



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 13 November 2013

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FINANCE COMMITTEE
28th Meeting 2013, 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:

Robert Chote (Office for Budget Responsibility)
Derek Croll (Scottish Parliament)
Paul Grice (Scottish Parliament Clerk and Chief Executive)
Liam McArthur MSP (Scottish Parliamentary Corporate Body)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Wednesday 13 November 2013

[The Convener *opened the meeting at 10:00*]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning and welcome to the 28th meeting in 2013 of the Scottish Parliament's Finance Committee. We have received apologies from Jamie Hepburn, who will arrive late because of traffic, and I remind everyone to turn off their mobile phones, tablets and other electronic devices.

Our first item of business is to decide whether to take item 4 in private. Are members agreed?

Members *indicated agreement.*

Draft Budget Scrutiny 2014-15

10:00

The Convener: Our second item of business is an evidence-taking session with the Scottish Parliamentary Corporate Body as part of our scrutiny of the 2014-15 draft budget. I welcome to the meeting Liam McArthur MSP; the chief executive, Paul Grice; and Derek Croll. I ask Mr McArthur to make a short opening statement.

Liam McArthur MSP (Scottish Parliamentary Corporate Body): Thank you very much, convener. Good morning, colleagues.

I am very grateful for this opportunity to present details of our budget submission for 2014-15. This is the final year of our four-year programme of savings, which set out to match the planned reductions in the Scottish budget over the term of the United Kingdom comprehensive spending review. As the graph in the Presiding Officer's letter demonstrates, we remain firmly on track to deliver that programme and, by the end of 2014-15, we will have achieved an 11 per cent real-terms reduction in the SPCB's budget. As you will observe, the profile of our annual budget reduction was considerably steeper in the programme's first two years, as we delivered the vast majority of our savings early, and levels off in the remaining two years, although it still shows a modest real-terms saving.

I will update the committee on a number of areas in which members have previously expressed an interest. First, we reported last year on the decision to proceed with the construction of an external security facility, which is the most significant project that the SPCB has undertaken since the move to Holyrood. I am pleased to confirm that the project was completed on time and within budget and that we were able to meet all the ESF's costs from within the SPCB's overall resources, as previously advised to the committee. Indeed, at an SPCB meeting later this morning, we will discuss and—I hope—sign off the formal completion report for the ESF.

The committee will be aware that pay accounts for a substantial proportion—approximately 62 per cent—of our overall budget and, following the end in March 2013 of the two-year pay freeze that covered SPCB staff, MSPs, and members' staff, we have continued to exercise restraint in this area with below-inflation settlements. After our discussions at last year's meeting, we wrote to the Finance Committee earlier this year to confirm the terms of the two-year pay deal to March 2015 that had been agreed with SPCB staff and which provided for a 1 per cent increase in pay scales this April and a 2 per cent increase in April 2014.

MSP pay increased by 1 per cent this year in line with the Independent Parliamentary Standards Authority's determination for MPs and will increase by 1 per cent again next April. Members' staff pay provision will be uprated in April in line with the provisions of the members' expenses scheme.

With regard to income, at our last appearance before the Finance Committee we touched on the opening of the Queensberry house lounge in September 2012 and the associated discontinuation of the members' restaurant evening service. I can report that we are on track to pay back the capital outlay within two years of operation. At the same time, the move has created an excellent space within the members' restaurant for hosting larger events such as the maritime reception that I am hosting this evening from 6 pm and which members are most welcome to attend. The important point is that we have been able to open up opportunities for reducing the subsidy on the catering front.

As members will be aware, the SPCB is charged with the oversight of commissioners and ombudsmen and the Finance Committee has rightly taken a strong interest in how we exercise that. The 2014-15 budget submissions of the various bodies amount to £8.2 million, which is an increase of 1.3 per cent in cash terms compared with the equivalent 2013-14 budget. Overall, the office-holders' budget is 9.9 per cent lower in cash terms than the budget in the baseline year of 2010-11, which is equivalent to a real-terms reduction of 16.7 per cent. The Scottish Information Commissioner and the Scottish Public Services Ombudsman have requested funding for additional staff and, following robust scrutiny that concentrated on the efforts of both office-holders to try to reduce the numbers of applications that they receive, the SPCB has approved their requests on a fixed-term basis.

As for office-holder accommodation, I advised the committee last year that we were working with office-holders to effect savings by reducing the number of properties in Edinburgh and that we hoped that we could co-locate a number of offices on the Government estate near Haymarket. Unfortunately, that proposal fell through because the building was let to a single tenant, but we continue to look at accommodation options, particularly as one of the office-holders has been given notice to vacate the premises that they occupy by the end of March 2014.

Finally, I place on record the corporate body's appreciation of the work that has been done by the chief executive and by Derek Croll and his team in preparing the SPCB's 2014-15 budget submission.

That concludes my opening remarks. I hope that I have managed to convey a sense of our approach to the budget for 2014-15 and the

following years and have addressed some of the issues in which the committee has taken a particular interest in recent years. My colleagues and I are more than happy to answer members' questions.

The Convener: Thank you very much, Mr McArthur. I am pleased to say that Jamie Hepburn has now joined us. As is usual in these circumstances, I will begin with a number of brief opening questions and then open up the session to colleagues around the table.

Mr McArthur, you mentioned the significant reduction of 11 per cent in the budget over the past four years and the fact that 10.8 per cent of it was actually achieved by 2012-13. With the 2014-15 budget, that reduction comes to about 11 per cent. Given that the situation appears to have levelled out, is there any scope for making further savings or does the SPCB feel that any further savings would be detrimental to the good working of the Parliament?

Liam McArthur: We have been wrestling with that issue quite a bit, particularly over the past year. The decision to implement the savings early on was absolutely the right one and followed a pretty comprehensive review of services in the Parliament. As a result of that review, the SPCB felt confident about making those early reductions but it was felt that, on the back of that, there would need to be a period of time to allow the changes to bed in and ensure that services to MSPs and other building users were not being disrupted.

Although we do not feel that our work in this respect is done and although we will continue to look at areas where we can bear down on costs and deliver efficiencies without disrupting the service to members and other building users, I should reiterate that the profile of the savings that have been made was a deliberate attempt to get ahead of the game following the comprehensive review that I mentioned. As I have said, we then wanted to ensure that the changes could bed in in a way that minimised disruption to the workings of the Parliament.

The Convener: Thank you.

The budget provides for a contingency of £1 million, which represents a 100 per cent increase in the figure for 2013-14 and follows a reduction of 60 per cent to £500,000 in 2013-14. It looks to me like the figure has decreased from £1.25 million to £500,000 and then has increased to £1 million, which represents a 20 per cent reduction over two years. Can you talk us through the thinking behind that figure coming down and then rebounding?

Liam McArthur: I agree that those figures stand out. As you and the committee will be aware, in taking forward the proposals for the external security facility, which came on the back of clear

and consistent advice from our security advisers, we tried to accommodate them within the budget envelope that had been set out for the committee. That required us to look right across the field and, as a result, we decided to reduce the contingency down to £500,000, which was probably the minimum that we would be comfortable with. The £1 million that is in there now is probably a more standard figure for that sort of provision, so I think that we are seeing a return to the traditional position. I do not think that there was any additional risk last year in having the contingency at £0.5 million, but having it at £1 million is probably a more sensible accommodation.

The Convener: In terms of indicative forecasts for 2015-16, the budget submission states:

“The SPCB’s proposal will deliver cumulative savings of 11.7% in real terms over the five years since the 2010-11 baseline and incorporates a real terms reduction of 14.9% in the directly controllable costs of the Scottish Parliamentary Service.”

The budget submission goes on to say that the “challenges ahead remain considerable.” Can you talk us through the challenges?

Liam McArthur: One of the obvious challenges is the new powers that the Scottish Parliament has. We are already seeing some signs, no more so than in this committee, that they will impose additional pressures on the staffing and resourcing of committees and on work in the chamber.

We also have challenges in taking forward planned projects for maintaining the fabric of the Parliament building. We believe that we have a programme for undertaking the work that is sensible and sustainable over the longer term, but it will present challenges. I do not know whether there are any other specific challenges that Derek Croll or Paul Grice want to mention.

Paul Grice (Scottish Parliament Clerk and Chief Executive): No. I think that you have covered it.

