Minding Scotland's Money:
Economic Governance for an Increasingly Devolved Scotland

A selection of papers from the event held on Monday 12 September 2016

Held at:
Technology & Innovation Centre
University of Strathclyde
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Glasgow
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Overview

Jeremy Peat OBE, Visiting Professor, International Public Policy Institute, University of Strathclyde

A very successful conference on this topic was held at the University of Strathclyde on 16th September, under the joint auspices of the Royal Society of Edinburgh (RSE), the David Hume Institute (Ray Perman) and the Strathclyde University International Public Policy Institute (IPPI). As the originator of the idea for such an event, I was delighted to be asked to prepare this overview which covers the final papers prepared by the keynote speakers.

But first I should thank all of those without whose efforts the conference could not have taken place let alone be so successful. The key thanks must go to Ray Perman at DHI, Alan Alexander at RSE and David Wilson at IPPI and their respective teams. Next I must thank our speakers, chairs and panellists. This was one of those events where getting the right speakers and panellists was critical; and where we were most fortunate that our first choices were ready, willing and able to accept our invitations.

The whole issue of 'governance' is not the highest profile or at first blush most fascinating of topics. Nevertheless I was and remain convinced that appropriate and effective governance is critical to good decision-making; and that as devolution in Scotland both widens and deepens so it the gaps and inadequacies in our existing system and structure of governance are becoming increasingly apparent. These deficiencies imply a risk of sub-optimal decision-making at such a critical stage for our economy and nation more broadly.

Fortunately Ray, Alan and David all agreed with me that this is a critical topic; and were prepared to commit their organisations to the conference. Taken together RSE, IPPI and DHI represent a very powerful force – and an invitation emanating from that combined force was treated with appropriate seriousness. Further, our audience was drawn from their members, fellows and contacts; and

matched quantity with quality to ensure that our message reached a strong range of influential folk.

One point to note is that the conference was organised, and the speakers selected, well before the Referendum on whether the UK should leave the EU. The BREXIT vote came as a major surprise to us all. Also this vote complicates matters in terms of Scotland's relations with the UK as well as the EU; and adds a further wrinkle to the complexity of the governance topic. Along with colleagues from the three organisations concerned we decided not to change the key focus of our conference. Speakers were encouraged to keep the focus on governance and just touch upon, rather than dwell upon, the implications of BREXIT; with the expectation that this topic would feature in questions from the floor during the panel sessions. That is what transpired.

The structure of the conference appeared to flow naturally. Following a welcome and introduction from **David Wilson**, the first session was designed to consider where we now are in constitutional terms, what has changed and what changes lie ahead, and how does our present structure of governance match up to the evolving task. **Professor Nicola McEwan** of Edinburgh University was a natural choice to perform this critical role, and she certainly lived up to the challenge. Her presentation, as reflected in the paper attached here, covered a wide and complex canvas, but with great clarity to the wholly attentive audience.

We then moved on to those providing checks and balances. First up, appropriately, was the question of checks and balances within Parliament and its committee system. We did not wish a political talk here (or indeed elsewhere) and I was thrilled that **Sir Paul Grice**, Clerk to the Parliament since 1999, readily agreed to speak for us. In his talk he addressed a range of complex and distinctly sensitive areas with objectivity and clarity based upon his deep appreciation of all this is involved.

If the Parliament is one critical source of checks and balances, the other source close to parliament and critical to its activities is Audit Scotland. Who better then than **Caroline Gardner**, our Auditor General, to follow on from Sir Paul? Again she spoke with great frankness, adding huge value to our deliberations. It is abundantly clear from these two contributions – from Sir Paul Grice and Caroline Gardner – that the these key players fully understand the challenge and the need to produce a quantum change in formal and crucial checks and balances from within the system. It will be fascinating to see whether our politicians share this understanding *and* are prepared to implement the required changes.

Certainly our audience was persuaded of the importance of all set out in the presentations, as became clear from the panel session chaired by **Alan Alexander**, General Secretary of the RSE. For this our speakers were joined by **Professor John Curtis** of Strathclyde University and **Des McNulty,** the Deputy Director of Policy Scotland. My sincere thanks go to both.

In the second session we moved on to the role of economic analysis in this evolving and ever more complex environment. Our first speaker was **Professor Graeme Roy** who is now Director of the Fraser of Allander Institute, having spent several years as the senior economic policy guru within the Scottish Government. Graeme set the scene, in a manner with some parallels to the presentation by Nicola McEwan in the first session. He spoke with great depth of knowledge on the prospects for the Scottish economy and the Scottish public finances – unsurprisingly given his background and given that the following day he was presenting a fuller analysis of these issues than we have seen for many a year in Scotland – if ever.

Graeme did not shy away from the challenges, and firmly underlined the difficult economic and financial times which lie ahead. But his input very clearly emphasised the need for checks and balances to come from informed and

objective sources outwith Government and the formal bodies; and the need for clarity and accessibility in that work.

That laid a clear base for our next speaker, **Paul Johnson** the Director of the immensely well-respected and influential Institute for Fiscal Studies (IFS) based in London. The work of the IFS provides the yardstick, in terms of being informed, objective and accessible that the FAI and others in Scotland should be measuring themselves against. Paul's presentation (as attached here) provided some telling lessons from a wealth of experience.

Paul referred to the relations between IFS and the Office for Budget Responsibility (OBR), which provides the forecasts for UK Budgets, etc. That again worked well, as our next speaker was **Professor David Bell** of Stirling University, on the topic of the role of the Scottish Fiscal Commission (SFC), our still evolving version of the OBR. David knows all that needs to be known on this topic, and acted as adviser to the Holyrood Finance Committee for many years. It was that committee which flip-flopped in such a disappointing manner over the role and indeed independence of the Commission over the past couple of years, raising questions as to role and resourcing as well as its true independence.

A panel session followed, which I chaired and in which we were joined by an informed external observer, **Professor Neil Warren** of the University of New South Wales. We were left in no doubt that the right SFC will be a critical feature of effective checks and balances. We should welcome the fact that the SFC will now provide the forecasts to be used by Government, and that its members cannot also be members of the Scottish Government's Council of Economic Advisers; but disappointed that it still cannot assess financial sustainability and remain on watch regarding resourcing.

Having considered checks and balances from within and around parliament, and then from economists with formal and essential informal roles, we moved

on to a final and more general debate chaired by **Ray Perman**, Director of the David Hume institute. Participants included **Bill Jamieson**, as a media representative (another sector with a key role) and **Alison McGregor** the Chair of CBI Scotland who rightly reminded us of the key interests of the business community. CBI, IoD, the Chambers, FSB, etc. must play their part in informing and influencing economic and financial decision-making – as must STUC.

They were joined by **Professor Michael Keating** from Aberdeen University, a political scientist of strong repute, and **Professor Anton Muscatelli**, Principal of Glasgow University who provides a home for the SFC and is also Chair of the Standing Council on Europe, appointed by the First Minister.

The purpose of this session was to identify lessons learned and critical issues to take forward. Rather than recording the contributions of each panellist I asked Ray Perman to provide a note summarising and analysing their contributions. This too is attached.

To Conclude

All-in-all I was delighted with the outcome of this conference. We raised a host of crucial issues; and achieved effective unanimity in the view that strong governance and effective checks and balances are crucial to sound policy making in these crucial and complex areas.

The officials at Parliament and Audit Scotland clearly 'get it' and are striving for change and improvement. The prospects for the SFC are far more positive than was the case a year or two back, but there is still scope for important improvement. Think tanks and academia in Scotland are beginning to rise to the challenge of more effective input as policy development becomes more

problematic in the wake of enhanced devolution and the risks and dilemmas posed for Scotland by the BREXIT decision.

Business organisations and other sectoral interest groups generally accept the necessity of upping their game and providing informed and accessible inputs to policy makers and the like. They too have ground to make up in this rapidly evolving landscape. Likewise local government elected representatives and officials.

Perhaps the key questions revolve around our politicians. They work in the context of a single chamber parliament, sometimes with a majority party and at other times with one very strong party in Government. All MSPs have to appreciate the critical role of checks and balances from within, from the Chamber, from Committees and from all the informal relationships that permeate Holyrood. As Graeme Roy and others so clearly articulated the economic and financial outlook for Scotland is even more problematic than the environment through which we have just progressed. That was true without the BREXIT referendum result and is perhaps even starker now.

One point that deserves re-emphasis was made by several of the contributors. Scotland is now in a position where economic performance, specifically the growth of our economy, matters more than ever. That is because there is now going to be a direct link between economic performance and the public finances – for the first time for many a decade. Relative performance, as compared to the rest of the UK will be of prime importance. Out-performance by Scotland will mean an improvement in our public finances but under-performance will result in a deterioration. The incentive to give priority to encouraging growth is clear, to avoid a downward spiral as lower growth leads to public finance problems, potentially with a further adverse effect on growth, etc.

It is Government and the MSPs who have the prime responsibility to ensure that our decision-making is as close to optimal as is reasonably feasible. But they

must be encouraged by informed and constructive input from many parties, and subject to checks and balances to aid sound decision-making. It is for the rest of us to prod them in the right directions and to be prepared to challenge in a forthright but constructive manner when we believe that this is not being achieved.

Some participants have suggested to me that we should reconvene in a year to see what progress remains to be made. Perhaps a shorter and sharper event would make sense; but continuing inputs in the months ahead are required from all with an interest – and that means all of us!

Minding Scotland's Money 2016

Agenda

Monday 12 September 2016

Welcome, David Wilson, Executive Director, International Public Policy Institute (IPPI), University of Strathclyde

Session 1

Chairperson: Professor Alan Alexander OBE FRSE FAcSS
General Secretary, Royal Society of Edinburgh

The present constitutional arrangements and implications for economic Governance, Professor Nicola McEwen**,** Professor of Territorial Politics; Associate Director, Centre on Constitutional Change, University of Edinburgh

Checks and balances from within the Parliament, Sir Paul Grice, Clerk and Chief Executive, The Scottish Parliament

Formal checks and balance, Caroline Gardner FRSE**,** Auditor General for Scotland, Audit Scotland

Panel Session 1
Speakers joined by:
Professor John Curtice FBA FRSE, Professor of Politics, University of Strathclyde
Des McNulty, Deputy Director, Policy Scotland, University of Glasgow

Session 2

Chairperson: Professor Jeremy Peat OBE FRSE**,** Visiting Professor, IPPI, University of Strathclyde

The future role of the Scottish Fiscal Commission, Professor David Bell FRSE**,** Professor of Economics, University of Stirling

The role of external, objective and informed analysts and commentators, Paul Johnson**,** Director, Institute for Fiscal Studies

The Outlook for Scotland's Budget and the implications for policy development in Scotland, Professor Graeme Roy**,** Director, Fraser of Allander Institute, University of Strathclyde

Panel Session 2

Session 3

Chairperson: Ray Perman, Director, David Hume Institute

What have we learned today and what are the critical issues to take forward?

Panellists:

Bill Jamieson, Journalist and commentator

Professor Michael Keating FBA FRSE, Professor of Politics, University of Aberdeen and Director, Centre on Constitutional Change

Alison McGregor, CEO, HSBC Scotland

Professor Anton Muscatelli FRSE, Principal and Vice-Chancellor, University of Glasgow

Closing Remarks

Professor Peat and Ray Perman

Checks and balances from within the Parliament

Sir Paul Grice, Clerk and Chief Executive, The Scottish Parliament

Introduction

The devolution of substantial new financial powers to the Scottish Parliament requires us to revisit our role in *minding Scotland's money*. There are three elements to this which I want to cover in this paper:

- Budgetary Processes
- Implementation of the Fiscal Framework
- Capacity issues

Budgetary processes

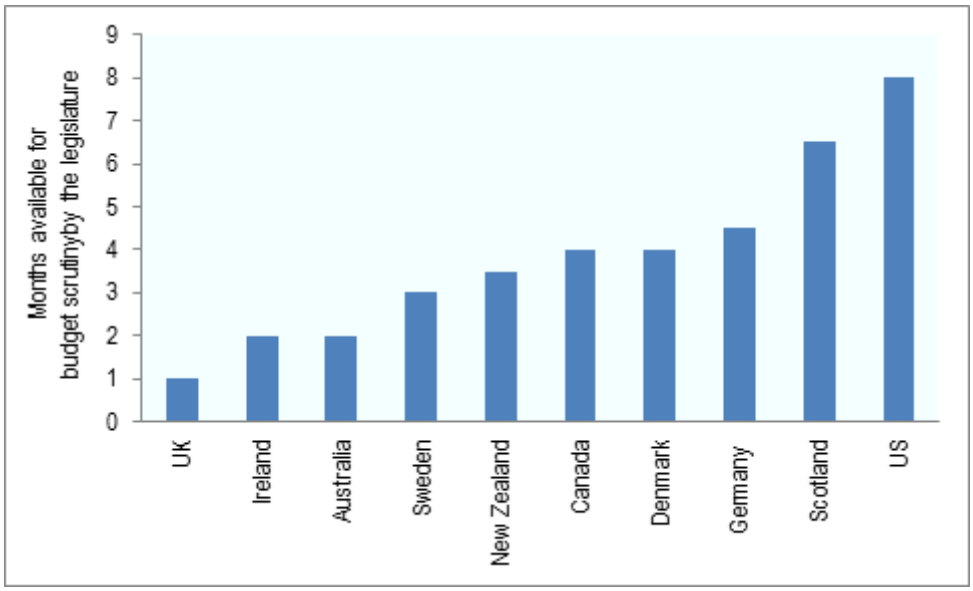
Historically the role of parliament has been to provide authority and legitimacy both to the right of the executive to raise money through taxation and to spend it. The role of Westminster style parliaments has been to approve the financial decisions of government.

