



HOUSE OF LORDS

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IN THE UNITED KINGDOM**

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1.35 pm

Witness: Mr Alistair Darling

USE OF THE TRANSCRIPT

Members present

Lord Hollick (Chairman)
Lord Kerr of Kinlochard
Lord Lamont of Lerwick
Lord Turnbull

Examination of Witness

Mr Alistair Darling

Q28 The Chairman: This is the fourth meeting that we have had of the Committee on this topic. We are aiming to publish a report in November, hopefully early November, in time for it to be part of the consideration before the Bill comes to the House of Lords. That is the timetable that we are looking at. It is also fair to add that we have asked for, but so far not secured, an agreement from either John Swinney or a Treasury minister to come; I think they prefer not to give a running commentary on this. We have got a number of questions which have been shared with you. Perhaps I can start with the Barnett formula. We were told this morning by the Finance Committee that is a done deal, that is the politics of it, nobody is going to accept anything else, notwithstanding the difficulties of making it work in a new world. What is your take on that?

Mr Alistair Darling: Firstly, can I just formally record that I have been nominated to become a Member of the House of Lords but I have not taken my seat. I should say that for the sake of completeness. I think part of the problem we have just now is that the process is under way in the sense that the Scotland Bill is going through the House of Commons and a lot of its content was determined at the tail end of the referendum in terms of promises made by the Government and then the subsequent Smith commission, which took the process that much further. In light of that, various political promises have been made which are going to have to be kept. I say that because there are a number of things that are now happening, or appear to be happening, which if you sat down in the clear light of day you might do slightly differently. I shall come to your funding point in a moment. We do not have a clear picture of what the final settlement is going to be and, until we have, it is very difficult to say in what shape or form the Barnett formula will continue.

At a simplistic level, firstly it has been said by all the parties, and it is almost a given, that the Barnett formula will continue. Even if you have substantially more devolution, as you will do,

given that the Barnett formula is simply the mechanism by which you adjust the block grant—the Barnett formula and the block grant, which is the main funding, are very often confused—there is no reason why it cannot continue. But quite clearly it is very different from the Barnett formula that we knew when the Scottish Parliament was established in the Scotland Act of 1998, because then basically what happened was everything the Scottish Office was responsible for was devolved and with it the funding. There have been various adjustments and one or two changes since then. This is radically different. I suppose one of the points that I wanted to make to your Committee is that the very fact that we do not know, for example, how much welfare is to be devolved and what the cost of it is, means it is very difficult to answer your question.

The second thing I have to say concerns the process by which this is going about. Unless you are a Minister in either Administration, or a civil servant, nobody has a clue what is going on at the moment. I think that is a massive problem because people in Scotland, who ultimately are going to have to live with this and pay for it, do not know what the discussions are and do not know what consideration is being given to the various choices before them. The result of that will mean that presumably we will be presented with a done deal and, rather like the Smith commission, it will be denounced by one side vociferously and the Scottish public will have had no opportunity to evaluate these things in their own mind because they did not know about it. I have been a Minister for long enough and a Member of the House of Commons for nearly 28 years. I have seen rotten processes before but this one is pretty difficult to understand and to justify. Sorry, it is a long answer to your question but that is a wee bit of context there.

The Chairman: Given that that has already been settled, the question then is how to make the Barnett formula and the block grant work effectively, given devolved taxes and given the new arrangements that are in place.

Mr Alistair Darling: It is going to be difficult because the Scottish Government will have responsibility for 40% of what they spend. It is very difficult for me to offer a concluded view on what the settlement ought to be because I do not know what it is going to look like. Indeed, it is not even finished yet because there may be more aspects of government or spending responsibility actually devolved. What I am saying to you is, you can honour the promise to keep the Barnett formula in so far as what is still subject to the grant because there is the adjustment formula. Frankly, I think the very act of reopening the whole thing

will reopen the bigger question. Bear in mind that already the First Minister has said that she does not necessarily accept even this process, if she says, “It’s a bad deal for Scotland”—of which she will no doubt be the sole determinant.

The Chairman: The no-detriment principle is presumably designed to ensure that Scotland is no worse off at least at the beginning.

