



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

### FINANCE COMMITTEE

Wednesday 28 May 2014



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**Wednesday 28 May 2014**

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**FINANCE COMMITTEE**  
**17<sup>th</sup> Meeting 2014, Session 4**

**CONVENER**

Kenneth Gibson (Cunninghame North) (SNP)

**DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**COMMITTEE MEMBERS**

\*Gavin Brown (Lothian) (Con)

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

\*Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)

\*Michael McMahon (Uddingston and Bellshill) (Lab)

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

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

John Dickie (Child Poverty Action Group)

Annabelle Ewing (Mid Scotland and Fife) (SNP) (Committee Substitute)

Professor Campbell Leith

Lady Susan Rice CBE

Bill Scott (Inclusion Scotland)

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

Committee Room 2



## Scottish Parliament

### Finance Committee

*Wednesday 28 May 2014*

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

### Interests

**The Deputy Convener (John Mason):** Good morning, everybody, and welcome to the 17th meeting in 2014 of the Finance Committee. As usual, I ask everybody to make sure that their mobile phones are switched off or set not to make any kind of noise.

We have received apologies from the convener, and Annabelle Ewing is participating as committee substitute for him. I welcome Annabelle to the meeting; I think that this is your first attendance as a substitute at the Finance Committee, so you are very welcome. I invite you to declare any relevant interests that you may have.

**Annabelle Ewing (Mid Scotland and Fife) (SNP):** I point to my entry in the register of interests. For the sake of completeness, I say that I am a member of the Law Society of Scotland and I hold a current practising certificate.

**The Deputy Convener:** Thank you very much.

## Decision on Taking Business in Private

09:31

**The Deputy Convener:** Agenda item 1 is a decision on taking business in private. Do members agree to take items 4 and 5 in private?

**Members** *indicated agreement.*

## Scotland's Public Finances Post-2014

09:31

**The Deputy Convener:** Our second item is to take evidence on Scotland's public finances post-2014 from John Dickie of the Child Poverty Action Group in Scotland and Bill Scott of Inclusion Scotland. Members have received copies of written submissions from both our witnesses, so we will go straight to questions from the committee.

We are fairly pressed for time, so I ask members to restrict their questions to no more than 10 minutes. I will set the example at the beginning. I will need to be quite strict on that, because John Dickie has to leave to go to another committee at 10.45. We will start with the 10-minute limit to give everyone a fair amount of time, but if there is time at the end, I will be able to give people a second shot. The process will be to invite questions from members for about 75 minutes.

I will ask a couple of questions to start with. Mr Dickie, in your paper you referred to the Child Poverty Act 2010, which you say was intended

"to eradicate child poverty by 2020".

Am I right in thinking that "eradicate" means that 10 per cent of children would still be left in poverty? More substantially, is that target achievable?

**John Dickie (Child Poverty Action Group):** The headline target is to reduce the level of child poverty—the percentage of children living in relative low income—to 10 per cent by 2020. There are other targets to be met under the act as well, relating to persistent poverty, absolute low income, and a combination of relative low income and material deprivation. You are right that the headline target is to reduce the level of child poverty to 10 per cent.

Is that possible? It should be. We have unusually high levels of poverty here in Scotland and across the United Kingdom. Other countries have levels of child poverty that we would consider to be eradication. For example, in Norway and Denmark close to or less than 10 per cent of children live in poverty, so it should be possible.

The other thing to say is that real progress has been made towards meeting the targets since the initial commitment to eradicate child poverty was made at UK level back in 1997. In Scotland, more than 160,000 children were lifted out of poverty up until 2011-12 and there was a 44 per cent reduction in child poverty. It has to be said that, even if that progress had been followed up consistently, child poverty would not have been

eradicated until 2017, but clearly progress was in the right direction. Policy worked. Investment in child benefit, tax credits at UK level, introduction of the national minimum wage, support to parents to move into work and the introduction of improved childcare support at both UK and Scotland levels all worked to reduce levels of child poverty.

More important, perhaps, is that those measures worked to improve measurable child wellbeing. The position of Scotland and the UK on child poverty and child wellbeing improved relative to that of other countries in quite an unprecedented way. However, looking ahead, I think that we now know that the direction of travel is far worse, and the reality is that the current approach at UK level to tax and benefits policy is likely to mean up to an additional 100,000 children being pushed into living in poverty by 2020, rather than the reduction in child poverty that is needed in order to meet the 2020 targets.

There is therefore a challenge for Government at Scotland and UK levels, but particularly at the UK level given that the tax and benefits levers lie there and that those levers and the policies on tax and benefits lie behind the huge increase in child poverty that is forecast by the Institute for Fiscal Studies, which has modelled the impact of tax and benefits policy on levels of child poverty in Scotland and across the UK.

**The Deputy Convener:** Is it now just inevitable that, whether Scotland or the UK is running the show, we will not meet the target by 2020 because there is just not enough money to fix it?

**John Dickie:** We need to have a fundamental change of approach so that, wherever powers end up lying post-2014, we see a significant shift in how we use our tax and benefits policy. That is about investing in child benefit, tax credits and the financial support that families need and ensuring that those resources are put in place. I think that people realise that it will now be very difficult to do that across the board, given where we are now and how few years there are until 2020 to bring about the necessary sea change. However, we can certainly change the direction of travel very markedly.

**The Deputy Convener:** If we could do just one thing, what would be top of your list to do?

**John Dickie:** That is always a hard one. This is more directed at the UK level, where the powers currently lie, but I think that we need to reinstate the link between the uprating of benefits and tax credits, and inflation. That link has been broken, which means that families in and out of work who rely on tax credits and benefits for a substantial part of their income are seeing their incomes fall further and further behind relative to costs from

inflation and to earnings as they start to increase again, as we hope they will.

**The Deputy Convener:** Mr Scott, I know that you are in a slightly different area. I have a specific question for you as well, but if you want to comment on anything that has been said so far, please feel free.

**Bill Scott (Inclusion Scotland):** Families with disabled children are even more likely to be living in poverty than those in the general population. On top of that, the UK and Scottish Governments are committed to implementing the UN Convention on the Rights of Persons with Disabilities, which states that disabled people need an adequate income to live on in order to be able to participate fully in society. Again, more disabled people are expected to be living in poverty over the next four or five years because of the range of benefit cuts, as over half the cuts will fall on disabled people and their families. Adult disabled people are facing the same scenario as others in that the current direction of travel will put more of them into poverty.

That position could be reversed at the UK and Scottish levels by taking a different approach to how tax is collected and how we view benefit spending. Our view is that instead of seeing benefit spending as a safety net, it should be seen much more as something to support people to participate in society. If benefit spending is viewed in that way, we make savings in other areas and we increase revenue. It is like the Scottish Government's childcare strategy, which is that if we get more women into work, we bring in additional revenue that pays for the childcare. Similarly, if we get more disabled people participating in society, we reduce health and care costs and increase revenue as they participate in the workplace. At the moment, more than half of disabled people of working age do not work.

**The Deputy Convener:** Is there a timing issue? You said just now that we need to view benefits differently; that is just to do with our attitude. You used the word "investment" and said in your paper that we should treat the benefits system as an investment, which is fair enough. However, you also say:

"Such investment would cost money in the short term but would lead to significant savings in the longer term".

Have you any suggestions about how we should find that money for the short term?

**Bill Scott:** Seemingly, HM Revenue and Customs has found £28 billion more in the past year through chasing tax avoidance and tax evasion. That shows what can be done if you apply yourselves to the problem of increasing sources of revenue so that you can invest in a range of means to get your people out of poverty.

It is always difficult to be put on the spot and say that there is one way of doing it, because I do not think that there is only one way of doing it. You have to have a range of measures to help people to get out of poverty, and one way is to view those people as citizens who you want to participate in society.

People do not get jobs because they go to the jobcentre; the majority of people who get jobs find out about them through word of mouth. If they do not participate in society and meet other people who are in employment, they do not hear that word of mouth. The first thing is to get people out and get them involved in various activities. Volunteering is one of the prime ways of moving someone from doing nothing to participating, meeting people who are in employment and hearing about opportunities.

**The Deputy Convener:** Did you want to come back in, Mr Dickie?

**John Dickie:** The issue is whether we have the resources to invest in the social security and financial support that families need. In my paper, I point to the UK Treasury's analysis of the cumulative impact of budgets since 2011. That demonstrates that the combined effect of the tax and benefits policy has been to increase the incomes of most of those who are in the top, or wealthiest, half of the population, and to reduce the incomes of most of those who are in the bottom half. Clearly, resources have been available in the approach to public finances that have allowed us to increase the incomes of those who are in the wealthiest half of the population, while continuing to cut the incomes of those who are in the bottom half. It is those cuts that lie behind the forecast increase in child poverty. Those are political choices rather than the inevitable consequences of needing to cut the deficit or our approach to balancing public finances.

**The Deputy Convener:** Thank you. I said that I was going to be disciplined and I have used up my 10 minutes. Members should indicate if they want to ask questions. Jamie Hepburn is next.

**Jamie Hepburn (Cumbernauld and Kilsyth) (SNP):** John Dickie has already referred to the IFS forecast of 100,000 more children in Scotland living in poverty as a result of the UK Government's tax and benefits policy. I want to tie that to something else in your submission. You say:

"analysis for CPAG suggests the costs of child poverty in Scotland alone amount to around £3.5 billion".

