Finance Committee

Scotland’s Fiscal Framework
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Finance Committee

1. The remit of the Finance Committee is to consider and report on-
   a. any report or other document laid before the Parliament by members of the Scottish Government containing proposals for, or budgets of, public expenditure or proposals for the making of a tax-varying resolution, taking into account any report or recommendations concerning such documents made to them by any other committee with power to consider such documents or any part of them;
   b. any report made by a committee setting out proposals concerning public expenditure;
   c. Budget Bills; and
   d. any other matter relating to or affecting the expenditure of the Scottish Administration or other expenditure payable out of the Scottish Consolidated Fund.

2. The Committee may also consider and, where it sees fit, report to the Parliament on the timetable for the Stages of Budget Bills and on the handling of financial business.

3. In these Rules, “public expenditure” means expenditure of the Scottish Administration, other expenditure payable out of the Scottish Consolidated Fund and any other expenditure met out of taxes, charges and other public revenue.

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Introduction

1. The Committee agreed at its meeting on 4 February to undertake an inquiry on the Smith Commission proposals for an updated fiscal framework for Scotland. The aim of this report is to provide the Committee’s views and recommendations on these proposals and the proposals in Chapter 2 of the UK Government Command paper, *Scotland in the United Kingdom: An enduring settlement* (the command paper).

2. The Committee received 25 submissions to its call for evidence and held a number of oral evidence sessions. The Committee also held a workshop on the proposed fiscal framework at the University of Stirling on 30 March 2015. The Committee would like to thank everyone who participated in the workshop and gave evidence to the inquiry.

3. The Committee publishes this report as an initial contribution to the negotiations between the UK Government and Scottish Government on the fiscal framework. The Committee emphasises the need for an open and transparent dialogue with the respective parliaments as these negotiations progress. It is also essential that sufficient time is allowed for parliamentary scrutiny of a draft fiscal framework prior to its final agreement by the two governments.

4. The Committee will invite both the Cabinet Secretary for Finance, Constitution and Economy (“the Cabinet Secretary”) and the Chief Secretary to the Treasury to respond to the findings of the report in writing and in oral evidence in September. The Committee will also send a copy of the report to the Devolution (Further Powers) Committee.

Existing fiscal frameworks

5. The command paper sets out the UK Government’s view on the purpose of the fiscal framework and the principles which will underpin it. A fiscal framework is defined as:

> “the set of rules and institutions that are used to set and coordinate sustainable fiscal policy. The rules can include short-term and medium-term targets for debt and for borrowing, as well as rules restricting borrowing or encouraging saving.”

6. Two key elements are identified:

- *Fiscal rules*: designed to constrain fiscal policy;

- *Fiscal institutions*: responsible for overseeing the Government’s fiscal policy decisions.
7. The Smith Commission proposes “an updated fiscal framework for Scotland, consistent with the overall UK fiscal framework.”\textsuperscript{5} This section of the report provides a brief summary of the existing UK and Scottish fiscal frameworks and the extent to which the latter is constrained by the former.

**UK Fiscal Framework**

8. Under Section 1(1) of the Budget Responsibility and National Audit Act 2011 the UK Government is required to publish a Charter for Budget Responsibility\textsuperscript{6} which provides details on the formulation and implementation of fiscal policy and policy for the management of the National debt. The Charter was initially published in April 2011 and updated versions were published in March 2014 and December 2014.

9. The Treasury's objectives for fiscal policy are to:
   
   - ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and
   - support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

10. The Treasury's mandate for fiscal policy is:
    
    - a forward-looking aim to achieve a cyclically-adjusted current balance by the end of the third year of the rolling, 5-year forecast period;
    - an aim for public sector net debt as a percentage of GDP to be falling in 2016-17;
    - the cap on welfare spending, at a level set out by the Treasury in the most recently published Budget report, over the rolling 5-year forecast period, to ensure that expenditure on welfare is contained within a predetermined ceiling.

11. The command paper states that a “fiscal framework needs to be established so that actions across the authorities in the union will deliver the fiscal mandate set by the UK Government while enabling the Scottish Government to exercise its devolved powers effectively.”\textsuperscript{7}

**Scotland’s Fiscal Framework**

12. The command paper notes that Scotland’s current fiscal framework is largely determined by the Scotland Act 1998 and the Scotland Act 2012. This is set out in table 1 below.
Table 1: Scotland’s Fiscal Framework

<table>
<thead>
<tr>
<th></th>
<th>Scotland Act 1998</th>
<th>Scotland Act 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Rules</td>
<td>Annual balanced budget</td>
<td>Annual balanced budget</td>
</tr>
<tr>
<td>Funding</td>
<td>Primarily block grant and formula system plus business rates and council tax</td>
<td>Adjusted block grant and formula system plus revenues from devolved taxes, SRIT and limited capital borrowing powers</td>
</tr>
<tr>
<td>Managing Volatility</td>
<td>Up to £500m current borrowing powers</td>
<td>Cash reserve and up to £500m current borrowing powers</td>
</tr>
</tbody>
</table>

13. The Scottish Government has also introduced its own fiscal rule in relation to annual repayments resulting from revenue financed projects. It has committed to spending no more than 5% of its total Departmental Expenditure Limit (DEL) budget on repayments from revenue financing and from any future borrowing. The Budget Exchange Mechanism also allows the Scottish Government to carry over 0.6% of Resource DEL and 1.5% of Capital DEL from one financial year to the next.

Central Government Constraints on Sub-National Fiscal Policy

14. One of the key questions to be addressed in developing a revised fiscal framework is the extent to which the Scottish Government’s fiscal policy will be constrained by the UK Government. Cottarelli and Guerguil highlight four mechanisms which national governments can utilise to constrain the fiscal policy of sub-national governments:

- Direct controls by central government such as limits on sub-national borrowing;
- Fiscal rules which are less binding than direct controls as they preclude the central government from micro-managing sub-national fiscal policy and sub-national governments have some flexibility in how they meet fiscal targets;
- Co-operative approaches which allow sub-national government to negotiate their fiscal targets on a regular basis;
- Market discipline.  

15. These constraints are set out in table 2 below.
Table 2: Mechanisms to constrain subnational fiscal policy

<table>
<thead>
<tr>
<th>Less subnational autonomy</th>
<th>More autonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institutional arrangements</strong></td>
<td><strong>No formal coordination</strong></td>
</tr>
<tr>
<td>Direct controls by the centre</td>
<td>Fiscal Rules</td>
</tr>
<tr>
<td>Imposed by the centre</td>
<td>Self-imposed/negotiated</td>
</tr>
<tr>
<td>Co-operative arrangements</td>
<td>Pure market discipline</td>
</tr>
</tbody>
</table>

Source: Luc Eyraud and Raquel Gomez Sirera

16. Fiscal rules such as balanced budgets are the most common form of constraint in federal systems. Co-operative systems exist primarily in European countries. For example, in both Austria and Belgium, annual fiscal targets are negotiated by federal, regional and local governments. Direct controls from central governments are relatively rare.

17. Both the command paper and the Smith Commission give some indication as to the level of constraint which should be applied by the UK Government. As noted above the Smith Commission states that Scotland’s updated fiscal framework should be consistent with the overall UK fiscal framework. The command paper states that for the UK Government’s fiscal framework to work effectively it “should apply at all levels of government, including for Devolved administrations.”

18. However, the command paper also appears to go beyond recognising the need for consistency between the two frameworks. It states that in “the context of Scottish devolution, the fiscal framework must ensure that Scotland contributes proportionally to the overall fiscal consolidation pursued by the UK Government” and that “actions across the authorities in the union will deliver the fiscal mandate set by the UK Government.” Professor Keating suggests that this appears to go beyond the requirement that “any extra expenditure in Scotland be financed by Scottish revenues (which is already covered by the balanced budget requirement).” Dr Armstrong suggests that there is a real lack of clarity in the proposals for further borrowing powers and the “command paper seems to suggest something different from what the Smith Commission suggests.”

19. CIPFA points out that while Scotland’s fiscal framework needs to be consistent with the UK fiscal framework this “does not necessarily mean that the content has to exactly reflect the UK fiscal policy objectives or the current UK government’s fiscal mandate.” It also recommends that the framework “should have a legislative basis which requires the Government to set out its fiscal objectives and its policy for managing debt and raising taxes.”

20. Professor Trench points out that the command paper emphasises the impact devolved decisions might have on non-devolved ones. He argues that treating “devolved borrowing choices as a zero-sum game, in which devolved decisions
count against UK ones, is an inappropriate way to ensure fiscal devolution works.”

21. The Cabinet Secretary recognised that “I have to accept that we are part of the United Kingdom and that therefore our arrangements have to be compatible with the fiscal framework of the United Kingdom.” At the same time, however, he also emphasised the need for a “material flexibility” which will be largely dependent on the level of borrowing powers post-Smith. He identified “a need for three key elements to be delivered in relation to borrowing:”

- credible opportunities for the Scottish Government to invest for the long term through a distinctive approach on capital borrowing that meets our requirements;
- enough flexibility to deal with the greater financial risk as a consequence of the budget being more dependent on tax receipts;
- sufficient flexibility to take forward more distinctive fiscal responsibility in Scotland.

22. One of the key issues for the Committee is the extent to which the Scottish Government will have the flexibility to pursue separate fiscal policies while recognising the need for consistency with the overall UK fiscal framework. An essential element of this flexibility will be the revised level of borrowing powers which the Scottish Government will have and the fiscal rules which govern how they operate. This is discussed in more detail below.

23. The Committee is concerned that the command paper suggests a much greater level of constraint on the Scottish Government’s fiscal flexibility than the Smith Commission. In particular, the Committee is concerned about the level of constraint implied by paragraph 2.2.7 of the command paper which states that “the fiscal framework must require Scotland to contribute proportionally to fiscal consolidation at the pace set out by the UK Government across devolved and reserved areas.”

