The Scottish Parliament
Pàrlamaid na h-Alba

Finance and Public Administration Committee

Finance and Public Administration Committee consultation response to inform the Fiscal Framework Independent Report

1. The Finance and Public Administration Committee and its predecessor Finance and Constitution Committee have each had a longstanding focus on scrutinising the way in which the Fiscal Framework has operated and how it impacts on Scotland's public finances. Whilst the primary focus of this work has been on the implementation and operation of tax powers (with social security powers scrutinised by the Social Security Committee), the overall impact of the Fiscal Framework on the Scottish Budget has also been a key area of scrutiny. A challenge for the Independent Report and the Review will be the extent to which the Block Grant Adjustment (BGA) approaches that are explored can also potentially accommodate the implementation and operation of these taxes.

2. Invariably, given its size, decisions relating to income tax at a Scottish and at a UK level can have a significant impact on the Scottish budget. As such, much of the FPA Committee's scrutiny has focussed on the factors affecting income tax receipts.

3. The Committee welcomes this consultation to inform the Independent Report and notes that each of the authors of this Report were advisers on finance matters to the Committee's predecessors in Session 4 or Session 5. Given the authors' existing knowledge of those Committees' work, we do not repeat here the evidence received by those Committees nor all the recommendations made by them relating to the operation of the Fiscal Framework and BGAs.

4. On 11 January 2022, prior to the remit and authorship of the Independent Report being agreed, the FPA Committee held an evidence session with the report authors, as well as Dr Ed Poole and Guto Ifans from Cardiff University, to discuss potential issues that the report should address. This response is informed by that evidence.

5. In addition, in October 2020, the Finance and Constitution Committee, together with the Social Security Committee and the Scottish Government, agreed a detailed report setting out to inform the scope and terms of reference of the body tasked with delivering the independent report and the Fiscal Framework review. In October 2021 we wrote to the then Chief Secretary to the Treasury

recommending that this joint report be used to inform the scope and terms of reference of the review. In it, we also highlight issues that will be of relevance to the Independent Report, some of which are set out below.

Responses to survey questions

a. What do you consider to be the strengths and weaknesses of the current approach to calculating block grant adjustments for devolved taxes and social security spending for Scotland?

6. The current Fiscal Framework has been in operation since 2016 providing the opportunity for its subsequent implementation and operation to be scrutinised over a number of years. It is welcome that the Fiscal Framework provided that it be reviewed, after a number of years, so as to benefit from the knowledge and practical experience of its operation gained during that time. This is particularly important given, as the Fraser of Allander Institute explain, "Some aspects of the current fiscal framework were thrown together rather hastily in 2016, often based on speculative judgements about the sorts of budget management tools that might be needed."[1]

7. Given this, providing robust evidence upon which decisions about any changes to the Fiscal Framework can be based is important – for scrutiny and transparency, but also to ensure there is confidence in the agreed Fiscal Framework arising from the Independent report and review.

8. We agree with the report authors when, in evidence to us in January 2021, they suggested that the Independent Report should include a qualitative, principles-based discussion about the benefits, costs and trade-offs of the different options for BGAs. This was in addition to the use of quantitative modelling of the different options using historical data to show what would have happened as well as future scenarios.[2]

9. We recognise that ultimately decisions regarding any changes to the Fiscal Framework will be agreed by the UK Government and Scottish Government through political negotiation. However, we recommend that the final agreed Framework should, to the extent possible, set out the factors and evidence considered, as well as any trade-offs made, in reaching the decision on which BGA mechanism should be used. Adopting this approach would support more effective scrutiny, and address some of the concerns about transparency around the current Framework, by supporting greater and wider understanding of the Framework and how it is intended to work.

10. We have set out below some areas for improvement with the current approach to calculating Block Grant Adjustments:

[1] The 2022 review of the Scottish fiscal framework: what's been agreed so far? | FAI (fraserofallander.org)
[2] Finance and Public Administration Committee, 11 January 2022, Official Report, Col 9.