I assume that that figure will grow if more children are moving into poverty. Can you quantify that? What costs do you mean?

**John Dickie:** That work was done by Donald Hirsch of Loughborough University, having been commissioned at the UK level by the Joseph Rowntree Foundation. It looked at the additional costs that the levels of child poverty generate on the public purse, looking first at the additional costs of services, such as social services, health, housing and education. It looked at the additional costs in areas where there are high levels of child poverty. The project quantified the additional costs of service provision, or of picking up the pieces of child poverty and trying to fix the damage that growing up in poverty does to children's health, wellbeing and education.

The research also looked at the income that is lost through the reduced tax receipts that are a consequence of the reduced chances of people who are likely to earn less as adults because they have grown up in poverty, and the increased spending on benefits that are a consequence of people being more likely to rely on benefits as a source of income as an adult.

The costs are therefore a combination of the costs of services and lost income. It is interesting that the academics behind the work described it as a cautious estimate of the costs. Of course, those are the quantifiable financial costs, and they do not take into account the personal costs to children and families as a result of their experience of growing up in poverty.

09:45

**Jamie Hepburn:** You referred to lost income for the state through taxation. The flip side of that is that it is a lost opportunity for the people themselves, because they are not in employment. As a result of the policies that are currently being pursued by the UK, that will be the case for even more people in Scottish society, presumably.

**John Dickie:** Absolutely. The estimated cost of child poverty across the UK in 2013 was £29 billion. If we take into account the increased levels of child poverty forecast by the IFS, the cost of picking up the pieces of child poverty in 2020 will be £35 billion a year at UK level. The Scotland figure was broken down by looking at levels of child poverty in local authority areas across the UK and pulling them together to come up with an estimated figure for Scotland in 2020, if we see the forecast increases.

**Jamie Hepburn:** Both your papers are quite critical of the UK Government's handling of tax collection and of the amount that is lost to avoidance, fraud and late payment. The question for both witnesses is what lessons can Scotland learn from that, particularly in a post-2014 context, when we will have more substantial taxation powers.

**Bill Scott:** One thing is to invest more in tax collection. There are 400 officers in HMRC who are charged with pursuing tax evasion and avoidance, and 4,000 officers in the Department for Work and Pensions who are dedicated to finding fraud in the system, although fraud in the DWP system is minute compared with tax avoidance—perhaps about £1.5 billion a year, as compared with estimates of anywhere up to £80 billion a year that is lost in tax avoidance and evasion. The investment in catching those who avoid and evade paying tax is just not the same as the investment that we put into chasing people on low incomes who are on benefits.

**John Dickie:** The key thing is that, at whichever level tax powers lie, it is important for people to have confidence that they are making the contributions that they are meant to be making, and that those who have the wealth and resources can make the contribution that is so desperately needed to invest in the infrastructure that is required for a society free of child poverty. It is vital that people have that confidence and that we have robust systems in place to ensure that tax is collected and that people see it as a positive thing to be contributing resources to maintain a society without the levels of poverty and inequality that we have at the moment.

**Jamie Hepburn:** Bill Scott referred to investing in collection, which is important, but surely it is also about the culture of the tax collection agency and of the Government behind it. We know that the Scottish Government has already put revenue Scotland in place, and that it has the general anti-avoidance rule for the limited tax powers that are coming our way under the Scotland Act 2012. Do you welcome the idea of a general anti-avoidance rule that does not have loopholes, and do you think that it should be applied more widely?

**Bill Scott:** I look at the number of adverts on television and radio, on billboards in the street and in newspapers about benefit fraud—benefit fraud should not happen, and nobody is saying that it should—and I know that millions of pounds is invested in telling the public, "If you think your neighbour is doing this, tell us about it and we will chase them."

I do not see that level of investment in making people pay their fair contribution—what they are expected to pay. When my wages are taxed at the end of the month, that money, along with my national insurance contribution, goes straight to the Exchequer, yet there are people who can avoid paying their fair share by going to a tax lawyer or a tax accountant. They should be paying their fair share, because the casualties are the young children who grow up in poverty, whose lives are blighted and whose life expectancy is shortened by 20 years. That is the consequence,



and people should be woken up to the fact that tax avoidance and tax evasion are not victimless crimes; they have an impact on other people living in society.

**Jamie Hepburn:** I think that I have two minutes left, so I will ask another question.

Bill Scott's paper raised an interesting issue about the access to work programme. It said that, essentially, Scotland was underrepresented in terms of the number of disabled people who should have benefited from the programme, because 3,450 should have gone through the programme but nearly 1,000 fewer than that did so. Can you talk us through that? I was not particularly aware of that.

**Bill Scott:** Essentially, the DWP's access to work programme is supposed to help disabled people enter and maintain employment. It operates throughout the UK. The highest level of spend is in London and the south-east of England and the lowest level of spend is in Scotland. I do not understand why that should be the case, because we have more disabled people per head of population than most other areas of the UK, which means that we should expect that there would be higher spend here. It might be down to the attitudes of officials or particular rules and procedures that are being interpreted differently in different regions.

That difference in spend has a consequence because, as the paper goes on to say, for every pound that is spent on the access to work programme, the Treasury gets back £1.48 in revenue. We know absolutely that that investment results in higher tax and national insurance returns. Any investment analyst will tell you that that is an extremely good rate of return, yet we are not spending it.

After her review of Remploy services, Liz Sayce recommended that Remploy factories should be closed. That was on the understanding—and on the consequent recommendation—that the money that was saved by closing those plants should be reinvested in the access to work programme. There has been a slight improvement in the amount of money that has gone into the programme, but nothing like the amount that the UK Government has saved through closing the factories. If that investment were made, far more disabled people could get into work and maintain their employment than is currently the case.

Strokes are the single greatest cause of disablement in people over 50. It can be quite difficult for people to return to work after a stroke, as they might need adjustments for speech or paralysis, and the workplace might not be as accessible for that person as it was before. Those issues could be overcome by access to work

investment. We could return people to useful work and get revenue returns, but we are not doing it.

We need to do more to support people to get into work and to maintain their employment. A tiny proportion of Scottish working age disabled people—0.4 per cent—get access to work support. If you increase that to 3 or 4 per cent, the revenue returns would mean that that investment would more than pay for itself.

**Michael McMahon (Uddingston and Bellshill) (Lab):** I read an article recently in which we were warned that when we compare country A with country B we must be mindful that country A might not measure poverty in the way that country B does. Are you aware of that? Is there a baseline that we can use to make accurate comparisons of poverty levels in different countries?

**John Dickie:** Yes. The internationally accepted approach is to take the number of people who live in households with below 60 per cent of median income before housing costs.

CPAG prefers the after-housing-costs measure, which gives a better picture of what families are left with when their housing costs have been paid; even that often does not reflect the standard of living that they are enjoying. However, across Europe and internationally, measuring the number of households on less than 60 per cent of median income before housing costs has been accepted as the useful tool for measuring levels of poverty and progress in that regard. When I make comparisons between Scotland, the UK and other European countries, I do so on the basis of robust, comparable measures.

**Michael McMahon:** That is helpful. I was concerned when I read the article that we might not get a fair reflection of what is going on.

We must also bear in mind that other countries have different tax systems. In paragraph 2.7 of the CPAG submission, you talked about the potential for using existing devolved tax levers to address problems that we have in Scotland. The two examples that you cited were the council tax—you mentioned Professor Bell's analysis of the impact of the council tax freeze—and the power that we have to vary the rate of income tax, which we have never used. Do CPAG and Inclusion Scotland advocate more progressive taxation to address the problems that your client groups face day in, day out?

**John Dickie:** We absolutely do, and we would like there to be more discussion and debate around the issue. We need more analysis of the impact of different approaches to local taxation and to using the limited power that there is to vary income tax in Scotland. I am not claiming that we have done the work; all that has to be thought through and done pretty thoroughly. We need to

consider the implications of such policies for our ability to tackle poverty and generate the level of resource that is needed if we are to provide the kind of infrastructure that I think we all know we need in relation to early years, childcare provision and services for families and other people who are at risk of poverty.

A more progressive approach is needed. We have given examples, but we have not said, "This is the policy to advocate." We think that there should be more discussion about the role that tax policy could play, even under the current devolved powers, in generating income and making an impact on household incomes.

When we talk about the Scottish budget, the focus is very often on analysing the spending decisions. I just draw attention to the fact that even within the existing powers there is the potential for more discussion about changing how we collect and generate resources, so that that happens in a more progressive way, which can generate the resources that are needed to protect families from poverty in Scotland.

**Bill Scott:** We have not consulted on varying the basic rate of income tax by up to 3p in the pound, but we have consulted on the council tax in the past. Our membership wants the council tax to be reformed or got rid of and replaced by a more progressive form of local taxation.

I do not think that anyone can maintain that we can keep the council tax freeze in place indefinitely. That is not sustainable. However, we must look at what is happening down south. Council tax is now the single biggest cause of people seeking debt advice from citizens advice bureaux in England and Wales. It appears that 600,000 people are being taken to the bailiffs for council tax arrears in England and Wales. That is not happening in Scotland.

10:00

At present, the council tax freeze seems to benefit low-income families in Scotland. Its removal would increase work disincentives, and an increase would hit those on low incomes hardest because of the ratchet effect, which means that the wealthiest members only ever pay three times more.