24. The Committee recommends that while Scotland’s revised fiscal framework needs to be consistent with the UK’s overall fiscal framework this does not mean that they need to mirror each other. For fiscal devolution to work it is essential that the Scottish Government has some flexibility to pursue distinct fiscal policies consistent with the overall UK fiscal framework.

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i Gavin Brown dissented from this paragraph.
25. The Committee also recommends that there should be a legislative requirement for the Scottish Government to prepare a charter for budget responsibility, containing details of Scottish fiscal policies and how they will be implemented, for approval by the Scottish Parliament.

Borrowing

26. The Smith Commission proposes additional borrowing powers which are consistent with the UK fiscal framework for two purposes:

- to ensure budgetary stability and provide safeguards to smooth Scottish public spending in the event of economic shocks;
- to support capital investment.

27. These powers should be set within an overall Scottish fiscal framework and subject to fiscal rules agreed by the two governments. Consideration should also be given to capital borrowing via a prudential borrowing regime.

28. The command paper states that sufficient borrowing powers post-Smith will depend on a number of factors but “it is clear from international best-practice that a set of fiscal rules and robust institutional arrangements will need to be in place to ensure that the overall UK public finances remain sustainable.” The IMF states in its written submission that the additional borrowing powers “need to be subject to transparent and binding fiscal rules.”

29. This section of the report examines the options for fiscal rules which will act as a constraint on the level of borrowing the Scottish Government has at its disposal post-Smith and then examines the options for current and capital borrowing.

Fiscal Rules

30. The Scottish Government’s Fiscal Commission Working Group examined an appropriate fiscal framework for Scotland and recommended that the Scottish Government “should put in place credible fiscal rules to help govern its approach to budgetary management over both the economic cycle and the long term.” The working group identified four main types of fiscal rule:

- balanced budget rules;
- debt rules;
- expenditure rules;
- revenues rules.
31. The IMF states in its written submission that the most common rules at a subnational level in the EU and OECD are a combination of a budget balance rule and a limit on the overall accumulation of debt. John McLaren from Fiscal Affairs Scotland states that “there appears to be a growing consensus across OECD countries that ‘good’ fiscal rules should incorporate (i) an annual borrowing limit or date-related target for reaching some form of ‘balanced budget’, and (ii) a limit or date-related target for debt as a % of GDP.”

32. Professor Campbell Leith suggests that “fiscal targets should facilitate the use of debt as a shock absorber.” If the “borrowing limit is too low, the effective use of government debt as a shock absorber will be compromised.” These fiscal targets “should apply over a sufficiently long time horizon to allow gradual adjustment to the target” and the time horizon should be rolling. The targets should also be set in terms of deficits and not debt.

Sub-National Fiscal Rules in other Countries

33. Table 3 below provides a summary of the fiscal rules of some other sub-national governments.

Table 3: Sub-national Government Fiscal Rules

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>The fiscal council can recommend that the central government should restrain the borrowing capacity of sub-national governments where there is severe budgetary slippage or it feels that the economic and monetary union of the country is in jeopardy.</td>
</tr>
<tr>
<td>Australia</td>
<td>State governments have no borrowing ceiling. The Australian Loan Council has an oversight and monitoring role but arrangements emphasise transparency rather than limits and operate on a voluntary basis.</td>
</tr>
<tr>
<td>Germany</td>
<td>A debt brake for both central government and the Länder was enshrined in Germany’s constitution in 2009. This includes permanent, strict deficit ceilings which are scheduled to take effect in 2020 for the Länder.</td>
</tr>
<tr>
<td>Spain</td>
<td>Under Spain’s Budgetary Stability Law, the maximum combined public-sector deficit is 1.5% of GDP, with regional governments being allowed to accumulate up to 1%.</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Every canton is responsible for its own fiscal discipline. Nearly all cantons have it in their constitutions and budget laws that the principle of a balanced budget has to be observed and accumulated debt has to be cut down.</td>
</tr>
<tr>
<td>Canada</td>
<td>Provinces control their own budgets and can borrow and lend. Some provinces have enacted legislation that restricts the use of deficit financing, although this is self-imposed.</td>
</tr>
</tbody>
</table>

Legislative basis

34. As can be seen from table 3 there has been an increasing trend for countries to put either existing fiscal rules or new ones on a statutory basis. The number of countries that have at least one fiscal rule on a statutory basis has almost doubled.
since 2010. Many countries have recently implemented fiscal rules and put them on a statutory basis (e.g. Croatia’s expenditure and budget balance rules in 2014; Cyprus’ budget balance and debt rules in 2014, Denmark’s budget balance and expenditure rules in 2014, Lithuania’s budget balance rules in 2015, Montenegro’s budget balance and debt rules in 2014, etc.). Only one fiscal rule that has been implemented since 2010 has not been enshrined either on a statutory or a constitutional basis.

35. The Committee’s view is that it is essential that Scotland’s fiscal rules are agreed through a process of negotiation which recognises the flexibility of the Scottish Government to adopt its own fiscal policies within the overall UK fiscal framework.

36. The Committee recommends that Scotland’s updated fiscal framework should include two fiscal rules. The first should be a balanced budget rule to govern the level of borrowing in the short to medium term. The second should be a rule to govern the medium to long-term limit on net debt. These are discussed in more detail below.

Borrowing for current spending

37. The Scotland Act 2012 provides Scottish Ministers with the power to borrow up to £200m annually and £500m in total to deal with deviations between forecast and actual revenues. The Smith Commission proposes extending these powers to allow borrowing to cope with economic shocks albeit that “the UK Government should continue to manage risks and economic shocks that affect the whole of the UK.”

38. The command paper states that the borrowing powers for current spending “will need to reflect the fiscal risks that the Scottish Parliament will be taking on in this devolution settlement” and “should be sufficient to respond to its financial exposure, without the need for regular agreement between administrations based on specific economic developments.”

39. The Scottish Government in its response to the Devolution (Further Powers) Committee’s interim report states that “revenue borrowing will be one of the tools available to us to manage forecasting, cyclical and demand risks while protecting our spending on Scotland’s public services.” It considers that the powers for current borrowing within the Scotland Act 2012 need to be “reviewed and expanded to enable us to manage these risks.”

Block Grant Adjustment Mechanism

40. There was a general agreement among witnesses that current borrowing powers should be commensurate with the additional level of risk faced by the Scottish Government following further devolution. The precise types of risk that the Scottish Government may be exposed to will become more apparent once the
mechanism used for the adjustment of the block grant is determined. This mechanism is intended to protect Scotland from some of the cyclical volatility within the UK economy as a whole. As David Phillips points out, the method for indexing the adjustment of the block grant “will have major implications for the scale of current borrowing powers required.” This has still to be agreed by the two governments although there is a previous agreement to utilise the Holtham method for the indexation of the block grant adjustment following the introduction of the Scottish Rate of Income Tax (SRIT). This means recalculating the block grant adjustment year-by-year by indexing it to movements in the non-savings, non-dividend income tax base in the rest of the UK.

41. One of the aims of the Holtham method is that the block grant adjustment would bear the burden of economic shocks that hit the whole of the UK. It is intended to insulate “Scotland from the aggregate cyclical risk at a UK level.” This point is made by the Chartered Institute of Taxation (CIOT) which states that “depending on the funding model, it is likely that Scotland will be insulated from UK-wide risks” and that the “borrowing powers should reflect the risks that the Scottish Government will face.”

42. Some witnesses have questioned the appropriateness of this method for the indexation of the block grant adjustment following the implementation of the Smith Commission income tax proposals. The main concern is that the Scottish tax base may grow more slowly than that of the UK as a whole due to the relatively lower number of higher rate tax payers in Scotland compared to the rest of the UK and relative population growth. Professor Holtham has previously advised the Committee that his indexation method is “not in the devolved territory’s interest if its own tax base is inevitably slower growing than that of the UK.”

43. The relatively lower number of higher rate tax payers in Scotland compared to the rest of the UK largely explains why Scotland’s tax contribution to the UK is 7.3% which is less than its population share of 8.3%. John McLaren points out that this means that “UK income tax is likely to grow more quickly if the richer people’s earnings continue to grow more quickly.” The disproportionate number of very high incomes in London and the South East of England means, according to Dr Cuthbert, that “there are naturally going to be extended periods when the income tax base in Scotland grows more slowly than that of the UK as a whole.” On this basis under “Holtham indexation, Scotland will be penalised.”

44. Dr Cuthbert also raises concerns about the impact of relative population growth on Holtham indexation. He points out that “over the last ten years, the rate of population growth in the UK as a whole has been higher than the rate of population growth in Scotland by an average of 0.22% annually.” This means that “Scotland has to grow its per capita tax base faster than the UK, if it is not to be penalised by Holtham indexation.” To address this issue both Dr Cuthbert and John McLaren propose basing Holtham indexation on growth in the per capita UK tax base rather than the overall growth in the UK tax base.
45. The Committee has previously raised the issue of the impact of changes in the size of the population on the indexation of the block grant. In response to questioning from the Committee on this issue Professor Holtham stated that he had assumed that the same adjustment in relation to relative population changes which applies to the Barnett formula would also apply to the block grant adjustment.  

46. David Phillips suggests that it “would be preferable if the UK Government and Scottish Government agree on a methodology, and publish detailed information on the calculations.” Both the Office for Budget Responsibility (OBR) and the Scottish Fiscal Commission (SFC) “should continue to assess and, if appropriate, sign off these calculations.”

47. The Cabinet Secretary was asked by the Committee whether the Holtham method should be applied to the Smith proposals for income tax devolution. He responded that we “think that is the most robust mechanism.” He was further questioned about the likely impact of relative population changes. He responded that “if we are growing our population and benefits are arising from that, we should see the fruits of that” and that “if we take on those risks, we have to have mechanisms in place that enable us to manage and deal with them as different outcomes materialise.”

