



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 31 October 2017

Session 5



The Scottish Parliament
Pàrlamaid na h-Alba

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website - www.parliament.scot or by contacting Public Information on 0131 348 5000

Tuesday 31 October 2017

CONTENTS

	Col.
DECISION ON TAKING BUSINESS IN PRIVATE	1
SUBORDINATE LEGISLATION.....	2
Scotland Act 1998 (Insolvency Functions) Order 2017 [Draft]	2
ECONOMIC DATA	9

ECONOMY, JOBS AND FAIR WORK COMMITTEE
27th Meeting 2017, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

Jackie Baillie (Dumbarton) (Lab)
*Ash Denham (Edinburgh Eastern) (SNP)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Richard Leonard (Central Scotland) (Lab)
*Dean Lockhart (Mid Scotland and Fife) (Con)
Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
Gil Paterson (Clydebank and Milngavie) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

John Ireland (Scottish Fiscal Commission)
Neil MacLeod (Scottish Government)
Mairi Spowage (Scottish Fiscal Commission)
Paul Wheelhouse (Minister for Business, Innovation and Energy)
David Wilson (Scottish Fiscal Commission)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 31 October 2017

[The Convener opened the meeting at 09:29]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning and welcome to the 27th meeting in 2017 of the Economy, Jobs and Fair Work Committee. I remind everyone to turn all electrical devices to silent. We have received apologies from Jackie Baillie, Gordon MacDonald and Gil Paterson.

Agenda item 1 is a decision by the committee to take item 5 in private. Does the committee agree to do so?

Members *indicated agreement.*

Subordinate Legislation

Scotland Act 1998 (Insolvency Functions) Order 2017 [Draft]

The Convener: Agenda item 2 is subordinate legislation. The Scotland Act 1998 (Insolvency Functions) Order 2017 has been laid under the affirmative procedure. We have with us the Minister for Business, Innovation and Energy, Paul Wheelhouse, and two officials from his team, Alex Reid and Neil MacLeod. Welcome to the three of you.

I invite the minister to make an opening statement on the order.

The Minister for Business, Innovation and Energy (Paul Wheelhouse): I am pleased to have the opportunity to address the committee and bring forward this order as part of a package of measures in an on-going project to update and modernise corporate insolvency in Scotland, particularly the insolvency rules for the winding up of companies currently contained in the Insolvency (Scotland) Rules 1986. The project follows on from the recent modernisation of rules for company insolvency in England and Wales, which culminated in the making of the Insolvency (England and Wales) Rules 2016.

By way of background, I should explain that, under the devolution settlement, the law on corporate insolvency in Scotland and the division of legislative responsibilities between the Scottish and United Kingdom Parliaments and Governments is complex. That is particularly true in relation to winding up, which is sometimes known as liquidation. For example, in relation to business associations, the general legal effect of winding up is reserved but the process of winding up is devolved.

In an effort to facilitate the efficient, effective and user-friendly modernisation of the Insolvency (Scotland) Rules 1986, both Governments agreed that it would benefit the petitioners if the rules on Scottish company winding up and any further changes to future Scottish statutory instruments were contained in one instrument rather than being split between a Scottish Government SSI and a UK Government statutory instrument as would require to be the case under the devolution settlement as it currently stands. Furthermore, because of the complexity of the winding-up reservation, it is not always clear whether a winding-up matter can be said to relate to the general legal effect as a reserved matter or whether it relates to process as a devolved matter. It would therefore have been difficult for the Scottish and UK Governments to draft separate

winding-up rules that dealt only with matters that fall within their powers.

Accordingly, both Governments have agreed to the preparation of a combined order under sections 63 and 108 of the Scotland Act 1998. Section 63 of the act enables an order to

“provide for any functions, so far as they are exercisable by a Minister of the Crown”

that is, a UK minister

“in or as regards Scotland, to be exercisable ...

(b) by the Scottish Ministers concurrently with the Minister of the Crown”

with the consent of that minister.

Conversely, section 108 of the act enables an order to

“provide for any functions exercisable by a member of the Scottish Government to be exercisable— ...

(b) by a Minister of the Crown concurrently with the member of the Scottish Government

but with the consent of that Scottish Government minister. The order will therefore allow for the mutual conferring of functions between Scottish ministers and a minister of the Crown, so that both have the power to bring forward, as appropriate, winding-up rules or regulations for companies, incorporated friendly societies and limited liability partnerships in Scotland, irrespective of whether those rules or regulations relate to reserved matters under schedule 5 of the Scotland Act 1998 or matters that are not reserved.

Crucially, each Administration must agree to the other Administration exercising any functions conferred by virtue of the order. That approach will enable each Administration to make provision on winding-up matters without any doubts being cast on the scope of the relevant enabling powers.

As noted earlier, we believe that users of the legislation will benefit as the order furthers the aim that rules on the winding up of companies in Scotland will be contained in one instrument rather than being split between two, thereby easing the transparency of regulation in respect of the general legal effect and process. That view is shared by the Institute of Chartered Accountants of Scotland in its letter of 30 October to the convener. The immediate intention is that the Scottish Government will, with the consent of the UK Government, take forward an SSI to make provision for winding up in reserved and devolved aspects, as part of the current project to replace the Insolvency (Scotland) Rules 1986 with updated and modernised rules.

Convener, I hope that you and the members of the committee will agree that this is a sensible approach to enabling the modernisation of corporate insolvency in Scotland to move forward

in an effective manner, and I believe that it provides an excellent example of the two Governments working together to make the Scottish devolution settlement work for the people of and industry in Scotland.

As set out in correspondence that I issued to the committee on 26 October but which was, I believe, received only yesterday, the order has no wider impact, given that it has been defined narrowly around the issue of winding up. It will make worthwhile improvements and make processes more efficient and effective.

I thank the committee for its on-going support and for taking the time to consider the order. We are, of course, happy to take questions, if that would be helpful.

The Convener: Thank you, minister. Do members have any questions?

John Mason (Glasgow Shettleston) (SNP): The minister has mentioned the input of ICAS. I should declare that I am a member of ICAS, but I have to say that I often disagree with it. It would rather have had the whole thing re-reserved so that Westminster could just get on and do its own thing. How did the Scottish Government feel about that?

Paul Wheelhouse: As you might know, the Scottish Government objected to these powers being re-reserved under the Smith commission process, but we believe that we have found a way forward and that we will be able to work together with UK ministers on a more coherent approach to updating insolvency practice with regard to winding up. We believe that the approach, under which agreement will be sought from Scottish ministers on regulations that are taken forward in the UK Parliament and vice versa, is sensible in addressing the difference in views that might be held by ICAS or others. I know, though, that ICAS strongly supports the approach that is being taken, as is set out in the letter.

John Mason: Thank you.

The Convener: Of course, the Scottish Government might like to get on with things, but the committee has sought an assurance—and you mentioned your letter in that respect—that, in the event that consent is given to the UK Government on matters touching on Scotland, you as minister will allow the committee the opportunity to scrutinise whatever legislation or subordinate legislation is being introduced before any commitment is made or decision taken.