If you are going to get rid of the freeze, you need to look at local taxation much more in the round and think about finding a more progressive form that is also democratic and which people support when they go to the ballot box to elect local councils. If you started to make things like that relevant to local people, perhaps more of them would turn out to vote.

**Michael McMahon:** So, in essence, the message from both of you is that you would quite like to see political parties putting forward at least the suggestion that we should have an open and honest debate about how much we should tax, what services we should spend money on and where our priorities should lie.

**John Dickie:** Absolutely—that needs to be a part of it.

**Michael McMahon:** Bill Scott has suggested one way in which we could help in that regard. Paragraph 4.6 of his submission states:

"Inclusion Scotland believe that a future Scotland should establish an independent review of the funding of Social Care to ensure that it is both ... equitable and in line with wider Health & Governmental aims".

We could do that just now, but who would do it?

**Bill Scott:** Who would do the independent review? I imagine that it should involve service users as well as the usual great and good. It has to, because the amount of income that is generated by social care charging is a very small percentage of the amount that is spent on social care. It is only about 3 per cent, even at present with the rises.

A lot of that money is lost through the administration of the charging system. It is estimated that as much as 3p or 4p in every 10p that is collected is lost in the administration costs for assessing people. Savings could be made there. Some authorities, such as Fife Council, have moved to get rid of social care charging, without any huge impact on the amount of social care that they provide. We should be looking at that.

Disabled people must be involved in that process, because they are at the sharp end. Although the charges do not generate a lot of money, they can represent, for those who are affected by them, literally 70, 80 or 90 per cent of a person's disposable income. In some areas, that leaves people on income support rates even when they are in employment.

Again, what incentive is there for someone to go in to work if they know that the money will simply be whacked back from them in what is, in all but name, a tax on the support that they need to lead their daily lives and to get up, dress and eat? That is what people are being charged for. We do not charge people who need those services when they are ill for a short period in hospital, so I cannot see why we are charging them when they are living in the community.

**Michael McMahon:** That is helpful—thank you.

**Malcolm Chisholm (Edinburgh Northern and Leith) (Lab):** I am wondering what your priorities would be for childcare. For a long time, people

have said that childcare could contribute to anti-poverty measures. Your comments on in-work poverty would be useful, because poverty is clearly a big issue even for people who move into work.

There is currently a great deal of discussion about childcare. From an anti-poverty point of view, what would your priorities be in terms of childcare measures that could be taken now? I am talking about initial measures, but you could also look to the future and at other possible scenarios.

**John Dickie:** The important point is that we continue down the road of expanding access to universal early years provision. From an anti-poverty perspective, childcare is important for two key reasons. One is the need to ensure that all our children can access the range of experiences and the formal early years education that have been shown to have a benefit later on in life.

We also need to ensure that parents can return to the labour market or extend their hours in work and increase their earnings in the workplace. Obviously, that has an immediate impact on family incomes and the ability to protect children from poverty. Those two reasons are why childcare is so important.

You asked about priorities. It is important to maintain the focus on the quality of childcare and early years provision, as well as on the quantity or the number of hours that are available. We need to give parents who are on the lowest incomes the same choices as those who are on the highest incomes so that they can achieve the best balance between what they feel is in the best interests of their children—in terms of childcare and being there for them—and being able to take up employment opportunities. Having that choice and flexibility is an important priority, so we need to keep a focus on that.

Another point on flexibility is that, too often, early years provision, which forms part of the childcare provision that parents rely on, is set within certain hours and structures that do not reflect the reality of working patterns and hours. We need to ensure that, as we expand access to free early years provision, that is done in a way that is flexible and enables parents to take advantage of it by potentially increasing hours in work.

**Malcolm Chisholm:** Do you want to comment, Mr Scott?

**Bill Scott:** Obviously, I agree with all that, but parents of disabled children face additional challenges. They need to be absolutely sure that the childcare that is provided will meet their children's needs, so we have to consider that issue, too, within the overall increase in universal provision. We have to consider whether we are, as

far as possible, including disabled children so that they can play and learn alongside their non-disabled peers. Rather than put them apart, we need to bring them in as much as possible and get that socialisation right so that a disabled child is seen as just another child.

One barrier in society that comes when we separate people and put them into special provision is that they are seen as different and they see themselves as different. Many of the opportunities that we give to non-disabled children are denied to disabled children. We really need to think about that. That approach might increase slightly the costs of universal provision, but the benefits in the long term could be profound for children's development and for their opportunities later in life and how they take them up.

**Malcolm Chisholm:** Some of those developments have happened in nursery education and, at UK level, we have had childcare tax credits. Much of the focus on early years is from the child development point of view, which is important, but, looking at it exclusively as an anti-poverty measure, what would be your one priority to boost childcare provision? Would it be affordability, extended hours or something else?

**John Dickie:** We would not want to lose sight of the quality of the experience for children, because that has an additional benefit for children who are in low-income families and are growing up in poverty by assisting with long-term solutions and long-term routes out of poverty. However, affordability is a key issue. Too often, childcare is still unaffordable or not available. To return to the point about flexibility, childcare is often not available at the times or in the places that people need to take advantage of employment opportunities.

Local authorities have worked with their partners to try to find ways to provide flexible childcare, but the reality is that there are costs attached to that, which takes us back to the point that we need to generate the resource and prioritise resources to allow parents who would otherwise be struggling or living in poverty to maximise their incomes in work. That is about flexibility and overcoming some of the other barriers, such as transport barriers, which mean that parents, particularly in rural areas, cannot access the childcare provision that might be there.

That issue has come up regularly, particularly for lone parents in rural areas, where there is a transport barrier and a geographical barrier to accessing childcare. There has to be flexibility and affordability and we have to ensure that those who are on the lowest incomes are able to access the childcare that is available.

**Bill Scott:** The increasing prevalence of zero-hours contracts makes it much more difficult to predict when the childcare will be needed, which, in turn, increases the cost of providing the childcare. If you do not know when it is going to be needed, you have to provide it all the time. You could end up providing childcare in one area when there are no children there and not providing it in another area when it is needed. We have to address the wider societal development of zero-hours contracts and consider whether that is the way forward. What cost does that impose on society over and above the cost that it imposes on the workers?

**Malcolm Chisholm:** I agree with that entirely, which I suppose leads on to the question of the quality of work. There has been an emphasis on parents having opportunities to move into work. I think that Bill Scott said that half of disabled people of working age do not work and implied that many would want to work if they could. I suppose that there are two questions. One is what we can do about in-work poverty, which I am sure is a big issue for both of you.

The second question is really for Inclusion Scotland. A lot of the rhetoric around welfare reform is that people can work but do not. You are saying that that is not the case at all and that many more people want to work but cannot work. I would like a general comment on work with reference to disabled people. What would be your priorities for action around zero-hours contracts and in-work poverty?

**Bill Scott:** A lot more disabled people want to work than are currently in work. Currently, around 44 per cent of Scottish disabled people are in employment. Most of the best estimates suggest that somewhere between 70 and 80 per cent of disabled people of working age would like to be in work. There are a number of disabled people who do not feel that they could work even if there were opportunities to do so; they tend to be the people with the most profound level of impairment and it would be wrong to try to dragoon them into work when they face multiple impairments. However, there are a lot more people who could work.

Work is therapeutic. It reduces social isolation, which is as big a killer as cancer and heart disease. You would reduce healthcare costs by getting disabled people into work. I do not think that anybody in the disabled people's movement has ever put the argument that we want to see fewer disabled people in work. What we object to is an assessment regime that does not take into account the specific needs of the individual and does not address those needs and try to help those people find work. If the system was geared to doing that, more disabled people would take up the opportunities. Some of them need to be given

the self-confidence to do so, because they have never worked, over 10, 20 or 30 years. Often they want to work part time rather than full time, to see whether they can cope with it. They might have impairments that mean that they get fatigued or cope less well later in the day than earlier in the day.

If those things could be taken into account and if people could be provided with support through schemes such as access to work, you would begin to generate revenue that would pay for the extra support that you are providing. In that way, you would get healthier disabled people and more disabled people in work generating revenue. It is a very virtuous cycle. We need to begin to think that way. Rather than punishing people for not making the move into work, we need to begin to support them to make that move. I do not think that that is happening at present.

**The Deputy Convener:** Thanks very much.

Gavin Brown will ask the next set of questions.

10:15

**Gavin Brown (Lothian) (Con):** My first question relates to Mr Hepburn's question about what Mr Scott said in his submission about the disparity in spending under the access to work programme. I agree that finding out the answer to that question is quite important. What work have you done on that so far? Are the figures that you cite new figures that you have not had a chance to investigate? Have you tried every avenue? Do you feel that you are banging your head against a wall and that there is just not an explanation?

**Bill Scott:** We have asked the DWP for an explanation, but such responses are not obtained through freedom of information requests. We keep tabs on the issue—we check regularly whether the number of disabled people in Scotland who benefit from the access to work programme has increased. Figures are released on a quarterly basis. I think that the figures that I mentioned were from about six months ago, but I doubt that they have changed markedly in that time.