Liam McArthur: There is no doubt that we are entering a period of some uncertainty in terms of how the Parliament will function. We clearly attach a very high value to aspects of the way in which we work, such as being open and accessible and so on. As we take on additional powers and roles, however, ensuring that we have the personnel and facilities to help maintain that openness and accessibility, as well as the rigour of our scrutiny functions, will continue to present challenges. As I have said, just as we have tapered out the savings in the past couple of years, we will continue the process of bearing down on costs. I do not think that we will move out of that climate in the very near future. It is against that backdrop that we are taking on those additional challenges.

The Convener: And do you envisage having any potential future income streams, even minor ones? Obviously, we have one or two, but they are relatively small, given the size of the budget. Do you envisage having any others in the future?

Liam McArthur: There is nothing specific. The obvious one to refer to is, as I said in my opening remarks, the reduction in the catering subsidy of £50,000 as a result of relocating the bar to Queensberry house and to a large extent discontinuing the evening meal service in the members’ restaurant. There might be other such things that we can look at. It is certainly an issue that the corporate body will return to, probably early in the new year, and discuss proposals with officials on. However, as we found with the Queensberry house move, we have some difficult issues to balance. I think that we need to guard the reputation of the Parliament building very carefully. We want to ensure that we are bearing down on costs where we can and that we are not putting that reputation at risk at all.

It is perhaps worth noting that although the Parliament shop, which has been an issue of concern to the committee in the past, incurred in the most recent year a loss of £8,000, that is down from a loss of £46,000 the year before. With the recent tapestry exhibition, which I know you were fortunate enough to visit—as were many thousands more—and the more recent Warhol exhibition, we are confident at this stage that we will see a modest profit in the shop.

There are things that we will continue to look at, but against the backdrop of ensuring that we do not do anything that would cause anybody to question the reputation or the functioning of this building.

The Convener: Thank you. A number of members have indicated that they want to ask questions.

10:15

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): I apologise for my late arrival—I had a cancelled train to deal with.

I am sorry if Liam McArthur has already covered what I will ask about, which is the budget bids for 2014-15 from the six office-holders—the commissioners and the Scottish Public Services Ombudsman. I acknowledge that all the bids are below the approved baseline in 2010-11, so it is clear that everyone is playing a part in bringing down costs. However, there seems to be quite wide variation in the bids. The Commissioner for Ethical Standards in Public Life in Scotland envisages a 1.5 per cent reduction in budget, while the Scottish Information Commissioner is

looking for a 6.9 per cent increase on this year's budget. Why is there such a wide disparity?

Liam McArthur: As I said, there is a reduction in real terms of—I think—16.7 per cent in the budget for the office-holders across the piece, which is a significant reduction in comparison with what is happening in the SPCB's overall budget. The corporate body has returned to the area on numerous occasions. We need to strike a balance between our robust scrutiny of the budget—I put on record the corporate body's gratitude for the Finance Committee's help in that regard—and the office-holders' operational independence in carrying out the functions that we have required them, by statute, to carry out.

We have looked closely at the Scottish Information Commissioner's bid in recent weeks. There has been a marked increase in applications to the commissioner, despite efforts to triage applications so that only those that require detailed investigation make it through to that stage, and despite efforts to increase awareness in public bodies about what they could be doing to bear down on the number of complaints to the commissioner about freedom of information requests.

We are cognisant of the need to be robust in challenging the figures that the office-holders bring to us, and the need to challenge office-holders to look at ways of managing their budgets as effectively as possible. However, we must also recognise that we are talking about independent office-holders and there is a limit to our ability to second-guess how they manage their budgets day to day.

Jamie Hepburn: Are you saying that budgets are allocated on a needs basis and that there is no formula whereby changes are made in relation to all the office-holders? Office-holders just come forward and say what they need—is that the case?

Liam McArthur: I think that that is right. It struck all members of the corporate body as slightly strange that there should be such a marked increase in applications to the Scottish Information Commissioner at this point after the enactment of the Freedom of Information (Scotland) Act 2002. However, there are reasons for that. Awareness has been raised and demand has gone up as people have begun to use the approach as a tool to extract information that they have not been able to get through other means.

There is always a need to ensure that local authorities and other public bodies apply best practice in handling requests for information, and to ensure that there is effective triage of complaints that come to the commissioner's office, so that time is not spent on complaints that should be dealt with elsewhere. However, despite those

efforts, we are seeing an increase in the numbers. We need to respond to that and to make sure that not just the information commissioner but all the office-holders have adequate resources for the functions that we have required them to carry out.

Jamie Hepburn: Just to be clear, this is the corporate body's bid on their behalf. What were their bids to the corporate body? How do those relate to what we see here?

Liam McArthur: I think that it is fair to say that we apply the robust scrutiny and challenge function that you would expect us to perform.

I sit on the Education and Culture Committee and we are just about to complete stage 1 consideration of the Children and Young People (Scotland) Bill—the Finance Committee was involved in the bill in relation to the financial memorandum—which proposes that the powers and responsibilities of Scotland's Commissioner for Children and Young People be extended. I am conscious that that will have implications for the budget.

Just as this committee has exercised its role in scrutinising the costs that are attached to the extension of the commissioner's powers, so the Education and Culture Committee has taken the issue on board, and the corporate body will also deploy the challenge function. At the end of the day, however, if the Parliament chooses to sanction that extension of powers, we need to make sure that the resources are in place to allow them to be properly fulfilled.

Jamie Hepburn: I do not doubt that the corporate body is doing a rigorous job in assessing any bid that comes forward, but all that I have in front of me is a statement of what the bid is. I do not know what was bid for originally or whether that was different. I am not necessarily saying that there should be a difference, but if we as the Finance Committee are to try to look at these things, it is helpful for them to be as transparent as possible.

Liam McArthur: It is an iterative process and some challenge function will be applied initially at an official level. I ask Paul Grice to address your point about specific figures for the initial bids and the final figures.

Paul Grice: We did not really do it in that way. I made a pre-emptive pitch, if you like, to the office-holders. On the basis of the expectations of this committee and the corporate body, rather than just invite them to make a bid, I gave them a clear steer as to what we thought would be acceptable. There was not a number from them and then a response from us. I thought that a better way to do it was to give them a clear sense of what I thought the corporate body would live with overall, which

was very close to where we ended up after negotiation.

That is distinct, perhaps, from previous years, when a bid came in from the office-holders. I felt that it was appropriate to give them a clear steer as to what I thought would be an acceptable bid from the corporate body. That explains the position that we have.

Jamie Hepburn: Thank you.

Michael McMahon (Uddingston and Bellshill) (Lab): Liam McArthur mentioned several times the physical changes to the building. There have also been some organisational changes. Will you give us an idea of the cost of equality impact assessments of those changes? Has there been testing to see whether the changes meet requirements?

You also talked about the reputation of the building; it would be interesting to hear that the changes have improved the situation, or at least that tests have been carried out to see whether that is the case. A specific example is the change to the entrance to the MSP block. Was an equality impact assessment done? A colleague has made me aware that they now find it more difficult to enter the MSP block because of the changes. There have also been organisational changes to the members' restaurant and what have you.

Liam McArthur: I will ask Paul Grice to talk about the specifics, but I can say that we have been painfully conscious that the programme of change over the past four years, particularly in the context of staff reductions, had the potential to have a dramatic effect on the numbers of men and women that the Scottish Parliament employs. The corporate body publishes its equality plan annually, which I think demonstrates that, notwithstanding the changes, we have succeeded in adhering to the equality principles to which you would expect us to adhere.

Paul Grice might talk about specific changes in relation to the accessibility of different parts of the building. Certainly, the corporate body had received a number of complaints that the fire doors that lead to the lift area at the bottom of the MSP block were extremely difficult to negotiate, even for people who do not have great difficulties with mobility, so that needed to be addressed. I do not know what feedback we have had on the changes; I have picked up anecdotally from members who have offices on the floor where my office is that the changes have been beneficial to them. However, we want to ensure that in addressing problems for one member, or group of members, we do not simply create additional problems for others.

Paul Grice: We routinely use equality impact assessments. As Liam McArthur has said,

improvements in access to the members' block were driven by issues that a number of users of the building—MSPs and their staff—raised. As with any change, we will keep the matter under review. If Michael McMahon wants to pass on feedback on specific issues, I will be happy to act on it. I have had positive feedback on the changes, but we are open to considering further changes.

Liam McArthur: On the point about the members' restaurant, we are interested in getting feedback of any sort on the new arrangements. Our general impression is that they are working fairly well, but if there are elements that we need to look at again, we will be more than happy to do so.

John Mason (Glasgow Shettleston) (SNP): The convener asked about the change in the contingency arrangements. How does the accounting for that work? I take it that we are talking about real money in the budget, as opposed to a contingent liability, which is not real money but a risk that people are aware of—the Finance Committee has sometimes considered the issue. The contingency is part of the budget; is that correct?

