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University of
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The Economic and Fiscal Issues Facing Scotland, 2016-2020

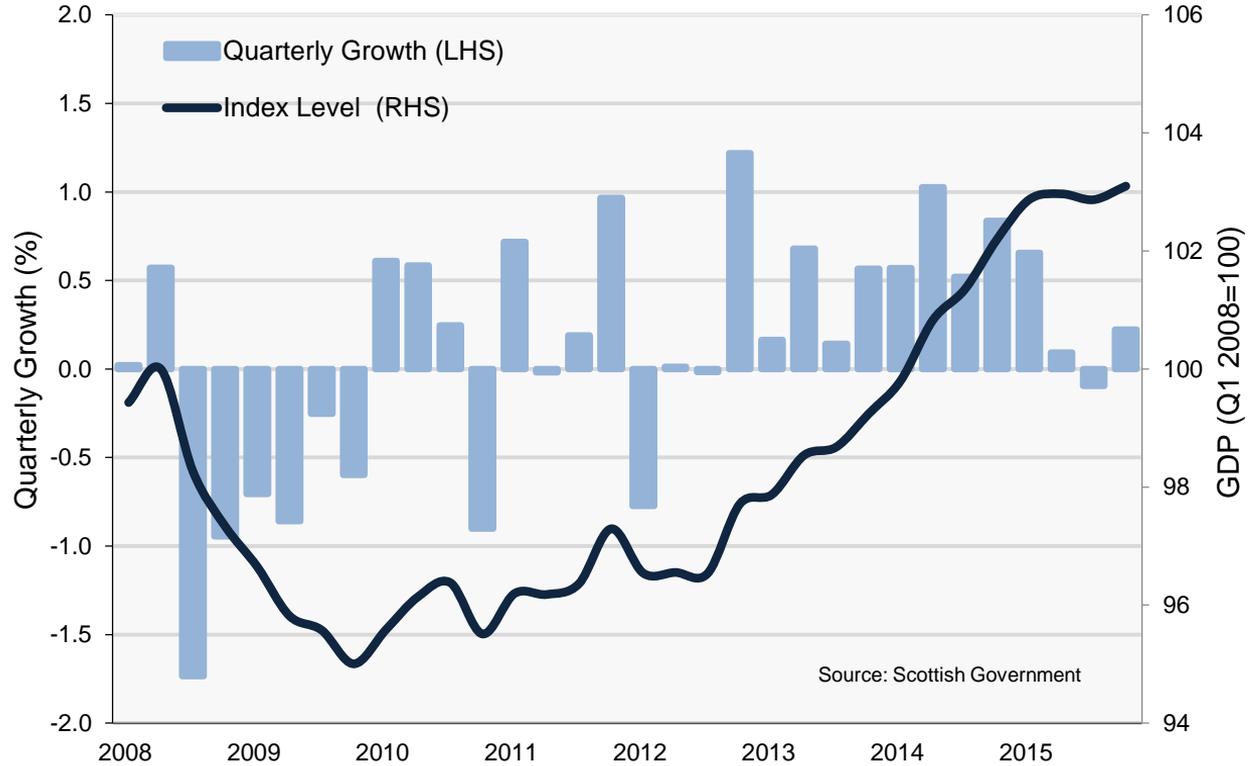
The Economic & Fiscal Issues Facing Scotland: 2016 - 2020