Paul Wheelhouse: I am happy to reconfirm that to the committee today. I appreciate that members might not have had the chance to read the letter, but I very much emphasise our strong belief that the committee and indeed Parliament should be

consulted on changes that are taking place in advance of our giving agreement to UK ministers.

Andy Wightman (Lothian) (Green): Following the convener's question and the letter that we received yesterday, I would suggest that, although you have given an assurance about the matters that the convener has just raised, a future Government might choose not to give the same assurances. Can you clarify the formal statutory processes that give effect to that assurance, or does the assurance come just from your Administration?

Paul Wheelhouse: In respect of coming to Parliament to seek agreement?

Andy Wightman: Yes.

Paul Wheelhouse: I will ask colleagues to confirm the legal aspects of the requirements, but this Government certainly believes that it is important to consult Parliament on any such changes and to get agreement. I am happy to put our commitment to that on record, but I will ask—with your consent, convener—Neil McLeod to take a legal perspective on the matter and give Mr Wightman the answer that he is seeking.

Neil MacLeod (Scottish Government): I echo the minister's comments about the strict legal position. Under the order, Scottish ministers must give consent to any legislation that the UK Government takes forward, and a commitment has been given in the letter and reiterated by the minister today. Ultimately, one of the purposes of the provision that Scottish ministers give consent to the UK Government is to allow Parliament to hold Scottish ministers to account in whatever way it sees fit with regard to that consent. That is all that I can add.

Andy Wightman: But from a parliamentary point of view this is, in effect, the re-reservation of powers. After all, Parliament does not have any statutory right to be consulted or to have any say in the process by which ministers do or do not give consent.

Paul Wheelhouse: Should it come to the point that either Scottish ministers or the Parliament were unhappy with how the arrangement was operating, it would be within the Scottish Parliament's powers to remove the order, such that we would revert to the current position—that is, the status quo prior to the order being made. I would expect Parliament to hold Scottish ministers to account if we were failing to consult Parliament on changes that we agreed to with UK ministers. I am sure that Andy Wightman, among others, would be very vocal in making that point. Ultimately, the Parliament would have the power to revoke the order if it felt that it was necessary to do so.

Andy Wightman: I do not understand how Parliament would have the power to revoke or repeal an order. Proposals to repeal orders are ministerial powers, are they not?

Paul Wheelhouse: Certainly. I will bring in Mr MacLeod on that.

Neil MacLeod: I will address that point in a second. Earlier, you said that this was, in effect, a re-reservation of the powers, but it is certainly not that. The order is about a mutual conferral of functions to make winding-up rules. It is a very narrow area of executive competence and so does not affect what is or is not devolved.

On the Scottish Parliament's ability to take back the order, once it is made the order stands and there are certain processes. As the minister has said, the Scottish Parliament absolutely retains the power to hold Scottish ministers to account for their actions in giving consent under the order. If the Parliament is not happy with that it can make its position known.

Andy Wightman: However, just to be clear, could Parliament revoke the order on its own initiative?

Neil MacLeod: No, it could not.

The Convener: Perhaps I can clarify that point. As I understand it, an undertaking has been given but you are not binding a future Scottish Government. Is that right?

Paul Wheelhouse: You are right to say that I cannot fetter the decisions of any future Scottish Government ministers. However, the current Administration is giving a commitment to continue to consult the committee and Parliament on any changes in the future.

Richard Leonard (Central Scotland) (Lab): I want to go back to John Mason's question and probe the question of conflict resolution a little further. If there is conflict between the UK and Scottish Governments about where power should lie, how is that conflict resolved?

Paul Wheelhouse: I must emphasise that the instrument relates purely to winding-up arrangements. I cannot comment on wider arrangements for disagreements between UK ministers and Scottish Government ministers in respect of powers.

In relation to the order, any changes that are made by the UK Parliament that have a bearing on winding-up arrangements in Scotland would have to have the agreement of Scottish ministers. There is already a good degree of collaboration between the Administrations at the level of both officials and ministers. As I said, I cannot fetter the approach that future Administrations may take to engaging with UK ministers on those matters, but

we currently have a very pragmatic working relationship.

As a minister, I assure Mr Leonard and other committee members that we are seeking to work collaboratively with UK ministers on the matter. There is no great bun fight on the issue of the powers involved. We are suggesting a pragmatic solution that is mutually supported by both UK and Scottish ministers to address the issue and ensure that there is clarity in the regulations in respect of winding up, without needing two separate statutory instruments to deal with the same matter. It is, in effect, a workaround to allow the Scottish Government to retain competency, while UK ministers retain competency in respect of issues that affect that.

Richard Leonard: I know that you are a very pragmatic and collaborative minister, Mr Wheelhouse.

Paul Wheelhouse: Thank you very much.

Richard Leonard: In an era when people are talking about power grabs and so on, if there were a situation where the UK Government asserted that it wanted to re-reserve those powers and the Scottish Government's position was to look for a mutual settlement under the terms of the Scotland Act 1998, is there any court of arbitration to resolve those disputes?

09:45

Paul Wheelhouse: I cannot answer a question on a legal perspective; perhaps you can confer with Mr MacLeod and Mr Reid on whether there is a court of arbitration in that sense.

However, this Parliament is established through the 1998 act. Powers in respect of winding up are not reserved in schedule 5 and therefore they are devolved. Clearly there would be a wider impact on the devolution settlement if an attempt were made to take those powers away from the Scottish Parliament.

We have found what I hope is a neat solution to a problem that is faced by insolvency practitioners and those who are affected by winding-up arrangements. I hope that it will be a workable solution.

Mr MacLeod might want to comment on the arbitration aspects.

Neil MacLeod: With this order, we are not in the territory of re-reserving powers. The order is about how executive powers for ministers can be exercised in relatively narrow areas concerned with making procedural provision, in particular about how companies are wound up.

The Convener: We move to the formal debate on the motion to approve the affirmative

instrument. I remind the minister's officials that they cannot partake in the debate directly but they can confer with the minister should it be necessary.

I invite the minister to formally move motion S5M-08086.

Motion moved,

That the Economy, Jobs and Fair Work Committee recommends that the Scotland Act 1998 (Insolvency Functions) Order 2017 [draft] be approved.—[*Paul Wheelhouse*]

Motion agreed to.

The Convener: I also invite the committee to agree that the clerks and I will produce and publish a short factual report setting out what the committee has done on this matter.

As that is agreed, I thank the minister and his officials.

09:47

Meeting suspended.

09:48

On resuming—

Economic Data

The Convener: Welcome back to this morning's session. I welcome the witnesses from the Scottish Fiscal Commission: David Wilson, chief commissioner; John Ireland, chief executive; and Mairi Spowage, deputy chief executive.

I remind members to keep questions succinct and to the point. Our witnesses need not answer every question; there will be an opportunity to submit further information in writing should there be aspects that they would like to cover following the meeting.

We move to an opening statement from David Wilson.

David Wilson (Scottish Fiscal Commission): Thank you for the opportunity to talk to the committee this morning.

We are particularly pleased to be able to assist in any way we can with this important inquiry. We share with the committee a strong interest in the quality and accessibility of Scottish economic statistics, and we are very keen to support you in whatever way we can.

