

Fiscal Decentralisation

A Case Study

Decentralisation in the UK

- Scotland – 1998 Scottish Parliament with some tax varying powers, no borrowing;
- Wales – National Assembly with very limited fiscal powers, no borrowing
- Northern Ireland – 1998-2003 and 2007 - limited borrowing and taxation powers;
- Scotland to get much greater tax and borrowing powers in 2015;

Decentralisation in the UK

- Wales to get greater taxation and some borrowing powers in 2015;
- Northern Ireland seeking devolution of corporate tax powers in 2015;
- Why?
- Distortion of 2 tax systems on island of Ireland

UK Regional GVA per capita 1998-2012

GVA per head: Indices																
(UK less Extra-Regio=100)																
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
United Kingdom less Extra-Regio⁴ & statistical discrepancy	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
North East	81,3	79,9	79,7	78,5	79,1	79,2	79,1	81,2	80,8	80,8	78,3	78,1	77,1	77,4	77,5	78,1
North West	88,1	88,6	88,5	86,4	87,4	86,5	86,0	85,8	86,0	85,5	84,4	84,3	85,7	86,1	85,1	85,5
Yorkshire and The Humber	89,8	89,9	88,7	87,7	87,0	87,8	86,8	86,8	85,6	85,2	85,5	84,1	82,9	82,4	81,8	81,8
East Midlands	95,7	94,4	92,1	92,1	91,0	91,1	92,0	90,7	89,9	88,8	88,3	86,3	86,6	85,8	86,8	86,6
West Midlands	93,1	93,0	92,4	90,8	89,5	90,1	88,2	88,9	86,4	85,8	83,4	81,7	80,6	81,7	82,0	82,0
East of England	105,0	105,5	105,7	106,7	107,1	106,9	106,9	105,0	104,1	102,9	102,2	102,0	103,7	103,4	102,5	102,3
London	137,3	136,7	139,1	142,2	141,7	140,0	141,8	143,8	148,0	149,3	155,3	158,8	157,6	156,3	155,9	155,0
South East	110,8	112,3	114,0	114,5	114,4	115,6	115,6	114,3	114,0	114,8	114,0	113,8	113,5	114,5	114,7	114,9
South West	92,0	92,7	93,3	92,8	93,4	93,1	93,5	93,4	92,4	91,5	91,3	90,5	92,0	92,3	92,0	91,6
England	102,1	102,3	102,7	102,7	102,6	102,6	102,6	102,5	102,4	102,3	102,5	102,5	102,6	102,7	102,6	102,6
Wales	79,0	77,5	77,6	76,9	77,0	77,1	75,5	75,6	75,1	74,6	74,3	72,9	72,3	72,4	73,5	74,0
Scotland	97,9	97,4	93,2	93,0	93,8	95,0	94,7	95,8	96,2	97,6	95,7	97,9	97,4	95,9	96,9	96,7
Northern Ireland	82,1	80,4	81,6	82,5	81,1	79,1	82,2	81,5	82,4	82,7	83,2	80,4	78,7	79,2	78,2	78,0

Northern Ireland Fiscal Balance 2002-2007

£ Million	NI				
	2002-03	2003-04	2004-05	2005-06	2006-07
Aggregate Expenditure	15,030	15,977	17,011	17,746	18,772
Aggregate Revenue	8,833	9,759	10,550	11,221	12,090
Net Fiscal Balance	-6,197	-6,218	-6,461	-6,525	-6,682
Net Fiscal Balance per capita (£)	-3,652	-3,651	-3,778	-3,785	-3,836
Net Fiscal Balance as a % of financial year GVA	-28.7%	-27.1%	-26.5%	-25.5%	-24.6%

Northern Ireland Net Fiscal Balance 2007-2012

£ Million	NI				
	2007-08	2008-09	2009-10	2010-11	2011-12
Aggregate Expenditure	20,206	21,801	22,791	23,409	23,771
Aggregate Revenue	13,567	13,083	12,500	13,453	14,137
Net Fiscal Balance	-6,639	-8,718	-10,291	-9,956	-9,634
Net Fiscal Balance per capita (£)	-3,774	-4,912	-5,753	-5,533	-5,311
Net Fiscal Balance as a % of financial year GVA	-22.4%	-29.9%	-36.0%	-34.4%	-33.1%

Azores Judgement

The ECJ in 2206 stated that a decision by a regional government to reduce tax rates must fulfil the following requirements:

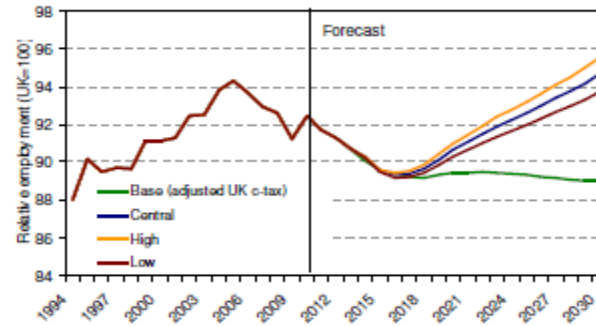
- **It must be taken by a regional authority that has a political and administrative status separate from the central government (i.e. autonomy in the constitutional sense).**
- **It must be taken without the central government being able to directly intervene regarding its substance (i.e. procedural autonomy); and**
- **The fiscal consequences of a reduction of the national corporate tax rate in the region must not be offset by aid or subsidies from other regions or central government (i.e. economic autonomy).**

Table 9 Corporation Tax, £m

	United Kingdom	England	%	Wales	%	Scotland	%	Northern Ireland	%
1999-00	31,437	27,669	88.0%	752	2.4%	2,459	7.8%	557	1.8%
2000-01	30,541	26,881	88.0%	731	2.4%	2,389	7.8%	541	1.8%
2001-02	28,715	25,273	88.0%	687	2.4%	2,246	7.8%	509	1.8%
2002-03	25,785	22,760	88.3%	592	2.3%	2,012	7.8%	421	1.6%
2003-04	25,091	22,105	88.1%	611	2.4%	1,941	7.7%	435	1.7%
2004-05	29,775	26,106	87.7%	729	2.4%	2,359	7.9%	581	1.9%
2005-06	34,606	30,334	87.7%	827	2.4%	2,757	8.0%	688	2.0%
2006-07	37,603	33,273	88.5%	878	2.3%	2,713	7.2%	739	2.0%
2007-08	40,656	36,028	88.6%	936	2.3%	2,929	7.2%	763	1.9%
2008-09	33,259	29,446	88.5%	757	2.3%	2,554	7.7%	502	1.5%
2009-10	30,811	27,285	88.6%	732	2.4%	2,390	7.8%	403	1.3%
2010-11	35,258	31,199	88.5%	892	2.5%	2,707	7.7%	460	1.3%
2011-12	32,933	29,154	88.5%	788	2.4%	2,538	7.7%	453	1.4%
2012-13	34,659	30,682	88.5%	830	2.4%	2,671	7.7%	476	1.4%

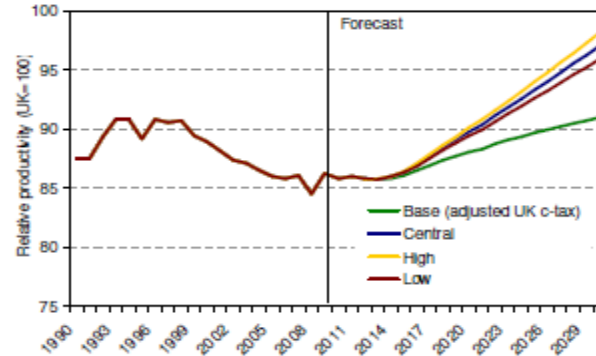
Source: HMRC “ A disaggregation of HMRC tax receipts between England, Wales, Scotland & Northern Ireland”
October 2013

Relative employment rate to UK, base, central, high and low scenarios



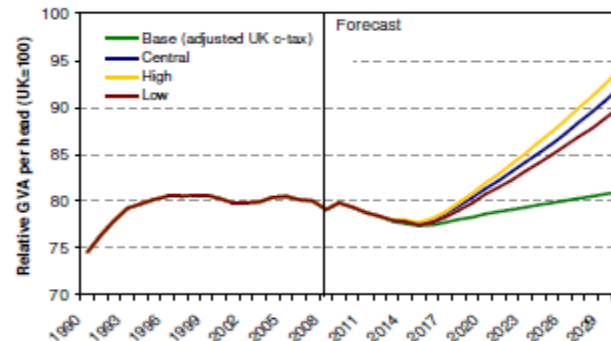
Source: Oxford Economics

Relative productivity to UK, base, central, high and low scenarios



Source: Oxford Economics

Relative GVA per head to UK, base, central, high and low scenarios



Source: Oxford Economics

MATT



*'We think you're being
over-optimistic'*