Prof. Graeme Roy
Fraser of Allander Institute

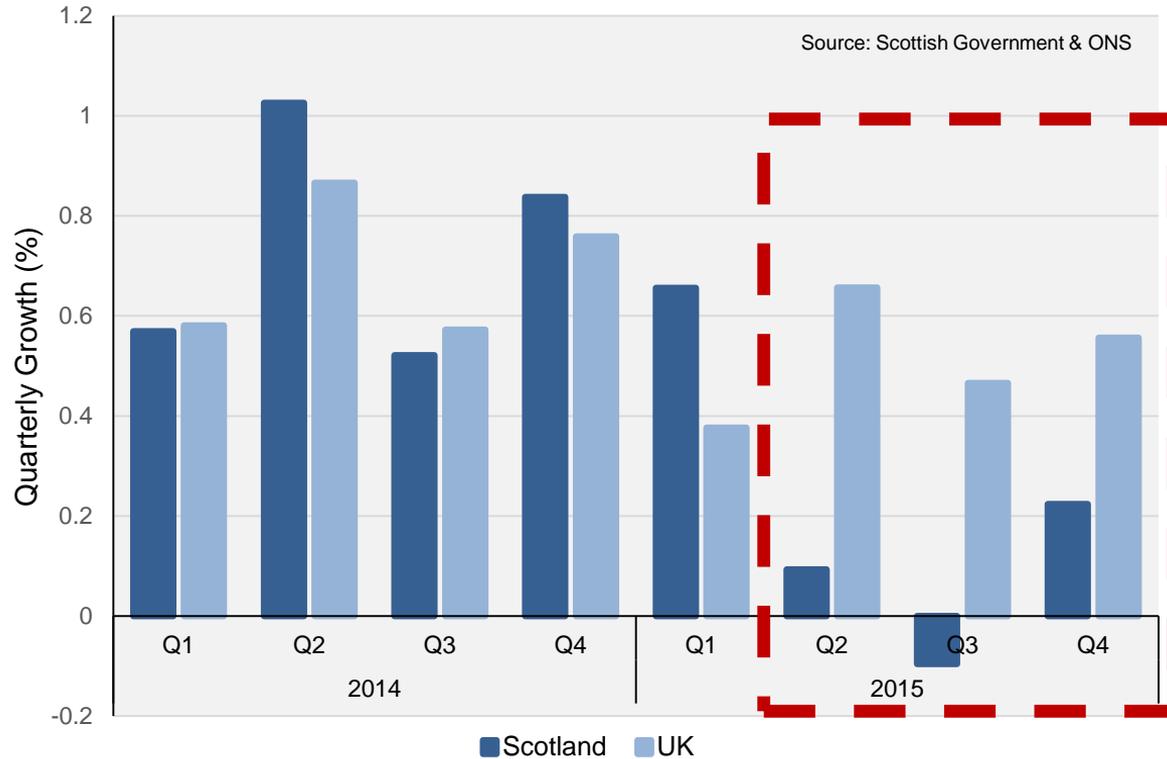
Two themes

- Current economic conditions & outlook
- New fiscal context