When the Scottish Parliament was established a different view was taken. Driven by the emphasis on a new style of politics when Holyrood was being established the focus has been on creating a more influential legislature. There is clearly a good deal of debate as to how much that has happened in practice. Nevertheless the procedures and practices which were adopted at the outset were designed to facilitate a greater parliamentary say in the decision-making processes of government. This is especially true of our budget process.

Unlike Westminster the Scottish Parliament has the opportunity to consider a draft budget prior to the introduction of the Budget Bill and can suggest both alternative tax policies and spending proposals. While the Government is not obliged to accept these suggestions it is required to provide a response prior to the parliament being asked to approve the budget. One of the key strengths of this process is the amount of time which is made available for parliamentary scrutiny. The budget process runs annually from September to February which

compares favourably with many other OECD countries as demonstrated in Figure 1.

Figure 1



The OECD emphasises the importance of allowing sufficient time for budgetary scrutiny by parliaments. It suggests that the amount of time which is available is a proxy, for the quality, intensity and impact of parliamentary engagement. Nearly twenty years on since the budget process was developed how effective has it been in minding Scotland's money and how much does it need to change to take account of the new financial powers? In response to the first point I will briefly review how the process has worked in practice over the past seventeen years. In response to the second point I will examine how a process which was designed for a budget based on a block grant from Westminster can accommodate substantial tax raising powers.

The experience of the Scottish Parliament since 1999 suggests some strengths and weaknesses of our budgetary processes. The primary strengths of the process in my view are:

- **Transparency:** parliamentary scrutiny since 1999 has led to a substantial increase in the level and quality of budgetary and other financial information provided by the government. For example, the

provision of the Equality Statement and the Carbon Assessment as well as level 4 budgetary data tallows much more detailed scrutiny of the government's spending choices.

- **Accountability**: The Cabinet Secretary for Finance is required to present his draft budget to the Parliament; to appear before the Finance Committee to give evidence on his taxation proposals and separately to provide evidence on his expenditure proposals; to then respond to the Finance Committee's report on the draft budget; and finally to present his Budget Bill at Stage 1 and Stage 3 of the legislative process. Departmental Ministers are also required to provide evidence to subject committees on budget proposals within their respective portfolios.
- **Public Engagement:** Both the Finance Committee and subject committees consult extensively on the government's draft budget proposals. The Finance Committee also holds an annual external meeting including workshops with local people as a means of facilitating direct public participation in the budget process. The provision of additional budget information in areas such as the impact on equalities and climate change has also opened up spending decisions to much wider scrutiny.
- **Influence:** While the power to bring forward alternative spending proposals has been used sparingly it nevertheless remains a powerful option for the committees to use.

Some of the weaknesses of the process are:

- **Timing:** the amount of time available for scrutiny is often limited due to the close alignment with the timetable for the UK budget. In UK Spending Review Years the draft budget is often not published until well after September which limits the time for committee scrutiny. This can be frustrating especially when paradoxically the time for scrutiny is limited when the opportunity for influence is arguably greatest.
- **Parallel processes:** while the process is designed in principle to facilitate a more collaborative approach to budget setting the reality is that the government adopts a bilateral approach to negotiations with

each of the opposition Finance spokespeople. Changes to the draft budget are as likely to emerge from these informal discussions which are in private as through formal parliamentary scrutiny;

- **Input focused:** it is an input focused process which considers spending proposals with very little consideration of the effectiveness of previous spending decisions and the impact on outcomes;
- **Change at the Margins:** while the process is consultative it has not provided a forum to develop an alternative budget. John Elvidge writes of his time as permanent secretary that while the Cabinet Secretary might adjust his own proposals at the margins "he generally sought to achieve the accommodation by stretching the envelope."[1]

Whilst key checks and balances are provided by committee scrutiny, the formal requirement to secure a majority in the Parliament as a whole, as required under the budget bill procedure, is clearly a critical stage in the approval process. We are now of course in a second period of minority government. The current parliamentary arithmetic means that the Scottish Government has to obtain the support of at least one other political party to get its budget passed both at stage 1 of the legislative process and stage 3. In other words there are two critical plenary votes in the Chamber on the Budget Bill which the Government needs a majority before is spending proposals can proceed. It is worth noting that, during the legislative process only Ministers can lodge amendments to the Budget Bill.

If the Budget Bill falls then the Government does not automatically fall as is the case at Westminster. Section 2 of the Public Finance and Accountability (Scotland) Act 2000 provides emergency arrangements if the Budget Bill is not passed by the beginning of the financial year. This allows for expenditure to continue for previously approved purposes up to the same rate as the previous year.

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[1] http://www.instituteforgovernment.org.uk/sites/default/files/publications/Northern%20Exposure.pdf

There has been only one occasion since devolution when the Government has lost a vote on its Budget Bill. This was in January 2009 when the Budget Bill was defeated by the casting vote of the Presiding Officer (PO). The vote was 64 for the Bill and 64 against the Bill and by convention the PO is required to vote for the status quo. An Emergency Bill was introduced the next day and passed the following week. However, the change between the two Bills was small. The former Cabinet Secretary for Finance, John Swinney MSP has stated that even during the period of minority government the largest amount of money he moved around "was about £70m or £80m which is way less than one per cent of the budget."[2]

A More Outcomes-based Approach

In order to improve the effectiveness of the budget process the Finance Committee in recent years has begun to develop a more outcomes-based approach to financial scrutiny. This is partly in response to the Scottish Government's introduction in 2007 of an outcomes-based approach to its own objectives and the objectives of the entire public sector. The National Performance Framework (NPF) was introduced to replace what the then new government saw as the competing priorities of previous governments with a "unified vision and quantifiable benchmarks against which future progress can be assessed."

The Finance Committee during the last session of the Parliament subsequently adopted CIPFA's four principles of financial scrutiny:

- Affordability – the wider picture of revenue and expenditure and whether they are appropriately balanced;
- Prioritisation – a coherent and justifiable division between sectors and programmes;

[2] http://www.holyrood.com/articles/2012/01/30/budgeting-for-the-future-exclusive-interview-with-finance-secretary-john-swinney/

- Value for Money – the extent to which public bodies are spending their allocations well and achieving outcomes;
- Budget processes – integration between public service planning and performance and financial management.

The current Finance Committees has continued this practice and has suggested to the subject committees that examining prioritisation and value for money should be an on-going aspect of their budget scrutiny and financial scrutiny more generally.

In relation to prioritisation the subject committees have been asked to consider:

- The extent to which public bodies have moved towards a priority-budgeting approach;
- Whether spending priorities support outcomes;
- Whether current performance informs choices about where to allocate resource;
- The extent to which the NPF influences the budget-setting process of public bodies.

In relation to value for money the subject committees have been asked to consider:

- The extent to which public bodies are spending their allocations well and achieving outcomes;
- The extent to which an open and rigorous performance culture has been embedded within the public services;
- The extent to which the public services are using performance data to ensure value for money;
- The progress of public bodies in moving towards a more outcomes-based approach to public service management;
- The contribution which public bodies are making towards the NPF.

It is worth noting a few observations on this revised approach. First, it places a much greater emphasis on the scrutiny of the performance of Scotland's public

bodies than has existed previously within the budget process. Until recently there has been a tendency to view budget scrutiny as entirely forward looking. The focus has been on deciding how future public money should be allocated. Performance and outcomes have been perhaps too narrowly viewed as an audit function and even more narrowly as a matter for Auditor General and the Public Audit Committee. This new approach seems to provide an opportunity for a much more joined up approach to financial scrutiny. It recognises the need to consider how effectively public money has been allocated previously, how well is has been spent and what has been achieved before deciding how it should be allocated in future years. In doing so there is clearly scope for the parliament's committees to work much more closely with Audit Scotland and other financial bodies such as CIPFA in delivering this approach. For example, through the greater use of Audit Scotland's performance audits.

Second, it may address some of the timing issues discussed above arising from the interrelation between the timing of the UK budgetary cycle and the timing of the publication of the Scottish Government's draft budget. The main reason for this is that the scrutiny of the performance of Scotland's pubic bodies is not constrained by the timing of the publication of the Scottish Government's draft budget. Indeed, the Finance Committee is suggesting that subject committees may wish to carry out more outcomes-based scrutiny *prior* to the publication of the Draft Budget. The purpose of this scrutiny is to help inform consideration of the Scottish Government's spending proposals.

Implementation of the Fiscal Framework

The interrelatedness of the UK budgetary cycle and the Scottish Parliament's budgetary process is likely to become more significant as we implement the financial powers arising from the Scotland Act 2016 and the fiscal framework agreement. The primary reason for this is the need to calculate annual adjustments to the block grant to compensate for the devolution of tax powers. These calculations will be carried out annually on the basis of data published

by the OBR at the time of the UK Autumn statement which is normally published in November or December.

This means that the level of the adjustments to the block grant will not be available when the Draft Budget is published in September. The fiscal framework states that in this case the UK Government will provide a provisional estimate of the adjustments which will be revised at the time of the Autumn Statement. One of the key issues which will need to be considered is the extent to which the level of the adjustments is likely to differ between the provisional estimate used to inform the draft budget and the actual adjustments based on data provided for the Autumn Statement.

The overall size of the Scottish budget will be dependent on the total amount of the forecasts for the Scottish tax receipts minus the total amount of the adjustments to the block grant. So, for example, in Draft Budget 2016-17 the receipts forecast for a 10p Scottish rate of income tax was £4,900m. This is both the figure which was used to adjust the block grant and the figure which was used to determine the amount of revenue the Scottish Government can draw down in 2016-17. The net impact on the Scottish Government's draft budget is therefore zero.

However, from Draft Budget 2017-18 onwards the process is not as straightforward. It is complicated by the fact that the OBR will have responsibility for preparing the forecasts which inform the annual adjustments to the block grant while the Scottish Fiscal Commission (SFC) will have responsibility for forecasting Scottish tax receipts. This means that four separate sets of forecasts will inform the parliament's budget process:

- March – OBR UK Budget forecast
- September - SFC Scottish Draft Budget forecast
- November/December – OBR UK Autumn Statement
- January – SFC Scottish Budget Bill forecast

It is the relative size of these forecasts – in particular as between the forecast performance of the Scottish and the UK economies - that is most important in determining the impact on revenue available in Scotland.

The Cabinet Secretary for Finance and the Constitution wrote to the Finance Committee in June 2016 raising some concerns about the impact of these various forecasts on the budget process timetable. One of his main concerns is that publishing the Draft Budget prior to the Autumn Statement would mean using OBR forecasts from March to inform the provisional estimate of the adjustment to the block grant. His view is that there is a risk therefore of a material changes in the OBR forecasts between March and December would result in changes to the adjustment to the block grant and the spending power of the Scottish Government.

In other words the view of the Scottish Government is a risk that the size of the total budget which the Scottish Government plans for in September may be very different to the total amount available in the Budget Bill. Given this the Scottish Government has proposed that Draft Budget 2017/18 is published after the Autumn Statement. The letter from the Cabinet Secretary was sent to the Committee prior to the result of the EU referendum. The potential impact of the result on the public finances has also added to the Scottish Government's view that the draft budget this year should be published after the UK Autumn Statement. The Finance Committee is currently considering the Scottish Government's proposals for a revised budget timetable. One obvious concern for the Parliament is that such a timetable would have a significant impact on the time available for the budget scrutiny process.

Overall, the fundamental question here is the extent of the risk to the existing budget process of publishing a draft budget in September based on a provisional estimate of the adjustment to the block grant and tax receipts forecasts based partly on OBR data published in March. To consider this question and the overall impact of the new financial powers the Scottish

Government and the Finance Committee have agreed to establish a tri-partite working group with a number of external experts including a number of public finance experts and academics. It is expected that the Group will report to Ministers and the Finance Committee with proposals for a revised budget process prior to next summer recess. The work of this group will be extremely important in shaping how the Parliament develops its critical role in minding Scotland's money and I thank all those who have given up some of their valuable time to contribute to this process. I wish them well.

Capacity

From the above it is clear that the Scottish Parliament faces significant challenges in responding to a much more complex and volatile fiscal environment than the budget process was designed for by the Financial Issues Advisory Group in 1998. The relative stability of a budget based on a block grant from Westminster is now being replaced by a budget much more dependent on the performance of the Scottish economy relative to the performance of the rUK economy. Not only that, but a substantial element of the budget will also be dependent at least initially on forecasts. This raises obvious questions about the level of capacity we have within the parliament to ensure that we perform our scrutiny role effectively. In particular, it is vital that we ensure that Members are provided with the right level of support to hold the Scottish Government to account.

We have therefore given considerable attention to the support which we can provide to Members. At the same time we need to recognise that the resources which we have available are likely to continue to be constrained by a tight spending environment during the current session of the parliament.

We are though continuing to seek opportunities within this tight spending environment to increase the level of support we are able to provide Members. For example, we are working hard to develop our links with the academic

community and think tanks through a number of initiatives including Ask Academia, placement of PhD students in the FSU and building closer links with expert bodies such as the Fraser of Allander Institute and the Institute of Fiscal Studies. The independent Scottish Fiscal Commission is also a significant additional resource which will have an important role in supporting the scrutiny of the new fiscal powers.

We have also developed a continuous professional development programme to support members. In May and June 2016 the CPD working group ran a number of courses for new Members including in relation to speechwriting for parliamentarians and 'being a parliamentarian.' The feedback which we have had from members has been overwhelmingly positive and we plan to hold a number of other sessions including in relation to the budget process.

