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FINANCING
A SCOTTISH PARLIAMENT

Options for Debate

David Heald

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**FINANCING
A SCOTTISH PARLIAMENT**

Options For Debate

David Heald
Professor of Accountancy
University of Aberdeen

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CONTENTS

SUMMARY	(ii)
GLOSSARY OF TECHNICAL TERMS	(iv)
INTRODUCTION	1
SECTION ONE: PRINCIPLES RATHER THAN DETAILS	2
SECTION TWO: STATEMENT OF PRINCIPLES	4
1 Tax-raising Powers	
2 Equalisation Across the United Kingdom	
3 Harmonisation with Europe	
4 Implications for the Rest of the United Kingdom	
5 Building on Sound Foundations	
6 Keeping the Taxation Arrangements Simple	
7 Stable Financial Relationships	
The Inevitability of Asymmetry	
SECTION THREE: A FIRST LOOK AT TAX OPTIONS	15
SECTION FOUR: TAXES FOR A SCOTTISH PARLIAMENT	19
Income Tax: Assigned Revenues and Variation Powers	
The Assignment of Value Added Tax	
Local Authority Taxation	
SECTION FIVE: THE SCOTTISH EXECUTIVE'S BUDGET OF EXPENDITURE AND REVENUE	34
Existing Scottish Public Expenditure Programmes	
Financing of Local Authority Expenditure	
A Digression on Public Expenditure Relatives and Relative Need	
Revenue to Finance the Expenditure of a Scottish Parliament	
SECTION SIX: REVIEW OF OTHER OPTIONS	52
CONCLUSION	57
TABLES	58
REFERENCES	68



SUMMARY

The issue of the financing mechanisms for a Scottish Parliament will play a crucial role in the political debates about devolution, and the establishment of a viable set of financial relationships is a necessary condition for long-term stability in restructured constitutional relationships within the United Kingdom.

Suggestions that suitable financial mechanisms cannot be devised are shown to be false. Devolved financial arrangements within any country, whether it is federal or unitary, depend profoundly upon the willingness of the various participant authorities to make the system work. The obstacle to success is not technical: the key task is to build a commitment to make the institutions work to mutual satisfaction.

This discussion paper reviews the changed context from the devolution debates of the 1970s and establishes a set of guiding principles which can inform later decisions about important technical details. It is important for future constitutional stability that a Scottish Parliament should possess the power to vary taxes, so that independent decisions can be taken in Scotland about the level of public expenditure. Although a block grant mechanism, based upon a UK-wide assessment of expenditure needs, will undoubtedly play a role, it will be essential to build in protective mechanisms which guard against manipulation of the block grant by the UK Government. This objective can best be achieved by the partial assignment of the proceeds of certain taxes.

The financing mix advocated in this paper relies upon the power of a Scottish Parliament to vary income tax within tightly-defined limits, and a restored local government property tax, as the mechanisms by which Scottish public expenditure might diverge - downwards as well as upwards - from an assessment of Scotland's expenditure needs, inevitably based upon the application of UK norms to Scotland. The buffer against grant manipulation would come from the assignment of 50% of the yield of UK income tax in Scotland (probably supported by equalisation of the tax base) and 75% of UK VAT revenues



attributable to Scotland on a population basis. The exact percentages are much less important than the general principles: there will have to be long sessions of detailed negotiation before the precise details are determined.

SUMMARY

The discussion paper stresses the continuity, as well as change, involved in these proposed arrangements. A large block of Scottish Office expenditure is already controlled by formula, and the Secretary of State for Scotland exercises expenditure-switching discretion over that block. The issue of the favourable position of Scotland in terms of public expenditure relatives is already on the political agenda, irrespective of whether there is a Scottish Parliament. With a Scottish Parliament, this issue will have to be tackled in a more explicit way.

The arrangements for handling Scottish business at Westminster are decaying, partly because of the Government's low Scottish representation: the non-reappointment of the Committee of Scottish Affairs is a good illustration. An unfortunate consequence is that certain key information relevant to Scottish public expenditure and to the financing of a Scottish Parliament either does not exist in a suitable form or is not in the public domain. Decisions on constitutional matters sometimes have to be taken very quickly. Scotland might be seriously disadvantaged by a state of unpreparedness when key technical decisions have to be taken.

discuss
No 1
paper

GLOSSARY

Assigned Tax is a tax whose proceeds are shared between different tiers of government, irrespective of how assessment and collection are organised, on the basis of some defined principle of division, be that derivation (qv) or equalisation (qv). Assigned revenues are the product of assigned taxes.

Barnett formula of 10:5:85 (Scotland: Wales: England) was introduced as the basis for funding the Scottish Assembly to be established under the Scotland Act 1978. After the change of government in 1979, the formula was retained as the basis for controlling the Scottish block (qv) of public expenditure. An £85 increase in comparable expenditure in England (say, on education) automatically feeds through into £10 extra for the Scottish block (qv). Exactly the converse applies to decreases.

Devolved Tax is a tax for which the lower tier of government possesses the power to vary the rate at which that tax is levied; perhaps, also, to vary the tax base, but this latter feature is not central to the definition.

Derivation involves the attribution of tax revenue (and by implication public expenditure) to particular geographical areas or units of government on the basis of where that revenue was generated: it implies a strict link between the revenue generated and the public expenditure which can be undertaken.

Equalisation involves the attribution of tax revenue (and explicitly public expenditure) to particular geographical areas or units of government on the basis of criteria other than derivation (qv), such as (partial) compensation for differences in needs (e.g. a different demographic structure) or resources (e.g. a lower level of rateable value or income per head leading to a lower tax yield for a given tax rate). The Rate (now Revenue) Support Grant has been the instrument for equalisation in the context of local government finance.

Gearing applies when the higher-tier government (e.g. central government) finances by grant a large percentage of the expenditure of a lower-tier government (e.g. local authority). If



GLOSSARY

a local authority spends £100, £80 of which is financed by grant and £20 by local taxes, a £5 (6.25%) reduction in grant requires a £5 (25%) increase in local taxes to maintain expenditure unchanged. Especially when inflation is relatively high and its future rate subject to dispute, local electors find it difficult to distinguish which increases in local taxes are the responsibility of local authorities and which are induced by the grant system.

General Government Expenditure is the expenditure of central and local government excluding transfers between them. It is the key public spending aggregate used in the Government's macroeconomic policy. It is based upon national income accounting definitions and is used in the calculation of the ratio of public expenditure/GDP and in international comparisons of public expenditure.

Identifiable Public Expenditure is that part of public expenditure which can be attributed to one of the four countries on the basis of the Treasury's information systems. Identifiable expenditure is wider than the Scotland programme (qv), including, for example, expenditure in Scotland by other departments (such as expenditure on regional assistance, social security and universities) but excludes defence and overseas services. About 80% of public expenditure can be identified to country. The basis of the analysis has just changed as a consequence of the introduction of the new planning total (qv): previously, the analysis was of the old planning total (qv) but now it is of General Government Expenditure (qv).

Planning Total (old) was the basis for the planning and control of public expenditure until the public expenditure round which ended with the publication of the 1990 White Paper. By controlling expenditure within this cash total, the Government sought to achieve its medium-term objective for the control of public expenditure, expressed in terms of General Government Expenditure (qv). The old planning total consisted of: central government's own expenditure; certain expenditure of public corporations; local authorities' current expenditure and capital



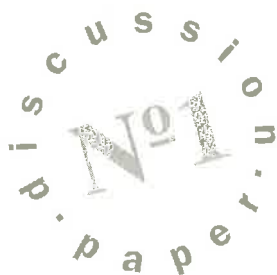
GLOSSARY

expenditure (net of capital receipts); nationalised industries' external financing; privatisation proceeds; and the Reserve.

Planning Total (new) plays a similar role but treats expenditure by local authorities quite differently. It consists of: central government's own expenditure; certain expenditure of public corporations; central government support for local authorities, defined to include Revenue Support Grant, non-domestic rate payments, specific grants, and credit approvals; nationalised industries' external financing; privatisation proceeds; and the Reserve.

Scotland Programme is the public expenditure programme which brings together all expenditure controlled by the Secretary of State.

Scottish Block is by far the largest part of the Scotland programme (qv), the public expenditure programme for which the Secretary of State is responsible. The Scottish Block consists of expenditure on 'domestic' public services such as education, health, social work and housing, and changes in its total are controlled by the Barnett formula (qv). A key advantage of this arrangement is that the Secretary of State possesses full expenditure-switching powers within the Block, and can therefore adjust programmes to reflect different Scottish requirements rather than follow the pattern of spending of Whitehall departments. After devolution, expenditure within the Scottish Block would be the most significant part of the Scottish Executive's expenditure responsibilities.



INTRODUCTION

This discussion paper is designed to stimulate debate on the financing of a Scottish Parliament, not as a blueprint. A research project on this issue, financed by the Scottish Foundation for Economic Research, has just started and final conclusions obviously cannot be pre-empted. But it is possible at this stage to spell out the serious options for debate.

The world has greatly changed since the mid-1970s when there was much discussion of devolution in the United Kingdom. The present context is of the 1992 landmark for the economic integration of the European Community, prompting discussion of forms of political integration, and of the dramatic and unexpected economic and governmental reforms in Eastern Europe. It is difficult to say definitively how these differences in context affect the issue of Scottish devolution. However, such dramatic changes elsewhere do indicate that many features of the governmental landscape hitherto judged permanent might, after all, be transient.

It should be emphasised that this discussion paper does not discuss the economic and financial mechanisms relevant to Scottish independence. It focuses upon the financial framework within which a Scottish Parliament might operate as a devolved legislative assembly within the United Kingdom. There has been considerable vagueness in public debates as to formal constitutional relationships (whether devolved government within a unitary state or an explicitly federal division of power). The discussion paper responds to the questions on the financing mechanisms of a Scottish Parliament posed by the consultative documents of the Scottish Constitutional Convention (1989a,b).

Decisions about the financing of a Scottish Parliament involve issues of principle and tactical political judgement, as well as an understanding of technical matters such as equalisation mechanisms, the role of particular taxes and of relevant experience in other countries. This discussion paper aims not only to outline a viable scheme, but also to provide information and analysis which would aid those supporting other financial schemes to appreciate the strengths and weaknesses of their proposals.

discuss
No 1
paper

SECTION ONE

PRINCIPLES RATHER THAN DETAILS

There are two reasons for concentrating here on principles rather than details.

Firstly, the long-term viability of financial mechanisms underpinning constitutional proposals will depend heavily upon their being ultimately acceptable to a broad range of opinion. In the first instance, it is necessary to consider what the currently repressed devolutionist current within the Scottish Conservative and Unionist Party could subsequently accept. As implementation approaches, the goodwill of a broad spectrum of Westminster MPs must be sought. The secret of the success of the financing mechanisms of, for example, German federalism, is not to be found in technical detail but in the general willingness, albeit after hard bargaining, to compromise.

Secondly, the generation of detailed options for particular taxes is not something which can satisfactorily be done by outsiders: there simply is not sufficient published and reliable data on which to base such calculations, and it is almost impossible to assemble the full range of technical expertise. This is a task which could be done through one of two mechanisms. Governments can undertake such an exercise as part of the process of producing a Green or White Paper (as for the Green Paper on the community charge (Department of the Environment, 1986)) or they can appoint a Committee of Inquiry (such as the Layfield Committee in 1974: Layfield, 1976), to which government departments and outside bodies can present evidence, and which can commission its own research. All that can be done from outside is to develop broad principles and to provide illustrative figures, as the basis for creating the political context in which either of the formal mechanisms might be initiated. Inevitably, there are pressures to go further, but they should be resisted, as it is far too easy for those with access to inside information to discredit such calculations. The lack of a suitable forum which can secure the co-operation of the Treasury and the Revenue Departments for discussion of possible options is an example of the problems created for Scotland by the malfunctioning and then demise of the Committee on Scottish Affairs. More generally, a situation



has developed in which, through no fault of the Scottish Office, there is often less information available about Scotland than about England because the channels of communication and inquiry have seized up. A good example is how much more is known about inflation-adjusted changes in National Health Service expenditure in England than in Scotland.

SECTION ONE

discuss
No 1
paper

SECTION TWO

STATEMENT OF PRINCIPLES

1 Tax-raising powers

A Scottish Parliament requires tax-raising power at the margin: in other words, there should be taxes whose total yield it can itself determine, so as to budget for a level of expenditure different from that implicit in the expenditure needs assessment, by imposing either a lower or higher level of taxation upon Scottish residents. Such an arrangement is essential for the constitutional accountability of a Parliament which would possess extensive legislative responsibilities and expenditure programmes. Moreover, there would be much stronger incentives to fiscal responsibility under a financial arrangement whereby a Scottish Executive must justify to a Scottish Parliament, electors and taxpayers, its chosen trade-off between services and taxes.

2 Equalisation Across the United Kingdom

Resources and needs equalisation have been central features of the systems of allocating central government grant to local authorities in the United Kingdom. In turn, these traditions have strongly influenced the geographical pattern of public expenditure. There would be severe dislocation if a financial system traditionally based upon equalisation were suddenly to be transformed into a system based on derivation. Two questions arise. First, whether the long-term system should be based upon equalisation, in which case the problem arises of how to deal with problems of 'over' or 'under'-spending against assessed expenditure need.

