



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

### FINANCE COMMITTEE

Wednesday 2 September 2015



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**Wednesday 2 September 2015**

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**FINANCE COMMITTEE**  
**20<sup>th</sup> Meeting 2015, Session 4**

**CONVENER**

\*Kenneth Gibson (Cunninghame North) (SNP)

**DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**COMMITTEE MEMBERS**

\*Richard Baker (North East Scotland) (Lab)

\*Gavin Brown (Lothian) (Con)

\*Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)

\*Mark McDonald (Aberdeen Donside) (SNP)

\*Jean Urquhart (Highlands and Islands) (Ind)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

John Swinney (Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy)

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Finance Committee

*Wednesday 2 September 2015*

*[The Convener opened the meeting at 09:30]*

### Decision on Taking Business in Private

**The Convener (Kenneth Gibson):** Welcome to the 20th meeting in 2015 of the Finance Committee of the Scottish Parliament. I remind everyone to turn off their mobile phones and other electronic devices.

Our first piece of business is to decide whether to take item 4 in private. Do members agree to do so?

**Members** *indicated agreement.*

## Fiscal Framework

09:31

**The Convener:** Our next piece of business is to take evidence from the Cabinet Secretary for Finance, Constitution and Economy in relation to our “Scotland’s Fiscal Framework” report. Mr Swinney is joined by Government officials Sean Neill and Gerald Byrne. Members have copies of the Government’s response to our report. I welcome our witnesses to the meeting and invite Mr Swinney to make an opening statement.

**The Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy (John Swinney):** Thank you for the opportunity to meet the Finance Committee to provide further evidence to your inquiry on Scotland’s fiscal framework.

I welcomed the publication on 29 June of the Finance Committee’s views and recommendations on an updated fiscal framework for Scotland. The written submissions, workshop and oral sessions all underline the importance of a sound fiscal framework for Scotland’s future and, as I said in my response to the committee, I thank all those who contributed to the inquiry, which has helped to shape how we approach the programme of work around the fiscal framework.

I continue to be clear that effective parliamentary scrutiny of the framework is important, and I recognise that the Scottish Parliament will want to be assured that a robust and coherent fiscal framework is in place before it gives legislative consent to the Scotland Bill.

The fiscal framework needs to be fair and it needs to be workable. It is important that both Governments and Parliaments have a detailed and shared understanding of how the various elements of the fiscal framework should work, and what the clear implications may be.

There must be transparency and openness, and I strongly believe that there is a need for accountability and parliamentary scrutiny. Moving forward, the structures and working relations between the Scottish and United Kingdom Governments need to be reformed and made more effective. We need to look at how we work together to reach agreement, as well as how we work together to ensure the successful on-going operation of the new funding arrangements.

The joint exchequer committee met on 7 July and will meet again this Friday to progress our negotiations. It is likely that, as with the first meeting, we will issue a communiqué recording the topics of discussion, and I will ensure that that is passed to the committee as soon as practicable

to enable you to be kept updated on our discussion. As I am sure that you appreciate, it will be a challenge to provide you with detailed updates as the negotiations progress, but I am happy to report back to the Parliament at the appropriate opportunity on the issues that are discussed.

**The Convener:** Thank you for that opening statement.

You have been here on many occasions, so you know that I will start with some questions before opening out the session to colleagues.

Your response goes through our report section by section, so I intend to touch on each of the areas in turn, and I am sure that colleagues will want to examine issues in depth.

Page 3 of your response says that

“Funding for welfare expenditure transferred into the block grant should reflect the full cost of the benefits devolved”,

with an agreed methodology, and that

“Transfers into the block grant should reflect the full cost of administering the new powers”.

For clarification, would the cost of administering the new powers include the cost of setting up a new system, or is that a cost that you believe should fall on the Scottish Government?

**John Swinney:** We believe that, where we are securing new responsibilities, sufficient financial provision should be made to enable the Scottish Government to set up and establish the operation of the welfare provisions.

**The Convener:** So the set-up costs should be included, as well as the administration costs.

Your response goes on to say,

“We should be able to alter the time and quantum of our capital spending materially through capital borrowing powers”,

and you talk about borrowing later on. However, that sounds a wee bit coy. Can you expand on that issue a little?

**John Swinney:** The Government believes that the Smith commission was crystal clear on borrowing in its report, saying that we had to be able to secure additional borrowing capability of two types. The first type was additional borrowing capability to support revenue expenditure. Obviously, if we are responsible for the raising of a larger proportion of our public finances through taxation, we have to acknowledge that there is a likelihood of greater volatility, compared to a situation that involves the delivery of a set block grant from the UK Government. Therefore, revenue borrowing capability needs to be expanded to enable us to manage any of that volatility.

The other aspect of the borrowing requirement relates to capital expenditure. We believe—and the Smith commission came to this conclusion too—that it is necessary for there to be additional borrowing capacity beyond the capital and borrowing provisions in place as a consequence of the Scotland Act 2012 and the existing arrangements.

The key point that I stress is the importance of recognising that both those provisions are additional to the existing arrangements. That was clearly articulated in the Smith commission report.

**The Convener:** Thank you for that.

In the borrowing section on page 4 of your response—I direct you to the final paragraph before the section on current spending—you say:

“The Scottish Government welcomes the Smith recommendation that both Governments should consider the merits of a prudential borrowing regime.”

I am sure that you favour that, but saying that you “should consider the merits” is not a ringing endorsement, is it? Does the Scottish Government want prudential borrowing powers?

**John Swinney:** I think that prudential borrowing powers would be desirable, but we would have to ensure that those powers enabled us to pass the test of securing additional borrowing capability and the ability to undertake additional capital expenditure beyond the current provisions. For example, an argument could be advanced that suggested that prudential borrowing should be the only type of borrowing capacity or the only form of support for capital expenditure that we have. I would need to be satisfied that that would deliver additional capital spending capability beyond our current arrangements; I am sure that the Parliament would want that, too.

The test is whether any of the borrowing arrangements that we have genuinely deliver additional capability beyond that which we currently have to invest in capital spending priorities. The importance of that is self-evident from the latest data provided by the chief economist’s late August report on the state of the economy. That report made the point that, in the past 12 months, the construction sector has grown by 21 per cent. That growth was fuelled by Government capital expenditure, and it has flowed into the performance of the economy. What we are able to do on the scale and the nature of our capital expenditure is very important to the delivery of the growth agenda on which the Government is focused.

**The Convener:** You are basically saying that you are looking for prudential borrowing over and above capital departmental expenditure limits.

**John Swinney:** Yes.

**The Convener:** Thank you for that clarification.

On current revenue, you say on page 5:

“What the Scottish Government is seeking is sufficient revenue borrowing powers to be able to manage Scottish-specific risks arising from devolved powers, within the context of the over UK fiscal framework.”