Scotland-specific cyclical risk

48. As more taxes are devolved there will also be a Scotland-specific cyclical risk and therefore the need for substantially larger current borrowing powers. David Phillips states “there is a real need for Scotland to have further current borrowing powers to smooth the cyclical volatility.” Professor Trench suggests that we “are talking about substantial amounts of money, so fiscal deficits would have to be run and there would be substantial debt service costs.”

49. Professor Keating points out that the Barnett formula acts as a “counter-cyclical mechanism to cope with asymmetric shocks, so that Scotland is not dependent on its own revenues if there is a downturn in the Scottish economy.” As Scotland gains more tax powers then the protection from economic shocks provided by the Barnett formula will reduce.

Preventative Spending

50. ICAS state that “if transformational change is to take place within our public services, we believe that further revenue borrowing powers are needed” to fund preventative spending. Given that the aim of preventative spending is to reduce demand for public services and create future savings it is about investing in the future. ICAS believe “this provides clear justification for the extension of the Scottish Government’s revenue borrowing powers to fund preventative spend initiatives within prescribed limits.” There should be an overall cash limit on revenue borrowing for preventative spending which should not be used to fund recurrent expenditure and should be repaid within a specified time period.
51. The Committee asked the Scottish Government for its views on this proposal in its report on Further Fiscal Devolution. The Scottish Government responded that it welcomed the proposal within the Smith Commission to consider a prudential borrowing regime “which would enable us to exercise greater discretion over borrowing to support responsible investment decisions in Scotland’s economic interests, including those which support our prevention aims.”

**Budget balance rule**

52. The budget balance rule often refers to current spending while allowing greater flexibility to borrow for investment purposes. The IMF also point out that to “provide subnational governments with some flexibility to absorb cyclical variations in their revenues, these rules are sometimes expressed as a requirement to run an average overall or operating balance over a number of years.” CIPFA’s view is that there should be a balanced approach to the current budget over the economic cycle.

53. The Fiscal Commission Working Group suggests that balanced budget rules:

   “generally establish a target to achieve a budget balance in either a given year, over a number of years, or ‘over the economic cycle.’ They are designed to constrain a government’s capacity to over-commit, over spend, or fail to collect sufficient revenues.”

54. The UK Government’s fiscal mandate which was revised after the Autumn Statement in 2014 now requires the cyclically adjusted current budget to be balanced by the end of the third year of the rolling 5-year forecast period rather than the previous target of the fifth year.

55. Under the terms of the Statement of Funding Policy the Scottish Government is required not to overspend its DEL budget. Paragraph 10.1 states:

   “The Departmental Expenditure Limits set firm, multi-year plans. United Kingdom Government Departments and devolved administrations must live within these plans and absorb unforeseen pressures. The devolved administrations must ensure they introduce suitable arrangements for the planning and control of public expenditure on devolved services to achieve this.”

**Scottish Cash Reserve**

56. The command paper states that a “cash reserve or rainy day fund built up in good years when revenues are above forecast can be used to support the current budget when revenues are lower than forecast.” The Committee has previously considered this issue in relation to the Scotland Act 2012 borrowing powers.

57. The UK Government has indicated that if receipts from the devolved taxes exceed forecasts and there is no outstanding debt from previous shortfalls then the
additional revenues should be credited to a Scottish cash reserve. The Scottish Government has proposed that it should have the flexibility to spend the surplus tax receipts as well as the option of putting them in the cash reserve.

58. The Committee’s view is that it is clear that the level of borrowing powers for current spending will need to be significantly increased and should be commensurate with the risks faced by the Scottish Government post-Smith.

59. The Committee notes that the precise types of risk Scotland may be exposed to will be determined by the block grant adjustment method which is intended to insulate Scotland from UK wide economic shocks. At the same time there will also be a Scotland-specific cyclical risk and the Scottish Government will require substantial new borrowing powers to manage this volatility.

60. Given the risks associated with volatility in the Scottish economy the Committee does not believe that it is appropriate to have a cash limit on current borrowing. Rather, the Scottish Government should agree a balanced budget fiscal rule with the UK Government which is consistent with the UK fiscal framework. The Committee’s view is that this does not necessarily mean that both Governments have the same balanced budget fiscal rule. For example, the Scottish Government could be required to balance the cyclically adjusted current budget over the economic cycle.

61. The Committee notes the concerns of some witnesses that the Holtham method of indexation may penalise Scotland due to both a relatively smaller number of higher rate tax payers and slower population growth. The Committee asks the Scottish Government whether it has carried out any analysis of the impact of both of these factors and, if so, that it makes this work public. The Committee also asks whether Ministers have considered basing the indexation of the block grant adjustment on the per capita tax base rather than the overall growth in the UK tax base and whether any analysis of this approach has been carried out.

62. The Committee reiterates its support for the Scottish Government’s proposal for more flexibility in how it spends any tax surpluses.

63. The Committee is, in principle, supportive of examining the proposal to allow current borrowing for preventative spending on the basis that it is about investing in the future. The Committee invites the Scottish Government to explore the practicality of this approach in its discussions with the UK Government on borrowing.
Borrowing for capital spending

64. Scottish Ministers are currently able to borrow up to 10% of the Capital DEL budget for capital spending for each year with a statutory limit of £2.2 billion. There is provision to raise (but never lower) this cap. The command paper states that consideration will be given to the application of a prudential regime for capital borrowing. However, the paper points out that any increase in the Scottish Government’s ability to borrow would lead to offsetting reductions in spending in the rest of the UK to remain within the UK’s overall fiscal rules. The devolution of additional borrowing powers will require “a set of fiscal rules and robust institutional arrangements” to be introduced in Scotland.37

65. The Scottish Futures Trust suggests that the command paper implies retaining the cash limit on capital borrowing at least in the short-term and recommends an increase to £7.5 billion and a removal of the annual borrowing limit. This would “only potentially impact UK public sector net debt by 0.5% over a number of years.” It also supports the development of a prudential regime based on affordability and transparency with the current 5% cap used by the Scottish Government as an example of such an approach.

Prudential Borrowing Regime

66. Local government borrowing in the UK is governed by CIPFA’s Prudential Code for Capital Finance which aims to ensure that it is “affordable, prudent and sustainable.” David Phillips suggests that while investigating the option of a prudential regime is worthwhile there is a need to recognise the differing political relations between local and central government and the Scottish and UK Government. He explained to the Committee that “I am not saying that a prudential borrowing regime is a non-starter, but the political issues are quite different from those that apply to prudential borrowing at local authority level.”38 The political fallout from the UK Government overruling the Scottish Government or having to bail it out would be substantial. However, Professor Trench’s view is that it “is hard to find any objection to the idea that the Scottish Government should have a prudential borrowing power.”39

67. The Devolution (Further Powers) Committee is “supportive of a move towards a prudential regime...to borrow both for short-term revenue requirements as well as longer-term capital investment purposes.”40 The Scottish Government states in its response that:

“introducing a prudential capital borrowing regime should be given a statutory underpinning. Such a regime would give Scottish Ministers greater discretion over borrowing so that we can prioritise infrastructure investment in line with Scotland’s economic interests.”41
68. The Scottish Government also stated in its response that:

“The current Scotland Bill does not include any new borrowing provisions. It is our expectation that amendments will be introduced to the Bill as it proceeds through Westminster to reflect agreements reached by Scottish and UK Ministers in the course of fiscal framework negotiations.”

Debt Rule

69. The Fiscal Commission Working Group defined debt rules as aiming “to limit the stock of public sector debt to a specific level (generally expressed as a ratio of GDP) and provide a useful budgetary aggregate for assessing overall fiscal sustainability.” These rules “typically provide a target level and maximum limit before which corrective action needs be taken. In practice they tend to be longer-term targets” and are intended to ensure that overall levels of borrowing remain sustainable.

70. However, the Fiscal Commission Working Group points out that such rules “have limited influence on fiscal policy when debts are far below the stated target” which may allow governments “to undertake unsustainable policies for a number of years before ultimately threatening the debt ceiling.” One way to address this problem is to have “intermediate debt targets where governments take predefined action prior to breaching the debt ceiling.”

71. The UK Government’s fiscal mandate requires public sector net debt, as a share of GDP, to fall in 2016-17. This was updated following the Autumn Statement in 2014. The previous debt rule required this to happen in 2015-16.

72. The Devolution (Further Powers) Committee considered whether the setting of a cash limit for capital borrowing was “necessarily consistent with the prudential regime specified by the Smith Commission or the most sensible way to proceed.” It suggested that one of the measures to be considered “would be the performance of the economy based on indicators such as cyclically-adjusted GDP.”

73. The Committee supports the introduction of a prudential capital borrowing regime on a statutory basis.

74. The Committee also recommends that the Scottish Government should agree a debt rule with the UK Government which is consistent with the UK fiscal framework. The Committee’s view is that this does not necessarily mean that both governments have the same debt fiscal rule.ii

ii Gavin Brown dissented from this sentence.
75. The Committee agrees with the Devolution (Further Powers) Committee that consideration should be given to a debt rule as a percentage of cyclically adjusted GDP.iii

Moral Hazard

76. A number of witnesses raised the question of moral hazard and the related issue of bailouts. Professor MacDonald explained that moral hazard arises “when the sub-central level of government believes it can engage in ill-disciplined policies and ultimately has to be bailed out by the centre.” Dr Armstrong points out that “where powers have been devolved in federal structures around the world, one of the most difficult issues that countries have had to deal with is the recurring problem of fiscal indiscipline, because the responsibilities and liability are not fully aligned.” While the central government may make a commitment not to provide a bailout under any circumstances we can never entirely rule out a degree of moral hazard as the central government always has the option to change the rules.

77. The National Institute for Economic and Social Research (NIESR) proposed in its submission to the Smith Commission that: “the Scottish government ought to be allowed to borrow in its own name and without bound with the explicit legal statement that the UK government bears no responsibility for the debt.” Dr Armstrong suggests that there should not be a limit on the amount of borrowing and points out that “most countries, including Canada, Switzerland and the US, do not impose such rules on their sub-central governments. They allow them to make their own decisions.” This view is shared by Professor McLean who argues that the Scottish Government should have free access to capital markets for its borrowing. However, to avoid moral hazard “new Scottish debt must be issued with a guarantee that repayments will be a first charge on Scottish tax receipts.”

