Policy making beyond Westminster

Economic lessons from 25 years of national devolution

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Introduction

During the last 25 years of devolution in the UK, the distribution of economic powers to the devolved governments and parliaments has expanded.

Alongside setting their own budgets, the devolved governments have taken control of some tax powers, delivering greater fiscal autonomy and financial accountability. They have also sought to articulate different economic visions and ways of measuring national well-being and prosperity.

This factual briefing note provides a summary of devolved taxation powers and policies, and devolved definitions of economic prosperity, particularly "Wellbeing Economy" indicators. It enables readers to take stock of the current situation and engage in informed cross-nation policy learning and knowledge exchange.

The briefing provides some context for addressing questions such as:

- Have different growth strategies been pursued across the nations, and what are the different approaches to strategic economic policy making?
- Has the devolution of economic powers gone too far or not far enough?
- And what lessons can policy makers learn from devolution – and from each other – to improve economic decision making across the whole United Kingdom?

The briefing is published to support the "Policy making beyond Westminster: Economic lessons from 25 years of national devolution" conference, hosted by the Resolution Foundation in partnership with PolicyWISE.

Taxation

Income Tax

- Income Tax from all UK taxpayers is collected by HMRC. Income Tax is devolved to Scotland and Wales, but not to Northern Ireland. Devolution has happened in stages, at different times, and in slightly different ways for Scotland and Wales.
- Since 1999, Scotland has always had the power to vary income tax rates (by 3p until 2016 and then by 10p). From 2017, the powers to set its own income tax band thresholds and rates have been devolved to Scotland (excluding the personal allowance).
- Welsh rates of income tax have existed since 2019. These rates are a variance of the UK Government's rates. Each year, Welsh rates are automatically set 10p below each of the three rates set by the UK Government (i.e., Basic, Higher, Additional). The Welsh Government then proposes – for Senedd agreement - the rates of Welsh income tax on top of those reduced rates, for each band (i.e., varying the rates, or keeping them the same as the levels set by the UK Government for England and Northern Ireland).
- Scotland's Income Tax Starter Rate of 19% is lower than the rest of the UK, and the higher Top Rate of 48% is higher than elsewhere in the UK - as well as having adjusted intermediary bands. There are now six income tax bands in Scotland, compared to three bands elsewhere in the UK. Revenues from Scottish Income Tax are sent to the Scottish Government from the HMRC.
- Current Welsh rates of income tax are the same as England and Northern Ireland. This means that the Welsh Government has set the Welsh rates to make up the full 10p difference between the automatically reduced rate and the rate set by the UK Government. Revenues from the Welsh rates of income tax are sent to the Welsh Government from the HMRC.

Corporation Tax

- Corporation Tax powers have been devolved to Northern Ireland, but the (first) use of the power is subject to further agreement between the UK Government and the Northern Ireland Executive. This agreement depends on "sustainable" financing and adjustments to the block grant. Economy Minister, Conor Murphy, says that the NI Executive will not "rush" to find the necessary agreement.
- For Scotland and Wales, Corporation Tax powers remain reserved to the UK Government and Parliament.

Land Transaction & Landfill Taxes

- Scotland and Wales have the powers, and have used them, to tax property transactions. Scotland has the Land and Buildings Transaction Tax (introduced in 2015), and Wales has the Land Transaction Tax (introduced in 2018). The equivalent UK Government tax for England and Northern Ireland is Stamp Duty Land Tax.
- There are differences in rates and thresholds across the nations, and on 'relief' policies. The current purchase price at which a transaction tax is paid is lower in both Scotland and Wales, than the UK Government's equivalent rates. The taxes in Scotland and Wales are collected and administered by Revenue Scotland and the Welsh Revenue Authority respectively.
- Landfill tax powers have been devolved to Scotland and Wales. This is the tax applied to waste disposal at landfill sites, paid by site operators. The Scottish Landfill Tax and Landfill Disposals Tax (Wales) are administered by Revenue Scotland and the Welsh Revenue Authority respectively. The lower and standard tax rates in Scotland and Wales are consistent with the UK Government's Landfill Tax rate, but the Welsh Government has set a higher rate for "unauthorised" waste disposal.

