottish Liberal Democrats, "Federalism: the best future for Scotland", October 2012

3. Critique of the Nationalist Parties' Proposals

In the previous chapter, we focused on what each of the unionist parties had said with regard to the Scottish Parliament, taxation powers, expenditure powers and local government.

The two main nationalist parties, the SNP and Greens, both support independence, which would obviously mean all tax powers and welfare powers would be devolved to the Scottish Parliament. Similarly, the permanence of the Scottish Parliament, as well as control over elections etc, would be a matter for the Scottish Parliament.

Although under such circumstances the Scottish Parliament would be responsible for 100 per cent of tax income raised in Scotland, due to the deficit, it would not be responsible for raising 100 per cent of expenditure through taxation, as we have illustrated in Table 16 below:

Table 16: Independence

£m	**Current**		**Scotland Act 2012**		**Independence**	
SP expenditure 12/13	**38,546**		**38,546**		**38,546**	
Additional spending powers					All current reserved Scottish expenditure	26,659
New SP expenditure level	**38,546**		**38,546**		**65,205**	
SP Taxes	Council Tax	2,006	Council Tax	2,006	Council Tax	2,006
	Non-domestic rates	1,981	Non-domestic rates	1,981	Non-domestic rates	1,981
			10p Income tax	4,346	All income tax	10,865
			Landfill tax	100	Landfill tax	100
			Stamp Duty Land Tax	236	All Stamp Duty	472
					All other current reserved Scottish taxation	37,723
Income raised from SP taxes	**3,987**		**8,669**		**53,147**	
SP tax income as % of SP expenditure	**10.34%**		**22.49%**		**81.51%**	
Total tax revenue raised in Scotland	53,147		53,147		53,147	
SP tax income as % of total tax raised in Scotland	7.50%		16.31%		100.00%	

However, the main focus of this section is what is being proposed for local government.

3.1 SNP

'Scotland's Future: Your guide to an independent Scotland' was published by the Scottish Government in November 2013. The report outlines what the Scottish Government believes will be gained by independence, regardless of which party is elected to govern Scotland, as well as what it believes could be gained if the SNP is elected to form the first government of an independent Scotland.

As explained earlier, for the pro-yes parties, we have focused on their proposals with regard to local government as it is a given that all expenditure and taxation powers are devolved and the Scottish Parliament is permanent. Therefore, the following is focused on local government.

The proposals

- We will support greater subsidiarity and local decision-making and work with local councils to embed the position of local government within a written constitution.
- The extension of the powers of the Scottish Parliament through independence creates a new opportunity to consider the right level for decisions to be made across Scottish society and gives us the powers we need to deliver necessary reforms.
- The Scottish Government and local authorities are now implementing and building on the legacy of the Christie Commission, to reform and improve Scotland's public services. This shared journey towards a vision of strengthened community planning, involvement and empowerment has been set out in the Government's response to the Christie Commission, in the joint Statement of Ambition with local government, and in our consultation on the forthcoming Community Empowerment Bill. This shared purpose will continue beyond the referendum and into an independent Scotland, capitalising on the benefits that independence brings.
- On independence, the responsibilities and services of local government will continue as normal, as councils' statutory basis, funding, contracts and workforce will remain in place. The Scottish Government will consider the appropriate responsibilities for local government and local communities.
- Independence will also provide the platform to embed the role of Scottish local authorities in a written constitution. The Scottish Government will embed the position of local government in the constitutional platform and argue for Scotland's written constitution, post-independence, to recognise the status and rights of elected local government. Such constitutional recognition is normal in developed democracies such as Germany, Denmark and Sweden, and this should also be the case in a modern, independent Scotland.
- Local taxation policy will continue to be determined by the Scottish Parliament and Government in partnership with local government. Council tax and business rates systems are already devolved to the Scottish Parliament. There will be no change to their operation as a result of becoming independent.
- It is committed to continuing the council tax freeze for the lifetime of this Parliament and will consult with others to develop options for a fairer and more progressive local tax, based on the ability to pay, and would take this forward after Scotland becomes independent.