Before introducing my colleagues, I would like to make some introductory remarks; first, about the Scottish Fiscal Commission; and, secondly, to frame the further advice that we will give over the course of the morning.

The committee will know that the Scottish Fiscal Commission has been in place since the middle of 2014. When it was initially established, it was a non-statutory organisation, the function of which was to scrutinise the forecasts that the Scottish Government produces of the likely revenues from devolved taxes under the new arrangements under the Scotland Act 2012 and following the Smith commission. Over time we have evolved as an organisation and, since April this year, we are slightly different. The key point of continuity is Lady Susan Rice, the chair of the commission, but, since April, we have been different in an important way and I want to ensure that that is covered for the record.

The first change is that we are now a statutory organisation. There are three commissioners—Lady Susan Rice, me and Professor Alasdair Smith—and we have a growing organisation that is designed to support the work that we do, led very ably by John Ireland and Mairi Spowage.

Our role now is to produce the forecasts and to be responsible for them, rather than to scrutinise Scottish Government forecasts. Under our remit, we will produce forecasts of Scottish onshore

gross domestic product and estimates of the likely revenues from the devolved taxes over a five-year period, and we will also make estimates of the likely expenditure on a number of specific social security responsibilities that are being devolved to the Scottish Government. I want to emphasise that shift in our role.

In taking forward the work that we do, last month we published a report, "Current approach to forecasting September 2017", which sets out how we intend to go about undertaking our function. We will be a significant and major user of official and national statistics, which are largely produced by the Scottish Government and the Office for National Statistics. We see the commission as a user, not a producer, of the range of different statistics that are available—we produce forecasts that are not, in the jargon of this world, official statistics; they are not even statistics in the way that we understand them. We will produce forecasts building on the information that is available to us, using a range of datasets, models and information.

Finally, I will comment briefly on some of the issues that have been raised so far in the inquiry. Clearly, the committee's inquiry is significantly wider than the commission's specific responsibilities, so there are a whole range of very important issues that need to be looked at that probably go beyond the direct remit of the commission. However, particularly given the importance of estimating or forecasting the future of GDP, the commission's interest in available statistics actually ranges quite widely. I emphasise that although the committee's review probably goes wider than us, we are interested in a very significant range of the different data sources that you are looking at.

I also wanted to mention that the responses in our submission focus on economic statistics issues, rather than some wider and detailed issues around the fiscal forecasts that we will produce. For example, we have not given you lots of information about how we will develop forecasts of revenues from landfill tax and some of the other more detailed taxes. We will be happy to give you that information, but in the main our submission focuses on economic statistics, which feed into overall economic determinants and the estimates of economic growth.

That is all I wanted to say by way of introduction, except for a bit more about the team that is here. As the convener said, I am David Wilson, a commissioner on the Scottish Fiscal Commission. My day job is as director of the international public policy institute at the University of Strathclyde and my career has included a number of years working in the Scottish Government on a variety of economic issues,

including as director of business and initially—many years ago—as an economic assistant working on GDP and labour market statistics.

On my left is Mairi Spowage, deputy chief executive of the Scottish Fiscal Commission. Mairi is a professional statistician by training and experience. She was previously head of national accounts in the Scottish Government and can speak authoritatively on those issues. On my right is John Ireland, chief executive of the Scottish Fiscal Commission, who, in a previous life, was also a director of the Fraser of Allander institute and worked in some detail on issues of this kind.

That is my introduction. I look forward to the rest of the morning.

The Convener: We have heard from a number of witnesses about gaps and weaknesses in Scottish data. In your evidence, you highlight a number of challenges, including construction, lack of real-terms GDP data for expenditure and income methods, and the lack of Scottish-specific price data. How certain can you be that the figures and statistics that you produce and rely upon are robust and accurate?

David Wilson: Perhaps I should make some further comments before answering that question. The first thing is to reiterate many of the points that have already been put to you by a number of witnesses about the quality and accessibility of economic statistics in Scotland. John McLaren made a good point when he said that the first thing that we need to finish is a full set of national accounts. I am not sure that we will ever be finished developing a full set of national accounts, but over time there has been a significant improvement in the range of economic statistics available and the range and understanding of economic activity in Scotland.

Just to be clear, we are in a much better position now than we were 10 or 20 years ago; we are probably in a better position than other areas of the UK in terms of the information that is available in Scotland; and we are also in a strong position in that there are a number of things that will contribute to further improvement in the quality both of statistics and the analysis that underpins work on the Scottish economy. I mention specifically the work that the Scottish Government is doing to improve its range of statistics. I understand that you may be hearing evidence from Scottish Government officials in future weeks. They have set out some clear areas in which they intend to improve. If I may say so, I think that the work of the Fraser Allander institute is also contributing to greater analysis and scrutiny, and I would also like to draw attention to our own activities. Our feeling is that, now that the Scottish Fiscal Commission is established as a statutory organisation with a clear purpose to

develop forecasts, there will be an on-going process of increased demand for statistics and increased scrutiny and attention, which will in itself lead to further improvements.

That is a slight caveat before I come back to your question—we are in a better place than we were. That said, there are many gaps. Witnesses have already identified gaps around imports and exports, and trade data is a key area. There are issues around the availability of information on investment, which is a key factor, and David Bell made a good point about weaknesses in the data on earnings and inequalities. There are areas that need to be touched on and improved and, overall, I have been struck by the consistency of the advice that you have been given about areas for improvement.

We wanted to identify some specific issues that could be taken forward quickly and at reasonable cost that would directly help the work that we do. Those are the four areas that we have identified in the submission, and I am happy to go into those in a bit more detail. Alongside those, there are a number of other areas, including improved trade statistics and improved information investment, that would greatly assist our work, but we wanted to emphasise and focus on four specific areas that other people might not have raised.

On the direct question about our confidence in our forecasts, which we will publish initially in the middle of December, we will make the best use of the information that is available to us and will develop our analysis and judgments utilising all the available information. We will set out clearly in our reports our relative confidence in what we are able to do, the upsides and downsides and any risks and concerns that we might have about the robustness of the data. We are confident that we will make the best estimates that we can in relation to our duties, but in doing so we will have to take account of the strength and weaknesses of the available information.

10:00

Ash Denham (Edinburgh Eastern) (SNP): Thank you for your written submission, a small portion of which I will read out:

“Given the information that is available, and accepting the uncertainty inherent in it, the Commission strongly encourages the Scottish Government to produce more information in certain instances which would support the Commission’s activities.”

Will you explain a little bit further what you mean by that? Which areas does the commission need more information on in order to carry out its work?

David Wilson: I suggest that we go through the four areas that we have identified. They may appear to be fairly technical—they are fairly

technical—but I would not say that they are in any sense technical and unimportant. They go to the heart of the need for continuing improvement in the quality of Scottish economic statistics more generally and of those that specifically support the development of our GDP estimates and, in turn, our estimates in relation to the devolved taxes, many of which are influenced by our forecasts of GDP and economic activity.

The first area is the availability of specific information about inflation in Scotland. Some information is available about how inflation in consumer and producer prices might differ in Scotland. It is relatively limited in focus, but specific in certain areas.