Liam McArthur: Yes, it is part of the budget. I suppose that that is what enabled us to reduce it last year, to accommodate some of the costs of the external screening facility. It is real money.

John Mason: Is the contingency generally used by the end of the year?

Paul Grice: The contingency is in two parts this year, which is normal—Liam McArthur explained why what happened last year was unusual. For approximately half of it, even at this stage we have an idea of the sort of projects that we might use it on, provided that it is not needed for other things. In a sense, although it is a contingency there are a number of potential areas in relation to which we might bid against it.

About half of it is purely for emergencies—unexpected, unpredicted costs. Therefore, we tend to hold on to about half the money pretty much right up to the year end. Over the year, as we monitor spend, we look to release some of it for reasonable projects. Although the contingency is presented as one figure, it is really in two parts: a pure emergency fund and a fund in relation to which we consider bids for specific projects or initiatives.

John Mason: If you get to 30 March, or whatever the date is, and you have not spent it all, do you rush out and spend it?

Paul Grice: No. We give it back. I would never countenance rushing out and spending it, whatever the amount; there must always be value

for money. It is better to give the money back than to spend it on something that does not represent value for money. You know how public financing works. There must always be a margin at the end, and that is what we would hold on to—that last £0.5 million, probably.

10:30

I should also say that, although our budget is relatively modest compared with the overall budget, we still liaise and continue a dialogue with Government finance officials throughout the year. We have in the past put money that we thought we did not need back into the consolidated fund and the Government officials with whom we liaise would advise the cabinet secretary when we thought that we would be able to return money from the contingency. That would happen through the normal supplementary process, which you are obviously well aware of.

Liam McArthur: That also explains why we were comfortable with reducing the contingency to £500,000 last year. However, for the reasons that Paul Grice has highlighted, it seems to be sensible to move the contingency back to £1 million in order to take forward projects, if necessary.

John Mason: That is great. The process as you have described it sounds good.

Schedule 3 of the submission contains more detail on various budget items. The first is staff pay, about which you say:

“Staff pay including use of contractors is budgeted at £22.3m”.

Are all those contractors’ staff on the living wage?

Paul Grice: The short answer, I think, is yes.

John Mason: That is good.

The section in schedule 3 on revenue projects—the pages are not numbered, but I am sure you have already turned to it—contains a breakdown of the £2.4 million that is being spent on various projects. Can I have a bit more detail on, for example, the “Digital Parliament Programme”, which will get £1 million, and “Voltage Optimisation”, which will get £250,000?

Liam McArthur: I will leave Paul Grice to talk about voltage optimisation; I know that it is a passion of his.

With regard to the digital Parliament project, you will know that the way in which we as MSPs operate has evolved since the opening of this Parliament building, and continues to evolve. Some MSPs could be portrayed as early adopters of technologies but, nevertheless, travel is in only one direction and the corporate body needs to support that development. Clearly MSPs are not demanding this just for the sake of demanding it;

our constituents and other stakeholders have expectations about how they engage with Parliament, so it seems to be prudent to keep on top of that without necessarily having the rate of churn through information technology refreshes and so on that we have had in the past, and which can make it difficult for the overall function to accommodate certain things and for MSPs to get to grips with others.

There is always a balance in ensuring that we are providing the support that MSPs and their staff need without running the risk of the whole thing tipping over because of the pressure that we place on it. The digital Parliament programme is all about spotting where we as an institution are going and looking at how MSPs will operate in the future and how the public will engage with us.

John Mason: Can you give me an example of how that £1 million is being spent?

Liam McArthur: Some of the work has related to the use of iPads in committees; Parliament staff are now using iPads far more. I also thoroughly recommend to members a very fine DVD that illustrates ways in which MSPs can use technology to be on call and accessible almost 24 hours a day.

John Mason: If they do not want to sleep, that is.

Liam McArthur: You can, of course, take a view as to whether that is a good or bad thing, but there are pressures on MSPs and their staff and there are public expectations. Through this strand of work, we are attempting to anticipate and plan for some of that.

Paul Grice: I just want to add two things to that. A lot of the investment is to change the way we organise information and data. If we are truly going to exploit the technologies that Liam McArthur talks about, we have to reorganise the architecture of how information is held so that we do not, in essence, just digitise paper. That will give us some benefits, but if we want to change completely how, for example, we produce committee reports and if we want to offer more interesting options—combining media such as sound, pictures and the written word—we have to reorganise how we do the data. Quite a lot of that spend is on behind-the-scenes stuff; it is not just on the hardware that Liam McArthur talked about.

I also think that this is one of the remaining areas in which we probably can extract some more efficiencies in the medium term. We still spend quite a bit of money on printing, for example, so I hope that there could be efficiency savings down the line on that. When we appear before the committee next year, we might be able to give you more detail; the work is currently under way.

John Mason: When you asked the MSPs to share printers, you did not get a good reaction.

The Convener: That would not have been efficient.

Paul Grice: The discussion was interesting. Occasionally, a tactical retreat is the best way.

I am going to have to disappoint on the voltage optimisation question. I will drop you a note, or perhaps Derek Croll can answer.

Derek Croll (Scottish Parliament): Voltage optimisation is an energy efficiency proposal; a lot of electrical equipment does not require electricity at the voltage at which it comes into the building. A piece of kit would sit between the mains voltage and our equipment that would step down the voltage and reduce the amount of electricity that is being used. We have looked at the issue in the past and we struggled to justify the cost benefit, but the figures are looking much more optimistic now.

Liam McArthur: You have made Derek's day by asking that question.

John Mason: It just jumped out at me. I am sure that that was a good answer, but I did not understand it.

There is obviously an overlap between the items we have just mentioned in the context of revenue projects, and capital expenditure, which comes two pages later in schedule 3. Do we sometimes replace equipment too soon? There was a suggestion, or a rule, that we have to keep our BlackBerrys for two years, but I think that that is too short a time. A lot of equipment can last longer than that. Could we make savings by making equipment last longer?

Liam McArthur: We might well be able to do that. My understanding of how such contracts work is that, within the timescale, providers offer deals that mean that it is efficient to churn the technology. There is also an issue about reliability and resilience of some technology. We all use it intensively, so problems can disrupt our ability to carry out our function. We do not want to wait until equipment is on its last legs. We need to strike a balance between ensuring that we do not churn the technology too quickly and ensuring that MSPs, staff and other users are not left with increasingly problematic bits of kit that disrupt them in carrying out of their functions.

As I say, the structure of the contracts means that it is efficient and cost efficient to have the turnover that we have.

Paul Grice: That is right, and the two years is a minimum. If a member wants to keep their BlackBerry for longer, they can.

The big chunk of the capital figure of £2 million is for replacing broadcasting equipment, which is 10 years old—very old in technology terms—and a network refresh, which means replacing servers. Much of the spend will be on the big infrastructure in the building, in addition to the hardware that Liam McArthur mentioned.

John Mason: Well, 10 years sounds very sensible to me, so that is good.

Gavin Brown (Lothian) (Con): Maintenance costs for 2014-15 seem to be 13.6 per cent higher than costs in the current financial year. You have added a helpful note, which states that maintenance work is cyclical, in line with our 25-year maintenance plan. Will you expand on that a bit to reassure me that the increase between 2013-14 and 2014-15 was always expected and planned and that we are not looking at drastic increases over the medium-to-longer term?

Liam McArthur: We keep a constant eye on this to make sure that we are getting the balance right. We are in a large, complex and iconic building. As the years pass, the fabric of the building will inevitably need more regular attention. We cannot really do anything about that. We might make short-term savings from year to year, but the chances are that if we do not adhere to the 25-year maintenance programme that we have set out, we will only be storing up more significant problems for subsequent years. We have tried to get the balance right so that we carry out planned routine maintenance as per the 25-year plan, make sure that the bigger-ticket items are planned in a sensible timeframe and thereby avoid dramatic spikes caused by things going wrong simply because work was not done.

Gavin Brown: There is an increase in non-domestic rates of £223,000. Is that simply a consequence of the increase in the poundage for business rates?

Paul Grice: Principally, it is. Derek Croll can answer that question.

Derek Croll: The increase is principally a consequence of the increased poundage rate. There is also a slight increase for the additional floor area in the external security facility; about £60,000 of the increase is down to that.

Gavin Brown: The rest is down to the increase in the poundage.

Derek Croll: Yes.