You have touched on that matter, but will you give us a bit more detail on what you are looking for?

**John Swinney:** When I was at the committee previously—as part of the evidence gathering for the fiscal framework inquiry, I think—the committee asked me whether I thought that we should basically have a limitless borrowing capability. I said that I had to acknowledge the constitutional structures within which we operate and, as a consequence, I had to accept that there would be limitations on the amount of borrowing that we could undertake. We could take a set of decisions that were, from our perspective, perfectly supportable within a prudential framework. However, such decisions obviously relate to the wider borrowing requirement and profile of the United Kingdom, because our borrowing will be a subset of that overall UK figure. In the current constitutional environment, I cannot ignore that wider constitutional framework.

Therefore, although we argue for the creation of a greater degree of flexibility in our ability to borrow, I acknowledge that that would have to be undertaken within a particular framework that would constrain the amount of borrowing that we were able to undertake. We would be constrained by two things, essentially. The first of those would be affordability in terms of our ability to support the borrowing—that is an absolute given, which I do not question in the slightest. Secondly, any framework that we put in place would have to ensure the compatibility of our borrowing with the wider borrowing priorities of the United Kingdom Government.

**The Convener:** Do you have any idea of what the financial parameters of that borrowing would be?

**John Swinney:** That is a matter for negotiation with the UK Government.

**The Convener:** Okay. Let us move on.

Page 7 of your response addresses the principle of no detriment, on which we took a lot of evidence. The fourth paragraph on that page states:

“Transparency will best be served by considering a process to apply the ‘no-detriment’ principle which is sustainable, repeatable and should minimise any reliance on subjective assessments where possible.”

Does that mean that the Scottish Government is looking for a mechanical formula for the administration of the no-detriment rule?

**John Swinney:** I am not sure that I could accept the word “mechanical”.

**The Convener:** It is a word that came up in evidence from a number of our witnesses.

**John Swinney:** The point that we are trying to make is that the exercise of the no-detriment principle must be dispassionate. We must ensure that, when funding has been withdrawn from the Scottish block as a consequence of the devolution of a particular responsibility, we take account of that in a way that is neither beneficial nor damaging to the interests of the Scottish Parliament and the Scottish public purse and, vice versa, neither beneficial nor damaging to the interests of the United Kingdom into the bargain. A dispassionate—that is a better word—analysis must be undertaken to enable us to arrive at a robust position on the exercise of the principle of no detriment.

**The Convener:** Are you not looking for a formula to be applied to the no-detriment rule? In the following paragraph, you say that

“the application of no detriment”

should be

“symmetric and”

operate

“on the basis of a shared understanding of the evidence.”

Will that shared understanding be deliverable? Will there be a shared understanding with the UK, or will the situation be similar to that of the block grant adjustment, whereby the UK had one position, the Scottish Government had another position and we were deadlocked for a considerable period?

**John Swinney:** Time will give us the answer to that question. The example that you have just raised gets to the heart of another point that I have made to the committee in previous evidence. I do not think that it is good enough for us just to say, “This is the methodology from the Office for Budget Responsibility or the Treasury for this particular block grant adjustment.” We must instead look for the best mechanism and information base to enable us to make a judgment about the block grant adjustment. I am thinking, for example, of the model that we constructed for the land and buildings transaction tax, which was based on housing transactions in Scotland—real data that had been retained by Registers of Scotland over many years—rather than on a subset of a sample taken from a UK property market that is heavily skewed, with London at one extreme and other areas at the other end of the spectrum. A robust, well-evidenced information base and a model that was driven by actual housing transactions in Scotland gave us the

ability to come to a conclusion about what the block grant adjustment should be. It was not that we just fancied a different number but that we had built an entire model on the actual housing transactions that had taken place in Scotland over a number of years.

09:45

What I am appealing for in the process is the United Kingdom Government accepting that there may be a better methodology than the one that it uses. If we can get to that position, perhaps—to answer the question that you have just asked me—a shared understanding will be deliverable, because we will come to a shared understanding that is based on the evidence that is in front of us. I cannot get to a shared understanding that the best mechanism for the block grant adjustment on the land and buildings transaction tax is to subdivide the UK property market, because the UK property market is uneven. I thought that the model that we put forward was a robust and evidence-based one that gave confidence to the decision-making process.

**The Convener:** I certainly agree with that, but the issue is whether you can achieve that. Despite all the evidence that you have presented, the UK Government still was not prepared to accept the evidence that you put forward. I am thinking that it might be even more difficult to get understanding or agreement from the UK Government in the areas in which the data on which you base your proposition might not be so clear, especially in the short timeframe that is ahead of us.

**John Swinney:** We have to pursue the best agreed data available to enable us to form a judgment. I certainly enter into those discussions in good faith, and I am prepared to look at the data on all those questions and to come to appropriate conclusions. Equally, I look to the UK Government to take the same approach to the data that we put forward.

**The Convener:** Okay. Thank you.

In the fourth paragraph on page 8 of your response to the committee's report, you say:

"the transparency of the Barnett process could be improved".

Can you enlighten us on how that could be improved?

**John Swinney:** We go through a process that looks at every spending settlement to determine whether the Barnett formula has been correctly and fully applied in all circumstances. Obviously, some of that work is now going on in relation to the construction of the United Kingdom spending review, in which many of these issues are material, particularly in relation to the

establishment of baselines and comparability factors between United Kingdom and Scottish Government budgets. We endeavour to apply the greatest amount of scrutiny that we can to the funding decisions and changes that the United Kingdom Government makes, and to ensure that they have been properly calculated in a fashion that is consistent with the Barnett formula.

On where the position could be improved, the UK Government could share more of the thinking and workings that underpin some of the comparability factors and more of the thinking and workings around particular programme changes to enable us to come to an even better, more informed position on whether the Barnett formula has been properly applied. However, those are essentially steps that the UK Government has to take as the essential administrator of the Barnett formula and the administrator of the spending decisions that have an effect through the Barnett formula on public finances in Scotland.

**The Convener:** Thank you very much for that.

Last week, the committee met the Scottish Fiscal Commission in informal session. The committee pointed out in its report that it is

"unaware of any other example of a fiscal council relying solely on official government forecasts."

In the last paragraph on page 8 of your response to the committee's report, you say:

"of the 17 IFIs in operation in OECD countries in 2013, only two had a role in producing macroeconomic forecasts".

Surely the issue is not whether the SFC necessarily produces such forecasts, but that there is a body other than the Scottish Government that does so.