Conclusion

The start of session 5 of the parliament already feels quite different from the start of session 4. It is a world away from the early days of devolution. There is a need for all of us with an interest in Scottish politics to recognise that the new powers which have been introduced by the Scotland Acts in 2012 and 2016 have substantially changed the nature of the Scottish Parliament. The new powers have brought and will bring more complexity and uncertainty. There will be a greater interrelationship between the decisions of the UK and Scottish governments and indeed between the UK and Scottish Parliaments. They also bring new opportunities, in particular, for the Scottish Parliament to develop and enhance its scrutiny process so that it plays a significant and positive role in minding Scotland's money. This will not be easy but I am confident that this is a challenge which the Parliament including both Members and staff can rise to successfully.

Formal checks and balances

Caroline Gardner, Auditor General for Scotland, Audit Scotland

There are two key reasons why we should care about how government uses public money, and therefore why effective checks and balances matter:

- There's a point of principle – it's our money, and our governments should be accountable to us, through parliament, for how it's used
- Second, and more important, the choices our governments make about tax and spend are critical to shaping the type of society we want to be, and to the wellbeing of everyone who makes up that society.

The months ahead will bring big changes in Scotland's public finances as the Scottish Parliament takes on a substantial increase in its financial powers. And of course, it's now more than two months since the UK voted to leave the European Union. That decision has, literally overnight, created a whole new political environment and turned up the heat on the debate over Scottish independence. The launch of the Programme for Government last week confirmed the possibility that we could see another referendum in the near future.

It's too soon to know what all this will mean for the UK or for Scotland, but like the new financial powers coming to the Scottish Parliament, it will introduce significant opportunities and increased risks for public finances, and how they're managed.

Those opportunities and risks are magnified when you consider the growing demands and challenges facing major public services like health and social care, and education – the challenges of rapid demographic change and deep-rooted inequality. The government has set out ambitious policies in these areas and others, and it will be trying to achieve them within a financial climate that has rarely looked more difficult.

As Auditor General for Scotland, my role is to help ensure that public money is spent well and provides value for money. To that end, the case for transparent,

public information, and effective scrutiny, has never been stronger. There's scope for the Scottish Government and the Parliament to strengthen their roles in this area, and for all of us to play our part in making sure that information about how public money is raised and spent is readily available, and that it's well used to inform the difficult choices ahead.

Let's consider first of all the new financial powers from the Scotland Act 2016, the latest step on a complex and fast-paced journey of devolution for Scotland. As a result of the latest Act, the Scottish Parliament will:

- Effectively control income tax from April 2017, including the rates and bands of income tax levied on all non-savings, non-dividend income for Scottish taxpayers.
- Have responsibility for 11 social security benefits, worth an estimated £2.7 billion, mainly relating to disability. It will also have the power to introduce new benefits in future.
- The first 10p of the standard rate of VAT raised in Scotland will be assigned to the Scottish budget.
- Two further taxes - Air Passenger Duty and Aggregates Levy – will be fully devolved.
- And finally, the Scottish Parliament will have increased borrowing powers from April 2017, with total borrowing limits of £3 billion for capital expenditure and £1.75 billion for revenue. It will also have the power to build a reserve of up to £700 million, to help smooth the budget from year to year.

This is clearly a substantial increase in the financial powers of the Scottish Parliament, and it will have a significant impact on the amounts of public money raised here in Scotland. The proportion of devolved spending funded by devolved and assigned revenues has grown significantly since devolution began:

- It was 10 per cent prior to the powers introduced by the Scotland Act 2012 – limited to Non-domestic rates and Council Tax;

- It rose to 22 per cent as all the powers in the Scotland Act 2012 went live in April this year;
- And will rise again to around 50 per cent as all the powers included in the Scotland Act 2016 come on stream. This includes a rise in spending due to the new social security powers of around £2.7 billion.

All of these changes obviously provide the Scottish Parliament with much more control over Scotland's public finances, and the opportunity to take new approaches, but they also bring new risks that will need to be managed as Scotland shapes its fiscal future in the months and years to come.

Greater financial power obviously means more flexibility on policy choices over tax and spending. The public finances will continue to be tight during the next session of Parliament, and the Scottish Government will want to show it's using its new powers to mitigate some of these pressures – we can see that clearly in the new Programme for Government.

Proposals for the use of the new powers, especially the ability to set income tax rates, were prominent in political manifestos in the run-up to the Holyrood election. Given the different commitments amongst the political parties, and the absence of a majority government this time around, the debate about the use of these powers will continue over the new session.

The Government is also developing plans for using its new social security powers. It's committed to taking a different approach from the rest of the UK, following the First Minister's commitment to tackle inequality and create a fairer, more prosperous country.

So there are important political choices ahead on both taxation and social security policy. And there's also an opportunity for the Scottish Government, and the Parliament, to take a more strategic view of the public finances than was possible when most spending was funded by a block grant transfer from Westminster.

What about the risks? First, the new powers will mean greater volatility in both tax and spending. Tax revenues and social security spending are volatile, and

notoriously difficult to predict. So, for example, if tax revenues are lower than anticipated, or social security spending is greater than planned – and the two are often linked – the Scottish Government will need to manage the consequences itself.

Its options include increasing revenue through tax rises, revenue borrowing, drawing on reserves, or cutting controllable spending. Setting aside the potential political implications of each option, the Government will obviously be limited by its existing spending commitments, whether long-term payments for projects funded under public private partnerships, or staff pay and pensions in the context of a policy of no compulsory redundancies.

The new fiscal framework contains some provisions to accommodate the specific fiscal risks that the Scottish Government will face, but these are complex, and they include fixed limits on borrowing and the use of the new Scotland Reserve. It's not clear how far the provisions would enable the Scottish Government to protect its current level of spending if tax revenues were lower than expected.

Second, the fiscal framework is central to making the new powers work in practice. It was the result of lengthy negotiations between the two governments, and was only finally settled by a compromise over how the Westminster block grant will be adjusted for the first five years. It's a complex package, based on some important judgments about the effect of each government's policy decisions on the finances of the other, and it's also politically very sensitive. The relationship between the two governments will be crucial in making it work.

Third, the performance of the Scottish economy will have a direct impact on Scotland's public finances and the Scottish budget in future. If the Scottish economy performs poorly relative to the UK economy, it will limit the amount available to the Government for investment, and at the same time increase demand-led spending on areas like social security. On the other hand, if the economy performs relatively well, then the Government will have opportunities for extra spending or reduced taxation. And of course it works both ways – decisions about tax and spend will affect the economy.

There is a debate about how far the new powers represent a coherent package of levers that can genuinely influence economic growth. For example, commentators have questioned whether it makes sense to devolve income tax but not national insurance, when both are levied on the same income base. And, unlike Northern Ireland, Scotland won't have control over corporation tax. But whatever your view, the new financial powers will mean a much closer eye needs to be kept on Scotland's economy, and how government can promote and support sustainable economic growth.

Alongside a renewed focus on the national economic strategy, the Scottish Government will also need, for the first time, reliable economic forecasts to underpin its budget proposals. A new Scottish Fiscal Commission has been created, but it will need to build both capacity and data before it's in a position to produce the robust forecasts that will be needed.

The implications of this, and the knock-on effects on public spending, will only really become apparent over time, but it's clear that we're entering an entirely new phase of fiscal responsibility for Scotland. The importance of the choices ahead mean that Parliamentary scrutiny and public engagement are essential, based on much greater transparency and discussion about the public finances.

Three areas stand out.

First, there's a need for greater transparency to enable Parliament, government and the public to understand and debate the basis on which policies and decisions are made. A key element of this is an overall account of the revenues, expenditure, assets and liabilities of the Scottish public sector as a whole – we have Whole of Government Accounts for the UK, which incorporate Scottish information, but we don't yet have the equivalent picture for Scotland. In order to make good decisions about future tax and spending, we need a clear picture of how much is already committed to long term investment through borrowing and public private partnerships; the cost of pension liabilities; and the value of assets like buildings, roads and other infrastructure.

Whole of Government Accounts are an important start, but they won't be enough for good decision-making and parliamentary scrutiny. This will require

much more, including: revenue and expenditure forecasts, and the reasons for changes over time; information about changes in the Scottish block grant; and the use of the new borrowing powers, and their long-term revenue consequences

Second, there will be a new urgency to understanding the sustainability of Scotland's public finances, and the need for a more strategic approach to fiscal policy. This means longer-term planning, and the development of financial strategies to manage the new volatility of funding and spending.

Third, all of this needs to be part of a redesigned budget cycle. It's critical that the Parliament develops a new budget process that gives it time and space to scrutinise tax as well as spending proposals, and includes clear and robust information on the most important issues. The Finance Committee's announcement of a tri-partite review of the budget process is a welcome step forward in starting to adapt to the new environment.

It's a chance to be ambitious, to focus on the budget cycle as a whole, linking budget clearly to outturn, and money to performance, including the outputs and outcomes achieved. There's plenty of international good practice to learn from – New Zealand stands out, but there are other very promising initiatives in the developing world that we can draw on.

There's also scope to improve the presentation and dissemination of information, to make it easier for parliamentarians and others to understand it and get involved in the choices ahead. And we also need to build the capacity of stakeholders, both in Parliament and beyond, to understand and use information, which in turn generates trust between citizens, public bodies and elected representatives.

All of that is necessary, but not sufficient, for effective parliamentary scrutiny. There have been few in-depth studies of how well the Scottish Parliament has held Government and others to account since its establishment, due in part to its relative infancy. But questions do emerge about Parliament's ability and willingness to fulfil its scrutiny role, from perceived weaknesses in the committee system to the need for a second chamber:

Despite attempts led by the former Presiding Officer Tricia Marwick to strengthen the parliament's scrutiny processes, this remains a live issue, most recently seen in the debate over the ability of Parliamentary Liaison Officers to serve impartially on committees linked to 'their' ministers. And it's an issue that Parliament must be prepared to accept and address. The Smith Commission recommended that Holyrood should develop its arrangements for scrutinising the use of the new financial powers, in recognition of the complex decisions ahead and their importance for Scotland's future.

But Holyrood, like any parliament, is a complex institution that needs to balance a number of competing interests and priorities on a daily basis. In the months ahead, Holyrood will need to explore the roles of the Finance Committee and the Public Audit Committee, and how they work together to ensure scrutiny of the whole budget cycle, together with the role of subject committees, and how they make financial scrutiny of their portfolio a central part of their work.

There are also some practical issues to be considered, including the selection of conveners, the demands on members, and the support available to them to enable them to carry out their roles. The new Presiding Officer, like his predecessor, will have a pivotal role in setting the culture and tone of the Parliament, and ensuring that its reputation is protected and enhanced.

Pulling all of this together, why does it matter? We're in a time of change, and Scotland's future and its finances are very much on people's minds at the moment. We've got a tremendous opportunity to do things differently, to make a reality of community empowerment and participatory budgeting at a national and local level, and to make a lasting, long-term difference for all of us who live and work in Scotland.

There will be some hard decisions to make, about the right level of taxation, about the distribution of taxes and public spending, and about how best to stimulate and support the Scottish economy. So far since devolution we've not been good enough at debating those choices.

If we can demonstrate to people how this matters to all of us, we've got a once-in-a-lifetime opportunity to create a world class approach to Scotland's public

finances, and to shape Scotland as a great place to live and work for everyone in the years ahead. Let's not waste it.

The role of external, objective and informed analysts and commentators

Paul Johnson
Director, Institute for Fiscal Studies

THE ROYAL SOCIETY OF EDINBURGH
UNIVERSITY of STRATHCLYDE INTERNATIONAL PUBLIC POLICY INSTITUTE
DAVID HUME INSTITUTE
#MSM16

Institute for Fiscal Studies

The role of external, objective and informed analysts and commentators

Paul Johnson

12/09/16

E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

UK budget process

- Decisions announced by Chancellor
  - Presumption they will be enacted
- Has to accept OBR's independent economic and fiscal forecasts
  - A big improvement
  - Note OBR reliant on departments for most costings
  - Lots more openness in OBR's EFO publication
- Lots of media attention on the day and for a day or two after
- Treasury Select Committee questions ministers, officials and experts
- Finance Bill is debated and goes through parliament (usually)

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So what role for organisations like IFS?

