



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 25 November 2015

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FINANCE COMMITTEE
30th Meeting 2015, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Jackie Baillie (Dumbarton) (Lab)

*Richard Baker (North East Scotland) (Lab)

*Gavin Brown (Lothian) (Con)

*Mark McDonald (Aberdeen Donside) (SNP)

*Jean Urquhart (Highlands and Islands) (Ind)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Kennedy Foster (Council of Mortgage Lenders)

Philip Hogg (Homes for Scotland)

Professor Andrew Hughes Hallett (Scottish Fiscal Commission)

Professor Campbell Leith (Scottish Fiscal Commission)

Lady Susan Rice CBE (Scottish Fiscal Commission)

Chris Stewart (Scottish Property Federation)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Finance Committee

Wednesday 25 November 2015

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Welcome to the 30th meeting in 2015 of the Finance Committee of the Scottish Parliament. I remind everyone to turn off their mobile phones and other electronic devices.

Under our first item of business, I ask members to agree to take item 4 in private. Do we agree to do so?

Members indicated agreement.

Devolved Taxes

The Convener: Under our second item of business, we will take evidence on the devolved taxes from two separate sets of witnesses. Our first panel will focus on the land and buildings transaction tax. I welcome to the meeting Kennedy Foster from the Council of Mortgage Lenders, Philip Hogg from Homes for Scotland, and Chris Stewart from the Scottish Property Federation, who was also here last week in another guise.

Members have received written submissions from each of our witnesses, so we will go straight to questions. As always, I will ask some opening questions before inviting colleagues to ask questions.

I will deal with the submissions in no particular order, starting with the Homes for Scotland submission. Your submission expresses concerns about the impact of the rates and bands. It says that

“the changes have given a small benefit to the majority of people purchasing a new home”

and

“have allowed for a smoother pattern of prices in the market, instead of having an artificial step at the £250,000 mark”.

However, it then says that

“the revised rates are having an adverse effect on the sale of properties in the middle to higher end of the ... Market”—

although, of course, that is based primarily on anecdotal evidence at this stage. Can you say a bit more about that?

The submission also says that some customers

“either requested that their transactions be brought forward to before April or delayed until after introduction of LBTT”.

Can you therefore also talk about the scale of the delays and the number of transactions that might be brought forward?

Philip Hogg (Homes for Scotland): I recall sitting in front of the committee in January or February, when the rates had just been announced. The feedback that we had from our members at that time suggested that there was some concern that the rates on the higher end of the market could dissuade people from transacting, which would obviously have an impact on the tax take and could cause stagnation. I also recall mentioning that a fully functional market, with movement up and down the chain, is absolutely key; the concept of the ladder, with people going up and down it, is important. The feedback that we have had from our members in advance of today's meeting has confirmed that. There has been no comment from our members

that their concerns have been found not to have a basis.

The impact of the tax at the top-tier levels, where the higher tax bands come in, has been quite significant. Anecdotally, we are hearing a number of our members saying either that sales have been stalled or that they have not gone through. In our submission, we include feedback that shows how the delays in transactions have impacted on the situation, and statistics that show that there was activity to get sales of higher-value properties completed before the new tax came in, and a delay afterwards.

Also anecdotally, we hear that there has been lots of pressure on developers to help customers to absorb that tax by forms of incentive. Some developers can afford to do that, but others cannot. There is a question about the on-going viability of that assistance.

We have also detected, particularly in the north-east, a combination of “perfect storm” conditions. It is well known that the prices of oil and gas have tumbled. That has had an impact on employment, property prices and the market in general in the area. The uncertainty in the north-east, the new higher tax bands and the loss of the help-to-buy scheme have combined to create very difficult trading conditions in that part of the market.

A quite interesting comment in the editorial on the opening page of a *Herald* supplement from two or three weeks back caught my eye. It says:

“LBTT is becoming interesting. This week revealed news that business is booming for an upmarket Edinburgh bathroom company as owners in the million-pound plus price bracket opt to spruce up their homes rather than move.”

I am delighted for Mr Ronnie Scott’s bathroom company, but I think that that example shows in a nutshell the behavioural reaction to the tax. I am not saying that people in million-pound properties need assistance, but it is important to point out that purchases at that level are, on the whole, largely discretionary. In lots of instances, people probably do not have to make that move or that purchase.

I will give you an example of the impact of such a decision. If someone who was considering buying a £750,000 property decided to have their bathroom upgraded instead, 81 additional sales at £175,000 would be required to make up for the loss of that tax revenue—in other words, 81 additional sales would be required just to stand still. That brings into focus the high dependency on the high-tax levels, which we think not only is risky with regard to tax take but has a disproportionate impact on higher-value property levels.

I will go back to an earlier submission that we made, in which we argued for smoothing of the tax bands. We think that that would be a far more sensible approach to allocating the tax.

The Convener: Thank you very much for that.

The Council of Mortgage Lenders has produced a short but excellent submission that in some ways contradicts a lot of what Philip Hogg has been saying, although not necessarily with regard to the high end of the market. It talks about

“a 39.2% increase in the number of loans and 27.5% in value on the first quarter of 2015”

and then says that

“Within these figures there were 8,000 first time buyer loans an increase of 50.9% and 5.3% on the first quarter of 2015.”

Just for clarification, are you talking about the first quarter of the current financial year or the first quarter of the calendar year?

Kennedy Foster (Council of Mortgage Lenders): I am talking about the quarter ending 30 June. In fact, we announced this morning our lending figures for the quarter to the end of September, which show further growth in the mortgage-lending market in Scotland. The number of loans that were granted for house purchase in the quarter to the end of September is 18,500, with a value of £2.4 billion. With regard to first-time buyers, the number is up to 8,500 and the amount is £920 million.

Those figures could be attributed to a number of things. Obviously, the mortgage market is currently quite competitive. We are still in a very low-interest-rate environment, and it looks as though interest-rate rises are being held off until 2016. Perhaps that is leading to current consumer confidence in taking out mortgages.

I am not really involved in the day-to-day sale and purchase of houses, but from time to time I speak to estate agents and others, so I echo what Philip Hogg said. People who are involved in the high end of the market will tell you that transactions were certainly brought forward to beat the introduction of LBTT. Compared with last year, there has since then been a much lower level of transactions in the higher end of the market. Whether that situation will return to something that is more like the norm remains to be seen.

Looking back at the history of stamp duty land tax, we can see that advance announcements of changes to the tax regime have always resulted in distortions to the market; the really interesting question is whether the higher end of the market will begin to recover. As Philip Hogg said, there is anecdotal evidence of folk not moving but instead upgrading their properties in whatever manner they consider to be appropriate.

The Convener: Your submission also states:

"We believe it will be some time yet before the full impact of LBTT on the residential property market is understood but the first quarter following the introduction of LBTT appears to have been a positive one for the residential property market in terms of mortgage lending."

If I have got this right, you are basically saying that in the lower end of the market—I suggest £325,000 or less—the LBTT changes have been positive, but you have concerns about the level above that.

Kennedy Foster: Yes, absolutely.

The Convener: Chris Stewart more or less agrees with that, as the last bullet point on the first page of his excellent submission suggests that the Scottish Government should

"increase the 5% rate threshold to £500,000 and ... abolish the 12% rate which we believe is making little positive contribution to LBTT revenues."

You go on to say that the

"distortion has been replaced by a new distortion at the point where a 10% rate begins".

Chris Stewart (Scottish Property Federation): Thank you again for having me along today.

We have some direct evidence from work that we have carried out recently. The point about the 12 per cent rate is that it is not generating tax take, so what is the point in having it? Our figures show that there has been a 22.5 per cent decline in sales of properties over £400,000 or above. That is—quarter on quarter—May to September 2014 compared to May to September 2015, so it is a like-for-like comparison. There has been a 54 per cent reduction in sales in the £1 million-plus part of the market.

As Philip Hogg has said, this is not about feeling sorry for people in that part of the market; it is about LBTT stopping the market from functioning properly. The key point is that people need to be able to move up and down, so it is a problem if a whole segment of the market is static. We rely on something like 74 per cent of the tax take from LBTT coming from properties above £325,000. A 22 to 25 per cent reduction in performance in that part of the market will have a fairly profound effect.

We advocate the introduction of a more progressive system that would introduce an interim band and raise the 5 per cent threshold. In that case we should overall, ultimately, get the best of both worlds because there would be an increased tax take and the market should perform better.

The Convener: Thank you. I will stick with Chris Stewart. You obviously have an interest in the commercial end. Your submission states that

"the move to a progressive rate of taxation with a less radical change in rates and thresholds has acted to make the change in tax structure less marked and this appears to have contributed to a smoother conversion from SDLT to LBTT, supported by enhanced revenue for the Scottish Government in line with the strengthening wider economy."

Can you say a wee bit more about how you feel the commercial sector has been affected?

Chris Stewart: In relation to the change from 4 to 4.5 per cent, the commercial market always prices in the tax level. The way that the system works in the commercial market is that, at the point of transaction, the sum is deducted from the value of the asset, so it affects the seller. In the commercial market, a 0.5 per cent change has not been material enough to lead to a wholesale change in activity. We have to guard against the backdrop of the fragility of that market. Take as an example Aberdeen, which has been a huge part of the Scottish commercial property market activity. The work that we have carried out shows that the value of transactions in Aberdeen for the previous quarter—quarter on quarter—fell from £201 million to £50 million. A downturn in that market can have a fairly profound effect on the tax take. Reliance on the commercial market when it is still fragile may not be the way—we need to get the residential market performing at the same time.

09:45

The Convener: Thank you. I have another question for Chris Stewart, then I will ask Philip Hogg a similar question, about the role of Revenue Scotland. The timing is perhaps unfortunate, because we had Revenue Scotland in last week and could have put some of your questions to it at that point.

You have said that

"there is a feeling that the guidance and administrative support side of Revenue Scotland remains weak at this stage"

and that

"members feel restricted in being able to voice criticism because they need to have an on-going relationship with RS in order to serve their clients' interests."

That gives you concerns with respect to reassessment. I would like your comments on that.

Chris Stewart: Again, that is just around confidence in the market and the ability of commercial developers and investors to plan and to ensure that they understand the mechanisms behind how Revenue Scotland will work. We are keen to see further development of that and to ensure that there is a bit more transparency generally.

The Convener: Homes for Scotland's submission says that

"Concern was ... expressed about the approachability of Revenue Scotland"

and that

"it was noted that Revenue Scotland will not necessarily follow the HMRC guidance".

Philip Hogg: We should keep this in perspective; we are talking about one or two comments that might be in isolation in a broad sample. I can relay such comments only as they are reported back to us.

I am looking at the feedback that we received and comments that there were early indications that Revenue Scotland would be more approachable regarding inquiries. However, we are hearing from a number of colleagues that that has not been the case, in practice. Our members were hopeful that it might be easier to discuss complex LBTT cases, but it is reported to us that it has not been possible to speak with anyone informally on the phone. It also appears to be difficult to obtain feedback by email. The remedy seems to be to seek a formal opinion from Revenue Scotland—a process that is, it has been reported to us, quite slow.

That may be because it is early days and there are teething problems, or whatever. Moreover, we should keep it in perspective that it is just one of our members who has reported that specific issue—albeit that that member undertakes quite a number of transactions with Revenue Scotland.

The Convener: The Council of Mortgage Lenders has said that there has not been

"any 'noise' of issues in the collection and administration of LBTT".

In paragraph 6 of your submission you say:

"we believe the full impact of LBTT needs to be better understood"

and you go on to talk about long-term impacts.

Given what you have said in your submission and what colleagues have said today, are you of the view that there should in the draft budget for 2016-17 be changes now to the rates and bands for residential transactions, or do we need to wait to see further evidence before changes are made?

Kennedy Foster: History shows—particularly, as I said earlier, in relation to SDLT—that when tax changes are announced well in advance, that leads to a short-term distortion in the market. As I think we have all already identified, the impact is really at the higher end of the market. The question is whether that part of the market will recover to a more natural level over a period.

If there is one lesson from this, it is that in order not to distort the market we should not announce changes in tax regimes well in advance because people take advantage one way or the other of

such change. We are only six months into the new tax regime; we need to see it operate for at least a full year.

I do not know so much about the commercial market, but the residential market is very cyclical. We are beginning to get into the quiet period in the housing market—Christmas and new year, January and February. The weather does not help people looking for houses. The market begins to pick up in the spring, dies off a bit during the school holidays and picks up again after that. It is a very cyclical market and we have not been through all the cycles under the new tax regime.

The Convener: Thanks very much. That is very helpful.

We have now been joined by Jackie Baillie, so the committee is at full strength. I open out the questioning to committee members.

Jean Urquhart (Highlands and Islands) (Ind):

I want to follow on from one of the convener's questions. I think that Chris Stewart talked about the 22 per cent differential in property sales at the higher end. I seem to remember something that was possibly in the same journal that Mr Hogg cited earlier about people having advance notice of the increase to 12 per cent. Is that 22 per cent differential a bit artificial? Would we really need to compare the figures for the past three or four years, perhaps, to get a feeling for whether the increase, which I believe there was, in the previous year in advance of the tax being imposed was true?

Chris Stewart: I suppose that the issue is that there will certainly be short-term advancing of transactions in the market when there is a tax change, but that will not roll through the entirety of the rest of the market. People who are thinking of selling in September do not just advance and sell in March to hit the tax point, but you will see—and we did see—in the figures a short-term distortion. In April and May, there were clearly fewer transactions, but the market then returned to the profile that we would consider to be normal.

The point is about a properly functioning market. All aspects of the market need to function for people to be able to downsize—to move into smaller properties—once they have had their families and for families to be able to move into higher-end properties. The threshold where that affects the market is not just at the £1 million mark; it is right down to the tax point at £325,000. That main band of tax take is being hit. To me, that seems very much out of kilter.

On sentiment, one of the things that I thought was quite telling was that in relation to £1 million sales, in 2014, 27 per cent of buyers were international, and in 2015 the figure is 18 per cent. So the 12 per cent rate is putting people off.

Irrespective of whether it is meaningful for tax take, it is stopping people investing in Scotland. The whole tax structure affects people's confidence about putting money into this country. How the market is perceived is critical.

Jean Urquhart: We have referred to the downturn in the oil industry and the economy of the nation in general. Do you agree that it would not be right to place everything on the increase in tax?

Chris Stewart: It would not. We advocate a balanced and progressive system and we understand the need for the new LBTT system. There is no doubt about that. The old slab system did not work.

However, let us take the commercial market, for example. I believe that there were seven bids for the Atria Edinburgh building, which is just being sold to the Deka Immobilien German fund, and none was from a UK institution; they all involved international capital. If that asset had been in Manchester, there would have been 20 bids for it. Therefore, there is a regional distortion in our market.

It is about confidence and understanding policy and how tax will be structured. In the commercial market—it is not the same in the residential market—there is a dominance of international buyers, and they tend not to dive too much into the detail of how the market is operating; it is more about sentiment. In the residential market, they will pick up on the 12 per cent rate and ask whether it is a progression towards a higher tax structure and whether they want to be in that market. There was evidence last week on aligning policy with market sentiment, which is critical.

Gavin Brown (Lothian) (Con): I will start on that point, Mr Stewart. You have given the example of the Atria Edinburgh building. You felt that there would have been more bids if that property had been in Manchester.

Overall, the tax take for commercial property seems to be slightly ahead of schedule, but I would like to drill down a bit. What impact has having a marginally higher top rate for commercial property of 4 per cent as opposed to 3.5 per cent had? Do you have any evidence on that, either anecdotal or otherwise?

Chris Stewart: As I said earlier, the transactions that are going ahead have not been affected by the 0.5 per cent increase. What happens is that the seller gets the price adjusted. In other words, there is a deduction from the price. Therefore, I think that the rate of 4.5 per cent for commercial property seems to be working.

