

# The (Dis)United Kingdom?

Ed Poole  
Cardiff University, Wales





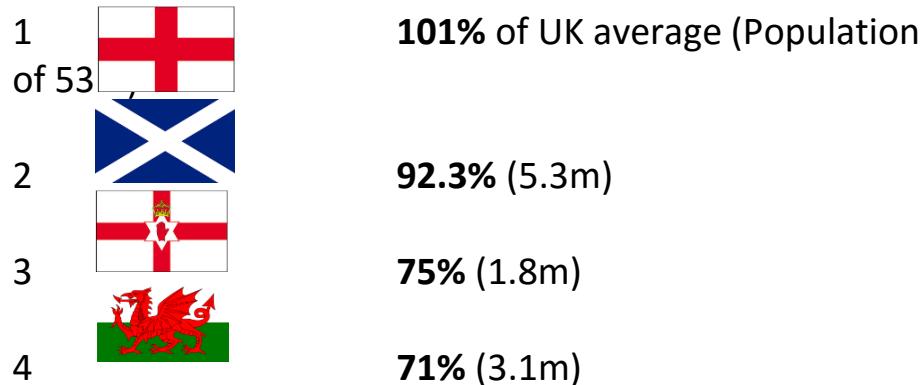
## Overview

- Regional economic and industrial disparities in the UK
- How have the nations of the UK traditionally been funded?
- Scottish Independence Referendum and How the UK is changing
- Why Wales, Scotland & NI support a Soft Brexit



## The UK's Major Economic Discrepancies

- London** has the largest Gross Value Added (GVA) per head at £37,232 – 171% of the UK average
- ...while **Wales** had the lowest at £15,401 per head, just 71% of the UK average.



**This has an impact on taxes collected that pay for public services >>>**

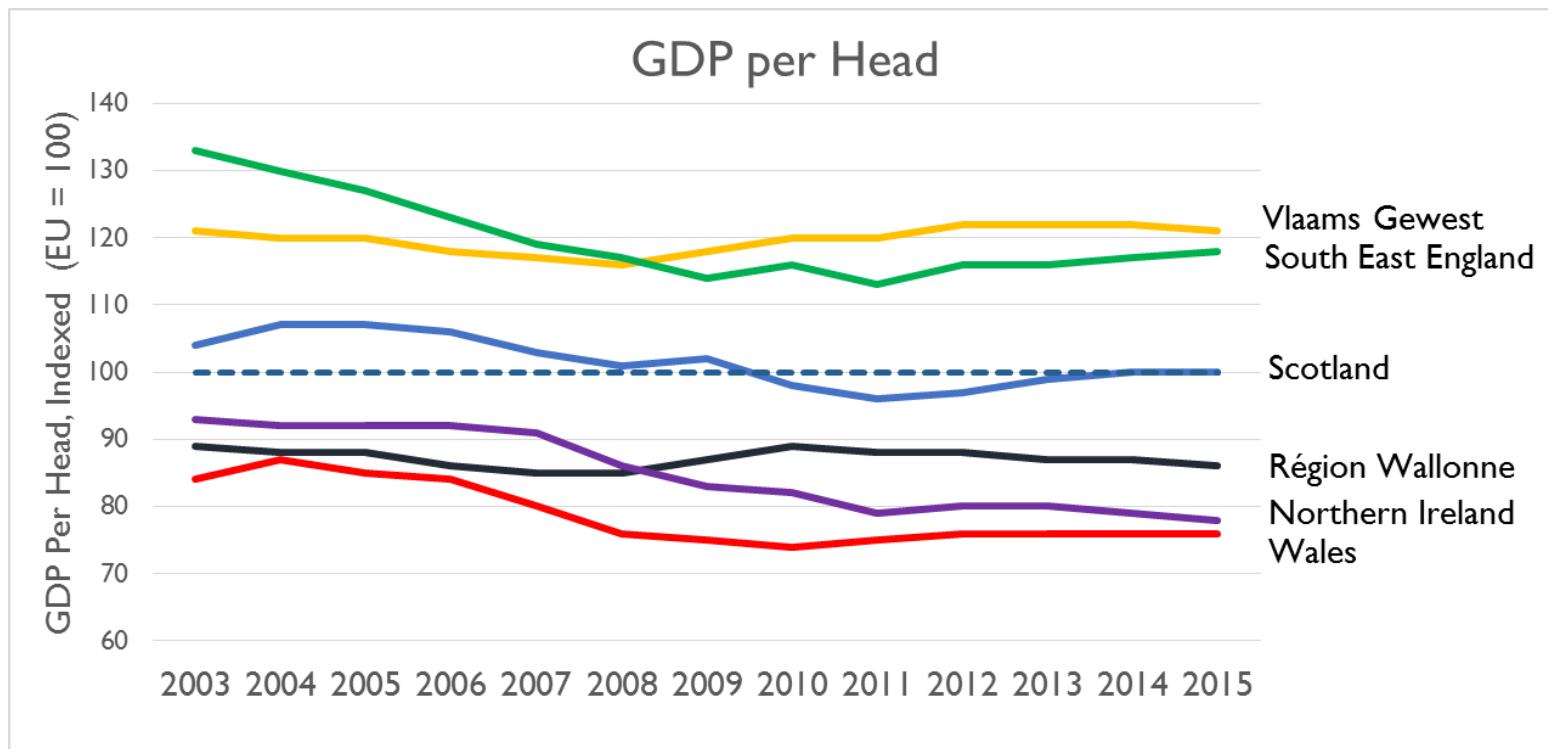
Map 1 Regional GVA per head by NUTS 1 area,  
United Kingdom, 2014



1 Regional Gross Value Added (GVA) per head has been calculated using the 'Income Approach'.  
 2 Boundaries shown are for nomenclature of territorial units for statistics (NUTS) level 1 areas.  
 Source: Office for National Statistics licensed under the Open Government Licence v.3.0.  
 Contains OS data © Crown copyright 2015



