Inquiry on further fiscal devolution

RESPONSE FROM ICAS TO THE FINANCE COMMITTEE OF THE SCOTTISH PARLIAMENT

12 December 2014
Introduction

ICAS is pleased to respond to a request for additional written evidence from the Finance Committee of the Scottish Parliament on its inquiry into further fiscal devolution.

About ICAS

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public and charity sectors.

Our Charter requires ICAS committees to act primarily in the public interest and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Additional evidence

Following the Finance Committee hearing on 10 December, ICAS has been asked for further comment on two matters. These are whether the Smith Commission recommendations:

i. Deal with our comment on preventative spending made in paragraph 9.3 of our submission to the Commission; and
ii. Would give Scotland any powers over policies which could increase the proportion of the population expected to be economically active. This query references a comment we made on demographics at paragraph 7.18 of our submission to the Smith Commission.

i. Borrowing powers to fund preventative spend

The Smith Commission report makes no reference to preventative spend and the commentary on borrowing powers within the report, in our view, could not be interpreted as permitting borrowing to fund preventative spend.

Paragraph 95(5) of the Smith Commission report states that:

“… Scotland’s fiscal framework should provide sufficient, additional borrowing powers to ensure budgetary stability and provide safeguards to smooth Scottish public spending in the event of economic shocks, consistent with a sustainable overall fiscal framework. The Scottish and UK Government should consider the merits undertaking capital borrowing via a prudent borrowing regime consistent with a sustainable overall framework.”

The Scottish Government will acquire revenue borrowing powers under the Scotland Act 2012 for the purpose of providing budgetary stability. Smith considers that revenue powers to accompany the further devolution of powers should remain limited to this objective. Therefore, preventative spend initiatives would appear to fall outside the scope of forthcoming and proposed powers on revenue borrowing.

Capital borrowing powers will also be acquired under the Scotland Act 2012 to fund capital investment and, under Smith; the scope of capital borrowing powers remains unchanged.

While revenue in nature, we believe that preventative spending has a quality which is normally associated with capital expenditure in that its objective would be to deliver long-term benefits through reducing demand for public services and creating future savings. This is the basis of our view that borrowing powers should be extended to permit the Scottish Government and Scottish local authorities to borrow to fund preventative spend.

Borrowing to fund day to day public expenditure over the long-term would not fit with a prudential borrowing regime consistent with a sustainable UK framework. Preventative spending would meet this objective, although expenditure on innovative initiatives would not be risk free.
ii. **Impact of additional powers on the number of economically active individuals**

ICAS is not able to offer any evidence on whether or how the additional powers recommended by the Smith Commission could impact on Scotland's demographics and therefore we cannot comment specifically on whether or how these additional powers could impact on the proportion of the population expected to be economically active.

However, we would be supportive of the Office of National Statistics developing population data which could be used by government and other parties to prepare analyses based on the proportion of the population expected to be economically active rather than on the proportion which is expected to be of working age, as is currently the case. People are expected to work longer and although the UK Government sets the Normal Retirement Age, which is the age a person becomes entitled to a State Pension, employers are no longer able to compel workers to retire when they reach that age.

This issue was highlighted to us through the work of the Pensions Policy Institute on “The potential impact of Scottish Independence on State Pensions in Scotland,” which formed evidence given to the Finance Committee on 18 June 2014. However, we would see the main purpose of more refined population data as being to assist more effective forward planning by government.