We have asked for an explanation. Through MPs at Westminster, we have made approaches in an effort to find out why there is a disparity between the level of spend in London and the south-east and the level of spend in Scotland, but no official explanation has been provided. I do not think that there is a disparity because the DWP discriminates against Scots but, as an ex-civil servant—I used to work in the Department of Employment way back in the 1980s—I know that Scottish civil servants were sometimes more determined in how they interpreted rules and regulations. I worked in unemployment benefit and we had higher rates of penalising people for not

actively seeking work than staff in other areas of the UK did. Rather than it being the case that the rules are different here, it might be something to do with the culture.

The fact that there is a significant difference is worth pursuing. We are not talking about huge amounts of money—about £130 million to £140 million a year is spent on the programme in total across the UK—but getting such support makes a significant difference to disabled people's lives. If fewer disabled people are receiving it in Scotland, that could impact on their ability to maintain themselves in employment. A less rigorous regime might result in a few more disabled people getting into work and staying in work.

**Gavin Brown:** No official explanation has been provided, but you speak to stakeholders and service users. Has any explanation been suggested, other than that civil servants here are interpreting the rules differently? Do you have an alternative explanation, or are you genuinely scratching your head?

**Bill Scott:** The fact that we are a Scotland-only organisation means that it is difficult for us to compare and contrast the situation in Scotland with that in other areas of the UK. From talking to service users, I know that they fear that the rules on whether someone is entitled to support and what support they are entitled to are being interpreted very vigorously in Scotland.

However, we have to give credit where credit is due. The DWP had decided that it would no longer provide people with support for a range of things. For example, it stopped supplying the JAWS—Job Access with Speech—software, which reads information on screen and renders it into a voice so that a blind person or a person with visual impairment can have emails read to them, and it stopped supplying special chairs for people with back problems. It has relaxed that approach and the position has changed again this year. Over the course of this year, we expect there to be a rise in the amount of support that is provided. The items that I mentioned are low-expenditure items. JAWS costs about £800, but for a blind person or someone whose vision is deteriorating rapidly, in the modern-day office environment it is absolutely essential to enabling them to maintain their job.

I hope that we will see a rise in the amounts that are spent under the access to work programme, including in Scotland, but I think that there will probably still be a disparity.

**Gavin Brown:** I am grateful for your answer.

I think that I have written this down right, Mr Dickie, but I believe that in your first response you said that you are seeking a significant shift in the tax and benefits system, and you gave some examples of changes that you want to be made in

the benefits system. I am interested in hearing from both of you what shifts you think should be made in the tax system. You have suggested either a change in—or, in Mr Scott's case, the abolition of—the council tax, and you have both suggested investing more in tax collection. Are your organisations pushing for other significant shifts in the tax system?

**John Dickie:** We feel that there should be more of a balance. When it was accepted that the priority at UK level should be deficit reduction and balancing the public finances, it was then decided that 80 per cent of that should come through spending cuts and 20 per cent through tax increases. The consequences of that political decision are that those who are more reliant on public spending and social security, which has taken one of the biggest hits in the public spending cuts, bear the brunt of the policy, because their incomes have been reduced the most as a result.

Instead of looking at the tax and benefits systems separately, we think that there should be a more integrated approach across the board, and we should examine how the tax and benefits systems work together to ensure that resources and income wealth are distributed in such a way as to protect those on the lowest incomes. Indeed, we should look not only at how, across the life course, resources are redistributed from the richer to the poorer or the less well off, but at how the system might be used as a way of collecting resources and how we might, for example, pay in when we are able to because we are working and contributing and draw out when we are looking after children or are affected by ill health, disability or old age. For us, the key question is how we make the system more of an integrated package and what overall role the tax and benefits systems can play in reducing poverty and protecting families from it, and we think that in the overall approach to the public finances a better balance should be struck between spending cuts and tax increases.

**Gavin Brown:** On your specific point about 80 per cent of deficit reduction coming through public spending reductions and 20 per cent through tax increases, does your organisation have an official view on how you would split that if you were controlling the purse strings? Do you have any formal view on what those percentages should be, or are you simply saying that there should not be an 80:20 split?

**John Dickie:** The split should be far fairer and far more even, but we have not done any work to identify what the split should be. In any case, as part of that work, people should be thinking through the consequences or implications of such moves and, if you like, applying a child poverty or poverty-proofing lens to big decisions on the public

finances and the tax and benefits system more generally. At the top of all that, we should be thinking through the implications for overall levels of poverty in our society and, given our particular focus on children, the impact on child poverty. Such an approach would drive us towards the best balance for achieving our aims.

**Gavin Brown:** Thank you. My last question—

**The Deputy Convener:** Can you make it quick, please?

**Gavin Brown:** Yes, convener. In your written submission, Mr Scott, you mention a couple of changes to the tax system, one of which is the increase in VAT and the other the tax on benefits. I wonder whether you can say more about that to ensure that your comments are in the *Official Report*.

**Bill Scott:** Yes. At present, jobseekers allowance, carers allowance and employment and support allowance, which is one of the main benefits that are paid to disabled people, are all classed as taxable income over the course of the year. Of course, the amount that people are paid is minimal, but such a move reduces any tax rebate that a person who has lost their job might be due. I think that it is pretty parsimonious of the Government to whack that money off not only people who have become ill or unemployed but, in particular, carers, who save the Government billions with the unpaid care that they provide.

The VAT issue is an example of how poorly things are thought through. If a disabled person spends their own money on adjusting their house to their living needs—through, say, installing a stair lift or a wet room so that they do not need help with bathing—and thereby reduces their social care costs, they get charged VAT on that work. We simply think that that is unfair, because that is to do with the needs of that person in their daily life rather than improving the house for investment purposes. Therefore, there should be some tax relief.

**The Deputy Convener:** Okay. I am sorry to rush you. I am sure that you could expand on that, but we will leave it at that, if you do not mind.

**Jean Urquhart (Highlands and Islands) (Ind):** Both papers give a very clear view of how you see the lie of the land on tax and spend topics. I am happy to accept that we find ourselves in a horrendous position.

I want to ask about a different subject: the third sector and what I choose to call the fourth sector, which involves people doing things for themselves. My experience in this job is much more from rural areas, where I often see incredibly good and strong groups of people taking things into their own hands and doing really well in quite small

communities. I do not have the same experience from large areas, although I know from hearing evidence in other committees that that happens there, too.

What do you see as the best way forward for us to invest at a local level, where we can inspire people to take things into their own hands? Given half the chance, they do that well. How can we best make those investments? Is it worthy of note that, when communities are liberated to make changes themselves, they are almost more efficient and better at doing things? As an example, Bill Scott mentioned that most jobs come by word of mouth. People hear about a job and go for it, or somebody will recommend for a job somebody whom they know—a neighbour or a friend, for example. People often do not go to the job centre, because it does not make things work for them.

**Bill Scott:** I tend to agree with you, which will not come as a surprise to John Dickie. I worked in anti-poverty initiatives for a long time, and I believe that people who live in poverty often have the solutions at hand, but they do not have the resources to make things work. More power needs to be passed down to local communities to deal with things themselves. Investing in those communities and allowing them to generate life chances that would really make a difference would be a good use of public funds.

That is one of the reasons why disabled people in particular are in favour of independent living, which is often misunderstood as meaning people living on their own. It does not mean that; it means living a full life with the necessary support that a disabled person, for example, might need. It would be good if that could be achieved and social isolation was reduced.

People can be even more isolated in a city than in a rural community. As Jean Urquhart said, in rural communities, everybody tends to know and look after one another. In cities, however, people can live next door to their neighbours and perhaps never see them because they go out to work in the morning and come home in the evening and there is no contact.

If we begin to generate something at a community level so that people look into one another's lives in the right way and help one another, that will have benefits all round. People feel good when they do good for other people. Doing so makes them feel better about their own lives and helps other people. There should definitely be investment in local communities.

**Jean Urquhart:** Could that be extended to childcare? We can invest in training and so on for people, but could they decide on the hours for which childcare is available, for example? How will

we ever get it right for folk if they do not have such control?

10:30

**John Dickie:** I agree with the point. There are community-based examples of people coming together to develop childcare provision such as nurseries and crèches that have become integrated into the wider childcare picture in their areas.

Another example comes from advice and information provision that emerges in communities as community-based advice and information services. There is peer-to-peer employability support. To pick up what you and Bill Scott have said, the most effective way of engaging with and supporting people is often through people from their communities who have had the same experiences of being unemployed and being cut out of the labour market. When people who have had that experience support others to move back into work, that can be most effective.

We need to identify the big structural barriers that prevent individuals and communities from doing more of that activity. When I recently did work with the poverty truth commission in Glasgow, I spoke to a woman who is involved in a local community group. I do not remember exactly what it was, but it started as volunteer work. Skills were developed and the idea was to turn the group into a business, but she could not continue with that because she was pulled back into a work programme—an official employment programme—that meant that she did not have the time to invest in something that seemed to be working and which was beginning to flower and flourish.

We should have more in our mainstream employment and benefit services that recognises the valuable voluntary work that can emerge and develop into small businesses and local enterprises. Removing more barriers that prevent that from happening needs to be at the heart of this.

Individuals and communities are coming under increasing pressure. Families are facing crises and are struggling to get by from day to day—to pay for food for the week ahead and to pay their energy bills. That makes it much harder to have the time, the energy and the personal capacity and resources to invest in the local solutions that Jean Urquhart described. We need to remove barriers and, at the national structural level, we need to ensure that individuals and communities have the basic resources to allow them to flourish and to develop their own solutions to tackling poverty in the long term in their areas.

