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The Law and Concept of Fiscal Devolution in the United Kingdom[3]

Abstract

Fiscal devolution is a multifaceted and evolving concept that plays a pivotal role in the governance of the United Kingdom, which is still under an ongoing development process. At the end of the 1990s the subnational governments achieved various stages of autonomy since the 1998 devolution acts, which ratified the administrative and fiscal devolution, provide the formal structure for revenue-raising and expenditure powers. The devolutionary process was facilitated after the Great Recession, assigning different income raising and welfare authorities to Scotland and Wales, while the same progress was dampened in Northern Ireland, because of the looming political instability. The system is complex, consisting of several essential elements that are closely linked to each other: devolution acts, fiscal frameworks, block grants, tax devolution, tax-varying powers, borrowing powers and the reserved matters. The results are not the same or uniform, each country has its own set of rules, negotiated with and enacted by the Westminster Parliament. It reflects the evolving nature of governance and the recognition that one-size-fits-all policies may not be suitable for a nation as diverse as the United Kingdom. It can be regarded as a testament to the adaptability of the constitutional and legal framework in response to changing political and social landscapes. The fiscal devolution experience in the UK underscores the need for a delicate balance between local autonomy and national cohesion. The legal and conceptual framework underpinning fiscal devolution has profound implications for economic policy, public finance, and intergovernmental relations and it is still subject of ongoing debates and reforms and not without complexities and challenges.

Keywords: financial law, fiscal law, devolution, decentralisation, United Kingdom

Absztrakt

A fiskális devolúció egy sokrétű és evolutív koncepció, amely központi szerepet játszik az Egyesült Királyság kormányzásában és még mindig fejlesztési folyamat alatt áll. Az 1990-es évek végén a szubnacionális kormányok az autonómia különböző fokozatait érték el, az 1998-as devolúciós törvények ratifikálták a közigazgatási és fiskális decentralizációt, hivatalos struktúrát biztosítva a költségvetési bevételi és kiadási hatáskörök számára is. A decentralizációs folyamat felgyorsult a pénzügyi válságot követően, Skócia és Wales számára különböző bevételnövelő és jóléti hatásköröket rendeltek, míg Észak-Írországban a fenyegető politikai instabilitás miatt ugyanez a fejlődés lelassult. A rendszer összetett, több alapvető, egymással szorosan összefüggő elemből áll: devolúciós törvények, költségvetési keretek, blokktámogatások, adóátruházás, adóváltoztatási hatáskörök, a hitelfelvételi hatáskörök és a fenntartott ügyek. Az eredmények nem azonosak vagy egységesek, minden országnak saját szabályrendszere van, amelyet a Westminsteri Parlamenttel kell megtárgyalni és elfogadtatni.

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[3] DOI: 10.59558/jesz.2023.4.104

Ez azonban tükrözi a kormányzás fejlődő természetét és azt a felismerést is, hogy az egyforma politikák nem biztos, hogy alkalmasak egy olyan sokszínű nemzet számára, mint az Egyesült Királyság. Úgy tekinthető, mint az alkotmányos és jogi keretek alkalmazkodóképességének bizonyítéka a változó politikai és társadalmi helyzetekhez. Az Egyesült Királyságban a fiskális devolúcióval kapcsolatos tapasztalatok alátámasztják a helyi autonómia és a nemzeti kohézió közötti kényes egyensúly szükségességét. A fiskális decentralizációt megalapozó jogi és koncepcionális keret hatása jelentős a gazdaságpolitikára, az államháztartásra és a kormányközi kapcsolatokra; emellett még mindig bonyolult, kihívásokkal teli viták és reformok tárgyát képezi.

Kulcsszavak: pénzügyi jog, fiskális politika, devolúció, decentralizáció, Egyesült Királyság

I. Introduction

Fiscal devolution is a multifaceted and evolving concept that plays a pivotal role in the governance of the United Kingdom, which is still under an ongoing development process. As the island country comprises four distinct nations, each with its own distinct political and legislative bodies, the allocation of fiscal powers and responsibilities between the central government and devolved administrations has far-reaching implications for the economic and social landscape of the country. This article delves into the intricate web of laws, principles, and policies that define the concept of fiscal devolution within the United Kingdom. It will explore the historical context, key developments, advantages, challenges, and the impact of fiscal devolution on the UK's diverse regions and residents. Exploring fiscal devolution in the United Kingdom offers valuable insights into this dynamic and continually evolving field. The research starts with the general concept of devolution in comparison with decentralisation. The historical background briefly summarises the evolution of the devolution from 1998. After the assessment and evaluation of the fiscal devolution, we explore and describe the concept, the relevant law sources and the current results for fiscal devolution in the UK for Scotland, Wales and Northern Ireland with the devolution acts, fiscal frameworks, block grants, tax devolution, tax-varying powers, borrowing powers and the reserved matters.

I.1. Decentralisation, devolution

Decentralisation and devolution are two related but distinct concepts in the context of governance and the distribution of powers within a country. They both involve the transfer of authority from a central government to lower levels of government or other entities, but they differ in the degree and nature of that transfer. In summary, decentralisation is a broader concept involving various forms of authority transfer, while devolution is a specific form of decentralisation involving the creation of separate entities with legislative powers. Devolution typically grants these entities a higher degree of autonomy, allowing them to make decisions in specific policy areas independently. Thus, decentralisation is a public management strategy, while devolution is a political decision with managerial consequences.[4]

[4] Bresser-Pereira, Luiz Carlos: Democracy and Public Management Reform: Building the Republican State. Chapter 16: Devolution and Decentralization. Oxford Academic, 2004. pp. 213-217. https://doi.org/10.1093/0199261180.003.0017

Decentralisation vs. Devolution

Aspect	Decentralisation	Devolution
Definition	Administrative, political, and fiscal authority transfer from a central government to subnational levels, local governments, or other entities.	A specific form of decentralisation involves transferring legislative and executive powers from a central government to regional or subnational governments.
Degree of Transfer	It varies widely and can involve administrative, fiscal, and political decentralisation.	Typically involves a significant degree of authority transfer, including legislative powers.
Scope	Focuses on the delegation of specific responsibilities to local or regional authorities.	Often results in the creation of separate legal entities with their own legislative bodies and administrative functions.
Control	Central government retains significant control and authority over the decentralised units.	Devolved entities have a higher degree of autonomy and authority over specific policy areas.
Examples	Examples include deconcentration, delegation to local authorities, or regional development agencies.	Examples include the Scottish Parliament, the Senedd (Welsh Parliament), and the Northern Ireland Assembly in the UK.

Source: own compilation of the authors

Decentralisation is a broader concept that refers to transferring administrative, political, and fiscal authority from a central government to subnational levels of government, local governments, or other entities within the country. It can vary widely in terms of the degree of authority transferred. It may involve administrative decentralisation (delegating decision-making and implementation to local agencies), fiscal decentralisation (granting revenue-raising powers to local governments), and political decentralisation (allowing local governments to make decisions on matters of local governance). However, it may not necessarily involve the creation of separate entities with distinct legal and political powers. Instead, it often prioritises specific responsibilities to local or regional authorities. The central government retains significant control and authority over the decentralised units. The degree of autonomy granted to subnational entities can vary widely. In the Anglo-Saxon literature, decentralisation can take the form of deconcentration (administrative delegation within central government departments), delegation of authority to local authorities, or regional development agencies, among others.[5]

[5] McIntyre, Stuart – Mitchell, James – Roy, Graeme: Fiscal devolution and the accountability gap: budget scrutiny following tax devolution to Scotland. In Regional Studies, Vol. 57, No. 7, 2023, pp. 1380-1391, DOI: 10.1080/00343404.2022.2112166

Definition of decentralisation / devolution and deconcentration

Source	Decentralisation / Devolution	Deconcentration
World Bank (1999)	is the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organisations and/or private sector.	is the weakest form of decentralisation – redistributes decision making authority and financial responsibilities among different levels of the national government.
UNDP (1999)	Concerned with the political as well as the economic (and administrative) arguments.	Concerned mainly with the administrative rationale and to some extent with the economic arguments.
Hellmut Wollman (2007)	Powers and functions (as well as resources) are assigned to sub-national bodies and actors that possess some political autonomy in their own right. It also known as full municipalisation	Administrative functions being done through the establishment of regional or local "field offices" (also known as limited municipalisation).
Robertson Work (2002)	Refers to the full transfer of responsibility, decision-making, resources and revenue generation to a local level public authority that is autonomous and fully independent of the devolving authority.	Can be seen as the first step in a newly decentralising government to improve service delivery.
Paul Hutchcroft (2001)	Involves a much more extensive transfer of decision-making authority and responsibility to local government units (commonly regions, provinces, and/or municipalities).	Involves an intra-organisational transfer of particular functions and workloads from the central government to its regional or local offices.