Mr Alistair Darling: What I understood it to mean is, if the Scottish Government or the UK Government decided to do something that affected the other bodies, through no fault of their own, they would have to compensate them. I have looked at what was called *An Enduring Settlement*, the White Paper which was published in January of this year, which seemed to me to be a triumph of hope over experience if ever there was one, and they talk about there being some sort of mechanistic formula for sorting this out. Who are you kidding? This is about politics. I am afraid this is providing rich feeding grounds for people who dine out on grievances. The answer to your question is, yes, Barnett, in the sense that it is the adjustment mechanism, you can preserve in one form or another and still call Barnett, but actually this is so radically different because all income tax is being kept in Scotland, which again raises another issue altogether. I am a Scottish taxpayer. Who am I paying taxes to and what am I paying them for? My income tax is all going to the Scottish Government. How am I funding overseas aid or pensions? This is not clear. In many ways the Barnett formula, although it is one of these totemic things in Scottish and UK politics, to my mind it is not the big thing that we need to be looking at. Rather there is complete opacity and lack of clarity as to where we are going to end up and the process by which we are arriving there.

The Chairman: Is your understandable frustration widely shared, because one of the issues is how this is being covered by the media—or has this now dropped out of sight?

Mr Alistair Darling: One of the advantages of being a member of the public for the last six months is that you see the world differently from when you were going down to the House of Commons every week. This is not a talking point in the pubs and clubs or even in people’s houses in the way that the referendum was. Everything is now seen through the prism of independence or not, or what is good for Scotland or not. This sort of thing is just not being discussed outside the chattering classes. Another problem is that Scotland does not really have a think-tank community like you find in the UK. I just make the general observation that there is a real problem in the Scottish press now; as they are coming under more and more pressure from their owners, they are cutting back on staff. Thirty years ago there were

experts in just about every field, but that does not happen now. The actual commentary on all this is a lot less than you would expect in a normal, healthy democracy. Were issues like this taking place on a UK scale, there would be so many people publishing this, that and the next thing. We had a lot of it during the referendum, though a lot of it incidentally had to come from people like the IFS and so on, but that has rather died a death now. What worries me is these are crucial issues that could actually determine the future of the United Kingdom if we get them wrong, and they are all being discussed—not because anyone is being particularly malevolent—behind closed doors. Speaking as a member of the public, which I am at the moment, I find that very frustrating.

The Chairman: To finish on the detriment issue, there are two elements to it. One is upfront no detriment, so nobody is worse off from day one, and then there is the continuing second phase of no detriment, where formulas and mechanisms have to be put in place. It was interesting meeting members of the Finance Committee this morning; they have clearly looked long and hard at this and the longer they looked at it the more difficult it became. It was described as being elevated to a principle only and no rules or guidelines were put in place. Indeed, they have done no work around modelling or anything like that. This is unknown territory.

Mr Alistair Darling: It is completely unknown. It would be difficult enough if you had two groups of people who basically wanted to see a sensible or workable outcome. But you cannot ignore the politics of this. They say the settlement will work and they have referred to a sub-central government, and if you are a nationalist that is the problem. Unless you have independence this is not going to work, and they are not inclined to make it work for obvious reasons. If you take the sum fixed to pay for welfare that is devolved—the idea is that a lump sum is going to be transferred—everybody knows that what you actually spend on benefits changes partly because of the economy, partly because of demography and so on. The most obvious difficulty I see is the idea that you could fix it, seasonally adjust it every now and again without compromise. The first time the Scottish Government were faced with the possibility of making cuts, they would not say, “This is what we’ve got to do because we’ve got to live within our means”, they will say, “This is imposed by the UK Government. This is another reason to leave the United Kingdom”. You cannot look at this without understanding the politics of what is going on in Scotland. I am sure the Committee is aware that the situation is as febrile as it has ever been, frankly.

Q29 Lord Lamont of Lerwick: Your point about the process and nobody knowing what is going on is something I had not really focused on but was becoming more aware of sitting on this Committee. Do you have a view on the overall fiscal regime that might be agreed between the two Governments—and by that I mean debt levels, borrowing and the framework?

Mr Alistair Darling: The Chairman referred to “no detriment”; I think you would need a little more definition as to what that actually means. Certainly for borrowing you would have to have some framework because otherwise, in the extreme, you could see one side or the other running up huge debts, and particularly if you look at it from the UK’s point of view people would say, “How do we know your debt levels if somebody else can change them that much?” I think that might be easier to resolve, if you like. I can see the problems with the White Paper. The civil servants have done their best to write something to make what was designed on the hoof work. The benefit of publishing some of these considerations would be that it would allow people from outside to say, “Well, actually there’s a better way of doing it” or at least understand what the issues are. I suspect the prospect of publishing what they might hope would be a done deal will fail—not just politically, but commentators will say, “Actually, this isn’t going to work”. The answer to your question is there are some things you can define but it is the things you do not define, or that are always going to be changing, that will cause conflict from grievance.