Jean Urquhart (Highlands and Islands) (Ind): I want to go back to IT provision. Are you thinking at all of widening access for the public through better IT services than we have at the moment? I have mentioned this before, but I am thinking particularly of the University of the Highlands and Islands. Extraordinarily modern equipment is being

invested in and used there, which I think we would do well to look at in order to engage with people who are not in the central belt. The Jimmy Reid Foundation has done a bit of research into people giving evidence to committees and the ability of people from further afield to do that by videoconference. I know that we occasionally take evidence in that way from people from Europe—we are doing it today, in fact. Is that in your sights when it comes to upgrading IT?

Liam McArthur: Absolutely. As the MSP for Orkney, I am painfully aware that my constituents will have a great deal more difficulty accessing this building physically than constituents of Lothian members. We are seeing development by individual committees in that regard. I know that the Finance Committee is taking evidence from Robert Chote later this morning—it is odd to be his warm-up act, I have to say. In the previous session, the Rural Affairs and Environment Committee, which I was on, took evidence from European Commission officials and MEPs by videoconference. I think that we will see greater use of that facility. The investment that we are putting in to support broadcasting is not self-aggrandising; it is about making this building and what goes on in it as widely accessible as possible.

There are opportunities to use videoconferencing in other areas. Those are based not simply on what we do in this building but on facilities at the other end. UHI is a good example of a place where facilities exist, although they might not have been used as widely as they could be within the communities in which UHI is based. That is not something that the SPCB can do a great deal about, but we can maybe help provide support in the future.

Outreach work is something that the Parliament has done very well and we attach huge value to it. When we can use technology to support its expansion, we certainly will.

10:45

Jean Urquhart: On the running costs as laid out in schedule 3, reference is made to the in-house service of the Scottish Parliament and Business Exchange, and the Scottish Futures Forum. Do they have different budgets that they work to or do they have good ideas that are funded? How does that work?

Liam McArthur: I am sure that they have good ideas. In fact, I have been involved with both so I know that they do. Paul Grice can perhaps talk about how their funding works.

Paul Grice: Each has a fixed budget, but they also draw funding from elsewhere. I think that the SPBE also has members who part-fund it. The

SFF has a small amount of core funding from Parliament and the rest of its funding comes in through collaboration. For example, it has just done a major piece of work with the Goodison Group in Scotland that brought in funding. It also works with various universities through the Beltane public engagement network. Those groups get a cash limit and must source funding from elsewhere to undertake particular projects.

Jean Urquhart: What kind of service do we buy in through outside contracts?

Paul Grice: One of the key services is the specialist IT support that is provided by CGI IT Ltd. That is an obvious type of contractor that we would use.

Jean Urquhart: So that is in the figure for the running costs as well.

In schedule 4(b), under the Scottish Public Services Ombudsman, there is a figure for income. What is the income? How does the SPSO make an income?

Derek Croll: There is £110,000 in the SPSO budget for income. There is £10,000 from a parking space rental, £50,000 from renting office space to the Scottish Human Rights Commission, and £50,000 is projected to come in for training service provision, which will expand from this year to next year because it will be providing more training to the bodies that use its services.

Jean Urquhart: Finally, is the figure for the Parliament shop just a net income? Is it just money in and money out for goods? Is there no other cost put against the retail figure?

Derek Croll: The income is the turnover figure so it is just sales, but in schedule 6 we give a breakdown that shows the direct costs, so you can see the net contribution.

Liam McArthur: As I said earlier, the shop made a loss of £8,000 in the most recent year, which is down from a loss of £46,000. Part of that reflects changes in staffing and streamlining of the product line. Again, we need to be careful in what we do. The shop is a bit of a showcase for Scottish products; that is a useful function. However, the changes and the demand that has been driven by events that have been held in Parliament, such as the “Great Tapestry of Scotland” exhibition and the Warhol exhibition, mean that it is possible that there will be a modest profit from the shop. We will continue to keep the situation under review.

I am delighted to be able to say that the tapestry exhibition will be back for three months next September, so we will be able to plan for that demand. The popularity of that exhibition took us all by surprise, so with more warning next time

around, we might be able to use that popularity to better effect and improve takings in the shop.

The Convener: Thank you. That has exhausted questions from the committee, unless there are any other points to make.

Liam McArthur: It has been a comprehensive session and I know that I am holding you back from other matters.

The Convener: No, not at all. Thank you for your evidence. We will now have a break in proceedings to allow members to have a natural break, and allow me to talk to the deputy convener a bit more about voltage optimisation.

10:50

Meeting suspended.

11:03

On resuming—

Independent Fiscal Body Inquiry

The Convener: Item 3 is evidence by videoconference for our inquiry into proposals for an independent fiscal body.

I welcome to the meeting Robert Chote of the Office for Budget Responsibility. I apologise to him for the fact that the previous evidence session overran considerably, and I thank him for his patience about that and the technical difficulties. As he and committee members are aware, we have not been able to zoom in on him as much as we would like. We will not be able to read his expressions, but we will certainly hear his voice.

I understand that you do not wish to make opening comments, so we will move straight to questions, if that is okay.

Robert Chote (Office for Budget Responsibility): That is fine.

The Convener: I shall fire away with the first question. You have probably seen the report of the fiscal commission working group, which was sent round all the committee members last week. That group recommends that the Scottish fiscal commission

“should draw upon the roles of the Swedish Fiscal Policy Council and the Irish Fiscal Advisory Council.”

Did the OBR look at examples from other countries? Did the UK Government look at international examples when the OBR was established?

Robert Chote: Yes, the UK Government looked at such examples. It had a consultation period in which it talked to people who operate fiscal councils in other countries about their models. It is fair to say that the operating model and the structure and role of the bodies differ widely from country to country. That reflects a number of factors, one of which is the problem that the institution is designed to resolve.

In the UK, the context was that people felt that ministers—who are responsible for publishing the economic and fiscal forecasts on which budgets and autumn statements are based—had on various occasions produced what were in some people’s eyes systematically overoptimistic forecasts that might have been influenced more by political considerations than by professional judgment. Concern was also felt about a moving of the goalposts on fiscal rules. The OBR’s structure therefore reflects the sense that it would focus on forecasting rather than, for example, on an

absence of broader economic advice that might shape the structure of such bodies elsewhere.

Another important issue was the fact that the Institute for Fiscal Studies provides detailed scrutiny of the UK's public finances on the basis of the publicly available information that the Treasury and others publish. If the Swedish model had been adopted in the UK, an obvious question to ask would have been whether that was a taxpayer-funded version of the IFS rather than something that would take the debate forward. The Swedish model—which consists of academics who do not produce the forecasts but who scrutinise the Government's published forecasts and who comment on a wide range of public policy issues, such as labour market interventions—is in some ways more similar to the IFS than to the OBR.

It is particularly unusual that the UK Government has in effect contracted out to us the task of producing the forecasts that ministers were previously required by legislation to produce. That has not happened in a lot of countries, partly because the finance ministries in many of them would be extremely reluctant to have their fingers prised off the task of producing the official forecasts.

The form of the body needs to reflect the function, the problem that it is designed to resolve and the nature of the other institutions that already take an interest in that space.

The Convener: The Organisation for Economic Co-operation and Development says that

“models from abroad should not be artificially copied or imposed”,

which you have emphasised.

The fiscal commission working group's report emphasises the need for the Scottish fiscal commission to have

“skilled technical staff, positioned at arm's length from both government and parliament.”

It also says:

“The most fundamental feature of any effective fiscal commission is its independence.”

How important is the perception of independence from the Government? What do you believe is the perception of the OBR's independence from the Government?

Robert Chote: Independence is central to the functioning of such bodies. Our whole aim—particularly in the forecasts that we produce—is that people should believe that we produce forecasts on the basis of our best professional judgment and not politically motivated wishful thinking.

That is not to say that everybody will agree with the forecasts. The nature of economics and fiscal forecasting is that there are bound to be differences of view, but we hope that people can trust in our integrity in producing forecasts.

There are formal ways of demonstrating independence through, for example, how the legislation is set up and the process for appointing and removing members of the fiscal council. Those are important, but the absolutely crucial issue is transparency in not only the process and the nature of our interactions with officials but the outputs. If you compare our forecasts with those published in the pre-OBR era, you will find that our forecasts have much more quantitative detail and much more of a focus on uncertainty around the central forecasts, rather than a simple focus on the forecasts themselves.

I agree that independence is absolutely crucial and I think that formal mechanisms to establish that are great and welcome, but at the end of the day you establish a reputation for independence by how you do the job that you have been given. However, you should never expect everyone outside to agree with everything you say.