Source: Utomo, Tri Widodo W.: Balancing Decentralisation and Deconcentration: Emerging Need for Asymmetric Decentralisation in the Unitary States. Political Science, No. 174, 2009, pp. 1-30.[6]

Devolution is a specific form of decentralisation that involves the transfer of legislative and executive powers from a central government to regional or subnational governments. It typically results in creating separate legal entities with their own legislative bodies and administrative functions. It typically involves significant authority transfer, including legislative powers over specific policy areas. In the context of the UK, for example, Scotland, Wales, and Northern Ireland have their devolved legislatures and governments with authority over various policy areas. Its scope often results in creating separate entities with their own legal and political structures, including devolved parliaments or assemblies. Devolved entities have a higher degree of autonomy and authority over the specific policy areas that have been devolved to them. They can make decisions independently within their areas of competence. The best devolution examples in the UK include the Scottish Parliament, the Senedd (Welsh Parliament), and the Northern Ireland Assembly. Each entity is vested with power to make normative decisions on various policy areas, including education, health, and transportation.

I.2. Devolution in the United Kingdom

[6] The compilation is based on the following: World Bank, Beyond the Center: Decentralising the State, Washington D.C. 1999; UNDP: Decentralisation: a sampling of definitions, Working paper prepared in connection with the Joint UNDP-Government of Germany evaluation of the UNDP role in decentralisation and local governance 1999; Wollmann, Hellmut: Devolution of Public Tasks Between (Political) Decentralisation and (Administrative) Deconcentration – in Comparative (European) Perspective, Social Science Institute of Tokyo University, 2007; Work, Robertson: Overview of Decentralization Worldwide: A Stepping Stone to Improved Governance and Human Development, UNDP: 2nd International Conference on Decentralization Federalism: The Future of Decentralizing States? 2002.; Hutchcroft, Paul D.: Centralisation and Decentralisation in Administration and Politics: Assessing Territorial Dimensions of Authority and Power. In Governance: An International Journal of Policy and Administration, Vol. 14, No. 1, January. 2001, https://doi.org/10.1111/0952-1895.00150

Since the 1970s, global decentralisation trends have shifted various tax and welfare responsibilities from national to subnational levels. This process, encompassing administrative, political, and fiscal phases, aims to provide subnational administrations with greater autonomy to tailor policies to local needs. This enabled the divergence in public finance policies to tailor the services to the regional communities' needs.[7] The United Kingdom resisted decentralisation until the 1990s, when growing nationalist demands for independence emerged. The incoming Labour government promised referendums on devolution to Scotland and Wales as part of its 1997 election manifesto. In 1998, the Acts of Devolution initiated administrative devolution in Scotland, Wales, and Northern Ireland, transferring legislative powers. In Northern Ireland, the establishment of a power-sharing government was agreed as part of the Good Friday or Belfast Agreement in 1998; the peace agreement brokered between the nationalist and unionist communities to end the longstanding conflict known as the Troubles.[8] Understanding the nationwide economic climate over the last two decades is crucial to comprehend subsequent phases, as central measures have also affected lower state tiers. In the 2000s, fiscal policy shifted towards expansion, which widened the central budget disparity, increasing public debt and weakening the country's economic resilience during the Great Recession. Following the 2008 crisis, the Conservative-Liberal Government implemented restrictive measures, cutting public expenditure and introducing Universal Credit to rectify past errors. Later, for Scotland, David Cameron, the Conservative leader of UK expressed commitment to eliminate the judicial hurdles, starting a series of negotiations, which was closed by the Edinburgh Agreement in 2012.[9]

Fiscal policy gained credibility as the current budget deficit narrowed. Prospects were slightly hampered after the 2016 Brexit Referendum, which prepared the UK's departure from the European Union. Brexit uncertainty was compounded by the 2020 COVID-19 outbreak, creating a dual crisis that affected fiscal outcomes.

A more limited form of devolution was introduced shortly after for London, also after approval via a referendum in 1998. In England, devolution remains very limited. Aside from London, there are ten English cities and regions to which some additional powers have been devolved, most of which also have a directly elected mayor. In 2015, the Conservative government introduced 'English Votes for English Laws' (EVEL) to respond to the West Lothian question.[10] This change in House of Commons procedures stipulated that legislation

[7] Rodríguez-Pose, Andrés et al.: The global trend towards devolution and its implications, environment, and Planning C. In Government and Policy, Vol. 21, 2003, pp. 333-351. https://doi.org/10.1068/c0235

[8] Fenton, Siobhán: The Good Friday Agreement. Biteback Publishing, 2018. and Nagle, John: Between conflict and peace: An analysis of the complex consequences of the Good Friday Agreement. In Parliamentary Affairs, Vol. 71, No.2, 2018. pp. 395-416. https://doi.org/10.1093/pa/gsx030

[9] The Edinburgh Agreement is the agreement between the Scottish Government and the United Kingdom Government, signed in 2012 at St Andrew's House, Edinburgh, on the terms for the 2014 Scottish independence referendum. Both governments agreed that the referendum should: (i) have a clear legal base, (ii) be legislated for by the Scottish Parliament, (iii) be conducted so as to command the confidence of parliaments, government and people and (iv) deliver a fair test and decisive expression of the views of people in Scotland and a result that everyone will respect.

Bell, Christine: The Legal Status of the Edinburgh Agreement. Scottish Constitutional Futures Forum. 2012. and McHarg, Aileen: The Legal Effects of the Edinburgh Agreement – again. Scottish Constitutional Futures Forum, 2012.

[10] The West Lothian question was named after Tam Dalyell, the former MP for West Lothian, who famously first raised the question in a debate on devolution to Scotland and Wales in 1977: „For how long will English constituencies and English hon. Members tolerate not just 71 Scots, 36 Welsh and a number of Ulstermen but at least 119 hon. Members from Scotland, Wales and Northern Ireland exercising an important, and probably often decisive, effect on English politics while they themselves have no say in the same matters in Scotland, Wales and Ireland?" (HC Deb 14 November 1977, c123.). Dalyell's complaint was that, after devolution, English MPs would be denied the opportunity to participate on matters devolved to Scotland, Wales and Northern Ireland, while MPs

applicable only to England (or England and Wales) needed approval from English MPs before the MPs from other UK territories could vote on it. Nonetheless, EVEL faced criticism for differentiating between MPs based on their constituencies, effectively establishing two tiers of representation in the House of Commons. Some also found fault with EVEL, considering it inadequate and lacking a proper platform for debating issues specific to England. These procedures were put on hold during the coronavirus pandemic and eventually discontinued in July 2021.[11]

Devolution legislation in the United Kingdom

	Legislation	Power
Scotland	Scotland Act 1998 Scotland Act 2012 Edinburgh Agreement 2012 Scotland Act 2016	1998: executive and legislative devolution, reserved powers model 2016: fiscal devolution of VAT and air passenger duty, while aggregate levy and 11-welfare power were delayed to 2019-2020, the introduction of block grant adjustment (BGA)
Wales	Government of Wales Act 1998 Government of Wales Act 2006 Wales Act 2014 Wales Act 2017	1998: executive devolution only 2006: executive and legislative devolution (latter only from 2011), conferred powers model, created a separate executive and legislature (National Assembly for Wales) 2014: fiscal devolution of income tax; landfill tax, and aggregate levy were scheduled to be consigned in 2019-2020, introduction of need-based formula in block grant 2017: reserved powers model
Northern Ireland	Northern Ireland Act 1998 Northern Ireland (St Andrews Agreement) Act 2006 Stormont House Agreement 2014	1998: executive and legislative devolution, reserved/transferred/excepted powers model 2014: fiscal devolution devolution of corporate tax
England	n/a	no devolution 2015: English Votes for English Laws

Source: own compilation of the authors

The 2010s marked significant subnational developments. Commissions in Scotland and Wales designed the transfer of fiscal rights to address local needs, and both received a wide range of tax and welfare powers following the 2014 Independence Referendum. Northern Ireland, due to political instability stemming from border disputes and terrorism, only obtained the right to collect corporate tax.

Research and time series data revealed vertical imbalances in all three nations, stemming from demographic patterns, migration, sectoral shifts, and Westminster policies. Despite devolved revenue-raising rights, the majority of transferred taxes remained sensitive to business cycle fluctuations, causing tax income uncertainty. The threat of horizontal

representing constituencies in those territories would continue to be able to influence equivalent matters relating only to England.
Bogdanor, Vernon: The West Lothian Question. In Parliamentary Affairs, Vol. 63, No. 1, 2010, pp. 156-172. https://doi.org/10.1093/pa/gsp044 and Gover, Daniel – Kenny, Michael: Answering the West Lothian Question? A Critical Assessment of 'English Votes for English Laws' in the UK Parliament. In Parliamentary Affairs, Vol. 71, No. 4, 2018, pp. 760-782. https://doi.org/10.1093/pa/gsy003

[11] The Constitution Society: Devolution. 2023 (https://consoc.org.uk/the-constitution-explained/devolution/) (23.09.2023)

externalities limited subnational governments from implementing divergent policies, necessitating block grants adapted to revenue-raising powers to finance sub-state operations. Higher autonomy requires restrictive measures to manage fiscal shocks due to demographic and fiscal characteristics and limited borrowing capacity.