Lord Lamont of Lerwick: Just to give an example, one of the issues that arose in our previous discussion was the argument that if the UK was in a position where the Government were having to reduce their deficit over a period of time but the Scottish Government felt that they were in a different situation and wanted to not entirely follow the same trajectory as the UK Government in the overall UK fiscal position, should it or should it not be allowed to do that? One of the SNP Members made the argument, “Well, provided we’re keeping to our parameters, provided we’re keeping to our medium-term objective in terms of the fiscal balance or the stock of debt, it should be accommodated by the UK Government because it’s only part of the overall”. I must say I did not find it unreasonable per se.

Mr Alistair Darling: What was envisaged is there would be times when the Scottish Government might, for example, want to borrow to build another Forth bridge or a railway line or something like that, or they might want to borrow a limited amount to tide things over. If you accept fairly strict parameters, any state can stand that if you like. Where the

real problem arises, and you see this in the eurozone, is if you have got a currency union there is a limit to how far your economic management can diverge as part of that.

Lord Lamont of Lerwick: We are really talking about devolution.

Mr Alistair Darling: It depends on the scale of it. What I would find difficult to imagine is, if you take an extreme example, suppose you have got the present UK Government saying, “We’re going to pursue an aggressive policy of austerity” and the Scottish Government saying, “We’re going to have a very aggressive Keynesian expansion”, it depends where you draw the lines as to how far they go. I just see tensions arising if you do that.

Q30 Lord Turnbull: Can you commend the Barnett formula, if you distinguish between it as an updating mechanism and then the block grant that has arisen? One of the problems with it, even as it is at the moment, is that it is entirely incremental, so if you find the population is not quite what you thought it was, you change ten eighty-fifths to nine eighty-fifths or whatever, but any kind of growing advantage to Scotland is simply locked into the system. One would hope, if we are starting a kind of four-way constitutional financial settlement in the United Kingdom, it would start out with all parties thinking, “At the moment it is not ideally what I want but it is reasonably fair”. No one in England or Wales thinks this starting point is reasonably fair; they think it is manifestly unfair. It was put very bluntly to us that if you touch a hair on the head of the Barnett formula there would be a “yes” in the next referendum. Are we just stuck with this or can some concept of needs get introduced so that the baseline, the stock, so to speak, gets revised and then you can see whether you can push a bit more money in the direction of Wales or a bit less to Scotland? They seem to argue that is complicated.

Mr Alistair Darling: I suppose, like many of my predecessors, when I was Chancellor I looked at the Barnett formula and my starting point was, if you were coming up with something today you would not start from where you have got, and after 10 minutes I could see why none of my predecessors had got any further than receiving a submission and sending it back marked “noted”. Once you open it up, the whole process of working out needs is difficult. If you look at Scotland, and you assess the need of Edinburgh as opposed to the east end of Glasgow, they are very, very different. They are different countries in many ways, as you can see round England. Within England, what you might think is a need in the north-west of England is very different from what you might think about the south-east.

Lord Kerr of Kinlochard: This is a counsel of despair if you are saying that we cannot have a logical system because it would be quite difficult to work it out. It seems to me that we have got five years. Thanks to the Vow, Smith and all that rubbish, we are stuck with Barnett for five years but we could use these five years to devise and start a transition towards a sensible system.

Mr Alistair Darling: I am sorry that we have turned the tables. I am rather like the civil servant advising the Minister, “Don’t be courageous, Minister”. There is a broader point here. I think trying to reform Barnett on the basis of trying to assess what needs look like in the second decade of this century, would take you a long time and I am not sure you would ever come up with a satisfactory answer. I think there is a bigger question, which I hope the Committee will address, and that is what we now have is a very lopsided devolutionary settlement where all of income tax is being kept by the Scottish Parliament. That is completely different from what is happening Wales and Northern Ireland, and there will be a different settlement again if the structure is set up in England. Perhaps in the light of that we will have to look at how these things are funded, especially if you complicate that with a political English votes for English laws and that is applied to finance Acts and basically voting on income tax—then a whole lot of things are called into question. What worries me is we are doing that in the most unsettled political time that this country has seen for a long, long time.