78. Professor Trench disagrees with this proposal on the basis that “there is sufficient risk for the UK Government that it cannot simply say that there will be no bailout of Scotland or that Scotland can borrow freely but at its own risk without there being at least an implicit assumption in the markets that there would be some bailout if things were to go wrong.” Similarly, Professor MacDonald emphasised that “I certainly do not think that you could have unfettered borrowing in the open market, which some people have suggested.” Professor Bell pointed out that Scottish Government borrowing will count against total UK borrowing so is likely to be constrained by the UK Treasury. Professor Keating highlighted the “trend across Europe is for more controls on sub-state borrowing everywhere because they count towards national targets in Europe and the international markets.”

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iii Gavin Brown dissented from this sentence.
79. Dr Armstrong suggests that responsibility and liability “need to be aligned in order to have authority and responsible governance” and that “being as clear as possible about where liability lies is a first-order item.” This view is shared by Professor Trench who suggests you “have to address the question of bailout from the outset – you have to work out who is the lender of last resort.”

80. The command paper states that the fiscal framework should take account of appropriate fiscal risks including the “presumption that the central government will always underwrite lower levels of government which could lead to unsustainable policy decisions.”

81. The Committee recommends that the issue of moral hazard needs to be explicitly addressed in the fiscal framework.

No detriment

82. The Smith Commission identified a number of principles which should underpin the new fiscal framework for Scotland. These include two ‘no detriment’ principles. The first of these is set out at paragraph 95(3) and indicates that the Scottish Government and UK Government budgets should be unchanged as a result of the decision to devolve further powers. Paragraph 95(4) sets out the second ‘no detriment’ principle which states that there should be ‘no detriment’ as a result of UK Government or Scottish Government policy decisions post-devolution.

The first ‘no detriment’ principle

83. Under the first ‘no detriment’ principle, once an adjustment is agreed for the initial year of devolution of a tax or function, or for the first year of a policy impact, there is the question of the continuing adjustment appropriate for subsequent years. In doing this, for example, changes in tax take resulting from changes to rates and thresholds will need to be distinguished from the effect of changes in the economy and in people's behaviour.

84. On the expenditure side, devolved welfare spend will not fall within the DEL mechanism in Barnett but is demand led as Annually Managed Expenditure (AME). The initial adjustment for devolved welfare expenditure will need to be indexed to the prime drivers of welfare spend somehow. The issue of adjustments for subsequent years received considerable attention from respondents. ICAS summarised the general view: “Agreeing the appropriate adjustments at the outset will be one task, however the subsequent adjustments for later years are likely to be increasingly difficult to determine.”

85. There was a consensus among witnesses that the first ‘no detriment’ principle is relatively clear, namely, neither Government should gain or lose financially from
devolution in itself of the power to tax or spend. In the context of the UK's block grant methodology, this requires an initial and continuing adjustment to the block grant. Once powers have been devolved, the governments are, in principle, free to make their own policy choices in areas of devolved responsibility.

86. The Cabinet Secretary's view is that it is easy to conceive how the first no detriment principle will operate: "there would be a transfer of power and responsibility, and a financial adjustment would have to be agreed and made." 58

The second ‘no detriment’ principle

87. The second ‘no detriment’ principle is intended to apply to policy decisions of the UK and Scottish governments after devolution of tax or spending powers. Two circumstances are highlighted in the Smith Commission report. The first is where a policy decision of one government affects the tax receipts or expenditure of the other government. In these circumstances, the governments should reach a shared understanding of the evidence to support any adjustments and the decision-making government will either reimburse or receive a transfer from the other as appropriate.

88. The second is that changes to a UK tax, for which responsibility in Scotland has been devolved, should only affect public spending in the rest of the UK while, conversely, changes to devolved taxes in Scotland should only affect public spending in Scotland. Whether intentionally or not, there is no reference to shared understanding of evidence or provision for financial transfers in relation to this second part of the principle.

89. The command paper sets out the UK Government's interpretation of the Smith Commission's proposals with some examples. 59 The paper relates the first part of the principle 60, the consequences of policy decisions, to government budgets and refers to the Statement of Funding Policy (SFP) as a precedent:

"Where decisions taken by any of the devolved administrations or bodies under their jurisdiction have financial implications for departments or agencies of the United Kingdom Government or, alternatively, decisions of United Kingdom departments or agencies lead to additional costs for any of the devolved administrations, where other arrangements do not exist automatically to adjust for such extra costs, the body whose decision leads to the additional cost will meet that cost." 61

90. The examples provided in the paper relate to impacts where benefits are paid net of tax, where one benefit is a passport to another and where employment programs are funded by benefits savings. These are all examples where responsibilities for linked matters may differ and the government making the policy change will benefit from or compensate for the impact on the other under the principle.
91. The second part of the principle is linked in the command paper to taxpayer fairness and the issue of the interaction of tax and spending changes with the Barnett Formula is noted. In general, changes to devolved taxes by the Scottish Government will only affect public spending in Scotland, so the paper gives examples based on changes to rest of UK income tax and their relation to consequent changes to expenditure in devolved areas. Where changes in rest of UK income tax are linked to increases or decreases in UK Government expenditure, in the absence of the no detriment principle, there will be increases or decreases on expenditure in Scotland, either direct in the case of reserved matters or indirect through Barnett consequential adjustments to the block grant in the case of devolved matters. The command paper notes that relating tax and spending will be complex and suggests that the principle will apply to the overall outcome rather than the detailed movements in tax and spending.

92. There was considerable agreement amongst witnesses that greater clarity is required on the meaning of the second ‘no detriment’ principle. As currently drafted this would seem to limit the potential of the governments to benefit financially from such independent policy choices. Professor Hughes Hallett points out that ‘no detriment’ “cannot be taken to mean literally no gains or losses for any party or it would never be possible to devolve any powers.”

93. Tax competition, whether deliberate or not, is an inevitable consequence of diverging tax rates and rules and has been offered as a reason for tax devolution in the first place. Clarity is needed on whether, and to what extent, the ‘no detriment’ principle applies to the impact of tax competition.

94. Policy changes may have a direct impact on the budget of the other government such as when an increase in the income tax personal allowance by the UK Government reduces the tax base to which Scottish rates and bands apply. However, changing spending policies and changing tax rates and rules may change people's behaviour and is indeed often designed to do so. Such changes in behaviour may increase or reduce expenditure by the other government or impact on taxes collected by the other government. Such behavioural effects are included in the examples due to be compensated in the command paper.

95. Some witnesses queried the extent to which such spillover effects of policy should or could be tracked and compensated. Determining what results from the policy change and what results from other changes in the economic or social environment is complex and in many cases impossible to determine. Even where the causal nexus can be determined, modelling the financial consequences may be beyond the capabilities or resources available to the Scottish Government.

96. None of the witnesses with experience of other fiscally federal countries were aware of a similar application of a ‘no detriment’ principle or of arrangements for financial compensation for policy spillovers. The EU, amongst its member states, and Belgium, amongst its communities, seek to place bounds on tax
competition. The Basque Country and Navarre, while having a large measure of fiscal independence, limit tax competition in discussion with the Spanish Government. Most fiscal federations deal with contentious matters amongst their central and sub-central governments through a structure of regular meetings and negotiation.

97. Witnesses were agreed that any methodology developed to implement the ‘no detriment’ principle would be complex and provoke disagreement. It would certainly be neither transparent nor mechanical. Only the most obvious knock-on effects should be adjusted.

98. The Cabinet Secretary stated that there are two main arguments against the second ‘no detriment’ principle. First, “it would be almost impossible to agree without significant dispute and debate.” Second, “there is a philosophical question about whether it would be justified.”

99. The Committee is content with the first ‘no detriment’ principle that the Scottish Government and UK Government budgets should not be adversely affected as a result of the decision to devolve further powers. This should include forestalling at the point of transfer.

100. The Committee recommends that the second ‘no detriment’ principle be treated as a high level principle to guide the governments in the application of the fiscal framework and in adjusting the block grant. Attempts to turn it into a rule to be applied mechanically to all potential spillover effects should be resisted as inefficient, counter-productive and likely to create unnecessary disagreement and dispute. Instead it should be used as a guide in intergovernmental discussions at official and ministerial level and wherever possible discussed before the implementation of policy changes.

101. Even as a high level principle, further work needs to be done on refining the boundaries within which the principle applies and to confirm that it applies only to major and calculable impacts on the budgets of either government and not to the behavioural consequences of moderate tax competition, for example. This interpretation appears to be implied by some of the wording in the command paper but, from the evidence we received, this is not clear.

102. The Committee recommends that the outcome of discussions between the governments on the scope and application of the second ‘no detriment’ principle are made public so that the fairness of the fiscal framework is evident.
Block Grant and Funding Formula

103. The Committee recommended in its Further Fiscal Devolution report that “there is a need for much greater transparency and accountability in relation to how the block grant is calculated.” The Committee also noted that “while there may be some discussion between the UK and Scottish Governments on the operation of the Barnett formula this is done in private and cannot be viewed as transparent.”

104. A number of witnesses agreed that there is a need for much greater transparency in the operation of the Barnett formula. Professor Keating points out that “Barnett has never been defined, so Barnett is whatever the Treasury says that it is.” CIPFA states that what “shrouds Barnett in mystery is that it is done behind closed doors in the Treasury.” The Royal Society of Edinburgh states that it is not acceptable for HM Treasury to make decisions on adjusting the block grant unilaterally.

