

Impact case study (REF3b)

Institution: University of Glasgow
Unit of Assessment: C18 – Economics and Econometrics
Title of case study: Informing the Economic and Financial elements of the Scotland Act (2012)
1. Summary of the impact (indicative maximum 100 words)

The recommendations of the ‘Calman Commission’ on Scottish Devolution resulted in the largest transfer of financial powers from Westminster since the creation of the United Kingdom, implemented in the Scotland Bill which received Royal Assent in 2012. The independent expert group chaired by Professor Anton Muscatelli were directly influenced by University of Glasgow research on the lack of accountability in the UK devolved system, the potential to extend the use of income taxation as a devolved tax, and the problems in devolving taxes such as VAT, corporation and natural resource tax.

2. Underpinning research (indicative maximum 500 words)
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Professor Anton Muscatelli (1984-90 Lecturer, Political Economy; 1990-92 Senior Lecturer; 1992-97 Professor; 1995-2000 Head of Department, Political Economy; 2000-04 Dean, Faculty of Social Sciences; 2004-07 Vice-Principal, Strategy, Budgeting & Advancement; 2009-present Principal & Vice-Chancellor) and colleagues at the University of Glasgow conducted a range of studies in the years prior to the establishment of the expert group supporting the Calman Commission. Some of the problems with the 1997 devolution settlement included a lack of financial accountability and the need to address the imbalance in the Scottish Parliament’s spending and revenue raising responsibilities. It was important that future legislation addressed how to balance the need for greater accountability with the need to maintain equity in access to public services across the UK and potential issues of tax competition, as well as issues such as the need to borrow at the devolved country level. The studies undertaken at the University of Glasgow ranged from examining the way different fiscal arrangements varied across the Organisation for Economic Cooperation & Development in Europe (OECD) and the lessons which could be drawn for modifying the UK devolution settlement of 1997 (particularly Scotland’s fiscal arrangements) to create more accountability [i-iii], to empirical studies which looked at the way different jurisdictions interacted in their fiscal stance over time [iv-vi].

In 2001, the paper by Muscatelli [iii] emphasised the need for Scotland to move beyond the current system of block grant funding through the Barnett formula, as it did not provide accountability and responsibility for raising its own taxes to finance public spending. The paper identified income taxes as the most promising for devolution given the issues around tax competition, such as the problems of different jurisdictions setting corporation and VAT/sales taxes/duties in such a way which distorts consumer behaviour and leads to transfer pricing. It also identified the administrative problems in devolving other taxes such as those on oil and gas given decommissioning allowances, on tax thresholds and bands given the simplicity of the UK PAYE system, and on VAT given EU regulations. The papers written in 2002 [i] and 2003 [ii] by Muscatelli with Graeme Roy (then University of Glasgow PhD student, now an economist within Scottish Government) and Julia Darby (University of Glasgow [1995-2003 Senior Lecturer, Economics], now at the University of Strathclyde), took this further by providing evidence on how centralised taxation in the UK was providing very little accountability to devolved administrations, compared to other OECD economies. These themes of financial accountability, tax competition in areas such as corporation

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tax and VAT were at the heart of the subsequent work of the expert group. The main conclusions in the papers [i-iii] were all echoed in the conclusions of the Commission on Scottish Devolution, both in the additional taxation powers granted within the Scotland Act (2012), and the decision not to devolve corporation tax and other taxes which would generate excessive tax competition within the UK.

Research papers [iv-vi] provided additional input to the devolution power changes recommended by the Calman Commission and set out in the Scotland Act (2012). These papers stress the importance of the macroeconomic linkages when significant expenditure, taxation and borrowing powers are devolved to sub-national level, and provide an understanding of the way in which devolved governments act to offset or complement national fiscal policies. These also lie behind some of the key recommendations of the Commission and included in the Scotland Act (2012), limiting the level of fiscal autonomy and borrowing devolved to Scotland.

3. References to the research (indicative maximum of six references)

- i. Darby, J. and Muscatelli, A.V. and Roy, G. (2002) Fiscal federalism and fiscal autonomy: lessons for the UK from other industrialised countries. *Scottish Affairs*, 41. pp. 26-55. ISSN 0966-0356 [\[PDF link\]](#)
- ii. Darby, J. and Muscatelli, A.V. and Roy, G. (2003) Fiscal decentralisation in Europe: a review of recent experience. *European Research in Regional Science*, 13. pp. 1-32. ISSN 0960-6130 [\[PDF link\]](#)
- iii. Muscatelli A. (2001), 'Life after Barnett: Future Options for Fiscal Devolution in the UK', *Fraser of Allander Institute Quarterly Economic Commentary*, Vol.26, No.3, pp.33-8. [available from HEI]
- iv. CESifo Working Paper 1305, 2005, 'Fiscal Federalism, Fiscal Consolidations and Cuts in Central Government Grants: Evidence from an Event Study' by Julia Darby & V. Anton Muscatelli & Graeme Roy [\[PDF link\]](#)
- v. Discussion Paper n. 2005-18: 'How do Sub-Central Government react to cuts in grants received from Central Governments Evidence from a Panel of 15 OECD Countries' by Julia Darby & V. Anton Muscatelli & Graeme Roy [\[PDF link\]](#)
- vi. J.Darby, A. Muscatelli and G. Roy. (2005) 'Fiscal Consolidation and Decentralisation: A Tale of Two Tiers', *Fiscal Studies* Vol 26, No. 2, pp. 169-196. ([doi:10.1111/j.1475-5890.2005.00009.x](https://doi.org/10.1111/j.1475-5890.2005.00009.x))

The papers have been extensively cited in both academic research and in the subsequent reports of the independent expert group, policy papers, evidence presented to the Scottish and UK Parliaments as well in reports on other jurisdictions (e.g. the recent reviews of devolution in Wales). All outputs published in academic journals have been subject to rigorous peer-review.