**John Swinney:** This is where my opinion differs from that of the committee and the one that is expressed in the committee report. The key test is whether the Fiscal Commission is able to challenge the estimated tax revenues that are put forward by the Government and whether it is able to pursue alternatives to those tax numbers. I want to make sure that the Fiscal Commission is enabled and empowered to do just that. The bill that we have proposed and the arguments that we have made would enable that in several different respects.

First, on the independence of the Fiscal Commission, the appointment mechanism of the commission's members was designed—I rehearsed this extensively with the committee before making appointments—to ensure that none of the individuals would be constrained in saying what they liked about the Government's predictions, because none of them would ever have to come to me for reappointment. It was important that there would be no question that I



held some sway over the individuals involved; they were appointed because of their eminent expertise. On their appointment, the expertise of the members of the Fiscal Commission was generously recorded by all shades of parliamentary opinion. The commission was appointed on the basis that it could be independent.

Secondly, we move on to the questioning and scrutiny of the Government's approach. The experience that we have had to date is that the Fiscal Commission has been in a position to scrutinise the working model that generates the tax revenues that the Government would aim to establish—to test, challenge, interact, and push to change that model, to ultimately get to a point at which the Fiscal Commission is confident, from its independent standpoint, that the model for tax forecasting is robust.

As I have said to the committee before, if the Fiscal Commission were to say to me, "We think your model is flawed", I would have to go back to the drawing board. There is absolutely no way that I could come to Parliament and say that I was ignoring that. If the independent Fiscal Commission said that the model was flawed, I would have to change it. The Fiscal Commission has a veto over all our tax modelling arrangements and has all the power that it could ever require to challenge those forecasts.

Finally, we come to the question of resources. Again, I want to ensure that the Fiscal Commission has the resources that it believes it requires—not that I believe it requires—to undertake its task. My officials are in regular dialogue with the Fiscal Commission on those questions. I want to reassure the committee that I will support and deliver to the Fiscal Commission the resources that it believes it requires to enable it to fulfil its functions.

**The Convener:** On page 9 of your response, you refer to the

"thorough assessment of the methodologies and assumptions which were applied to produce our forecasts".

You go on to say that

"in scrutinising the economic determinants of the forecasts of NDRI underpinning the 2015-16 Draft Budget, the Commission expressed a view that the buoyancy assumptions 'seem optimistic'".

Therefore, in effect, the commission has a veto over tax forecasts.

You have just responded in a similar fashion. However, when we met the Fiscal Commission last week, it seemed as though the commissioners were advising officials directly. Does that not compromise the scrutiny function? For example, in

the fifth paragraph on page 10 of your response you say that

"these bodies should be independent of government and seen to be so."

If members of the Fiscal Commission are meeting officials prior to the production of forecasts and so on, and if they are advising them along the way, does that not compromise that position?

**John Swinney:** That is the commission fulfilling the role that we would expect it to fulfil. I cannot see how the Fiscal Commission could fulfil its role without interacting with the Government to ensure that what the Government is doing is compatible with what the Fiscal Commission expects.

It is precisely the nature of the arrangements that the Fiscal Commission is in a position to say to the Government whether it thinks that the arrangements that the Government is taking forward are robust enough, sufficiently evidence based or whatever. If the commission believes that our assumptions are overoptimistic or underoptimistic, it must be able to express that to the Government and we must be able to respond to that. Ultimately, if we do not, when it comes to the final stage, I run the risk of the commission saying to me, "We don't think that your numbers are robust," which would be a disaster.

In the example that you cited, the Fiscal Commission said that it thought that the buoyancy assumption was optimistic and I revised down the buoyancy assumption in the forecast that I put to Parliament as part of the draft budget. That is a prima facie example of the Fiscal Commission having been able to cast doubt on an assumption that I had made, and I had to respond to that.

**The Convener:** Absolutely. I understand that. However, it seems that, rather than the SFC looking at your forecasts once you have produced them, it is now inside the system, if you like, saying that you should do this or that. There is concern that people will look at that and wonder whether there is an impact on the commission's independent scrutiny function if it is involved in the day-to-day workings of the Scottish Government like the Council of Economic Advisers.

**John Swinney:** The Fiscal Commission must be able to exercise influence over how the Government undertakes its activities so that we can get to a position whereby we have robust modelling and forecasting. I cannot see how the Fiscal Commission can fulfil its responsibilities without exercising that influence. It has the absolute ability to tell us formally that we have not got the forecasts correct and to challenge those forecasts. It also has the ability to express that view at various stages and times to ensure that we focus on the right judgments in arriving at the calculation of the forecasts. I do not think that

these things can happen in silos. If we work in silos, we end up with a poor understanding of what underpins the methodology.

**The Convener:** On the theme of the SFC, why does the draft bill not state that the SFC should endorse the forecasts rather than just assess their reasonableness?

**John Swinney:** The forecasts are the Government's forecasts and I am accountable to Parliament for those forecasts. If the SFC were to endorse them, that would soften the accountability that I have to Parliament for the forecasts. Ultimately, they are my forecasts and the calculations that I believe it is justifiable to put to Parliament. The Fiscal Commission exists to assess whether I have performed that exercise judiciously or whether I need to give further consideration to the questions.

**The Convener:** Thank you. Let us move on to intergovernmental relations. I will conclude my questioning in a few minutes, to let my colleagues in.

In the middle of page 12 of your response, you say:

"The framework will be agreed jointly by both governments and we are aiming to conclude negotiations by the autumn, in line with the timetable for the Scotland Bill."

You go on to say:

"I have made clear that a robust and credible fiscal framework will need to be agreed before recommending to the Scottish Parliament that legislative consent is given to the Scotland Bill."

The \$64,000 question is: if a robust and credible fiscal framework is not agreed, will the Scottish Government consider not supporting the Scotland Bill?

10:00

**John Swinney:** That is implicit in what I have said to the committee. As far back as 12 March, I said:

"There has to be a fiscal framework in place that is acceptable to Parliament before any LCM can be agreed to. It is in no way possible or plausible for an LCM to be agreed to without an agreed fiscal framework that is to the satisfaction of Parliament being in place."—[*Official Report, Devolution (Further Powers) Committee*, 12 March 2015; c 18.]

I do not think that I can be any clearer than that. Before the Government will put a legislative consent motion to Parliament, an acceptable fiscal framework has to be in place.

**The Convener:** Okay. Thank you for that additional clarification.

You go on to say:

"Ministers are in agreement that negotiations on the fiscal framework should be supported by information sharing principles which ensure that both governments have access to the same information, subject to legal requirements, in good time to support the decision-making process."

Where are we with that?

**John Swinney:** We are making progress. I will go back through the sequence of events and my officials can correct me if I am not recalling it correctly.

We started discussions on the fiscal framework in March when I met the chancellor. That was just at the start of the United Kingdom general election campaign, so we acknowledged that ministerial interaction would be difficult for a period. That led to officials doing a lot of the preparatory work on many of the questions that you raised in your question.