The Sewel Convention originally dictated that the UK Parliament would not typically create laws in devolved areas without the approval of the devolved legislatures. The Sewel Convention applies when the UK Parliament wants to legislate on a matter within the devolved competence of the Scottish Parliament, National Assembly for Wales or Northern Ireland Assembly. Under the terms of the Convention, the UK Parliament will "not normally" do so without the relevant devolved institution having passed a legislative consent motion.[12] However, the UK Parliament has recently passed laws without such consent. For instance, the UK Parliament passed the contentious UK Internal Market Act of 2020 despite being rejected by all devolved legislatures. This has led some to conclude that the Sewel Convention is no longer viable.

The United Kingdom Internal Market Act of 2020 restricted and undermined the devolved competencies of the Welsh Government, similar to its impact on the Scottish Government.[13] The UK Government claims that the market access principles[14] do not impact devolved powers. However, in practice and legally, these powers are notably limited. This occurs due to the status of the principles as protected enactments and the considerable market size and influence under English jurisdiction. The devolved governments cannot disapply these principles, so any stricter regulations would only apply within their jurisdiction, disadvantaging their own economy. This restricts their ability to pursue different economic or social choices from Westminster. The Internal Market Act has been criticised for undermining the Scottish Parliament's powers and democratic accountability. For instance, Wales, England, and Scotland have independently removed mutual recognition clauses for certain products, making it necessary for these items to comply with specific Welsh standards rather than automatic recognition. Due to the market access principles, a product complying with English or Scottish laws could still be sold in Wales, even if it does not meet the new Welsh laws. The Welsh

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[12] UK Parliament glossary: Sewel Convention (https://www.parliament.uk/site-information/glossary/sewel-convention/) (29.09.2023) It is named after the Government Minister, Lord Sewel, who set out the terms of the policy in the House of Lords during the passage of the Scotland Bill 1997-98 on 21 July 1998: „Clause 27 makes it clear that the devolution of legislative competence to the Scottish parliament does not affect the ability of Westminster to legislate for Scotland even in relation to devolved matters. Indeed, as paragraph 4.4 of the White Paper explained, we envisage that there could be instances where it would be more convenient for legislation on devolved matters to be passed by the United Kingdom Parliament. However … we would expect a convention to be established that Westminster would not normally legislate with regard to devolved matters in Scotland without the consent of the Scottish parliament." (HL Deb 21 Jul 1998 Vol. 592 c 791) and Bowers, Paul: The Sewel Convention. House of Commons Library, Parliament and Constitution Centre, 2005. p. 2. (https://commonslibrary.parliament.uk/research-briefings/sn02084/)

[13] United Kingdom Internal Market Act 2020 - 2020 CHAPTER 27. An Act to make provision in connection with the internal market for goods and services in the United Kingdom (including provision about the recognition of professional and other qualifications); to make provision in connection with provisions of the Northern Ireland Protocol relating to trade and state aid; to authorise the provision of financial assistance by Ministers of the Crown in connection with economic development, infrastructure, culture, sport and educational or training activities and exchanges; to make regulation of the provision of distortive or harmful subsidies a reserved or excepted matter; and for connected purposes.

[14] The market access principles of mutual recognition and non-discrimination are designed to prevent potentially harmful trade barriers to goods, services, and professional qualifications within the UK. The market access principles create the presumption that (in general) goods, services and professional qualifications that can be sold or recognised in one part of the UK should be able to be sold or recognised in any other part, regardless of what the law in that other part of the UK says. In UK Government: An introduction to the UK Internal Market Act 2022 (https://www.gov.uk/government/publications/complying-with-the-uk-internal-market-act-2020/an-introduction-to-the-uk-internal-market-act) (11.09.2023)

Government sought a judicial review of the legislation. During an April 2021 hearing, two High Court judges denied permission for a full hearing, deeming the claim premature as specific circumstances supporting the Welsh Government's arguments were absent.[15]

II. The Concept of Fiscal Devolution

Financial responsibility is a core component of decentralisation. For local governments and private entities to proficiently execute decentralised functions, they need to possess sufficient funding, which can originate from either local sources or be allocated from the central government. Additionally, they must be empowered to determine how these funds are spent autonomously. The key topics are taxation, transfers, subnational borrowings and macroeconomic stability. Fiscal decentralisation can take many forms, including the following:[16]

- self-financing or cost recovery through user charges,
- co-financing or co-production arrangements through which the users participate in providing services and infrastructure through monetary or labour contributions;
- expansion of local revenues through property or sales taxes or indirect charges;
- intergovernmental transfers that shift general revenues from taxes collected by the central government to local governments for general or specific uses and
- authorisation of municipal borrowing and the mobilisation of either national or local government resources through loan guarantees.

The term fiscal devolution broadly refers to the ability to generate more taxes locally and have more control over how that money is spent.[17] The concept – for example, in the United Kingdom – grants varying degrees of financial powers to its constituent countries, which has advantages and disadvantages.

Advantages and disadvantages of fiscal devolution

Fiscal devolution	
Advantages	**Disadvantages**
• tailored policies • accountability • efficiency • encourages innovation • economic growth • cultural and national identity • political stability	• inequality • fragmentation • coordination challenges • potential for conflict • loss of economies of scale • policy discrepancies: • complexity • potential for fiscal imbalance

Source: own compilation of the authors

Among the advantages of fiscal devolution-tailored policies is that devolved governments can create policies tailored to their regions' specific needs and preferences,

[15] Antoniw, Mick: Written Statement: Legal challenge to the UK Internal Market Act 2020. Written Statement, 2021. (https://www.gov.wales/written-statement-legal-challenge-uk-internal-market-act-2020-update) (12.08.2023)

[16] Litvack, Jennie: Fiscal Decentralization. World Bank, Decentralization Thematic Team. 2023. (http://www.ciesin.org/decentralization/English/General/Different_forms.html) (10.10.2023)

[17] Studdert, Jessica: Fiscal Devolution: why we need it and how to make it work. In New Local, 2023 (https://www.newlocal.org.uk/articles/fiscal-devolution/)

leading to potentially more effective and targeted public services. Fiscal devolution promotes accountability as citizens can hold their regional governments accountable for their spending and taxation decisions, leading to a more responsive government. Devolved administrations can respond more quickly and efficiently to local needs without waiting for decisions from a distant central government. Different regions can experiment with various policies, which might lead to innovative solutions to common problems. Successful policies in one region can serve as examples for others. States and regions can implement policies to attract investments and foster economic growth tailored to their unique economic landscapes, potentially reducing regional disparities. Fiscal devolution can accommodate and support cultural and national identities within the framework of a united country, addressing specific regional aspirations. Granting devolved powers can lead to political stability by addressing regional grievances and reducing the demand for complete independence.

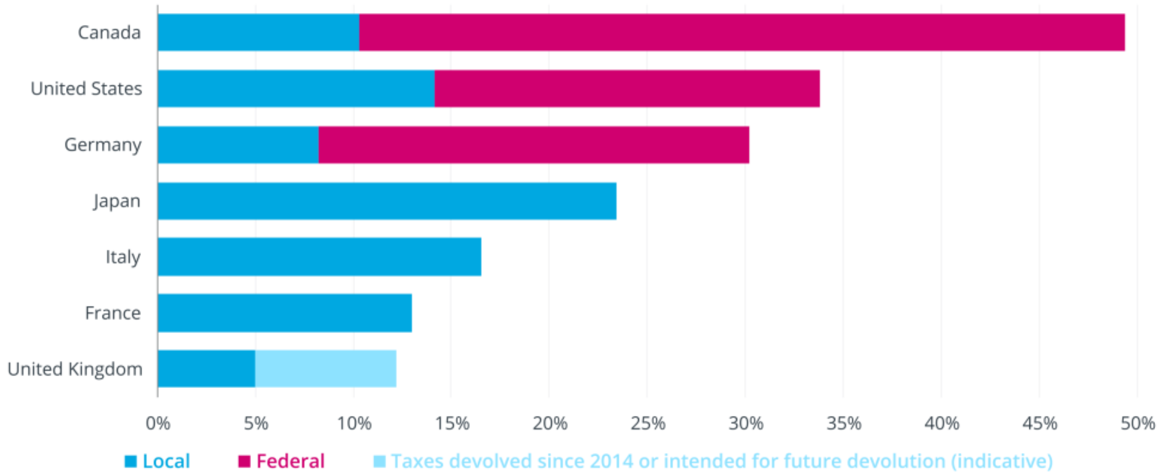
For the disadvantages, there is a risk of exacerbating economic and social inequalities between regions if some regions are not as economically prosperous as others. Fiscal disparities might persist or even worsen. Different regions implementing divergent policies can lead to a fragmented approach, potentially creating inefficiencies and complexities, especially in areas like taxation and business regulation. Coordinating policies between different regions can be challenging, especially when trade, transportation, or healthcare issues involve multiple regions with different rules and regulations. Fiscal devolution can sometimes lead to tensions and conflicts between regions, especially disagreements over resource allocation, funding priorities, or policy decisions. Centralised services often benefit from economies of scale, where large-scale operations reduce costs. Devolving services might lead to higher per-unit costs in smaller, regionally managed operations. Policies such as taxation rates can create disparities that lead to cross-border issues, encouraging individuals and businesses to move to regions with more favourable tax conditions. A multi-tiered system of government with varying degrees of fiscal powers can be complex and difficult for citizens to understand, potentially leading to confusion and dissatisfaction. If the revenue-raising powers of a region do not match its spending needs, there can be fiscal imbalances, leading to overreliance on central government funding or budget shortfalls. Perhaps the most significant barrier that fiscal devolution in a modern economy faces is the inherently highly complex nature of the fiscal system.[18] This is particularly the case where the approach lacks the principled-based approach advocated by Bell et al.[19]

The balance between the advantages and disadvantages of fiscal devolution depends on effective governance, clear communication, and the ability to manage the complexities associated with decentralising financial powers within a unified country. Striking this balance is essential to ensuring that the benefits of tailored regional policies are maximised while minimising potential drawbacks.

