

Scottish devolution will now have a bigger fiscal dimension

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By Democratic Audit UK

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A deal has finally been struck on the fiscal framework for the Scotland Bill. Holyrood will now be supported by a mixture of shared UK resources and its own tax revenue, levied in Scotland, but supplemented by UK resources as well. Here, Jim Gallagher reviews the compromise and the negotiations leading up to it.



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The Treasury and the Scottish government have at last done a deal on the Scotland Bill fiscal framework. Good for them: it means that the Scottish Parliament will now get the new powers that were promised in and immediately after the referendum campaign.

Protracted negotiation

These negotiations have gone on forever and it looks as though the Scottish government have extracted a very good deal from the Treasury. As I explained in [earlier blogs](#), the question in real dispute came down to whether, as well as a Barnett formula share of common UK taxes, the Scottish government should also get a share of devolved taxes like income tax that are paid in the rest of the UK, as well as all of Scottish income tax.

The argument from strict fairness to taxpayers elsewhere in the UK suggests not, but the promise of "no detriment" from the changes suggest that the Scottish budget should, as it does under Barnett, get some share of those taxes paid elsewhere in the UK. In the course of negotiation, the UK government offered a quite ingenious formula for giving Scotland a share of devolved taxes paid in England, Wales and Northern Ireland. But SNP ministers wanted rather more: because they feared Scottish population would decline relative to England's, they wanted their budget to be insulated from relative population change.

In the event, the politicians have come to a compromise: one suggested first, publicly at least, by the Scottish Conservative leader Ruth Davidson (mind you, I'd be astonished if she had proposed this without first clearing it with her political friends in London.) That is to say that the Treasury offers the Scottish government a safety net for the first five years, which effectively delivers what SNP ministers asked for – protection for their tax income in the event that Scottish population declines. There will be a review after five years, when I would imagine the Treasury will want

to transfer some more risk – but who knows how the population numbers will look by then, and what else will be going on?

A deal has also been done on paying for Scotland's new welfare powers, which will be supported by new Treasury cash.

Credit where it's due

Both sides emerge with some credit here. The Treasury have certainly moved a long way from the strict application of fairness to the rest of the UK taxpayers, and Mr Osborne may have to face down criticism from some of his own MPs. But in doing a deal, SNP ministers have also allayed the suspicions of those (myself included) who had begun to wonder whether they preferred a narrative of continuing grievance about being denied these powers to actually exercising them.

On this basis, the Scottish Parliament will now consent to the Scotland Bill. SNP Party discipline is legendary, and there is also a majority in Westminster in support of it. The Bill will no doubt be robustly scrutinised, in the Lords especially, but it is going to get onto the statute book. This is a big thing: Holyrood will now be supported by a mixture of shared UK resources (calculated by the Barnett formula) and its own tax revenue, levied in Scotland, but supplemented by UK resources as well. Devolution has always been about getting a balance between sharing and autonomy, with some powers exercised at the UK level, and some at the Scottish level. That will now have a fiscal as well as a legal reality.

It has a political reality too: in their manifesto for the next Scottish elections, the SNP government will have to tell voters how they propose to use these extensive new powers. That is the reality of fiscal devolution: you may have to put your money where your mouth is.

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