Subsequent to the UK general election, I met the Chief Secretary to the Treasury on 18 June and we had further discussion at the joint exchequer committee on 7 July. We have another joint exchequer committee on Friday. Further sessions are planned for September, October and November, and a large volume of preparatory work will be undertaken between all those meetings.

The characteristics that you have asked about—availability of information, open dialogue and so on—are all happening. They are happening largely at official level, although ministerial interaction has been increasing and there will be further ministerial interaction during the next few weeks, as I have just said.

**The Convener:** I have one further question. In response to our conclusion, you say:

"We have previously given a commitment to keep the Scottish Parliament updated on the negotiations with HM Treasury and we are happy to continue to do so."

What mechanism will you use to keep Parliament updated? Will you go through the Finance Committee or will you make a statement to Parliament at some point, or both? How do you intend to keep Parliament informed about what is happening?

**John Swinney:** This is quite a difficult issue. I want to be open with Parliament because all shades of parliamentary opinion have to be confident about the legislative framework. I recognise that to be an absolute requirement of members of Parliament and I want to do all that I can to support that.

However, there is a negotiation going on with the United Kingdom Government on all the questions. I have to try to strike a balance between satisfying Parliament's need for a

transparent discussion about what is happening in the negotiations with the UK Government while—I am sure Parliament will understand—leaving enough space for me to conduct a negotiation that will enable me to protect Scottish interests, which is my objective.

I have said to the committee that I would find it difficult to give a running commentary on all the discussions that are going on, and I hope that members will understand why that is difficult for me. I will be very happy to update Parliament in parliamentary questions, in the Finance Committee, or through whatever mechanism the Parliament thinks is appropriate, with the caveat that while understandable and necessary parliamentary scrutiny is being undertaken I must also pursue a negotiation with the United Kingdom Government.

**The Convener:** Thank you. I open up the discussion to members.

**Gavin Brown (Lothian) (Con):** Cabinet secretary, I appreciate that a negotiation is going on and that you do not want to give a running commentary—everyone understands that. I think that you said that the next meeting between the Governments will take place on Friday. Is it your intention to publish agreements that have been reached, so that we can see what points will not be further discussed because a position has been decided, and what areas are still on the table, or is it your intention to save all announcements until the final package has been agreed?

**John Swinney:** My view is that nothing is agreed until everything is agreed, even though we might make progress. A communiqué was published after the meeting in July, and I expect that a communiqué of some sort will be published after the meeting on Friday. We are very much in the realms of making progress through the questions, but ultimately we will have to look at the whole thing to ascertain whether the arrangement is satisfactory.

I am trying to be as open as possible, but I realise how difficult the process is for the Parliament; for example, I cannot come here in October for the committee to scrutinise where we have got to and how many points have been agreed. I quite appreciate that that makes it difficult for the Parliament to pursue matters.

**Gavin Brown:** Thank you for clarifying that. We heard yesterday from the First Minister that consent to the bill would not be given unless the fiscal framework was, in her words, “fair”, and I think that you have reiterated that today. You have talked about transparency. What do you think is fair? Is it what you have set out in your response to the committee? I am looking at all the issues that you raise in your response, as you set out the

Government’s position. Does that position broadly represent what you deem to be fair? Are there other issues, which have not yet appeared? I am just trying to get a sense of what you mean by “fair”. Have you covered all the issues publicly, or are there hidden bits? Of course, I do not mean “hidden”; I mean whether there are other aspects, which you have not covered in your response.

**John Swinney:** I would have to go away and look again at the full response that we have given to the committee before I could give you a definitive answer. There are a range of issues about which I am concerned. For example, I cannot recall whether in my response to the committee I covered all the considerations that emerged from the Smith commission report and which I think must be protected in the fiscal framework.

Although I might have in mind a checklist of the things that must be in the framework for it to be able to be described as fair, I might face other issues in the course of the negotiation, in relation to which I think, “Wait a minute, that’s not very fair.” Such issues might not be on my checklist, but I will have to be able to respond to them when they arise.

Ultimately, I want an approach that enables the Scottish Parliament, without prejudice, to be able to exercise the powers that have been granted to us on the fair and reasonable basis that I think was argued for in the Smith commission report.

**Gavin Brown:** Let me turn to the specifics of your response. The committee’s conclusion in paragraph 25 of the report is:

“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.”

Your opening response to the report states:

“We welcome the committee’s recommendations at paragraphs 22-25”.

My reading of that is that you accept paragraph 25 in its entirety and that there ought to be a legislative requirement, but that is not addressed anywhere else in the response. For the sake of clarity, I ask whether the committee can assume that you agree with paragraph 25 in its entirety from your opening sentence in the response.

**John Swinney:** What I have said in the opening sentence is that we welcome the committee’s recommendations and that we believe that there should be a well-designed fiscal framework in place. As to the specific choices about what fiscal arrangements the Government decides to put in place, there is a lot to be commended about paragraph 25. The Government will give consideration to whether that is the approach it

wishes to take in the aftermath of the agreement of a fiscal framework.

**Gavin Brown:** Just to clarify the matter, you have not accepted the—

**John Swinney:** I have left the door open to paragraph 25.

**Gavin Brown:** I will move on to borrowing powers. You gave quite a detailed answer to the convener so I do not want to dwell on the issue for too long, but you have not given a categorical view on what you think the limits or quantum might be for revenue volatility or indeed for capital. Maybe you do not have a definitive view at this stage, but I am interested to know how the Scottish Government will form a definitive view on what the borrowing powers ought to be, both for volatility of revenue and for capital.

**John Swinney:** We will form a definitive view on that by, essentially, testing the question of adequacy: adequacy to deal with the level of volatility that we can foresee within the tax revenues over which we have control; and adequacy in relation to fulfilling the Smith test that we should have additional borrowing capability that enhances our capital expenditure beyond its current arrangements. The test of adequacy is the one that I would apply, but I also accept that there are constraints given the fact that we are undertaking this discussion within the United Kingdom fiscal framework and environment.

The importance of all that is that it should enable us to take a set of decisions, arising out of the negotiations on the fiscal framework, that allows us to exercise a greater degree of fiscal flexibility than we have today.

**Gavin Brown:** I will move on to the Scottish Fiscal Commission, on which again you have already answered a number of questions.

You said in your response to the committee's report that you drew some of your conclusions about the forecast issue—which I would guess is the main issue of contention—from the responses to the Government consultation on the draft bill. Were the majority of those responses basically supporting your position and saying that they did not agree with the committee, or vice versa? Can you give the committee a rough flavour of the tenor of the responses?