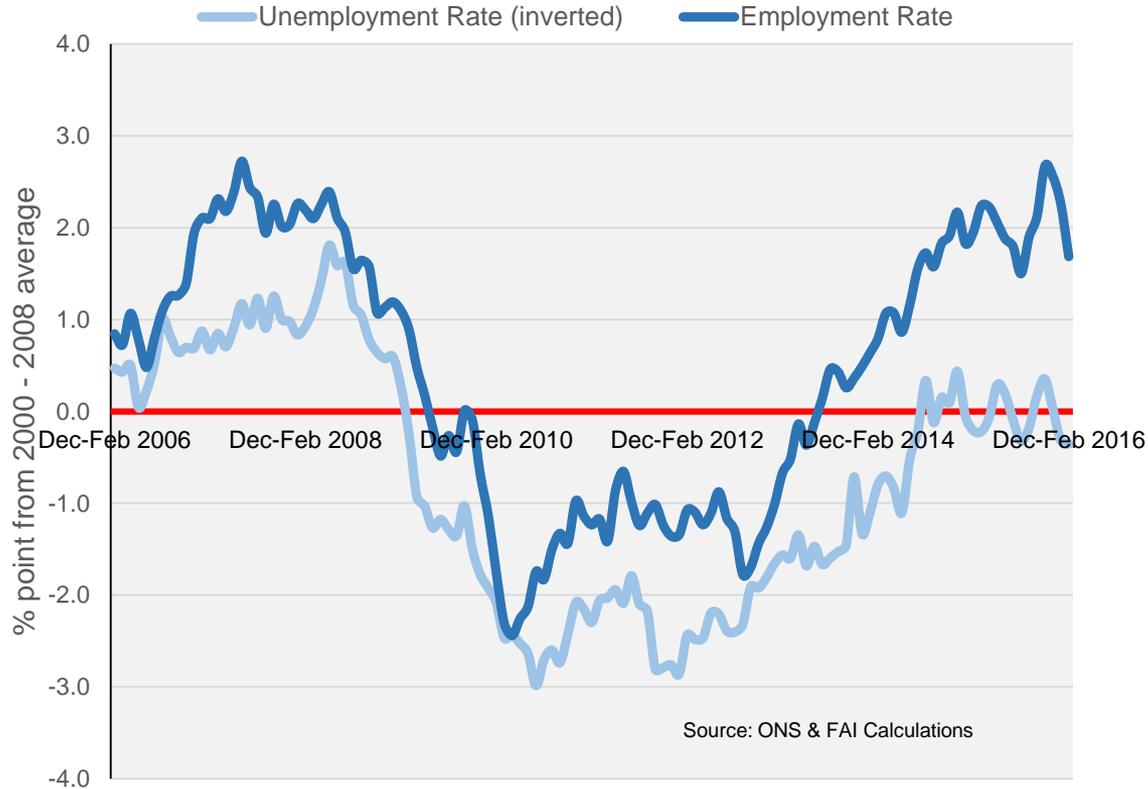
Recovery continues.....just



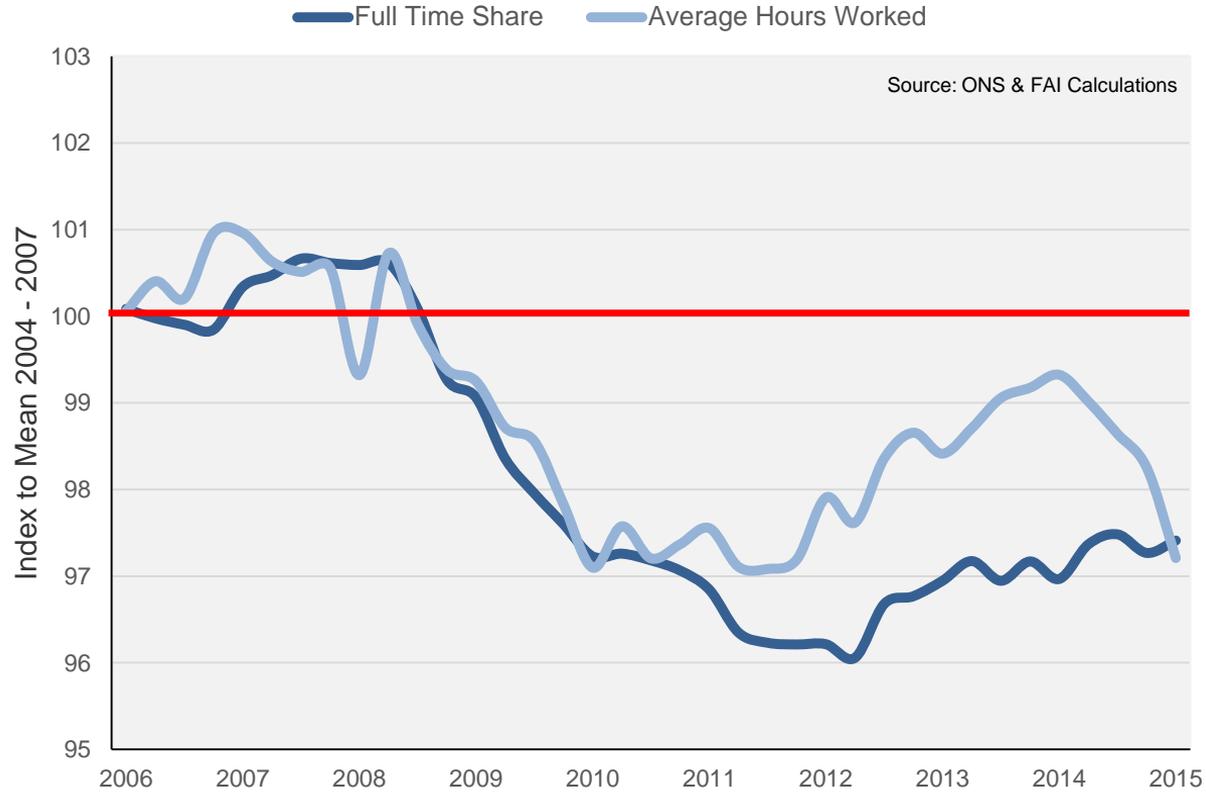
More challenging year than for rUK



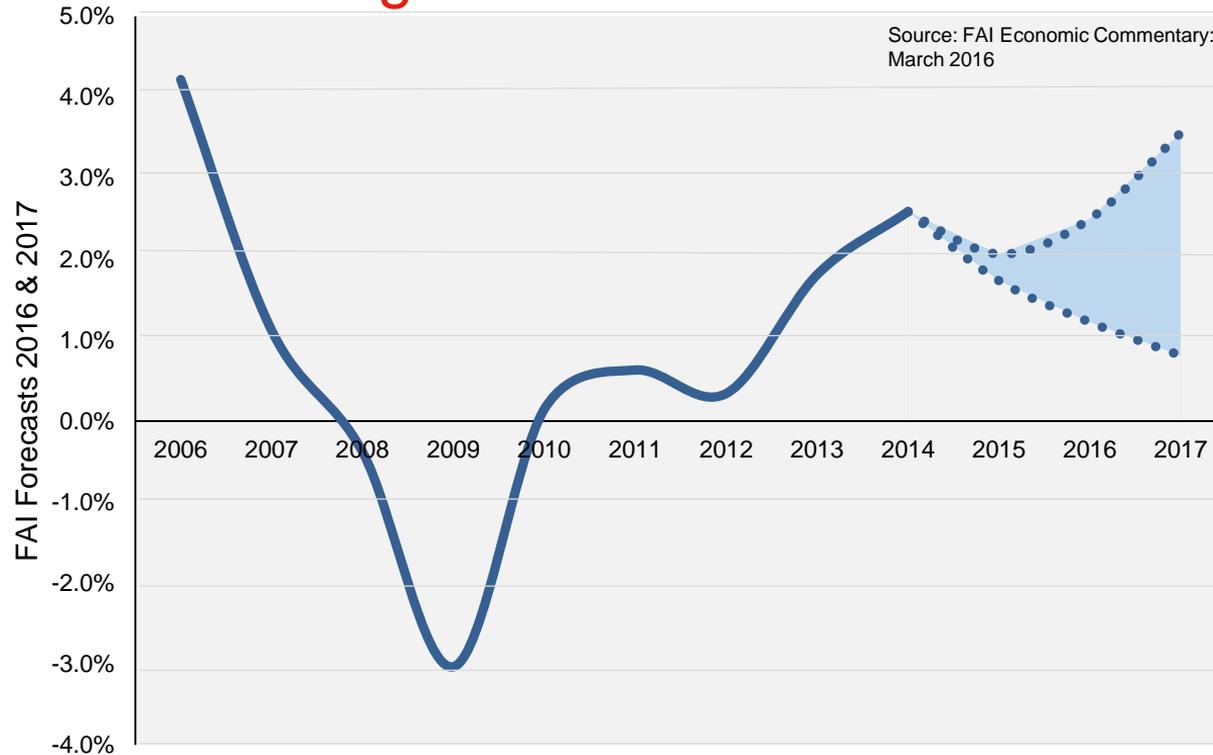