Endorsements
As explained, with independence all taxation and expenditure powers currently controlled by Westminster will be devolved to the Scottish Parliament. As a result, our goal of the Scottish Parliament being responsible for raising what it spends would be met.

Criticism
It is disappointing that despite the 650-page 'Scotland's Future' detailing examples of how things could change in most areas of public policy, there were no suggestions as to how local government could be improved. It is ironic in a report where the central theme is one of subsidiarity, and that decisions are best made by people affected by them, that this argument is not extended to local government.

The only reference to changing the current local taxation powers in the report was the reference to replacing council tax with a fairer and more progressive local tax. Although the type of local tax is not specified, when the SNP tried to introduce a local income tax to replace council tax in its first term, it proposed a form of local income tax which involved a centrally-set, flat rate of 3 pence in the pound. This form of local taxation is anything but local as it is set, controlled and collected by central government. While it is a point of debate whether council tax is controlled by Holyrood or local authorities at present, the actual form of taxation is a local tax. Reform Scotland would be very concerned about any change in local taxation which resulted in a situation where 100 per cent of taxation was collected by one tier of government.

On this basis, if Scotland were to become independent and the local authorities' taxation powers remained the same as at present, or were replaced with a centrally set local tax, Scotland would become one of the most centralised countries in the world, because 100 per cent of tax income would be controlled by central government.

Table 17, based on figures from the OECD, illustrates what percentage of total taxation is controlled by central governments. It is not simply the case that large countries, by virtue of their size, have a lower level of centrally controlled tax revenue. Table 18 illustrates the same information by population and highlights that countries such as Denmark, Finland and Norway, with populations of a similar size to Scotland, have a far lower level of centrally controlled tax revenue. Indeed, when considering only the countries with a population of eight million or less, even if council tax was properly given back to local authority control, only Slovakia, Ireland and Luxembourg would be more centralised than an independent Scotland.

It is worth noting that many of the Scandinavian countries that are pointed to by nationalists as examples which Scotland could follow, devolve a great deal more to local and regional tiers of government than Scotland would do.

It is worth noting that the Scottish Government's report points to the local government structure in Germany, Denmark and Sweden. In each of those countries substantially more taxation is devolved from central government. As Table 17 indicates only 63 per cent of taxation is centrally controlled in Sweden, 70 per cent in Germany and 73 per cent in Denmark.

Table 17: Centrally controlled tax revenue as a percentage of total tax revenue[36]

	% of total tax revenue centrally controlled, 2012
Independent Scotland	**100**
Greece	98.91
Czech Republic	98.74
Slovak Republic	96.98
Netherlands*	96.41
Ireland	96.9
Luxembourg	96.01
Austria	95.25
United Kingdom	95.1
Hungary	93.73
Chile	93.72
Portugal	92.88
New Zealand	92.87
Israel	92.23
Turkey	91.07
Belgium	90.08
Slovenia	88.88
Poland*	87.55
Norway	87.42
Estonia	86.93
France	86.77
Korea	84.19
Italy	83.37
Australia*	81.34
Finland	77.19
Denmark	73.48
Iceland	73.33
Germany	70.19
United States	64.53
Sweden	63.38
Switzerland	60.24
Spain	58.08
Canada	50.48

*figure from 2011

Table 18: Centrally controlled tax revenue for countries by population[37]

	% of total tax revenue centrally controlled, 2012	Population (million)
Iceland	73.33	0.3
Luxembourg	96.01	0.5
Estonia	86.93	1.3
Slovenia	88.88	2
New Zealand	92.87	4.4
Ireland	96.9	4.8
Norway	87.42	5.1
Finland	77.19	5.2
Independent Scotland	**100**	**5.3**
Slovak Republic	96.98	5.4
Denmark	73.48	5.6
Israel	92.23	7.8
Switzerland	60.24	8
Austria	95.25	8
Sweden	63.38	9.7
Hungary	93.73	9.9
Belgium	90.08	10.4
Czech Republic	98.74	10.6
Portugal	92.88	10.8
Greece	98.91	10.8
Netherlands*	96.41*	16.9
Chile	93.72	17.3
Australia*	81.34*	22
Canada	50.48	34
Poland*	87.55*	38.3
Spain	58.08	47
Korea	84.19	49
Italy	83.37	61.7
United Kingdom	95.1	63.7
France	86.77	66.3
Germany	70.19	80.9
Turkey	91.07	81.6
United States	64.53	318.9