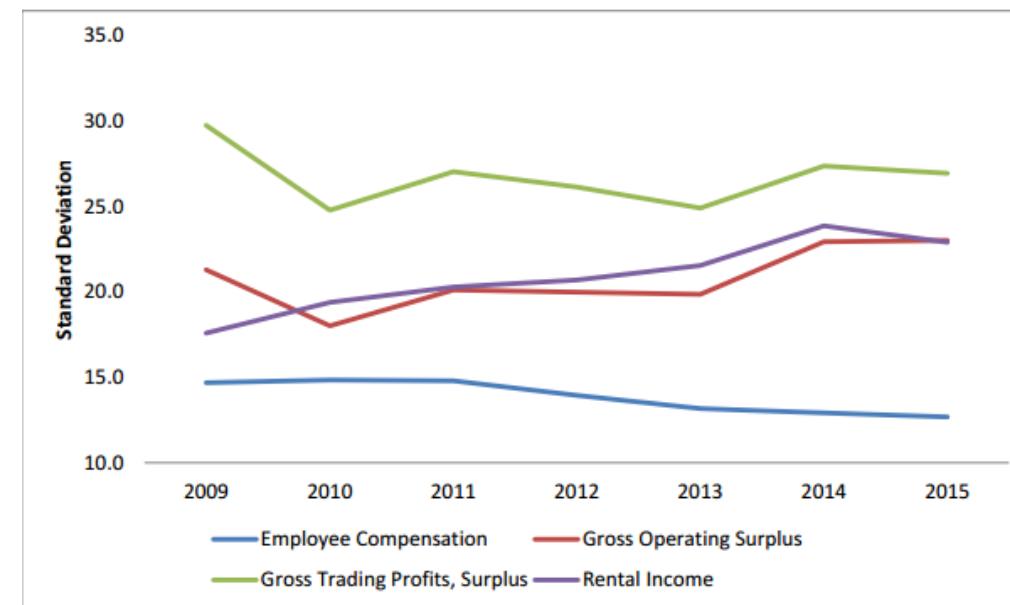
# GDP per head: How do the UK regions compare with the Belgian regions?





## GVA per head – a closer look at the data

- Breaking GVA per head down to wages and profits
- Wages (employee compensation per employee) more evenly distributed across regions than profits.
- Regional wage inequality has been decreasing...
- But distribution of profits across UK regions has become more unequal – rising inequality in rental incomes (especially in London)





# Fiscal Transfers

- Differential economic performance and asymmetric shocks are reflected in fiscal transfers throughout the UK.
- System of fiscal equalisation between UK regions not explicit (as in some federal countries), but implicit and automatic due to centralisation of UK public finances.
- Government Expenditure and Revenue Wales 2016** estimated that difference between total government expenditure for Wales and revenues raised in Wales was £14.7 billion by 2015 – around 24% of Welsh GDP.

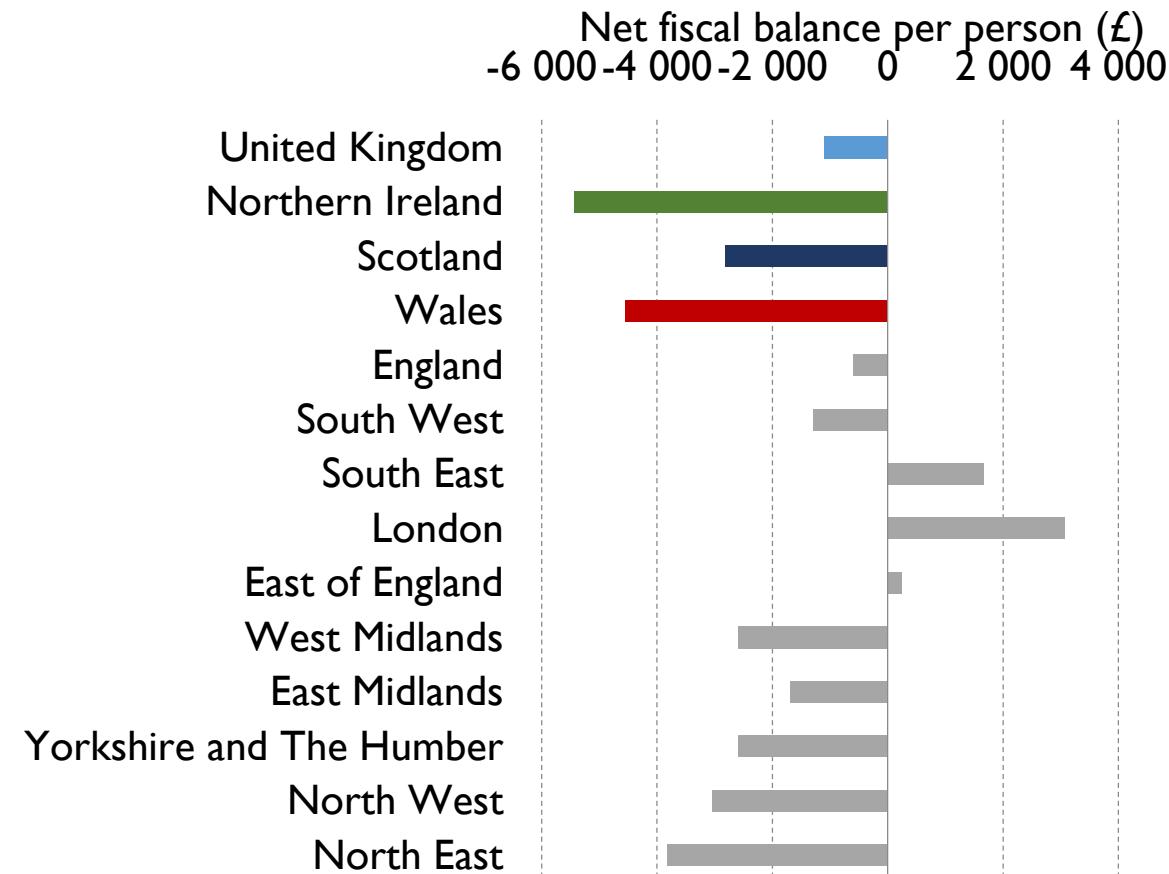
FIGURE 1: Net Fiscal Balance: Wales and UK 1999-00 to 2014-15