In answer to Lord Turnbull’s point on Barnett, I think trying to adjust it on its own would be politically toxic. If you want to walk down Princes Street you would be hard-pressed to find anyone who could tell you what it actually is. They will have heard of it but not how it works. It is not their fault; if you go round the Cabinet table you might find one or two struggling to understand what it is.

Lord Turnbull: They know it is a good thing for them and they must defend it.

Mr Alistair Darling: To be fair, as a leader of the campaign to stay in the UK, I made that point time and time again. What has happened subsequent to that, the settlement we have now got and the lopsided nature of that vis-à-vis the rest of the UK means at some point you have to fund and establish something so people actually know what they are paying for in a way that is acceptable. I accept that you have got an English nationalist problem as well and the perception south of the border to deal with at the same time, but I am not sure that an adjustment of Barnett per se would do the trick.

Lord Turnbull: The opposite strategy is to increase the amount of taxes for which they are responsible, so the deduction from the grant gets bigger and the Barnett formula becomes less of an issue.

Mr Alistair Darling: There is quite a substantial move towards that at the moment. My problem is that if we were in a federated country—and we know the arguments there—you would pay some of your taxes for what you get in Scotland and some of your taxes for what you get at the UK level. This settlement has rather blurred that to the point where it is not at all clear. What is half my VAT going to? I do not know. Other countries have managed it. The whole Smith process was truncated into a couple of weeks and that is a very short time in which to fundamentally change a lot of our constitution. I do not say this is an argument for not doing anything, I just think if you are going to look at it, before we go too far down this road, we need to try to fix some of the bigger things. Once you have got principles that underpin a constitutional and financial settlement, it is easier to see how these different allocation mechanisms slot in.

Q31 Lord Turnbull: Supposing you were still Chancellor and the proposal came up that there should be a kind of Australian Grants Commission which is collectivising your decision-making, and a Committee like this recommended it, would you endorse it?

Mr Alistair Darling: I am not familiar with it. Is this a committee of non-politicians?

Lord Turnbull: Yes.

Lord Kerr of Kinlochard: It is mainly ex-politicians.

Lord Turnbull: They collect relevant data and they make a view about whether Queensland is doing better than Victoria and so on.

Mr Alistair Darling: I think you have just heard evidence in your last session, and I tend to agree with the views expressed, that you cannot depoliticise the spending of money. As far as I know, there is no move for any part of Australia to break away from the country. Where you have got almost half the population voting for a party that wants to break away from the rest of the UK, I think to believe that you could take highly charged decisions and give them to a body of experts or whatever, I just do not think would work.

Lord Kerr of Kinlochard: I agree with you about the SNP's motivation, so I agree with you there is no way of avoiding controversy if a party has an interest in causing or stimulating controversy. However, is not the controversy more likely to be easy to stir up if the block grant size and allocation are determined by a non-transparent process of politician talking to

politician, rather than, at least in the question of the allocation of the cake, by some needs-based system where the needs are assessed by an independent authority?

Mr Alistair Darling: This is an argument for saying, “Look, end Barnett and we’ll get some experts to recommend how you divvy up the cake throughout the whole UK”. What I am saying is you can do that but I suspect it will take some considerable time before you did it. Politicians are guilty of many things but experts too can be guilty of coming along with their own prejudices. I am not sure who we would turn to. Solomon is not around at the moment, as far as I am aware, to determine these ways so everybody says, “Yes, that is a jolly good thing”. As I said right at the start, what worries me about where we are at the moment is the fact we are actually marching in the opposite direction and providing more and more scope for there to be highly charged, highly disputed arguments.

Q32 The Chairman: Taking where we are now as the starting point, and we do not have any choice but to do that, how would you chart a way forward? Given the politics which you know well, what are the issues that could be resolved which would give us a workable system?

Mr Alistair Darling: Entirely taking your point, to my mind I am talking about trying to salvage something here. There are two points I would make. Firstly, the process of discussion is now taking place and there is no reason why that cannot take place in public. There is no security or any other issue that I am aware of that could possibly stop that, so at least people could see what the thinking is. The second thing is, we need to get clarity as to exactly what we are in for here—what has been devolved, what is the cost of it and what we are going to pay for—so at least we know the starting point. Remember, the Scottish Government are going to have to strike their own income tax rate from next year and then they will get further powers in relation to rates, banding and so on. But things are so obscure at the moment that no one is going to understand what the relationship between spending and tax is. If we had known all this a year ago, I would have said, “For goodness’ sake, let us look at countries that have been here before and at how they organise it because it might be an awful lot better”. I understand the reluctance to open up huge constitutional issues but we are stumbling into a constitutional hole here. I cannot overstate how febrile things are. My big plea to you, when you come to your conclusions, is to recommend that some light is starting to be shone on this so that people understand what is going on. You cannot also look at this without looking at the Government’s separate consideration in relation to voting,

because if, for example, they said Scottish MPs cannot vote for the income tax rate outside Scotland, you are then calling into question the very existence of the union.