That issue has long been recognised. There has been some evolution, but there is scope for further improvement in the robustness of our baseline estimates of where we think the economy currently is in our forecasts.

In order to go into the detail a bit more, I suggest that Mairi gives you bit more background information about the specifics of price deflators.

Mairi Spowage (Scottish Fiscal Commission): Before I go into that, I will respond to Ash Denham’s question about our statement on accepting the “uncertainty inherent” in information. That referred to the fact that because information is collected from businesses at the Great Britain level, much of the data for Scotland needs to be derived through regionalisation in some way, which is normally done through employment shares. We were trying to separate out whether the collection of that data should be changed or improved from what is done with the data, given where we are and the data that we have. How could the collection of the data be improved, given that making changes to the collection of business data would need much bigger investment?

On the issue of price data, some sources give a feel for the price differences in Scotland and the UK as a whole, but those sources are very limited. In the past, the ONS has produced information about different price levels in different parts of the UK, but you do not get a feel for any change over time—it really is not a useful source of information for national accountants who are trying to estimate differences over time. The national accountants in the Scottish Government build up their view of the economy at a very detailed level, which allows them to take account of different industrial structures in Scotland.

Overall, on aggregate, there will be different price movements in Scotland from those in the rest of the UK. However, on the whole, UK-level price information is used. Service sector information is broad brush and not very detailed even at the UK level—that is one problem that the

Bean review identified—so the different industrial structures are not being taken into account in a very granular way.

It is difficult to know how different the data on consumer or producer prices in Scotland would be, because we do not have the data.

Ash Denham: Do you suspect that there is a difference, though?

Mairi Spowage: It is reasonable to say that there is a difference, particularly in producer prices, because of the different industrial make-up and because Scottish companies potentially have different import propensities and other things—there are different sorts of companies, so it is a reasonable hypothesis that there is a different experience. That is particularly so for businesses; I am not sure whether there is a different consumer experience in Scotland compared with the experience in the UK as a whole. It is just a gut feeling; I am not sure. The issue should definitely be looked into.

One source might be the surveys that the ONS uses to collect information and construct the consumer prices index and the producer price indices. The Scottish Government could work with the ONS to consider that data to see whether there is potential to produce Scotland-specific indices, maybe not monthly but perhaps annually to begin with, and any prospect of using that data. That would be the place to start. I suspect that the ONS will probably use the powers in the Digital Economy Act 2017 to get more administrative data on prices; it might compel companies to give it information so that it can build better consumer price indices.

The fact that the Scottish Government has boosted the living costs and food survey for use for VAT assignment provides other opportunities. That survey is the source of the weighting for price indices, and there will be better data on that for Scotland. There is quite a lot of scope to investigate what is already collected and to see whether it can be enhanced to produce something for Scotland that would give us a feel for how consumer prices, for example, evolve, even if that is done on only an annual basis for the past few years. The analyst in me would certainly be interested in looking into that.

Ash Denham: You have mentioned the price indices, but are there any further areas?

David Wilson: I will finish a point that Mairi Spowage started. We would not say that there is a gigantic hole or gap, or a profound problem, in relation to deflators, but as we gradually improve the information that is available—as it evolves—we think that we should consider that area more. The review that Professor Sir Charles Bean has undertaken of overall statistics refers to the fact

that developing that area might not pass the cost benefit test—there have been a number of discussions about whether it might be too costly, because there would be insufficient benefit. To an extent, we are not well placed to judge either the costs or the benefits, but we would like the issue to be looked into more. There is certainly a demand from us that the Scottish Government continue to look into it. We would support that.

That discussion leads directly to a second one, which is about using the deflators that could be produced in a bit greater detail and granularity to develop a more accurate picture of the expenditure version of GDP. GDP is talked about in many different ways and there are a number of different ways of developing it. Developing the expenditure version of GDP using Scottish deflators would greatly assist our work, particularly in understanding how spending activity in Scotland might evolve and how it impacts on a range of wider issues such as the GDP and income tax forecasts.

Mairi Spowage: That would be valuable to us even if it used the current UK-level deflators, and it would be fairly straightforward for the Scottish Government to publish alongside its current price information. An official statistics source of that information would greatly assist us, rather than having to deflate it ourselves after the fact, which is what we do at the moment. That could be a quick win while the issue of Scottish deflators is investigated.

John Ireland (Scottish Fiscal Commission): If that was done centrally by the Scottish Government, it would mean that everybody who uses the data would have access to the same data. Rather than the Fraser of Allander institute doing it one way and us doing it another way, it would produce standardisation, which adds to the power of a quick win on that.

John Mason: Panellists have explained where there are gaps in the data. I was interested and slightly worried by Mr Wilson's phrase that you will "make the best estimates" that you can make. I suppose that you would do that even if you had no data. What are the risks to your forecasts from the lack of data? Should we be worried?

David Wilson: We will obviously base the forecasts on the best information we can get. I want to emphasise that there is a significant amount of information out there. We have described how we try to complete the picture that we paint of what is happening in the Scottish economy. A number of areas in which we seek further information can be described—I can go into those. There are issues about earnings and wages that we would be particularly interested in going into.

On the risks to the forecasts, I want to distinguish between uncertainty that arises from lack of information about what is happening in the current economy or the past economy—in other words, gaps in data and information—and risks and uncertainties in the future course of the economy, which are inherently unknown: they have not happened yet, so we have to make judgments. We obviously use the best possible information on past and current activity to try to understand how it might influence the future, and to make our best judgment. That is what we all do.

John Mason: Inevitably, SFC forecasts will be compared with those from down south. Even if you have a better ability to judge what will happen in the future, you are still dependent on what has happened in the past. It seems to me that if folk in London have much better data than you have, that will put you at a huge disadvantage when the public or the media make comparisons.

David Wilson: I will draw a distinction on your point about the responsible authorities in London having better information than we do. They undoubtedly have better and more complete information about the UK economy than we do about the Scottish economy, but my feeling is that we have information and analysis about the Scottish economy that are at least as good, if not better, than the what the authorities in London have about the Scottish economy.

We are in a strong position to develop ever-improving analysis and information about the Scottish economy, but at a fundamental level—I think that all the witnesses have said this—the range of available official national statistics about the Scottish economy is inevitably less than the equivalent for the UK economy. That is in the nature of—in national accounts terms—subnational data.

Mairi Spowage: In respect of many data sources that are key to producing economic forecasts and forecasts of the labour market—which are key for our income tax forecasts—it is more challenging for Scotland because data are more volatile because Scotland is a smaller economy: for example, the labour force survey on which such forecasts are based uses a smaller sample. Producing forecasts for a smaller economy with slightly more volatile data might mean that our forecasts are subject more to data revisions and to other things that are outwith our control.

10:15

One way that we deal with that is by taking a more aggregated view: rather than putting so much emphasis on month-to-month movements, we can look at movements over a quarter or

annually. That may have its downside, but I think that it is a sensible approach to take in dealing with more volatile information.

It will be important for us to present areas in which we have less certainty or in which we have to make broad judgments, which is part of producing economic forecasts, in particular. It is necessary to make broad judgments about the long-term path for the economy and for things such as productivity and population growth, which influence economic growth in the long term. Volatility in labour market data, for example, makes it challenging to produce forecasts for the near term, in particular.