## Fiscal Transfers

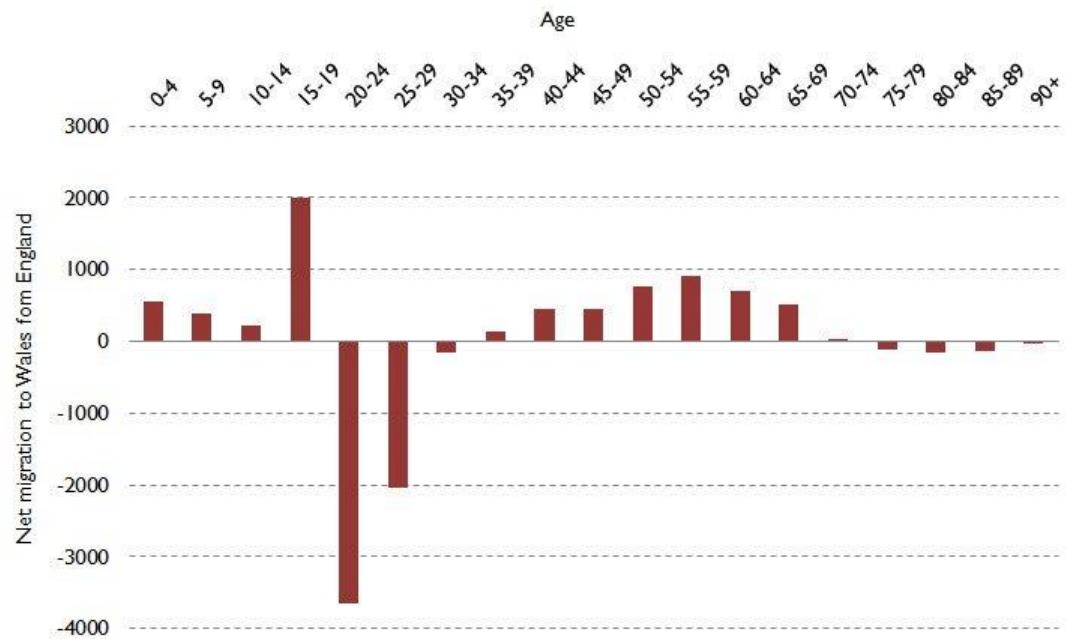
- Only London, the South East and the East of England make a positive contribution to the UK public finances.
- **However,** these estimates measure expenditure *for* each region, as opposed to expenditure *in* each region. Much expenditure takes place *IN* London for example, but for the benefit of other regions.





# Migration

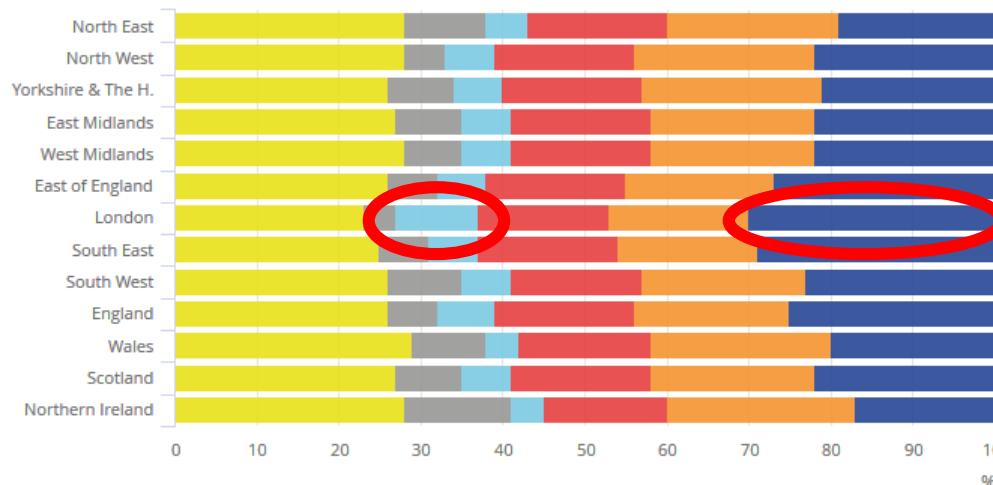
- Theory would also suggest labour movement as a stabilising factor between regions. But labour highly heterogeneous.
- Net migration between Wales and England very small.
  - However, there are large and illustrative differences by age group – not fiscally neutral.
- Large outflow of graduates and young professionals from Wales to large cities in England.