Budget timings

11. The Fiscal Framework makes provision for the timings of when both the UK and Scottish Budget would be published under normal circumstances, but also in those circumstances when the Scottish Government's Draft Budget might be provided in advance of the UK Budget. In the latter case, depending upon when the UK Government Budget statement is, the Scottish Government will require to apply provisional BGAs provided by the UK Government and can then choose whether to apply any subsequent reconciliations to the actual BGAs either in the next financial year or the year thereafter.

12. In 2020, the Scottish Government published its Budget on 6 February in advance of the UK Government's budget on 11 March 2020. Given those circumstances HM Treasury agreed with the Scottish Government that it could choose whether to update BGAs according to the latest forecasts from the UK Budget or alternatively use the provisional BGAs. Either approach is, however, not without its issues particularly in relation to the possibility of tax policy changes impacting in devolved areas.

13. On 3 April 2020, following the onset of the global pandemic, the Scottish Government wrote to the Committee confirming that it would use the provisional BGAs "to protect the Scottish Budget in the short-term, allowing further time to consider the impact of the Covid-19 crisis on forecasts and the 2020-21 Budget position. However, using the provisional BGAs did not eliminate all risk to the Scottish Budget 2020-21, as the fully devolved taxes and social security BGAs are subject to an in-year reconciliation under the Fiscal Framework."[3]

14. Given this, we consider that the Independent Report should explore how the Fiscal Framework and any BGA mechanisms respond to the impact of different timings of the Scottish and UK Budgets and what might be considered to be reasonable risk in such circumstances. We consider that, more generally, there should be greater certainty in the timings of UK Budget and Scottish Budget each year particularly given changes in those timings impacts on budget certainty for others such as local government.

Data

15. Understanding the drivers of income tax revenues, as well as ensuring the availability of relevant data to make forecasts, is important in ensuring that income tax forecasts are as accurate as possible. As more data about Scotland has become available over time, this has supported better forecasting, for example the availability of real time income Pay As You Earn data.

16. In its Report on the Scottish Budget 2019/20, our predecessor Committee noted the Scottish Fiscal Commission's (SFC) suggestion that there is some evidence

[3] Cabinet Secretary letters to the Convener of the Finance and Constitution Committee, 18 March and 2 April 2020.

the slower earnings growth in Scotland is “due to the disproportionate level of higher taxpayers in the rest of the UK relative to Scotland.”

17. The SFC subsequently explained as part of that Committee’s pre-budget 2020/21 scrutiny that the likeliest single explanation for this was that the UK has a higher concentration of higher-rate taxpayers and the recent growth in UK income tax revenue has been concentrated among them. The SFC stated that neither they nor the OBR were aware that the recent growth in income tax revenues “would be so strongly affected by distributional issues” and that, had they been aware of this, “Scotland would have had a smaller budget two years ago and we would not need a reconciliation now.”[4]

18. On 11 December 2018, the OBR and SFC jointly responded to our predecessor Committee’s pre budget 2019-20 report regarding the quality and robustness of data available at that time. Both noted that there are several sources of income tax data, with different coverage for Scotland and the UK, which become available at different times. Whilst they considered that, with some caveats, the SFC has access to Scottish data of comparable quality and timeliness to that available to the OBR, they also acknowledged that there is richer and more timely data available for the UK as a whole than there is for Scotland.

19. Given the potential impact of data quality on forecast error, we recommend that, in considering the various approaches to calculating BGAs, the relevant data used to forecast the BGAs and to determine tax and welfare receipts should also be reviewed to ensure it is sufficiently robust and comprehensive for those purposes.

Baseline adjustments

20. The Fiscal Framework identifies that the initial baseline adjustment would be made on the basis of the Scottish share of tax receipts or welfare spend in the year before the power is devolved. Initially a forecast of either tax receipts or welfare spend in Scotland would be made for the first year of operation and this would then be reconciled to actual data once available, and the baseline adjusted if necessary.

21. Whilst, in general, it has been accepted that this calculation of the baseline adjustments would be fairly straightforward, there are some potential risks with the decision to use only one year’s receipts or spend. We note that, in relation to the initial BGA adjustment for cold weather payments, the UK Government and Scottish Government agreed to use the average of the previous 10 years to take into account variation in the weather.