John Mason: On labour market data, the surveys are clearly limited, but Her Majesty's Revenue and Customs is basically sitting on all the data, is it not? Is there a problem getting the data from it, or is it that the big change in the whole system that you have referred to means that it is just too much to consider doing at the moment?

David Wilson: I will develop that point, because labour market data—specifically, income and earnings data—is a really good example. In order to develop our overall modelling for gross domestic product and, more specifically, our income tax forecasts, we need to develop a fairly detailed understanding of how much people in Scotland earn. One might think that that information would be readily available; it is very important information that we need to collect from a range of sources.

For example—I will not go into particular detail—we use what is known as the survey of personal incomes, which is a very detailed sample survey of income tax records that are held by HMRC, which John Mason mentioned. That survey is the fundamental basis for our modelling of income tax forecasts, in particular. In one sense, it is very comprehensive—there are more than 40,000 records in Scotland and the survey produces a wealth of detail about the structure and composition of incomes in Scotland.

Inevitably, though, that information takes time to be developed, produced and analysed. I do not want to say that the information that we are using is out of date, but I think that we are currently using information from 2014-15 as the basis for our modelling. That is the most comprehensive assessment. The data that we currently use is what is known in the jargon as the public use tape—the published data that HMRC makes available.

As John Mason rightly said, HMRC has much more detailed information and, as all the recent reports about economic statistics have been recommending, there is a big push to use such

administrative data and to analyse it in a bit more detail. We would love to move further in that direction.

A range of other data can be used to give a wider and more detailed picture of what is happening in incomes in Scotland, such as the annual survey of hours and earnings, for which the latest figures have come out very recently. That is quite a different survey; it is an annual survey and it is more up to date, so it can add some information and colour on what has happened more recently. Scottish information is included in that. There is, inevitably, a set of issues about linking together the annual survey with the survey of personal incomes. That linking is a challenge in much of what we do.

Finally, just to make the link back to our four asks in terms of more information, we also mentioned a set of data that the UK Government develops. There is, for example, a survey of average weekly earnings, which we feel would greatly assist our understanding of what is happening—not quite in real time, but close to it—in the labour market.

We would very much support the development of more information and more recent and contemporaneous information. At the moment, we do not have access to Scotland-specific information, so more surveys would probably be required, but that would greatly assist our work. That is the third ask that we identified.

To summarise, the task that we must undertake is to piece together the available information, which is stronger in some areas than it is in others.

John Mason: Some of this is quite difficult. I appreciate your answer.

Is there any way of measuring the risk? When you mentioned HMRC data from 2014-15, I immediately got worried, because that seems like a long time ago: many things have happened since then. When you make forecasts, only part of the process is about looking at the past. Regardless of how up to date your past information is, you still have to make judgments and forecasts. Is there any way of measuring the risk in that area?

David Wilson: It would be very difficult to apply a statistical measure to what we see as the ex ante risk in the forecasts; I do not think that we will be able to do that. Forecasters in other areas try to provide upper and lower estimates for their forecasts. Members will have seen what are known as a fan diagrams in various organisations' documents.

In our forecasts, we will set out and elaborate on what we see as the risks and uncertainties on the upside and on the downside, but the role that is

set out for us in statute is highly specific: it is to produce a single set of estimates for use in the Government's budget documents. Our emphasis will be on producing the best possible single set of estimates, while setting out and elaborating on what the risks on either side might be.

John Ireland: We are also required by the Scottish Fiscal Commission Act 2016 to produce a forecast evaluation. In September, we produced an evaluation for some of our fiscal forecasts and some of the Government's fiscal forecasts. Next September, we will look at how the forecast that we will produce in December has performed. Once we have a number of those forecast evaluations, it will be possible to get a much better understanding of how accurate the forecasts are. Unfortunately, it will take a bit of time to build up that track record. Other forecasting institutions that have been forecasting for longer than we have do that already, although they publish the information in a slightly shorter form. Such information is available.

Mairi Spowage: Where we see key risks to forecasts or key areas of uncertainty, it will be important for us to set out sensitivity analyses of those areas so that users of our documents can understand how much difference various assumptions on key factors might make to our forecasts. It is important to be transparent about the uncertainties and risks that we are dealing with when we produce forecasts.

John Mason: I could go on all day on this subject. I am sure that you could, too, but the convener wants to move on.

The Convener: Yes, I do. Andy Wightman is next.

Andy Wightman: You refer in your submission to time lags in data being published. What concerns do you have about time lags in publication of the data that you need to make your forecasts? How could they be overcome?

David Wilson: I will not go over the wages and incomes story again. Perhaps the most obvious and important example of an area in which progress is being made is the GDP estimates that are produced by the Scottish Government. A number of other witnesses have mentioned that the time lag in availability of estimates of quarterly Scottish GDP has reduced over time. From memory, I think that it has reduced from 110 days after the end of the reference period—that was the case before 2016—to, I think, about 87 days after the end of the reference period. We would like to have access to the GDP estimates that are produced by the Scottish Government as soon as it is able to publish estimates in which it has confidence.

However, I sound a note of caution, which also goes back to Mr Mason's questions. We do not want—it would be of great concern to us—a push to accelerate publication of statistics, which might then be published before there is confidence in them, and would therefore be revised in the future to a greater degree. The last thing that we want is early publication of estimates but with reduced reliability. A balance needs to be struck.

Access to GDP estimates is the principal example to which I would draw attention. Mairi Spowage and John Ireland might want to comment.

Mairi Spowage: There are a number of sources on the fiscal side that would assist us in our forecasts. We have mentioned the survey of personal incomes and the fact that we are dealing with 2014-15 data at the moment. We have access only to the public-use version of that; we do not have more information than anyone else has.

However, the SFC has just been approved as a researcher at the HMRC datalab. That means that we have to go to London, but it also means that we will be able to look at the more detailed survey of personal incomes data that sits in the background, which will give us a better feel for the years for which HMRC has not published a public-use version of the survey, and for the areas of the survey that are anonymised to prevent us from identifying anyone. That will give us a better idea of the taxpayers, particularly at the top end. That is good progress, but we would like to be able to access that information without having actually to go to the datalab, so we are in discussions with HMRC about that. Obviously, its principal concern is taxpayer confidentiality, which is fair enough.

Other information that would be useful includes information about how much income tax is being collected as we go along, such as there is at UK level in the monthly receipts. HMRC is developing real-time information on that; it is too early to say what its quality will be or how much it will chime with the receipts that are being collected. That is in development, so in future years it will be a more up-to-date source of information on actual receipts collected.

We must not forget about the Revenue Scotland information, which we use for our devolved taxes. Revenue Scotland has significantly speeded up its production of monthly statistics on land and buildings transaction tax, and it has massively expanded the analysis that it produces each month. That has happened partly due to the requests that we have been making of Revenue Scotland, but it has made all of that extra analysis available, which is really useful. It has also significantly brought forward its publication of quarterly landfill tax revenues. The more recent

the information that we have, particularly for the very new taxes, the easier it is to forecast revenues.