However, please bear in mind that we should be looking at a profile of an increasing market—the

market should be making progress no matter what the tax banding is. We have moved on from an all-time low and our market is starting to recover. I would suggest that simply meeting our expectations on tax take for LBTT relative to last year might not be good enough. Perhaps the commercial market, with increased transaction activity and a more confident market, should be delivering more tax take on the same banding, if that makes sense.

We would like there to be more transactional activity and more confidence in the market. That leads to more tax take. I would suggest that the fact that the tax take is only slightly ahead of or the same as it was previously does not show enough confidence. That is certainly borne out by the lack of depth in the commercial market for acquisitions, which is pretty significant.

The bigger point is that Edinburgh and Glasgow will do okay, but the international capital that goes into those cities does not roll into Kilmarnock, Kirkcaldy and Dunfermline. Commercial transactions in those areas need to be pushed on. It would be interesting to understand—I do not have the figures on this—the impact on secondary markets in Scotland, as opposed to on the prime ones in which buildings such as Atria are being sold.

Gavin Brown: Is it the SPF's official position to call for parity with the rest of the UK at the top rate?

Chris Stewart: I think that our view is that that system is not creating the same issues as our current system is creating, so that would be sensible.

Gavin Brown: This question is for Mr Stewart and Mr Hogg, because Mr Foster has sort of answered it already.

On changes to the residential bands and rates, you have outlined that you would call for the threshold for the 5 per cent band to be increased so that the 10 per cent band kicks in at a higher level. It is no secret that I was sympathetic to that at the time of last year's budget. If the Government were minded to give that serious consideration and made a change in the direction that you favour, when should such an announcement be made? Should it be made on 16 December when we get the Scottish draft budget, or should it happen, as Mr Foster suggested, right at the end of the budget process, shortly before it takes effect? From the point of view of looking after the overall health of the market, if such a change were to be made, when ought it to be announced?

10:00

Chris Stewart: One of the key points for the health of the market is people's ability to project forward. For example, the house-building industry relies on being able to forward plan its activity in order to start development, to bring in labour, to start ordering, to contract with subcontractors and so on.

If the industry sees that it is not going to be able to build in certain segments of the market—because, say, there is no take-up at the £325,000 to £400,000 and above end—it will pull back on its programme. Philip Hogg can say a bit more about house building, but I think that certainty of environment and behavioural patterns, which have changed as a result of LBTT, are key and that if there were any inkling to communicate on that, the sooner that was done, the sooner the market would respond with more activity. After all, this is about everything from second-hand sales to the production of new homes, and the production of new homes is critical not just for the property market but for the wider economy. The earlier that such things are communicated, the better.

Philip Hogg: On your question about when any change should be announced, Kennedy Foster has already made the very good point that the further in advance the market is aware of things such as LBTT and stamp duty, the more buyer behaviour will be affected, both positively and negatively. It could be argued that it is probably best to give the least notice possible to minimise the number of what might be called artificial transactions.

In our submission, we say that it is too early to take a definitive view on this matter, but we remain concerned. It is still relatively early days, but there is nothing that has demonstrated to us that there should be no concern about the configuration of the tax structure. We welcome the removal of one of the bands, the introduction of the progressive system and the lower tax burden on purchasers at the lower end of the market. All of those things are excellent, and the Scottish Government ought to be applauded for bringing them in. However, our concerns remain: as we originally announced, we think that the tax is too steep at the higher end. I come back to my earlier example of the number of additional transactions needed to offset just one lost sale at the higher end, because that is where the risk lies.

We have to understand that transactions in the residential market broadly fall into two categories; the discretionary purchase, where people think, "We don't need to move, but it would be nice to"; and moves that are essential because of family circumstances, change of job and so on. We need a tax system that encourages discretionary purchases and rewards people who want to move

up the housing ladder, because that creates movement in the system and generates not only tax revenue but gross domestic product as a result of activity in the system. As we know, every home that is built creates more than four jobs, so we want a tax system that encourages people to want to move and to aspire to moving up the housing ladder.

Our fear is that the tax system does not do that and that, in fact, it does the opposite by making people stop, think twice and say, "Do you know what? We'll stay where we are and get the bathroom upgraded instead." That is great for the bathrooms industry, the smaller builders and all the rest of it, but I would suggest that it does not have the right impact and does not generate tax, GDP or any value for the Scottish economy.

As I have said, we remain concerned. We are not calling for an immediate change, but we think that the system should be kept under close review with a view to adjusting or tweaking it at some point in the future if the trends continue as the current evidence suggests that they will.

Gavin Brown: In the run-up to April, the volume of high-value sales increased and in the immediate period post April, the number reduced, which I guess was expected. It might be too early to tell, but six or seven months on, what is your sense about the likely volume of high-value sales going forward? Was that increase and decrease a temporary response to the change or does your evidence, anecdotal or otherwise, suggest that unless changes are made a reduced number of high-value sales will be an almost permanent feature of the housing market?

Philip Hogg: On the basis of the evidence that we have, I think that we will see the lower volume of activity at the middle and upper end of the market continue. Given the information that we have and the feedback that we get from our members, we think that there is evidence of a change in product mix on our members' developments in recognition of the impact of LBTT—in addition to the impact of other market forces, which I should add into the mix. We think that there will be lower levels of activity in those parts of the market for the foreseeable future.

Gavin Brown: Are the other panellists hearing similar things?

Chris Stewart: Very much so. The trend is not a blip and it reflects not an adjustment but a behavioural change as a result of the cost of moving. The amount of activity that is going on to upgrade homes rather than move has been widely reported. The issue is the consequence of that on the broader market. It is not just about higher-end homes; it is about how the market functions as a whole, which is critical.

Gavin Brown: Mr Foster, in your paper you gave the current position on mortgage applications and mortgages being granted, which sounded quite buoyant, given the overall numbers—although you then explained that that does not necessarily correspond to tax take. Nonetheless, the mortgage market seems to be doing fairly well. Do you have a sense of how the figures compare with figures for the mortgage market across the UK? Are our figures broadly in line with UK figures or has LBTT made at least part of the mortgage market slightly healthier?

Kennedy Foster: I do not have the UK figures in front of me, but I am sure that figures for first-time buyers are higher in Scotland than in other parts of the UK.

The mortgage market in the current year has followed roughly the same pattern: in the first three months of the year it was pretty depressed, it picked up in the second quarter, and our UK lending figures for October, which were announced last week, show the highest level of mortgage lending since September 2008. There is definitely an upturn in the mortgage market at the moment, which is caused by a range of factors, not just LBTT or SDLT.

Gavin Brown: I appreciate that you do not have the exact figures for the UK, but are you saying that your sense is that the mortgage market as a whole has performed similarly in Scotland and in the rest of the UK but that the figures for first-time buyers are higher in Scotland?

Kennedy Foster: Yes.

Gavin Brown: This question is for any member of the panel. We are aware that forestalling happened—people brought transactions forward to avoid higher taxes—but to what extent did the opposite happen? Was there an incentive to hold off making transactions on some houses of lower financial value, because of the tax benefit, given that the threshold was going from £125,000 to £145,000? In some parts of the market, did we see people holding off, followed by a sudden increase in transactions after April?

Philip Hogg: We have no evidence that there was significant delaying in order to benefit from the new tax level for lower-end houses. I have some statistics with me, but they are not particularly revealing. As I said in the paper, 16.9 per cent of transactions in quarter 1 in 2015 were for properties below the £145,000 threshold, compared with 28 per cent in 2014. That does not give a massive picture. The feedback that we have had is that tax levels at entry-level prices were not in themselves game changers that persuaded people about moving one way or another.

I know that it is not my role to ask questions, but there is one point that I would like to ask Kennedy Foster about.

The Convener: That is not really your role, but Kennedy Foster may wish to comment.

Philip Hogg: I would be interested to know whether he has any evidence or data on how many property purchases in the higher price bands are mortgage purchases, as opposed to cash purchases. That could be quite significant. We hear that there are a considerable number of transactions where mortgages are not required, so relying on just the mortgage figures may not paint the full picture. I am sorry to throw that at you, Kennedy.

Kennedy Foster: I do not have the data on higher-end cash purchases. The figure that I have heard relates to the buy-to-let market—the private rented sector—where at least 20 per cent of transactions are cash purchases for which folk do not need to borrow. There is quite a high level of cash purchases.

A lot of investment in the property market in London, although not so much in Scotland, is through cash purchases from overseas investors—from China, the middle east and Russia.

Gavin Brown: I have a last follow-up question for Philip Hogg. You said that much of the evidence is not exact and is anecdotal, but your members have told you that they have sped up some transactions in order to complete them before the April deadline. Is it fair to say that your members did not tell you that some people were delaying until after April?

Philip Hogg: One or two did, but we are not talking big numbers. It is sometimes difficult to vary the numbers in build programmes. However, there was no evidence that there was a large swell or a large volume of transactions that were delayed until after the new tax system came in.

Chris Stewart: One of the pieces of anecdotal evidence is that in a market with low transaction activity, which is what we have at the higher end, you would expect an oversupply of stock—the market dynamic would be of oversupply—but the market is unique in that we currently have an undersupply of stock and buyers.

That relates to the behavioural activity of people who do not want to put their house on the market because of the cost of moving. That market dynamic is telling. The duration for which properties are sitting at the higher end of the market is markedly longer. It is substantially longer in areas of Glasgow and Edinburgh where we would expect movement of prime properties to happen very quickly. Properties are taking a year

or a year and a half to sell, whereas previously, under SDLT, the market was performing. The lower levels of the market are working reasonably well, so that shows that there is a dysfunctional market.

Mark McDonald (Aberdeen Donside) (SNP): Evidence that the committee has received and what we have heard today seem to suggest that there is market depression at all levels. For example, the National Association of Estate Agents said that there is a lack of stimulus at the lower end of the market, where there have been fewer transactions since the introduction of LBTT than there were in comparable periods in previous years. Today, we have heard evidence about higher-end market depression and the market for properties over £325,000. On the other hand, we received evidence from the Council of Mortgage Lenders about increases in mortgage lending and the number of mortgages. To the untrained eye, those two pieces of evidence do not seem to tally. What is the explanation behind that?

Chris Stewart: I do not know whether the evidence on mortgage numbers segments what are refinances—remortgages.

Kennedy Foster: It does.

Chris Stewart: As Philip Hogg said, there is a question about the amount of cash activity at the top end of the market; unless those figures relate like for like, it is not easy to draw a direct comparison and say that mortgage lending is up and therefore the overall market is good—that is not the right way to look at it. We should be looking at a market that is moving out of its lowest position since 2008-09, rather than at a stalling market. The evidence does not necessarily align.

10:15

Mark McDonald: Mr Foster, I think that I heard you saying that your figures do disaggregate between what was mortgage lending and what was remortgaging.

Kennedy Foster: Yes, our press releases split it into loans for house purchases and loans for first-time-buyer purchases, with a separate section for remortgages. The remortgage market is pretty flat at the moment.

Mark McDonald: So the increases that you have been speaking about are for first-time-buyer purchases and house purchases.

Kennedy Foster: Yes.

Mark McDonald: Okay.

Does the data just show that there been an increase in mortgage lending, with no disaggregation according to value?

Kennedy Foster: Correct.

Mark McDonald: I wonder whether you might care to comment on another thing. I recall what the press reports said during the period leading up to the introduction of LBTT—apparently, if someone was going to purchase a house valued over £750,000, they would have to pay 12 per cent on the entire purchase. Of course, that is not how the banding works. In fact, one newspaper contained a correction to a previous report but, on the following page, there was a reiteration of that very same reporting. Do you have any anecdotal or other evidence on the behavioural impact of some of that reporting, which suggested quite significant hikes in tax on property purchases, even though that did not reflect how LBTT was to be introduced?

Philip Hogg: I am not aware of the specific reports to which you refer, so I cannot really comment on all of that. As with any new tax system, there is a period of time for the tax to be understood and communicated correctly.

I would encourage members to go online or pick up property supplements—perhaps after this meeting. A quick scan of the property adverts, particularly for new build, will probably show—I am taking a gamble by saying this, but I will hopefully be proved correct—that there are a fair number of incentives along the lines of “LBTT paid”. That seems to be the incentive that most new home purchasers are looking for at the moment. That is itself symptomatic. It reflects what the stumbling block appears to be for many people. That is the market responding to what is thrown back as the barriers to purchase.

On your specific comment, we are not aware of a misunderstanding of the LBTT amounts, so I cannot comment on that particular point.

Chris Stewart: At the higher level of transaction, people are very well advised by agents, lawyers or whatever. Any press reporting of a level would be quickly qualified. I do not see that there is any evidence of people fundamentally misunderstanding the position.

Mark McDonald: Mr Foster, mortgage lenders will have been approached by people asking about the impact of LBTT. Did you pick up any evidence in that regard when it was first—

Kennedy Foster: None whatsoever.

Mark McDonald: That is fine.

I note that, of your three organisations, only the Scottish Property Federation has gone out on a limb in making a suggestion for changes that could be made. Mr Stewart, have you done any modelling or hypothesising about the likely impact on revenues if the changes that you have suggested were to take effect—in terms of both

market activity and the revenues that would be likely to be collected if the changes were made?

Chris Stewart: We certainly have done some modelling. I do not have the specific numbers for you immediately to hand, but we would be happy to provide them.

Mark McDonald: That would be quite helpful, so that the committee can see what the impact would be.

I have a question that follows on from that. I know that Mr Foster and Mr Hogg have hedged their bets in terms of suggesting changes, perhaps because they feel that more data or information is required. Mr Baker and I are very familiar with the north-east, being representatives of areas in that corner of Scotland, where other external factors have been involved in the price downturn, such as employment issues. How confident can we be that simply readjusting LBTT rates will, in and of itself, stimulate the market, irrespective of other factors that might affect it? If changes were made to LBTT on the assumption that that would kick-start purchases but that did not happen, that would have a further effect on revenues collected, particularly if the threshold was reduced for part of the market. I would be grateful for your thoughts on that.

Chris Stewart: If we look at the level of activity in the 12 per cent band, for example, we can see that there has been a huge drop in volume. There is so little activity in that market in terms of the number of units that it is clear that putting that band in place has affected sentiment. The fact is that 74 per cent of the tax take is from properties above £325,000, which means relying on the tax take from only 7 per cent of the market. There will be a positive benefit if there is a downward adjustment of any of the rates, because you probably cannot get any less out of the top end than you are currently getting. I am sure that a realignment would make a difference.

Mark McDonald: Does Mr Hogg or Mr Foster want to comment on the broader issue rather than the specific proposal?

Philip Hogg: Just to close the loop on this point, I referred earlier to the press, and *The Herald's* "Scotland's Homes" supplement, which you can see me holding, has an example of how builders are trying to overcome where the objections to purchasing are. I am sure that there are plenty more examples of that.

To return to Mr McDonald's question, I recall that the finance secretary's objectives were for the new system to be revenue neutral. From the information that I have seen—I stand to be corrected on this—the forecasts are that that might not be achieved. If the system is not delivering the tax take, that surely suggests that it needs to be

reviewed and investigated. On that basis, we have to ask why it is not delivering the forecast revenue and look at where the sensitive areas are.

On the question of developing an alternative system, we proposed widening the 5 per cent band, and it is still our view that that idea needs investigation. However, our colleagues at the Scottish Property Federation have come up with alternative systems, and I am sure that there will be many other different ways. We have not come here with a pre-prepared alternative, but our concerns remain as originally reported.

Kennedy Foster: A range of factors are involved in taking the decision to invest in buying a house. If someone is going to borrow, one of the issues to consider is whether it is affordable for them to take on a mortgage. Another consideration is the prediction for interest rate rises going forward. Consumer confidence, employment prospects and house prices all play a role in the decision to invest in buying a house.