22. Audit Scotland highlighted that the point in the relative economic cycles of Scotland and the rest of the UK at which baselines for BGAs were established is a key aspect of economic performance risk. They also highlight that the extent of any changes to social security entitlements and benefit levels in areas prior to

[4] Pre-Budget Scrutiny 2020/21 Report, Finance and Constitution Committee, 12 November 2019

devolution, could impact on baseline BGAs and, at that time, noted that a similar risk applies in relation to the taxes that have yet to be devolved.[5]

23. The potential impact of this was highlighted in our Pre-Budget Report 2022-23 when we explored why the Scottish Government's estimate of the additional income tax revenues its policies would raise was less than anticipated. The FAI explained that this difference may be due to some of the legacy of declining offshore sector which has "had a disproportionate impact on the Scottish economy and Scottish income growth relative to the rest of the UK".[6] They suggested that this could have been 'baked in', having arisen from slower tax base growth in Scotland relative to the rest of the UK during the first two years of income tax devolution.[7] As such, Scotland's tax base has not necessarily grown more slowly, but rather this difference has persisted.

24. It would therefore be beneficial if the independent report could assess whether the baseline adjustment taken to date for each operational tax or welfare power represented a 'normal' year (as compared with a multiyear approach). This is particularly given the economic impact of the pandemic, inflation and Brexit over a number of years and in view of the devolved taxes and benefits which have yet to be implemented.

b. To what extent do you think that the various approaches to calculating the Scottish block grant adjustments, outlined in the background note, are consistent with the Smith Commission's principles? How could the calculation of the BGAs be made more consistent with the Smith Commission principles?

25. In order to respond to this question, the Committee returned to the Smith Commission Report[8] and what its intended effect was to be. The recommendations in that report "are explicitly designed to create a coherent set of powers that strengthen the Scottish Parliament's ability to pursue its own vision, goals and objectives, whatever they might be at any particular time."

26. Key ambitions of the Commission's Report were to better 'deliver prosperity, a healthy economy, jobs, and social justice (pillar two)' and 'strengthen the financial responsibility of the Scottish Parliament (pillar three). It is therefore the Committee's view that assessing the extent to which each BGA method is consistent with the Smith Commission's principles should be influenced by how they best deliver on these ambitions for the Scottish Parliament.

[5] Audit Scotland written submission to the Joint Committee/ Scottish Government report on the scope and terms of reference for the Independent Report and Review of the Fiscal Framework. October 2020
[6] Finance and Public Administration Committee, Official Report, Col. 45. (2021, September 14).
[7] Fraser of Allander blog: Scottish income tax outturn data 2019/20: deciphering the numbers that matter. (2021, July).
[8] 2014 Smith Commission Report

27. In a paper in 2015, David Phillips, David Eiser and Professor Bell concluded that it “is impossible to design a block grant adjustment (BGA) system that satisfies the spirit of the ‘no detriment to devolve’ principles at the same time as fully achieving the ‘taxpayer fairness’ principles: at least whilst the Barnett formula remains in place.”[9]

28. When giving evidence to this Committee on 11 January 2022, the views of Professor Bell, David Eiser and David Phillips remained unchanged. As David Phillips explained, because Scotland’s population is growing less quickly than in England, that brings the no detriment principle into conflict with the taxpayer fairness principle-

    “If you say that we will ensure that Scotland does not lose out from devolution as long as its revenues keep up per capita, but the population is growing less quickly, in order to achieve that you need to transfer some revenues from England to make up for Scotland’s slightly slower population growth. That would mean that you would not be satisfying the taxpayer fairness principle, which says that, once taxes are devolved, the revenues should stay in the countries in which they are raised. That is why we said that there is a fundamental conflict between the different principles.”[10]

29. As such, they contend there is a need to think about which of the Smith Commission principles should be priorities, which is in turn influenced by what outcome is being sought by the fiscal framework – is it to maintain a fiscal union or support further fiscal devolution?