105. Dr Cuthbert argues that the Treasury has to date “signally failed to operate the Barnett formula transparently.” He highlights the misalignment of two key information sources: the Treasury Funding Statement and the Public Expenditure Statistical Analysis. This undermines the effective monitoring of the impact of Barnett on per capita spending levels. He also points to “a couple of examples of things going badly wrong in the past” including errors in how Barnett has been applied to non-domestic rates and EU structural funds. We are now moving into a much more complicated system in which “the potential for argument and mistakes will be immense.” John McLaren suggests that the increased complexity also raises far greater concerns around transparency than the current problems under Barnett.

106. Professor Trench states that Barnett “is essentially a ‘black box’ system; it works in an opaque way, which is simple to describe in principle but hard to examine empirically, and for which key decisions are made by HM Treasury alone.” The House of Lords Select Committee on the Barnett Formula also found that the operation of Barnett is opaque and there is inadequate and inaccessible data. It found that on “every funding decision the Treasury is judge in its own cause, including whether to bypass or include any expenditure within the application of the Barnett Formula.” It recommended that “the Treasury publish their statistics of the workings of the Barnett Formula, or its successor, in a single, coherent and consistent publication.” David Phillips points out that this recommendation has not been acted upon in a comprehensive manner. He proposes that two sorts of information should be published:

- Details of “comparable” and “non-comparable” spending including a justification for each decision and details of any negotiation with the devolved administrations;
• HM Treasury spreadsheets detailing changes to the block grant and Barnett consequentials.

107. The Cabinet Secretary agreed with the Committee that the operation of the Barnett formula should be more transparent. The Cabinet Secretary explained that on the day of the UK budget, Scottish Government officials receive a “a spreadsheet that shows the changes to public expenditure that are being announced by the chancellor and how those are judged by the Treasury to be applied through the Barnett formula.” He would be content for that document to be published but this would also need to be agreed with HM Treasury.

A Mechanical Funding Model?

108. The Smith Commission states that “once a revised funding framework has been agreed, its effective operation should not require frequent ongoing negotiation” albeit that it should be subject to periodic review. The command paper has interpreted this to mean that the “funding model should be mechanical rather than requiring regular negotiations.”

109. A number of witnesses cautioned against seeking an overly mechanical solution. John McLaren suggests that “a degree of adaptability and an element of negotiation (which occurs even within Barnett) is probably inevitable and welcome.” Dr Cuthbert’s view is that mechanical fiscal arrangements “represent an attempt to depoliticise and managerialise what should be political and democratic decisions.” He suggests that adjustments to the block grant should not be too mechanistic and there is a need for oversight to monitor how any adjustment mechanism is operating.

110. The Cabinet Secretary’s view is that seeking a mechanistic solution is wishful thinking. His view is that there are a number of difficult issues to be addressed in agreeing the fiscal framework. While it is desirable to minimise the need for interpretation and revision it will not be possible to deliver a mechanical solution.

111. The Committee notes that the increasing complexity of the funding model for Scotland means that it is essential that the calculations of the block grant are open and transparent.

112. The Committee also notes that while the Scottish Government is consulted on the operation of the Barnett formula, the Treasury has the sole decision-making role.

113. The Committee recommends that there needs to be a greater willingness within the Treasury to seek agreement with the devolved institutions on the methodology and operation of the funding model.
114. The Committee recommends that the UK Government publishes details of the operation of the Barnett formula and adjustments to the block grant arising from fiscal devolution alongside each UK budget and Autumn Statement and that a UK Treasury Minister should be willing to appear before the Finance Committee shortly after the publication of the UK budget.

Scottish Fiscal Commission

115. The Smith Commission recommended that the Scottish Parliament “should seek to expand and strengthen the independent scrutiny of Scotland’s public finances.” The command paper states that following the Smith Commission agreement it will be crucial that the remit and capacity of the SFC “fully reflects the expanded opportunities.” The UK Government’s view is that the SFC should be fully consistent with the OECD principles for independent fiscal institutions and that “independence, transparency and resources will be particular areas for further progress.”

116. The SFC was initially established on a non-statutory basis to provide a commentary on the Scottish Government’s forecasts for revenue from the devolved taxes under the Scotland Act 2012 and from non-domestic rates. The Committee has previously examined proposals for the SFC and recommended that the SFC “adheres to the 22 OECD principles and in particular, the principles of independence, non-partisanship and transparency.”

117. The main focus of the evidence which the Committee received during its current inquiry has been on an enhanced role for the SFC following the Smith Commission agreement. Witnesses identified two main roles for the SFC. First, there was a general consensus that the SFC should produce its own forecasts. Second, there was also strong support for the SFC having a wider role in monitoring the adherence of the Scottish Government to its fiscal rules and the sustainability of the public finances.

Forecasting

118. The Scottish Government has published a consultation on a draft bill to put the SFC on a statutory footing. The consultation proposes that the core function of the SFC should be “to provide independent scrutiny of tax forecasts and other fiscal projections prepared by the Scottish Ministers.” This approach is proposed on the basis that it “maximises the openness and transparency of the forecasting process” and “will provide Parliament with an informed, authoritative and independent assessment which will enable it to hold Ministers appropriately to account.”
119. However, when the Committee explored this issue with witnesses there was a consensus that the SFC should do its own forecasts. Professor MacDonald stated that “only then will it become independent, or be seen to be independent.”  

CIPFA’s view is that the SFC should provide independent economic and fiscal forecasts to the Scottish Government.

120. Dr Armstrong proposed that the SFC should be responsible for monitoring the adherence of the Scottish Government to its fiscal rules and to “do that, it has to be able to make its own forecasts.”  

Professor Keating stated that the SFC “should be able to initiate inquiries on its own – it should not simply review the Scottish Government’s forecasts; it should have a more proactive role.”  

The RSE support the establishment of an independent fiscal body in Scotland which, similarly to the OBR, would “provide independent forecasts of the future fiscal revenues and budget position.”

121. The Cabinet Secretary stated that he is open to considering the options suggested during the consultation on the draft bill. However, he reiterated his current view that the role of the SFC “should be to validate and question the forecasts that are made by Government” and have the power to veto any forecast.

122. The Cabinet Secretary explained that he believes the approach to forecasting which he is proposing for the SFC is more transparent than the OBR model. He cites evidence which the Committee received from HMRC that it provides “the numbers to the OBR, just as it used to give them to the Treasury.”  

However, the Committee previously raised this evidence from HMRC with the Chairman of the OBR who responded: “I do not think that Edward Troup meant that HMRC basically comes to us with some numbers and we say, ‘Yeah, that looks fine,’ toss them to one side and go off for tea. It is our forecast; we tell HMRC what the forecast is.”  

He further explained:

“We are very grateful for the work that HMRC does. There is a meaningful degree of arm’s length between it and the Treasury and Treasury ministers. When it brings us a first cut, it does not have the whiff of political interference about it. It may be something that we want to change a lot but, as I say, at the end of the day, it is our forecast, so we do it the way that we want to and we make the judgements. However, the fact that the information is brought to us by HMRC rather than by ministers’ direct representatives is symbolically and practically important, and it conditions the behaviour of everyone in the process. That is a useful feature of the system.”

123. The Scottish Government’s consultation on the SFC suggests that the proposed approach on forecasting “is consistent with the role of a number of other fiscal councils across the world.”  

Two examples are cited from Sweden and Ireland.
Swedish Fiscal Policy Council (SFPC)

124. The remit of the SFPC is to “review and evaluate the extent to which the fiscal and economic policy objectives proposed by the Government and decided by the Riksdag are being achieved.” As part of its work the SFPC “may review and assess the quality of the forecasts presented and the models on which the forecasts are based.” While the SFPC does not do its own forecasts it relies heavily on the forecasts of other public bodies in Sweden and, in particular, the forecasts of the National Institute of Economic Research (NIER).

125. For example, in its 2014 report the SFPC states:

> “Forecasts of economic development provide an important basis for formulating fiscal policy both in the short and medium term. In last year’s report, the Council discussed the Government’s forecasts and found that the forecasts for 2012-13 deviated sharply from those of other forecasters. In the following section, the Council compares these forecasts with the outcome and the Government’s forecasts for 2014 with other forecasters.”

126. The SFPC concluded:

> “The Government has a considerably more positive view than NIER and other forecasters of how much the economy can grow before equilibrium capacity utilisation is reached. The Government also has a more optimistic view of how rapidly the public finances will improve when capacity utilisation increases.”

127. Three members of the Committee visited the SFPC and NIER (which are in the same building) as part of a wider fact-finding visit to Stockholm. One of the main lessons of the visit was the need for independent fiscal forecasts. The key point is that the SFPC provides a comparative analysis of the Swedish Government’s forecasts and other forecasters. As pointed out by the IMF the evaluation of forecasts is not a significant part of the SFPC’s role.

128. The Committee has also previously considered the Swedish model as part of its inquiry on proposals for the SFC. The SFPC explained to the Committee that “we do not feel that we have to do forecasting” because this is being done independently by the NIER. The SFPC’s scrutiny of the Swedish Government’s forecasts is “more of an armchair perspective.”

Irish Fiscal Advisory Council (IFAC)

129. The remit of the IFAC includes assessing the official macro-economic and budgetary forecasts once they have been published by the Irish Government. In its November 2013 fiscal assessment report the IFAC stated that it “has developed its own forecasting methods and analytical capacity in order to provide
a benchmark set of projections against which to judge the Department of Finance’s forecasts.” This means that in “a sense, therefore, Ireland has parallel forecasts.”

130. Ireland’s Economic and Social Research Institute (ESRI) also publishes a forecast each quarter, as well as less frequent long-term forecasts. It is the only institution in Ireland to have a publicly-available fully-fledged large-scale macroeconomic model of the Irish economy.

131. The Committee questions the extent to which the Swedish and Irish models are consistent with the Scottish Government’s proposals on forecasting. The Committee is unaware of any other example of a fiscal council relying solely on official government forecasts.

132. The Committee notes that the draft SFC Bill describes the commission’s functions as assessing the reasonableness of the forecasts. It is not proposed in the draft Bill that the SFC should endorse the forecasts.