Second, if the long-term principle is to be based on derivation, there is the question of how long a period would be allowed for expenditure to be matched to revenue. Given history and political context, viable financial mechanisms for a Scottish Parliament within the United Kingdom must be based, at least in part, upon continued equalisation across the United Kingdom. Decentralisation without equalisation necessarily implies unequal levels of provision when there are differences in resources and needs. This constitutes an important part of the



SECTION TWO

case for retaining social security as a UK responsibility, as this particular programme involves redistributive cash transfers. Otherwise, the least prosperous areas would face the highest per capita tax cost for poverty relief and unemployment benefit, with the consequent differences in taxes and/or benefits possibly inducing migration flows. For major service responsibilities such as health and education to be devolved within an institutional context such as the United Kingdom, there should be a strong presumption in favour of equalisation mechanisms which prevent decentralisation from being the vehicle for territorial inequality.

It might be argued that Scotland was trying to have its cake and eat it: insisting upon running its own health and education services but seeking to tap UK revenues. But such an interpretation misses the point about how local government finance systems have been structured throughout Great Britain, in particular, the effort to prevent high-needs and/or low-resources jurisdictions being penalised. Moreover, the most powerful reason for denying to a devolved Scottish Parliament access to oil revenues has always been that it is symbolically important to stress that such windfall tax revenues should accrue to the United Kingdom as a whole, irrespective of whether they are generated off the coast of Scotland or of Cornwall.

In a parallel way, membership of the United Kingdom involves maintaining a broad equality of access to public services. There is also a pragmatic argument as to why oil revenues should not play a role in the financing of a devolved Scottish Parliament: oil revenues are highly unpredictable, being contingent upon price factors entirely outside the control of a Scottish Parliament. If ongoing services such as education and health were to depend heavily on oil revenues, there is likely to be a situation of feast or famine.

3 Harmonisation with Europe

The discretion now possessed by EC member countries to



SECTION TWO

refashion new systems of decentralised public finance is more constrained than during the 1970s. It is vitally important to consider how proposed mechanisms for a Scottish Parliament fit in with likely developments in European tax harmonisation, so that they go with the grain rather than against it. It remains unclear how far mechanisms of fiscal equalisation will be replicated at the European level as a counterpart to economic and monetary integration. It has taken more than a decade for the issues of budgetary equalisation between EC member states discussed by the MacDougall Report (1977) to surface, but they will rapidly mount the European agenda.

The experience of other EC member states demonstrates that it is possible to combine decentralised financial systems with governmental stability and economic prosperity. However, two points should be noted. First, European Commission pressure for tax harmonisation may mean that features of decentralised tax systems in certain countries, which effectively benefit from implicit derogations, would not be available within the United Kingdom: for example, differential retail sales taxes in the Federal Republic of Germany.

Second, to repeat an earlier point for emphasis, what the United Kingdom has to learn from other countries relates less to the technical detail of particular sets of devolved taxes or assigned revenues, and much more to a style of relationship between tiers of government. This might be summed up as involving 'mutual respect' and 'willingness to compromise'.

All economies are more integrated than in the past, psychologically as well as materially. This development has narrowed the scope for differences in taxation systems both between and within European countries, in the sense that differences are now much more likely to be represented as inconsistencies and injustices, and to provoke avoidance measures. Scotland's experience with the rating system tellingly illustrates this point. The Scottish system has been much more effectively maintained than its English counterpart, with revaluations in 1971, 1978, 1985 and 1990 (non-domestic), whereas



SECTION TWO

there was no English revaluation between 1973 and 1990 (non-domestic). Without a regular cycle of revaluations, major injustices and inefficiencies become embedded in the rating system and are then compounded by resources equalisation on the basis of distorted rateable values. The eventual revaluation is guaranteed to bring wrath down upon the government which finds the courage to go ahead.

The Scottish rating system was destabilised because the Secretary of State for Scotland correctly decided to go ahead with the 1985 revaluation but the English and Welsh revaluation was cancelled. The political storm over Scottish revaluation, which would almost certainly have calmed if there had been an English counterpart, provided the stimulus to and opportunity for the introduction of the community charge.

There had been longstanding differences between Scottish and English valuation principles and practices, but, on the non-domestic side, differences in rates payments began to provoke major political controversy. There was the famous question of why Celtic Football Club paid far more rates than Manchester United, despite having an inferior stadium. Part of the explanation must have been that English valuations were badly out of date and had not reflected the decline in manufacturing and the rise of the service sector. In recognition of these difficulties and the unfavourable publicity received by Scotland as a location for investment, the Secretary of State for Scotland placed a ceiling on non-domestic rates indexed to the Retail Prices Index, thus maintaining different poundages for different authorities. However, within a total timescale of about five years, there would be, first, a uniform business rate within Scotland and, second, a uniform valuation system and uniform poundage with England.

It would in future be very difficult to defend different property tax valuation systems between Scotland and England, irrespective of the merits of earlier Scottish practice. This lesson almost certainly applies to other taxes: with greater economic integration, it would be difficult to pursue different valuation



SECTION TWO

principles or bases of assessment.

4 Implications for the Rest of the United Kingdom

Although there are understandable psychological blocks impeding this, it is essential that proposals for financing a Scottish Parliament pay proper attention to their implications for the rest of the United Kingdom, and particularly England, which will, because of its population, always dominate the United Kingdom.

If a particular financial framework for devolution disadvantages England, there will be no long-term stability. The threat to the future of the United Kingdom stems from the problem of England, rather than that of the three smaller countries. The successful establishment of a Scottish Parliament would probably be imitated quite quickly in Wales, and pressure would mount for new political initiatives to restore devolution in Northern Ireland. A crucial task is to persuade English opinion that England itself suffers from the paralysing centralism of British government. The varying decentralisation measures of France, Italy and Spain show that it is England which is the odd one out, not Scotland.

5 Building on Sound Foundations

The system of administrative decentralisation based upon the Scottish Office headed by a Secretary of State for Scotland has served Scotland well. To claim rightly that the time has now come to build upon these arrangements does not justify a condemnation of the existing arrangements. In the past, Wales and Northern Ireland have carefully watched Scottish developments and have imitated those which were thought transferable: the annual Commentary on public expenditure programmes (Scottish Office, 1990a) is an excellent example. Indeed, it is now time to persuade England that an adaptation of the territorial initiatives pioneered by the three smaller countries would be positively advantageous to itself. Except in revolutionary times, governmental machinery is likely to evolve



SECTION TWO

rather than change abruptly, not least because it takes time to build the necessary working climate and to recruit and develop those who make the system function at both political and bureaucratic levels.

The 1982 Mitterand decentralisation reforms in France built upon the 22 regions established in 1955. It is easy to criticise the boundaries of these regions, the absence of direct election and their financial dependence upon Paris. Nevertheless, the rules of the game and the terrain on which it is played, have been changing. Despite its formal ferocity, the centralism which France inherited from the Revolution has been softened. Financial mechanisms are not the only method for diffusing power, and the interpenetration of local and national political leaderships is clearly very important in France, particularly when national politicians are often the mayors of major cities (such as Jacques Chirac (Paris), Michel Noir (Lyon) and Pierre Mauroy (Lille)).

6 Keeping the Taxation Arrangements Simple

The guiding principle in determining which taxes would be devolved should be to keep the arrangements simple. Psychologically and administratively, the United Kingdom is a tightly integrated economy and society, much used to uniformity, especially in fiscal matters. The labyrinthine complexity of tax arrangements, with which the citizens of certain other EC member states are familiar, would be entirely alien. It would be possible to devolve a long and impressive-looking list of taxes and duties which were insignificant in revenue terms. Such a course should firmly be rejected for both reasons of administrative efficiency and smoothness. The last thing which a newly-elected Scottish Parliament would want to have to cope with would be new tax administrations struggling to come to terms with the job.

Accordingly, a number of propositions can be made. First, taxes should only be devolved if they generate sufficient revenue to be significant or there are weighty other reasons for



SECTION TWO

tax devolution. Second, a general rule should be adopted in favour of maintaining unified tax administrations. For example, if Vehicle Excise Duty were devolved, it should continue to be assessed and collected by the Driver and Vehicle Licensing Centre in Swansea. Third, where both the United Kingdom Government and the Scottish Exchequer made use of the same tax base, there should be unified definitions of that tax base. For example, in the case of a Scottish income tax (whether supplementary to or a substitute for part of United Kingdom income tax) there should be a common UK definition of taxable income. Fourth, although taking advantage of the common definitions and machinery, particular tax demands should have clear labels attached to them, indicating the public authority which levies this particular tax charge. In practical terms, this would mean the same tax office sending out tax demands on different stationery. Fifth, such arrangements - which should be compulsory for a 10-year transition period - mean that there would have to be considerable co-operation between the different taxing authorities. Consequently, formal machinery requires to be written into the devolution legislation: these responsibilities would fall to a United Kingdom Regional Exchequer Board.

7 Stable Financial Relationships

The finances of a Scottish Executive are inextricably interwoven with the finances of Scottish local authorities. There are three main reasons for such strong links. First, local authorities play an important role in service delivery, with their planned expenditure for 1989-90 constituting 52% of the Secretary of State for Scotland's programme (as defined on the basis of the 'old' planning total in Treasury (1989b)). The Revenue Support Grant which is currently paid by the Secretary of State for Scotland would claim a large chunk of Executive expenditure. Moreover, Scottish local authority expenditure needs would figure prominently in the joint Treasury/United Kingdom Regional Exchequer Board's Relative Expenditure Needs Assessment upon which the Scottish Parliament's Block Grant would in part be based. Second, the tax-raising



SECTION TWO

powers possessed by local authorities would constitute an important part of the revenue-generation potential of the Scottish public sector.

As a practical matter, it is essential to ensure that local authorities have a sufficiently wide base of locally-variable tax(es), both to contain the gearing effects of the Scottish Revenue Support Grant (from the Scottish Executive to local authorities) and to take some of the strain of 'inter-regional' variations of expenditure levels and tax rates. The choice for such local taxes is in reality cut down to one or more from among (i) the existing or a reformed community charge; (ii) a property tax (restored domestic rates on rental values or a capital-value based ('roof') tax); and (iii) a local income tax. Whichever option is chosen, the interdependence of Scottish Executive taxation and local taxation is inevitable.

The necessity of ensuring stable financial relationships between the Scottish Executive and the UK Government means that there must be some kind of formula mechanism which operates for a specified (minimum) number of years. Having established a multi-year framework which clearly specified the principles and rules, the annual financial discussions would relate to detailed matters of implementation (such as reviewing the basis of assignment of assigned taxes and the calculations of the proceeds of devolved taxes which are collected by the UK Revenue Departments). Much of the criticism directed at the Labour Government's devolution schemes in the 1970s focused upon the predicted annual confrontations over the block grant, especially as the Scottish Assembly enacted in the Scotland Act 1978 would have had no taxation powers (Heald, 1980).

The then Labour Government publicly denied such claims, contending that they were greatly exaggerated. However, internally and without any public announcement, the Government adopted a formula-funding mechanism. Although the Assemblies were never established, the formula conceived in the context of devolution survived the change of government in



SECTION TWO

1979 to become a very important pillar of financial relationships between the three territorial departments (the Scottish, Welsh and Northern Ireland Offices) and the Treasury throughout the 1980s. The formula, known outside government as the Barnett formula, after the then Labour Chief Secretary to the Treasury (Joel Barnett), related changes in expenditure on the Scottish block to changes in comparable expenditure in England. If comparable English expenditure increased by £85, the Scottish block was increased by £10, and in like fashion for decreases.

The 10:5:85 (Scotland:Wales:England) formula has been in operation throughout the period of the Conservative Government. There have been two major advantages for Scotland. First, because the formula only applies to changes in expenditure, there has been no possibility of a Treasury attack on levels of expenditure in Scotland. Although the long-term effects of the formula are very complicated, it constitutes a buffer against Treasury criticism of Scottish programmes and has acted to protect Scotland's relative expenditure advantage at a time when Scottish influence in the UK Cabinet was weak. Second, the Secretary of State for Scotland has possessed expenditure-switching discretion within the block. Even if it is English expenditure on education which leads to a knock-on increase in the block, the decision on how this extra money should be spent is one for the Secretary of State for Scotland. This flexibility has unquestionably encouraged more corporate behaviour by the Scottish Office, with nothing like the problems about policy coherence and consistency which affect the separate Whitehall departments. There were genuine doubts in 1979 as to the role of the Scottish Office after the repeal of the Scotland Act. In the event, both Conservative Secretaries of State (George Younger and Malcolm Rifkind) have enthusiastically embraced these enhanced public expenditure programme management responsibilities.

The Inevitability of Asymmetry

It is a fact of life within the United Kingdom that government will



SECTION TWO

be asymmetrical: it is impossible to impose symmetry where none exists. The crucial question will always be to determine which asymmetries are tolerable and which are not. It will always be the smaller peripheral countries which will express demands for distinctive treatment because it is they who do not equate 'British' with 'English'. Hence, there are two possible approaches to tackling these constitutional questions in the particular circumstances of Scotland in 1990. The first is to make appeal to Scottish exceptionalism, relying upon the argument that the impact upon England of what Scotland does will be negligible, and upon the confident expectation that Scottish matters will quickly be viewed as of little interest. Historically, this has been one of the devices by which Scotland has maintained certain distinctive governmental traditions. On this view, the priority is to develop particular institutions for Scotland (an elected Parliament), recognising the likelihood that Wales would eventually follow, and that Northern Ireland might seek to recover its lost devolved status. The second approach would be to delay the establishment of a Scottish Parliament until root-and-branch constitutional reform had been implemented for the United Kingdom as a whole. Unless there existed a clear consensus on what this would involve, this would be a recipe, however well-intentioned, for procrastination and delay. The problem would inevitably relate to England. If the unit in England is to be English regions, then which regions? But if the unit is to be England, then how does one explain that an English Parliament needs to be established when one is assumed already to exist? Moreover, the re-awakened giant that would be England might be expected to prove a very uncomfortable partner for the three smaller countries.