30. David Phillips explained that, because a fiscal union involves transfers between different parts of the country, the taxpayer fairness principle becomes less important and the no detriment principle is more important. Conversely, if further fiscal devolution is supported, the “taxpayer fairness principle might then become more important because there is less of a rationale for transfers between different parts of the country when there is less of a fiscal union.” He considered that the current approach is that the taxpayer fairness principles are de-prioritised and the no detriment principles are prioritised to support a fiscal union between Scotland and England.[11]

31. Given this inherent conflict, we have not taken a view on the extent to which each possible BGA approach is consistent with the Smith Commission principles. Rather, we recommend that the Independent Report explores whether some of the principles should have greater priority than others, in order to support the Smith Commission’s overall ambition to strengthen the financial responsibility of the Scottish Parliament.

32. Which Smith Commission principles should have greater weighting over others when considering a BGA approach is clearly linked to each Government’s view of the fiscal relationship between Scotland and the rest of the UK. It will therefore

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[9] Adjusting Scotland’s Block Grant for new Tax and Welfare Powers: Assessing the Options, Bell, Eiser and Phillips, Institute for Fiscal Studies. November 2015
[10] Finance and Public Administration Committee, 11 January 2022, Official Report,
[11] Finance and Public Administration Committee, 11 January 2022, Official Report, Col 6

inevitably form part of the wider review of the Fiscal Framework by the Scottish Government and UK Government. We consider it important for transparency that the Fiscal Framework arising from the Review sets out the extent to which the BGA mechanism, agreed by the UK and Scottish Governments, meets each of the Smith Commission principles, as well as any trade-offs between principles.

33. We note that David Phillips suggested that it might be feasible for the report (and potentially the wider review) to look at the principles that guide the Fiscal Framework and "how they fit into the different potential conceptions of the union's purpose."[12] We consider that there would be merit in undertaking that work as part of the Independent Report to support better understanding and transparency.

34. In their report in 2015[13], Professor Bell, Dr David Eiser and David Phillips also highlighted the challenges in fully implementing the 'compensation principle' set out by the Smith Commission, because the way that individuals change their behaviour in response to tax rate changes means that the counterfactual "no change" scenario cannot be observed or easily modelled. They note that these issues are particularly relevant for welfare devolution "where there are complicated interactions between different parts of the benefit system, and significant scope for behavioural response to changes to benefit structure and rules".

35. We recommend that the Independent Report sets out the risks of fully implementing the compensation principle and what, if any, approaches to interpreting the counterfactual 'no change' scenario could be applied.

c. To what extent do you think the various approaches to calculating the Scottish block grant adjustments shares risks between the Scottish and UK governments appropriately? To what extent do you think it is important that the allocation of risks implied by the BGA mechanism aligns with the balance of risks held under the Barnett formula?

36. A challenge in responding to this question is that how risks are assessed as being shared may be perceived differently when looked at individually or as part of the overall fiscal powers that Scotland has. One BGA approach may be considered to be a disproportionate (and unreasonable) risk to either the UK or Scottish Government but could be considered appropriate where that Government also has the necessary levers to mitigate or address that risk. An example of this trade-off is seen in the approach taken in the Welsh Fiscal Framework, whereby the Welsh Government was willing to accept a less favourable model for calculating BGAs - the comparable method. This was in recognition that there would be:

[12] Finance and Public Administration Committee, 11 January 2022, [Official Report](), Col 8
[13] [Scotland_Block_Grant.pdf (ifs.org.uk)]()

a. three separate BGAs for income tax acknowledging Wales' weaker tax base compared relative to the rest of UK, and
b. a new needs based factor added to the Barnett formula in response to historic concerns about the operation of the formula in Wales.

37. We recognise that any risks arising from how BGAs act on taxation may also have to be balanced against the risks arising from how BGAs act on welfare spend. In a Scottish context, both this Committee (and our predecessor) believe that the limits on the Scottish Government's resource borrowing powers to cover BGA forecast error and cash management, and the Scotland Reserve, are not currently sufficient. We recognise that the adequacy of the borrowing powers within the Fiscal Framework will likely be considered by the forthcoming review, but it does illustrate the challenge we outline above.

38. Allied to this is the extent to which addressing the factors which increase risk can be influenced by the governments and the degree to which there should be risk sharing and redistribution across the UK. As the report authors highlighted in their paper in 2015, without a more fundamental debate about the types of fiscal risks and incentives Scotland should face, "it is difficult to recommend a particular form of BGA as these are intimately linked."