I echo Chris Stewart's comments in that I think that the Government probably needs to focus on the issue. I am commenting not from a political perspective but purely from a risk perspective. When so much of the tax take is coming from such a small number of sales, market decline must be a risk.

Mark McDonald: I think that it was Mr Stewart who spoke about the impacts of the changes in the rest of the United Kingdom. Do you have any evidence on the impact of the changes that were made to stamp duty land tax south of the border?

Chris Stewart: I do not have the statistics for the residential market, but we certainly know from the commercial perspective that the transactional levels that we would expect in our regional markets—Edinburgh and Glasgow—are substantially reduced. We measure that by the likes of the comment about how many bidders would go for a prime asset in Manchester relative to one in Edinburgh.

Commercial property is valued on the basis of its income and a percentage yield is applied to that. There should be no difference between Manchester and Edinburgh because they are both strong regional cities, but Edinburgh trades at a discount to Manchester which, historically, should not be the case. The difference is 20 buyers who are interested in a prime Manchester asset compared with seven who are interested in an Edinburgh asset. Therefore, there is something not quite right that is not attracting those investors into the Scottish market. That is what creates its fragility. Changes in tax, or the sentiment around tax, add to that fragility. One of our overriding concerns is how potentially unstable the market is.

Mark McDonald: I am sure that you agree that it is difficult to draw a wider conclusion based on one or two examples so, if you have other data in that respect—the data that I asked about previously—it would be nice to see some of it. That would allow for a slightly more reflective picture of what is happening.

Chris Stewart: We would be delighted. We can pull together a lot of information to support the conclusion, because there are a number of different strands to the matter, not just LBTT.

Jackie Baillie (Dumbarton) (Lab): Is there anything to suggest that the fragility will remain?

Chris Stewart: Yes, there is. It is pretty well known that UK institutions and institutional investors—the big funds that we all know—are not making the same level of investment that they did historically. In many instances, they have filled their books with investment, so their 7 per cent allocation of their funds, for example, is not extending. That means that there is an increased reliance on international capital, which the SPF has analysed as being about 70 per cent of the Scottish market.

We have to understand the profile of those investors. That international capital is not a domestically based institutional fund or bank; it is probably headquartered in New York or the middle east. Money comes into Scotland and it focuses on the prime asset in which it is investing. The Bank of Scotland of old and the Royal Bank of Scotland were locally based. They were in the market and had an interest in funding it. That capital now looks at investing in Edinburgh alongside multiple European cities, such as Barcelona, Madrid and London, and tends to come here as a result of not being able to invest in London because the market is too hot.

The reliance on that type of market is very fragile. We are trying to encourage a more consistent market in which that capital is encouraged to stay. What has happened in our banking system because of slotting and the changes in capital requirements means that our banks cannot invest more to support local businesses and there is a ceiling to what they can deliver. Our concern is that all those factors mean an increase in dependence on a more fickle international investor. The fragility is evident.

10:30

Jackie Baillie: You would therefore be in a position to model that behaviour and estimate the likely risk if that information is out there already.

Chris Stewart: The behavioural assumptions become more a matter of global macroeconomic conditions so, if an investor in New York gets a

better return in Spain for the same allocation of capital, why would he put it into Scotland? All of a sudden, it is about your competing structure, how your economy looks and how attractive it is to that capital. If we had more local capital, we would not be having the same conversation. To model it, you need to look at the global markets.

Jackie Baillie: That is helpful. Others have explored the lower volume of transactions at the high end of the market and Mr Hogg should definitely be on commission with that bathroom company. *[Laughter.]* I have counted three mentions so far; let us see whether he can manage a fourth.

I want to look at the level of receipts for residential transactions in particular and I want to understand the world that you guys understand, which is seasonality. Another submission tells us that, typically, by the time you get to the end of October, you could expect 62 per cent of the receipts to be in, with 38 per cent still to come. Is that your feel? Can you describe to the committee what is likely to happen between November and March?

Philip Hogg: I will not mention the bathroom company.

Jackie Baillie: You just did.

Philip Hogg: I can assure you that I have no personal or professional affiliation with it.

I think that Kennedy Foster mentioned seasonality fairly early on. I can articulate it by referring to behaviour that many of us will understand. Immediately after the new year, we find that consumers typically tend to have a period of post-festive depression, so we start to see holidays being booked and the start of the process of searching for and buying a new home. I have modelled that using internet traffic. It starts to pick up around 12, 13 and 14 January when we see massive hikes in internet property searches. That is the start of the cycle and it is when people start looking, visiting showhouses and looking online.

For a new build, the purchase process, from the day the person first looks to the day they get the keys to the door, depends on how advanced the construction programme is, but we can talk about approximately three months and maybe a little bit longer. We will find a peak in transactions—sales completed—around Easter, so there is a rapid rise in the level of activity at Easter and into early summer. It dips off during the summer months because of the school holidays and for the other reasons that Kennedy Foster described.

We then see a second peak of activity in September and October, immediately after the school holidays and before we get into what we call the tinseltis period, which seems to get earlier

and earlier and is when the tinsel appears in the shops and buying a new home is not so important. People have targets and say things like, "If I am going to buy in autumn, I want to get in before Christmas," but for some people that is too much of a logistical squeeze. We therefore see a second peak of activity, at a lower level, in the autumn and winter period.

The curve looks like that. We have modelled that using our transactions in years gone by and it does not change. It only really changes if there are any stimulants in the marketplace, such as help to buy or changes in the tax regime. They might accentuate some of those waves in the pattern, but the overall pattern is fairly predictable and consistent, and it is like that. I am sorry—that does not really work for the official report.

Jackie Baillie: No, no, the visual works for me. I love the word "tinselitis". I have learned a new word today.

So, typically, by now you will have had your two peaks already and they are contained within your figures.

Kennedy Foster: In an earlier life, I ran a mortgage processing operation for a major lender and one of our busiest periods was in the lead-up to Christmas. That is due to people who are out in September and October looking to buy houses; they are then completing and wanting to be in their houses before Christmas. You have to bear in mind that LBTT is paid at completion, so I would not necessarily have seen it in those months. You could still have strong receipts through to just before Christmas, but they will die off as we go into the new year if they follow the pattern of mortgage borrowing.

Jackie Baillie: So you would expect January, February and March to be very quiet but there still to be activity right the way up to Christmas.

Kennedy Foster: Yes.

Jackie Baillie: That is helpful.

Philip Hogg: I have a small point to add about the Scottish Government help-to-buy scheme, which may have a distortion effect this year. All the properties that are eligible under that scheme have to complete by Christmas. That will create an artificial peak, which will probably be higher than normal, because those transactions have to be completed to ensure that the funding is delivered.

Jackie Baillie: That is helpful too. The Scottish Property Federation commented specifically on this area, but I do not think that the other witnesses did in their submissions. The SPF submission compared the receipts: there is a shortfall of 5 per cent against 2013-14 and a shortfall of 25 per cent against 2014-15. Can you explain that? Also, what is your estimate—

however difficult it might be to estimate—for the year-end figures?

Chris Stewart: The projected take across the bands in the residential market should be your benchmark for this time in the year, which is 60 per cent of £246 million, if it follows the normal pattern.

I stand to be corrected on the figures but, broadly, £118 million has been delivered in that same period, so at this stage there seems to be a £30 million shortfall, which is 23 per cent—I suggest that it will not be caught up—from May to October, on the predicted amount. I do not know whether that 23 per cent shortfall will be maintained or whether the gap will widen, but it is enough to highlight the difference.

Jackie Baillie: You have made no projections that take account of incentives that might distort the market.

Chris Stewart: I think that we will see that pattern continuing.

Jackie Baillie: Thank you very much.

Mark McDonald: I have a short supplementary question. You say that there is a shortfall of about £30 million on what was expected. The Scottish Fiscal Commission submission states that the Scottish Government estimates a possible fall in revenue of between £12 million and £37 million due to forestalling effects. How much of that £30 million shortfall could be attributed to forestalling? Is that something that you have information on?

Chris Stewart: You need to try to separate the commercial market from the residential market because they are performing very differently. I know that they can be combined to get the figures, but the residential sector figure is certainly not going to be of the quantum of potentially £50 million or £60 million by the end of the year. There may be an element that would have been collected in the year previously, but the behavioural pattern was certainly not that people who would have been moving in September advanced the move to April. We saw that correction, with less transactional activity in May. I cannot say how much exactly, but it would not be a huge amount.

Mark McDonald: Thank you.

John Mason (Glasgow Shettleston) (SNP): Following on from that point, we have been given three possible scenarios, and we have still to see the Scottish Fiscal Commission.

The actual position is behind two and ahead of one of the forecasts. How certain are you that the actual position is behind forecast?

Chris Stewart: In the residential market, there has been substantially less take every month. In

April, the difference from the previous year was £18.3 million, which is substantial. That would be as a result of the transition to the new tax.

In May 2015, revenue was £11.4 million, compared with £19.8 million in May 2014. In June 2015, revenue was £18.5 million, compared with £24.2 million in June 2014.

John Mason: You are comparing with the previous year rather than the forecast. The forecast was £235 million, and the forestalling could be £12 million, £20 million or £37 million.

Chris Stewart: Yes—60 per cent of the market activity or collection for that time of year—

John Mason: Yes, we have been given the figure 63 per cent, but that is roughly—

Chris Stewart: Even with 63 per cent, you would have expected more than £150 million take. As far as we can see, the actual take was £118 million—

John Mason: That is depending on how much forestalling there was. Have you taken forestalling into account?

Chris Stewart: I suppose that as an answer to the previous question, there will be an element of forestalling, but not to the extent of over £30 million.

John Mason: One of the figures that we have been given is a forecast of £235 million, with forestalling of £37 million, which takes us to £153 million, which is ahead of what is happening.

Chris Stewart: How would you explain £37 million of forestalling?

John Mason: We have still to discuss that. We have not had the Fiscal Commission in yet. The Scottish Government's forecast for forestalling was between £12 million and £37 million and the Office of Budget Responsibility's was £20 million. We have not yet clarified how much the forestalling was.

Chris Stewart: About £37 million—

John Mason: —added to £116 million is £153 million. I do not want to get too bogged down in figures. My point is that there is a variety of figures.

Chris Stewart: But £37 million of take on forestalling, if it were on commercial property and a higher tax basis, would mean that £822 million of transactional activity was—

John Mason: I am talking only about the residential sector.

Chris Stewart: That would be even worse. A huge number would, in that case, have forestalled.

John Mason: We have still to discuss forestalling with the other witnesses. My main point is that the actual amount is behind some of the forecasts, and ahead of at least one.

The panel feels that LBTT has had a sizeable impact on sales and prices. Has anyone—a university or research body—done an objective study, or is that feeling really just subjective?

Chris Stewart: No. It is definitely not a “subjective” feeling. Our businesses cover the whole market, and not just individual segments. Homes for Scotland clearly covers the entire market.

This is not sentiment: there are actual delays in property sales—

John Mason: Have you asked sellers and purchasers, or prospective sellers and purchasers?

Chris Stewart: That is what the Savills report covers. It is evidence; it is not—

John Mason: Who is that based on? How has it found that out?

Chris Stewart: It is a combination of Savills's own transactional research and information from myhouseprice.com. It is evidence based: it has—

John Mason: Has it actually asked purchasers or sellers?

Chris Stewart: Yes.

John Mason: It has done that.

Chris Stewart: It is a property agent—it deals with transactions daily.

John Mason: I know that it deals with transactions and could therefore say how much they have gone up or down. My questions are about why they have gone up or down, and how it has found that out.

Chris Stewart: We are all in the market and we deal with buyers and sellers in commercial and residential real estate. It is not just discussion—it is fact. There are—

John Mason: I question how it is fact. We are six months into a new system. Unless some kind of academic organisation has studied it properly—

Chris Stewart: There was a year-to-year difference in the number of sales of properties over £400,000. From May to September this year, there were 1,283 sales; last year, in the same period, there were 1,657 sales.

10:45

John Mason: The fact is that the number of sales is down. However, my question is this: in Aberdeen, where the oil price is way down and

there are a whole lot of other factors involved, has anyone really studied how much of the sales drop is due to the oil price and how much of it is due to LBTT? Is it just that you would like to see the tax come down, so you are arguing that the drop is all based on LBTT?

Chris Stewart: No. We would love to be able to say that LBTT has worked, because we are looking for a positive and buoyant market. This is not a political point: it is about having a successful market in which jobs are being created and people are able to move houses at whatever level.

John Mason: Are jobs created because people move or because new houses are built?

Chris Stewart: That is down to both: there is employment in both sectors.

John Mason: I am not sure how quickly all this will settle down. That point has been touched on by other members. Are we in a settled position now or, following your arguments, are some people at the more expensive end of the market waiting to see whether the rates will come down in April? Are we still in a forestalling period? Can we tell whether we are?

Philip Hogg: My guess is only as good as that of anyone else around this table. I am not aware of any press speculation that there will be an adjustment in rates; that is not what our members understand will happen, nor is it the message that we would put out to the marketplace. I do not think that there will be many people waiting and hoping that the rates will be adjusted. However, that is a personal opinion as opposed to one that is based on research.

The first part of your question was on whether forestalling has washed through the system and we are now in a normal market. The real test of that will be Q1 next year—taking Kennedy Foster's valid point that tax revenues follow a little while after purchase activity. I think that, perhaps by Q1 and certainly by Q2 next year, we will know what the pattern is and whether there is a continued depression in activity at the upper levels. If it looks as though activity is still reduced, that will be the new norm, with whatever implications that has for tax.

I think that we are now getting through the adjustment period. Picking up on the point that John Mason made to Chris Stewart, I think that key estate agents such as Savills, Knight Frank and others would be well placed to give you an accurate picture of consumer behaviour at the sharp end. They speak with prospective purchasers and sellers daily and know how they are behaving and reacting. I can only report back from our members, who are telling me that in the conversations that they have with prospective purchasers in sales centres, LBTT is a big issue,

especially for people who are buying in the price brackets that we have been speaking about.

John Mason: You are saying that it will be the first and second quarters of next year before we will see whether things are settling down. It would, therefore, be best for us to leave the rates as they are at the moment. If we change the rates, that will just confuse things more, will it not?

Philip Hogg: That is correct. Hence, in our paper, we suggest that you keep the situation under review for a little bit longer. However, if by the end of Q2 next year there is evidence of that pattern emerging, the concerns will be valid and the matter will need a serious review.

John Mason: Mr Stewart, you said that certainty is a good thing. Do you agree that it would be best to leave things as they are in this year's budget and to review the situation again next year?

Chris Stewart: Yes. It is important to get a full year's data in order to mop all that up. However, we would welcome a review after that full year to see what the effect has been.

John Mason: Your submission also mentioned the effect on labour skills: it was suggested that we are losing out on some skills because people cannot afford to buy houses.

Chris Stewart: I suppose that that is to do with the development of the house building and construction industry generally. In order to invest in new developments, new land banks and the skills that are required to increase that activity, we need consistency and an understanding of where the market is. If sections of the market are not performing, house builders will not build homes in those sections. That does not mean that they will build more homes at the lower end of the market—that is not the way it works—so the consequence is that they are not investing in the jobs. We know that from speaking to the contractors with which we work to grow their businesses. What we fundamentally want is a healthy and well-performing real estate market that is supplied by a healthy and well-performing construction market.

John Mason: If wealth was shared out more evenly across the country, instead of building a £1 million house, somebody might build 10 £100,000 houses, which I assume would create more jobs. Would it not be better to build more cheaper houses than fewer very expensive houses?