The Convener: The vast majority of respondents to our call for submissions have recommended that the body be appointed by and accountable to the Parliament. Where should we strike the balance between the Parliament and the Executive?

Robert Chote: That depends very much on the body's exact remit. In a sense, the OBR is jointly accountable to the Chancellor of the Exchequer and the Parliament via the House of Commons Treasury Committee. The chancellor will say who he wants to fill my job and my two deputies' posts but the Treasury Committee has the right not only to question the person before they are appointed and make recommendations but to veto that appointment. Similarly, I cannot be sacked by the chancellor without the Treasury Committee's say.

That said, I think that, given our remit, it would be very difficult for us to be solely accountable to Parliament rather than to the Executive. We have to produce draft forecasts in a certain form and on a timescale that allows the Treasury to make decisions on and publish their budgets and autumn statements and allows us to publish our forecasts at the same time. Because it is necessary to have confidential interaction with ministers and officials in the run-up to budgets and autumn statements, we have a responsibility to them as well.

If an independent fiscal body in Scotland were to have a similar relationship before the publication of forecasts and material by the Scottish Government, similar complexities would

arise. However, if the body will simply look at and publicly comment on the Scottish Government's outputs, it might be much easier and cleaner to link it more directly to the Parliament.

International experience would suggest that one of the arguments for making a body accountable to the Parliament rather than linking it to the Executive is that doing so provides an additional safeguard of independence. Ironically, however, the fiscal councils in other countries—Hungary and Canada, for example—that have come under political pressure are those that actually report to Parliament. As a result, it is not clear that such a link provides a greater guarantee of protection than there would be with a more mixed process.

The Convener: One reason why we are setting up a body is to have more accurate forecasting for Scotland rather than extrapolations from UK figures. We have received a letter from you on that subject, but can you talk us through how you believe we can do that in Scotland?

Robert Chote: Are you talking about the specific forecasts of potentially devolved taxes or more broadly?

The Convener: The specific forecasts of the devolved taxes. After all, one of the issues that we have encountered is that some of the OBR's projections for the Scottish rate of income tax and the land and buildings transaction tax derive from the stamp duty land tax.

Robert Chote: One thing I would caution against is the idea that some group of people somewhere is going to give you perfect forecasts all the time. That is not the nature of the business. There might be great sages out there with perfect crystal balls, but I wish you good luck trying to find them. I suspect that doing so might not be so straightforward.

One must differentiate between the Scottish rate of income tax and other devolved taxes. Given that the former will continue to be operated by Her Majesty's Revenue and Customs, we and whichever body will play the same role in Scotland will have to interact with it because it will have the information about how the tax system is operating, the data sets and so on. It will be hard for a Scottish institution to bring more information to bear than that which HMRC already has available.

11:15

The difference with regard to accuracy will, I hope, come with the devolution of the tax and the explicit flagging of Scottish taxpayers, as it means that we will not have to rely on the survey of personal incomes to estimate the Scottish proportion of income tax and that it will be clear who is and who is not a Scottish income taxpayer.

However, I understand that that is not going to happen any time soon before devolution.

Because with LBTT the Scottish Government has designed an entirely new tax, it will presumably have to decide what information it will need to collect to be able to design the tax as it wants and to set the appropriate rate and rules, and we will have to talk to whatever body is undertaking that work so that we can provide forecasts for it.

If we consider the OBR's relationship with HMRC when we put together most of our tax forecasts, a question that one might ask is who is going to provide the expertise and forecasting knowledge for LBTT. Will that expertise be found in the Scottish Government or revenue Scotland, or will this new body provide it on its own?

To put this in context, the OBR has only 17 staff plus the three of us who sit on the committee. Ahead of each forecast on stamp duty, for example, we talk to the stamp duty experts in HMRC, who make suggestions about how the modelling might be improved, how the latest data that they have received might be interpreted and so on. We then iterate that and ask them to make different assumptions, or we indicate whether we are happy with the model that they are using. At the end of the process, we have a forecast that we are happy to own, but it is HMRC that has the expertise and actually turns the handle.

To go back to your earlier question, I think that a crucial issue in the design of the Scottish institution will be where the expertise will lie with regard to that Scottish-designed and Scottish-administered tax and what relationship the body should have with either revenue Scotland or whichever bit of the Scottish Government is responsible for this work.

In short, it is a different story for the different taxes, notably the one that will be run UK-wide and the other that is very Scotland-specific.

The Convener: I should also say that the landfill tax, the legislation for which is going through Parliament, is similar to the LBTT in how it settles into the picture.

Now that the OBR has been going for a number of years, how has your forecasting begun to diverge from the Treasury's? What are the key differences in the organisations' forecasting?

Robert Chote: Simply with regard to relative accuracy, one could compare the size of our errors in our forecasts of the budget deficit, receipts and spending as a share of GDP, for example, with the average size of the errors made in the pre-OBR era in the chancellor's forecasts. For what it is worth, I should say that the errors in our forecasts are on average somewhat smaller

than those in the pre-OBR era but, then again, I do not think that that is necessarily comparing like with like or that you could draw from that the conclusion that our forecasts are better than the previous forecasts any more than you would be able to say that we were doing a worse job if the opposite were true. You are just not comparing comparable periods of time.

On the mechanics of how the forecasting is done, I do not think that there are enormous differences. Obviously, as the Treasury is no longer publishing a forecast of its own, it is hard to judge whether it has moved off in a different direction or produced different forecasts from the ones that we produce. The Treasury uses the economic model and gives the chancellor advice on policy on an on-going basis, so it might look at scenarios and so on, but we do not see that material, so I do not know whether the Treasury would have forecasts that look very different—it is not publishing them in the same way. I would not make the argument that it is possible suddenly to reinvent the science of forecasting, with a big set of methodological changes.

The Convener: In your letter to us, you pointed out the difficulties in making forecasts when you rely on data that are available only with a long time lag. You said:

“An estimate for 2011-12 will be available after our December 2013 forecast and will be incorporated into our March 2014 forecast.”

Is there a possibility that the time lag could be reduced, or must you live with it in the months and years ahead?

Robert Chote: We must live with it, but only up to the point at which Scottish taxpayers are flagged. There is a problem at this stage, in that we have to rely on the survey of personal incomes as the way of identifying the Scottish share. In the longer term, forecasts will become easier to do because people will be specifically flagged.

The Convener: Thank you. I will now bring in other members.

Jamie Hepburn: The OBR's paper in response to our call for evidence emphasised the importance of an independent fiscal body's ability to have

“access to information and analytical capacity from HMRC”.

I get the impression from your paper and from what you said in your exchange with the convener that you think that such access would be vital to the effective working of an independent fiscal body that the Scottish Government set up. Is that the case?

Robert Chote: That is absolutely the case. As you rightly point out, the issue is not just data but analytical capacity. Of course, some data are

publicly available and you do not need a specific right of access to them, but—to come back to my discussion with the convener about the model for how we interact with the experts in HMRC who produce data on particular taxes—having access to such analytical capacity is crucial.

The much larger fiscal councils produce much more work in-house. For example, in the Netherlands, the United States and Korea, we are talking about offices of 100, 200 or 300 staff, which is not the model that we are talking about here. If your independent fiscal body is to produce a forecast itself, it will need access to the analytical capacity in HMRC.

There is a slightly different story if, rather than the independent fiscal body producing the forecast itself, the Scottish Government—or revenue Scotland or whoever—publishes the forecast and the independent fiscal body then tries to scrutinise it from outside, which is the sort of job that I was doing at the Institute for Fiscal Studies before I took on my current job.

In that case, there are some taxes for which the publicly available information gets us most of the way to being able to judge whether or not a forecast is sensible. On value added tax, for example, the publicly available information and the models that academics can construct allow us to make a pretty good second guess without having access to additional information.

However, for other taxes that is much more difficult. For example, an issue arises when taxpayer confidentiality is in question. When it comes to producing forecasts for corporation tax, given that quite a lot of corporation tax comes from a relatively small number of taxpayers, HMRC will have more detailed information about the relationship with specific taxpayers. It would be inappropriate for us to have that information, but obviously we can benefit from HMRC's anonymised—as it were—interpretation of the signals that it is getting from relatively large taxpayers.

That is absolutely crucial; indeed, a key part of our legislation is to have written into it a right of access to the information that we believe that we need and a process to follow if we do not think that we are getting it.

Jamie Hepburn: How you ended your answer is very helpful because I want to turn to that matter, although you have pre-empted my question.