This discussion paper explicitly assumes that the practical world is one of Scottish exceptionalism in which financial arrangements must be tailored which are simultaneously appropriate for legislative devolution to Scotland; do not close off options for Wales and Northern Ireland to follow in Scotland's footsteps; and do not impinge adversely upon England. If Scotland is to obtain a devolved Parliament, it must be voted



SECTION TWO

by a United Kingdom Parliament whose predominantly English membership is more bored with than hostile to Scottish exceptionalism.



Following the exposition of principles it is now possible to look at taxation receipts for the UK public sector. The most useful starting point is the receipts table in the form presented in the Financial Statement and Budget Report 1990-91 (Treasury, 1990d): this is reproduced as Table 1. Unfortunately, neither the Treasury nor the Central Statistical Office publishes an equivalent table of outturn figures for a period of years.

Certain taxes are dominant in terms of revenue from taxes and royalties. Income tax (34.6% of the Budget forecast for 1990-91); corporation tax (13.0%); Value Added Tax (20.2%); and local authority rates (non-domestic rates in the United Kingdom plus domestic rates in Northern Ireland) (7.7%) together constitute 75.5% of total taxes and royalties. Switching attention to general government receipts, national insurance and other contributions figure prominently (16.4% of this broader total), as does the community charge (5.1%) which the Government prefers not to call a tax. Taken together, six sources (income tax, corporation tax, VAT, local authority rates, community charge, and national insurance and other contributions) account for 76.4% of general government receipts.

Two of these six revenue sources can immediately be rejected as unsuitable candidates for devolution or assignment. Questions of economic efficiency and problems of administration immediately rule out corporation tax. Indeed, it might be predicted that, in the context of economic and monetary integration, decisions about corporation tax will drift upwards from the national to the European level. National insurance contributions are unsuitable for exactly the same reasons social security should be retained as a UK function.

Local authority rates have traditionally represented the sole tax available to sub-central government, though the financing system has been radically transformed by the substitution of community charge for domestic rates. Experience in other industrialised countries demonstrates that there could be either devolution or assignment of income-tax powers. European harmonisation rules out any powers to vary VAT but

SECTION THREE

A FIRST LOOK AT TAX OPTIONS



SECTION THREE

schemes of assignment are certainly feasible. These revenue sources are considered in Section Four.

Out of forecast general government receipts of £218.6 billion, the six sources have accounted for £167.1 billion. Moreover, £12.5 billion of the remainder are non-tax items, leaving 'only' £39 billion from all other taxes. Certain of these can rapidly be eliminated as unsuitable for reasons of assessment or enforcement (capital gains tax, inheritance tax); or because they are closely related to UK international obligations (customs duties, agricultural levies). Major problems of enforcement would be likely with duties on petroleum and diesel oil, alcohol, and betting and gaming duties, quite apart from any nervousness about basing the financing of the Scottish Parliament upon activities with 'health warnings' attached. The symbolic importance which the UK Government is likely to attach to maintaining UK control over North Sea taxation revenues has already been stressed.

Not very much is left: stamp duties (£1.9 billion); car tax (£1.5 billion); Vehicle Excise Duties (£3 billion); and other taxes and royalties (£4.4 billion). Nevertheless, the experience of other European countries shows that there are cases which might be considered. Stamp duties form part of the devolved regional taxes in Belgium. In France, the regions and departments levy registration taxes on vehicles and also on the transfer of ownership.

At this juncture, it is important to recall the earlier warning against regarding the financial autonomy of the Scottish Parliament as something which depended upon the number of taxes at its disposal. Symbolism is important but it should not be empty: the target is to generate serious amounts of money through mechanisms other than a block grant. If the revenue yield is small and there are legislative or practical constraints upon tax-variation powers, the advantages of particular devolved taxes rapidly disappear.

First, the more narrowly defined the tax base, the greater the



SECTION THREE

possibility of geographical concentration of that tax base, for reasons which may reflect real economic patterns or may simply be an administrative accident. For example, stamp duties might be expected to be heavily concentrated in commercial centres and areas where property values are high. However, car registrations may be undertaken in particular areas, irrespective of area of use, simply because that is the head office of the company; an important consideration when company registrations account for 13% of car registrations. Whatever the reason, there might be very substantial variations in per capita tax bases. Second, there is the question of whether there would be a specific equalisation scheme, or, more likely, that such revenues would be taken into account in overall equalisation calculations. In Belgium, there is no equalisation scheme for such devolved taxes even though the territorial distribution of such tax bases is very uneven. Third, there will be specific factors which influence decisions as to which of such taxes should be devolved. An obvious point is geography: the scope for variation without provoking wasteful avoidance measures by taxpayers is generally much smaller in the United Kingdom than in the United States where, for example, distances often prevent shopping expeditions to lower tax areas. It seems possible that the devolution of certain registration and licensing duties in Belgium might be partly a non-fiscal matter, in so far as it may in part be intended to minimise friction between language groups. Although Scotland is buffered by a sparsely populated border with England, the densely-populated nature of the United Kingdom limits options. Fourth, it is important to avoid suggestions that there is an earmarking of particular taxes for particular expenditure purposes, and to maintain the 'block nature' of the financial relationship between the UK Government and the Scottish Executive, and of that between the Scottish Executive and local authorities. There is a temptation to argue for devolving Vehicle Excise Duty, partly on the grounds that road transport would be devolved, and partly on the basis of European precedents. However, Scotland would have fewer vehicles per capita than England, and a much higher level of road miles per capita. Neither should it be forgotten that the most important



SECTION THREE

road for the Scottish economy might well be the M6 through Cumbria!

The overall conclusion of this discussion is as follows. Some possibilities for other devolved taxes exist in the longer term, but they are not sufficiently promising to justify a great deal of attention at present. Attention will therefore focus upon income tax, VAT and local authority taxation.

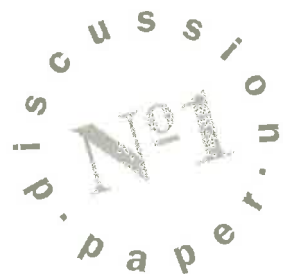


Income Tax: Assigned Revenue and Variation Powers

A Scottish Parliament must have the power to vary the level of public expenditure in Scotland, relative to its assessed expenditure need. Most of this flexibility must come from the tax-variation powers possessed by local authorities and a tax-variation power for income tax exercised by the Scottish Executive. There are various ways in which the latter could be implemented.

If there was to be devolution all-round (say, for English regions as well as Scotland, Wales and Northern Ireland), the neatest solution would be to have two income taxes: a UK income tax and a devolved income tax levied upon the same taxable income. Instead of the present basic rate of 25%, the UK basic rate might be set at 15% and the devolved income tax at 10%. Thus, there would be two income taxes instead of one, but the total rate would remain at 25%. One could safely predict that opponents of devolution would attack such a plan, implying, if not directly saying, that two income taxes would be twice as burdensome as one. There would have to be confidence that, after an initial fuss, it would be recognised that it is the total rate that matters.

Tax rates are now significantly lower than in the 1970s, which means there is less of a problem in terms of cumulative marginal rates in the case of two different governments sharing the same tax base. However, there would certainly have to be an upper limit to the devolved tax rate, and probably a lower limit as well. Thus, the devolved taxes would fall in a range, say, of 7.00% to 13.00%, giving cumulative rates in the range 22.00% to 28.00%. The UK Treasury would never concede unlimited access to taxable income, and that is a practical reality which it is wise to recognise from the start. The reason for setting a lower limit requires more explanation. If the devolved assemblies were financed on a strict derivation basis, it might be acceptable for a low-spending assembly to levy a zero rate of devolved income tax. But if there are equalisation mechanisms at work (for example, through an

SECTION FOUR**TAXES FOR A
SCOTTISH
PARLIAMENT**

SECTION FOUR

explicit equalisation payment or through the distribution of an assigned tax such as VAT on a per capita basis), there would certainly be strong objections from those regions which might consider that they are explicitly or implicitly providing these equalisation payments. The issue would be whether an assembly with high-needs/low-resources could engage in tax-rate competition against other assemblies.

Much of the neatness of these arrangements disappears when devolution is restricted to Scotland, or perhaps also to Wales and Northern Ireland. Not least, there would be a difficulty of terminology with income tax in England, where there would be either a higher rate of UK income tax than in devolved countries, or an English income tax with nowhere to go except the UK Exchequer. This is unlikely without more fundamental changes: it would be difficult to conceive of the funds of an English Exchequer being at the disposal of the UK Parliament.

An alternative approach would overcome these difficulties if devolution only took place in part of the United Kingdom, possibly initially only in Scotland. It would have the strong advantage of leaving open the possibility of adopting the first model at a later date. The Scottish Executive would be able to levy either 'additional' or 'subtractional' pence on income tax, subject to limits which might be, say, + 3.00% to - 3.00%. Thus, Scottish taxpayers would pay a cumulative rate of 22.00% to 28.00%. This is a relatively modest range though one can expect that the Scottish Parliament would be under strong pressure to limit the 'additional pence'.

This tax-variation power can be conveniently combined with an assignment of part of the basic rate, say, 5 percentage points of the existing 25% basic rate. The reference point is that each taxpayer with a Scottish residence thus pays at the 25% basic rate to the UK Inland Revenue, with 5% destined for the Scottish Exchequer and 20% for the UK Exchequer. However, the Scottish Executive would have the choice of keeping the rates equal, or levying additional or subtractional pence (say, to two decimal places), so that the range for basic rate for



SECTION FOUR

Scottish resident taxpayers would be from 22.00% (subtraction rate of - 3.00%) to 28.00% (additional rate of + 3.00%).

An important technical issue to resolve is whether there would be any resources equalisation for the assigned 5%, or the possible additional up to + 3.00% and subtractionals down to -3.00%. In round figures, Scotland's relative base is likely to be about 95% of the UK base. There are several possible permutations. For example, the assigned revenues might be based upon the actual proceeds of the assigned 5% rate, or upon the proceeds of 5% when applied to the UK average tax base. Furthermore, the proceeds of the additional might be calculated as the actual proceeds, or the notional proceeds if the additional rate was applied to the UK average tax base. In the latter case, the Scottish Exchequer would receive two payments: the actual proceeds from the Inland Revenue, and a resources equalisation (deficiency) payment from the UK Treasury which would be channelled through the block grant.

Similarly, with a subtractional, the reduction in Scottish Exchequer revenue could be either the actual reduction of tax payments by Scottish resident taxpayers or the corresponding notional reduction. These are clearly technical matters of substantive political importance which would be debated closely during the preparation of detailed legislation. An initial position might be that there would be resources equalisation for the assigned revenue, but not for either additional or subtractionals. In this way, additional would not draw in extra Treasury cash and subtractionals would require expenditure reductions exactly equal to the 'foregone' tax revenue.

A much more general point ought to be emphasised. If Scotland wants better public services than would be implied by the application of UK norms to Scottish circumstances, then Scottish citizens will have to pay higher taxes for them. This fact might sometimes seem unpleasant, but it cannot be escaped. The advantage of a devolved Scottish Parliament is that such decisions can be taken by Scotland's elected representatives, whether that decision be in favour of better



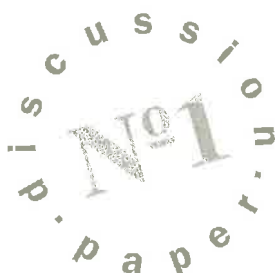
SECTION FOUR

services and higher taxes; worse services and lower taxes; or spending at the UK norm and avoiding any utilisation of the tax-variation powers. Tax-variation powers, to whatever extent they are actually used, constitute both a constitutional mechanism and an escape valve: they locate final budgetary responsibility with that elected body. It is more important that they should exist in a country with pressures towards fragmentation (such as the United Kingdom and Belgium) than in a more 'unified' federation such as the West German. Moreover, the German Laender, just like the Canadian provinces, jointly constitute a counterweight to central power which would have no counterpart in the United Kingdom.

The Assignment of Value Added Tax

The devolution of VAT would be an administrative nightmare, even if it were possible within the European Community. There is enormous Commission pressure upon member states to harmonise national systems of VAT. Moreover, VAT has become the dominant tax on consumption, leaving the traditional excise duties far behind, reflecting moves towards broad-based consumption taxes. Although VAT is not suitable for devolution, it is perfectly feasible to design schemes of assignment.

Therefore, a certain proportion of VAT receipts could be assigned to devolved Assemblies, an arrangement which could also be applied if, at least for an initial period, only a Scottish Parliament had been established. At least four different bases for assignment are candidates for adoption. Scotland's assigned proportion could depend upon either its proportion of 'Vatable' final consumption, or upon a regional analysis of where the value added accrued. The second pair of options involves assignment on a uniform per capita or per adult basis, either of which would have an equalising impact. Given the maintenance of equalisation as a continuing feature of the proposed financial arrangements, there is a powerful argument for assignment on a uniform per capita basis. Moreover, this procedure is simple to implement and would



SECTION FOUR

involve fewer technical controversies than either of the first pair.