[18] McIntyre, Stuart – Mitchell, James – Roy, Graeme: Fiscal devolution and the accountability gap: budget scrutiny following tax devolution to Scotland. In Regional Studies, Vol. 57, No. 7, 2023, pp. 1380-1391, DOI: 10.1080/00343404.2022.2112166

[19] Bell, David – Sas, Willem – Houston, John: Starting from scratch? A new approach to subnational public finance. Regional Studies, 2021. 55(4), 617–629. https://doi.org/10.1080/00343404.2020.1839640

Taxes collected at the federal and local level as a percentage of total tax revenue



Source: Institute for Government analysis of OECD, Revenue Statistics – taxes by level of government, 2016; and additional Institute for Government analysis 2018, and Studdert, Jessica: Fiscal Devolution: why we need it and how to make it work. In New Local, 2023 (https://www.newlocal.org.uk/articles/fiscal-devolution/) (18.09.2023)

In a tax-based approach, fiscal freedom means a broader suite of local taxes and restoration of certain grant funds; fiscal federalism reflects to locally-determined tax regimes, and fiscal devolution entails the same suite of local taxes but devolution of some central taxes. Unlike fiscal freedom, this would not necessitate the introduction of new taxes but rather a reconsideration of the obligations and duties of each level of government. If fiscal devolution deals the basis of local need for finance, local authorities could fund their care services in line with their requirements.[20]

In international comparisons, the United Kingdom appears to be a unique case. From 2014, 2018 and 2023, as per estimates presented by the Organisation for Economic Co-operation and Development (OECD), it becomes evident that the UK differs significantly from its counterparts within the G7 group of nations. Specifically, when examining the collection of tax revenues at local or regional levels, it is striking to observe that each of the other G7 member nations surpassed the United Kingdom in this aspect during that year. This deviation from the norm within the G7, where higher taxes were collected and managed locally or regionally in the other member states, underscores the distinct fiscal approach adopted by the UK compared to its global peers. Fiscal centralisation also extends to spending decisions.[21] In the UK, for instance, less than 15 % of all government expenditure is determined at sub-national levels, contrasting the prevailing trend in most other countries that favour greater devolution of such decisions. The era of devolution initiated under the leadership of Cameron and Osborne laid the groundwork for the sub-regional model involving mayoral combined authorities. Nevertheless, fiscal powers did not feature prominently in these arrangements. The concept of levelling up was introduced during the tenure of Johnson and continued under Sunak. Later, it was predominantly facilitated by Michael Gove, who has served as the Secretary of State for Levelling Up in both administrations. This policy coexists with the ongoing devolution process, but, in practice, it largely takes the form of a national fund that local areas can access through bids for investment.

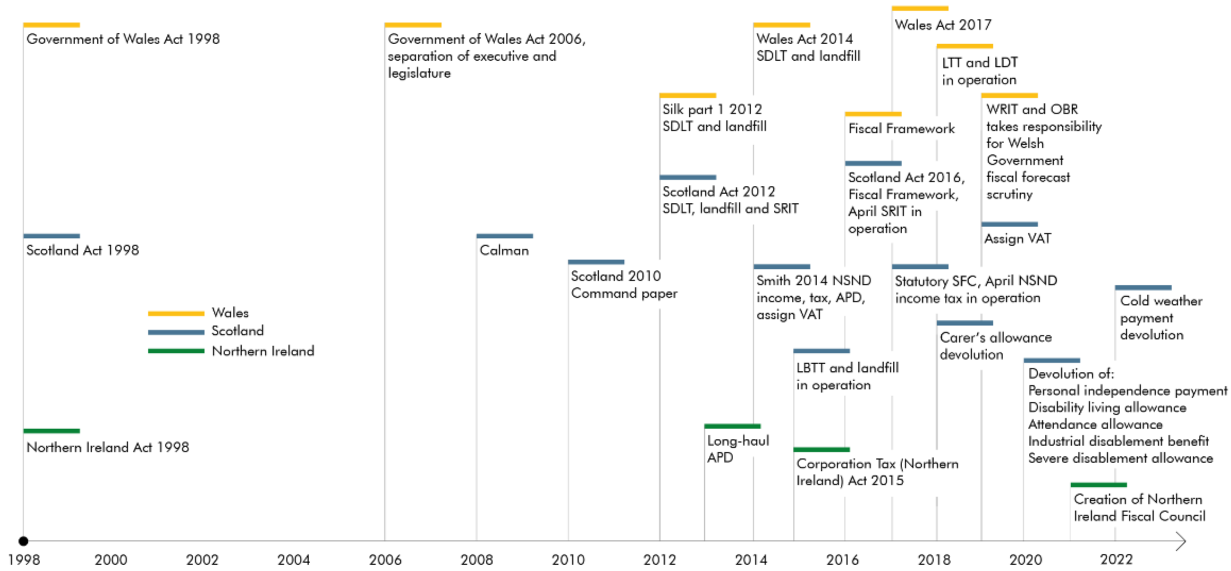
[20] Bentley, Kevin: Fiscal devolution – Adopting an international approach. Local Government Association. London, 2020, p. 14.

[21] Paun, Akash – Cheung, Aron: Tax and devolution – Why are taxes being devolved? Institute for Government, 2023. London (https://www.instituteforgovernment.org.uk/explainer/tax-and-devolution)

III. Fiscal Devolution in the United Kingdom

The process of fiscal devolution to Scotland, Wales and Northern Ireland began in 1998 with the passing of a Scotland Act, a Government of Wales Act and a Northern Ireland Act. These set up the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly. The timeline below shows some of the key devolution milestones since then, including significant recent and forthcoming changes.

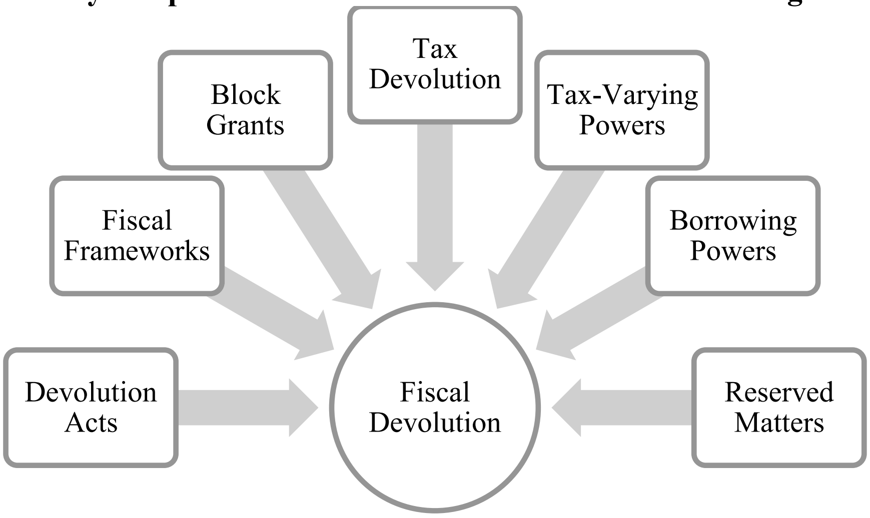
Devolution of fiscal powers timeline



Source: Devolution of fiscal powers timeline. Office for Budget Responsibility. 2023 (https://obr.uk/topics/scotland-wales-and-northern-ireland/) (15.09.2023)

The Law of Fiscal Devolution in the United Kingdom refers to the legal framework that governs the distribution of financial powers and responsibilities between the central UK government and its devolved administrations, which include Scotland, Wales, and Northern Ireland. Fiscal devolution allows these devolved governments to raise and manage their own revenue and make decisions about how that revenue is spent within certain policy areas. These financial law aspects of devolution are a crucial part of the UK's constitutional landscape, allowing the devolved administrations to exercise greater autonomy in managing their finances and shaping their policies in areas of devolved responsibility while remaining part of the centre.