133. The Committee notes the strong level of support among witnesses for the SFC carrying out its own forecasts and recommends that the draft Bill should be amended accordingly.

Adherence to Fiscal Rules

134. The Scottish Government has also asked for views on whether the SFC should have a role in assessing its performance “against fiscal rules agreed with the UK Government.” Previously, the Fiscal Commission Working Group examined options for the role of the SFC and concluded that fiscal commissions are “increasingly viewed as vital for effectively adhering to fiscal rules.” While there is no uniform model, “common responsibilities include: assessing governments’ success in adhering to fiscal targets and policy objectives, analysing the long-run sustainability of public finances, and either analysing government forecasts or publishing their own.”

135. A number of witnesses agreed that the SFC’s role and remit should be enhanced to include monitoring the adherence of the Scottish Government to fiscal rules agreed with the UK Government. Professor Hughes Hallet and Professor Leith, who are both members of the SFC, suggest that such monitoring can remind policy makers of the need to take account of long-run fiscal sustainability while also allowing governments to run deficits when economic conditions imply that it is desirable to do so. Both suggest in their written submissions that the “aim is to allow for short-term flexibility in a way that strict adherence to fiscal rules may not allow, but to ensure that this does not jeopardise long-run fiscal solvency.”
136. Professor Leith argues that one of the advantages of a fiscal council is that it “can provide an evaluation of the sustainability of public finances and sound the alarm bell when fiscal policies are not consistent with that objective without hindering the policy maker’s ability to respond to shocks.” Professor Hughes Hallet states that the “purpose of any fiscal council is to increase credibility and commitment to a set of sustainable fiscal policies, and to provide a politically neutral monitoring service which is available to the economy as a whole.”

137. Professor Leith’s view is that “the need to issue government debt to smooth fluctuations in spending and revenues caused by shocks to the economy gives” the SFC “a key role in assessing the sustainability of the public finances.” This view was shared by Professor Bell who suggested that the SFC should produce something similar to the OBR’s fiscal sustainability reports.108

138. The Committee asked the Cabinet Secretary whether the SFC should have a role in commenting on the sustainability of the Scottish Government’s fiscal policies. He responded that it is for the Parliament “to challenge the Government on whether it has got its policy framework correct.”109

139. The Committee recommends that the remit of the SFC should include judging the performance of the Scottish Government against its fiscal targets and an assessment of the long-term sustainability of the public finances.

140. The Committee recommends that the draft Bill should be amended accordingly.

141. The Committee intends to submit this section of the report on the SFC as its submission to the Scottish Government’s consultation on the draft Bill. The Committee will also have a further opportunity to consider these issues once the legislation is introduced in the Autumn.

142. The Committee welcomes the commitment of the Ministers to provide the Commission with sufficient and appropriate resources to discharge its remit and will look at this further when it considers the Financial Memorandum for the Bill.

Inter-governmental relations (IGR) on fiscal issues

143. Lord Smith highlights the weakness of IGR in his foreword to the Smith Commission report and states that given a more complex devolution settlement the “problem needs to be fixed.”110 It is clear from the evidence the Committee
received and a number of other recently published reports that this is a widely shared view. The Devolution (Further Powers) Committee’s interim report on the Smith Commission and UK Government proposals concludes that the current machinery is “not fit for purpose and will be unable to cope with requirements arising from the Smith Commission’s recommendations.”

The Scottish Government stated in its response to the Committee that it “recognises that the intergovernmental machinery requires overhaul.”

144. The command paper states that the reformed IGR will “be underpinned by much stronger and more transparent parliamentary scrutiny” including the pro-active reporting of the conclusions of the Joint Ministerial Committee (JMC) and the Joint Exchequer Committee.

145. The Committee has identified two inter-related difficulties in relation to IGR on fiscal matters. First, most bilateral relations between the two governments take place on an ad hoc and informal basis which leads to a lack of transparency and accountability. While there are some formal mechanisms to discuss the inter-relationship of financial matters these are rarely used. The absence of formal discussions means that there is little in the way of reporting to parliament and a general lack of information in the public domain. Second, there are questions about the purpose of the formal institutions which do exist. These are mainly consultative bodies without any co-decision powers.

Transparency, Accountability and Parliamentary Scrutiny

146. The Committee has previously recommended that there needs to be much stronger and more transparent parliamentary scrutiny of IGR following the Smith agreement. The Committee recognised, however, that the informal nature of much of the existing relations between the two governments makes this challenging. This is a view shared by Professor McEwen who points out that most “intergovernmental exchange continues to take place below the radar” which “raises questions about the capacity of the Scottish Parliament and Westminster Parliament to give effective scrutiny to intergovernmental relations.” Similarly, the RSE states that typically, IGR in the UK “have been ad hoc, informal, and undertaken on an issue-by-issue basis with little opportunity for public scrutiny.”

147. Professor McEwen argues that the relations should “be more formal and more transparent.” Professor Jeffery agreed citing the need for more systematic relationships between Governments and greater parliamentary scrutiny of those relationships. His view is that the UK state has not adapted “to the realities of devolution, which include a more explicit need to think across the various legitimately constituted governments of the UK, and to find common purpose and mutually acceptable arrangements.”

148. The RSE supports “the development of a stronger JMC system with clearer guidelines, more regular meetings, enhanced transparency and publicity.” The House of Lords Constitution Committee concluded that the “current reporting of
JMC meetings is bland and unilluminating; much more information could be made public in advance of and after meetings.” 116 Professor McEwen argues that there needs to be a degree of transparency prior to meetings of the formal institutions so that the Parliament has the opportunity to contribute its views. Likewise there needs to be a degree of transparency in the aftermath of meetings to allow for parliamentary scrutiny of the content of discussions.117

Statutory Basis

149. Some witnesses also suggested placing IGR on a statutory footing. For example, the CIOT proposed in written evidence that it might be helpful to do so “in order to assist transparency and effectiveness.” The Devolution (Further Powers) Committee recommended providing a statutory basis for dispute resolution and the general principles underpinning the operation of IGR. The Scottish Government responded that it is open minded about this and while it “might help to encourage administrations act in line with the sound principles set out in the MOU, it could prove cumbersome and the mechanism by which it would be enforced is not clear.”118

150. The House of Lords Constitution Committee has also recommended a statutory framework for IGR which “could set out the existence and membership of the Joint Ministerial Committee and its core sub-committees, along with the core principles governing relations between administrations”119

Purpose

151. The formal IGR institutions are consultative bodies which facilitate communication and not co-decision. The RSE states that any “devolved, federal or quasi-federal system needs to have mechanisms regulating the relationships between the levels of government. These have two important purposes, namely, policy co-ordination and conflict resolution.”120 The House of Lords Constitution Committee recommends that the “JMC structure should be used to facilitate joint policy-making and coordination.”121

152. In evidence to the Devolution (Further Powers) Committee the Cabinet Secretary stated that “one of my frustrations with the finance ministers’ quadrilateral and the Joint Exchequer Committee is that, ultimately, if we do not like what happens, the Treasury view tends to prevail.”122 His view, therefore, is there is a need to explore how to make IGR a more meaningful part of the process “as opposed to being thwarted by a final view being taken by the Treasury or the UK Government.”123

153. Professor Keating argues for the need for effective IGR on finance as “we know that the UK Treasury has a very centralist mentality, which is an obstacle to thinking about devolution generally.”124 He argues that removing HM Treasury’s role as the sole decision maker is critical and that in “a proper federal system, the central Government would not be allowed to make the decisions unilaterally.”125 There needs to be a forum for political negotiation so that change is not just
handed down unilaterally.\textsuperscript{126} Professor Keating also emphasised the “need for a common database, or at least shared databases, so that we will not be completely dependent on Treasury databases.”\textsuperscript{127}

154. Professor Trench argues that we “have a fundamental problem with the institutions that we use to deal with financial matters” which is that “the whole system rests on nothing more than a Treasury statement of funding policy.”\textsuperscript{128} He went on to say that “I think that the Treasury is starting to learn the nature of the situation that arises. It is a learning experience – I do not think that the Treasury is where it needs to be yet, but that does not mean that it will not get there.”\textsuperscript{129} Professor Trench was optimistic that HM Treasury would be open to changing the way it works in response to the Smith Commission agreement.

155. The Cabinet Secretary was asked by the Committee whether he shared Professor Trench’s optimism that HM Treasury would adapt to the new devolution settlement. He responded that we “cannot operate satisfactorily on the basis that we have to accept what the Treasury says” and that you “can have all the rules you want, but that cultural question must be addressed.”\textsuperscript{130}

**Statement of Funding Policy (SFP)**

156. Professor McLean questions whether it is appropriate for HM Treasury “to remain the sole proprietor” of the SFP. He suggests that while the initial draft should come from the Treasury it should be signed off by the JEC with the possibility of appeals to an independent body. Professor Trench’s view is that the SFP “needs to be fundamentally recast, in much the same way as the Memorandum of Understanding for intergovernmental relations is being.” His view is that it should have a statutory basis and be subject to periodic review.

157. The CIOT suggests that the SFP should be reviewed by both the UK and Scottish parliaments and that reviews should occur on a regular basis. David Phillips agrees that it should be regularly reviewed at each Spending Review and when proposals for changes to the devolution settlement are agreed. He also suggests that when it is being reviewed there should be an opportunity for external independent scrutiny.

158. The Bingham Centre for the Rule of Law notes that when “it comes to the drafting and working of the Statement of Funding Policy, the Treasury makes all the key decisions.”\textsuperscript{131} This is considered to “fall short of our principles of consent and respect for the rule of law.”\textsuperscript{132}

159. The Cabinet Secretary stated that “the way in which the statement of funding policy is arrived at is a source of great dissatisfaction to me.”\textsuperscript{133} He further explained that the policy “is discussed with me but is agreed between the chancellor and the Secretary of State for Scotland, and I am not a party to that agreement, which I find absurd.”\textsuperscript{134}
Finance Ministers’ Quadrilateral (FMQ)

160. The Calman Commission recommended that the FMQ “should become a Joint Ministerial Committee on Finance (JMC(F)), and should meet regularly on a transparent basis to discuss not just spending but taxation and macro-economic policy issues.” The UK Government responded that it “has no present plans to replace the finance ministers’ quadrilateral by a Finance JMC on the basis that there is no compelling case for the creation of an additional forum.”