Air Travel

- Northern Ireland and Scotland have some taxation powers related to air travel. There is no duty paid on direct long-haul flights from Northern Ireland, but the powers on short-haul duties are not devolved and remain responsibility of the UK Government.
- The Scottish Parliament has passed legislation (the Air Departure Tax Act) which will replace the UK Air Passenger Duty. However, the Scottish Government has not yet implemented the provisions of the Act, and the UK Government's Air Passenger Duty continues to apply to all Scottish flights. No powers related to air travel taxation have been devolved to Wales.

Local Taxation

- Scotland, Wales and Northern Ireland have responsibility for their local taxation (i.e., taxes such as Council Tax and Business Rates which help pay for local authority services).
- Within the shared GB-wide Council Tax approach, the main structural changes are Wales's proposed revaluation of property values and new Council Tax bands. Both Welsh and Scottish Governments have given councils the power to charge an

increased level of Council Tax on second homes. The equivalent property-based tax to pay for local (and some Northern Ireland-wide) services in Northern Ireland is the Domestic Rates.

- The Scottish Government is legislating to introduce a visitor levy (sometimes referred to as a "tourist tax"), and the Welsh Government intends to bring forward similar legislation later this year. Both governments propose giving local authorities the power to apply a tax or levy on overnight stays, so that the money raised could be re-invested into local services and sustainability.
- A PolicyWISE 'Wise in 5' briefing provides further information on Tourist Tax debates and research across UK and Ireland, and further afield.

Borrowing

- As with the difference in the taxation powers devolved to the different governments, the ability to borrow is also asymmetric across the devolved governments. Following the recent Fiscal Framework Agreement with the UK Government, the Scottish Government now has extended borrowing powers and limits for capital expenditure, as well as the ability to borrow commercially with the approval of the UK Treasury. The Welsh Government and Northern Ireland Executive have similar powers, for lower amounts, but cannot borrow commercially or issue bonds.

Taxation Summary

When taxes are devolved, it has an impact on the allocation of funding to each nation through the block grant. A recent report by the Celtic Academies Alliance identified a number of challenges in relation to devolved taxation, including poorer-than-forecast economic performance (Scotland), highly permeable geographical borders (Northern Ireland and Wales), and significantly higher spend than tax income (All).

The Office for Budget Responsibility has also calculated that the 'gaps between income tax raised per person in Scotland and in Wales relative to the UK are significant and growing', a trend which can offset the potential return from any diverging tax rates. Similarly, the Financial Commission of Northern Ireland cites the widening fiscal gap between Northern Ireland and the UK as a risk associated with tax devolution.

The expansion of taxation powers to the devolved governments may continue in the coming years, but momentum and opportunities for each nation in this respect is dependent on their unique economic, geographic, and political contexts. Are there lessons to be learned from the devolved national governments for fiscal autonomy and accountability within England? Should the UK's fiscal decentralisation model look even more like Spain or Germany? There are further matters, such as Water Charges in Northern Ireland and taxation for environmental or public health benefits, not covered within this briefing.

It's imperative that policymakers learn from one another's experiences and models, helping to identify opportunities, risks, similarities, and differences as economic decision making evolves over the next 25 years.

Measuring prosperity differently

GDP (Gross Domestic Product) is still the main measure of economic performance used in the UK. Published monthly by the Office for National Statistics (ONS), it measures economic growth based on the value of goods and services produced.

However, it has been argued that such a measure is not the best way of assessing economic prosperity in its wider form, as it impacts citizens on an individual level. GDP growth does not necessarily equate to improved standards of living and may overlook economic inequalities, regional disparity, and the need for sustainability.

One move towards transforming the assessment of economic prosperity has been to propose a 'Wellbeing Economy'. The Wellbeing Economy Alliance describe this as:

'In a Wellbeing Economy, our definition of societal success shifts beyond GDP growth to delivering shared wellbeing (…) A Wellbeing Economy is an economy designed to serve people and the planet, not the other way around. Rather than treating economic growth as an end in and of itself and pursuing it at all costs, a Wellbeing Economy puts our human and planetary needs at the centre of its activities, ensuring that these needs are all equally met, by default.'

Discussions on how to measure economic prosperity differently in the UK have emerged alongside the expansion of devolution over the last 25 years. The Devolved Governments, with limited taxation powers, have sought to think differently about economic policy and prosperity. This includes developing the "foundational economy", transitioning to "Wellbeing Economies", and "social partnership" working.