**John Swinney:** I am not sure that it was clear, numerically, from the responses that have come in, but we will publish a full response to the information that came out of the consultation in due course. In fulfilling our obligations there, we will be able to answer the point that Mr Brown has raised.

**Gavin Brown:** Thank you.

The convener asked a very good question about looking at international bodies and so on, and you made the point that seven of the 17 fiscal commissions assessed Government forecasts as opposed to producing their own forecasts. Out of those seven, I know as a matter of fact that some—Sweden, for example—have alternative forecasts to examine. They do not just look at the Government forecasts; they look at a range of forecasts. I do not know about the rest of the seven. Can you give examples of fiscal commission-type bodies that look only at the Government forecast and can use only that forecast when reaching their decisions?

10:15

**John Swinney:** Perhaps the model that is closest to what you described is the Irish Fiscal Advisory Council, which assesses Government forecasts.

**Gavin Brown:** Does it have access only to Government forecasts?

**John Swinney:** That is my understanding.

**Gavin Brown:** Are there other such bodies that have access only to an official Government forecast?

**John Swinney:** The Irish body is one that I can readily suggest. Out of 15 institutions, seven assessed Government forecasts, six prepared alternative forecasts and two had no role in relation to forecasting, so there must be a variety of others—we will happily provide those to the committee.

**Gavin Brown:** I am not trying to split hairs, but my point is that a body that is able to assess the Government forecast and other forecasts, reaching a view from a blend of forecasts, is different from a body that has access only to one official forecast with no alternative.

**John Swinney:** With respect, I think that we are splitting hairs. What I have tried to say to the committee—I have obviously not got this across clearly enough—is that if the Fiscal Commission does not agree with my forecast I must change my forecast. That is blindingly obvious to me. If the Fiscal Commission does not accept my forecast, I have to change it.

The Fiscal Commission said that my buoyancy assumptions on non-domestic rates income—and we might say that this was fairly soft wording—“seem optimistic”. We could argue, “Maybe they are, maybe they're not; we'll just ca cannie.” I suspect that I could have marshalled an argument along the lines of, “Well, the commission only said that the assumptions seem optimistic; it didn't say they are optimistic, so I have room for

manoeuvre.” However, I changed my assumptions at the first hurdle.

I cite that example to make the point that, if the Fiscal Commission judges my stance not to be reasonable, I have to go back to the drawing board.

**Gavin Brown:** We will have to agree to disagree on whether we are splitting hairs, because I do not think that we are splitting hairs at all. The Fiscal Commission can cast doubt on your assumptions, cabinet secretary, and when it did so you amended your approach. However, you said earlier—if I have written it down correctly, I can quote you verbatim—that the important thing is that the commission is able to “pursue alternatives” to those numbers, but in the reports that I have seen from the commission it has not been able to come up with alternative numbers. It has been able to say that it thinks that you are being a bit optimistic or that your assumptions seem reasonable, but it does not appear to be able to look at a range of models and it has not come up with alternative numbers—even though you said that that was key.

**John Swinney:** The Fiscal Commission has to be satisfied that the approach that the Government is taking will deliver a reasonable forecast. It is able to interact with the Government’s model of estimating and forecasting revenues by questioning, dissecting and challenging it, and we must satisfy the commission that we have addressed the issues that it has raised.

If we do not satisfy the commission, we will get a report that says, “We’re not satisfied that this is a robust model.” If that happens, I have a problem on my hands. I must satisfy the Fiscal Commission that every judgment that we have made about the construction of the model gives the best possible and most reliable forecast that can be conceived of in the circumstances.

Once we have an agreed model, I have to make a judgment about the rates, and the Fiscal Commission needs to consider the rates in relation to the model that I have put together. If we cannot satisfy the Fiscal Commission about the robustness of the model, we have a significant difficulty on our hands.

**Gavin Brown:** You concluded:

“we are not persuaded that the Scottish Fiscal Commission should prepare the official forecasts”.

Can it do alternative forecasts?

**John Swinney:** The Fiscal Commission is an independent body. It is free to produce the material that it wants to produce; I am not a decision maker about the Fiscal Commission.

**Gavin Brown:** Just for clarity, because I do not want the Fiscal Commission to say that its remit does not allow it to make alternative forecasts, as far as you are concerned and depending on what the bill says—

**John Swinney:** The Fiscal Commission is an independent body. I do not run it. I cannot dictate its agenda.

**Gavin Brown:** Are you saying that you will not put anything in the legislation that will prevent the commission from making alternative forecasts?

**John Swinney:** There is nothing that I can do to constrain the independence of the Fiscal Commission.

**Mark McDonald:** A number of the areas that I was going to cover have already been covered, but I want to go a bit further on the issue of intergovernmental relations.

As well as sitting on this committee, I sit on the Devolution (Further Powers) Committee, which has been exploring intergovernmental relations. In terms of the current framework of IGR, I think that you have accepted the view that there needs to be some tidying up and formalisation of the way that the Governments interact. Do you have a preferred model for how ministers and departments interact, or is that question on the negotiating table at present?

**John Swinney:** We are going through what I would recognise as a more orderly process of discussion on the arrangements around the fiscal framework. There is a very clear structure within which those discussions take place and a very clear agreement of the issues that we are discussing. That is beneficial.

This issue largely turns on some of the material that I discussed in my response to the convener earlier about the degree to which appropriate respect is demonstrated in the negotiations for the mechanisms and approaches that we might advance for calculating certain aspects of the fiscal framework. For example, if we come up with a model that I think is a robust model for the determination of the priorities that should be in the fiscal framework, I think that that should be taken seriously. We will find out whether that is the case in the course of the proceedings in which we are involved.

One of my criticisms of the intergovernmental mechanisms is that they have been rather rigid and scripted and not particularly relevant. I hope that we can improve them. For completeness, I should also say that, although the formal mechanisms of intergovernmental working—in my experience over the past eight years—have not been particularly valuable, a lot of good bilateral intergovernmental working is taking place in

sorting out particular issues and policy questions, which is beneficial to us all.

**Mark McDonald:** My follow-on question, which follows on from what Gavin Brown was mentioning, concerns how Parliament is to be kept updated and the appropriate points for that. You have suggested that a running commentary would not be helpful either to committees or to the negotiation process. Do you think that there should be some formalisation about the points at which Parliament and committees will be updated, or should it be left to a judgment call on the right time for that?

**John Swinney:** That is a very difficult question for me to answer. I hope that I have conveyed to the committee my interest in being open, but I hope that the committee understands the constraints under which I am operating. Given the answer that I gave to Mr Brown a moment ago—namely, that nothing is agreed until everything is agreed—I suspect that it will be difficult for me to come to Parliament with a stocktake of issues agreed by, let us say, 1 October or 1 November. I can come to the committee and give a sense of how much progress is being made in general around the questions, but we would have to look at the value that we attach to that.