161. Professor McEwen was asked by the Committee whether the Calman recommendation should be pursued. She responded that while there might be a case for such a body, the asymmetrical nature of devolution means that a forum which includes all of the devolved administrations might not be the best way forward.

162. The House of Lords Constitution Committee considered whether the FMQ should be included in the JMC structure and concluded that “we see no particular reason why the FMQ should not continue to operate as a separate body. Given its importance, however, it needs to be more transparent and accountable.” If the JMC structure is given a statutory basis then this should also apply to the FMQ.

Joint Exchequer Committee (JEC)

163. The Smith Commission recommended that the two governments should jointly work through the JEC “to agree a revised fiscal and funding framework for Scotland.” However, the Cabinet Secretary has previously told the Committee that the JEC had failed and “proved no useful function in relation to the agreement for the block grant adjustment.” It has not met since February 2013.

164. The JEC was established in September 2011 as a forum for the UK Government and Scottish Government Finance Ministers to consider the implementation of the financial provisions within the Scotland Act 2012. Professor McEwen states that although the Scottish Government regarded the JEC “as a forum for developing a longer-term relationship to discuss fiscal issues, its terms of reference were never agreed and it has not met for at least two years.”

165. The House of Lords Constitution Committee recognises the need for increased formal bilateral mechanisms such as the JEC but recommends that these should be “brought under the auspices of a revitalised JMC to create a more coherent structure and to improve accountability.”

166. The two governments have previously agreed to provide the minutes of the JEC meetings to the Scottish Parliament (through the Finance Committee) and to the UK Parliament (through the Scottish Affairs Select Committee). The Committee received the minutes for the JEC meetings on 27 September 2011 and 18 June 2012. The Committee also received the papers for the September 2011 meeting on an exceptional basis following a commitment made to the Scotland Bill Committee. Professor McEwen states that the minutes the Committee received
were very frank” and if setting a precedent for other intergovernmental forums “would be a positive development.”

167. In response to questioning from the Committee the Cabinet Secretary agreed that he should report regularly on the operation of the JEC. He also stated that the lack of JEC meetings was “deeply unacceptable” and the “mechanisms must function more effectively than they have done.” The Cabinet Secretary’s view is that the JEC “must operate on a basis that enables me to reach a point of agreement, instead of any agreement being explained as the Treasury having decided...so that is what gets applied.” The JEC has to have a meaningful role.

168. He was also asked whether the JEC would have a role in the process for agreeing the fiscal framework. He responded that there “could be a meaningful role” for the JEC. However, it was unclear whether the meetings which will take place between the Cabinet Secretary, the Chancellor and the Chief Secretary to the Treasury would be held under the auspices of the JEC.

Independent Arbiter

169. A number of witnesses suggested the need to establish an independent body to act as an arbiter. Professor Trench argues that “there needs to be some genuinely independent body that is responsible for if not making then advising on the calculations that underpin the system.” He cites a report from The Bingham Centre for the Rule of Law which recommended the establishment of an independent body to advise HM Treasury about devolution finance and particularly about grant matters. The Australian Commonwealth Grants Commission (ACGC) is suggested as a possible model.

170. This body or another independent body should also be required to adjudicate in the event of any disputes between governments that they cannot resolve between themselves. Professor MacDonald also suggested the establishment of a body similar to the ACGC. Professor Jeffery referred to the “possible need for an independent arbiter, or at least an arm’s-length arbiter, and a capacity for analysis that is not driven by central Government.”

171. The House of Lords Constitution Committee recommended that the UK Government “consider tasking an independent body to provide the statistics and evidence on which to base decisions about the allocation of funding to the devolved administrations.”

172. The Cabinet Secretary was asked by the Committee whether there is a case for an independent arbiter to resolve disputes on issues such as the block grant adjustment. He responded that there “is a case for that.”
173. The Committee notes that it is abundantly clear that the existing institutional IGR framework is not fit for purpose. The increasingly complex nature of devolution and the degree of interdependency at both a bilateral and multilateral level requires substantial change to both the structure and culture of inter-governmental relations. In particular, the Committee agrees that it is clear that the “machinery for devolved finance can no longer be left to the discretion of HM Treasury.”

174. The Committee recommends:

- for inter-governmental relations to be meaningful in relation to fiscal matters then there is a fundamental need to change HM Treasury’s role as the sole decision maker at both a bilateral and multilateral level;\[iv\]

- at a bilateral level, Scotland’s fiscal framework should be agreed through the JEC and by both Westminster and the Scottish Parliament;

- at a quadrilateral level, the SFP should be agreed through the FMQ and by the respective parliaments and assemblies.

- both documents should be subject to periodic review; there needs to be a much more structured approach to IGR on fiscal meetings including at least bi-annual meetings of both the JEC and FMQ;

- there needs to be a much more systematic approach to the reporting of the meetings of the JEC and FMQ with a clear expectation of the level of information to be provided;

- this should include, as a minimum, advance notification of agendas to allow the Parliament to contribute its views and a detailed and timeous minute of discussions to allow for effective parliamentary scrutiny;

- the Cabinet Secretary should write to the Finance Committee following informal meetings with UK Finance Ministers providing details of the fiscal matters discussed;

\[iv\] Gavin Brown dissented from this recommendation.
consideration should be given to providing a statutory basis for both the JEC and the FMQ;

consideration should be given to establishing an independent body to advise on the calculation of the block grant;

consideration should be given to establishing an independent arbiter to resolve disputes on issues such as the block grant adjustment.}

Economic and fiscal data

175. A number of witnesses expressed concern about the availability and quality of economic and fiscal data for Scotland. John McLaren argues that a “better model of the Scottish economy and its finances is essential” and that this should be provided by the OBR or a Scottish equivalent. He points out that this “will not be easy as the current quality and breadth of economic and fiscal data available for Scotland is relatively poor.” Professor MacDonald suggests that the Scottish Government “really needs to improve its data. I know that steps are being taken to improve the GDP data, but we do not have proper breakdowns of price data.”

149 Professor Bell stated that “it is important to improve the information that we have around the tax base and tax revenues.”

176. Scottish Government officials explained that the Scottish national accounts project (SNAP) was established seven years ago “to try to fill in some of the gaps in the national accounts data that are available for Scotland.” The Committee asked for an idea of the progress being made. Scottish Government officials responded that if “you are asking whether we are halfway there, I would not say that we are. We do not have most of the things that are in a full set of national accounts. Part of that is about data and part of that is about the number of people that we have working on it.”

177. Scottish Government officials also confirmed that they are in the process of developing a macroeconomic forecasting model for Scotland which is currently being tested. It is not clear whether this will be used to generate Scottish GDP forecasts.

Access to HMRC Data

178. Scottish Government officials explained to the Committee that “in the past, we have had difficulty in getting access to some data from HMRC for a number of reasons. Some of those reasons have been to do with legislative issues.”

Gavin Brown dissented from this recommendation.
was also pointed out that UK legislation on data sharing was initiated in the last parliament but is still in its early stages. It is hoped that this will allow HMRC to share more data with the Office for National Statistics and other government departments.

179. The Committee asked whether the Scottish Government and the SFC would have access to HMRC data on SRIT. Scottish Government officials responded that they “are still discussing with HMRC precisely which data on income tax we can get access to.”

180. In its response to the report of the Calman Commission the UK Government stated that “when greater tax devolution is introduced it will be necessary to review and update the existing arrangements for sharing of information between HMRC and Scottish Ministers.”

VAT Data

181. Dr Cuthbert told the Committee that “Scotland’s historic share of VAT revenues has been fairly volatile, so a lot of attention needs to be paid to putting those estimates on a much sounder footing so that we can cope with the potential volatility of VAT.” His view is that this “is suddenly going to become very important. However, I suspect that the data is not up to the weight that it is being asked to carry.”

182. The Cabinet Secretary explained to the Committee that “we regularly discuss with the UK Government questions of data access” and “when it comes to income tax calculation and VAT assignation, it will be a necessity to have very good-quality data.” He also stated that there “is quite a bit of work to be done to get clarity on the most robust basis for assigning VAT.”

183. The Committee welcomes the work which the Scottish Government is carrying out in developing national accounts and a macro-economic forecasting model for Scotland

184. The Committee recommends that the SFC should identify specific areas where economic and fiscal data need updating and that these are addressed by the Scottish Government as a matter of priority.

185. The Committee asks that the Scottish Government provides regular updates on the progress of its discussions with HMRC on access to data including the level of access for the SFC and the data on VAT assignation.
Conclusion

186. The Committee is strongly of the view that the workability and effectiveness of further fiscal devolution is largely dependent on Scotland’s revised fiscal framework. The Committee believes that the manner in which the fiscal framework is agreed will be a significant indicator as to how further devolution is likely to work in practice.

187. As many of our witnesses emphasised, the Treasury’s current role as sole decision maker on fiscal matters is not sustainable.\textsuperscript{vi} There has to be a willingness to work with the devolved institutions in seeking agreement on fiscal matters post-Smith. This will require cultural change both within the Treasury and at all levels of inter-governmental relations. There needs to be a culture of genuine respect between the various governments within the UK.

188. From a parliamentary perspective there needs to be a culture of openness and transparency in communicating inter-governmental discussions and decision-making in relation to the development, implementation and operation of the fiscal framework. It is essential, therefore, that the framework is developed openly and transparently and is subject to meaningful consultation with both the UK and Scottish parliaments. The significance of this document to the new devolution arrangements means that it is simply not appropriate for it to be agreed solely between the two governments.