**Annabelle Ewing:** Good morning, gentlemen. Paragraph 1.2.3 of CPAG's submission says:

"the Institute for Fiscal Studies now forecasts that, as a result of current UK government tax and benefits policy there will be massive rises in poverty in the coming years. In Scotland alone up to 100 000 more children will be pushed into poverty by 2020".

It is clear from our discussion this morning that behind that stark statement lies a tale of lost opportunity—a loss of lifetime chances and of potential. Has any thought been given to how that could be measured?

**John Dickie:** Yes. I could have said earlier that, as well as measuring improved incomes and reductions in child poverty, analysis looked at improvements in child wellbeing. We saw the overall impact of that in the UK's relative position in the UNICEF child wellbeing indices. The wellbeing of children across the UK and in Scotland improved significantly as the incomes of our lowest-income families improved.

Unfortunately, the reverse of that is now likely as more and more families are pushed back into poverty and more and more children grow up in families with inadequate incomes. We know the damage that poverty does to children in terms of health, their ability to get the most out of the school day and lost opportunities outwith school for things such as holidays, visits to museums and visits to friends and family—the things that give children experiences that help to develop their overall education more generally. All those things are damaged when families do not have adequate incomes, so there is no doubt that we are likely to see a negative impact on children's health, education and overall wellbeing as more of them are pushed back into poverty.

**Annabelle Ewing:** I ask Bill Scott to comment specifically on disabled children, because there are additional issues there.

**Bill Scott:** We know that everyone's health is affected by their feelings of wellbeing and self-esteem. How a person views themselves and how the rest of society views them impact not just on their mental health and on whether they get depressed but on their physical health. When we see a higher prevalence of heart disease and cancer and an inability to recover from those when they occur, that is to do with how the body is affected by how we feel about ourselves.

We know that children who live in poverty suffer from low self-esteem. This is something that is misunderstood about relative poverty compared with absolute poverty. Looking at the situation today, people in my parents' generation will say that things are not as bad as they were in the 1930s, and in absolute terms they are right—absolute poverty was greater then. The problem with relative poverty is that it has a much more insidious effect on children and their later life expectancy. It affects their self-esteem for the rest

of their lives and therefore reduces their life expectancy.

Because children who live in poverty are more likely to be unhealthy, they are less likely to achieve at school. Because of that, they are less likely to get the qualifications that they need to enter further and higher education, and they are therefore less likely to get a job, because one of the requirements of a modern society is those pieces of paper—the qualifications. There are effects at every stage of the life journey for children, but particularly for disabled children, who start with a deficit model in our society as they are already seen as different and other. They already have issues with their self-esteem because of the discrimination that exists in our society, so there is an even greater impact on them.

One of the strangest things is that disabled people at the age of 16 have the same life expectations as other children in terms of what they are looking for from their lives, but by the age of 25 they think that nothing will change their lives for the better. That loss of hope that we impose on disabled people after they leave school is a huge factor in so few of them being in employment and thriving in modern society.

**John Dickie:** This is an important issue. It is a pretty bleak picture, given current tax and benefits policy and the impact on child poverty. However, it is also important that we realise that there are things that we can do. One of the key things that CPAG is doing is trying to collect more detailed evidence from the range of casework support and from the advisers whom we support and work with across Scotland on how changes in the benefits system or the welfare system are impacting on families. That will help us to see what lessons there are for the ways in which local services and devolved national services in Scotland are delivered to take account of the reality that our lowest-income families have less money and will have less money in the years ahead if current policy continues.

Things can be done. For example, we could think about the charging around social care, which we talked about earlier. We could think about how we remove some of the charges for school meals and school materials, trips and activities—there are a whole lot of costs that are an additional burden on families. We could think about the transport costs that families face, which we can potentially address within existing powers in Scotland.

The picture is bleak, but that should not lead us to say, “Oh, there’s nothing we can do.” There are things that we can and must do within the existing powers and wherever the powers lie after this year, to address the consequences of poverty, support families and ensure that we are not

reinforcing the problems that are being created by the reality of people’s lower incomes.

**Bill Scott:** I agree very much with John Dickie. We have painted a bleak picture, but we know that interventions can change how people see themselves and boost self-esteem, with lifelong consequences, in that people go on to achieve things that five or 10 years earlier they thought that they could never do. We can boost people’s self-confidence if we make the right interventions.

We should not write off children. We should say, “This will happen unless we do something—and we know what we need to do.”

**Annabelle Ewing:** I think that it was John Dickie who said that the big tax and benefits levers currently lie at UK Government level. We can try to do our best, but if we do not control the fundamental policy levers there are constraints on what we can do. Do you agree? If someone else controls the fundamentals, we do not have the ability to tackle the underlying problems.

**John Dickie:** Depending on where the powers lie, different levels of government have different powers to tackle the problems. Our job, wherever the powers lie, is to make the case for a different approach to not just tax, benefits and labour market policies, but education, health and housing, so that we do everything, at every possible level, to maximise the incomes of our poorest families and maximise the opportunities that children in Scotland have. That is our approach. Different challenges arise, depending on where the powers end up lying.

**Annabelle Ewing:** I presume that it would at least be possible for an independent Scotland to change an approach that it appears from the IFS forecast for 2020 will inevitably result in life chances being lost. For me, that is an unacceptable cost. An independent Scotland, with the key fundamental levers, would have the power to do something different.

**John Dickie:** The debate about the future of Scotland and where the powers will end up lying creates an opportunity for us to identify the issues, generate public support and increase the political will, so that wherever the powers lie after 2014, they will be used in a way that is more in line with the principles and approach to the public finances that we outlined in our paper. That is the opportunity.

It will be for the people to decide where the powers lie. For us, the key issue is how they are used. Wherever they end up, there will be a challenge for us to ensure that there is public support for and the political will to take an approach in which resources are gathered from what is a wealthy country—and will be, whichever way things go—and in which we use our tax and



social security systems and spending policies to ensure that all our children have a decent start in life and need not suffer the consequences of the levels of poverty that children have been experiencing up to now.

10:45

**Bill Scott:** Inclusion Scotland has no position on independence. I very much echo what John Dickie said. Wherever the powers lie, we must make the argument that they must be used differently. Whether we have an independent Scotland with full fiscal powers or devo max with increased powers for the Scottish Parliament, including some of the fiscal powers that we have been talking about, we will argue that the powers should be used differently.

If we have the status quo, we will have to continue to make the argument to Westminster that a different approach is needed, because currently we do not have tax and benefits systems that work in concert to maximise incomes for the least well off. Redistribution can happen through both systems, not just one.

We have given a few examples of tax hits on low-income people. As a result of a recent tax change, small businesses do not have to pay their first £2,000 in employers' national insurance contributions. However, disabled people who employ personal assistants are not included in that tax change. We know that disabled people have higher living costs, and yet we are expecting them to pay employers' national insurance contributions for their employees, even though other small businesses are exempt. I cannot understand the reason for that. Disabled people employ personal assistants so that they can do what everyone else does when they get up in the morning.

**The Deputy Convener:** Thank you. I am afraid that we have used up all our time. I thank members for being disciplined, and I thank Mr Dickie and Mr Scott very much for their answers. We could have talked longer about some of the issues, but there we go.

10:46

*Meeting suspended.*

10:55

*On resuming—*

## **Scottish Fiscal Commission (Nominees)**

**The Deputy Convener:** Agenda item 3 is an evidence-taking session with two of the Scottish Government's nominees for appointment to the Scottish fiscal commission. We will hear from the third nominee at next week's meeting. Members have received copies of the nominees' CVs and completed questionnaires.

We welcome Lady Susan Rice and Professor Campbell Leith to the meeting, and I invite both candidates to make an opening statement. I do not know whether you have decided between yourselves who will go first.

**Lady Susan Rice CBE:** We have not, convener.

Good morning and thank you very much for inviting us both to this meeting and for considering our nominations to the new Scottish fiscal commission—in my case, as the potential chair.

I am aware that, for some months now, the Finance Committee has been taking testimony from a wide range of people to develop its own view on the creation of a fiscal commission, which I understand the committee supports, as do others in Holyrood. Over a number of days, rather than months, I have been reading through much of the testimony that the committee has collected from witnesses, and I have no doubt that if I read the testimony a second time, I would gain even more knowledge from it. The committee has taken a thorough and wide-reaching approach to its work; some of that testimony has also begun to help me form my own thinking, so in that regard it has been useful.

I noticed in particular a couple of words that were probably used with greater frequency than others across the evidence sessions: independence and transparency. I will say something about those two words in general and in relation to myself, and then I will add two more words to the mix.

I believe that, to be genuinely effective, the fiscal commission needs to be trusted for the work that it does, the way that it does it and its overarching commitment to the public good. However, trust is not something that individuals bring to the table themselves; it has to be earned. It has to be bestowed by others. I believe that a fiscal commission whose members are perceived to be and are in fact independent of political, personal and professional agendas and whose

work is done as transparently as possible will go a long way towards winning public trust, so I was glad to see the words independence and transparency mentioned so frequently.