Labour market - mixed signals



Labour market - mixed signals



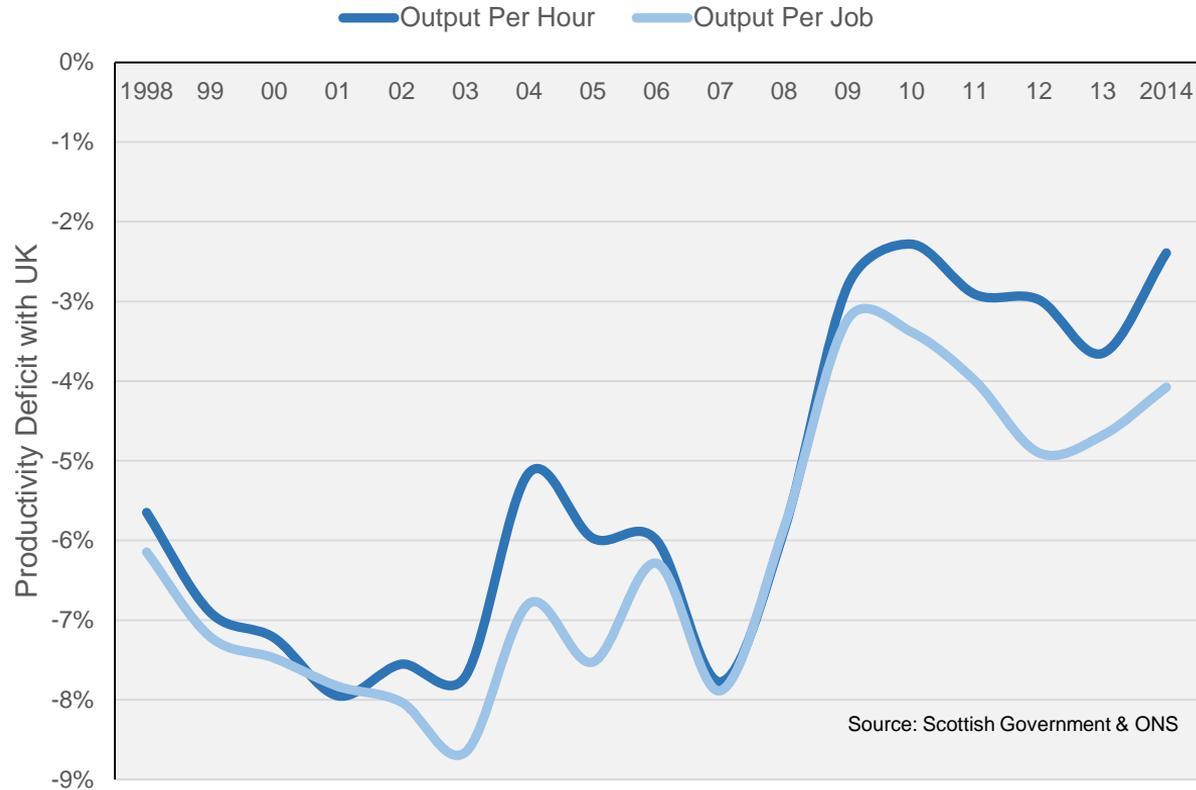
Data suggests 2016 remains challenging but still growth