* figure from 2011

Conclusion

While we have criticised some other parties for not giving specific indications of what tax powers they would like to see devolved to local government, there has, at least, been an indication of a willingness from them to strengthen local government and its ability to raise more of its own revenue. Such a willingness was unfortunately absent from 'Scotland's Future'.

[36] OECD, Fiscal Decentralisation database, http://www.oecd.org/ctp/federalism/table9_tax_rev_rs-tot_tax_rev.xls
[37] OECD fiscal Decentralisation database and CIA world factbook

3.1 The Scottish Greens

The Scottish Greens' report, 'Green Yes', outlines the party's stance on why it supports independence and the difference it believes this could make to Scotland. The report highlights that a number of key issues will not be decided by this referendum, but by the elections that follow. The report states that the referendum "*will establish no mandate for specific policies Scotland might pursue*" and goes on to recognise the important role the SNP Scottish Government will have to play in the transition "*everyone arguing for a Yes vote must acknowledge that the SNP remain the Scottish Government until that point. A Yes vote will give them the responsibility to manage the transition, and to lead negotiations with the UK and international bodies on Scotland's behalf*". However, then adds "*From NATO membership to the level of Corporation Tax, they should not lock Scotland in to their preferred policies, unless the Scottish people give them a mandate to do so in 2016*".[38]

We have also examined the articles referred to in relation to the independence debate on the Scottish Greens' website. Whilst some of these were not written by Scottish Green politicians, the articles were referred to on the Greens' website to give more background on the party's independence stance.

As with the SNP, we have focussed primarily on local government.

The proposals

- Greens see independence not simply as withdrawal from the UK – it's about recognising that political power starts at the local level and should only be passed up the chain where there's a powerful reason to do so.
- We should explore the possibility of expanding the role of local government, and of open public participation in scrutiny. Very clearly there will be an urgent need to begin to decentralise power from Edinburgh to communities across Scotland, and many gains to be made in terms of bringing power closer to people so that decisions are made better.[39]
- Greens have a longstanding commitment to decentralisation. For democracy to be strong it's important that people feel a sense of connection with the decisions that affect them, and that's best achieved with active participation in local decisions. Unlike many of the small, independent northern European countries that Scotland is often compared to, we have a very low level of participation in decision-making and a very centralised form of government. That could have changed with devolution, but instead we've seen ever more power sucked up from local level and brought to St Andrew's House.[40]
- Decentralising the economy and focusing on the development of systems which more often meet local needs from local resources would make our local economies more resilient, as well as reducing transport demand and climate emissions.[41]

[38] Scottish Greens, "Green Yes" http://www.scottishgreens.org.uk/wp-content/uploads/downloads/2013/11/Green-Yes-document.pdf
[39] Scottish Greens, 'Green Yes', http://www.scottishgreens.org.uk/wp-content/uploads/downloads/2013/11/Green-Yes-document.pdf
[40] Harvie. P, "Why a Yes voter needn't be a nationalist", http://www.yesscotland.net/news/perspective-why-yes-voter-neednt-be-nationalist
[41] Harvie. P, "Why a Yes voter needn't be a nationalist", http://www.yesscotland.net/news/perspective-why-yes-voter-neednt-be-nationalist

Endorsements
As explained, with independence all taxation and expenditure powers currently controlled by Westminster will be devolved to the Scottish Parliament. As a result, our goal of the Scottish Parliament being responsible for raising what it spends would be met.

Reform Scotland acknowledges the Scottish Greens' "longstanding commitment to decentralisation" and we are encouraged by their belief that there is an "urgent need to begin to decentralise". Although there are not specifics within the report, we would recognise that this report did not go into that level of detail.