Q33 Lord Kerr of Kinlochard: I agree with that. On the fiscal side, where Lord Lamont was taking us a moment ago, do you think a no-bailout rule is worth fighting for?

Mr Alistair Darling: In terms of things going wrong?

Lord Kerr of Kinlochard: Yes.

Mr Alistair Darling: The eurozone has a no-bailout rule, which we can see works very well.

Lord Kerr of Kinlochard: Exactly. My understanding is this is an important point for the Westminster Government, and I cannot see why the markets would believe that while Scotland remained part of the United Kingdom, if it got in deep doo-doo, it would not be bailed out. The markets would not believe that.

Mr Alistair Darling: Also if you are operating with a single currency it is difficult to see how you could. For example, had the lion's share of bailing out the banks in this country fallen on Scotland it would have bankrupted it. If it was still in the United Kingdom, would the rest of the UK have stood by? No. If we had left the UK then you could certainly say, "You are on your own. These are your banks, you actually backed what they were up to, so you pay for it". But if you are part of a union, as we see in the eurozone, although they are approaching it in a very tortuous manner, slowly but surely they are getting to the bailout point.

Lord Lamont of Lerwick: They did have an absolute no-bail out clause and the moment Ireland went under they decided to adopt a reverse position. Is not the logic, as John has said, that Scotland ought to have a fiscal framework for debt and stock of debt, but apart from that it ought to be able to borrow in its own name in the capital markets?

Mr Alistair Darling: Yes, and therefore pay the costs of doing it. I do not have any problem with that. What I thought we were getting at earlier on was the scope or the level at which you allow Scotland to do that. The Scottish Government have never used the power yet so it cannot be perceived at the highest levels in that Government to be a great obstacle.

Lord Kerr of Kinlochard: It is a grievance up here, is it not, that there is talk of a no-bailout rule? That seems to me to be an unnecessary grievance.

Mr Alistair Darling: Again, one of the points that we made on our side of the referendum was that one of the strengths of the UK is the pooling and sharing of resources. I mentioned on many occasions that if you look at what has happened in the last seven or eight years, had Scotland been on its own it would have been in much the same position as Ireland or

Iceland. It is unhelpful to have things that are unnecessary and downright provocative and actually sound very patronising.

Lord Kerr of Kinlochard: That is my view, too.

Mr Alistair Darling: I am part of the UK as well; do not tell me I cannot be bailed out by a country that I happen to be a citizen of.

Lord Kerr of Kinlochard: As Lord Lamont says, one would need to have a framework which would implicitly or explicitly include limits on the amount that Scotland could borrow in the markets.

Mr Alistair Darling: Which I agree with.

Lord Turnbull: If it really got to a bailout, Scotland's whole bargaining position, which is very strong at the moment, would be lost and it would be then in thrall to the UK Government which could enforce all sorts of things. That is why I think the Scottish Government will not actually push this to the limit, because they know if they really go bust and the UK Government have to help them out they have lost the argument. I would not go anywhere near a no bailout because (a) it will not happen and (b) we do not need it. What we do want is, below this sub-nuclear level, to get some decent understanding. Their Finance Committee talks about a series of rules not a million miles from what the Labour Government had, balancing the current deficit and a debt rule, a debt-servicing maximum. They put some constraints on themselves.

Mr Alistair Darling: You can design a framework and you can have whatever parameters you want—there would have to be something there—but, no matter what the Finance Committee may say, do not rely on them not denouncing the same thing 24 hours after it has been agreed. A lot of these issues, which people really ought to know about before we are presented with them, we just do not know about. I am sure these things are being discussed, but in private not in public.

Q34 Lord Lamont of Lerwick: I am not saying this as a criticism but your answers have been overtly quite political. Can I just ask you a question that is political but relevant to trying to decide where we are going? The puzzle for me is why the Government of Scotland are not held more responsible for the decisions they have made. I understand all the time they are trying to place the blame on the British Government: inadequate funding and so on. Do you think the degree of devolution in fiscal matters now being proposed could alter this climate

and create an atmosphere in which the Scottish Government are held and perceived to be more responsible for its own situation?