I have no conflicts that should interfere with the perception or the fact of my own independence. As far as transparency is concerned, over the years I have come to value greatly doing things in a transparent way. There is huge value in a wider audience understanding what you are doing as you do it and in being clear enough about what you yourself are doing to be able to explain your activities to that wide audience.

The two words that I want to add to independence and transparency are challenge and competence. I want to add challenge, because over a long career I have learned that the best ideas and plans are made even better when others who represent diverse perspectives constructively challenge those ideas in their formative stages and right through their development. In my board director roles, in particular, I am expected to provide challenge at all levels and to all parties in the relevant organisations.

Competence might sound like a given but it should never be. Even with all the best ways of working and even if you have transparency, challenge and independence, the output will not be sufficient if those who are producing it lack a high level of competence. I am sure that you already have that in mind.

I am honoured that my name has been put forward as the potential chair of the new Scottish fiscal commission. I have quite a lot of experience in helping to create new entities, and I thoroughly enjoy doing so. This is an important step for Scotland and one not to be taken lightly. It will undoubtedly require hard work, focus, widespread engagement with a range of stakeholders and perhaps a bit of wisdom.

I would bring to bear a knowledge of the business and financial climate, a personal style of constant learning and asking questions, the rigour of my early scientific training, extensive experience as a board director, chairmanship of a range of bodies and a fierce desire to try to make a success of anything that I am involved with.

I was brought up to embrace a public service motive and have done so in many ways over many years. If my appointment is approved, I will look forward to working hard to create something that is brand new and genuinely important for this country and seeing that it operates to the highest standards. It would be a great privilege to do that. Thank you.

**The Deputy Convener:** Thank you very much. We will hear from Professor Leith next.

**Professor Campbell Leith:** I agree with everything that Lady Rice has just said, but I also want to make three brief points. First, as an academic whose work has mainly focused on optimal policy design, macro policy design and the design of institutions to support that optimal policy, I feel that it really is an honour to be asked to be involved in setting up a fiscal commission for Scotland and in seeing those ideas implemented.

11:00

Secondly, when I read the documentation associated with the decision and when I previously gave evidence to the committee, I was struck by the consensus that had built around the creation of a fiscal commission for Scotland and the key properties that it must have. Like Lady Rice, I saw the words “non-partisan”, “independence” and “transparency” come up time and again in the documentation supporting the commission’s creation of the fiscal commission. The way that the commission is being created, with fixed-term appointments and so on, reflects the need to achieve those goals, but again, if those things are to be fully realised, they have to be embodied in the people who serve on the commission. As a potential member of the commission, I recognise very deeply how important it is that the commission has those elements of independence and transparency, and were I to serve on the commission, my actions would fully support that.

Finally, the operation and the practical logistics of the fiscal commission must be discussed by the commission itself. Once appointed, its members will need to meet and have a dialogue with the relevant bodies. However, it might be important to note that, although we would hope that the fiscal commission will help improve the Scottish Government’s forecasts, forecasting is still an inherently difficult process and, no matter how good the commission is, forecasts will still be wrong. A large part of the scrutiny that the fiscal commission offers is not just of the headline number that is produced but of the whole process and method of forecasting.

In addition, the fiscal commission will not do its work just in the heat of the moment, around the publication of the draft budget. It might spread its work throughout the year, scrutinising the modelling that is being done and how that can be improved, and engaging with Scottish Government forecasters on a more continuous basis.

**The Deputy Convener:** I thank both our witnesses very much not only for making those points but for being to the point. I will ask a couple of questions, and then colleagues will come in with their own.

Both of you have touched on independence, and you are right to say that the issue has been very much to the fore of the committee's thinking on the fiscal commission. Is the key to independence getting the system correct and the right checks and balances in place, or is it down to the individuals on the fiscal commission having the right attitude?

**Lady Rice:** I will go first again. [*Laughter.*] Campbell Leith and I have just met, so we need to work out how to work together.

Both of the things that you have mentioned are key. I very much welcome the nature of the appointments, the notion that our names are being recommended to this committee and the fact that if you think that we are suitable, you will recommend us to the wider Parliament. That is very important as it will create a degree of responsibility and, indeed, keep us mindful of that greater responsibility, whatever day-to-day pressures come along.

However, the issue is also about how we conduct ourselves—and by “conduct”, I mean our past and future conduct. We need to be seen as independent in what we do and as being in positions in which there can be no potential gain. I am not trying to build my curriculum vitae. Unfortunately, I think that you have seen it—it is dreadfully long. I do not think that I would be gaining something personally from this; for me, it is purely a matter of public service and of wanting to engage in something that is hugely important at a very exciting time. That will help with independence.

**Professor Leith:** I agree. We have discussed the various formal mechanisms that can facilitate independence, but the fact is that they alone will not ensure independence. Independence will come from the members of the commission.

Having worked in this area for a long time now, I know that the commission will have value only if it is independent. I want the commission to succeed; I whole-heartedly buy into the notion of the commission's independence, and I would work to ensure that that was maintained.

**The Deputy Convener:** We spent a bit of time discussing whether the commission should be responsible primarily to the Parliament, the Government or both. Do you see any tensions between your relationship with the Government and your relationship with the Parliament?

**Lady Rice:** Not necessarily and intrinsically, if we all operate properly. You could create a scenario in which there might be such tensions, but I welcome the idea that we are answerable to the Parliament. It is a public form of responsiveness, which is what really matters. Obviously we would have dealings with the civil

servants who work on the economic modelling for the Government as well as with the Government itself, but creating that route to the Parliament gives us the means to stay above undue influence, or the sort of influence that one would not want. My understanding is that the Government is keen for that to happen and that it wants the fiscal commission to be seen as independent.

If challenges arise, we will deal with them. That happens in life all the time; it certainly happens all the time in my business life and when such challenges come up, we address them. The ultimate route back to Parliament is the one that takes primacy.

**Professor Leith:** There are examples of both accountability approaches in fiscal councils throughout the world, and it is not obvious that one dominates the other. What ultimately matters is how we behave.

**The Deputy Convener:** Ms Rice, when you talked about being able to explain the commission, did you mean explaining it to the Parliament and the Government or to the wider public? Does the wider public need to know about the commission? Does the public need to know just that it exists, or do you think that it will get to know the organisation very well?

**Lady Rice:** I suspect that the wider public, as broadly defined, will not get to know the organisation very well, but there will be members of the public who might be interested. Any business that goes before Parliament could be of interest to people beyond those elected to Holyrood. When I talk about explaining something, I mean that, in what can be a highly technical area, it is important that you are able to put things into fairly plain language and to express and communicate what you are doing, what your decisions are and why they have been made in a way that ordinary people like me can understand.

That is important because it speaks to your own grasp of what it is that you are doing. People who can explain technical things only in highly technical terms do not always understand them. That is why I mentioned that. There will be broader interest in the commission because of the things that are new here, what with the new taxes that have been devolved under the Scotland Act 2012 starting next year, and people might want to see what that really means and how it is working. I hope that they will be reassured by the existence of the Scottish fiscal commission.

**Professor Leith:** Part of the objective of full-scale fiscal councils in independent countries is to add credibility to the policy-making process. As you would want people who are making the big economic decisions out there in the wider economy to understand what the fiscal council is

doing and the credibility that it lends or does not lend, you would hope that its work gets out there. Given the Scottish fiscal commission's current, rather more limited remit, the issue of wider credibility affecting wider-scale economic decision making is perhaps not so important at this point.

**Malcolm Chisholm:** Professor Leith, you referred to the narrower remit than exists in other countries, and perhaps the commission's remit is also narrower than some of the people who have given evidence to us—for example, Jeremy Peat and Professor Bell—have suggested it should be. Is that a disappointment to you? Given that your work focuses on optimal policy design, I wonder whether you—indeed, both of you—will be slightly frustrated by the fairly narrow remit. Do you think that there is scope for more analysis to be carried out beyond that?

**Professor Leith:** Shall I start?

**Lady Rice:** Yes, please.

**Professor Leith:** Given the current state of devolved powers, what the fiscal commission will do is open up the scrutiny and transparency elements of the forecasting process within the Scottish Government and, in a sense, change the culture that produces those forecasts. That is where its value lies at the moment.

For me, there would have to be a critical change in the operation of the fiscal commission if the Scottish Government took on significant debt-issuance powers. If that happened, it would become more like the full-scale fiscal commissions or fiscal councils that we see throughout the world. If and when that power is granted, the fiscal commission would have to transform itself, really move up a gear and do something quite different.

**Lady Rice:** Do you want me to comment?

**Malcolm Chisholm:** Yes.

**Lady Rice:** Let us keep the Mutt and Jeff thing going.

As I commented in my responses to your questionnaire, it is quite right for this to start off in a small and contained way. I say that because, as I have said, in my professional life I have helped to create lots of new entities, organisations, committees and boards. The thing that makes them work successfully is just to get them started, which you can do if you have a defined remit and you know what you are doing, if the organisation is not too big and if you are not trying to do everything all at once. Let us get this up and running this year; indeed, I think that that is the committee's own guidance. As times and matters change, the remit might grow, and we would be in a much better position to expand, reshape or change things if needed.

**Malcolm Chisholm:** That is interesting. I take it that you are both saying that the commission could evolve if Scotland had further fiscal responsibilities under either devolution or independence.