Criticism
One of the articles that the Scottish Greens' website highlights as part of its independence section, suggests that if the author (not a politician) thought that things would stay the same and if people in Scotland shared views with Nigel Farage or David Cameron, they would rather stick with the status quo.

> Let me declare that this endlessly reiterated sameness scares me. For while my hoped-for Day 1 independent Scotland might look the same as it does now and should utilise, sensibly, existing infrastructure, I'm horrified by a Scottish version of business-as-usual. It's the opportunity for, and the realistic possibility of, something radically and ethically different to the UK political status quo that gets me ranting at the TV.
>
> Every time I witness Nigel Farage, or a member of our elected Westminster government, on TV, I sense not just that my core values and priorities don't count at UK level, but that they're in imminent danger of evisceration. If I thought that Arbroath, Hawick and Ballachulish were filled with Farages and Camerons then, to be honest, I'd stick with things as they are. What would be the point in change?[42]

Reform Scotland believes that tax and welfare powers should be devolved to the Scottish Parliament regardless of whether they are used to lower or increase taxation or welfare payments. The principle comes first. How those powers are used, we believe, should be a totally separate debate. Given this statement, we would ask the Scottish Greens whether they would support independence even if it meant fewer of their policies and beliefs were pursued than at present. Given the party's belief in decentralisation, it is likely that this would be the case. However, if so, the reference to this article should perhaps be explained or re-considered.

Conclusion
The notion of localism and decentralisation is clearly important to the Scottish Greens, and is a principle which we share.

[42] Polwart. K, "Imagination vital to telling the Yes story", Scotsman, 17/2/13

4. Conclusion

The aim of this report was to consider the different options being set out by political parties in Scotland with regard to our constitutional future.

Reform Scotland has argued for some time that the Scottish Parliament needed to be responsible for raising the majority of the money that it spends. However, crucially, this is an argument that we also believe has to be extended to local government. Devo Plus has a consistent theme of subsidiarity and accountability which applies to each tier of government.

Our work on Devolution Plus has shown that it is possible for the Scottish Parliament to be responsible for raising the majority of what it spends, regardless of whether we are independent or not.

Equally, it is possible for local authorities to be responsible for raising more of what they spend, regardless of whether we are independent or not.

Table 18 below sets out all the different constitutional options being put forward for the Scottish Parliament from the status quo through to independence.

It is clear although the Labour Party boasts of being the party of devolution in its report, it has not accepted the principle of allowing the Scottish Parliament to be responsible for raising the majority of what it spends. If it did, its proposals would have offered far more than mere tinkering with the Scotland Act. And while the Labour party seem keen to invigorate councils in Scotland, this logic does not seem to apply to the Scottish Parliament. In contrast, the Liberal Democrats have a clear belief in devolving greater powers to both the Scottish Parliament and local authorities.

The Conservative report is a welcome step in the right direction. Although it doesn't go far enough as far as we are concerned, it appears to suggest that the party has woken up to the Scottish Parliament's lack of fiscal accountability, and that this needs to be addressed. The Conservatives' report does not offer a great deal with regard to local government as this was not within its remit. There is a sentiment of supporting devolution to local government, but, without specifics, it is hard to measure that commitment.

While the SNP are clearly in favour of devolving decisions away from Westminster to Holyrood, there appears to be little appetite for further devolution beyond this and there is a danger of simply swapping centralised power in London for centralised power in Edinburgh. Such centralisation does not allow for different solutions to take account of the different needs and priorities of local communities across Scotland.

In contrast, there was a consistency of argument from the Scottish Greens, who not only argued for independence, but argued "Very clearly there will be an urgent need to begin to decentralise power from Edinburgh to communities across Scotland".