The financial resources available directly and indirectly to the Scottish Parliament to fund its programmes would therefore be derived from:

- 1 assignment of and tax variation powers for income tax;
- 2 a population-based share of VAT receipts;
- 3 'access' to the non-domestic rates and either the community charge or a restored domestic property tax, in the sense that (a) local authority tax revenues reduce the need for Revenue Support Grant, and (b) the tax-variation powers of local authorities are themselves relevant to the Scottish Executive's ability to change the level of Scottish public expenditure; and
- 4 a block grant from the UK Government to compensate for Scotland's additional needs, as evidenced by the expenditure needs assessment, and possibly also for deficiencies in its per capita income and property tax bases.

This scheme differs from the Scotland Act 1978 scheme in several ways. First, the Scottish Executive would have its own tax-variation powers on the income tax (whichever of the two models is adopted). Although it is important not to exaggerate the additional revenue that it would be technically and politically possible to generate through the 'additional', the expenditure needs assessment would not be binding in the manner of the 1978 Act arrangements. Second, the Scottish Executive would receive its share of VAT assigned on a population rather than notional-yield basis. This assignment of VAT confers no expenditure-varying discretion, that not being its purpose.

A key advantage of assignment, recognised in both the Belgian and West German systems, is the sense of entitlement which is thereby generated. Assigned VAT would not be a 'gift' of the UK Treasury to the Scottish Parliament (or other devolved Assemblies), but simply a recognition that the nature of VAT makes it imperative to maintain a unified tax administration



SECTION FOUR

which acts on behalf of the various recipient units of government. Most crucially, the degree of 'gearing' possessed by the UK Treasury over the Scottish Executive's finances would be significantly reduced by increasing the proportion which devolved tax revenue plus automatic assigned tax revenue constitutes of the total Scottish budget.

Local authority taxation

Supporters and opponents alike of the 1978 block grant-only mechanism underestimated the importance of the local authority property taxes (domestic and non-domestic rates) in the overall financing of devolved services. The issue mostly surfaced in the context of local authorities being fearful that an Assembly without its own taxation powers would raid local authority finances: for example by abrupt cuts in Rate Support Grant. The Scottish Executive would have to establish collaborative arrangements with the Convention of Scottish Local Authorities because of the interconnections between the Scottish Executive's own financing system and its role in financing local authorities. Responsibility for making the Revenue Support Grant settlement would now fall upon the Scottish Executive. A strong local authority tax base (for example, after a restoration of a residential property tax) would indeed reduce the pressures upon Revenue Support Grant.

To put the matter graphically, without implying any earmarking of particular taxes to functions, one can consider the following: the local taxation decisions of local authorities can generate more (or less) revenue to support the expensive educational and social work functions (58% of local authority current public expenditure in 1989-90) and the income-tax variation powers of the Scottish Parliament can generate more (or less) revenue to support its health function (67% of the Scottish Office's own planned expenditure in 1989-90 (Treasury, 1990b)).

The options for local authorities' own taxes have obviously been complicated by the introduction of the community charge and the associated abolition of domestic rates; the revised ar-



SECTION FOUR

rangements for non-domestic rates; and the firm commitment by the Secretary of State for Scotland to have a uniform system of non-domestic rates with England within five years. This is not the place to discuss in detail the options relating to the future of the community charge, but some background is essential, especially as there are likely to be further developments before a Scottish Parliament is established.

First, the level of the community charge could be held down, and either Revenue Support Grant increased, or functions such as education removed from local authorities. Community charge could be banded according to income, as in the unsuccessful 'Mates' amendment which proposed three levels of charge linked to income tax liability: 50%, 100% and 150% of the standard charge (Mates, 1988). A difficulty confronting advocates of this option arises from the Government's switch from April 1990 of the unit of assessment for income tax from married couples to individuals. It would seem difficult to return to a household assessment for community charge rebates, though, on individual assessment, the spouses, partners, parents and adult children who share accommodation with high-income taxpayers might qualify for the lowest band.

Second, there could be a re-establishment of a domestic property tax, whether in the form of a straightforward return to domestic rates or a switch to a capital-value basis (the proposal of the Scottish Council of the Labour Party (1990), now widely known as 'roof tax'). It is important to stress that the choice between a rental-value and a capital-value basis should be viewed primarily as a practical matter, rather than as a matter of principle. An advantage of a return in the first instance to the rental-value basis would be that re-introduction could be much speedier, with only new domestic properties and changes since the 1988-89 valuation roll requiring attention to restore the 1985-based register. A Committee of Inquiry, with a membership harnessing relevant technical expertise and covering a broad spectrum of political opinion, should then be established with a remit to consider the basis

discuss
No 1
paper

SECTION FOUR

of the next revaluation, notably the pros and cons of a switch from rental values to capital values, and possible indexation between revaluations. It was always expected that the large-scale sale of council and new town houses would make capital valuation easier, though the volatility of the price level and regional differentials in the housing market (Holmans, 1990) since the Layfield Committee Report (Layfield 1976) may have swung the balance of the arguments. England represents a much greater political difficulty because the last domestic revaluation was in 1973, and these rateable values must diverge massively from the results of a new revaluation, whether on a rental or capital-value basis.

With the introduction of the community charge, it would seem that the Conservative Government has decisively lost one argument (concerning its fairness) but has won another (concerning the proportion of electors who visibly pay taxes to finance local services).

The community charge is widely regarded as unfair, even by many of those who have benefited (such as higher income groups and single-person households in good accommodation). Such a flat-rate payment unrelated (except for rebates) to ability to pay has offended public attitudes about fairness in taxation. The impact of the introduction of the community charge has been sharpened by the simultaneous adoption in England and Wales of the uniform business rate, with the intended result that all marginal expenditure has to be financed by the community charge. The probable political strategy of the Conservative Government in the run-up to the next election will be to soften the impact through more generous rebates, higher Revenue Support Grant and tighter controls on local authority expenditure above Standard Spending Assessment. There is always a risk that responsibility for the financing of education might be removed from local authorities. In England, the community charge seems to have been a major error, as evidenced by the political backlash and scenes of civil disorder. The Scottish Office showed much more sensitivity in handling the introduction of the community



SECTION FOUR

charge than did the Department of the Environment, in terms of easing local authorities' first-year problems.

For those who wish to abolish the community charge, there are two lessons to be drawn from the Government's present difficulties. First, the abolition of the community charge would have to be swift, whilst memories are still alive of the unfairness of the earlier switch of the local tax burden. Second, to the extent that such changes in tax payments have been capitalised in house prices, the return to a domestic property tax would inflict capital losses in the higher price ranges. Although sound empirical evidence is difficult to produce because of other factors leading to instability in house prices, much media discussion and political flak can be predicted. Enormous political resolve would be required to ride out that storm.

The other side of the coin to the perceived unfairness of the community charge is that the Government has won a handsome political victory with the 'everyone-should-pay-for-local-services' argument. It is therefore necessary to assess the future implications of this success. The issue dates back to English conflicts between central and local government in the mid-1980s: significantly, these focused upon inner London which dominates the attention of politicians, the media and policy-makers.

'Overspending' local authorities were accused of exploiting industrial and commercial ratepayers and, indeed, domestic ratepayers on the basis of what were implied to be false mandates. The argument, couched in various degrees of explicitness, was that Labour local authorities were elected by those who did not pay rates (non-ratepayer adults) and those benefiting from full or partial rate rebates (lower-income group ratepayers). Thus, it was argued, local accountability was breached because such electors could vote for overspending Labour-controlled local authorities, secure in the knowledge that others would pay.

discuss
No 1
paper

SECTION FOUR

To evaluate this argument would require a discussion of how households organise their personal budgets (to examine the effects within households 'headed' by a ratepayer) and careful studies of voting patterns (to see if those on full rebates were more likely to vote Labour, having standardised for other variables). However, the validity of this argument is not the matter in hand, rather its influence. (Other groups sometimes alleged not to pay rates were private tenants — where the landlord actually made the rates payment — and, quite astonishingly, council tenants. The latter fallacy is in part a result of unified payments for rent and rates.) The Government's acceptance of the argument not only played a role in the decision to adopt the community charge, but also prompted the earlier decision to limit access to rebates so that each ratepayer paid at least 20%. This major proposal of the 1985 Fowler Review of Social Security was applied to rates in 1988-89, and then to the community charge.

To provide background to these arguments, data for (as near as possible to) 1989-90 will be useful. There were 2,089,724 domestic subjects on the valuation roll as at 1 April 1988. The Registrar General for Scotland's mid-year population estimate at 30 June 1989 was 5,090,700 of which 3,922,118 were adults. The electoral register based on residence at 10 October 1988 and effective 16 February 1989 recorded 3,932,911 electors in Scotland. The community charge register for 1989-90 has been assumed for grant purposes to contain 3,840,038 charge paying units (with students counting as fractional units) (Scottish Office, 1990b). The Inland Revenue's sample survey of persons with income tax liabilities in 1986-87 estimated that there were 1,740,000 Scottish income taxpayers, treating married couples as one unit (Board of Inland Revenue, 1990). These totals have each been calculated on the basis of particular definitions specific to their main purpose, and are each subject to margins of error. However, they do provide orders of relative magnitude. The Government has insisted that 'more backs' should carry the burden of financing local services.



SECTION FOUR

Having recognised the Government's political success with the 'everyone-should-pay-argument', it is necessary to reflect upon how this would affect the re-introduction of a local authority domestic property tax in the context of the financing package for a Scottish Parliament.

First, with a restored domestic property tax, every ratepayer should, wherever possible, receive a single-purpose invoice for the tax. Such an arrangement presents no practical difficulty in the case of council, new town and housing association tenants: the higher costs of collection are the price to be paid for making more explicit the distinction between rent and rates. Certain compromise arrangements, involving a compulsory statement distinguishing rent and rates, would probably have to suffice for the private-sector furnished rented market.

Second, insufficient defence was made of domestic rates on the grounds that UK taxation financed a significant proportion of local authority expenditure. Everyone is familiar with the complaint about the low-income elderly single person in one house paying rates, whilst in the next house there live four wage earners. Given these circumstances, the elderly person is likely to be in receipt of rate rebates, financed out of national taxation. The four working adult household would be paying a much greater amount in UK taxes such as income tax and Value Added Tax, which feed the common pool out of which central government grants to local authorities are paid.

Third, there are difficult questions to be answered about the generosity of the rate rebate scheme, and whether the 20% minimum should be maintained. Housing expenditure is lightly taxed in the United Kingdom, and this sector has absorbed a disproportionate share of household savings, arguably to the detriment of the productive capacity of the economy. The United Kingdom is seriously out of line with other European Community countries. Although it is hardly likely to be a politically popular thing to say, there should be concern that full rebate systems will encourage under-occupation and reduce

discuss
No 1
paper

SECTION FOUR

the efficiency of the utilisation of the existing housing stock. There is a difficult balance to be struck between avoiding personal hardship and disruption, and encouraging wasteful under-occupation. A possible compromise would be to keep the 20% rule but to make a sufficiently generous increase in benefit levels so as to provide compensation for the average ratepayer.

Fourth, the 'everyone-should-be-seen-to-pay' principle might be maintained by keeping the community charge, but making it do less work, say, averaging £110 per adult rather than the 1990-91 Scottish average of £328. It would then supplement the re-introduced domestic property tax which could also be set at a lower level. It would be possible either to insist that ratepayers also paid the community charge or that ratepayers whose rateable value exceeded a certain sum (ie to avoid problems with lock-up garages) were exempt. It could be argued that flat-rate taxes or quasi-taxes have become acceptable in other contexts. The colour television licence fee of £71 is effectively a household tax when most households have colour televisions and the British Broadcasting Corporation is no longer a public monopoly supplier. The Vehicle Exise Duty for private cars is a flat-rate £100. With both these licence fees, there have been enforcement problems.

There are two overwhelming arguments against a retention of the community charge in this form, even though it would leave unchanged the present number of local taxpayers. The circumstances of the introduction of the community charge have been too controversial to permit such a continuation. There would be enormous pressure to abolish the community charge, and to dismantle the registration and collection machinery in order to make its re-introduction more difficult. Moreover, Ridge and Smith (1990) have estimated that the level of administrative and collection costs of the community charge has been twice that of domestic rates. A rounded assessment of particular taxes cannot focus solely upon the level of administrative costs, not least because some taxes might be cheap for public authorities to collect but impose heavy compliance costs upon



SECTION FOUR

taxpayers. Neither, however, can such matters be ignored. Cutting the level of the community charge from £328 to £110 would not alter the administrative and collection costs, but would multiply by three the ratio of collection costs to revenue. To make the community charge worth keeping thus involves setting its level higher than would appear to be politically acceptable: it is much more difficult to keep track of the movements of individuals in a non-intrusive way than it is to ensure that taxes are paid on the occupation of domestic property.

Fifth, in addition to the property tax, local authorities might be given access to income tax revenues in a way which identified part of the income tax paid by Scottish residents as being to finance local government services. Therefore, the following groups would visibly be paying taxes to finance local services: ratepayers; and those Scottish income tax payers who were not also ratepayers. There might be allegations of double payment by ratepayers, but there are administrative reasons for avoiding any exemption, and strong income distributional reasons for rejecting anything which has the appearance of deducting rates payments from income tax liabilities.