Below we look at models and proposals for the reframing of economic performance as this has been done across governments in the UK.

1. One alternative to looking at GDP, is to consider GDP per head. GDP per head provides an overview of how much we produce per person. This provides more insight into individual living standards as it mitigates for factors such as population growth which contribute to increased GDP but not increased GDP per head.

2. The UK Measures of National Wellbeing programme, run by the ONS, aims to provide a holistic picture of 'progress' in the UK. Measurements include indicators on the economy (Unemployment, Inflation and Public Sector debt) and personal finance (Median household income and wealth, Relative low-income households, Household income inequality, Gender Pay Gap and Difficulty Managing financially) as a way of assessing financial situations, welfare, and inequality.

3. Scotland and Wales are members (Scotland as a founding member) of the Wellbeing Economy Governments partnership (WEGo), which is 'a collaboration of national and regional governments interested in sharing expertise and transferrable policy practices to advance their shared ambition of building Wellbeing Economies.'

4. The Scottish Government measures performance across a number of fields using the National Performance Framework, which aims to 'create a more successful country' based on inclusive and sustainable growth, increased wellbeing and reduced inequality. The framework looks at 81 indicators in total, aligned to 11 national outcomes. In 2023 the Scottish Government consulted on whether the National Outcomes continued to 'reflect the kind of Scotland we want to see' and is expected to published a revised NPF in autumn 2024.

5. In 2022, the Scottish Government published a 'National Strategy for Economic Transformation' setting out a vision of establishing a wellbeing economy. The ambition of the strategy is 'not just to grow our economy but, in doing so, to transform our country's economic model so that we build an economy that celebrates success in terms of economic growth, environmental sustainability, quality of life and equality of opportunity and reward.' Progress will be measured through the 'Wellbeing economy Monitor' which uses 14 indicators to assess progress in four areas – natural capital, human capital, social capital and produced and financial capital.

6. The Welsh Government uses 8 indicators to show how the Welsh economy is performing in comparison to the other UK nations and English regions. These encompass Income (Disposable income per head, Primary income per head), Output (Economic Output per head and per hour worked), Work (Employment rate and Full-time weekly earnings) and Poverty & Wealth (Poverty rate and Average household wealth).

7. The Welsh Government has also legislated to work towards, and measure, national progress against a number of well-being goals as set out in the Well-being of Future Generations Act (Wales) 2015. 30 indicators in total contribute to the measurement of the goal of a 'prosperous Wales', including GVA (Gross Value Added) per hour worked; Pay difference for gender, disability and ethnicity; and emissions of greenhouse gases.

8. The Northern Ireland Statistics and Research Agency currently report on 7 metrics related to Wellbeing, but these do not explicitly link with the Executive's current economic policy. NISRA's Economic Overview Dashboard

includes measures on Economic Output, Labour Market and Business. Northern Ireland's current economic policy – 10x Economy - was published in 2021 and focuses on innovation, inclusive growth and sustainability.

Economic Measuring Summary

There has been a distinct shift in recent years towards the adoption and consideration of a wide range of holistic measures of prosperity across the UK. This has been mirrored and supported internationally by movements such as WEGo and impetus from advocates of a wellbeing economy to move beyond GDP.

However, it is also acknowledged that developing a wellbeing economy requires a whole system change, something which is not simple to achieve. As outlined by SPICE, there are also questions regarding the viability of a model that has so far only been achieved on a smaller scale, the practical implementation and impact of national strategies, and whether trade-offs will be required in other policy areas.

It also appears that in moving away from GDP, the number of alternative measures for assessing prosperity are manifold. Most wellbeing frameworks adopted in the UK encompass the core tenets of a wellbeing economy – people and the planet – but all vary in their selection and number of indicators.

Furthermore, most nations still feature more than one framework for measuring prosperity, progress, or performance, raising questions around how these align or are prioritised in economic policy. Such debates are expected to be played out in Scotland with the current changes afoot, but developments are also likely to provide learning more widely.

About PolicyWISE. PolicyWISE is a UK and Ireland comparative policy research and knowledge exchange initiative that improves how governments and academics work together in and across the nations to solve policy challenges.

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