

Devolution and the future of the Union: Executive Summary

Devolution is changing very fast, with the Smith Commission proposals for Scotland, more powers proposed for Wales and Northern Ireland, and limited and patchy decentralisation in England. But policy continues to develop incrementally and bilaterally, with no sense of an overall strategy.

The purpose of this report is to chart the future of the Union in the light of these developments. Their cumulative impact could radically change the nature of the political, economic and social unions which underpin the UK. A new balance may be struck, in a Union with a more coherent territorial constitution. Or without intending it, these changes could render the Union ungovernable, or lead to its break up as a state.

The nature and functions of the Union have been taken for granted. They need to be spelt out. The *economic union* provides the UK with a single market, with a single currency and strong central fiscal regime. The *social union* provides the social solidarity which binds the UK together, by redistributing revenue, and pooling and sharing risk through welfare benefits and pensions. In the *political union*, every part of the UK is represented in the Westminster Parliament, which manages the economic and social unions, and as the sovereign parliament can itself reshape the political union.

Devolution and Whitehall and Westminster

Whitehall lacks capacity to think about the Union because it has relegated it to issues of devolution on the fringes. This is exacerbated by the fragmentation in Whitehall, with six centres for devolution policy. This will not change so long as there are three relatively junior territorial Secretaries of State with separate offices, a hangover from pre-devolution days. There needs to be a single senior Cabinet Minister responsible for devolution and the Union, supported by territorial Ministers of State. Similarly in Parliament there should be a single Devolution Committee, which could be a Joint Committee of both Houses; and which could have territorial sub-committees.

Devolution policy making has become rushed to the point of recklessness. In future, changes should be implemented and allowed time to bed in before the next round of policy is embarked upon.

English votes on English laws commands strong popular support, but will be difficult to introduce, for technical and political reasons. The coalition government produced four different procedural options, with even the Conservatives failing to agree. Labour would have little incentive to introduce EVEL, which would make it harder for them to govern. The Conservatives might also have less incentive than expected, because if in government they would already have a majority in England.

Scottish and Welsh over-representation needs to be corrected. The aborted 2013 boundary review would have reduced Scotland from 59 to 52 seats, and Wales from 40 to 30. The review will be revived in 2015-18. Further devolution will raise the question whether

Scotland, Wales and Northern Ireland should have equal representation with England, when their MPs have less to do.

A second chamber representing the nations and regions of the UK would be unlikely to bind the Union together. Federal second chambers in other countries tend to be party chambers first, and federal institutions second. To bind the Union together, the machinery of intergovernmental relations is far more important than the design of the second chamber.

Further fiscal devolution

In forecasting further devolution, the report posits three models, labelled Devo More, Devo Even More, and Devo Max. The status quo is called Devo More because it includes big commitments already made to further devolution, to be implemented early in the next Parliament.

Devo More thus includes the outworking of further fiscal devolution already set in train. In Scotland the Smith package includes all income tax, 10 VAT points, land-related taxes and power to introduce new taxes. In Wales the St David's Day process offers partial income tax devolution and land-related taxes. Northern Ireland has been given power to set its own rate of corporation tax. In England City Deals etc involve transferring spending budgets and re-packaging central government grants into bigger pots.

Devo More will result in diverging social citizenship across the UK, hard to rationalise on the ground of fairness and redistribution. Wales (under-funded by Barnett) and outlying parts of northern England will be losers. City Deals substitute allocation of funds by relative need with bidding exercises, so fair redistribution is further undermined.

Devo Even More could include devolution of corporation tax, and employers' national insurance contributions (the only major tax devolvable after income tax). In England there would be more comprehensive devolution of spending budgets, matched by greater revenue raising power, by decentralisation of business rates, higher bands of Council tax and property revaluation.

Devo Even More would require extensive changes to block grant funding, with big but complex reductions to allow for devolved taxes. In England business would resist devolution of non-domestic rates. Regional inequalities would greatly increase, to levels higher than the 1930s, reducing social citizenship as a means of pooling and distributing risks and resources.

Devo Max would deliver full fiscal autonomy. Scotland would set and collect all taxes in Scotland, remitting a portion to the UK for shared UK services. The UK would retain responsibility for the currency and monetary policy, and there would still be a single UK market. In England there would be devolution of the health service, plus local income tax.

Devo Max would carry big financial risks for Scotland. Its own revenues would be inadequate, requiring cuts of £7-8bn a year, with significant multiplier effects. It would not have any attraction for Wales and Northern Ireland, given their structural fiscal deficits. Nor would it have any benefit for the UK. The UK government would continue to bear risks for currency and monetary policy without control over fiscal policy in Scotland. Devo Max could

not be a stable settlement, but is likely to be a staging post to Scottish independence. It would call into question continued Scottish representation at Westminster.

To put Devo Max in comparative context, in OECD countries no sub-national government raises more than 50% of its revenue. The Smith proposals already take Scotland close to that upper range. Full fiscal responsibility is a fantasy, and further fiscal devolution highly unlikely. Extreme fiscal decentralisation is typically found only in remote islands, with limited links to the state of which they are part. Scotland is not in that category.

EU Referendum, and British bill of rights

An In/Out referendum on the EU could precipitate a further Scottish independence referendum, especially if Scotland had voted to stay in. Plans to replace the Human Rights Act with a British bill of rights also risk weakening the Union, if the devolved governments want to retain the ECHR and withhold their legislative consent.

A Citizens' Convention

The idea of a Citizens' Convention has been promoted by Labour and supported by the Liberal Democrats, as a way of taking debates about devolution and the future of the Union beyond the political parties, and harnessing levels of public engagement of the kind seen in Scotland. It would include a minority of politicians, to build cross party consensus, and with the help of expert advisers seek to develop a more coherent overall reform package, rather than further piecemeal reforms.

The challenges are to devise an agenda and terms of reference which are manageable, and deliverable within a realistic timescale. It would also need the support of the devolved governments and the other political parties. If the devolved governments turn away, the convention might be asked initially to address the English Question. If the parties do not want to be involved, they would not be represented, and it might become purely a Citizens' Convention.