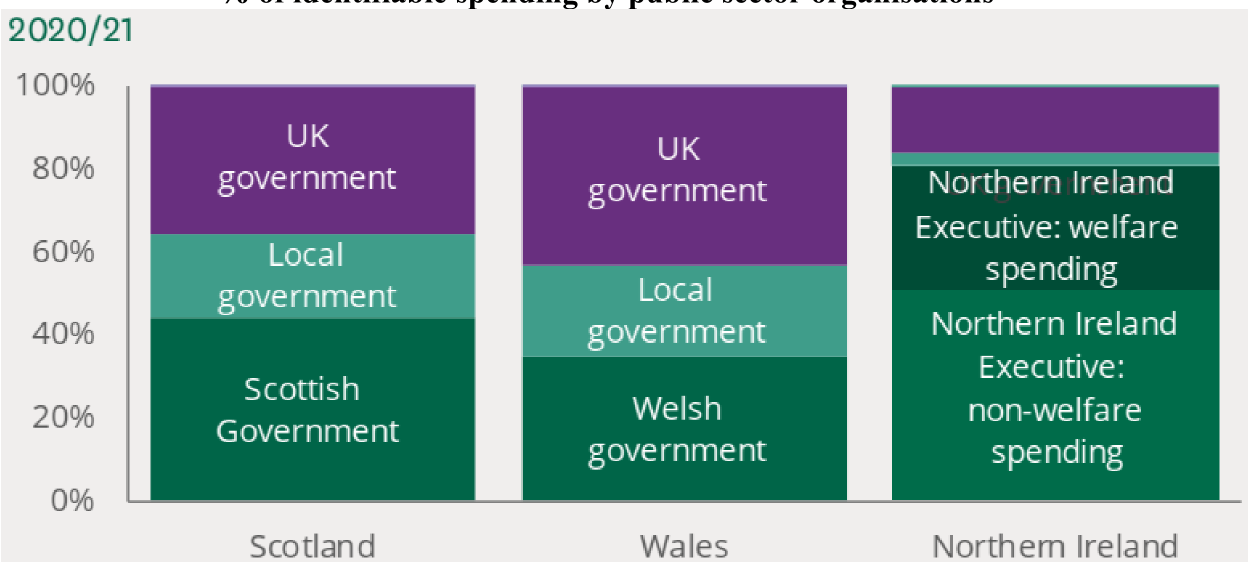
The key components of fiscal devolution in the United Kingdom



Source: own compilation of the authors

The first factor of the key components of fiscal devolution is the legal foundation on devolution or so-called devolution acts. The process of fiscal devolution began with the Scotland Act 1998, the Government of Wales Act 1998, and the Northern Ireland Act 1998. These acts established the devolved legislatures in the three countries and laid the foundation for their fiscal powers.

% of identifiable spending by public sector organisations

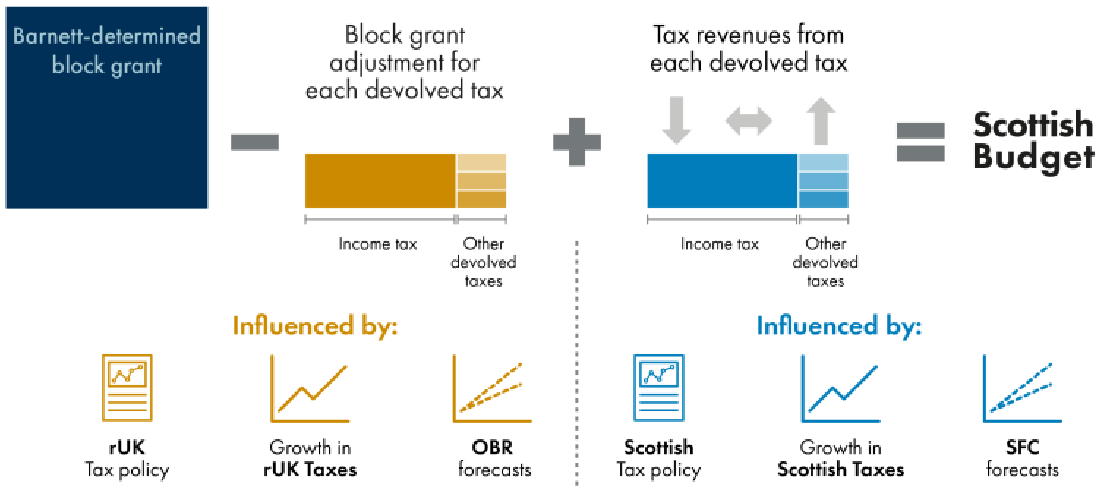


Source: HM Treasury. Public Expenditure Statistical Analyses 2022, Table 9.21. and Keep, Matthew: The Barnett formula and fiscal devolution. House of Commons Library. Research Briefing. 2023, p. 16.

To ensure the United Kingdom's smooth operation of fiscal devolution, fiscal frameworks are in place that set out the rules and principles for managing financial relationships between the central government and the devolved administrations. These frameworks set out the principles and rules for managing financial arrangements, including matters like block grant adjustments, borrowing limits, and fiscal rules, furthermore they are intended to provide stability and fairness. The joint expenditure committees help coordinate and oversee specific financial matters that affect more than one part of the UK. They allow for collaboration between the UK government and the devolved governments on budgetary issues.

A funding mechanism known as block grant adjustment (BGA) is to allocate funds to the devolved administrations. The so-called Barnett Formula was designed to calculate these grants and ensure that each devolved government has sufficient funds to provide services in areas of devolved responsibility, such as health, education, and transport. Although not a strict formula, it has historically been used to calculate the block grants for Scotland, Wales, and Northern Ireland.[22] This calculates the annual change in the block grants but does not determine their total size, just the yearly change. It takes the annual change in a UK Government department's budget and multiplies it by two figures that take into account the relative population of the devolved administration (population proportion) and the extent to which the UK department's services are devolved (comparability percentage): Change to the UK government department's budget × Comparability percentage × Appropriate population proportion.[23] The devolved governments can then choose how to spend this grant within their areas of responsibility.

Components of a devolved country budget



Source: Hudson, Nicola: Taxing times: the perils of fiscal devolution. Financial Scrutiny Unit, 2019. (https://spice-spotlight.scot/2019/06/26/taxing-times-the-perils-of-fiscal-devolution/) (5.09.2023)

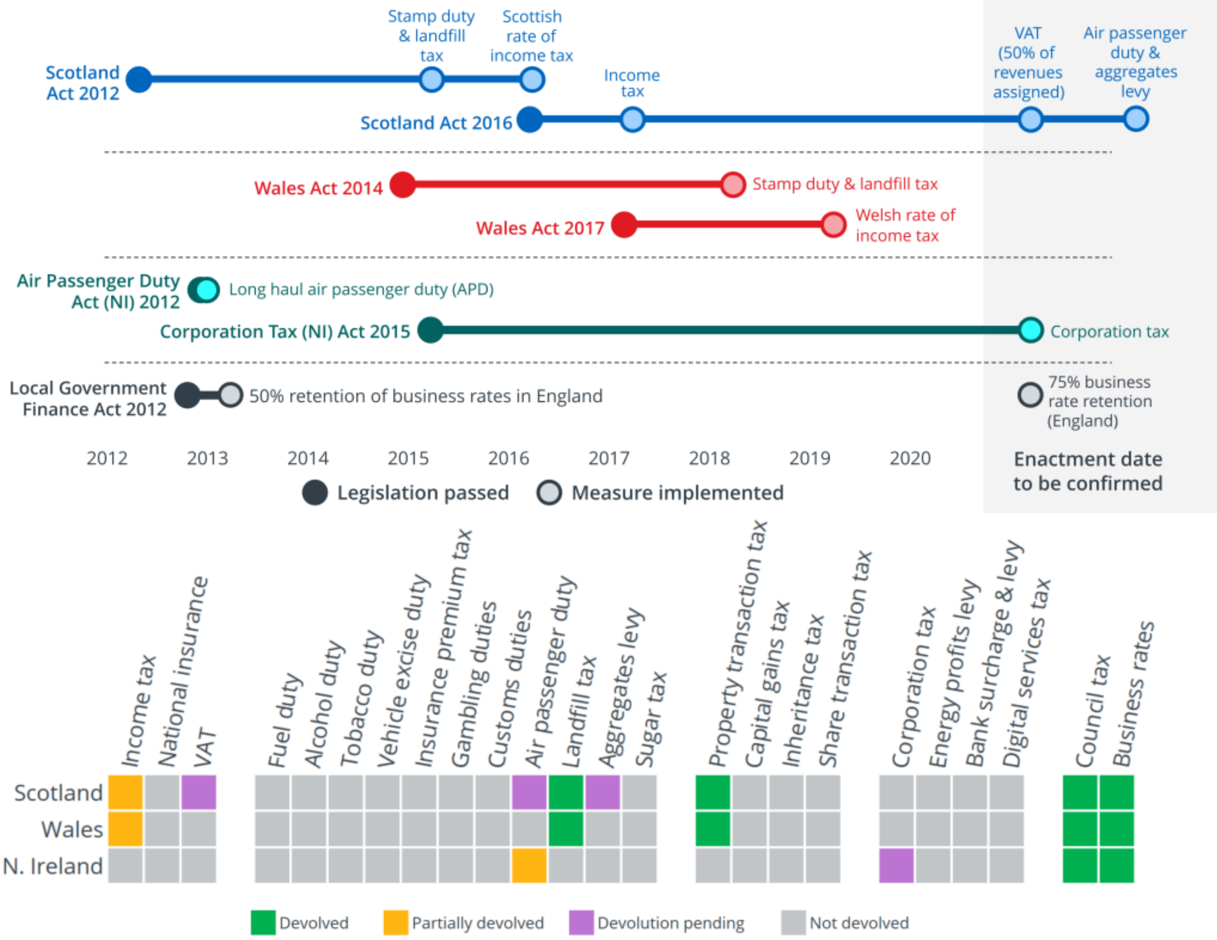
The fiscal devolution involves delegating certain tax-raising powers and financial responsibilities to its constituent countries. Tax assignment involves determining which taxes are controlled by the central or federal government and which are allocated to subnational