- Setting out where we are with public finances and options prior to Budgets
  - IFS Green Budget
- This is not the role played by the Autumn Statement
  - Big Budget decisions are not consulted on
- Analysis of decisions when made
  - We can go much further than OBR in looking at policy design, distributional changes etc
- Important to:
  - Be objective
  - Present well
  - Be expert
  - Be quick

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A few examples

- What we said about public spending before the last Budget

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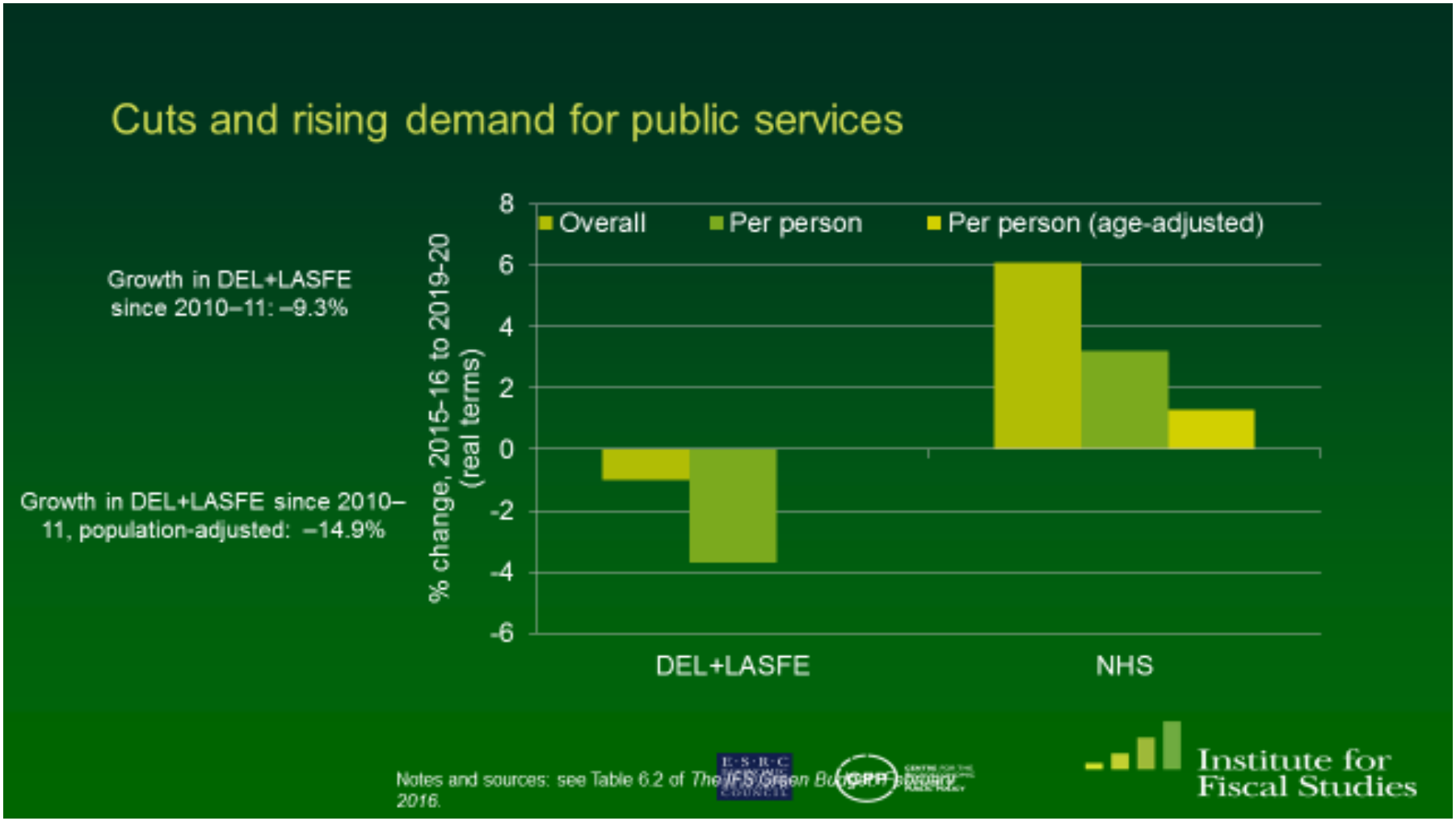
Cuts and rising demand for public services
Growth in DEL+LASFE since 2010–11: –9.3%
Growth in DEL+LASFE since 2010–11, population-adjusted: –14.9%
% change, 2015-16 to 2019-20 (real terms)
8
6
4
2
0
-2
-4
-6
Overall
Per person
Per person (age-adjusted)
DEL+LASFE
NHS
Notes and sources: see Table 6.2 of The IFS Green Budget January 2016.
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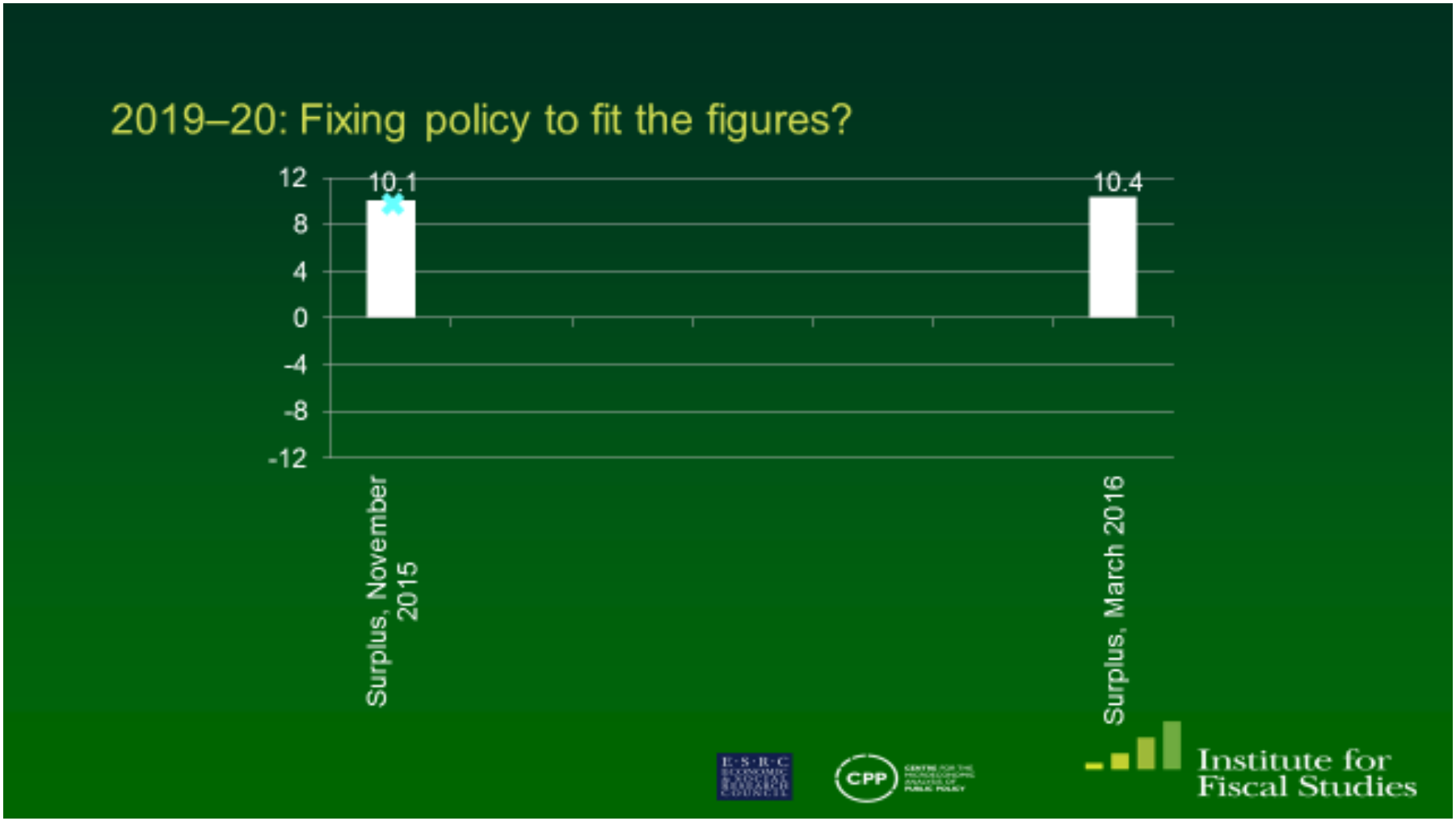
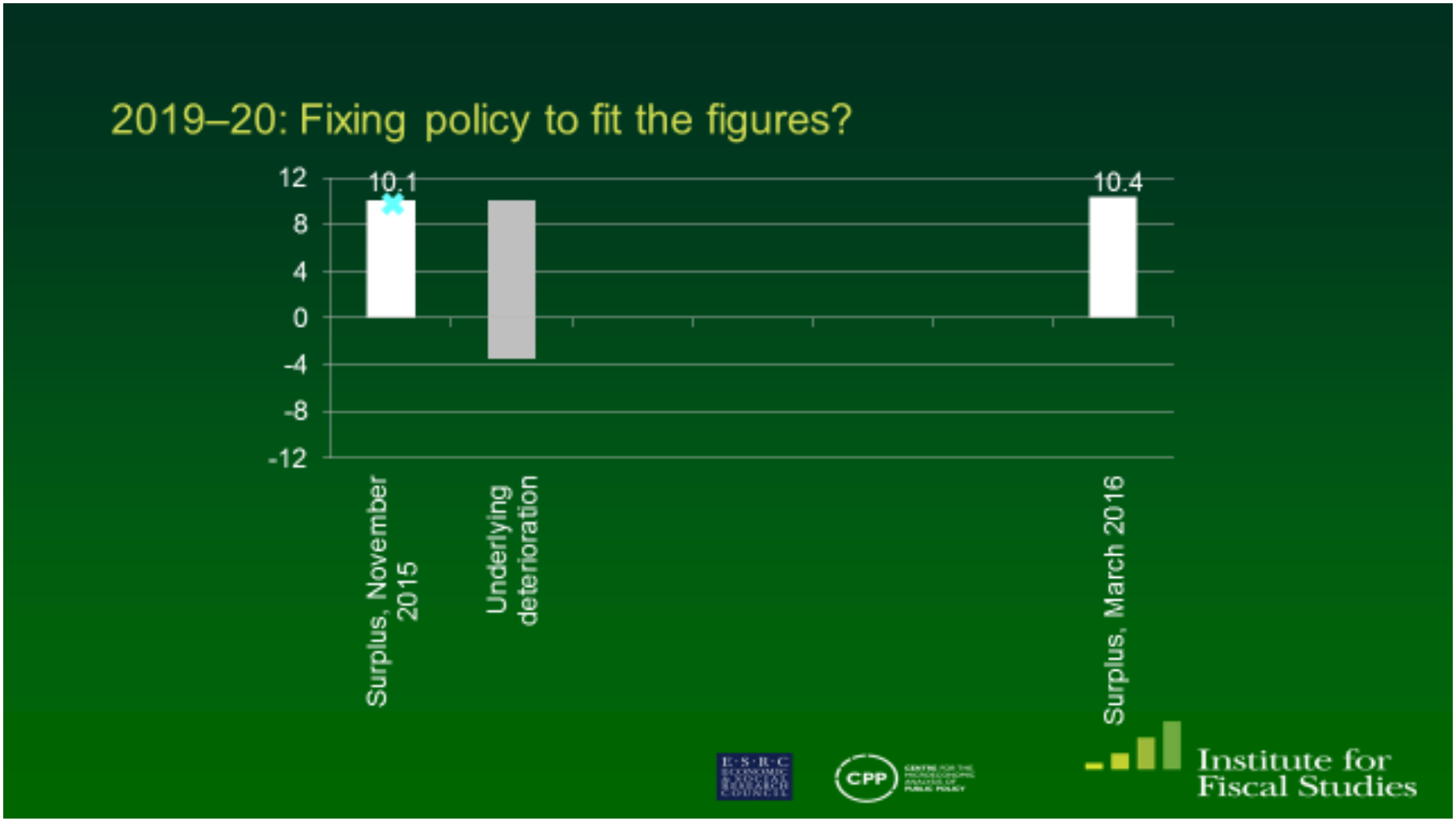
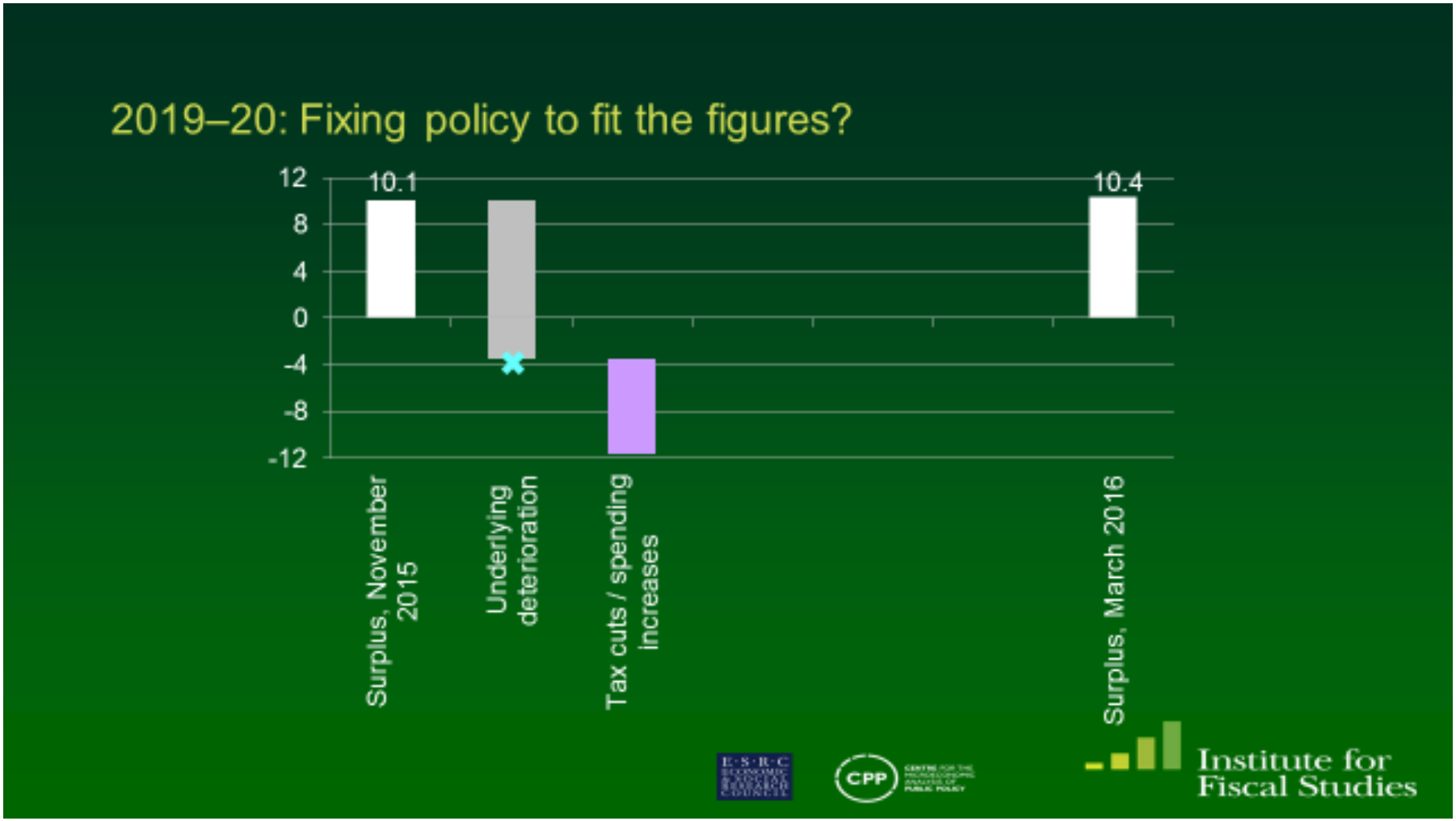
A few examples