Mr Alistair Darling: I do not think this settlement will achieve that. It is a huge mistake to think that if only a few more things were devolved that would remove the number of votes for independence. Most people are not entirely clear as to who does what anyway. The Government you remember wrestled with local government and, no matter what their councils are doing, people blame the Government. They are not the same but it is similar to that. What you have to understand is for a lot of people in Scotland what they want, or are voting for, is something better. If you want a political answer, it is a bit like UKIP in England, and you see it across the continent of Europe; people are fed up, they want something better and they blame the current state of affairs on Westminster and they want out of that. You can see that happened in the Scottish elections here in May. Most people do not know what Smith was about in terms of what it actually did.

To take a ludicrous example, I have yet to meet anybody who was that bothered as to whether or not the British Transport Police were devolved. They have been devolved, there was a bit of fuss in the papers mainly from the union representing them for understandable reasons because they have now disappeared, but people do not know that. Former politicians round here, and I suppose others, will know that people do not think politics every day. If your starting point is whether this is going to stop the movement for independence, no it is not, there is a bigger settlement that needs to be done as far as that is concerned. My fear is that a lot of what is in here is likely to stoke the fires rather than put them out.

Lord Lamont of Lerwick: Are you saying more fiscal devolution would achieve this?

Mr Alistair Darling: What I think would do it is, if you take the Canadian example, where you are clear you are sitting here in Edinburgh, you are paying your taxes to that body which provides health education or whatever, and you are paying to another body which provides pensions, defence and the rest of it, then you know who is responsible for doing the things you do not like and you can vote them out. This way is so opaque that for a lot of people voting, they are voting on what the Westminster Government are doing rather than what is being done here.

Lord Lamont of Lerwick: If you were redesigning it from the start, forget the Vow and Smith, what would your devolution in fiscal matters be to achieve the right balance?

Mr Alistair Darling: If I was starting again, there is something we should have looked at perhaps; I understand the difficulty with a true federation when you have got 80% living in one country, but you would have to start somewhere like that. Spain, for example, has different levels of devolution in the different regions. I think the Canadians do to some extent. The key thing for me is, it is a matter of principle that if you are paying taxes you need to know where they are going and who is spending them and what they are doing with them. The minute you change that or, as I say, you get to a situation where the income tax rate for the whole of the UK can only be voted on by some MPs and not others, where you have got two classes of MPs, you are well on the way to breaking up the union. I just do not think it will work. It is not sustainable. My starting point—and I know it is difficult because, as Lord Hollick has said, we are not in that position—would be to stand back from this and say, “Okay, the UK as presently constituted isn’t working the way we want it to, let us see if we can do something about it”. It is probably the work of a very full Parliament, if not two, to try and sort that out. Where I am now, given the politics and where we are, is how do we stop this? I do not want history to look back at this and say that having won the referendum the whole thing was compounded by putting in place a system that was going to lead to more and more grievance, and ultimately to what I would regard as a very bad outcome for the whole of the UK, Scotland included.

Q35 The Chairman: The direction of travel that you are advocating is that creating a system where spending and funding are in the same hands, and it is clear where responsibility is, would argue for greater devolution of funding and greater devolution of spending, although it would appear at the moment that spending is quite wide whereas the taxes that have been devolved are much narrower. Is your solution that there should be a much greater devolution of taxes?

Mr Alistair Darling: I do not have any problem with that provided I am clear as to where my taxes are going. Beginning next year and continuing thereafter, when I pay my income tax it is apparently all going to the Scottish Government in Edinburgh, but what about my pension, for example? Is half my VAT paying for it? I do not know.

Lord Kerr of Kinlochard: It depends whether it is VAT in Glasgow or Birmingham.

Mr Alistair Darling: How do you explain to someone starting out in life, or coming to this country, what it is you are paying for? I think that is inherently unstable because the scope

for blaming somebody else—and in Scottish politics you do not have to go too far to find that—is immense.

The Chairman: So however well designed this is, it is unstable?

Mr Alistair Darling: I think it is. It was designed over four or five days.

The Chairman: There is no rescuing it?