The Scottish Social and Liberal Democrats (1988) policy document supports a local income tax, with the rate variable by each local authority, rather than a domestic property tax. However, such a scheme within Scotland would be far more appropriate in the context of the existing Scottish regional authorities which that party is pledged to abolish in favour of single-tier authorities. The clash between payment on the basis of place of work or place of residence would be much more acute in England, where the county boundaries were not comprehensively redrawn in the 1974 re-organisation. Moreover, there is contemporary discussion of the possible abolition of the English shire counties, the metropolitan counties having gone in 1986. Although it is a matter of political judgement rather than a technical matter, it seems that the profound uncertainties about England would spill over and delay devel-



SECTION FOUR

opments in Scotland. This would happen particularly if the following speculation proved well-founded: the Treasury, whilst it would not be happy with a devolved income tax along the lines proposed in this paper, would vigorously resist plans to make 500-odd local authorities into income-tax levying jurisdictions. At the very least, delay would be inevitable. It is difficult to assess such speculations, but such a concern should not be lightly dismissed.

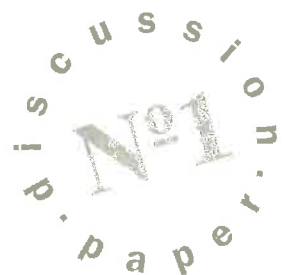
There is another possibility which might be discussed: namely, that part of the proceeds of the Scottish income tax be assigned to local authorities. Thus, the Scottish Parliament would possess tax-variation powers over income tax but local authorities would not, instead receiving as an entitlement a predefined poundage or percentage of Scottish income tax. The shortfall of local tax revenues as against local authority expenditure would otherwise have to be met by Revenue Support Grant. With such an assigned local tax, the Revenue Support Grant would be correspondingly lower. It should be recognised that there is an important element of symbolism in such arrangements, though symbolism is itself an important feature of durable decentralised taxation arrangements. A large proportion of the Rate Support Grant was effectively a population grant and not equalising for differential resources or needs. It would therefore have been possible to maintain resources and needs equalisation with a much lower level of Rate Support Grant. This would remain true with a future Revenue Support Grant supporting a property tax; there having been a prior distribution of the assigned local income tax on a population basis. There would thus be a consistent philosophy underpinning UK Government-Scottish Executive financial relationships and those between the Scottish Executive and local authorities: namely, to ensure a reasonable level of own revenues; to build entitlements to assigned taxes; and to reduce grants as far as possible to the levels required to satisfy resources and needs equalisation objectives.

It should be recognised at this juncture that a major obstacle to producing a viable structure of financing for the Scottish



SECTION FOUR

Parliament and for local authorities is presentational. Opponents will caricature plans as involving two or even three income taxes instead of one. Much political courage will be required to ride out that criticism, by means of emphasising that it is the total rate which counts; by acknowledging that tax-rate variations will be subject to explicit limits; and by pointing to experience in economies more successful than the United Kingdom where taxpayers and electors are accustomed to such arrangements. Undoubtedly there would be controversy, but confidence would have to be placed in the understanding and judgement of the Scottish electorate who, after all, are being considered sufficiently mature to have their first Parliament since 1707.



SECTION FIVE

THE SCOTTISH EXECUTIVE'S BUDGET OF EXPENDITURE AND REVENUE

Existing Scottish Public Expenditure Programmes

The previous sections of this discussion paper have examined the principles relevant to the financing of the Scottish Executive's expenditure, marked out a feasible course of action, and indicated a number of possible variations on the basic model. The purpose of this section is to examine the expenditure which will have to be financed, and then to put figures on the financing package.

The expenditure responsibilities of the Scottish Executive would be almost exactly the same as the existing expenditure responsibilities of the Scottish Office. Although there are likely to be detailed discussions about precise dividing lines between the functional responsibilities of the Scottish Executive and the UK Government (for example, concerning economic, industrial and agricultural matters), the eventual allocation of those responsibilities would not have a major impact on public expenditure magnitudes. Responsibility for the expenditure block, the mechanism at the heart of the existing financial machinery, would pass from the Secretary of State for Scotland to the Scottish Executive. The most significant additional expenditure is likely to be the financing of Scottish universities, and a Scottish contribution to the UK research councils.

The Scottish Office has for several years published the excellent annual volume, *Public Expenditure: Commentary on the Scotland Programme*. The latest issue (Scottish Office, 1990a) covers the period 1990-91 to 1992-93, though for reasons explained below, much of the discussion will proceed with reference to the previous issue covering 1989-90 to 1991-92 (Scottish Office, 1989a; Treasury, 1989b). In this document, the Scottish Office has provided much greater information on the Scotland programme than it is possible to provide in the Scotland chapter (Treasury, 1989b, 1990b) of the annual public expenditure White Paper.

Until the 1990 public expenditure White Paper (Treasury, 1990a), the public expenditure planning total included public



SECTION FIVE

expenditure incurred by central government and local authorities, together with the external financing of nationalised industries (Treasury, 1989a). In July 1988, however, the Treasury (1988) announced a revised definition of the planning total: the public expenditure of central government, central government support for local authorities, together with the external financing of nationalised industries. Central government support for local authorities is defined to include Revenue Support Grant, non-domestic rates, current specific grants, capital grants, and credit approvals (England and Wales) and net capital allocations (Scotland). Local authority self-financed (i.e. from community charge and capital receipts) expenditure, is therefore excluded from the planning total.

Three reasons have been given for this revision of the planning total. First, with the new arrangements for local accountability via the community charge and the uniform business rate, the level of local authority expenditure would become a matter for local decision. Second, the forward plans for local authority expenditure in earlier White Papers had, in reality, been a mixture of hopes, prayers and fears: a strange hybrid of what central government hoped local authorities would spend and what it expected they would spend. Third, few other industrial countries include local government expenditure in their central government budgetary documents: Treasury (1988) cited France and Netherlands among unitary states, and Canada, United States and West Germany among federal states as examples of the dominant practice. It is not appropriate in this paper to become involved in a discussion of the advantages and disadvantages of this revised definition of the planning total, other than to comment that the capping of the community charge of 21 English local authorities casts a long shadow over the 'enhanced local accountability' argument.

What matters in the present context is that the revision of the planning total, and the accompanying minor redefinitions of what constitutes public expenditure, have produced a major break in data series. There are no forward plans for local authority expenditure in either the 1990 Commentary (Scottish



SECTION FIVE

Office, 1990a) or the Scotland chapter of the 1990 public expenditure White Paper (Treasury, 1990b). Therefore the tables in those documents fail to provide forward plans for that public expenditure in Scotland which would fall within the direct responsibility or oversight of a Scottish Parliament. The main exposition will therefore proceed with reference to the Scotland programme of the 1989 White Paper which is reformatted here as Table 2. (For reference purposes, the 1990 table is similarly reformatted as Table 3.)

Table 2 shows that the 1989 White Paper planned Scottish block expenditure to be £8,553 million in 1989-90 and total expenditure within the Secretary of State's responsibility to be £8,974 million. Because of the changed public expenditure definitions, the only comparable outturn figure available for 1989-90 is £9,297 million for total expenditure within the responsibility of the Secretary of State (Treasury, 1990c). The only analysis of this substantial difference is that £5 million is attributable to classification changes and £318 million to other changes.

Until the redefinition of the planning total, it was block expenditure in Table 2 which was controlled by the 10:5:85 Barnett formula. (The formula now controls changes in the revised block of Table 3.) The old definition of the planning total provides a much better indication of that expenditure which would have to be financed by the Scottish Parliament and Scottish local authorities from the following revenue sources: taxes devolved to or assigned to the Scottish Executive; local authority taxes; block grant from the UK Government to the Scottish Executive; and borrowing by local authorities, and possibly also borrowing by the Scottish Executive. UK public expenditure plans are defined on a net expenditure basis, meaning that fees and charges for services are in general deducted from gross expenditure. Higher charges for services would permit higher levels of gross expenditure consistent with an unchanged net expenditure. The corollary is that lower charges for services mean that gross expenditure must be



reduced by an offsetting amount.

SECTION FIVE

Financing of Local Authority Expenditure

Only central government support to local authorities is included in the new planning total, and therefore in the Scotland programme. In the present context, however, it is essential to maintain an overall view. Thus far, attention has focused upon public expenditure figures, with no attention having been paid to its financing.

Unfortunately, there is no published analysis of the financing of Scottish local authority expenditure which is consistent with public expenditure White Paper definitions. Table 4 reproduces the UK table from the 1990 public expenditure White Paper (Table 21.4.13 of Treasury, 1990c). There is no equivalent table for Scotland and there might be difficulties in producing such a table: the national accounts adjustments are not analysed by country. Table 4 illustrates the complication introduced by the differences between the public expenditure White Paper definition of local authority expenditure and the definition of General Government Expenditure as used in the national accounts. The latter includes debt interest and non-trading capital consumption. It seems likely that, following the narrowing of the planning total, more Treasury analyses will focus upon General Government Expenditure (Central Statistical Office, 1990b). If so, it will be very important to ensure that published data show the financing of Scottish local authorities on both White Paper and national accounts bases.

The Scottish Office publishes an annual statistical volume, *Scottish Local Government Financial Statistics*, the latest issue of which relates to 1987-88 (Scottish Office, 1989b). This is prepared in accordance with local authority accounting practice, notably with regard to the inclusion of loan charges as part of revenue expenditure. No reconciliation is effected to the public expenditure White Paper tables. From this perspective, the Scottish Office document is modest in its ambitions and does not provide the required links between the public



SECTION FIVE

expenditure and local authority accounts totals. An important technical point has emerged. It is much more difficult than might be expected to piece together the various sources of information on the expenditure and finances of the Scottish public sector. Such reconciliations are clearly relevant to the task of assembling the various parts of a financing package for a Scottish Parliament. Quite apart from its relevance to devolution, the published data ought to be improved.

The control of capital expenditure and the use of borrowing powers have emerged from this discussion as issues requiring careful consideration. There are major differences between the capital control systems for local authorities: credit approvals in England and Wales and net capital allocations in Scotland. Moreover, there is the question of whether the Scottish Executive would have its own borrowing powers, or whether the existing UK practice of, in effect, charging central government capital expenditure to revenue would continue. Detailed discussions on these points will be affected by the development of systems of capital charging within the public sector, notably for National Health Service property and for university property. For macroeconomic reasons, there will have to be co-ordinating machinery involving the UK Treasury and the Scottish Ministry of Finance. The United Kingdom Regional Exchequer Board would have to play a role in documenting and monitoring accounting practices in this area, in order to avoid the bizarre practices which plagued English local government in the 1980s (such as the sale and leaseback of lampposts by the London Borough of Camden in order to evade expenditure controls). On this point, both the UK Treasury and the Scottish Ministry of Finance would have a mutual interest in maintaining the integrity of the data: the former for macroeconomic management and the latter because lapses would unquestionably provoke a brutal reassertion of Treasury dominance.



A Digression on Public Expenditure Relatives and Relative Need

SECTION FIVE

It is now appropriate to consider the available evidence on public expenditure relatives in the United Kingdom, as such information is likely to figure prominently in debates about the financing mechanisms and to influence the eventual decisions which will shape the budgetary outlook for the Scottish Parliament's early years.

The Treasury has published on an annual, if slightly irregular basis, tables on identifiable public expenditure in Scotland, England, Wales and Northern Ireland, in the form of an annual written parliamentary answer. Identifiable expenditure goes beyond expenditure within the control of the Secretary of State for Scotland, to embrace regional assistance, universities and research councils, and social security. Increasing political attention has been paid at Westminster to the advantageous position held by Scotland in relation to the UK average. Table 5 reproduces part of the latest annual written parliamentary answer (Lamont, 1989) in order to show the coverage of the statistics, and the detailed programme relatives. A difficulty with successive answers is that they are never republished in a formal statistical publication, with errors then being corrected and revisions made for changing definitions.

Table 6 converts the figures which have been published for the years 1973-74 to 1988-89 on to more consistent definitions, though there are limits to what can be done without access to the source data. The reason for there being five entries is that each annual parliamentary answer provides data for a rolling five-year period. Although problems remain, these revisions make the data sufficiently robust for present purposes. Throughout the 1980s, the Scottish per capita relative has been fairly stable, at just over 120 to a UK base of 100.

Identifiable expenditure is much wider than the Scottish block, and the identifiable expenditure relative is much influenced by the 'low' relative of 106 (Lamont, 1989) for the massive social security programme. Table 7 reproduces the present author's

discuss
No 1
paper

SECTION FIVE

approximations of the relatives based upon the Scottish block of the old planning total definition. These proxy calculations suffer from a lack of published data, but confidence can be attached to the broad picture which they reveal. The Scottish block proxy relative for 1987-88 stands at 130.4 (UK = 100), considerably higher than the 123.8 on the identifiable expenditure relative. In terms of financing the Scottish Executive's range of services, the former is the more relevant figure. Rebasings the index on England = 100 gives a Scottish block proxy relative of 137.7. (The reader is referred to Heald (1989b, 1990) for detailed discussion of the computational method.)

The obvious question is to what extent this high Scottish block proxy relative can be justified in terms of relative needs. There is no way of providing a firm answer to that question without a thorough expenditure needs assessment exercise. What can be done is to reproduce (as Table 8) the indexes provided by the Treasury's Expenditure Needs Assessment Study, conducted as an interdepartmental exercise in advance of the implementation of the Scotland Act 1978 and later published (Treasury, 1979). On the basis of a slightly different list of programmes, Scotland's 1977-78 expenditure relative (England = 100) is given as 128, and the (undated) relative needs index for Scotland is given as 116. Although the data are not directly comparable, Tables 7 and 8 taken together indicate an increase since the late 1970s in the Scottish relative for expenditure programmes likely to be devolved. Only a UK-wide expenditure needs assessment comparable to Treasury (1979) could establish whether Scotland's relative need index has also increased over that period.