\textsuperscript{vi} Gavin Brown dissented from this sentence.
1 Report of the Smith Commission
2 Scotland in the UK: An enduring Settlement
3 http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/88670.aspx
4 Scotland in the UK: An enduring Settlement, paragraph 2.2.3
5 Report of the Smith Commission, paragraph 94
7 Scotland in the UK: An enduring Settlement paragraph 2.2.8
10 Scotland in the UK: An enduring Settlement, paragraph 2.2.5
11 Ibid.
12 Scotland in the UK: An enduring Settlement, paragraph 2.2.8
13 Centre on Constitutional Change Written submission.
14 The Chartered Institute of Public Finance and Accountancy. Written submission to the Finance Committee.
15 The Chartered Institute of Public Finance and Accountancy. Written submission to the Finance Committee.
16 Alan Trench. Written submission to the Finance Committee.
17 Scottish Parliament Finance Committee, Official Report, 3 June 2015, Col 14
18 Scottish Parliament Finance Committee, Official Report, 3 June 2015, Col 15
19 Scotland in the UK: An enduring Settlement paragraph 2.4.20
20 Scotland in the UK: An enduring Settlement paragraph 2.4.20-2.4.23
21 Cabinet Secretary for Finance, Constitution and Economy. Written submission, 7 June 2015.
22 Cabinet Secretary for Finance, Constitution and Economy. Written submission, 7 June 2015.
25 Scottish Parliament Finance Committee, Official Report, 22 April 2015, Col 21
26 Scottish Parliament Finance Committee, Official Report, 22 April 2015, Col 21
28 Scottish Parliament Finance Committee, Official Report, 3 June 2015, Col 32
29 Scottish Parliament Finance Committee, Official Report, 3 June 2015, Col 33
35 Scotland in the UK: An enduring Settlement, paragraph 2.4.20
36 Scotland in the UK: An enduring Settlement paragraph 2.4.28
40 Cabinet Secretary for Finance, Constitution and Economy. Written submission, 7 June 2015.
41 Cabinet Secretary for Finance, Constitution and Economy. Written submission, 7 June 2015.


Scottish Parliament Finance Committee, Official Report, 29 April 2015, Col 5


Scottish Parliament Finance Committee, Official Report, 29 April 2015, Col 14


Scottish Parliament Finance Committee, Official Report, 29 April 2015, Col 17

Scottish Parliament Finance Committee, Official Report, 29 April 2015, Col 17


Scotland in the UK: An enduring Settlement, paragraph 2.2.5

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ibid., paragraph. 2.4.16,

Her Majesty's Treasury. (2010) Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy,

Scotland in the UK: An enduring Settlement, paragraphs 2.4.14 & 15

Scottish Parliament Finance Committee, Official Report, 29 April 2015, Col 22


Scottish Parliament Finance Committee, Official Report, 29 April 2015, Col 18


Institute for Fiscal Studies, Written submission to the Finance Committee, sect. 5

Scottish Parliament Finance Committee, Official Report, 3 June 2015, Col 23

Finance Committee, 6th Report, 2015 (Session 4). Further Fiscal Devolution, paragraph 33

Finance Committee, 6th Report, 2015 (Session 4). Further Fiscal Devolution, paragraph 32


Scottish Parliament Finance Committee, Official Report, 22 April 2015, Col 26

Scottish Parliament Finance Committee, Official Report, 22 April 2015, Col 26

Scottish Parliament Finance Committee, Official Report, 22 April 2015, Col 27

Alan Trench. Written submission to the Finance Committee.


Report of the Smith Commission, paragraph 95 (7)

Scotland in the UK: An enduring Settlement paragraph 2.4.34

Scotland in the UK: An enduring Settlement paragraph 2.4.34


90 The Chartered Institute of Public Finance and Accountancy. Written submission to the Finance Committee.
91 Scottish Parliament Finance Committee, Official Report, 29 April 2015, Col 28
93 Royal Society of Edinburgh. Written submission to the Finance Committee.
94 Scottish Parliament Finance Committee, Official Report, 3 June 2015, Col 9
95 Scottish Parliament Finance Committee, Official Report, 3 June 2015, Col 10
96 Scottish Parliament Finance Committee, Official Report, 1 April 2015, Col 36
97 Scottish Parliament Finance Committee, Official Report, 1 April 2015, Col 37
104 Scottish Parliament Finance Committee, Official Report, 4 December 2013, Col 3433
109 Report of the Smith Commission
110 Report of the Smith Commission, Paragraph 471
111 Cabinet Secretary for Finance, Constitution and Economy. Written submission, 7 June 2015.
112 Scottish Parliament Finance Committee, Official Report, 29 April 2015, Col 2
113 Scottish Parliament Finance Committee, Official Report, 29 April 2015, Col 4
114 Scottish Parliament Finance Committee, Official Report, 29 April 2015, Col 4
117 Cabinet Secretary for Finance, Constitution and Economy. Written submission, 7 June 2015.
118 House of Lords - Select Committee on the Constitution. 11th Report, 2015. Inter-governmental relations in the United Kingdom. (HL Paper 146), page 86.
119 Royal Society of Edinburgh. Written submission to the Finance Committee.
129 Bingham Centre for the Rule of Law, A Constitutional Crossroads: Ways Forward for the United Kingdom, paragraph 6.3
130 Bingham Centre for the Rule of Law, A Constitutional Crossroads: Ways Forward for the United Kingdom, paragraph 6.3
136 The Secretary of State for Scotland. (2009) Scotland’s Future in the United Kingdom: Building on ten years of Scottish devolution, paragraph 89.
137 Report of the Smith Commission, paragraph 95 (9)
138 Scottish Parliament Finance Committee, Official Report, 28 January 2015, Col 41
140 Scottish Parliament Finance Committee, Official Report, 29 April 2015, Col 3
141 Scottish Parliament Finance Committee, Official Report, 3 June 2015, Col 19
142 Scottish Parliament Finance Committee, Official Report, 3 June 2015, Col 19
144 Bingham Centre for the Rule of Law, A Constitutional Crossroads: Ways Forward for the United Kingdom, page 47.
147 Scottish Parliament Finance Committee, Official Report, 3 June 2015, Col 37
151 Scottish Parliament Finance Committee, Official Report, 13 May 2015, Col 1
152 Scottish Parliament Finance Committee, Official Report, 13 May 2015, Col 8
155 The Secretary of State for Scotland. (2009) Scotland’s Future in the United Kingdom: Building on ten years of Scottish devolution.
156 Scottish Parliament Finance Committee, Official Report, 22 April 2015, Col 42
157 Scottish Parliament Finance Committee, Official Report, 22 April 2015, Col 47
159 Scottish Parliament Finance Committee, Official Report, 3 June 2015, Col 12
Annexe A

List of written submission and index of oral evidence sessions

Written submissions

- Audit Scotland (25KB pdf)
- Austrian Parliamentary Budget Office (34KB pdf)
- Chartered Institute of Taxation (192KB pdf)
- Chartered Institute of Public Finance and Accountancy (297KB pdf)
- Convention of Scottish Local Authorities (28KB pdf)
- David Phillips, Institute for Fiscal Studies (82KB pdf)
- Dr Angus Armstrong (844KB pdf)
- Dr J. R. Cuthbert (59KB pdf)
- Institute Chartered Accountants Scotland (45KB pdf)
- International Monetary Fund (IMF) (427KB pdf)
- John Glen (562KB pdf)
- John McLaren (35KB pdf)
- Keith Lough (18KB pdf)
- Peter Inman (38KB pdf)
- Professor Andrew Hughes Hallett (95KB pdf)
- Professor Alan Trench (299KB pdf)
- Professor Campbell Leith (33KB pdf)
- Professor Charlie Jeffery (23KB pdf)
- Professor David Bell (334KB pdf)
- Professor Gerald Holtham (120KB pdf)
- Professor Iain McLean (161KB pdf)
- Professor Nicola McEwen (32KB pdf)
- Professor Ronald MacDonald (195KB pdf)
- Royal Society of Edinburgh (88KB pdf)
- Scottish Futures Trust (304KB pdf)

Supplementary submissions

- Supplementary submission from Dr J. R. Cuthbert (50KB pdf)
- Supplementary submission from the Chartered Institute of Taxation (137KB pdf)

Oral Evidence sessions

12th Meeting, 2015 (Session 4)  
Wednesday 22 April 2015

Jim Cuthbert, The Jimmy Reid Foundation; and John McLaren, Fiscal Affairs Scotland.
13th Meeting, 2015 (Session 4)  
Wednesday 29 April 2015

Dr Angus Armstrong, Director of Macroeconomic Research, National Institute of Economic and Social Research; Professor Charlie Jeffery, Senior Vice-Principal, University of Edinburgh; Professor Nicola McEwen, Associate Director, Centre on Constitutional Change.

14th Meeting, 2015 (Session 4)  
Wednesday 13 May 2015

Mairi Spowage, Head of National Accounts, and Simon Fuller, Deputy Director, Office of the Chief Economic Advisor, Scottish Government; and then from—

Alan Bermingham, Policy and Technical Manager, Chartered Institute of Public Finance and Accountancy; Charlotte Barbour, Head of Taxation, The Institute of Chartered Accountants of Scotland; Patrick Stevens, Tax Policy Director, Chartered Institute of Taxation.

15th Meeting, 2015 (Session 4)  
Wednesday 20 May 2015

Professor Ronald MacDonald, University of Glasgow; Professor Michael Keating, Director, Centre on Constitutional Change; Professor John A. Beath, Royal Society of Edinburgh; Professor David Bell, University of Stirling.

16th Meeting, 2015 (Session 4)  
Wednesday 27 May 2015

David Phillips, Senior Research Economist, Institute for Fiscal Studies; Professor Alan Trench.

17th Meeting, 2015 (Session 4)  
Wednesday 3 June 2015

John Swinney, Cabinet Secretary for Finance, Constitution and Economy, Scottish Government.