Mr Alistair Darling: My view is you are talking about salvaging. As you know, since 1998 the Scottish Government have been able to vary the income tax rate, and it is a moot point whether they would ever have a different rate from the rest of the UK because most politicians are not daft when it comes to putting up taxes. During the referendum campaign I made it clear that I did not have any problem with giving the Scottish Parliament more power in relation to tax but still reserving a lot of the income tax stuff. But we have just got ourselves into a mess here. It is compounded by the fact that when people say, “Well, how is this going to affect the block grant?” I do not know because I just do not know the value of what has now been devolved, or how indeed you fix the value.

Lord Kerr of Kinlochard: It looks as if the taxes that are being devolved are the ones that are easiest to devolve: things like the landfill tax, airports and so on.

Mr Alistair Darling: I do not have any problem with that.

Lord Kerr of Kinlochard: But isn't it the wrong way round? Surely you should be devolving a sufficient quantum of tax to match the expenditure freedom that you have devolved, to get your point across that people should be able to spot where their taxes were going. If the quantum of devolved fiscality matched the quantum of devolved expenditure, that would be possible; you would be able to see that what was going to London was for defence, security of the realm, all that sort of stuff, and that what was staying in Edinburgh was for education, health, welfare, with the block grant coming in to deal with the problems of peripherality, sparsity of population and so on. That is an ideal system. To get there, would it not be better to get away from this ragbag of particular taxes that are being devolved again and again, and now these curious new moves on income tax, and instead decide how much you want to devolve by how much expenditure you have agreed you are going to devolve? In other words, the thing is being done back to front.

Mr Alistair Darling: If you look at the mechanism for this, Smith was set up to actually reconcile the political differences between the three unionist parties over income tax proposals. That is what the Vow was. What happened was Smith convened his commission,

and it was like people reversed up a cart and everybody threw on to it all the things they had ever wanted and then tried to reconcile them. It is not a great way of making any policy, never mind stuff that is supposed to last for another 300 years or whatever. The problem we have got, as I understand it, is this Bill is only to complete its Report stage in the Commons before it comes to the House of Lords, and there are constitutional difficulties in the House of Lords radically rewriting something given the provenance of all this. What your Committee can do I think is just point out some of the difficulties we are getting ourselves into. I do not think you can solve this as a Scotland-only problem, I think you have got to look at the knock-on effect on the rest of the UK. Given what is happening in Northern Ireland now with the uncertainties there, we know there are different issues in Wales where the Welsh want more power, and we have yet to see what exactly a northern powerhouse is. Then there are the voting rights of MPs and whether two classes of MPs is sustainable or not; there is an awful lot here. And by the way, we are fighting a European Union referendum and the outcome cannot be taken for granted. There are an awful lot of things going on. I have been in a government where the temptation is, when you look at this, to run a mile and concentrate on something that voters are talking about. In this part of the kingdom there are a lot of people who want something different. It may be what they want is not the same thing, or it may be inchoate in terms of what it is, but do not forget for one minute that the country was split in May.

Lord Kerr of Kinlochard: You encourage us greatly.

Mr Alistair Darling: Being here for six months and spending two years on a referendum campaign concentrates the mind wonderfully.

Q36 The Chairman: One of the arguments behind devolution—certainly the Scottish Government have made this point—is that greater devolution gives them a serious set of powers which they can use to help stimulate the economy. We have heard evidence from people who say there are no examples of that working. Do you have a view?

Mr Alistair Darling: They have lots of powers. In education there is a controversy here at the moment about the qualifications that students from poorer backgrounds are coming to school with. The Scottish Parliament has total control over that. The problems with the centralised police here, with the tragic case of a couple who were left on the side of a motorway for three days—again, it is totally devolved. On industrial development, it is not clear what the Scottish Government have done at all. The only promise they have, which I

think is still extant, is whatever the corporation tax set in Westminster is, it is going to be 3p less. As the Chancellor in July announced a further cut, there comes a point where if you come to Scotland and you are in Starbucks you will not be troubled by corporation tax, not through evasion but simply because nobody is charging you. There is not a single policy that you could describe as redistributive that the SNP can point to in Scotland. It is not really about powers, it is about an idea; if you are a nationalist you simply believe that Scotland has no place in the United Kingdom, and frankly the rest of it is neither here nor there.

Lord Turnbull: They have a kind of each-way bet. If they make a success of this then they will take the credit and if it fails—

Mr Alistair Darling: You see that in the monthly unemployment figures. When they go down here it is because of the Scottish Government and when they go up it is because of the UK Government's austerity.