Two major steps have thus been identified. First, there will have to be a new Expenditure Needs Assessment Study, a task which should not this time be left exclusively to the Treasury to co-ordinate. This is an exercise for which there should be co-chairs: one from the Treasury and one from the proposed United Kingdom Regional Exchequer Board. Because of the technical complexity and political sensitivity of the exercise,



SECTION FIVE

the devolution legislation should include a requirement that this exercise be repeated at intervals of not less than 8 years and not more than 12 years. Second, two distinct formula mechanisms will be required. An interim formula will be required so that the transition from Scottish Office to Scottish Executive managed block can be smoothly effected. The simplest and most convenient approach would be to continue the Barnett formula in its present form until a predetermined date by which the Expenditure Needs Assessment will have been published, and the main report (and possible minority reports) digested. The second formula will be devised to operate for a minimum 10-year period, and will have to cope with revealed divergences between actual expenditure relatives and relative need indexes. It should be stressed that what is at stake here is the 'residual' block grant, because the tax devolution and assignment provisions will have been written in to the devolution legislation.

Changes in the block grant will be explicit, and because of the role of devolved, assigned and local taxes, will have a much lower gearing than has become customary with high percentage rates of Rate/Revenue Support Grant. Although it would be unwise to guess at the detailed outcome of the Expenditure Needs Assessment Exercise, the Scottish Parliament would have to recognise the probability that the relative needs index would be lower than the actual relative. In such an eventuality, the design of the formula for a concomitant reduction of block grant over a period of years would be a critical issue. It is this net-of-transitional grant difference between actual and assessed expenditure which would have to be financed by higher-than-UK-average rates of either property tax or income tax, not the total difference between per capita spending. Exactly the converse would apply if Scottish spending were set below its Relative Expenditure Need. A similar question about relative spending levels is likely to arise whether or not there is a Scottish Parliament, though devolution will make its resolution a much more publicly-observable activity.



SECTION FIVE

Revenue to finance the Expenditure of a Scottish Parliament

Rough orders of magnitude can be estimated for the amount of revenue which might be generated from the various elements of the financing package. It should be emphasised that there will be no change to Scottish taxpayers' payments where the mechanism is assignment, only when tax-variation powers are utilised or when one tax is substituted for another.

1) Assigned Income Tax and Tax-Variation Powers

Administrative records of tax payments are, from a regional analysis point of view, contaminated by a 'payroll office effect'. However, the Board of Inland Revenue conducts an annual sample survey of personal incomes which, utilising administrative data on taxpayer residence, generates an analysis of tax liability by English county and Scottish region (Board of Inland Revenue, 1989). The latest published year is 1986-87 (Board of Inland Revenue, 1990) which is limited to an analysis by standard statistical region; the more disaggregated analysis being temporarily withdrawn because of difficulties with addresses which contain a shire county name but which properly fall within a former metropolitan county area. This source gives the estimated number of Scottish taxpayers as 1,740,000 (8.53% of UK total) and the estimated total tax liability as £3,240 million (7.48% of UK total). Moreover, there is a marked difference between the 1986-87 figures given above for Scottish taxpayers and tax revenue as a proportion of UK totals and those calculated from the 1985-86 data (8.76% of taxpayers and 8.35% of tax revenue) (Board of Inland Revenue, 1989). No information can be provided from this survey about higher rate taxpayers at county level because there would be too few observations. The estimated number of UK taxpayers paying at higher rates was 1,120,000 in 1986-87: this constituted 5.5% of taxpayers and referred to a year in which married couples were counted as one tax unit. Surprisingly, there is no regular publication of what proportion of total income tax revenue comes from the basic rate and how much comes from higher rate(s).



SECTION FIVE

However, there have been written parliamentary answers also based upon the survey of personal incomes. Quite apart from problems arising from data revision and year-to-year differences, there are serious problems of interpretation attached to such material presented in written parliamentary answers because of the sparseness of explanation of the calculations. Lilley (1990) provides the following figures for 1988-89, based upon the (as yet unpublished) 1987-88 survey of personal incomes: tax liability at higher rates as a percentage of total tax liability (17%); and liability of higher rate taxpayers as a percentage of total tax liability (33%). It will be assumed that the difference (16%) represents higher rate taxpayers' liability at basic rate. There has been a major change in these figures over the last decade: the comparable figures for 1978-79 were 9%; 20%; and 11%. The adoption of independent taxation for married couples will affect these proportions. The Treasury's 1990 Budget briefing note provides no forecast comparable to the above, but estimates that there will be 1,710,000 higher rate taxpayers in 1990-91 out of a total of 25,670,000 taxpayers, these figures being noticeably higher than those used earlier in calculations for 1986-87. Calculations for Scotland using such sources can only be broad-brush, not least because the figures may themselves be volatile and the available data do not always relate to the same fiscal year.

The Financial Statement and Budget Report (Treasury 1990d) forecast income tax revenue as £48.7 billion (1989-90: estimated outturn) and £55.0 billion (1990-91: 1990 Budget forecast). Taking 17% as the incremental revenue from higher rates, the revenue attributable to basic rate is 83%: £40,421 million in 1989-90 and £45,650 million in 1990-91. Because of the lack of data, it is necessary to ignore the complication stemming from differences between the relative importance of higher rate tax liability in Scotland and the United Kingdom. Making the assumption that Scotland's proportion of UK tax revenue has not changed since 1986-87 (7.48%), estimated Scottish revenue from the basic rate would be £3,023 million in 1989-90 and £3,415 million in 1990-91. Treating these figures as accruing from the basic rate of 25%, these rough-



SECTION FIVE

and-ready calculations suggest that each 1% rate produces £121 million in 1989-90 and £137 million in 1990-91. Therefore, a 5% assignment would yield £605 million and £685 million, respectively. (In anticipation of a later conclusion that more reliance should be placed upon the assignment of income tax, it is worth noting that the comparable figures for a 10% assignment are £1,210 million and £1,370 million.) Behavioural responses do not have to be considered because what is at stake is a straightforward substitution of an assigned Scottish rate for an equivalent UK rate.

The Treasury published summary figures from its 'Tax Ready Reckoner' at the back of the Autumn Statement (Treasury 1989c). These estimates are model-based, allowing for estimated behavioural responses by taxpayers. For the United Kingdom as a whole, the estimated yield of an increase or decrease of 1% in the income tax basic rate is £1,500 million in 1990-91. Applying to this the 7.48% already used above gives a Scottish figure of £112 million. There is a considerable gap between these figures and those calculated above: it is not clear how much of that difference (for example, £137 million as against £112 million for 1990-91) is due to data problems and how much to the behavioural responses of taxpayers built into the 'Tax Ready Reckoner' figures. Such behavioural effects might, of course, be different in the case of a Scotland/England differential in rates than in the case (upon which the estimates are based) of a UK-wide change of rates. However, taking these figures at face value and then extrapolating them to the proposed permitted variation range of 22.00% to 28.00%, the width of this range in revenue terms in 1990-91 would be £672 million. It should be noted that these calculations have been done on the basis of no equalisation of per capita tax bases. Although tax base equalisation would be likely to take place in the case of assignment, numerical calculations remain on the basis of no equalisation. The first of the above results is used for illustrating tax assignment, and the second for illustrating tax variation.

discuss
No 1
paper

SECTION FIVE

The full utilisation of the proposed income tax variation power would be consistent with actual Scottish public expenditure being either £336 million above or below the Expenditure Needs Assessment. Treasury (1989b) shows the planned Scottish block for 1990-91 (old planning total basis) as £8,860 million. Taking Table 7's proxy estimate that the Scottish block relative was 130.4 (1987-88 being the latest figure calculated), this means UK-norm expenditure would be £6,794 million: a difference of £2,066 million. Taking, solely for purposes of illustration, Scotland's Relative Need Index of 116 (England = 100) from Treasury (1979), and making a rough conversion to UK = 100, Scotland's Relative Need Index would be 111.4 if relative need had not changed over the last decade. Scotland's Expenditure Needs Assessment would be £7,569 million, still £1,291 million below the actual planned level. These calculations are very crude, but give some indication of the magnitudes involved. Even with tax-variation powers on income tax and a restored local property tax, the Relative Needs Assessment and the transitional formula would clearly be of immense importance.

(ii) Assigned Value Added Tax

The Financial Statement and Budget Report (Treasury, 1990d) gives the following figures for VAT: latest estimated outturn for 1989-90, £29.7 billion; and a Budget forecast of £32.1 billion for 1990-91. VAT would be assigned on a population basis. Scotland's 1991 mid-year projection of resident population is 5,061,000 (8.79% of the UK total). If the financing scheme worked on the basis of a 75% assignment of VAT, Scotland's assigned VAT revenue would be £1,960 million (1989-90) and £2,118 million (1990-91). Whatever the precise scheme, it is essential that the Treasury maintains a strong financial interest in protecting the tax base and the revenue, especially given the possibility that devolution might later apply throughout the United Kingdom.

There would be other possible bases for the assignment of VAT. The Customs and Excise produces no regional analysis,



SECTION FIVE

and any analysis which it did provide would be heavily distorted by its own administrative practices and those of registered VAT traders. For consumers' expenditure as a whole, the Central Statistical Office's (1990a) estimates of per capita consumption (UK = 100) in 1988 were as follows: England (102.2); Scotland (93.4); Wales (86.3); and Northern Ireland (80.4). The published table, covering the period 1978 to 1988, shows an increase in the index for England, but reductions for the other three countries: Scotland's 1978 index was 96.0. Whilst these figures refer to total consumers' expenditure, it should be possible to use the Family Expenditure Survey to analyse consumers' expenditure on goods subject to VAT. Such bases for assignment would, however, be less favourable to Scotland than population.

(iii) Local authority taxation

Possible options for local authority finance have been extensively discussed above. The assumption made here is the simple one that the existing level of revenue from community charge would have been obtained either via the community charge or by the restoration of a property tax. In the context of local authority taxation, it is always important to remain alert to the distinction between gross revenue (which the local authority receives) and net revenue (local authority receipts minus rebates met by central government programmes).

(iv) Putting the numbers together

The obvious difficulty is that the figures drawn from different sources are not directly comparable, partly because of different years and also because of more fundamental problems of comparability. However, it is possible to give a general impression of the financing package.

In the present context, the Scotland programme on the old planning total definition (Table 2) is much more relevant than on the new one. In 1990-91, the Scottish block was planned to be £8,860 million, with the total Scotland programme



SECTION FIVE

standing at £9,130 million (though here there is a complication concerning nationalised industries' negative external financing). It is known that these figures are out of date but no updates have been published: there must even be worries about how easy the Treasury would find it to produce such figures, having changed all its public expenditure databases to the new planning total definitions. To these figures should certainly be added that expenditure on higher education and science now excluded from the Scotland programme but included in identifiable expenditure: in 1988-89, this amounted to £342 million (Lamont, 1989). In the absence of better information, this has been converted from 1988-89 prices to 1990-91 prices using the underlying movement of the GDP deflator cited in Treasury (1990d). There remains the question of regional policy expenditure which is outside the Scotland programme and appears in the identifiable expenditure data submerged within trade, industry, energy and employment: £421 million in 1988-89. Such expenditure is excluded from the following calculations on the assumption that, with regional policy taking on an increasingly European dimension, it would be subject to special financial relationships between the UK Government and the Scottish Executive, and be clearly seen to be financed out of UK resources.

The double-page spread overleaf pulls these data together. What is important at this stage of the debate is the scheme and orders of relative magnitude, rather than the precise numbers. Several problems with data sources, particularly their comparability, have already been documented. On the expenditure side, the changed definition of the planning total has caused problems. There are difficulties combining local authority data and public expenditure White Paper data. On the revenue side, the yield calculations have been crude. With data existing within government, or which could be derived from existing data, a much improved version could be produced. Indeed, the spirit in which these figures are presented is exactly that: to prompt the production of better data by government. Fortunately, the present version is sufficiently robust to form the basis for debates about principles.