4. Details of the impact (indicative maximum 750 words)

Research conducted by Professor Anton Muscatelli and others has directly shaped a key piece of UK legislation (and from 2015 will influence the way in which Scotland's budget is financed) and resulted in the largest transfer of financial powers from Westminster since the creation of the UK.

Financial accountability under devolution

The 1997 devolution arrangements allowed the Scottish parliament very limited accountability for the fiscal resources which it spends. All of the resources are currently handed down through a

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UK central government grant, and the Scottish Government has effectively no borrowing powers, producing one of the least fiscally autonomous systems within the OECD among different tiers of devolved government.

Establishment of the expert group on financial accountability

The establishment of the Commission on Scottish Devolution arose from a Scottish Parliament debate in December 2007. Members of the Scottish Parliament felt that an independent review was necessary to examine the 1998 Scotland Act and the experience of devolution 10 years on, and to suggest ways in which the Scottish government could “*serve the people of Scotland better, improve the financial accountability of the Scottish Parliament, and continue to secure the position of Scotland within the United Kingdom.*” [Remit of the Commission on Scottish Devolution]

The UK Parliament endorsed the proposal and by April 2008, Sir Kenneth Calman had been appointed as chair of what became known as the ‘Calman Commission’. Professor Muscatelli was appointed by the UK Government to chair an independent expert group to formulate recommendations and advise on Financial Accountability; the group comprised economists, political scientists and taxation experts from the UK, Europe and North America. This appointment was the result of research conducted on alternatives for fiscal autonomy and financial accountability conducted by Muscatelli and colleagues in Economics at the University of Glasgow in the preceding years.

Changes proposed by expert group are adopted into law

The proposals produced by the independent expert group brought together and chaired by Muscatelli in 2007-09 in support of the Calman Commission, produced a set of recommendations for the extension of several taxation powers to Scotland, looked at the practical implementation of this through the tax coding system, and proposed an extension of borrowing powers to Scotland. The independent expert group also analysed the consequences of alternative fiscal regimes to that embedded within the Scotland Act (2012), thus setting out the key elements of future debate on further devolution in Scotland or elsewhere in the UK.

The work led to a number of recommendations by the expert group for the extension of fiscal (taxation) powers to the Scottish Parliament which were fully adopted by the Commission. This is evidenced by a number of reports prepared by Professor Muscatelli’s expert group. It is also confirmed by the oral evidence presented to UK and Scottish Parliamentary Commissions by Professor Muscatelli and members of his group. The recommendations of the Commission adopted almost entirely by the UK government in 2011, and have been implemented in the [Scotland Act](#) which received [Royal Assent](#) in 2012.

Specific changes to the financial authority of the Scottish Parliament based on the underpinning research include:

1. As a result of University of Glasgow research which established an extension of income taxation powers as the most promising way of providing greater financial accountability for the Scottish Parliament, the Scotland Act 2012 introduced a new Scottish rate of income tax. This will affect the amount paid by Scottish taxpayers and the amount the Scottish Government will have to spend in Scotland (to come into force ~April 2016);
2. The research focused attention on devolving taxes without impact on mobile factors of production which allowed stamp duty and landfill tax to become devolved issues, giving Scottish ministers the authority to raise money from land transactions and on waste disposal to landfill (to come into force ~April 2015);

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3. The research established the need for borrowing powers to provide greater flexibility for the parliament and the Act approved the introduction of a new £2.2bn capital borrowing power (to come into force ~April 2015 with a limited version of the power in place from April 2013 to fund £100m of pre-payments allowing early work on the Forth Road Bridge to get underway;
4. Current borrowing powers exercised by the Scottish Parliament were also extended, allowing the Scottish Government to help manage volatility in tax receipts and the creation of a new Scottish cash reserve to manage the new revenue receipts.

When combined with the existing tax raising powers of the Scottish Parliament, the UK Secretary of State for Scotland Michael Moore estimated in June 2011 that the new provisions in the Act would provide Scottish Ministers with a total of £12bn worth of financial powers.

5. Sources to corroborate the impact (indicative maximum of 10 references)**Confirming legislation and changes to financial authority for Scotland**

1. Ministerial Statement at Westminster by Secretary of State for Scotland Michael Moore, 13 June 2011 [[link to Scottish Government website](#)] (referencing the changes influenced by the expert working group)
2. Scotland Act 2012, original version as enacted [[link to National Archives legislation.gov.uk site](#)]
3. Scotland Office announcement (1 May 2012) of Royal Assent (confirming and detailing 'largest ever transfer of financial powers to Scotland since the creation of the UK') [[link to gov.uk](#)]

Confirming Muscatelli contribution to work of expert group and group's influence on resulting legislation

Contact details available for the following corroborative sources:

- Chair of the Commission on Scottish Devolution
- Director General of CBI Scotland (member of the Calman Commission)
- Chief Executive of Telegraph Media Group (member of the Calman Commission)

Confirming influence of expert working group on resulting legislation

- Former Prime Minister (2007-10) and former Chancellor of the Exchequer