Chris Stewart: I do not think that it is as simple as that, to be perfectly honest. The problem that we find in the construction industry and the house-building market is that most house building and construction businesses are suffering from the financial crisis of 2008 and have yet to recover.

Banks are not funding small and medium-sized businesses to the extent that they were—the local debt providers to which we would usually turn are not in the market, so activity is just not happening outwith the major house builders in the market. The capacity in the market is not there, whether it is in lower-end homes, as you suggest, or elsewhere. It is a confidence issue.

John Mason: On commercial properties, a comparison was made between Edinburgh and Manchester and it was felt that Edinburgh is suffering because of LBTT. However, London prices are, I presume, higher, and even if SDLT were lower there the net effect would be that it is more expensive to invest in London, but people do invest in London. It is not quite as simple as saying that people will go to the cheaper location, is it?

Chris Stewart: That is not what I was saying.

John Mason: Right. Can you explain what you were saying? Why is Edinburgh disadvantaged against Manchester?

Chris Stewart: The point is that there should be no disadvantage; there should not be a disparity between transactional activity in those two markets. Edinburgh has traditionally been second to London as a place for commercial real-estate investors to put their capital, but that is evidently not happening. I am painting a picture in which, for some reason, LBTT is partly, but not entirely, why activity is not coming into the Scottish market as it might otherwise do.

John Mason: Has anyone studied that to see what the reasons are? Has anyone spoken to the developers?

Chris Stewart: There is a lot of anecdotal information about that activity. I do not know whether anybody has researched it formally—I do not think so. It is about the number of transactions and the extent of interest in the commercial property market, which is not the same here as it is in Manchester. More research needs to be done on that.

John Mason: Fair enough.

My final question is for Mr Hogg, who talked about guidance from HM Revenue & Customs and the fact that Revenue Scotland is not following HMRC guidance. Given that our law is slightly different, should Revenue Scotland be following HMRC guidance?

Philip Hogg: Did I say that about following HMRC guidance?

John Mason: Was it not you who said that?

Philip Hogg: Actually, I see that it is noted on the bottom of page 3 of our submission. The point that we are making is that it was reported by one

of our members that Revenue Scotland is not following HMRC guidance, even where the rules or provisions for LBTT and SDLT are identical. Our member raised the concern because they could not see any logical reason why that guidance would not be followed.

We were invited to comment on the performance of Revenue Scotland. I am merely reporting what was reported to us.

John Mason: Fair enough. I accept that. For me, one of the fundamental differences is that the general anti-avoidance rule is slightly different under Revenue Scotland to what it is under HMRC. Even though a little bit of the detail of the legislation might be the same, the overall picture is different. I suppose that I would question whether Revenue Scotland should always issue the same guidance to HMRC, even in a similar situation.

Philip Hogg: That goes back to the point that I raised before about the opportunity for people to have an informal discussion with Revenue Scotland to get that understanding. Apparently the issue evidenced itself in complex transactions, in which people are looking for some guidance on how particular cases would be handled by Revenue Scotland. Again, the evidence that came back to us is that there was not as much access as had been available previously to have discussions about how those transactions should be presented or calculated. The call from our members has been for more opportunity to have those discussions.

John Mason: Are most of those people trying to avoid tax?

Philip Hogg: I have absolutely no idea, but I suspect not. It is lawyers who have presented that data to us. Any inference that they are trying to avoid tax would be misplaced.

John Mason: Okay, thank you.

The Convener: That concludes questions from the committee. Thank you for answering comrades' questions.

10:57

Meeting suspended.

11:02

On resuming—

The Convener: We will now continue our scrutiny of the devolved taxes by taking evidence from the Scottish Fiscal Commission. I welcome Lady Susan Rice, Professor Andrew Hughes Hallett and Professor Campbell Leith. Welcome once again to the Finance Committee.

Before we go to questions, I invite Lady Rice to make a short opening statement.

Lady Susan Rice CBE (Scottish Fiscal Commission): Thank you, convener, for the chance to provide some comment today. You specifically asked us to share some views on LBTT forecasts relative to the outturn figures to date and to comment, to the extent that we can, on the impact of forestalling. You also asked for commentary on the Government's forecast on landfill tax. We have given you a short paper on those issues.

I have a couple of reminders. In relation to landfill tax, as I have said in writing, to date, we have only one quarter's worth of data. We believe that the data on the second quarter comes out at the end of this week or next week. Because there is a seasonality factor with landfill data, that is very little material on which to base judgments. We have done what we can, but I just want to caution the committee. I am sure that all the members understand that it is an imperfect science at this stage.

My other comment relates to LBTT. I thank the committee for accepting the most up-to-date version of our paper yesterday. We prepared the paper for the point when we needed to submit it to the committee using the six months of data through the end of September. However, as the data for the seventh month—October—recently came out, we thought that it was important to add that in. That is the main change in the most up-to-date version of the paper, although there are also a couple of clarifications. The change is important, for reasons that we can go into more fully.

With LBTT, there are factors of seasonality and forestalling. Every additional month of data we have, the clearer some of those factors will become. Again, looking at the issue midway through the year is an imperfect science. I believe that the committee understands that, but it is important to note it for the record.

We are very happy to take questions.

The Convener: Thank you very much for that brief opening statement. As the witnesses will know, I usually ask the opening questions, and then I open up the discussion to colleagues round the table.

In your letter of 19 November, you said:

"There is a challenge in making a judgement about a year's forecast based on part-year data, where assumptions have to be made about the effects of seasonality and/or forestalling on the observed outturn data."

The committee is fully aware of that. Between the letter of 19 November and the most recent paper, there has been quite a significant change in the

outturn data that has been analysed. For example, the minimum figure in the first paper of £215.5 million has dropped considerably to £203.9 million, and the maximum figure has fallen from £247.4 million to £243.5 million. You say that that is because you had an extra month's data. Have those figures been shared with the Scottish Government?

Lady Rice: The most recent report was sent to the clerk at the very end of the afternoon yesterday. We also asked our office to share it with the Deputy First Minister first thing this morning. It is really late-breaking data. It has not been shared beyond the committee and, this morning, the Deputy First Minister's office.

The Convener: Thank you—I appreciate that.

You say:

"typically 62.98% of revenues would be expected to have been raised over this part of the year."

That is used to produce the figures that I have already quoted. There is quite a massive difference. We are talking about an error of potentially almost £40 million. In fact, it says "£31.1m and -£8.9m", which is £40 million, although the annualised figure in the graph seems to be £39.6 million. Either way, there is quite a huge difference. You are talking about a potential marginal difference of about 16 per cent. Is that right?

Lady Rice: I ask Campbell Leith to respond on that.

Professor Campbell Leith (Scottish Fiscal Commission): Sorry, but which figures are you referring to, convener?

The Convener: Sorry. In your most up-to-date paper, you talk about

"an implied estimated forecast error of between £31.1m and -£8.9m".

We are looking at an overall tax take of somewhere between £203.9 million and £243.5 million, or a difference of 16-odd per cent. That is a huge potential difference in the forecast, despite seasonality and the fact that there is only a few month's data. What margins of forecast error would you expect in a normal year for a normal tax? It seems that it is almost a guesstimate.

Professor Leith: For this particular tax, in forecasting, the Scottish Government essentially extrapolates current prices and transactions to long-run averages. It then applies a distributional model of transactions throughout the distribution of house prices. From that, it can build up estimates of the projected tax take. No formal statistical modelling goes into the projection of prices or transactions, so it is not possible to assign standard statistical bounds of error to that

forecast. Therefore, we cannot formally say that the standard error is X per cent, given the techniques that are employed.

On top of that, for this particular year, because there is a change in the tax regime, we have forestalling effects, which the committee discussed earlier. The outturn data is significantly below what one would expect, given the normal seasonality. That may be because of a temporary forestalling effect, or it may be that the change in the tax regime has permanently subdued parts of the market, so the trend will continue indefinitely. The extent to which there is an underlying forecast error depends on how much one believes that the shortfall in the early part of the year is a temporary phenomenon or an on-going one.

The Convener: It seems as though the median in the forecasting error will err towards overoptimism, even though the Scottish Government's prediction was significantly lower than that of the OBR, which means that the OBR prediction was way out, which had implications for the block grant adjustment.

You seem to have taken figures for landfill tax from the UK. When we were considering landfill tax during the passage of the Landfill Tax (Scotland) Act 2014, one of the criticisms that was made of the OBR was that it gave figures for Scotland that were just extrapolated from UK figures. It seems that you have done exactly the same. You talk about the "UK as a whole" in relation to Scottish Government revenues, saying:

"We therefore scale the outturn data assuming such seasonality also applied in Scotland",

which gives a significant forecast error of between £39 million and £53 million.

Professor Leith: The outturn data is Scotland-only data. We do not have the historical revenue data to be able to compute seasonality for Scotland at this stage. It will take a few years of observing seasonality before we can do that for Scotland.

The Convener: Considering the difficulties that you have had with forestalling, seasonality, the fact that it is a new tax and so on, you have had to do your best within fairly broad parameters. Are you saying that you expect to be able to hone the process significantly as the years progress, making the forecast much more accurate?

Professor Leith: Yes.

John Mason: On the same theme, as you might have heard, I asked the previous witnesses how quickly we will be able to get a clearer picture. They seemed to say, "Well, at least we have one year's figures." Will one year's figures give us a clear picture, or do we need to wait longer than that?

Professor Leith: We can perhaps start to see something already. The second table in our updated paper breaks down what you would expect to receive from residential LBTT by month, the liabilities that are generated and the difference—how much we did not receive but were expecting to receive—which is shown in the second-last column. You can see that, in April, the figure for the difference is £10.6 million, which is massive. That figure falls throughout the early months until August, where it practically disappears. Had that continued in August—had the forecast error been zero for the next two months of data—you might have concluded that the data for the early four months was a result of the forestalling effect. However, the fact that it then bounces back a bit in September means that there is a question whether the forestalling effect is truly over or whether it is an on-going, permanent effect. From the data, the best guess is that there is a combination of a little bit of forestalling and perhaps a little bit of a longer-term effect. We simply will not know until it all plays out.

John Mason: That is consistent with what the previous witnesses said. They did not seem to feel that there is a forestalling effect currently—in other words, people are not hoping that the rates might fall next year. Who knows? There are also other factors that could have an effect, such as the oil price situation affecting house prices in Aberdeen. It could be that LBTT is not having much of an effect, or it could be that other factors are having less of an effect, and LBTT more.

Professor Leith: It could relate to the broad economic conditions, forestalling or a permanent effect of the change in regime. Any of those factors or a combination of them would explain the data.

Professor Andrew Hughes Hallett (Scottish Fiscal Commission): I would make the awkward point that you will never know the answer. You cannot separate out the information, because the people involved in each transaction were not asked whether they were forestalling or whether they were going to do it anyway. Even when all the data is in, you will not know the answer to your question; you can only infer the best that you can from the data in the second table in our most recent paper.

John Mason: We would have to ask all the buyers and sellers, as well as the people who did not sell, what their motives were, which would be impossible.

11:15

Professor Hughes Hallett: You would have to do that to separate out the forestalling effect from other things, such as oil prices bouncing up and

down, or whatever they do. Even after all the data has come in on the actuals, we will still not know whether any variation was due to forestalling or to some regular uncertainty, if you like.

John Mason: I presume that at some stage we—or somebody—should do such a study, but should we wait perhaps five years before we do it?

Professor Hughes Hallett: From an academic perspective, five years would be fine, because by then we would have five years of regular performance. However, from your perspective, you want it done after five minutes, but you cannot do it.

My initial thought when I looked at the numbers was that the forestalling part was over by the end of August, but September cut the ground from underneath my feet a wee bit, although the figures for October look to be more back on track. My guess is that forestalling is largely over, but I am saying nothing about what will happen next February and March.

The Convener: Even if John Mason's scenario was magically to take place and you were to ask all the buyers and sellers what their motives were, they might not say, "Oh yes, I did it to save a few bob in tax."

Professor Hughes Hallett: It is rather like opinion polls.

The Convener: Exactly.

Jackie Baillie: I went back and read the commission's October 2014 report, in which you gave a warning about buyer behaviour and the behavioural response to the higher tax rates. I was fascinated by that, because you went on to say—as you have said already today—that the current forecasting methodology does not allow you to forecast that. What needs to change, and how quickly can we change it, to start to model some of that buyer behaviour? I am not thinking so much about LBTT but about wider applications. With more powers coming to the Parliament, I am keen that we are able to model behaviour in relation to taxation.

Professor Leith: Essentially, when we do economic analysis, we follow a continuum of approaches. Typically, for short-term forecasting, the techniques that we use have varying degrees of sophistication, but we use data-driven statistical techniques. We take a bunch of historical data and try to extrapolate that in as intelligent a way as we possibly can to get a short-term forecast.

That is fine if everything is behaving as normal, but if the policy regime changes or there is a big financial crisis—if something unusual happens—those techniques become less reliable. In those situations, we move away from data-driven statistical techniques and have to do a more

formal kind of modelling that relies more heavily on economic theory to provide structure to the way that we analyse the economy. We can then look at behavioural responses to policy changes.

For example, in the case of the housing market, the current forecasting technique will start with historical data and move towards some long-run average. Of course, there may be booms or busts in the housing market, so we might need to use a more sophisticated model to try to capture them, and the turning points in them, such as the point when a boom starts to crash. That requires what are called dynamic stochastic general equilibrium models, which are far more theoretically driven and can be estimated from the data. Such models are probably less useful for day-to-day forecasting but they are better for analysing policy changes and big events in the housing market. We want to do both: we want to do the more sophisticated, fundamental stuff to inform the evaluation of the day-to-day, short-term statistical forecasting. Doing the latter takes a long time.

Jackie Baillie: Does anybody else have anything to add. Do you all agree?

Professor Hughes Hallett: I do not disagree with what Campbell Leith said, because he has given the correct answer.

More practically, with some other forecasts, we have tried to find out—either the Scottish Government does this or we do back-of-the-envelope calculations—whether the behavioural factors have a statistical impact on the forecasts and to establish whether there is a robust relationship there. A lot of the time, we find that there is not. That is partly because we may have the wrong definition of the variable that we are using. There might be no Scotland-specific data and, of course, if behaviour here is a wee bit different from behaviour UK-wide, differences will emerge.

Such points might be obvious, but it is a bit of a hard job to nail these things down. For a start, you want longer samples. The unfortunate thing about humans is that they change their behaviour; even if some of these factors are always present, behaviour itself is not always regular.

Moreover, with regard to LBTT and one or two other taxes, there is also speculative behaviour to take into account. For example, we are dependent on house prices, which, as we know, zip up and down from time to time. It is very hard to deal with that. I do not think that we will ever get the complete answer, but we might get further in due course.

Jackie Baillie: I am still very encouraged that you identified buyer behaviour as a concern way back in October 2014.

I turn to the cumulative difference figures in the updated assessment. With regard to forestalling, which the convener has already touched on, is the OBR estimate of £20 million reasonable, given that it seems to land in the middle of the Scottish Government's estimated minimum and maximum?

Professor Leith: When the estimates were given, the Scottish Government felt that the figure for forestalling would likely be more towards the lower rather than the upper end of its estimates, and the OBR gave that £20 million figure. I note that, in the latest challenge meeting that we had with the OBR and Scottish Government forecasters, the OBR was contemplating raising that estimate. Looking at the figures in the second table in the updated assessment, which show the trend tailing off from the early months of the year, I would say that it seems that there was substantial forestalling in those early months.

Jackie Baillie: I think that people would recognise that, but I suppose that the question is the extent of that forestalling. Are you at liberty to reveal the order of magnitude of the difference between the original assessment and what is being talked about now?

Professor Leith: My understanding is that the OBR is contemplating a change to the estimate, but I do not know what it is contemplating changing it to. However, after only the first four months of data, the cumulative difference is already £26.4 million, which takes us above the £20 million estimate.