SECTION FIVE

Expenditure in 1990-91 is given below, on the assumption that the whole of the Scotland programme is devolved; that universities and Scotland's share of research council funding is added; but that special arrangements are made for the regional policy expenditure currently outside the Scotland programme:

	£ million
existing Scottish block (1990-91 from Table 2 which cannot be updated because of the new planning total)	8,860
remainder of education and science added to block (1988-89 from Lamont (1989) revalued to 1990-91)	388
redefined Scottish block	9,248
agricultural, economic and industrial expenditure (which is outside the block (1990-91 from Table 2) and to be fully-funded outside the block mechanism)	480
Total expenditure	<u>9,728</u>



The available sources of financing for a devolved financial system assumed to be operating in 1990-91 would be:

SECTION FIVE

	£ million
10% assignment of income tax (as calculated in text)	1,370
tax-variation (assumed to be zero on the basis that Scotland's needs assessment relative matches existing expenditure relative)	0
75% assignment of VAT (as calculated in text)	2,118
non-domestic rates (from Table 3)	1,189
community charge or restored domestic property tax (gross yield, taken from COSLA documentation, and of which £248 million is met from UK-funded rebates (Treasury, 1990, Table 21.4.4))	1,114
local authority borrowing net of capital receipts (assumed equal to net capital allocations in Treasury (1990a, Table 21.4.5))	769
taxes and borrowing by Scottish Executive and Scottish local authorities	6,560
full-funding of non-block expenditure (agriculture economic and industrial functions)	480
block grant:	
equalisation for differential needs (assuming the needs assessment study justifies 1987-88 Scottish block proxy relative of 130.4 over redefined block)	2,156
transitional element (interim protection if relative needs index is lower than relative expenditure index: assumed here to be zero)	0
equalisation for differential resources (applying to assigned income tax, property tax, and perhaps the income-tax variation: not calculated here)	
balancing population element (which meets shortfall between total of revenues and assessed expenditure need)	532
Total financing	<u>9,728</u>

discuss
No 1
paper

SECTION FIVE

Wherever possible, these calculations have used known or estimated 1990-91 values as the basis for illustration. There are five issues arising out of the illustrative figures which deserve further consideration. First, there would have to be detailed rules agreed between the UK Government and the Scottish Executive concerning the impact of changes in UK tax policy on the yield of assigned taxes, together with mechanisms for offsetting compensation where appropriate. There should be a statutory commitment to maintaining a high level of resource mobilisation by the Scottish public sector (Scottish Executive and local authorities) and to minimising the reliance upon balancing population grants. Second, there would be dialogue on a wider range of issues than solely the Expenditure Needs Assessment and the multi-year formulae. The substitutability of tax expenditures such as mortgage tax relief and public expenditure on housing is a good example of a case where a comprehensive picture can only be obtained by looking at both the expenditure and revenue sides of the budget. There would be close co-operation in the general areas of agricultural, economic and industrial expenditure (here, assumed to be fully-funded from the UK Government's budget), in the light of the traditionally-dominant UK concerns and the rapidly increasing European orientation of such policies. Third, there are delicate and complex issues to resolve in the field of the interaction between social security (a continuing UK responsibility) and taxation (partly a devolved responsibility). In the case of the tax-variation power for income tax the adoption of UK definitions of taxable income and of UK assessment and collection procedures, keeps such issues in check. However, the operation of the local authority tax-variation power, whether on the community charge or on a restored property tax, raises issues for the social security system. The UK Government would wish to ensure that devolved Assemblies cannot attract more government expenditure into their areas by increasing tax rates, with consequent flow-throughs for benefits. Some form of compromise is likely to be required: that the UK social security system underwrites the community charge/property tax rebate system up to a certain threshold above the UK average tax rate; but that the incremental rebates (perhaps at



SECTION FIVE

UK scales) from higher tax rates would be treated as policy-driven by Scottish expenditure decisions and to be financed from within the Scottish budget. Fourth, the significance of the needs assessment exercise in determining the budgetary context is self-evident from the size of the assumed needs equalisation grant, especially relative to the assigned revenues from income tax and VAT. Indeed, this was the reason for raising the originally discussed 5% assignment of income tax to 10%.

Fifth, there is a number of linked decisions to be taken about local government finance: the form of the replacement for the community charge; whether the present trend for non-domestic rates to be transformed from a local tax into quasi-grant should be reversed; and the relationship between the financing of local government capital expenditure (here, assumed that the net capital allocations system of borrowing approvals is maintained) and the comparable procedures for Scottish Executive direct capital expenditure (here, assumed that the existing central government practice of revenue-funding is continued). Because of the macroeconomic implications, this is an area in which the prior agreement of ground rules with the Treasury is certainly needed.

The numerical illustration in this section is precisely that: not a blueprint but an illustration which focuses attention upon the next layer of questions which has to be tackled once there is broad agreement on the general lines of development of a financing scheme. It is on such issues that the practical experience of other countries, particularly EC members, should help to dispel the notion that there is anything particularly unusual about the desire to establish viable mechanisms of decentralised government finance.



SECTION SIX

REVIEW OF OTHER OPTIONS

The Scottish Constitutional Convention's (1989a, b) consultative documents outlined three possible models for the financing of a Scottish Parliament within the United Kingdom:

- 1 The Scottish Parliament could be allocated a Block Grant based on Scottish needs, similar to that previously negotiated by the Scottish Office.
- 2 The Scottish Parliament could have the power to vary up or down personal income tax, in addition to control over the disbursement of the Block Grant.
- 3 The Scottish Parliament could exercise control over all taxation, including the power to set rates, with a contribution to the UK Government for Scotland's share of the cost of such services as defence and foreign affairs.

The first model is the one which was adopted in the Labour Government's devolution plans in the 1970s. One of the reasons for its current lack of popularity is undoubtedly the desire to distance new proposals from that failed legislation. Nevertheless, the substantive arguments used against the block grant-only model during the 1970s remain valid. There would be a major inconsistency in having extensive legislative powers over inherently expensive public expenditure programmes without also having independent taxation powers. The arrangement would focus an unhealthy amount of attention on the block grant settlement, and members of the Scottish Parliament would be able to castigate the meanness of the UK Government without any danger that they would have to be publicly accountable for raising tax revenue themselves. With taxation powers, it would be much more difficult for a Scottish Executive to disown responsibility for the level of service provision. There would be an option to finance better services, through the use of the tax-variation powers if it was not possible to finance them through greater efficiency in the management of programmes. Similarly, it would be possible to accept a lower level of service provision as the counterpart to lower taxation.

The second model is the one discussed at length in this dis-



SECTION SIX

cussion paper. It should be noted that the present proposals place much more emphasis upon the role of tax assignment than would have been the case in the 1970s. This reflects a desire to create a sense of entitlement to revenue, in recognition that the abrasive centralism of central-local government relationships during the 1980s has eroded the trust which might earlier have been placed in the goodwill of UK governments. Until 1980, the Rate Support Grant had been a facilitating mechanism for intergovernmental transfers: the block grant legislated for England and Wales marked the beginning of a decade of aggressive management of the incentives-to-spend of individual local authorities. (This block grant was never extended to Scotland, where some elements of the earlier traditions of informality and consensus have been maintained.) Assigned revenues (such as part of income tax and VAT) would play not only a symbolic role, but would also have the practical advantage of reducing the gearing of the (quite different but similarly named) block grant to devolved assemblies.

The third model relates to a precepting arrangement, though the two versions which have been publicly debated have profoundly different implications. In the first, the Scottish Executive would precept upon the UK Government for the cost of devolved services, all taxes continuing to be levied and collected by the UK Government. In the second, the UK Government would precept upon the Scottish Executive for the cost of non-devolved services, all Scottish taxes now being levied and collected by the Scottish Executive.

The first version seems, in reality, quite close to the block grant-only model, despite the persuasive use of language. Instead of a block grant from the UK Government to the Scottish Executive, the Scottish Executive would send a precept to the UK Government. UK taxes would continue to be levied at UK rates on Scottish residents and economic activity, with the result of that total Scottish tax revenue - to the extent that this can be meaningfully measured within the context of present institutional arrangements - would entirely depend on UK decisions.

discuss
No 1
paper

SECTION SIX

The second version is quite different, involving all taxes being devolved and the payment of a precept to the UK Government to pay for Scotland's share of the cost of non-devolved services. Michael Fry (1990), documenting his earlier proposals made through the Conservative Constitutional Reform Forum, stated:

In summary, [the proposals] are that the government formed from the Scottish Assembly should have direct responsibility for all revenue raised in Scotland. It should collect the taxes, set its own tax rates, determine what proportion each tax should bear of the total tax-take and be able to introduce new taxes and abolish old ones (subject to the obligations of EC membership). Westminster would, however, by means of a precept, be statutorily entitled to receive out of the Scottish revenue a fixed contribution representing Scotland's share of the common expenditure still provided by certain central departments. The precept would be calculated according to certain objective criteria.

A number of brief observations will be made about precepting systems, particularly the second, envisaging devolution of all taxes. First, there is a tendency to underestimate the administrative cost and disruption, at least in the transitional period, of the separation of tax administrations. In the context of independence, separate tax administrations would certainly be established but that would be in the context of much wider changes. Second, the conceptual and measurement problems associated with attributing satisfactorily the corporation tax profits of multi-plant companies operating in more than one country of the United Kingdom are treated as secondary practical matters. This is not to say that separate tax administrations would never be practical, more to urge caution. Third, there is the doubtful assumption that it would be easier to reach agreement between the Scottish Executive and the UK Government on Scotland's appropriate share of non-devolved services than it is to reach agreement over relative expenditure need for devolved services. 'Objective criteria', to which Fry makes appeal, are likely to be less rather than more helpful in the case of non-devolved services such as defence. The



SECTION SIX

Scottish Parliament would be drawn into debates with the UK Government on the value to Scotland of UK defence expenditure, and this would be dangerous terrain.

Fourth, there is another layer to this debate which relates to perceptions of the balance between revenue generated in Scotland and public expenditure in Scotland. Fry's calculations produce a small Scottish budget surplus in 1987-88. Much wider media attention has focused upon the Scottish National Party's (1989a, b) budget documents: the 'Scottish Budget 1989/90' and 'Budget for an Independent Scotland 1989/90'. These calculations showed a Scottish budget surplus of £2,050 million. This result crucially depended upon the treatment of North Sea oil revenues and on the decision to base Scotland's share of the cost of defence in part upon the regional distribution of defence procurement.

Throughout the 1980s, North Sea Oil revenues played a very significant role in the UK economy, peaking in 1984-85 at £12,035 million (Department of Energy, 1990), since when they have sharply declined to a 1990 Budget estimate of £3 billion (Treasury, 1990d). Even at their present level they are obviously influential in the balance of Scottish revenue and expenditure if all or a substantial part of such revenues are treated as Scottish.

Leaving aside that issue, the following figures provide some context for discussions of the likely yield of taxes in Scotland in relation to public expenditure. Central Statistical Office (1990a) provides the following indexes for Scotland in the 1988 regional accounts (UK = 100):

index of total personal income per capital	95.9
index of personal disposable income per capita	97.3
index of consumers' expenditure per capita	93.4
index of GDP at factor cost in current prices (UK less Continental Shelf = 100)	94.0



SECTION SIX

These data suggest that Scotland lags the UK, but not, in international terms, by a wide margin. Given that this pattern is relatively stable over time, it seems implausible that Scotland, disregarding oil revenues, contributes more than the UK average in taxation. There is certainly a wide margin between this set of economic measures, all in the region of 95, and the public expenditure relatives at around 120 (identifiable public expenditure) and 130 (Scottish block proxy expenditure). Given these figures, it is clearly not in the interests of Scotland to pursue the idea of a precept for non-devolved services or, whilst remaining a part of the United Kingdom, to abandon the commitment to UK-wide equalisation.

There is one final comment. In the long-term, public expenditure is likely to be driven by population, and Scotland is suffering both an absolute loss of population and relative population decline. The mid-year resident population projection (Central Statistical Office, 1990c) for 2001 is 4,999,000, to be compared with a mid-year estimate of 5,233,000 in 1976 (probably the reference point for the Barnett formula). The mid-year projection for 2030 is a chilling 4,450,000. Scotland's share of GB population at these dates can be calculated as: 9.57% (1976), 8.69% (2001) and 7.48% (2031). Unless such projections can be falsified, there are clearly profound implications for Scotland's share of public expenditure and its parliamentary representation. But that is to open up the much wider issue of addressing regional imbalance within the United Kingdom.



CONCLUSION

As detailed conclusions have been presented within individual sections, the discussion paper will end with three general observations.

First, a key purpose of this discussion paper has been to provoke debate on financing mechanisms for a Scottish Parliament. Such debate is, of itself, important because of the necessity to prepare not only the technical ground but also the climate of opinion for the moment of decision which might arrive suddenly and unexpectedly. The Outer Circle Policy Unit (1977) paper on how the Scotland and Wales Bill might be improved became a counter in the negotiations for the Liberal-Labour pact, though no commitment was undertaken other than that the Labour Government would consider the proposals. Nothing happened. In contrast, Belgian constitutional developments have been profoundly affected by a prolonged governmental crisis eventually resolved by a five-party accord in May 1988. It is widely believed that the different levels of preparedness of the Flemish and French communities was crucial for the outcome.

Second, there are disturbing gaps in publicly-available information relevant to the finances of the Scottish public sector: for example, about the detailed operation of the 10:5:85 Barnett formula. A number of long-running data series has been broken by the move to the new planning total. The absence of an effective Committee on Scottish Affairs makes it more likely that such problems will accumulate rather than be resolved.

Third, financing mechanisms for a Scottish Parliament are likely to prove one of the main issues of political debate. Such mechanisms ought to be designed so that they offer opportunities for those with different views about the level of public expenditure, thus allowing the Scottish electorate to choose between political parties offering different levels and mixes of public services. It will be tempting for those in favour of a Scottish Parliament to hide from the question of financing. Such a temptation should be firmly resisted.