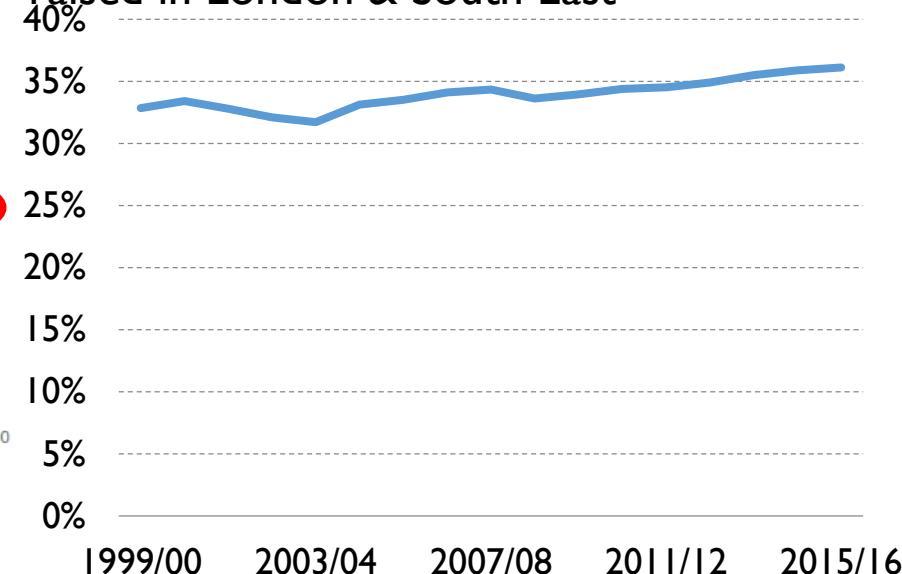


# UK tax base heavily dependent on London & South East economy

● All other revenue ● GOS ● Corporation Tax ● NICs ● VAT ● Income tax



Share of total government revenue raised in London & South East



Source: Office for National Statistics



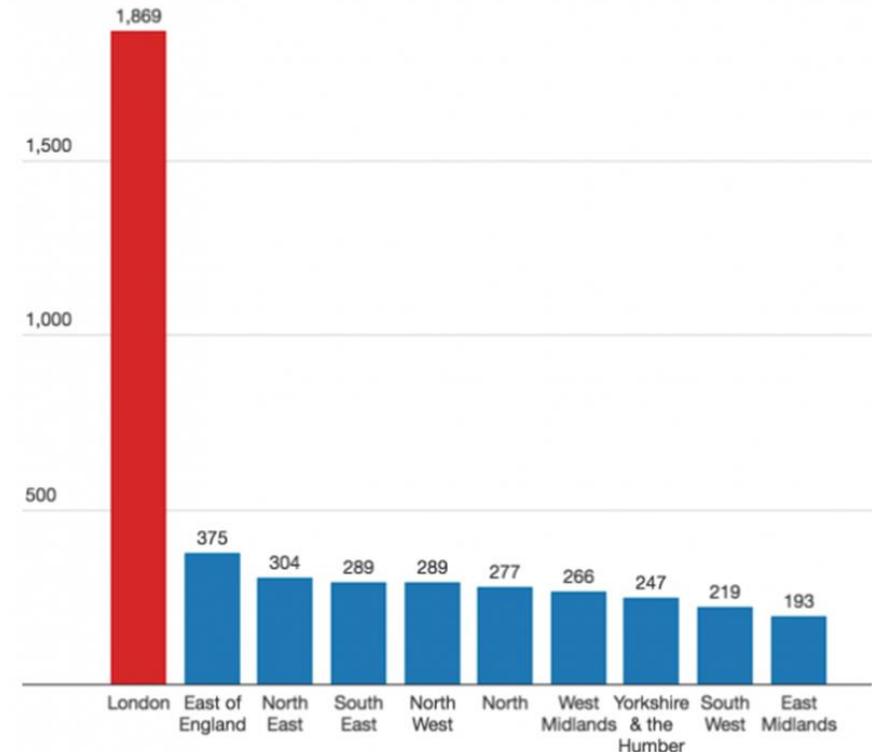
# Public investment in infrastructure highly concentrated in London



**Elizabeth Line:** Change in property values since 2009



Transport spend per capita by region (£)



Sources: HM Treasury (2016), National Infrastructure Pipeline Spreadsheet, Spring 2016 update; ONS (2016) Subnational Population Projections for Local Authorities in England; and ONS (2016) Census: WU01UK - Location of usual residence and place of work by sex (IPPR)



# Government directed spending on Research and Development unevenly spread

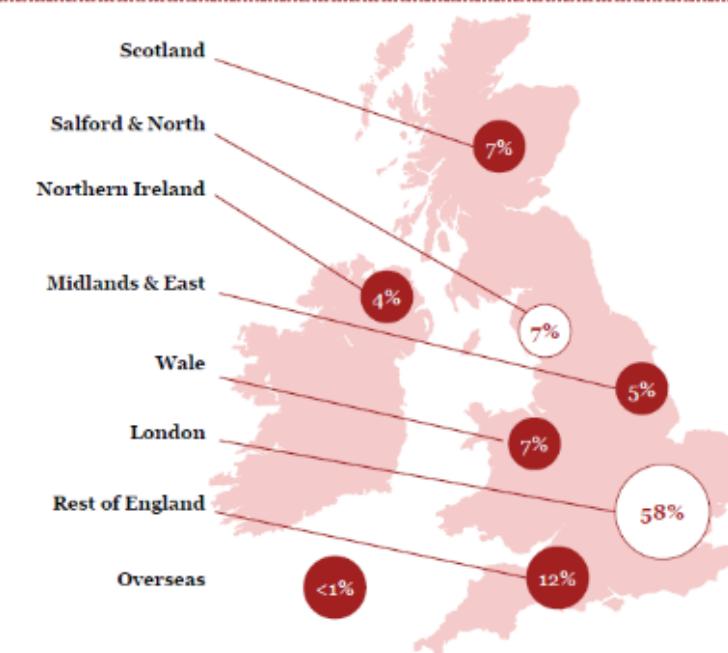
Government, university and charity spending on R&D (£ per person per year)



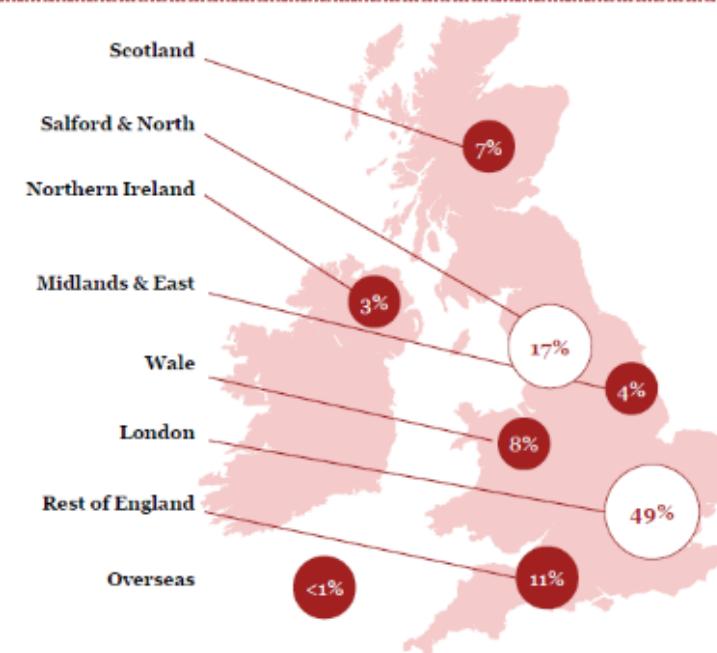


## BBC as an example...

Staff – Geographical locations 2007

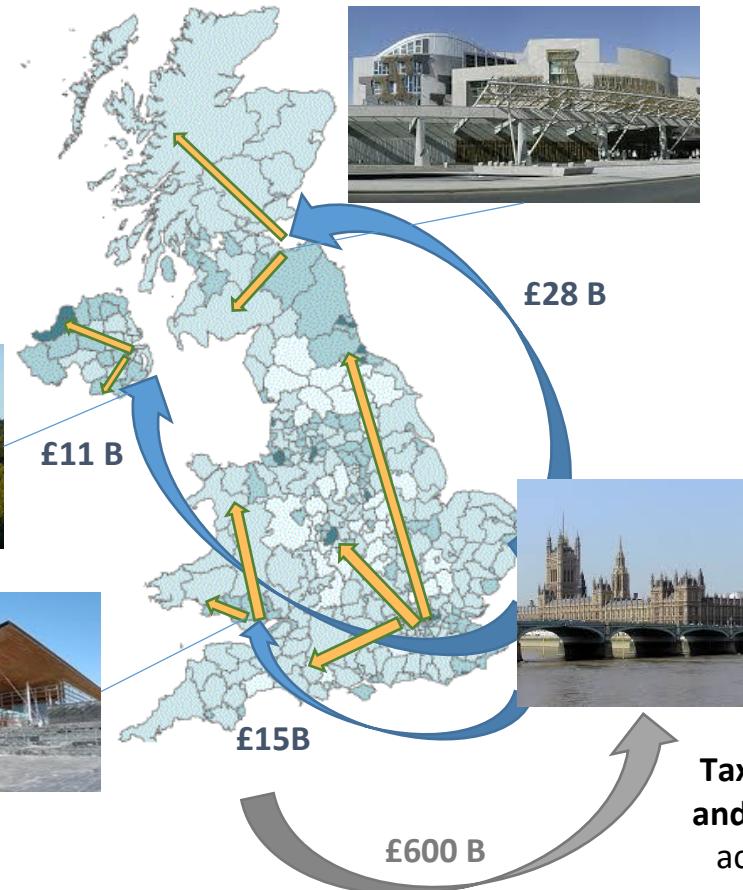


Staff – Geographical locations 2014





# How Taxpayers' Pounds are (traditionally) spent in the UK



Block Grant  
(calculated by the  
“Barnett  
Formula”)