Jackie Baillie: I now want to explore with you the fascinating issue of tinseltitis. In light of what we know about seasonality, do you think that the estimates of tax revenues from November to year end are reasonable?

Professor Leith: The first column of the second table gives the percentage of the annual tax revenues that you should expect to receive in a given month. You can see the tinseltitis effect in December, the figure for which is 9.8 per cent. People try to complete their transactions, pay the tax and move in before Christmas; in January, no one moves, so the figure drops to 5.5 per cent. That effect can be seen; in fact, I am going through that process myself right now.

Lady Rice: I was just about to say that.

Jackie Baillie: That is fantastic. So you think that the estimates are reasonable.

Professor Leith: As far as seasonality is concerned, yes. A standard and consistent approach to adjusting for seasonality was employed.

Professor Hughes Hallett: One can get excited about tinseltitis; I do not know what the equivalent

effect for the summer holidays is called, but it is, in fact, larger.

Jackie Baillie: I saw that and thought it quite interesting.

Professor Hughes Hallett: There are two peaks.

Jackie Baillie: Everyone assumes that more houses are sold in the summer, but the reality is that house selling happens after that.

Professor Hughes Hallett: The same happens at both times of the year.

Jackie Baillie: Indeed. Thank you very much.

Gavin Brown: I want to check a difference between your first paper and the second one that came in last night. The convener has already touched on this, but if we take the minimum figure for forestalling, which is £12 million, you say at the bottom of the table on page 1 of your first paper that the estimated annualised forecast error would be £19.5 million. However, according to the document that you sent us last night, your view now is that, again with the minimum forestalling figure of £12 million, the estimated forecast error would be £31.1 million. That is a change of more than £11 million in the forecast error.

The only difference that I can see is that you have—very helpfully, I must say—added in the October figures. I am grateful to have figures that are as up to date as possible, but according to the figures for October, we expected £21.3 million in revenues and got £20 million, which means that we are £1.3 million down in a single month. Nevertheless, your forecast error has suddenly shot up. Can you explain that?

Professor Leith: There was an error in the previous table. We lifted the £20 million forestalling figure from the spreadsheets and labelled it as the £12 million forestalling figure. It is simply a mistransposed figure, for which we apologise. The minimum forestalling figure in the original paper was actually £20 million, not £12 million—it was mislabelled.

Gavin Brown: So the estimated forecast error should not have been £19.5 million; it should have been higher than that.

Professor Leith: Yes. It would be closer to the £31.1 million that is in the revised figures.

Professor Hughes Hallett: Because everything is scaled up from the annualisation figure, if that is 60 per cent, we are not quite doubling the error. You have identified an error. You put that into the annual total and divide it by 0.6, which is nearly two times. That is unavoidable because we do not have the end of the year's data.

Gavin Brown: The simple explanation is that there was an error in the original paper—

Professor Hughes Hallett: I am just warning you—

Gavin Brown: So I should just use the updated paper and ignore the earlier one.

Professor Leith: In the original paper, with the £12 million forestalling figure, there should have been a forecast error of £30.8 million and now it is £31.1 million.

Lady Rice: We apologise for that, but we did catch it.

Gavin Brown: Thank you. The OBR figure is £20 million, which has been out there publicly. I refer to the paper from the Scottish Parliament information centre. When I reviewed the documents, I did not notice the £12 million and £37 million figures having been published before. Can you give us some background on where those figures come from? Are they your workings or the Scottish Government's workings?

Professor Leith: They are the Scottish Government's workings. There is an academic paper by two authors called Best and Kleven, which looked at the impact of the stamp duty holiday that was introduced in 2008, which reduced stamp duty tax rates temporarily. They were reduced for a certain period, which was then extended, and then they went back up again. The natural experiment of tax rates coming down and then being reapplied can give you a measure of the forestalling effects to some extent.

We encouraged the Scottish Government to look into that paper and to look at plots of Scottish data around those key events, the magnitude of the effect and how quickly it dissipated. The range of estimates that come out—the £12 million to £37 million—capture the range of estimates as to the magnitude of the behavioural effect and how long it lasts. That is where the figures come from.

Gavin Brown: I am grateful for the explanation. Are you at liberty to publish the workings behind that or would I need to ask the Scottish Government about that? Just plonking the figures down is marginally helpful, but it does not give us the whole picture.

Professor Leith: I think that it is a Scottish Government document, so it would have to publish it.

Gavin Brown: That is fair enough. Obviously, I can ask the minister more about this, but to your knowledge is the figure a net figure? We know that some transactions were pushed through quickly ahead of April in order to reduce the tax bill. There is certainly evidence from a number of sources that, to a lesser extent, some transactions were

delayed because the threshold was £145,000 instead of what it is in the rest of the UK. Presumably there is a balancing act between the two, coupled with the fact that, as you said well over a year ago, there would be some behavioural impact in the medium to longer term anyway if the tax rate was increased.

There are a couple of factors at play. To your knowledge, does the £12 million to £37 million range take into account all those factors, or did it look simply at the transactions that were rushed through before April?

Professor Leith: It looks at the impact on the 2015-16 tax take, so it is the net effect of the tax regime change on revenues raised in 2015-16. It relates to all those transactions that did not take place, possibly because they occurred before March. It does not add back in any revenue gained prior to the fiscal year, nor does it include any permanent behavioural effects; it is purely an estimate of forestalling, which is a temporary phenomenon.

Gavin Brown: On page 2 of your updated submission, you outline the percentage of annual tax revenue that is expected each month, from April through to March. To take an example, on what basis did you think that we would get 7.5 per cent of the tax in April? Is that based on averaging five years or is it based on just the previous year?

11:30

Professor Leith: Essentially, it is based on looking at the seasonality that can be observed in both house prices and transactions in the housing market. It looks at historical data for prices and for transactions. It was run using a technique called X-12, which is the standard technique that statistical agencies use to seasonally adjust data so that they can decompose the historical path of data into trends, cycles and seasonalities. The figures identify the seasonality bit.

The combined effect of prices and transactions being lower in April means that a relatively low amount of tax is expected to be generated in April. The combined effect of lots of transactions and of prices being more buoyant in July means that we get a lot more tax in July.

Gavin Brown: I completely understand the seasonality point. I was just trying to make sure that you were not basing those figures on, for example, one year's figures.

Professor Leith: It uses a longer time series.

Gavin Brown: That is helpful.

My next question is on something that perplexes me a bit. The heading on page 2 of your submission is "Updated Assessment of

Forestalling". You have looked at the months for the financial year so far, but you have not looked at January, February and March 2015—or at least you have not put them in the table. By definition, forestalling is a transaction that takes place in advance of a deadline. Surely we cannot have any idea of what happened in relation to forestalling if we do not look very closely at what happened between the announcements of the tax rates and the tax rates actually starting to bite. Why have you not published anything for the months leading up to April?

Professor Leith: We have not looked at that. The original paper by Best and Kleven suggests that the effects may not actually be symmetric. If you look at what happens before, you cannot necessarily infer that the forestalling that you observe afterwards is the mirror image of that. There seems to be an asymmetry. Some transactions may be rushed forward; temporarily, more transactions may not happen at all. The level of forestalling that occurs may not actually be tied down.

Professor Hughes Hallett: To be more precise on that point, we do not have the actuals under the old regime and we do not know how much of a regime shift there might have been. I do not mean a shift in tax rates; I mean a shift from one type of tax to another type of tax, or from the old stamp duty to LBTT. That makes it a bit difficult to do.

I looked at this very quickly this morning over coffee at breakfast time, so it is a back-of-the-envelope calculation, but I can tell you that, based on the numbers that I got from your previous witnesses' evidence—it is conditional on that—at the rough average of the LBTT system about £56 million-worth shifted before April. Therefore, as Campbell Leith said, the effect is not symmetric but there is clear evidence on that basis. The figures on how much transactions and house prices rose can be put together and we can see what the net increase was over what might otherwise have been expected. That is a very rough idea.

Gavin Brown: I am grateful for that. I was not suggesting that it would necessarily be symmetric, but I do not see how you can do a sensible forestalling exercise by completely ignoring what happened before. If, for example, in the lead-up to the tax, transactions and tax collecting were exactly as expected, presumably the differences that we are seeing would be down to something else entirely. I do not understand how that can be ignored completely.

Professor Leith: There is substantial evidence that transactions went up before the tax and in the bands that were most affected. We have not quantified the effect here. Another way of looking at it is that, if it is purely forestalling, you should

see the effects trickle out towards the end of the year. That is another way of assessing the effect, and that is the approach that we essentially followed.

Lady Rice: I assure you that we discussed that point, and you are absolutely right to raise it. We have not ignored it, but we have not had the data in the detail that would be needed—for example, comparisons have to be made by tax band as well—so it is slightly more complicated than just the sum of money. The sum of revenue that Andrew Hughes Hallett has stated is at least a guidepost.

Another complicating factor on which we do not really have information is whether house prices change in the circumstances. If people who have houses that they had hoped to put on the market in certain bands are worried about selling, that might change. The exercise is rather more complex, but the point is well taken and we will continue to look at the issue.

Gavin Brown: I am grateful for that. In my mind, there has been a bit of confusion about the forestalling exercise. Who is leading on that? Is the Scottish Government doing all the work and asking you to review it, or is it asking you to do the work and to show it your workings? There might not be an obvious answer but it is not clear to me whether the commission or the Scottish Government is leading. I wondered about your interpretation of the situation.

Professor Leith: The Scottish Government did the work to produce the £12 million to £37 million estimate. We recommended that it look at the Best and Kleven paper in doing so, and we reviewed its work extensively. We then critiqued the work in the style of an academic seminar by having it present its work. We asked lots of questions and got very picky with everything, to toughen up that forecast.

Lady Rice: May I just go back to the wording of your question? The Scottish Government has not asked us to do work that it would then incorporate, and I would not expect it to. That is not appropriate as far as we are concerned. What we do is make challenges along the way.

On the Best and Kleven paper, we wanted to see a somewhat sophisticated view so we recommended that the Government take that forward. It did not have to do that, but it did.

Gavin Brown: In your in-tray at the moment, is there a task that has been given to you to look more at forestalling, or is it a case of waiting until the Scottish Government comes back to you?

Lady Rice: You have given us that task, I think.

Professor Leith: The table that we have is incomplete. As more data emerges, we will fill it up, which will give us a lot of information. As

resources come on stream for the Fiscal Commission and we extend the depth of the modelling work that we are looking at, the behavioural effect on the housing market is an obvious area for us to explore.

Gavin Brown: Thank you.

The Convener: You said that the maximum forecast error is likely to be £31.1 million, but the cumulative difference in your table is already £31.6 million and every month so far the difference has been higher. It has varied from £10.6 million to £0.1 million. What makes you think that every other month will not be exactly the same? You seem to have concluded that the cumulative difference will be down to £31.1 million. We have not been given any workings to show how you produced those estimates. Why do you think that everything in the second half of the year will be much rosier and come down to that maximum of £31.1 million, which is not exactly good news?

Professor Leith: I can explain that. The original forecast of £235 million was a forecast before forestalling. The forecast errors are therefore the forecast errors after the estimated effects of forestalling have been added in, so it is the forecast error relative to a world without forestalling.

The Convener: Right.

Lady Rice: We hope that that will help you and us to understand the strength or reasonableness of the forecast methodology. Forestalling makes that harder to understand during this first year.

Professor Leith: We were asked to evaluate the headline forecast figure of £235 million, and that figure does not include the effect of forestalling. In assessing that, we adjust the outturn figures to add back in any estimates of forestalling and we project that forward for the year and compare it to the forecast to get the forecast error.

The Convener: Okay.

Professor Hughes Hallett: It might be relevant to the conversation that we will have later this morning, but this is an illustration of how we work. We have to assess whether a forecast that came from the Scottish Government is reasonable, and that forecast does not include the effects of forestalling. Normally, you would just compare the forecast to the actual figures as they come out but the actuals have had the forecasting taken out of them, so if we are to assess the Scottish Government's original forecast, we have to put it back in, and the forecasting of forestalling adds errors.

I differentiate myself slightly from my colleagues on that. After next April, when the numbers are in on the actual outturns, we will turn out to have

been assessing something that nobody is interested in because it is a counterfactual—it is something that will never happen. Forestalling is actually there and that raises a whole sack of questions.

What we are doing is making a kind of forecast of what we think the end of the year would have looked like had there been no forestalling, as an aide-memoire—I hesitate to use the word “benchmark”. It is a calculation for checking that what the Scottish Government is doing is about right even if, in the event, next year we will be talking about a completely different set of numbers. There are inevitably a lot of assumptions in it.

Mark McDonald: I just want to bottom that out. I am looking at the cumulative difference if forestalling were to be factored in. It is £31.6 million just now, and if you were to take the figure of £12 million you would be looking instead at a difference of £19.6 million; that would be if you added in the forestalling effect to the cumulative difference at present.

Professor Leith: In the second table, the cumulative difference projects how much tax we would expect to receive, given seasonality and assuming that there is no forestalling. We compare that with the actuals in the second table and that can implicitly give a possible measure of forestalling—it could be those permanent effects or some other effect. If we took that cumulative difference to be the estimate of forestalling and then went back to table 1 and redid the calculation, assuming that all those effects had finished at the end of October and that the rest of the year was just going to proceed with normal seasonality and no further forestalling, the forecast error would effectively be zero.

Mark McDonald: Yes. That is what I was trying to get to.

Professor Leith: The crucial question is whether forestalling has finished.

Mark McDonald: Gavin Brown asked about the comparison of the months leading on from the announcement of the bands. How easy would it be to get hold of that data? One would assume that, if it were possible to disaggregate Scottish data from the HMRC figures, the OBR would have come up with a very different forecast. It would have been able to look at Scottish data as opposed to just extrapolating from the UK-wide figure, which is what it appears to have done for its forecast. How easy or otherwise would it be to get hold of Scottish data for those first three months of the year?

Professor Hughes Hallett: I do not know whether you were asking me or Professor Leith, but I would have thought that it would be difficult

because HMRC does not release its data very easily. The earlier period will be HMRC data because Revenue Scotland was not operating at that point. In this particular case, it might be rather difficult.

Mark McDonald: I want to ask a purely hypothetical question. Earlier, we heard evidence from the Scottish Property Federation, which thinks that the tax rates should change and that the Deputy First Minister should announce that as part of his budget. Would we see a different effect—purchases and sales being delayed rather than brought forward—before such a change came into effect, and might that have a knock-on effect on the expected and actual revenues in the months of January, February and March?

Professor Leith: If people start expecting a tax cut, the forestalling effect works in reverse—so, yes.

Mark McDonald: Thank you.

Richard Baker (North East Scotland) (Lab): I am looking for clarity on the question that Gavin Brown asked. I want to be clear about what the figures represent. Did the commission receive data from the Scottish Government and apply its own methodologies to come up with the forecast, or is it analysing the reasonableness of the figures and the forecast, so that the figures are, in effect, a Scottish Government forecast of LBTT revenues?

Professor Leith: The figure of £235 million is the Government forecast for LBTT before forestalling. The figures of £12 million to £37 million are the Scottish Government's forecast estimate of the extent of forestalling. The rest of the analysis is a matter of taking the outturn data that we have to date and trying to adjust that sensibly to account for seasonality and that range of estimates of the forestalling effects. From that, we try to infer what we might expect outturn numbers to be for the rest of the year, as a basis of comparison with the forecast.

Richard Baker: Is that work that the commission has carried out, rather than the Scottish Government?

Professor Leith: That is right.

Lady Rice: Yes.

Richard Baker: It is a forecast by the commission. If we asked ministers to explain their estimates, forecasts and figures, we could expect a different set of figures and forecasts from the ones that you brought forward today from that analysis.