Table 18: Different constitutional options being offered by the different parties

£m	Current		Scotland Act 2012		Labour		Conservative		Lib Dem		Devo Plus		Independence	
SP expenditure 12/13	**38,546**		**38,546**		**38,546**		**38,546**		**38,546**		**38,546**		**38,546**	
Additional spending powers					Housing Benefit	1,728	Housing Benefit	1,728			Housing Benefit	1,728	All current reserved Scottish expenditure	26,659
					Attendance Allowance	481	Attendance Allowance	481			Attendance Allowance	481		
											Carer's Allowance	153		
											Council Tax Benefit*	384		
											Disability Living Allowance	1,372		
											Employment & Support Allowance	381		
											Incapacity Benefit	564		
											Income Support	670		
											Jobseeker's Allowance	461		
											Severe Disablement Allowance	97		
											Winter Fuel Payments	188		
New SP expenditure level	**38,546**		**38,546**		**40,755**		**40,755**		**38,546**		**45,025**		**65,205**	
SP Taxes	Council Tax	2,006	Council Tax	2,006	Council Tax	2,006	Council Tax	2,006	Council Tax	2,006	Council Tax	2,006	Council Tax	2,006
	NDR	1,981	NDR	1,981	NDR	1,981	NDR	1,981	NDR	1,981	NDR	1,981	NDR	1,981
			10p Income tax	4,346	10p Income tax	4,346	Income Tax ^	10,865	Income Tax ^	10,865	All income tax	10,865	All income tax	10,865
			Landfill tax	100	Landfill tax	100	Landfill tax	100	Landfill tax	100	Landfill tax	100	Landfill tax	100
			Stamp Duty Land Tax	236	Stamp Duty Land Tax	236	Stamp Duty Land Tax	236	Stamp Duty Land Tax	236	All Stamp Duty	472	All Stamp Duty	472
					5p Income tax	2,000	Air passenger duty	234	Air passenger duty	234	Air passenger duty	234	All other current reserved Scottish taxation	37,723
									Capital gains tax	292	Capital gains tax	292		
									Inheritance tax	243	Inheritance tax	243		
									Aggregates levy	45	Aggregates levy	45		
											Corporation tax	2,872		
											Other taxes on income & wealth	271		
											Fuel duties	2,258		
											Tobacco duties	1,128		
											Alcohol duties	980		
											Betting and gaming duties	120		
											Insurance premium tax	207		
											Climate change levy	62		
											Vehicle excise duty	481		
											Interest and dividends	623		
											Geographical share of North Sea revenue	5581		
											Gross operating surplus (70% of to reflect 70% of all spending)	2,273		
Income raised from SP taxes	**3,987**		**8,669**		**10,669**		**15,422**		**16,002**		**33,094**		**53,147**	
SP tax income as % of SP expenditure	**10.34%**		**22.49%**		**26.18%**		**37.84%**		**41.51%**		**73.50%**		**85.44%**	
Total tax revenue raised in Scotland	53,147		53,147		53,147		53,148		53,147		53,147		53,147	
SP tax income as % of total tax raised in Scotland	7.50%		16.31%		20.07%		29.02%		30.11%		62.27%		100.00%	

* Council tax benefit was replaced with a council tax reduction scheme and devolved to the Scottish Government in April 2013. However, because the data in the table under 'current' refers to 2012/13, the council tax reduction scheme is not included. Responsibility for assisting those who need help to pay their Council Tax in Scotland now sits with the Scottish Government and Scottish Local Authorities. In line with this transfer of responsibility, and to fund the new arrangements, the UK Government has added the total amount of CTB payments in Scotland, less 10%, to the Scottish budget. However, in order that those who previously received CTB could be protected from this 10% cut in funding, the Scottish Government and the Convention of Local Authorities in Scotland (CoSLA) provided an extra £40m of additional funding for a transitional year in 2013-14. Although the Scottish Government has overall responsibility for making the regulations for the new CTR scheme, it is for each Local Authority to administer it for their area. http://www.scotland.gov.uk/Topics/Government/local-government/17999/counciltax/CTR

^ The Conservatives and Liberal Democrat proposals would not devolve control over income tax payable on savings and dividends, nor over the personal allowance. For the purpose of this report we have allocated the full amount of income tax collected in Scotland to the Scottish Parliament. However, we would call on both parties to publish figures explaining exactly what percentage, and how much revenue; they believe their income tax proposals would devolve.

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