Grants to  
Municipalities  
to fund local  
services



# Financing the UK's nations – traditionally one of the most centralised systems in the developed world

- **Wales, Scotland and Northern Ireland's devolved governments are funded primarily by a Block Grant**
  - This Grant ("Welsh Block", "Scottish Block" etc.) is calculated mainly by the controversial **Barnett Formula**
- System gives full flexibility to the regional governments on how to spend their allocation...
  - But the total size of their budget is set by Westminster:



## Financing the UK's nations – how does it work?

- **UK spending is NOT based on relative need of the 4 countries**
- The formula consists of each country's prior year funding plus an uplift, termed a "consequential"
- The formula causes spending to automatically increase in Scotland, Wales and NI based on (a) their population, (b) and spending increases on comparable public services in England
  - **The size of the budget in Wales, NI and Scotland is determined by spending decisions for England!**



## Financing the UK's nations – the missing accountability link

- **No link between devolved budgets and the amount of taxes raised in Wales, Scotland and Northern Ireland**
- **Devolved elections are fought on how to spend public money, not how it is raised**
- **No budgetary incentive to grow Welsh economy for Welsh Governments**



## Why the old system survived for so long

- The Barnett Formula was introduced for Scotland in 1978 and for Wales in 1980 on a temporary basis:
  - Formula was never meant to last (**and was later disowned by its 'author', Joel Barnett!**)
- But it is straightforward to operate for the UK
- Was designed to avoid cabinet disputes over territorial funding for the Scotland, Wales and NI territorial offices
- BUT - At first glance, the devolved countries do receive higher funding per head than does England...



Lord (Joel) Barnett  
Chief Secretary to the Treasury  
1974–1979



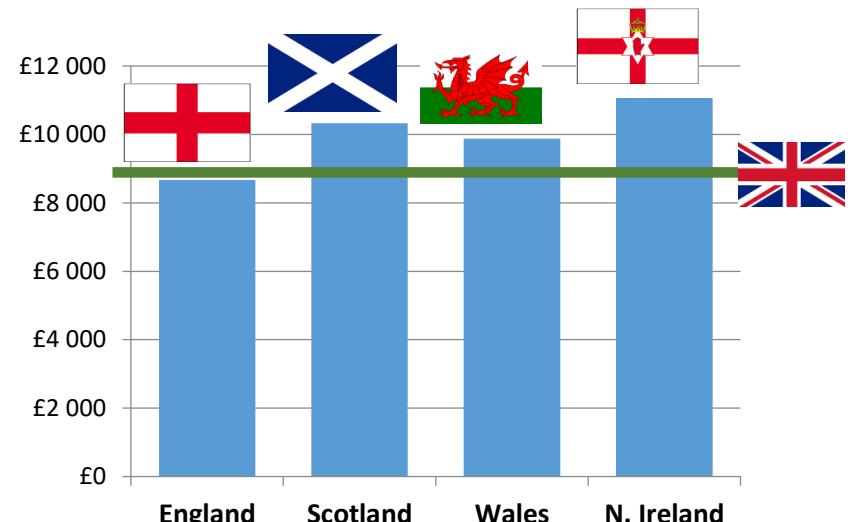
## The Celtic Spending Bonus

Identifiable public spending per person in **England** is currently **£8,638** per year

(2014-15, Treasury data)

But spending in:

- **Scotland is 20% (£1,736) higher**
- **Wales is 15% (£1,266) higher**
- **Northern Ireland is 29% (£2,468) higher**



But the operations of the formula are not quite as benign as first appears...



## The reaction to Barnett Formula across the UK

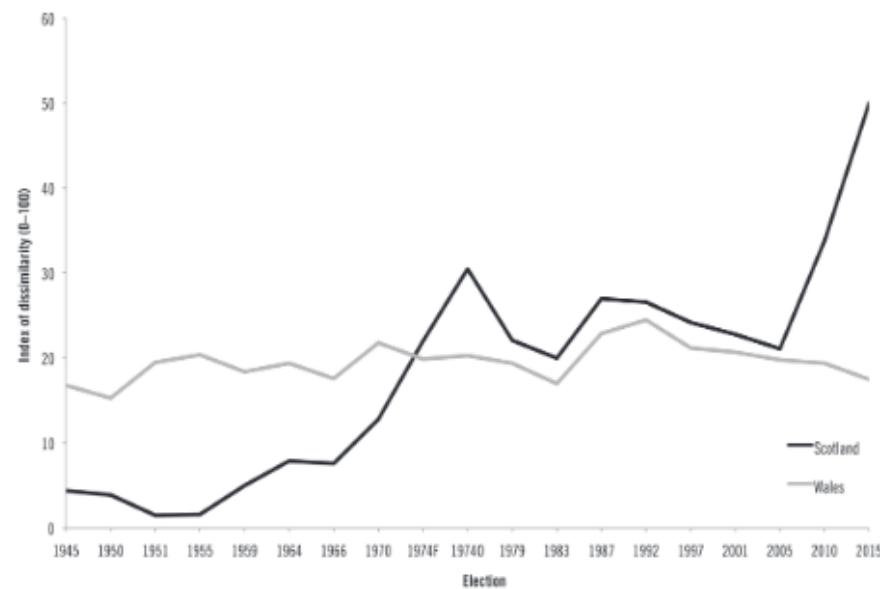
- **Criticism** in **England** focuses on lower public spending relative to Scotland (no tuition fees, free personal care for the elderly, etc.)
- **Criticism** in **Wales** – concern that Wales is underfunded because of greater public spending needs
- Referendum issue in **Scotland**: **support** for **retaining** the formula (and higher spending levels) was key for the No campaign