Your submission states that the power that gives the OBR that “right of access” is set out in the Budget Responsibility and National Audit Act 2011. From everything that you say, you seem to have a very good working relationship with HMRC. Although you have not said that you have

encountered any problems in accessing information, there is the potential for that to be the case. I think that I caught you right when you mentioned that the legislation sets out the steps that you can take if the information that you require is not forthcoming. Will you talk us through that process?

Robert Chote: The legislation gives us that right of access, but the detail is not set out in the legislation per se.

We have set up and agreed a process for the exchange of information; given the model that we have, the Government needs some information from us, too, so there is a two-way street of rights and responsibilities. We have approached that exchange by agreeing a published memorandum of understanding between ourselves and the largest departments with which we have most interaction over the forecast. Those departments are HMRC for most of the tax issues, the Department for Work and Pensions on most of the welfare spending issues, and the Treasury. We do not rely a great deal on the Treasury's data or analytical capacity; rather, we look to it for details of the policies that are being thought about for particular budgets or autumn statements.

As part of that memorandum of understanding, we have a committee, with all those bodies represented on it, that looks at the forecasting process. It also looks at how we are dealing in each forecast with newly announced measures. That committee is an initial forum in which we would raise concerns if we felt that we were not getting what we needed. The process can be escalated so that a concern would be dealt with between me and the permanent secretary of the relevant department. In practice, the ultimate deterrent is that, if I really felt that I was being stymied or not given the information that I need, I could pop up on the news and say so loudly and publicly.

Jamie Hepburn: Indeed.

You have created the memorandum of understanding with the departments, but it is a point of law that the OBR is entitled to that information. That begets the question whether any independent fiscal body that is set up by this Parliament should have similar statutory powers.

Robert Chote: I think that it should. As I say, that is particularly important in an environment in which such a body is tasked with producing the forecast rather than simply commenting on a forecast that is produced by the Scottish Government or some other Government agency. In the latter world, the body would still need access to information that tells it how the Government has reached its forecast. That right of access to capacity and data is important in the

scenario in which a body has to comment on a forecast that is produced by another organ of Government, but it is important in spades when it has to produce and sign off a forecast itself.

Jamie Hepburn: I am not sure whether you will feel able to comment on this, but I will ask the question anyway. You have said in strong terms that it would be important for an independent fiscal body to have access to information from HMRC and for that to be set out in statute. However, the Scottish Parliament does not have legislative competence over the HMRC. Would that be a problem for us?

Robert Chote: I am not an expert on those matters. However, that reinforces to me the importance of the memorandum of understanding. I think that the HMRC has a memorandum of understanding covering some of those areas but, if a new body were created, it would be important to think in the round about what rights and responsibilities everybody should have.

There would be a particular issue if such a body wished to produce a forecast for the devolved taxes that was based on a completely different view of how the economy might evolve. In that case, you would need the analytical capacity to get HMRC to investigate what the SRIT produces under that alternative economic scenario. A debate would be needed about the amount of additional capacity that you might need to call on, and it would seem very sensible to be as clear as you could be about that in a memorandum of understanding.

11:30

Jamie Hepburn: That is very helpful, Mr Chote.

My final question is on a slightly different issue. In your submission, you say:

"For our part, the OBR will continue to need to incorporate forecasts for the devolved taxes in its own forecasts for the UK public finances. But these may not need to be as detailed and disaggregated as those that the Scottish Government might desire."

You talked about that a little in your exchange with the convener. What do you mean when you say that the forecasts

"may not need to be as detailed and disaggregated as those that the Scottish Government might desire"?

Robert Chote: It is really a question of the fact that we need aggregate estimates of the three or four taxes that are under discussion here to include in our forecasts. In the longer term, once they have been devolved, we are looking at their materiality for the UK public finances, which is what we have been created to consider. On the aggregates and landfill taxes, for example, the Scottish Government may have good reason to

worry more about the relative amount of revenue that would come from those sources than we would in the context of the UK-wide position.

As I have said, the Scottish Government and the new body might want to have a more detailed view of the numbers than we currently find necessary for the UK forecasts and for the responsibilities that we have been given under the Scotland Act 2012. It is not for me to say how much detail or analytical work the Scottish Government would consider necessary or would want to do in that area, but it would seem logical to me that it might want to do more on those specific taxes than us, from our primarily UK-wide perspective.

Michael McMahon: Thank you for the information that you have given already.

In the evidence that we have received, there has been some debate about the role and remit of an independent body, which some have argued should be purely technical. In your submission, you argue—as does the Slovakian Council for Budget Responsibility—that there should be an advocacy role that looks at what should happen as much as assessing and analysing what will happen. What type of advocacy are you currently involved in, if any? What discussions have you had about developing an advocacy role?

Robert Chote: We are very much at the end of the spectrum that does not have an advocacy role. By international standards, we are fairly tightly constrained to looking at the implications of the current Government's policies; we do not talk about alternative policies that the current or a future Government might wish to implement, and we certainly do not recommend such policies.

Similarly, on individual tax or spending measures that might be announced, it is explicitly laid down that it is not for us to say whether those are intrinsically a good or bad idea, tempting though it frequently is to offer views on those things. The Oxford academic Simon Wren-Lewis has described that as the most extreme example of positive analysis, in the sense that we are very much confined to providing positive analysis rather than normative policy recommendations.

A body such as the Swedish Fiscal Policy Council would be much more inclined to do a report that looked at interventions in the labour market, for example, saying whether they were sensible and recommending ways in which they could be better. That is really a decision that needs to be taken by the Government in question when the new body is being set up.

In the UK context, one of the reasons why one might be pretty happy with a narrowly focused remit for the OBR is that we already have the Institute for Fiscal Studies, which talks quite a lot about the merits of particular decisions. I used to

do a lot more of that in the eight years before I did this job. When we made recommendations as to how the tax system might operate more effectively, we might say, "The Government has announced a new tax and it is really good," or, "The Government has announced a new tax and it is daft, for the following three reasons."

There is a challenge. Some people would fear that the more the body was seen to have an advocacy role and, therefore, ended up taking sides in what may be quite contentious debates between the parties in the Parliament, the more the perception of the independence of its day-to-day work of examining particular tax revenue streams and judging whether the forecasts were appropriate would be undermined.

It is beneficial to have independent analysis and commentary on the wisdom of particular tax decisions. The IFS fulfilled, and still fulfils, a valuable role in that regard. Whether you want the official fiscal watchdog to play that role or to have a slightly more confined remit is a slightly separate question.

Michael McMahon: We have received evidence that suggests that, if we established that advocacy role, we would give the impression of having brought the organisation into the political arena even if we had not actually created a political entity. Do you concede that that is an inherent danger in going down that road?

Robert Chote: It is a danger. Over many years, the IFS has commented a lot on the wisdom or otherwise of particular policies. It has been doing that for 40 years, and there was general acceptance that we were non-partisan and independent. We were helped by the fact that no political party has a monopoly of wisdom or folly so, when commenting on parties' policies, we tended to annoy everybody some of the time.

It is more problematic to put a newly created body into such a contested arena. One of the reasons why the OBR was given such a focused remit to start with was so that we did not hamstring the newly created body by throwing it straight into a politically contested area—partly because there were other bodies to do that anyway and partly because it would have distracted attention from building credibility in the core function.

Michael McMahon: Audit Scotland raised the issue of the amount of work that any new body would undertake. Its concern was that, if the amount of work that the body could do was restricted, that could hinder its ability to attract the necessary talent to be credible. There would have to be what Audit Scotland called a "critical mass of work" to enable the organisation to attract staff of the quality and standard to give it credibility. Do you have any views on that?

Robert Chote: I can understand that concern. Although the OBR's mandate is relatively tightly defined, it involves a lot of substantive, important and interesting work: producing a complete set of macroeconomic forecasts and fiscal forecasts. If you were creating a body whose function was simply to scrutinise somebody else's published estimates of the likely revenue stream for the four devolved taxes, that might seem a less attractive role than one with a broader scope.

It comes back partly to the remit of the new body and how it would mesh with whoever in revenue Scotland and the Scottish Government had the expertise in the devolved taxes under consideration. For instance, if you wanted the body to comment on North Sea receipts, which are not a devolved issue but are clearly of great interest and a matter about which people might want to talk, you could give it a greater breadth of responsibility than the relatively narrow one to which the cabinet secretary referred with regard to the particular devolved taxes on which we are focusing. I can see the force of that argument.

John Mason: You and others have said that transparency is extremely important, but we have also mentioned confidentiality, mainly, I think, in relation to confidentiality between the OBR and the Government. I could be corrected on that if there are other groups with which you have a confidential relationship, such as HMRC, perhaps. Is there sometimes a conflict between transparency and confidentiality?