39. We also recognise that, as devolved welfare and taxation powers become operational, the cumulative impact of risk will potentially increase – understanding how risks associated with different BGA approaches interact together will therefore be important in considering the merits of different approaches.

40. Given the magnitude of the UK Budget and the levers at the disposal of the UK Government compared with the Scottish Budget and the levers of the Scottish Government, the implications of any financial risks associated with the BGA mechanism, should they come to pass, will have a potentially greater impact on the Scottish Government than for the UK Government. We have set out below some issues which expand on this.

Forecast Error

41. A consequential impact of the different timings of the UK and Scottish Budgets is on the timing of the forecasts by the OBR and SFC. During a period of considerable uncertainty such as the global pandemic, these timing differences in the forecasts can have a significant impact on the BGAs, as we have seen in recent times. In its Pre-budget report 2021-22 our predecessor Committee's view in relation to the pandemic was that "the current levels of uncertainty and volatility could exacerbate the risks from forecast error. In particular, the rapidly evolving situation is likely to have an impact on the OBR and SFC forecasts given they are 2 months apart."

42. The potential impact of this volatility can be seen in the Fiscal Framework Outturn Report published in September 2021. That report noted that the SFC latest forecast for the 2021-22 income tax reconciliation (to be applied to the 2024-25 budget) was a positive reconciliation of £851 million. This came with a significant health warning that, due to the differing economic prospects arising from the

pandemic and stages of lockdowns at the times when the SFC and OBR each produced their forecasts, the SFC did not therefore "think it's likely that the reconciliation will be as large as £851 million." The actual reconciliation for 2021-22 won't be known until mid-2023.

43. We acknowledge that reconciliation in a future budget based on actual receipts could correct any forecast error and that the Scottish Government has the power to borrow for forecast error in relation to devolved and assigned taxes and demand-led welfare expenditure:

    a. with an annual limit of £300m; and
    b. for any observed or forecast shortfall in devolved or assigned tax receipts or demand-led welfare expenditure incurred where there is, or is forecast to be, a Scotland-specific economic shock, with an annual limit of £600m.

44. As we heard, analysis by the SFC and Scottish Government suggests that, in normal circumstances (and based on foreseen likely forecast error) borrowing might need to exceed £300 million fairly regularly.[14] The latest SFC forecast from May 2022 includes an indicative negative reconciliation forecast for 2021-22 of -£817 million (see figure 2.6).[15] Whilst forecast error is inherent in a BGA system based on using forecasts (and using two different forecasters only adds to those risks), the flexibilities put in place through the borrowing powers are not currently sufficient to address these expected levels of forecast error. This can only be exacerbated by the magnitude of the volatility in economic conditions and the impacts of timing difference seen in recent times.

45. In January 2021, the provision in the fiscal framework which triggers a Scotland-specific economic shock was met, due to the quirk in timing of the two sets of forecasts. The shock allows the Scottish Government more scope to borrow to cover forecast error over the next few years. At that time Professor Roy warned the Committee that "it surely cannot be the case that funding flexibilities are either available or not available based on the date of publication of a report". He called for the fiscal framework review to consider the timing of forecasts, as well as the budget and parliamentary scrutiny, that underpins an effective budget process.[16]

46. In times of significant volatility, the risks of forecast error are exacerbated. As such, the Scottish Government could have to manage either a significant 'shortfall' in funding or substantial 'additional' funding through the BGA as well as also managing the converse in the year of the reconciliation, arising simply from differences in forecast timings, rather than the effects of UK Government or Scottish Government policy decisions.

47. Should this come to pass, then managing this volatility in BGA forecasts or reconciliations would have potentially much more significant implications for the policy choices of the Scottish Government compared to the UK Government given the sizes of their respective budgets.

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14 Finance and Public Administration Committee, 11 January 2022, Official Report, Col 4.
15 Scotlands-Economic-and-Fiscal-Forecasts-May-2022.pdf (fiscalcommission.scot)
16 Professor Graeme Roy: Written Submission. (2021).