David Wilson: I can clarify a point that I made earlier about the time lag in the publication of the GDP estimates; I have found my notes. The current gap between the end of the reference period and publication of the quarterly GDP estimates is 97 days. If we compare that with the equivalent estimates at UK level, the ONS produces the preliminary estimates after 25 days and what are, in effect, final estimates after 84 days. That is another example of UK information being ahead of the information for Scotland. As I think everybody knows, any reduction in that gap would be helpful to us, subject to the caveats that I mentioned earlier.

Andy Wightman: I have a couple more brief questions. Do you have to pay for any of the data that you require or is it all made available under protocols or openly available?

10:30

John Ireland: We have to pay for some of the data. For example, we are in the process of paying Registers of Scotland for data on house prices and property transactions.

There are issues around that. Some data is pretty expensive. Outside Scotland, the Civil Aviation Authority produces some good data on passengers, which is especially important in relation to air passenger duty. It is, however, so expensive that we cannot afford to buy the full dataset, so we buy only a small portion of it. There are issues about public authorities, be they in Scotland or the UK, charging for their data. Of course, it has to be said that they do not do that only to make money; it costs money to employ statisticians and there is a resource cost of manipulating data, in particular administrative data, and producing it in a form that people like us can use. I suppose that the question is this: how can that resource cost be met in a way that benefits the public sector, academics and other people who are interested in using the data?

Mairi Spowage: HMRC also buys that data from the CAA. My understanding is that the Scottish Government and Revenue Scotland buy the ROS data, too. We are no different from them. Obviously, we have a statutory right of access to information but, where there is a charging model in place, our statutory right of access does not override it.

Andy Wightman: Thank you. Perhaps we might combine some of those questions in a later inquiry.

Can you confirm that you have no statutory role in estimating the quantum of future assignation of VAT? I think that, according to the fiscal framework, that will not have an impact on the Scottish budget anyway, until the end of the operation of the current fiscal framework. Do you envisage having a role in estimation of VAT receipts from the end of the current fiscal framework?

Mairi Spowage: My understanding is that it has not been decided who will be responsible for forecasting VAT receipts in Scotland. It is not currently in our remit.

David Wilson: I make it clear that we are not doing any work on that at the moment. That will be a decision for Parliament and Governments in the future.

Mairi Spowage: In the fiscal framework, it is for the two Governments to decide what body will be responsible for forecasting VAT receipts. That decision has not been made, as far as I know.

Gillian Martin (Aberdeenshire East) (SNP): You have talked a lot about the income tax powers that are coming to Scotland. Obviously, they are one of the major areas of your forecasting. In your submission, you say that one key area in which improvements are needed concerns the statistics on earnings and on non-savings, non-dividend income tax. A lot of things are missed out from the assessment of household income. You talk about wages and salaries, but there are some forms of household income that do not fall into that category. I would like to know your feelings on that issue and how you are going to address those gaps as you make forecasts. It is an important issue.

David Wilson: That is a very good question. There is a set of issues about what might be seen as household income rather than personal income. Some of the questions that you have previously asked about using gross national income rather than gross domestic product have touched on extremely important issues—they are certainly important to us. However, our starting point involves making the best estimates of the specific revenues that we are tasked to deal with, and our specific task is to forecast income tax revenues. We develop all of the issues that we have already described to put that together.

We will try to understand to a level of depth what is happening in terms of hours worked, wider forms of income and activities within the labour market—clearly, a lot of complex changes are happening in the labour market that are impacting on personal incomes and household incomes. That is very much the context within which we will develop our income tax forecasts. However, to be clear—without being too heavy-handed about it—

our immediate task is to develop the income tax forecasts. The wider context is crucially important, but we will inevitably focus on that specific task.

Gillian Martin: I completely understand that, but one worry that we politicians and policy makers have is that there might be a knock-on effect of people incorporating themselves in order to avoid income tax. How could we address that in our report and in our recommendations?

David Wilson: Tax-motivated incorporation is clearly a factor that we will need to take into account when we consider the behavioural impact of income tax changes. It is obviously relevant to UK authorities as well as Scottish authorities. We have been working quite closely with HMRC on its estimates of how incorporation might impact on forecasts and income. If there are different levels of income tax, there might be a differential motivation for incorporation, and we will need to take views on that. At the moment we are working with HMRC to explicitly have that issue as part of the forecasts that we will publish in December. I welcome any comments from my colleagues on whether there are specific things that the committee could recommend. I suspect that there might be, although I cannot think of any off the top of my head.

Mairi Spowage: HMRC has done a lot of detailed work on that, and it has been very open and shared a lot of the work with us. There has been quite a good collaboration between us and HMRC. The Office for Budget Responsibility obviously has a big interest in that at the UK level as well, and it has done a lot of modelling not just at the UK level but at the level of parts of the UK.

The issue is quite new, so perhaps we can have a think about it away from the committee and see whether we can come up with any specific things.

Gillian Martin: One thing that has come out of the evidence is that, although data is being collected by lots of agencies, such as enterprise agencies and business support agencies, it may not be being collected in a way that is useful to you. Some of the recommendations that I am talking about could be on that.

David Wilson: There are a number of areas in which further improvements could be made on the accessibility and quality of information. Opening up access and having greater publication of information by a number of public bodies would greatly help. I am happy to provide a bit more detail on that general issue and on incorporation specifically.

Our immediate interests would probably be in the information that public bodies hold in Scotland that might assist us with our fiscal forecasts. For example, John Ireland mentioned the Civil Aviation Authority and air passenger duty, and, with regard

to issues around housing and property markets, information is held by Registers of Scotland and others. We have strong links with a number of those bodies. There may be further information and we would be happy to provide a note on that.

Gillian Martin: I know that my colleagues have more questions on that area.

Dean Lockhart (Mid Scotland and Fife) (Con): As you mentioned, income tax receipts will be increasingly important. Approximately one third of Scotland's budget will depend on them. At the moment, much of the data that you use is UK-wide data on earnings and wages. Given that the earnings profile in Scotland is different from that of the rest of the UK, in terms of average salary and basic-rate, higher-rate and additional-rate taxpayers, is there a concern about a slight mismatch if you are extrapolating from UK-wide data?

David Wilson: Inevitably we have to make judgments in this area. Generally, we have quite good information about the distinct composition and breakdown of incomes and earnings in Scotland. We have that data, but, as I touched on earlier, it is not always immediately up to date, and it can always be improved on. Although we have relatively good information, we must make sure that it is fed into our various modelling activities and that the trajectory of the forecasts takes into account recent events and activities. We need to bring in the more recent information on how things might be changing.

It is a much wider discussion, but how the labour market has developed since the financial crash has turned a number of our expectations on income pattern and the composition of the workforce on their head. There is some evidence that there are differences in how those have evolved between Scotland and the rest of the UK.

We are keen to make sure that we have up-to-date information. Generally, we have good information for our modelling work on income tax from the survey of personal incomes, but it is not always up to date. That is the nature of those data sets.