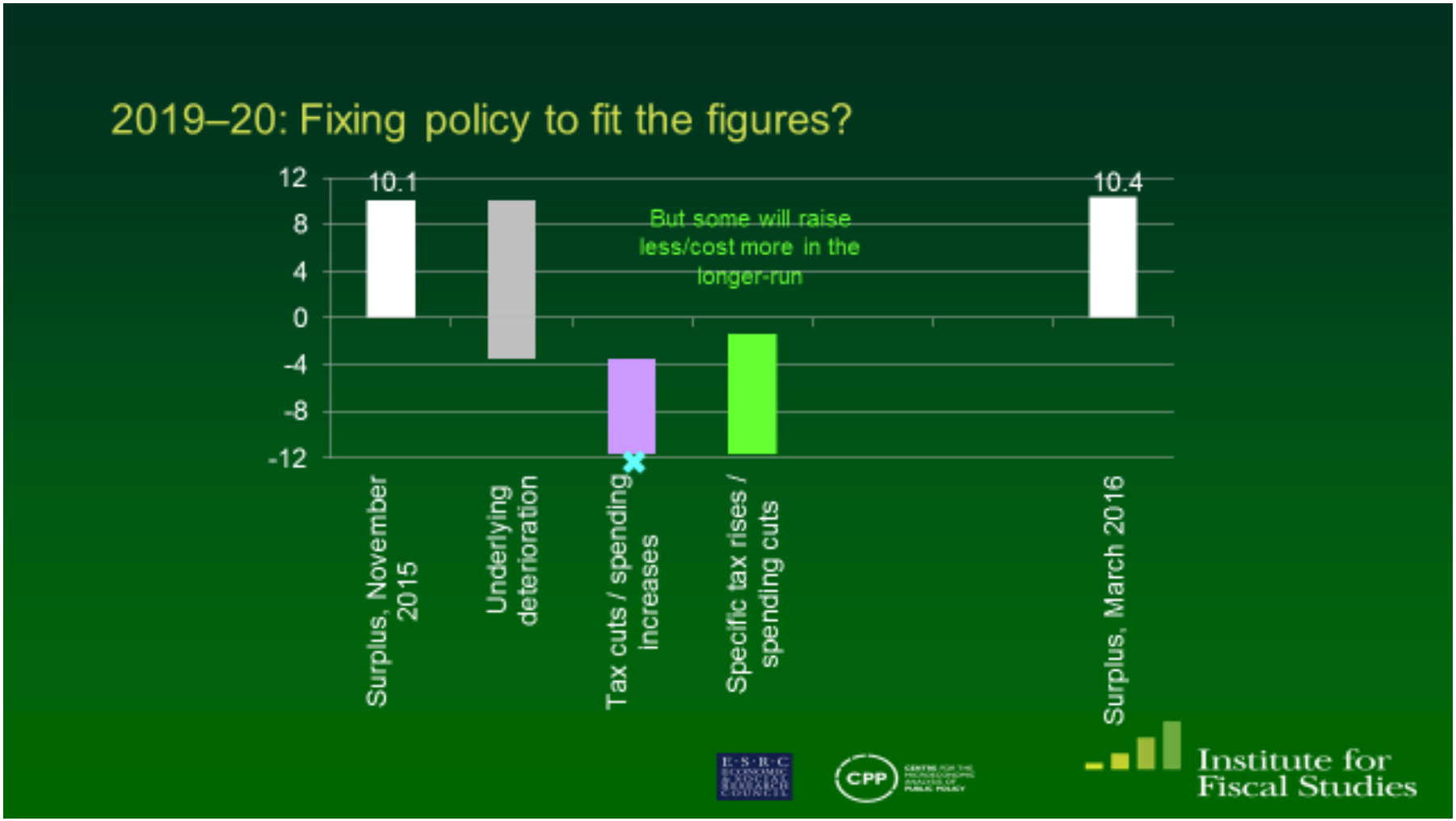
- What we said about public spending before the last Budget
- And what we said about public finances afterwards

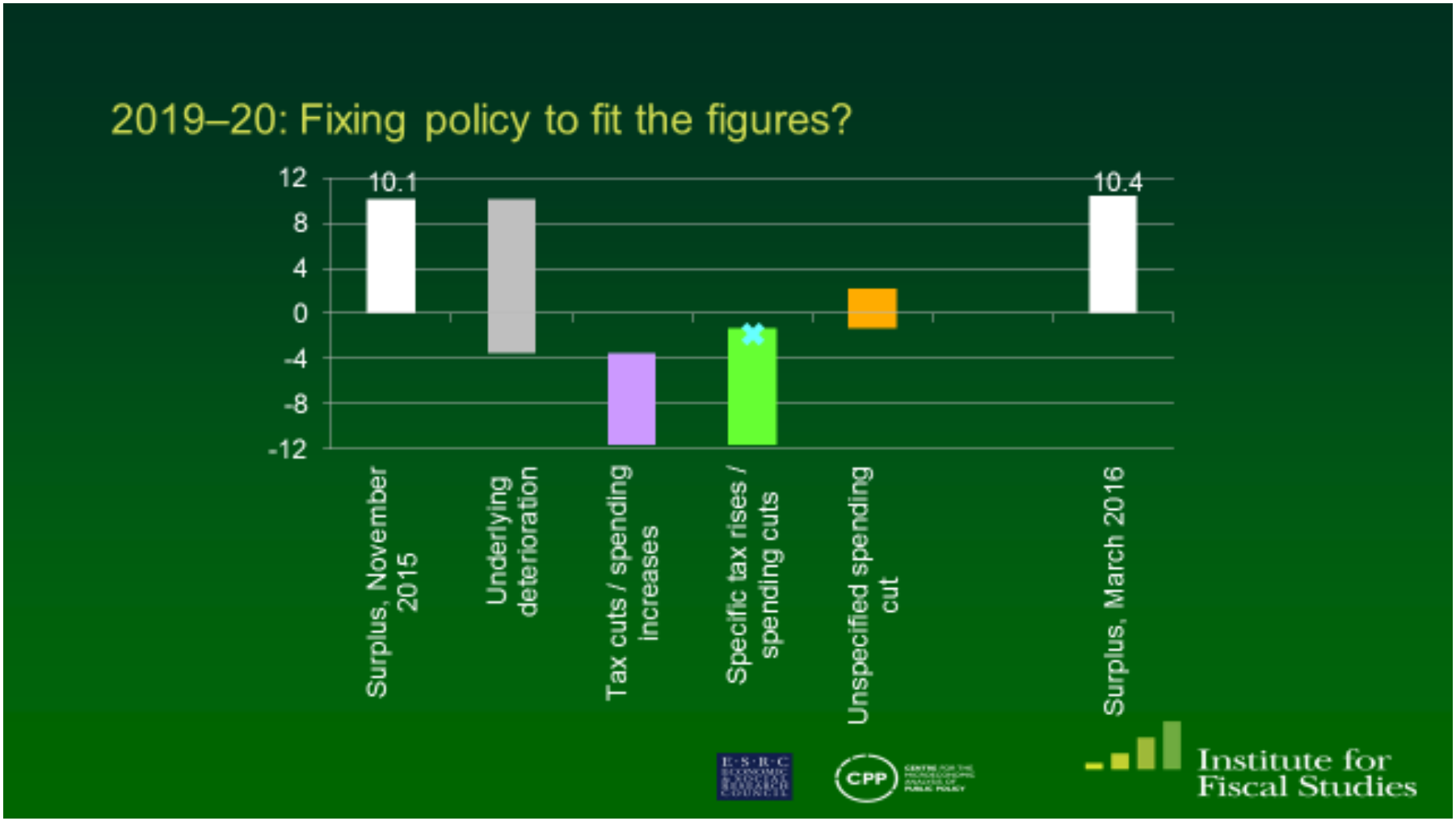
Institute for Fiscal Studies

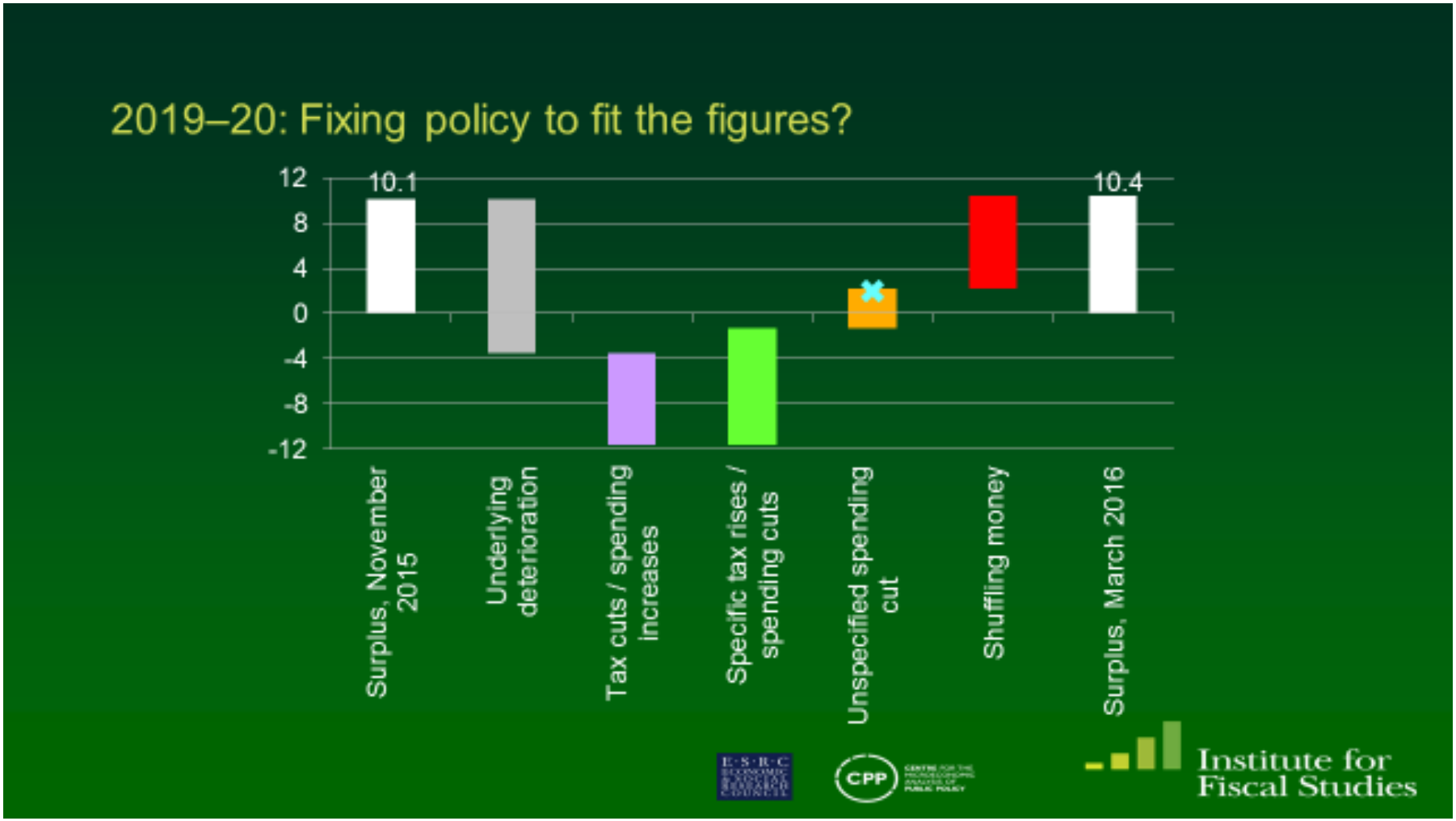

2019–20: Fixing policy to fit the figures?
12
8
4
0
-4
-8
-12
10.1
10.4
Surplus, November 2015
Surplus, March 2016
Institute for Fiscal Studies