Professor Leith: We are extrapolating the part-year outturn numbers to make them into sensible annual outturn numbers. It is a short-run

extrapolation of outturn numbers. It is not a forecast in the same way as the Scottish Government is forecasting what LBTT revenues will be for the next year.

Richard Baker: If we asked the Scottish Government to make an extrapolation on the same basis, would it use similar models and analyses? Is that something that you are aware of? Could it be something very different?

Professor Leith: That is the way that we are doing it—

Lady Rice: The Government would choose its own way to do it.

The Convener: Thank you very much. At this point, we would normally have a break, but the same set of witnesses are with us for the next item. Would colleagues prefer just to plough on—and the witnesses? The witnesses would like a break, so we will have a short break.

11:46

Meeting suspended.

11:51

On resuming—

Scottish Fiscal Commission Bill: Stage 1

The Convener: Under item 3 we will hear from members of the Scottish Fiscal Commission on a separate topic, which is our consideration of the Scottish Fiscal Commission Bill at stage 1. Members have received a written submission from Lady Rice; I invite her to make her second opening statement of the day.

Lady Rice: Thank you, convener. You are obviously gluttons for punishment.

We are very grateful for the chance to come to the committee and discuss what is, clearly, an extremely important piece of legislation for us. We have read the written responses to the consultation received by the committee, and we are interested in how broad the range of views and perspectives is. There is clearly not just one right way to set up such a commission, but it is important to say that we must choose the right way to shape the commission for Scotland.

We have given a lot of thought to the issues, particularly forecasting—an issue that has been raised a number of times by the committee and others—and the fact that we need not only to act independently, as we believe that we are doing, but to be seen to be independent. Some of the propositions in our response aim to address that particular issue.

I have one point on forecasting. As a banker, I used to despair at the fact that everyone calls everything a bank, whereas some things are banks and some are not; the word “bank” is used widely. Forecasting is a little bit like that. There are official forecasts, which are done by the Scottish Government, but there is also forecasting as a tool. Richard Baker was beginning to get at that point in relation to our table on forestalling. Along with analysis and research, forecasting is a tool that can help to inform debate and judgment. It is almost as though there is forecasting with a capital F and forecasting with a little f, and the distinction must be clear.

Some of the topics raised in the call for evidence relate to matters that will arise from the fiscal framework. We have tried to address them, although only briefly, because we do not know what the final outcome in the development of the fiscal framework will be—no one does. When we know whether there is a charter or fiscal rules, and what the borrowing arrangements might be, we can expand our perspective on those points. For now, we have given the committee just some general responses.

Overall, our views are set out in the submission and we are happy to take your questions.

The Convener: I will have to enforce a self-defying ordinance, because there are so many things that I could ask—I see Gavin Brown shaking his head. I shall try to limit myself.

Lady Rice: May we exercise a self-denying ordinance in our responses?

The Convener: Certainly not. I have a good mind to keep you here until tea time for that cheeky comment. [*Laughter.*]

I will ask about something that comes from the end of your submission. I thought that I would start with this, rather than delve into the other areas that will no doubt be the subject of a considerable number of questions. You say:

“The term of office should be stated in the Bill and the SFC believes, on the whole, that a single non-renewable term as currently pertains is effective, and that individual terms should be staggered.”

I was quite surprised by that because many of our witnesses agreed with staggering terms but suggested that members should serve two terms for reasons of continuity. Has it been that onerous so far?

Lady Rice: We discussed the question, and we could be persuaded in different directions. In setting up the Scottish Fiscal Commission, we subscribed to the strong view that we should take on the role without any feeling in our own minds that we might like another term, which could colour our responses or the work that we do, even subconsciously. There is real value in having just one term.

The term can be shorter or longer. Staggered terms are important. Some of the respondents who have said that there should be two terms perhaps believe that there may be a dearth of other qualified and able people. I personally take the view that, given Scotland’s 13, 14 or 15 universities and the great deal of talent in the UK, we should be able to find people of talent here or more widely.

We discussed the possibility of having two terms as long as there was a process for renewal, or possibly a break of two years and then a return that was not necessarily guaranteed. We would not stake our feet to the ground on the issue of one term, but we see the advantage of it, and we have no debate with it for ourselves.

The Convener: So you would consider the President Putin approach of having a term of office—

Lady Rice: For ever?

The Convener: A term of office followed by a gap, and then a return to the SFC by popular demand.

I will again move on to discuss something different: additional functions. You say on page 3 of your submission:

“The SFC believes it should have responsibility for assessing the Scottish Government’s forecasts on the sustainability of Scotland’s public finances, such as adherence to fiscal rules as an example, and it would welcome the Bill being amended now to anticipate this additional responsibility when it arises.”

I am sure that that paragraph will be welcomed by a number of our witnesses who have given evidence so far, and by some committee members, too. Can you talk us through a wee bit more of your thinking on the issue?

Professor Leith: I have been asked to give evidence to the committee several times, including prior to the Fiscal Commission being created. One of the main objectives of creating a fiscal commission is to ensure fiscal sustainability. The *raison d’être* of a fiscal commission is exactly that.

Professor Hughes Hallett: I could go on at length about this—I have in the past.

If we take the view about the commission’s remit as it is expressed in the bill as introduced—that it should examine and comment on information and revenues that the Scottish Government may use to make up its budget—we have to worry about fiscal sustainability as a minimum. At the moment, I am not quite sure what that means. It may mean sustainability against the rules that are currently in place, under which borrowing is minimal. If that is the case, it is not a big operation, but it might be different in some other context. The work is one part of the minimum; it is not explicitly in the bill, and it might help if it were.

A second issue relates to sensitivity analysis. It would be rather difficult to say that we think that a given forecast is reasonable without having poked it a little to see whether it stands up against shocks of different sorts or slightly different outcomes in the rest of the economy. Sensitivity ought to be covered, and it would help if it were nominated, so that everybody knows that it will be one of the things that the commission considers.

The Convener: What you have just touched on—the issue of reasonableness—has come up before: we had some discussions about that in taking evidence. What is your view of what reasonableness is? How do you define whether a forecast is reasonable? That is something that we have tried to get to grips with, and a lot of our witnesses had some issues with the question at previous evidence sessions, as you will be aware.

Professor Hughes Hallett: I wonder whether you will get any reasonable responses.

The Convener: Let us see.

12:00

Professor Hughes Hallett: I do not like trying to define reasonableness because it is one of those things like the prime rate. What is the prime rate? It is what we say it is. It is like something from “Alice in Wonderland”. Defining it precisely is rather difficult.

The next thing that people tend to do is have a checklist to see whether a forecast satisfies this or that, and the obvious question is whether it is accurate. That has a place in this discussion. I caution you not to be too prescriptive. In attempting to make something objective instead of subjective, you will find it difficult to introduce any judgment and, of course, the forecasts have to judge what is likely to happen in future. I would therefore not be too prescriptive.

I note by way of illustration, with the indulgence of Lady Rice, that the American SAT scores for getting into university make an attempt to show what a reasonable performance is, and the work is done with checklists. What we observe now is that most universities do not use the SAT system because it is too inflexible.

Having said that much, I will give you a different answer about what we actually do. In the case of LBTT, I was trying to assess the forecasts not by producing official forecasts but by doing our own calculations to see whether we would do something similar.

To start off with, we look at specific scenarios around the tax, which is how we go about establishing reasonableness. We check whether the methodology is okay, whether things have been left out, whether specific economic factors that should have been taken into account have not been, and whether the assumptions about the forecasts are sensible. People often pick on last year’s example of the non-domestic rates being overoptimistic. We did not change the forecast; we changed what we thought was an unreasonable assumption up front. We do those sorts of things at the first stage.

We can also check against other available forecasts. It is difficult in this context but not impossible. Of course, the OBR forecasts are available all the time so we can check against them, although I am beginning to get the feeling that there is not a huge amount of competition because the OBR does work on a UK basis and, if Scotland is a bit different, something else will happen.

The third thing is to do the simple calculation—I emphasise that it is a simple calculation and not a forecast—to back up the position. I ask myself: if I did it myself, would I get a similar number? It would not necessarily have to be the same number but a similar number. This is the point: if the number is different, we can dive in to find out why it is different and learn something from what is wrong. That helps us to decide whether what the Government has put out is reasonable. If not, we do not then say that the Government should change the number but that we think that a different process or extra information would be a good idea.

That is how we decide whether a forecast is reasonable. I am sorry for the rather waffly answer.

The Convener: I found it very helpful. If you think that the Scottish Government's figures are not really as accurate as they should be, when do they become unreasonable? Is it at a 1 per cent, 5 per cent or 10 per cent differential?

Professor Hughes Hallett: They should be better than they were last year.

The Convener: So you would not pin down a figure.

Professor Hughes Hallett: No, because circumstances might change. If we get into a recession, the 1 per cent would go out of the window.

The Convener: I am not suggesting that the differential should be 1 per cent. I am asking what the Scottish Fiscal Commission thinks would be reasonable.

Professor Hughes Hallett: That is where judgment comes in.

Lady Rice: It is important to emphasise Professor Hughes Hallett's point. It is not simply a matter of metrics: it is a question of judgment and numbers, and judgment is really important. If we went through the rational or intellectual exercise of saying that, for one particular case or one particular tax, we would expect to look at A, B, C, D, E and F—whatever those things are—and we found that the Scottish Government team had looked at only one or two of those factors, we might find it difficult to say that the Scottish Government's forecast is rational. That is not just because we are judging the numbers that it comes out with but because of the approach taken. That is all about judgment and it is the kind of thing that comes out in our challenge meetings.

The Convener: On page 2 of your paper, you talk about transparency and you say:

"In order to ensure transparency at every stage, the SFC would publish Minutes of its meetings with the Scottish Government".

Transparency takes a number of forms. For example, we talked about forestalling at the earlier session but we did not have any detailed example from you that shows the work that you did to come up with the numbers.

Andrew Hughes Hallett touched on non-domestic rates, but the figures for the original forecast were not provided, so it is not really possible for us to identify how much it was changed, and it is also not clear why the recommendation led to a change in the official forecast when other Scottish Fiscal Commission recommendations did not. For example, the SFC recommended the need to account for behavioural responses in producing forecasts for residential LBTT, but the report does not mention whether that was raised with the Scottish Government as part of the process of inquiry and challenge, and what response, if any, was provided. There is no mention of that in the Scottish Government's own methodology paper.

Surely transparency goes a lot deeper than just producing minutes of meetings and decisions made.

Lady Rice: The production of the minutes, now that we have a bit of support, is one aspect of transparency. We publish our work and comments on our activities on our website, all of which is expanding over time.

We are also learning what it is that you as a committee consider transparency to be, so it is a learning process for us as well. If you want a lot of the detail behind a table, we can provide that. We are new to this work and to your expectations, so we are happy to take guidance and advice about what you want.

Overall, transparency matters greatly. There is no point in having any of the debates or discussions without being quite open about what we are basing things on. We might be wrong about things too, and there may be others who come to us and point out that we are actually off base in looking at certain things. That can happen only if we are transparent, so we are looking for ways to increase that transparency and to increase our overall communications. We are happy to take any pointers you can give us.

Professor Leith: Looking to the medium to longer term, we have already begun a number of what could be called research projects that will examine more deeply various aspects of the modelling of some taxes. We asked for provisions in the bill to allow us to publish technical working papers, which would allow us, on an ad hoc basis,

to publish the details of the research. That will also contribute to the transparency of what we do.

The Convener: That is helpful. In your paper, you say on the right of access to information that memorandums of understanding

“are the normal way of working across public sector areas; if the SFC’s right to establish relevant MOUs would be better safeguarded with more explicit wording on the face of the Bill, then the SFC would support doing so.”

I take it that you would be quite keen for that to happen. Your wording is a wee bit tentative.

Lady Rice: MOUs appear to be the way to establish good working relationships, but the ultimate good working relationship depends on the people and the good will involved. MOUs alone—perhaps this is reflected in the tentativeness of the wording—do not ensure what we want to achieve, but they certainly help. They set out the boundaries and the fencing around what we might do.

Just so that you know, I should tell you that we developed an MOU with Revenue Scotland specifically for the data that we needed to analyse in relation to the outturns paper that we did. Revenue Scotland was extremely helpful, and we are now in conversation with that organisation to develop what I would call—although this is probably not the language that you would use—a perpetual MOU, so that we do not have to do one each time that we go to it with a request for information. It is helpful to have such memoranda in place.

The Convener: I take it that you hope to develop MOUs with HMRC and the OBR. Your paper states:

“Over time and in order to do its job properly, the SFC’s goal would be to have a deeper relationship with the OBR and HMRC.”

Lady Rice: Yes, and the import of that statement is that, once the new powers on taxes and related matters are finally agreed and come to Scotland, it will be more and more important over time to have those connections formalised.

The OBR’s doors have been open from the very beginning. Its staff have been co-operative and supportive, and they have invited us into their challenge meetings when they have been looking at Scottish taxes over last year and this summer. We have joined those meetings and have had access to their working and thinking along the way, and we have provided some challenges back as well.

In a way, some of the work is already happening. An MOU does not make it happen—or, at least, does not make it happen perfectly—but we think that it is a useful tool, which is why we made that statement.

The Convener: The last point that I want to touch on before I open the questioning out to colleagues is, obviously, forecasting. You say in your submission that you are looking for better interaction, “direct engagement” and “contact with the forecasters” and suggest that

“The SFC could have direct engagement with the forecasters in the early part of the year when the forecasters are developing or refining their models”

and that its

“role would be to challenge and influence the efficacy of Scottish Government processes and approaches”.

Moreover, you say:

“In a rational world, there should be one official forecast of tax revenues and there should be an independent assessment of that forecast. ... These activities should lead to a check on the official forecast. They should not become the basis in themselves for informing the Draft Budget.”

Finally—and your position on this has been quite consistent—you say:

“The SFC, as the ‘assessor’, believes it should develop the latter type of forecasts alongside research, modeling and analysis.”

However—and, as you will expect, I am going to quote some comments here—you will know that most of the witnesses that we have heard from are not of the same view. Instead, they take the view that the SFC should produce its own forecasts. For example, the Royal Society of Edinburgh is

“firmly of the view that the SFC should be able to originate its own independent forecasts of the future fiscal revenues ... Indeed, to fulfil its functions the SFC will need to be able to produce independent forecasts.”

Professor MacGregor and Professor Swales have pointed out that “international practice” suggests that where

“fiscal bodies do not provide their own forecasts they typically have access to sufficiently detailed independent forecasts”,

and the Canadian parliamentary budget officer has stated, if the SFC produces its own forecasts, it will allow Parliament

“to challenge the assumptions underlying the forecasts of the Scottish Government”.

There are loads of similar comments, which I will not read out, but I just want to finish with Dr Armstrong and Dr Lisenkova, who argue that the SFC should prepare its own independent forecasts on the basis that

“Producing a forecast greatly adds to discipline.”

Of course, not all commentators hold the same view—I note the views of the Institute of Chartered Accountants of Scotland and others—but the general thrust among your academic colleagues is that the SFC should produce its own forecasts. Why are you continuing to take the view that you

should just comment on the Scottish Government's forecasts?

Lady Rice: I think that there are a number of topics that pertain in response to that. I will start and then turn to both my colleagues.

We have talked about this issue a great deal, and it brings us back to the comment that I made in my opening statement about the official forecast and other forecasts. I wonder whether some of the comments that you have quoted relate to the latter kind of forecast. One of the tools in our toolbox should be the ability to produce forecasts, possibly for some taxes at certain points in time and for some other elements. That would be our choice, but we would need to see. You have already referred to the work on forestalling as being a sort of mini-forecast. We think that that should be in our toolkit, along with the ability to carry out analysis and, as Campbell Leith has suggested, do some technical papers and research.