Dean Lockhart: To follow up on that point, there seems to be a range of different figures—from around 12,000 to 19,000—for the number of additional-rate taxpayers in Scotland. Why is there such a large discrepancy in people's estimates for the number of additional-rate taxpayers in Scotland?

David Wilson: I am not aware of the different estimates that Mr Lockhart has described. We use information based on 2014-15. It is a sample survey and, inevitably in a sample survey of upper-rate taxpayers, there is a degree of uncertainty. We take into account different sources

of information. We consider that we have the best information available for the overall forecast that we make.

Dean Lockhart: Does Mairi Spowage have anything to add?

Mairi Spowage: I do not have the numbers off the top of my head. We could provide follow-up information on our understanding of the position. That is something that we would make available through our publications, because we know that there is interest in the distribution of different categories of taxpayers.

Dean Lockhart: We have heard about leakage from people moving from income tax to corporation tax through dividends. What about leakage from additional and higher-rate taxpayers in Scotland reregistering elsewhere in the UK if there is a tax differential to encourage that? Would the commission be able to model or forecast that? Would you talk us through the impact on behaviour of differential tax regimes and what you would look at to anticipate what leakage might occur?

David Wilson: Yes. Building on work that the Scottish Government did some years ago, we have developed thinking on what, in economic jargon, are called the elasticities of the behavioural impact—our estimates of how much people may change their declarations and change where they are registered for tax. Those are factors that we need to take into account, and we are working with HMRC to develop our understanding of those elasticities.

It is important to take into account the academic evidence that is available, and we have looked at that. Inevitably, there is no established evidence base on the impact of differential income tax in a UK context, because there have been no differences so far, so there is no real information. There are a number of sources of information on how elasticities might play out from movements between countries and particularly between states in America. That information has been useful for us in developing initial estimates of what the impact might be.

When we have to make the estimates, as we expect we will have to do, we will set out information on the elasticities that we are using and make the basis for our estimates clear. We will also draw out the impact on the overall numbers.

The key point that I want to emphasise is that the estimates will be a judgment based on the best information that is available to us. We will set the basis out, building on the work that the Scottish Government did previously and the work that we are doing with HMRC.

10:45

Dean Lockhart: I have a final point on that. Under the fiscal framework, has it been settled how someone would be judged to be an English taxpayer as opposed to a taxpayer in Scotland? Is a day count fraction or number involved, or is there another test?

David Wilson: There is an established process that is led by Revenue Scotland rather than us to classify somebody as a Scottish—

Mairi Spowage: I am sorry to interrupt, but it is led by HMRC.

David Wilson: I apologise. There is an established process that is led by HMRC to classify people as Scottish rate taxpayers rather than rest-of-the-UK taxpayers. We will utilise that information, but that decision is for HMRC.

Andy Wightman: I have a brief follow-up question on income tax. Obviously, Scottish taxpayers are now meant to be identified with an S code so, in your forecasting, the data that you will get in relation to Scottish taxpayers will be accurate. I think that the National Audit Office was concerned that there are still around 420,000 potential taxpayers who are excluded. Will you say something about the reliability of the S code? It is no doubt better than the survey of personal incomes.

My second question is about self-employment. I have yet to make my tax return for the 2016 calendar year, and it will be well into 2018 before my self-employed earnings are reflected in any national statistics. Self-employment is rising in Scotland. Given that there is a time lag for a certain category of taxpayers who do not declare their income for a considerable time after it has been earned, I presume that you will reflect that in your confidence about your forecasting when you present your forecasts.

David Wilson: I will touch briefly on the second question. I ask Mairi Spowage to pick up on the first question and to make any further comments on the second one.

When it comes to detailed tax information, it is inevitable that there is a time lag for people in self-employment as well as for people in employment, in terms of declarations. That is the nature of taxation, and that is why there are different time periods for the availability of information, which I have already been through in response to Mr Mason's question.

The sharp increase in self-employed workers in the period since the financial crash is one of the features of the changing labour market that we have to take into account in making the forecasts, which are based on the information that is available to us about changing employment and

self-employment patterns. We take that into account with as much information as is available to us.

Mairi Spowage: As David Wilson said, we use the survey of personal incomes to forecast income tax liabilities. It is too early for us to be able to assess how the population of Scottish taxpayers in the SPI relates to the population of Scottish taxpayers who have been identified with S codes by HMRC. We cannot do that until there is more real-time information such as the monthly receipts and the ultimate outturn information that is published.

The self-assessment issue that Andy Wightman raised means that we will not have the full year's picture for 2017-18 until the summer of 2019. That is one of the challenges, because we are trying to forecast liabilities and receipts. Currently, we use the SPI data as the best available data source, and we need to keep a watch on that. As the real-time information develops and we have the three sources together, we will be able to say how well the SPI has done, what the real-time information can tell us, and how that relates to the outturn liabilities at the end of the period. We will know more in future years but, basically, we have to base our forecasts on the SPI at the moment. Therefore, I cannot comment on how well the identification of Scottish taxpayers has gone.

Jamie Halcro Johnston (Highlands and Islands) (Con): My question is about the availability of localised or regional data in Scotland. Obviously, Scotland's regions are very diverse. I want to know whether there is a shortfall in that regional and localised data and how that impacts on your forecasting.

David Wilson: Again, that is a crucial and important issue. I was struck by the evidence from Highlands and Islands Enterprise about the challenges that it faces in understanding what is happening in the economy in its area. At the risk of sounding slightly unhelpful, I want to re-emphasise our national remit. Our task is to produce a forecast of overall GDP and therefore income tax across the board. In one sense, our emphasis is on Scotland-wide information, but we are very alive to and interested in the pattern of economic activity around Scotland, because that greatly impacts on and influences our assessment of what is happening across Scotland as a whole.

An example of that is the work that the commission did a year or so ago on what is happening in the Aberdeen economy—for example the impact on the housing market—as a consequence of changes in the oil and gas sector and the falling price of oil. Regional issues such as oil and gas have an impact on the national picture. We touched on construction earlier, which may have a regional dimension. In that sense, we are

very interested in local data for the purposes of developing our overall understanding.

It might be slightly different for other users of statistics, whether it is Highlands and Islands Enterprise or North Ayrshire Council. Others have given perceptive and useful evidence on the need for a greater degree of information, but such information is probably used for purposes that go beyond our activities.

Jamie Halcro Johnston: As you say, that information is of interest. Is it available to you at the moment? If not, what could be done to make it available? We talked about whether some of the agencies could provide more access to their information.

David Wilson: There are two things to mention. Inevitably, if information available at a Scottish level is a subset of information at the UK level, and is probably slightly further removed in time than information at the UK level, the same applies to sub-regional data in Scotland. Concerns have been raised about information on gross value added and the more detailed employment estimates. I understand the concerns that are often raised about access to information.

What would potentially be of great interest is if local authorities and enterprise agencies were to subject the administrative data that they hold to analysis and data assessment rather than just publication. I think that Highlands and Islands Enterprise and Scottish Enterprise are willing to do that. That may bring out more information at the local level, which could assist the work of other agencies. It is something that we would be very interested in, particularly in relation to the property market.

