British government to expand powers of regional administrations

Stephen Alexander
14 April 2011

The Conservative-Liberal Democrat government plans to devolve greater financial and legal powers to the regional administrations in Scotland, Wales and Northern Ireland, as it seeks their assistance in cutting £81 billion from public spending.

Owing to its electoral weakness outside England, the coalition government is heavily reliant on regional political elites for driving through social attacks. The coalition has propped them up through a “respect agenda” offering additional power and influence, along with short-term funding concessions.

Packaged to voters as a means of boosting democratic accountability, the real aim of the British government is to permanently reduce the block public spending grants administered by regional governments. The block grants, calculated under the Barnett Formula, deliver higher per capita public spending than in England and are a particular focus of the government’s austerity plans.

A February 10 article in the *Economist,* commenting on greater “fiscal responsibility” for Scotland, underscored what is really meant by democratic accountability: “It would…help to fix two glaring defects in the current set-up: that Scottish politicians have no incentive to make spending cuts and, despite some notional tax-varying powers, that they are not financially accountable to their voters.”

The Cameron government has set out plans to slash the annual block grants transferred to Scotland, Wales and Northern Ireland—currently £29 billion, £15 billion and £9 billion—by between 10 and 12 percent in real terms by 2014-2015. Further financial powers will be accompanied by an additional reduction.

The regional administrations have already proven themselves willing accomplices of the coalition, setting out swingeing social cuts in their 2011-2012 budgets. The Scottish National Party (SNP) government has outlined £1.3 billion cuts for next year alone. Plaid Cymru and Labour in Wales plan to cut £1.8 billion by 2014-2015. Sinn Fein and the Democratic Unionist Party intend £4 billion cuts over the same period in Northern Ireland.

The principal target is the public sector workforce, which outside of England accounts for a greater proportion of total employment, between 25 and 30 percent as compared to the 21 percent UK average. The government and its regional partners are in full agreement that the economy must be “rebalanced” in line with the interests of private capital.

Over a decade ago, the Labour government devolved limited powers for exactly this purpose. The aim of devolution was to reorganise social spending in line with financial and corporate interests to attract transnational investment. From the outset, devolution also obscured sharp class tensions, seeking to sow nationalist divisions in the working class. The Conservative Party, once opposed to devolution, now intends to advance what Labour began.

The Scottish parliament is to have its powers extended under the new Scotland Bill currently passing through Westminster. As it stands, Holyrood will gain direct control of a higher proportion of Scottish income tax revenue, while stamp duty land tax and landfill tax will be transferred in full. It will also be able to introduce new “Scotland only” taxes upon gaining approval from Westminster and will gain direct legislative powers in areas such as road traffic laws. Limited borrowing powers will allow Scotland to borrow up to £2.2 billion.

The most significant proposal is a Scottish component of income tax, under which 10 pence will be deducted from both the standard 20 pence-rate and the top 50 pence-rate of UK income tax raised in Scotland, with a proportionate reduction to the block grant. The Scottish government would then set a Scottish rate of income tax within a threshold 10 pence higher or lower than the rest of the UK.

The SNP government opposes the provision on the basis that it would introduce a "long-term deflationary bias" into the Scottish budget. If the Scottish rate were set to match income tax rates in the rest of the UK, Scotland would receive only 20 percent of the higher income tax bracket, and 50 percent of the lower bracket.

In a statement responding to the financial provisions, the SNP stated, "Historically, higher rate tax payers have accounted for a larger share of the growth in tax receipts. Therefore the majority of the growth in Scottish income tax receipts would accrue to the UK Government."

With rising unemployment, the new powers would also leave a greater proportion of the Scottish budget exposed to falling tax revenues. Combined, these factors could result in Holyrood having to levy a higher rate of income tax than the rest of the UK or deepen its social cuts, in order to compensate for a reduction to its block grant.

The SNP government has further criticised the bill for omitting any "significant new financial levers" including full borrowing powers, responsibility for corporation tax, North Sea oil revenues and excise duty, which are all to remain under the control of Westminster. Such financial levers have long been the basis of the SNP's aspirations, much muted since the financial crash of 2008, for Scottish independence.

Nevertheless, the SNP voted in favour of a legislative consent motion in Holyrood, allowing the bill to continue its passage through Westminster. With the Scotland Bill not scheduled to pass through Westminster until after the Scottish elections on May 5, the SNP intends to base its re-election campaign on fighting for the extension of the bill's financial provisions.

Speaking at the SNP Conference in Glasgow, John Swinney, the Scottish Finance Secretary, claimed, "Only the SNP can protect Scotland from the savage cuts of Westminster and build on our recovery" through gaining full fiscal autonomy. Later, stating his true intentions, Swinney pledged to make Scotland the "most competitive environment for businesses in the United Kingdom."

If re-elected, the SNP plans to follow suit of the Conservative-Liberal Democrat government and introduce four enterprise zones across Scotland. The 21 enterprise zones to be introduced across England include generous capital allowances, as well as cuts to business rates, corporation tax and planning regulations.

There is broad agreement with the SNP's pro-business platform across the Scottish political elite. The draft findings of the Scotland Bill committee, a cross-party body set up at Holyrood to table amendments to Westminster, confirm this. While rejecting the SNP's plans for full fiscal autonomy, the committee calls for the devolution of the key financial levers necessary for furthering the interests of Scottish capital, including the future devolution of full control over corporation tax, and full borrowing powers.

The Westminster government has initiated similar plans to devolve greater financial powers to both the Welsh and Northern Irish executives.

The Welsh Assembly gained direct legislative powers via a low-turnout referendum March 3. Previously, the Assembly had to go through a lengthy process of requesting powers of competency from Westminster. Deputy Prime Minister Nick Clegg of the Liberal-Democrats pledged to launch a process similar to the Calman Commission in Scotland, set up in 2008 to review the devolution of further financial powers to Scottish Parliament.

The secretary of state for Northern Ireland, Owen Paterson, is due to launch a consultation period for the devolution of tax-varying powers to the Stormont Assembly, with the aim of Northern Ireland becoming one large enterprise zone with comparable tax rates to the Irish Republic.