However, that is different from producing the official forecast. We think that there needs to be one producer and one assessor of the official forecast. If you were to turn to the Fiscal Commission and say, "Actually, we've changed our minds. You do the official forecast," we would need to be assessed by someone. If we were to do the entire forecast ourselves, we would just be duplicating what the Government was doing, which does not seem to make a whole lot of sense in value-for-money terms. If we did our own forecast and then needed to defend it, we, too, might be biased. We have had a conversation about a lot of these elements, but we believe that there should be the official forecast, which, right now, is done by the Scottish Government, and that that forecast needs to be assessed, which is our role. We should not be doing an official forecast as well.

I turn to either or both of my colleagues for their comments.

Professor Leith: My view on this goes back to some of the issues that we have already discussed with regard to types of economic forecasting and analysis. At the moment, the Scottish Government has to produce the forecast, and it uses statistical models based on historical data to do short-term projections of that data. If we were to produce an alternative or indeed the official forecast on a day-to-day basis, we would probably have to replicate that style of modelling, and I do not think that there is a great deal of added value in having the Fiscal Commission replicate that kind of modelling.

I think that there would be added value if we were to do deeper, more fundamental projects that delve more deeply into behavioural aspects and results of policy change, and bits of analysis of the

economy that are not currently featured in the forecasting methods. The need to do those things would depend on the economic circumstances, because sometimes some issues will be more relevant than others. That is the point at which we would need to do such a piece of analysis and bring it to the fore in order, in effect, to evaluate the quality of the short-term forecast.

Therefore, I would give us the role of doing that portfolio of research. We are not just sitting there twiddling our thumbs when we are not doing an official forecast; we are doing lots of bits of research that, fundamentally, go to the heart of what drives the official forecast.

12:15

The Convener: Andrew, do you want to come in?

Professor Hughes Hallett: Yes—at length.

What Campbell Leith said is right. That is one aspect of the issue; I will not comment on it further. What he said is absolutely right.

I suggest that my reading of what is going on is slightly different from yours, convener. There are some people who say that we should be doing forecasts, and there are plenty of people who say that we should not, one of whom is the International Monetary Fund. I think that it is well worth listening to the IMF, which has oversight of such commissions everywhere else. There are not many such commissions at the—what should I say?—regional level as opposed to the sovereign level.

If we look at the numbers, we find that two—I think—out of 23 such bodies in the Organisation for Economic Co-operation and Development are doing forecasts as the official forecasts and nothing else. Then there is the question of second opinions. We are doing a kind of second-opinion exercise—the Government will produce its forecasts and we will provide a second opinion. I go back to a very old experience of mine in the Netherlands when the central planning bureau was doing the forecasts and it was the only body that was doing them. The constant complaint was, "We don't know whether to believe the forecast; we'd like to see some second or third opinions." That aspect is important. Doing it this way round gives us the freedom to compare the Government's forecast with other forecasts, of which there are not many. There is the OBR's forecast, and one would assume that, when Smith comes in, there will probably be a new industry in doing that sort of thing.

If I am to depart from what my colleagues have said—I do not know that I am departing from what they have said; it is just that they have not said

this—I think that being asked to do the official forecasts would seriously compromise our independence. To do the forecasts, it is necessary to get data. We do not have access to all the data in the world, so we would have to talk to other people and share some knowledge of what we were trying to do. If we were to put forward one forecast as the official forecast and the one that was favoured over other possibilities—as has been said, there are many alternatives at any one point—that would leave the perception in the world that the policies that underlay that forecast were the ones that were favoured. Therefore, in some sense, we would be prejudicing the discussion.

An important point that I did not realise but which I discovered when I talked to OBR people a month ago is that, when the OBR does the official forecasts, the Treasury often comes along with a proposition—it says that it is thinking of making a particular policy change, it presents its projections and it asks the OBR what it thinks of them. It is natural enough for the Treasury to want to do that, because it would not want to be slapped down by the OBR saying, “Total rubbish,” at a later stage, but that shows that the Chinese walls have been broken down and the influence of the Treasury is seeping in.

Therefore, having outsiders having no influence over independent forecasts made by us does not guarantee that outsiders will not try to influence the commentaries that we produce. It is one thing to have an independent forecast; it is quite another thing to have an independent commentary attached to it. The OBR has problems with that.

Those are various different possibilities that suggest that our independence would be compromised if we were to produce the forecasts. What we are doing is the other way round, and that is a different matter altogether. We take what we are given and we say, “Is this reasonable?” We give the reasons for our view, albeit that we might not have published enough yet. At that point, we can make a judgment and people can take it or dislike it as they wish.

Lady Rice: I have a final comment to add. This is a personal view that is based on informal and other conversations that I have had. I think that, over time, a bit of an industry will develop in Scotland of think tanks, university bodies or whatever doing their own versions of forecasts or delving into some of these areas. A comment that the committee has had from others is that there is nothing else to refer to—what else is out there? I think that that will develop over time. It is not surprising that it has not developed yet, because the devolved taxes are so new. It is almost a market thing and I think that it will happen.

Professor Hughes Hallett: This is an enduring conversation, but I would like to add an extra

point. I had not realised that, when the OBR was set up and given an exclusive, official forecasting-only mandate—give or take a little sensitivity analysis—that was done secure in the knowledge that the IFS would do the further analysis. That does not exist in Scotland. If you did not allow us to poke about and think of other factors that should be important, and we had to make the only official forecast, we would be in a worse place.

The Convener: I am keen to probe further, but I am under a self-denying ordinance and I know that a lot of colleagues want to come in, so I invite Richard Baker to ask the next question.

Richard Baker: The Scottish Government has informed the committee that no restriction will be placed on the commission to engage in forecasting if it wishes to do so, and there is nothing in legislation that would stop the commission from engaging in forecasting, but is it the case that, as it stands, you have no intention of engaging in any forecasting and that any forecasting you do is for yourselves as part of the practice of assessing the reasonableness of the Scottish Government's forecasts?

Lady Rice: If you do not mind, I would like to go back to what could be described as forecasting with a lower-case f. We have started doing that kind of thing, so we are engaging in forecasting as an exercise, and that is absolutely something that we will do, but what we ought not to do is develop an alternate official forecast. That does not make sense, and would compromise our ability to assess the official forecast.

Professor Leith: We are doing lots of pieces of economic analysis and we have lots of projects starting up, but we do not plan to replicate item by item the entire set of Scottish Government forecasts.

Richard Baker: Of course, there will be a learning process for the Parliament in scrutinising the work that you are carrying out to assess reasonableness. In making international comparisons, we have looked at the Swedish example, which I know you have studied. In Sweden, the Swedish Fiscal Policy Council does not produce its own forecasts, but the National Institute of Economic Research does, and there are many bodies producing their own forecast figures. That means that there can be a lively public debate about how accurate the Government's forecasts are and how close they are to the National Institute of Economic Research's figures. Is it beneficial to have such comparisons out there? Given that, as things stand—it may or may not change in future—there is a dearth of separate forecasts from Scottish Government figures, would it be beneficial for the commission to consider taking on a greater forecasting role than is currently envisaged?

Professor Hughes Hallett: That is a fair point. I can understand that you want not just a second opinion but a third opinion and a fourth, so that you can make some comparison. Our comparative advantage would be in making the comparisons between them, and you are right to say that there is a dearth of such things at the moment. There may be forecasts of particular taxes or particular bits of the market from professional agencies, but there is not much else available apart from the OBR. The OBR forecasts everything that we want to talk about but on a different basis, so we already have a second opinion, and I am sure that there will be more in the future.

The deeper economic analysis in the rest of the UK is pushed by the IFS and there is not such a body here. If there were one here, that is likely to be where that would happen. If you look at Belgium and the Netherlands, you will see that, in those countries, the functions have been split between separate agencies, so they have obviously recognised the point. It is just a question of whether resources are available and which is the most efficient way of doing it. It would be nice if other forecasts came from somewhere.

Professor Leith: If we had alternative forecasts, that would provide some additional information. It may be slightly overstated how much additional information that would provide, though. If there were other bodies providing additional forecasts using techniques similar to those that were used for the official forecasts, they might make different assumptions at different points and there might be different numbers, but they would be within the bounds to which such forecasts vary. What you really want to see is additional information on some aspect of behaviour or some aspect of development of the economy that is not being captured in the official forecasts or is not being addressed in the methods that underpin the official forecasts. That is the bit that gives you genuinely new information and allows for more fundamental scrutiny of the official forecast.

Richard Baker: Bearing in mind the duplication of effort in producing a full, separate forecast, is the primary concern duplication, or is there a resource issue? If you chose to undertake such an exercise, would you have the resources to carry it out, as things stand?

Lady Rice: If we chose to or were required to undertake such an exercise, we would resource up in order to do it, but we could not do it with today's resources.

We already have the ability, under the financial memorandum, to increase our staff to some extent. What we would do with that increase in staff would reflect what Campbell Leith has just said—it would be to look into some elements more

deeply to understand what is really happening, so that we could make a better, more refined judgment about the reasonableness of the official forecast. If we had to do forecasting, we would simply say to you that we needed to resource up to do that. We would have no hesitation, and it would be our choice, to the extent that we would need more resource.

Richard Baker: The experience in Ireland was that its Fiscal Advisory Council decided to undertake its own forecasting later on, as it developed its own work. If it transpired that there was not the additional forecast that you are expecting, you could take on that role to a greater extent later if you thought it appropriate.

Lady Rice: You make an interesting point. My sense of a number of the independent financial institutions is that they have evolved over time. I would be surprised if we did not evolve, but I do not know whether we will evolve in that direction.

Richard Baker: Before I ask my final question, I thank the panel members very much for their answers so far.

We have spoken about how important memorandums of understanding are, and you have an initial one with Revenue Scotland. You have had a lot of meetings with different agencies. Are there any problem areas concerning access to information? Are there any departments at Scottish or UK Government level that you think need to be a bit more receptive to your requests for information? Have you found those relationships to be broadly quite constructive?

Lady Rice: Where we have requested information, those requests have broadly been met. I do not know whether “concerned” is the right word, but we are certainly interested to see how the relationship with HMRC develops. The Scottish rate of income tax is not yet in place, so all that we have is anecdotal evidence about what that agency may or may not be able to deliver to us. Our understanding is that HMRC is very conscious of the need to deliver data to us in a way that keeps safe what has to be kept safe under privacy regulations and law, just as Revenue Scotland has to do. There are some areas that are not tested, but we have not had major issues to date.

Jackie Baillie: The subject of forecasting has been explored with you, so I will move on to the question of appointments and reports. I think that your independence is critical in moving forward. Would you accept that you cannot really both be an adviser to Government and scrutinise what it does?

Lady Rice: Yes—“adviser” may need definition, so that we are saying the same thing, but we do not conceive of ourselves as advisers to

Government on policy or whatever. We see ourselves as assessors and as the body that scrutinises what Government produces. That requires interaction with the Government teams.

Jackie Baillie: I entirely accept that. I was referring, in particular, to the fact that members of the commission had a role on the Council of Economic Advisers. In that case, there could have been a perception that would have been unfortunate. However, I gather that the position there has now changed.

Lady Rice: That position changed, and it was raised at our appointment hearings—I am sorry, but I do not know what the correct term for that is. We took action at that time to end our terms with the Council of Economic Advisers. I can say to you that there would not have been a conflict, but that is a case where one might be perceived, and we wanted to address that.

12:30

Jackie Baillie: Perception is all, unfortunately.

Some witnesses have suggested that the powers that ministers wish to have over appointments and all of that area might be excessive and be considered to be—dare I say it?—interfering. Do you think that the balance of powers is right, or would you again, to secure your perceived independence, prefer a more direct relationship with Parliament?

Lady Rice: I will look to both my colleagues to give a view; we have talked about the issues. At the end of the day, we are answerable to Parliament; Parliament approved our three appointments. We were recommended through the ministerial line, but we were debated—I read the debate in the *Official Report*; we were actively debated—in Parliament and then our appointments were approved. We are also answerable here; the committee represents the wider Parliament. That is ultimately how we perceive ourselves. My colleagues may have another view.

Professor Hughes Hallett: No—I essentially agree with that.

I will slightly rephrase Jackie Baillie's question, if I may. I will do it anyway. It is not so much about the power of ministers, but the suggestion that an alternative appointments committee or something should sit to make nominations, rather than ministers. I would not want to intervene on that. I do not think that it would make much difference in reality, but the perception might be important.

Lady Rice: We will hire individuals externally as we build a team to help us in our work. We have started that in recent months with two part-time research assistants, and we will probably look for

some full-time economist strength. We will advertise and have an open process to hire such individuals. Perhaps that is helpful to your thinking.

Jackie Baillie: Again, perception is all. I do not think that the fact that ministers control that degree of the appointment process and take powers to themselves to do so is helpful to that perception.

Let me see whether I can manage my next question without it being rephrased. It concerns submission of the SFC report. We obviously have experience of public bodies submitting reports to Government in advance of publication. Technically, that is done for checking accuracy, but in practice issues of presentation have been covered as well. Again, there is in some cases a perception that there is Government interference in that process. Some witnesses have suggested that you should not give the Government any notice of your report, or that it should, if you are being generous, have 24 hours to respond. I am interested to hear your view on what would be appropriate, given that the OECD thinks that providing a report in advance favours the Government.

Lady Rice: We have given a lot of thought to that, and we have heard views from the Finance Committee in the past as well. We have produced one report, which Jackie Baillie very kindly said that she had read, being new to the committee. In that case we submitted it in advance for a fact check, because we were told last year that that was the proper thing to do. That was very helpful to us and we continue to think that it is helpful to us to make sure that we have our facts correct. There is something in that. We did not change our findings—we were not concerned that we were offending anyone by doing what we did, and no-one asked us to change anything. It was purely a fact check.

That kind of engagement can be helpful, but one can play with the timings. The forecasters could have the forecast essentially complete, not to be changed, and they could see our report and correct any facts or suggest that the facts are different, or the report could be submitted before the forecast is finalised. We could look at those details, but we think that the process is valuable. It is hugely valuable to have a series of challenge meetings with the forecasters, because that is the value that we add, as Campbell Leith has said.

What we have tried to lay out in our submission to the committee is a way to balance what is a bit of a conundrum: how do we get that right? It may or may not be right—we would happily accept guidance—but we propose having the challenge meetings early in the process.

We would go back to the previous year's budget and discuss suggestions or criticisms, and we

would find out how the forecasters were changing or adapting their approach to a forecast and whether they were taking on a new, devolved tax—we will face new taxes relatively soon. In the early days, we would give the forecasters our challenges or whatever, but that would not be advice. We do that in OBR teleconferences that we join; it seems to be normal practice. We would then let the forecasters get on with running the numbers—we would not be part of that, because we do not look at numbers and outputs; we look at their thought processes going into that.

We could produce our report on the budget right at the end of the process. However, quite honestly, if we are to add value we need to be involved at the right points instead of simply sitting aside, as a think tank might do, and analysing the budget once it comes out. Forgive me for speaking in slang, but if the draft budget turned out to be rubbish—I do not think that it would—that would surely do no one in Parliament any good, and it would not do the commission any good, because people would ask, “Where were you?” We need to engage in the right way, and our thinking just now is that that is how we should do it.

Jackie Baillie: I accept that you look at the processes and the assumptions that are made, but from our perspective, you gave advice on non-domestic rates, the cabinet secretary reflected on the assumptions and the modelling and made a change. We have no idea what he changed the forecast from or what was wrong with the underlying assumptions. Equally, with LBTT, you made a recommendation about behaviour and we do not know what has happened since then—we do not know whether the Scottish Government has taken that on board. It feels as though there is something not transparent about what has happened since you said what you said on those issues. My fear is that the interaction that you describe—which might be quite reasonable among reasonable people—is not transparent and the perception is that there is something not quite right.