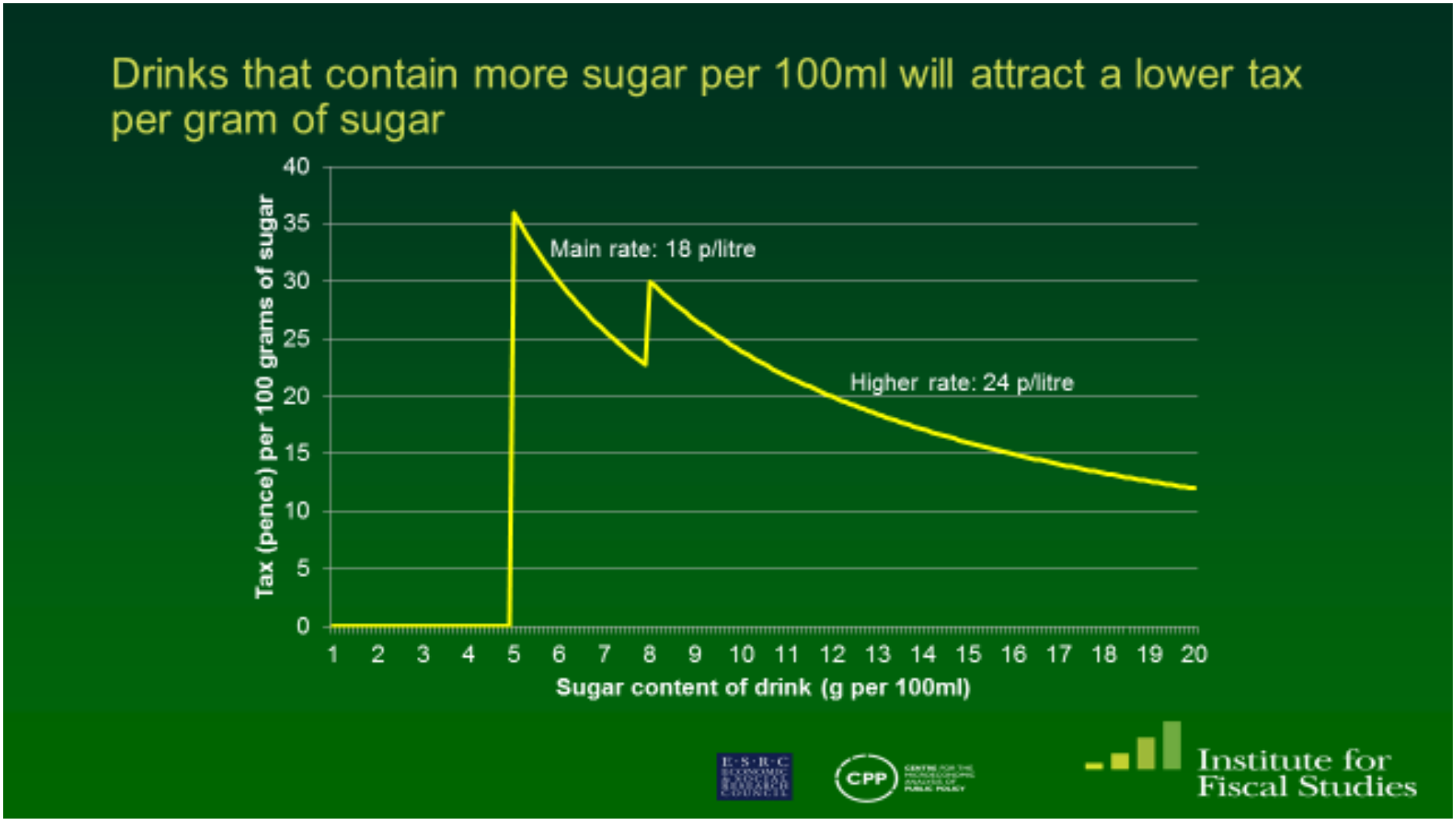

2019–20: Fixing policy to fit the figures?
12
8
4
0
-4
-8
-12
10.1
10.4
Surplus, November 2015
Underlying deterioration
Surplus, March 2016
Institute for Fiscal Studies

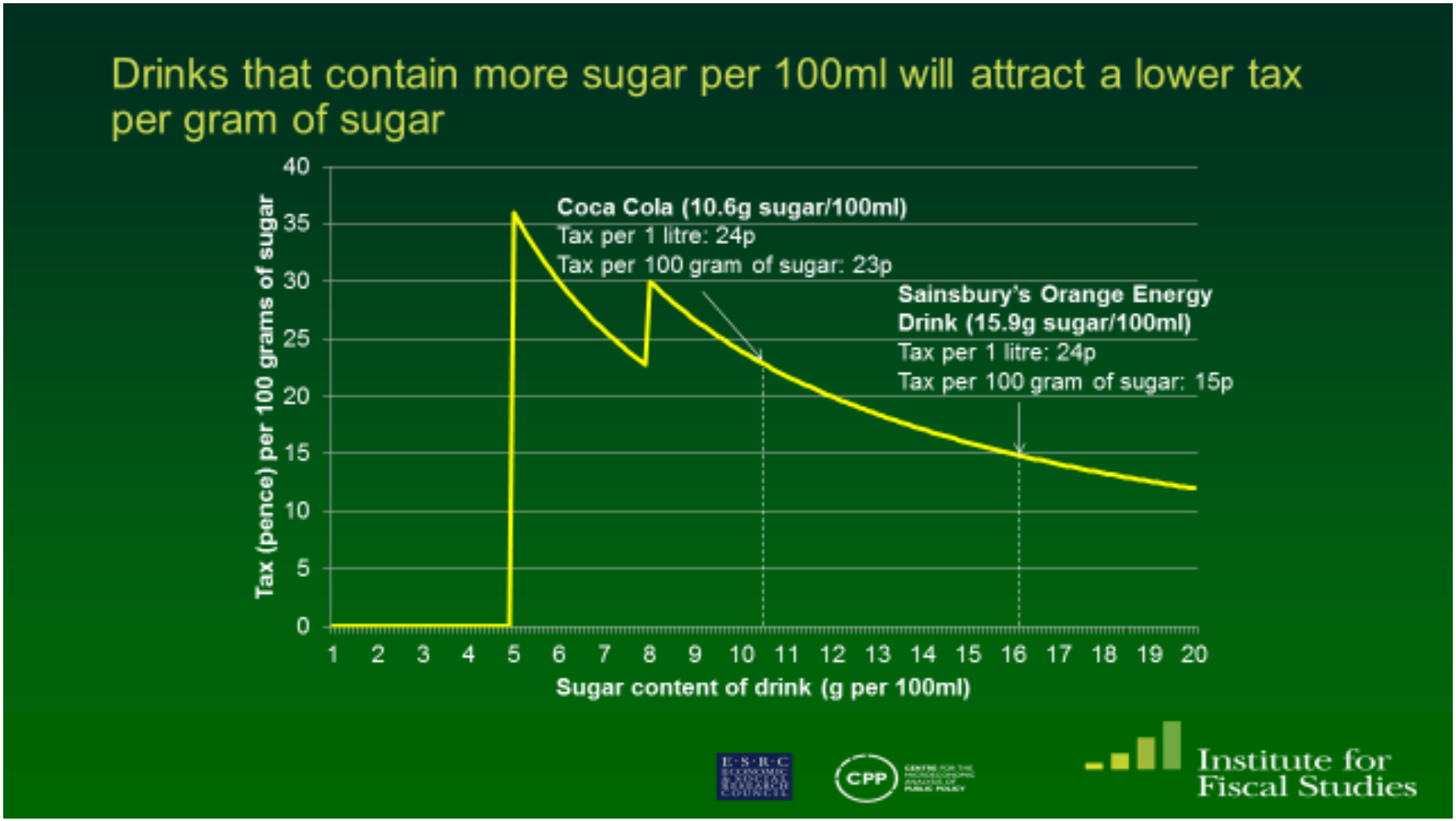

2019–20: Fixing policy to fit the figures?
12
8
4
0
-4
-8
-12
10.1
10.4
Surplus, November 2015
Underlying deterioration
Tax cuts / spending increases
Surplus, March 2016
Institute for Fiscal Studies


2019–20: Fixing policy to fit the figures?
12
8
4
0
-4
-8
-12
10.1
10.4
But some will raise less/cost more in the longer-run
Surplus, November 2015
Underlying deterioration
Tax cuts / spending increases
Specific tax rises / spending cuts
Surplus, March 2016
Institute for Fiscal Studies


2019–20: Fixing policy to fit the figures?
12
8
4
0
-4
-8
-12
10.1
10.4
Surplus, November 2015
Underlying deterioration
Tax cuts / spending increases
Specific tax rises / spending cuts
Unspecified spending cut
Surplus, March 2016
Institute for Fiscal Studies


2019–20: Fixing policy to fit the figures?
12
8
4
0
-4
-8
-12
10.1
10.4
Surplus, November 2015
Underlying deterioration
Tax cuts / spending increases
Specific tax rises / spending cuts
Unspecified spending cut
Shuffling money
Surplus, March 2016
Institute for Fiscal Studies

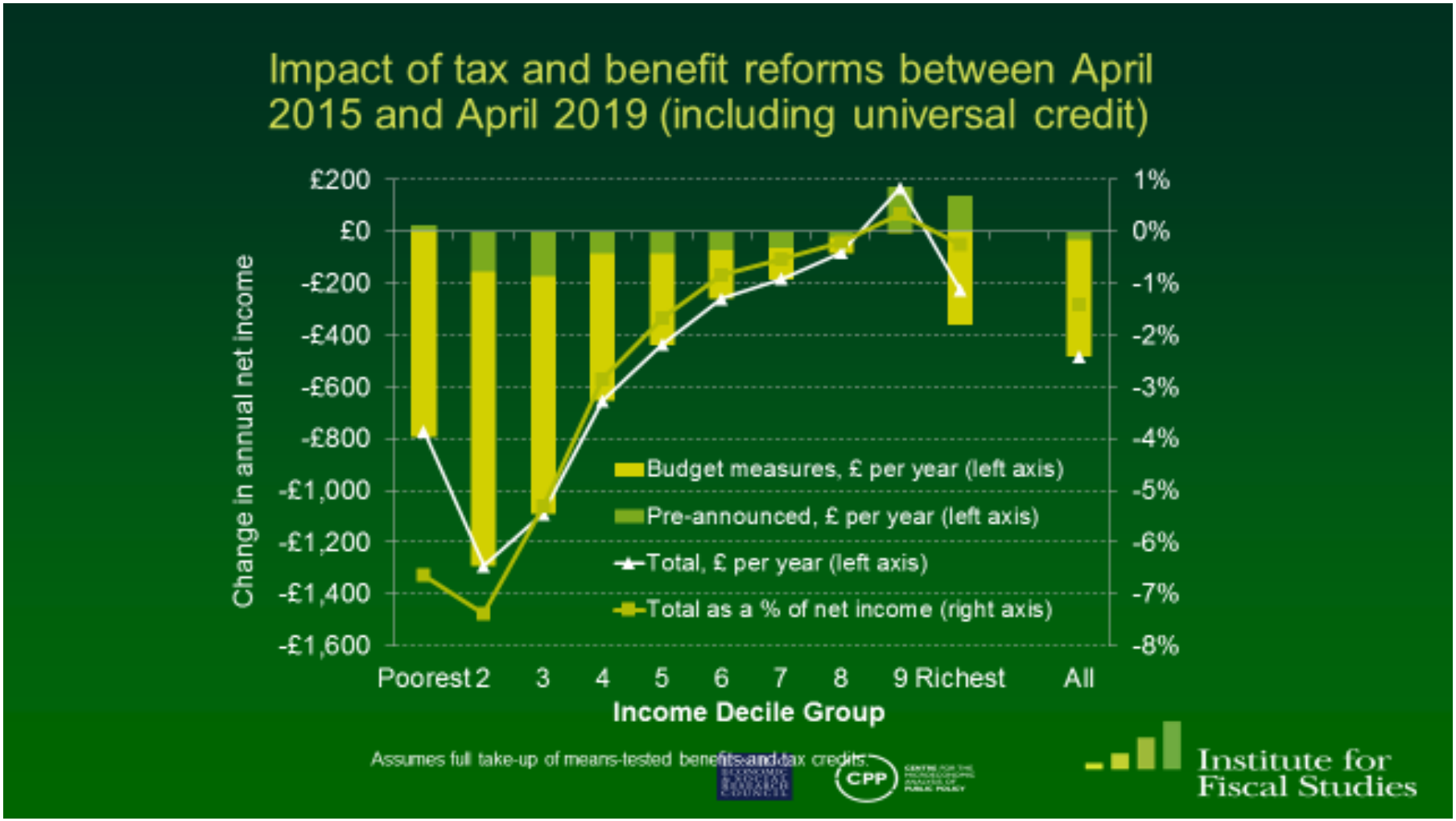

Drinks that contain more sugar per 100ml will attract a lower tax per gram of sugar
Tax (pence) per 100 grams of sugar
40
35
30
25
20
15
10
5
0
Main rate: 18 p/litre
Higher rate: 24 p/litre
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
Sugar content of drink (g per 100ml)
CPP
Institute for Fiscal Studies