# Recent Scottish politics

INDEX OF DISSIMILARITY, SCOTLAND AND WALES  
(COMPARED TO ENGLAND), 1945–2015 GENERAL ELECTIONS



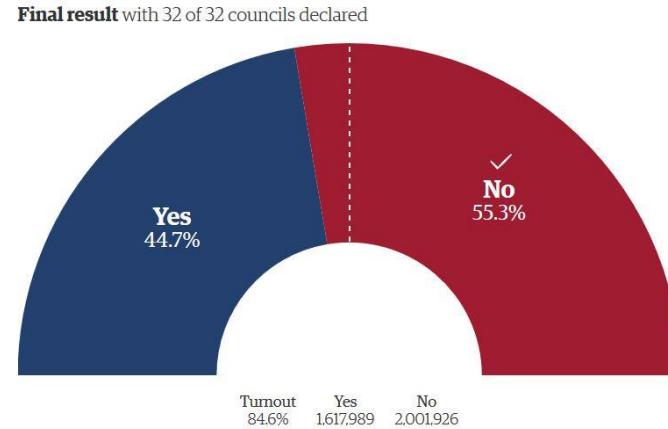


# 2014 Scottish Referendum

- Weekend before referendum:
  - Poll: Yes 51% No 49%
- Unionist parties agree additional powers to prevent “Yes” vote

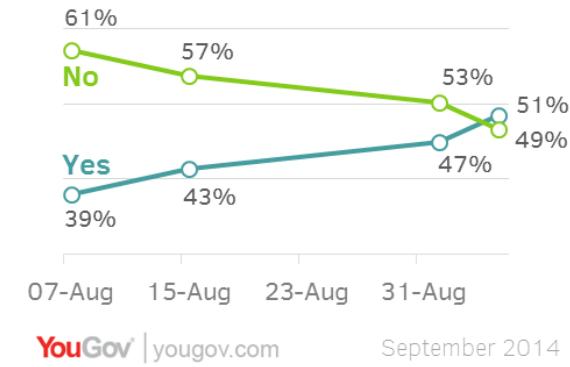


Daily Record,  
September  
16, 2014

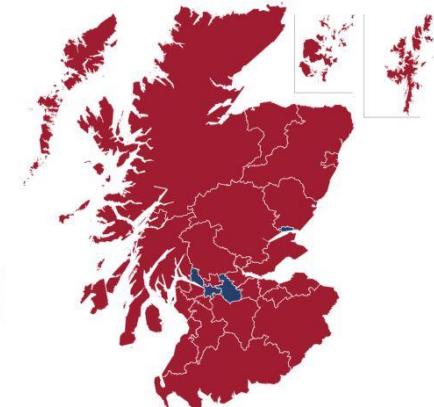


## Scottish independence

Should Scotland be an independent country?  
(Excluding Wouldn't votes and Don't knows)



Results by council





## Aftermath of Referendum

- **Smith Commission** established in Sep 2014 to generate a rapid cross-party agreement
  - Large public engagement: Over 17,000 contributions received in first month!
- Led to **Scotland Act 2016**
  - New powers over employment support, welfare
  - **Scottish Parliament gains control of virtually all Income Tax, 50% of VAT, many smaller taxes**



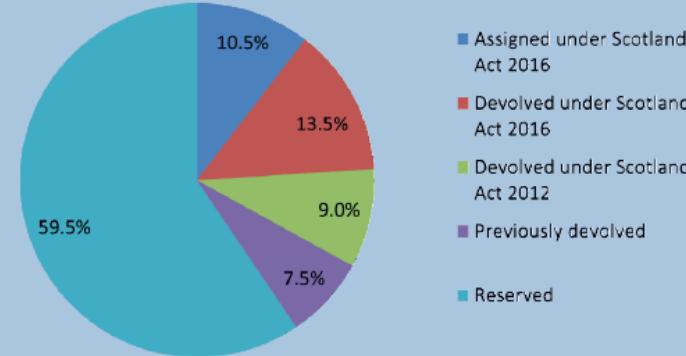
Leaders of the Scottish Conservatives, Labour and Liberal Democrats pledging “More Powers for Scotland Guaranteed” on 16 June 2014



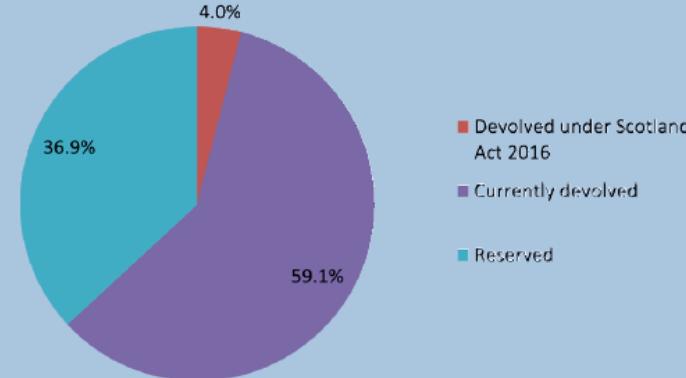
Former Prime Minister Gordon Brown promising major new powers for Scotland