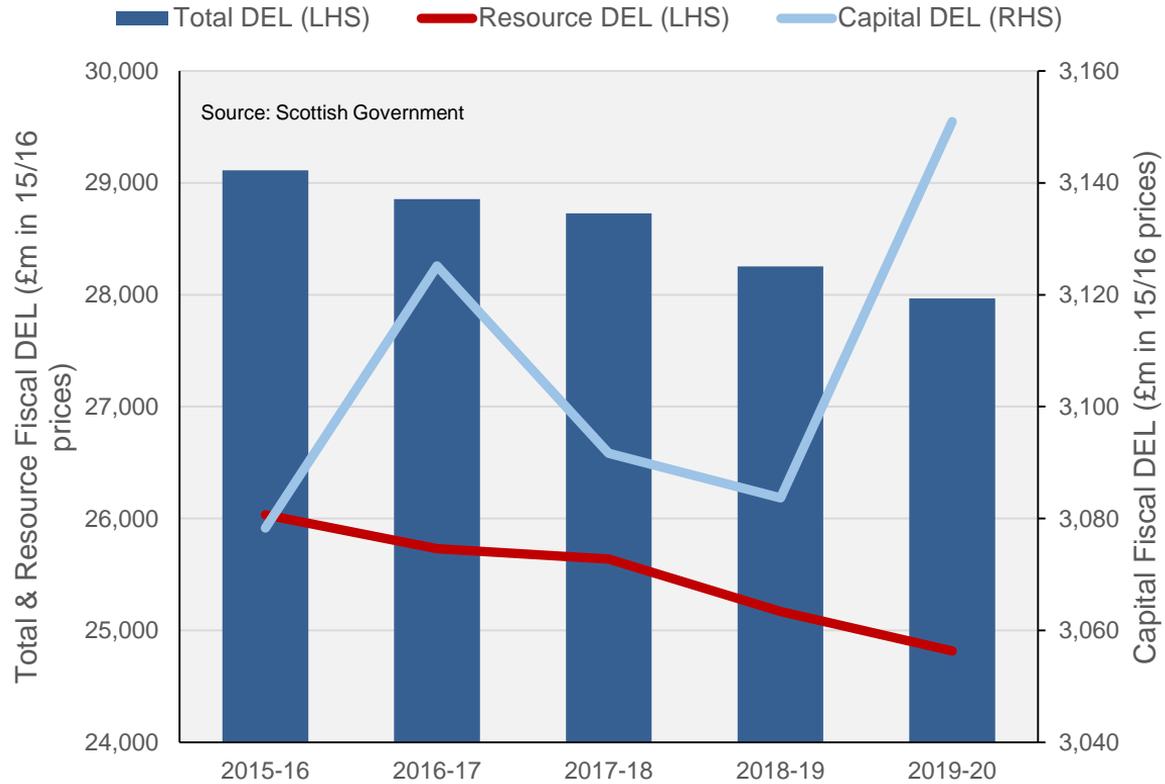
Opportunities & Challenges

Immediate	'Longer' Term
Current Outlook – Domestic growth & global growth	Participation, wellbeing & economic opportunity – fair work & skills
Brexit – implications of 'yes' or 'no' votes	Productivity – innovation, entrepreneurship, skills & education, investment
Understanding the changing structure of labour market – participation, skills, age profiles	Rebalancing – investment, trade & manufacturing
The North Sea – retention/ diversification of skills & investment	Global trends – technology, demographics, trade, climate change
Fiscal - pressures on public sector spending & new tax/welfare powers	Equality – income & regional performance

