

Monday 30th November 2009

BULLETIN

Reform Scotland response to the publication of the Scottish Government's White Paper on an independence referendum.

Today, (Monday 30th November) the Scottish Government has published a white paper entitled 'Your Scotland, Your Voice' which sets out options for a referendum on Scottish independence.

Reform Scotland's primary concern in the debate on Scotland's constitutional future has been how to correct the fundamental weakness of the current devolution settlement. We believe the current system creates a lack of financial accountability to the Scottish electorate because of the way in which the Scottish Government receives the money it spends. Although the proposals published last week by the Labour Government at Westminster to devolve more financial power to the Scottish Parliament are a step in the right direction, they do not go nearly far enough. A large proportion of the Scottish budget will still come in the form of a block grant from Westminster if these proposals are approved. This will provide no real incentive to introduce policies which encourage economic growth and deliver real value for money, while denying the Scottish Government and Parliament the fiscal tools they could use to increase economic growth.

As we said in our paper, 'Fiscal Powers' (November 2008), financial accountability could be achieved in a number of ways including independence. However, Reform Scotland examined how financial accountability can be achieved within the context of the United Kingdom.

Our proposals in this respect, which we submitted to both the Scottish Government's National Conversation and the Calman Commission, would go further than those of the Calman Commission. We would scrap the Barnett Formula altogether and give both the Scottish and UK Governments the power to raise the money they spend in Scotland. The new financial relationship we propose would also be flexible enough to meet any future contingencies or to take account of any further devolution of power.

Our priority is to ensure financial accountability for the Scottish Parliament. We are less concerned about the process by which this occurs. Achieving financial accountability does not require a referendum in Scotland although it could help to bring it about by strengthening the case for enhanced fiscal powers. We recognise that because any proposals for change affect other parts of the United Kingdom besides Scotland, taking the debate to a UK level is as important, if not more so, than a referendum.

Referendum White Paper Proposals

The Scottish Government's document 'Your Scotland, Your Voice' sets out four broad options for Scotland's future:

- The status quo, in which Scotland would retain its current responsibilities with gradual evolution in response to particular events or pressures.

- Implementation of the recommendations of the Commission on Scottish Devolution or Calman Commission which recommended a limited increase in the powers of the Scottish Parliament, including areas such as control over air guns and the drink driving limit as well as an extension of responsibility for raising revenue with control over an element of income tax in Scotland and other smaller taxes such as the Aggregates Levy and Landfill Tax.
- Full devolution of the maximum range of responsibilities to Scotland while remaining within the United Kingdom. This option, sometimes called 'devolution max', would see the Scottish Parliament take control over a far greater range of powers with Westminster only retaining control over areas such as foreign affairs, defence and macroeconomic policy.
- Independence, which would see Scotland assume all the responsibilities of an independent, sovereign state.

The Scottish Government favours the last option and proposes that a referendum is held on the issue in 2010 to allow people in Scotland to have their say. This could be a referendum offering a number of options and the Referendum Bill setting out the legislation will be brought forward in early 2010.

Reform Scotland's Position

Reform Scotland believes that the issue of the financial accountability of the Scottish Parliament needs to be resolved as a priority. At the launch of our report 'Fiscal Powers' in November 2008, Reform Scotland's Chairman Ben Thomson said:

'The Scottish Parliament's almost total reliance on the block grant limits its accountability. Equally, it provides no incentive for politicians in Scotland to come up with innovative ideas to boost economic growth or improve public services because, however poorly the economy performs, the money still rolls in via the block grant. If the economy did grow faster the benefits would accrue to the Chancellor at Westminster and not the Scottish Government.'

The Scottish Parliament currently has control over taxes which raise less than £4 billion of the total tax raised from Scotland, equivalent to only 7 per cent of all taxes and 11 per cent of the Scottish Parliament's budget. The Scottish Parliament is, therefore, not financially accountable to the Scottish electorate. The size of the Scottish budget is still largely determined by the Barnett formula, which means that it is based on spending decisions made for England.

Reform Scotland's proposals, published in 'Fiscal Powers' (November 2008) and updated in a 2nd Edition (October 2009), set out a workable scheme to make the Scottish Parliament financially accountable by enabling the Scottish Government to raise the money it spends while remaining within the United Kingdom. The proposals included:

- Scrap the Barnett Formula and give both the Scottish and UK Governments the power to raise the money they spend in Scotland.
- Maintain the current split between devolved and reserved functions which has resulted in 60 per cent (around £32 billion) of government spending in Scotland being devolved and 40 per cent (around £21 billion) reserved to Westminster.
- UK Government retains full control over National Insurance revenues in Scotland together with income from other smaller taxes, including TV licences, passport fees and the National Lottery Tax

- Split revenue in Scotland from income tax and North Sea oil with control over 40 per cent of the revenue going to Westminster and 60 per cent to Holyrood. Such a 60:40 split is logical because it matches the respective spending responsibilities of Holyrood and Westminster.
- Assign the Scottish Parliament 60 per cent of VAT revenue raised in Scotland, though unlike Income Tax and North Sea Oil, control over VAT would remain at Westminster.
- All other tax revenues would be devolved to the Scottish Parliament.
- Give the Scottish Parliament borrowing powers.
- Establish a Scottish Exchequer which would be responsible for collecting revenue from all taxes levied north of the Border on behalf of the UK and Scottish governments.

This solution would give both Westminster and Holyrood sufficiently wide ranges of tax revenues and borrowing powers to ensure they had the flexibility to meet their spending needs and to take account of any further devolution of power. Both levels of government would be free to change the levels of the taxes under their control and would, therefore, be properly accountable to their electorates for the financial decisions they take.

It would create a link in Scotland between economic performance and the revenues accruing to the Scottish Government. This would change the whole nature of the debate in Scotland for the better. Further, it would give the Scottish Government the fiscal tools to improve the growth rate of the Scottish economy.

For further information please contact Reform Scotland on 0131 524 9500.

***Reform Scotland* is an independent, non-party think tank that aims to set out a better way to deliver increased economic prosperity and more effective public services based on the traditional Scottish principles of limited government, diversity and personal responsibility.**

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