**Mark McDonald:** It has been indicated to the committee that the timetable that the UK and Scottish Governments are looking at for when the fiscal framework is likely to be agreed is the autumn, accounting for the flexibility that “autumn” now takes on when it comes to the parliamentary timetable.

The view is that the Scotland Bill process is unlikely to be put forward for final approval before the fiscal framework is in place. Is that your understanding? Can you conceive of a scenario in which the Scotland Bill completes its parliamentary process at Westminster before there is final agreement on the fiscal framework?

**John Swinney:** I hope that I have been crystal clear about this question, as the First Minister was in Parliament yesterday. We could not bring forward a legislative consent motion in the Scottish Parliament until we have an acceptable fiscal framework in place.

**Mark McDonald:** On the question of borrowing powers, you have said that the wider UK borrowing framework must be examined before we can determine how much Scottish borrowing can be carried within that. Has there been much discussion on what that is likely to look like? Or will greater clarity on that have to wait until the spending review takes place?

**John Swinney:** We will begin to talk about some of those questions on Friday. I think that they will also be material to the spending review.

Certainly, the perspective that the Treasury ministers have shared with me is that they would like to have the fiscal framework agreed in much the same timescale as the spending review so that the issues can be looked at collectively—and that is what we are aiming to do.

**John Mason (Glasgow Shettleston) (SNP):** We said in paragraph 23 of our report:

“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.’”

The tone of that says to me that it is, in effect, a diktat and that the UK Government will decide, which concerns me and—I think—the committee. Are you concerned about it as well?

**John Swinney:** I do not support the words that you quoted. They are not my words and do not represent my position. The whole point of devolution, the Smith commission and all the debate that has gone on here has been about giving the Scottish Parliament greater flexibility to take alternative sets of decisions.

I have been pretty clear that I accept that there will be a relationship between the fiscal decisions that take place within Scotland and the UK’s fiscal framework. I accept that we live within the United Kingdom and that there will be certain constraints on the fiscal architecture, but the wording that the committee highlighted in paragraph 23 of its report has a tone that I interpret as saying “It’s our way or it’s the highway”, and I do not think that that is acceptable.

**John Mason:** I am interested in your comment on VAT on page 3 of your letter to the committee, in the second last paragraph:

“Assignment of VAT provides no devolved control of this tax but is effectively an alternative approach to calculating part of the Scottish block grant.”

Can you comment further on that? I tend to agree with your point, because we have no control over VAT. Are you saying that there is no great value in getting VAT assigned?

**John Swinney:** There is certainly no decision-making enhancement as a consequence of it—none whatsoever. It is simply a mechanistic calculation to put a greater degree of tax revenue under the control, apparently, of the Scottish Parliament, but we have no decision-making capability over VAT.

There is one aspect where we may see the consequence of our policy actions materialising in the level of VAT collected within Scotland, but I highlight that I think that that is likely to be more a peripheral factor than a central one.

10:30

**John Mason:** And you still have to decide whether VAT will be assigned at the end point or all the way through the process.

**John Swinney:** That is correct. Work on the different methodologies and how such things might be calculated is under way, and it is also one of the issues that will be discussed on Friday.

**John Mason:** When the convener asked you earlier about the amount of borrowing and, indeed, prudential borrowing, you seemed to suggest in your response that, with such borrowing, we would have to be able to spend more on capital than we are at the moment. As I understand it, prudential borrowing means that you borrow what you can sensibly afford to pay back, which I presume means that we would never want to go above what it is prudential to borrow.

**John Swinney:** That is correct.

**John Mason:** But we hope that that would allow us to borrow more than we do at the moment.

**John Swinney:** As a very real example of what we are talking about, we have taken a set of decisions around the revenue-financed capital programme, which is essentially generating about £1 billion more capital expenditure in this financial year than would have been possible had we stuck to our traditional methods of spending capital funds. In other words, we are spending about £1 billion more on capital through revenue-financed investment. I would argue that that is a form of prudential borrowing, because I have put in place a framework that sets a limit on our revenue-financed payments for supporting capital expenditure. That is essentially a prudential framework; we cannot go beyond that limit, which I put in place some years ago and on which I report to Parliament during every budget process—I am, of course, happy to report on it more frequently. That framework allows me to judge the amount of our revenue that we can count on to support revenue-financed investment; there is a limit to it, and once we reach it, we have to stop. Nevertheless, the approach increases our capital capability.

**John Mason:** That limit, which I agree with, is set by you and is a voluntary measure. Does it need to be set in stone somewhere?

**John Swinney:** There is an argument for doing that. Again, having said that there is a 5 per cent cap on this, I would find it hard to come to Parliament and say, “Well, actually, I think that the cap should be 6, 7 or 8 per cent.” Having argued for 5 per cent, I think that I would be on pretty thin ice if I did that.

**John Mason:** But you might not be there one day, and a less responsible person might take over.

**John Swinney:** We should not speculate on what would be a terrible adversity to afflict Scotland. *[Laughter.]* Some of this comes back to Mr Brown’s point about paragraph 25 in the committee’s report with regard to the wider fiscal rules that might be in place as a consequence of all these discussions, and it is a reasonable point to consider.

**John Mason:** Paragraph 63 of the committee’s report refers to the concept of borrowing for preventative spending. I think that the suggestion came from the Institute of Chartered Accountants of Scotland, which I should declare my membership of. Is borrowing specifically for preventative spending just part of the whole borrowing picture that we have already discussed, or is it a separate concept?

**John Swinney:** We have to be very careful about this. I am very hostile to borrowing for revenue expenditure. I can accept—indeed, I have made—the argument for having the ability to undertake revenue borrowing to deal with tax volatility, but borrowing to support day-to-day expenditure is a quite different matter. That is a matter of principle and, indeed, it is the principle through which I read that recommendation.

There is an argument for borrowing for capital investment that might well have an impact on preventative policies. For example, I could accept an argument for borrowing for capital investment in greater cycling infrastructure or for investment in redesigning healthcare services to make them more integrated in localities so that they meet a wider range of needs and provide opportunities for people to interact with public services for preventative purposes. However, as I read that paragraph, it rather suggests that we should be borrowing for operational expenditure other than tax volatility. I am not supportive of that.

**John Mason:** That is fair enough.

We have already touched on the relationship between the Governments, the discussions and some of the things that have been said, but I want to touch on that again. In the middle of page 7—in the last paragraph before paragraph 111—the Government’s response states:

“We will continue to work within the spirit of Smith to ensure a consensus is reached between Scottish and UK Governments to ensure the application of no detriment is symmetric”.