The deputy convener has already touched on the issue of independence with a small "i". Do you foresee any potential areas of difficulty in your dealings with the Government and revenue Scotland? How should the memorandum of understanding prepare for any conflicts between the three bodies?

**Lady Rice:** As I have not really had any personal dealings with revenue Scotland, it is very hard for me to respond to that question. Obviously if I took on this role I would develop that relationship.

The memorandum of understanding is really important. A full and frank discussion around the table between the members of the commission and those with whom we would be dealing would be the starting point for talking about where potential issues, strains and conflicts might come up and helping each other understand fully the commission's remit, the boundaries and the expectations. The memorandum of understanding is a very early step in the creation of the fiscal commission, and I suspect that the draft that is agreed initially might not be the final draft. These things evolve over time. You have to work; you have to rub elbows together, in a sense, because sometimes you cannot anticipate points of tension. If they develop, you will need a good personal relationship in order to raise, address and deal with them.

**Malcolm Chisholm:** Professor Leith, you point out that it might be desirable

"to avoid the Commission's work being concentrated in a very short period prior to each forecast round. This would then spread the scrutiny work throughout the year and enable the Fiscal Commission to undertake some limited longer-term research work".

Do you have the capacity to take that approach? Would you seek to engage a wider range of people in your work or do you feel that working on an on-going basis, as you suggest, would be quite manageable for you, given your other responsibilities?

**Professor Leith:** Yes, given that the remit of the fiscal commission is quite tightly defined at the moment. Once we get into the nitty-gritty of how the Scottish Government is producing these forecasts and once we get access to the modelling work that underpins all that, it might become apparent that certain elements of that work are more material than others, inducing sensitivity in the forecast assumptions and so on. Those might be the areas in which you would want to undertake

some limited research work to see if that part of the forecasting process could be made more robust; indeed, the same might apply generally in our scrutiny work.

Given that assumptions about projections for house prices underpin some of the tax revenue forecasts, we might want to do some research on the literature on forecasting house prices and how that compares with the Scottish Government's approach. However, given the research budget that we have and the time constraints that we all face, our ability to do that is necessarily going to be limited. To the extent that it would be possible, though, it would be a useful way of having an on-going relationship with the forecasters.

**Malcolm Chisholm:** Thank you.

11:15

**Jean Urquhart:** Lady Rice, in your written response to question 3 in the questionnaire, you said, on the operation of the SFC, that it

"will require a lot of data, a lot of information ... the expertise to analyse the economic models ... information on wider economic factors"

and the

"likely need to identify a small cohort of skilled individuals".

When we took evidence either last week or the week before last from Jeremy Peat, he said that he was concerned about the small budget that will be available to the SFC. Is that an issue? A group of three people can do only so much, and it is clearly going to be important that the group has some backup. Is the budget sufficient for that?

**Lady Rice:** It is hard to give an absolute yes or no answer to that. There are two ways of responding to such a question; the first would be to outline what one would conceive the fiscal commission developing into, and the second would be to look at where we start off. I think that we should begin with the proposed £20,000 budget. As Campbell Leith has said, the commission's remit will be quite restricted in the first few months. I said in my written response that we would need all the aspects that you quoted, but perhaps I should have said that it is likely that we would need them. To be honest, I think that until we get going I do not know what we will need. However, the expectation is that we would need to turn to some experts or expertise to support our work, as three of us alone probably could not achieve that satisfactorily.

I think that £20,000 is something to get started with. Coming from a background where every penny counts, I am not one for spending much. As my public sector experience through my association with the Bank of England has made me very conscious of value for money, I think that

the pennies would be spent wisely. If for some reason we needed more, we would have to speak up. Over time, as the work develops, we might well need more.

**Professor Leith:** The plan is for the commission to be hosted at the University of Glasgow, which has indicated that it will support the commission's work. That might help the £20,000 go a bit further than it would if we were just commissioning research from outside organisations.

**Jean Urquhart:** Thank you. I think that you said earlier that you had just met one another, but do you know of each other's work? Professor Leith, you have contributed and written extensively. I wonder whether Lady Rice knows what you have written and whether you will provide a challenge to each other or think along similar lines economically.

**Lady Rice:** The simple answer is that I know Professor Leith a bit by reputation. I am not an economist in my own right, and I do not follow economic papers. I follow them to an extent as they relate to my role with the Bank of England, in which I need to be very focused on economic matters, so I hear about lots of reports and read lots of information. Some of that information might well have come from Professor Leith.

**Professor Leith:** It did.

**Lady Rice:** But it might not have registered with me that I was reading your work, so, to be honest, I cannot say whether we share a perspective. However, Jean Urquhart has asked an important question about challenge and—to use a bit of today's jargon—group-think. As I said in my opening comments, challenge is absolutely essential. In fact, that is what this is all about, because when we can challenge each other we come out at a better place. I do not know whether Professor Leith and I share economic views, but because I am not an academic economist I will not necessarily look at the world in the same way that he does. It is perhaps an advantage that what I bring to the table is a pretty deep knowledge of the business environment, the consumer world and the financial climate.

I have no difficulty in asking what I call daft-lassie—as opposed to daft-laddie—questions, because they bring out a lot of good information. In fact, it has become almost my trademark style. Moreover, challenge is not necessarily about finger-pointing aggression; instead, it is about exploring a matter and saying, "Help me understand it in this context." You end up in a better place when you do that. I have no problem with the concept of challenge, whether or not I find that I agree with Professor Leith—and I do not know yet whether that is the case.

**Professor Leith:** I am a quantitative macroeconomist, but I do not have the strong ideological bias that other economists sometimes have. I want to get my hands on the model and the data to see how they work. That is the contribution that I would make to the commission.

**Jean Urquhart:** Thank you.

**Jamie Hepburn:** Lady Rice, I am struck by the fact that you have said a couple of times that you are driven by a public service ethos. You said that you were brought up with that ethos and that you are driven to serve on the commission by that sense of public service. That is reflected in your written submission, through the other positions that you have taken up. Will you say a little bit more about why that idea of public service ethos is important to you?

**Lady Rice:** I was literally brought up with that notion. As you will know, or can tell from my accent, I was brought up in a country other than this one. In the past century, America had huge immigrant populations and, in some ways, that continues to be the situation. My grandparents migrated to America. I was brought up with the notion that, if life has not treated you dismally and things have gone reasonably well, you have an obligation to find a way to give back. I was raised with that mantra. I had numerous relatives who did various things of that sort.

We do not do what we do in isolation or for ourselves. We have lots of communities or circles round us. Sometimes, that is family and those close to us; other times it is our physical community. We are part of a bigger society. Justice and fairness are part of my psyche. I was brought up with that view and it feels natural to want to do work of this type.

I will soon complete seven years as a director of the Bank of England, which is quite a notable institution. The workload has been hugely demanding but fascinating. It has been a great privilege to have done that work. That is public service in every sense of the word. The timing of a commission role would work well for me, because I am keen to continue to give something back, especially in Scotland, which is my home.

**Jamie Hepburn:** You would bring to the table that ethos, which is what drives you to take up the challenge.

**Lady Rice:** That is one aspect. I mentioned creating new entities. I am excited by the detail of making the commission work and putting it together, and testing myself and learning. The process is all about learning, especially for me. The role would involve all the things that interest me.

There are many reasons for doing the role. I have used the word “important” several times, but it is an important undertaking. It is the right one and a good one and I want to help—with others, because you do not do something yourself—to make the commission happen.

**Jamie Hepburn:** Professor Leith, you made an interesting point in your written submission—I recall that you made a similar point previously to the committee—that, in your discipline and in academia generally,

“the integrity of research is maintained by the peer review process, but ... also by ensuring other researchers have access to sufficient information to enable them to replicate the findings of published studies.”

You continue:

“I believe that following this approach as far as practically possible”

in relation to the commission would be a good thing. That begets the question: who would be the peers of the fiscal commission?

**Professor Leith:** Do you mean to review our work?

**Jamie Hepburn:** Yes.

**Professor Leith:** I suppose that our commentaries would be published and then scrutinised by anyone who chooses to scrutinise them. It might also not be a bad idea to have periodic reviews by other fiscal commissions, academics and non-academics of the quality of the commentary that the fiscal commission offers. That seems reasonable.

**Jamie Hepburn:** I suppose that your general point is that you should be transparent, and that your peers—if they exist—should be able to access the information. If they are interested in it, they should be able to access it.

**Professor Leith:** Yes. That is the gold standard. It used to be the case that academics who did research would publish a paper, and it would then be a hard slog to replicate what was done in that paper. These days, with electronic resources, all the computer code and the data is available, and someone can just take it off the shelf and see where the results have come from, change things, do robustness checks and so on. The more that that is done, the more it can be ensured that the original research is of a high standard, with no corners cut.

**Gavin Brown:** Lady Rice, I wish to touch on question 5 in the questionnaire, which asks:

“Do you hold any other roles ... which might give rise to or be perceived as being a potential conflict of interest?”

You sit on the Council of Economic Advisers. According to the council’s remit, it has three key themes on which to advise the Government, one

of which is economic levers, so you have an advisory role on that. However, the Scottish fiscal commission will have a challenge function regarding the application of those economic levers. How will you avoid the perception of a conflict of interest between those two very different roles?