Robert Chote: I do not think so. Some people would argue that there is such a conflict. For example, the former head of the Swedish Fiscal Policy Council said that he felt that the relationship that we have with ministers and officials in the run-up to budgets and autumn statements was a severe barrier to genuine independence. He questioned whether we could be genuinely independent when we have private conversations about policies that are under development.

My response is that if we did not have such a relationship and did not play that role, I am not sure that we would be adding much to the work that the Institute for Fiscal Studies does already. There is a trade-off: if we are to add value in the context of the role that we have been given, such interaction has to take place for us to do more than it is possible to do on the basis of publicly available information.

If a body has a relationship with ministers and officials such as the one that we have, the key point is that the body must be as transparent as it can be about the nature of that relationship. For example, on our website we post a list of any substantive interactions that we have with the chancellor, his private office or his special advisers. We also make it clear when we have

provided particular draft forecasts or heard about final decisions by the Treasury on budget policy measures. We are as transparent as we can be about that.

We must respect the confidentiality of a relationship in which the Government comes to us some weeks ahead of the budget and says, "This is the list of measures that we are thinking of announcing in the budget." It is not for us to share publicly information that is only made public in the appropriate way—when it is announced to Parliament. However, some of those policy measures will drop off the list before we get to the day itself. The Government might consider a particular measure, but at the tail end of the process it might decide, for one reason or another, not to do it. It would be wholly inappropriate for us to rush out and do television interviews in which we said, "You'll never guess what the Government was thinking of three weeks ago." I do not think that that would be an appropriate way to act. We must respect that confidentiality.

Similarly, I would expect the Treasury to respect the confidentiality of, for example, the draft forecasts that we provide it with in the run-up to autumn statements, which are all work in progress. The final view that we take is the one that appears on the day of publication. If we are to have a sensible working relationship in which we can develop the forecast progressively over time, we would expect the Government to respect the confidentiality of that work as well.

John Mason: Thank you very much—that was extremely helpful.

On the concept of communicating directly with the general public, you suggested that you could threaten to do that if a particular Government department, such as the Treasury, was not providing data. Is that the main area in which that power would come in? The suggestion has also been made that, if a report were misinterpreted, you could come out and say publicly that it was being misinterpreted. Are there other areas in which the power to be able to go directly to the public is useful?

Robert Chote: The issue partly comes down to the remit that the proposed body is given. Our overarching remit is to report on the sustainability of the public finances. In doing that, the legislation gives us the right to talk openly to the public about those issues on which the Government might be placing less emphasis, for one reason or another. I think that it is important that we are able to do that.

The ability to correct a misinterpretation rarely needs to be used. Sometimes, misinterpretations are deliberate, but sometimes they are inadvertent. There was an episode not so long ago in which the Prime Minister gave a speech that

suggested that we had a particular view of the impact of fiscal consolidation. I did not feel that that was an accurate representation, so I wrote a letter to him to set out publicly, for the avoidance of doubt, our actual position. We take such action sparingly and appropriately—we do not want to be intervening in the public debate every day, but occasionally it is necessary to say such things, and the organisation needs to have the right to do that.

John Mason: Thanks very much.

11:45

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): I think that one of the main things in which the public will be interested is ensuring that the body is genuinely independent. As you know, most respondents to the consultation thought that accountability to Parliament would be the best way of achieving that independence. However, the examples from other countries that you gave were extremely interesting. Your view seems to be that because you engage with the Government, you must be accountable to the Government. However, it was not entirely clear to me why the two had to go together, as it were.

Robert Chote: My view is that we should be accountable and responsive to both the chancellor and the Treasury Select Committee, but independent of both of them. I regard my ultimate responsibility in this job as being to the general public. We owe them our best judgment, whether or not the chancellor or other politicians like what we are saying. We have to come at it with that particular mindset.

As I said, we are matching transparency and accountability, so we need to explain why we have taken our decisions and made our judgments. At the same time, we are ultimately independent and are responsible for making those judgments. It should not be for the Parliament or the executive to try to make us make a different judgment when we feel that that would not be our best judgment.

Malcolm Chisholm: Do you think that the model that you have is as good as we can get in terms of independence? Are there any ways in which you feel that your position can be made even more independent?

Robert Chote: No, I am reasonably happy with it. If we look at fiscal councils in different countries over a period of time, we find that there is a roughly equal division between bodies that are parliamentary bodies—parliamentary budget offices—standalone institutions and bodies that are linked in some way to the executive. There is therefore no clear template out there for the exact relationship, because it varies from place to place.

Where I think that we have seen a notable trend over time for more of those bodies to have legal underpinning for their independence, typically through legislation or in other supporting documents or agreements. The preponderance of the bodies that have been created over the past 10 years have a legal underpinning for their independence. That is not to say that that is the case for some of the older ones. The Dutch fiscal council stands out as the obvious example because it is the oldest, having been around since the late 1940s, and probably has the best, or one of the best, reputations among the fiscal councils. However, for years it has been the least formally independent—in effect, it is part of the civil service. More recently, even the Dutch have decided to have a more formal legal charter, although I think that that will underpin an already established relationship in terms of the fiscal council's independence.

Such legal underpinning is particularly important for newly created bodies. If a new body comes from nowhere, it needs to have that underpinning. Some countries that have established fiscal councils have attached them to existing bodies that already have a reputation and legal underpinning. The most obvious recent example is the French High Council of Public Finances, which has been explicitly attached to the Court of Auditors. We might argue that there is less need for formal underpinning there because the council is being attached to a body that already has legal underpinning and a long-established relationship. There can be wrinkles, depending on exactly how the institution is structured.

Malcolm Chisholm: You talked about popping up on the news. Do you have any other recourse if you feel that your independence is being compromised?

Robert Chote: Obviously, there is contact with the Treasury Select Committee, and if we were under any pressure as regards our specific functions under the Scotland Act 2012, I would come to this committee and say that I was unhappy with the way in which things were going. There is a direct parliamentary route. The organisation also has non-executive directors, and if we had a serious concern about the behaviour of the politicians we might talk to them as a sort of sounding board, and they could act as a conduit for concerns. However, I think that the knowledge that we would be public about any concerns, either directly to the public via the media or via the relevant parliamentary committee, is a pretty powerful deterrent against misbehaviour.

Malcolm Chisholm: You might not want to comment on this, because the Labour Party proposed it. However, the public might think that it would be a good idea at election time if you had a

role in costing and analysing party proposals. As I said, you probably do not want to comment on that, but I will ask you a factual question: what would have to happen for you to be able to do that? Would it be at the discretion of the Government or the Treasury Committee, or would the legislation have to change? How would that work?

Robert Chote: There would need to be a change in primary legislation. The Budget Responsibility and National Audit Act 2011, which set us up, forbids that role. We have taken independent legal advice that that would need to change if we were to have that role.

Again, you can look across international examples. The most dramatic example would be the Netherlands, where there is a detailed formal process in which parties are invited to submit their manifestos or manifesto proposals to the Dutch fiscal council for them to be scrutinised. The fiscal council looks at the costings and at whether the policies are legally permissible and comes up with estimates of their economic, fiscal and environmental impacts. That quite dramatic process requires the political parties to come up with manifesto proposals considerably further ahead of the election than would be the case in the UK. The fiscal council publishes a report on that some way ahead of the election.

The Labour Party's proposal falls a long way short of that in scope. It suggests that we simply look at the costing of individual tax and spending measures—the sort of things that would appear in the table of measures in a budget or autumn statement document—and scrutinise them in the same way that we scrutinise Government policy.

Independent scrutiny of manifesto proposals is a very good idea, but the official fiscal watchdog is not necessarily the body to do that. I spent eight years with my previous hat on at the IFS, which included two general elections in which we tried to do precisely that, which was an important part of the public debate during the election campaign.

Returning to our earlier discussion, I think that the other thing to bear in mind is that if we were to have that role, given that we are relatively small body that relies on analytical expertise in particular areas of tax and spending in HMRC and the Department for Work and Pensions and so on, the Government would have to be willing to allow, in effect, the Opposition parties access to that set of analytical resources. We might act as a gatekeeper but, certainly in the run-up to an election, that would have big resource implications for the analytical teams in HMRC and the DWP, as well as for us.

Malcolm Chisholm: In paragraph 4 of your submission, you said:

“The second choice is whether you wish these revenue forecasts to be based on the same economic determinants”

and so on. I want to capture the significance of those economic determinants. Could they lead to big differences? Is the number of economic determinants significant? I would like some insight into what you have in mind in that paragraph.