48. Given this, we recommend that the Independent Report explores the extent to which the risks arising from differences in forecast timings are reasonable and appropriate given the size of the Scottish Budget and whether the OBR and SFC forecasts could be better timed to minimise this risk.

Longer term and Asymmetric impacts

49. Another area of risk highlighted to us was in relation to ongoing longer term trends in either the UK or Scottish economy that disproportionately impact on Scotland, for example, as a result of demographic changes or through economic or tax base structural changes such as the gradual decline in North Sea Oil. As David Eiser highlighted "If, as a result of tax devolution and trends that neither the Scottish Government nor any other Government can do a great deal about, the Scottish Budget was disadvantaged over time, that would not feel like a particularly reasonable outcome of devolution." He and David Phillips suggested that there could therefore be a case for resetting the clock (the baseline year) periodically.[17]

50. Professor Bell also highlighted the difficulties in identifying an asymmetric shock – where Scotland's economy is negatively impacted whilst the rest of the UK is not. Whilst COVID impacted all parts of the UK "pretty much the same" he explained that "we don't have a methodology for recognising an Asymmetric shock". This matters since the OBR BGA calculations are based on the tax revenue foregone or welfare spend – it is unclear the extent to which such forecasting would be adjusted to accommodate changes in how Scotland performs within the OBR's top down UK wide based approach. Currently the Fiscal Framework sets out the trigger for recognising asymmetric shock as being "when onshore Scottish GDP is below 1% in absolute terms on a rolling 4 quarter basis, and 1 percentage point below UK GDP growth over the same period. The shock may be triggered from outturn data or forecasts." As we set out above the asymmetric shock conditions have also been triggered due to quirk in the timing of the OBR and SFC forecasts.

51. Guto Ifans also considered that it would be helpful to have some recognition in the BGA that there are risks outwith the control of the Scottish Government. He suggested that "it would be good to have some adjustment for that such as the introduction of a separate BGA adjustment methodology."

52. The longer-term risks of the approach of continuing to base BGAs on the method and size of taxation or welfare spend in the year before they were operational was also discussed with us. This was especially where subsequent policies by the UK Government or Scottish Government in these areas significantly diverge. As Professor Bell explained – as taxation or welfare policies diverge "if you no longer have a particular benefit or have changed it to something that does not resemble it in any significant way, how on earth do you work out the Block Grant Adjustment?[18]

[17] Finance and Public Administration Committee, 11 January 2022, Official Report, Col 18.
[18] Finance and Public Administration Committee, 11 January 2022, Official Report, Col 7

53. In those circumstances, under the current BGA method, it would have to be assumed that the previous instrument continued to exist and estimate the BGA from there, which he considered to be extremely challenging. Professor Bell also highlighted the challenges of assessing how the increasing number of fiscal instruments and their BGAs interact. This uncertainty potentially adds to the level of BGA forecast error – which currently must be accommodated within the Fiscal Framework's borrowing limits, with any shortfall (or additional spend) the responsibility of the Scottish Government.

54. Given these challenges, we endorse the Smith Commission principle that the Fiscal Framework arrangements should be reviewed periodically to ensure that they continue to be seen as fair, transparent and effective. We also consider that there is merit in the Independent Report exploring whether there are circumstances in which the BGA baseline years should be reset and if so, what might trigger that to happen.

55. There is also merit in the Independent Report exploring more fully how asymmetric shocks might be identified and the risks they could pose to the Scottish Government and UK Government.

d. Do you have any other suggestions for how the block grant adjustments should be designed beyond the transition period?

56. Ultimately whatever BGA approach is agreed will be the subject of political negotiation informed by views of what the relationship between Scotland and the United Kingdom should be. The Independent Report Briefing Note which accompanies this consultation sets out some of the implications of the Index Per Capita and Comparable Model methods for the Scottish Budget. We do not propose to advocate for any one particular approach here but, instead, would request that there is transparency over the reasons why any particularly BGA approach is agreed to by the UK Government and Scottish Government, to promote greater understanding around the Fiscal Framework and support effective scrutiny.

