Uncertainty grows over Scotland's public spending plans

Mure Dickie in Edinburgh, Financial Times, AUGUST 21 2014

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Scotland's commitment to giving the elderly free bus travel, students free university education and everyone free prescriptions is a cause of pride for Scots – and envy for many in England.

But an increasingly febrile debate before next month's independence referendum highlights growing uncertainty about Edinburgh's long-term ability to maintain the spending that underpins such policies, whatever the result of the vote.

A senior oil industry figure has questioned the Scottish National party's expectations for future revenues, a vital source of funding should the country vote to leave the UK next month. The intervention by Sir Ian Wood, former head of Wood Group, the oil services company, came as publication of a major survey showed hostility in England to the relatively generous block grant Scotland receives from the UK Treasury.

The YouGov survey found that people in England believed Scotland's spending should be cut after a referendum No vote, by a margin of more than four to one.

"There is strong English support for reducing levels of public spending in Scotland to the UK average – a development that would lead to savage cuts in public services north of the border," said Richard Wyn Jones of Cardiff University, which commissioned the research with the Economic and Social Research Council's Scottish Centre on Constitutional Change.

English opposition to the scale of the block grant to Scotland, calculated according to the " Barnett formula", reflects resentment of per capita spending that the oil revenues are included, the country also pays more tax per head and that over the past five years its fiscal deficit has been smaller than that of the UK as a whole.

With the referendum looming, the main Westminster parties have sought to reassure voters that they have no plans to change the Barnett formula, which was created in the 1970s as a stop-gap solution to spending disputes by Lord Joel Barnett, a Labour Treasury chief secretary.

The Treasury said in May that rejecting independence would mean each person in Scotland getting a " UK dividend of £1,400 a year" for the next 20 years – a calculation based on the premise of no change in block grant calculation.

But independence campaigners point out that the main UK parties have often flirted with a shift to a funding formula based on need rather than nation.

Back in 2008, for example, David Cameron, then Conservative party leader and now prime minister, said he favoured moving from the Barnett formula to a needs-based approach. "This cannot last for ever, the time is approaching," Mr Cameron said.

The independence debate has temporarily subdued calls for change to Scotland's block grant, said David Heald, the man who named the Barnett formula when it became public in 1980.

However, Professor Heald told the Scottish parliament in June that there was "generalised hostility to the Barnett formula in Whitehall and Westminster", and scrutiny of its working was likely to intensify if new tax powers were devolved to Edinburgh as promised by the main UK parties.

Michael Keating, professor of politics at Aberdeen university, says the fate of the formula could rest on the details of the result on September 18.

"If there is a No vote in the referendum, Scotland may be in a strong bargaining position or a weak one, depending on the size of the victory," Professor Keating said.

While nationalists focus on fears over the block grant, their generous post-independence spending plans depend in large part on relatively high levels of production from ageing North Sea oil and gas reserves and a buoyant oil price.

Sir Ian Wood said he opposed independence and was concerned that North Sea reserves were being overstated by supporters of a Yes vote.