Robert Chote: There are two issues here that are worth distinguishing. One is that, even if one has a shared view of the UK-wide macroeconomic outlook, there is the question of how much adjustment one is willing and able to make for how things might be evolving differently in Scotland from the rest of the UK.

A good example is stamp duty. If we are thinking about what we will get in stamp duty, we come up with an estimate of movements in house prices and transactions for the UK as a whole. If we were thinking about receipts from stamp duty or the new LBTT in Scotland, we might be concerned with how housing transactions and house prices in Scotland were moving differently from those in the rest of the country, even if we felt that that was consistent with the overall UK forecast—we would still differentiate between the two. Obviously, we try to do that as best we can, with the resource and data limits that we have, in the way that we look at the Scottish shares of such things.

Alternatively, the Scottish Government might want to take a different view. It might think that we are overestimating the speed of the economic recovery and underestimating the extent of rebalancing. If so, would the new agency wish to produce its central forecast based on that alternative view? Ultimately, that would be an issue for the agency.

At the end of the day, we would still have to produce forecasts for those things on the basis of our macro-forecasts, because we are required to do that under our responsibility to generate our core forecasts for the UK. However, that is another reason why the body might want a greater degree of granularity in the data to look at different economic determinants for the purposes of testing how robust those forecasts are. Their materiality to the UK picture as a whole would be such that it would not be worth our putting in the same time and effort.

Malcolm Chisholm: Thank you. That is helpful.

Gavin Brown: I suspect that the answer to my first question will be no. Is there such a thing as an optimal size for an independent fiscal body?

Robert Chote: No. It depends on the role that it has been given. If we look at the big ones, the Congressional Budget Office in the United States is the classic example, and it has 230 people or

thereabouts. That reflects the fact that it has to respond to requests to cost particular policies from members of both houses and members of both parties within them, and it has a much broader area of analytical work on public services, for example, which we do not have. Form has to follow function.

Gavin Brown: I managed to forecast your answer correctly, which I am pleased about. Will you reiterate the size of the OBR in terms of the number of staff?

Robert Chote: Sure. My two deputies and I are the budget responsibility committee, and we are ultimately responsible for signing off the views that the OBR expresses. Working for us we have 18 civil servants, who split roughly equally between people who focus on the macroeconomic forecasting role, people who focus on the forecasting of particular revenue streams and public spending, and people who focus on related work such as the costing of newly announced policies that the Government is considering. There are some analytical and support staff as well, but the staffing splits roughly equally between those three areas.

A key point, which brings me back to the independence issue, is that the OBR has complete control over our employment policy. These people are not on secondment. We might have one or two people with us on temporary secondments, but these people are civil servants who work for us in the same way that civil servants work for other Government departments.

That is roughly the scale and the division and, as I said, the employment decisions are ours to take. We are not constrained by a requirement to take people from particular places.

Gavin Brown: Okay. Can I be clear on the appointment process for the top three jobs? Is it the case that the chancellor or the Treasury proposes individuals for those jobs and the Treasury Committee can simply say yes or no, or is there joint working to come up with candidates? How does that function in practice?

Robert Chote: As you say, it is for the chancellor to make an initial proposal. Prior to that, there is a formal process of advertising the job and having an interview panel, which is run by the civil service in the same way as the process for any other major public appointment. The process results in a recommendation, which goes to the chancellor. They may be told, "We've interviewed eight people and three of them are potential candidates. Our recommendations are A, then B, then C." The chancellor then has to decide who to propose. That is announced publicly, and then there is a pre-appointment confirmation hearing with the Treasury Committee, much as we are

having today. That committee will talk about the person's professional competence, independence and so on and, at the end of that process, the committee will say, "Yes, we agree with this appointment," or "No, we don't agree." We have not yet had a situation in which it has said, "No, we don't agree," but if it said that, we would have to go back and restart the process. That has applied in relation to some other jobs, and the Government has had to go back and start again.

Gavin Brown: That is helpful. Thank you.

12:00

Jean Urquhart: All my questions, with the exception of two points, have probably been answered in response to previous questioners. First, there is a perception that the OBR is very close to Government. If you were setting up a new budget responsibility body, would you do anything differently? Secondly, in the interests of clarity, what relationship do you have with the public other than making corrections on "News at Ten"? Is there any other relationship or connection with the public? How do you gather local knowledge, or do you never get out of the office?

Robert Chote: No, I get out of the office. On the relationship with the public, given the nature of the material that we produce, there is quite a wide interest from a variety of stakeholders. Obviously, all the analytical material that we produce is available on our website. We hold press conferences to launch our reports, so there will often be quite a bit of media coverage of those. I also talk to various groups; for example, I meet the Trades Union Congress, address business conferences and talk to people in local government—I recently went to Manchester to talk to the Pro.Manchester business group. That is all useful in providing background information.

However, at the end of the day, we produce a forecast for the UK public finances. For that reason, we do not need to produce a forecast of GDP by region or by nation. Those things are important, and the Government and others will devote a lot of effort to such matters, but our remit is to produce an ultimate forecast for the UK budget deficit and public sector debt, so we do not end up going into that too much. A lot of people take a lot of interest in our forecasts, so we get freedom of information requests and requests from the public for more information on our forecasts. We try to be as helpful as we can in dealing with those.

On the closeness of our relationship to Government, in part that comes back to the nature of our remit. We need a close relationship with Government if we are to be in a position where, as the chancellor stands up to deliver the budget, we

can provide a forecast on what we think will happen to the economy and the public finances as a result of the policies that he has newly announced that day. That is a necessarily close relationship.

Some people slightly overstress the idea that there should be a necessarily hostile bilateral relationship, with us on one side of the table and “the Government” on the other, so that we are not being dominated by the Government in what we are doing. It is important to bear in mind that, even in those confidential conversations, we talk to multiple Government departments, agencies and bodies and we talk to people both on the political side and on the official side. Anyone who has been in that sort of world knows that not all those people have the same preferences and views at the same time. Therefore, the idea that there is a monolithic body called “the Government” on the other side of the table, with which we must spar, rather underestimates the complexity of that relationship.

Ultimately, the transparency and the outputs are what matters. In half the forecasts that we have published—three out of six—we have told the chancellor that he would not hit all his fiscal targets on the basis of unchanged policy, so we have clearly demonstrated that we are willing to give our judgment. Equally, it is for elected politicians to decide what to do about that. Sometimes they say, “Okay, we accept the forecast and we will alter our policies to ensure that we are back on course to hit the targets.” Sometimes they say, “Okay, we accept that the forecast is that we are more likely than not to miss the target, but we will not do what is necessary because that would, we think, have counterproductive consequences for the economy.” In practice, we have demonstrated that we are willing to act on the basis of our professional judgments rather than what is convenient for the Government. That does not necessarily mean that everyone will always agree with those—they will not.

Jean Urquhart: I have one last question. Given that you do not collate information on a regional basis, is it quite difficult to predict or forecast receipts for Scottish landfill tax?

Robert Chote: Yes, at that sort of level it gets quite difficult. In some cases, it depends crucially on what data are available. It is not always necessarily clear that the data are available to produce a very good regional forecast even if that was our core task. An important issue for any new budget responsibility body that might be established would be to take a view on what new and additional data would be useful in helping us or anyone else to come up with a better informed view on such things. That is certainly an issue.

Some tax receipts are inherently more volatile and harder to estimate than others. For the taxes under the Scotland Act 2012 that we have looked at so far, we have forecast the receipts at UK-wide level and then decided what share should be attributed to Scotland. Some of that is easier to do and some of that is harder. On the income tax side, the forecasting will become a lot easier once HMRC starts flagging people as Scottish or non-Scottish taxpayers.

The Convener: Thank you very much. That appears to have concluded all the questions from the committee. Are there any further points that you would like to make?

Robert Chote: No, I think that we have covered pretty much everything.

The Convener: I have just one further question. Can you tell us who the individuals are in the portraits behind you, which we have been looking at for the past hour or so?

Robert Chote: The portrait on the right is of Lord Coventry, who became Attorney General in 1621. This entire building is filled with portraits of former Solicitors General and Attorneys General going back to the 13th century. I have just a postcard of my one predecessor.

The Convener: Okay. I will not explore who the other portrait is of. On behalf of the Finance Committee, I thank you for your response to our questions today and, once again, I apologise for the technical difficulties that delayed us at the beginning of our session.

I ask the public and the official report to leave, as we will now move into private session as agreed at the beginning of the meeting.

12:07

Meeting continued in private until 12:10.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice to SPICe.

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