57. Other alternatives have already been suggested by the report authors in their 2015 paper - such as the:

    a. <u>Benchmarking tax system</u> - which reforms the way the BGAs are indexed so that marginal changes in revenue-raising capacity are partially equalised for, which would provide greater risk-sharing for long-term shocks), and
    b. <u>Levels Deduction method</u> - This calculates the change in the BGA as a population share of the change in comparable revenues in rUK.

58. In addition, the briefing paper refers to the Welsh Fiscal Framework approach whereby three separate BGAs for income tax are used.

59. We consider there would be merit in exploring all these approaches in the Independent Report in order that they can be more easily compared with any other BGA approaches explored and to support scrutiny and transparency.

e. Do you have any suggestions for how understanding of block grant adjustments among stakeholders can be improved?

60. It has been a longstanding concern of this Committee, its predecessors and stakeholders that the complexity and lack of transparency of the Fiscal Framework limits the ability for scrutiny and understanding more generally. Others also expressed concern about the transparency of BGA calculations and its wider impact on transparency, scrutiny and public confidence. ICAS highlighted that "access to high quality, transparent, complete and understandable information is an essential tool to enhance accountability, scrutiny and to support effective decision making on public finances. This is increasingly important in the context of devolved powers and increasing volatility of revenue."[19]

61. Early on in the implementation of the Fiscal Framework, our predecessor Committee commented on the impact on public confidence of the competing accounts of the reconciliation process in news releases published by both the UK and Scottish Governments. It recommended that both agree an approach to reporting on the reconciliation process which is transparent and will increase public understanding. This result in the approach now used of an annual joint statement being released.[20]

62. We also recognise that there is a role for the Scottish Parliament in supporting greater transparency and understanding. Committee scrutiny work along with publications and blogs from the Scottish Parliament Information Centre all help to support this. That said, we recognise more can be done and this is a matter we will explore specifically as part of our forthcoming work on a Scottish approach to taxation. We also intend to seek evidence from the Report authors and the Scottish and UK Governments on the outcome of the Independent Report and the Review in due course.

63. A consistent theme across the Session 5 Finance and Constitution Committee budget reports was the transparency of the calculations made to determine the BGAs. Whilst some steps have been taken to address this through HM Treasury's publication of the BGA calculations, the Session 5 Committee noted that there is no accompanying narrative explaining the year on year changes to the adjustments to the block grant.[21]

64. Changes in BGAs could be a consequence of a number of interrelated factors such as UK tax policy changes, changes to the baseline for income tax, the

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[19] Written submission to the joint Scottish Parliament/Scottish Government Fiscal Framework Review Working Group

[20] Scottish Income Tax outturn reconciliation for 2020-21 - GOV.UK (www.gov.uk)

[21] Report on the Draft Budget 2018-19, Finance and Constitution Committee, 28 January 2018

performance of the UK economy and the performance of UK tax receipts. In its Report on the Draft Budget 2019-20 the Committee noted that the BGA had been significantly revised downward as the "the OBR has revised up its forecasts for the performance of the key determinants of UK income tax revenues (the employment rate and average earnings) since last year." However, without an explanation of what factors led to this revision, the Committee noted that "we don't know with any certainty how these various different factors play off against each other. The Committee's view was that it is essential that this information is published to enable wider understanding of and for confidence in the operation of the Fiscal Framework."[22]

65. In his paper on the Scottish Budget 2019-20, the Session 5 Committee's then Budget advisor, David Eiser, highlighted questions about how changes to the BGA calculation methodology are communicated to Parliament. As an example, he noted that the "UK and Scottish Government have agreed a small change to the BGA calculation methodology in 2020/21 to reflect the fact that income tax will be partially devolved to Wales in 2019/20". He queried whether this had been communicated to the Committee or Parliament.

66. Given these views, we contend that there should be:

  a. More detailed information made available on the reasons for changes in the BGAs year to year;
  b. An agreed procedure as to how any changes to BGA methods are communicated to this Committee and the Scottish Parliament;
  c. A clear communication plan alongside the Fiscal Framework, agreed following the review, setting out in plain English to the extent possible what the Framework is, what the changes are and why they have been made.

67. We look forward to considering the Independent Report.

[22] Report on the Draft Budget 2019-20, Finance and Constitution Committee, 25 January 2019