Mairi Spowage: As David Wilson touched on, any issues with using business information at a Scottish level are only amplified when we go down to a lower level. The ONS produces data on regional GVA, gross disposable household income and other indicators. That disaggregation is expanding quite a lot, but it is all the same data that is being modelled down to those areas. It does not use new or different data; it just cuts the data in a different way. That is just a note of caution about some of the quite low-level estimates of things such as GVA.

As David Wilson said, we would be particularly interested in data that can help us to evaluate our forecasts. If we forecast LBTT and there is a shortfall, is there a regional dimension that helps us to explain where the economy was driving some of that difference? That is why the data can be particularly useful to help us understand why our forecasts are different from the outturn. It is inevitable that there will be a difference, but the data helps us to explain and analyse the

difference. For example, regional LBTT receipts would be of interest to us, if Revenue Scotland were able to produce those in future.

Jamie Halcro Johnston: Out of interest, if you looked at very localised data, I take it that there would have to be consistency in the methodology used in capturing that data?

Mairi Spowage: Yes. To be useful at a national level, there would have to be consistency for us to be able to draw conclusions from it.

Richard Leonard: In your written evidence, you suggest a greater role for HMRC and the Office for National Statistics in helping to improve the quality and coverage of statistics for Scotland. You have spoken quite a bit about HMRC but not as much about the Office for National Statistics. Could you fill in any blanks about HMRC and how you would characterise your relationship with it, and say whether the ONS does things that could be improved or whether it could help you to fill gaps? It will be useful for us to get that on the record.

David Wilson: Our relationship with both organisations is very strong. We are building up various relationships with a number of agencies; one that we have not mentioned much is the Office for Budget Responsibility. A key factor is that, as an organisational development activity, we are developing memoranda of understanding with each of those organisations to make sure that they understand our needs and that we understand what might be seen as the wider challenges that they face as organisations. There are positive developments in relationships and links.

Inevitably, as an organisation with a focus on Scotland that liaises with organisations that have a UK-wide remit, there are things that are of great importance to us. It is not that those organisations see those things as being of lesser importance to them, but they have to take into account a wider perspective. There is constant engagement to further evolve and develop what they may term regional breakdowns in the rest of the UK. That often comes down to a judgment about the perceived need for regional breakdowns and their perceived costs, and a more fine-tuned estimate of whether the sample size of a particular survey or piece of work is robust enough to enable us to use local information, which I look to our professional statisticians to judge.

That is the dialogue and negotiation that we have with both the organisations that Richard Leonard mentioned. Generally, my experience is of positive evolution. More could happen, and we would like greater access to and publication of some of their datasets, but that is part of the evolving process.

Mairi Spowage: There is a large role for the Digital Economy Act 2017 and the new powers

that it gives the ONS in onward transmitting information.

I know that in the committee's previous evidence sessions there has been discussion of access to VAT records. That has the potential to transform data and information about small businesses in Scotland and the UK, which are not in every business survey. There is a fairly large sampling fraction but universal coverage of those one-site small businesses would really improve the information that is available to the Scottish Government so that it can produce its national statistics. There will always be a role for business surveys for large entities and multi-site companies. VAT returns will never give the detail that we need to model them because they create the biggest VAT groups that they can to minimise the number of returns that they need to send in. There is a large potential there.

If the ONS uses that information in its national accounts and its GDP estimates, the 2017 act allows it to onward transmit the Scottish slice of that information to the Scottish Government, so that it can improve the Scottish estimates. We would greatly encourage the ONS to do that with the Scottish Government, and we will benefit from the fruits of their labour with better quality national accounts.

Such administrative data sets can be used to improve the quality of information, but there will always be an element of regionalisation of large companies and other such things because they still report at GB level. There are quite a lot of opportunities for the ONS and the Scottish Government to do things together, which would improve the data that we use. We are encouraging all of that. A lot of it is about the improvement of the national accounts, which we would then utilise.

11:00

Richard Leonard: Gillian Martin asked about the possible transfer between people's self-categorised earned and unearned income. Do you have any broader conversations with HMRC about tax avoidance and tax evasion?

David Wilson: That is part of our discussions. We are not a tax collection agency and in that sense we are not actively engaged in measurements and assessments. We are developing estimates of where tax may be motivating incorporation and wider tax issues and we have to take tax avoidance and evasion into account in the forecasts. However, I would not say that that has been a major issue or that we have discussed or debated it in detail.

Mairi Spowage: Through its production forecast, the OBR considers the measures that HMRC proposes to reduce avoidance and

therefore increase tax yield. The OBR's assessment of the sorts of revenues that such measures will raise has changed a bit over the years. It released a report in the past couple of months that suggests that it may be more conservative about its estimates of the sums that such measures may raise.

It is important for us to be aware of the measures if they are going to impact on the Scottish tax take. We give quite detailed consideration to UK policy measures that may impact on the Scottish tax take. As David Wilson says, we have been working very closely with the OBR—it has been tremendously helpful and has given us advice as a fledgling independent fiscal institution. It has also raised awareness of our role and statutory function with UK Government departments, which has been very helpful in opening doors. We work closely with the OBR and listen to its views on those UK policy measures in order to inform our own forecasts.

Richard Leonard: One of the other areas that the committee has been interested in is the extent of the independence from the Government of any statistical body. Do you have any views on that? As Mr Wilson mentioned at the very beginning, the Scottish Fiscal Commission is a statutory body and is therefore at arm's length from the Government. From your experience, do you have a view on the debate about the extent to which there should be a statistical body that is independent of the Government?

David Wilson: Our formal position is that we do not have a corporate view—it is not really for us to take a view on a potential statistics institute or any recommendation about such a body.

There are a couple of points to consider. One should not underestimate the degree of proper processes that underpin the quality of statistics and the independence of their production and release. It is a long-standing issue and there are many regulatory processes that, for me, provide a great deal of reassurance about the independence of national and official statistics. However, I understand that there is a debate to be had about the issue.

The point that my colleague Stuart McIntyre made about the Northern Ireland Statistics and Research Agency is that one needs to look carefully at the regulatory processes to see quite what independence means. The statute is very clear that the Fiscal Commission is a non-ministerial department and is operationally independent of the Scottish Government. That situation is set out very clearly in the statute for good reason. However, there are other parts of Government activities that have different processes for guaranteeing quality and independence. It is for others to judge the role of

statistics, but I emphasise that we should not underestimate the proper care and professionalism that already go into the production of statistics.

The Convener: I have a final question. I understand that you will produce a tax and GDP forecast alongside the Scottish draft budget for 2018-19. Do you know when that will be published?

David Wilson: Our document will be published at the same time as the Scottish budget, on 14 December. The timing is very deliberate as part of the overall fiscal framework arrangements—we publish at the same time, on the same day.

The Convener: Thank you for the clarification.

Mairi Spowage: Just to be clear, for the five-year forecasts, we finish the current year and then cover the budget year plus the next four years.

The Convener: Are those revised annually?

John Ireland: They are revised twice a year—at least.

The Convener: So it is twice a year or perhaps more.

Thank you for attending the committee meeting.

11:06

Meeting continued in private until 12:20.

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

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: sp.info@parliament.scot



The Scottish Parliament
Pàrlamaid na h-Alba