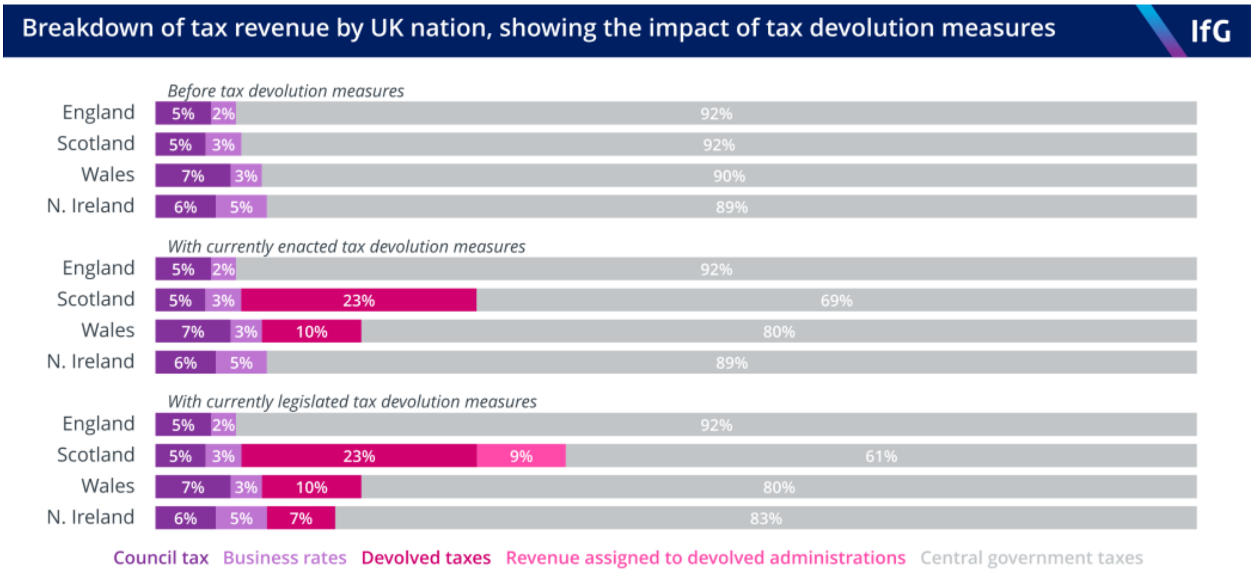
[22] Extra funding in Scotland, Wales or Northern Ireland = Extra funding in England × Population proportion compared to England × The extent to which the relevant English departmental programme is comparable with the services carried out by the devolved administration. For example, in 2000, the Northern Irish, Scottish and Welsh populations were taken to be 3.69%, 10.34% and 5.93% (respectively) of the population of the UK. For programmes in the Department of Health, the comparability factor for Scotland and Wales was 99.7%. Therefore, if £1 billion was to be added to planned health expenditure in England, then the extra amount added to the Scottish block, compared to the year before, would be £1bn × 10.34% × 99.7% = £103 million, and the amount added to the Welsh block would be £1bn × 5.93% × 99.7% = £59.1 million.
Edmonds, Timothy: The Barnett Formula, Economic Policy and Statistics Section, House of Commons Library, Research Paper 01/108, 30 November 2001. pp. 10-13.

[23] Keep, Matthew: The Barnett formula and fiscal devolution. House of Commons Library. Research Briefing. 2023. p. 5.

governments. The division of tax powers varies from one country to another. Commonly devolved taxes include property taxes, local sales taxes, and sometimes income taxes, while central governments often retain control over key taxes like value-added tax (VAT) or federal income tax. In addition to income tax, the Scotland Act 2012, the Scotland Act 2016, and the Wales Act 2014 have devolved tax powers, allowing the Scottish and Welsh governments to make decisions about certain taxes. For example the tax autonomy aims to provide subnational governments with some degree of autonomy in setting tax rates and making decisions regarding taxation within their territories. This enables them to respond to local needs and preferences. There may be mechanisms for sharing tax revenues between the central and subnational governments. These mechanisms are often based on a formula considering population, economic performance, and specific regional needs. Fiscal devolution can create a competitive tax environment among the countries, as they may adjust tax rates and policies to attract businesses, investment, or residents. It can lead to both positive and negative consequences, including tax revenue gains and potential race-to-the-bottom scenarios.

Infographic of tax devolution in the United Kingdom





Source: Institute for Government analysis of Office for National Statistics, Country and regional public sector finances, 2022. Figures are indicative, based on the percentage of revenue each tax represented in the 2020/21 financial year. Paun, Akash – Aron Cheung: Tax and devolution – Why are taxes being devolved? Institute for Government, 2023. London (https://www.instituteforgovernment.org.uk/explainer/tax-and-devolution) (05.08.2023)

Devolved administrations have limited borrowing powers to manage their finances, set by the devolution acts in the case of Scotland and Wales. Not all fiscal matters are devolved. Some areas, known as reserved matters, remain under the control of the UK government. These include issues like defence, foreign affairs, and social security. The UK government continues to set policy and allocate funding for reserved matters.[24] Each devolved administration is required to manage its finances within certain limits, and mechanisms are in place to ensure financial accountability. The devolved governments must adhere to fiscal rules and ensure their budgets are balanced over the medium term. Devolved governments are subject to audit by independent bodies to ensure financial transparency and accountability. In Scotland, for example, the Scottish Government's accounts are audited by the Auditor General for Scotland.

[24] Torrance, David: Reserved matters in the United Kingdom. House of Commons Library - Research Briefing, 2022. (https://commonslibrary.parliament.uk/research-briefings/cbp-8544/) (09.10.2023) p. 35.

Percentage of UK Government departments' spending responsibility that is devolved

Department	Scotland	Wales	Northern Ireland
Education	100%	100%	100%
Housing, Communities and Local Government	100%	100%	100%
Health and Social Care	100%	100%	100%
Environment, Food and Rural Affairs	97%	97%	97%
Transport	92%	37%	95%
Digital, Culture, Media, and Sport	68%	68%	70%
Justice	100%	1%	100%
Home Office	74%	2%	74%
Work and Pensions	20%	0%	98%
Business, Energy and Industrial Strategy	7%	7%	7%
HM Revenue and Customs	4%	4%	3%
HM Treasury	0%	0%	0%
Cabinet Office	0%	0%	0%
Defence	0%	0%	0%
Foreign, Commonwealth and Development Office	0%	0%	0%
International Trade	0%	0%	0%

Source: Cheung, Aron: Barnett formula. Institute for Government and Institute for Government analysis of HM Treasury, Statement of Funding Policy, 25 November 2020. (https://www.instituteforgovernment.org.uk/article/explainer/barnett-formula) (16.09.2023)

It is important to note that fiscal devolution is an evolving process, and there may have been further developments in the law and framework. Fiscal devolution is a complex and politically significant aspect of the UK's constitutional arrangements, and it plays a crucial role in allowing the devolved nations to tailor public policies to their specific needs and preferences.

III.1. Scotland

The Parliament had the right to independently decide upon the allocation of funds to health care, public security, legal system, and economic matters, but its income-raising capacity was confined to the collection of council and business property taxes. The prevailing deficit was mostly financed by the block grant received from the central government.[25] (Eiser 2020, Bell et al 2014) Regarding the report's conclusions, a referendum bill was passed on the Scottish legislation in 2011 and then submitted to Westminster through the Legislative Consent Motion (LCM). In the 2011 election, the Scottish National Party (SNP) won a majority, initiating a second LCM to modify the bill. The Scotland Act received a royal endorsement in 2012, partially transferring the collection right of income tax, the complete control over Stamp Duty Land Tax on property transactions and Landfill Tax on disposable waste landfills.