# Progression of new powers transferred to Scotland

Devolved and Reserved Revenue in Scotland 2015-16



Devolved and Reserved Expenditure in Scotland 2015-16



Source: Government Expenditure and Revenue Scotland 2015-16



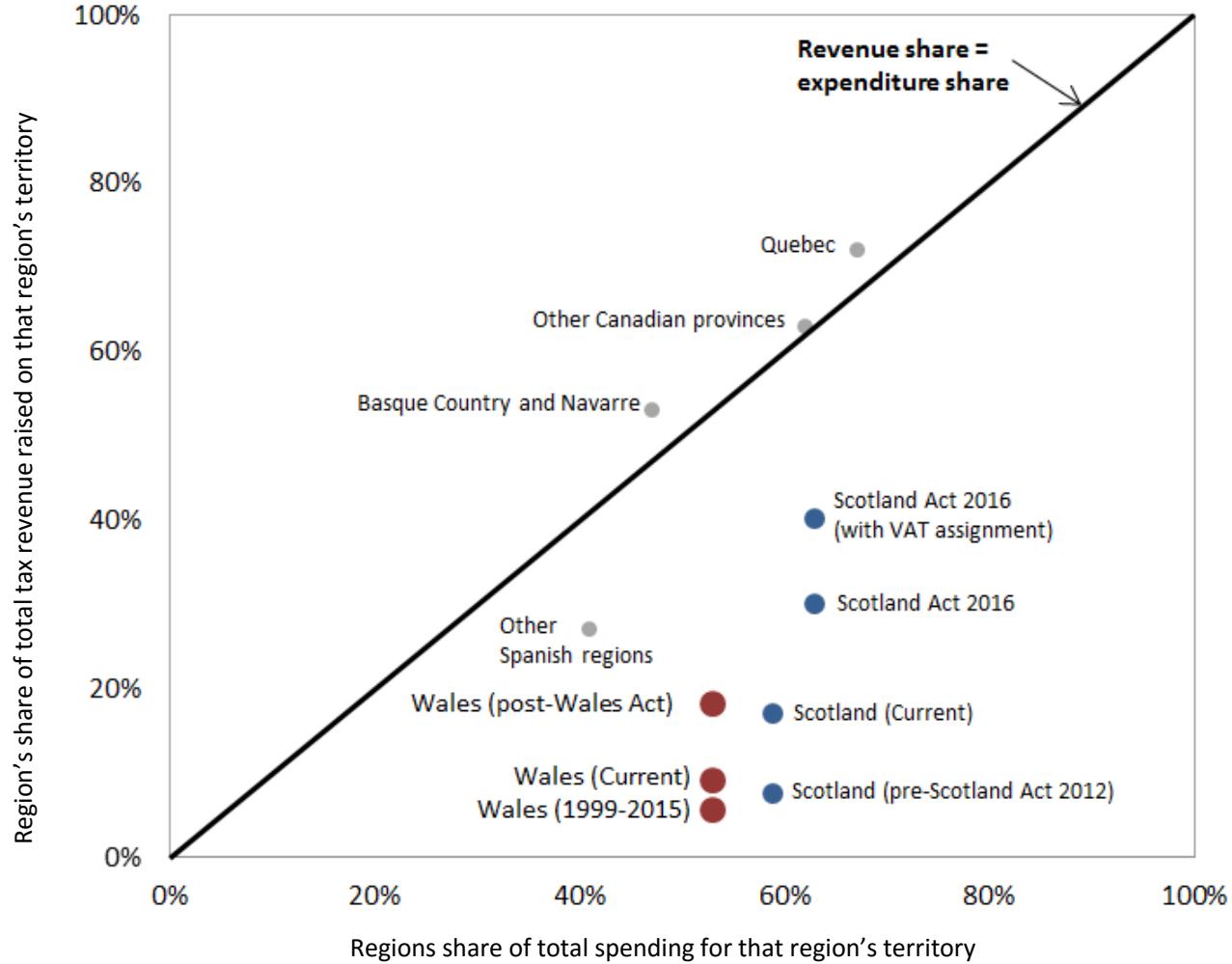
# New Devolved Taxes



	£ 2.1 billion	£1.3 billion
Council Tax	£1.9 billion	£850 million
Business Rates	£400 million	£170 million
Land and Buildings Transaction Tax	£150 million	£50 million
Landfill Tax	.	£1.9 billion
Welsh Income Tax (reduces each UK rate by 10p)	£11.2 billion	.
Scottish Income Tax (all earned income)	£275 million	.
Air Passenger Duty	£50 million	.
Aggregates Levy	£ 5 billion	.
50% of Value Added Tax (VAT) – assigned		



# How have Wales and Scotland's settlement changed?



Source: Government Expenditure and Revenue Wales (2016), GERS (2016), Scottish Parliament Devolution (Further Powers) Committee (2015)



## Brexit and the Economy - Challenges

- Significant budget questions for Wales
- Repatriation of competences over agriculture, environment and regional policy
- Differentiated regional impact of the Brexit deal
- Single Market, Customs Union, Trade questions



## Average receipts from major EU programmes per year, 2014-2020

	England	Northern Ireland	Scotland	Wales
Common Agricultural Policy - total spending	£2,184 m	£317 m	£614 m	£353 m
<b>CAP spending per capita</b>	£31	£145	£96	£96
Structural funds total spending	£735 m	£54 m	£95 m	£255 m
<b>Structural funds spending per capita</b>	£13	£30	£18	£83

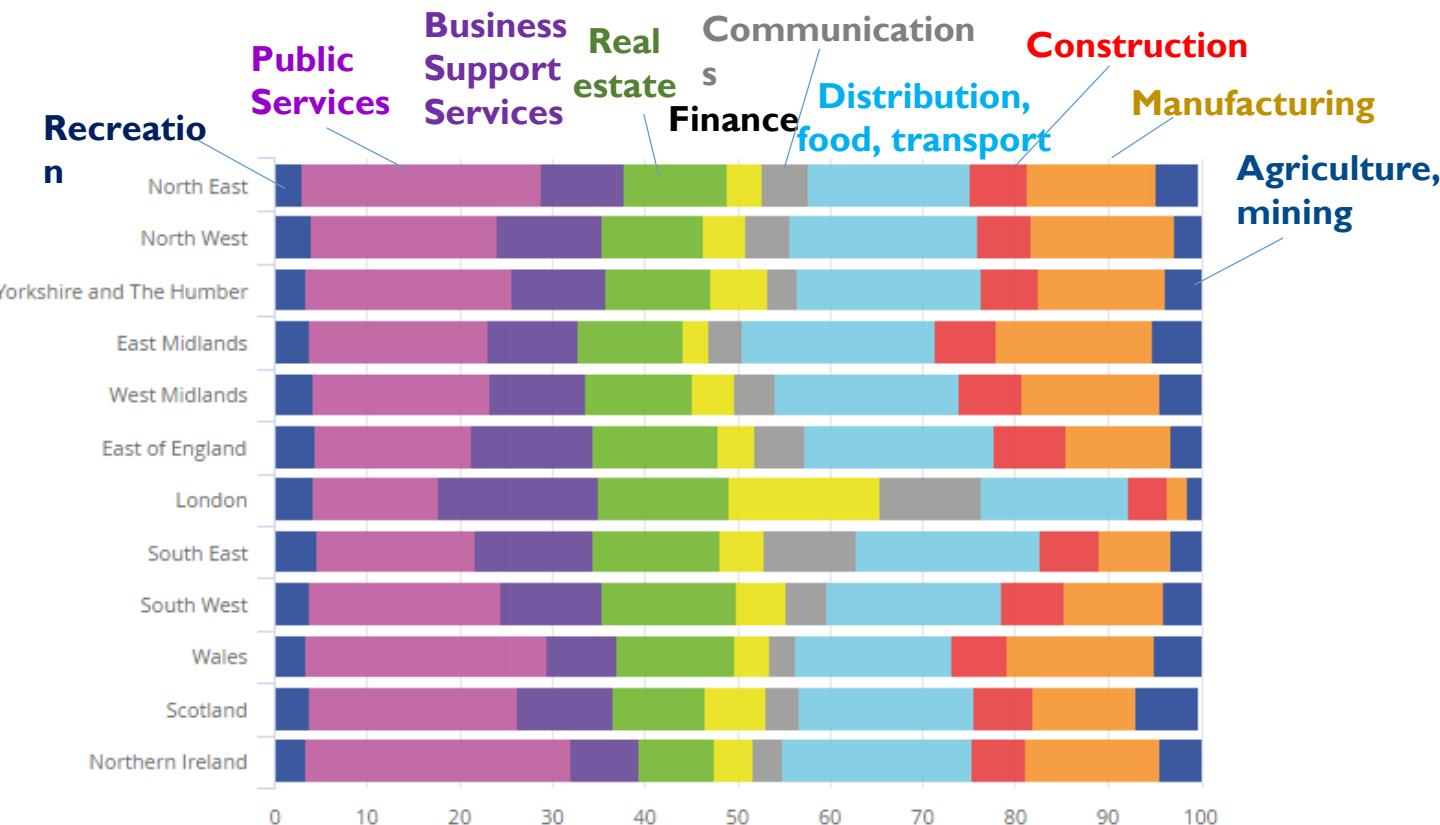
Source: Centre for European Reform (CER) 2014