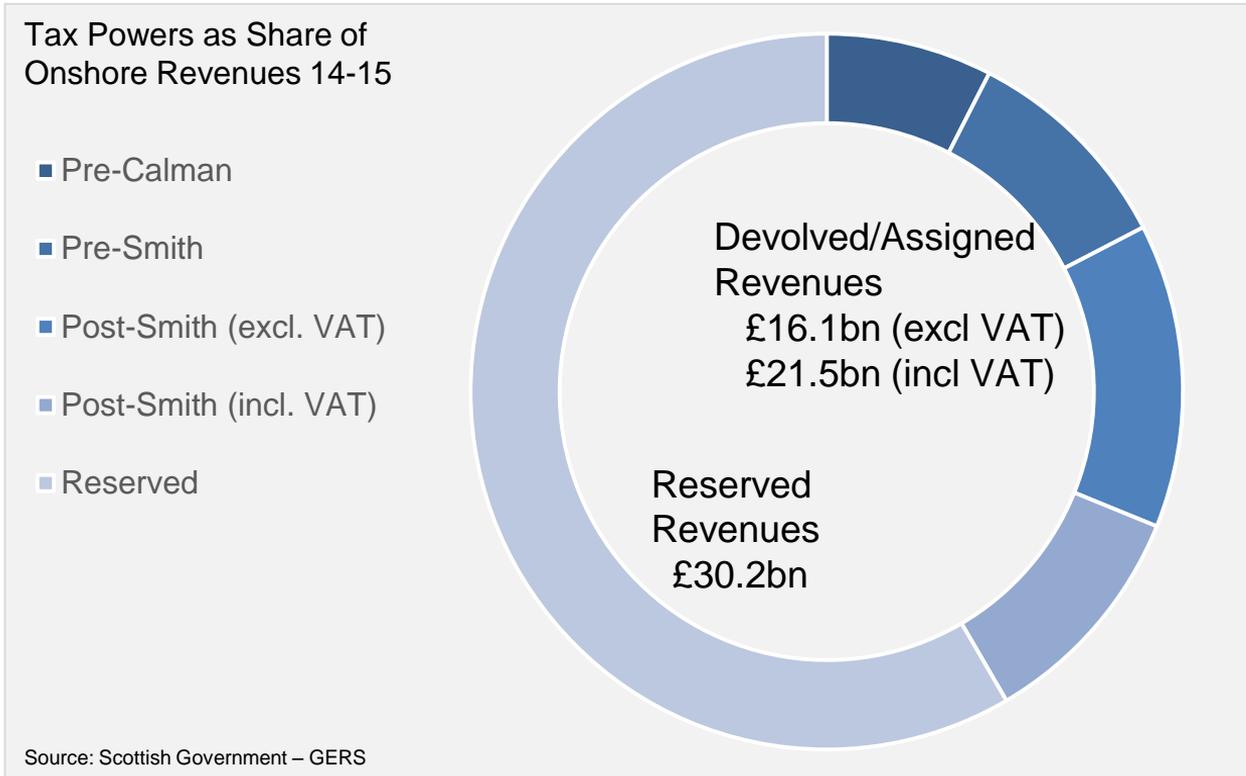
Productivity – some progress



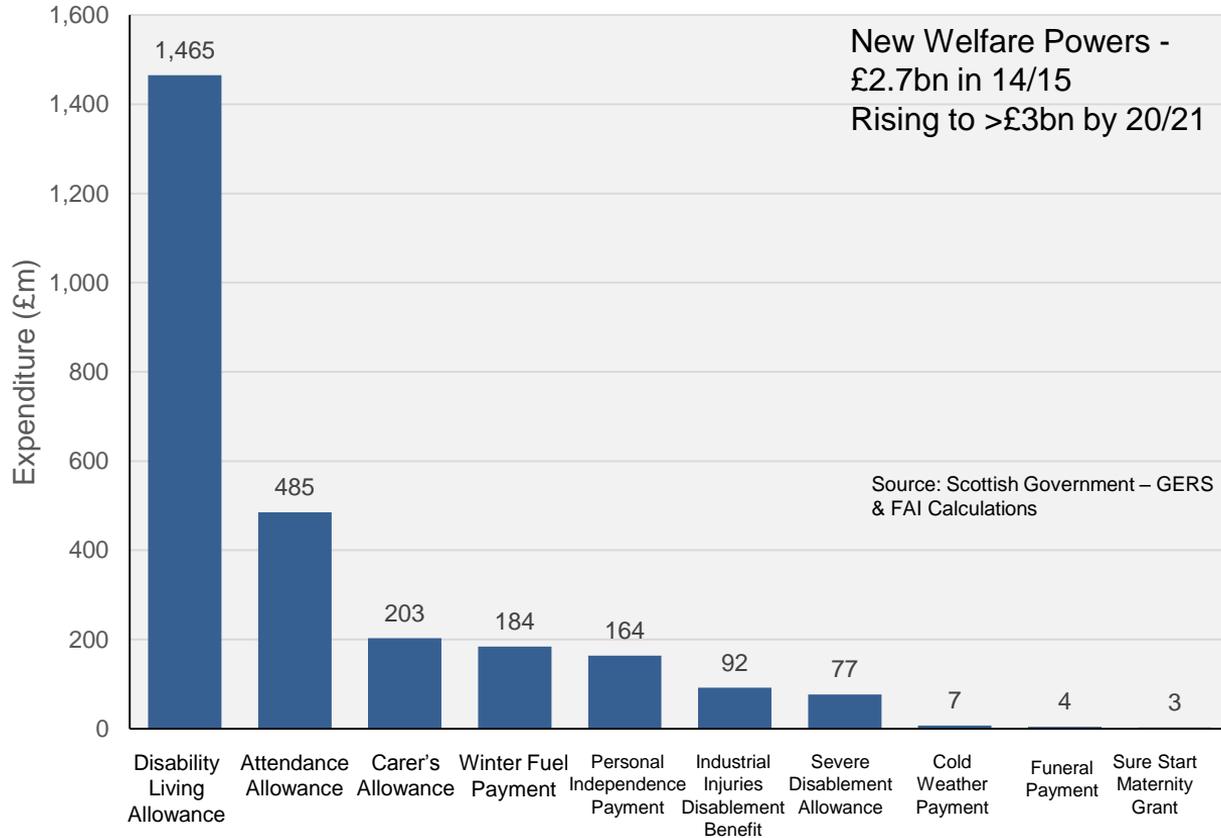
Budget & Fiscal Context



New Tax Powers



Welfare Powers



Scotland's new Fiscal Landscape

Operational	Opportunities & Challenges
Block Grant Adjustment – Levels vs. PCID (Review in 2021)	Economic Performance – Scotland's Tax Base & Long-term sustainability
Institutional Reform – Fiscal Commission, intergovernmental relations	Income Tax – revenue raised & economic impact/efficiency
Transparency – Parliament/ independent scrutiny	Other Taxes – APD, Stamp Duty, Landfill & links to local taxation
Macroeconomic stability – borrowing for forecast errors and shocks	Double devolution – Crown Estate & Assigned Income Tax Revenues
Administration – Start-up & running costs	Capital Investment – prioritisation & repayments
Interaction with UK Policy – No Detriment	Welfare & Employability – Investment linked to strategic approach to inclusive growth (existing devolved powers)