The Scotland Act 1998, later amended by the Scotland Act 2012, granted the Scottish Parliament the power to vary the rate of income tax. The Scottish Government can set different tax rates, which affect the amount of revenue it collects from income tax. This power is known

[25] Eiser, David: Will the benefits of fiscal devolution outweigh the costs? Considering Scotland's new fiscal framework. In Regional Studies, Vol. 54, No. 10, 2020, pp. 1457-1468, DOI: 10.1080/00343404.2020.1782875 and Bell, David – Eiser, David: Scotland's Fiscal Future in the UK. Stirling, 2014, pp. 1-23. and Waters, Tom – Tom Wernham: Analysis of Scottish tax and benefit reforms. Institute for Fiscal Studies, 2023.

as the Scottish Rate of Income Tax (SRIT).[26] For example, the SRIT allows Scotland to set a different income tax rate compared to the rest of the UK, affecting the revenue collected from income tax in Scotland. The Scottish Government controls Land and Buildings Transaction Tax (LBTT), Landfill Tax, and Air Passenger Duty, while the Welsh Government has authority over Land Transaction Tax (LTT) and Landfill Disposals Tax. The Smith Commission to accomplish the pledged next phase of devolution, selected the group of taxes which could be fully devolved: Non saving, non-dividend tax (NSND), Air Passenger Duty (APD) on airflight passengers, which was later renamed as Air Departure Duty (ADT) and Aggregate Levy.[27] The majority of the taxes, namely the Aggregate Levy, and VAT were devolved with a delay by the Scotland Act 2016. The argument to support the devolution of income tax was the relative immobility of households, which the occurrence of horizontal externalities could reverse. Moreover, the shared Scottish tax base of VAT would aggravate the combined impacts of horizontal and vertical externalities.

To manage the handover of the devolved fiscal powers, a sound infrastructure was established, such as the Revenue Scotland, which have been responsible for the collection of devolved taxes, the Scottish Fiscal Commission, which have prepared the budget forecasts and the Social Security Scotland for benefit administration.[28]

The current devolution settlement means that the Scottish Budget is a mix of a block grant, devolved and shared tax revenues, block grant adjustments, borrowing programmes and rules on the use of savings (the Scotland Reserve). Complex rules now govern how regional tax forecasts are reconciled with outturn data, with the effect that budget changes in one year feed through to the amount the government has to spend many years into the future. On top of this, no one institution is responsible for communicating all the facts on these different components, with HM Treasury, HM Revenue & Customs (HMRC), the Department for Work and Pensions (DWP), the Scottish Government, Scottish Fiscal Commission (SFC), and the Office for Budget Responsibility (OBR) all having a role. This system is woven on top of an already complex and asymmetric system for funding the regions and nations of the UK.[29]

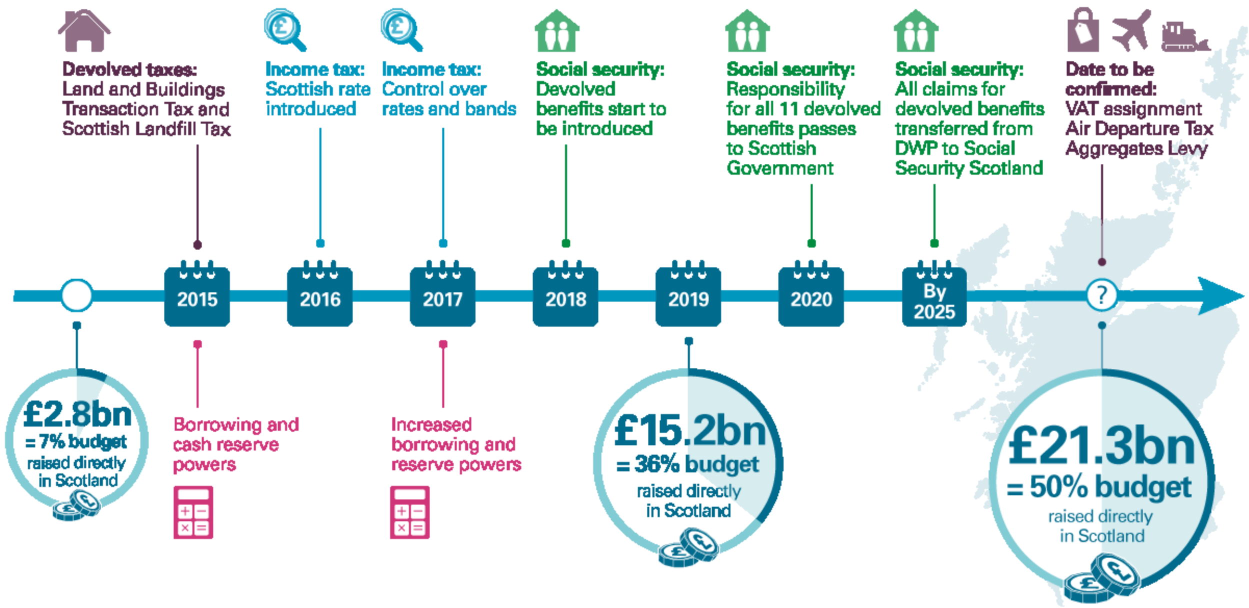
[26] Lecca, Patrizio (et al.): Balanced budget multipliers for small open regions within a federal system: Evidence from the Scottish variable rate of income tax. In Journal of Regional Science, Vol. 54, No. 3, 2014, pp. 402-421. https://doi.org/10.1111/jors.12113

[27] Torrance, David: Devolution in Scotland: The settled will? House of Commons Library – Research Briefing, 2023. 41. (https://commonslibrary.parliament.uk/research-briefings/cbp-8441/) (03.10.2023)

[28] Eiser 2020: op. cit.

[29] McIntyre, Stuart – Mitchell, James – Roy, Graeme: Fiscal devolution and the accountability gap: budget scrutiny following tax devolution to Scotland. In Regional Studies, Vol. 57, No. 7, 2023, pp. 1380-1391, DOI: 10.1080/00343404.2022.2112166

Financial devolution in Scotland



Source: Audit Scotland: Financial devolution in Scotland: the journey so far. 2023. (https://www.audit-scotland.gov.uk/e-hubs/financial-devolution-in-scotland-the-journey-so-far)

The Fiscal Framework and the Scotland Act 2016 increased the Scottish Government's capital borrowing limits to £3 billion. The annual limit on capital borrowing also increased to 15 % of the overall borrowing cap, i.e. £450 million per year. Since 1 April 2017, the Scottish Government has had the power to borrow up to £600 million each year within a statutory overall limit for resource borrowing of £1.75 billion. The Fiscal Framework set out the conditions and limits for elements of resource borrowing: for in-year cash management, an annual limit of £500 million; for forecast errors, an annual limit of £300 million; for any observed or forecast shortfall where there is or is forecast to be a Scotland-specific economic shock, an annual limit of £600 million.[30] The Wales Act 2014 granted similar borrowing powers to the Welsh Government.

III.2. Wales

Since 1998, the legislative devolution continued in Wales with the foundation of the Richard Commission, which proposed separating the legislative and executive powers, claiming the transfer of primary law-making, ratified by the Government of Wales Act 2006. After the 2007 election, the One Wales coalition collaborated with the Labour and Plaid Cymru Parties to establish the Holtham Commission in 2008. The first report suggested substituting the Barnett formula with a need-based one. In 2010, the second statement reaffirmed the first one, requiring an additional tax varying power. In 2011, the Silk Commission[31] was created by

[30] Third Annual Report on the Implementation of the Scotland Act 2016: Seventh Annual Report on the Implementation and Operation of Part 3 (Financial Provisions) of the Scotland Act 2012. Scottish Parliament, 2019. pp. 18-23. and Bell, David – Eiser, David – Phillips, David: Options for reforming the devolved fiscal frameworks post-pandemic. The Institute for Fiscal Studies, 2021.

[31] Bowers, Paul – Dominic Webb: Devolution in Wales: the Silk Commission. Standard Note: SN/PC/06108, Parliament and Constitution Centre, and Economic Policy and Statistics Section, London: House of Commons Library. 2012. and Evans, Adam. Much ado about nothing: Fiscal accountability in Wales and the Silk

the Conservative-Liberal Democrat Government to revaluate the devolution arrangements. In 2012, the delegation's findings were published, recommending transferring the collection right of Landfill tax, Stamp Duty Tax, Aggregates Levy, Air Passenger Duty initially for long-distance flights and the ability to divert income tax rates from the Westminster set.

Except for Aggregates Levy and Air Passenger Duty, the Wales Act 2014 sanctified the claims of the Welsh Assembly, entitling the government with the right to set an income rate of 10p within the UK bands. The Welsh Parliament, Senedd Cymru, has authority over some taxes, including the devolved taxes of Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT). It also has powers to vary income tax rates within certain bands. These reforms were scheduled for 2019-2020.[32] The calculation of the block grant was remodelled, setting a needs-based factor at 115%. During the transitional period, an additional 105% factor would be applied until the comparative Welsh block grant per head would not converge to 115% of UK expenditure per head. The bill raised the general capital borrowing ceiling to £1 billion with an annual cap of £150 million and a £200 million resource borrowing capacity to counterbalance forecast errors. On the Brexit ballot, Wales, whose public policy was more intertwined with England, voted to leave the EU.[33] However, Brexit may be less significant for Wales, but it is worth illustrating how much it is moving along with the UK in certain decisions, foregoing beneficial opportunities that the EU would offer.