TABLES

- 1 Analysis of United Kingdom General Government Receipts from 1990 Red Book
- 2 The Scotland Programme as in the 1989 Public Expenditure White Paper
- 3 The Scotland Programme as in the 1990 Public Expenditure White Paper
- 4 Financing of Local Authority Expenditure in the United Kingdom
- 5 Identifiable Public Expenditure 1988-89: Per Capita Index (UK = 100)
- 6 Identifiable Public Expenditure Relatives: Expenditure Per Head as % of UK Indentifiable Expenditure Per Head
- 7 Proxy Relatives for Scottish Block Expenditure
- 8 Summary Results of the Treasury's Needs Assessment Study



TABLE 1 ~ Analysis of United Kingdom General Government Receipts from 1990 Red Book

	£ billion	
	1989-90 latest estimate	1990-91 1990 budget forecast
Inland Revenue		
Income tax	48.7	55.0
Corporation tax	21.4	20.7
Petroleum revenue tax	1.1	1.1
Capital gains tax	1.9	2.1
Inheritance tax	1.2	1.2
Stamp duties	2.1	1.9
Customs and Excise		
Value Added Tax	29.7	32.1
Petrol, diesel oil duties etc	8.8	9.7
Tobacco duties	5.0	5.4
Alcohol duties	4.6	4.9
Betting and gaming duties	1.0	1.0
Car tax	1.5	1.5
Customs duties	1.8	1.9
Agricultural levies	0.1	0.1
Other Taxes		
Vehicle excise duties	2.9	3.0
Oil royalties	0.6	0.7
Rates	20.1	12.2
Other taxes and royalties	4.4	4.4
Total taxes and royalties	156.8	159.0
National Insurance and other contributions	33.1	35.9
Community charge	0.8	11.2
Interest and dividends	7.2	6.4
Gross trading surpluses and rent	3.0	3.0
Other receipts	2.5	3.1
General Government Receipts	203.4	218.6

Notes: Constituent items may not add up to totals because of rounding. In this table, community charge is not included in total taxes and royalties whereas in the parallel table in earlier Red Books, all rates payments were so classified. Community charge was introduced in Scotland in 1989-90; in England and Wales in 1990-91; and will not be introduced in Northern Ireland where domestic rates have been retained.

Source: Treasury (1990d): the 'Red Book' (Financial Statement and Budget Report 1990-91)

TABLE 2 ~ The Scotland Programme as in the 1989 Public Expenditure White Paper

	£ million									
	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	
THE SCOTTISH BLOCK										
Tourism	11	13	13	14	14	16	17	20	20	
Transport	493	503	538	574	590	627	700	740	750	
Housing	717	657	616	636	689	645	599	640	680	
Other Environmental Services	532	538	535	580	622	726	706	720	750	
Law, Order and Protective Services	451	486	507	554	620	688	741	760	780	
Education	1,715	1,755	1,826	1,962	2,128	2,311	2,354	2,400	2,480	
Arts and Libraries	64	69	75	82	85	90	95	100	100	
Health	1,719	1,844	1,955	2,071	2,253	2,508	2,683	2,800	2,920	
Social Work	315	336	361	373	419	469	499	510	520	
Other Public Services	89	92	97	103	109	118	122	130	140	
Local Authority Current Expenditure Not Allocated to Services							37	40	40	
Block Total	6,108	6,293	6,522	6,949	7,528	8,197	8,553	8,860	9,190	
EXPENDITURE OUTSIDE THE BLOCK										
Agriculture, Fisheries and Food	164	182	203	178	173	198	204	200	210	
Industry, Energy, Trade and Employment	295	265	290	336	254	265	278	280	280	
Nationalised Industries' External Financing	277	376	232	235	137	113	(61)	(210)	0	
EXPENDITURE WITHIN THE SECRETARY OF STATE'S RESPONSIBILITY	6,845	7,116	7,247	7,697	8,091	8,773	8,974	9,130	9,680	

Notes: Constituent items may not add up to the total because of rounding. This is the last published table on the 'old' definition of the planning total which included local government expenditure within the block. The 10:5:85 formula controlled changes in this block throughout the 1980s.

Source: Scottish Office (1989b, page 11) and Treasury (1989b).

TABLE 3 ~ The Scotland Programme as in the 1990 Public Expenditure White Paper

	£ million								
	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
THE SCOTTISH BLOCK									
Tourism	10	9	9	9	11	12	13	10	10
Transport	255	298	280	277	270	349	384	380	400
Housing	524	518	541	658	601	621	639	650	660
Other Environmental Services	200	201	210	226	264	294	316	350	350
Law, Order and Protective Services	282	301	329	368	419	466	531	540	560
Education	273	302	325	333	358	395	444	490	500
Arts and Libraries	20	22	26	26	26	28	35	40	40
Health	1,843	1,954	2,071	2,252	2,500	2,709	2,936	3,090	3,240
Social Work	33	33	25	27	33	39	40	40	40
Other Public Services	92	97	103	109	116	127	139	160	160
Central Government Grants:									
Revenue Support Grant	0	0	0	0	0	2,243	2,480	3,770	3,870
Rate Support Grant	1,659	1,657	1,713	1,708	2,007	93	0	0	0
Rate Rebates	18	39	36	29	27	27	25	20	20
Other Grants	0	0	0	0	0	0	44	30	20
Non-domestic Rates	970	1,023	1,008	1,238	1,290	1,219	1,189	-	-
Block Total	6,179	6,451	6,775	7,257	7,920	8,626	9,214	9,580	9,890
EXPENDITURE OUTSIDE THE BLOCK									
Agriculture, Fisheries and Food	183	203	178	172	183	211	232	240	250
Industry, Energy, Trade and Employment	257	282	328	244	239	265	251	260	250
Nationalised Industries' External Financing	376	231	235	137	127	(69)	(118)	10	10
EXPENDITURE WITHIN THE SECRETARY OF STATE'S RESPONSIBILITY									
	6,994	7,167	7,514	7,808	8,468	9,028	9,576	10,090	10,400

Notes: Constituent items may not add up to the total because of rounding. This is the first published table on the 'new' definition of the planning total which excludes local government expenditure from the block but includes central government support and (surprisingly) non-domestic rates. The 10:5:85 formula now controls changes on this definition of the block. The plan for non-domestic rates in 1991-92 and 1992-93 is included within the line for Revenue Support Grant.

TABLE 4 ~ Financing of Local Authority Expenditure in the United Kingdom

	£ million				
	1984-85	1985 86	1986-87	1987- 88	1988-89
Local authority expenditure in the United Kingdom (White Paper basis)	38,590	39,420	42,000	44,620	46,770
National accounts adjustments	2,480	2,900	3,070	3,440	2,980
Local authority expenditure in the UK (national accounts basis)	41,070	42,320	45,070	48,050	49,750
Financed by:					
Grants in Aggregate External Finance	13,320	13,230	14,130	15,170	15,630
Other Government Grants	7,500	7,970	8,910	9,290	8,980
Rates (net of all rebates)	12,950	13,880	15,700	17,120	18,900
Trading surpluses, interest and dividends	1,100	1,200	1,340	1,410	1,690
Rents	2,870	3,090	3,060	3,040	3,010
Borrowing:					
from central government	3,330	5,750	5,720	4,090	4,940
from other sources	(940)	(4,080)	(5,570)	(2,800)	(4,490)
Other Receipts	950	1,270	1,780	740	1,090
Total Income	41,070	42,320	45,070	48,050	49,750

Notes: Constituent items may not add up to totals because of rounding. There is no comparable table published for Scotland. Aggregate External Finance is the envelope of external support for local authority services which are also funded from the community charge. It comprises Revenue Support Grant, payments from the yield of non-domestic rates and certain specific grants. Proxies are used for prior years.

Source: Treasury (1990a, page 73).

TABLE 5 ~ Identifiable Public Expenditure 1988-89: per capita index (UK = 100)

	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry	71.6	215.8	161.4	470.2
Trade, industry, energy and employment	81.0	132.4	142.9	489.1
Roads and transport	94.3	138.4	137.1	80.3
Housing	75.5	235.9	109.0	384.3
Other environmental services	91.1	139.0	136.3	176.3
Law, order and protective services	93.0	108.7	83.3	312.1
Education and science	95.4	132.1	98.8	136.5
Arts and libraries	102.9	109.0	90.5	-
Health and personal social services	96.7	123.6	103.1	118.1
Social security	98.2	106.0	110.0	117.9
Miscellaneous	91.0	157.0	127.9	135.5
Overall index	95.0	123.3	109.4	159.4

Notes: This analysis is based upon general government expenditure, whereas the previous written parliamentary answers on which Table 6 is based were analyses of the 'old' planning total. Expenditure on arts and libraries in Northern Ireland is subsumed within education and science.

Source: Lamont (1989)

TABLE 6 ~ Identifiable Public Expenditure Relatives: Expenditure per Head as % of UK Identifiable Expenditure per Head

	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
ENGLAND						
17 January 1979, cols 781-93	97.4	96.8	96.2	96.0	95.8	
26 November 1979, cols 507-20		96.8	96.2	96.0	95.7	95.7
26 March 1981, cols 415-24			96.2	96.0	95.7	96.7
8 December 1981, cols 384-96				95.7	95.6	95.5
1 February 1983, cols 84-96					95.4	95.3
22 February 1985, cols 606-16						
12 March 1986, cols 502-12						
16 December 1986, cols 488-98						
23 October 1987, cols 896-906						
25 October 1988, cols 120-9						
SCOTLAND						
17 January 1979, cols 781-93	116.4	117.2	120.1	120.1	120.9	
26 November 1979, cols 507-20		117.1	119.6	119.6	119.4	118.5
26 March 1981, cols 415-24			119.7	119.9	119.4	118.1
8 December 1981, cols 384-96				120.3	119.7	119.5
1 February 1983, cols 84-96					121.1	120.5
22 February 1985, cols 606-16						
12 March 1986, cols 502-12						
16 December 1986, cols 488-98						
23 October 1987, cols 896-906						
25 October 1988, cols 120-9						
WALES						
17 January 1979, cols 781-93	104.7	103.4	105.7	107.0	106.7	
26 November 1979, cols 507-20		104.3	106.5	107.8	110.3	108.3
26 March 1981, cols 415-24			107.0	108.4	110.6	108.8
8 December 1981, cols 384-96				107.8	109.2	109.4
1 February 1983, cols 84-96					110.0	110.0
22 February 1985, cols 606-16						
12 March 1986, cols 502-12						
16 December 1986, cols 488-98						
23 October 1987, cols 896-906						
25 October 1988, cols 120-9						
NORTHERN IRELAND						
17 January 1979, cols 781-93	116.4	132.9	137.8	140.9	144.2	
26 November 1979, cols 507-20		132.6	137.5	140.7	147.5	152.6
26 March 1981, cols 415-24			136.5	139.3	147.0	152.9
8 December 1981, cols 384-96				146.3	149.8	152.9
1 February 1983, cols 84-96					151.3	154.5
22 February 1985, cols 606-16						
12 March 1986, cols 502-12						
16 December 1986, cols 488-98						
23 October 1987, cols 896-906						
25 October 1988, cols 120-9						

NOTE: Clear guidance from HM Treasury on the necessary adjustments to secure consistent definitions is gratefully acknowledged. The 1988-99 written answer (Lamont, 1989) analysed General Government Expenditure whereas this table, based on earlier answers, analyses the 'old' planning total. This break in the identifiable expenditure series is a consequence of the treasury's decision (Treasury, 1988) to adopt the new planning total.

1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
96.0								
96.5	96.0							
95.7	96.1	95.7						
95.7	95.7	95.5	95.6	95.5				
	95.8	95.8	95.8	95.8	95.9			
		95.5	95.7	95.7	95.9	95.6		
			95.8	95.9	96.1	95.9	95.6	
				95.6	96.0	95.8	95.5	95.4
118.8								
120.4	118.8							
121.3	118.3	121.2						
121.7	121.5	122.9	122.5	121.6				
	121.0	121.7	121.4	120.3	120.3			
		124.2	122.5	121.4	120.7	122.8		
			122.0	120.8	120.3	121.2	122.4	
				122.1	120.7	121.7	122.9	123.8
106.4								
104.9	106.8							
105.0	106.0	107.4						
104.6	106.0	106.5	106.9	108.7				
	105.1	105.8	105.5	107.3	104.9			
		105.4	105.3	107.3	104.4	105.9		
			106.2	108.0	105.5	106.4	108.6	
				108.5	106.0	106.0	109.7	109.7
147.7								
147.5	146.5							
148.9	146.9	147.2						
149.1	148.7	147.3	146.6	149.4				
	146.8	145.2	144.5	145.8	148.2			
		145.8	145.4	146.3	146.4	148.1		
			141.0	141.9	141.9	142.8	142.9	
				142.8	142.8	144.0	143.5	143.3

Source: Heald (1989b, 1990).

TABLE 7 ~ Proxy Relatives for Scottish Block Expenditure

Scottish block proxy expenditure per capita as % of UK expenditure on same definition.

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
England	96.0	95.7	95.0		94.4	95.5	95.1	95.2	94.7
Scotland	123.3	125.7	130.1		131.7	127.3	129.0	128.6	130.4
Wales	101.4	101.2	102.6		106.3	99.2	100.9	102.7	106.0
Northern Ireland	141.2	141.2	147.2		152.0	148.1	152.0	146.7	149.7

Identifiable expenditure per capita as of % of UK identifiable expenditure

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
England	96.0	96.0	95.7		95.5	95.9	95.6	95.6	95.4
Scotland	118.8	118.8	121.2		121.6	120.3	122.8	122.4	123.8
Wales	106.4	106.8	107.4		108.7	104.9	105.9	108.6	109.7
Northern Ireland	147.7	146.5	147.2		149.4	148.2	148.1	142.9	143.3

Notes: The upper part of this table (Scottish block proxy relatives) is the nearest which it is possible to get on the basis of published information to 'comparable English expenditure' around which the 10:5:85 formula revolves. The entries for Wales and Northern Ireland refer to their expenditure on the activities included within the Scottish block. There was no parliamentary answer giving the underlying information for 1982-83.

Source: Heald (1989b, 1990)

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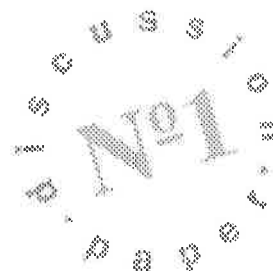
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