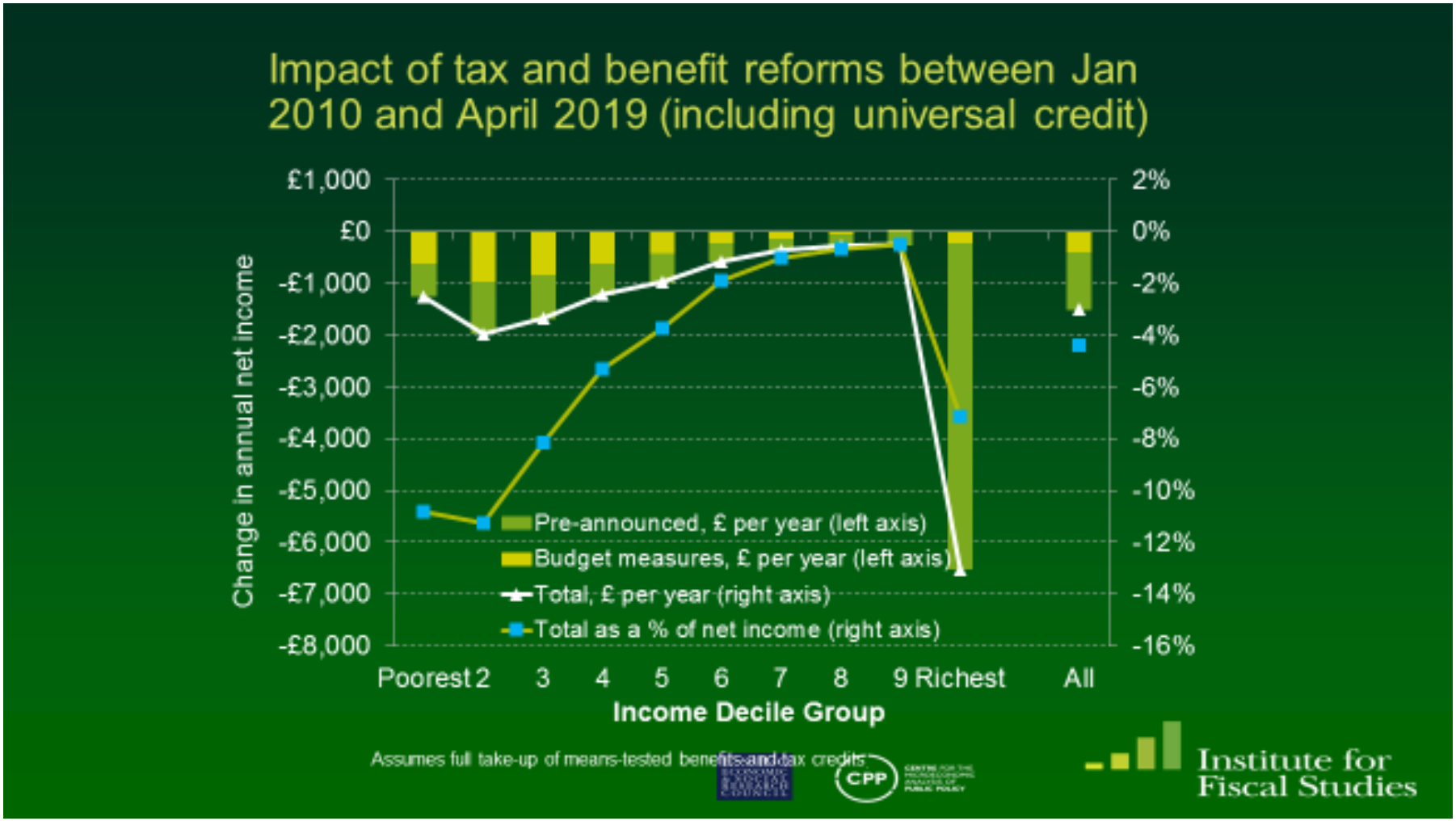

Drinks that contain more sugar per 100ml will attract a lower tax per gram of sugar
Coca Cola (10.6g sugar/100ml)
Tax per 1 litre: 24p
Tax per 100 gram of sugar: 23p
Sainsbury's Orange Energy Drink (15.9g sugar/100ml)
Tax per 1 litre: 24p
Tax per 100 gram of sugar: 15p
Tax (pence) per 100 grams of sugar
0
5
10
15
20
25
30
35
40
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
Sugar content of drink (g per 100ml)
CPP
Institute for Fiscal Studies

A few examples

- What we said about public spending before the last Budget
- And what we said about public finances afterwards
- And after last July's Budget

Institute for Fiscal Studies


Impact of tax and benefit reforms between April 2015 and April 2019 (including universal credit)
£200
£0
-£200
-£400
-£600
-£800
-£1,000
-£1,200
-£1,400
-£1,600
1%
0%
-1%
-2%
-3%
-4%
-5%
-6%
-7%
-8%
Change in annual net income
Budget measures, £ per year (left axis)
Pre-announced, £ per year (left axis)
Total, £ per year (left axis)
Total as a % of net income (right axis)
Poorest 2
3
4
5
6
7
8
9 Richest
All
Income Decile Group
Assumes full take-up of means-tested benefits and tax credits.
CPP
Institute for Fiscal Studies


Impact of tax and benefit reforms between Jan 2010 and April 2019 (including universal credit)
£1,000
£0
-£1,000
-£2,000
-£3,000
-£4,000
-£5,000
-£6,000
-£7,000
-£8,000
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
-14%
-16%
Change in annual net income
Pre-announced, £ per year (left axis)
Budget measures, £ per year (left axis)
Total, £ per year (right axis)
Total as a % of net income (right axis)
Poorest 2
3
4
5
6
7
8
9 Richest
All
Income Decile Group
Assumes full take-up of means-tested benefits and tax credits.
CPP
Institute for Fiscal Studies

In conclusion

- Trusted external analysis is vital to the policy debate
  - And helps hold governments to account
- Lots of pitfalls
  - Not always easy to get a balanced message across
  - Important to keep to areas of expertise
  - Considerable speed of response required
- It is not easy to achieve
  - Trust needs to be built up over time
  - Expertise needs to be developed and kept
  - We have yet to find a proper source of funding…

Institute for Fiscal Studies

The Outlook for Scotland's Budget and implications for policy

Professor Graeme Roy, Director, Fraser of Allander Institute, University of Strathclyde

15th September 2016

Introduction

The fiscal responsibilities of the Scottish Parliament are expanding rapidly. Around 40% of devolved expenditure will soon be funded by tax revenues collected in Scotland – a figure that will rise to 50% once half of VAT revenues are assigned.

The Scottish Government budget will in the future now depend upon two key elements –

- The baseline Scottish block grant as determined by 'the Barnett Formula'; and,
- The growth in Scotland's new tax powers, most crucially income tax.

This means that Scotland's economic performance – or more accurately, Scotland's relative performance – will have a greater bearing on the spending plans of Holyrood than ever before.

The Scottish Government will also have the opportunity to vary its budget through the specific tax policy choices that it makes. Once new social security powers are devolved, it will be able to determine how much of its budget to dedicate to these areas.

The Smith Commission's proposals were intended to introduce both greater risk and greater reward to the Scottish budget.

However with additional economic uncertainty following the EU referendum, a weakening UK fiscal position, ongoing UK welfare reform, and a fragile Scottish economy, the devolution of these new tax and social security powers could not have come at a more challenging time. There is a risk that this new

framework will only add strain on Scotland's public finances at least in the near term.

This makes effective policy development all the more crucial.

The Outlook for Scotland's Budget

This year, Scotland's resource budget is around 5% lower in real terms than it was in 2010-11. Capital spending has been hit particularly hard, down 12% in real terms since 2010-11.

The outlook looks just as – if not more – challenging.

The new Chancellor has indicated that he is prepared to 'reset' UK fiscal policy. It would be wrong however, to assume that this means an immediate end to fiscal consolidation. With a weaker economic outlook and rising inflation putting pressure on the welfare budget, further departmental spending cuts may arguably be more likely in the medium term[3].

Overall, real terms cuts to the Scottish block grant are likely to continue into the next decade, extending the current period of fiscal consolidation to over 10 years.

Under the complex arrangement for determining the Scottish Government's budget under the new fiscal framework, what will be crucial is how the growth in Scottish tax receipts per head compares to the growth in equivalent tax revenues per head in the rest of the UK.

The balance of current economic data and sentiment suggests that Scotland will do well to match UK economic performance at least in the short-term and therefore grow tax revenues per head at the same past as in the rest of the UK.

[3] For a discussion of these issues see https://www.ifs.org.uk/publications/8430

Even before the EU referendum outcome, the Scottish budget was facing real terms cuts over the next few years driven largely by the plans set out by the previous Chancellor George Osborne. New analysis by the Fraser of Allander – Scotland's Budget: 2016 – suggests that the Scottish budget could be cut by between 3% – 4% percent in real terms by 2020-21 and up to 6% – around £1.6 billion – under a worst case scenario[4].

These potential cuts come at a time when the Scottish Government has made a number of high profile spending commitments in areas such as health, education, childcare and policing. This will imply a challenging re-prioritisation of spend in other areas, particularly local government.

It is important that these changes are viewed in the round. These tough choices are the consequence of the decision to prioritise some areas of spending over others. Critics of any cuts in these 'unprotected' areas must explain what they would cut instead or how much taxes would rise.

The government is also likely to face additional spending pressures from rising inflation (which will erode the effective value of budgets and make certain commitments such as the real-terms increase in health more expensive), repayments associated with revenue-financed capital investment programmes (including PFI and NPD programmes), demands on the pay-bill, and the costs of delivering the new devolved welfare system.

The Implications for Policy Development

The budget challenge facing the Scottish Government is arguably the toughest since coming to power in 2007.

But at the same time, the government will have unprecedented autonomy to shape the distribution of incomes, the incentives facing individuals and

[4] See https://www.sbs.strath.ac.uk/feeds/news.aspx?id=1040 for the full report and a range of possible scenarios.

businesses alike, and the effectiveness by which economic and social policy objectives can be achieved.

To take this debate forward, we still require greater clarity over the underlying vision for fiscal policy in Scotland in the light of the new tax and welfare powers. What are the primary outcome objectives we are trying to achieve? How much resource is required to deliver these outcomes, and how will they be paid for?

We also need to recognise that, whatever our individual views are over the level of tax and spend in the country, under this *particular* fiscal framework what will determine the outlook for the resources available for public services in the medium to long-run will be our ability to generate tax rich growth relative to that in the rest of the UK. Public services will now depend directly on how much tax revenues we generate and we therefore need to set policy and debate choices and trade-offs with that context in mind.

Central to this will be the importance of effective policy development alongside robust scrutiny and oversight.

So what do we suggest?

First, budget decisions need to be based much more explicitly on intended outcomes rather than funding inputs. There also needs to be greater recognition of the opportunity costs of spending decisions, particularly over the medium to long-term.

Second, with Scotland's new tax powers the debate can move beyond simply deciding how best to distribute a (tight) overall spending envelope. These powers provide a set of tools to vary revenue but also to achieve wider objectives around re-distribution, growth, efficiency and the overall balance of tax and spend in Scotland. There are important constraints however, and policy needs to be underpinned by explicit recognition of the strategic objectives that are being targeted, and the costs and practical challenges underlying tax policy choices.

Third, to have an informed debate about Scotland's fiscal future and how best to use these new powers, the role of Parliament and civic Scotland in scrutinising and influencing budgetary plans should be strengthened. A renewed emphasis on multi-year budgeting, long-term strategic planning and transparency will all help assist in preparing Scotland to best meet the challenges and opportunities ahead.

This will not be easy, but progress has been made in recent years. An independent Fiscal Commission has been established. And in a number of areas of policy, for example the Early Years Collaborative, there has been a shift toward outcomes and prevention. However, the boldness of the reforms and the pace in which they are delivered needs to be increased.

One final reflection concerns the sophistication and set of tools we currently have at our disposal to inform economic policy development in Scotland. Here we would make three key points.

First, we must continue to invest in improving the coverage and robustness of economic data in Scotland. Significant strides have been made in recent years to improve the quality of data – the development of GERS and Scotland's new National Accounts are excellent examples. But there remain crucial areas, such as prices, trade flows, investment, where the data is either patchy or non-existent.

Second, it is important to continue to invest in analytical capacity in Scotland both within government and wider civic Scotland. Once again, progress has been made. But economic modelling on the scale now required remains in its infancy. Investment – not just in technical frameworks but in developing economists and statisticians with the relevant skills and experience – needs to be developed over a sustained period. There also needs to be a recognition that, as new institutions such as the Fiscal Commission begin to forecast GDP and tax revenues for the first time, they will face significant challenges in the first few years. The Fiscal Commission will be experimenting with new data and new modelling frameworks, be building capacity and staff resource, at the

very same time they are being commissioned to provide robust forecasts upon which policy decisions are made. We cannot expect miracles overnight.

Third, the landscape in Scotland is now relatively full with a range of institutions each making a contribution to the debate on Scotland's fiscal future – from the OBR, the Scottish Fiscal Commission, the Scottish Government, the UK Government, Scottish Parliament Committees, the UK Parliament Committees, academia, Audit Scotland etc. It will important that we develop clarity over their distinctive roles but also pool and share resources, expertise and knowledge where possible to ensure that policy development can not only get the coverage it requires but also the depth of analysis and insight it needs.

Fraser of Allander Institute
September, 2016

Session Three: Panel discussion summary

Ray Perman, Director, David Hume Institute

In the last session of the day we asked four observers what salient points they would take away from the day's presentations and discussions. Journalist and commentator **Bill Jamieson** spoke of the challenges laid down in the early discussions over the Scottish Fiscal Commission – that it should undertake work "objectively, transparently, impartially".

A budget of £840,000 might seem "munificent" as the independent analyst Ian Leinert initially suggested. But the SFC had to put together a trained and professional team of data gatherers and analysts – all the more necessary given the widespread breakdown of public trust and confidence in economic forecasting generally. This, together with questions as to the independence of a Holyrood finance committee dominated by the same party that comprises the government, underlined the need for a well-resourced commission to fulfil its functions and report to the highest standards possible.