III.3. Northern Ireland

Northern Ireland Act 1998 did not resolve the imminent conflicts in the Northern Irish communities. The precariousness around the decommissioning of military activities of the IRA compelled the UK Government to suspend the operation of the devolved institutions. However, there were attempts to restore devolution over 2000, which was further delayed until the announcement of the demilitarisation of the IRA in 2001. 2002 was stained with accusations of IRA with abeyance of truce and arrest of Assembly representatives under the suspect of spying. As an answer to the turmoil, the UK government resurrected the institution of Direct Rule between 2002 and 2006, claiming itself directly responsible for the governance of the domain. The Northern Irish Assembly officially dissolved in 2003, before the elections, while the IRA declared the accomplishment of the army decommissioning process.

Following the St. Andrews Agreement in 2006, which appealed for additional devolution of political and legislative powers, a Transitional Assembly was established to promote the restoration of devolved institutions to the deadline in 2017. This was a rather stable political period when policing and justice rights were transferred to Northern Ireland under the Northern Ireland Act 2009. The Stormont House Agreement 2014 required further executive competencies: devolution of corporate tax and greater autonomy to execute welfare reforms to neutralise the horizontal externalities from the spillover effect of UK policy arrangements. It also bound the Northern Ireland Executive to approve a final balanced budget by January 2015. In return, the British Government committed to providing an extra £2 billion in financial support to Northern Ireland from 2014 to 2020. Additionally, the Executive is expected to initiate a comprehensive program for reforming and restructuring the public sector. This effort

Commission. British Politics and Policy at LSE. 2013. and Jones, Robert – Harrison, Michael – Jones, Trevor: Policing and devolution in the UK: The 'special'case of Wales. In Policing: A Journal of Policy and Practice, Vol. 17, 2023, paac063. https://doi.org/10.1093/police/paac063

32 Torrance, David: Devolution in Wales: "A process, not an event". House of Commons Library – Research Briefing, 2023, 17. (https://commonslibrary.parliament.uk/research-briefings/cbp-8318/) (03.10.2023)

33 Grace, Cliv: Perfect storm: The pandemic, Brexit, and devolved government in the UK. In Chattopadhyay, Rupak, et al. Federalism and the response to COVID-19: A comparative analysis. Taylor & Francis, Oxon, 2022. https://doi.org/10.4324/9781003251217-23

will be supported by an independent strategic review conducted by the OECD, slated to conclude by the end of 2015.

The Northern Ireland Act 2015 accelerated welfare amendments, supplementing the UK reforms with a £585 million from executive sources for a four-year period. The Fresh Start or Stormon Agreement in 2015 imposed a constraint on those planned expenditures which surpassed the block grant or borrowing limits, gave an additional UK Government financial support of around £500 million, and determined the rate of devolved corporate tax (12, 5%) from 2018.[34] In the same year, the paramilitary actions revived when a former IRA member was murdered. The devolution of Corporation Tax from Westminster to Belfast by 2017 was also agreed upon, conditional on the prior implementation of the other aspects of the agreement by Northern Irish parties.[35] The Brexit referendum, where Northern Ireland voted to remain in the EU, fragmented the unified stance of the two main parties as they cast their votes along different interests. The Northern Ireland Act 2018 postponed the further restoration of devolution to 2019.[36] Finally, the Northern Ireland Assembly has limited tax-raising powers but has the authority to set its own Corporation Tax rate, which can be different from the rest of the UK, although this power has not yet been exercised.

IV. Conclusion

For a well-established fiscal decentralisation system, the best is to incorporate it into broader constitutional and legal safeguards for local governments and communities. National governments are obliged to adhere to these protections. For instance, devolved fiscal powers and a national equalisation system are bolstered by a constitutional guarantee of uniform living standards. This ensures that the central or federal government must provide adequate resources to meet local needs.

In contrast, progress in the United Kingdom has been largely through isolated policy initiatives. There has not been a comprehensive legal clarification regarding the role and independence of sub-national governments, or any legal commitment from the central government regarding regional resourcing and rebalancing. The concept of fiscal devolution within the United Kingdom represents a dynamic and multifaceted framework that has evolved over the past three decades. The legal foundations from 1988, ranging from the Scotland, Wales and Northern Ireland Acts, provide the formal structure for revenue-raising and expenditure powers. The results are not the same or uniform; each country has its own set of rules, negotiated with and enacted by the Westminster Parliament. It reflects the evolving nature of governance and the recognition that one-size-fits-all policies may not be suitable for a nation as diverse as the United Kingdom. It can be regarded as a testament to the adaptability of the UK's constitutional and legal framework in response to changing political and social landscapes.

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[34] Bell, Christine − McVeigh, Robbie − Dúchán, An: A Fresh Start for Equality? The Equality Impacts of the Stormont House Agreement on the Two Main Communities. Equality Coalition. 2016. (www.equalitycoalition.net/wp-content/uploads/2013/01/A-FRESH-START-FOR-EQUALITY-FINAL-2.pdf) (11.05.2023) and Northern Ireland Office: A Fresh Start - the Stormont Agreement and Implementation Plan. 2015. (https://assets.publishing.service.gov.uk/media/5a80a8a5e5274a2e8ab516ce/A_Fresh_Start_-_The_Stormont_Agreement_and_Implementation_Plan_-_Final_Version_20_Nov_2015_for_PDF.pdf) (22.09.2023)

[35] Tunney, Sean: Multinational tax journalism: Devolved UK coverage of corporation tax rates in Scotland and Northern Ireland. In Journal of Applied Journalism & Media Studies, Vol. 10, No. 1, 2021, pp. 49-71. https://doi.org/10.1386/ajms_00029_1

[36] Torrance, David: Devolution in Northern Ireland. House of Commons Library – Research Briefing, 2022, p. 38. (https://commonslibrary.parliament.uk/research-briefings/cbp-8439/) (03.10.2023)

The process is not just merely a matter of law but also deeply intertwined with political, economic, and social considerations. The system is complex, consisting of several essential elements that are closely linked: devolution acts, fiscal frameworks, block grants, tax devolution, tax-varying powers, borrowing powers and reserved matters. These factors are calculated and set in every year taking account of economic, social, population trends. However, it allows the countries to tailor policies to their specific circumstances, fostering a sense of national identity and empowerment. On the other hand, it also presents challenges regarding coordination, equalisation, and the potential for unintended consequences, such as tax competition.

Until the second half of the 1990s, a consolidative fiscal approach dominated the United Kingdom with budget surpluses and low debt level. At the end of the decade the subnational governments achieved various stages of autonomy since the 1998 Acts, which ratified the administrative and fiscal devolution. The devolutionary process was facilitated after the Great Recession, assigning different income-raising and welfare authorities to Scotland and Wales, while the same progress was dampened in Northern Ireland because of the looming political instability. The prevailing fiscal gaps have been financed either through the centrally provided block grants, increasing the financial dependency on the UK governance or the devolved taxes. Debates about the transferred revenue-raising rights intensified in the last decade because it is hard to determine which taxes should be transferred to substate governments in the lack of an explicit guide about the common traits of those taxes which could be appropriate for devolutionary purposes. Although Northern Ireland could not fully realise the administrative devolution, the cyclically sensitive corporate tax collection right was consigned to the Assembly. Additionally, horizontal externalities in the form of expenditure spillovers from the United Kingdom influence the public policy in each country, but Wales and Northern Ireland are more vulnerable because of their tighter cooperation with England. These factors of the weak budget positions intensified the reliance on the centrally supplemented block grants, besides the broader tax base on a national level and borrowing power to mitigate economic shocks.

The fiscal devolution experience in the UK underscores the need for a delicate balance between local autonomy and national cohesion. The interplay of fiscal policies and the distribution of resources directly impact the welfare and economic well-being and public services provided to the citizens of each nation and region. With its complex political landscape, the UK has seen significant shifts in allocating fiscal powers and responsibilities among its constituent nations and regions. The legal and conceptual framework underpinning fiscal devolution has profound implications for economic policy, public finance, and intergovernmental relations, and it is still subject to ongoing debates and reforms and not without complexities and challenges.

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Scotland Act 2012 – 2012 CHAPTER 11. An Act to amend the Scotland Act 1998 and make provision about the functions of the Scottish Ministers; and for connected purposes.

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Government of Wales Act 1998 – 1998 CHAPTER 38. An Act to establish and make provision about the National Assembly for Wales and the offices of Auditor General for Wales and Welsh

Administration Ombudsman; to reform certain Welsh public bodies and abolish certain other Welsh public bodies; and for connected purposes.

Government of Wales Act 2006 – 2006 CHAPTER 32. An Act to make provision about the government of Wales.

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Northern Ireland Act 1998 – 1998 CHAPTER 47. An Act to make new provision for the government of Northern Ireland for the purpose of implementing the agreement reached at multi-party talks on Northern Ireland set out in Command Paper 3883.

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