

Funding the Future

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In this morning's video, I argue that the UK's devolved governments in Scotland, Wales and Northern Ireland need proper powers to tax, or they will always be governing with one arm tied behind their backs. Without such powers, a devolved government is a sham, and so too is the so-called United Kingdom.

<https://www.youtube.com/watch?v=7mEvIZ-sSTI&si=vEHELHt72kaLn9no>

The audio version is here:

https://www.podbean.com/player-v2/?i=fuz35-16c7a1a-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

The transcript is:

The devolved governments of the UK need to have devolved taxation powers to match their ability to make decisions about the services that they supply.

It's an absurd situation that it is claimed in the UK that Scotland, Wales, and Northern Ireland all have devolved governments, and yet they have tiny taxing powers in their own rights.

They also have, in effect, almost no borrowing powers at all.

In other words, they are given the task of governing the devolved countries of the UK without having any of the economic instruments of power available to them to achieve

the policy outcomes that they wish. It's as if the UK government believes you can manage an economy without having a fiscal policy and without having a monetary policy, and that is complete nonsense. You cannot, as a matter of fact, achieve that goal.

All you can do is become the localised manager of the devolved budget sent to you by Westminster, over which you have no control whatsoever, and which may not be appropriate to the needs of your country.

For example, Scotland has a larger public sector than is the case for England. That is because there are a significant number of activities undertaken in Scotland that are not undertaken in the same way in England, and because, frankly, the public sector plays a more important role in the lives of Scottish people than it does in England. So, the devolved settlement reflects the power structures in England, not the power structures in Scotland, and does not reflect the Scot and does not reflect the cost that Scotland incurs, and therefore imbalances arise.

The same is true of Wales. Wales clearly has a poorer population than England. It does therefore have greater social need than does England per head of population. But the devolved settlement doesn't reflect that fact. The power to correct for this is not there either.

And Northern Ireland has always been a case which is utterly different from the rest of the UK.

So, we have this perverse situation of a pretense of devolved government, but no real devolved economic power.

To achieve real economic power in Scotland, Wales and Northern Ireland, you either give those countries independence, which London is very reluctant to do because these are the last vestiges of empire that it has any significant control over. Or there has to be significant devolution of taxing power.

Let's use Scotland as an example here. Scotland has got more taxing powers overall than have either Wales or Northern Ireland because it has some control over its income tax rates. But the degree of control is quite small.

It raises an additional £1.5bn as a consequence of the additional income tax rates on earnings from work alone that it can impose in Scotland. Otherwise, its devolved taxation powers come down pretty much to the ability to impose additional special taxes, for example environmental taxes, or on local taxation and other such charges, landfill taxes and various other forms of environmental charge.

That is not enough to influence the overall outcome of the spending required for Scotland. It is simply insufficient to devolve this level of power when Scotland very

clearly does not want austerity even if the rest of the UK does. And there are some enormous gaps in the taxing powers of Scotland which make the whole system that has been devolved to it quite ludicrous.

For example, if a person runs their business as a self-employed trader, they're subject to income tax, and therefore Scottish tax rates apply to them. But if they then decide to incorporate their business and run it as a company, corporation tax applies, and those rates are set by England. Scotland has then lost control. That makes no sense at all. There needs to be a Scottish corporation tax system.

The same disparity is very clear with regard to investment income. Whilst Scotland has control of income tax rates on income from work, it has no control over income tax rates on income from investment and, therefore, it cannot tackle the problems of inequality that are very particular to Scotland and are serious and need to be addressed.

It also has no control over capital gains tax or inheritance tax, meaning that wealth inequality in Scotland is reinforced by England, and Scotland can do nothing about it even though it would clearly want to.

These differences totally undermine the fiscal credibility of the devolved tax system to Scotland, meaning that, in effect, it is full of loopholes that prevent anybody really enforcing that devolved system.

But worse than that, it undermines the credibility of government, because the opposition parties, who are all Unionist in Scotland, say the SNP government, which is nationalist, is not managing the economy properly, when it has no chance of managing the economy properly because the Unionist parties have denied it the chance to do so by denying taxing powers to Scotland that it needs to tackle the problems that Scotland has.

Now there are plenty of other examples of these problems. For example, the taxation of oil and the taxation of energy because Scotland might well want to have distinctly different policies on these issues from England because it has different priorities, particularly with regard to the use of oil and renewable energy because both are fundamental to the management of its economy in a way that they are not as yet to England.

It may also want a policy on the export of water because, at some time in the future, that's going to be a major Scottish export.

Again, whisky taxation is fundamental to Scotland, but it's controlled by England.

So what we're talking about here is a complete mess up. The governments of Scotland, Wales and Northern Ireland are not really governments in the sense that they have

control of their economic policies. They do have control over significant sums of money, tens of billions of pounds or more. But the reality is that they actually don't have the means to balance their books within the scope that a normal government would by changing taxation.

And that means that these countries do not have the governments they deserve, or which it is pretended that they have. And that undermines democracy in each of those places in a way that is deeply prejudicial, not only to the well-being of the people in those countries but also to the credibility of the UK as a whole.

It's time this was sorted.

It's time we had proper taxation systems that were devolved to the governments of each of these countries.

It's time London let go.

And it's time that we actually were mature enough to recognise that the needs in the different devolved countries of the UK are quite different from those of England, who at the moment is still trying to keep the whip hand, quite inappropriately.