Professor **Anton Muscatelli** said that he thought that despite some challenges around hiring the required expertise, the SFC would be able to fulfil its role as an authoritative, independent check on fiscal forecasts for Scotland. The SFC should focus on its narrow statutory function given the potential pressure on resources in the short run.

However, Brexit introduced a new level of uncertainty which would make accurate forecasting difficult. He outlined the various scenarios for the UK economy which independent analysts like the NIESR and CEP-LSE had produced and he noted that the Scottish Government had outlined their implications for Scotland assuming a pro-rata effect. He felt that since the referendum vote there had been a misunderstanding by some economic commentators that the risks from Brexit are yet to come in the future: Brexit has not happened yet, and our trade links are still intact.

The fact that we haven't entered a technical recession in 2016 should not make us conclude that Brexit will not have a major economic impact on the UK if and when we leave the EU Single Market. Clearly, it was in Scotland's interest that the UK should try to achieve a "soft Brexit" by staying within the Single European Market. A "hard Brexit," which restricted our companies access to the market and would subject them to both tariff and non-tariff barriers could have profound effects on the Scottish economy which would be difficult to quantify. What was particularly worrying about the post-Brexit situation was that the complexity of the EU negotiations is not fully appreciated by pro-Brexit commentators and some politicians, some of who still believe (wrongly, in his view) that access to the Single Market without free movement of labour (an 'EEA-minus' agreement) is possible, or that a 'hard-Brexit' will not be economically damaging.

Professor **Michael Keating** said that the new book A Wealthier Fairer Scotland from the Centre on Constitutional Change looked in depth at how the Scottish Government's objectives might be achieved. It was now widely accepted that big inequalities were not only socially undesirable but economically damaging. There was broad support for ideas like social investment and preventive spending. The difficult thing was getting there. This involved articulating and realising a set of broad, shared interests and positive-sum social compromises. Scotland did not have the institutions to achieve this, as it had historically operated more as a territorial lobby than a policy-making system. Its institutions reflected that of the old industrial society.

Since devolution there had been a lot of consultation and concerted action within individual sectors, but not across sectors, which was necessary to resolve the big questions and 'wicked issues' – the persistent ones which seem to defy solution. The new taxation powers might now provide incentives for the social partners to be more involved in the big issues.

Another problem lay in the lack of policy capacity and new ideas to approach issues differently. The balance of competences that had emerged in three devolution Acts owed more to the old Scottish Office structure and political compromise than serious policy design. In particular the balance among labour market policy, welfare and economic development did not always provide the right incentives. Finally, there is a lack of public understanding of economic issues and a need to engage better with the way that the public perceives these questions.

Alison McGregor, chair of CBI Scotland, referred to Graeme's Roy's comment that the Scottish Parliament's increased fiscal powers would bring with them much greater reliance on economic performance, relative to the UK, than previously. Business is the engine of growth for the economy, she said, creating jobs which lead to higher spending, stimulating demand for goods and services. Increased wealth created more money for public services such as healthcare and education, which in turn led to a higher quality of life for the people of Scotland. When considering spending, the Scottish Government would need to consider how it not only stimulated economic growth, but how it could work more closely with business.

Caroline Gardener had spoken about the need for checks and balances, reflecting on past performance when making future decisions, and having more transparency and accountability. Government could learn from business in these practices, Alison added. The need for Government to involve business has never been greater.

Speaker Biographies

Professor Alan Alexander OBE FRSE FAcSS

General Secretary, Royal Society of Edinburgh

Alan Alexander is General Secretary of the Royal Society of Edinburgh and Emeritus Professor of Public Sector Management at the University of Strathclyde. He is a former Chair of Scottish Water and has been a member of the Economic and Social Research Council, the Accounts Commission for Scotland and Postwatch.

Professor David Bell FRSE

Professor of Economics, University of Stirling

David NF Bell MA, MSc, PhD, FRSE is Professor of Economics at the University of Stirling. Educated at the University of Aberdeen and the London School of Economics, he has held posts at the universities of St Andrews, Strathclyde, Warwick, Glasgow and Stirling. His main research area has been in labour economics, where he has focused on conditions in the labour market, including wages, unemployment, disability and working time. He is Principal Investigator on the Scottish longitudinal survey of ageing, known as HAGIS (Healthy AGeing In Scotland). An adviser too many public bodies at national and international level, he is currently Special Adviser to the House of Lords Select Committee on Economic Affairs investigation into the funding of devolution.

Professor John Curtice FBA FRSE

Professor of Politics, University of Strathclyde

John Curtice is Professor of Politics at the University of Strathclyde. He is Chief Commentator at the www.whatscotlandthinks.org website, which provides a comprehensive collection of data and commentary on public attitudes towards how Scotland should be governed, and is co-Director of ScotCen's Scottish Social Attitudes survey. A regular media commentator on Scottish and British politics, he is a Fellow of the British Academy and of the Royal Society of Edinburgh.

Caroline Gardner FRSE

Auditor General for Scotland, Audit Scotland

Caroline is the Auditor General for Scotland, responsible for auditing the Scottish Government and public bodies in Scotland and reporting to the Scottish Parliament. A professional accountant with more than 25 years' experience in governance, audit and financial management, she has held a number of senior positions, including: Deputy Auditor General, Audit Scotland; Controller of Audit, CFO to the Turks and Caicos Islands Government, appointed by DIFD to restore stability to the country's finances; and the Audit Commission for England and Wales. Caroline served as President of CIPFA (2006–07) and is currently a member of the Public Service Audit Appointments Board and Chair of its Audit Committee. Until 2015, Caroline was a member of the International Ethics Standards Board for Accountants. Caroline was included in this year's Public Finance Top 50, a 2016 Trailblazer and was recently awarded a Fellow Member status with CIPFA.

Sir Paul Grice

Clerk and Chief Executive, The Scottish Parliament

Appointed Clerk and Chief Executive of the Scottish Parliament in 1999, Paul leads the Scottish Parliamentary Service, which is responsible for delivering all services to the Parliament and its Members, and is principal adviser on procedural and constitutional matters. He joined the Civil Service in 1985 and worked for the Department of Transport and the Department of the Environment on Bus De-regulation, Railways Policy and Local Government Finance - and was Private Secretary to Virginia Bottomley MP. He joined the Scottish Office in 1992 to work on Housing and Urban Regeneration policy. Paul joined the Constitution Group in May 1997 and subsequently managed the Scotland Act. He was appointed Director of Implementation to set up the parliamentary organisation and associated support systems. Outwith Parliament, his non-executive roles include: Member University Court at Stirling (2006–13); Secretary to Scotland's Futures Forum (2005–13); Economic and Social Research Council Member (2009–15); and Bank of Scotland Foundation

Trustee (from 2011) and Edinburgh International Festival Board Member (from 2013).

Bill Jamieson

Journalist and commentator

Bill has specialised in financial journalism and economics over a 40-year career. A former Economics Editor of *The Sunday Telegraph*, he stepped down as Executive Editor of *The Scotsman* in 2012 after 12 years, but is retained by the paper in a freelance and consulting capacity. He also now edits a website, Scot-buzz, devoted to supporting business start-ups and SMEs.

Paul Johnson

Director, Institute for Fiscal Studies

Paul has been Director of the Institute for Fiscal Studies since January 2011. He is a Visiting Professor at UCL. He has published and broadcast extensively on the economics of public policy including tax, welfare, inequality, pensions, education, climate change and public finances. He is author of major books on pensions, tax and inequality. Previously, Paul has worked at the FSA, the Department for Education and Frontier Economics. He was Director of public spending in HM Treasury and has served as Deputy Head of the UK Government Economic Service. He is currently a member of the Council and Executive Committee of the Royal Economic Society, is a member of the Climate Change Committee, and is a member of the Banking Standards Board.

Professor Michael Keating FBA FRSE

Professor of Politics, University of Aberdeen and Director, Centre on Constitutional Change

Michael Keating is Professor of Politics at the University of Aberdeen, part-time Professor at the University of Edinburgh and Director of the Centre on Constitutional Change. He holds a BA from the University of Oxford and in 1975 was the first PhD graduate of what is now Glasgow Caledonian University. He is a Fellow of the Royal Society of Edinburgh, the British Academy, the

Academy of Social Science and the European Academy. Michael has taught in universities in Scotland, England, Spain, France and the United States and at the European University Institute Florence. Among his publications are *The Independence of Scotland* (Oxford University Press, 2009) and *Rescaling the European State* (Oxford University Press, 2013). He currently holds a Senior Fellowship in the ESRC UK in a Changing Europe programme.

Professor Nicola McEwen

Professor of Territorial Politics; Associate Director, Centre on Constitutional Change

University of Edinburgh

Appointed as a Lecturer in Politics at the University of Edinburgh in 2001, Nicola became Senior Lecturer in 2006 and Professor of Territorial Politics in 2014. She is Associate Director of the ESRC Centre on Constitutional Change, a key investment under the Future of the UK and Scotland programme. She is also Associate Director of Research for the School of Social and Political Science. Prior to this, she was Director of Public Policy for the Academy of Government and Co-Director of the University's Institute of Governance. Nicola is Managing Editor of *Regional and Federal Studies*, the leading European journal in the field of territorial politics. Nicola supervises a wide range of Research Masters and PhD students exploring nationalism, devolution, multi-level government and policy, electoral politics and party politics.

Alison McGregor

CEO, HSBC Scotland

As CEO Scotland, Alison is the senior leader responsible for the HSBC Group in Scotland, with over 3,800 employees across a range of businesses. In addition to responsibility for people, customers and shareholders, she has primary responsibility for maintaining the Group's relationship with key external stakeholders and senior leaders with an interest and responsibility for supporting the growth of our economy. Alison is a Non-Executive Director of

The Beatson Cancer Charity, a Board member of Scottish Enterprise and the Scottish Apprenticeship Advisory Board and Chair of CBI Scotland.

Des McNulty

Deputy Director, Policy Scotland, University of Glasgow

Des McNulty is Dean, Public Policy and Knowledge Exchange at the University of Glasgow and Deputy Director of Policy Scotland. He recently led an ESRC Knowledge Exchange Leadership cluster on Constitutional Change and City policies (working with Duncan Maclennnan and Adam Tomkins) and is a member of the Glasgow City Region Commission for Economic Growth, chaired by Anton Muscatelli. He is a co-editor of the forthcoming volume on the Scottish Economy to be published by Routledge. Before rejoining academic life, he served as a member of the Scottish Parliament from 1999 to 2011 where, amongst other roles, he was Chair of the Finance Committee for nearly five years.

Professor Anton Muscatelli FRSE

Principal and Vice-Chancellor, University of Glasgow

Anton Muscatelli has been Principal and Vice-Chancellor of the University of Glasgow since 2009. From 2007 to 2009, he was Principal and Vice-Chancellor of Heriot-Watt University. An economist, his research interests are monetary economics, central bank independence, fiscal policy, international finance and macroeconomics. Board memberships include the Scottish Funding Council and Glasgow City Marketing Bureau. He chairs the Commission on Urban Economic Growth for the Glasgow City Region. He is a former special adviser on monetary policy to the House of Commons Treasury Select Committee, a member of the Scottish Government's Council of Economic Advisers and Chair of the Scottish Government's Standing Council on Europe.

Professor Jeremy Peat OBE FRSE

Visiting Professor, IPPI, University of Strathclyde

Jeremy started his career as a development economist, spending time in SE Asia (in the 1970s) and Botswana (in the 1980s). He then spent a year at HM Treasury, before moving to the Scottish Office as Senior Economic Adviser in 1986. In 1993, he joined the Royal Bank of Scotland as Group Chief Economist, a post he retained until retiring in 2005. Subsequently, his roles have included BBC Governor and then Trustee for Scotland, Chair of the BBC Pension Trust, a member of the Competition and Markets Authority and Director of the David Hume Institute. Jeremy is Chair of Trustees of the Royal Zoological Society of Scotland, a board member of Scottish Enterprise, a Visiting Professor at the University of Strathclyde International Public Policy Institute and an Honorary Professor at Heriot-Watt. He has written a monthly column for *The Herald* for the past 11 years.

Ray Perman

Director, David Hume Institute

Ray Perman is Director of the David Hume Institute, which holds seminars and commissions and publishes research on areas of public policy. He also chairs the James Hutton Institute, a scientific research body. He was previously a board member of Scottish Enterprise and chaired a policy group for the Department of Business. He is the author of two books and co-edited two books of factual essays on the Scottish Referendum in 2014 and the EU Referendum in 2016.

Professor Graeme Roy

Director, The Fraser of Allander Institute, University of Strathclyde

Graeme Roy is Director of The Fraser of Allander Institute. The Fraser of Allander is Scotland's leading independent economic research institute, with a focus on the Scottish economy. The Institute recently celebrated its 40th anniversary and over the past four decades it has helped shape the economic and fiscal policy debate in Scotland. Graeme re-joined the Institute in April 2016

from the Scottish Government, where he was a senior civil servant leading the First Minister's Policy Unit; and prior to that he was a Senior Economic Adviser and Head of the Office of the Chief Economic Adviser.

David Wilson

Executive Director, IPPI, University of Strathclyde

David Wilson is the Executive Director of the International Public Policy Institute (IPPI) at the University of Strathclyde. Previously, he was Director of Communications and Ministerial Support with the Scottish Government, with overall responsibility for government communications and marketing. He has also held the post of Director of Energy and Climate Change, and has led work in policy areas such as business, the marine environment and higher education. David is an Economist by training.