



CHARLOTTE STREET PARTNERS

Kenny Gibson MSP
Convener, Finance Committee
The Scottish Parliament

4th November 2015

Dear Kenny,

CALL FOR EVIDENCE – SCOTTISH FISCAL COMMISSION BILL

I am writing in a personal capacity as someone who has taken a keen interest in Scotland's public finances and their devolution over the past twenty years. I hope that you and the Committee wouldn't mind if I focused my comments on some specific issues with only passing mention of others you highlight in your call for evidence.

At a UK level the level and range of information, modeling and forecasting available to policymakers and those who scrutinise them is very significant. A number of models exist to provide assessments of the prospects for different categories of revenue and expenditure and the impact of changes in policy on outcomes.

The Treasury and OBR model the UK economy and, in concert with HMRC assessments, predict the impact of decisions on revenue flows and, separately, expenditure flows. Often the assumptions these models depend on – for example productivity growth – are relatively important though obscured in the conduct of the general debate. Few realise that the productivity assumption, for example, makes a £45bn plus difference to UK fiscal balances at the end of the planning period. But due to the way the Scottish forecasts by the OBR or HMT are constituted at present, there is no way we can determine what effect factors such as these, or attempts to improve the performance of the economy more generally, might have. Indeed, the future impacts on the economy are completely ignored in the present set up and the underlying assumptions and information remain confidential. That makes it impossible to make serious evaluations, and decisions will end up having to be made on “half a forecast”.

Separately, the Institute for Fiscal Studies provides a helpful independent input which assesses the impact of policy changes on different demographic groups, or different parts of income distribution, and in different sectors of the economy. It would surely make sense, given the growing importance and focus on equality issues, if every policy change or bill of a certain scale be subjected to a sensible distributional analysis and the results published alongside spending decisions in the way fiscal impact is now.

The Bank of England model then offers further assessments of the UK economy and the impact of monetary policy on inflation and the other variables they focus upon.

It may be helpful for the Committee and other colleagues at Holyrood to consider the broader landscape of information that is available to inform the debate in Scotland as financial responsibilities migrate north. In my experience as an MSP, and then subsequently as an economist and follower of the conduct of public debate, there is an important development in the political culture that must follow the growth in responsibility.

Relatively static assessments of money in and money out on the basis of “Zero Sum” judgements on what would happen with policy changes too often fail to take account of behavioural change in response to such policy changes. More sophisticated economic modeling will be able to take account of the impact of policy change on behaviour and therefore outcomes based on assumptions that should be both transparent and debated.

Of course, placing too much store by the assessment of any model can lead to sub-optimal policy choices. What we require – culturally – is a more rounded debate and deeper assessments that understand the economy is more organic in its nature and performance than a standard P&L or balance sheet. The problem we have is that Scotland has no model comparable to the UK-wide ones other than the Scottish Government’s own version of the NIESR assessment.

This would be thrown into sharp relief by the variation of income tax bands or rates. Too little information is available about the detail of Scotland’s tax base and the impact of its potential growth and contraction on revenues.

A further complication will arise depending on the method HM Treasury eventually uses to both assess and then revise its own predictions on revenue flows in Scotland, and how it will reconcile the payments made to Scotland in the light of the inevitable forecast errors. This is a point of detail that will determine the sustainability of any next devolution settlement in both spirit and practical terms. The committee’s focus on VAT assignation assessments would be time well spent.

There is very significant public interest in this particular call for evidence from across society and the broader business community. My own plea would be that the Parliament and Government (both Scotland and UK) should work together to reach for the maximum possible amount of information being placed in the public domain. It may be that the UK Government could add very significantly to the flow of information of its own volition, which could be a very significant signal it takes seriously the call by Lord Smith for a respectful relationship to be nurtured. Likewise it would make eminent sense if the Fiscal Commission were in a position to comment and challenge the assumptions both of the Scottish and UK Governments. More transparency, challenge and consideration are always additive.

Beyond this however it is my strong belief that the ability for interested parties to interrogate an independent model and its assumptions would lead to a more substantial culture of debate. It is critical that we focus less on options for dividing a spending pie or chasing revenues from short-term hikes, and much more on the performance of the Scottish economy in a competitive landscape, and the impact of

that on the tax base and therefore revenues. When the broad political culture has a handle on that it is far more likely to produce responsible and sustainable policy options. And equally important, only at that point will it be genuinely possible to hold Scottish policy makers accountable for their decisions.

Moreover, while modeling of potential policy impacts in advance of changes is always prioritised, it is equally important to properly assess and highlight and evaluate the impact of policies after the fact. The latter is too often the poor relation in thinking about the development of the evidence base for policy.

If funding is needed to properly provide the legislative arm (and the public) with information and a model that can be interrogated independently then that will be funding well spent. Before the cost can be estimated a proper assessment of what the gap currently is should be undertaken, perhaps by your committee.

What may seem arcane points of detail to many get to the very roots of our political culture and the sustainability of a constitutional settlement. Despite the often heated nature of political debate - especially on the constitution and in an election lead-in - your deliberations now will have a material impact on all of our well-being for decades to come. Detail matters, but so too does the harder-to-define culture that drives both the conduct of officials at all levels and of the politicians that lead and hold to account.

I wish you well in your deliberations at an extremely important time for the development of public policy, government and our Parliament.

Yours Sincerely

ANDREW WILSON
(Founding Partner)