# Soft Brexit interests in Wales, Scotland and NI

- Wales is a net beneficiary from EU budget (£245M/yr)
- Manufacturing Sector: Wales & Scotland far more dependent on the EU for its export markets
  - Over two-thirds of Welsh exports currently are to the EU, compared with less than half of exports from the UK as a whole.
- Hard Border / Peace Process concerns in NI







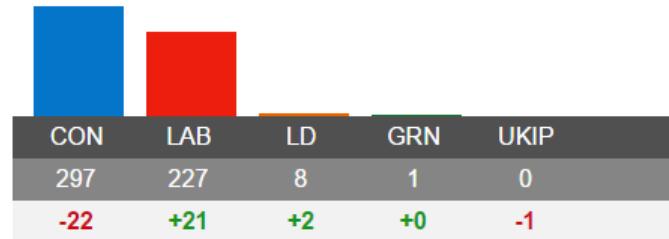
- **CAP Funding:** Wales has been allocated more than EUR2.2 BN between 2014-2020
  - More than 80% of farming income in Wales originates from EU funding.
- **Importance of export market:** Welsh food and drink exports to the EU worth £274.2 million in 2014, 90.7% of total exports. Only 9.3% went to non-EU countries.
- **Agriculture policy is a devolved competence**
  - Increasing policy divergence between Wales and Scotland on the one hand, and the UK on the other, on a wide range of agricultural issues.



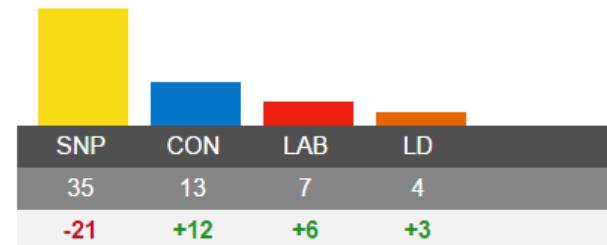


# GENERAL ELECTION 2017

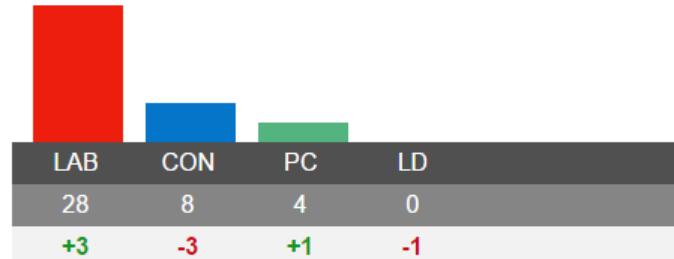
England After 533 of 533 seats



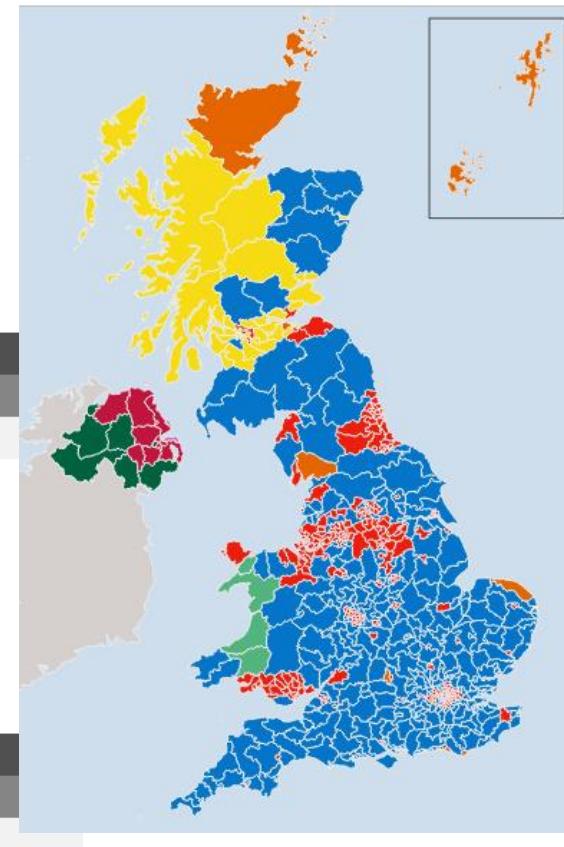
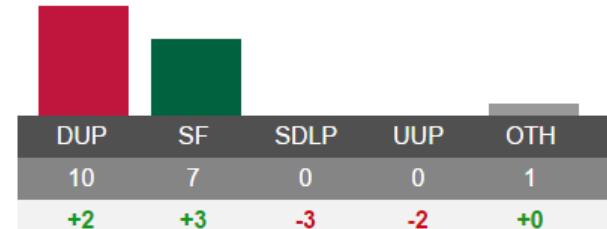
Scotland After 59 of 59 seats



Wales After 40 of 40 seats



Northern Ireland After 18 of 18 seats



# Diolch Diwedd

wgc@cardiff.ac.uk

<http://sites.cardiff.ac.uk/wgc/>



@Walesgovernance



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