**Lady Rice:** I have given a good deal of thought to that. If I felt that a conflict of interest developed, I would simply deal with it. The role of chairing the fiscal commission would take primacy in that instance. I would see how it went. What I add to the discussions at the Council of Economic Advisers draws on my business knowledge and my knowledge of our markets in Scotland. We do not develop policy in those discussions in any specific way. If there was a conflict, it would have to be addressed, pure and simple.

**Gavin Brown:** So, as things stand, your intention is to remain on the Council of Economic Advisers and to carry out both roles.

**Lady Rice:** My intention right now is to do both roles, unless there is an issue. I have known that I would be sitting here at the committee for only a couple of weeks or even days, so I have not thought through that issue or spoken to anyone regarding my Council of Economic Advisers role. If it was genuinely a problem, we would deal with it.

The Council of Economic Advisers has methods of dealing with such matters. If you will forgive me, I will tell a bit of a story. When I was invited to join the council in 2011, given my role at the Bank of England, I had to get permission from the governor for any external appointment. I had discussions at the Bank of England, which had similar questions, but it encouraged me to proceed, with the proviso that, if any matters came up that related to monetary policy, I would be excused because, even though I do not sit on the monetary policy committee, I am responsible for its proper running. That was put in writing to the Council of Economic Advisers, which accepted the proviso. It has used a sub-committee system to ensure that, in such instances, I have not had to be involved.

There are ways to address potential conflicts. If there really are conflicts, I will have to think the matter through properly. It is a good question to have raised, but I would address such issues.

**The Deputy Convener:** I call Annabelle Ewing.

**Annabelle Ewing:** Thank you, convener.

**The Deputy Convener:** I am sorry—Michael McMahon should be next.

**Annabelle Ewing:** I thought that I was getting in a bit early.

**The Deputy Convener:** That was my mistake—sorry.

**Michael McMahon:** Lady Rice, question 3 asks:

“How do you think the Scottish Fiscal Commission should operate in reaching its position?”

Your answer states:

“This doesn’t mean that all the judgements of the Scottish Fiscal Commission or any other body, in retrospect, turn out to have been the ‘right’ ones. But it does mean that there must be no imputation of conflict or carelessness in making those determinations.”

In a previous answer, you state that, in some instances, it would

“be helpful ... to consult the OBR”.

If we had a pound for every time the Office for Budget Responsibility has been criticised in the Parliament, we could probably cover the cost of running the Scottish fiscal commission. Do you hold the OBR in high regard?

11:30

**Lady Rice:** I do not hold the OBR in regard one way or the other. I mentioned the OBR in the context of getting into the detail of setting up the Scottish fiscal commission. The committee has already done this, but I would want us to look at other fiscal commissions, particularly those that have been set up in the past few years, to find out a little more about problems that they have had and to learn from any issues that they have had. The relationship to the OBR that I referred to would involve gathering knowledge on top of what one can get from the testimony that the committee has published.

My point is similar to one that Professor Leith just made. Forecasting is forecasting—there is no guarantee. There is no such thing as a right number out there. People do their best to understand the circumstances and come up with something that seems reasonable. We would be asked to comment on the reasonableness of the Scottish Government’s forecasts. That is the best that we could do. I was saying that our goal would be to do that as well as we could, but I point out that nobody and no institution ever gets it all right all the time. That did not relate to the OBR or how it is structured.

**Michael McMahon:** I know that the comment did not relate to the OBR. I was just making a connection, given that you want to consult the OBR, even though it is heavily criticised in the Parliament because its forecasts are considered to be less than valuable.

I am interested in whether Professor Leith has any take on the value or standard of the OBR’s work.

**Lady Rice:** I will make one more comment before passing over to Professor Leith. What I will say is not a judgment about the quality of the OBR's work. When a body is judged to have done very well, one can learn from it but, if it is judged to have done less well, one can learn equally well and sometimes learn more.

I understand what you say. I was perhaps less aware of the discussions that the Parliament has had, but I am very much aware of them now. However, that would absolutely not diminish my instinct to have conversations with the OBR, because one learns from that.

**Professor Leith:** When an institution such as the Bank of England does forecasting, it recognises the uncertainty, so it produces fan charts. Those fan charts quickly become wide, which indicates that the forecast can be anywhere between a very high number and a very low number. Forecasting is inherently difficult.

The OBR does not do the formal confidence interval or fan chart analysis. It does a sensitivity analysis of its forecasts, so it says that, if the scenario changed, its central estimate would differ. Huge uncertainty is still implicit in all those forecasts. Forecasters are bound to get it wrong—that is in the nature of forecasting.

**Michael McMahon:** Would the Scottish fiscal commission do forecasting that is more like the Bank of England's or more like the OBR's?

**Lady Rice:** I understand that we would not do forecasting—we would make judgments about the work of those who prepare forecasts. I hope that we would think a little about scenarios, as that is a useful way to understand the efficacy of a determination, but we would not do forecasts.

I am not the economist among the three candidates whom the committee will talk to, but my instinct is that I like fan charts, which explain the potential universe and are more helpful to people. I often say—it is my husband's phrase—that numbers are one interpretation of reality, but other realities are out there. People can get hooked on the number being the right answer. What Professor Leith and I are saying is that there are often a number of answers.

**Annabelle Ewing:** As a substitute on the committee, I felt it only polite to wait for my colleagues to have their say first, given their much more detailed involvement in the background to the fiscal commission.

I want to pick up on something that was raised in a question to Lady Rice. I note that, in your response to question 1 from the committee, you list a number of public bodies in which you have been involved in dealing with policy matters. You made the point that those bodies reported to

different Administrations of different political hues. Given your extensive CV, it would be reasonable to take the view that you have established a long and robust track record of independence from the political process. Do you wish to add anything on that, Lady Rice?

**Lady Rice:** Thank you for saying that. My point was that I do the things that I am asked to do in my extra time, if you will, because I am interested in the issues and the impact on society and so forth. I would not ever do something as a favour to an individual. I am not interested because someone of a particular party approached me—I do not approach the world in that way. These are things that have interested me. I have had good relationships with each of the Administrations since Holyrood began.

**The Deputy Convener:** I have a couple of final questions. Professor Leith, you talked about the commentaries being published. In answer to question 3, you said:

"in my view the Scottish Government forecasters should develop their modelling techniques and present the Fiscal Commission with both their provisional forecast and as much detail of the underlying forecasting process as possible."

Presumably, there will be a provisional forecast, then some response or commentary from the commission, then a more solid final forecast and then further commentary from the commission. I do not know how much you have thought this through, but how much of that would you hope or expect to be published? Would all of it or only some of it be published?

**Professor Leith:** I would need to discuss that with all relevant parties. The focus of the remit is on the forecast that is produced for the draft budget. The formal commentary will have to be attached to the final forecast that is produced for that. However, in answer to other questions, I said that I thought that it would be good for the commission to have an on-going look at the process and the modelling work that is done in the Scottish Government to produce the forecast. That will inform the detail of the commentary that is provided, with the specific numbers that are attached to the forecast.

There is no need to have continuous commentaries going on throughout the year, but the commentary that is attached to the forecast at the time of the draft budget will include analysis that comes from on-going scrutiny of the whole forecasting process, not just the forecast itself. That is how I suggest doing it but, again, that is merely a suggestion. I am open to discussing it.

**The Deputy Convener:** Do you want to comment, Lady Rice?



**Lady Rice:** That is a reasonable way forward. We three commissioners—if it is us three—will have that discussion with others and we will take other suggestions as well. We will give it some thought. At the end of the day, we want to be useful. We would absolutely have to have a comment in written form when the draft budget is submitted in the autumn, which would give our best judgment on the reasonableness of the assumptions around the new taxes. That would be an absolute given. We would have to discuss anything else. That is quite a reasonable starting point.

**The Deputy Convener:** We have heard from the two of you today, and we will meet the third candidate next week. If I understand correctly, we are talking about two economists and one banker and businesswoman. Is that how you would describe yourself, Lady Rice?

**Lady Rice:** That is good enough—I would say “ordinary person”.

**The Deputy Convener:** Leaving aside the individuals, do you think that that is a good mix for the commission?

**Professor Leith:** Yes. The forecasting process is, in essence, a macromodelling process, which is where I have experience. Lady Rice has broader experience, which means that she can ask the right questions and facilitate communication of the commission’s work more generally. Professor Hughes Hallett is more involved in practical policy analysis, which is a slightly different bent to the more techie approach of my research. So the mix seems to be quite reasonable, as far as I can see.

**Lady Rice:** I think that as well. We have two economists who do quite different things with their economic disciplines. Both elements are important, so it is good to have a balance. I would simply draw on all my experience and it would come to bear. If Professor Leith will forgive me, I do not think that you want a purely academic exercise—you want something that can be related back to society at large and to the public that you all represent.

**The Deputy Convener:** We have gone through all the committee’s questions. Does either of you have any final comment or statement to make?

**Lady Rice:** I do not think so. The questions were good and I look forward to hearing the outcome of the committee’s deliberations.

**The Deputy Convener:** I thank you both for taking part. It might have been a new experience for you, and it has been a new experience for the committee as well. I hope that it has been okay.

As I explained at the beginning of this item, the committee will hear from the third nominee at its meeting next week, after which we will consider

whether to recommend approval to Parliament and agree a short committee report.

At the start of the meeting, the committee agreed to take the next two items in private.

11:41

*Meeting continued in private until 11:45.*



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