We touched on tone at the beginning of my questions, and there are a few other things. On pages 11 and 12, the response covers the concept of having an independent body. At the top of page

12, we read that consideration should be given to establishing

“an independent body to advise on the calculation of the block grant”

and

“an independent arbiter to resolve disputes on issues”.

I am sorry to jump around, but the second top paragraph on page 8 states:

“At the most recent meeting of the Joint Exchequer Committee ... both governments agreed to look in detail at the range of options”.

When all that is put together, it does not fill me with optimism. The Governments are only now agreeing

“to look in detail at the range of options”,

and everything that I pick up from Westminster suggests that it is the judge and the jury, that it will make all the decisions and that it will not accept an independent arbiter. Is that your reading of the situation as well?

**John Swinney:** We will see what happens in the discussions. I can readily understand why Mr Mason might come to that conclusion, but the Smith commission set out that there has to be a fair fiscal framework in place and the UK Government has agreed to implement the conclusions of the Smith commission report in full and in their entirety. I think that some of these judgments are implicit as part of that process.

**John Mason:** So we will wait and see what happens—fair enough.

The final area that I want to touch on is the Scottish Fiscal Commission, not surprisingly. We have struggled over that for quite a long time. Various suggestions have been made to us as a committee. One is that we could have a body that made its own forecasts but was very cosy with the Government so it would not really be independent. On the other hand, we could have a group that was totally independent but did not make its own forecasts. It has been suggested that the question of independence is more important than who makes the forecasts. Do you agree with that view?

**John Swinney:** Yes. The Fiscal Commission has been set up on an independent basis and I have no control over it. The only bit over which I have had influence is who the members of the Fiscal Commission are. I believed that it was important to appoint people of very strong professional reputation and capability and people of high integrity. In the appointment process that we went through, all that was accepted right across the political spectrum in Parliament.

We have a Fiscal Commission that is independent. I cannot direct it. It has members of great capability and integrity and, as I have

practically demonstrated already, even though it is not even in statute yet, it has exercised a veto over my forecasts. That should give people confidence that we have a body that fulfils the key tests of being able to exercise independent judgment.

**John Mason:** If the commission prepared its own forecasts, would we need a separate body to assess them?

**John Swinney:** I would have to make a forecast as well. I could not just sit around waiting for a forecast to come along; I would have to do some work. I would make a forecast and the Fiscal Commission would make a forecast. What would happen if I thought that there was a flaw in the methodology that the Fiscal Commission had used to make its forecast? Where would we stop?

**John Mason:** In that scenario, it would not just be the case that, in effect, some Government resources would be switched over to the Fiscal Commission to allow it do the forecasting; there would have to be duplication.

**John Swinney:** That is precisely what we would need to have. I would have to be able to undertake forecasting work. When Edward Troup appeared before the committee, he set out that HM Revenue and Customs does all the legwork and provides all the data to inform the forecasts that the OBR produces. That has got to be done somewhere.

**John Mason:** I get the impression that the commission feels that it is properly resourced at the moment, but if both sides were to be involved in forecasting, that would require an increase in resources.

**John Swinney:** Yes, it would.

**Malcolm Chisholm (Edinburgh Northern and Leith) (Lab):** I was surprised that you did not respond to paragraph 61 of our report, because it seems to me that the block grant adjustment is central here, particularly in relation to income tax. It might be that there is not much disagreement between you and the UK Government on the matter, but the point that we made was that some witnesses questioned whether the Holtham method would work for us if, relative to the rest of the UK, we had a smaller number of higher-rate taxpayers and slower population growth. We asked whether you had done an analysis of those factors or of the alternative method of basing the indexation on the per capita tax base rather than the overall growth of the UK tax base.

**John Swinney:** We arrived at our conclusion on the benefits of the Holtham mechanism during the consideration of the bill that became the Scotland Act 2012, which arose out of the work of the Calman commission. Our view was that the Holtham method was a more reliable and stable



mechanism than the one proposed by the Calman commission. We did a lot of work comparing the experience that we would have had if we had gone for the mechanism proposed by the Calman commission with the experience that we would have had if we gone for the one proposed by the Holtham commission. The Calman mechanism would have had a significantly damaging impact on the Scottish budget over the years of devolution in advance of the moment of changeover, whereas the effect of applying the Holtham methodology was broadly neutral, which was what we sought. Throughout this process, I have looked for starting mechanisms whose effect would be broadly neutral.

The issue that Mr Chisholm raises about indexation is material to the negotiations on the fiscal framework. I am looking at, and I would expect the joint work with the Treasury to look at, the most appropriate mechanisms for indexation to address all the questions under consideration.

**Malcolm Chisholm:** Have you done any analysis of the impact of different scenarios?

**John Swinney:** We are doing that analysis as part of our discussions with the UK Government.

**Malcolm Chisholm:** Most of the other areas that I wanted to ask about have been covered, but I return to the Fiscal Commission. You say that you have no control over it, but do you not have some control over its independence? Is it not your responsibility to ensure that it is independent and that it is perceived to be independent? That is partly why we are worried about the way in which it seems to operate. There might well be good reasons for the commission to have meetings with and to advise your officials, but that rather changes the perception of it, which is part of the reason for our concern. It could be said that the commission is not acting very differently from the way in which the Council of Economic Advisers is acting. Although you can give NDRI as a hard example of the commission challenging you, if it keeps having these informal meetings, most of the differences will be ironed out before there is a need to challenge anything.

10:45

**John Swinney:** If we say that the Scottish Fiscal Commission cannot meet Scottish Government officials, I am not sure how the Scottish Fiscal Commission can exercise its responsibilities. That is a truly absurd proposition. How is the Fiscal Commission supposed to interrogate my officials about the model? How is that supposed to happen? That is an absurd argument.

The key tests of the independence of the Scottish Fiscal Commission are as follows. First, it

must not be possible to reappoint the individuals—none of them should be reappointed; that should be part of the arrangements. Similarly, I cannot hold the dagger of dismissal above the heads of the members of the Fiscal Commission—they are in there for the term of office. Secondly, they must be people of strong professional reputation. We all sat through the debates in the committee and in the parliamentary chamber, and nobody of any political persuasion questioned in any way the fact that these people are technically and professionally competent to be on the commission. I accept that there was an issue about two commission members also being members of the Council of Economic Advisers, but they are no longer members of the Council of Economic Advisers. That issue has taken care of itself. Thirdly, there is the commission's freedom of operation. I have no ability to direct it, but I am dependent on it to validate and assess the forecasts that I put forward. I have given the committee one concrete example of where we had not got to statute before I had to change my forecasts. I have done that readily and willingly, because I respect what the commission says.

If the commission is not able to interrogate my officials about what is involved, we run the risk that the commission might arrive at a misapprehension of some of the things that are inherent in our work and forecasts, which would be damaging to the quality of the work that is involved.