Operational issues

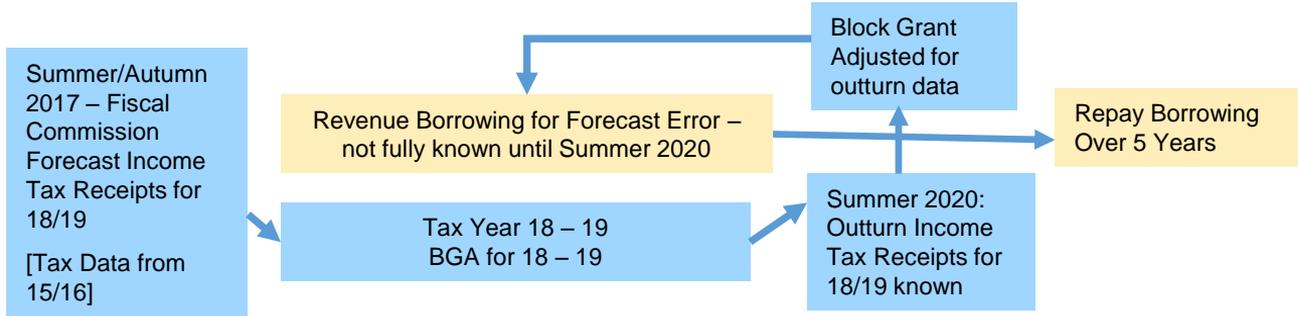
- Significant increase in responsibilities
- Highly complex framework – limited international precedent
- Reform to procedures and processes – e.g. timing of Budget
- Fiscal Commission will play a key role
- Intergovernmental relations – ‘good & ‘bad times’

The Block Grant Adjustment

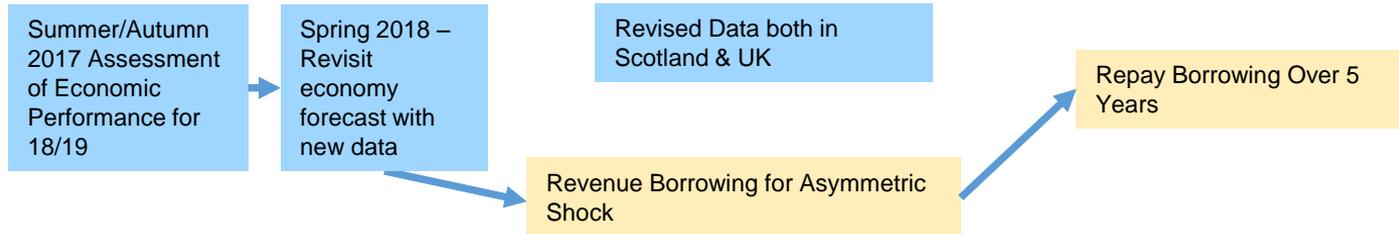
- Assume forecasts are 'correct' & no change in policy

	Steps
Step 1: Block Grant	<ul style="list-style-type: none">• UK Government Spending Decisions• Barnett Comparability Factors• Consequentials
Step 2: Adjustment for Tax Powers	<ul style="list-style-type: none">• Devolved tax revenues in Scot & UK• Implement 'Comparable Deduction' – estimates of population growth & tax share• Adjust for per-capita indexation• Subsequently, additional adjustment to reconcile to outturn population & tax figures

Forecasting & reconciling revenues – a complex process!!



Summer 2017 Spring 2018 Spring 2019 Summer 2020.....Up to 2023



Economic Performance

- Significantly enhanced link between Scotland's economic performance and budget outcomes
- Opportunity – on many key indicators Scotland has outperformed the UK since devolution in 1999
- Risks – if Scotland grows more slowly, then budget will grow more slowly. Subtle differences in tax base, age profile and structural asymmetric shocks

Policy Opportunities

- How much flexibility over distinct social & economic model
- Balance revenue raising & investment in public services with support for growth
- Coordinated package of tax, welfare and investments in public services
- Careful consideration of impacts on labour market and business (tax elasticities & economic effects)

Opportunities & Challenges

Immediate	'Longer' Term
Current Outlook - Domestic growth & global growth	Participation, wellbeing & economic opportunity – fair work
Brexit – implications of 'yes' or 'no' votes	Productivity – innovation, entrepreneurship, investment & work force development
Changing structure of the labour market – trends in participation and age profiles	Rebalancing – investment, trade & manufacturing
The North Sea – retention/ diversification of skills & investment	Global trends – technology, demographics, trade, climate change
Fiscal - pressures on public sector spending & new tax/welfare powers	Equality – income & regional performance

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