Lord Turnbull: It is very difficult to shift. You are almost recommending a kind of “do no harm”: in other words, try to make something pragmatic and sensible out of this Scotland Bill but do not kid yourself that it is going to change the landscape.

Mr Alistair Darling: As a former politician I am practical about this. I think for the House of Lords, or one of its Committees, to say, basically, up-end everything that has been done so far, is not going to work. If I were writing your report I would do it almost in two parts. I would say, “This is the problem that has now been created, the opacity of the process, you have not looked at the rest of the UK, these are things that are just storing up trouble for the future. However, the UK Government are going to have to form a view on that because they are the Government of this country, but in the mean time here are things you certainly ought to be doing in terms of the process and proper discussion about what all this means in terms of the grant and fiscal frameworks and the rest of it”. When I received the invitation to come here, it would have been tempting to come here and say, “Actually, if I was starting from here I would start 10 steps back”—but we are where we are. I would be very wary about suggesting something that is simply going to provide yet another grievance; there are plenty around and I do not think you should be the authors of yet another one.

Q37 Lord Kerr of Kinlochard: In the Scottish Parliament this morning, I was struck by the stress on the need for transparency in the way the system works. They are obviously frightened that the Treasury, massively competent, secret, judge and jury, will be laying down what the upratings are in the various taxes and what changes are required under the

Barnett formula. I think there is a role for the House of Lords in thinking about institutional proposals. It seems to me that the Scottish National Party Members liked the idea of taking the uprating of taxes partly out of the political process. In their report they talk about the Scottish Fiscal Commission and they also mentioned the OBR and they seemed to like the idea of a body drawn from both subsuming their purposes while maintaining independence. It seems to me there might be something in that. Going back to your first point, nobody knows what is going on. We probably cannot cure that for the present negotiations but for future negotiations, perhaps you could cure that.

Mr Alistair Darling: I do not know. I was struck by the fact that if you take the Institute for Fiscal Studies, which is by and large accepted as a very reputable and thorough body, when it pointed out that under fiscal autonomy the gap between what Scotland spends and what it gets in is about £10 billion, it did not take long for nationalist politicians to start rubbishing the IFS. Yet by and large all political parties, mainly because we all rely on it at various times to back up what we are claiming, will say that it is pretty good. As I said earlier, I do not think you can depoliticise this. What I do think is absolutely essential is there has to be some open process where you can actually see how these calculations are being made, so the Treasury or the Scottish Government can say, "These are the rules, these are what we think the figures are and that leads you to the answer". At the moment it is not there. I was wondering if you were leading to, "Could you have an OBR?", although it has to be said that the OBR's record on forecasting was about as good as mine. In turbulent times it is rather difficult to forecast these things. On welfare spending people would argue, "Why has it not changed? Is it because the Scottish Government did not do anything about it and why should the rest of the UK pay for that or was it simply because the population was getting older, sicker or whatever?" My answer is, I do not know if you can depoliticise it.

Lord Lamont of Lerwick: I do not think you could transfer the decision to some OBR-type body. In public expenditure, when there is an overwhelming case for an increase in X, often you have to have a corresponding decrease or a partial decrease in Y, Z and W. These decisions are forced by the envelope. I do not think just the shedding of light and having a certain amount of glasnost is going to make it acceptable by itself. The logic of what John is saying is really to give an independent body the power to make the decision on public spending when that body does not have to live with the consequences.

Lord Turnbull: I am not sure that was what Lord Kerr was saying. The OBR does not decide anything. What it has stopped is—

Lord Lamont of Lerwick: I was clarifying what he wants the OBR to do.

Lord Turnbull: There is something useful that an OBR-type body can do, which is maintain the dataset and display it and update it regularly in a consistent way and reduce the extent to which either side in the debate can choose different ways of assembling the figures, different time periods or whatever, and then make it clear what is going on and why. That makes it more difficult to—

Mr Alistair Darling: You can do both. Both you and Lord Kerr are right in terms of more openness. The more clear where the sums are derived from the better, even though there is always going to be argument, but the actual decision as to how much is spent is going to be political. I am afraid I come back to the point that, if your starting point is that we are in the wrong kingdom and we want to be separate, frankly the provenance of the stuff that you are debating matters not a jot.

The Chairman: I am very conscious of the fact that we undertook to finish by half past two.

Mr Alistair Darling: Those powers are devolved!

The Chairman: Thank you very much indeed for this helpful discussion and we look forward to seeing you in the House of Lords in due course.

Mr Alistair Darling: I shall look forward to reading your report.