My approach to this is not necessarily to make things difficult, but how can we ensure that your independence is guarded? That is the most precious thing.

Lady Rice: Our independence is the most precious thing, so we continue to ponder how best to engage. One thought that occurs to me is that when we write our report on the draft budget, we should give the committee—or indeed, anyone who reads it—more detail of the “He said,” “She said,” type of thing. It may be helpful to detail such movements.

On the change that the cabinet secretary made regarding the economic determinants of non-domestic rates, we did not advise what that

change should be, nor did we give a parameter; it was simply our judgment that the range looked somewhat optimistic. In such a case, we would probably have to have the Government spell out what the forecast had changed from, or you would have to ask the Government that question.

Keep challenging us, because we will improve the process as we hear those perspectives.

Jackie Baillie: Thank you.

John Mason: I like your use of the word “conundrum” in your written submission and in your answers to Jackie Baillie. That seems fair. More interaction might get us a better result; less interaction might be perceived as evidencing more independence but might not get us the best result. Do we need to have some of this in legislation or can we leave the legislation as it is? Is there going to be a memorandum of understanding or just practice? How can we put all that into practice?

Lady Rice: I am not an expert on legislation. I will give my two colleagues a minute to think about how to respond to your questions.

My first thought is that, in all my professional experience—I am thinking of regulation, which is what I have dealt with a lot in my business life—I have learned that the more restrictive those statements are in trying to anticipate something, the more they omit things and do not anticipate the full story. More general expectations can be enshrined in legislation, but instinctively I say that we should not be very specific in legislation because, ultimately, that will have unintended consequences or lead to omissions.

John Mason: Is your key point that all minutes would be published and that that would be how we answer the questions, in a sense?

Lady Rice: Yes. People would be able to see iteratively what was being discussed, what had come to the table and the challenges that we raised. We started taking minutes of those challenge meetings once we had a bit of assistance, which was the beginning of the summer, and we have already put summaries of them on our website. In essence, we say what topics we discussed in a challenge meeting. We have the full minutes and will append them to our draft budget report so that they are completely public.

Professor Leith: I agree with Susan Rice. It is an evolutionary process. We will post the minutes and add commentary in our report. If the committee then finds that that is insufficient demonstration of independence or that the method is still not quite convincing enough, then, in an iterative process, we will—

Lady Rice: Find something else.

Professor Leith: We will find something else until it works to everyone's satisfaction. We are here to make it work.

Lady Rice: Our goal is the same as the committee's: that we are perceived as being independent.

Professor Hughes Hallett: I back that up. When the minutes come out, the committee will see some thoughts and comments about what the Scottish Government might do next about a particular problem. They are not just, "So and so said such and such"; they are a bit more detailed than that. What we are talking about is exactly what the monetary policy committee in London does: it puts up transcripts of who said what. Our minutes are likely to be a bit briefer than those are. For transparency, the MPC does exactly the same thing: it works on the minutes.

John Mason: As I understand it, that model is similar to what happens in Ireland. Jean Urquhart and I were in Dublin to meet the Irish Fiscal Advisory Council and others. The council came up against a problem this year. It was also involved early on with many of the macroeconomic forecasts but not in the detail of the budget. However, when the budget was announced, there was such a big increase in spending—because the Irish are doing so well, apparently—that it had a knock-on effect on the macroeconomic forecasts. There was a bit of tension between the Government and the council as to exactly what was, in their words, being endorsed: what was reasonable, in our words. Is there a potential problem if you are not involved at the latter stages of the budget's preparation?

Professor Leith: That would depend on the forecasting methods that are employed. If there is a big regime change—a big change in tax policy—that no one has discussed before that point, there could be behavioural consequences and, if the modelling does not take account of that, it is late in the day for us to intervene to factor in the effect.

John Mason: The model should be robust enough to cover the different scenarios.

Professor Leith: That is the ideal situation.

John Mason: IFAC also moved from a non-statutory to a statutory basis and was somewhat taken aback at the amount of administration, human resources policy, health and safety procedures and all the things that fall in once a body becomes statutory: although it is small statutory body, it has many of the same responsibilities as a big one. Are you aware of that and have you taken it into account?

Lady Rice: We are very much aware of that. We have been thinking about it and are discussing and giving some shape to a transition team or

board that would be supported through the civil service. That team would take us through all the stages.

We will go on to a statutory footing on 1 April 2017 so, from now, we have 16 or 17 months. However, we need to get ourselves ready well before that. We understand from the keeper of the records of Scotland that we have to keep records of all of our exchanges, emails and notes—everything. As a banker, I am used to that, and we have put in place processes to maintain those records. We want to get ourselves into those good habits well ahead of time.

We will need a risk register and we will need to have our finances audited. Over this year, we have started to have quarterly governance meetings—although we discuss such matters more frequently—specifically to focus on governance issues. We are trying to anticipate: we are planning what we need to do over the next year or so and are putting a number of things in place now, so that we are ready.

12:45

We also understand that we have to have an accountable officer. We have talked about hiring a senior officer—I have suggested the title "chief of staff", but that may change. We would advertise that post. I would look to that individual to keep us right. I do not underestimate the amount of time that all that would take. We appreciate that such things are important and we will certainly undertake them.

John Mason: In the final paragraph of your letter you talk about resources and say that if your remit expands in the future you would have to commit more time. On the commission, you go on to say:

"The resources available to it will need to grow prudently to support the additional work."

There has been some suggestion that we are funding the Scottish Fiscal Commission quite generously if we compare ourselves to IFAC, which has a full range of responsibilities, or to Sweden's equivalent. Do you anticipate that your budget might not be sufficient?

Lady Rice: The budget is partly built on an assumption of the Scottish Government's pay rate for however many full-time economists; the rate might be different in other countries. The proposed budget also anticipates the potential need for us to use fully commercial office space. At the moment, as you know, we are being hosted in our non-statutory phase by the University of Glasgow—very generously—and that change will mean some additional cost.

I read the notes of the committee's visit to IFAC, which points out that they have half a dozen or eight secondees. The notes do not say whether the secondees were carried in IFAC's budget or came from Government. Robert Chote of the OBR has been very open with the Finance Committee in talking about the number of people in the UK Government who provide data and information and support the work of the OBR. I would not want to say that the proposed budget is right, wrong, generous or not, because that will depend on what it encompasses.

I assure members—my colleagues and I have talked and we are in absolute agreement on this—that we have no intention of spending up to budget. The budget is not there to be spent; it is there to allow us to grow and develop as we see fit in this incredibly important moment as we move from a non-statutory to a statutory footing. We would not go out and hire four full-time economists just because that was allowed by the budget; rather, we would hire one. We might in the future, if we felt that we needed another or as new taxes come in, decide to add to that.

To answer an earlier question, if we found that we had much-expanded responsibilities, we might have to come back and say that the budget is not enough. However, today we would not say that. It is a very fair budget that gives us scope to make independent decisions about how and in what ways to expand.

Jean Urquhart: As John Mason said, considering the Irish experience was very interesting. Two things come to mind. Ireland is a smaller country, but it is in the eurozone and is independent. You are right to say that the staff were seconded—from memory, I think that they were all seconded for a certain period of time, including one from the central bank. The staff came with different experiences and they changed.

Of course, IFAC has five members and I wonder whether you have thought about that, given that you only have three. Is that under discussion? You mentioned the pool of expertise being very small. That was also a matter for discussion in Ireland and four of the five commissioners live abroad, although they are Irish. That was a revelation to me. Suddenly, we could look internationally. The Scottish diaspora is even bigger than the Irish diaspora, so there might be expertise around the globe that we could encourage.

You said that, given that we have 13 or 14 universities in Scotland, there should be plenty of people with the expertise to step into your shoes. Are there really people in Scotland with a very high profile and so on—again, perception being everything? Is that pool available here?

Lady Rice: My colleagues may have anecdotal views, as they are academics and know their peers. We have not sat down as a commission and asked who those people are likely to be, but the governance of succession and succession planning should become part of our conversation. In a way, your question is a good trigger for us to move in that direction.

On whether the commission should have more than three members, it seems to me that two would be too few, and there is always the number 27 bus risk. Increasing our number might be a thought. All of us are quite prudent in saying, "Let's grow in anticipation." Our view is, "Let's grow as we need to, as we become bigger, as we go into statute, if we need to grow." I would not be surprised if we spoke to the committee at some point and said that we needed another commissioner. Their term would then be staggered, and they would gain the experience and the knowledge that was needed to keep all of it going.

You asked whether the pool is out there. I think that the committee occasionally talks to academics who might well be considered candidates, if they were interested in something like the commission. We have not determined who those people might be or how big the pool is.

Professor Hughes Hallett: I do not disagree at all. I would rather fix on particular expertise and skills than fix on a particular number—on having four commissioners instead of three, for example. There is a comparative advantage within the commission at the moment and it is working fine. We will keep an eye on that. We have certainly talked about it.

On the diaspora point, it is not just Ireland that has gone international. A lot of commissions do that. From my perspective, that is not an issue; it would be fine.

On the point about whether the pool is too small, there are plenty of people out there but the question is whether you actually want them. It is a question of what kind of people are out there. The answer might make the pool a bit more restricted; it depends.

Lady Rice: It also depends on whether they would want to take on the role.

Professor Hughes Hallett: Yes; they might not want to do it. I know quite a lot about these things. In the Swedish example, the original chairman walked out in a huff because it was taking too much time. He wanted to publish a few academic papers at the same time; I sympathise enormously. Some people may not want to do it. It is a bit tricky.

Jean Urquhart: Finally—time is moving on—you see yourselves not as duplicating work that has been done in a full forecast but as selecting particular pieces of work. Would you say that the change from stamp duty to LBTT, and the figures that we have on that at the moment, merit that being the kind of work that you would home in on? It is quite a small part of the budget overall, but it is important.

I can see that Government policies come through into such types of forecast. How would you deal with drilling down into, or looking more comprehensively at, any one particular part of the forecasting, while avoiding or ignoring Government policy that will actually be a determinant of the outcome?

Professor Leith: In our initial report, there are several instances in which we suggest that it would be best if the behavioural effects of policy could somehow be incorporated into the method of producing the forecast. We could analyse those behavioural effects, build up a model or piece of analysis and feed into it whatever the policy happened to be. In that way, it would be ready to do the policy analysis that you needed to do.

Lady Rice: There might be factors other than Government policy changes to consider. For example, regulation over the past year has made the mortgage application process much more rigorous than ever before, particularly for first-time home buyers. There is a lot of debate going on as to whether it is too much, but it will affect the number of people who can qualify for a mortgage and is completely outside Government policy. It is therefore important that we look at all those factors, including the external ones.

Professor Leith: If there is any kind of break in the economic conditions that underpin an extrapolation of historical data, it is behavioural responses to those changes that you will be starting to look at.

Professor Hughes Hallett: You are quite right about the need to set priorities with regard to which taxes to look at and so on. They also come in different sizes, and I would put more weight on the bigger ones and insist that the errors—if and when we quote them—are set out not only in percentages but in pounds so that we can see, as it were, what bang they will have on the budget. That would help with prioritisation quite considerably, and I hope that we do that in future.

I also think it important to avoid commenting implicitly on the underlying policies. In other words, you have to take them as is for now. If you are told, “We are going to put this tax up for sure”, you might be able to make such a comment, because you would be commenting on a public announcement. Otherwise, we do not want to be

put in the position that everyone has referred to of saying, “This forecast’s rubbish, because everyone knows that this tax rate’s going up or down or whatever.” That is the reason for the slightly delayed effect with regard to forestalling; indeed, that is a case in point, because it is the sort of issue in which you are able to say what effect it will have in terms of pounds only when it actually comes in—and even then things are somewhat uncertain. It is important to do that work at that point, but we should not second-guess ahead of time.

Jean Urquhart: Thank you.

Mark McDonald: I want to ask a very brief question about forecasting just to get my head around where we are. Lady Rice has tried very helpfully to disaggregate forecasting with a capital F and forecasting with a lower-case f, and I think that the analogy is a very helpful one. I presume that your work involves a degree of modelling that essentially replicates elements of the forecasting method in order to test the robustness of forecasts without having to begin at the beginning and end at the end of the whole forecasting process. Is that a fair assessment of your work?

Professor Leith: It involves a mixture of things. We go through the nitty-gritty of the Scottish Government’s methods but, as I have said, we are also undertaking a series of projects on things that are not contained in the methods that are being used. We are not just replicating an element of the forecast but looking at something that, as far as the Scottish Government is concerned, is off-model to find out whether that is an influence or factor that should be taken account of but which currently is not. It is a mixture of a step-by-step analysis of what is actually being done and looking at other off-forecast issues that probably should be taken account of but which are not at the moment.

Mark McDonald: On the separation between you and the Scottish Government, there is a perception that you are looking over the Government’s shoulder and asking, “Are you sure about that?” How involved or otherwise do you think you need to be to ensure that the challenges that you make are taken seriously and that the information that is laid before Parliament is as robust as it needs to be?

Lady Rice: It is not really our job to ensure that information laid before Parliament is as robust as it could be—that is the Government’s job, because the Government lays the information before Parliament. We are not saying, “You must do this”; we are suggesting that the Government considers certain factors because they might have a big impact. The Scottish Government can take that on board or not. At the end of the day, that is the Government’s choice.

If the Government produced a forecast that, in our judgment, was not particularly robust, we would say so. In that case, the Government would have laid a non-robust forecast before Parliament. It is not our job to ensure that the Government does its job. The specification for our role would be different if that were the case.

13:00

Mark McDonald: I appreciate that. Ian Lienert, who has done some work around comparisons, suggests that the exertion of influence over forecasts changes the definition of the role from independent assessor to adviser. In your perception, is your role as independent assessors maintained or do you become advisers? To me, an advisory role is much more heavily involved in directing what happens, rather than challenging the Government.

Lady Rice: On whether we would expect the teams to be answerable to us in some way as to why they did or did not take advice that we gave them, we are not in that kind of relationship with them.

As I said before, this is how the OBR operates. It has a series of challenge meetings, produces tables and data and explains its thinking so far; it speaks to key individuals in the meetings, who raise questions and challenges and then go off and do more work. We are doing the same thing in Scotland.

Professor Leith: As an academic economist, I am used to academic seminars in which someone presents their work and is interrogated as they do that. That is not always comfortable for the person who is presenting their work. People go through the work line by line and make very critical comments. That toughens up what the person does. That is the model that I have in mind.

When we do our independent pieces of research, the intention is that we would release them as technical working papers. We would present them to interested audiences and go through the same process as the academic seminar—come and get it, see what we have done and kick holes in it if you can.

Professor Hughes Hallett: As I said some time back, our approach is motivated by the question whether we would do something the same or differently. At that point, you can suggest that someone considers a variable or other factor that has been left out. It is up to them to decide what to do. They might come back and say, "We tried that and it did not work", although if we have an extended purdah in which we are not talking, that might be more difficult. However, it is entirely up to them whether they try it and come back or not.

The motivation from our side is whether we would do the same, which is the same for a seminar.

If you go beyond that, you get more heavily involved and, as I said in the general peroration on forecasting, you would then find that your independence was compromised. That is why I do not think it a good idea to do that. I suspect that most commissions have reached the same conclusion and so produce back-up calculations, rather than the official forecasts.

The Convener: That concludes questions from committee members, although I have three or four still to ask—I am only joking.

It has been a long session. We appreciate your involvement, concentration and the clarity of your answers.

Lady Rice: It has been very useful, as all such conversations are.

The Convener: Thank you very much. No doubt we will see you at the committee again before too long.

13:03

Meeting continued in private until 13:05.

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