**Malcolm Chisholm:** I do not think that anyone is suggesting that the commission should not be able to interrogate your officials. However, there is a difference between your producing an estimate that it then interrogates officials about as part of its responsibility and what seems to be happening at the moment, which is that the commission is having a significant influence on your forecasts. I am not saying that that would necessarily be a bad thing if we had a different model, but it is inconsistent with the model that we have, which separates those who make the forecasts from those who judge their reasonableness. It appears that the commission members are becoming high-level Government advisers. Governments of all hues have, to a large extent, relied on external advisers under devolution. It is not a bad thing, but it is not consistent with the stated model.

**John Swinney:** I do not accept that at all. The Fiscal Commission must be free to choose whom it speaks to, what it interrogates and what it looks at. I should have no control over that process, and I do not. The commission was set up independently and is free to operate independently, and it is inherent in the work that it undertakes that it must properly understand and be able to interrogate what the Government is doing on these questions—and to challenge it. Ultimately, it has the absolute ability to say that it

does not think that something is reasonable. I will never come to Parliament to counter the Fiscal Commission—never—because the credibility of what I am saying will just not stand the test of parliamentary scrutiny.

**Malcolm Chisholm:** I am sure that there will be many more discussions about that matter during the course of the Scotland Bill but, unfortunately, I will not be taking part in them, as this is my last day at the Finance Committee.

**John Swinney:** Oh, well!

**The Convener:** On that tearful note, Jean Urquhart will be followed by Richard Baker.

**Jean Urquhart (Highlands and Islands) (Ind):** I have a couple of questions, cabinet secretary. Who sits on the joint exchequer committee?

**John Swinney:** I will tell the committee what I know, but if I get this wrong, I am sure that the UK Government will challenge it. The Chief Secretary to the Treasury sits on the joint exchequer committee. The Chief Secretary is accompanied by Lord Dunlop—not, however, in his capacity as Parliamentary Under-Secretary of State for Scotland, but in his capacity as a special adviser to the Treasury. I will leave that with the committee to mull over. The Chief Secretary is also supported by various officials at the committee. I represent the Scottish Government at it, and I am supported by a range of officials who give me professional advice on all the questions. On the senior officials who are there, the Chief Secretary is supported by the permanent secretary to the Treasury, Sir Nicholas Macpherson, and I am supported by the director general of finance, Alyson Stafford, and other officials.

**Jean Urquhart:** Am I right that, for the purposes of any discussions, the Barnett formula will continue to work as it has worked in the past? I accept that there are changes to it given the tax regime and the powers that the Scottish Government will have, but it will remain the same as it has been for a long time. Is that correct?

**John Swinney:** Yes, subject to the application of the changes that arise out of this process, which will undoubtedly reduce the proportion of our budget that is influenced by the Barnett formula. That will happen as a consequence of the process that we are going through.

Also, at each spending review, the Treasury looks again at the comparability factors that drive the Barnett formula. We have 100 per cent comparability on health expenditure, so if there is a change in the health budget of the Department of Health in England, we will get 100 per cent of the comparability factor in Scotland. However, on defence, for example, the figure is zero, and in other budgets, the figure might be somewhere in

between. The Barnett formula and the comparability factors are part of the statement of funding policy. I can argue for changes to the statement of funding policy, but I am not a signatory to it. It is ultimately a product of Treasury decision making, and it invariably contains things with which I disagree.

**Jean Urquhart:** I suppose that I am asking you to step into the realms of fantasy, but if your prediction was found to be correct and the Scottish Fiscal Commission was found to be wrong, would that shake your confidence in the Scottish Fiscal Commission's predictions?

**John Swinney:** Bodies are established on the basis of the professional capability that one thinks that they have. I frequently take professional advice on the judgments that I make and subject them to tests by the Scottish Fiscal Commission—by people who are eminently qualified to undertake that role. Those arrangements should give us confidence that we will get a good product and a good outcome as a consequence.

**Jean Urquhart:** Do you accept that, in the situation that you mentioned, your prediction could be right and you were right to be more optimistic?

**John Swinney:** That could be the case.

**Jean Urquhart:** It could be the case.

**John Swinney:** It certainly could be.

**Richard Baker (North East Scotland) (Lab):** That is an interesting point that relates to why having two separate forecasts aids transparency and the scrutiny of your fiscal policy process. In your discussion with John Mason, separate forecasts were described as duplication. Do you not accept that that is simply regarded in other countries as good practice in encouraging greater transparency in Government fiscal policy?

**John Swinney:** In some countries, that arrangement is in place; in others, it is not. Given the issues that we are wrestling with, I think that the appropriate model for us is to establish an independent commission with professional authority and integrity, and to enable it to challenge Government forecasts.

**Richard Baker:** We are simply not going to reach agreement on the issue.

My final question is on the no-detriment principle. When discussing the issue with the convener, you said that you did not want to have a mechanistic approach to a no-detriment policy. On policy proposals such as the abolition of air passenger duty, there may be an argument that the implementation of a no-detriment policy is necessary. Can you reassure me that, before this Parliament takes decisions on such matters,

members will be aware of whether a no-detriment policy of some description is to be applied?

**John Swinney:** That would be a product of the fiscal framework. Mr Baker is essentially driving at what I might describe as second-stage no-detriment questions. I do not think that there is much disagreement about first-stage no detriment, in which we undertake a fair netting-off of the taxes raised. There is then a question about what we would do if there was an economic effect and whether there would be a claw-back from the Scottish Government as a consequence. That would rather undermine the whole point of devolution. We are getting those powers, so surely they should be used to deliver different and better outcomes. In a sense, Mr Baker's point will be answered by whatever is in the fiscal framework. I am keen for us to get the fiscal framework right at this stage, and not to have to revisit it in years to come. It would be disadvantageous if we had to do that.

**The Convener:** I have one further question. The Scottish Fiscal Commission indicated in January that it is working on a forecast on forestalling for land and buildings transaction tax. Has that work been completed? Has there been a comment on the forecast?

**John Swinney:** The work is still under way. We will obviously have much clearer data from the end of the previous financial year and the start of this financial year. We will be discussing the issues around forestalling with the United Kingdom Government as part of the fiscal framework.

**The Convener:** That concludes our questions. Does the cabinet secretary want to make any further points?

**John Swinney:** No, thank you.

**The Convener:** Thank you very much for our answering our questions.

Before we conclude the public part of the meeting, I thank Malcolm Chisholm for his hard work and for his contribution to the committee. He has been a key member of the committee over the past couple of years and we are sorry to see him go. We wish him the best for the next committee, or committees, that he moves on to.

10:59

*Meeting continued in private until 11:32.*



This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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